

India Shelter Finance Corporation Limited

February 15, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Bank lines	250.00	250.00	[ICRA]A (Stable); upgraded from [ICRA]A- and outlook revised from Positive
Non-convertible debenture	150.00	150.00	[ICRA]A (Stable); upgraded from [ICRA]A- and outlook revised from Positive
Total	400.00	400.00	

Rationale

The revision in the rating factors in India Shelter Finance Corporation Limited's (ISFC) improved capitalisation profile on account of a capital infusion of Rs. 195 crore in October 2018 (net worth as on December 31, 2018 was Rs. 788 crore). The rating also factors in the company's prudent lending practices and systems, which have enabled it to report good asset quality indicators while scaling up operations (CAGR of 53% during FY2015-FY2018 and assets under management (AUM) of Rs. 1,040 crore as on December 31, 2018 with GNPA of 1.60% as on December 31, 2018), and its experienced promoters and senior management team with a good second line of management. The rating considers the company's good credit appraisal systems and processes, with a relatively low loan-to-value (LTV) ratio (LTV of less than 60% for 81% of the AUM as on December 31, 2018), and its strong portfolio tracking systems, which have translated into above-average asset quality indicators.

Additionally, the company's housing loan portfolio (Rs. 379 crore as on the date of the transaction) is backed by a portfolio guarantee of 20% at the pool and loan level from India Mortgage Guarantee Corporation (IMGIC). ICRA also notes that the company has shifted its target segment to relatively higher ticket sizes of Rs. 8-10 lakh from Rs. 4-5 lakh earlier. This should support its scalability and bring down the operating expense ratios further. The rating is also supported by the good growth prospects of the company and the sector. ICRA expects the company to scale up further, supported by gradual branch expansion and stabilisation of older branches.

The rating also factors in ISFC's moderate track record of operations, its focus on relatively risky segments with low income levels and limited cushion to absorb income shocks. The rating also considers the company's exposure to geographical concentration risk with 83% of the AUM, as on December 31, 2018, being concentrated in the top three states (the company has a presence in 12 states), and its moderate profitability indicators. Going forward, ISFC's ability to maintain the asset quality, as it expands the portfolio, and tie up long-term funding at competitive rates will be a key rating sensitivity. The ability to maintain a good liquidity profile and reduce the operating expenses to improve its earnings profile will also be a key rating sensitivity.

Outlook: Stable

ICRA believes ISFC will continue to benefit from the extensive experience of its management and its robust systems and internal controls. The outlook may be revised to Positive if the company continues to maintain momentum in scaling up its operations, tying up funding and improving its profitability. The outlook may be revised to Negative if profitability remains subdued or the asset quality weakens further.

Key rating drivers

Credit strengths

Good underwriting norms, systems and processes – In the absence of formal income proof or tax returns with borrowers, ISFC has developed a robust credit appraisal process including repeated discussions with the borrower, neighbourhood checks, cash flow analysis and visits to the workplace to establish income, expenses and debt repayment capacity. Strong risk management systems, in-house technical and valuation teams, use of credit scorecards and regular monitoring have translated into good asset quality indicators, so far. The company's ability to maintain the same on a larger asset base will be a key monitorable from a credit perspective.

Comfortable capitalisation with low gearing – ISFC is well capitalised with a net worth of Rs. 788 crore, as on December 31, 2018, following an equity infusion of Rs. 195 crore by existing investors in October 2018. The company had a low gearing level of 0.57 times as on December 31, 2018, leaving it with sufficient headroom to tap debt capital markets for its growth requirements in the medium term.

Experienced promoters and senior management; good loan origination & appraisal systems and MIS – The company's senior management team is adequately experienced in the mortgage industry. Further, it has adequate internal controls and good portfolio tracking systems to keep a check on portfolio quality. ISFC has been able to maintain control over the credit quality while growing its book, so far, with gross NPA of 1.60% as on December 31, 2018.

