June 11, 2021

India Shelter Finance Corporation Limited: Rating reaffirmed; Rating withdrawn for Rs. 50.00-crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	50.00	0.00	[ICRA]A (Stable); Reaffirmed and withdrawn
Non-convertible Debenture Programme	50.00	50.00	[ICRA]A (Stable); Reaffirmed
Fund Based – Term Loan	1,000.00	1,000.00	[ICRA]A (Stable); Reaffirmed
Total	**1,150.00**	**1,050.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn the rating assigned to the Rs. 50.00-crore non-convertible debenture (NCD) programme of India Shelter Finance Corporation Limited (ISFC) as no amount is outstanding against the rated instrument. The rating has been withdrawn at the request of the company and as per ICRA's policy on the withdrawal and suspension of credit ratings.

ISFC's rating continues to factor in its comfortable capitalisation profile and good support from the existing investor base. The net worth, as on March 31, 2021, was Rs. 937 crore while the capital-to-risk weighted assets ratio (CRAR) stood at 69.65%[1]. Further, the rating considers the steady funding support from the lenders including National Housing Bank (NHB), private-and-public-sector banks, non-banking financial companies (NBFCs)/financial institutions (FIs) and mutual funds through NCDs. While the debt capital requirement has been low thus far, the borrowing profile is expected to diversify going forward with reduction in dependence on bank borrowings. ICRA notes that the company raised approximately Rs. 170 crore during FY2021 via direct assignment route. The management's outlook on the gearing has remained prudent over the company's track record with a maximum planned gearing level of 3.5-4.0 times.

The rating also factors in ISFC's good underwriting processes and conservative lending norms, translating into contained credit costs thus far. ICRA notes that the Covid-19-induced stress has impacted the borrowers' cash flows and hence, there has been an increase in ISFC's delinquencies, as witnessed by the industry as well. Further deterioration in the asset quality is expected in the near term due to the impact of the subsequent waves of the Covid-19 pandemic. While the company reported an improvement in its collection efficiency {(current collections + arrear collections)/monthly demand} in Q4 FY2021, it witnessed a decline in April and May 2021 on account of the rise in Covid-19 infections. ISFC restructured 0.75% of its portfolio in FY2021 as per the Covid-19 restructuring package announced by the Reserve Bank of India (RBI). Factoring in the same, it reported PAR 30 and PAR 90 of 4.71% and 2.13%, respectively, as on April 30, 2021 compared to the FY2021 peak of 5.55% and 2.34%, respectively,

[1] *As per provisional financials*

as on December 31, 2020. While ICRA takes note of the management's focus towards collections and tightening of underwriting norms (for example, the company's originations in FY2021 largely comprised documented income cases), its ability to manage the asset quality risks and contain the credit costs will remain critical from a credit perspective.

ICRA also takes note of the improvement in ISFC's scale of operations with its assets under management (AUM) increasing to Rs. 2,199 crore as on March 31, 2021 from Rs. 1,520 crore as on March 31, 2020. However, the rating is constrained by the low seasoning of the portfolio as the behavioural maturity of an affordable housing finance loan typically lies between 6 years and 8 years and the company disbursed around Rs. 894 crore in FY2021 and Rs. 551 crore in FY2020. ISFC also reported an improvement in its profitability in FY2021, partly supported by direct assignment income, though its ability to sustain its profitability indicators with the portfolio scale-up remains a monitorable. While the operating expenses have moderated, given the shift to relatively higher ticket sizes and rationalisation of operating expenses, the company's profitability could improve further with economies of scale and optimum use of leverage. Moreover, as the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with the customers and continuously improve its systems and controls to maintain the asset quality remains a monitorable.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that ISFC will continue to benefit from its long track record of operations, established processes, the experience of its promoters and management who maintain focus on risk management and asset quality, and its commitment to conservative financial policies.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile and prudent gearing levels – ISFC is backed by a strong investor base that has remained invested in the company through the years. The company has consistently maintained a comfortable capitalisation profile supported by regular capital infusions by the investors. It has also maintained low gearing levels thus far as the management's strategy has been to grow in a calibrated manner. With a net worth of Rs. 937 crore as on March 31, 2021 and a gearing of 1.6 times, ISFC has sufficient headroom to achieve the planned growth by deploying additional debt capital while simultaneously maintaining good capitalisation. The CRAR, as on March 31, 2021, was 69.65% while the net worth, as a percentage of AUM, was 43%. ICRA notes that ISFC's investor, Westbridge Crossover Fund, LLC, bought the stake of Sequoia Capital India Investments III and Sequoia Capital India Growth Investments I, to become the largest shareholder in the company, subject to RBI approval.

