January 31, 2022

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

Summary of rating action

Trust Name	Instrument*	Initial Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount after Dec-21 Payout (Rs. crore)	Rating Action
SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	197.79	11.17	6.64	[ICRA]AAA(SO); Reaffirmed
SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	98.53	8.72	5.29	[ICRA]AAA(SO); Reaffirmed
Santhanam Series II	PTC Series A	260.21	209.77	161.51	[ICRA]AAA(SO); Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The purchaser payouts/pass-through certificates (PTCs) originated by Sundaram Home Finance Limited (SHFL; [ICRA]AA+(Stable)) are backed by pools of housing loan and non-housing loan receivables. The rating reaffirmation is on account of the moderate to high amortisation of the purchaser payouts and PTCs under each transaction, which has led to the build-up of the credit enhancement cover over the future payouts. Healthy collection efficiency has been exhibited by the pools till the December 2021 payouts.

The breakeven collection efficiency is also comfortable compared to the actual collection levels observed in the pools. However, the pools' performance might get impacted in case of any future disruptions due to the Covid-19 pandemic.

Pool performance summary

A summary of the performance of the pools till the November 2021 collection month has been tabulated below.

Parameter	SBPHFL Feb-12 Pool	SBPHFL Mar-12 Pool	Santhanam Series II
Months post securitisation	119	118	24
PTC amortisation (%)	96.64%	94.63%	37.93%
Pool amortisation (%)	96.64%	94.63%	36.66%
Cumulative collection efficiency (%)[1]	99.92%	98.76%	99.63%
Breakeven collection efficiency[2] (%)	15.83%	29.37%	79.36%
Loss-cum-90+ (% of initial pool principal)[3]	0.36%	0.67%	0.28%
Loss-cum-180+ (% of initial pool principal)[4]	0.05%	0.64%	0.17%
Cumulative CC utilisation (% of initial CC)	0.00%	0.13%	0.00%
CC available (as % of balance pool principal)	118.56%	96.96%	9.48%
EIS (as % of balance pool principal)	19.31%	10.43%	18.84%
Cumulative prepayment rate[5]	58.87%	49.97%	21.95%

[1] *Cumulative collections till date / Cumulative billings till date plus opening overdues*

[2] *It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – Cash collateral available – Trapped EIS)/ Balance pool cash flows*

[3] *POS on contracts aged 90+ dpd + overdues / Initial POS on the pool*

[4] *POS on contracts aged 180+ dpd + overdues / Initial POS on the pool*

[5] *Principal outstanding at the time of prepayment of contracts prepaid till date divided by initial pool principal*

Key rating drivers

Credit strengths

- High amortisation in Feb-12 and Mar-12 pools (>90%) has resulted in build-up of cash collateral (CC) and excess interest spread (EIS) cover available for balance purchaser payouts
- Cumulative collection efficiency is above 99% for all three transactions
- No CC utilisation in Santhanam pool till date

Credit challenges

- Performance of the pools would be exposed to any prolonged economic slowdown caused by the 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 2021 (loss-cum-180+ days past due (dpd) of less than 1.0%). As the purchaser payout pools have amortised considerably (over 94% after the December 2021 payouts), the CC (as a percentage of the balance purchaser payouts) has built up significantly in the Feb-12 and Mar-12 transactions. The CC build-up in the Santhanam pool has been moderate as it has amortised ~37%. Interest rate risk exists in the pool as the PTC yield is linked to the investor yield with a constant spread.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating at the current level in the transactions. ICRA will continue to monitor the performance of the pools as they will remain exposed to any disruptions that may arise due to the pandemic. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations.

Performance of past rated pools: ICRA has rated five transactions for SHFL backed by mortgage loan receivables.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securitisation (MBS) 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 the 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 of contracts.

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

Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
SBPHFL Mortgage Loan Pool D.A. Feb-12	0.1%-1.0%	15-30% p.a.
SBPHFL Mortgage Loan Pool D.A. Mar-12	0.5%-1.5%	15-30% p.a.
Santhanam Series II	2.0%-3.0%	12-18% p.a.

Liquidity position: 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 of contracts in a stress scenario, the available credit collateral would cover the entire purchaser payouts in the Feb-12 and Mar-12 transactions. For the Santhanam transaction, the available CC would cover shortfalls in the PTC payouts for 16 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating for the Feb-12 and Mar-12 pools is unlikely to be downgraded as a monthly collection efficiency of even 30% over the balance tenure would be sufficient to meet the investor payouts. For the Santhanam pool, pressure on the rating could emerge on account of 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 November 2021 (collection month), the present delinquency profile of the pools, the credit enhancement available in the pools, and the performance expected over the balance tenure of the pools.

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, 2021, SHFL had 107 branch offices.

Key financial indicators (Ind-AS)

Sundaram Home Finance Limited	FY2020	FY2021	H1 FY2022*
Total Income (Rs. crore)	1,079	1,039	477
Profit after Tax (Rs. crore)	158^	191	79
Net Worth (Rs. crore)	1,421	1,559	1,583
Return on Managed Assets %	1.6%	1.8%	1.6%
Return on Net Worth %	11.8%	12.9%	10.2%
Gearing (reported; times)	6.1	5.3	5.1
Gearing (managed)	6.1	5.3	5.1
Gross Stage 3 %	4.8%	4.5%	5.0%
Net Stage 3 %	1.6%	1.1%	2.6%
CRAR%	23.0%	24.9%	25.8%

Amount in Rs. crore

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA calculations; ^ Excluding the exceptional gain due to reversal of DTL on special reserve in FY2020*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					January 31, 2022	January 21, 2021	January 31, 2020	April 04, 2019	May 30, 2018
1	SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	197.79	6.64	**[ICRA]AAA(SO)**	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

S. No.	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					January 31, 2022	January 21, 2021	January 31, 2020	April 04, 2019	May 30, 2018
2	SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	98.53	5.29	**[ICRA]AAA(SO)**	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

S. No.	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					January 31, 2022	January 21, 2021	June 18, 2020	January 07, 2020	-
3	Santhanam Series II	PTC Series A	260.21	161.51	**[ICRA]AAA(SO)**	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	Moderately Complex
SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	Moderately Complex
Santhanam Series II	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: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance	Coupon Rate (p.a.p.m.)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
SBPHFL Mortgage Loan Pool D.A. Feb-12	Purchaser Payouts	Feb-12	9.55%	Jul-36	6.64	[ICRA]AAA(SO)
SBPHFL Mortgage Loan Pool D.A. Mar-12	Purchaser Payouts	Mar-12	9.50%	Sep-36	5.29	[ICRA]AAA(SO)
Santhanam Series II	PTC Series A	Jan-20	7.25%	Jan-35	161.51	[ICRA]AAA(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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