

## Swagat Housing Finance Company Limited

January 14, 2021

### Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	10.00 (Rs. Ten crore only)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed

*Details of Instruments/Facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating continues to remain constrained by small scale of operations of Swagat Housing Finance Company Limited (SHFC) along with moderate profitability, geographic concentration of operations, limited resource base and weaker borrower profile which comprises of individuals in the low-income group which are vulnerable to economic downturns. The rating, however, factors in the experience of promoters of SHFC in the housing finance segment with long track record, moderate asset quality and low gearing.

Increase in the scale of operations with geographical diversification along with improvement in spreads and maintaining adequate profitability as well as liquidity are the key rating sensitivities.

### Rating Sensitivities

**Positive factors: Factors that could, individually or collectively, lead to positive rating action/upgrade:**

- Improvement in the asset quality with GNPA of less than 1% on sustained basis
- Improvement in the profitability with ROTA of 1.5% on sustained basis
- Sustained growth in the loan portfolio with year over year growth increasing by 10% or more
- Broad basing resource profile with additional source of liquidity

**Negative factors: Factors that could, individually or collectively, lead to negative rating action/downgrade:**

- Deterioration in the asset quality with GNPA above 5%
- Reduction in the profitability leading to sustained losses
- Inability to raise fresh funds through varied sources.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Experienced Promoters with long track record

The board of SHFC comprises of senior personnel having vast experience. The chairman, Mr. Ramesh Shankar Prabhu has more than two and a half decades of experience in housing sector. The MD, Mrs. Sahana Prabhu is also the Director of Prabhu Associates Consultants Pvt. Ltd. Mr. R B Harnal (independent director) is a former Chief General Manager (Tech.) of NABARD, General Manager (Tech) Reserve Bank of India, etc. Mr. Siddharth Prabhu (Executive Director), is a Chartered Accountant with over 7 Years of Experience in the fields of Audit & Taxation and has established credibility in spearheading the entire management activities and achieved portfolio growth in the affordable housing segment. Mr. Satish Kotian (Executive Director) has over two and a half decades of experience in Indian housing finance industry. He has strong domain knowledge in the areas of business operations and technology.

#### Low gearing and adequate capitalisation levels

SHFC's loan book has largely been funded by equity. The external debt was Rs. 1.54 crore as on March 31, 2020 as compared to Rs. 2.34 crore as on March 31, 2019. The tangible net-worth of the company stood at Rs. 15.68 crore as on March 31, 2020 as compared to Rs. 15.19 crore as on March 31, 2019. The gearing level was low at 0.10 times as on March 31, 2020 as compared to 0.15 times as on March 31, 2019. Also, SHFC has reported a high capital adequacy of 185.85% as on March 31, 2020 as compared to 169.73% as on March 31, 2019. Going forward the company may increase its debt levels to support the business expansion and grow its loan portfolio.

**Moderate Asset Quality**

SHFC's loan portfolio remains granular as the company largely lends in the affordable housing segment and to customers in the low and middle income groups. In FY20, SHFC's Gross NPA and the Net NPA ratio stood at 2.00% and 1.39% respectively as compared to 2.97% and 2.11% as on March 31, 2019. As on September 30, 2020, the GNPA stood at 1.98% whereas the Net NPA stood at 1.30%. The company's asset quality challenges stem mainly from the home loan portfolio where the repayments can be irregular pertaining to lower ticket sizes and amidst the ongoing COVID related uncertainty. While the company's collections were hit during the initial days of lockdown, they have been able to reach out to their customers to raise the collection levels. Going forward any moderation in collection levels or asset quality metrics shall be a key monitorable.

**Key Rating Weakness****Small size of operations with small resource base**

SHFC commenced its business in 1996 and had a loan book of Rs. 14.87 crore as of March 31, 2020 and total asset base of Rs. 18.94 crore as compared to loan book of Rs. 12.94 crore and asset base of Rs. 18.22 crore as on March 31, 2019. SHFC is in the business of providing Housing loans for almost more than two decades. However, majority of the portfolio is built in last four years. Company is majorly funded by equity and thereby going forward, the ability of the company to broaden its resource base to fund its envisaged growth will be critical and will be key monitorable.

**Moderate Profitability**

The company reported PAT of Rs. 0.49 crore as on March 31, 2020 against Rs. 0.48 crore as on March 31, 2019. PAT of the company for September 30, 2020 was Rs. 0.25 crore as compared to Rs. 0.45 crore in September 30, 2019. The decrease in PAT was due to decrease in other income (includes income from loan processing fees and other charges) from Rs. 0.37 crore as on September 30, 2019 to Rs. 0.04 crore in September 30, 2020. Profitability of the company has been muted mainly due to lower disbursements and higher operating expenses during H1FY21. Going forward, the company's ability to expand business and raise profitability shall remain key monitorable.

