

October 05, 2023

Shubham Housing Development Finance Company Limited: Rating reaffirmed and withdrawn for NCD programme

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------|--------------------------------------|-------------------------------------|--|
| Fund-based term loan | 1,500 | 1,500 | [ICRA]A (Stable); outstanding |
| NCD programme | 80 | - | [ICRA]A (Stable); reaffirmed and withdrawn |
| Commercial paper | 100 | 100 | [ICRA]A1; outstanding |
| Total | 1,680 | 1,600 | |

*Instrument details are provided in Annexure I

Rationale

The ratings factor in Shubham Housing Development Finance Company Limited's (Shubham Housing) healthy capitalisation profile, the improvement in its profitability indicators, and its diversified borrowing profile. The ratings also consider the company's established track record of over a decade in the housing finance industry. Shubham Housing raised equity of Rs. 600 crore in Q1 FY2023, which improved its capitalisation profile with a managed gearing¹ of 1.7x as on March 31, 2023 compared to 3.8x as on March 31, 2022. However, with higher borrowings in Q1 FY2024, the managed gearing increased marginally to 1.8x as on June 30, 2023, though it remains healthy.

Shubham Housing's margins improved in FY2023 and Q1 FY2024 as it raised its lending rates. As a result, 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 trend continued and it reported a RoMA of 3.4% in Q1 FY2024. 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 diversifying 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 the assets under management (AUM) increased at a 4-year compound annual growth rate (CAGR) of 24% during FY2019-FY2023. ICRA also notes that the company's asset quality indicators improved with its reported gross non-performing assets (GNPAs) declining to 1.8% as on June 30, 2023 from 1.9% as on March 31, 2023 (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 the sale of the delinquent portfolio to an asset reconstruction company in Q4 FY2022 and earlier); recoveries from the same remain monitorable.

The ratings 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 June 30, 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.

¹ Managed gearing = (On-book debt + Off-book portfolio) / Net worth

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.

ICRA has reaffirmed and simultaneously withdrawn the [ICRA]A (Stable) rating outstanding on the Rs. 80-crore non-convertible debentures (NCDs) as the said instruments have been redeemed with no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Healthy capitalisation – Shubham Housing raised equity of Rs. 600 crore in Q1 FY2023, which led to an increase in its capital to risk-weighted assets ratio (CRAR) to 61.31% as on March 31, 2023 from 36.85% as on March 31, 2022. The equity infusion brought down the managed gearing considerably to 1.7x as on March 31, 2023 from 3.8x as on March 31, 2022. However, with the increase in the AUM and borrowings in Q1 FY2024, the CRAR declined marginally to 58.75% while the managed gearing increased to 1.8x as on June 30, 2023. Nevertheless, the same remains healthy. ICRA notes that the company is expected to maintain a prudent capitalisation profile, going forward as well, and 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 (70%), financial institutions (6%) and NHB (24%) as on June 30, 2023. Funds from NHB are typically priced lower and have a longer tenor as well, which is a positive from an asset-liability management (ALM) perspective. Going forward, Shubham Housing's ability to maintain a diversified debt profile and continue raising 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, it witnessed an improvement in its margins in FY2023 and Q1 FY2024 as it raised its lending rates. On the other hand, it saw an increase in its operating cost, though higher margins and lower credit costs helped it improve its profitability in FY2023 as well as Q1 FY2024. It reported RoMA of 3.4% and a return on equity (RoE) of 9.5% in Q1 FY2024 compared to 3.0% and 10.3%, respectively, in FY2023 (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 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% during FY2019-FY2023. In Q1 FY2024, the company reported an annualised growth of 40% and its AUM stood at Rs. 3,389 crore as on June 30, 2023 (Rs. 3,114 crore as on March 31, 2023). 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 a monitorable.

Moderate asset quality indicators – Shubham Housing's asset quality indicators improved with the GNPA declining to 1.9% as on March 31, 2023 from 3.7% as on March 31, 2022 as it witnessed higher recoveries from delinquent accounts. Also, with the increase in the portfolio base, the GNPA's declined further to 1.8% as on June 30, 2023. 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 June 30, 2023 compared to 3.0% as on March 31, 2023 (3.8% 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 achieve recoveries 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 June 30, 2023), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. Further, ~29% of the total AUM pertained to loan against property (LAP) while the rest (71%) was towards the individual housing loan segment as on June 30, 2023.

Liquidity position: Adequate

The company's liquidity is adequate, given the unencumbered on-book liquidity of Rs. 107 crore as on June 30, 2023 in addition to the sanctioned but unavailed lines of Rs. 375 crore as of June 30, 2023 against the 6-month debt obligation of Rs. 262 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 ICRA's Policy on Withdrawal of Credit Ratings |
| 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 June 30, 2023, Shubham Housing operated out of 145 branches across 12 states/Union Territories (Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttarakhand, Punjab, Andhra Pradesh and Telangana).

The company reported a profit of Rs. 30 crore in Q1 FY2024 on a managed asset base of Rs. 3,389 crore as on June 30, 2023 vis-à-vis a profit of Rs. 92 crore in FY2023 on a managed asset base of Rs. 3,114 crore as on March 31, 2023.

