

November 22, 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 AJ 2023	PTC Series A	478.01	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In June 2022, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shri Trust AJ 2023. The pass-through certificates (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 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 October 2022 payouts is provided in the table below:

Parameter	Shri Trust AJ 2023
Months post securitisation	3
Pool amortisation	12.57%
PTC Series A Amortisation	11.45%
Cumulative prepayment rate %	1.17%
Monthly collection efficiency	99.57%
Loss cum 0+ dpd	7.50%
Loss cum 30+ dpd	2.56%
Loss cum 90+ dpd	0.14%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Established track record of the company in vehicle finance business with presence in diverse segments
- Availability of CE in the form of EIS and cash collateral
- Average seasoning of ~13 months as on the pool cut-off date
- As on cut-off date, 99% of the contracts were current and ~85% were never delinquent in the past

Credit challenges

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

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 have been 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 EIS of 4.76% in the structure. Further credit support is available in the form of a CC of 8.50% of the initial pool principal provided by SFL in the transaction. 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 (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 ~13 months as on the pool cut-off date. As on cut-off date, share of overdue contracts is lower (1.0%) 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. However, the pool's performance will remain exposed to macro-economic shocks/business disruptions, if any

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 live pools has been healthy with a cumulative collection efficiency in the range of 97-99% as of the October 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: 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 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. 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	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

Trust Name	Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years		
				Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				November 22, 2022	June 30, 2022			
1 Shri Trust AJ 2023	PTC Series A	478.01	478.01	[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: [Click Here](#)

Annexure-I: 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	[ICRA]AAA(SO)

Source: Company

Annexure-II: 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.

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Branches



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