

May 23, 2023

Sundaram Finance Limited: Rating confirmed as final for PTCs issued under vehicle loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. crore)	Rating Action
Shri Trust AN 2023	PTC Series A	395.64	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In January 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shri Trust AN 2023. The pass-through certificates (PTCs) are backed by vehicle loan receivables of a Rs. 395.64-crore (pool principal; receivables of Rs. 463.83 crore) of new commercial vehicle (CV), used CV, tractor and farm equipment loan contracts originated by Sundaram Finance Limited (rated [ICRA]AAA(Stable); [ICRA]A1+). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating have now been confirmed as final.

A summary of the pool performance after the April 2023 payouts is provided in the table below:

Parameter	Shri Trust AN 2023
Months post securitisation	2
Pool amortisation	5.10%
PTC Series A Amortisation	4.62%
Cumulative prepayment rate	0.54%
Monthly collection efficiency	103.24%
Loss cum 0+ dpd	1.20%
Loss cum 30+ dpd	0.51%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Presence in diverse segments with established track record in lending and financial services business
- Availability of CE in the form of EIS and CC
- Average seasoning of ~11 months as on the pool cut-off date
- No overdue contracts in the pool as on the cut-off date

Credit challenges

- Performance of the pool would remain exposed to macro-economic shocks/business disruptions

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule will comprise the promised interest payments to PTC Series A at the predetermined interest rate on the principal outstanding and the entire principal on the final maturity date (June 25, 2027). During the tenure of PTC Series A, the collections from the pool, after making the promised interest payouts to PTC

Series A, will be used to make the expected principal payouts to PTC Series A. However, this principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A would be carried forward to the subsequent payout.

The loan pool receivables will be assigned at par to the PTC investors. The first line of support for meeting any shortfall in the scheduled PTC payouts is available in the form of a subordination of the scheduled EIS in the structure. Further credit support is available in the form of a CC provided by SFL in the transaction. ICRA takes note that the CC provided is 8.50% of the initial pool principal as against 6.50% indicated at the time of assigning provisional rating. The CC is in the form of a fixed deposit maintained with a bank. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall. The CC not only provides credit support against losses in the pool, it also imparts liquidity to the transaction.

The selected pool consists of receivables against loans given for financing new CVs (55.0% share in the pool by value), used CVs (7.5%), tractors (37.0%), agricultural equipment (0.5%). The pool has high average seasoning of ~11 months as on the pool cut-off date. There are no overdue contracts in the pool as on the cut-off date. A high share of the contracts (99%) has never been delinquent in the past. The performance of the pool would remain exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: ICRA has rated 57 securitisation transactions with the underlying receivables originated by SFL of which twelve are live at present. The performance of the live pools has been healthy with a cumulative collection efficiency in the range of 97-99% as of the April 2023 payout month and nil CC utilisation.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.25-3.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 4.8-18.0% per annum with average prepayment of 12.0%.

Liquidity position: Superior

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. This structure imparts significant liquidity to the transaction as even a small amount of collections in the underlying pool of contracts would be sufficient to meet the promised monthly PTC payouts. The cash flows from the pool and the available CE are expected to be very comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on the rating could emerge due to the sustained weak collection performance of the underlying pool (monthly collection efficiency of <90%), leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
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 T S Santhanam Group. It is one of the large NBFCs in the country with an AUM of Rs. 33,558 crore as of December 2022. 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. 903 crore in FY2022 on a managed asset base of Rs. 35,628 crore compared with a net profit of Rs. 809 crore on a managed asset base of Rs. 35,752 crore in FY2021. It reported a net profit of Rs. 772 crore in 9M FY2023 on a managed asset base of Rs. 38,481 crore.

Key financial indicators

Sundaram Finance Limited	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 Provisional
Total Income	4,014	3,890	3,005
PAT	809	903	772
Total Managed Assets	35,752	35,627	38,356^
Gross Stage 3 (%)	1.8%	2.2%	2.4%
Net Stage 3 (%)	1.0%	1.1%	1.4%

Source: Company, ICRA Research; Amount in Rs. crore ; ^Off-balance sheet receivables not included

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					May 23, 2023	January 31, 2023	-	-
1	Shri Trust AN 2023	PTC Series A	395.64	395.64	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Shri Trust AN 2023	PTC Series A	January 2023	6.55%	June 2027	395.64	[ICRA]AAA(SO)

Source: Company

Annexure-II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Himanshi Doshi

+91 22 6114 3410

himanshi.doshi@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Priya Gounder

+91 22 6114 3454

priya.gounder@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.