Credit challenges

Moderate scale of operations with focus on relatively risky assessed income segment – As on December 31, 2018, ISFC operated through 79 branches across 12 states and its AUM was Rs. 1,040 crore (as per provisional financials). It offers loans against property (LAP) as well as loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land and home purchase. As on December 31, 2018, 62% of the company's managed portfolio included home loans with the balance comprising loans against insurance and LAP. Within the affordable segment, the company's focus is primarily on self-employed customers. As on December 31, 2018, 47% of the loans outstanding were to self-employed customers, 40% to salaried customers and 10% to daily wage earners, who have limited cushion to absorb income shocks. However, the company insists on having all income-earning members as co-applicants while women are treated as the primary applicant. It also insists on multiple visits to the borrower's residence and business unit and conducts reference checks to mitigate the risk. Additionally, ISFC has bought a mortgage guarantee on its home loan pool, which should help support the asset quality further.

Geographical concentration of loan book in Rajasthan and Madhya Pradesh – As on December 31, 2018, 83% of ISFC's managed portfolio was concentrated in three states, namely Rajasthan (38%), Madhya Pradesh (24%) and Maharashtra (21%). The company's top 15 branches accounted for 45% of the managed portfolio as on December 31, 2018. However, ISFC has reduced its geographical concentration over time and has penetrated deeper in Maharashtra and Gujarat. It also expanded into new geographies like Karnataka, Tamil Nadu, Haryana and Punjab in 9M FY2019.

To diversify funding profile by tapping debt capital markets – ISFC has relationships with 10 lenders. However, it remains dependent on banks and National Housing Bank (NHB) for funding, with these two sources contributing 43% and 24%, respectively, to its total borrowings outstanding as on December 31, 2018. Going forward, the company's ability to diversify the funding mix, by drawing larger lines from the lenders and by raising funds from the debt market, would be important for scaling up operations.

To improve profitability in the face of competition in affordable housing segment – ISFC’s profitability indicators remained modest in 9M FY2019 (RoE of 4.20% vis-à-vis 5.31% in FY2018) owing to a fall in yields (15.69% in 9M FY2019 vis-à-vis 16.90% in FY2018) that was partially offset by a fall in the cost of funds (10.43% in 9M FY2019 vis-à-vis 10.80% in FY2018). Operating expenses moderated to 6.11% in 9M FY2019 (6.81% in FY2018) owing to an increase in ticket sizes and the scaling up of operations in existing branches. However, operating expenses continue to be high. The company’s ability to maintain its yield, reduce its operating expenses further, and improve profitability, given the rising competition in the segment, will be critical from a credit perspective.

Liquidity position

ISFC’s liquidity remained comfortable on account of its ability to tie up longer-tenure liabilities. The average tenure of its liabilities was 7.4 years compared to 8.2 years for its assets, after factoring in a monthly prepayment rate of 0.8%. As on December 31, 2018, the company had liquid funds of Rs. 241.30 crore in addition to sanctioned and unutilised bank lines of Rs. 72 crore while it has repayments of Rs. 35 crore during the next six months.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer

About the company

India Shelter Finance Corporation Limited (ISFC) is a housing finance company that was incorporated in 1998 as Satyaprakash Housing Finance. The company was acquired by the current investors in September 2009. ISFC is focused on the low cost and affordable housing segment, targeting self-employed customers in the informal low-middle income segment. As on December 31, 2018, the company was operating from 79 branches and had a managed portfolio of Rs. 1,040 crore. At present, ISFC operates in 12 states, namely Rajasthan, Madhya Pradesh, Maharashtra, Gujarat, Chhattisgarh, Uttar Pradesh, Punjab, Uttarakhand, Odisha, Karnataka, Tamil Nadu and Haryana. ISFC offers LAP as well as loans to customers for home improvement, home extension, construction of dwelling units on an owned plot of land and home purchase.

The company reported a profit of Rs. 24.46 crore on a managed asset base of Rs. 982 crore in FY2018 vis-à-vis a profit of Rs. 20.52 crore on a managed asset base of Rs. 647 crore in FY2017. The company reported a profit of Rs. 21.41 crore on a managed asset base of Rs. 1,335 crore in 9M FY2019, as per provisional financials. The company’s gross and net NPAs stood at 1.60% and 1.06%, respectively, as on December 31, 2018.

