

November 03, 2021

India Shelter Finance Corporation Limited: Ratings reaffirmed; [ICRA]A (Stable) assigned to Rs. 165-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term loan	1,000	1,000	[ICRA]A (Stable); Reaffirmed
NCD programme	0	165	[ICRA]A (Stable); Assigned
NCD programme	50	50	[ICRA]A (Stable); Reaffirmed
NCD programme	35	35	[ICRA]AAA(CE) (Stable); outstanding
Principal Protected Market Linked Debentures (PP-MLD)	50	50	PP-MLD [ICRA]AAA(CE) (Stable); outstanding
Total	1,135	1,300	

*instrument details are provided in Annexure-1

Rationale

The rating factors in India Shelter Finance Corporation Limited's (ISFC) established presence in the housing finance industry and steady growth in its assets under management (AUM) over the last few years. Its AUM increased to Rs. 2,516 as on September 30, 2021 from Rs. 2,199 crore as on March 31, 2021 (Rs. 1,520 crore as on March 31, 2020). The rating continues to factor in its comfortable capitalisation profile and good support from the existing investor base. The net worth, as on September 30, 2021, remained at Rs. 982 crore, while the capital-to-risk weighted assets ratio (CRAR) stood at 64.92%. Further, the rating considers the steady funding support from the lenders including National Housing Bank (NHB), private-and-public-sector banks, non-banking financial companies (NBFCs)/financial institutions (FIs) and mutual funds through NCDs. The management's outlook on the gearing has remained prudent over the company's track record with a maximum planned gearing level of 4.0 times.

The rating also factors in ISFC's good underwriting processes and conservative lending norms, translating into contained credit costs thus far. ISFC restructured 1.1% of its AUM as per the Covid-19 restructuring package announced by the Reserve Bank of India (RBI). Factoring in the same, it reported portfolio at risk (PAR) 30 and PAR 90 of 6.54% and 2.45%, respectively, as on September 30, 2021 compared to 3.93% and 1.62%, respectively, as on March 31, 2021. While ICRA notes that the entity has been able to contain the deterioration in its asset quality and credit cost, the same will remain a monitorable from the credit perspective.

The rating is constrained by the low seasoning of the portfolio as the behavioural maturity of an affordable housing finance loan typically lies between six and eight years as compared to significant growth in ISFC's portfolio during the last two-three years. ISFC reported some improvement in its profitability in FY2021 driven by assignment income. However, the same moderated in H1 FY2022 primarily on account of lower disbursement in Q1 FY2022 and incremental credit costs because of the second wave of the pandemic. ICRA expects its profitability to improve in the second half of the fiscal, supported by higher business growth and direct assignment transaction(s). Moreover, as the underlying borrower segment remains vulnerable to income shocks, the company's ability to engage with the customers and continuously improve its systems and controls to maintain the asset quality remains a monitorable.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that ISFC will continue to benefit from its long track record of operations, established processes, the experience of its promoters and the management's focus on risk management and asset quality, and its commitment to conservative financial policies.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile and prudent gearing levels – ISFC has a strong investor base and a comfortable capitalisation profile supported by regular capital infusions by the investors. It has maintained low gearing levels thus far as the management aims to grow in a calibrated manner. With a net worth of Rs. 982 crore as on September 30, 2021 and a gearing of 2.0 times, ISFC has sufficient headroom to achieve the planned growth by deploying additional debt capital while simultaneously maintaining good capitalisation. The CRAR, as on September 30, 2021, was at 64.92%, while the net worth, as a percentage of AUM, stood at ~39%.

Good underwriting processes and conservative lending norms – Given the vulnerability of the borrower profile, ISFC has developed a strong credit appraisal process, which includes repeated discussions with the borrower, neighbourhood checks, cash flow analysis. It also undertakes assessment of viability of other family income like rentals and visits to the workplace to establish the income, expenses and debt repayment capacity. Further, the company has a separate centralised in-house team, which reviews every case sanctioned at the field level before disbursement. ISFC has strong risk management systems, in-house technical and valuation teams, uses credit scorecards and has regular monitoring, which helps it in maintaining the asset quality indicators and make recoveries from delinquent exposures.

