

Sundaram Finance Limited

October 01, 2018

Summary of rated instruments

| Trust Name | Instrument* | Rated Amount (Rs. crore ¹) | Rating action |
|-------------------|--------------|---|------------------------------------|
| Shri Trust Y 2019 | PTC Series A | 1,036.95 | Provisional [ICRA]AAA(SO) assigned |

Rating Action

ICRA has assigned Provisional [ICRA]AAA(SO) rating to PTCs under a securitisation transaction originated by Sundaram Finance Limited (SFL). The PTCs are backed by receivables from a Rs. 1,036.95 crore pool of New CV and Used CV loan contracts (pool receivables of Rs. 1,197.58 crore).

Rationale

The provisional ratings assigned are based on the strength of cash flows from the selected pool of contracts; SFL's track record; the available credit enhancement and the integrity of the legal structure. The ratings are subject to fulfilment of all conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

SFL would assign to the SPV (Trust) namely Shri Trust Y 2019, the future receivables arising from selected pool of 9,805 CV loan contracts. The transfer would be at par. The Trust will issue one series of PTCs backed by the receivables. The upfront purchase consideration to be paid by PTC Series A to the Trustee will be 100% of the pool principal i.e. Rs. 1,036.95 crore.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of EIS and Credit Collateral; scheduled payouts to the investors are staggered which improves liquidity;
- Low obligor concentration with the top 10 obligors together accounting for only ~1.6% of the overall pool principal amount;

Credit weaknesses

- Share of overdue contracts is about 3.49% of the pool principal; however none of the contracts is overdue more than one month.
- Moderately low seasoning profile of the pool contracts with average seasoning of ~7.8 months

Description of key rating drivers highlighted above:

The first line of support for meeting any shortfall in scheduled PTC payouts is available in the form of subordination of the excess interest spread (EIS) in the structure (amounting to around 0.84% of the pool principal amount). The residual EIS (after meeting scheduled PTC payout and top up of CC, if any, in any month) would leak out to the originator.

¹ 100 lakh = 1 crore = 10 million

Further support is available through credit collateral stipulated at 9.25% of the initial pool principal. The credit collateral could be in the form of fixed deposit maintained with a Designated Bank acceptable to ICRA or in the form of an unconditional and irrevocable corporate guarantee provided by SFL.

The selected pool consists of receivables against loans given for financing both New CVs (around 78.2% share in the pool by value) and Used CVs (around 21.8% share in the pool by value). The pool is characterised by moderately low seasoning with the average seasoning of around 7.8 months. The pool however, also has one month overdue contracts (future principal of one month overdue contracts of ~3.49%).

Key rating assumptions

ICRA's cash flow modeling for rating ABS transactions involves simulation of potential delinquencies, losses and prepayments in the pool. The assumptions for mean shortfall and the Co-efficient of Variation (CoV) are arrived on the basis of the values observed in the analysis of the Originator's loan portfolio. Additionally, the assumptions may also be adjusted to account for the current macro-economic situation as well as any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

After making the aforementioned adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated to be about 2.25% - 3.25%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 3.0% - 6.0% per annum.

Analytical approach: The rating action is based on the analysis of the past performance of SFL's portfolio and previously rated ICRA pools, key characteristics and composition of the current pool, performance expected over the balance tenure of the pool, and the credit enhancement cover available in the transaction.

Links to applicable criteria:

[Rating Methodology for Securitisation Transactions](#)

About the company:

Sundaram Finance Limited

SFL is the flagship of the T.S. Santhanam arm of the TVS Group that is associated with the Indian automotive industry via financing, trading as well as manufacturing. The company is one of the largest Asset Finance companies in the country with a total asset under management of around Rs. 25,741 crore as of 30th June 2018. For FY18, SFL reported a standalone net profit of Rs. 532.95 crore on total revenue of Rs. 2696.34 crore compared to net profit of Rs. 495.35 crore on total income of around Rs. 2426.27 crore during FY17.

While the company also lends to the corporate sector, its primary focus area continues to be financing retail purchases of CVs and cars. Retail CV and car business constitutes around 83% of the total managed advances of SFL. SFL currently has ratings outstanding of [ICRA]AAA(Stable) (upgraded from [ICRA]AA+(Positive) in November 2017) and [ICRA]A1+ for its various long-term and short-term debt programs respectively, from ICRA.

Key financial indicators (audited) (SFL Standalone)

| SFL (Standalone) | FY2016 | FY2017 | FY2018 |
|-----------------------------------|--------|--------|--------|
| Total Income (Rs. Crore) | 2,475 | 2426 | 2696 |
| Profit before tax (Rs. Crore) | 683 | 720 | 807 |
| Profit after tax (Rs. Crore) | 477 | 495 | 533 |
| Total Managed Assets (Rs. Crore) | 21,136 | 24,306 | 28,982 |
| % Tier 1 | 14.8% | 14.4% | 12.2% |
| CAR% | 18.4% | 17.9% | 17.6% |
| Gearing | 3.8 | 3.7 | 4.5 |
| % RoMA (return on managed assets) | 2.4% | 2.2% | 2.0% |
| % Return on Net worth | 15.2% | 14.0% | 13.8% |
| Gross NPA% | 2.1% | 1.5% | 1.3% |
| Net NPA% | 0.9% | 0.6% | 0.5% |
| Net NPA/ Net worth | 3.9% | 2.3% | 2.4% |

Amount in Rs. crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Table:

| S.No | Name of Instrument | Type | Current Rating (FY19) | | | Chronology of Rating History for the past 3 years | | |
|------|--------------------|--------------|--------------------------|--------------------------------|----------------------------------|---|-------------------------------|-------------------------------|
| | | | Amount Rated (Rs. Crore) | Amount Outstanding (Rs. Crore) | Month-year & Rating October 2018 | Month-year & Rating in FY2018 | Month-year & Rating in FY2017 | Month-year & Rating in FY2016 |
| 1 | Shri Trust Y 2019 | PTC Series A | 1,036.95 | 1,036.95 | Provisional [ICRA]AAA(SO) | - | - | - |

Complexity level of the rated instrument: Highly Complex

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

| Sl. | Trust Name | Instrument Name | Date of Issuance | Coupon Rate (p.a.p.m) | Scheduled Maturity Date* | Rated Amount (Rs. crore) | Current Rating |
|-----|-------------------|-----------------|------------------|-----------------------|--------------------------|--------------------------|---------------------------|
| 1 | Shri Trust Y 2019 | PTC Series A | September 2018 | 8.00% | April 2023 | 1,036.95 | Provisional [ICRA]AAA(SO) |

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

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