Key financial indicators

| Shubham Housing Development Finance Company Limited | FY2022 | FY2023 | Q1 FY2024 (prov) |
|---|--------|--------|---------------------|
| | Ind-AS | Ind-AS | Ind-AS |
| Net interest income | 167 | 251 | 78 |
| Profit after tax | 25 | 92 | 30 |
| Net worth | 550 | 1,238 | 1,271 |
| Gross AUM | 2,401 | 3,114 | 3,389 |
| Total managed assets | 2,720 | 3,443 | 3,638 |
| | | | |
| Return on average managed assets | 0.9% | 3.0% | 3.4% |
| Return on average net worth | 4.6% | 10.3% | 9.5% |
| Gearing (reported; times) | 3.6 | 1.6 | 1.7 |
| Gearing (managed; times) | 3.8 | 1.7 | 1.8 |
| | | | |
| Gross NPAs | 3.7% | 1.9% | 1.8% |
| Net NPAs | 2.7% | 0.8% | 0.8% |
| Solvency (Net NPA/ Net worth) | 11.6% | 1.9% | 2.1% |
| CRAR | 36.9% | 61.3% | 58.8% |

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 (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 |
| | | | | | Oct 05, 2023 | May 05, 2023 | | Nov 09, 2022 | Feb 22, 2022 | Oct 26, 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) | [ICRA]A- (Stable) |
| 2 | Commercial paper | Short term | 100 | Nil | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | - |
| 3 | Non-convertible debentures | Long term | 80 | - | [ICRA]A (Stable); withdrawn | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |
| 4 | Non-convertible debentures | Long term | 20 | - | - | - | [ICRA]A (Stable); withdrawn | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |

Complexity level of the rated instrument

| Instrument Name | Complexity Indicator |
|--|----------------------|
| Bank facilities programme – Term loans | Simple |
| Non-convertible debenture programme | Very 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 | 80.00 | [ICRA]A (Stable); withdrawn |
| NA | Term loan | August 2015 to March 2023 | 8.10% to 12.40% | May 2023 to December 2029 | 1,260.06 | [ICRA]A (Stable) |
| NA | Term loan – Unallocated | - | - | - | 239.94 | [ICRA]A (Stable) |
| Yet to be placed | Commercial paper | - | - | - | 100.00 | [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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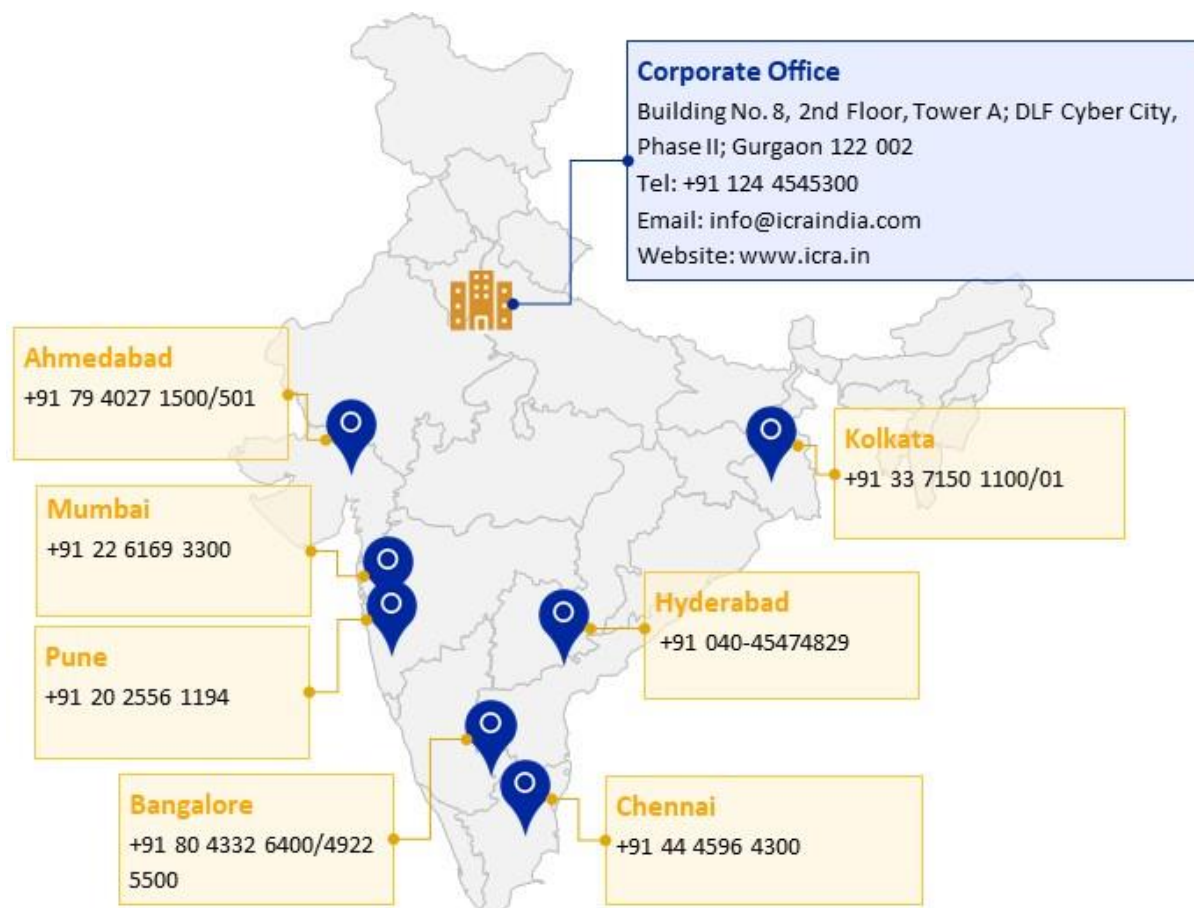


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