

December 20, 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

On December 11, 2024, Shriram Housing Finance Limited (SHFL) announced the conclusion of the sale and transfer of its equity shares held by Shriram Finance Limited (SFL) and Valiant Mauritius Partners FDI Limited (Valiant) to Mango Crest Investment Ltd (MCIL; an affiliate of Warburg Pincus) after the receipt of all applicable approvals. MCIL held a 98% stake in the company, post conclusion of this transaction.

Given that SHFL has ceased to operate as a subsidiary of SFL, pursuant to the transaction, ICRA takes note of its standalone credit profile, which is characterised by its fairly geographically diversified operations with assets under management (AUM) of Rs. 15,236 crore as on September 30, 2024, focused on the affordable housing finance segment. The asset quality remains comfortable with gross non-performing assets (NPAs) and net NPAs of 1.2% and 0.9%, respectively, as on September 30, 2024. However, the long-term performance is yet to be seen considering the limited vintage of a significant part of the portfolio. The company has a fairly diversified funding profile comprising loans from banks (34%), refinance from National Housing Bank (11%), debt capital markets (15%), external commercial borrowings (6%), pass-through certificates (10%) and direct assignment (DA; 24%) as on September 30, 2024.

ICRA takes note of the company's moderate earnings profile with a net profit of Rs. 114 crore in H1 FY2025, translating to a return of 1.4% on average managed assets (AMA) and 11.5% on average net worth (Rs. 217 crore, 1.8% and 13.5%, respectively, in FY2024). Further, given the high pace of growth, SHFL's managed gearing remained elevated at 7.0 times as on September 30, 2024 (6.6 times as on March 31, 2024). The company raised Rs. 1,200-crore equity capital from Warburg Pincus on December 12, 2024, which shall improve the capitalisation profile.

Key rating drivers and their description

Credit strengths

Geographically diversified operations – SHFL's operations are fairly diversified geographically with AUM of Rs. 15,236 crore as on September 30, 2024, focused on the affordable housing finance segment. The company had a presence in 16 states/UTs through a network of 155 branches as on September 30, 2024. Gujarat and Maharashtra account for the largest share of the AUM (18% each as on September 30, 2024), followed by Tamil Nadu (16%). The share of the top 3 states stood at 52% of the AUM as on September 30, 2024 (50% as on March 31, 2024). ICRA expects SHFL's operations to remain diversified geographically as it continues to scale up its AUM.

Comfortable asset quality – SHFL's asset quality remains comfortable with gross and net NPAs of 1.2% and 0.9%, respectively, as on September 30, 2024. The collection efficiency remains healthy at 98-99% YTD FY2025. Despite weakening slightly, the solvency (net NPA/net worth) remained under control at 5.3% as of September 2024 (4.5% as of March 2024). The asset quality remains monitorable, given the high pace of growth and the borrower profile.

Fairly diversified funding profile – SHFL has a diversified borrowing profile including DA, co-lending and securitisation and has funding relationships with more than 30 lenders. Its funding (including off-book funding) profile comprised loans from banks (34%), refinance from National Housing Bank (11%), debt capital market borrowings (15%), external commercial borrowings (6%) and securitisation/assignment (34%) as on September 30, 2024. SHFL raised Rs. 3,313 crore of borrowings in H1 FY2025 (Rs. 7,760 crore raised in FY2024) and continues to maintain a healthy pipeline of funding to support its growth plans. Going forward, the company’s ability to maintain a diversified funding profile and raise funds at competitive rates would be important for scaling up its operations.

Credit challenges

Moderate earnings profile – SHFL reported a net profit of Rs. 114 crore in H1 FY2025, translating into a return of 1.4% on AMA and 11.5% on average net worth compared to Rs. 217 crore, 1.8% and 13.5%, respectively, in FY2024. Its net interest margin (NIM) declined to 3.9% of AMA in H1 FY2025 from 4.7% in FY2024 with an increase in gearing and comparatively lower income from DA transactions. Further, operating expenses remain elevated and were reported at 3.1% of AMA in H1 FY2025 (3.1% in FY2024) as the company continues to invest in manpower and branch infrastructure. Credit costs remained low amid comfortable asset quality. In ICRA’s opinion, SHFL’s earnings profile is expected to improve with the augmentation of the capitalisation profile in the near term and the increasing scale of operations.

Limited portfolio seasoning, given high pace of growth – A significant portion of the company’s AUM was sourced in the last few years, like most of its peers, leading to limited portfolio seasoning in relation to the contractual tenure of the loans. SHFL’s AUM increased at a compound annual growth rate (CAGR) of ~49% over the last five years (FY2019 to FY2024) with disbursements over the past six quarters (till September 2024) amounting to 72% of the AUM as of September 2024. As the AUM growth rate is expected to remain high, portfolio seasoning is likely to be low and its performance remains a monitorable.

Exposure to relatively vulnerable borrower profile – SHFL mainly lends to borrowers in the low-income segment, which is more vulnerable to income shocks, as observed during the Covid-19 pandemic. ICRA notes that ultimate losses are expected to be low, given the secured nature of the portfolio and the moderate loan-to-value ratios. However, given the pace of growth and the relatively riskier borrower profile of the low-and-assessed-income segments, the company remains exposed to volatility in the asset quality.

