

## Svatantra Micro Housing Finance Corporation Limited

January 05, 2021

### Ratings

| Facilities                 | Amount<br>(Rs. crore)                                 | Rating <sup>1</sup>                                 | Rating Action |
|----------------------------|---|---|---------------|
| Long Term Bank Facilities  | 350.00<br>(Rupees Three Hundred Fifty Crore Only)     | CARE A+; Stable<br>(Single A Plus; Outlook: Stable) | Reaffirmed    |
| Non-Convertible Debentures | 53.10<br>(Rupees Fifty Three Crore and Ten Lakh Only) | CARE A+; Stable<br>(Single A Plus; Outlook: Stable) | Reaffirmed    |

\* Details of instruments/facilities in Annexure 1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instrument of Svatantra Micro Housing Finance Corporation Limited (SMHFCL) continue to factor in expected support from its promoters i.e. the Birla family and shareholders' investment companies which hold significant shareholding in the companies of the Aditya Birla group. The shareholding in SMHFCL is held by Svatantra Holdings Private Limited (SHPL) and 90% of shareholding in SHPL is held by Ms. Ananyashree Birla who is the Founder and Chairperson of the Svatantra group and has received funding through preference shares (to be repaid after ten years) from Birla Group Holdings Private Limited (BGHPL) and IGH Holdings Private Limited (IGHPL) which are investment companies of Aditya Birla group.

The ratings factor in good capitalization levels and moderate gearing levels, improved ability to access funds, stable business growth, experienced management team and expected growth on the back of untapped potential in the low income unorganized borrower segment along with government thrust in providing affordable housing throughout the country.

The ratings are constrained by SMHFCL's moderate profitability, moderate asset quality along with moderate seasoning of the loan portfolio along with exposure to customer base belonging to the low income group which has high susceptibility to economic slowdown.

Post the acquisition by SHPL, the company has focused on retail home loans. The company follows a branch less model where in the sourcing of business is done on project based approach and credit is done through a central credit committee. Performance of asset quality under the new management over the medium needs to be monitored and remains a key rating sensitivity.

### COVID-19 Impact:

The company had provided a blanket moratorium to all its borrowers and initiated e-NACH facility only post confirmation from its borrowers in line with the RBI's regulatory package. The company saw around 50% availing the moratorium from March, 2020 to May, 2020 while its collection levels improved to 80% of customers during the second phase of moratorium from June, 2020 to August, 2020. Post the end of the moratorium period, the company has witnessed collection efficiency of about 85% till November 2020.

The company has done complete 10% provisions of Rs.1.97 crore on accounts amounting to Rs.19.73 crore which were under overdue categories as on February 29, 2020, and the company estimates one-time restructuring of 3%-3.5% of the total advances.

### Key Rating Sensitivities

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

- Scaling up of operations in sustainable and profitable manner
- Sustained improvement in profitability (ROTA – above 2.5%)
- Improvement in geographical diversification while scaling up

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

- Significant dilution in promoter shareholding or reduction in promoter group support
- Weakening in the credit profile of the promoter group
- Deterioration in asset quality with GNPA over 4%
- Increase in overall gearing above 7 times

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Detailed description of the key rating drivers****Key Rating Strengths*****Expected continued support from promoters***

SHPL acquired the entire shareholding in SMHFCL from September, 2018. Consequent to the acquisition, the erstwhile directors and key management resigned w.e.f. September 15, 2018 and have been replaced by representatives from SHPL. The board of Directors of SMHFCL is headed by Ms. Ananyashree Birla and comprises senior personnel having vast experience in the financial sector. The Board includes Mr. Vineet Chattree (Managing Director) and Mr. Anil Chirania who have long experience with the Aditya Birla group. The senior management team comprises employees having vast experience in the housing finance sector. SMHFCL is expected to receive capital and management support from the promoters as and when required.

Post-acquisition by SHPL, the name of the company has been changed to 'Svatantra Micro Housing Finance Limited' thereby extending the 'Svatantra' brand to the company.

SHPL infused capital of Rs.30 crore during FY20 (refers to period from April 01 to March 31) by way of compulsorily convertible preference shares (CCPS) and additional Rs.15 crore during H1FY21 (refers to period from April 01 to September 30) by way of equity infusion. SMHFCL is expected to receive funding support from the promoter group as and when required and is a key rating sensitivity.

***Good capitalization levels and moderately low gearing levels***

Post the capital infusion, the tangible net worth (including CCPS) increased by Rs.30 crore to Rs.143.32 crore as on March 31, 2020. Against this, the company had total borrowings of Rs.570 crore with overall gearing of 3.98 times (P.Y.: 4.11 times) as on March 31, 2020.

