

November 14, 2022

Sundaram Finance Limited: Rating reaffirmed for PTCs issued under two vehicle loan securitisation transactions

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/S after Last Surveillance (Rs. crore)	Current Outstanding Amount after Oct-22 Payouts (Rs. crore)	Rating Action
Shri Trust AE 2021	PTC Series A	493.70	336.19	191.20	[ICRA]AAA(SO); Reaffirmed
Shri Trust AF 2022	PTC Series A	460.42	NA	213.62	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) originated by Sundaram Finance Limited (SFL/originator; rated [ICRA]AAA (Stable)/A1+) are backed by vehicle loan receivables. The rating reaffirmation factors in the sustained healthy collections witnessed in the pools. Due to the amortisation in the transactions, there has been a build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pools. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions, if any.

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

Pool performance summary

Parameter	Shri Trust AE 2021	Shri Trust AF 2022
Months post securitisation	18	12
Pool amortisation	60.9%	54.6%
PTC Series A amortisation (as % of initial PTC Series A principal)	61.3%	53.6%
Cumulative collection efficiency ¹	98.5%	98.8%
Cumulative prepayment rate	7.2%	6.1%
Average monthly prepayment rate	0.4%	0.5%
Loss-cum-90+ dpd ² (% of initial pool)	1.3%	0.5%
Loss-cum-180+ dpd ³ (% of initial pool)	0.5%	0.1%
Cumulative credit collateral (CC) utilisation	0.0%	0.0%
Breakeven collection efficiency ⁴ for PTC Series A	71.0%	78.5%
Cash collateral (CC) (% of balance pool)	20.4%	16.6%

Reset of credit enhancement

At the request of SFL for resetting the credit enhancement for the Shri Trust AE 2021 and Shri Trust AF 2022 transactions, ICRA has analysed the transactions at a cash collateral (CC) of 15.7% (Rs. 30.4 crore) and 10.6% (Rs. 22.1 crore), respectively, of the balance pool principal after the October 2022 payouts (against the currently available CC of 20.4% and 16.6%, respectively, of the balance pool principal). Based on the pools' 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

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

² Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a % of Initial Pool Principal

⁴ (Balance cash flows payable to investor – CC available) / Balance pool cash flows

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 amortisation of PTCs, resulting in build-up of CC and excess interest spread (EIS)
- Healthy collection efficiency in the pools till September 2022 collection month
- No CC utilisation in the pools as on date

Credit challenges

- Performance of the pools would remain exposed to macro-economic shocks/business disruption, if any

Description of key rating drivers highlighted above

The performance of both pools has remained healthy with a cumulative collection efficiency of more than 98% as of the October 2022 payout month and no instance of CC utilisation. For both pools, the loss-cum-90+ days past due (dpd) was low at sub-1.5% after the October 2022 payout. Any shortfall in collections in the past was absorbed by the EIS in the structure. As both pools are moderately amortised, there has been a healthy build-up in the CE cover for the balance tenure of the PTC payouts even after CC utilisation.

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 CE relative to ICRA's expectations. Notwithstanding collections in recent months, ICRA notes that the performance of the pools would remain exposed to any fresh disruptions that may arise due to the Covid-19 pandemic, leading to lower-than-expected collections.

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 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 rated pools as well as the 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 loss and prepayments during the balance tenure of the pools are provided in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Shri Trust AE 2021	1.50-2.00%	12.00-18.00% p.a.
2	Shri Trust AF 2022	1.25-1.75%	12.00-18.00% p.a.

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 in these transactions 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 pools and the available CE are expected to be highly comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the performance of the pools till September 2022 (collection month), the present delinquency levels and the CE available in the pools, and the performance expected over the balance tenure of these pools.

Analytical Approach	Comments
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. 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 commercial vehicles (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 a net profit of Rs. 903 crore in FY2022 on a managed asset base of Rs. 35,627 crore compared with a net profit of Rs. 809 crore in FY2021 on a managed asset base of Rs. 35,752 crore.

Key financial indicators (audited)

SFL - Standalone	FY2021	FY2022	Q1 FY2023*
Profit after tax	809	903	226
Net worth	6,179	6,893	7,122
Total managed assets	35,752	35,627	36,466
Gross stage 3	1.8%	2.2%	2.5%
Net stage 3	1.0%	1.1%	1.3%

Source: Company data, ICRA Research; Amount in Rs. crore; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 14, 2022	Mar 21, 2022	Sep 28, 2021	Mar 31, 2021 [^]	-
1	Shri Trust AE 2021	PTC Series A	493.70	191.20	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

[^]Initial rating assigned

S. No.	Trust Name	Instrument	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 14, 2022	Feb 18, 2022	Oct 19, 2021 [^]	-	-
2	Shri Trust AF 2022	PTC Series A	460.42	213.62	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

[^]Initial rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Shri Trust AE 2021	PTC Series A	Moderately Complex
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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Shri Trust AE 2021	PTC Series A	March 2021	4.00%	August 2025	191.20	[ICRA]AAA(SO)
Shri Trust AF 2022	PTC Series A	October 2021	3.95%	February 2026	213.62	[ICRA]AAA(SO)

* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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