

February 25, 2021

Shubham Housing Development Finance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	100.00	100.00	[ICRA]A- (Stable); Reaffirmed
Bank Facilities Programme	1,000.00	1,000.00	[ICRA]A- (Stable); Reaffirmed
Total	1,100.00	1,100.00	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in Shubham Housing Development Finance Company Limited's (Shubham Housing) established track record in the housing finance industry, its experienced management team and the presence of good investors. The company's ability to raise funds even in challenging times has helped it register healthy growth in its scale of operations. Though the Covid-19 pandemic-induced disruptions have resulted in a decline in the growth rate in 9M FY2021, the long-term growth prospects remain intact. The rating also takes into consideration the steady improvement in the company's profitability and its comfortable capital structure with a gearing of 2.82 times as on December 31, 2020. The rating also factors in Shubham Housing's diversified funding profile with continued funding support from National Housing Bank (NHB), which has helped keep the cost of borrowings in check.

ICRA notes that the Covid-19-induced stress has impacted the cash flows of some of the borrowers and hence there has been an increase in delinquencies, as witnessed by the housing industry as well. The company saw a steady improvement in its collection efficiency from September 2020 post the lifting of the moratorium and the same is expected to help improve the asset quality metrics going forward. Shubham Housing's ability to contain further slippages and improve its asset quality metrics would be important from a credit perspective.

Despite improving, the company's operating expenses remained relatively high at 5.2% of the average managed assets in 9M FY2021 (6.03% in FY2020), which has kept its profitability constrained. Shubham Housing's ability to further improve its operating efficiency will be critical for its profitability. The rating also factors in the company's vulnerable borrower profile, comprising low-to-mid-income earners, who are more prone to economic shocks. Further, the self-employed segment comprised around 43% of its borrowers as on December 31, 2020, which keeps the portfolio's risk perception high. Also, the company would need external capital to grow as per plans while maintaining prudent capitalisation levels.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company would be able to grow as per the business plans supported by its systems and processes.

Key rating drivers and their description

Credit strengths

Focus on affordable housing sector providing growth opportunities; incremental focus on improving borrower profile – Shubham Housing was founded in 2010 and its managed portfolio has grown to Rs. 1,937 crore¹ as on December 31, 2020 over the years. Its borrower profile consists of relatively low-income customers like skilled workers, who are normally not served by the traditional lending institutions due to the lack of formal income proof. The average ticket size is around Rs. 8 lakh. With a healthy share of disbursements qualifying for subsidies under the Credit Linked Subsidy Scheme (CLSS) under the Government of India's Pradhan Mantri Awas Yojana (PMAY), the company operates in a segment with good growth opportunities, given the healthy demand. Over the last few years, Shubham Housing has shifted its target segment to salaried home loans and the proportion of the same increased to ~57% as on December 31, 2020 from around 51% two years ago. In addition, it has strengthened its underwriting process and moved towards centralised credit sanctioning. It is also focussing on analytics, hard bucket collections, legal, and property valuation.

Comfortable capitalisation profile; expected to improve further with planned equity infusion – Shubham Housing's capitalisation remains comfortable with a net worth of Rs. 495 crore and a net worth to owned portfolio ratio of 27% as on December 31, 2020. Given the lower-than-planned growth on account of the Covid-19-related slowdown, the gearing remained moderate at 2.82 times as on December 31, 2020. However, to grow as per plans, it would need additional capital to maintain prudent capitalisation levels in relation to the portfolio risk. Given Shubham Housing's capital-raising track record, ICRA expects it to be able to raise capital going forward as well. The company has initiated the process for capital raise and is expected to maintain a prudent capitalisation level.