**Target customer segment comprises of low and middle income group, which may be vulnerable to economic downturns**

The target segment of SHFC is low and middle income group which may be vulnerable to economic downturns. As on March 31, 2020, about 54% of the customers were salaried while the remaining 46% were in the self-employed segment. The strong credit appraisal processes, policies and experience of the promoter group along with average LTVs lesser than 65% provides comfort against the borrower profile.

**Geographical concentration**

The company operates through its 2 branches from Mumbai where most of its portfolio is concentrated. The company's primarily loan disbursement concentration is in the extended suburb region of Mumbai like Palghar, Vasai-Virar city, Thane and Kalyan. The company plans on expanding and adding some more branches going forward.

**Liquidity Profile: Adequate**

Borrowings of most HFCs are of shorter tenure in comparison to the loan portfolio which ranges between 5-20 years and therefore, the asset-liability mismatches are inherent in the housing finance business. However, the housing loan book of SHFC is mainly funded by Net-worth which makes liquidity profile of the company comfortable. Further as on September 30, 2020, SHFC had Rs. 3.18 crore of cash and cash equivalents along with Rs. 2.10 crore of investments in mutual funds which also provide additional liquidity comfort. The company has also received funding from National Housing Bank to the tune of Rs. 2.70 crore from May 2020 to October 2020.

**COVID Impact on the Company:**

All the customers were given moratorium on an Opt in basis. About 52% of the customers have availed moratorium initially during the starting months of the moratorium period, however, as on August 31, 2020 about 45% were under the moratorium period. The company has not taken moratorium from any of its lenders. As per the management, SHFC

would be focusing on collections in the near future especially till COVID prevails and has restricted any fresh disbursements. Due to the scale of operations and the ongoing pandemic, the asset quality and liquidity parameters remain monitorable going forward.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating Methodology- Housing Finance Companies](#)  
[Criteria for assigning Outlook to Credit Ratings](#)  
[CARE's Policy on Default Recognition](#)  
[Financial ratios - Financial Sector](#)

**About the Company**

Swagat Housing Finance Company Limited (SHFC) is a Mumbai-based small-sized housing finance company (HFC) engaged in the financing of housing loans (HL) and loan against property (LAP). SHFC was incorporated on July 15, 1996 with the paid up capital of Rs 5 lakhs. By 2002, the company had a portfolio of around Rs 3 crores in HL and LAP and was allowed to accept public deposit for the deployment as loan and advances. In the year 2003, all the housing finance companies were mandatorily asked to register with National Housing Board (NHB), repay public deposits and increase net owned funds to Rs 25 lakhs. And therefore, the company repaid the deposit and received NHB license - Certificate of Registration on April 8, 2003. In 2008, the NHB mandated to increase the net owned funds to Rs 2 crores and w.e.f April 1, 2014, the said requirement has increased to Rs 10 crores. The company provides loans for the purpose of purchase (HL) or renovation of residential properties (LAP) to both salaried and non-salaried people. SHFC's loan portfolio was Rs. 14.87 crore in FY20 (Rs. 12.94 crore in FY19) comprising of HL of ~82% and non-housing loans of 18% as on March 31, 2020.

**Brief financials of the company are as under:**

Particulars (Rs. Crore)	FY19 (A)	FY20 (A)
Total Income	2.25	2.76
PAT	0.48	0.49
Interest coverage (times)	2.94	3.79
Total Assets	18.22	18.94
Net NPA (%)	2.11	1.39
ROTA (%)	2.68	2.48

*Note: A: Audited. All ratios are as per CARE Calculations.*

**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	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	-	-	-	-	10.00	CARE BB; 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.	Long Term Bank Facilities	LT	10.00	CARE BB; Stable	1)CARE BB; Stable (07-Apr-20)	1)CARE BB; Stable (02-Apr-19)	1)CARE BB; Stable (04-Apr-18)	-

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

Sr. No	Name of Instrument	Complexity Level
1	Long term bank facilities	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.

## Contact us

### Media Contact

Name - Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact 1

Name - Mr. Abhijit Urankar  
Contact no.- +91-22-6754 3669  
Email ID – [abhijit.urankar@careratings.com](mailto:abhijit.urankar@careratings.com)

### Analyst Contact 2

Name - Mr. Sanjay Kumar Agarwal  
Contact no. – +91-22-6754 3500 / 582  
Email ID – [sanjay.agarwal@careratings.com](mailto:sanjay.agarwal@careratings.com)

### Business Development Contact

Name: Mr. Ankur Sachdeva  
Contact no.: +91-22-6754 3495  
Email ID – [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

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