

Shubham Housing Development Finance Company Private Limited

Instrument	Amount	Rating	Rating Action
Long Term Bank Lines	Rs 1000 crore (Enhanced from Rs. 500 Crore)	[ICRA] BBB (Positive)	Assigned
Non Convertible Debenture Program	Rs. 20 Crore	[ICRA] BBB (Positive)	Assigned

ICRA has assigned ratings of [ICRA]BBB (pronounced ICRA triple BBB) to the Rs. 1000 crore (enhanced from Rs. 500 crore) long-term bank/Financial Institution) lines and Rs. 20 Crore Non-Convertible Debenture Program of Shubham Housing Development Finance Company Private Limited (SHDFC)[†]. ICRA also has rating outstanding of [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 10 crore Commercial Paper programme of SHDFC. The outlook on the long-term ratings is positive.

The ratings for SHDFC factor in the improved scale of operations of the company (disbursements have been growing by a CAGR of 125% since FY 2013, total loan book of Rs. 602 crore as on December 31, 2015), its experienced management team and its adequate capitalisation levels (net worth of Rs. 177 crore as on December 31, 2015). ICRA has also seen the improvement in the resource profile of the company with it receiving NHB refinance sanction as well as increased funding lines from both public and private sector banks and Financial Institution and also borrowings from debt market (in the form of commercial paper programme) and through securitisation/direct assignment route.

The positive outlook on the long-term rating reflects ICRA's expectation that given the growth opportunities in the low income, affordable housing segment, the company would be able to leverage its capital by accessing funds at reasonable rates from diversified sources and improve the operating efficiencies and thus profitably grow the business and generate reasonable risk adjusted returns while maintaining prudent capitalisation levels.

ICRA has taken note of the improvement in the asset quality indicators of the company with gross NPA% declining from 4.1%* as on March 31, 2015 to 2.85% as on December 31, 2015 with the company improving the collections processes. Some increase in NPAs is expected as the portfolio seasons, though ICRA expects the company to strengthen the systems and processes in line with the growth in business volumes to keep credit costs under control, for which the management has already initiated steps in the form of technological up gradations. At the same time, delinquencies in the softer buckets are expected to remain volatile given the target borrower profile.

The ratings for SHDFC are constrained by its relatively shorter track record, its target borrower profile, low profitability (ROE of 3.00% for 9M, 2015-16; 0.9% for 2014-15) and limited fee based income. Nevertheless, ICRA expects operating efficiencies to improve with the increase in business volumes and as newer branches stabilise leading to improvement in profitability over the medium term (ROA to around 2%-2.5% and ROE of 10%-12%). On the capitalisation front, in ICRA's opinion, with the current level of capital, the company would be able to grow as per its plans for the next couple of years. However, access to larger proportion of NHB funding would be critical for the company in raising long-term funds at relatively lower costs which could also lead to the improvement in profitability for the company. As for ALM, although there are inherent ALM gaps in the business with average maturity of assets being around 10 years and that of liabilities being lower at around 5 years, the relatively low gearing levels and prepayments (~10%) have helped the company in maintaining a comfortable liquidity profile. However, as the book grows, there could be ALM gaps which the company would need to manage. The ability of the company to grow, while reporting improvement in profitability indicators, and reducing Gross NPAs, will remain key rating sensitivities. Further ability of the company to maintain

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

The gross NPA% on an AUM basis would have been 2.59% as on December 31, 2015 and 3.8% as on March 31, 2015.

capitalisation and liquidity position at comfortable levels and to have a diversified funding mix will also be important rating considerations.

About the company

Shubham Housing Development Finance Company Private Limited (SHDFC) is a housing finance company. The company is engaged in providing retail home loans to low income borrowers for a period of up to 15 years. These loans can be used by borrowers for purchasing a ready property, home improvements; home extension and for construction of dwelling units on plots owned by borrowers. The company is promoted by Mr. Sanjay Chaturvedi and Mr. Ajay Oak. Five private equity funds namely - Helion Ventures Partner, Elever Equity, Accion Frontier, Saama Capital and MOSL, MOPE Advisors & IBEF–IIA (collectively referred to as MOPE) have invested about Rs. 174 crore in the company in the form of equity and compulsorily convertible preference shares (CCPS). SHDFC is currently operating out of 80 branches which are spread in the 12 states / Union Territories of Delhi, Gujarat, Haryana, Uttar Pradesh, Rajasthan, Madhya Pradesh and Maharashtra, Chhattisgarh, Uttarakhand, Bihar, Punjab and Jharkhand. The Head Office is in Gurgaon.

The borrower profile for SHDFC consists of relatively low income customers like skilled workers, who would normally fall out of the ambit of traditional lending institutions due to a lack of formal income proofs. While the credit assessment of these borrowers requires special skill sets and may entail higher risk, the credit profile of the borrowers could be volatile due to lack of stability in income as well as due to their low disposable incomes and limited cushion available to meet the unforeseen expenses. To mitigate these risks, the company has developed adequate credit appraisal norms (like restrictions on Loan-to-Value (LTV) ratios based on registered values, focus on personal discussion at borrower's residence to ascertain the income and expense levels to arrive at the disposable income etc) and portfolio tracking systems.

The company had a managed loan book of Rs. 602 crore as on December 31, 2015. For the year ended March 31, 2015, the company reported a net profit after tax of Rs. 1.04 crore over an asset base of Rs. 507 crore as compared with a net profit of Rs. 0.01 crore on an asset base of Rs. 183 crore for 2013-14. For the nine months ended December 31, 2015, the company reported a net profit of Rs. 3.93 crore over an asset base of Rs. 631 crore. SHDFC reported a capital adequacy of 38.18% (Tier I% of 37.71%) and a gross NPA% of 2.85% as on December 31, 2015 (gross NPA% of 4.1% as on March 31, 2015).

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For further details please contact:

Analyst Contacts:

Ms. Vibha Batra, (Tel. No. +91-124-4545 302)
vibha@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

<p>Disclosure: A Member of the Board of Directors of ICRA Limited is also an Independent Director on the Board of Directors of Shubham Housing Development Finance Company Private Limited (SHDFC). This Director was not involved in any of the discussions and processes related to the Rating of the instrument(s) mentioned herein.</p>
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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: **9821086490**

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500