

September 19, 2024

## Shubham Housing Development Finance Company Limited: Long-term rating upgraded; outlook revised to Stable; rated amount enhanced and rating assigned to NCD programme; short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bank facilities	1,800.00	2,100.00	[ICRA]A+(Stable); rating upgraded from [ICRA]A and outlook revised to Stable from Positive; rated amount enhanced
Non-convertible debentures	-	200.00	[ICRA]A+ (Stable); assigned
Commercial paper programme	100.00	100.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>1,900.00</b>	<b>2,400.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating upgrade factors in the improvement in Shubham Housing Development Finance Company Limited's (Shubham Housing) credit profile, characterised by improvement in asset quality indicators and earnings profile as the company scaled up its operations. The company's gross non-performing assets (NPAs) improved to 1.3% as on June 30, 2024 from 1.8% as on March 31, 2023, while the overall monitorable portfolio (comprising NPAs, repossessed assets, security receipts, or SRs), declined to 2.3% as on June 30, 2024 from 3.5% as on March 31, 2023. The company's earning profile remains healthy with reported profit after tax (PAT) of Rs. 136 crore in FY2024, translating to a return of 3.2% on average managed assets (AMA) and 10.4% on average net worth, compared to Rs. 92 crore, 3.0% and 10.3%, respectively, in FY2023.

ICRA notes that the company reported a moderation in profitability in Q1 FY2025 largely owing to nil direct assignment (DA) transactions, however overall profitability for FY2025 is expected to remain comfortable. The company continues to scale up its operations and reported assets under management (AUM) of Rs. 4,553 crore as on June 30, 2024 (Rs. 4,770 crore as on August 31, 2024) compared to Rs. 3,114 crore as on March 31, 2023.

The rating factors in the company's comfortable capitalisation profile and low gearing. Its gearing (managed<sup>1</sup>) stood at 2.5 times as on June 30, 2024, while its capital-to-risk weighted assets (CRAR) of 40.9% remained well above the regulatory requirement. ICRA notes the company's plans to raise sizeable equity capital in FY2025, which shall strengthen its capitalisation and support its growth plans over the medium term.

The ratings remain constrained by the limited seasoning of the portfolio as a significant portion of the AUM was sourced in the last few years, akin to most of its peers. The rating also factors in the geographical concentration, with Maharashtra comprising 34% of the company's AUM as of March 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 Stable outlook reflects ICRA's opinion that Shubham Housing will be able to maintain a steady credit profile while expanding its scale of operations with a comfortable earnings profile and prudent capitalisation.

<sup>1</sup> Gearing (managed) = (Total on-book borrowings + Interest accrued on borrowings + Assigned portfolio) / Net worth

## Key rating drivers and their description

### Credit strengths

**Comfortable asset quality and earnings profile** – Shubham Housing’s asset quality has been improving, driven by healthy recoveries from delinquent accounts. Its gross NPAs improved to 1.3% as on June 30, 2024 from 1.8% as on March 31, 2023, while the overall monitorable portfolio of NPAs, repossessed assets and SRs declined to 2.3% as on June 30, 2024 from 3.5% as on March 31, 2023. Further, the net monitorable portfolio (net of provision on NPAs) has been declining and stood 5.8% of the net worth as on June 30, 2024 from 7.0% as on March 31, 2023.

The company earnings profile also remains comfortable, characterised by healthy net interest margins and controlled credit costs. It reported PAT of Rs. 136 crore in FY2024, translating to a return of 3.2% on AMA and 10.4% on average net worth, compared to Rs. 92 crore, 3.0% and 10.3%, respectively in FY2023. ICRA notes that the company reported a moderation in profitability in Q1 FY2025 largely owing to nil DA transactions. However, the overall profitability for FY2025 is expected to remain comfortable.

**Comfortable capitalisation profile** – The company’s capitalisation remains comfortable, aided by healthy internal accruals and equity infusions (last raised Rs. 600 crore in FY2023). Its gearing (managed) stood at 2.5 times as on June 30, 2024, while its CRAR of 40.9% remained well above the regulatory requirement. ICRA notes the company’s plans to raise sizeable equity capital in FY2025, which shall strengthen its capitalisation and support its growth plans over the medium term. Given the planned equity infusion, ICRA expects the company’s gearing (managed) to remain below 5.0 times over the next three years (till March 2027) as it continues to scale up its AUM at a compounded annual growth rate (CAGR) of 30-35% over the period.

**Fairly diversified funding profile** – Shubham Housing’s borrowing profile is well-diversified, comprising funding relationships with more than 30 lenders. Its funding profile comprised loans from banks (61%), non-banking finance companies/financial institutions (14%), National Housing Bank (NHB; 19%) and DA (6%) as on June 30, 2024. 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 pace of growth** – A significant portion of the AUM was sourced in the last few years, like most of its peers, leading to a limited portfolio seasoning in relation to contractual tenure of the loans. The AUM of the company has been increasing at a CAGR of ~28% over the last five years (from FY2019 to FY2024) with disbursements over the past eight quarters (till June 2024) being equivalent to 93% of the AUM as of June 2024. Given that AUM growth rate is expected to remain high, portfolio seasoning is likely to be low and would be monitorable.

