

January 23, 2025

## 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)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Shri Trust AS 2024	PTC Series A	357.47	357.47	187.68	[ICRA]AAA(SO); reaffirmed
Shri Trust AT 2024	PTC Series A	365.41	365.41	205.26	[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/Originator; rated [ICRA]AAA (Stable)}. SFL is also the servicer for the transaction. The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high amortisation and healthy pool performance. 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 December 2024 payout month.

### Pool performance summary

Parameter	Shri Trust AS 2024	Shri Trust AT 2024
Payout month	December 2024	December 2024
Months post securitisation	16	14
Pool amortisation (%)	48.1%	44.7%
PTC amortisation (%)	47.5%	43.8%
Cumulative collection efficiency (%) <sup>1</sup>	98.1%	97.7%
Cumulative prepayment rate (%)	6.5%	6.4%
Loss-cum-90+ (% of initial pool principal) <sup>2</sup>	1.4%	1.0%
Loss-cum-180+ (% of initial pool principal) <sup>3</sup>	1.0%	0.4%
Breakeven collection efficiency (%) <sup>4</sup>	83.6%	83.3%
Cumulative cash collateral (CC) utilisation (%)	0.0%	0.0%
CC available (as % of balance pool)	15.4%	14.5%

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises 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 in such a way that the principal portion of the billing pertaining to a particular month (month M) will be paid in the corresponding payout to the investors in a 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.

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

<sup>2</sup> Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>3</sup> Principal outstanding on contracts aged 180+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>4</sup> Breakeven collection efficiency = (Balance PTC cash flows – CC available) / Balance pool cash flows

## Key rating drivers and their description

### Credit strengths

**Established track record and servicing capability of the originator** – The Originator has an established track record in the vehicle finance business with an operational history of almost seven decades. It has adequate processes for servicing loans with a demonstrated track record of regular collections and recoveries across a wide geography.

**Substantial credit enhancement available in the structure** – The rating factors in the build-up in the credit enhancement cover with the cash collateral increasing to ~15% and ~14% of the balance pool principal for Shri Trust AS 2024 and Shri Trust AT 2024, respectively, from 8.0% at the time of securitisation. Further, both transactions have the support of internal credit enhancement in the form of EIS.

**Healthy pool performance** – The performance of the pools has been strong with a cumulative collection efficiency of ~98%, which has resulted in low delinquencies with 90+ days past due (dpd) of less than 1.5%, as of the November 2024 collection month, for both pools. Further, there have been no instances of cash collateral utilisation for the pools till date, owing to the strong collection performance and the presence of EIS in the transactions.

### Credit challenges

**Risks associated with lending business** – The pools’ 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 their tenure at 1.75% for both transactions. The average prepayment rate for both underlying pools is modelled in the range of 4.0% to 6.0% 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 instruments.

## Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Shri Trust AS 2024	Shri Trust AT 2024
<b>Originator</b>	Sundaram Finance Limited	Sundaram Finance Limited
<b>Servicer</b>	Sundaram Finance Limited	Sundaram Finance Limited
<b>Trustee</b>	IDBI Trusteeship Services Limited	IDBI Trusteeship Services Limited
<b>CC bank</b>	State Bank of India	State Bank of India
<b>Collection and payout account bank</b>	State Bank of India	State Bank of India

## Liquidity position: Strong

The liquidity is strong for the transactions after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~5.00 and ~4.50 times the estimated loss in the pool for Shri Trust AS 2024 and Shri Trust AT 2024, respectively.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Pressure on the rating could emerge on the sustained weak collection performance of the underlying pool, 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 performance of the pools till the December 2024 payout month (November 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	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

SFL is the flagship company of the TSF Group. It is one of the large non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 45,671 crore as of June 2024. Its primary focus is on the financing of commercial vehicles (CVs) and cars. SFL has invested in various entities to provide a gamut of financial services like housing finance (Sundaram Home Finance Limited; SHFL), insurance (Royal Sundaram) and mutual funds (Sundaram Asset Management Company Limited; SAMCL).

SFL reported a standalone net profit of Rs. 1,454 crore in FY2024 on a managed asset base of Rs. 50,999 crore compared with a net profit of Rs. 1,088 crore on a managed asset base of Rs. 41,140 crore in FY2023. It reported a net profit of Rs. 308 crore on a managed asset base of Rs. 54,338 crore in Q1 FY2025.

## Key financial indicators (as per Ind-AS)

SFL – Standalone	FY2023 Audited	FY2024 Audited	Q1 FY2025* Provisional
Total income	4,110	5,494	1,476
Profit after tax	1,088	1,454	308
Total managed assets	41,140	50,999	54,338
Gross stage 3	1.7%	1.3%	1.6%
Capital-to-risk weighted assets ratio (CRAR)	22.8%	20.5%	19.3%

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

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years						
			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Jan 23, 2025	Jan 19, 2024	Aug 07, 2023	-	-		
1	Shri Trust AS 2024	PTC Series A	357.47	187.68	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-		

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			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Jan 23, 2025	Jan 19, 2024	Oct 18, 2023	-	-		
2	Shri Trust AT 2024	PTC Series A	365.41	205.26	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-		

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Shri Trust AS 2024	PTC Series A	Moderately Complex
Shri Trust AT 2024	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	Current Rated Amount (Rs. crore)	Current Rating
Shri Trust AS 2024	PTC Series A	August 04, 2023	7.25%	December 25, 2027	187.68	[ICRA]AAA(SO)
Shri Trust AT 2024	PTC Series A	October 16, 2023	7.25%	February 25, 2028	205.26	[ICRA]AAA(SO)

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not applicable

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