July 05, 2022

India Shelter Finance Corporation Limited: Rating upgraded to [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based term loan	1,000.00	1,000.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-convertible debentures	215.00	215.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Non-convertible debentures	35.00	35.00	[ICRA]AAA(CE) (Stable); outstanding
Principal Protected Market Linked Debentures (PP-MLD)	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable); outstanding
Total	**1,300.00**	**1,300.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in the healthy growth in India Shelter Finance Corporation Limited's (ISFCL) assets under management (AUM) and the improvement in its profitability indicators in FY2022. The AUM grew by around 41% to Rs. 3,073 crore as on March 31, 2022 from Rs. 2,198 crore as on March 31, 2021. In addition, the company reported an improvement in its delinquencies in FY2022, which had increased earlier because of the Covid-19 pandemic-induced disruptions. With the consequent reduction in credit costs, the return indicators improved in FY2022.

The rating also factors in ISFCL's strong capitalisation position and the support from the existing investor base. It reported a net worth of Rs. 1,076 crore as on March 31, 2022 with an on-book gearing of 1.9 times and a managed gearing[1] of 2.3 times as on March 31, 2022 vis-à-vis 1.6 times and 1.8 times, respectively, as on March 31, 2021. Furthermore, the rating takes into account ISFCL's fund-raising ability through a diversified lender base, though it would need to continue to diversify the lender base, going forward as well, given its growth plans. The rating also considers the company's good underwriting processes and conservative lending norms, translating into controlled credit costs thus far.

ISFCL's rating is, however, constrained by limited portfolio seasoning as a significant portion of the book was sourced in the last few years. 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. In terms of the asset quality, the company reported gross non-performing assets (GNPA) of 2.1% as on March 31, 2022 (GNPAs would have been 1.6% as on March 31, 2022 without factoring in the Reserve Bank of India's (RBI) circular[2] dated November 12, 2021) compared to 1.8% as on March 31, 2021. ISFCL's 90+ days past due (dpd) declined to 1.4% of AUM as on March 31, 2022 from 1.6% as on March 31, 2021 (with peak 90+ dpd of 2.7% in July 2021). Further, it had a small standard restructured portfolio outstanding of Rs. 25.5 crore as on March 31, 2022. The company's ability to significantly scale up its operations, while maintaining its leverage, sustain/enhance its profitability and improve its asset quality indicators will remain a monitorable.

ICRA notes that almost 99% of ISFCL's loan book is at a fixed interest rate, while a major part of the funding is at a floating rate. In an increasing interest rate scenario, the lending spread and the net interest margin (NIM) are expected to compress. ISFCL's strategy to maintain the spread while growing at a healthy pace will be key for its profitability.

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[1] Managed gearing = (On-book debt + Off-book portfolio)/ Net Worth

[2] Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications dated November 12, 2021

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company would be able to maintain its healthy financial profile with steady growth in its scale of operations and healthy profitability supported by its experienced management, systems and processes.

Key rating drivers and their description

Credit strengths

Healthy growth in AUM coupled with good profitability indicators – ISFCL has been able to achieve a healthy growth in its AUM even during the pandemic. The AUM grew 41% to Rs. 3,073 crore as on March 31, 2022 from Rs. 2,198 crore as on March 31, 2021. Its 3-year compound annual growth rate (CAGR) was around 38% till March 2022. In addition, ISFCL has witnessed an improvement in its lending spreads with a reduction in the cost of average funding. The NIM[3], with respect to the average managed assets (AMA), improved to 9.4% in FY2022 from 9.2% in FY2021 (9.0% in FY2020). With the improvement in delinquencies, the credit cost declined to 0.4% of AMA in FY2022 from 0.9% in FY2021. Consequently, ISFCL's return on AMA (RoMA) improved to 4.1% in FY2022 from 3.9% in FY2021 (2.9% in FY2020).

Comfortable capitalisation profile and prudent gearing levels – ISFCL has a strong investor base and a comfortable capitalisation profile for its scale of operations. It has maintained low gearing levels thus far as the management aims to grow in a calibrated manner. With a net worth of Rs. 1,076 crore as on March 31, 2022 and an on-book gearing of 1.9 times (managed gearing[4] of 2.3 times), ISFCL has sufficient headroom to achieve the planned growth by deploying additional debt capital while simultaneously maintaining good capitalisation. The capital to risk weighted assets ratio (CRAR), as on March 31, 2022, was 55.9%, while the net worth, as a percentage of AUM, stood at ~35%.

Continued funding support from NHB and banks; diversification in funding profile expected, going forward – ISFCL's debt capital requirement has been relatively low thus far, given the pace of growth and the good capital base. Lender support has also been good. As on March 31, 2022, ISFCL had funding relationships with more than 35 distinct lenders (including private and public sector banks). While 14% of ISFCL's total borrowings outstanding (including direct assignment (DA) book) as on March 31, 2022 was from National Housing Bank (NHB), around 52% was from banks, 16% from securitisation/assignment and the balance (~17%) from non-convertible debentures (NCDs) and non-banking financial companies (NBFCs)/financial institutions (FIs). ICRA expects continued diversification in the funding profile as ISFCL increases its debt capital to fund portfolio growth.

Good underwriting processes and conservative lending norms – Given the vulnerability of the borrower profile, ISFCL has developed a strong credit appraisal process, which includes repeated discussions with the borrower, neighbourhood checks, and cash flow analysis. It also undertakes an assessment of the viability of other family income like rentals and visits 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. ISFCL has strong risk management systems, and in-house technical and valuation teams. It uses credit scorecards and monitors regularly, which helps it maintain the asset quality indicators and make recoveries from delinquent exposures.