**Relatively high geographical concentration** – The company’s operations are concentrated geographically with a high share of AUM in Maharashtra (34% as of March 2024). The top-3 states comprised ~64% of the AUM as on March 31, 2024; albeit declining from ~66% in March 2023. Given the limited portfolio seasoning and target borrower segment, this geographical concentration makes the company vulnerable to geography-specific issues.

**Exposure to relatively vulnerable borrower profile** – Shubham Housing mainly lends to borrowers in the low-income segment, which is more vulnerable to income shocks, as observed during the Covid-19 pandemic. ICRA notes that ultimate losses are expected to be low given the secured nature of the portfolio and moderate loan-to-value ratios. However, given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the company remains exposed to volatility in the asset quality.

## Liquidity position: Adequate

The company's liquidity profile remains adequate, given the on-book liquidity maintained and the presence of sanctioned unutilised funding lines. As per the ALM statement as on March 31, 2024, the company had no negative cumulative mismatches over a period of six months, factoring in committed loan disbursements and sanctioned unutilised funding lines. It had a free cash and bank balance, and liquid investments of Rs. 281 crore, along with Rs. 600 crore of sanctioned unutilised funding lines as on June 30, 2024.

## Rating sensitivities

**Positive factors** – A sustained increase in the scale of operations, while maintaining a healthy profitability profile with RoMA<sup>2</sup> of more than 3% on a sustainable basis, along with prudent capitalisation and comfortable asset quality on a consistent basis could positively impact the rating.

**Negative factors** – Pressure on the ratings could arise if there is a deterioration in the asset quality with the 90+ dpd (including write-offs, repossessed assets, and SRs) exceeding 4% on a sustained basis, thereby affecting the profitability. Weakening of the capitalisation profile (managed gearing above 5.0 times on a sustained basis) or a stretch in the liquidity could also exert pressure on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Shubham Housing Development Finance Company Limited is a housing finance company (HFC), which provides retail home loans to low-income borrowers. These loans can be used by borrowers for purchasing ready properties, home improvements, home extensions and for constructing dwelling units on plots owned by them.

The company is promoted by Mr. Sanjay Chaturvedi and Ms. Rupa Basu. It has an experienced senior management team across various functions with extensive knowledge of the mortgage industry. 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 on June 30, 2024, Shubham Housing operated from 156 branches, spread across 12 states/UTs of Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand, Punjab, Andhra Pradesh, Tamil Nadu, and Telangana.

## Key financial indicators (audited)

Shubham Housing Development Finance Company Limited	FY2022	FY2023	FY2024	Q1 FY2025*
As per	Ind-AS	Ind-AS	Ind-AS	Ind-AS
Total income	348	453	616	174
Profit after tax	25	92	136	24
Total managed assets	2,720	3,443	5,063	4,995
Return on average managed assets	0.9%	3.0%	3.2%	1.9%

<sup>2</sup> Return on average managed assets = PAT / AMA

Shubham Housing Development Finance Company Limited	FY2022	FY2023	FY2024	Q1 FY2025*
As per	Ind-AS	Ind-AS	Ind-AS	Ind-AS
<b>Gearing (managed; times)</b>	3.8	1.7	2.6	2.5
<b>Gross stage 3 assets (%)</b>	3.6%	1.8%	1.2%	1.3%
<b>Capital-to-risk weighted assets ratio</b>	36.9%	61.3%	41.9%	40.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; \*Provisional; Total managed assets = Total assets + Impairment allowance + Off-book portfolio; Gearing (managed) = (Total borrowings + Off-balance sheet portfolio)/ Net worth

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	Sep-19-2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
<b>Long term-term loan-fund based</b>	Long Term	2,100.00	[ICRA]A+ (Stable)	May-05-2023	[ICRA]A (Stable)	Nov-09-2022	[ICRA]A (Stable)	Feb-22-2022	[ICRA]A- (Stable)
				Oct-05-2023	[ICRA]A (Stable)	-	-	-	-
				Feb-02-2024	[ICRA]A (Positive)	-	-	-	-
<b>Bonds/NCD/LTD</b>	Long Term	200.00	[ICRA]A+ (Stable)	May-05-2023	[ICRA]A (Stable)	Nov-09-2022	[ICRA]A (Stable)	Feb-22-2022	[ICRA]A- (Stable)
				Oct-05-2023	[ICRA]A (Stable); withdrawn	-	-	-	-
				May-05-2023	[ICRA]A1	Nov-09-2022	[ICRA]A1	Feb-22-2022	[ICRA]A1
<b>Commercial paper</b>	Short Term	100.00	[ICRA]A1	May-05-2023	[ICRA]A1	Nov-09-2022	[ICRA]A1	Feb-22-2022	[ICRA]A1
				Oct-05-2023	[ICRA]A1	-	-	-	-
				Feb-02-2024	[ICRA]A1	-	-	-	-

Source: Company

### Complexity level of the rated instruments

Instrument	Complexity Indicator
<b>Commercial paper programme</b>	Very Simple
<b>Long-term bank facilities</b>	Simple
<b>Non-convertible debentures</b>	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	Long-term bank facilities	May 2019 to June 2024	8.14% to 11.40%	September 2024 to February 2031	2,100.00	[ICRA]A+ (Stable)
NA	Non-convertible debenture – Yet to be issued	NA	NA	NA	200.00	[ICRA]A+ (Stable)
NA	Commercial paper programme – Yet to be issued	NA	NA	7-365 days	100.00	[ICRA]A1

Source: Company, ICRA Research

[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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