Diversified funding profile with continued funding support from NHB – Shubham Housing has a diverse funding profile comprising tie-ups with around 35 lenders including various public and private sector banks, financial Institutions (FIs) as well as NHB. As on December 31, 2020, 44% of the company's borrowings were term loans from banks, 21% were term loans from non-banking financial companies (NBFCs)/FIs, 27% comprised NHB refinance with the balance being through non-convertible debentures (NCDs). Funds from NHB are typically lower priced in addition to having a longer tenor, which is a positive from an asset-liability management (ALM) perspective. The company raised funds of Rs. 616 crore in 9M FY2021, of which Rs. 276 crore came from NHB. The average funding cost was 9.8% for the funds raised in 9M FY2021 compared to ~11% last year as Shubham Housing had a higher share of funding from NBFCs/FIs last year compared to a higher share of funds from NHB this year.

Credit challenges

Ability to manage impact of Covid-19 and maintain asset quality while expanding the scale of operations – The vulnerability of the company's portfolio remains relatively higher as the borrower segment largely includes economically-weaker sections and lower middle-income categories, which have low income buffers and are, therefore, vulnerable to economic shocks. Consequently, delinquencies, especially in the softer buckets, are expected to remain volatile. With the Covid-19-induced disruptions impacting the cash flows of some borrowers, the company witnessed an increase in the 1+ days past due (dpd) to 16.85% as on December 31, 2020 from 10.50% as on March 31, 2020. In addition, 1.8% of the portfolio was overdue as on December 31, 2020, though the same has not been recognised in delinquencies given the asset quality standstill as per the Honourable Supreme Court's order. While the losses on default are expected to be limited considering the secured nature of the portfolio, the company's ability to manage the adverse impact of the Covid-19-induced stress on the asset quality profile of the portfolio will remain critical from a credit perspective.

Profitability, although improving, may remain subdued in the near term due to high credit costs and operating expenses – ICRA takes note of the improvement in the company's profitability with the return on average managed assets (RoMA) and the return on average net worth (RoE) improving to 2.07% and 9.04%, respectively, in 9M FY2021 from 1.95% and 7.82%, respectively, in FY2020 (1.09% and 3.72%, respectively, in FY2019). Shubham Housing has been able to maintain the lending

¹ Gross managed portfolio i.e. the sum of gross on-book advances and off-balance sheet portfolio

spreads and compress the operating expenses while keeping the credit costs stable. However, as a part of the operating expense reduction is likely to roll back with the planned expansion over the near to medium term and the credit costs could rise on account of the impact of the Covid-19 induced stress, the near-term profitability could remain subdued. While the long-term profitability potential remains intact, the company's ability to scale up while keeping the operating expenses and credit costs in check would remain a key monitorable.

High growth resulting in limited portfolio seasoning – While Shubham Housing commenced operations in 2010, it undertook major changes in its strategy and underwriting practices from FY2017. This helped the company report better asset quality performance in the portfolio generated after the changes compared to the previous portfolio. However, by virtue of having grown only in the last few years, the said portfolio has a relatively limited track record in relation to the loan tenor of up to 10-15 years. Its assets under management (AUM) increased at a 3-year CAGR of 44% as on March 31, 2020. Further, the portfolio growth rate is expected to remain high. Considering the envisaged growth, portfolio seasoning is likely to be low and would be a monitorable.

Ability to retain manpower and scale up systems and processes commensurate with planned growth in operations – The company has been investing in improving its systems and processes along with employee training to manage its growing scale of operations in a better way. This has helped Shubham Housing improve its asset quality and achieve higher operating efficiencies. However, going forward, the company has significant growth plans and it would need to continually invest in and improve its systems and processes, commensurate with the expected growth in the scale of operations.

Liquidity position: Adequate

The company's liquidity is adequate as per the reported liquidity statement as on September 30, 2020. It maintained unencumbered on-book liquidity of Rs. 125 crore as on December 31, 2020 in addition to sanctioned but unutilised lines of Rs. 349 crore (including sanction from NHB of Rs. 224 crore, excluding direct assignment sanction). This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses till September 30, 2021. Overall, ICRA expects Shubham Housing to be able to meet its near-term commitments, given its ability to raise funds and the securitisable nature of its assets.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company raises the planned equity funds in a timely manner. Further, its ability to improve its profitability while expanding its scale of operations would be critical for the rating to move upwards. Specific metrics, which could trigger an upward revision in the rating, include the maintenance of the RoMA at more than 2.0% on a sustained basis.