During H1FY21, the company has raised debt fund by way of bank loans and its borrowings stood at Rs.661.73 crore as on September 30, 2020 and with infusion of additional Rs.15 crore, the tangible net worth (including CCPS) stood at Rs.161.22 crore as on September 30, 2020 with overall gearing of 4.03 times.

***Healthy business growth albeit modest size of operations***

The target segment of the company is first-time home buyers in economically weaker segment (EWS) / low income group (LIG) with loan requirements largely less than Rs.10 lakh and majority of the loan portfolio gets covered under Pradhan Mantri Awas Yojana (PMAY).

Given the relatively lower portfolio base, SMHFCL's loan portfolio has grown at a CAGR of around 22% over the last three years, while its home loan disbursements grew at a CAGR of 18% over the same period. Post the acquisition by Svatantra, the loan portfolio has continued to consistently grow to Rs.762 crore as on September 30, 2020. The non-home loan portfolio has reduced to around 4% of total loan portfolio as on September 30, 2020 from around 10% as on March 31, 2017.

***Diversified resources profile***

Post-acquisition by Svatantra group, the funding profile as well access to funding for the company has increased. The borrower base of the company has widened to 15 banks and 3 NBFCs as on September 30, 2020. The company has mobilized longer tenure borrowings from banks & FIs which comprised 63% of total borrowings while NHB refinance constituted 23% of the total borrowings as on September 30, 2020.

As the company intends to remain focused on the low income segment with limited margins, it would continue to rely on refinance from NHB. However, SMHFCL's ability to maintain low cost borrowings proportion in the form of NHB refinance and broad basing its bank borrowings remains to be seen. The company's liquidity profile was comfortable with long term funding sources mobilized by the company to match with the tenor of housing loans.

**Key Rating Weaknesses*****Moderate asset quality parameters***

The company's Gross NPA ratio marginally declined to 1.60% [P.Y.: 1.54%], and its Net NPA ratio improved to 1.32% [P.Y.: 1.28%] at the end of FY20 due to deterioration in asset quality in its home loan portfolio. The NPA to net worth ratio stood at 6.35% as on March 31, 2020 as against 6.52% as on March 31, 2019. Gross NPA ratio on housing loans was 1.61% while it was 0.99% on non-housing loans. The company has a cap on the total amount of the project funded and enters a project that is at least 80% complete to reduce the project risk. The company has reported Gross NPA ratio and Net NPA ratio at 1.43% and 1.13% respectively as on September 30, 2020. The decline is due to recovery from existing NPA accounts and no new accounts being classified as NPA in accordance with RBI notification.

***Moderate profitability***

During FY20, total income increased by 26% supported by 26% growth in interest income on account of higher disbursements. The interest expense increased by 34% on account of higher borrowings and increased rate of borrowings due to overall market conditions of the NBFC sector, accordingly there was 9% growth in net interest income. The company caters to price sensitive segment and accordingly did not increase its rates to cover the increased interest rates. Consequently, SMHFCL's net interest margin (NIM) in FY20 declined to 3.30% from 3.66% in FY19. The profitability was further impacted due to increase in operating

expenses which has increased on account of 72% increase in employee expense which constitute 58% of total operating expense and higher provisioning. SMHFCL reported Profit After Tax (PAT) of Rs.2.49 crore on total income of Rs.76.02 crore during FY20 as against PAT of Rs.7.85 crore on total income of Rs.60.36 crore in FY19. As a result, the company's ROTA decreased from 1.46% in FY19 to 0.38% in FY20, while RONW declined to 2.22% from 7.19% in FY19.

The company reported PAT of Rs.2.50 crore for H1FY21 on a total income of Rs.41.51 crore due reversal in provisioning and reduced cost of funds. The company has also disbursed Rs.71.41 crore during H1FY21.

#### **Geographical concentration of the portfolio**

SMHFC's loan portfolio is spread across about 1300 projects spread over 12 states. The top three states viz. Gujarat, Maharashtra and Rajasthan constituted 83% of the home loan portfolio as on September 30, 2020 [FY19: 85%]. As on September 30, 2020, portfolio outstanding in top 10 construction projects wherein SMHFC has granted individual home loans comprised 1% [FY20: 6%] of the total loan portfolio.

#### **Limited portfolio seasoning and vulnerable asset quality on account of exposure to economically weaker borrower profile**

SMHFC commenced full-fledged lending operations in FY11; as a result, the loan portfolio of SMHFCL has limited seasoning. Although the company has so far demonstrated strong ability to recover its overdues and maintain asset quality performance through different economic cycles and geographies is yet to be established. Though, the company has managed moderate asset quality, its target borrower segment is largely economically vulnerable comprising self-employed micro-entrepreneurs and un-organized sector salaried workers.

