

March 22, 2024

## Sundaram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by pool of commercial vehicles, tractor and farm equipment loan receivables issued by Shri Trust BA 2024

### Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. crore)	Rating Action
Shri Trust BA 2024	PTC Series A	234.94	Provisional [ICRA]AAA(SO); Assigned

*\*Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
--	--

### Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTC) Series A issued by Shri Trust BA 2024 under a securitisation transaction originated by Sundaram Finance Limited (SFL/originator; rated [ICRA]AAA (Stable)/A1+). The PTCs are backed by new commercial vehicles (CVs), used CVs, tractors and farm equipment loan receivables originated by SFL with an aggregate principal outstanding of Rs. 234.94 crore (pool receivables of Rs. 279.90 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, SFL's track record as well as the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 7.25% of the pool principal to be provided by the originator and (ii) the excess interest spread (EIS) of 7.33% in the structure. The rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

### Key rating drivers

#### Credit strengths

- Presence in diverse segments with established track record in lending and financial services business
- Availability of credit enhancement in the form of EIS and cash collateral
- Weighted average seasoning of ~13 months and pool amortisation of ~28% as on the pool cut-off date
- There are no overdue contracts in the pool as on the cut-off date; none of the contracts have been delinquent in the past since origination till cut-off date

#### Credit challenges

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

### 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 (May 22, 2029). 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 7.33% in the structure. Further credit support is available in the form of a CC of 7.25% of the initial pool principal to be provided by SFL in the transaction. The CC will be 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 (45.5% share in the pool by value), used CVs (21.2%), tractors and farm equipment (32.7%). The pool has an average seasoning of 12.6 months and amortisation of 27.9% as on the cut-off date. There are no overdue contracts in the pool as on the cut-off date and none of the contracts have been delinquent in the past since origination till cut-off date. The performance of the pool would remain exposed to macro-economic shocks/business disruptions, if any.

**Performance of past rated pools:** ICRA has rated 68 securitisation transactions with the underlying receivables originated by SFL. The performance of the live pools (which have completed atleast three payout months) has been healthy with a cumulative collection efficiency of more than 95% and nil CC utilisation as of the January 2024 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 2.20-3.20%, 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 on 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 analysis of the performance of SFL’s portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

#### Analytical Approach

Applicable rating methodologies

[Rating Methodology for Securitisation Transactions](#)

Parent/Group support

Not Applicable

Consolidation/Standalone

Not Applicable

## Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Any other documents executed for the transaction

## Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

## Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

## About the company

SFL is the flagship company of the T. S. Santhanam arm of the TVS Group. The Group's association with the Indian automotive industry covers financing, trading and manufacturing. The company is one of the large NBFCs in the country with an AUM of Rs. 40,106 crore as of September 2023. The company's 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). The SFL Group provides a range of financial services including vehicle finance, housing finance, asset management and insurance among others.

SFL is an established player in the vehicle finance business with an operational history of more than six decades. The company has a demonstrated track record of operating across business cycles without any significant deterioration in its overall risk profile, supported by its good understanding of the target segments and an experienced management team. The company has a 12-member board, including six independent directors. SFL has established relationships with its customers (around 60% of commercial vehicle [CV] borrowers are repeat customers), which, along with the stringent underwriting norms and robust collection and recovery mechanism, have supported its business risk profile over the years.

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.

### Key financial indicators (audited)

SFL – Standalone	FY2022	FY2023	9MFY2024*
<b>Total income</b>	3,890	4,110	3,849
<b>Profit after tax</b>	903	1,088	948
<b>Total managed portfolio</b>	29,532	34,552	42,172
<b>Gross stage 3</b>	2.2%	1.7%	1.8%
<b>CRAR</b>	24.4%	22.8%	20.0%

Source: company data, ICRA Research; Amount in Rs. crore; \*unaudited

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Trust Name	Instrument Name	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
1 Shri Trust BA 2024	PTC Series A	234.94	234.94	March 22, 2024	-	-	-
				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 <sup>^</sup>	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Shri Trust BA 2024	PTC Series A	March 2024	7.08%	May 2029	234.94	Provisional [ICRA]AAA(SO)

Source: Company; <sup>^</sup>p.a.p.m.; \* scheduled maturity date at transaction initiation may change on account of prepayments

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Himanshi Doshi**

+91 22 6114 3410

[himanshi.doshi@icraindia.com](mailto:himanshi.doshi@icraindia.com)

**Ritu Rita**

+91 22 6114 3409

[ritu.rita@icraindia.com](mailto:ritu.rita@icraindia.com)

**Sachin Joglekar**

+91 22 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Priya Gounder**

+91 22 6114 3454

[priya.gounder@icraindia.com](mailto:priya.gounder@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 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](http://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.