

October 04, 2023

Sundaram Finance Limited: Rating reaffirmed for PTCs issued under five 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 Jul-23 Payout (Rs. crore)	Rating Action
Shri Trust AC 2020	PTC Series A	423.67	42.43	17.11	[ICRA]AAA(SO); Reaffirmed
Shri Trust AE 2021	PTC Series A	493.70	191.20	81.18	[ICRA]AAA(SO); Reaffirmed
Shri Trust AF 2022	PTC Series A	460.42	213.62	86.54	[ICRA]AAA(SO); Reaffirmed
Shri Trust AH 2022	PTC Series A	572.81	301.27	247.56	[ICRA]AAA(SO); Reaffirmed
Shri Trust AJ 2023	PTC Series A	478.01	NA	266.08	[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 five 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 breakeven collection efficiency for the pool is likely to be comfortable compared to the actual collection efficiency seen in the pool even after resetting the CE in the transaction. There has been no cash collateral (CC) utilisation in these transactions till date.

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

Parameter	Shri Trust AC 2020	Shri Trust AE 2021	Shri Trust AF 2022	Shri Trust AH 2022	Shri Trust AJ 2023
Months post securitisation	45	27	21	16	12
Pool amortisation (%)	95.42%	83.34%	81.86%	57.63%	45.32%
PTC amortisation (%)	95.96%	83.56%	81.20%	56.78%	44.34%
Cumulative collection efficiency (%) ¹	98.65%	98.84%	99.03%	98.76%	98.60%
Cumulative prepayment rate (%)	14.30%	11.15%	9.31%	5.13%	4.23%
Average monthly collection efficiency for last three months ² (%)	98.65%	96.81%	97.09%	97.04%	98.15%
Loss-cum-90+ (% of initial pool principal) ³	1.30%	0.87%	0.36%	0.60%	0.61%
Loss-cum-180+ (% of initial pool principal) ⁴	1.14%	0.59%	0.22%	0.33%	0.17%
Breakeven collection efficiency (%) ⁵	<0%	49.06%	61.00%	77.34%	83.03%
Cumulative CC utilisation (%)	0.00%	0.00%	0.00%	0.00%	0.00%

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

Parameter	Shri Trust AC 2020	Shri Trust AE 2021	Shri Trust AF 2022	Shri Trust AH 2022	Shri Trust AJ 2023
CC available (as % of balance pool)	>100%	41.31%	32.50%	16.56%	15.54%

Reset of credit enhancement

At SFL's request for resetting the credit enhancement, ICRA has analysed the four trusts basis the CC mentioned as per the table provided below. 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 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.

Transaction Name	Current CC outstanding [A]	CC Required as per ICRA for maintaining the present rating [B]	CC that can be released [C]= 60%*(A - B)	Revised CC Limit [D] = (A - C)
Shri Trust AC 2020	23.35	7.01	9.81	13.54
Shri Trust AE 2021	34.00	10.20	14.28	19.72
Shri Trust AF 2022	27.15	8.15	11.40	15.75
Shri Trust AH 2022	40.19	24.11	9.65	30.54

Key rating drivers

Credit strengths

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

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 pools have performed well with cumulative collection efficiency above 98% for all the pools as on July-23 payout month. Due to the healthy collection performance, delinquencies have remained low with 90+ days past due (dpd) of less than 1.5% as of the June 2023 collection month. There has been no instance of CC utilisation in any of the pools. Due to moderate to high amortisation of these pools and healthy 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 four transactions – (Shri Trust AC 2020, Shri Trust AE 2021, Shri Trust AF 2022, Shri Trust AH 2022) is sufficient to reaffirm the rating at the current level for these 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 AC 2020	0.50% - 1.00%	4% - 6% p.a.
2	Shri Trust AE 2021	0.50% - 1.00%	4% - 6% p.a.
3	Shri Trust AF 2022	0.50% - 1.00%	4% - 6% p.a.
4	Shri Trust AH 2022	1.00% - 2.00%	4% - 6% p.a.
5	Shri Trust AJ 2023	1.00% - 2.00%	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 June 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 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. Presently, the company has a 14-member board, including eight 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

Sundaram Finance Limited	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
Total income	4,014	3,890	4,110
PAT	809	903	1,088
Total managed assets	35,752	35,628	41,140
Gross stage 3	1.8%	2.2%	1.7%
Net stage 3	1.0%	1.1%	0.9%

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	
					October 4, 2023	March 29, 2023	March 21, 2022	March 23, 2021	September 7, 2020	
1	Shri Trust AC 2020	PTC Series A	423.67	17.11	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	