Credit challenges

Limited portfolio seasoning as significant portion of the book was sourced in the last few years – ISFCL has a long track record of operations of more than a decade in the affordable housing sector. However, the overall portfolio remains under-seasoned as housing loans are long-tenor assets and most of its portfolio growth has happened recently. ICRA notes that the company's AUM grew by ~41% in FY2022 to Rs. 3,073 crore as on March 31, 2022. ISFCL's disbursements over the last three fiscals comprised ~89% of its AUM as on March 31, 2022. Going forward as well, the portfolio growth rate is expected to remain high.

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[3] All ratios as per ICRA's calculations

[4] Managed gearing = (On-book debt + Off-book portfolio)/ Net Worth

Though the portfolio has witnessed various economic disruptions over the past few years, its performance in the longer term is yet to be seen considering the limited vintage of a significant part of the portfolio.

Ability to sustain profitability, while increasing the scale of operations – ISFCL's profitability improved in FY2022 amid the increasing scale of operations and the reducing cost of funding. The company reported a RoMA and a return on average net worth (RoNW) of 4.1% and 12.8%, respectively, in FY2022 compared to 3.9% and 9.8%, respectively, in FY2021. The profitability in FY2022 was primarily supported by the reduction in the cost of funds with the yield on incremental disbursements maintained at around 15%. This was due to the lower interest rate environment and lower-cost NHB funding support, the rationalisation of operating expenses, and DA income, which is accounted for upfront under Ind AS. A significant increase in the DA quantum compared to previous periods led to the buffering of the net profitability. 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.

ICRA notes that almost 99% of ISFCL's loan book is at a fixed interest rate, while a major part of the funding is at a floating rate. In an increasing interest rate scenario, the lending spread and the NIM are expected to compress. ISFCL's strategy to maintain the spread while growing at a healthy pace will be key for its profitability.

Relatively vulnerable borrower profile and high proportion of non-home loan book – The company's underlying borrower base comprises low-and-middle-income self-employed (~64% share in the total portfolio as on March 31, 2022), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Further, around 43% of the total AUM pertained to loan against property (LAP), while the rest (57%) was towards the individual housing loan segment as on March 31, 2022.

ISFCL reported portfolio at risk (PAR) 30 and PAR 90 of 4.0% and 1.4%, respectively, as on March 31, 2022 (peak of 8.0% and 2.7%, respectively, in June 2021 and July 2021) compared to 3.9% and 1.6%, respectively, as on March 31, 2021. Further, it has a relatively smaller standard restructured book of Rs. 24.5 crore as on March 31, 2022. However, the losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios. The risk is also partly mitigated by in-house origination followed by hindsight checking at the central office and prudent lending and portfolio tracking processes. This, coupled with improving collections from overdue accounts, helped the company witness an improvement in its hard bucket delinquency in FY2022. Nevertheless, ISFCL's ability to sustain the same remains monitorable.

Liquidity position: 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 had unavailed sanctions of Rs. 917 crore as on May 31, 2022.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the long-term rating if the company is able to report a healthy growth in its scale of operations and maintain a healthy profitability profile with RoMA > 3.5% on a sustainable basis, along with prudent capitalisation and good asset quality with a 90+ dpd of less than 1.5% on a consistent basis.

Negative factors – Pressure on the rating could arise if there is a deterioration in the asset quality with the 90+ dpd exceeding 2.5% on a sustained basis, thereby affecting the profitability. The weakening of the capitalisation profile (managed gearing above 5.0 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 Non-banking Finance Companies (NBFCs)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ISFCL 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 March 31, 2022, the company had a managed portfolio of Rs. 3,073 crore spread across 15 states/UTs. 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.

ISFCL 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. 2,198 as on March 31, 2021. The gross and net NPAs stood at 2.1% and 1.6%, respectively, as on March 31, 2022.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2020	FY2021	FY2022
	Ind AS	Ind AS	Ind AS
Net interest income	145	178	245
Profit before tax	64	113	167
Profit after tax	47	87	128
AUM (including assigned portfolio; IGAAP valuation)	1,520	2,198	3,073
Total managed assets	1,844	2,659	3,641
Gearing (times)	1.1	1.6	1.9
Managed gearing (times)	1.1	1.8	2.3
Net profit / Average managed assets (RoMA)	2.9%	3.9%	4.1%
Return on net worth	5.7%	9.8%	12.8%
Gross NPA	1.2%	1.8%	2.1%
Net NPA	0.9%	1.3%	1.6%
Net NPA / Net worth	1.9%	2.6%	3.9%

Source: Company, ICRA Research; 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 (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Jul 5, 2022	Nov 3, 2021	Jun 11, 2021	Dec 31, 2020	Nov 27, 2020	Oct 7, 2019
1	NCD	Long Term	50.00	45.00	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	NCD	Long Term	165.00		[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-	-	-
3	NCD	Long Term	200.00	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)
4	NCD	Long Term	50.00	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Fund Based – Term Loan	Long Term	1,000.00	989.08	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument Name	Complexity Indicator
Non-convertible debenture	Simple
Fund-based term loan	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 I: Instrument details

ISIN/Lender Name	Name of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
INE922K07054	NCD	Jun-12-2020	10.25%	Jun-12-2023	15.00	[ICRA]A+ (Stable)
INE922K07070	NCD	Aug-31-2021	Repo rate linked	Aug-31-2026	30.00	[ICRA]A+ (Stable)
INE922K07096	NCD	Nov-23-2021	9.29%	Mar-23-2025	50.00	[ICRA]A+ (Stable)
Unallocated	NCD	-	-	-	120.00	[ICRA]A+ (Stable)
	Term loan	Sep-2015 to Mar-2022	7.50% to 11.20%	May-2023 to Sep-2031	1,000.00	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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