

March 21, 2022

Sundaram Finance Limited: Rating reaffirmed for PTCs issued under three vehicle loan securitisation transactions and withdrawn for PTCs issued under one securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Jan-22 Payout (Rs. crore)	Rating Action
Shri Trust X 2019	PTC Series A	502.26	125.47	0.00	[ICRA]AAA(SO); Withdrawn
Shri Trust Y 2019	PTC Series A	1,036.95	334.31	118.28	[ICRA]AAA(SO); Reaffirmed
Shri Trust AC 2020	PTC Series A	423.67	275.00	134.57	[ICRA]AAA(SO); Reaffirmed
Shri Trust AE 2021	PTC Series A	493.70	NA	336.19	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the rating for the pass-through certificates (PTCs) issued under three securitisation transactions originated by Sundaram Finance Limited (SFL; rated [ICRA]AAA(Stable)/[ICRA]A1+). The PTCs tabulated above are backed by commercial vehicle (CV), tractors and agricultural equipment loan receivables originated by SFL. The rating has been reaffirmed on account of the moderate to high amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The pools have also exhibited healthy collection efficiencies. There has been no cash collateral (CC) utilisation in these transactions in recent months.

ICRA has also withdrawn the rating of the PTCs issued under the Shri Trust X 2019 transaction as all the payouts have been made and no further payments are due to the investors.

A summary of the performance of the live pools after the January 2022 payouts has been provided below.

Parameter	Shri Trust Y 2019	Shri Trust AC 2020	Shri Trust AE 2021
Months post securitisation	39	27	9
Pool amortisation (%)	88.2	68.0	32.2
PTC amortisation (%)	88.6	68.2	31.9
Cumulative collection efficiency (%) ¹	95.9	97.9	97.2
Cumulative prepayment rate (%)	12.6	9.3	3.2
Average monthly collection efficiency for last three months ² (%)	95.8	97.8	96.4
Average monthly prepayment rate (%)	0.4	0.4	0.4
Loss-cum-90+ (% of initial pool principal) ³	1.2	2.0	0.9
Loss-cum-180+ (% of initial pool principal) ⁴	0.8	1.2	0.3
Breakeven collection efficiency (%) ⁵	20.8	63.7	79.1

¹ Cumulative collections / (Cumulative billings + opening overdues at the time of securitisation)

² (Last 3 months cumulative collections including current, overdues and advance collections)/(Last 3 months cumulative billings)

³ Principal outstanding on contracts aged 90+ dpd / principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 180+ dpd / principal outstanding on the pool at the time of securitisation

⁵ Breakeven collection efficiency = (Balance PTC cash flows - CC available) / balance pool cash flows

Parameter	Shri Trust Y 2019	Shri Trust AC 2020	Shri Trust AE 2021
Cumulative CC utilisation (%)	0.0	0.0	0.0
CC available (as % of balance pool)	62.1	23.3	11.8

Reset of credit enhancement

At SFL's request for the reset of the credit enhancement, ICRA has analysed the Shri Trust AC 2020 transaction at a CC of 13.2% of the balance pool principal (i.e. Rs. 17.82 crore) against the currently available CC of 23.3% of the balance pool principal (after January 2022 payouts). Based on the pool's performance, the rating for the PTCs will remain unchanged even after the reset of the CC amount. The CC reset shall be subject to the approval of the PTC investors. However, as per the regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- Moderate to high amortisation of PTCs, resulting in build-up of CC and excess interest spread (EIS)
- Healthy collection efficiency in the pools till December 2021 collection month
- No CC utilisation in the pools as on date

Credit challenges

- Pools' performance will remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic

Description of key rating drivers highlighted above

The collection efficiencies for the pools declined in Q1 FY2022 due to the lockdowns and restrictions imposed by state governments during the second wave of the pandemic. The collections, however, bounced back in Q2 FY2022 and remained above 100%. The cumulative collection efficiency of these pools was in the range of 95-98% till the December 2021 collection month. Due to the healthy collection performance, delinquencies have remained low with the 90+ days past due (dpd) being below 2.0% as of December 2021 collection month. The interim shortfalls in pool collections have been absorbed by the EIS and there has been no CC utilisation in any of the transactions till date. The performance of the pools would remain exposed to any fresh disruptions caused by the pandemic.

Overall, the credit enhancement available for meeting the balance payouts to the investors – after the downward reset of the CC in one eligible transaction – is sufficient to reaffirm the rating at the current level for all the transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Shri Trust Y 2019	0.5% - 1.0%	4% - 6% p.a.
2	Shri Trust AC 2020	1.0% - 2.0%	4% - 6% p.a.
3	Shri Trust AE 2021	2.0% - 3.0%	4% - 6% p.a.

