December 09, 2024

# Shriram Finance Limited: Provisional ratings assigned to PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Aug 2024 X Trust

## Summary of rating action

| Trust Name | Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Sansar Aug 2024 X Trust | PTC Series A1 | 493.02 | Provisional [ICRA]AAA(SO); Assigned |
| | PTC Series A2 | 211.30 | Provisional [ICRA]AAA(SO); Assigned |
| | Second loss facility | 35.22 | Provisional [ICRA]A-(SO); Assigned |

**Instrument details are provided in Annexure I*

| Rating in the absence of pending actions/documents | No rating would have been assigned as it would not be meaningful |
|---|---|

## Rationale

The pass-through certificates (PTCs) are backed by a pool of vehicle, construction equipment, and tractor loan receivables originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)} with an aggregate principal outstanding of Rs. 704.32 crore (pool receivables of Rs. 879.18 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts, the credit enhancement available in the structure as well as the integrity of the legal structure. The ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

## Transaction structure

The transaction has a two-tranche structure, wherein PTC Series A1 will be equivalent to 70% of the initial pool principal and PTC Series A2 will be equivalent to 30% of the initial pool principal.

The promised cash flow schedule for all the PTC series includes interest (including overdues) on a pro rata basis at the contracted yield and the entire principal on the final maturity date (November 20, 2029). During the tenure of the PTCs, the collections from the pool, after making the promised interest payouts to the PTCs, will be used to make the expected principal payouts to PTC Series A1. Once PTC Series A1 is paid off, collections from the pool will be used to make the expected principal payouts to PTC Series A2, though these payouts are not promised and any shortfall in making the same would be carried forward to the subsequent payouts.

The loan pool receivables will be assigned at par to the PTC investors. The Originator's claim in the excess interest spread (EIS) is subordinated to the PTC payouts. Thus, the EIS (amounting to 11.17% of the initial pool principal) acts as a source of credit enhancement in the transaction. After meeting the promised and expected payouts, the EIS will be passed on to the Originator on a monthly basis. A cash collateral (CC), equivalent to 10.00% of the initial pool principal, also acts as credit enhancement in the transaction. The CC will be split into a first loss facility (FLF) and a second loss facility (SLF) of 5.00% each of the initial pool principal, amounting to Rs. 70.43 crore. The FLF and SLF would be in the form of a fixed deposit maintained with a designated bank acceptable to ICRA. However, the SFL might replace the fixed deposit with a bank guarantee later, subject to the guarantor and the terms of the guarantee being acceptable to ICRA.

## Key rating drivers and their description

### Credit strengths

**Track record of originator** – The Originator, which is also servicing the loans in the transaction, has a well-established track record of more than four decades in the preowned commercial vehicle financing business and has adequate underwriting policies and collection procedures.

**Granular pool supported by presence of credit enhancement** – The pool was granular as on the cut-off date and comprised 17,124 contracts. The top 10 contracts formed only 0.7% of the initial pool principal, reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC and EIS would absorb a part of the losses in the pool and provide support in meeting the PTC payouts.

**Seasoned contracts in the pool** – The pool had amortised by ~19% with seasoning of ~12 months as of the cut-off date, thereby reflecting the borrowers' relatively better credit profile and repayment track record.

### Credit challenges

**Presence of long tenure contracts** – On the cut-off date, ~51% of the contracts in the pool had an original tenure of more than 48 months. The performance of such contracts has remained relatively better in the portfolio. Thus, the pool's performance would be dependent on the company's ability to limit the slippages of such borrowers.

**Risks associated with lending business** – The pool's performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

## Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 4.25% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 7.2% to 27.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final ratings for the instruments.

## Liquidity position

**For PTC Series A1 and PTC Series A2: Strong**

The liquidity position for the instruments is strong after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be around 3.75 times the estimated loss in the pool.

**For SLF: Adequate**

The liquidity position for the SLF is adequate after factoring in the FLF available for the top-up of the SLF, if needed, as per the defined waterfall mechanism.

## Rating sensitivities

**Positive factors** - Not applicable for the PTCs

The rating for the SLF can be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement.

**Negative factors** - The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade. Weakening in the credit profile of the servicer (SFL) could also exert pressure on the ratings.

## Analytical approach

The rating action is based on the analysis of the performance of SFL's portfolio till March 2024, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Rating Methodology for Securitisation Transactions |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Not Applicable |

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee compliance letter
5. Chartered Accountant's know your customer (KYC) certificate
6. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

## About the originator

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and an upper layer non-banking financial company. Based on the National Company Law Tribunal order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) were merged with STFC, which was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in preowned commercial vehicle finance and has a pan-India presence with 3,700+ branches and other offices. As on September 30, 2024, its assets under management (standalone) stood at Rs. 2.43 lakh crore comprising commercial vehicle finance (46%), passenger vehicle finance (20%), small and medium-sized enterprise (SME) lending (13%), construction equipment and farm equipment finance (9%), two-wheeler loans (5%), personal loans (3%), and gold loans (3%).

