September 24, 2021

India Shelter Finance Corporation Limited: Rating confirmed as final for non-convertible debentures

Summary of rating action

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

Rating Without Explicit Credit Enhancement	[ICRA]A

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the (provisional) rating symbol indicates that the rated instrument/facility is to be 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 table above also captures ICRA's opinion on (a) the rating if the pending actions/documents are not completed and (b) the rating without factoring in the proposed explicit credit enhancement.

Rationale

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

ICRA has confirmed the rating assigned to the non-convertible debentures (NCDs) of Rs. 35 crore as tabulated above. The finalisation of the rating follows the fulfilment of all the conditions under the structure as mentioned to ICRA including the execution of the transaction documents as confirmed by the Trustee, and the executed documentation being in line with the required terms of the structure.

The [ICRA]AAA(CE) (Stable) rating assigned to the Rs. 35-crore NCDs of India Shelter Finance Corporation Limited (ISFC/Issuer) is based on the strength of the presence of a cover pool (28% subordination as a percentage of the NCDs outstanding and accrued interest) to support the servicing of the NCDs in the event of non-payment by the company. ISFC has executed 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 a 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 has provided 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.

[1] *An account monitored and operated by the Debenture Trustee*

The legal 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).

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 [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

[2] *Monthly payout date*

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

- *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 [ICRA]AAA(CE) (Stable) rating for Rs. 35-crore NCDs

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.

While NCD yield is fixed, the 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 [ICRA]AAA(CE) (Stable) rating for the Rs. 35-crore NCDs: Superior

The principal as well as the interest amount on the NCDs are promised to the lender on the legal 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 requirement in the event that the entity is unable to meet the scheduled payments on the NCDs.

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

ISFC'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, it maintained on-book liquidity of Rs. 424 crore as on July 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 [ICRA]AAA(CE) (Stable) rating for Rs. 35-crore NCDs

Positive factors – The rating is unlikely to be upgraded.

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

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 to 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 NPAs stood at 1.78% and 1.23%, respectively, as on March 31, 2021.

Key financial indicators (audited, as per Ind-AS)

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, All ratios as per ICRA calculations*

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 24, 2021	September 06, 2021	June 28, 2021	June 15, 2021	-	-	-
1	NCD	Long Term	35.0	35.0	[ICRA]AAA (CE) (Stable)	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)	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 rationale here

Complexity level of the rated instrument

The Complexity Indicator mentioned in the table is based on ICRA's assumptions and is subject to change when the terms are eventually finalised.

Instrument	Complexity Indicator
Non-convertible Debentures (NCDs; Rs. 35 crore)	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 the 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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE922K07088	NCD	September 2021	8.88%*	September 2031	35.00	[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 rationale 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.

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