

June 30, 2022

Sundaram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by pool of vehicle loan receivables issued by Shri Trust AJ 2023

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. crore)	Rating Action
Shri Trust AJ 2023	PTC Series A	478.01	Provisional [ICRA]AAA(SO); Assigned

*Instrument details are provided in Annexure-1

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

ICRA has assigned a provisional rating to the pass-through certificates (PTC) Series A issued under a securitisation transaction originated by Sundaram Finance Limited (SFL/originator; rated [ICRA]AAA (Stable)/A1+). The PTCs are backed by loan receivables of Rs. 478.01 crore (pool principal; receivables of Rs. 546.45 crore) of new commercial vehicle (CV), used CV, tractor, agricultural equipment, and construction equipment loan contracts.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, SFL's track record as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.5% of the pool principal to be provided by the originator and (ii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS and CC
- Average seasoning of ~13 months as on the pool cut-off date
- ~99% of the contracts are current as on the cut-off date and ~85% have never been delinquent in the past

Credit challenges

- Pool's performance remains exposed to any fresh disruptions that may be caused due to 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 (October 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 of 8.5% of the initial pool principal to be provided by SFL in the transaction. The CC will be 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 (56.0% share in the pool by value), used CVs (12.0%), tractors (5.0%), agricultural equipment (3.2%) and construction equipment (24.1%). The pool has an average seasoning of 12.5 months as on the pool cut-off date. It has a lower share of overdue contracts (1.0%) as on the pool cut-off date and none of the contracts are overdue by more than 30 days. A high share of the contracts (84.7%) has never been delinquent in the past. 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 53 securitisation transactions with the underlying receivables originated by SFL, of which five pools are live at present. The performance of the five live pools (which have completed at least one payout till the March 2022 collection month) has been healthy with a cumulative collection efficiency in the range of 96-99% and no CC utilisation as of the March 2022 collection month.

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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.50-3.50%, 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 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 on 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 analysis of the performance of SFL's portfolio till March 2022, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

Analytical Approach	
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 rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. 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 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. 29,532 crore as of March 2022. 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 (Sundaram Home Finance Limited), insurance (Royal Sundaram) and mutual funds (Sundaram Asset Management Company Limited).

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 {including 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 (audited)

SFL – Standalone	FY2020	FY2021	FY2022
Profit after tax (Rs. crore)	724	809	903
Net worth (Rs. crore)	5,547	6,179	6,893
Total managed assets (Rs. crore)	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

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 Name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 30, 2022	-	-	-
1	Shri Trust AJ 2023	PTC Series A	478.01	478.01	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 AJ 2023	PTC Series A	June 2022	5.65%	October 2027	478.01	Provisional [ICRA]AAA(SO)

Source: Company

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.

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Branches



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