

October 13, 2023

India Shelter Finance Corporation Limited: Rating withdrawn for Rs. 15-crore NCD programme

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|---|
| Long-term fund based – Term loan | 2,000 | 2,000 | [ICRA]A+ (Stable); outstanding |
| NCD programme | 200 | 200 | [ICRA]A+ (Stable); outstanding |
| NCD programme | 15 | - | [ICRA]A+ (Stable); withdrawn |
| Principal Protected Market Linked Debentures (PP-MLD) | 50 | 50 | PP-MLD [ICRA]AAA(CE) (Stable); outstanding |
| NCD programme | 35 | - | [ICRA]AAA(CE) (Stable); withdrawn |
| Total | 2,300 | 2,250 | |

*Instrument details are provided in Annexure I

Rationale

The outstanding rating on India Shelter Finance Corporation Limited's (ISFCL) Rs. 15-crore non-convertible debenture (NCD) programme has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings and as requested by the company. The rated instrument was fully repaid and no amount is outstanding against the same.

The rating continues to factor in ISFCL's good profitability indicators, comfortable capitalisation and fairly diversified funding profile, which helped it grow its scale of operations. Moreover, it witnessed further improvement in its asset quality metrics in FY2023.

ISFCL reported a net worth of Rs. 1,287 crore, on-book gearing of 2.6 times, managed gearing of 3.3 times and total capital-to-risk weighted assets ratio (CRAR) of 45.5% as on June 30, 2023. ICRA notes that ISFCL has filed a draft red herring prospectus (DRHP) with the Securities and Exchange board of India (SEBI) for listing its shares on stock exchanges and to raise Rs. 1,000 crore as fresh capital via an initial public offering (IPO). SEBI approval is awaited. Furthermore, the rating factors in ISFCL's fund-raising ability through a diversified lender base, though it would need to continue expanding its 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 39% of the assets under management (AUM) as on June 30, 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 1.0% as on June 30, 2023 (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 June 30, 2023 and 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 more than 90% of ISFCL's loan book, as on June 30, 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 (Rs. 47 crore in Q1 FY2024), translating into a return on average managed assets (RoMA) of 3.6% compared to a profit after tax (PAT) of Rs. 128 crore and RoMA of 4.1% in FY2022. The moderation in the RoMA was on account of lower direct assignment (DA) income and a marginal increase in the gearing. With adequate asset quality metrics, the 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 – ISFCL has a strong investor base and a comfortable capitalisation profile. It has maintained a 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 (Rs. 1,287 crore as on June 30, 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 52.7% (45.5% as on June 30, 2023) while the net worth stood at ~28% of the AUM. ICRA also notes that ISFCL has filed a DRHP with SEBI for listing its shares on stock exchanges and to raise Rs. 1,000 crore as fresh capital via an IPO. SEBI approval is awaited.

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 45% was from banks, 21% from securitisation/assignment and the balance (~18%) from NCDs, external commercial borrowings (ECB) 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 was achieved recently. ICRA notes that the company's AUM grew by ~42% in FY2023 to Rs. 4,359 crore as on March 31, 2023 (annualised growth of ~43% in Q1 FY2024 with AUM of Rs. 4,768 crore as on June 30, 2023). Disbursements over the 12 quarters ending June 2023 (cumulating to Rs. 4,683 crore) comprised more than 95% of its AUM as on June 30, 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 long-term performance is yet to be seen, considering the limited vintage of a significant part of the same.

Vulnerability to interest rate movements, given the high share of the 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% of the total AUM as on March 31, 2023), who are relatively more vulnerable to economic cycles and have limited buffer to absorb income shocks. Further, around 40% of the total AUM pertained to loan against property (LAP; ~39% as on June 30, 2023) 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 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 around Rs. 600 crore of on-book cash and liquid investments as on June 30, 2023 for debt obligations of Rs. 758 crore over the next one year (i.e. until June 30, 2024). It has collections worth Rs. 599 crore due during the aforementioned period. Further, it had unavailed sanctions of Rs. 220 crore as on June 30, 2023.

Rating sensitivities

Positive factors – A strong increase in the scale of operations, while maintaining 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 could positively impact the rating.

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 | Policy on withdrawal of credit ratings Rating methodology for non-banking financial companies (NBFCs) |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

India Shelter Finance Corporation Limited (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 (ISCFL), 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. It reported a profit of Rs. 47 crore in Q1 FY2024 (TCI of Rs. 44 crore) on AUM of Rs. 4,768 as on June 30, 2023. The gross and net NPAs stood at 1.0% and 0.8%, respectively, as on June 30, 2023.

