India Shelter Finance Corporation Limited

August 30, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,035.00	CARE A+; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating for the long-term bank facilities of India Shelter Finance Corporation Limited (ISFCL) factors in the company's healthy capital structure, underpinned by the majority stake-holding of WestBridge Capital, a private equity (PE) investor, with 57% as on March 31, 2023. The rating also derives strength from the company's ability to consistently grow its scale of operations with a five-year compounded annual growth rate (CAGR) of 40% of assets under management (AUM) while improving its gross non-performing assets (GNPA) ratio to 1.13% as on March 31, 2023, as compared with 2.12% as on March 31, 2022. Furthermore, the company has crossed an AUM of Rs. 5,000 crore in the month of August 2023.

The rating also factors in its improving profitability profile and good financial flexibility, with the company raising funds through diversified sources including banks, the National Housing Bank (NHB) and financial institutions (FIs), among others. The rating also takes into consideration the comfortable liquidity profile.

These rating strengths are, however, constrained by the relatively low seasoning of the portfolio with the majority of the portfolio being generated over the past three years and the relatively high geographical concentration, with the top three states accounting for 63% of the AUM as on March 31, 2023. Furthermore, ISFCL mainly caters to low-middle income level borrowers that remain inherently vulnerable to macro-economic challenges. The rating is also constrained by the presence of interest rate risk, as the majority of the lending done by the company is at a fixed rate whereas the majority of the debt is at a floating rate.

Rating sensitivities: Factors likely to lead to rating actions

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

- Significant increase in the net worth base, which will provide sufficient base to fund the growth in the medium term.
- Considerable growth in the scale of operations, with the company maintaining GNPA of less than 2% on a sustained basis.

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

- Decline in profitability, with return on total assets (RoTA) going below 1%.
- Deterioration in the asset quality, with GNPA of more than 3% on a sustained basis.
- Gearing levels going above 4x on a sustained basis.
- Material change in the shareholding pattern, leading to a reduction in envisaged support from the existing promoters.

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook reflects the continued growth in the operations while maintaining profitability. The company has filed a draft red herring prospectus (DRHP) on August 04, 2023, and is expecting the initial public offering (IPO) by the end of December 2023, which will further boost the capital base for future growth. The positive outlook also signifies CARE Ratings' expectation that the company will continue to grow its business operations as envisaged in a calibrated manner with improvement in profitability and asset quality metrics. Furthermore, the revision in the outlook takes comfort from the consistent support received from its promoter,

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

WestBridge Capital, which is looking at the investment in ISFCL from a long-term perspective and does not plan to sell any stake in the secondary sale during the IPO. CARE Ratings expects a consistent growth in AUM for the company while improving its asset quality.

However, the outlook may be revised back to stable in case the company is unable to grow at the envisaged growth rate or it reports moderation in its asset quality and profitability metrics.

Detailed description of the key rating drivers

Key strengths
Healthy capitalisation profile
With regular capital infusion by PE investors and internal accruals, the tangible net worth (TNW) of ISFCL has been improving over the years and stood at ₹1,224.66 crore as on March 31, 2023, up from ₹1,072.71 crore as on March 31, 2022. Additionally, the company has filed a DRHP for ₹1,800 crore, of which ₹1,000 crore is fresh issue and ₹800 crore is offer for sale, and the IPO is expected by the end of December 2023. The proposed IPO will boost the capital base for further growth.

With the rise in loan book, the capital adequacy ratio (CAR) moderated to 52.66% as on March 31, 2023, from 55.87% as on March 31, 2022, although it is well above the regulatory benchmark of 15%. As on March 31, 2023, the gearing stood at 2.44x, up from 1.93x as on March 31, 2022. Furthermore, CARE Ratings takes comfort from WestBridge Capital's consistent support to fund future growth in the form of equity, if required. CARE Ratings expects the net worth to get boosted by proposed IPO while the comfort is also derived from the management's plan to continue growing in a calibrated manner, with a maximum planned gearing of 4x.

