

February 29, 2024

India Shelter Finance Corporation Limited: Rating reaffirmed; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	2,000	2,000	[ICRA]A+ (Positive); Rating reaffirmed and outlook revised to Positive from Stable
NCD programme	200	200	[ICRA]A+ (Positive); Rating reaffirmed and outlook revised to Positive from Stable
Total	2,200	2,200	

*Instrument details are provided in Annexure I

Rationale

The change in the rating outlook to Positive from Stable reflects ICRA's expectation of a sustained improvement in India Shelter Finance Corporation Limited's (ISFCL) credit profile. It factors in the achievement of the healthy increase in the scale while maintaining comfortable asset quality and profitability and the strengthened capitalisation profile. ISFCL's assets under management (AUM) increased at a compound annual growth rate (CAGR) of ~47% during FY2014-9M FY2024. It continued to expand its operations in 9M FY2024, reporting an annualised growth of ~38% and an AUM of Rs. 5,609 crore as on December 31, 2023. The asset quality metrics remain comfortable with gross non-performing assets (GNPA) of 1.2% as on December 31, 2023 (1.1% as on March 31, 2023). Also, the company continues to maintain a comfortable earnings profile and reported an annualised return of 3.8% on average managed assets (AMA)¹ in 9M FY2024 compared to 3.6% in FY2023. ISFCL raised Rs. 1,200 crore of equity capital (including Rs. 800-crore primary equity capital) through an initial public offering (IPO) in December 2023, strengthening its capitalisation profile; this shall support its growth plans over the near-to-medium term. The rating also factors in the company's fairly diversified funding profile, comprising a good mix of private sector banks, public sector banks, mutual funds and financial institutions including National Housing Bank (NHB) and United States International Development Finance Corporation (US-DFC).

ISFCL's rating continues to factor in the limited portfolio seasoning as a significant portion of its book was sourced in the last few years like most of its peers. Additionally, the share of non-housing loans (NHLs) was relatively high at around 38% of the AUM as on December 31, 2023. ICRA notes that the company has been reducing the share of NHL in its AUM and on-book portfolio (31% as on December 31, 2023). 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 rating also considers ISFCL's vulnerability to interest rate movements, given the high share of the fixed rate portfolio vis-à-vis borrowings. Consequently, the lending spread and the net interest margin (NIM) remain vulnerable to interest rate movements and the company's ability to protect its margins would remain a monitorable.

¹ Return on managed assets= PAT/ average (Total assets +Assigned book)

Key rating drivers and their description

Credit strengths

Comfortable asset quality and profitability – ISFCL’s asset quality indicators remain comfortable with the GNPA’s and net NPAs (NNPAs) at 1.2% and 0.9%, respectively, as on December 31, 2023. While there was a slight increase in the reported asset quality metrics in 9M FY2024, the same remain comfortable. ISFCL’s ability to contain further slippages and maintain its asset quality metrics would be important from a credit perspective.

Given the comfortable asset quality, the credit costs remain low and support the company’s earnings profile. ISFCL’s profitability remained healthy in FY2023 and 9M FY2024 on the back of improving operating efficiency and low credit costs. It reported a net profit of Rs. 169 crore in 9M FY2024, translating to an annualised return on managed assets (RoMA) of 3.8% compared to Rs. 155 crore and 3.6%, respectively, in FY2023. ICRA expects the company to be able to maintain a healthy earnings profile with improving operating efficiency and controlled credit costs. Nevertheless, its ability to protect its margins will be critical.

Improvement in capitalisation profile – ISFCL completed its IPO in December 2023, including a primary issuance of Rs. 800 crore, which led to an increase in its capital-to-risk weighted assets ratio (CRAR) to 72.3% as on December 31, 2023 from 52.7% as on March 31, 2023. The managed gearing² also declined to 2.0 times as on December 31, 2023 from 3.0 times as on March 31, 2023. In ICRA’s opinion, with a net worth of Rs. 2,208 crore as on December 31, 2023, the company has sufficient headroom to achieve the planned growth in the near-to-medium term while maintaining a prudent capitalisation profile.

Fairly diversified funding profile – ISFCL’s funding profile is fairly diversified with ~38 funding relationships, comprising a good mix of private sector banks, public sector banks, mutual funds and financial institutions including NHB and US-DFC. The funding profile comprised loans from banks (48%), direct assignment (21%), National Housing Bank (16%), external commercial borrowings (7%), financial institutions (6%), pass-through certificates (2%) and debentures (1%) as on December 31, 2023. ICRA expects the funding profile to remain diversified as the company continues to scale up its operations.

Credit challenges

Limited portfolio seasoning as significant portion of the book was sourced in the last few years – ISFCL has a 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 the portfolio growth was achieved recently. ICRA notes that the company’s AUM grew by ~38% (annualised) in 9M FY2024 (~42% in FY2023) to Rs. 5,609 crore as on December 31, 2023. Disbursements over the 12 quarters ending December 2023 (cumulating to Rs. 5,504 crore) comprised more than 95% of the AUM as on December 31, 2023. The portfolio growth rate is expected to remain high. Though the portfolio has witnessed various economic disruptions over the past few years, its long-term performance is yet to be seen, considering the limited vintage of a significant part of the same.

