SRG Housing Finance Limited

December 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	300.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**300.00 (₹ Three Hundred Crore Only)**		
Non-Convertible Debentures	45.50	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Long-Term Instruments	**45.50 (₹ Forty-Five Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and non-convertible debentures of SRG Housing Finance Limited (SRG) continues to 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. CARE 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 4% and comfortable capital adequacy levels maintained by the company. 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 5.5 years ended September 30, 2022 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 FY22 & H1FY23 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 2.46% as on September 30,2022 as against 2.47% as on March 31, 2022 (March 31, 2021: 2.34%). Furthermore, the company did not restructure any loans. The ability 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, CARE notes that SRG's loan book has grown over 4 times from Rs.81.8 crore as on March 31, 2017 to Rs.370.0 crore as on September 30, 2022 and taking into account the longer tenure nature of residential mortgage loans this leads to moderate seasoning.

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

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 at 9.65% during H1FY23 (FY22 (A): 10.56%) The decrease in NIM during H1FY23 is due to higher disbursements recorded in Q2FY23 for which entire interest income is yet to be reflected. Also the company has increased it share of salaried segment (23% as on September 30, 2022 as against 22% as on March 31, 2022) resulting in slightly lower yields as compared to self-employed which may have some impact on the NIM. PPOP has remained stable at Rs.12.0 crore during H1FY23 (FY22: Rs.27.2 crore). The company's opex/average total assets continues to remain high, at 6.85% during H1FY23 (FY22: 5.87%) with company being in the growth phase. However, the credit cost stood lower, at 0.28% during H1FY23 (FY22: 0.18%). Consequently, ROTA continued to remain healthy at 4.23% during H1FY23, as against 5.04% during FY22. Going forward, considering the company's branch expansion plans in the pipeline over the near- to medium-term the operational expenses are expected to remain elevated however the same is expected to improve with the growth in scale of operations, owing to benefits of economies of scale 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 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. 119.39 crore as on September 30, 2022- (March 31, 2022: Rs. 110.82 crore) supported by internal accruals. Consequently, capital levels remained adequate with a Tier-1 CAR and CAR of 37.85% and 38.25%, respectively as on September 30, 2022. As on September 30, 2022, gearing stood at 2.80x (March 31, 2022: 2.63x). The company has also allotted share warrants of Rs. 10 crore with conversion to equity within 18 months from the date of allotment. This would lead to increase in the networth in near term. Going forward, additional capital infusions are planned in the near term by the promoter/investors. 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 September 30, 2022, SRG operates out of the four states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra, with 62 branches. The loan portfolio stood at Rs.370.0 crore, with the top geographic exposure being Rajasthan, which forms 61.0% of the portfolio. Geographic diversification is expected to improve gradually as the company increases its scale over the medium-term.

Moderately diversified resource profile: The company's borrowing profile is moderately diversified for its size and comprises of NHB refinance lines (12.1%) and term loans from banks and NBFCs/HFCs (74.4%) and NCDs (13.5%) as on November 30, 2022. The company has an established lender relationship with 22 lenders, as on November 30, 2022. While 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.

Exposed 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 (77% as on September 30, 2022), 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 September 30, 2022, the company has no negative cumulative mismatches. Liquidity profile is adequate with cash and bank balance, investments and undrawn balances available of Rs. 58.18 crore as on December 12, 2022.

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 September 30, 2022, SRG has a branch network of 62 branches spread across 4 states. Loan portfolio outstanding as on September 30,2022 stood at Rs. 370.0 crore with housing loan constituting 70.3% and Loan Against Property (LAP) portfolio constituting 29.7%.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	30-09-2022 (UA)
Total Income	76.67	80.46	44.02
PAT	18.83	20.32	9.30
Total Assets	390.62	415.13	464.64
Net NPA (%)	0.42	0.42	0.45
ROTA (%)	5.24	5.04	4.23

A: Audited; UA; Unaudited; All ratios are as per CARE's 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

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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term	-	29-11-2021	-	31-03-2032	198.81	CARE BBB; Stable
Fund-based-Long Term-Proposed	-	-	-	-	101.19	CARE BBB; Stable
Non-convertible Debentures	INE559N07025	29-06-20202	11.35%	30-06-2023	10.00	CARE BBB; Stable
Non-convertible Debentures	INE559N07033	31-07-2020	11.00%	31-07-2023	25.00	CARE BBB; Stable
Non-convertible Debentures	INE559N07041	07-12-2020	10.45%	31-12-2023	8.90	CARE BBB; Stable
Non-convertible Debentures (Proposed)	-	-	-	-	1.60	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long Term	LT	300.00	CARE BBB; Stable	1)CARE BBB; Stable (05-Jul-22) 2)CARE BBB; Stable (04-May-22)	-	-	-
2	Debentures-Non-Convertible Debentures	LT	45.50	CARE BBB; Stable	-	-	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

All instruments	Detailed Explanation
A. Financial covenants	
I. Capital Adequacy	Company to maintain minimum capital adequacy levels as mandated by RBI from time to time.
B. Non-Financial covenants	
II. Rating Related Clause	In case the rating is downgraded to BBB- from BBB, additional 0.25% p.a. would be payable till the rating remains lower than BBB. The bank has a right to call for early redemption at par in case the rating falls by 2 notches from BBB.

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based-Long Term	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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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