

May 31, 2022

Sundaram Finance Limited: Rating confirmed as final for PTCs issued under vehicle loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Shri Trust AG 2022	PTC Series A	543.21	[ICRA]AAA(SO); provisional rating confirmed as final

Rationale

In December 2021, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shri Trust AG 2022. The pass-through certificates (PTCs) are backed by vehicle loan receivables of a Rs. 543.21-crore pool (pool principal) of new commercial vehicle (CV), used CV, tractor, agricultural equipment, and construction equipment loan contracts originated by Sundaram Finance Limited (rated [ICRA]AAA(Stable); [ICRA]A1+). 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 rating have now been confirmed as final.

A summary of the pool performance after the April 2022 payouts is provided in the table below:

Parameter	Shri Trust AG 2022
Months post securitisation	3
Pool amortisation	13.45%
PTC Series A Amortisation	12.86%
Cumulative prepayment rate %	1.06%
Monthly collection efficiency	109.25%
Loss cum 0+ dpd	8.59%
Loss cum 30+ dpd	3.61%
Loss cum 90+ dpd	0.11%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and cash collateral
- High average seasoning and pre-securitisation 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 (~13%) as on pool cut-off date
- Pool performance will remain exposed to disruptions that may arise from the 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 (January 25, 2027). 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 loan pool receivables will be assigned at par to the PTC investors. 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 provided by SFL in the transaction. ICRA takes note that the CC provided is 8.00% 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 (33.2% share in the pool by value), used CVs (5.3%), tractors (19.3%), agricultural equipment (9.3%) and construction equipment (32.9%). The pool has high average seasoning of 17.1 months as on the pool cut-off date. It has a high share of overdue contracts (13.4%) as on the pool cut-off date. However, none of the contracts are overdue by more than 30 days. The pool's performance will remain exposed to any fresh disruptions that may arise due to the pandemic.

Performance of past rated pools: ICRA has rated 52 securitisation transactions with the underlying receivables originated by SFL of which five are live at present. The performance of the live pools has been healthy with a cumulative collection efficiency in the range of 97-99% as of the March 2022 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 2.5-3.5%, 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: Strong

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 of 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	
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
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. 29,796 crore as of December 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. 35,752 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. 903 crore in FY2022 on a managed asset base of Rs. 35,627 crore

Key financial indicators

Sundaram Finance Limited	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Audited)
PAT	724	809	903
Net Worth	5,547	6,179	6,893
Total Managed Assets	34,804	35,752	35,627
Gross Stage 3 (%)	2.5%	1.8%	2.2%
Net Stage 3 (%)	1.7%	1.0%	1.1%

Source: Company, ICRA Research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 31, 2022	December 28, 2021	-	-
1	Shri Trust AG 2022	PTC Series A	543.21	543.21	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Shri Trust AG 2022	PTC Series A	December 2021	3.65%	January 2027	543.21	[ICRA]AAA(SO)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Sohil Mehta

+91 22 6114 3449

sohil.mehta@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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