

May 24, 2024

## Sundaram Finance Limited: Rating reaffirmed for PTCs issued under four vehicle loan securitisation transactions

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Apr-24 Payout (Rs. crore)	Rating Action
Shri Trust AG 2022	PTC Series A	543.21	213.42	56.98	[ICRA]AAA(SO); Reaffirmed
Shri Trust AM 2023	PTC Series A	111.05	NA	53.50	[ICRA]AAA(SO); Reaffirmed
Shri Trust AN 2023	PTC Series A	395.64	NA	225.14	[ICRA]AAA(SO); Reaffirmed
Shri Trust AO 2023	PTC Series A	379.96	NA	201.80	[ICRA]AAA(SO); Reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

ICRA has reaffirmed the rating for the pass-through certificates (PTCs) issued under four securitisation transactions originated by Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/[ICRA]A1+). The PTCs tabulated above are backed by commercial vehicle (CV), tractor, construction equipment and agricultural equipment loan receivables originated by SFL. The rating has been reaffirmed on account of the substantial amortisation in the transactions, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts. The pools have also exhibited healthy collection efficiency. There has been no cash collateral (CC) utilisation in these transactions till date.

A summary of the performance of the pools after the April 2024 payout month (March 2024 collection month) has been provided below.

Parameter	Shri Trust AG 2022	Shri Trust AM 2023	Shri Trust AN 2023	Shri Trust AO 2023
Months post securitisation	27	15	14	14
Pool amortisation (%)	89.8%	52.7%	43.6%	47.6%
PTC amortisation (%)	89.5%	51.8%	43.1%	46.9%
Cumulative collection efficiency (%) <sup>1</sup>	99.4%	98.8%	99.5%	99.9%
Cumulative prepayment rate (%)	10.7%	4.5%	3.9%	4.0%
Average monthly collection efficiency for last three months <sup>2</sup> (%)	106.1%	100.4%	101.8%	99.8%
Loss-cum-90+ (% of initial pool principal) <sup>3</sup>	0.39%	0.28%	0.09%	0.11%
Loss-cum-180+ (% of initial pool principal) <sup>4</sup>	0.25%	0.00%	0.04%	0.06%
Breakeven collection efficiency (%) <sup>5</sup>	48.0%	83.6%	83.2%	84.8%
Cumulative CC utilisation (%)	0.0%	0.0%	0.0%	0.0%
CC available (as % of balance pool)	53.6%	18.0%	15.1%	16.2%

<sup>1</sup> Cumulative collections / (Cumulative billings + Opening overdues at the time of securitisation)

<sup>2</sup> (Last 3 months' cumulative collections including current, overdue and advance collections) / (Last 3 months' cumulative billings)

<sup>3</sup> Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>4</sup> Principal outstanding on contracts aged 180+ dpd / Principal outstanding on the pool at the time of securitisation

<sup>5</sup> Breakeven collection efficiency = (Balance PTC cash flows - CC available) / Balance pool cash flows

## Reset of CE

At SFL's request for resetting the CE, ICRA has analysed Shri Trust AG 2022 and Shri Trust AM 2023, basis the CC mentioned in the table provided below. Based on the pools' performance, the rating for the PTCs will remain unchanged even after the CC amount is reset. The CC reset shall be subject to the approval of the PTC investors. However, as per regulatory guidelines, the amount of CC that can be released would be restricted to 60% of the difference between the current CC amount and the revised CC amount allowed by ICRA.

Transaction Name	Current CC Outstanding [A]	CC Required as per ICRA for Maintaining Present Rating [B]	CC that can be Released [C]= 60%*(A - B)	Revised CC Limit [D] = (A - C)
Shri Trust AG 2022	29.75	6.52	10.03	19.72
Shri Trust AM 2023	9.44	5.19	2.55	6.89

Amount in Rs. crore

## Key rating drivers

### Credit strengths

- Presence in diverse segments with established track record in lending and financial services business
- Significant build-up of CE owing to gradual amortisation of the pools; no CC utilisation observed till date
- Healthy collection efficiency resulting in lower delinquencies in the pools

### Credit challenges

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

## Description of key rating drivers highlighted above

The pools have performed well with a cumulative collection efficiency of more than 98% as of the April 2024 payout month. As a result, delinquencies have remained low with 90+ days past due (dpd) of less than 0.5% as of the March 2024 collection month for all the pools. There has been no instance of CC utilisation in any of the pools till date. The breakeven collection efficiency is well below the collection efficiency observed in the pools. Due to substantial amortisation and good collections, the CE, as a percentage of the balance pool principal, has built up. The performance of the pools would remain exposed to macro-economic shocks/business disruptions.