	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
					October 4, 2023	November 14, 2022	March 21, 2022	September 28, 2021 [^]	March 31, 2021 [*]
2	Shri Trust AE 2021	PTC Series A	493.70	81.18	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[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
					October 4, 2023	November 14, 2022		February 18, 2022 [^]	October 19, 2021 [*]	-
3	Shri Trust AF 2022	PTC Series A	460.42	86.54	[ICRA]AAA(SO)	[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
					October 4, 2023	May 29, 2023	May 31, 2022 [^]	February 25, 2022 [*]	-
4	Shri Trust AH 2022	PTC Series A	572.81	247.56	[ICRA]AAA(SO)	[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
					October 4, 2023	November 22, 2022 [^]	June 30, 2022 [*]	-	-
5	Shri Trust AJ 2023	PTC Series A	478.01	266.08	[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
Shri Trust AE 2021	PTC Series A	Moderately Complex
Shri Trust AF 2022	PTC Series A	Moderately Complex
Shri Trust AH 2022	PTC Series A	Moderately Complex
Shri Trust AJ 2023	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 AC 2020	PTC Series A	September 2019	6.40%	December 2024	17.11	[ICRA]AAA(SO)
Shri Trust AE 2021	PTC Series A	March 2021	4.00%	August 2025	81.18	[ICRA]AAA(SO)
Shri Trust AF 2022	PTC Series A	October 2021	3.95%	February 2026	86.54	[ICRA]AAA(SO)
Shri Trust AH 2022	PTC Series A	February 2022	3.95%	December 2026	247.56	[ICRA]AAA(SO)
Shri Trust AJ 2023	PTC Series A	June 2022	5.65%	October 2027	266.08	[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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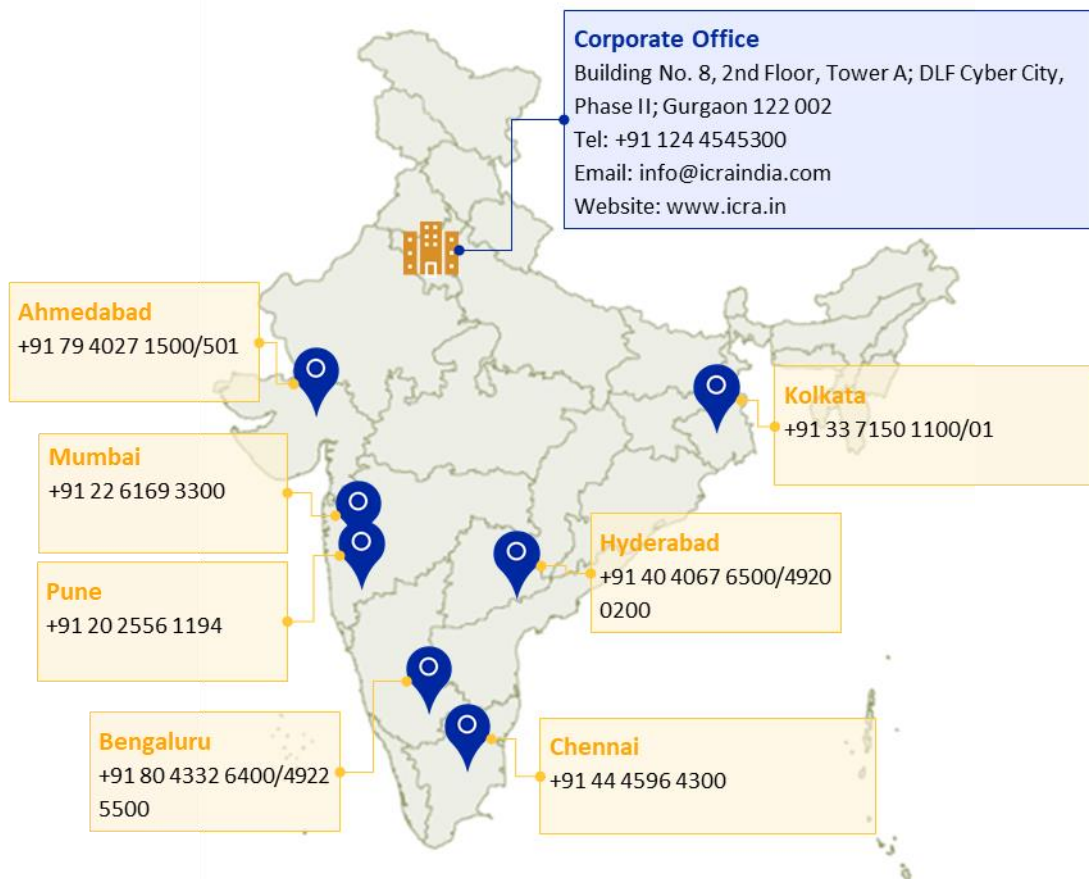
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