India Shelter Finance Corporation Ltd

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	100 (enhanced from 60)	CARE BBB+ (Triple B Plus)	Revised from CARE BBB(Triple B)
Total Facilities	**100 (Rupees One Hundred crore only)**		

Rating Rationale

The revision in rating of the bank facilities of India Shelter Finance Corporation Ltd (ISFCL) factors in the substantial equity capital infusion leading to robust capitalization levels and consistent growth in business volumes while maintaining asset quality and profitability. The rating also derives strength from the experienced management, comfortable liquidity profile, low loan-to-value ratio and adequate control systems put in place by the company. The rating strengths are partially offset by the nascent stage of operations, unseasoned loan portfolio making ISFCL susceptible to asset quality risk, high operating costs and geographical concentration.

Going forward, the ability of the company to grow its loan portfolio while maintaining asset quality, improving profitability, reducing the operating cost and increasing geographical diversification would be the key rating sensitivities.

Background

India Shelter Finance Corporation Ltd (ISFCL) is a housing finance company focused on providing retail home loans to low income borrowers for a period of up to 15 years. ISFCL was originally founded in 1998 as Satya Prakash Housing Finance India Ltd and was acquired by Mr Anil Mehta and others in September 2009. The company started operations in its present form in March 2010 under the new management.

The company operates through a network of 42 branches in the states of Rajasthan, Madhya Pradesh, Maharashtra, Chhattisgarh, Gujarat and Delhi. The company provides individual loans for the purpose of purchase, construction, extension or renovation of houses. ISFCL had assets under management (AUM) of Rs.252.07 crore as of June 30, 2015.

Three Private Equity (PE) Funds have invested equity in ISFCL and cumulatively hold 80.5% equity stake in the company as of June 30, 2015. As of June 30, 2015, Sequoia Capital India held 25.3% equity stake, Nexus Partners held 29.5%, WestBridge Crossover Fund held 25.8% while the remaining was held by promoters (2.1%), other investors (7.4%) and ESOPs (9.9%).

Credit Risk Assessment

Substantial capital infusion

Three private equity (PE) players have invested substantial capital in ISFCL. As per the agreement, the existing PE investors Sequoia Capital and Nexus Venture Partners, along with new PE investor WestBridge Crossover Fund, would bring in equity capital of Rs.250 crore, of which Rs.192 crore has already been invested as of June 30, 2015 while the remaining Rs.58 crore would be infused within the next 18 months. As of June 30, 2015, the three PE investors cumulatively held 80.5% of equity in ISFCL. In the past, Sequoia Capital and Nexus Venture Partners had invested Rs.65 crore in the form of compulsorily convertible preference shares (CCPS) which has been fully converted into equity as of March 31, 2015.

The Managing Directors of the three private equity funds are also present on the Board of the company. All the three PE funds are committed to provide support to the company, both financial and managerial, as reflected by the significant additional capital infusion.

Robust capitalization levels and comfortable gearing

ISFCL's loan book has been largely funded through equity. The CAR of the company was comfortable at 43.96% as on March 31, 2015 which has further improved to 96.94% as on June 30, 2015 due to capital infusion. As such, the gearing improved to 0.53 times as on June 30, 2015 from 2.43 times as on March 31, 2015 (1.21 times as on March 31, 2014).

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications*

Furthermore, the borrowing profile of ISFCL is well diversified with term loans raised from banks, NHB and other Financial Institutions. As on June 30, 2015, 51% of the borrowings were from 7 financial institutions at 12.5%-15% RoI, 27% of the borrowing was from 5 banks at 10.5%-13.85% RoI and 22% of the borrowings from NHB at 9.25%-10.7% RoI. The average cost of borrowing reduced to 12.52% in FY15 (refers to the period April 1 to March 31) as against 13.22% in FY14.

Growth in business volumes and comfortable profitability

The Assets under Management (AUM) of the company continues to grow at a healthy pace registering a growth of 94% y-o-y in FY15 to Rs.227.91 crore. ISFC disbursed Rs. 145.67 crore in FY15 as against Rs.77.13 crore in FY14. During Q1FY16, the company has further disbursed Rs.34.26 crore with AUM outstanding at Rs.252.07 crore as of June 30, 2015.

The average ticket size of the loans was Rs.3.8 lacs as on June 30, 2015 with average tenure of 12 years. As on June 30, 2015, 77% of the loan-book was housing loan given for construction, extension or renovation of houses while the remaining 23% constituted the loans against property. 38% of the loans were extended to self-employed individuals, 37% to salaried individuals while the remaining to daily wage-earners as on June 30, 2015.

The profitability of the company also continues to improve led by growth in loan portfolio and healthy margins. The total income of ISFCL registered growth of 80% y-o-y to Rs.34.11 crore with net profit of Rs.3.15 crore in FY15 as against total income of Rs.18.95 crore and net profit of Rs.1.40 crore in FY14. The ROTA improved to 1.71% in FY15 from 1.34% in FY14. The company reported PAT of Rs. 1.25 crore on total income of Rs.12.54 crore in Q1FY16. The ROTA (annualized) stood at 1.84% in Q1FY16.

Good asset quality parameters led by adequate control systems and MIS

Centralized appraisal and monitoring system with in-house teams for sourcing, technical and legal analysis and recovery, coupled with a strong MIS system is the core strength of ISFCL. Furthermore, an efficient portfolio tracking system has aided in consistently improving the collection efficiency of the company. Given the strong MIS system of the company, coupled with low LTV ratio and adequate collateral, ISFCL continues to maintain comfortable level of asset quality of its scaled up loan book. As of March 31, 2015, 99.78% of outstanding portfolio was classified as standard (99.74% standard assets as on March 31, 2014). The company had low net NPA ratio of 0.12% as on March 31, 2015 (PY: 0.20%).

However, the portfolio of ISFCL is unseasoned and given the vulnerability of the asset class to economic downturns, its ability to maintain the asset quality of the growing loan portfolio will remain a key rating sensitivity.

Experienced promoter and management

The company is promoted by Mr Anil Mehta who has vast experience in the financial sector. Mr Anil Mehta, CEO and M.D of the company, has worked with HDFC Ltd., Bank of America, American Express, ANZ Bank and Max New York Life Insurance Co. in the past. The promoter is assisted by a senior management team comprising of employees having vast experience in the banking and housing finance sector.

Comfortable Liquidity Profile and interest rate risk

Given that the borrowings of most HFCs are of shorter tenure in comparison to the loan portfolio, asset-liability mismatches are inherent in the housing finance business. However, with the housing loan book of ISFCL being substantially funded by Net worth, coupled with a 5 year borrowing tenor has rendered the liquidity profile of the company comfortable with no negative cumulative mismatches across the time buckets as on June 30, 2015. Furthermore, prepayments (historically 5.4% on average) offer additional comfort to the liquidity profile of the company.

However, given the borrowings of the company are at floating rates and majority asset book is at fixed rates, ISFCL is exposed to risk to interest margin in volatile interest rate environment.

Low LTV Ratio

The company reduces its risk by maintaining low LTV ratio. As a policy, home loans are extended at a maximum LTV ratio of 70% of the total value or 100% of new construction, whichever is lower, while loans against property (22.62% of the outstanding advances as on June 30, 2015) are extended up to a maximum LTV ratio of 50%.

As on June 30, 2015, 78% of the loan portfolio of the ISFCL had a loan-to-value ratio of below 40%. ISFCL offers loans at higher rates of interest due to higher risk profile of the borrowers. As on June 30, 2015, 57.4% of the loans outstanding were extended at interest rates of above 18%.

Nascent stage of operations and unseasoned portfolio

ISFCL is a housing finance company with its office in Gurgaon, focused on providing individual retail home loans to low income individuals. The company was taken over by the current promoters in 2009 and started its operations under the new management in March 2010. ISFCL has grown its loan book to Rs.252.07 crore with close to 9,250 loan sanctions as of June 30, 2015 from loan book of Rs.69.62 crore and 3,414 loan sanctions as on June 30, 2013. The branch network has grown to 42 branches from 25 branches in 2013 and workforce of 254 employees from 150 employees earlier. Nonetheless, with only around five years of operation, the operations of the company are at a nascent stage with the portfolio being largely unseasoned.

High operating costs

The operating cost of the company is high on account of large investments made in the credit appraisal and MIS systems of the company. The company has in-house sourcing, analytical, legal and collection teams leading to high employee costs. Though the operating cost / average total asset has been on a declining trend and reduced to 9.06% in FY15 from 11.43% in FY14 owing to economies of scale, it continues to be on the higher side.

