June 22, 2023

India Shelter Finance Corporation Limited: Ratings reaffirmed for PP-MLDs and NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Principal protected market linked debentures (PP-MLDs)	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable); reaffirmed
Non-convertible debentures (NCDs)	35.00	35.00	[ICRA]AAA(CE) (Stable); reaffirmed
Long-term fund based – Term loan	1,500.00	1,500.00	[ICRA]A+ (Stable); outstanding
NCD programme	215.00	215.00	[ICRA]A+ (Stable); outstanding
Total	**1,800.00**	**1,800.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A+

**Instrument details are provided in Annexure I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement. The letters, PP-MLD, prefixed to a rating symbol stand for principal protected market linked debentures. According to the terms of the rated instrument, the amount invested, i.e. the principal, is protected against erosion while the returns on the investment could vary, being linked to movements in one or more variables such as equity indices, commodity prices, and/or foreign exchange rates. The rating assigned expresses ICRA's current opinion on the credit risk associated with the issuer concerned. The rating does not address the risks associated with variability in returns resulting from adverse movements in the variable(s) concerned

Rationale

The rating action has factored in the structural features available in both transactions such that, in the event of non-payment of its expected repayments by India Shelter Finance Corporation Limited (ISFC), the respective cover pools along with the cash collateral (if any) would be utilised to support the servicing of the rated instruments. The cover pools would consist of loan against property (LAP) receivables, which meet the eligibility criteria at the time of issuance. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Features
Rs. 50.00-crore PP-MLD	CredAvenue Casa Trust 2021	1.28x cover pool^	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the designated account from which Debenture Trustee shall make payments of the rated debentures
Rs. 35.00-crore NCDs	Blanca Trust 2021	1.28x cover pool^	

^ The cover pool requirement is calculated on the outstanding principal and accrued interest in case of PP-MLDs and NCDs

The ratings also draw comfort from the established presence of ISFC in the mortgage lending space and its stable asset quality despite the disruptions caused by the Covid-19 pandemic. Nonetheless, post any trigger event, the performance of the cover pools would be exposed to macro-economic shocks/business disruptions, if any.

Structure details, adequacy of credit enhancement and salient features of rated instruments

Details on the structure, adequacy of the credit enhancement and salient features of both the rated instruments are available in ICRA's previous rationales.
Rs. 50.00-crore PP-MLD [CredAvenue Casa Trust 2021]: Click here
Rs. 35.00-crore NCDs [Blanca Trust 2021]: Click here

Key rating drivers and their description

Credit strengths

Presence of cover pool to support servicing of the rated facility in event of non-payment by entity: The primary obligation of meeting the PP-MLDs and NCDs payments is on ISFC. However, if ISFC does not meet the expected payments on the PP-MLDs and NCDs, the collections from the cover pool will be available to the Debenture Trustee. The principal as well as the interest on the PP-MLDs and NCDs are promised to the investors on the legal maturity date.

Stringent eligibility criteria for cover pool – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the pool at any point of time.

Credit enhancement in the form of over-collateralisation – Both instruments have credit enhancement in the form of over-collateralisation, which acts as a buffer if the collections in the cover pools decline.

Credit challenges

On occurrence of trigger event the performance of the transaction would be exposed to performance of the cover pool which would be available that point of time: The pool for the transaction would have to be maintained as per the eligibility criteria and would become fixed post the occurrence of a trigger event. Thus, on the occurrence of a trigger event, the performance of the transaction would be exposed to the performance of the cover pool, which would be available at that point of time.

Pool's performance will remain exposed to macro-economic shocks/business disruptions, if any, post trigger event – The ratings factors in the risks associated with macro-economic shocks (if any) faced by the borrowers, which could affect the continuity of business operations and the possible adverse impact on the asset quality if the cash flows and economic activity slows down, post a trigger event.

While the PP-MLD and NCD yield is fixed the spread between pool yield and MLD and NCD yield (acting as a credit support) could shrink on account on characteristics of cover pool: The benefit available on account of the difference between the pool yield and the PP-MLD (Linked to 5.79 G-Sec 2030 index) and NCD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, this is mitigated as almost the entire portfolio of ISFC comprises loans with an IRR of 14% or more.

