

February 03, 2023

India Shelter Finance Corporation Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	1,000.00	1,500.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Non-convertible debentures	215.00	215.00	[ICRA]A+ (Stable); reaffirmed
Total	1,215.00	1,715.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in the strong growth in India Shelter Finance Corporation Limited's (ISFCL) assets under management (AUM) and its healthy profitability, though there was a slight moderation in 9M FY2023. Moreover, the company has been able to maintain adequate asset quality metrics.

The rating also continues to factor in ISFCL's comfortable capitalisation position and the support from the existing investors. It reported a net worth of Rs. 1,185 crore (provisional), on-book gearing of 2.3 times, managed gearing¹ of 2.7 times and total capital to risk weighted assets ratio (CRAR) of 46.26% as on December 31, 2022. 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 customers and improve its systems and controls continuously to maintain the asset quality remains a monitorable. In terms of the asset quality, the company reported gross non-performing assets (GNPAs) of 2.3% as on December 31, 2022 compared to 2.1% as on March 31, 2022. ISFCL's 90+ days past due (dpd) increased marginally to 1.7% of AUM as on December 31, 2022 from 1.4% as on March 31, 2022. The company's ability to scale up its operations significantly, while maintaining its leverage, sustain/enhance its profitability and improve its asset quality indicators will remain a monitorable.

ICRA notes that around 96% of ISFCL's loan book as on December 31, 2022 was at a fixed interest rate, while a major part of the funding is at a floating rate. Given the increasing interest rate scenario, the lending spread and the net interest margin (NIM) are expected to compress in the near term. ISFCL's strategy to maintain the spread while growing at a healthy pace will be key for its profitability.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that ISFCL would be able to maintain its 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 maintained a healthy growth rate in 9M FY2023 as its AUM grew by ~38% (annualised) to Rs. 3,954 crore as on December 31, 2022 from Rs. 3,073 crore as on March 31, 2022. Its compound annual growth rate (CAGR) was around 42% from March 2020 to December 2022.

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

Though ISFCL's profitability moderated in 9M FY2023, it remained healthy. It reported a profit of Rs. 103 crore (provisional) in 9M FY2023, translating into a return on average managed assets (RoMA) of 3.4% compared to 4.1% in FY2022. The moderation was on account of lower direct assignment (DA) income and a marginal increase in its gearing. With the adequate asset quality metrics, the credit cost has remained stable. Going forward, ICRA expects the profitability to remain healthy, though it remains vulnerable to compression in the NIM as ~96% of the loan book as on December 31, 2022 was at a fixed interest rate while a major part of the funding is at a floating rate. ISFCL's strategy to maintain the spread while growing at a healthy pace will be key for its profitability.

Comfortable capitalisation profile and prudent gearing – ISFCL has a strong investor base and a comfortable capitalisation profile. It has maintained low gearing thus far as the management aims to grow its book in a calibrated manner. With a net worth of Rs. 1,185 crore (provisional) as on December 31, 2022 and on-book gearing of 2.3 times (managed gearing of 2.7 times), ISFCL has sufficient headroom to achieve the planned growth by deploying additional debt capital while simultaneously maintaining good capitalisation. The CRAR, as on December 31, 2022, was 46.3%, while the net worth, as a percentage of AUM, stood at ~30%.

Fairly diversified funding profile – ISFCL's funding profile has remained adequately diversified. As on December 31, 2022, ISFCL had funding relationships with more than 35 distinct lenders (including private and public sector banks). While 13% of ISFCL's total borrowings outstanding (including DA book) as on December 31, 2022 was from National Housing Bank (NHB), around 50% was from banks, 20% 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.

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 ~38% (annualised) in 9M FY2023 to Rs. 3,954 crore as on December 31, 2022. ISFCL's disbursements over the last 12 quarters comprised more than 94% of its AUM as on December 31, 2022. Going forward as well, the portfolio growth rate is expected to remain comfortable. 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 had improved in FY2022 amid the increasing scale of operations and the reducing cost of funding. However, with the increase in gearing and lower DA income, the company witnessed a decline in its NIM. Consequently, its profitability declined with RoMA of 3.4% in 9M FY2023 compared to 4.1% in FY2022. 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 around 96% 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 customers (~69% share in the total AUM as on December 31, 2022), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Further, around 41% of the total AUM pertained to loan against property (LAP), while the rest (59%) was towards the individual housing loan segment as on December 31, 2022.

ISFCL reported portfolio at risk (PAR) 30 and PAR 90 of 3.5% and 1.7%, respectively, as on December 31, 2022 compared to 4.0% and 1.4%, respectively, 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. Nevertheless, ISFCL's ability to sustain the same remains a monitorable.

Liquidity position: Strong

The company's liquidity is strong with Rs. 473 crore of on-book cash and liquid investments as on December 31, 2022 for debt obligations (excluding interest) of Rs. 639 crore over the next one year (i.e. up to December 31, 2023). It has collections worth Rs. 952 crore (excluding interest) due during the aforementioned period. Further, it had unavailed sanctions of Rs. 666 crore as on December 31, 2022.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to report a healthy growth in its scale of operations and maintain a healthy profitability profile with RoMA of more than 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
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 December 31, 2022, the company had a managed portfolio of Rs. 3,954 crore spread across 15 states/Union Territories (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 (LAP). ISFCL incorporated a 100%-subsidiary in March 2022, India Shelter Capital Finance Limited (ISFCL), to lend as an NBFC to the LAP segment, subject to regulatory approvals.

