

January 19, 2024

Sundaram Finance Limited: Rating confirmed as final for PTCs backed by pool of commercial vehicles, construction equipment and machinery loan receivables issued by Shri Trust AT 2024

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. crore)	Rating Action
Shri Trust AT 2024	PTC Series A	365.41	[ICRA]AAA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In October 2023, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Shri Trust AT 2024. The pass-through certificates (PTCs) are backed by loan receivables of a Rs. 365.41-crore (pool principal; receivables of Rs. 427.67 crore) of new commercial vehicles (CVs), used CVs, construction equipment and machinery 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 November 2023 payouts is provided in the table below:

Parameter	Shri Trust AT 2024
Month Post securitisation	1
Pool Amortisation	3.20%
PTC Series A amortisation	2.49%
Monthly collection efficiency	95.56%
Cumulative collection efficiency	94.57%
Loss cum 0+ DPD	3.88%
Loss cum 30+ DPD	0.49%
Loss cum 90+ DPD	0.00%
Cumulative Prepayment rate	0.34%
CC 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 ~10 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 (February 25, 2028). 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 scheduled EIS of 4.48% in the structure. Further credit support is available in the form of a CC of 8.00% of the initial pool principal provided by SFL in the transaction. 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 same.

SFL is an established player in the vehicle finance business with an operational history of more than six decades. The selected pool consists of receivables against loans given for financing new CVs (70.5% share in the pool by value), used CVs (16.2%), construction equipment (12.8%) and machinery (0.4%). The pool has an average seasoning of 10.4 months as on the cut-off date. There are no overdue contracts in the pool as on the cut-off date. The performance of the pool would remain exposed to macro-economic shocks/business disruptions.

Performance of past rated pools: Till date, ICRA has rated 65 securitisation transactions with the underlying receivables originated by SFL, of which 14 pools are live at present. The performance of the live pools (which have completed atleast 3 payouts) has been healthy with a cumulative collection efficiency above 95% and nil CC utilisation as of the November 2023 payout month.

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 of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.00-3.00%, 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: Strong

The liquidity for PTC Series A is strong after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~4 times the estimated loss in the pool.

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. Weakening in the credit profile of the servicer could also exert pressure on the rating.

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 largest non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 37,255 crore as of June 2023 (Rs. 34,552 crore as of March 2023). Its primary focus is on financing CVs and cars. SFL has invested in various entities to provide a gamut of financial services such as 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. 1,088 crore in FY2023 on a managed asset base of Rs. 41,140 crore compared with a net profit of Rs. 903 crore on a managed asset base of Rs. 35,628 crore in FY2022. In Q1 FY2024, it reported a net profit of Rs. 281 crore on a managed asset base of Rs. 42,892 crore.

Key financial indicators (audited)

SFL – Standalone	FY2022	FY2023	Q1 FY2024
Total income	3,890	4,110	1,194
Profit after tax	903	1,088	281
Total managed portfolio	29,532	34,552	37,255
Gross stage 3	2.2%	1.7%	1.9%
Net stage 3	1.1%	0.9%	1.0%

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

Trust Name		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument Name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					January 19,2024	October 18, 2023			
1	Shri Trust AT 2024	PTC Series A	365.41	365.41	[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 AT 2024	PTC Series A	October 2023	7.25%	February 2028	365.41	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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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.

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