

August 20, 2024

Sundaram Finance Limited: Rating reaffirmed for PTCs issued under four vehicle loan securitisation transactions

Summary of rating action

| Trust Name | Instrument* | Initial Rated Amount (Rs. crore) | Amount O/s after Last Surveillance (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------|--------------|----------------------------------|--|----------------------------------|---------------------------|
| Shri Trust AJ 2023 | PTC Series A | 478.01 | 266.08 | 105.60 | [ICRA]AAA(SO); Reaffirmed |
| Shri Trust AP 2023 | PTC Series A | 369.91 | NA | 187.67 | [ICRA]AAA(SO); Reaffirmed |
| Shri Trust AQ 2023 | PTC Series A | 207.05 | NA | 103.02 | [ICRA]AAA(SO); Reaffirmed |
| Shri Trust AR 2023 | PTC Series A | 301.94 | NA | 147.61 | [ICRA]AAA(SO); Reaffirmed |

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by vehicle loan receivables originated by Sundaram Finance Limited {SFL; rated [ICRA]AAA(Stable)}. The rating reaffirmation factors in the healthy pool performance and build-up of the credit enhancement cover over the future PTC payouts on account of the high amortisation. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the July 2024 payout month. A summary of the performance of the pools after the July 2024 payout month (June 2024 collection month) has been provided below.

| Parameter | Shri Trust AJ 2023 | Shri Trust AP 2023 | Shri Trust AQ 2023 | Shri Trust AR 2023 |
|--|--------------------|--------------------|--------------------|--------------------|
| Payout Month | July-24 | July-24 | July-24 | July-24 |
| Months post securitisation | 24 | 16 | 15 | 15 |
| Pool amortisation (%) | 78.7% | 50.0% | 51.4% | 51.8% |
| PTC amortisation (%) | 77.9% | 49.3% | 50.3% | 51.1% |
| Cumulative collection efficiency (%)¹ | 99.1% | 98.2% | 100.4% | 99.1% |
| Cumulative prepayment rate (%) | 8.0% | 4.3% | 5.1% | 6.0% |
| Average monthly collection efficiency for last three months² (%) | 98.0% | 99.2% | 96.9% | 98.3% |
| Loss-cum-90+ (% of initial pool principal)³ | 0.5% | 0.5% | 0.2% | 0.3% |
| Loss-cum-180+ (% of initial pool principal)⁴ | 0.3% | 0.3% | 0.2% | 0.1% |
| Breakeven collection efficiency (%)⁵ | 63.6% | 84.4% | 82.3% | 83.8% |
| Cumulative cash collateral (CC) utilisation (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| CC available (as % of balance pool) | 39.9% | 17.0% | 18.5% | 17.1% |

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

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.

Reset of credit enhancement

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

| 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 AJ 2023 | 40.63 | 12.19 | 17.06 | 23.57 |
| Shri Trust AQ 2023 | 18.64 | 10.25 | 5.03 | 13.61 |
| Shri Trust AR 2023 | 24.91 | 13.70 | 6.73 | 18.18 |

All amounts in (Rs. crore)

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 maximum 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. The CC reset shall be subject to the approval of the PTC investors.

Key rating drivers and their description

Credit strengths

Track record of Originator – The Originator 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

Substantial credit enhancement available in the structure – The rating factors in the build-up in the credit enhancement with cash collateral (CC) increasing to 16% to 40% of the balance pool principal for the transactions compared to 8% to 9% at time of securitisation.

Healthy pool performance – Performance of the pools have been strong with cumulative collection efficiency of ~99% till July 2024 payout month which has resulted in low delinquencies in the pools with the 90+ days past due (dpd) and 180+ dpd. The break-even collection efficiency is also lower as compared to the monthly collection efficiency observed for the pools. Further, there have been no instances of CC utilisation for any of the pools till date owing to strong collection performance and presence of EIS in the transactions.

