

June 17, 2024

Sundaram Finance Limited: Rating confirmed as final for PTCs backed by pool of commercial vehicles, construction equipment loan receivables issued by Shri Trust AZ 2024

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. Crore)	Rating Action
Shri Trust AZ 2024	PTC Series A	368.73	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

ICRA had assigned provisional rating to the pass-through certificates (PTC) issued by Shri Trust AZ 2024 under a securitisation transaction originated by Sundaram Finance Limited {SFL/Originator; rated [ICRA]AAA(Stable)}. The PTCs are backed by a pool of vehicle loan receivables originated by SFL with an aggregate principal outstanding of Rs. 368.73-crore (pool receivable of Rs. 430.12-crore).

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 ratings have now been confirmed as final.

Pool performance summary

Parameter	Shri Trust AZ 2024
Payout month	April 2024
Months post securitisation	2
Pool amortisation	5.7%
PTC Series A Amortisation	5.1%
Cumulative collection efficiency ¹	99.2%
Loss cum 0+ dpd ²	1.8%
Loss cum 30+ dpd ³	0.3%
Loss cum 90+ dpd ⁴	0.0%
Cumulative prepayment rate	0.4%
Cumulative cash collateral utilisation	0.0%

Transaction Structure

As per the transaction structure, the monthly cash flow schedule comprises of the promised interest payout. The principal is expected to be paid on a monthly basis but is promised on the final maturity date. The expected monthly principal payouts to the investors have been staggered. Principal portion of billing pertaining to a particular month (month M), will be paid in the corresponding payout to the investors in staggered ratio of 80:20 in months M+1 and M+2, respectively. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of PTC Series A principal.

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

² Principal outstanding on contracts aged 0+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 30+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 9.00% of the initial pool principal amounting to Rs. 33.19 crore provided by the Originator, and (ii) the EIS of 3.20% of the initial pool principal for PTC Series A.

Key rating drivers and their description

Credit strengths

Track record of Originator – The Originator, which would also be servicing the loans in the transaction, has an established track record in the vehicle finance business with an operational history of almost seven decades and has adequate underwriting policies and collection procedures.

Granular pool supported by presence of credit enhancement – The pool is granular, consisting of 1,662 contracts, with top 10 borrowers forming only ~15% of the pool principal, thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts.

No overdue contracts in the pool – The pool has been filtered in such a manner that there are no overdue contracts as on the cut-off date. Further, none of the contracts in the pool have ever been delinquent, which is a credit positive.

Seasoned contracts in the pool – The pool has seasoning of ~10 months as on the cut-off date with no delinquencies seen in any of the contracts, post loan disbursement, thereby reflecting the borrowers’ relatively better credit profile and repayment track record.

Credit challenges

Risks associated with lending business – The pool’s performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 2.50% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 4.8% to 18% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Shri Trust AZ 2024
Originator	Sundaram Finance Limited
Servicer	Sundaram Finance Limited
Trustee	IDBI Trusteeship Services Limited

Transaction Name	
Shri Trust AZ 2024	
CC Bank	State Bank of India
Collection and payout account Bank	The Hongkong and Shanghai Banking Corporation Limited

Liquidity position: Strong

The liquidity for PTC Series A is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could emerge due to sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels; weakening in the credit profile of the servicer could also exert pressure on the rating.

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 originator

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. 42,172 crore as of December 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.

EXHIBIT 1: Key financial indicators

SFL – Standalone	FY2022 (Audited)	FY2023 (Audited)	9MFY2024 (Provisional)
Total income	3,890	4,110	3,849
Profit after tax	903	1,088	948
Total managed portfolio	29,532	34,552	42,172
Gross stage 3	2.2%	1.7%	1.8%
CRAR	24.4%	22.8%	20.0%

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 (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				June 17, 2024	February 15, 2024	-	-
1 Shri Trust AZ 2024	PTC Series A	368.73	368.73	[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 AZ 2024	PTC Series A	February 2024	7.63%	February 2029	368.73	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 22 6114 3470

sachin.joglekar@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.