Continued funding support from NHB and banks; diversification in funding profile expected going forward – While the company's debt capital requirement has been relatively low thus far, given the pace of growth and good capital base, lender support has been good. As on September 30, 2021, ISFC had funding relationships with 28 distinct lenders including 15 privates sector banks and six public sector banks. While 27% of the on-book borrowings outstanding as on September 30, 2021 were from NHB, another 55% were from banks and the remaining ~18% were from NCDs and NBFCs/Fls. The company uses direct assignment as a source of funding. ICRA expects continued diversification in the funding profile as ISFC increases its debt capital to fund portfolio growth. The company has been able to raise funds at competitive prices despite the challenging macro-economic environment.

Credit challenges

Limited portfolio seasoning as significant portion of book sourced in last few years – ISFC 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 its portfolio growth has happened recently. ICRA notes that the company's AUM grew by 45% YoY to Rs. 2,199 crore as on March 31, 2021 from Rs. 1,520 crore as on March 31, 2020 with a significant ramp-up in disbursements in H2 FY2021. In H1 FY2022, it recorded an annualised growth of ~31% with closing AUM of Rs. 2,516 crore as on September 30, 2021. Considering the limited vintage of a significant part of the portfolio, ISFC's ability to achieve a sustainable scale remains important for geographical diversification and its profitability.

Ability to sustain/further improve profitability while scaling up amid increasing competition – ISFC's profitability improved in FY2021, amid increasing scale of operations. However, in H1 FY2022, the profitability declined on account of lower disbursements in Q1 FY2022 (which was in line with industry), lack of direct assignment income and increased credit cost because of the Covid-19 second wave. The company reported a return on managed assets (RoMA) and a return on average net worth (RoNW) of 2.7% and 8.0%, respectively, in H1 FY2022 as against 3.9% and 9.8%, respectively, in FY2021. The profitability in FY2021 was primarily supported by the reduction in cost of funds while maintaining the yield on its incremental disbursements above 15%, given the lower interest rate environment and lower-cost NHB funding support, rationalisation of operating expenses and direct assignment income, which is accounted for upfront under Ind-AS. A significant increase in the direct assignment quantum compared to the previous periods leads to the buffering of the net profitability. The company's

ability to maintain its yield and lending spreads in the competitive environment, keeping the operating expenses at an optimum level and contain the credit cost impact, will remain a monitorable from a profitability perspective while it scales up its operations.

Deterioration in asset quality metrics due to exposure to relatively vulnerable borrower profile and Covid-19 induced stress

– The company's underlying borrower base comprises low-and-middle-income self-employed individuals (~64% share in the total portfolio as on March 31, 2021), who are relatively more vulnerable to economic cycles and have limited income buffers to absorb income shocks. The reported PAR 30 and PAR 90 increased to 6.54% and 2.45%, respectively, as on September 30, 2021 (with peak of 7.98% and 4.65%, respectively, in June 2021 and July 2021) from 3.93% and 1.62%, respectively, as on March 31, 2021. Further, ISFC has restructured around 1.1% of its AUM under the RBI's Covid-19 relief framework. ICRA notes that ISFC has discontinued financing to borrowers with undocumented income and cash salaried profiles and it has seen improvement in the overall collection from May 2021 and onwards. 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 partly mitigated by in-house origination and prudent lending and portfolio tracking processes. Nevertheless, the company's ability to contain further slippages and recover from overdue and restructured accounts will remain critical from a credit perspective.

Liquidity position: Strong

The company's liquidity is **strong** with Rs. 421 crore of free cash and liquid investments (provisional) as on September 30, 2021 for debt obligations (including interest) and operational expenses of Rs. 666 crore over the next one year (i.e. up to August 31, 2022). It has pending collections (including interest) worth Rs. 828 crore due for the aforementioned period. Further, it has unavailed sanctions to the tune of Rs. 500 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates an improvement in its profitability indicators with the RoMA exceeding 3.5% on a sustainable basis. This, along with prudent capitalisation and good asset quality with a gross NPA of less than 1.5%, on a consistent basis, could result in a rating upgrade.

Negative factors – Pressure on the company's rating could arise if there is a deterioration in the asset quality with the gross NPA exceeding 3.0% on a sustained basis, thereby affecting the profitability. The weakening of the capitalisation profile (managed gearing above 4.0 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	ICRA's Methodology for Housing Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

ISFC 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 September 30, 2021, the company had a managed portfolio of Rs. 2,516 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.

