October 26, 2021

Shubham Housing Development Finance Company Limited: [ICRA]A1 assigned to commercial paper programme

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); outstanding
Bank Facilities Programme – Term Loans	724.72	724.72	[ICRA]A- (Stable); outstanding
Bank Facilities Programme – Unallocated	275.28	275.28	[ICRA]A- (Stable); outstanding
Commercial Paper Programme	0.00	100.00	[ICRA]A1; assigned
Total	**1,100.00**	**1,200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor 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 strong investors, which augurs well for the company. The company has been able to demonstrate growth in the past on the back of its ability to raise funds even in challenging times. Shubham Housing registered a growth of 23% in its assets under management (AUM) in FY2021 despite the Covid-19 pandemic-induced disruptions. Though the portfolio has witnessed various economic cycles over the past few years, considering the high growth trajectory, the overall portfolio seasoning remains limited. Hence, the performance of the portfolio in the longer term is yet to be seen.

The ratings also factor in Shubham Housing's diversified funding profile with continued funding support from National Housing Bank (NHB), which has helped the company improve its incremental borrowing costs. Further, the ratings take into consideration the improvement in the profitability in FY2021, though the same was subdued in Q1 FY2022 owing to the reduction in the operating profit and increase in the credit costs. The ratings also factor in the company's comfortable capital structure for the given scale of operations with a gearing of 3.36x as on June 30, 2021. Shubham Housing's plan to bring in equity in the near term provides further cushion to its capitalisation profile and will help it achieve its envisaged growth plans.

ICRA notes that Covid-19-induced disruptions have impacted the borrowers' cash flows leading to an increase in the company's delinquencies, as witnessed by the industry as well. Shubham Housing witnessed a steady improvement in its collection efficiency in H2 FY2021, post the lifting of moratorium in September 2020. However, there was some decline in the collection efficiency in Q1 FY2022 due to the second wave of the pandemic. Nonetheless, the company witnessed an improvement in collections thereon and its ability to improve its collections further will help improve its asset quality metrics going forward. The company has an overall restructured portfolio of 1.6% of the AUM (as on September 30, 2021). Shubham Housing's ability to recover from the restructured accounts, contain further slippages and improve its asset quality metrics would be important from a credit perspective.

The ratings also factor in the vulnerable borrower profile of the company, 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 June 30, 2021, which keeps the portfolio's risk perception high. Also, Shubham Housing 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 its business plans supported by its systems and processes.

Key rating drivers and their description

Credit strengths

Focus on affordable housing sector provides growth opportunities; looking to improve borrower profile – Shubham Housing was founded in 2010 and it embarked on a high growth trajectory curve from FY2017 following some technical and operational changes. Despite the slowdown in disbursements in H1 FY2021 as a result of the pandemic, the company was able to grow its book by 23% in FY2021 and reported a managed portfolio of Rs. 2,075 crore as on March 31, 2021 compared to Rs. 1,682 crore as on March 31, 2020.

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. 10.0 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. Shubham Housing crossed the Rs. 100-crore mark of monthly disbursements for the first time in December 2020. Over the last few years, the company has shifted its target segment to salaried home loans and the proportion of the same increased to ~57% as on June 30, 2021 from around 51% two years ago. Moreover, 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 for the current scale of operations with a net worth of Rs. 527 crore and net worth to owned portfolio of 28% as on June 30, 2021. The company was able to grow its book by 23% in FY2021 despite economic challenges, thereby increasing its borrowings. This consequently led to an increase in its gearing levels. Shubham Housing reported a gearing of 3.5x as on March 31, 2021 vis-à-vis 2.8x as on March 31, 2020. However, the gearing declined to 3.4x as on June 30, 2021 due to a decline in the overall borrowings. ICRA notes the company's plan to raise capital in the near term, which will provide cushion to its capitalisation profile and will help it achieve its envisaged growth plans.

