

May 29, 2023

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)	Amount O/s after Apr-23 Payout (Rs. crore)	Rating Action
Shri Trust AG 2022	PTC Series A	543.21	NA	213.42	[ICRA]AAA(SO); Reaffirmed
Shri Trust AH 2022	PTC Series A	572.81	NA	301.27	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

ICRA has reaffirmed the rating for the pass-through certificates (PTCs) issued under two securitisation transactions originated by Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/[ICRA]A1+). The PTCs tabulated above are backed by commercial vehicle (CV), tractor, construction equipment and agricultural equipment loan receivables originated by SFL. The rating has been reaffirmed on account of the substantial amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The pools have also exhibited healthy collection efficiencies. There has been no cash collateral (CC) utilisation in these transactions till date.

A summary of the performance of the pools after the April 2023 payouts has been provided below.

Parameter	Shri Trust AG 2022	Shri Trust AH 2022
Months post securitisation	15	13
Pool amortisation (%)	61.43%	48.03%
PTC amortisation (%)	60.71%	47.41%
Cumulative collection efficiency (%) ¹	99.10%	99.10%
Cumulative prepayment rate (%)	6.38%	4.14%
Average monthly collection efficiency for last three months ² (%)	105.97%	103.18%
Loss-cum-90+ (% of initial pool principal) ³	0.42%	0.44%
Loss-cum-180+ (% of initial pool principal) ⁴	0.26%	0.26%
Breakeven collection efficiency (%) ⁵	71.59%	72.28%
Cumulative CC utilisation (%)	0.00%	0.00%
CC available (as % of balance pool)	20.72%	13.50%

Reset of credit enhancement

At SFL's request for resetting the credit enhancement, ICRA has analysed the Shri Trust AG 2022 transaction at a CC of 9.7% of the balance pool principal (i.e. Rs. 20.33 crore) against the currently available CC of 20.72% of the balance pool principal (after April 2023 payouts). Based on the pool's 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 regulatory guidelines, the

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

² (Last 3 months' cumulative collections including current, overdues and advance collections)/(Last 3 months' cumulative billings)

³ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 180+ dpd / Principal outstanding on the pool at the time of securitisation

⁵ Breakeven collection efficiency = (Balance PTC cash flows - CC available) / Balance pool cash flows

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

- Substantial amortisation of PTCs, resulting in build-up of credit enhancement
- Healthy collection efficiency in the pools till March 2023 collection month
- No CC utilisation in the pools till April 2023 payout month
- Presence of the company in diverse segments with established track record in lending and financial services business

Credit challenges

- Performance of the pools would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The collection efficiency of both pools has exceeded 96% in all the months. The cumulative collection efficiency for both pools as of the April 2023 payout month was above 99%. Due to the healthy collection performance, delinquencies have remained low with 90+ days past due (dpd) of less than 0.5% as of the March 2023 collection month. There has been no instance of CC utilisation in both pools. Due to substantial amortisation and good collections, the credit enhancement has built up as a percentage of the balance pool principal. The performance of the pools would remain exposed to macro-economic shocks/business disruptions.

Overall, the credit enhancement available for meeting the balance payouts to the investors – even after the downward reset of the CC in the Shri Trust AG 2022 transaction – is sufficient to reaffirm the rating at the current level for both transactions. 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 credit enhancement relative to ICRA’s expectations.

Key rating assumptions

ICRA’s cash flow modelling for the surveillance of 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 and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Shri Trust AG 2022	0.5% - 1.5%	4% - 6% p.a.
2	Shri Trust AH 2022	1.5% - 2.0%	4% - 6% 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 credit enhancement 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 if the sustained weak collection performance of the underlying pool leads to higher-than-expected delinquency levels and credit enhancement utilisation levels.

Analytical approach

The rating action is based on the performance of the pools till March 2023 (collection month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transactions.

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 Group. It is one of the large non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 33,558 crore as of December 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. 903 crore in FY2022 on a managed asset base of Rs. 35,628 crore compared with a net profit of Rs. 809 crore on a managed asset base of Rs. 35,752 crore in FY2021. It reported a net profit of Rs. 772 crore in 9M FY2023 on a managed asset base of Rs. 38,481 crore.

Key financial indicators

Sundaram Finance Limited	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 Provisional
Total income	4,014	3,890	3,005
PAT	809	903	772
Total managed assets	35,752	35,628	38,481
Gross stage 3	1.8%	2.2%	2.4%
Net stage 3	1.0%	1.1%	1.4%

Source: Company, ICRA Research; Amount in Rs. crore ; ^Off-balance sheet receivables not included

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023 [^]	Date & Rating in FY2022 [*]	Date & Rating in FY2021
					May 29, 2023	May 31, 2022	December 28, 2021	-
1	Shri Trust AG 2022	PTC Series A	543.21	213.42	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

* Initial rating assigned

[^]Final rating assigned

	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023 [^]	Date & Rating in FY2022 [*]	Date & Rating in FY2021
					May 29, 2023	May 31, 2022	February 25, 2022	-
2	Shri Trust AH 2022	PTC Series A	572.81	301.27	[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 AG 2022	PTC Series A	Moderately Complex
Shri Trust AH 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 Type	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	213.42	[ICRA]AAA(SO)
Shri Trust AH 2022	PTC Series A	February 2022	3.95%	December 2026	301.27	[ICRA]AAA(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

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.

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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