ISFC reported a profit of Rs. 38 crore in H1 FY2022 on an AUM of Rs. 2,516 crore as on September 30, 2021 vis-à-vis a profit of Rs. 87 crore in FY2021 on an AUM of Rs. 2,199 as on March 31, 2021. The gross and net NPAs stood at 2.7% and 1.8%, respectively, as on September 30, 2021.

Key financial indicators (Ind-AS)

India Shelter Finance Corporation Limited	FY2019	FY2020	FY2021	H1 FY2022
	Audited	Audited	Audited	Provisional
Total income (Rs. crore)	166	230	321	185
Profit after tax (Rs. crore)	30	47	87	38
Net worth (Rs. crore)	800	848	937	982
Gross AUM (Rs. crore)	1,178	1,520	2,199	2,516
Return on average managed assets (%)	2.6%	2.9%	3.9%	2.7%
Return on average net worth (%)	4.5%	5.7%	9.8%	8.0%
Gearing (on-book; times)	0.6	1.1	1.6	2.0
Gross NPA (%)	1.35%	1.29%	1.65%	2.68%
Net NPA (%)	0.94%	1.07%	1.13%	1.78%
Solvency (Net NPA/Net worth)	1.36%	1.90%	2.63%	~4.3%
CRAR (%)	91.16%	81.12%	69.65%	64.92%

Source: Company, ICRA Research; All values and ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019		
					Nov-3-2021	Jun-11-2021	Dec-31-2020	Nov-27-2020	Oct -7-2019	Feb-15-2019	May-03-2018	
1	NCD	Long Term	50.00	45.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Positive)	
2	NCD	Long Term	165.00	-	[ICRA]A (Stable)	-	-	-	-	-	-	
3	Fund Based – Term Loan	Long Term	1,000.00	690.30	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Positive)	

Source: ICRA Research

Complexity level of the rated instrument

Instrument	Complexity Indicator
Bank Lines	Simple
NCD 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-1: Instrument details