Diversified funding profile with continued funding support from NHB – Shubham Housing's borrowing profile is relatively well-diversified with funding from banks (46%), financial institutions (20%), NHB (29%) and non-convertible debentures (NCDs; the balance) as on June 30, 2021. 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. Going forward, Shubham Housing's ability to maintain a diversified debt profile and continue to raise funds at competitive rates would be important for scaling up its operations.

Credit challenges

High growth resulting in limited portfolio seasoning – Shubham Housing commenced its operations in FY2010, but it undertook major changes in its strategy and underwriting practices from FY2017. The changes helped the company report better asset quality performance in its portfolio compared to the previous portfolio. Hence, the portfolio generated over the last 3-4 years has a limited track record in relation to the loan tenor of up to 10-15 years. Shubham Housing's AUM increased at a 3-year compound annual growth rate (CAGR) of 27% as on March 31, 2021. Going forward, the portfolio growth rate is expected to remain high on the back of the expected equity infusion. Considering the envisaged growth, portfolio seasoning is likely to be low and would be a monitorable.

Ability to contain further slippages and recover from delinquent accounts – Since it caters to the affordable housing space, the portfolio vulnerability of the company remains relatively higher. The borrower segment largely includes economically-weaker sections and lower-to-middle-income categories, which have low income buffers and are vulnerable to economic shocks. As a result, delinquencies are expected to remain volatile, especially in the softer buckets. The company's efforts to resolve the delinquencies in the softer buckets in a timely manner and arrest their movement into higher buckets will be a key monitorable. Though there was an improvement in delinquencies in Q4 FY2021, they increased again and peaked in May and June 2021 due to the second wave. Shubham Housing witnessed an improvement in its 1+ days past due (dpd) to 14.25% as on March 31, 2021 from 16.85% as on December 31, 2020, but the same rose to 20.99% as on June 30, 2021.

However, the company has made efforts towards recoveries and has been able to improve the asset quality from July 2021. It has an overall restructured portfolio of 1.6% of the AUM (as on September 30, 2021). While the losses on default are expected to be limited considering the secured nature of the portfolio, Shubham Housing's ability to recover from the restructured accounts, contain further slippages and improve its asset quality metrics would be important from a credit perspective.

Ability to improve profitability while containing the impact of the pandemic – The ratings factor in 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 2.68% and 12.30%, respectively, in FY2021 from 1.95% and 7.82%, respectively, in FY2020 (1.09% and 3.72%, respectively, in FY2019). However, the profitability was subdued in Q1 FY2022 with RoMA and RoE of 0.39% and 1.84%, respectively, (on an annualised basis) owing to higher credit costs. The company's operating expenses also remain relatively high at 5.0% of the average managed assets in FY2021 (5.2% in Q1 FY2022), which has kept its profitability in check. While the long-term profitability potential remains intact, Shubham Housing's ability to scale up while keeping the operating expenses and credit costs in check would remain a key monitorable.

Ability to retain manpower and scale up systems and processes commensurate with planned growth in operations – The company has invested 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 operating efficiency. However, 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: Strong

The company's liquidity is strong, given the unencumbered on-book liquidity of Rs. 245 crore as on September 30, 2021 in addition to the sanctioned but unutilised lines of Rs. 150 crore (excluding direct assignment sanction). This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses till March 31, 2022. 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 ratings 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 ratings to move upwards. Specific metrics, which could trigger an upward revision in the ratings, 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 ratings. Further, a leverage above 5x 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	Standalone

About the company

Shubham Housing Development Finance Company Limited (Shubham Housing) is a housing finance company (HFC), which provides retail home loans to low-income borrowers for affordable housing. 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. It 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 June 30, 2021, Shubham Housing operated out of 100 branches across nine states/Union Territories (UTs), namely Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand, and Punjab.

The company reported a profit of Rs. 61 crore in FY2021 on a managed asset base of Rs. 2,519 crore as on March 31, 2021 vis-à-vis a profit of Rs. 35 crore in FY2020 on a managed asset base of Rs. 1,992 crore. It reported a profit of Rs. 2 crore in Q1 FY2022 on a manged asset base of Rs. 2,440 crore as on June 30, 2021, as per the provisional financials.

