September 06, 2021

India Shelter Finance Corporation Limited: Provisional [ICRA]AAA(CE) (Stable) assigned to non-convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	0.00	35.00	Provisional [ICRA]AAA(CE) (Stable); assigned
Non-convertible Debentures	50.00	50.00	[ICRA]A (Stable); outstanding
Principal Protected Market Linked Debentures (PP-MLD)	50.0	50.0	PP-MLD [ICRA]AAA(CE) (Stable); outstanding
Fund Based – Term Loan	1,000.00	1,000.00	[ICRA]A (Stable); outstanding
Total	**1,100.00**	**1,135.00**	

Rating in the absence of pending actions/documents	**[ICRA]A**
Rating Without Explicit Credit Enhancement	**[ICRA]A**

**Instrument details are provided in Annexure-1*

Note: *The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement*

Rationale

For the Provisional [ICRA]AAA(CE) (Stable) rating

The above rating is based on the strength of the presence of a cover pool (28% subordination as a percentage of the non-convertible debentures (NCDs) outstanding and accrued interest) to support the servicing of the NCDs in the event of non-payment by India Shelter Finance Corporation Limited (ISFC). ISFC shall execute an assignment agreement and a power of attorney wherein it would agree to assign the cover pool assets to Blanca Trust 2021 (Trust) on the occurrence of a predefined trigger event (details given in the salient covenants of the rated facility section) during the tenure of the rated facility. On the occurrence of the trigger event, there would not be any requirement of any further deed or action for the assignment by ISFC. Post assignment, the Trust shall become the legal owner of the assigned receivables (i.e. the cover pool assets shall be bankruptcy remote from the other creditors of ISFC). In turn, the Trust will provide an unconditional and irrevocable guarantee to the debenture trustee of the rated NCDs and would transfer all collections from the cover pool to the designated account[1] under its guarantee obligation.

The final maturity date of the transaction is 120 months from the deemed date of allotment. The facility has a call option after 60 months from the deemed date of allotment, i.e. the expected maturity date. Failure on the part of ISFC to exercise the call option would be a trigger event. All payments to the NCD holders (both principal and interest) are promised only on the final maturity date. The annual Coupon is payable to the NCD investors on an expected basis. The rating assigned by ICRA addresses the timely payment of the dues to the investors by the final maturity date (i.e. a default to the investor shall be defined as the non-receipt of payment by the final maturity date post occurrence of the trigger event, as per the terms of the transaction).

[1] An account monitored and operated by the debenture trustee

Adequacy of credit enhancement

The guarantee provided by the Trust is unconditional and irrevocable. Further, a Trustee-monitored payment mechanism is in place to ensure payments on the rated debt as given below:

- The primary obligation of meeting the NCD payments is on ISFC; hence, ISFC shall fund the designated account to the extent of the principal and interest payable on the due date.

On the occurrence of a trigger event, the cover pool assets shall be immediately assigned to Blanca Trust 2021. The Trust shall appoint ISFC as the servicer for the cover pool assets transferred. The collections from the cover pool will be used for payments to the debenture holders as per the payment mechanism given below:

- On T[2]-1, the servicer shall fund the Collection and Payment (C&P) Account to the extent of collections from the underlying cover pool.
- On T, the Trustee shall transfer the entire amount from the C&P Account to the designated account for debt servicing.

The above attributes have led to an enhancement in the rating of the said instrument to Provisional [ICRA]AAA(CE) (Stable) against the rating without explicit credit enhancement of [ICRA]A.

» Key predefined trigger events, the occurrence of which would lead to the invocation of the Trust guarantee, are given below:
  - Failure of the issuer to make the expected Coupon payment on an annual basis
  - Failure of the issuer to redeem the NCD in full by the end of the expected maturity date
  - Rating downgrade of ISFC to BBB+ or below
  - Rating downgrade of the NCDs to AA(CE) or below
  - Capital adequacy of issuer falls below 20% on a half-yearly basis
  - Gross non-performing assets (NPAs) of the issuer go above 4% for three consecutive quarters
  - Issuer has defaulted on its financial indebtedness and not corrected the same within three days or an event of default is declared
  - Breach of any negative covenant by ISFC
  - Breach of any financial covenant by ISFC
  - Cross default by ISFC
  - Misrepresentation by the issuer
  - Issuer is unable to maintain the required cover on the cover pool assets
  - Material adverse effect on ISFC
  - Unlawfulness by issuer
  - Winding up, liquidation or insolvency proceedings against ISFC

On the occurrence of the trigger event, the Trust guarantee would be invoked and all collections deposited in the C&P Account by ISFC (acting as the servicer) shall be passed by the Trustee to the debenture holders.

