March 28, 2024

Shriram Housing Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has reaffirmed the rating outstanding on the commercial paper programme of Shriram Housing Finance Limited (SHFL). To arrive at the rating, ICRA has taken a consolidated view of Shriram Finance Limited (SFL; erstwhile Shriram Transport Finance Company Limited {STFC}) and SHFL, hereafter together referred to as the SFL Group or the Group, given the shared brand name, common promoters, business-level synergies and financial interlinkages.

The Group's housing finance business is conducted through SHFL, which has a fairly diversified geographical presence in the affordable housing finance segment with 149 branches across 16 states and assets under management (AUM) of Rs. 12,025 crore as on December 31, 2023. The company recorded a compound annual growth rate of 55% during March 2020 to December 2023. It primarily disburses retail loans with a focus on the self-employed borrower segment, which comprised 78% of the AUM as on December 31, 2023. The rating continues to factor in the Group's leadership position in the preowned commercial vehicle (CV) financing segment with a long-standing track record, established brand, strong customer reach and granular retail loan book.

The rating also considers the Group's track record of healthy profitability, notwithstanding intermittent pressures amid the challenging environment, and its comfortable capitalisation profile. As of December 31, 2023, the consolidated net worth stood at about Rs. 45,950 crore with a managed gearing of 4.2 times and a capital adequacy ratio of 21.0% (Tier I: 20.0%). Given the high pace of growth, SHFL's capitalisation has moderated with the managed gearing increasing significantly to 7.9 times as on December 31, 2023 from 5.9 times as on March 31, 2023. ICRA takes note of the company's plans to raise equity capital in the near term and expects support from SFL to be forthcoming, if required.

Given the exposure to the high-yielding borrower segment with modest credit profiles, the Group's overall asset quality remains moderate, though the same is improving. The consolidated gross and net stage 3 assets declined to 5.5% and 2.7%, respectively, as on December 31, 2023, from 6.0% and 3.1%, respectively, as on March 31, 2023. SHFL reported comfortable asset quality indicators with gross and net stage 3 assets of 1.0% and 0.8%, respectively, as on December 31, 2023. The Group has a track record of reporting a swift recovery in its collections and delinquencies through cycles, though the asset quality metrics would remain a key monitorable.

Key rating drivers and their description

Credit strengths

Diversified product offerings with leadership position in preowned CV financing segment – SFL is one of the largest retail non-banking financial companies (NBFCs) with consolidated AUM of about Rs. 2,26,259 crore as of December 31, 2023. It is the largest player in the preowned CV financing segment in the country with a dominant market position. The Group's proven track record, along with its well-established franchise (3,700+ branches and rural centres as on December 31, 2023), results in strong customer reach and a granular retail loan book. Moreover, the merger with Shriram City Union Finance Limited has diversified SFL's product offering, which now includes CV finance (45%), passenger vehicle finance (18%), construction equipment and farm equipment finance (8%), small and medium-sized enterprise (SME) lending (10%), personal loans (4%), gold loans (3%), two-wheeler loans (5%) and housing loans (5%; through SHFL).

SFL conducts its housing finance business through its subsidiary, SHFL. SHFL primarily disburses retail loans with a focus on the self-employed borrower segment, which comprised 78% of the AUM as on December 31, 2023. Home loans (including top-up loans) comprised 60% of the company's AUM as on December 31, 2023, followed by loan against property (LAP; 36%) and construction finance/corporate loans (3%). As on December 31, 2023, SHFL had operations in 16 states through a network of 149 branches with an AUM of Rs. 12,025 crore. Its operations are fairly diversified geographically with Gujarat accounting for the largest share of the AUM (18% as on December 31, 2023), followed by Maharashtra (17%) and Tamil Nadu (16%).

Healthy profitability – Notwithstanding the inherent riskiness of the target customer segment, the Group is expected to maintain healthy yields and lending spreads, commensurate with the underlying credit risk. It reported an estimated return of 2.8% on average managed assets (AMA) in FY2023 compared to 2.0% in FY2022. The earnings profile has improved further in the current fiscal with an annualised return of 3.0% on AMA. SFL was able to maintain a net interest margin (NIM) of 7.8% of AMA in 9M FY2024 compared to the estimated NIM of 7.7% in FY2023 despite the increase in the cost of funds. Also, given the reported improvement in the asset quality indicators, the merged entity's credit cost has been moderating and was estimated at 1.7% of AMA in 9M FY2024 (1.8% of AMA in FY2023) compared to the 3-year average of 2.4% for STFC in the preceding fiscals.

SHFL reported a net profit of Rs. 155 crore in 9M FY2024, translating into an adequate return of 1.8% on average managed assets (AMA) and 15.0% on average net worth compared to Rs. 138 crore, 1.8% and 11.2%, respectively, in FY2023. Its NIM improved to 4.9% of AMA in 9M FY2024 from 4.4% in FY2023 with the revision in the lending rates, increase in the share of the relatively higher-yielding LAP portfolio in the overall AUM and income from direct assignment transactions. As the company continues to scale up its operations and adding new branches, the operating expenses were elevated in 9M FY2024 at 3.2% of AMA compared to 2.8% in FY2023. Credit costs remained low with SHFL reporting comfortable asset quality. Further, the operating efficiency is expected to improve gradually as the company continues to increase its scale of operations. Overall, the Group is expected to maintain a healthy profitability profile.