Key financial indicators (audited)

| India Shelter Finance Corporation Limited | FY2021 | FY2022 | FY2023 |
|---|--------|--------|--------|
| Accounting as per | IndAS | IndAS | IndAS |
| Total income | 168 | 229 | 292 |
| Profit after tax | 87 | 128 | 155 |
| Net worth | 937 | 1,076 | 1,240 |
| AUM (incl. assigned portfolio; IGAAP valuation) | 2,198 | 3,073 | 4,359 |
| Total managed assets | 2,659 | 3,641 | 5,046 |
| Return on average managed assets | 3.9% | 4.1% | 3.6% |
| Return on average net worth | 9.8% | 12.8% | 13.4% |
| Managed gearing (times)* | 1.8 | 2.3 | 3.0 |
| Gross NPA | 1.8% | 2.1% | 1.1% |
| Net NPA | 1.3% | 1.6% | 0.9% |
| Solvency (Net NPA/Net worth) | 2.6% | 3.9% | 2.5% |
| CRAR | 69.7% | 55.9% | 52.7% |

Source: Company, ICRA Research; * 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 in FY2024 | | Date & Rating in FY2023 | | Date & Rating in FY2022 | | Date & Rating in FY2021 | |
| | | | | Oct 13, 2023 | 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 | 35.00 | 57.5 | [ICRA]A+ (Stable) | [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) | [ICRA]A (Stable) | - | - | - |
| 3 NCD | Long term | 15.00 | - | [ICRA]A+ (Stable); withdrawn | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) |
| 4 NCD | Long term | - | - | - | - | - | - | - | - | [ICRA]A (Stable); withdrawn | [ICRA]A (Stable) |
| 5 NCD | Long term | - | - | - | - | - | - | - | [ICRA]A (Stable); withdrawn | [ICRA]A (Stable) | [ICRA]A (Stable) |

| | | | | | | | | | | | | |
|---|------------------------|-----------|----------|----------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|
| 6 | 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) | [ICRA]A (Stable) |
|---|------------------------|-----------|----------|----------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

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); withdrawn |
| 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 | 50.0^ | [ICRA]A+ (Stable) |
| Not issued yet | NCD programme | - | - | - | 120.0 | [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; ^ Outstanding amount is Rs. 27.5 crore

[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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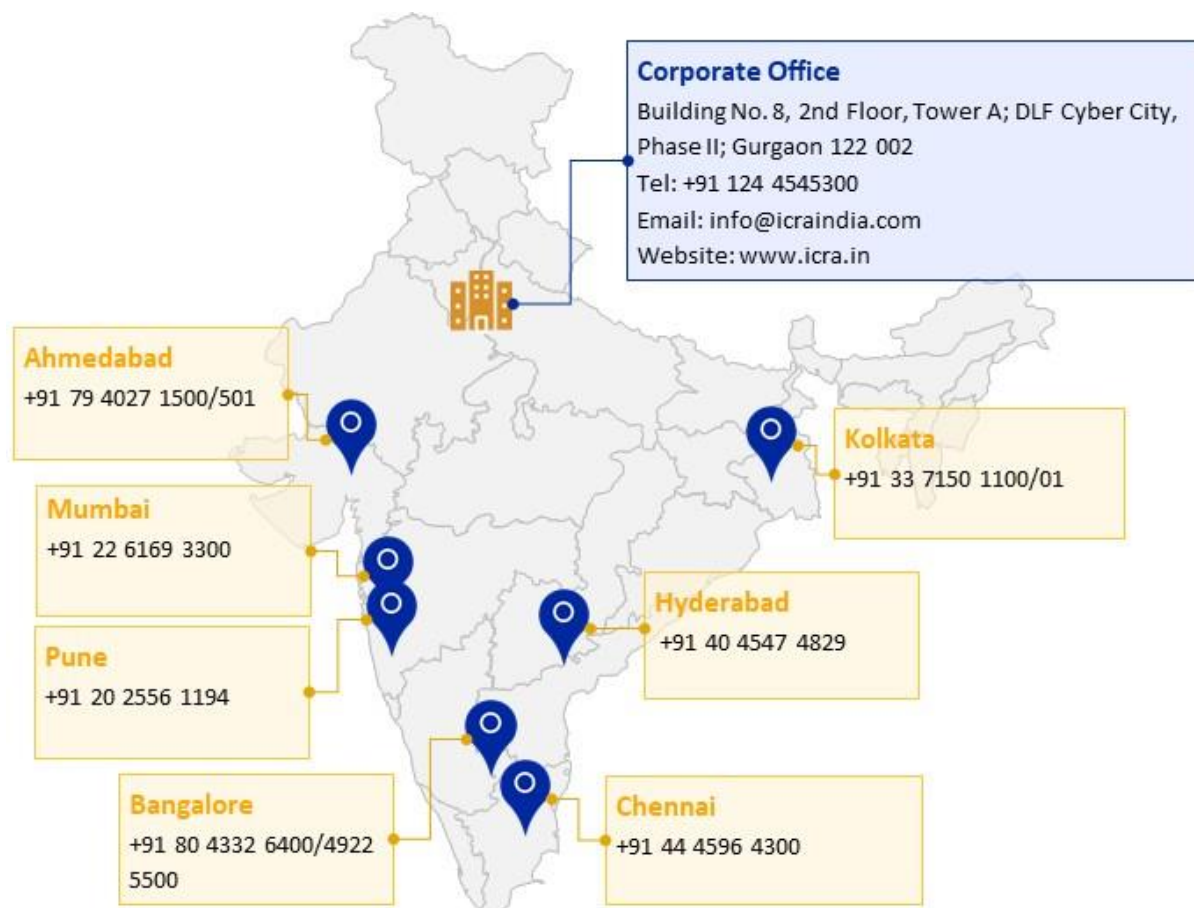


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Branches



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