August 23, 2024

India Shelter Finance Corporation Limited: Rating upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD) programme	150.00	150.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive) with Change in Outlook
Long-term term loan – Fund based	2,000.00	2,000.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ (Positive) with Change in Outlook
Total	2,150.00	2,150.00	

**Instrument details are provided in Annexure-I*

Rationale

The rating action factors in India Shelter Finance Corporation Limited's (ISFCL) strengthened capitalisation profile, which shall support portfolio expansion over the near to medium term. The rating also considers the comfortable asset quality and profitability. ISFCL's assets under management (AUM[1]) increased at a compound annual growth rate (CAGR) of ~40% over the last five years (FY2019 to FY2024), reaching Rs. 6,227 crore as on March 31, 2024. It increased further to Rs. 6,700 crore as on June 30, 2024. The gross non-performing assets (GNPAs) stood at 1.1% and 1.0% as on June 30, 2024 and March 31, 2024, respectively (1.1% as on March 31, 2023).

The company raised Rs. 1,200 crore of equity capital (including Rs. 800-crore primary equity capital) through an initial public offering (IPO) in December 2023, strengthening its capitalisation profile. The earnings profile remains comfortable with an annualised return of 4.7% and 4.1% on average managed assets[2] (AMA) in Q1 FY2025 and FY2024, respectively, compared to 3.6% in FY2023. ICRA notes that ~81% of ISFCL's loan book, as on June 30, 2024, 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. ICRA notes that ISFCL has been reducing the share of fixed rate loans and its strategy of maintaining the spread, while growing at a healthy pace, will be a key monitorable.

ISFCL's rating continues to factor in the limited portfolio seasoning as a significant portion of the book was sourced in the last few years like most of its peers. Additionally, the share of non-housing loans (NHLs) was relatively high at around 38% of the AUM as on June 30, 2024 (39% as on March 31, 2024). 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. The rating also factors in the relatively high geographical concentration with Rajasthan accounting for 31% of AUM as on June 30, 2024. ICRA notes that Rajasthan's share has been gradually declining along with the share of the top 3 states (60% of the AUM as on June 30, 2024 vis-à-vis 69% as on March 31, 2021). As the company continues to scale up its operations, the geographical diversity is expected to improve further gradually with the same remaining important from a credit perspective.

The Stable outlook reflects ICRA's opinion that ISFCL will be able to maintain its credit profile, given its strong capitalisation and comfortable earnings profile and supported by its experienced management team, systems and processes.

[1] AUM= On-book + Direct assignments + Co-lending

[2] Managed assets= AUM + Investments + Deferred tax assets + Current assets + Fixed assets

Key rating drivers and their description

Credit strengths

Strong capital profile to support growth – ISFCL is strongly capitalised with a net worth of Rs. 2,386 crore and a capital-to-risk weighted assets ratio (CRAR) of 66.7% as on June 30, 2024. The company completed its IPO in December 2023, including a primary issuance of Rs. 800 crore, which strengthened its capitalisation profile and provided sufficient headroom to achieve the planned growth in the near-to-medium term while maintaining prudent capitalisation. The managed gearing remained low at 2.1 times as on June 30, 2024 (2.0 times as on March 31, 2024; 3.0 times as on March 31, 2023). ICRA expects the company to maintain a prudent capitalisation profile as it continues to scale up its operations.

Comfortable asset quality metrices and profitability indicators – ISFCL's asset quality indicators remain comfortable with the GNPAs and net NPAs (NNPAs) at 1.0% and 0.7%, respectively, as on March 31, 2024. While the reported asset quality metrics increased slightly in Q1 FY2025, with GNPAs and NNPAs of 1.1% and 0.9%, respectively, as on June 30, 2024, the same remain comfortable. ISFCL's ability to contain further slippages and maintain its asset quality metrics would be important from a credit perspective.

Given the comfortable asset quality, the credit costs remain low and support the company's earnings profile. ISFCL's profitability remained healthy in FY2024 and Q1 FY2025 on the back of improving operating efficiency and low credit costs. It reported a net profit of Rs. 83 crore in Q1 FY2025, translating into annualised return on managed assets (RoMA) of 4.7% compared to Rs. 247 crore and 4.1%, respectively, in FY2024 (Rs. 155 crore and 3.6%, respectively in FY2023). ICRA expects the company to be able to maintain a healthy earnings profile with improving operating efficiency and controlled credit costs. Nevertheless, its ability to protect its margins will be critical.

Fairly diversified funding profile – ISFCL's funding profile is fairly diversified with ~32 funding relationships, comprising a good mix of private sector banks, public sector banks and financial institutions including National Housing Bank (NHB) and US-DFC. The funding profile comprised loans from banks and non-banking financial companies/financial institutions (53%), NHB (18%), direct assignment (22%), external commercial borrowings (5%), non-convertible debentures (1%), and pass-through certificates (1%) and as on June 30, 2024. ICRA expects the funding profile to remain diversified as the company continues to scale up its operations.

Credit challenges

Limited portfolio seasoning and relatively vulnerable borrower profile – ISFCL has a track record of operations of more than a decade in the affordable housing sector. However, a significant portion of the book was sourced in the last few years like most of its peers. Disbursements during the 12 quarters ended June 2024 (cumulating to Rs. 6,551 crore) comprised more than 98% of the AUM as on June 30, 2024. Further, the underlying borrower base comprises low-and-middle-income self-employed customers (~70% of the total AUM as on March 31, 2024), who are relatively more vulnerable to economic cycles and have limited buffer to absorb income shocks. Additionally, the share of NHLs was relatively high at around 38% of the AUM as on June 30, 2024 (39% as on March 31, 2024). 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.

Relatively high, albeit improving, geographical concentration – The company's operations are relatively concentrated geographically with the top 3 states comprising ~60% of the AUM as on June 30, 2024, though the same declined from 69% in March 2021. ISFCL's AUM is mostly concentrated in Rajasthan (31% as on June 30, 2024), followed by Maharashtra (17%) and Madhya Pradesh (12%). Given the target borrower segment and the low portfolio seasoning, the geographical concentration makes the company vulnerable to geography-specific issues. ICRA notes that the company had a presence in 15 states/Union Territories as on June 30, 2024 with geographical concentration expected to decline gradually as it scales up and increases its operations in the southern markets and tier 2 & 3 cities.

Vulnerability to interest rate movements, given the high share of the fixed rate portfolio – Around 81% of the company's loan book, as on June 30, 2024 (82% as on March 31, 2024; 93% as on March 31, 2023), is at a fixed interest rate while a major part of the funding is at a floating rate. Consequently, the lending spread and NIM remain vulnerable to interest rate movements. ICRA notes that ISFCL has been reducing the share of fixed rate loans and its strategy of maintaining the spread, while growing at a healthy pace, will be a key monitorable.

Environmental and social risks

Environmental – While housing finance companies (HFCs) like ISFCL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to which such HFCs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the HFCs. However, such risk is not material for ISFCL as it benefits from portfolio diversification.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for HFCs as any material lapse could be detrimental to their reputation and invite regulatory censure. ISFCL has not faced any material lapse over the years, which highlights its sensitivity to such risks. While it contributes to promoting financial inclusion by lending to underserved segments, the company's lending practices remain prudent as reflected in the healthy asset quality numbers in this segment.

Liquidity position: Strong

As on June 30, 2024, the company had a free cash and bank balance and liquid investments of around Rs. 480 crore (equivalent to ~13% of the on-balance sheet borrowings). This, along with the scheduled inflows of Rs. 680 crore, is sufficient to meet the scheduled debt repayments of ~Rs. 812 crore over the next one year, as per the asset-liability management (ALM) profile as on June 30, 2024. The liquidity profile is also supported by the presence of unavailed sanctions of Rs. 713 crore as on June 30, 2024.

Rating sensitivities

Positive factors – A significant increase in the scale of operations along with geographical diversification, while maintaining healthy asset quality and profitability and a prudent capitalisation profile, could positively impact the rating.

Negative factors – Pressure on the rating could arise in case of an increase in the managed gearing beyond 5 times on a sustained basis or a deterioration in the asset quality indicators (90+ days past due (dpd) above 2.5%) on a sustained basis, thereby impacting the earnings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

India Shelter Finance Corporation Limited (ISFCL) is a housing finance company, which was 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 June 30, 2024, the company's assets under management (AUM) stood at Rs. 6,700 crore spread across 15 states/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. ISFCL had incorporated a 100%-subsidiary in March 2022 – India Shelter Capital

Finance Limited (ISCFL) for the purpose of lending as a non-banking financial company (NBFC), catering to the loan against property (LAP) segment. However, regulatory approval for commencing operations is yet to be received.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2023	FY2024	Q1 FY2025*
Total income	606	860	260
PAT	155	247	83
Total managed assets^	5,024	6,929	7,380
Return on managed assets	3.6%	4.1%	4.7%
Managed gearing (times)	3.0	2.0	2.1
Gross stage 3	1.1%	1.0%	1.1%
CRAR	52.7%	70.9%	66.7%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; ^ also includes direct assignments and co-lending book; Amount in Rs. crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
	FY2025					FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Aug 23, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
(NCD) programme	Long term	150.00	[ICRA]AA- (Stable)	08-MAY-2024	[ICRA]A+ (Positive)	21-JUL-2023	[ICRA]A+ (Stable)	05-JUL-2022	[ICRA]A+ (Stable)	11-JUN-2021	[ICRA]A (Stable)
				-	-	13-OCT-2023	[ICRA]A+ (Stable)	03-FEB-2023	[ICRA]A+ (Stable)	03-NOV-2021	[ICRA]A (Stable)
				-	-	29-FEB-2024	[ICRA]A+ (Positive)	-	-	03-NOV-2021	[ICRA]A (Stable)
Long-term term loan – Fund based	Long term	2,000.00	[ICRA]AA- (Stable)	08-MAY-2024	[ICRA]A+ (Positive)	21-JUL-2023	[ICRA]A+ (Stable)	05-JUL-2022	[ICRA]A+ (Stable)	11-JUN-2021	[ICRA]A (Stable)
				-	-	13-OCT-2023	[ICRA]A+ (Stable)	03-FEB-2023	[ICRA]A+ (Stable)	03-NOV-2021	[ICRA]A (Stable)
				-	-	29-FEB-2024	[ICRA]A+ (Positive)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD programme	Simple
Long-term term loan – Fund based	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
INE922K07070	NCD programme	Aug-31-2021	Repo rate linked	Aug-31-2026	30.0	[ICRA]AA- (Stable)
Not issued yet	NCD programme	NA	NA	NA	120.0	[ICRA]AA- (Stable)
NA	Long-term fund based – Term loan	Sep 2015 to Nov 2023	2.80% to 11.20%	Jul 2021 to Jan 2034	2,000.0	[ICRA]AA- (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

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About ICRA Limited:

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