

August 01, 2023

Sundaram Finance Limited: Rating confirmed as final for PTCs backed by pool of commercial vehicles, construction equipment, cars and machinery loan receivables issued by Shri Trust AP 2023

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. Crore)	Rating Action
Shri Trust AP 2023	PTC Series A	369.91	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shri Trust AP 2023. The pass-through certificates (PTCs) are backed by loan receivables of a Rs. 369.91-crore (pool principal; receivables of Rs. 421.59 crore) of new commercial vehicles (CVs), used CVs, construction equipment and machinery 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 July 2023 payouts is provided in the table below:

Parameter	Shri Trust AP 2023
Months post securitisation	4
Pool amortisation	12.49%
PTC Series A Amortisation	11.80%
Cumulative prepayment rate	1.03%
Monthly collection efficiency	98.77%
Loss cum 0+ dpd	3.38%
Loss cum 30+ dpd	0.53%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Presence in diverse segments with established track record in lending and financial services business
- Availability of CE in the form of EIS and CC
- Average seasoning of ~9 months as on the pool cut-off date
- There are no overdue contracts in the pool as on the cut-off date

Credit challenges

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

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 (September 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 scheduled EIS of 1.89% 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 selected pool consists of receivables against loans given for financing new CVs (~60% share in the pool by value), used CVs (~7%), construction equipment (~14%), cars (~17%) and machinery (~1%). The pool has an average seasoning of ~9 months as on the cut-off date. There are no overdue contracts in the pool as on the cut-off date. A high share of the contracts (99%) has never been delinquent in the past. The performance of the pool would remain exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: ICRA has rated 58 securitisation transactions with the underlying receivables originated by SFL of which twelve 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 June 2023 payout month and nil 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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.00-3.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum with average prepayment of 12.0%.

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 for meeting 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 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. The Group's association with the Indian automotive industry covers financing, trading and manufacturing. The company is one of the large NBFCs in the country with an AUM of Rs. 34,552 crore as of March 2023. The company's 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 (SHFL), insurance (Royal Sundaram) and mutual funds (SAMCL). The SFL Group provides a range of financial services including vehicle finance, housing finance, asset management and insurance among others.

SFL is an established player in the vehicle finance business with an operational history of more than six decades. The company has a demonstrated track record of operating across business cycles without any significant deterioration in its overall risk profile, supported by its good understanding of the target segments and an experienced management team. The company has a 12-member board, including six independent directors. SFL has established relationships with its customers (around 60% of commercial vehicle [CV] borrowers are repeat customers), which, along with the stringent underwriting norms and robust collection and recovery mechanism, have supported its business risk profile over the years.

Key financial indicators (audited)

SFL	FY2021	FY2022	FY2023*
Total Income	4,014	3,890	4,110
Profit after tax	809	903	1,088
AUM	30,882	29,532	34,552
Gross stage 3	1.8%	2.2%	1.7%
Net stage 3	1.0%	1.1%	0.9%

Source: Company data, 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

Trust Name	Instrument Name	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				August 1, 2023	March 13, 2023	-	-
1 Shri Trust AP 2023	PTC Series A	369.91	369.91	[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 AP 2023	PTC Series A	March 2023	7.00%	September 2027	369.91	[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.

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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