

June 18, 2020

Sundaram Home Finance Limited: ICRA confirms rating assigned to PTCs issued under home loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Santhanam Series II	PTC Series A	260.21	[ICRA]AAA(SO); confirmed as final

*Instrument details are provided in Annexure-I

Rationale

ICRA has confirmed the provisional rating assigned to the pass-through certificates (PTCs) backed by a Rs. 260.21-crore (principal outstanding) pool of home loan contracts originated by Sundaram Home Finance Limited (SHFL).

In January 2020, ICRA had assigned a Provisional [ICRA]AAA(SO) rating to PTC Series A issued by Santhanam Series II. As the executed transaction documents are in line with the rating conditions¹ and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of excess interest spread (EIS) and cash collateral (CC)
- Absence of overdue contracts as on pool cut-off date
- Low ticket size loans in the pool with average ticket size of about Rs. 13 lakh
- Moderately high weighted average seasoning of 59 months
- High share of salaried borrowers (74% of pool principal)

Credit challenges

- Moderate loan-to-value (LTV) profile; weighted average LTV of 66.2%

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC Series A investors. The first line of support for meeting the scheduled investor payouts is the EIS of 15.20% in the structure, which is subordinated. Additionally, a CC of 6.00% of the initial pool principal provided by SHFL acts as further credit enhancement in the transaction.

The scheduled cash flow promised to the investor on each payout date includes 100% of the monthly billed principal on the pool and interest at the contracted yield. The pool amortisation schedule and thus the promised payouts to the investors are subject to modification on account of prepayments.

¹ Due diligence was not completed due to the Covid-19 pandemic; however, it is likely to be carried out soon and the report will be submitted subsequently, as confirmed by the investor

The pool is characterised by a low obligor concentration with the top 10 obligors accounting for only 1.1% of the overall pool principal amount. There are no overdue contracts in the pool as on the cut-off date. The selected pool consists of receivables from loans given at a moderate LTV (average LTV of ~66%). The selected pool consists of low ticket size loans with an average loan ticket size of about Rs. 13 lakh. Further, there are no contracts in the pool with a balance tenure of more than 16 years. The average seasoning and pre-securitisation of the pool are also moderately high at 58.8 months and 22.9%, respectively. However, 26% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio.

ICRA notes that the PTC investors in the transaction have provided approval for a moratorium for the underlying contracts for three months (March, April and May collections), in line with the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. Since there was no shortfall in the March 2020 collections, the credit enhancement was not utilised to meet the shortfalls to the PTC investors. Further, as per the investor approvals, the credit enhancement available would not be used for meeting the promised investor payouts for the May 2020 and June 2020 payouts. The EIS would be held in trust and there would be no leakage to the Originator for the May 2020 and June 2020 payouts. The status on the extension of the moratorium by the investors for an additional three months (June 2020 to August 2020 collections), as allowed by the RBI, will be a key monitorable for these transactions.

Past rated pool performance: Till now, ICRA has rated five housing and non-housing mixed SHFL-originated pools. Of these, two have now matured. The matured pools reported cumulative collection efficiencies of more than 98%, low delinquencies in the interim period and no CC utilisation till the last payout date. The live pools have performed well with a collection efficiency of more than 97.5% and a low loss-cum-90+ dpd level till the collection month of April 2020. A marginal utilisation of the CC was observed in two pools.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of mortgage-backed securities (MBS) 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 contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.0-3.0%, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Superior

The cash collections and the credit collateral available in the transaction are expected to be highly comfortable to meet the investor payouts. Assuming a monthly collection efficiency of even 50% in the underlying pool contracts in a stress scenario, the recommended credit collateral would cover the shortfalls in the PTC payouts for a period of 13 months.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The sustained weak collection performance of the underlying pool (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and credit enhancement (CE) utilisation levels, could result in a rating downgrade.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Sundaram Home Finance Limited (SHFL) was incorporated on July 2, 1999 as a subsidiary of Sundaram Finance Limited (SFL) under the Companies Act, 1956. It obtained a Certificate of Registration under Section 29A of the National Housing Bank Act, 1987 from National Housing Bank (the regulator for home loan companies). To leverage the market potential further, SFL and BNP Paribas Personal Finance (formerly Union de Credit pour le Batiment (UCB), a wholly-owned subsidiary of BNP Paribas France) entered into a joint venture agreement on May 9, 2007. UCB acquired a 49.9% stake in SHFL. Following the receipt of the statutory regulatory approvals, the company was renamed Sundaram BNP Paribas Home Finance Limited effective November 28, 2007.

Based on a share purchase agreement dated June 21, 2019, SFL acquired the shares held by BNP Paribas Personal Finance on September 30, 2019. Following the receipt of all the regulatory approvals related to the acquisition of BNP Paribas Personal Finance's stake in Sundaram BNP Paribas Home Finance Limited, the company's name was changed to Sundaram Home Finance Limited, effective November 18, 2019. SFL now holds a 100% stake in SHFL thus making it a wholly-owned subsidiary.

SHFL is a medium-sized housing finance company. As an operational strategy, it is focussed largely on the four southern states, where the parent has a strong retail customer base. As on June 30, 2019, SHFL operated out of 115 branch offices. In FY2019, it reported a net profit of Rs. 145 crore on a managed asset base of Rs. 9,460 crore compared with a net profit of Rs. 144 crore on a managed asset base of Rs. 8,728 crore in FY2018. In 9M FY2020, SHFL reported a net profit of Rs. 136 crore (provisional) on a managed asset base of Rs. 10,505 crore.

Sundaram Finance Limited

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 largest non-banking financial companies (NBFCs) in the country with assets under management (AUM) of Rs. 28,984 crore as of March 2019. Its primary focus is on the financing of commercial vehicles 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 (Sundaram Asset Management Company Limited; SAMCL).

SFL reported a standalone net profit of Rs. 1,126 crore (including Rs. 522 crore towards an exceptional item on account of the sale of its shares in Royal Sundaram) in FY2019 on a managed asset base of Rs. 31,768 crore compared with a net profit of Rs. 533 crore on a managed asset base of Rs. 28,982 crore in FY2018.

Key financial indicators (audited)

SHFL	FY2018	FY2019	9M FY2020*
Total Income (Rs. crore)	935	1,006	808
Profit after Tax (Rs. crore)	144	145	136
Net Worth (Rs. crore)	1,149	1,252	1,331
Total Managed Portfolio (Rs. crore)	8,358	9,064	9,482
Total Managed Assets (Rs. crore)	8,728	9,460	10,505
Return on Managed Assets %	1.7%	1.6%	1.8%
Return on Net Worth (times)	NA	12.1%	14.1%
Gearing (reported)	6.4	6.4	6.8
Gross NPA%	3.2%	2.9%	3.9%
Net NPA%	1.2%	0.9%	NA
CAR%	24.2%	23.5%	22.4%

As per Ind-AS; Source: SHFL; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

S. No	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Rated Amount	Amount Outstanding	Rating 18-June-2020	FY2020 07-Jan-2020	FY2019	FY2018
1	Santhanam Series II	PTC Series A	260.21	260.21	[ICRA]AAA(SO)	Provisional [ICRA]AAA(SO)	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Name	Date of Issuance	Coupon Rate [^]	Scheduled Maturity Date [*]	Amount Rated (Rs. crore)	Current Rating
Santhanam Series II	PTC Series A	January 2020	7.25%	January 2035	260.21	[ICRA]AAA(SO)

[^] Coupon rate is floating and linked to repo rate plus fixed spread

^{*} Scheduled maturity and average life at transaction initiation; may change on account of prepayment

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About ICRA Limited:

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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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