

January 21, 2021

Sundaram Home Finance Limited: Rating reaffirmed for purchaser payouts/PTCs issued under mortgage loan securitisation transactions

Summary of rating action

Sl.	Trust Name	Instrument*	Initial Rated Amount (Rs. crore ¹)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Dec-20 Payout (Rs. crore)	Rating Action
1	SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	197.79	14.86	11.17	Rating reaffirmed at [ICRA]AAA(SO)
2	SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	98.53	11.50	8.72	Rating reaffirmed at [ICRA]AAA(SO)
3	Santhanam Series II	PTC Series A	260.21	-	209.77	Rating reaffirmed at [ICRA]AAA(SO)

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the rating assigned to the purchaser payouts and pass-through certificates (PTCs) backed by receivables from housing loan and non-housing loan contracts originated by Sundaram Home Finance Limited (SHFL) as tabulated above.

The above-mentioned purchaser payouts were rated in FY2012 (February 2012 and March 2012, respectively) and the PTC transaction was rated in January 2020. All three transactions involve the assignment of loan receivables at par. The underlying pools comprise of contracts with a floating interest rate. The purchaser yield in the Feb-12 and Mar-12 pools are directly linked to the pool yield (defined as pool yield less fixed spread), subject to a floor of the purchaser's Base Rate. The PTC transaction's investor yield is linked with the Repo Rate plus a fixed spread on a quarterly reset basis.

The rating reaffirmation is on account of the moderate to high amortisation of the purchaser payouts and PTCs under each transaction. The amortisation has led to a healthy build-up of the credit enhancement cover over the future purchaser payouts. The breakeven collection efficiencies are also comfortable compared to the actual collection levels in these pools.

¹ 100 lakh = 1 crore = 10 million

Pool performance summary

A summary of the performance of the pools till December 2020 (payout month) has been tabulated below.

Pool Performance Summary

Parameter	SBPHFL Feb-12 Pool	SBPHFL Mar-12 Pool	Santhanam Series II
Months Post Securitisation	107	106	12
Pool Amortisation	94.35%	91.15%	18.12%
PTC Amortisation	94.35%	91.15%	19.39%
Cumulative Collection Efficiency ²	99.84%	97.50%	99.64%
Loss-cum-90+ Dpd ³ (% of Initial Pool)	0.11%	1.51%	0.07%
Loss-cum-180+ Dpd ⁴ (% of Initial Pool)	0.11%	1.45%	0.00%
90+ Dpd ⁵ (% of Balance Pool)	1.16%	4.40%	0.09%
180+ Dpd ⁶ (% of Balance Pool)	1.16%	3.82%	0.00%
Cumulative Cash Collateral Utilisation	0.00%	2.51%	0.00%
Breakeven Collection Efficiency ⁷	31.42%	56.07%	79.97%
Cash Collateral (% of Balance Pool)	93.71%	55.88%	7.34%
Excess Interest Spread (% of Balance Pool) for Purchaser Payouts ⁸	17.36%	9.93%	21.88%

Key rating drivers

Credit strengths

- High amortisation in Feb-12 and Mar-12 pools (>90%) has resulted in build-up of cash collateral and excess interest spread cover available for balance purchaser payouts
- For Feb-12 and Santhanam pools, cumulative collection efficiency is upward of 99%
- No cash collateral utilisation in Santhanam pool till date

Credit challenges

- Current collection efficiency has dipped below 75% in recent months for Mar-12 pool, which has resulted in marginal cash collateral utilisation

² $(\text{Cumulative Current and Overdue Collections till date}) / (\text{Cumulative Billing till date} + \text{Opening Overdues at the start of the transaction})$

³ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a percentage of Initial Pool Principal

⁴ Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 180 days, as a percentage of Initial Pool Principal

⁵ Inclusive of Unbilled Principal portion of contracts delinquent for more than 90 days, as a percentage of Balance Principal

⁶ Inclusive of Unbilled Principal portion of contracts delinquent for more than 180 days, as a percentage of Balance Principal

⁷ $(\text{Balance Cashflows payable to investor} - \text{Cash collateral available}) / \text{Balance Pool Cashflows}$

⁸ $(\text{Pool Cashflows} - \text{Cashflows to purchaser payouts}) / \text{Pool Principal outstanding}$

- Performance of the pools would be exposed to any prolonged economic slowdown caused by Covid-19 pandemic

Description of key rating drivers highlighted above

All the pools have exhibited a strong collection performance, resulting in low delinquency levels till the payout month of December 2020 (loss-cum-180+ dpd of less than 1.5%). As the purchaser payout pools have amortised considerably (over 91% after the December 2020 payouts), the cash collateral (as a percentage of the balance purchaser payouts) has built up significantly in both transactions. The CC build-up in the Santhanam pool has been moderate as it has amortised ~18%.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current rating level in the 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 mortgage-backed securitisation 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 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 contracts.

