

December 31, 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)	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Santhanam Series II	PTC Series A	260.21	95.94	76.87	[ICRA]AAA(SO); Reaffirmed

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) have been originated by Sundaram Home Finance Limited {SHFL/Originator; rated [ICRA]AAA (Stable)} and are backed by a pool of housing loan receivables. SHFL is the servicer for the rated transaction.

The rating reaffirmation factors in the build-up of the credit enhancement cover over the future PTC payouts. The rating also draws comfort from the fact that the breakeven collection efficiency is lower compared to the actual collection level observed in the pool till the November 2024 payout month.

### Pool performance summary

Parameter	Santhanam Series II
Payout month	November 2024
Months post securitisation	59
Pool amortisation	69.2%
PTC Series A amortisation (as % of initial PTC Series A principal)	70.5%
Cumulative collection efficiency <sup>1</sup>	99.9%
Breakeven collection efficiency <sup>2</sup>	72.9%
Loss-cum-90+ (% of initial pool principal) <sup>3</sup>	0.1%
Loss-cum-180+ (% of initial pool principal) <sup>4</sup>	0.1%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	19.5%
Excess interest spread (EIS) (as % of balance pool principal)	17.5%

### Transaction structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout and the principal payout (100% of the pool principal billed). Any surplus excess interest spread (EIS), after meeting the promised payouts, will flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of the PTC Series A principal.

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

<sup>2</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available – Trapped EIS) / Balance pool cash flows

<sup>3</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>4</sup> POS on contracts aged 180+ dpd + Overdues / Initial POS on the pool

## Reset of credit enhancement

At the Originator's request for resetting the credit enhancement, ICRA has analysed the transaction and underlying pool. As per ICRA's analysis, the cash collateral (CC) required to maintain the present rating is Rs. 4.69 crore (5.85% of balance pool principal) against the existing CC of Rs. 15.63 crore (19.50% of balance pool principal). Based on the pool's performance, the rating for the PTCs will remain unchanged even after the CC amount is reset. However, as per regulatory guidelines, the maximum 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. The CC reset shall be subject to the approval of the PTC investors.

## Key rating drivers and their description

### Credit strengths

**Build-up of credit enhancement** – The rating reaffirmation factors in the build-up in the credit enhancement cover on account of the amortisation of the pool with the CC increasing to ~20% of the balance pool from 6.00% at the time of the initial rating exercise. Further internal credit support is available through the EIS in the transaction.

**Healthy pool performance** – The performance of the pool has been strong with a cumulative collection efficiency of more than 99% as of the November 2024 payout month. As a result, the delinquencies in the pool are low with the 90+ days past due (dpd) remaining at 0.1% as of the November 2024 payout month.

**Established track record and servicing capability of originator** – The company has an established track record of over two decades in the mortgage business with low eventual losses in the portfolio across economic cycles. It has adequate processes for servicing the loans with a demonstrated track record of regular collections and recoveries across a wide geography.

### Credit challenges

**Exposed to basis risk** – The PTC yield for the transaction is linked to an external benchmark rate while the interest rate on the underlying loans of the pool is linked to the Originator's internal benchmark rate, leading to basis risk in the structure.

**Risks associated with lending business** – The pool's 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 transaction 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 the current pool, ICRA has estimated the shortfall in the pool principal collection during its tenure at 0.75% with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 6.0% to 20.0% 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 instrument.

## Details of key counterparties

The key counterparties in the rated transaction are as follows:

Transaction Name	Santhanam Series II
Originator	Sundaram Home Finance Limited
Servicer	Sundaram Home Finance Limited
Trustee	Catalyst Trusteeship Limited
CC bank	HDFC Bank Limited
Collection and payout account bank	HDFC Bank Limited

## 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 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 <90%), leading to higher-than-expected delinquency levels and credit enhancement utilisation levels. Weakening in the credit profile of the servicer (SHFL) could also exert pressure on the rating.

## Analytical approach

The rating action is based on the performance of the pool till the November 2024 payout month, the present delinquency levels and the credit enhancement available in the pool, and the performance expected over the balance tenure of the pool.

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

Incorporated in 1999, Sundaram Home Finance Limited (SHFL) is a medium-sized housing finance company. It primarily provides housing loans and loan against property (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 June 2024, SHFL had 143 branch offices.

