

March 17, 2025

## Shriram Finance Limited: Ratings confirmed as final for PTCs backed by vehicle and construction equipment loan receivables issued by Sansar Oct 2024 III Trust

### Summary of rating action

Trust name	Instrument*	Current rated amount (Rs. crore)	Rating action
Sansar Oct 2024 III Trust	PTC Series A	833.74	[ICRA]AAA(SO); provisional rating confirmed as final
	Equity tranche	82.46	[ICRA]A-(SO); provisional rating confirmed as final

\*Instrument details are provided in Annexure I

### Rationale

ICRA had assigned a provisional rating to the pass-through certificates (PTCs) issued by Sansar Oct 2024 III Trust under a securitisation transaction originated by Shriram Finance Limited {SFL/Originator; rated [ICRA]AA+ (Stable)}. The PTCs are backed by a pool of vehicle loan and construction equipment loan receivables originated by SFL with an aggregate principal outstanding of Rs. 916.20 crore (pool receivables of Rs. 1,163.95 crore).

Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said ratings have now been confirmed as final.

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout to PTC Series A while the interest payout to the equity tranche would be on expected basis. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) to PTC Series A but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. However, on the occurrence of any predefined acceleration event, a part of the residual EIS, equivalent to the principal outstanding of all defaulted loans<sup>1</sup>, shall be utilised for accelerating the principal payment due to PTC Series A. An acceleration event is triggered if the defaulted loans exceed 3% of the outstanding pool principal. Any prepayment in the pool would be used for the prepayment of PTC Series A principal. After the maturity of PTC Series A, a similar structure with respect to the principal payment, surplus EIS and prepayment would be followed for the equity tranche.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.50% of the initial pool principal, amounting to Rs. 32.07 crore, provided by the Originator, (ii) subordination of 9.00% of the initial pool principal for PTC Series A, and (iii) the EIS of 16.11% of the initial pool principal for PTC Series A and the equity tranche.

### Key rating drivers and their description

#### Credit strengths

**Adequate servicing capability of originator** – SFL, which is also servicing the loans in the transaction, has an established track record of more than four decades in the preowned commercial vehicle financing business with adequate underwriting policies and collection procedures across a wide geography. It also has satisfactory processes for servicing the loan accounts in the securitised pool.

<sup>1</sup>Loans that are delinquent for more than 150 days or borrowers who have entered bankruptcy proceedings or any other loans where the Originator has written off the loan amount

**Granular pool supported by presence of credit enhancement** – The pool was granular as on the cut-off date and comprised 21,681 contracts. The top 10 contracts formed only 0.5% of the initial pool principal, reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination 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 ~15% with seasoning of ~9 months as on the cut-off date, reflecting the borrowers’ relatively better credit profile and repayment track record. The contracts were current (i.e. non-delinquent) as on the cut-off date.

### Credit challenges

**Presence of long-tenure contracts** – On the cut-off date, ~29% of the contracts in the pool had an original tenure of more than 48 months. The performance of such contracts has remained relatively weaker in the portfolio and the pool’s performance would thus depend 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.

### Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction name	Sansar Oct 2024 III Trust
Originator	Shriram Finance Limited
Servicer	Shriram Finance Limited
Trustee	Catalyst Trusteeship Limited
CC holding bank	JPMC Bank N.A.
Collection and payout account bank	JPMC Bank N.A.

### Liquidity position

#### For PTC Series A: Strong

The liquidity position for PTC Series A is strong after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be around 4.5 times the estimated loss in the pool.

### For the equity tranche: Adequate

The liquidity position for the equity tranche is adequate after factoring in the credit enhancement available for meeting the promised payouts to the investor. The total credit enhancement would be around 2.5 times the estimated loss in the pool.

### Rating sensitivities

**Positive factors** – Not applicable for PTC Series A

The rating for the equity tranche could 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 could also exert pressure on the ratings.

### Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Not applicable

### 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 more than 3,800 branches and other offices. As on December 31, 2024, its assets under management (standalone) stood at Rs. 2.54 lakh crore comprising commercial vehicle finance (46%), passenger vehicle finance (20%), small and medium-sized enterprise (SME) lending (14%), construction equipment and farm equipment finance (9%), two-wheeler loans (6%), personal loans (3%), and gold loans (2%).

