

May 27, 2024

Sundaram Finance Limited: Provisional [ICRA]AAA(SO) assigned to PTCs backed by a pool of commercial vehicle and construction equipment loan receivables issued by Shri Trust BC 2025

Summary of rating action

Trust Name	Instrument Type*	Rated Amount (Rs. crore)	Rating Action
Shri Trust BC 2025	PTC Series A	276.38	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
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Rationale

ICRA has assigned a provisional rating to the Series A pass-through certificates (PTCs) issued by Shri Trust BC 2025 under a securitisation transaction originated by Sundaram Finance Limited (SFL; rated [ICRA]AAA (Stable)/A1+). The PTCs are backed by a pool of new and used commercial vehicle (CV) and construction equipment loan receivables originated by SFL with an aggregate principal outstanding of Rs. 276.38 crore (pool receivables of Rs. 320.81 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 8.25% of the pool principal to be provided by the originator and (ii) the excess interest spread (EIS) of 2.64% 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 CE in the form of EIS and CC
- Weighted average seasoning of ~10 months as on the pool cut-off date
- No overdue contracts in the pool as on the cut-off date; none of the contracts have been delinquent since origination till 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 (September 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 2.64% in the structure. Further credit support is available in the form of a CC of 8.25% 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 (91.7% share in the pool by value), used CVs (2.8%), and construction equipment (5.5%). The pool has weighted average seasoning of 9.7 months as on the cut-off date. There were no overdue contracts in the pool as on the cut-off date and none of the contracts have been delinquent since origination till the cut-off date. The performance of the pool would remain exposed to macro-economic shocks/business disruptions.

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 rating 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 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 CE available to meet the promised payout to the investor. The total CE 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	Comments
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.

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. 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	9M FY2024*
Total income	3,890	4,110	3,849
Profit after tax	903	1,088	948
Total managed portfolio	29,532	34,552	42,172
Gross stage 3	2.2%	1.7%	1.8%
CRAR	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 (FY2025)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
1 Shri Trust BC 2025	PTC Series A	276.38	276.38	May 27, 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 [^]	Maturity Date [*]	Amount Rated (Rs. crore)	Current Rating
Shri Trust BC 2025	PTC Series A	May 2024	7.50%	September 2028	276.38	Provisional [ICRA]AAA(SO)

Source: Company; [^]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

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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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