

November 09, 2022

Shubham Housing Development Finance Company Limited: Long-term rating upgraded to [ICRA]A (Stable) and short-term rating reaffirmed; Rating withdrawn for Rs. 20-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	1,000	1,000	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
NCD programme	80	80	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
NCD programme	20	-	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable) and simultaneously withdrawn
Commercial paper	100	100	[ICRA]A1; reaffirmed
Total	1,200.00	1,180.00	

*Instrument details are provided in Annexure I

Rationale

The rating action factors in the steady growth in Shubham Housing Development Finance Company Limited's (Shubham Housing) assets under management (AUM) and the significant improvement in its capitalisation profile with the recent equity raise in Q1 FY2023. The equity infusion has led to an increase in the capital to risk-weighted adjusted ratio (CRAR) to ~75% as on June 30, 2022 from ~37% as on March 31, 2022 and has brought down the managed gearing¹ considerably to 1.7x as on June 30, 2022 from 3.8x as on March 31, 2022. Going forward, the company is expected to maintain prudent capitalisation profile.

The ratings also continue to factor in the company's established track record of over a decade in the housing finance industry and its experienced management team, which has helped it register a healthy growth in its scale of operations. The ratings also consider 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 remain constrained by the limited seasoning of the portfolio, given the significant scale-up in the operations in the last few years, and the weak asset quality indicators, which had deteriorated in the last two years due to the Covid-19 pandemic-induced disruptions. The company saw a gradual improvement in the collection efficiency (CE), post the second wave of the pandemic, which, along with sale of delinquent accounts to an asset reconstruction company (ARC) helped it witness some improvement in its delinquencies in Q4 FY2022. Its 90+ days past due (dpd) stood at 1.3% of AUM as on June 30, 2022 compared to 0.9% as on March 31, 2022 (2.1% as on March 31, 2021). In addition, the company also had outstanding security receipts (SRs) and repossessed assets as on June 30, 2022, the recovery from which remains monitorable. Shubham Housing also had an overall restructured portfolio of 0.6% of the AUM as on June 30, 2022, leading to an increase in the provisioning requirement. This, along with the high operating cost structure, kept the profitability moderate with a return on managed assets (RoMA) of 0.9% in FY2022. The company witnessed an improvement in its profitability with RoMA of 1.9% in Q1 FY2023, driven by the increase in margins and reduction in credit costs, though the sustainability of the same remains to be seen.

¹ Managed gearing = (on-book debt + off-book portfolio) / net worth

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 46% of its borrowers as on September 30, 2022, which keeps the portfolio's risk perception high.

ICRA has upgraded the rating with Stable outlook while simultaneously withdrawing the rating outstanding for the Rs. 20 crore non-convertible debenture programme as the instrument has been repaid by the company and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

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

Healthy capitalisation profile, given recent equity infusion – Shubham Housing raised equity of Rs. 600 crore in Q1 FY2023, which has led to an increase in its CRAR to ~75% as on June 30, 2022 from ~37% as on March 31, 2022. As on March 31, 2022, the company reported a managed gearing of 3.8x. The equity infusion in Q1 FY2023 brought down the managed gearing considerably to 1.7x and company is expected to maintain prudent capitalisation profile. The current capitalisation is expected to be sufficient to meet the near-term growth requirements.

Diversified funding profile with continued funding support from NHB – Shubham Housing's borrowing profile is relatively well-diversified with funding from banks (67%), financial institutions (17%), NHB (13%) and non-convertible debentures (NCDs; the balance) as on June 30, 2022. 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 Q1 FY2023, which has helped it lower its incremental 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.

Experienced management team in retail finance business – Shubham Housing is promoted by Mr. Sanjay Chaturvedi and Ms. Rupa Basu and supported by the Premji Group (41.57% share) and other multiple private equity (PE) investors. Further, it onboarded three new investors, namely British International Investment plc (formerly known as CDC Group plc), Asian Development Bank and Topaz Inclusion Pte. Ltd. (Leapfrog), in Q1 FY2023, which together held a 31.07% stake in the company as on September 30, 2022.

Shubham Housing continues to benefit from the long-standing experience of the founders and shareholders in the retail finance business across various retail asset classes. Moreover, it has an experienced management team with considerable depth, which includes people with extensive experience in retail and a proven track record of execution. With the oversight of the board and the management, ICRA expects the company to grow its portfolio prudently.

Credit challenges

Weak asset quality indicators and limited portfolio seasoning, given high growth – The company's weak asset quality indicators remain a constraining factor. Its 90+ dpd stood at 1.3% of AUM as on June 30, 2022 compared to 0.9% as on March 31, 2022 (2.1% as on March 31, 2021). In addition, the company also had outstanding SRs and repossessed assets as on June 30, 2022, the recovery from which remains monitorable. The company also had an overall restructured portfolio of 0.6% of the AUM as on June 30, 2022 compared to 1.8% as on March 31, 2022. Its asset quality risks are further accentuated, given its vulnerable borrower profile, which includes economically weaker sections and lower-to-middle-income categories, which have

low-income buffers and are vulnerable to economic shocks. 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 delinquent accounts, contain further slippages and improve its asset quality metrics would be important from a credit perspective.

