

June 24, 2022

India Shelter Finance Corporation Limited: Ratings reaffirmed for PP-MLDs and NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal Protected Market Linked Debentures (PP-MLDs)	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable); reaffirmed
Non-convertible Debentures (NCDs)	35.00	35.00	[ICRA]AAA(CE) (Stable); reaffirmed
Fund Based – Term Loan	1,000.00	1,000.00	[ICRA]A (Stable); outstanding
NCD Programme	0.00	165.00	[ICRA]A (Stable); outstanding
NCD Programme	50.00	50.00	[ICRA]A (Stable); outstanding
Total	1,135.00	1,300.00	

Rating Without Explicit Credit Enhancement	[ICRA]A
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is 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 last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating action has factored in the structural features available in both transactions such that, in the event of non-payment of its expected repayments by India Shelter Finance Corporation Limited (ISFC), the respective cover pools along with the cash collateral (if any) would be utilised to support the servicing of the rated instruments. The cover pools would consist of loan against property (LAP) receivables, which meet the eligibility criteria at the time of issuance. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 50.00-crore PP-MLD	CredAvenue Casa Trust 2021	1.28x cover pool [^]	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated debentures
Rs. 35.00-crore NCDs	Blanca Trust 2021	1.28x cover pool [^]	

[^] The cover pool requirement is calculated on the outstanding principal and accrued interest in case of PP-MLDs and NCDs

The ratings also draw comfort from the established presence of ISFC in the mortgage lending space and its stable asset quality despite the disruptions caused by the Covid-19 pandemic. Nonetheless, post any trigger event, the performance of the cover pools would be exposed to any further disruptions that may arise due to the pandemic.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of both the rated instruments are available in ICRA's previous rationales

Rs. 50.00-crore PP-MLD [CredAvenue Casa Trust 2021]: [Click here](#)

Rs. 35.00-crore NCDs [Blanca Trust 2021]: [Click here](#)

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in the event of non-payment by entity – The primary obligation of meeting the PP-MLD and NCD payments is on ISFC. However, if ISFC does not meet the expected payments on the PP-MLDs and NCDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the PP-MLDs and NCDs are promised to the investors on the legal maturity date.

Stringent eligibility criteria for cover pool – Contracts should be current at the time of assignment 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 enhancement in the form of over-collateralisation – Both instruments have credit enhancement in the form of over-collateralisation of 1.28x, which acts as a buffer if the collections from the cover pools decline.

Credit challenges

On occurrence of trigger event, the performance of the transaction would be exposed to performance of the cover pool, which would be available at that point of time – The pools for the transactions would have to be maintained as per the eligibility criteria and would become fixed post the occurrence of a trigger event. Thus, on the occurrence of a trigger event, the performance of the transactions would be exposed to the performance of the cover pools, which would be available at that point of time.

Performance of the pools would remain exposed to disruptions caused by the Covid-19 pandemic, post trigger event – Borrowers continue to face several challenges following the spread of Covid-19 throughout the country. These include the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity again slow down. ISFC's ability to navigate through the adversity and manage the impact on the business growth and asset quality would remain critical from a rating perspective, going forward.

While the PP-MLD and NCD yield is fixed the spread between pool yield and PP-MLD and NCD yield (acting as a credit support) could shrink on account on characteristics of cover pool - The benefit available on account of the difference between the pool yield and the PP-MLD and NCD yield 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, this is mitigated as almost the entire portfolio of ISFC comprises loans with an IRR of 14% or more.

Liquidity position

For PP-MLD [ICRA]AAA(CE) (Stable) / [ICRA]AAA(CE) (Stable): Superior

The principal and interest on the PP-MLDs and NCDs are promised to the lender on the final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instruments. The cash flows from the cover pools are expected to be highly comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the PP-MLDs and NCDs.

For the [ICRA]A rating without explicit credit enhancement: Strong

The company's liquidity is strong with Rs. 463 crore of on-book cash and liquid investments as on March 31, 2022 for debt obligations (including interest) of Rs. 623 crore over the next one year (i.e. up to March 31, 2023). It has pending collections worth Rs. 535 crore due for the aforementioned period. Further, it has unavailed sanctions to the tune of Rs. 917 crore as on 31st May, 2022.

Rating sensitivities

For NCDs rated [ICRA]AAA(CE) (Stable) and MLDs rated PP-MLD [ICRA]AAA(CE) (Stable)

Positive factors – Not applicable

Negative factors – The ratings could be downgraded on non-adherence to the key transaction terms envisaged at the time of the rating. The ratings could also come under pressure in case of a deterioration in ISFC's asset quality or credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Non-banking Finance Companies Covered Bond Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

ISFC is a housing finance company incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. It is focused on the low-cost and affordable housing segment, targeting self-employed customers in the informal low-and-middle-income segment. As on September 30, 2021, the company had a managed portfolio of Rs. 2,516 crore spread across 15 states/Union Territories. It offers loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land, home purchase and LAP. ISFC incorporated a wholly-owned subsidiary in March 2022 – India Shelter Capital Finance Limited (ISCFL) – as a non-banking financial company (NBFC) catering to the LAP segment, subject to regulatory approvals.

ISFC reported a profit of Rs. 128 crore in FY2022 on an AUM of Rs. 3,073 crore as on March 31, 2022 vis-à-vis a profit of Rs. 87 crore in FY2021 on an AUM of Rs. 2,199 as on March 31, 2021. The gross and net NPAs stood at 2.12% and 1.60%, respectively, as on March 31, 2022.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2020	FY2021	FY2022
Total Income (Rs. crore)	230	323	461
PAT (Rs. crore)	47	87	128
Gross AUM (Rs. crore)	1,520	2,199	3,073
Gross NPA (%)	1.23%	1.78%	2.12%
Net NPA (%)	0.86%	1.29%	1.60%

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022					Date & Rating in FY2021	Date & Rating in FY2020
					June 24, 2022	September 24, 2021	September 06, 2021	June 28, 2021	June 15, 2021		
1	PP-MLD	Long term	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable)	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)	-	-
2	NCD	Long term	35.00	35.00	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	Provisional [ICRA]AAA(CE) (Stable)	-	-	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
CredAvenue Casa Trust 2021	Principal Protected Market Linked Debentures (PP-MLD)	Complex
Blanca Trust 2021	Non-convertible debentures (NCDs)	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
INE922K07062	PP-MLD	June 2021	8.68%**	June 2029	50.00	PP-MLD [ICRA]AAA(CE) (Stable)
INE922K07088	NCDs	September 2021	8.88%*	September 2031	35.00	[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

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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