Majority stake-holding by WestBridge with a track record of regular capital support
ISFCL is majorly, i.e., 99%, held by marquee PE investors and other institutional investors, of which the largest investor is WestBridge Capital, which held 57% stake in the company through WestBridge Crossover Fund LLC and Aravali Investment Holdings; followed by Nexus Ventures Partner, which held 29% of stake through Nexus Ventures III Limited and Nexus Opportunity Fund II Limited; and Madison India Capital, which held 12% of stake through Milestone Trusteeship Services Private Limited and Starrock as on March 31, 2023.

With the planned IPO, Nexus Ventures Partner and Madison India Capital will be selling off part of their stakes in ISFCL. However, WestBridge plans to continue its association with the company over the long term and will not be selling any stake in secondary sale. Also, the major shareholder, WestBridge remains committed to support the company in case the IPO is delayed.

Improvement in scale of operations
The AUM of ISFCL has been on a rising trend over the years, with a five-year CAGR of 40% and stood at ₹4,360 crore as on March 31, 2023 (+42% y-o-y) which further increased to ₹4,768 crore as on June 30, 2023 (+9% y-o-y).

The share of housing loan has remained in majority with 61% of the AUM and the balance is towards loan-against property (LAP) as on June 30, 2023. Furthermore, the company sells off some parts of its LAP portfolio in the form of direct assignment transactions. The company plans to maintain a share of the off-book portfolio in its AUM at a maximum 20%. As on March 31, 2023, the share of the off-book portfolio stood at 14-15% of the AUM.

The operations of ISFCL have been well spread across 15 states, however, the top three states – Rajasthan, Maharashtra and Madhya Pradesh – continue to dominate the major operations. Although the concentration in the top three states is on a declining trend with 63% of the AUM as on June 30, 2023, and March 31, 2023, from 80% of the AUM as on March 31, 2019.

CARE Ratings expects the scale of operations to continue to grow at healthy rate of around 40% y-o-y while reducing the concentration in the top three states.

Moderate profitability profile
In FY23, the yields declined to 14.8% due to the rising share of housing loans (HL) coupled with the company lending under special funding under affordable housing (which are at lower rate of interest than usual HL, i.e., 10.5%). The cost of funds moderated by a few bps in FY23 owing to the rise in share of borrowings from NHB (20% of the borrowings as on March 31, 2023, from 17% of the borrowings as on March 31, 2022). However, due to the reduction in yields in FY23, the margin of the company contracted to 7.8% from 8.1% in FY22.

The credit cost (as a percentage of total assets) ratio in FY23 moderated to 0.37% from 0.42% in FY22 owing to the higher recoveries and lesser slippages in FY23 as compared to FY22.

With the contraction in net interest margin (NIM) in FY23, the RoTA moderated to 4.1% in FY23 from 4.5% in FY22. With the rise in loan book (+37% y-o-y), the profit-after-tax (PAT) increased to ₹155 crore in FY23 from ₹128 crore in FY22. In Q1FY23, the company reported PAT of ₹47 crore with RoTA of 4.19%

Going forward, the profitability is expected to be healthy driven by high margins and controlled credit cost.

Diversified resource profile
The lender-wise borrowing profile of ISFCL is diversified, with 39 lenders in the form of banks, FIs, developmental FIs (DFIs), non-banking financial companies (NBFCs), and mutual funds (MFs). ISFCL has the majority of its borrowings from private banks (41%), followed by NHB (20%), public sector banks (PSBs; 17%), NBFCs (12%), DFIs (8%), and the remaining through capital markets. The borrowings are mainly in form of term loans (68%), followed by refinance from NHB (20%), external commercial borrowings (ECBs; 8%), and the balance in the form of non-convertible debentures (NCD; 4%). CARE Ratings expects the resource profile to remain diversified in the medium term.