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 pools, ICRA has estimated the shortfall in the pool principal collection during its tenure as per the table below with certain variability around it. The average prepayment rate for the underlying pools is also given in the table below. 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.

| S. No. | Transaction Name | Expected Loss* (% of initial pool principal) | Prepayment |
|--------|--------------------|---|-----------------|
| 1 | Shri Trust AJ 2023 | 0.75% | 4.8% - 18% p.a. |
| 2 | Shri Trust AP 2023 | 1.25% | 4.8% - 18% p.a. |
| 3 | Shri Trust AQ 2023 | 1.50% | 4.8% - 18% p.a. |
| 4 | Shri Trust AR 2023 | 1.25% | 4.8% - 18% p.a. |

*with certain variability around it

Details of key counterparties

The key counterparties in the rated transactions are as follows:

| Transaction Name | Shri Trust AJ 2023 | Shri Trust AP 2023 | Shri Trust AQ 2023 | Shri Trust AR 2023 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Originator | Sundaram Finance Limited | Sundaram Finance Limited | Sundaram Finance Limited | Sundaram Finance Limited |
| Servicer | Sundaram Finance Limited | Sundaram Finance Limited | Sundaram Finance Limited | Sundaram Finance Limited |
| Trustee | IDBI Trusteeship Services Limited | IDBI Trusteeship Services Limited | IDBI Trusteeship Services Limited | IDBI Trusteeship Services Limited |
| CC Bank | State Bank of India | State Bank of India | State Bank of India | State Bank of India |
| Collection and payout account Bank | HSBC Bank | State Bank of India | HSBC Bank | State Bank of India |

Liquidity position: Superior

The liquidity is superior for all the transactions after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 6.50 times the estimated loss in the pools.

Rating sensitivities

Positive Factors – Not Applicable.

Negative Factors – Pressure on the ratings could emerge due to sustained weak collection performance of the underlying pools, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (SFL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the performance of the pools till July 2024 payout month (June 2024 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 TSF Group. It is one of the large NBFCs in the country with an AUM of Rs. 43,987 crore as of March 2024. 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 (SHFL), insurance (Royal Sundaram) and mutual funds (SAMCL).

SFL reported a standalone net profit of Rs. 1,454 crore in FY2024 on a managed asset base of Rs. 43,987 crore compared with a net profit of Rs. 1,088 crore on a managed asset base of Rs. 41,140 crore in FY2023.

Key Financial Indicators (audited)-As per IND AS

| SFL – Standalone | FY2022 (Audited) | FY2023 (Audited) | FY2024 (Audited) |
|----------------------|---------------------|---------------------|---------------------|
| Total income | 3,890 | 4,110 | 5,494 |
| Profit after tax | 903 | 1,088 | 1,454 |
| Total managed assets | 35,628 | 41,140 | 43,987 |
| Gross stage 3 | 2.2% | 1.7% | 1.3% |
| CRAR | 24.4% | 22.8% | 20.5% |

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

| | Trust Name | Current Rating (FY2025) | | | | Chronology of Rating History for the Past 3 Years | | | |
|---|--------------------|-------------------------|----------------------------------|----------------------------------|-------------------------|---|-------------------------|---------------------------|-------------------------|
| | | Instrument | Initial Amount Rated (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | | Date & Rating in FY2022 |
| | | | | | | | Aug 20, 2024 | Oct 4, 2023 | |
| 1 | Shri Trust AJ 2023 | PTC Series A | 478.01 | 105.60 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | |

| | Trust Name | Current Rating (FY2025) | | | Chronology of Rating History for the Past 3 Years | | | |
|---|--------------------|-------------------------|----------------------------------|----------------------------------|---|-------------------------|---------------------------|-------------------------|
| | | Instrument | Initial Amount Rated (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Aug 20, 2024 | Aug 1, 2023 | Mar 13, 2023 | - |
| 2 | Shri Trust AP 2023 | PTC Series A | 369.91 | 187.67 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - |

| | Trust Name | Current Rating (FY2025) | | | Chronology of Rating History for the Past 3 Years | | | |
|---|--------------------|-------------------------|----------------------------------|----------------------------------|---|-------------------------|---------------------------|-------------------------|
| | | Instrument | Initial Amount Rated (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Aug 20, 2024 | Aug 1, 2023 | Mar 28, 2023 | - |
| 3 | Shri Trust AQ 2023 | PTC Series A | 207.05 | 103.02 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - |

| | Trust Name | Current Rating (FY2025) | | | Chronology of Rating History for the Past 3 Years | | | |
|---|--------------------|-------------------------|----------------------------------|----------------------------------|---|-------------------------|---------------------------|-------------------------|
| | | Instrument | Initial Amount Rated (Rs. crore) | Current Amount Rated (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Aug 20, 2024 | Aug 1, 2023 | Mar 28, 2023 | - |
| 4 | Shri Trust AR 2023 | PTC Series A | 301.94 | 147.61 | [ICRA]AAA(SO) | [ICRA]AAA(SO) | Provisional [ICRA]AAA(SO) | - |

