

March 29, 2023

Sundaram Finance Limited: Rating reaffirmed for PTCs issued under one vehicle loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/S after Last Surveillance (Rs. crore)	Current Outstanding Amount after Jan-23 Payouts (Rs. crore)	Rating Action
Shri Trust AC 2020	PTC Series A	423.67	134.57	42.43	[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 pool. Due to the high amortisation in the transaction, there has been a significant build-up of the credit enhancement (CE) cover over the future PTC payouts. The breakeven collection efficiency is low compared to the actual collection level observed in the pool. Nonetheless, the rating would remain exposed to macro-economic shocks/business disruptions.

A summary of the performance of the pool after the January 2023 payouts has been provided below.

Pool performance summary

Parameter	Shri Trust AC 2020
Months post securitisation	39
Pool amortisation	89.5%
PTC Series A amortisation (as % of initial PTC Series A principal)	90.0%
Cumulative collection efficiency ¹	98.4%
Cumulative prepayment rate	13.2%
Average monthly prepayment rate	0.4%
Loss-cum-90+ dpd ² (% of initial pool)	1.6%
Loss-cum-180+ dpd ³ (% of initial pool)	1.3%
Cumulative credit collateral utilisation	0.0%
Breakeven collection efficiency ⁴ for PTC Series A	19.2%
Cash collateral (CC; % of balance pool)	52.3%

Key rating drivers

Credit strengths

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

Credit challenges

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

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

Description of key rating drivers highlighted above

The performance of the pool has remained healthy with a cumulative collection efficiency of more than 98% as of the January 2023 payout month and no instance of CC utilisation. Also the loss-cum-90+ days past due (dpd) was low at sub-1.6% after the January 2023 payouts. Any shortfall in collections in the past was absorbed by the EIS in the structure. As the pool is highly amortised, there has been a healthy build-up in the CE cover for the balance tenure of the PTCs.

ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. Notwithstanding the improvement in collections in recent months, ICRA notes that the performance of the pool would remain exposed to macro-economic shocks/business disruptions.

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 AC 2020	0.50-1.00%	4.00-6.00% 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. 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 rating 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 pool till December 2022 (collection month), the present delinquency levels and the CE available in the pool, the performance expected over the balance tenure of the pool and the CE available in the transaction.

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 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	FY2021	FY2022	9M FY2023*
Profit after tax	809	903	772
Net worth	6,179	6,893	7,558
Total managed assets	35,752	35,627	38,356^
Gross stage 3	1.8%	2.2%	2.4%
Net stage 3	1.0%	1.1%	1.4%

*Provisional financials; ^Off-balance sheet receivables not included

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

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	
					Mar 29, 2023	Mar 21, 2022	Mar 23, 2021	Sep 07, 2020	Feb 25, 2020^	Oct 03, 2019*
1	Shri Trust AC 2020	PTC Series A	423.67	42.43	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[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 AC 2020	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 AC 2020	PTC Series A	September 2019	6.40%	December 2024	42.43	[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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