SHFL reported a net profit of Rs. 179 crore on a managed asset base of Rs. 14,417 crore in FY2024 against a net profit of Rs. 215 crore on a managed asset base of Rs. 12,036 crore in FY2023. It reported a net profit of Rs. 66 crore in Q1 FY2025 on a managed asset base of Rs. 15,421 crore.

## Key financial indicators

SHFL	FY2023	FY2024	Q1 FY2025
	Audited	Audited	Audited
Accounting as per	Ind-AS	Ind-AS	Ind-AS
Total income <sup>#</sup>	1,116	1,398	371
Profit after tax	215	179	66
Total managed assets	12,036	14,417	15,421
Gross stage 3	2.3%	1.2%	1.4%
CRAR	23.5%	20.3%	19.7%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; # Excluding recovery of bad debts

**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 (FY2025)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Dec 31, 2024	Jan 29, 2024	Jan 31, 2023	Jan 31, 2022
1	Santhanam Series II	PTC Series A	260.21	76.87	[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 (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
<b>Santhanam Series II</b>	PTC Series A	January 20, 2020	8.60%*	January 20, 2036	76.87	[ICRA]AAA(SO)

Source: Company; \*Linked to repo rate

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

Not applicable

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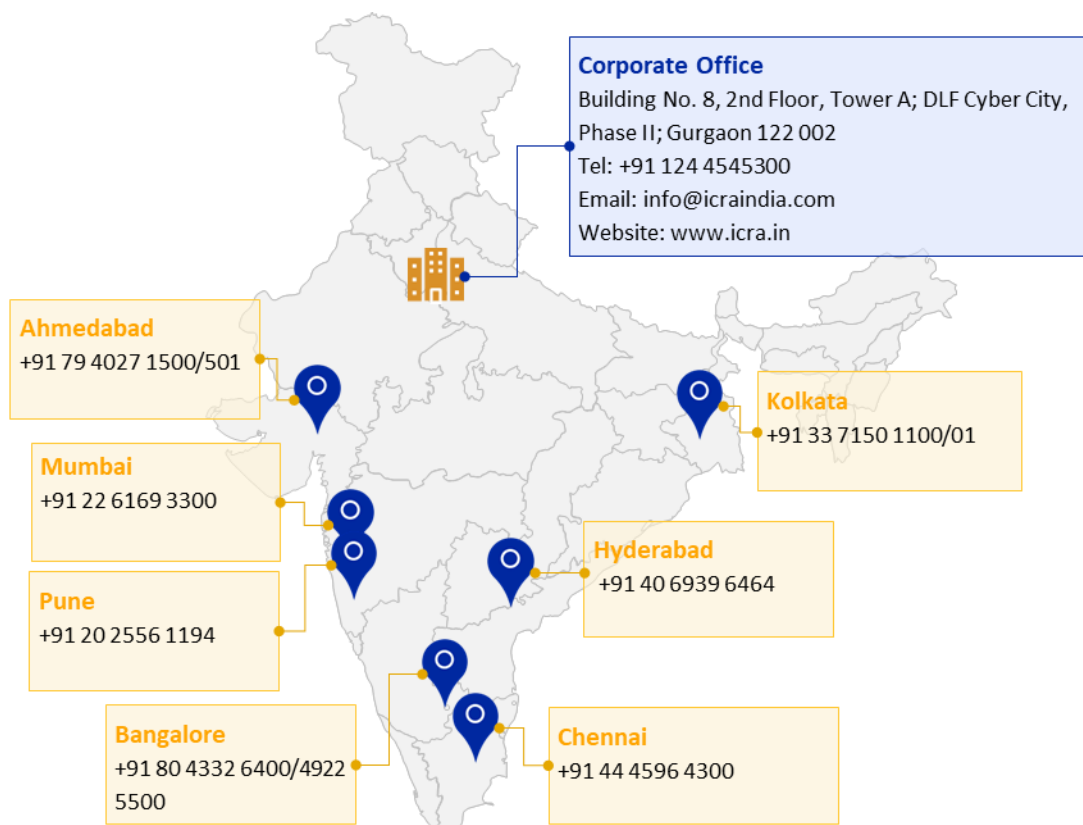


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