

January 31, 2023

Sundaram Home Finance Limited: Rating reaffirmed for PTCs issued under mortgage loan securitisation transaction

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Outstanding Amount after Jan-23 Payout (Rs. crore)	Rating Action
Santhanam Series II	PTC Series A	260.21	161.51	123.46	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) tabulated above have been originated by Sundaram Home Finance Limited {SHFL; [ICRA]AAA (Stable)} and are backed by a pool of housing loan receivables. The rating reaffirmation factors in the sustained healthy collections exhibited by the pool coupled with high amortisation, which has led to significant build-up of the credit enhancement cover over the future payouts. The breakeven collection efficiency is also comfortable compared to the actual collection level observed in the pool. Nonetheless, the performance of the pool would remain exposed to macro-economic shocks/business disruptions.

Pool performance summary

Parameter	Santhanam Series II
Months post securitisation	37
Pool amortisation	51.29%
PTC Series A amortisation (as % of initial PTC Series A principal)	52.56%
Cumulative collection efficiency (%) ¹	99.75%
Breakeven collection efficiency (%) ²	77.00%
Loss-cum-90+ (% of initial pool principal) ³	0.10%
Loss-cum-180+ (% of initial pool principal) ⁴	0.10%
Cumulative CC utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	12.33%
EIS (as % of balance pool principal)	20.98%

Reset of credit enhancement

At the request of SHFL for resetting the credit enhancement for the transaction, ICRA has analysed the transaction such that the Cash Collateral (CC), as a percentage of the balance pool, is 6.0% against the currently available CC of 12.3%. 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 the regulatory guidelines, the amount of CC that can be

¹ Cumulative collections till date / Cumulative billings till date + 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

released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Key rating drivers

Credit strengths

- High amortisation of the pool, leading to build-up of credit enhancement cover available for the balance PTC payouts
- High collection efficiency resulting in low delinquency levels in the pool

Credit challenges

- PTC yield is linked to an external benchmark while interest rate on the underlying loans is linked to the originator's internal benchmark rate, leading to basis risk in the structure
- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

The pool has exhibited a strong collections performance with a cumulative collection efficiency of 99.8% post the December 2022 collection month. This has resulted in low delinquency levels with loss-cum-180+ days past due (dpd) of less than 0.2%. The pool has amortised by 51.3%, which has led to the build-up of CC for the balance pool. The transaction is exposed to basis risk as the PTC yield is linked to the investor yield whereas the interest rate on the underlying contracts is linked to SHFL's internal benchmark rate.

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 transaction. ICRA will continue to monitor the performance of the pool as it would remain exposed to macro-economic shocks/business disruptions. Any further rating action will be based on the performance of the pool 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 (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 coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the 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 (percentage of initial pool principal) and prepayments during the balance tenure of the pool are expected to be in the range of 1.0-2.0% and 12.0-18.0%, respectively.

Liquidity position: Superior

The cash collections and the credit collateral available in the transaction 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 shortfalls in the PTC payouts for 13 months.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The 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 pool till December 2022 (collection month), the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of these pool.

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 housing finance company. It primarily provides housing loans and loan against property (LAP). 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.

SHFL reported a net profit of Rs. 168 crore on a managed asset base of Rs. 10,564 crore in FY2022 against a net profit of Rs. 192 crore on a managed asset base of Rs. 10,233 crore in FY2021. It reported a net profit of Rs. 98 crore in H1 FY2023 on a managed asset base of Rs. 11,091 crore.

Key financial indicators

	FY2021	FY2022	H1 FY2023
	Audited	Audited	Provisional
Total income	1,039	957	528
Profit after tax	192	168	98
Total managed assets	10,233	10,564	11,091
Gross stage 3	4.5%	3.0%	2.8%
Net stage 3	1.1%	1.6%	1.6%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 90+ dpd stood at 3.4% as of March 2021 and 2.5% as of March 2022

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 (FY2023)		Chronology of Rating History for the Past 3 Years				
			Initial Rated Amount	Amount Outstanding	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
			(Rs. crore)	(Rs. crore)	Jan 31, 2023	Jan 31, 2022	Jan 21, 2021	Jun 18, 2020	Jan 07, 2020 [^]
1	Santhanam Series II	PTC Series A	260.21	123.46	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)

[^]Initial rating assigned

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
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: [Click Here](#)

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Santhanam Series II	PTC Series A	Jan-20	7.25%	Jan-35	123.46	[ICRA]AAA(SO)

* The actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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