Comfortable capitalisation – The SFL Group's capitalisation profile is comfortable with a reported consolidated net worth of Rs. 45,950 crore, a managed gearing of 4.2 times and a capital adequacy ratio of 21.0% (Tier I: 20.0%). Given the expected growth trajectory and the satisfactory pace of internal capital generation, the capitalisation is expected to remain at a reasonable level with a comfortable cushion over the regulatory minimum.

Given the high pace of growth, SHFL's capitalisation has moderated with the managed gearing increasing significantly to 7.9 times as on December 31, 2023 from 5.9 times as on March 31, 2023. ICRA takes note of the company's plans to raise equity capital in the near term and expects support from SFL to be forthcoming, if required.

Credit challenges

Modest borrower profile and moderate asset quality – Given the exposure to the high-yielding borrower segment with modest credit profiles, the Group's overall asset quality remains moderate, though the same is improving. The SFL Group's consolidated gross and net stage 3 assets declined to 5.5% and 2.7%, respectively, as on December 31, 2023, from 6.0% and 3.1%, respectively, as on March 31, 2023. SHFL reported comfortable asset quality indicators with gross and net stage 3 assets of 1.0% and 0.8%, respectively, as on December 31, 2023. It continued to report a healthy collection efficiency of around 98-99% over the last 12 months. The Group has a track record of reporting a swift recovery in its collections and delinquencies through cycles, though the asset quality metrics would remain a key monitorable.

Relatively modest borrowing profile, notwithstanding established track record of raising funds from diverse sources – The Group's borrowing cost has remained relatively higher than the peers with instances of adverse fluctuations in yields. In this regard, the sustained ability to mobilise funds from different sources at competitive rates remains a monitorable. Nevertheless, ICRA takes cognisance of the Group's track record of raising retail borrowings, besides tapping funds from a diverse set of investors, which has supported its large-scale operations and borrowing programme. As on December 31, 2023, the Group's on-balance sheet borrowings exceeded Rs. 1,80,000 crore. On a consolidated basis, the funding profile is estimated to have primarily comprised non-convertible debentures (NCDs; 17%), term loans (26%), public deposits (22%), external commercial borrowings (ECBs; 12%), and securitisation (16%).

SHFL's borrowing profile is also fairly diversified and comprised loans from banks (46%), refinance from National Housing Bank (14%), debt capital market borrowings (12%) and securitisation/assignment (29%) as on December 31, 2023. ICRA expects the company's funding profile to remain fairly diversified with significant reliance on bank borrowings in the near term.

Environmental and social risks

Given the service-oriented business of SFL and SHFL, their direct exposure to environmental risks as well as those arising from regulations or policy changes is not material. However, the residual value of the security, particularly in the CV finance segment, could decline in case of policy changes such as incremental rulings on the reduction in the operating life of CVs, thereby impacting the profitability. Further, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. However, this process is in an early stage and ICRA expects the likely adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications.

Exposure to social risks is low for financial institutions like SFL and SHFL. The Group serves the financing needs of a relatively underserved borrower category, which supports social inclusion and economic development. ICRA notes that a large portion of the Group's portfolio qualifies for priority sector lending, which augurs well for its ability to conduct securitisation transactions at competitive rates. Moreover, the Group has demonstrated the ability to tap resources from overseas markets/impact investors through social bond issuances.

Liquidity position: Adequate

SFL's liquidity coverage ratio of 256% for the quarter ended December 31, 2023 was well above the regulatory requirement. As on December 31, 2023, SFL's asset-liability maturity (ALM) profile was characterised by positive cumulative mismatches in the near-and-medium-term buckets, supported by the relatively comfortable matching of the average tenor of the assets and liabilities. As per SHFL's ALM profile as on December 31, 2023, the company had no cumulative mismatches for a period of at least 1 year. The presence of the Rs. 521-crore sanctioned unutilised funding lines supports its liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A deterioration in the Group's asset quality, leading to the sustained weakening of the solvency and/or profitability, could negatively impact the rating. A significant weakening in the capital adequacy would 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	Consolidated

About the company

Shriram Housing Finance Limited (SHFL), which is a part of Shriram Group, is a housing finance company registered with National Housing Bank (NHB). On August 04, 2011, the company received its Certificate of Registration from NHB, as required under Section 29A of the National Housing Bank Act, 1987. SHFL primarily provides loans for the purchase or construction of residential space and loan against property. As on December 31, 2023, the company had an AUM of Rs. 12,025 crore with a presence in 16 states in India through a network of 149 branches.