Moreover, ICRA notes that a sizeable part of the company's portfolio grew over the last few years, leading to a limited track record for the majority of its portfolio in relation to the loan tenor of up to 10-15 years. Shubham Housing's AUM increased at a 5-year compound annual growth rate (CAGR) of 27% over FY2017-FY2022 and further by 20% on an annualised basis in Q1 FY2023. Going forward, the portfolio growth rate is expected to remain high, given the recent sizeable equity infusion. Considering the envisaged growth, portfolio seasoning is likely to be low and would be monitorable.

Moderate profitability indicators, though some improvement witnessed in Q1 FY2023 – The high operating cost structure and high provisioning requirement because of weak asset quality indicators kept the company's profitability subdued. It reported RoMA of 0.9% and a return on equity (RoE) of 4.6% in FY2022. ICRA notes that Shubham Housing has witnessed an improvement in its profitability with RoMA of 1.9% in Q1 FY2023, driven by the increase in margins and reduction in credit costs. Going forward, ICRA expects the company to improve its profitability further with the improvement in its operating efficiency and reduction in the credit costs. Thus, Shubham Housing's ability to keep its operating cost and credit cost under control would be critical.

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. 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. 287 crore as on September 30, 2022 in addition to the sanctioned but unutilised lines of Rs. 210 crore (excluding direct assignment sanction). This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses in the near term.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company witnesses an improvement in its profitability and expands its scale of operations. Specific metrics, which could trigger an upward revision in the ratings, include RoMA of more than 2.5% on a sustained basis. This, along with prudent capitalisation and improvement in the asset quality indicators while growing its portfolio, could result in a rating upgrade.

Negative factors – A deterioration in the asset quality with a 90+ dpd (including write-offs, repossessed assets, and SRs) of around 5% or more on a sustained basis could lead to pressure on the ratings. Further, a managed gearing of more than 5x on a sustained basis could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies ICRA's policy on withdrawal of rating
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

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.

Six private equity funds, namely Premji Invest, Helion Ventures Partner, British International Investment plc (formerly known as CDC Group plc), Asian Development Bank, Topaz Inclusion Pte. Ltd. (Leapfrog) and Motilal Oswal Financial Services Limited, are currently invested in the company with Premji Invest holding a 41.57% stake. As on September 30, 2022, Shubham Housing operated out of 113 branches across 10 states/Union Territories (Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand, Punjab, and Telangana).

The company reported a profit of Rs. 25 crore in FY2022 on a managed asset base of Rs. 2,720 crore as on March 31, 2022 vis-à-vis a profit of Rs. 60 crore in FY2021 on a managed asset base of Rs. 2,252 crore as on March 31, 2021. It reported a profit of Rs. 14 crore in Q1 FY2023 on a managed asset base of Rs. 3,094 crore as on June 30, 2022.

Key financial indicators

Shubham Housing Development Finance Company Limited	FY2021	FY2022	Q1 FY2023
	Ind AS	Ind AS	Ind AS
Net interest income	156.6	166.7	49.1
Profit after tax	60.7	24.9	13.9
AUM	2,075.4	2,400.9	2,519.9
Total assets	2402.4	2577.69	3094.4
Managed gearing (times)	3.7	3.8	1.7
Net interest margins (NIM)	8.6%	6.9%	7.1%
Net profit / Average managed assets [^]	2.7%	0.9%	1.9%
Return on net worth [^]	12.3%	4.6%	6.5%
Gross NPAs	2.2%	3.7%	3.8%
Net NPAs	1.2%	2.7%	2.1%
Net NPA / Net worth	4.8%	11.6%	4.5%

Source: Company, ICRA Research; [^] 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 (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Oct 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 09, 2022	Feb 22, 2022	Oct 26, 2021	Feb 25, 2021	Jan 22, 2020
1	Long-term Term loan	Long-term	1,000	997	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-convertible debentures	Long-term	80	25	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-convertible debentures	Long-term	20	-	[ICRA]A (Stable); withdrawn	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Commercial paper	Short-term	100	Nil	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-

*Source: Company

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Non-convertible debenture programme	Very Simple
Bank facilities programme – Term loans	Simple
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: [Click here](#)

Annexure I: 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	[ICRA]A (Stable)
INE967Q08013	NCD	March 28, 2016	13.00%	April 15, 2022	20	[ICRA]A (Stable) withdrawn
NA	Term Loan	August 29, 2015 to June 29, 2022	7.63% to 11.00%	November 30, 2022 to December 31, 2029	997	[ICRA]A (Stable)
NA	Term Loan – Unallocated	-	-	-	3	[ICRA]A (Stable)
Yet to be placed	Commercial Paper	-	-	-	100	[ICRA]A1

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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Branches



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