Liquidity position

For PP-MLD [ICRA]AAA(CE) (Stable) / [ICRA]AAA(CE) (Stable): Superior

The principal and interest on the PP-MLDs and NCDs are promised to the lender on the final maturity date subject to the non-occurrence of a trigger event. This imparts significant liquidity support to the instruments. The cash flows from the cover pools are expected to be highly comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the PP-MLDs and NCDs.

For the [ICRA]A+ rating without explicit credit enhancement: Strong

The company's liquidity is strong with Rs. 473 crore of on-book cash and liquid investments as on December 31, 2022 for debt obligations (excluding interest) of Rs. 639 crore over the next one year (i.e. up to December 31, 2023). It has collections worth Rs. 952 crore (excluding interest) due during the aforementioned period. Further, it had unavailed sanctions of Rs. 666 crore as on December 31, 2022.

Rating sensitivities

For NCDs rated [ICRA]AAA(CE) (Stable) and MLDs rated PP-MLD [ICRA]AAA(CE) (Stable)

Positive factors – Not applicable

Negative factors – The ratings could be downgraded on non-adherence to the key transaction terms envisaged at the time of the rating. The ratings could also come under pressure in case of a deterioration in ISFC's asset quality or credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies Covered Bond Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

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 March 31, 2023, the company is spread across 15 states/Union Territories. 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 (LAP). ISFC had incorporated wholly owned subsidiary in March 2022 – India Shelter Capital Finance Limited – for the purpose of lending as a non-banking financial company (NBFC) catering to the LAP segment, subject to regulatory approvals.

ISFC reported a profit of Rs. 155 crore in FY2023 on assets under management (AUM) of Rs. 4,360 crore as on March 31, 2023 vis-à-vis a profit of Rs. 128 crore in FY2022 on AUM of Rs. 3,073 as on March 31, 2022. The gross and net non-performing advances (NPAs) stood at 1.1% and 0.9%, respectively, as on March 31, 2023.

Key financial indicators (audited)

India Shelter Finance Corporation Limited	FY2021	FY2022	FY2023
Net interest income	178	245	324
PAT	87	128	155
Gross AUM	2,199	3,073	4,360
Gross NPA	1.8%	2.1%	1.1%
Net NPA	1.3%	1.6%	0.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2024) Date & Rating June 22, 2023	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2023 June 24, 2022	Date & Rating in FY2022 September 24, 2021	Date & Rating in FY2022 September 06, 2021	Date & Rating in FY2022 June 28, 2021	Date & Rating in FY2022 June 15, 2021	Date & Rating in FY2021 -
1	PP-MLD	Long term	50.00	50.00	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	PP-MLD [ICRA]AAA(CE) (Stable)	Provisional PP-MLD [ICRA]AAA(CE) (Stable)	-
2	NCD	Long term	35.00	35.00	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	Provisional [ICRA]AAA(CE) (Stable)	-	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales given here

Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
CredAvenue Casa Trust 2021	Principal Protected Market Linked Debentures (PP-MLD)	Complex
Blanca Trust 2021	Non-convertible debentures (NCDs)	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
INE922K07062	PP-MLD	June 2021	8.68%**	June 2029	50.00	PP-MLD [ICRA]AAA(CE) (Stable)
INE922K07088	NCDs	September 2021	8.88%*	September 2031	35.00	[ICRA]AAA(CE) (Stable)

** Per annum; Promised yield of 10.18% and expected yield of 14.00% applicable from date of issuance in case of trigger event*

***XIRR; Promised yield of 10.00% and expected yield of 15.18% applicable from date of issuance in case of trigger event*

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Abhishek Dafria
+91 22 6114 3440
abhishek.dafria@icraindia.com

Sachin Joglekar
+91 22 6114 3470
sachin.joglekar@icraindia.com

Himanshi Doshi
+91 22 6114 3410
himanshi.doshi@icraindia.com

Vishal Oza
+91 22 6114 3432
vishal.oza@icraindia.com

Mrugesh Trivedi
+91 22 6114 3436
mrugesh.trivedi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.