Liquidity position: Adequate

SHFL continues to maintain an adequate liquidity profile with ~Rs. 634 crore of unencumbered cash and bank balances and liquid investments as on September 30, 2024. This, along with the scheduled collections of Rs. 2,483 crore over the next 12 months (till September 30, 2025), is expected to be sufficient to meet its scheduled debt repayments of Rs. 2,632 crore during this period. Additionally, SHFL had ~Rs. 571 crore of sanctioned unutilised funding lines from various lenders as on September 30, 2024.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise on an increase in the managed gearing beyond 5 times or a deterioration in the asset quality indicators (gross stage 3 assets above 2.5%), thereby impacting the earnings on a sustained basis.

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

Shriram Housing Finance Limited (SHFL) is a housing finance company registered with National Housing Bank (NHB). On August 04, 2011, it 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 (LAP). It mainly disburses retail loans with a focus on the self-employed borrower segment, which comprised 77% of the AUM as on September 30, 2024. Home loans (including top-up loans) comprised 60% of the AUM as on September 30, 2024, followed by LAP (38%) and construction finance/corporate loans (2%). As on September 30, 2024, SHFL had operations in 16 states through a network of 155 branches with an AUM of Rs. 15,236 crore.

Key financial indicators (audited)

Shriram Housing Finance Limited (standalone)	FY2023	FY2024	H1 FY2025*
Total income	794	1,430	893
Profit after tax	138	217	114
Total managed assets	9,108	14,854	16,691
Return on average managed assets	1.8%	1.8%	1.4%
Gearing (managed; times)	5.9	6.6	7.0
Gross stage 3	0.9%	1.0%	1.2%
Capital to risk (weighted) assets ratio	25.5%	25.0%	25.0%

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 (FY2025)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
			Dec 20, 2024	May 22, 2024	Mar 28, 2024	Mar 13, 2023	-
1 Commercial paper	Short term	100.00	[ICRA]A1+	[ICRA]A1+	[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

Not applicable

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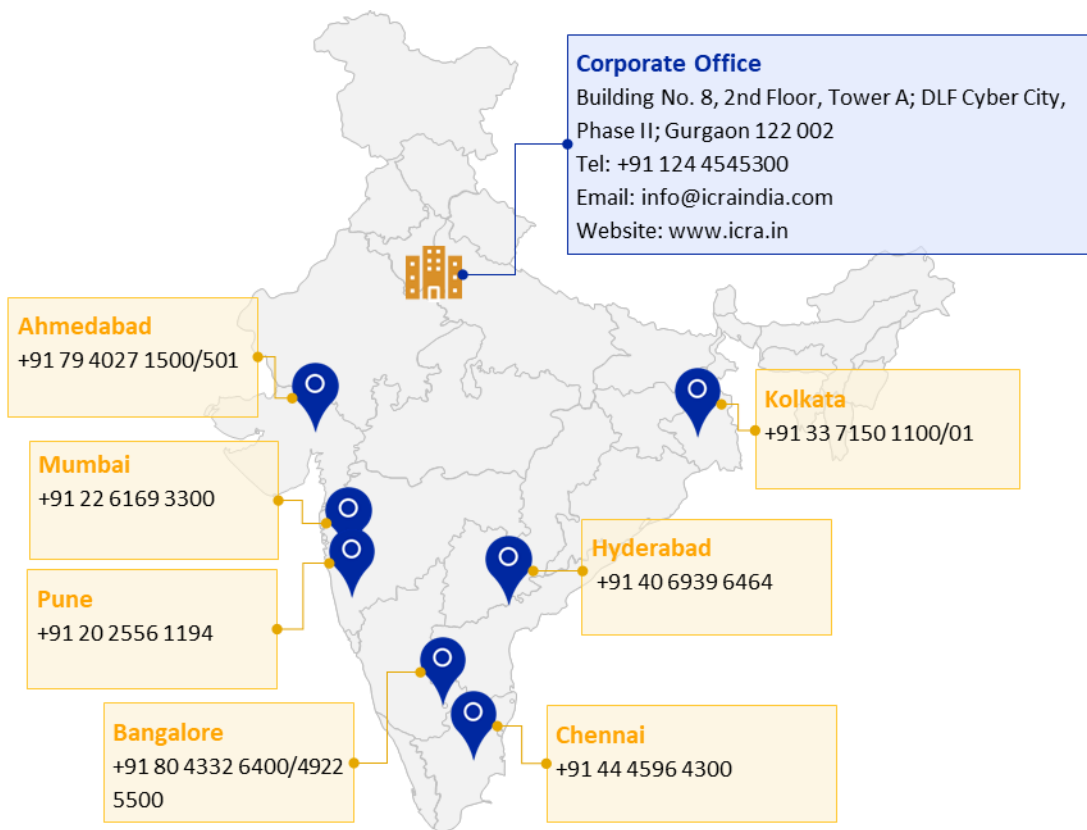
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