July 21, 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	1,500.00	2,000.00	[ICRA]A+ (Stable); reaffirmed and assigned for enhanced amount
Non-convertible debentures	215.00	215.00	[ICRA]A+ (Stable); reaffirmed
Total	**1,715.00**	**2,215.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in India Shelter Finance Corporation Limited's (ISFCL) good profitability indicators, prudent capitalisation and fairly diversified funding profile, which helped it grow its scale of operations. Moreover, it witnessed further improvement in its asset quality metrics.

ISFCL reported a net worth of Rs. 1,240 crore, on-book gearing of 2.4 times, managed gearing[1] of 3.0 times and total capital to risk weighted assets ratio (CRAR) of 52.66% as on March 31, 2023. Furthermore, the rating factors in ISFCL's fund-raising ability through a diversified lender base, though it would need to continue expanding the lender base, 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 the limited portfolio seasoning as a significant portion of the book was sourced in the last few years, like most of its peers. In addition, the share of non-housing loans (NHLs) was relatively high at around 40% of the assets under management (AUM) as on March 31, 2023. 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 1.1% as on March 31, 2023 compared to 2.1% as on March 31, 2022. ISFCL's 90+ days past due (dpd) decreased to 0.9% of AUM as on March 31, 2023 from 1.4% as on March 31, 2022. The company's ability to scale up its operations significantly, while maintaining its leverage, and sustain/improve its profitability and asset quality indicators will remain a monitorable.

ICRA notes that around 93% of ISFCL's loan book, as on March 31, 2023, was at a fixed interest rate while a major part of the funding is at a floating rate. Consequently, the lending spread and the net interest margin (NIM) remain vulnerable to interest rate movements and the company's ability to protect its margins would remain a monitorable.

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

Good profitability indicators – ISFCL's profitability remained healthy in FY2023 as it reported a profit of Rs. 155 crore in FY2023, translating into a return on average managed assets (RoMA) of 3.6% compared to 4.1% in FY2022. The moderation was on

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

account of lower direct assignment (DA) income and a marginal increase in the gearing. With the adequate asset quality metrics, credit cost has remained stable. Going forward, ICRA expects the profitability to remain healthy. The company's ability to protect its margins and improve its operating efficiency further will be critical for the same.

Comfortable capitalisation profile and prudent gearing – ISFCL has a strong investor base and a comfortable capitalisation profile. It has maintained low gearing as the management aims to grow the book in a calibrated manner. With a net worth of Rs. 1,240 crore as on March 31, 2023 and on-book gearing of 2.4 times (managed gearing of 3.0 times), ISFCL has sufficient headroom to achieve the planned growth by deploying additional debt capital while maintaining comfortable capitalisation. The CRAR, as on March 31, 2023, was 52.66%, while the net worth stood at ~28% of AUM.

Fairly diversified funding profile – ISFCL's funding profile has remained adequately diversified. As on March 31, 2023, it had funding relationships with more than 40 distinct lenders (including private and public sector banks). While 16% of ISFCL's total borrowings outstanding (including DA book) as on March 31, 2023 was from National Housing Bank (NHB), around 49% was from banks, 19% from securitisation/assignment and the balance (~16%) 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 the portfolio growth happened recently. ICRA notes that the company's AUM grew by ~42% in FY2023 to Rs. 4,359 crore as on March 31, 2023. Its disbursements over the last 12 quarters comprised more than 95% of its AUM as on March 31, 2023. Going forward as well, the portfolio growth rate is expected to remain high. 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 same.

Vulnerable to interest rate movements, given high share of fixed rate portfolio – Around 93% of the company's loan book as on March 31, 2023 (more than 99% as on March 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 a key monitorable.

Relatively vulnerable borrower profile and high proportion of NHL book – The company's underlying borrower base comprises low-and-middle-income self-employed customers (~70% 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 40% of the total AUM pertained to loan against property (LAP), while the rest (60%) was towards the individual housing loan segment as on March 31, 2023.

ISFCL reported portfolio at risk (PAR) 30 and PAR 90 of 2.4% and 0.9%, respectively, as on March 31, 2023 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 the 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. 542 crore of on-book cash and liquid investments as on March 31, 2023 for debt obligations (including interest) of Rs. 696 crore over the next one year (i.e. up to March 31, 2024). It has collections (including interest) worth Rs. 551 crore due during the aforementioned period. Further, it had unavailed sanctions of Rs. 366 crore as on March 31, 2023.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company reports a healthy increase in its scale of operations and maintains a healthy profitability profile with RoMA of more than 3.5% on a sustainable basis, along with prudent capitalisation and good asset quality with 90+ dpd of less than 1.5% on a consistent basis.

Negative factors – Pressure on the rating could arise on 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 position 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 March 31, 2023, the company had a managed portfolio of Rs. 4,359 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. 155 crore in FY2023 (total comprehensive income (TCI) of Rs. 154 crore) on AUM of Rs. 4,359 crore as on March 31, 2023 vis-à-vis a profit of Rs. 128 crore in FY2022 (TCI of Rs. 128 crore) on AUM of Rs. 3,073 crore as on March 31, 2022. The gross and net NPAs stood at 1.1% and 0.9%, respectively, as on March 31, 2023.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2021	FY2022	FY2023
Accounting as per	Ind AS	Ind AS	Ind AS
Net interest income (excl. fee income)	168	229	292
Profit before tax	113	167	202
Profit after tax	87	128	155
AUM (incl. assigned portfolio; IGAAP valuation)	2,198	3,073	4,359
Total managed assets	2,659	3,641	5,046
Gearing (times)	1.6	1.9	2.4
Managed gearing (times)*	1.8	2.3	3.0
Net profit / Average managed assets (RoMA)	3.9%	4.1%	3.6%
Return on net worth	9.8%	12.8%	13.4%
Gross NPA	1.8%	2.1%	1.1%
Net NPA	1.3%	1.6%	0.9%

India Shelter Finance Corporation Limited	FY2021	FY2022	FY2023
Accounting as per	Ind AS	Ind AS	Ind AS
Net NPA / Net worth	2.6%	3.9%	2.5%

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

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

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 receive waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years					
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	
					Jul 21, 2023	Feb 3, 2023	Jul 5, 2022	Nov 3, 2021	Jun 11, 2021	Dec 31, 2020	Nov 27, 2020
1	NCD	Long term	50.00	57.5	[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)	[ICRA]A (Stable)	-	-	-
3	NCD	Long term	-	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)
4	NCD	Long term	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Fund based – Term loan	Long term	2,000.00	1,849.66	[ICRA]A+ (Stable)	[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	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 Mar 2023	2.80% to 11.20%	Jul 2023 to Mar 2033	2,000.0	[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

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Jatin Arora
+91 124 4545 846
jatin.arora@icraindia.com

Arti Verma
+91 124 4545 313
arti.verma@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches