

SRG Housing Finance Limited

May 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	50.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Facilities	50.00 (Rs. Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of SRG Housing Finance Limited (SRG) derive strength from the long track record of the company and the promoter in managing the business operations in the housing finance segment. The rating also takes into account SRG's established risk management practices as underlined by its low LTV and small ticket size of the loans which has helped SRG in maintaining a healthy asset quality. CareEdge takes note that the company's portfolio has remained resilient despite the Covid-19-led pandemic with only a marginal increase in the GNPA levels and nil restructuring. The rating also considers the company's healthy profitability with ROTA above 5% and comfortable capital adequacy levels with a Capital Adequacy Ratio (CAR) of 40.23% as on December 31, 2021. These rating strengths are partially offset by its relatively smaller size of operation, geographic concentration of the portfolio, moderate seasoning of the book considering the loan portfolio has witnessed high growth in the past four years ended March 31, 2021 and the inherent risks associated with the borrower profile, mainly the self-employed segment which comprises a large proportion of the loan book. The company's resource profile continues to remain modest; however, the same has witnessed improvement during FY21 with increased access to funding from refinance lines from National Housing Bank (NHB) aiding in improvement in cost of funds.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained growth in loan portfolio while maintaining the asset quality and earnings;
- Substantial increase in net worth;
- Geographical diversification of the loan portfolio;
- Diversification in the resource profile with demonstrated ability to garner resources at favourable rates.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in asset quality with Gross NPA ratio above 5%;
- Deterioration in profitability on as sustained basis;
- Overall gearing exceeding 4 times.

Detailed description of the key rating drivers

Key Rating Strengths

Ability to Maintain Healthy Asset Quality Led by Established Risk Management Practices: SRG has an established risk management mechanism framework including monitoring of the credit portfolio on a continuous basis. SRG follows conservative underwriting standards with a granular ticket size of around Rs.6 lakh, largely lending to customers with a low LTV of around 40%. Subsequently, the company was able to maintain a healthy asset quality with a GNPA of 2.49% as on December 31, 2021, as against 2.34% as on March 31, 2021 (Mar 31, 2020: 2.21%). Furthermore, the company did not restructure any loans. According to CareEdge, the capacity of the company and the management to implement the same underwriting practices along with maintaining strict internal controls with an increase in operational scale is a key rating sensitivity. Nevertheless, CareEdge notes that SRG's loan book has grown over 4 times from Rs.81.8 crore as on March 31, 2017 to Rs.332.3 crore as on December 31, 2021 and taking into account the longer tenure nature of residential mortgage loans this leads to moderate seasoning.

Healthy Profitability Aided by Higher-yield Loans: The company disburses loans to under banked segment, majorly providing the home loan solutions to first-time borrowers, mainly to self-employed segment with average ticket size of Rs.6 lakh with average lending rate of above 21%. Consequently, NIM stood high at 10.10% in FY21. PPOP witnessed increase of 8.5% to Rs.25.4 crore in FY21 (FY20: Rs. 23.4 crore). The company's opex/average total assets continues to remain high, at 5.67%. The credit cost remained stable, at 0.46% in FY21 (FY20: 0.30%). Consequently, ROTA continued to remain healthy at 5.24% in FY21, as against 5.54% in FY20. ROTA stood at 4.96% in 9MFY22. Going forward, considering the company's branch expansion plans in the pipeline over the near- to medium-term however the same is expected to improve with the growth in scale of operations, leading to benefits of economies of scale is expected to help company in maintaining healthy ROTA.

Long Track Record of Operations: Established in 1999, SRG commenced operations from 2002 after getting registered with the National Housing Bank and company has a long standing experience in the housing loan segment especially catering to the undocumented and unbanked self-employed customers in the rural and semi-urban areas. The operations of the company are

¹Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

headed by Mr Vinod K Jain, MD who has extensive experience of over 25 years in the industry. He is supported by an experienced senior management team, who has an experience of over a decade in the banking and financial services industry.