Good underwriting processes and conservative lending norms – Given the vulnerability of the borrower profile, ISFC has developed a strong credit appraisal process, which includes repeated discussions with the borrower, neighbourhood checks, cash flow analysis including assessment of viability of other family income like rentals and visits to the workplace to establish the income, expenses and debt repayment capacity. Further, the company has a separate centralised in-house team, which reviews every case sanctioned at the field level before disbursement. Strong risk management systems, in-house technical and valuation teams, use of credit scorecards and regular monitoring have so far translated into range-bound asset quality indicators with gross non-performing assets (GNPAs) of 1.65% as on March 31, 2021, given the persisting Covid-19-induced stress. Notwithstanding the secured nature of mortgage loans and the improving collection efficiency (101% in March 2021 from 51% in April 2020), ICRA expects a deterioration in the asset quality in the near term on account of the hardening of delinquencies following the subsequent waves of Covid-19 infections and the procedural delays in initiating repossession across the industry.

Continued funding support from NHB and banks, though diversification in funding profile expected going forward – While the company's debt capital requirement has been relatively low thus far, given the moderate pace of growth and good capital base, lender support has been good. As on March 31, 2021, ISFC had funding relationships with 25 distinct lenders. While 37% of the on-book borrowings outstanding as on March 31, 2021 were from NHB, another 51% were from banks. The company also used direct assignment as a source of funding during the year. ICRA expects continued diversification in the funding profile as ISFC increases its debt capital to fund portfolio growth. The company has been able to raise funds at competitive prices despite the challenging macroeconomic environment.

Credit challenges

Limited portfolio seasoning as significant portion of book sourced in last two-three years – ISFC has a long track record of operations of more than 10 years in the affordable housing sector. However, the overall portfolio remains under-seasoned as housing loans are long-tenor assets and most of the portfolio growth for the company has happened recently. ICRA notes that the company's AUM grew by 45% YoY to Rs. 2,199 crore as on March 31, 2021 from Rs. 1,520 crore as on March 31, 2020 with a significant ramp-up in disbursements in H2 FY2021. Considering the limited vintage of a significant part of the portfolio, ISFC's ability to achieve a sustainable scale remains monitorable from a geographical diversification as well as profitability perspective.

Ability to sustain/further improve profitability while scaling up amid increasing competition – ISFC demonstrated an improvement in its profitability in FY2021 while increasing its scale of operations. The AUM registered a YoY growth of 45% and the company reported a return on managed assets (RoMA) and a return on average net worth (RoNW) of 3.88% and 9.79%, respectively, in FY2021 compared to 2.92% and 5.69%, respectively, in FY2020. However, the improvement in the profitability was largely driven by the reduction in the cost of funds, given the lower interest rate environment and lower-cost NHB funding support, rationalisation of operating expenses and direct assignment income, which is accounted for upfront under Ind-AS. A significant increase in the direct assignment quantum compared to previous periods leads to the buffering of the net profitability. Credit costs increased to 0.88% in FY2021 from 0.75% in FY2020 and are likely to remain elevated, given the hardening of the delinquencies. The company's ability to maintain its yield and lending spreads in the competitive environment, keep the operating expenses at an optimum level and contain the credit cost impact will remain a monitorable from a profitability perspective while it scales up its operations.