Vulnerable to interest rate movements, given the high share of the fixed rate portfolio – Around 86% of the company’s loan book, as on December 31, 2023 (93% as on March 31, 2023; 99% as on March 31, 2022), is at a fixed interest rate while a major part of the funding is at a floating rate. ICRA notes that ISFCL has been reducing the share of fixed rate loans and its strategy of maintaining the spread while growing at a healthy pace will be a key monitorable.

Relatively vulnerable borrower profile and high proportion of NHL book – The company’s underlying borrower base comprises low-and-middle-income self-employed customers (~71% of the total AUM as on December 31, 2023), who are relatively more vulnerable to economic cycles and have limited buffer to absorb income shocks. Further, around 38% of the

² Managed gearing = (On-book debt + Off-book portfolio) / Net worth

total AUM pertained to loan against property (LAP; 40% as on March 31, 2023) while the rest (62%) was towards the individual housing loan segment as on December 31, 2023. While the company has a good credit appraisal mechanism, it remains exposed to the volatility in the asset quality, given the risk associated with the target borrower segment. However, the losses on default are expected to be limited, considering the secured nature of the portfolio with moderate loan-to-value (LTV) ratios. Going forward, ISFCL's ability to maintain the asset quality as it scales up its operations will be important for its credit profile.

Environmental and social risks

Environmental– While housing finance companies (HFCs) like ISFCL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to which such HFCs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the HFCs. However, such risk is not material for ISFCL as it benefits from portfolio diversification.

Social– With regard to social risks, data security and customer privacy are among the key sources of vulnerability for HFCs as any material lapse could be detrimental to their reputation and invite regulatory censure. ISFCL has not faced any material lapse over the years, which highlights its sensitivity to such risks. While it contributes to promoting financial inclusion by lending to underserved segments, the company's lending practices remain prudent as reflected in the healthy asset quality numbers in this segment.

Liquidity position: Strong

The company's liquidity is strong with around Rs. 899 crore of free on-book cash and liquid investments as on December 31, 2023 compared to scheduled debt obligations of Rs. 791 crore over the next one year (i.e. until December 31, 2024). It has scheduled inflows from advances amounting to Rs. 699 crore due during the aforementioned period. ISFCL held unavailed sanctions of Rs. 589 crore as on December 31, 2023, which further supports its liquidity profile.

Rating sensitivities

Positive factors – A sustained increase in the scale of operations, while maintaining a healthy profitability profile with RoMA of more than 3.5% on a sustainable basis, along with prudent capitalisation and comfortable asset quality with 90+ days past due (dpd) of less than 1.5% on a consistent basis could positively impact the rating.

Negative factors – Pressure on the rating could arise if there is a deterioration in the asset quality with the 90+ dpd exceeding 2.5% 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	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

India Shelter Finance Corporation Limited (ISFCL) is a housing finance company, which was 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 December 31, 2023, the company had a managed portfolio of Rs. 5,609 crore 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. ISFCL had incorporated a 100% subsidiary in March 2022 – India Shelter Capital Finance Limited (ISCFL) – for the purpose of lending as a non-banking financial company (NBFC) catering to the loan against property (LAP) segment. However, regulatory approval has not been received yet.

Key financial indicators

India Shelter Finance Corporation Limited	FY2022	FY2023	9M FY2024*
Total income	460	606	616
PAT	128	155	169
Total managed assets	3,641	5,024	6,763
Return on managed assets [^]	4.1%	3.6%	3.8%
Managed gearing (times)	2.3	3.0	2.0
Gross stage 3	2.1%	1.1%	1.2%
CRAR	55.9%	52.7%	72.3%

Source: Company, ICRA Research; *Provisional; All ratios as per ICRA's calculations; [^]PAT/average (Total assets +Assigned book) 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	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years					
			Amount Rated (Rs. crore)	Amount Outstanding as of February 28, 2024 (Rs. crore)	Date & Rating in FY2024			Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	
					Feb 29, 2024	Oct 13, 2023	Jul 21, 2023	Feb 3, 2023	Jul 5, 2022	Nov 3, 2021	Jun 11, 2021	Dec 31, 2020	Nov 27, 2020
1	NCD	LT	35.00	50.00	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	NCD	LT	165.00		[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-	-
3	NCD	LT	-	-	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	NCD	LT	-	-	-	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)
5	NCD	LT	-	-	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)
6	Fund based – Term loan	LT	2,000.00	1,973.54	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

LT – Long term

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long-term fund based – Term loan	Simple
NCD programme	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
INE922K07070	NCD programme	Aug-31-2021	Repo rate linked	Aug-31-2026	30.0	[ICRA]A+ (Positive)
INE922K07096	NCD programme	Nov-23-2021	9.29%	Mar-23-2025	50.0^	[ICRA]A+ (Positive)
Not issued yet	NCD programme	-	-	-	120.0	[ICRA]A+ (Positive)
NA	Long-term fund based – Term loan	Sep 2015 to Nov 2023	2.80% to 11.20%	Jul 2021 to Jan 2034	2,000.0	[ICRA]A+ (Positive)

Source: Company; ^ Outstanding amount is Rs. 20.0 crore

[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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