### Key financial indicators

SFL (standalone)	FY2023*	FY2024^	9M FY2025^
	Audited	Audited	Limited review
Total income	29,803	34,998	30,399
Profit after tax	5,979	7,193	7,622
Total managed assets#	2,16,010	2,52,802	3,00,986
Gross stage 3	6.2%	5.5%	5.4%
Capital-to-risk weighted assets ratio	22.6%	20.3%	21.0%

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

Trust name	Instrument	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		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
				March 17, 2025	November 28, 2024			
Sansar Oct 2024 III Trust	PTC Series A	833.74	833.74	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-	-
	Equity tranche	82.46	82.46	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

### Complexity level of the rated instrument

Instrument	Complexity indicator
PTC Series A	Moderately Complex
Equity tranche	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	Amount rated (Rs. crore)	Rating
<b>Sansar Oct 2024 III Trust</b>	PTC Series A	November 22, 2024	8.30%	November 25, 2029	833.74	[ICRA]AAA(SO)
	Equity tranche		Residual		82.46	[ICRA]A-(SO)

Source: Company

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

Not applicable

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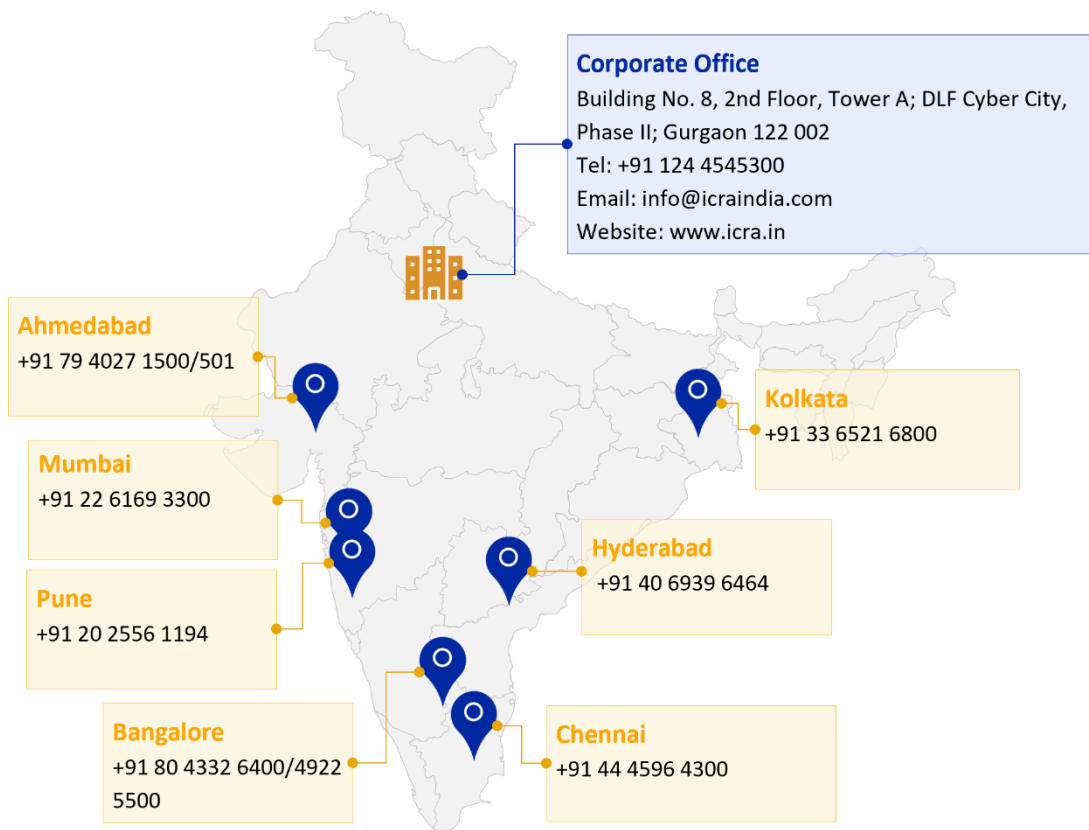
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