## Key financial indicators

| SFL | FY2023* | FY2024^ | H1 FY2025^ |
|---|---|---|---|
| | Audited | Audited | Limited Review |
| **Total income** | 30,508 | 36,413 | 19,694 |
| **Profit after tax** | 6,011 | 7,391 | 4,179 |
| **Total managed assets#** | 2,23,769 | 2,66,453 | 2,84,652 |
| **Gross stage 3** | 6.0% | 5.2% | 5.4% |
| **Capital-to-risk weighted assets ratio** | 22.6% | 20.3% | NA |

*Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore*
*With the scheme of arrangement and amalgamation of STFC, SCUF and SCL becoming effective, figures for the year ended March 31, 2023 are not comparable with the figures for the year ended March 31, 2022*
**For SFL, prior to the merger with SCUF and SCL; ^Consolidated, post-merger*
*#Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| S. No. | Trust Name | Current Rating (FY2025) | | | | Chronology of Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Instrument | Initial Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Dec 09, 2024 | - | - | - |
| 1 | **Sansar Aug 2024 X Trust** | PTC Series A1 | 493.02 | 493.02 | **Provisional [ICRA]AAA(SO)** | - | - | - |
| | | PTC Series A2 | 211.30 | 211.30 | **Provisional [ICRA]AAA(SO)** | - | - | - |
| | | Second loss facility | 35.22 | 35.22 | **Provisional [ICRA]A-(SO)** | - | - | - |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| **PTC Series A1** | Moderately Complex |
| **PTC Series A2** | Moderately Complex |
| **Second Loss Facility** | Moderately Complex |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

### Annexure I: Instrument details

| Trust Name | Instrument | Date of Issuance / Sanction | Coupon Rate (p.a.p.m.) | Maturity Date | Current Rated Amount (Rs. crore) | Current Rating |
|---|---|---|---|---|---|---|
| **Sansar Aug 2024 X Trust** | PTC Series A1 | December 13, 2024 | 7.60% | April 20, 2027 | 493.02 | Provisional [ICRA]AAA(SO) |
| | PTC Series A2 | | 7.60% | November 20, 2029 | 211.30 | Provisional [ICRA]AAA(SO) |
| | Second loss facility | | NA | November 20, 2029 | 35.22 | Provisional [ICRA]A-(SO) |

*Source: Company*

### Annexure II: List of entities considered for consolidated analysis

Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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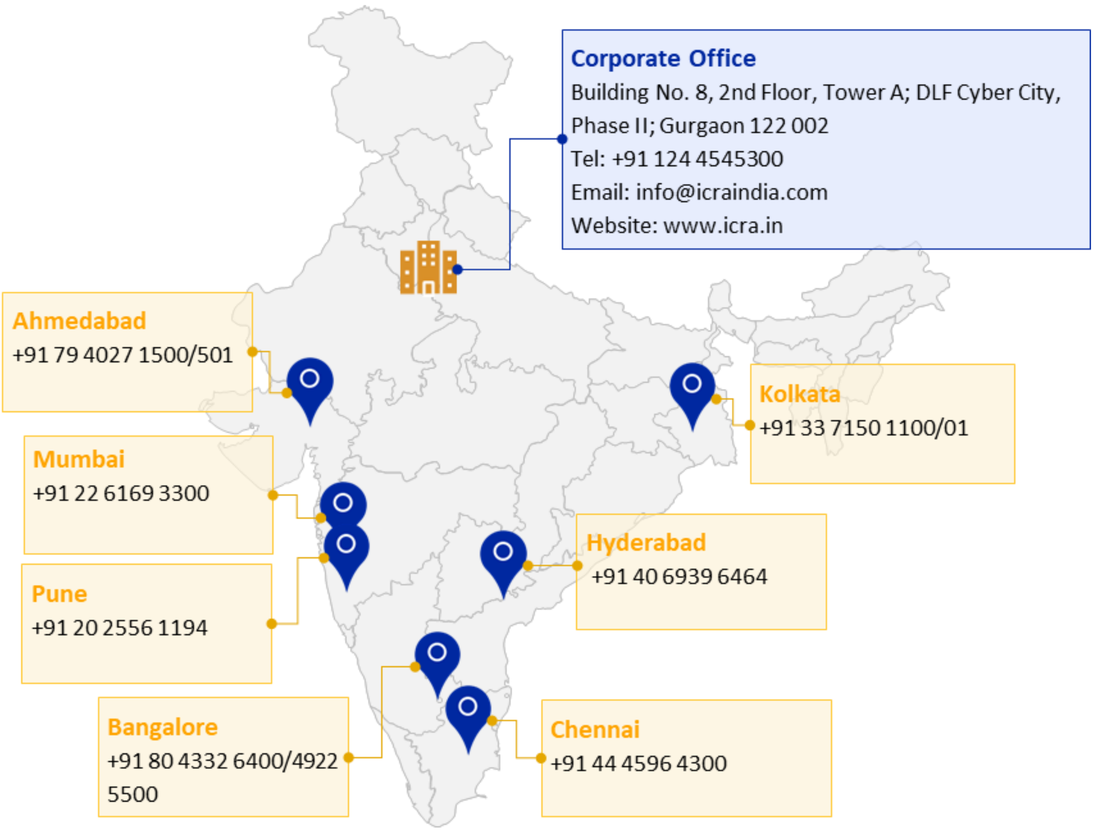




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