Negative factors – A deterioration in the asset quality with gross non-performing assets (NPAs; including write-offs and repossessed assets) of around 5% or more on a sustained basis could lead to pressure on the rating. Further, a leverage above 5 times on a sustained basis could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of Shubham Housing

About the company

Shubham Housing Development Finance Company Limited is a housing finance company (HFC), which provides retail home loans to low-income borrowers. These loans can be used by the borrowers for purchasing a ready property, home improvement, home extension and for the construction of dwelling units on plots owned by the borrowers. The company is promoted by Mr. Sanjay Chaturvedi and Ms. Rupa Basu. Shubham Housing has an experienced senior management team

across various functions with extensive knowledge of the mortgage industry. Four private equity funds, namely Premji Invest, Helion Ventures Partner, Elevar Equity Mauritius and Motilal Oswal Financial Services Limited, are currently invested in the company with Premji Invest holding a 44.94% stake. As on December 31, 2020, Shubham Housing operated out of 84 branches across 9 states/Union Territories (UTs), namely Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand, and Punjab².

The company reported a profit of Rs. 34.61 crore in FY2020 on a managed asset base of Rs. 1,992 crore as on March 31, 2020 vis-à-vis a profit of Rs. 15.61 crore in FY2019 on a managed asset base of Rs. 1,553 crore as on March 31, 2019. It reported a profit of Rs. 32.45 crore in 9M FY2021 on a managed asset base of Rs. 2,183 crore as on December 31, 2020 (provisional financials).

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

Shubham Housing Development Finance Company Limited	FY2019	FY2020	9M FY2021*
Total income (Rs. crore)	203.8	284.4	236.2
Profit after tax (Rs. crore)	15.6	34.6	32.4
Net worth (Rs. crore)	423.7	461.4	495.2
Loan book (managed; Rs. crore)	1,335.0	1,702.4	1,937.4
Total assets (Rs. crore)	1,491.5	1,941.8	2,112.4
Return on managed assets (%)	1.1%	2.0%	2.1%
Return on net worth (%)	3.7%	7.8%	9.0%
Gross gearing (times)	2.2	2.8	2.8
Gross NPA/ Gross advances (%)	2.4%	1.8%	1.2%
Net NPA/ Net advances (%)	1.4%	0.5%	-0.2%
Solvency (Net NPA/ Net worth)	4.3%	1.7%	-0.6%
CRAR (%)	52.1%	45.6%	43.7%

Source: Company, ICRA research; * Provisional numbers

Note: All calculations are as per ICRA research

Note: Reported NPA figures as on December 31, 2020 are on account of the asset classification standstill as per the order of the Honourable Supreme Court

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

² As on December 31, 2020, the portfolio was present in 12 states. However, the company closed its branches in three of those states and operated out of 84 branches across 9 states.

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2021 (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 25, 2021	Jan 22, 2020	Feb 18, 2019	Jan 22, 2018	Jun 05, 2017
1	Bank Facilities	Long Term	1,000	724.72	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Positive)
2	NCD	Long Term	100	95.00	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] A-(Stable)	[ICRA] BBB+ (Positive)	[ICRA] BBB+ (Positive)
3	Commercial Paper	Short Term	-	-	-	-	-	-	[ICRA]A3+; Withdrawn