Complexity level of the rated instrument

| Trust Name | Instrument | Complexity Indicator |
|--------------------|--------------|----------------------|
| Shri Trust AJ 2023 | PTC Series A | Moderately Complex |
| Shri Trust AP 2023 | PTC Series A | Moderately Complex |
| Shri Trust AQ 2023 | PTC Series A | Moderately Complex |
| Shri Trust AR 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 (p.a.p.m.) | Maturity Date | Amount Rated (Rs. crore) | Current Rating |
|--------------------|-----------------|-----------------------------|------------------------|--------------------|--------------------------|----------------|
| Shri Trust AJ 2023 | PTC Series A | June 26, 2022 | 5.65% | October 25, 2027 | 105.60 | [ICRA]AAA(SO) |
| Shri Trust AP 2023 | PTC Series A | March 9, 2023 | 7.00% | September 25, 2027 | 187.67 | [ICRA]AAA(SO) |
| Shri Trust AQ 2023 | PTC Series A | March 29, 2023 | 7.10% | September 25, 2027 | 103.02 | [ICRA]AAA(SO) |
| Shri Trust AR 2023 | PTC Series A | March 29, 2023 | 7.10% | September 25, 2027 | 147.61 | [ICRA]AAA(SO) |

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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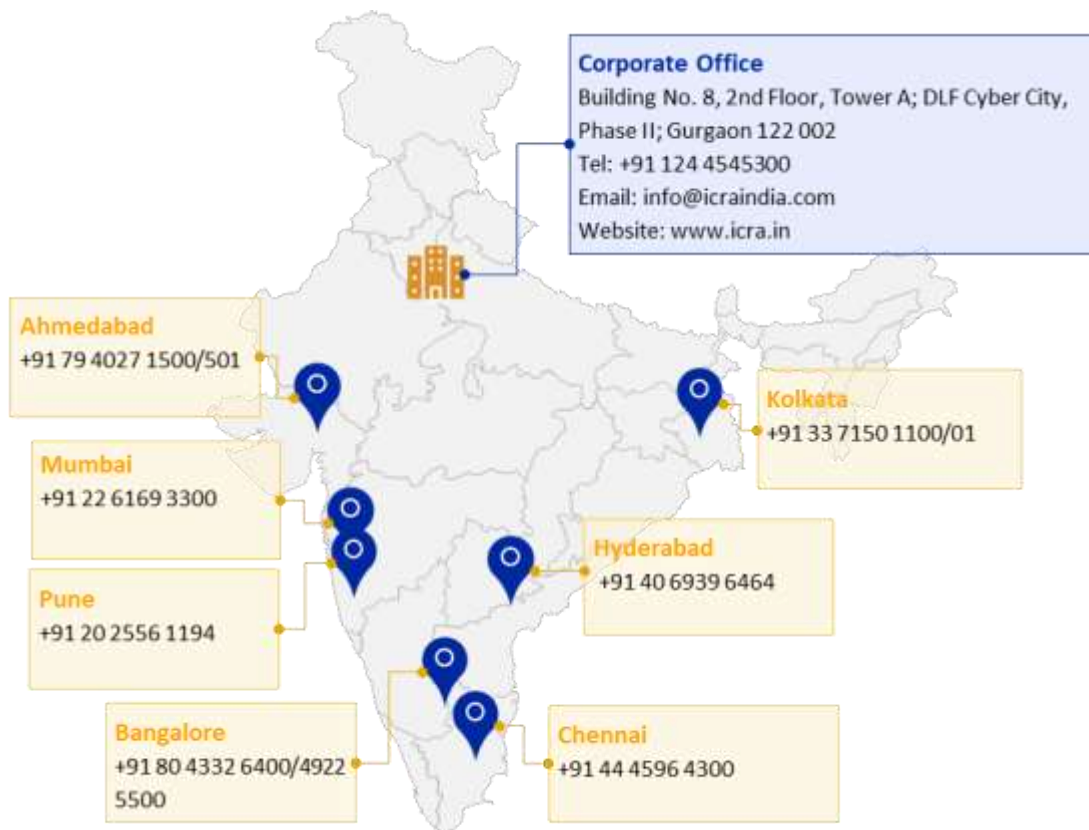
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