Geographical concentration of the portfolio

ISFCL has a presence in only six states. The loan portfolio is largely concentrated in three states of Rajasthan, Madhya Pradesh and Maharashtra. Top three states (Rajasthan, MP and Maharashtra) accounted for 96.65% of outstanding lending as on March 31, 2015 (98.53% as on March 31, 2014). As on June 30, 2015, top three states (Rajasthan, MP and Maharashtra) accounts for 96.60% of outstanding lending.

Prospects

The government's thrust on providing housing to all by 2022 coupled with significant housing shortages in the low cost and affordable housing is likely to fuel credit growth in the segment. In addition, various NHB schemes and tax incentives provided to individuals on housing loans continue to remain positives for the sector.

HFCs are expected to maintain their good profitability on the basis of strong business growth and stable asset quality over the medium term. However, rising competition, long term funding and maintaining asset quality in the long term are the key challenges for the sector.

The ability of the company to grow its loan portfolio while maintaining asset quality, improving profitability and geographical diversification, would be the key rating sensitivities.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2013 (12m, A)	2014 (12m, A)	2015 (12m, A)
Working Results			
Interest Income	7.14	15.69	25.73
Other Income	3.29	3.26	8.39
Total income	10.43	18.95	34.11
Interest Expensed	1.61	5.40	14.42
Net Interest income	5.53	10.30	11.31
Operating Expenses	8.30	12.01	16.72
Provisions	0.29	0.49	0.75
PBT	0.23	1.06	2.22
PAT	0.32	1.40	3.15
Financial Position			

Total Loans Outstanding	58.48	114.66	198.88
Total AUM	58.48	117.35	227.91
Tangible Net worth	60.13	61.53	64.55
Total Borrowings	8.88	73.91	156.54
Total Assets	70.64	139.59	229.43
Key Ratios			
Net Interest Margin (%)*	10.89	9.80	6.13
Cost to Income (%)	94.17	88.60	84.92
Operating Expense/Avg. Total Assets (%)*	16.35	11.43	9.06
PAT Margin (%)	3.04	7.40	9.22
ROTA (%)*	0.62	1.34	1.71
Overall gearing ratio(times)	0.15	1.20	2.43
Interest coverage(times)	1.32	1.29	1.21
Capital Adequacy Ratio (CAR) (%)	175.49	83.03	43.96
Tier I CAR (%)	174.22	81.88	42.95
Gross NPA (%)	0.05	0.26	0.22
Net NPA (%)	0.04	0.20	0.12

**Calculation is based on average of opening and closing total assets*

Details of Rated Facilities

1.Long-term facilities
1.A. Term Loans

Banker / lender	Rated Amount (Rs. Crore)	Remarks
DCB Ltd - I	1.75	Outstanding as on June 30, 2015
DCB Ltd – II	3.77	Outstanding as on June 30, 2015
DCB Ltd - III	4.82	Outstanding as on June 30, 2015
Ratnakar Bank - I	4.65	Outstanding as on June 30, 2015
Ratnakar Bank - II	6.40	Outstanding as on June 30, 2015
Ratnakar Bank - III	30.00	Proposed
IDBI Bank Ltd - I	2.75	Outstanding as on June 30, 2015
IDBI Bank Ltd - II	1.38	Outstanding as on June 30, 2015
IDBI Bank Ltd - III	2.75	Outstanding as on June 30, 2015
SIB Bank Ltd	4.48	Outstanding as on June 30, 2015
HDFC Bank Ltd	3.42	Outstanding as on June 30, 2015
Proposed long term loan	33.83	Proposed
Total	**100.00**	

Total long-term facilities: Rs. 100 crore

Analyst Contact
Name: Gaurav Dixit
Tel: 011 – 4533 3235
Email: gaurav.dixit@careratings.com

(This follows our brief rational for entity published on24 September, 2015)

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Vice President - Bank Loan & Instrument Rating
Mobile: +91-9819009839
E-mail: meenal.sikchi@carerating.com

Mr. Ankur Sachdeva
Vice President - Bank Loan & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

Other Office:
503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Cell: +91-98407 54521
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502,
Himayat Nagar, Hyderabad - 500 029.
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rakesh Jayaraman
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 76655 96136
Tel: +91-141-402 0213 / 14
E-mail: rakesh.jayaraman@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110; Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677; Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355; Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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