Adequate management information system (MIS) and control systems
ISFCL has centralised its appraisal and monitoring systems with in-house teams for sourcing, technical and legal analysis, separate recovery team and a strong MIS system, which helps ISFCL in maintaining adequate control over the portfolio. The company operates in physical as well as digital mode (branded as "Phygital") through system-driven approach from sales to collection. The entire portfolio of the company is secured with moderate loan-to-values (LTVs) of around 50%. The company has around 56% of its portfolio having a CIBIL score of 700 and above.

Key weaknesses

Moderate, albeit improving asset quality
Over the years, ISFCL's asset quality has remained around similar levels, with the GNPA ratio hovering below 1.40%. However, in FY22, its GNPA ratio increased to 2.12% from 1.78% as on March 31, 2021, on account of significant slippages. In FY23, the improving collection efficiency along with write offs led to a reduction in the GNPA ratio to 1.13%, notably the lowest in six years. The company reported a net non-performing assets (NNPA) ratio of 0.85% as on March 31, 2023, down from 1.60% as on March 31, 2022. As on June 30, 2023, the GNPA and NNPA ratio improved to 1.01 and 0.75%, respectively.

With a reduction in the restructured portfolio in FY23 (-13% y-o-y) to ₹27 crore from ₹30 crore as on March 31, 2022, the net stressed assets ratio (percentage of net advances) reduced to 1.33% as on March 31, 2023, from 2.54% as on March 31, 2022.

Going forward the company's ability to contain its asset quality along with its projected high growth remains key monitorable.

Limited portfolio seasoning
The seasoning of the portfolio remains limited, with the majority of the portfolio being generated over the past three years while the behavioral tenure for HL is eight years (against an average tenure of 16 years) and non-HL of 6.5-7 years (against an average tenure of 11 years). Going forward, the performance of the company in the long term is yet to be seen, once the portfolio is seasoned.

Interest rate risk
ISFCL mainly lends at a fixed rate of interest, with 93% of the loan book and the balance is at a floating rate whereas around 73% of its borrowings as on June 30, 2023, are at a floating rate, thus exposing it to interest rate risk in a rising interest rate scenario. Nevertheless, as a large part of the loan book is funded by equity, and so, to that extent, the risk is mitigated. Also, the company charges prepayment penalty in cases where loans have been taken on fixed interest rates, which further adds to the bottom-line in a falling interest rate scenario. As per the company, from FY24, 15-20% of the loans will be at floating rates.

Liquidity: Strong
ISFCL has positive cumulative mismatches across all buckets as per the ALM statement as on March 31, 2023. The company has cash and bank balances of ₹263 crore and liquid investments of ₹349 crore as on date, and advances repayments of ₹279 crore for six months as against ₹325 crore of debt obligations for six months as per the ALM statement as on March 31, 2023.

Applicable criteria

[Policy on default recognition](#)
[Financial Ratios - Financial Sector](#)
[Rating Outlook and Credit Watch](#)
[Housing Finance Companies](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

ISFCL, originally incorporated in the name of Satya Prakash Housing Finance Private Limited on October 26, 1988, with the NHB, was re-incorporated on March 12, 2010, in the name of ISFCL, post-acquisition by Anil Mehta and others. The company commenced operations in its present form in March 2010 under the new management. ISFCL extends loans for an average ticket size of ₹10-11 lakh to urban households who are a mix of self-employed and salaried workers with monthly incomes (documented or undocumented) of ₹25,000 and above, living in the periphery of urban and suburban areas of Tier-II and Tier-III cities. It offers products like home construction, extension, improvement, purchase, and LAP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total income	459.81	605.63	187.78
PAT	128.45	154.98	46.96
Interest coverage (times)	2.13	1.96	1.89
Total Assets	3217.81	4,291.63	4,694.18$
Net NPA (%)	1.60	0.85	0.75
ROTA (%)	4.53	4.13	4.19

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.
$: Reported by the company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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 – LT-Term Loan	-	-	-	July 2032	1035.00	CARE A+; Positive

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	1035.00	CARE A+; Positive	-	1)CARE A+; Stable (02-Sep-22)	1)CARE A; Positive (02-Mar-22)	1)CARE A; Stable (18-Mar-21)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr No	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities, please click here

Note on the 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:
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