ISIN No/ Lender Name	Name of instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
INE922K07054	NCD	Jun-12-20	10.25%	Jun-12-2023	15.00	[ICRA]A (Stable)
INE922K07070	NCD	Aug-31-21	Repo rate linked	Aug-31-2026	30.00	[ICRA]A (Stable)
Unallocated	NCD	-	-	-	170.00	[ICRA]A (Stable)
AU Small Finance Bank Limited	Term Loan	Jun-27-2019	7.50% to 11.20%	Jul-3-2024	27.50	[ICRA]A (Stable)
AU Small Finance Bank Limited	Term Loan	Jan-28-2021		Jan-3-2026	13.00	[ICRA]A (Stable)
Axis Bank Limited	Term Loan	Mar-23-2020		Aug-31-2023	10.91	[ICRA]A (Stable)
Bandhan Bank Ltd	Term Loan	Oct-16-2019		Oct-31-2024	15.42	[ICRA]A (Stable)
Bank of Baroda	Term Loan	Dec-24-2019		Feb-29-2024	44.29	[ICRA]A (Stable)
CSB Bank Limited	Term Loan	Jan-13-2021		Feb-23-2026	22.50	[ICRA]A (Stable)
DCB Bank Limited	Term Loan	Jun-16-2018		Jul-30-2023	7.37	[ICRA]A (Stable)
Equitas Small Finance Bank	Term Loan	Nov-29-2019		Jan-5-2025	0.00	[ICRA]A (Stable)
Equitas Small Finance Bank	Term Loan	Nov-29-2019		Feb-5-2025	5.00	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Jan-23-2017		Feb-13-2024	1.79	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Jan-23-2017		Feb-13-2024	3.70	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Aug-31-2017		Sep-29-2023	16.67	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Aug-29-2019		Aug-31-2023	12.50	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Jun-4-2020		Jun-29-2024	16.67	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Sep-22-2020		Sep-29-2027	21.13	[ICRA]A (Stable)
IndusInd Bank Limited	Term Loan	Mar-30-2016		Sep-30-2022	0.76	[ICRA]A (Stable)
IndusInd Bank Limited	Term Loan	Nov-4-2019		Dec-31-2023	2.71	[ICRA]A (Stable)
Kotak Mahindra Bank Limited	Term Loan	Mar-9-2016		Jul-26-2021	0.00	[ICRA]A (Stable)
Kotak Mahindra Bank Limited	Term Loan	Jun-21-2019		Jul-18-2023	6.56	[ICRA]A (Stable)
Punjab & Sind Bank	Term Loan	Sep-29-2016		Jun-30-2025	0.00	[ICRA]A (Stable)
RBL Bank Limited	Term Loan	Sep-10-2015		Dec-31-2023	2.81	[ICRA]A (Stable)
RBL Bank Limited	Term Loan	Sep-10-2015		Mar-30-2024	2.34	[ICRA]A (Stable)
RBL Bank Limited	Term Loan	Sep-10-2015		Apr-20-2024	2.34	[ICRA]A (Stable)
RBL Bank Limited	Term Loan	Sep-27-2019		Oct-31-2023	18.67	[ICRA]A (Stable)
State Bank of India	Term Loan	Feb-24-2017		Feb-26-2025	22.22	[ICRA]A (Stable)
Federal Bank Limited	Term Loan	Mar-3-2018		May-30-2023	10.29	[ICRA]A (Stable)
Federal Bank Limited	Term Loan	Jun-15-2019		Jun-28-2024	13.33	[ICRA]A (Stable)
Federal Bank Limited	Term Loan	Oct-20-2020		Dec-31-2024	23.75	[ICRA]A (Stable)
UJJIVAN SMALL FINANCE BANK	Term Loan	Sep-18-2020		Sep-30-2024	21.88	[ICRA]A (Stable)
Utkarsh Small Finance Bank	Term Loan	Dec-24-2020		Dec-31-2024	19.79	[ICRA]A (Stable)
Bandhan Bank Ltd	Term Loan	Nov-25-2020		Nov-1-2027	48.45	[ICRA]A (Stable)
Yes Bank Limited	Term Loan	Oct-27-2020		Dec-29-2025	30.70	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Mar-15-2021		Mar-25-2028	45.83	[ICRA]A (Stable)
KARNATAKA BANK LIMITED	Term Loan	Mar-29-2021		Jan-31-2024	27.00	[ICRA]A (Stable)
RBL Bank Limited	Term Loan	Mar-17-2021		Mar-30-2025	34.17	[ICRA]A (Stable)
SBM Bank (India) Ltd	Term Loan	Mar-8-2021		Mar-31-2026	20.00	[ICRA]A (Stable)
Federal Bank Limited	Term Loan	Mar-25-2021		Mar-31-2025	42.71	[ICRA]A (Stable)
UJJIVAN SMALL FINANCE BANK	Term Loan	Mar-25-2021		Mar-31-2026	17.67	[ICRA]A (Stable)
Kotak Mahindra Bank Limited	Term Loan	Jun-17-2021		Jun-29-2026	46.67	[ICRA]A (Stable)

ISIN No/ Lender Name	Name of instrument	Date of Issuance	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
BANK OF MAHARASHTRA	Term Loan	Jul-31-2021		Jul-21-2026	33.25	[ICRA]A (Stable)
IndusInd Bank Limited	Term Loan	Jul-9-2021		Jul-8-2025	32.81	[ICRA]A (Stable)
LIC Housing Finance Limited	Term Loan	Aug-31-2021		Sep-1-2031	47.60	[ICRA]A (Stable)
RBL BANK LIMITED	Term Loan	Mar-17-2021		Sep-15-2025	9.79	[ICRA]A (Stable)
CSB BANK LTD	Term Loan	Sep-20-2021		Sep-29-2026	25.00	[ICRA]A (Stable)
South Indian Bank	Term Loan	Sep-22-2021		Sep-22-2028	15.00	[ICRA]A (Stable)
HDFC BANK LIMITED	Term Loan	Sep-16-2021		Sep-30-2026	73.75	[ICRA]A (Stable)
INDIAN BANK	Term Loan	Sep-27-2021		Sep-15-2028	24.00	[ICRA]A (Stable)
Suryoday Small Finance Bank	Term Loan	Oct-27-2021		Oct-31-2026	20.00	[ICRA]A (Stable)
Unallocated	Term Loan	-	-	-	39.70	[ICRA]A (Stable)

Source: Company data

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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