Comfortable Capital Adequacy Levels: The company's capital base has increased to Rs.105 crore as on December 31, 2021 supported by internal accruals. Consequently, capital levels remained adequate with a Tier-1 CAR and CAR of 39.91% and 40.23%, respectively. As on December 31, 2021, gearing stood at 2.58x. Going forward, CareEdge understands that additional capital infusions by the promoter/investors are planned in the near term. This will further augment the capital base of the company, thus enhancing its ability to fund growth in its business along with aiding financial flexibility.

Key Rating Weaknesses

Relatively Small Scale of Operations with a Geographically Concentrated Presence: As on December 31, 2021, SRG operates out of the four states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra, with 35 branches. The loan portfolio stood around Rs.332.3 crore, with the top geographic exposure being Rajasthan, which forms 61.9% of the portfolio. CareEdge expects the geographic diversification to improve gradually as the company increases its scale in the medium-term.

Moderately Diversified Resource Profile: The company's borrowing profile is moderately diversified for its size and comprises of NHB refinance lines (11.1%) and term loans from banks and NBFCs/HFCs (68.7%) and NCDs (20.2%). The company has an established lender relationship with 17 lenders, as on December 31, 2021. The top five lenders constituted 53.7% of the total borrowings outstanding. While CareEdge notes that SRG's recent borrowings have been at lower rates as compared to last year, with the decline largely in line with similar trends visible across the industry, the ability of the company to continue to source funds at competitive rates will remain a key monitorable.

Exposure to Inherent Risk Associated with the Borrower Segment; Partly Offset by the Secured Nature of Lending: SRG primarily focuses on the self-employed and informal income borrower segment in rural areas, majority of whom have undocumented incomes. Furthermore, the customer segment is exposed to volatility in cash-flows and economic disruptions. However, the secured nature of the loan book (all loans secured against residential properties) with an average LTV of around 40% reduces risk to some extent.

Liquidity: Adequate

As per the ALM statement of December 31, 2021, the company has no negative cumulative mismatches in its up to one-year tenor bucket. The company had maintained cash and bank balance of Rs.7.7 crore and liquid investment of Rs.14.5 crore, as on December 31, 2021. The company has unavailed bank limits of Rs.53 crore, as on December 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology - Housing Finance Companies \(HFCs\)](#)

[Financial Ratios – Financial Sector](#)

About the Company

SRG Housing Finance Ltd. (SRG) is an Udaipur-based housing finance company engaged in the financing of housing loans and mortgage loans. SRG commenced operations from 2002 after getting registered with the National Housing Bank. Initially, the company was incorporated as Vitalise Finlease Pvt. Ltd. on March 10, 1999. Subsequently, the name of the company was changed to SRG Housing Finance Pvt. Ltd. in December 2000 and further its name was changed to SRG, and its constitution was changed to public limited in January 2004. SRG came out with an equity public issue in September 2012 and raised Rs.7.01 crore from the IPO proceeds and got listed on BSE's SME segment.

The company has been promoted by Mr. Vinod K Jain who looks after the overall management of the company. Mr. Vinod K Jain has an overall experience of more than 20 years in different businesses such as transport, finance, insurance, and construction and has been associated with SRG since inception. As on December 31, 2021, SRG has a branch network of 35 branches spread across 4 states and a total employee strength of 343. Loan portfolio outstanding as on December 31, 2021, stood at Rs. 332.2 crore with housing loan constituting 66.4% and Loan Against Property (LAP) portfolio constituting 33.6%.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)
Total operating income	72.59	76.66	57.96
PAT	17.95	18.83	14.56
Total Assets	328.46	390.60	392.74
Net NPA (%)	0.51	0.42	0.45
ROTA (%)	5.54	5.24	4.96

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	Proposed	50.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	50.00	CARE BBB; Stable				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@care edge.in for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Janet Felsia Thomas
Contact no.: 9833161236
Email ID: janet.thomas@careedge.in

Name – Mr. Sudhakar P
Contact no. - 044 -2850 1003
Email ID - p.sudhakar@careedge.in

Relationship Contact

Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

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