

February 18, 2022

## Sundaram Finance Limited: Rating confirmed as final for PTCs issued under a vehicle tractor and agriculture equipment loan receivables securitisation transaction

### Summary of rating action

| Trust Name         | Instrument*  | Current Rated Amount (Rs. crore) | Rating Action  |
|--------------------|--------------|----------------------------------|--|
| Shri Trust AF 2022 | PTC Series A | 460.42                           | [ICRA]AAA(SO); provisional rating confirmed as final |

\*Instrument details are provided in Annexure-1

### Rationale

In October 2021, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to the pass-through certificate (PTCs) Series A issued by Shri Trust AF 2022. The PTCs are backed by loan receivables from a Rs. 460.42-crore pool (pool principal; receivables of Rs. 522.79 crore) of new commercial vehicles (CV), used CV, tractor and agricultural equipment loan contracts originated by Sundaram Finance Limited (Sundaram Finance/Originator; rated [ICRA]AAA(Stable)). 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.

A summary of the performance of the pool after the Jan 2022 payout month has been provided below.

| Parameter                              |        |
|--|--------|
| Months post securitisation             | 3      |
| Pool amortisation                      | 16.36% |
| PTC Series A amortisation              | 14.42% |
| Cumulative collection efficiency       | 96.99% |
| Loss-cum-0+ dpd                        | 9.53%  |
| Loss cum 30+ dpd                       | 2.01%  |
| Loss cum 90+ dpd                       | 0.01%  |
| Cumulative Prepayment rate             | 1.53%  |
| Cumulative cash collateral utilisation | 0.00%  |

### Key rating drivers

#### Credit strengths

- Availability of credit enhancement (CE) in the form of excess interest spread (EIS) and cash collateral (CC)
- High average seasoning and pre-securitisation amortisation of the pool as on the pool cut-off date
- Lower share (~3%) of contracts with balance tenure more than 48 months

#### Credit challenges

- Presence of overdue contracts as on pool cut-off date; albeit the share is lower at ~3%
- Pool's performance will remain exposed to disruptions that may arise due to Covid-19 pandemic

### Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (February 25, 2026). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to PTC Series A, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The first line of support for meeting any shortfall in the scheduled PTC payouts is available in the form of a subordination of the scheduled EIS in the structure. Further credit support is available in the form of a CC of provided by SFL in the transaction. ICRA takes note that the CC provided is 7.53% of the initial pool principal as against 5.00% indicated at the time of assigning provisional rating. The CC is in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

The selected pool consists of receivables against loans given for financing new CVs (64.1% share in the pool by value), used CVs (21.9%), tractors (12.7%) and agricultural equipment (1.3%). The pool had high average seasoning of 15 months as on the pool cut-off date. Also, 3.2% of the contracts in the pool were overdue as on the pool cut-off date. However, none of the contracts were overdue by more than 30 days. The pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

**Past rated pools performance:** ICRA has rated 52 securitisation transactions with the underlying receivables originated by SFL of which five pools are live at present. All the pools have witnessed a healthy performance with a cumulative collection efficiency in the range of 86-96% as of the December 2021 payout month and no CC utilisation.

## Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.0-3.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

## Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This structure imparts significant liquidity to the transaction as even a small amount of collections in the underlying pool contracts would be sufficient to meet the promised monthly PTC payouts. The cash flows from the pool and the available CE are expected to be very comfortable to meet the promised payouts to the PTC investors.

## Rating sensitivities

**Positive factors** – Not Applicable.

**Negative factors** – Pressure on the rating could emerge due to the sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

## 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 company

SFL is the flagship company of the T. S. Santhanam arm of the TVS Group. SFL is one of the large NBFCs in the country with an AUM of Rs. 29,823 crore as of June 2021. Its primary focus is on the financing of CVs and cars. SFL has invested in various entities to provide a gamut of financial services like housing finance (SHFL), insurance (Royal Sundaram) and mutual funds (SAMCL).

SFL reported a standalone net profit of Rs. 809 crore in FY2021 on a managed asset base of Rs. 35,784 crore compared with a net profit of Rs. 724 crore {includes Rs. 53 crore towards profit on sale of shares in Sundaram Finance Holdings Limited (net of tax)} on a managed asset base of Rs. 34,804 crore in FY2020. It reported a net profit of Rs. 402 crore in H1 FY2022 on a managed asset base of Rs. 34,471 crore.

## Key financial indicators

| SFL - Standalone                 | FY2020 | FY2021 | H1FY2022 |
|----------------------------------|--------|--------|----------|
| Total income (Rs. crore)         | 3,927  | 4,014  | 1,981    |
| Profit after tax (Rs. crore)     | 724    | 809    | 402      |
| Net worth (Rs. crore)            | 5,547  | 6,179  | 6,507    |
| Total managed assets (Rs. crore) | 34,804 | 35,784 | 34,471   |
| Gross stage 3 (%)                | 2.5%   | 1.8%   | 3.5%     |
| Net stage 3 (%)                  | 1.7%   | 1.0%   | 2.1%     |

Source: Company, ICRA Research

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

**Any other information: None**

## Rating history for past three years

|   | Trust Name         | Current Rating (FY2022) |                          |                                |                         | Chronology of Rating History for the Past 3 Years |                         |                         |                         |
|---|--------------------|-------------------------|--------------------------|--------------------------------|-------------------------|---|-------------------------|-------------------------|-------------------------|
|   |                    | Instrument              | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating in FY2022 |   | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
|   |                    |                         |                          |                                | February 18, 2022       | October 19, 2021                                  | -                       | -                       | -                       |
| 1 | Shri Trust AF 2022 | PTC Series A            | 460.42                   | 460.42                         | [ICRA]AAA(SO)           | Provisional [ICRA]AAA(SO)                         | -                       | -                       | -                       |

## Complexity level of the rated instrument

| Trust Name         | Instrument   | Complexity Indicator |
|--------------------|--------------|----------------------|
| Shri Trust AF 2022 | PTC Series A | 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: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

| Trust Name         | Instrument   | Date of Issuance / Sanction | Coupon Rate | Maturity Date* | Amount Rated (Rs. crore) | Current Rating and Outlook |
|--------------------|--------------|-----------------------------|-------------|----------------|--------------------------|----------------------------|
| Shri Trust AF 2022 | PTC Series A | October 2021                | 3.95%       | February, 2026 | 460.42                   | [ICRA]AAA(SO)              |

*\*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

### Annexure-2: 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](http://www.icra.in)

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