

October 29, 2024

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

Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Shri Trust AE 2021	PTC Series A	493.70	81.18	6.35	[ICRA]AAA(SO); Reaffirmed
Shri Trust AF 2022	PTC Series A	460.42	86.54	12.23	[ICRA]AAA(SO); Reaffirmed
Shri Trust AH 2022	PTC Series A	572.81	247.56	72.70	[ICRA]AAA(SO); Reaffirmed

*Instrument details are provided in Annexure I

Rationale

The pass-through certificates (PTCs) are backed by vehicle loan receivables originated by Sundaram Finance Limited {SFL; rated [ICRA]AAA (Stable)}. The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pools till the August 2024 payout month.

Pool performance summary

Parameter	Shri Trust AE 2021	Shri Trust AF 2022	Shri Trust AH 2022
Payout month	Aug-24	Aug-24	Aug-24
Months post securitisation	40	34	29
Pool amortisation (%)	98.6%	97.5%	87.7%
PTC amortisation (%)	98.7%	97.3%	87.3%
Cumulative collection efficiency (%) ¹	99.7%	99.2%	99.1%
Cumulative prepayment rate (%)	14.1%	11.1%	8.6%
Loss-cum-90+ (% of initial pool principal) ²	0.5%	0.2%	0.5%
Loss-cum-180+ (% of initial pool principal) ³	0.5%	0.2%	0.3%
Breakeven collection efficiency (%) ⁴	Nil	Nil	27.1%
Cumulative cash collateral (CC) utilisation (%)	0.0%	0.0%	0.0%
CC available (as % of balance pool)	>100.0%	>100.0%	49.6%

Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis but is promised on the final maturity date. The expected monthly principal payouts to the investors have been staggered in such a way that the principal portion of the billing pertaining to a particular month (month M) will be paid in the corresponding payout to the investors in a staggered ratio of 80:20 in months M+1 and M+2, respectively. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of PTC Series A principal.

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

² Principal outstanding on contracts aged 90+ dpd / Principal outstanding on the pool at the time of securitisation

³ Principal outstanding on contracts aged 180+ dpd / Principal outstanding on the pool at the time of securitisation

⁴ Breakeven collection efficiency = (Balance PTC cash flows – CC available) / Balance pool cash flows

Key rating drivers and their description

Credit strengths

Track record of originator – The Originator has an established track record in the vehicle finance business with an operational history of almost seven decades. Moreover, it has adequate underwriting policies and collection procedures.

Substantial credit enhancement available in the structure – The rating factors in the build-up in the credit enhancement cover with the cash collateral (CC) increasing to ~50% of the balance pool principal for Shri Trust AH 2022 from 7% at the time of securitisation. For the other two transactions, the CC covers the entire balance PTC cash flows.

Healthy pool performance – The performance of the pools has been strong with a cumulative collection efficiency of ~99% till the August 2024 payout month. This has resulted in low delinquencies in the pools with 90+ days past due (dpd) of less than 0.6% as of the August 2024 payout month. Further, there have been no instances of CC utilisation in any of the pools till date owing to the strong collection performance and the presence of EIS in the transactions.

Credit challenges

Risks associated with lending business – The pools’ performance would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans.

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

For Shri Trust AH 2022, ICRA has estimated the shortfall in the pool principal collection during its tenure at 0.50% with certain variability around it. The average prepayment rate for the underlying pools is modelled in the range of 4.0% to 6.0% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instruments.

Details of key counterparties

The key counterparties in the rated transactions are as follows:

Transaction Name	Shri Trust AE 2021	Shri Trust AF 2022	Shri Trust AH 2022
Originator	Sundaram Finance Limited	Sundaram Finance Limited	Sundaram Finance Limited
Servicer	Sundaram Finance Limited	Sundaram Finance Limited	Sundaram Finance Limited
Trustee	IDBI Trusteeship Services Limited	IDBI Trusteeship Services Limited	IDBI Trusteeship Services Limited
CC bank	State Bank of India	State Bank of India	State Bank of India
Collection and payout account bank	HSBC Bank	HSBC Bank	HSBC Bank

Liquidity position: Superior

For Shri Trust AE 2021, the liquidity is superior after factoring in the credit enhancement available to meet the promised payout to the investor. The total credit enhancement would be more than 10 times the estimated loss in the pool. For the other two transactions, the liquidity is superior since the total credit enhancement covers the entire future investor payouts.

Rating sensitivities

Positive factors – Not applicable

Negative factors – For Shri Trust AE 2021, pressure on the rating could emerge on the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (SFL) could also exert pressure on the rating. For the other two transactions, the rating is unlikely to be changed as the CC covers the entire future investor payouts.

Analytical approach

The rating action is based on the performance of the pools till the August 2024 payout month (July 2024 collection month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transactions.

Analytical Approach	Comments
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 TSF Group. It is one of the large non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 43,987 crore as of March 2024. Its primary focus is on the financing of commercial vehicles (CVs) and cars. SFL has invested in various entities to provide a gamut of financial services like housing finance (Sundaram Home Finance Limited), insurance (Royal Sundaram) and mutual funds (Sundaram Asset Management Company Limited).

SFL reported a standalone net profit of Rs. 1,454 crore in FY2024 on a managed asset base of Rs. 43,987 crore compared with a net profit of Rs. 1,088 crore on a managed asset base of Rs. 41,140 crore in FY2023.

Key financial indicators (audited; as per Ind-AS)

SFL – Standalone	FY2022	FY2023	FY2024
Total income	3,890	4,110	5,494
Profit after tax	903	1,088	1,454
Total managed assets	35,628	41,140	43,987
Gross stage 3	2.2%	1.7%	1.3%
Capital-to-risk weighted assets ratio (CRAR)	24.4%	22.8%	20.5%

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

S. No.	Trust Name	Instrument	Current Rating (FY2025)		Chronology of Rating History for the Past 3 Years				
			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Oct 29, 2024	Oct 04, 2023	Nov 14, 2022	Mar 21, 2022	Sep 28, 2021
1	Shri Trust AE 2021	PTC Series A	493.70	6.35	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)

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					Oct 29, 2024	Oct 04, 2023	Nov 14, 2022	Feb 18, 2022	Oct 19, 2021
2	Shri Trust AF 2022	PTC Series A	460.42	12.23	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)

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			Initial Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Oct 29, 2024	Oct 04, 2023	May 29, 2023	May 31, 2022	Feb 25, 2022
3	Shri Trust AH 2022	PTC Series A	572.81	72.70	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Shri Trust AE 2021	PTC Series A	Moderately Complex
Shri Trust AF 2022	PTC Series A	Moderately Complex
Shri Trust AH 2022	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 (p.a.p.m.)	Maturity Date	Current Rated Amount (Rs. crore)	Current Rating
Shri Trust AE 2021	PTC Series A	March 31, 2021	4.00%	August 25, 2025	6.35	[ICRA]AAA(SO)
Shri Trust AF 2022	PTC Series A	October 12, 2021	3.95%	February 25, 2026	12.23	[ICRA]AAA(SO)
Shri Trust AH 2022	PTC Series A	March 04, 2022	3.95%	December 25, 2026	72.70	[ICRA]AAA(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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