February 02, 2024

Shubham Housing Development Finance Company Limited: Ratings reaffirmed and rated amount enhanced; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	1,500	1,800	[ICRA]A (Positive); reaffirmed/assigned and outlook revised from Stable
Commercial paper	100	100	[ICRA]A1; reaffirmed
Total	**1,600**	**1,900**	

**Instrument details are provided in Annexure I*

Rationale

The change in the rating outlook to Positive from Stable reflects ICRA's expectation of continued improvement in Shubham Housing Development Finance Company Limited's (Shubham Housing) credit profile. The rating action takes note of the improvement in the asset quality indicators and the earnings profile as the company scaled up its operations. Shubham Housing's asset quality indicators improved with the reported gross non-performing assets (GNPAs) at 1.7% as on September 30, 2023 (1.9% as on March 31, 2023 and 3.7% as on March 31, 2022). The overall monitorable book {consisting of NPAs, repossessed assets, security receipts (SRs)} also improved in FY2023 and H1 FY2024. With the rise in the lending yields, the company's margins increased, leading to better profitability in FY2023 and H1 FY2024. It reported a return on average managed assets (RoMA) of 3.6% in H1 FY2024 compared to 3.0% in FY2023.

The ratings also factor in the company's comfortable capitalisation profile and adequate liquidity position. After raising equity of Rs. 600 crore in Q1 FY2023, Shubham Housing reported a managed gearing[1] of 2.1 times as on September 30, 2023 compared to 1.7 times as on March 31, 2023.

The ratings also consider Shubham Housing's diversified funding profile, comprising funding relationships with more than 30 lenders. A sizeable share of the funding is from banks and National Housing Bank (NHB) at competitive rates. However, it would need to continue expanding its lender base further, given its growth plans.

The ratings remain constrained by the limited seasoning of the portfolio, given the scale-up in the operations in the last few years. The assets under management (AUM) grew by 30% in FY2023 followed by an annualised growth of 41% in H1 FY2024. Further, disbursements during April 2022-September 2023 formed 75% of the outstanding AUM as on September 30, 2023. Thus, the performance of a large part of Shubham Housing's portfolio over a longer period of time is yet to be seen. Moreover, the operating expense ratio remains high, given the branch expansion undertaken in the recent past. The ratings factor in Shubham Housing's vulnerable borrower profile, comprising low to mid-income borrowers, who are more prone to economic shocks. Though the company has steadily progressed towards increasing the share of salaried borrowers, the self-employed segment comprised around 48% of its AUM as on September 30, 2023.

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

Key rating drivers and their description

Credit strengths

Improvement in asset quality and profitability indicators – Shubham Housing's asset quality indicators improved with the GNPAs declining to 1.9% as on March 31, 2023 and further to 1.7% as on September 30, 2023 from 3.7% as on March 31, 2022 as it witnessed higher recoveries from delinquent accounts. Its 90+ days past due (dpd), repossessed assets, write-offs, and SRs totalled 2.8% as on September 30, 2023 compared to 2.9% 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 continue achieving recoveries from delinquent accounts, contain further slippages and improve its asset quality metrics would be important from a credit perspective.

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, its margins improved in FY2023 and H1 FY2024 as it raised its lending rates. Even though the operating cost increased on account of expansion in new geographies, higher margins and lower credit costs helped the company improve its profitability in FY2023 as well as H1 FY2024. It reported RoMA of 3.6% and a return on equity (RoE) of 10.6% in H1 FY2024 compared to 3.0% and 10.3%, respectively, in FY2023 (0.9% and 4.6%, respectively, in FY2022). Going forward, the margins are expected to be range-bound, given the high interest rate regime and the steady increase in leverage to fund the company's envisaged growth. Nevertheless, its profitability is expected to remain comfortable, provided its operating and credit costs remain under control.

Comfortable 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 in H1 FY2024, the CRAR declined to 54.93% while the managed gearing increased to 2.1x as on September 30, 2023. Nevertheless, the same remains comfortable. 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, comprising funding relationships with more than 30 lenders. Its funding profile comprised funds from banks (71%), financial institutions (5%), NHB (17%) and direct assignment (7%) as on September 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.

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 the portfolio in relation to the loan tenor of up to 10-15 years. Shubham Housing's AUM grew by 30% in FY2023, followed by an annualised growth of 41% in H1 FY2024 with the AUM at Rs. 3,704 crore as on September 30, 2023 (Rs. 3,114 crore as on March 31, 2023). Further, its disbursements during April 2022-September 2023 formed 75% of its AUM as on September 30, 2023. Going forward, the portfolio growth rate is expected to remain high. Considering the envisaged growth, portfolio seasoning is likely to be low and would be a monitorable.

Relatively vulnerable borrower profile – The company's underlying borrower base comprises low and middle-income self-employed borrowers (~48% share in the total AUM as on September 30, 2023), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb shocks. Further, 30% of the total AUM pertained to loan against property (LAP) while the rest (70%) was towards the individual housing loan segment as on September 30, 2023.

Liquidity position: Adequate

The company's liquidity is adequate, given the unencumbered on-book liquidity of Rs. 212 crore in addition to the sanctioned but unavailed lines of around Rs. 482 crore as on September 30, 2023 against the next 6 months' debt obligation of Rs. 303 crore. This, along with the expected inflows from advances, sufficiently covers the repayment obligations including interest and operating expenses.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company maintains healthy profitability metrics with RoMA of more than 2.5% on a sustained basis, while expanding its scale of operations further. This, along with prudent capitalisation and improvement in the asset quality indicators, 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, thereby impacting the profitability, 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 41.49% stake. As of September 30, 2023, Shubham Housing operated out of 142 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. 67 crore in H1 FY2024 on a managed asset base of Rs. 4,105 crore as on September 30, 2023 vis-à-vis a profit of Rs. 92 crore in FY2023 on a managed asset base of Rs. 3,443 crore as on March 31, 2023.

Key financial indicators

Shubham Housing Development Finance Company Limited	FY2022	FY2023	H1 FY2024*
Total income	348	453	290
PAT	25	92	67
Total managed assets	2,720	3,443	4,105
Return on managed assets	0.9%	3.0%	3.6%
Managed gearing (times)	3.8	1.7	2.1
Gross stage 3	0.9%	1.3%	1.6%
CRAR	36.9%	61.3%	54.9%

*Source: Company, ICRA Research; *provisional; 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 December 2023 (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Feb 02, 2024	Oct 05, 2023	May 05, 2023	Nov 09, 2022	Feb 22, 2022	Oct 26, 2021	Feb 25, 2021
1	Long-term term loan	Long term	1,800	1,776.14	[ICRA]A (Positive)	[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	[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
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
NA	**Term loan**	January 2017 to December 2023	4.86% to 11.40%	December 2023 to October 2033	1,776.14	[ICRA]A (Positive)
NA	**Term loan – Unallocated**	-	-	-	23.86	[ICRA]A (Positive)
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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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