Salient covenants of the rated facility

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[2] *Monthly payout date*

- *A minimum security cover of 1.28x is to be maintained on the NCDs outstanding (including accrued interest) and the asset cover should consist of home loans/loans against property originated by ISFC. Further, the cover pool assets need to be maintained/replenished by ISFC as per the eligibility criteria mentioned in the transaction documents.*
- *For computing the minimum security cover, only receivables that fall due within 119 months from the deemed date of allotment will be considered. Further, contracts that are delinquent by more than 30 days would be excluded. Delinquent contracts up to 30 days past due (dpd) should not constitute more than 5% of the pool principal amount.*
- *On the occurrence of a trigger event, the NCD Coupon promised to the debenture holders would increase by 130 bps (over and above the regular NCD Coupon as defined above) effective from the deemed date of allotment, for the full tenure of the debenture, i.e. till such time the principal is fully repaid.*
- *In case of a downgrade in the rating of the debentures/the issuer from the current rating, the NCD Coupon would increase by 25 bps for each notch by which the rating is downgraded. In case multiple rating agencies have provided ratings for the NCDs/the issuer, the lowest rating would be considered.*

Key rating drivers and their description

For the Provisional [ICRA]AAA(CE) (Stable) rating

Credit strengths

Presence of cover pool to support servicing of NCD facility in the event of non-payment by entity – The primary obligation of meeting the NCD payments is on ISFC. However, if ISFC does not meet the expected payment on the NCDs, the collections from the cover pool will be available to the debenture trustee. The principal as well as the interest amount on the NCDs are promised to the investors on the final maturity date.

Stringent eligibility criteria for cover pool – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the pool at any point of time.

Credit challenges

Performance of the cover pool would be exposed to any disruptions caused by the Covid-19 pandemic – ISFC's collections could be impacted in the near term due to the pandemic. The company's ability to manage any fresh disruptions and ensure healthy asset quality on a sustained basis would remain critical from a rating perspective.

Spread between pool yield and NCD yield could shrink on account of the characteristics of the cover pool – The benefit available on account of the difference between the pool yield and the NCD yield (acting as a credit support) may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, most of the contracts in the portfolio had an IRR of more than 16% as of June 2021 and the minimum weighted average IRR for the cover pool is kept at 14%. Thus, the spread between the pool yield and the NCD yield (which is fixed) is likely to be moderate.

On the occurrence of a trigger event, the performance of the transaction would be exposed to the performance of the cover pool, which would be available at that point of time.

Liquidity position

For the Provisional [ICRA]AAA(CE) (Stable) rating for the Rs. 35-crore NCDs: Superior

The principal and interest on the NCDs are promised to the lender on the final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instrument. The cash flows from the cover pool are expected to be highly comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the NCDs.

For the [ICRA]A (Stable) rating: Adequate

The company's liquidity is adequate with no negative cumulative mismatches up to 1 year as per the reported liquidity statement as on March 31, 2021. Further, the company maintained on-book liquidity of Rs. 377 crore as on March 31, 2021. This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses till December 31, 2021. Overall, ICRA expects ISFC to be able to meet its near-term commitments, given its healthy financial flexibility, good lender base and the reasonable share of assets eligible for securitisation.

Rating sensitivities

For the Provisional [ICRA]AAA(CE) (Stable) rating

Positive factors – Not applicable

Negative factors – The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of the rating. The rating could also come under pressure in case of a deterioration in ISFC's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Methodology for Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Debenture Trusteeship Agreement
2. Debenture Trust Deed
3. Trust Deed
4. Deed of Assignment
5. Contribution Agreement
6. Deed of Hypothecation
7. Trust Guarantee Document
8. Servicing Agreement
9. Legal Opinion
10. Board Resolution authorising this Issuance
11. Applicable Shareholder Resolutions under the Companies Act, 2013 and
12. Tripartite Agreements with the Depository(ies) and Registrar & Transfer Agent
13. Other documents as maybe required

Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

India Shelter Finance Corporation Limited (ISFC) is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. ISFC is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-middle income segment. As on March 31, 2021, the company had 115 branches and a managed portfolio of Rs. 2,198 crore. At present, ISFC operates in 15 states, namely Rajasthan, Madhya Pradesh, Maharashtra, Gujarat, Chhattisgarh, Uttar Pradesh, Punjab, Uttarakhand, Odisha, Karnataka, Tamil Nadu, Haryana, Delhi, Andhra Pradesh, and Telangana. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and top-up loans linked with home loans (defined as loan against property as per the company's product definition).

ISFC reported a profit of Rs. 87.39 crore on a managed asset base of Rs. 2,200 crore in FY2021 vis-à-vis a profit of Rs. 46.91 crore on a managed asset base of Rs. 1,520 crore in FY2020. Its gross and net non-performing advances (NPAs) stood at 1.78% and 1.23%, respectively, as on March 31, 2021.

Key financial indicators

India Shelter Finance Corporation Limited (ISFC)	FY2020	FY2021
Total income	228.68	293.07
Profit after tax	46.91	87.39
Net worth	848.28	937.27
Total assets	1,815.18	2,493.65
Gross NPA (%)	1.29%	1.78%

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

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 06, 2021	June 28, 2021	June 15, 2021		-	-
1	NCD	Long Term	35.0	-	Provisional [ICRA]AAA(CE) (Stable)	-	-		-	-
2	PP-MLD	Long Term	50.0	50.0	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)			

For details on other ICRA-rated instruments of the company, refer to the rationales here

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debentures (NCDs; Rs. 35-crore proposed)	Complex
PP-MLD	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	NCD	September 2021	8.88%*	September 2031	35.00	Provisional [ICRA]AAA(CE) (Stable)
INE922K07062	PP-MLD	June 2021	8.68%#	June 2029	50.00	PP-MLD [ICRA]AAA(CE) (Stable)

** Per annum; Promised yield of 10.18% and expected yield of 14.00% applicable from date of issuance in case of trigger event*

#XIRR; Promised yield of 10.00% and expected yield of 15.18% applicable from date of issuance in case of trigger event

For details on other ICRA-rated instruments of the company, refer to the rationales here

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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