Liquidity position: Superior

The CC, as a percentage of the balance pool principal amount available in the Trust Y transaction, is ~62%. For the Trust AC and AE transactions, 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 these transactions as even a small amount of collections in the underlying pool of contracts would be sufficient to meet the promised monthly PTC payouts.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge if the sustained weak collection performance of the underlying pool leads to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the performance of the pools till December 2021 (collection month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transactions.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions ICRA's Policy on Withdrawal of Credit Rating
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. It is one of the large non-banking financial companies (NBFCs) in the country with assets under management (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	H1 FY2022
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	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	
					March 21, 2022	March 23, 2021	September 07, 2020	March 20, 2020	August 29, 2019	November 19, 2018 [^]	August 28, 2018 [*]
1 Shri Trust X 2019	PTC Series A	502.26	0.00	[ICRA] AAA(SO); Withdrawn	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	Provisional [ICRA]AAA(SO)

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years						
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	
					March 21, 2022	March 23, 2021	September 07, 2020	August 29, 2019	November 19, 2018 [^]	October 01, 2018 [*]	
2 Shri Trust Y 2019	PTC Series A	1,036.95	118.28	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	Provisional [ICRA]AAA(SO)

Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years						
	Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020		Date & Rating in FY2019	
					March 21, 2022	March 23, 2021	September 07, 2020	February 25, 2020 [^]	October 03, 2019 [*]	-	
3 Shri Trust AC 2020	PTC Series A	423.67	134.57	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	[ICRA] AAA(SO)	Provisional [ICRA]AAA(SO)	-

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 21, 2022	September 28, 2021 [^]	March 31, 2021 [*]	-	-
4	Shri Trust AE 2021	PTC Series A	493.70	336.19	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

^{*} Initial rating assigned

[^] Final rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Shri Trust X 2019	PTC Series A	Moderately Complex
Shri Trust Y 2019	PTC Series A	Simple
Shri Trust AC 2020	PTC Series A	Moderately Complex
Shri Trust AE 2021	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

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Shri Trust X 2019	PTC Series A	Aug-18	6.85%	May-23	0.00	[ICRA]AAA(SO); withdrawn
Shri Trust Y 2019	PTC Series A	Sep-18	8.00%	Oct-23	118.28	[ICRA]AAA(SO)
Shri Trust AC 2020	PTC Series A	Sep-19	6.40%	Dec-24	134.57	[ICRA]AAA(SO)
Shri Trust AE 2021	PTC Series A	Mar-21	4.00%	Aug-25	336.19	[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:

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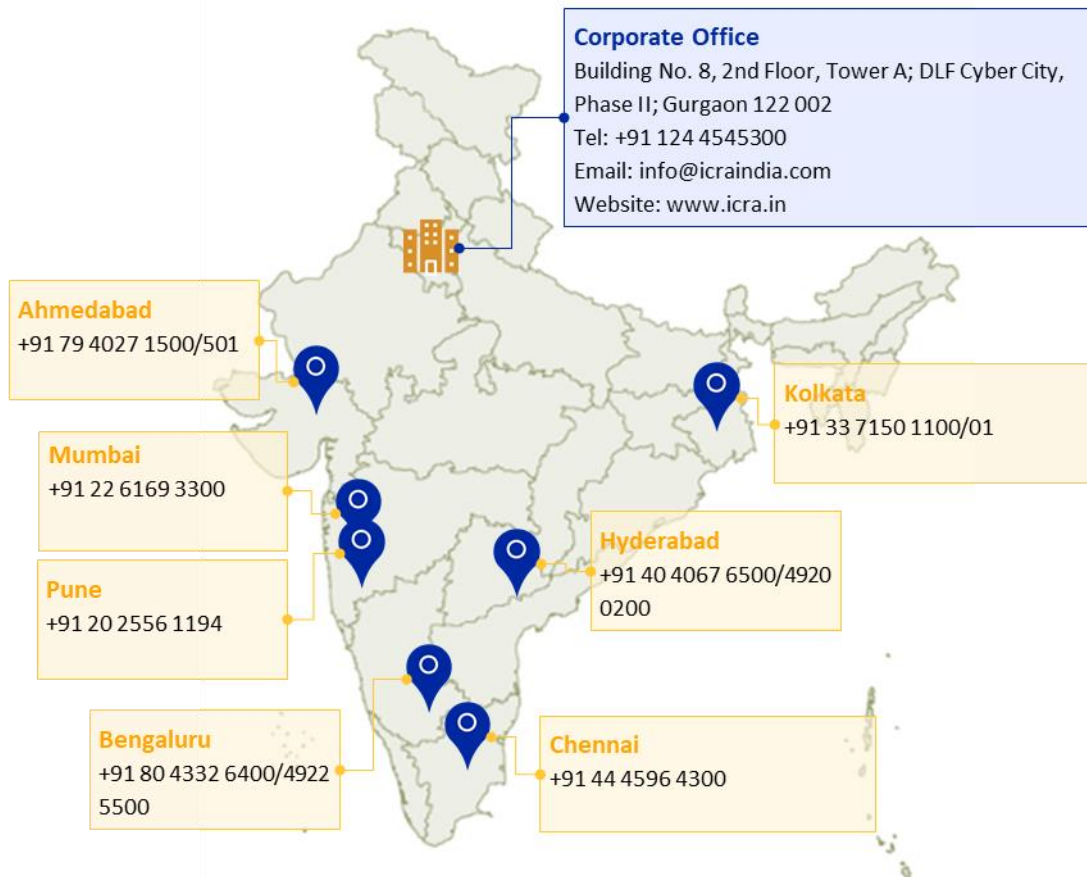
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