Some deterioration in asset quality metrics in FY2021, given the exposure to relatively vulnerable borrower profile and the Covid-19-induced stress – The company's underlying borrower base comprises low-and-middle-income self-employed individuals (~64% share in total portfolio as on March 31, 2021), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. The reported PAR 30 and PAR 90 increased to 4.71% and 2.13%, respectively, as on April 30, 2021 (with peak of 5.55% and 2.34%, respectively, as on December 31, 2020) from 2.24% and 1.27%, respectively, as on September 30, 2020. ICRA expects continued pressure on delinquencies, given the impact of the second wave of the pandemic and the flow from softer to harder bucket delinquencies, which are difficult to cure. Nonetheless, ICRA notes that ISFC has discontinued financing to borrowers with undocumented income and cash salaried profiles. While the losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios, and the risk is partly mitigated by in-house origination and prudent lending and portfolio tracking processes, 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.

Liquidity position: 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, it maintained on-book liquidity of Rs. 377 crore as on March 31, 2021. This, along with 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

Positive factors – ICRA could upgrade the rating if the company demonstrates an improvement in its profitability indicators with the RoMA exceeding 3.5%[2] on a sustainable basis. This, along with prudent capitalisation and good asset quality with a gross NPA of less than 1.5% on a sustained basis, could result in a rating upgrade.

Negative factors – Pressure on the company's rating could arise if there is a deterioration in the asset quality with the gross NPA exceeding 3.0% on a sustained basis, thereby affecting the profitability. The weakening of the capitalisation profile (managed gearing above 4.0 times on a sustained basis) or a stretch in the liquidity could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

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-and-middle-income segment.

As on March 31, 2021, ISFC had 115 branches and a managed portfolio of Rs. 2,199 crore. At present, the company operates in 14 states & 1 UT, namely Rajasthan, Madhya Pradesh, Maharashtra, Gujarat, Chhattisgarh, Uttar Pradesh, Punjab, Uttarakhand, Odisha, Karnataka, Tamil Nadu, Telangana, Andhra Pradesh, Haryana and Delhi. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and loan against property.

ISFC reported a profit of Rs. 87.39 crore in FY2021 on an asset base of Rs. 2,493.65 as on March 31, 2021 vis-à-vis a profit of Rs. 46.91 crore in FY2020 on an asset base of Rs. 1,815.18 crore as on March 31, 2020. The gross and net NPAs stood at 1.65% and 1.13%, respectively, as on March 31, 2021.

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[2] *Calculated on average managed assets basis*

Key financial indicators (audited)

For the period	FY2018	FY2019	FY2020	FY2021
As per	**IGAAP**	**Ind-AS**	**Ind-AS**	**Ind-AS**
Total Income	121.62	164.01	228.68	293.07
Profit after Tax	22.41	30.39	46.91	87.39
Net Worth	563.96	799.55	848.28	937.27
Managed Portfolio	852.45	1,178.00	1,520.00	2,198.53
Total Assets	954.45	1,343.16	1,815.18	2,493.65
CRAR	100.59%	91.16%	81.12%	69.65%
GNPA% (on AUM)	1.16%	1.35%	1.29%	1.65%[3]
Gearing (times)	0.62	0.64	1.10	1.59
Net NPA/ Net Worth	1.12%	1.53%	1.51%	2.64%
PAT/AMA (RoMA)	2.67%	2.55%	2.92%	3.88%
PAT/ Average Net Worth (RoNW)	4.90%	4.44%	5.69%	9.79%

Source: *Company, ICRA research; All ratios as per ICRA calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[3] *Excluding restructured portfolio*

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 as of Jun 11, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jun-11-2021	Dec-31-2020	Nov-27-2020	Oct -7-2019	Feb-15-2019	May-03-2018
1	NCD	Long Term	50.00	0.00	**[ICRA]A (Stable); Reaffirmed and withdrawn**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**
2	NCD	Long Term	50.00	15.00	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**
3	Fund Based – Term Loan	Long Term	1,000.00	255.73*	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Positive)**