Overall, the CE available for meeting the balance payouts to the investors, even after the downward reset of the CC in the Shri Trust AG 2022 and Shri Trust AM 2023 transactions, is sufficient to reaffirm the rating for the transactions. ICRA will continue to monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of CE relative to ICRA's expectations.

**Performance of past rated pools:** ICRA has rated 70 securitisation transactions with the underlying receivables originated by SFL. Matured pools have performed well with average eventual losses of less than 1% and no instance of CC utilisation in any month. The performance of the live pools (which have completed at least three payout months), as of the April 2024 payout month, has been healthy with a cumulative collection efficiency of more than 98% and nil CC utilisation.

## Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation 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 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 and prepayments during the balance tenure of the pools are provided in the following table.

S. No.	Transaction Name	Expected Loss (% of initial pool principal)	Prepayment
1	Shri Trust AG 2022	0.25-1.25%	4.8-18% p.a.
2	Shri Trust AM 2023	1.0-2.0%	4.8-18% p.a.
3	Shri Trust AN 2023	1.0-2.0%	4.8-18% p.a.
4	Shri Trust AO 2023	1.0-2.0%	4.8-18% p.a.

### Liquidity position: Superior

The liquidity is superior for all the transactions after factoring in the CE available to meet the promised payout to the investor. The total CE would be more than 6.5 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 pools, 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 performance of the pools till the April 2024 payout month (March 2024 collection month), the present delinquency profile of the pool of contracts, the performance expected over the balance tenure of the pools, and the CE available in the transactions.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Securitisation Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

### About the originator

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. SFL is one of the large non-banking financial companies in the country with assets under management of Rs. 40,106 crore as of September 2023. Its primary focus is on the financing of CVs and cars. SFL has invested in various entities to provide financial services like housing finance (Sundaram Home Finance Limited), insurance (Royal Sundaram), and mutual funds (Sundaram Asset Management Company Limited). 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. It has a 12-member board, including six independent directors. SFL has established relationships with its customers (around 60% of 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

SFL – Standalone	FY2022 (Audited)	FY2023 (Audited)	9M FY2024 (Provisional)
<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

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

Any other information: None

#### Rating history for past three years

	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023 <sup>^</sup>	Date & Rating in FY2022 <sup>*</sup>	
					May 24, 2024	May 29, 2023	May 31, 2022	December 28, 2021	
1	Shri Trust AG 2022	PTC Series A	543.21	56.98	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	

\* Initial rating assigned

<sup>^</sup>Final rating assigned

	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024 <sup>^</sup>	Date & Rating in FY2023 <sup>*</sup>	Date & Rating in FY2022	
					May 24, 2024	May 23, 2023	January 10, 2023	-	
2	Shri Trust AM 2023	PTC Series A	111.05	53.50	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	

\* Initial rating assigned

<sup>^</sup>Final rating assigned

	Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024 <sup>^</sup>	Date & Rating in FY2023 <sup>*</sup>	Date & Rating in FY2022
					May 24, 2024	May 23, 2023	January 31, 2023	-
3	Shri Trust AN 2023	PTC Series A	395.64	225.14	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

\* Initial rating assigned

<sup>^</sup>Final rating assigned

	Trust Name	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024 <sup>^</sup>	Date & Rating in FY2023 <sup>*</sup>	Date & Rating in FY2022
					May 24, 2024	May 23, 2023	February 2, 2023	-
4	Shri Trust AO 2023	PTC Series A	379.96	201.80	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-

\* Initial rating assigned

<sup>^</sup>Final rating assigned

### Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Shri Trust AG 2022	PTC Series A	Moderately Complex
Shri Trust AM 2023	PTC Series A	Moderately Complex
Shri Trust AN 2023	PTC Series A	Moderately Complex
Shri Trust AO 2023	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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
<b>Shri Trust AG 2022</b>	PTC Series A	December 2021	3.65%	January 2027	56.98	[ICRA]AAA(SO)
<b>Shri Trust AM 2023</b>	PTC Series A	January 2023	6.60%	October 2027	53.50	[ICRA]AAA(SO)
<b>Shri Trust AN 2023</b>	PTC Series A	January 2023	6.55%	June 2027	225.14	[ICRA]AAA(SO)
<b>Shri Trust AO 2023</b>	PTC Series A	February 2023	6.70%	September 2027	201.80	[ICRA]AAA(SO)

Source: Company; \*Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

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

Not applicable

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