#### **Liquidity: Adequate**

The ALM profile as on September 30, 2020 had no cumulative negative mismatches up to 1 year. As on September 30, 2020, company had cash and cash equivalents of Rs.72.53 crore. The company has received capital infusion of Rs.30 crore during FY20 and Rs.15 crore during H1FY21 from its parent Svatanttra Holdings by way of CCPS. The company gets its loans re-financed by National Housing Board (NHB) which further helps the liquidity of the company.

**Analytical Approach:** Standalone business profile, management and financial risk profile of SMHFCL along with support and linkages from promoters and investment companies of Aditya Birla Group which hold 100% stake in SMHFC

#### **Applicable Criteria:**

[Criteria on assigning Outlook and Creditwatch to Credit Ratings](#)

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

[CARE's criteria for Housing Finance Companies](#)

[Financial ratios - Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

#### **About the Company**

Svatanttra Micro Housing Finance Corporation Limited (SMHFCL) (formerly known as Micro Housing Finance Corporation Ltd.) a Housing Finance Company registered with National Housing Bank "NHB". SMHFCL was incorporated on May 16, 2008 as 'Micro Housing Finance Corporation Limited'. The company got its registration certificate on February 09, 2009 and started its operations in June, 2009 and now is into 11th year of its operations.

The company received an approval for change of name to 'Svatanttra Micro Housing Finance Corporation' from 'Micro Housing Finance Corporation' on August 22, 2019.

As on March 31, 2020, SMHFC had a loan book of Rs.692.36 crore and balance sheet size of Rs.722.29 crore. The average tenure of the portfolio outstanding as on December 31, 2019 stood at 16.01 years. The average ticket size is low at Rs.7.8 lakhs with an average ROI of 11.03%. Presently, the company has around 281 employees. The company has an office in Mumbai and no branches but has one back-office in each state to house all its requirements and the company leverages the highly diversified branch network of Svatanttra Microfin Private Limited. Over the years the SMHFCL has shown a robust growth both operationally as well as on financial front. With cumulative client base of more than 27,500; the company has sanctioned housing loans majorly covering 6 states (Gujarat, Maharashtra, Madhya Pradesh, Rajasthan, West Bengal, and Chhattisgarh) covering more than 1291 approved low cost housing projects. The portfolio of the company as on September 30, 2020 is close to Rs.762 crore spread across more than 140 cities. Since inception the company has been profitable year on year and as on date the net worth of the company is close to Rs.161 crore with capital adequacy ratio of more than 32%.

| Brief Financials (Rs. crore) | FY19 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total Income                 | 60.36    | 63.59    |
| PAT                          | 7.85     | 7.85     |
| Total Assets                 | 577.61   | 594.28   |
| Net NPA (%)                  | 1.28     | 1.22     |
| ROTA (%)                     | 1.46     | 1.44     |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

#### Annexure-1: Details of Instruments/Facilities

| Name of the Instrument                | Date of Issuance | Coupon Rate | Maturity Date     | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---------------------------------------|------------------|-------------|-------------------|-------------------------------|---|
| Fund-based-LT-Term Loan               | -                | -           | -                 | 350.00                        | CARE A+; Stable                           |
| Debentures-Non Convertible Debentures | June 22, 2017    | 9.45%       | November 18, 2024 | 26.50                         | CARE A+; Stable                           |
| Debentures-Non Convertible Debentures | June 25, 2018    | 10.60 %     | November 18, 2024 | 26.60                         | CARE A+; 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019  | Date(s) & Rating(s) assigned in 2017-2018 |
| 1.      | Fund-based - LT-Term Loan              | LT              | 350.00                         | CARE A+; Stable | 1)CARE A+; Stable (07-Apr-20)             | -   | 1)CARE A- (Under Credit watch with Developing Implications) (10-Oct-18)<br>2)CARE A-; Stable (24-Jul-18) | 1)CARE A-; Stable (12-Jul-17)             |
| 2.      | Debentures-Non Convertible Debentures  | LT              | 53.10                          | CARE A+; Stable | -   | 1)CARE A+; Stable (30-Mar-20)             | 1)CARE A- (Under Credit watch with Developing Implications) (10-Oct-18)<br>2)CARE A-; Stable (24-Jul-18) | 1)CARE A-; Stable (12-Jul-17)             |

**Annexure-3: Complexity levels of various instruments rated for this company**

| Sr. No. | Name of the Instrument                  | Complexity Level |
|---------|---|------------------|
| 1.      | Fund-based - LT-Term Loan               | Simple           |
| 2.      | Debentures - Non Convertible Debentures | Simple           |

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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