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE967Q08021	NCD	21-Jun-16	12.30%	21-Jun-23	80.00	[ICRA]A- (Stable)
INE967Q08013	NCD	28-Mar-16	13.00%	15-Apr-22	20.00	[ICRA]A- (Stable)
NA	Term Loan – 1	21-Oct-15	7.35% to 13.00%	28-Feb-23	7.22	[ICRA]A- (Stable)
NA	Term Loan – 2	31-Mar-17		28-Jun-24	18.85	[ICRA]A- (Stable)
NA	Term Loan – 3	19-Mar-16		05-Apr-21	0.50	[ICRA]A- (Stable)
NA	Term Loan – 4	28-Aug-19		03-Sep-24	16.50	[ICRA]A- (Stable)
NA	Term Loan – 5	25-Jan-15		31-Mar-22	10.57	[ICRA]A- (Stable)
NA	Term Loan – 6	16-Nov-16		28-Feb-21	8.09	[ICRA]A- (Stable)
NA	Term Loan – 7	22-Dec-20		31-Dec-27	25.00	[ICRA]A- (Stable)
NA	Term Loan – 8	05-Oct-13		23-Jul-21	3.00	[ICRA]A- (Stable)
NA	Term Loan – 9	08-Apr-13		30-Apr-21	4.02	[ICRA]A- (Stable)
NA	Term Loan – 10	19-Jan-18		31-May-23	25.57	[ICRA]A- (Stable)
NA	Term Loan – 11	18-Mar-15		30-Mar-22	1.94	[ICRA]A- (Stable)
NA	Term Loan – 12	12-Mar-18		31-Mar-21	0.83	[ICRA]A- (Stable)
NA	Term Loan – 13	30-Sep-19		03-Oct-23	6.88	[ICRA]A- (Stable)
NA	Term Loan – 14	29-Aug-15		02-Feb-23	11.48	[ICRA]A- (Stable)
NA	Term Loan – 15	11-Dec-15		30-Jun-23	8.76	[ICRA]A- (Stable)
NA	Term Loan – 16	16-Nov-19		30-Nov-26	30.57	[ICRA]A- (Stable)
NA	Term Loan – 17	01-Mar-16		05-Sep-23	8.27	[ICRA]A- (Stable)
NA	Term Loan – 18	06-Oct-17		05-Oct-27	22.31	[ICRA]A- (Stable)
NA	Term Loan – 19	03-Sep-15		21-Mar-21	1.71	[ICRA]A- (Stable)
NA	Term Loan – 20	30-Aug-16		30-Sep-23	11.43	[ICRA]A- (Stable)
NA	Term Loan – 21	19-Jun-14		29-Jul-21	1.85	[ICRA]A- (Stable)
NA	Term Loan – 22	07-Nov-17		20-Dec-21	7.33	[ICRA]A- (Stable)
NA	Term Loan – 23	02-Nov-20		21-Dec-24	25.00	[ICRA]A- (Stable)
NA	Term Loan – 24	25-Oct-16		30-Dec-22	4.38	[ICRA]A- (Stable)
NA	Term Loan – 25	18-Aug-17		30-Sep-24	10.71	[ICRA]A- (Stable)
NA	Term Loan – 26	05-Sep-18		30-Sep-23	14.01	[ICRA]A- (Stable)
NA	Term Loan – 27	14-Jan-21		25-Jan-26	30.00	[ICRA]A- (Stable)
NA	Term Loan – 28	27-May-19		01-Jun-24	39.26	[ICRA]A- (Stable)
NA	Term Loan – 29	27-May-19		28-Jun-24	31.41	[ICRA]A- (Stable)
NA	Term Loan – 30	27-May-19		31-Jul-24	41.88	[ICRA]A- (Stable)
NA	Term Loan - 31	27-May-19		24-Sep-24	50.25	[ICRA]A- (Stable)
NA	Term Loan – 32	15-Jun-19		05-Jun-24	7.00	[ICRA]A- (Stable)
NA	Term Loan – 33	15-Jun-19		16-Oct-24	12.00	[ICRA]A- (Stable)
NA	Term Loan – 34	10-Sep-20		05-Oct-24	26.25	[ICRA]A- (Stable)
NA	Term Loan – 35	29-Dec-20		NA	29.95	[ICRA]A- (Stable)
NA	Term Loan – 36	26-Jul-19		01-Jan-25	18.75	[ICRA]A- (Stable)
NA	Term Loan – 37	26-Jul-19		01-Apr-25	20.00	[ICRA]A- (Stable)
NA	Term Loan – 38	29-Oct-20		31-Oct-25	14.50	[ICRA]A- (Stable)
NA	Term Loan – 39	29-Oct-20		31-Oct-25	5.00	[ICRA]A- (Stable)
NA	Term Loan – 40	29-Oct-20		06-Jan-26	25.00	[ICRA]A- (Stable)
NA	Term Loan – 41	30-Nov-19		20-Feb-25	8.60	[ICRA]A- (Stable)
NA	Term Loan - 42	27-Sep-16		01-Apr-27	78.06	[ICRA]A- (Stable)
NA	Term Loans – Unallocated	-	-	-	275.28	[ICRA]A- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 300
sachin.sachdeva@icraindia.com