**as on May 31, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Very Simple
Bank Facilities Programme	Simple

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE922K07054	NCD	12-Jun-20	10.25%	12-Jun-23	15.00	[ICRA]A (Stable)
NA (Unallocated)	NCD	-	-	-	35.00	[ICRA]A (Stable)
INE922K07039	NCD	04-May-18	9.90%	02-May-25	50.00	[ICRA]A (Stable); Reaffirmed and withdrawn
NA	Term Loan -1	27-Jun-19	7.65% to 11.20%	3-Jul-24	31.67	[ICRA]A (Stable)
NA	Term Loan -2	28-Jan-21		3-Jan-26	14.25	[ICRA]A (Stable)
NA	Term Loan -3	23-Mar-20		31-Aug-23	12.27	[ICRA]A (Stable)
NA	Term Loan -4	16-Oct-19		31-Oct-24	17.50	[ICRA]A (Stable)
NA	Term Loan -5	24-Dec-19		29-Feb-24	47.86	[ICRA]A (Stable)
NA	Term Loan -6	13-Jan-21		23-Feb-26	23.75	[ICRA]A (Stable)
NA	Term Loan -7	16-Jun-18		30-Jul-23	9.12	[ICRA]A (Stable)
NA	Term Loan -8	29-Nov-19		5-Jan-25	18.75	[ICRA]A (Stable)
NA	Term Loan -9	29-Nov-19		5-Feb-25	18.75	[ICRA]A (Stable)
NA	Term Loan -10	23-Jan-17		13-Feb-24	1.96	[ICRA]A (Stable)
NA	Term Loan -11	23-Jan-17		13-Feb-24	4.07	[ICRA]A (Stable)
NA	Term Loan -12	31-Aug-17		29-Sep-23	20.83	[ICRA]A (Stable)
NA	Term Loan -13	29-Aug-19		31-Aug-23	14.06	[ICRA]A (Stable)
NA	Term Loan -14	4-Jun-20		29-Jun-24	19.27	[ICRA]A (Stable)
NA	Term Loan -15	22-Sep-20		29-Sep-27	22.62	[ICRA]A (Stable)
NA	Term Loan -16	30-Mar-16		30-Sep-22	1.11	[ICRA]A (Stable)
NA	Term Loan -17	4-Nov-19		31-Dec-23	3.23	[ICRA]A (Stable)
NA	Term Loan -18	9-Mar-16		26-Jul-21	0.52	[ICRA]A (Stable)
NA	Term Loan -19	21-Jun-19		18-Jul-23	8.13	[ICRA]A (Stable)
NA	Term Loan -20	29-Sep-16		30-Jun-25	5.35	[ICRA]A (Stable)
NA	Term Loan -21	10-Sep-15		31-Dec-23	3.44	[ICRA]A (Stable)
NA	Term Loan -22	10-Sep-15		30-Mar-24	2.81	[ICRA]A (Stable)
NA	Term Loan -23	10-Sep-15		20-Apr-24	2.81	[ICRA]A (Stable)
NA	Term Loan -24	27-Sep-19		31-Oct-23	22.56	[ICRA]A (Stable)
NA	Term Loan -25	24-Feb-17		26-Feb-25	25.00	[ICRA]A (Stable)
NA	Term Loan -26	3-Mar-18		30-May-23	13.00	[ICRA]A (Stable)
NA	Term Loan -27	15-Jun-19		28-Jun-24	15.42	[ICRA]A (Stable)
NA	Term Loan -28	20-Oct-20		31-Dec-24	26.88	[ICRA]A (Stable)
NA	Term Loan -29	18-Sep-20		30-Sep-24	25.00	[ICRA]A (Stable)
NA	Term Loan -30	24-Dec-20		31-Dec-24	22.40	[ICRA]A (Stable)
NA	Term Loan -31	25-Nov-20		1-Nov-27	51.73	[ICRA]A (Stable)
NA	Term Loan -32	27-Oct-20		29-Dec-25	33.77	[ICRA]A (Stable)
NA	Term Loan -33	15-Mar-21		25-Mar-28	48.81	[ICRA]A (Stable)
NA	Term Loan -34	29-Mar-21		31-Jan-24	30.00	[ICRA]A (Stable)
NA	Term Loan -35	17-Mar-21		30-Mar-25	38.33	[ICRA]A (Stable)
NA	Term Loan -36	8-Mar-21		31-Mar-26	20.00	[ICRA]A (Stable)
NA	Term Loan -37	25-Mar-21		31-Mar-25	47.92	[ICRA]A (Stable)
NA	Term Loan -38	25-Mar-21		31-Mar-26	19.33	[ICRA]A (Stable)
NA (Unallocated)	Term Loan	-	-	-	255.73	[ICRA]A (Stable)