Key financial indicators

Shubham Housing Development Finance Company Limited	FY2020	FY2021	Q1 FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	135.84	156.62	40.21
Profit before tax	45.65	78.02	2.64
Profit after tax	34.61	60.67	2.42
AUM	1,685.72	2,000.26	1,984.57
Total assets	1,930.34	2,370.18	2,297.01
Gearing (times)	2.80	3.50	3.36
% Net profit / Average managed assets^	2.0%	2.68%	0.39%
% Return on net worth^	7.8%	12.30%	1.84%
% Gross NPAs	1.77%	2.17%	3.45%
% Net NPAs	0.48%	1.21%	2.18%
% Net NPA / Net worth	1.74%	4.79%	8.49%

Source: *Company, ICRA Research; ^ Annualised; All ratios as per ICRA calculations; 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 in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 26, 2021	Feb 25, 2021	Jan 22, 2020	Feb 18, 2019
1	NCD	Long Term	100.00	95.00	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Bank Facilities Programme – Term Loans	Long Term	724.72	724.72	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Bank Facilities Programme – Unallocated	Long Term	275.28	-	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	CP	Short Term	100.00	-	**[ICRA]A1**	-	-	-

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 www.icra.in

Instrument Name	Complexity Indicator
Non-Convertible Debenture Programme	Very Simple
Bank Facilities Programme – Term Loans	Simple
Bank Facilities Programme – Unallocated	Simple
Commercial Paper Programme	Very Simple

Annexure-1: Instrument details

ISIN/Lender's Details	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)*	Current Rating and Outlook
INE967Q08021	NCD	June 21, 2016	12.30%-13.00%	June 21, 2023	80.00	[ICRA]A- (Stable)
INE967Q08013	NCD	March 28, 2016		April 15, 2022	20.00	[ICRA]A- (Stable)
Union Bank of India	Term Loan 1	October 21, 2015	7.35%-12.35%	February 28, 2023	7.22	[ICRA]A- (Stable)
Union Bank of India	Term Loan 2	March 31, 2017		June 28, 2024	18.85	[ICRA]A- (Stable)
AU Small Finance Bank Limited	Term Loan 3	March 19, 2016		April 5, 2021	0.50	[ICRA]A- (Stable)
AU Small Finance Bank Limited	Term Loan 4	August 28, 2019		September 3, 2024	16.50	[ICRA]A- (Stable)
AU Small Finance Bank Limited	Term Loan 5	January 25, 2015		March 31, 2022	10.57	[ICRA]A- (Stable)
Bank of Maharashtra	Term Loan 6	November 16, 2016		February 28, 2021	8.09	[ICRA]A- (Stable)
Bank of Maharashtra	Term Loan 7	December 22, 2020		December 31, 2027	25.00	[ICRA]A- (Stable)
Bank of Maharashtra	Term Loan 8	October 5, 2013		July 23, 2021	3.00	[ICRA]A- (Stable)
Canara Bank	Term Loan 9	April 8, 2013		April 30, 2021	4.02	[ICRA]A- (Stable)
Central Bank of India	Term Loan 10	January 19, 2018		May 31, 2023	25.57	[ICRA]A- (Stable)
DCB Bank	Term Loan 11	March 18, 2015		March 30, 2022	1.94	[ICRA]A- (Stable)
Bank of Baroda	Term Loan 12	March 12, 2018		March 31, 2021	0.83	[ICRA]A- (Stable)
HDFC Bank	Term Loan 13	September 30, 2019		October 3, 2023	6.88	[ICRA]A- (Stable)
HDFC Bank	Term Loan 14	August 29, 2015		February 2, 2023	11.48	[ICRA]A- (Stable)
IDBI Bank Limited	Term Loan 15	December 11, 2015		June 30, 2023	8.76	[ICRA]A- (Stable)
PNB	Term Loan 16	November 16, 2019		November 30, 2026	30.57	[ICRA]A- (Stable)
PNB	Term Loan 17	March 1, 2016		September 5, 2023	8.27	[ICRA]A- (Stable)
State Bank of India	Term Loan 18	October 6, 2017		October 5, 2027	22.31	[ICRA]A- (Stable)
State Bank of India	Term Loan 19	September 3, 2015		March 21, 2021	1.71	[ICRA]A- (Stable)
Tamilnad Mercantile Bank	Term Loan 20	August 30, 2016		September 30, 2023	11.43	[ICRA]A- (Stable)
Union Bank of india	Term Loan 21	June 19, 2014		July 29, 2021	1.85	[ICRA]A- (Stable)
Bank of Baroda	Term Loan 22	November 7, 2017		December 20, 2021	7.33	[ICRA]A- (Stable)
Yes Bank Limited	Term Loan 23	November 2, 2020		December 21, 2024	25.00	[ICRA]A- (Stable)
Yes Bank Limited	Term Loan 24	October 25, 2016		December 30, 2022	4.38	[ICRA]A- (Stable)
Indusind Bank	Term Loan 25	August 18, 2017		September 30, 2024	10.71	[ICRA]A- (Stable)
Karur Vysya Bank	Term Loan 26	September 5, 2018		September 30, 2023	14.01	[ICRA]A- (Stable)