Deeksha Agarwal
+91 124 4545 833
deeksha.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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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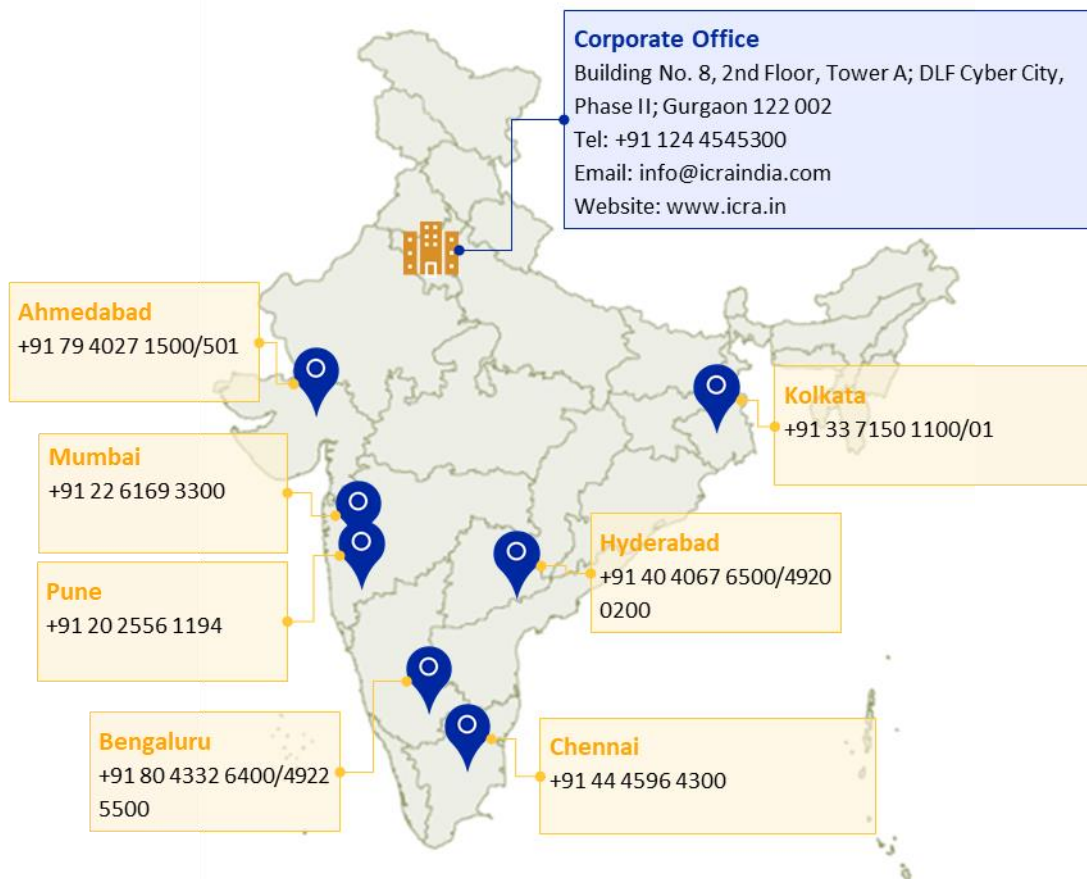


Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



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