

May 05, 2023

Shubham Housing Development Finance Company Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	1,000	1,500	[ICRA]A (Stable); assigned/reaffirmed
NCD programme	80	80	[ICRA]A (Stable); reaffirmed
Commercial paper	100	100	[ICRA]A1; reaffirmed
Total	1,180.00	1,680.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation factors in Shubham Housing Development Finance Company Limited's (Shubham Housing) healthy capitalisation profile, the improvement in its profitability indicators in FY2023 and its diversified borrowing profile. The ratings also continue to factor in the company's established track record of over a decade in the housing finance industry. The company raised sizeable equity in Q1 FY2023, leading to an improvement in its capital to risk-weighted assets ratio (CRAR) to ~66% as on December 31, 2022 from ~37% as on March 31, 2022 and its managed gearing¹ to 1.7x as on March 31, 2023 from 3.8x as on March 31, 2022.

Shubham Housing raised its lending rates in FY2023, though it was able to keep its cost of borrowings under control. As a result, its margins increased, and it was able to report an improvement in its profitability despite the higher operating costs. The company reported a return on average managed assets (RoMA) of 3.0% in FY2023 compared to 0.9% in FY2022. The ratings also consider Shubham Housing's diversified funding profile with a sizeable share of funding from banks and National Housing Bank (NHB) at competitive rates. However, it would need to continue to diversify its lender base, given its growth plans, while maintaining its leverage and sustaining/enhancing its profitability.

The ratings remain constrained by the limited seasoning of the portfolio, given the significant scale-up in the operations in the last few years as its assets under management (AUM) increased at a 4-year compound annual growth rate (CAGR) of 24% over FY2019-FY2023. ICRA also notes that the company has seen an improvement in its asset quality indicators with its reported gross non-performing assets (GNPAs) declining to 1.8% as on March 31, 2023 from 3.7% as on March 31, 2022, though the same remains moderate. In addition, Shubham Housing has a sizeable share of repossessed assets and security receipts (SRs; pursuant to sale of delinquent portfolio to an asset reconstruction company in Q4 FY2022 and earlier), the recovery from which remains a monitorable.

The ratings also continue to 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 48% of its borrowers as on March 31, 2023, which keeps the portfolio's risk perception high. Going forward, its ability to scale up its operations further and sustain/improve its asset quality indicators will remain a monitorable.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company would be able to maintain a steady credit profile while expanding its scale of operations profitably and maintaining a prudent capitalisation profile.

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

Key rating drivers and their description

Credit strengths

Healthy capitalisation supported by capital raise – Shubham Housing raised equity of Rs. 600 crore in Q1 FY2023, which led to an increase in its CRAR to ~66% as on December 31, 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 brought down the managed gearing considerably to 1.7x as on March 31, 2023 and the company is expected to maintain a prudent capitalisation profile going forward as well. The current net worth is expected to be sufficient to meet the near-term growth requirements.

Fairly diversified funding profile – Shubham Housing's borrowing profile is relatively well-diversified with funding from banks (74%), financial institutions (7%), NHB (16%) and non-convertible debentures (NCDs; the balance) as on March 31, 2023. 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 FY2023, which has helped keep its borrowing cost under control. 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.

Improvement in profitability indicators – Shubham Housing's high operating cost structure and significant provisioning requirement because of weak asset quality indicators had kept its profitability subdued in the past. However, the company witnessed an improvement in its margins in FY2023 as it raised its lending rates and was able to keep its borrowing cost under control. On the other hand, it saw an increase in its operating cost, though higher margins and lower credit costs helped it witness an improvement in its profitability in FY2023. It reported RoMA of 3.0% and a return on equity (RoE) of 10.3% in FY2023 compared to 0.9% and 4.6%, respectively, in FY2022. Going forward, the company is expected to witness some pressure on margins with the impact of the increase in the borrowing costs getting reflected and the higher leverage to fund its expansion. Nevertheless, its profitability is expected to remain comfortable. Shubham Housing's ability to keep its operating costs and credit costs under control would be critical for its profitability profile.

Credit challenges

Limited portfolio seasoning, given high growth – 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 4-year CAGR of 24% over FY2019-FY2023. Further, the AUM grew ~31% in FY2023, driven by higher disbursements in H2 FY2023. Going forward, the portfolio growth rate is expected to remain high and, considering the envisaged growth, portfolio seasoning is likely to be low and would be monitorable.

Moderate asset quality indicators – Shubham Housing witnessed an improvement in its asset quality indicators with the GNPA declining to 1.8% as on March 31, 2023 from 3.7% as on March 31, 2022 as it witnessed higher recoveries from delinquent accounts. However, including repossessed assets, SRs and write-offs during the year, its asset quality indicators remain moderate. It reported 90+ days past due (dpd; including repossessed assets, write-offs, SRs) of 2.9% as on March 31, 2023 compared to 3.8% as on March 31, 2022. In addition, the company had a restructured portfolio of 0.5% of the AUM as on March 31, 2023 (1.8% as on March 31, 2022). 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.

Relatively vulnerable borrower profile – The company's underlying borrower base comprises low-and-middle-income self-employed customers (~48% share in the total AUM as on March 31, 2023), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Further, around 29% of the total AUM pertained to loan against property (LAP), while the rest (71%) was towards the individual housing loan segment as on March 31, 2023.

Liquidity position: Adequate

The company's liquidity is adequate, given the unencumbered on-book liquidity of Rs. 154 crore² as on March 31, 2023 in addition to the sanctioned but unavailed lines of Rs. 570 crore as of March 2023 against the 6-month debt obligation of Rs. 294 crore. This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses. Overall, ICRA expects Shubham Housing to be able to meet its near-term commitments.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings if the company is able to sustain/further enhance its profitability and expand 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
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 of March 2023, Shubham Housing operated out of 143 branches across 12 states/Union Territories (Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Bihar, Uttarakhand, Punjab, Andhra Pradesh and Telangana).

The company reported a profit of Rs. 92 crore in FY2023 on a managed asset base of Rs. 3,454 crore as on March 31, 2023 vis-à-vis a profit of Rs. 25 crore in FY2022 on a managed asset base of Rs. 2,720 crore as on March 31, 2022.

² Rs. 350 crore (including cheques issued for disbursement, but yet to be presented)

Key financial indicators

Shubham Housing Development Finance Company Limited	FY2021	FY2022	FY2023 (Prov.)
	Ind-AS	Ind-AS	Ind-AS
Net interest income	156.6	166.7	250.6
Profit after tax	60.7	24.9	91.8
AUM	2,075.4	2,400.9	3,147.1
Total assets	2,402.4	2,577.7	3,345.1
Managed gearing (times)	3.7	3.8	1.7
Net interest margin (NIM)	8.6%	6.9%	8.9%
Net profit / Average managed assets^	2.7%	0.9%	3.0%
Return on net worth^	12.3%	4.6%	10.3%
Gross NPAs	2.2%	3.7%	1.8%
Net NPAs	1.2%	2.7%	1.0%
Net NPA / Net worth	4.8%	11.6%	2.5%

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					May 05, 2023	Nov 09, 2022	Feb 22, 2022	Oct 26, 2021	Feb 25, 2021
1	Long-term term loan	Long term	1,500	1,260	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Non-convertible debentures	Long term	80	13	[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)
4	Commercial paper	Short term	100	Nil	[ICRA]A1	[ICRA]A1	[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
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)
NA	Term loan	August 2015 to March 2023	8.10% to 12.40%	May 2023 to December 2029	1,260	[ICRA]A (Stable)
NA	Term loan – Unallocated	-	-	-	240	[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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