Catholic Syrian Bank	Term Loan 27	January 14, 2021		January 25, 2026	30.00	[ICRA]A- (Stable)
Catholic Syrian Bank	Term Loan 28	May 27, 2019		June 1, 2024	39.26	[ICRA]A- (Stable)
IDFC First Bank Limited	Term Loan 29	May 27, 2019		June 28, 2024	31.41	[ICRA]A- (Stable)
IDFC First Bank Limited	Term Loan 30	May 27, 2019		July 31, 2024	41.88	[ICRA]A- (Stable)
IDFC First Bank Limited	Term Loan 31	May 27, 2019		September 24, 2024	50.25	[ICRA]A- (Stable)
IDFC First Bank Limited	Term Loan 32	June 15, 2019		June 5, 2024	7.00	[ICRA]A- (Stable)
Equitas Small Finance Bank Limited	Term Loan 33	June 15, 2019		October 16, 2024	12.00	[ICRA]A- (Stable)
Equitas Small Finance Bank Limited	Term Loan 34	September 10, 2020		October 5, 2024	26.25	[ICRA]A- (Stable)
Equitas Small Finance Bank Limited	Term Loan 35	December 29, 2020		NA	29.95	[ICRA]A- (Stable)
Equitas Small Finance Bank Limited	Term Loan 36	July 26, 2019		January 1, 2025	18.75	[ICRA]A- (Stable)
Bandhan Bank	Term Loan 37	July 26, 2019		April 1, 2025	20.00	[ICRA]A- (Stable)
Bandhan Bank	Term Loan 38	October 29, 2020		October 31, 2025	14.50	[ICRA]A- (Stable)
Bandhan Bank	Term Loan 39	October 29, 2020		October 31, 2025	5.00	[ICRA]A- (Stable)
Bandhan Bank	Term Loan 40	October 29, 2020		January 6, 2026	25.00	[ICRA]A- (Stable)
Bandhan Bank	Term Loan 41	November 30, 2019		February 20, 2025	8.60	[ICRA]A- (Stable)
Dhanlaxmi Bank	Term Loan 42	September 27, 2016		April 1, 2027	78.06	[ICRA]A- (Stable)
Term Loans – Unallocated	Term Loans – Unallocated	-	-	-	275.28	[ICRA]A- (Stable)
Yet to be placed	Commercial Paper	-	-	-	100.00	[ICRA]A1

Source: *Company; *-this amount is outstanding for lenders facilities as on January 31, 2021*

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

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About ICRA Limited:

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