After making these adjustments, the expected loss and prepayments during the balance tenure of the pools are as given in the table below.

Sr. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	SBPHFL Mortgage Loan Pool D.A. Feb-12	0.1-1.0%	15-30% p.a.
2	SBPHFL Mortgage Loan Pool D.A. Mar-12	0.5-1.5%	15-30% p.a.
3	Santhanam Series II	2.0-3.0%	12-18% p.a.

Liquidity position:

Purchaser Payouts and PTC Series A: Superior

The cash collections and the credit collateral available in the transactions are expected to be highly comfortable to meet the investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the available credit collateral would cover the entire purchaser payouts in the Feb-12 transaction and it would cover 115 months purchaser payouts for Mar-12 transaction. For the Santhanam transaction, the available cash collateral would cover the shortfalls in the PTC payouts for a period of 14 months.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Ratings are unlikely to be downgraded for the Feb-12 and Mar-12 pools as a monthly collection efficiency of even 60% over the balance tenure would be sufficient to meet the investor payouts. For the Santhanam pool, a rating downgrade could occur on the sustained weak collection performance of the underlying pool, leading 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 December 2020 (the payout month), the present delinquency profile of the pool contracts, the performance expected over the balance pool tenure, and the credit enhancement available in these transactions.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Incorporated in 1999, Sundaram Home Finance Limited (SHFL) is a medium-sized housing finance company. It primarily provides housing loans and loan against property. SHFL is a wholly-owned subsidiary of Sundaram Finance Limited (SFL). As an operational strategy, SHFL is focussed largely on the five southern states where SFL has a strong retail customer base. As on June 30, 2020, SHFL had 115 branch offices.

In FY2020, SHFL reported a net profit of Rs. 158 crore on a managed asset base of Rs. 10,186 crore compared with a net profit of Rs. 145 crore on a managed asset base of Rs. 9,460 crore in FY2019. In Q1 FY2021, SHFL reported a net profit of Rs. 34 crore (provisional) on a managed asset base of Rs. 10,417 crore.

Key financial indicators (Ind-AS)

SHFL	FY2019	FY2020	Q1 FY2021 (P)*
Total Income (Rs. crore)	1,006	1,079	266
Profit after Tax (Rs. crore)	145	158 [#]	34
Total Managed Portfolio (Rs. crore)	9,064	9,456	9,412
Gross NPA%	2.9%	3.8%	4.0%
Net NPA%	0.9%	1.6%	1.7%

Source: SHFL; * Provisional; [#] Excluding the exceptional gain due to reversal of DTL on Special Reserve

Sundaram Finance Limited (SFL)

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. SFL is one of the large non-banking financial companies in the country with assets under management of Rs. 29,936 crore as of March 2020. Its primary focus is on the financing of commercial vehicles 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 (SAMCL⁹).

⁹ Sundaram Asset Management Company Limited

SFL reported a standalone net profit of Rs. 724 crore [includes Rs. 53 crore towards profit on the sale of shares in Sundaram Finance Holdings Limited (net of tax)] in FY2020 on a managed asset base of Rs. 34,804 crore compared with a net profit of Rs. 1,126 crore [includes Rs. 522 crore towards an exceptional item on account of the sale of shares in Royal Sundaram (net of tax)] on a managed asset base of Rs. 32,034 crore in FY2019.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Name of Instrument	Type	Current Rating (FY2021)		Rating	Rating History for the Past 3 Years		
		Initial Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)		Month-Year & Rating		
					FY2020	FY2019	FY2018
				Jan-21-2021	Jan-31-2020	Apr-04-2019	May-30-2018

1	SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	197.79	11.17	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)
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					FY2020	FY2019	FY2018
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2	SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	98.53	3.72	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)
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		Initial Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)		Month-Year & Rating		
					FY2020	FY2019	FY2018
				Jan-21-2021	Jun-18-2020	Jan-07-2020	-

3	Santhanam Series II	PTC Series A	260.21	209.77	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-
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Complexity level of the rated instrument: Highly Complex

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Sl.	Trust Name	Instrument	Date of Issuance	Current Coupon Rate [#]	Scheduled Maturity Date [*]	Amount after Dec-20 Payout (Rs. crore)	Current Rating
1	SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	Feb-12	9.55%	Jul-36	11.17	[ICRA]AAA(SO)
2	SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	Mar-12	9.50%	Sep-36	8.72	[ICRA]AAA(SO)
3	Santhanam Series II	PTC Series A	Jan-20	7.25%	Jan-35	209.77	[ICRA]AAA(SO)

[#] Variable; subject to change owing to change in benchmark rate

^{*} Scheduled maturity and average life at transaction initiation; may change on account of prepayment

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