

February 22, 2022

## Shubham Housing Development Finance Company Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debentures	100.00	100.00	[ICRA]A- (Stable); reaffirmed
Long Term Bank Facilities^	724.72	1,000.00	[ICRA]A- (Stable); reaffirmed
Unallocated Limits^	275.28	-	-
Commercial Paper	100.00	100.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>1,200.00</b>	<b>1,200.00</b>	

\*Instrument details are provided in Annexure-1; ^ Change in limits

### Rationale

The ratings continue to factor in Shubham Housing Development Finance Company Limited's (Shubham Housing) established track record of over a decade in the housing finance industry, its experienced management team and the presence of strong investors. The ratings also draw comfort from the steady growth in the company's assets under management (AUM) during the Covid-19 pandemic with a growth of 23% in FY2021 followed by annualised growth of 12% in 9M FY2022. However, the overall seasoning of the portfolio remains limited, given the significant scale-up in the operations in the last few years.

The ratings also factor in Shubham Housing's diversified funding profile with continued funding support from National Housing Bank (NHB). This, along with the company's efforts to onboard new lenders at competitive rates, has helped it improve its incremental borrowing costs. The ratings also consider the company's comfortable capital structure for the given scale of operations with a gearing of 3.43x as on December 31, 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.

Given the Covid-19-induced disruptions, Shubham Housing witnessed the weakening of its asset quality indicators in FY2021 as well as 9M FY2022 as the borrowers' cash flows were impacted. The company's 90+ days past due (dpd) increased to 2.94% as on September 30, 2021 from 2.15% as on March 31, 2021. With the improvement in the collection efficiency (CE) from Q2 FY2022 along with the repossession of assets, the 90+ dpd declined to 1.28% as on December 31, 2021. Nevertheless, the 90+ dpd and the repossessed assets remained high as on December 31, 2021. In addition, the company had an overall restructured portfolio of 1.8% of the AUM as on September 30, 2021. The stress on the asset quality led to increased provisioning requirement. This, along with pressure on the operating profit because of limited disbursements and interest reversal, led to a decline in the profitability metrics in 9M FY2022.

The ratings also factor in Shubham Housing's vulnerable borrower profile, comprising low to mid-income earners, who are more prone to economic shocks. Though the company has steadily progressed towards increasing the share of salaried customers, the self-employed segment comprised around 44% of its borrowers as on December 31, 2021, which keeps the portfolio's risk perception high.

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. The company grew its book by 23% in FY2021 and further by 12% on an annualised basis in 9M FY2022 despite the challenges posed by the pandemic. It reported an AUM of Rs. 2,256 crore as on December 31, 2021 compared to Rs. 2,075 crore as on March 31, 2021 (Rs. 1,685 crore as on March 31, 2020). Shubham Housing has been witnessing the highest monthly disbursements (on a YoY basis) for the past two-three months, which is expected to help it grow its AUM at a healthy pace.

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.

Over the last few years, Shubham Housing has shifted its target segment to salaried home loans and the proportion of the same increased to ~56% as on December 31, 2021 from around 51% two years ago. Within the salaried segment, the company will be focussing on the formal salaried segment, which would comprise slightly prime customers, thereby strengthening the quality of its underlying loans. Moreover, it has strengthened its underwriting process and is also focussing on analytics, hard bucket collections, legal, and property valuation.

**Comfortable capitalisation profile; expected to improve further with planned equity infusion** – For the current level of operations, Shubham Housing's capitalisation remains comfortable with a net worth of ~Rs. 540 crore and a net worth to owned portfolio ratio of 31% as on December 31, 2021. The gearing increased to 3.5x as on March 31, 2021 from 2.8x as on March 31, 2020 as the company increased its borrowings to meet the envisaged disbursement targets. However, the gearing declined to 3.4x as on December 31, 2021 with slower disbursements in H1 FY2022. Though there will be a marginal increase in borrowings in the near term as the company is ramping up its disbursements, it is expected to improve as the company is in the process of raising sizeable equity in the near term. Shubham Housing is in an advanced stage of raising equity from three new institutional and social impact foreign investors, which will provide cushion to its capitalisation profile, enable it to meet its envisaged growth plans and further strengthen its corporate governance practices.

**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 (18%), NHB (30%) and non-convertible debentures (NCDs; the balance) as on December 31, 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. In addition, the company has onboarded new lenders and it raised debt at competitive rates in 9M FY2022, which has helped it lower its funding cost. 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 operations in 2010, but it undertook major changes in its strategy and underwriting practices from FY2017. The changes helped it 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 and further by 12% on an annualised basis in 9M FY2022.

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. Shubham Housing’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.

