January 29, 2024

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 Dec-23 Payout (Rs. crore)	Rating Action
Santhanam Series II	PTC Series A	260.21	123.46	95.94	[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 along with the 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	48
Pool amortisation	61.86%
PTC Series A amortisation (as % of initial PTC Series A principal)	63.13%
Cumulative collection efficiency (%)[1]	99.80%
Breakeven collection efficiency (%)[2]	76.12%
Loss-cum-90+ (% of initial pool principal)[3]	0.17%
Loss-cum-180+ (% of initial pool principal)[4]	0.17%
Cumulative CC utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	15.75%
EIS (as % of balance pool principal)	18.35%

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 15.8%. 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
- Strong collection efficiency resulting in low delinquency levels in the underlying pool
- Established track record in the mortgage business with low eventual losses seen in the portfolio across economic cycles

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 November 2023 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 61.9%, 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 0.50%-1.50% and 12.0-18.0%, respectively.

Liquidity position: Superior

The liquidity for PTC Series A is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be ~9.5 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The pressure on the ratings could emerge on account of the sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement 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 performance of the pool till November 2023 (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 medium-sized housing finance company. It primarily provides housing loans and LAP. SHFL is a wholly-owned subsidiary of Sundaram Finance Limited (SFL). As an operational strategy, SHFL is focused largely on the five southern states where SFL has a strong retail customer base. As of September 2023, SHFL had 132 branch offices.

SHFL reported a net profit of Rs. 117 crore on a managed asset base of Rs. 12,332 crore in H1 FY2024 against a net profit of Rs. 215 crore on a managed asset base of Rs. 11,181 crore in FY2023.

Key Financial Indicators (SHFL)

SHFL	FY2022	FY2023	H1 FY2024
Standalone	**Audited**	**Audited**	**Unaudited**
Accounting as per	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total income	957	1,140	675
Profit after tax	168	215	117
Total managed portfolio	9,495	11,181	12,332
Gross stage 3	3.0%	2.3%	1.7%
Net stage 3	1.6%	1.1%	0.8%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Jan 29, 2024	Jan 31, 2023	Jan 31, 2022	Jan 21, 2021	Jun 18, 2020
1	**Santhanam Series II**	PTC Series A	260.21	95.94	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**	**[ICRA]AAA(SO)**

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	95.94	[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:

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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