Key financial indicators (audited)

Shriram Housing Finance Limited (standalone)	FY2022	FY2023	9M FY2024*
Total income	549	794	1,024
Profit after tax	80	138	155
Total managed assets (grossed up for provisions)	6,001	9,108	13,325
Return on average managed assets	1.5%	1.8%	1.8%
Reported gearing (times)	3.4	4.9	6.3
Gearing (managed; times)	4.1	5.9	7.9
Gross stage 3	1.7%	0.9%	1.0%
Capital to risk (weighted) assets ratio	30.9%	25.5%	20.1%

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

Shriram Finance Limited

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and an upper layer NBFC. Based on the National Company Law Tribunal (NCLT) order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited were merged with STFC and STFC was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in the preowned commercial vehicle finance segment and has a pan-India presence with 3,700+ branches and other offices. As of December 31, 2023, SFL had an AUM (consolidated) of Rs. 2.26 lakh crore comprising commercial vehicle finance (45%), passenger vehicle finance (18%), construction equipment and farm equipment finance (8%), small and medium-sized enterprise (SME) lending (10%), personal loans (4%), gold loans (3%), two-wheeler loans (5%) and housing loans (5%; through its subsidiary – Shriram Housing Finance Limited).

Key financial indicators (audited)

Shriram Finance Limited (consolidated)	9M FY2024*
Total income	26,495
Profit after tax	5,373
Return on average managed assets	3.0%
Gearing (managed; times)	4.2
Gross stage 3 assets	5.5%
Capital to risk (weighted) assets ratio	21.0%

*Source: Company, ICRA Research; *Unaudited numbers; 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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	Mar 13, 2023	-	-
1	Commercial paper	Short term	100.00	--	[ICRA]A1+	[ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper – Yet to be issued	NA	NA	7-365 days	100.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	March 31, 2023	Consolidation Approach
Shriram Finance Limited	100.00%	Full Consolidation
Shriram Housing Finance Limited	84.82%	Full Consolidation
Shriram Automall India Limited	44.56%	Equity Method

Note: ICRA has taken a consolidated view of the parent (SFL) and the aforementioned subsidiaries and associates while assigning the rating

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About ICRA Limited:

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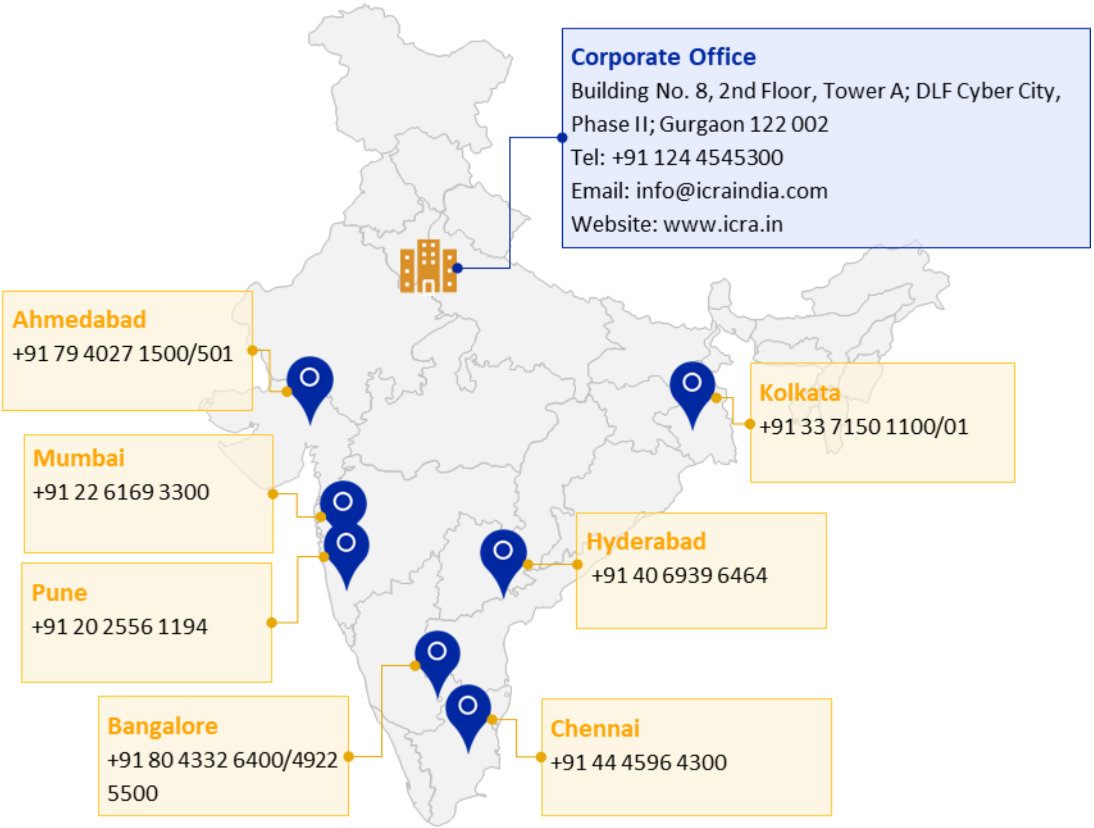

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