

January 07, 2020

Sundaram Home Finance Limited: Provisional [ICRA]AAA(SO) rating assigned to PTCs issued under home loan securitisation transaction by Santhanam Series II

Summary of rating action

Issue Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Santhanam Series II	PTC Series A	260.21	Provisional [ICRA]AAA(SO) assigned

**Instrument details are provided in Annexure-1
PTCs – Pass-through certificates*

Rationale

ICRA has assigned a Provisional [ICRA]AAA(SO) [pronounced provisional ICRA triple A (structured obligation)] rating to PTC Series A under a securitisation transaction backed by a Rs. 260.21-crore (principal outstanding) pool of home loan contracts originated by Sundaram Home Finance Limited (SHFL).

The provisional rating is based on the strength of the cash flow from the selected pool of contracts, the credit enhancement available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by the Originator and (ii) the entire excess interest spread (EIS) in the structure. The rating is also based on the integrity of the legal structure and 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

- Availability of credit enhancement in the form of EIS and CC
- No overdue contracts in the pool as on the cut-off date
- Pool is made up of low ticket size loans as the average ticket size is around Rs. 12.95 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 66.22%

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. 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.

The pool is characterised by a low obligor concentration with the top 10 obligors together accounting for only 1.08% 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 around Rs. 12.95 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 58.83 months and 22.93%, respectively.

However, 26% of the contracts in the pool are given to self-employed borrowers who have performed weaker in the portfolio.

Past rated pool performance: In the past, ICRA has rated four housing and non-housing mixed SHFL originated pools. Of these, two pools have now matured. These 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 October 2019. However, there has been some but not significant utilisation of CC in one pool.

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 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 to be 2.00-3.00%, with certain variability around it. The prepayment rate for the underlying pool is estimated to be in the range of 12.0-18.0% per annum.

Liquidity position: Superior

The cash collections and 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 10 months.

Rating sensitivities

Positive triggers – Not applicable

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

Analytical approach

The rating action is based on the analysis of the performance of SHFL's portfolio till November 2019 and the 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.

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 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 (NHB is 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 relating to the acquisition of BNP Paribas Personal Finance's stake in Sundaram BNP Paribas Home Finance Limited, the name of the company was changed to Sundaram Home Finance Limited, effective November 18, 2019. SFL now holds a 100 per cent 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 March 31, 2019, SHFL operated out of 115 branch offices.

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 large NBFCs in the country with assets under management (AUM) of Rs. 28,984 crore as of March 2019. The company's 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).

Key financial indicators

SHFL	FY2018	FY2019	Q1 FY2020*
Total Income (Rs. crore)	935	1,006	264
Profit after Tax (Rs. crore)	144	145	43
Net Worth (Rs. crore)	1,149	1,252	1,295
Total Managed Portfolio (Rs. crore)	8,358	9,064	9,225
Total Managed Assets (Rs. crore)	8,728	9,460	9,503
Return on Managed Assets %	1.7%	1.6%	1.7%
Return on Net Worth (times)	NA	12.1%	13.4%
Gearing (reported)	6.4	6.4	6.3
Gross NPA% ¹	3.2%	2.9%	3.4%
Net NPA% ¹	1.2%	0.9%	1.5%
CAR%	24.2%	23.5%	23.6%

As per Ind AS; Source: SHFL; Amount in Rs. crore; ¹Corresponds to gross stage 3 and net stage 3, respectively; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					07-Jan-20			
1	Santhanam Series II	PTC Series A	260.21	260.21	Provisional [ICRA]AAA(SO)	-	-	-

Amount in Rs. crore

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

Issue Name	Instrument Name	Date of Issuance	Coupon Rate [^]	Scheduled Maturity Date [*]	Amount Rated (Rs. crore ¹)	Current Rating
Santhanam Series II	PTC Series A	January 2020	7.25%	January 2035	260.21	Provisional [ICRA]AAA(SO)

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

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

¹ 100 lakh = 1 crore = 10 million

Analyst Contacts

Abhishek Dafria
+91 22 6114 3440
abhishekdafria@icraindia.com

Mukund Upadhyay
+91 22 6114 3411
mukund.upadhyay@icraindia.com

Karan Pednekar
+91 22 6114 3433
Karan.pednekar@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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