Key financial indicators (audited)

	FY2017	FY2018	9M FY2019 (provisional)
Net interest income	66.26	81.48	78.54
Profit before tax	31.59	37.24	33.38
Profit after tax	20.52	24.46	21.41
Gross advances	548.25	801.26	1,040.11
Total assets	613.77	902.16	1,279.81
% Tier 1	107.8%	111.41%	102.73%
% CRAR	109.0%	112.47%	103.69%
Gearing	0.70	0.54	0.57
% Net profit/Average managed assets	3.72%	3.02%	2.47%
% Return on net worth	6.68%	5.31%	4.20%
% Gross NPAs	0.74%	1.34%	1.60%
% Net NPAs	0.50%	0.87%	1.06%
Net NPA/Net worth	0.74%	1.26%	1.32%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				February 2019	May 2018	March 2018	August 2017	September 2016	September 2015	
1 NCD	Long Term	150.00	146.43	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-	-
2 Bank Lines	Long Term	250.00	191.17	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE922K07039	NCD	4-May-18 & 10-July-18	9.90%	30-Apr-25	100.00	[ICRA]A (Stable)
INE922K07013	NCD	31-Jul-2017	9.99%	10-Feb-22	50.00	[ICRA]A (Stable)
NA	Term Loan 1	21-Jun-14	NA	30-Jun-19	0.80	[ICRA]A (Stable)
NA	Term Loan 2	15-Jan-15	NA	31-Jan-20	1.05	[ICRA]A (Stable)
NA	Term Loan 3	10-Sep-15	NA	31-Dec-23	6.25	[ICRA]A (Stable)
NA	Term Loan 4	10-Sep-15	NA	30-Mar-24	4.92	[ICRA]A (Stable)
NA	Term Loan 5	11-Mar-16	NA	31-Mar-21	3.14	[ICRA]A (Stable)
NA	Term Loan 6	10-Sep-15	NA	20-Apr-24	4.92	[ICRA]A (Stable)
NA	Term Loan 7	09-Mar-16	NA	26-Jul-21	7.76	[ICRA]A (Stable)
NA	Term Loan 8	30-Mar-16	NA	30-Sep-22	3.06	[ICRA]A (Stable)
NA	Term Loan 9	23-Jan-17	NA	13-Feb-24	3.75	[ICRA]A (Stable)
NA	Term Loan 10	24-Feb-17	NA	26-Feb-25	8.11	[ICRA]A (Stable)
NA	Term Loan 11	25-Nov-16	NA	31-Mar-22	6.85	[ICRA]A (Stable)
NA	Term Loan 12	29-Sep-16	NA	30-Jun-25	1.63	[ICRA]A (Stable)
NA	Term Loan 13	24-Feb-17	NA	26-Feb-25	8.11	[ICRA]A (Stable)
NA	Term Loan 14	24-Feb-17	NA	26-Feb-25	8.11	[ICRA]A (Stable)
NA	Term Loan 15	24-Feb-17	NA	26-Feb-25	16.22	[ICRA]A (Stable)
NA	Term Loan 16	23-Jan-17	NA	13-Feb-24	7.78	[ICRA]A (Stable)
NA	Term Loan 17	29-Sep-16	NA	30-Jun-25	3.25	[ICRA]A (Stable)
NA	Term Loan 18	29-Sep-16	NA	30-Jun-25	3.25	[ICRA]A (Stable)
NA	Term Loan 19	25-Nov-16	NA	28-Sep-22	5.50	[ICRA]A (Stable)
NA	Term Loan 20	31-Aug-17	NA	29-Sep-23	39.58	[ICRA]A (Stable)
NA	Term Loan 21	03-Mar-18	NA	30-May-23	28.17	[ICRA]A (Stable)
NA	Term Loan 22	16-Jun-18	NA	30-Jul-23	18.95	[ICRA]A (Stable)

Source: India Shelter Finance Corporation Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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