Source: *Company*

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

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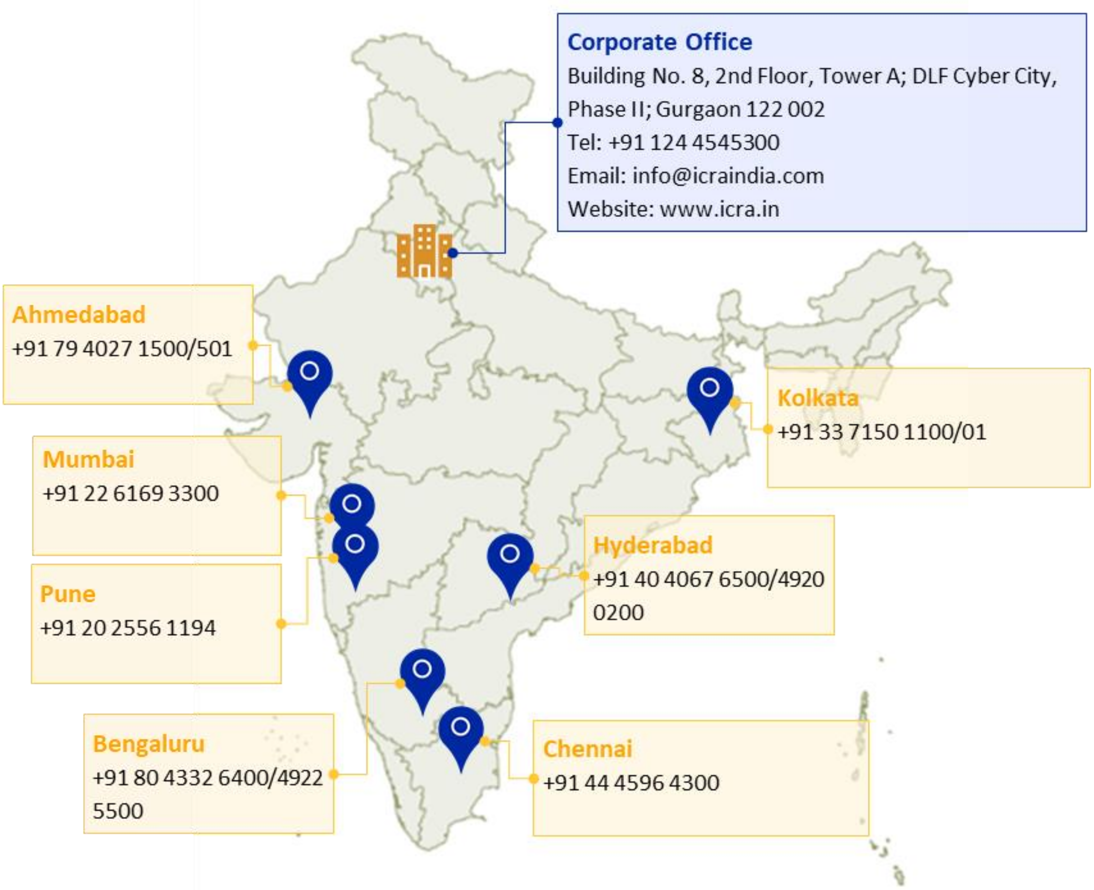

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