ISFCL reported a profit of Rs. 103 crore in 9M FY2023 (provision; total comprehensive income (TCI) of Rs. 100 crore) on an AUM of Rs. 3,954 crore as on December 31, 2022 vis-à-vis a profit of Rs. 128 crore in FY2022 (TCI of Rs. 128 crore) on an AUM of Rs. 3,073 crore as on March 31, 2022. The gross and net NPAs stood at 2.29% and 1.79%, respectively, as on December 31, 2022.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2021	FY2022	9M FY2023*
Accounting	Ind AS	Ind AS	Ind AS
Net interest income (excl. fee income)	168	229	210
Profit before tax	113	167	135
Profit after tax	87	128	103
AUM (incl. assigned portfolio; IGAAP valuation)	2,198	3,073	3,954
Total managed assets	2,659	3,641	4,555
Gearing (times)	1.6	1.9	2.3
Managed gearing (times)	1.8	2.3	2.7
Net profit / Average managed assets (RoMA)	3.9%	4.1%	3.4%
Return on net worth	9.8%	12.8%	12.2%
Gross NPA	1.8%	2.1%	2.3%
Net NPA	1.3%	1.6%	1.8%
Net NPA / Net worth	2.6%	3.9%	5.2%

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company also faces prepayment risk given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide adequate time to it to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2023) Amount Outstanding as of Jan 31, 2023 (Rs. crore)	Chronology of Rating History for the Past 3 Years						
				Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
				Feb 3, 2023	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)	[ICRA]A (Stable)
2 NCD	Long term	165.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-	-	-
3 NCD	Long term	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)
4 NCD	Long term	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

5	Fund based – Term loan	Long term	1,500.00	1,174.87	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loan	Simple
NCD	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE922K07054	NCD programme	Jun-12-2020	10.25%	Jun-12-2023	15.0	[ICRA]A+ (Stable)
INE922K07070	NCD programme	Aug-31-2021	Repo rate linked	Aug-31-2026	30.0	[ICRA]A+ (Stable)
INE922K07096	NCD programme	Nov-23-2021	9.29%	Mar-23-2025	42.5	[ICRA]A+ (Stable)
Not issued yet	NCD programme	-	-	-	127.5	[ICRA]A+ (Stable)
NA	Long-term fund based – Term loan	Sep 2015 to Dec 2022	7.50% to 11.20%	May 2023 to Oct 2031	1,500.0	[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:

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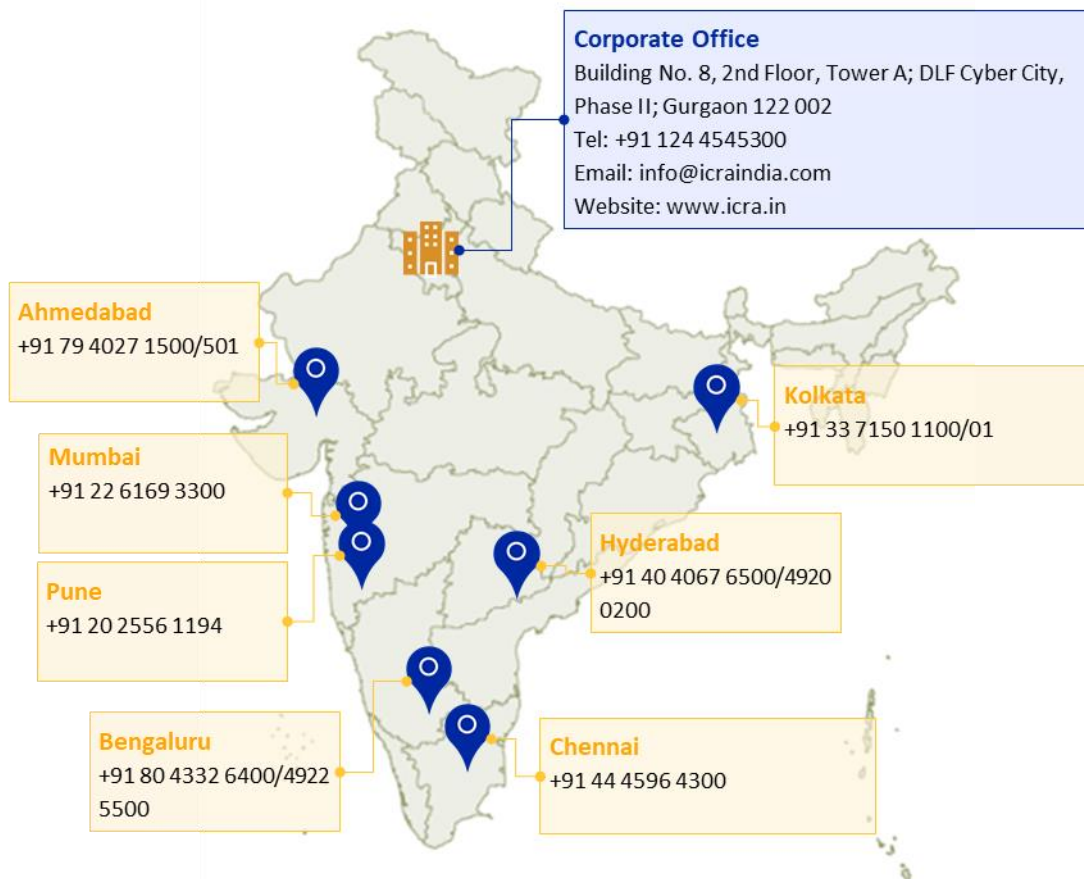


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