The company reported gross non-performing assets (GNPAs; without repossessed assets and write-offs) of 4.98% as on December 31, 2021 following the Reserve Bank of India’s (RBI) circular on Income Recognition and Asset Classification (IRAC) norms dated November 12, 2021. On a comparable basis, the GNPAs were 1.28% as on December 31, 2021 with respect to 2.95% as on September 30, 2021. The decline in the GNPA % (without factoring in the RBI circular of November 12, 2021) resulted from the increase in repossessed assets. However, Shubham Housing offloaded a sizeable part of its repossessed assets to an asset reconstruction company (ARC) in January 2022.

Further, it has an overall restructured portfolio of 1.8% of the AUM (as on September 30, 2021). Collections have started coming from the portfolio, which was restructured under 1.0. The collection trend from the second restructured portfolio is yet to be established as the portfolio is under moratorium. 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 company witnessed an improvement in its profitability with a return on average managed assets (RoMA) and return on average net worth (RoE) of 2.69% and 12.32%, respectively, in FY2021 against 1.95% and 7.82%, respectively, in FY2020. However, the profitability was subdued in H1 FY2022 with RoMA and RoE of 0.88% and 4.24%, respectively, (on an annualised basis) owing to the impact on the operating profitability and higher credit costs. As a prudent measure, the company reversed interest income on delinquent accounts in H1 FY2022 and its operating expenses remained relatively high at 5.1% of the average managed assets in H1 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 in line 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. However, it has significant growth plans and 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. 262 crore as on December 31, 2021 in addition to the sanctioned but unutilised lines of Rs. 400 crore (excluding direct assignment sanction). This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses till June 30, 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 is able to improve its profitability and maintain a prudent capitalisation profile while expanding its scale of operations. Specific metrics, which could trigger an upward revision in the ratings, include a RoMA of more than 2.0% on a sustained basis.

**Negative factors** – Deterioration in the asset quality with the 90+ dpd (including write-offs, repossessed assets and security receipts, if any) 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	<a href="#">Rating Methodology for Housing Finance Companies</a>
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. 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 September 30, 2021, Shubham Housing operated out of 101 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. 11 crore in H1 FY2022 on a managed asset base of Rs. 2,587 crore as on September 30, 2021.

## Key financial indicators

Shubham Housing Development Finance Company Limited	FY2020	FY2021	H1 FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	135.84	156.70	81.67
Profit before tax	45.65	79.68	13.52
Profit after tax	34.61	60.75	11.25
AUM	1,685.72	2,074.93	2,225.60
Total assets	1,941.78	2,379.13	2,453.85
Gearing (times)	2.80	3.51	3.53
% Net profit / Average managed assets <sup>^</sup>	2.0%	2.69%	0.88%
% Return on net worth <sup>^</sup>	7.8%	12.32%	4.24%
% Gross NPAs	1.77%	2.17%	2.95%
% Net NPAs	0.48%	1.21%	1.72%
% Net NPA / Net worth	1.74%	4.79%	6.91%

*Source: Company, ICRA Research; <sup>^</sup> Annualised; All ratios as per ICRA's 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 FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Feb 22, 2022	Oct 26, 2021	Feb 25, 2021	Jan 22, 2020	Feb 18, 2019	
1 Long Term Bank Facilities	Long Term	1,000	1,000	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2 Non Convertible Debentures	Long Term	100	95	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
3 Unallocated Limits	Long Term	-	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
4 Commercial Paper	Short Term	100	-	[ICRA]A1	[ICRA]A1	-	-	-	

### Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Non-convertible Debenture Programme	Very Simple
Bank Facilities Programme – Term Loans	Simple
Bank Facilities Programme – Unallocated	Not Applicable
Commercial Paper Programme	Very 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](http://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
INE967Q08021	NCD	June 21, 2016	12.30%	June 21, 2023	80.00	[ICRA]A- (Stable)
INE967Q08013	NCD	March 28, 2016	13.00%	April 15, 2022	20.00	[ICRA]A- (Stable)
NA	Term Loan-1	August 28, 2019	8.28%	September 3, 2024	12.00	[ICRA]A- (Stable)
NA	Term Loan-2	September 29, 2021	9.25%	October 3, 2026	33.25	[ICRA]A- (Stable)
NA	Term Loan-3	September 30, 2019	8.35%	October 3, 2023	4.38	[ICRA]A- (Stable)
NA	Term Loan-4	March 20, 2021	8.65%	March 25, 2026	25.00	[ICRA]A- (Stable)
NA	Term Loan-5	June 22, 2021	8.65%	June 22, 2024	16.11	[ICRA]A- (Stable)
NA	Term Loan-6	August 29, 2015	10.60%	April 1, 2023	6.43	[ICRA]A- (Stable)
NA	Term Loan-7	May 15, 2021	10.00%	December 1, 2027	34.51	[ICRA]A- (Stable)
NA	Term Loan-8	November 2, 2020	9.65%	December 21, 2023	17.42	[ICRA]A- (Stable)
NA	Term Loan-9	October 25, 2016	10.85%	December 31, 2022	2.08	[ICRA]A- (Stable)
NA	Term Loan-10	August 18, 2017	10.00%	November 30, 2024	7.54	[ICRA]A- (Stable)
NA	Term Loan-11	September 5, 2018	10.50%	September 30, 2023	8.72	[ICRA]A- (Stable)
NA	Term Loan-12	January 14, 2021	10.00%	January 22, 2026	24.00	[ICRA]A- (Stable)
NA	Term Loan-13	September 20, 2021	9.25%	September 27, 2026	22.91	[ICRA]A- (Stable)
NA	Term Loan-14	May 27, 2019	10.20%	September 1, 2024	27.22	[ICRA]A- (Stable)
NA	Term Loan-15	May 27, 2019	10.20%	June 28, 2024	21.86	[ICRA]A- (Stable)
NA	Term Loan-16	May 27, 2019	10.20%	July 31, 2024	29.82	[ICRA]A- (Stable)
NA	Term Loan-17	May 27, 2019	10.20%	September 24, 2024	35.79	[ICRA]A- (Stable)
NA	Term Loan-18	June 15, 2019	8.79%	June 5, 2024	5.00	[ICRA]A- (Stable)
NA	Term Loan-19	June 15, 2019	10.03%	October 16, 2024	9.00	[ICRA]A- (Stable)
NA	Term Loan-20	September 10, 2020	10.50%	October 5, 2024	19.25	[ICRA]A- (Stable)
NA	Term Loan-21	July 26, 2019	11.50%	January 1, 2025	13.75	[ICRA]A- (Stable)
NA	Term Loan-22	July 26, 2019	11.50%	December 26, 2025	15.00	[ICRA]A- (Stable)
NA	Term Loan-23	October 29, 2020	10.50%	November 30, 2025	11.50	[ICRA]A- (Stable)
NA	Term Loan-24	October 29, 2020	10.50%	January 6, 2026	20.00	[ICRA]A- (Stable)
NA	Term Loan-25	February 24, 2021	10.62%	March 12, 2026	20.83	[ICRA]A- (Stable)
NA	Term Loan-26	February 11, 2021	10.30%	January 26, 2028	36.92	[ICRA]A- (Stable)
NA	Term Loan-27	March 24, 2021	9.75%	March 31, 2025	15.83	[ICRA]A- (Stable)
NA	Term Loan-28	September 27, 2016	11.25%	April 1, 2027	68.29	[ICRA]A- (Stable)
NA	Term Loan-29	June 22, 2021	9.85%	June 30, 2025	25.63	[ICRA]A- (Stable)
NA	Term Loan-30	June 21, 2021	9.25%	June 25, 2026	17.67	[ICRA]A- (Stable)

NA	Term Loan-31	September 15, 2021	9.25%	September 15, 2025	28.13	[ICRA]A- (Stable)
NA	Term Loan-32	December 18, 2021	8.10%	December 17, 2026	49.17	[ICRA]A- (Stable)
NA	Term Loan-33	December 23, 2021	8.80%	December 31, 2028	25.00	[ICRA]A- (Stable)
NA	Term Loan-34	December 29, 2021	8.30%	December 29, 2026	24.58	[ICRA]A- (Stable)
NA	Term Loan-35	December 31, 2021	8.25%	December 31, 2024	15.00	[ICRA]A- (Stable)
NA	Term Loan-36	December 29, 2021	8.30%	January 27, 2027	25.00	[ICRA]A- (Stable)
NA	Term Loan-37	October 16, 2021	9.25%	January 29, 2027	25.00	[ICRA]A- (Stable)
NA	Term Loan-38	December 9, 2021	8.80%	December 31, 2028	25.00	[ICRA]A- (Stable)
NA	Term Loan-39	December 11, 2015	9.90%	August 30, 2023	5.96	[ICRA]A- (Stable)
NA	Term Loan-40	November 16, 2019	9.95%	November 30, 2026	25.42	[ICRA]A- (Stable)
NA	Term Loan-41	March 1, 2016	9.50%	October 30, 2023	5.42	[ICRA]A- (Stable)
NA	Term Loan-42	October 6, 2017	9.50%	December 5, 2027	19.13	[ICRA]A- (Stable)
NA	Term Loan-43	August 30, 2016	10.85%	December 31, 2023	7.14	[ICRA]A- (Stable)
NA	Term Loan-44	June 15, 2021	9.70%	June 15, 2028	24.68	[ICRA]A- (Stable)
NA	Term Loan-45	November 30, 2019	10.55%	February 20, 2025	6.48	[ICRA]A- (Stable)
NA	Term Loan-46	November 10, 2021	9.50%	February 10, 2029	50.00	[ICRA]A- (Stable)
NA	Term Loan-47	November 26, 2021	9.45%	November 30, 2028	24.99	[ICRA]A- (Stable)
NA	Term Loans – Unallocated	-	-	-	6.18	[ICRA]A- (Stable)
Yet to be placed	Commercial Paper	-	-	-	100.00	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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