SRG Housing Finance Limited
December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00 (Enhanced from 300.00)	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	1.20 (Reduced from 45.50)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers
The ratings assigned to the bank facilities and non-convertible debentures (NCDs) of SRG Housing Finance Limited (SRG) continue to derive strength from the long track record of the company and the promoter in managing the business operations in the housing finance segment and the established risk management practices, as underlined by its low loan-to value (LTV) and small ticket-size of the loans, which has helped SRG in maintaining a healthy asset quality. The ratings also consider healthy profitability and comfortable capital adequacy levels maintained by the company.

These rating strengths are, however, partially offset by its relatively smaller size of operations, geographical concentration of the portfolio, moderate seasoning of the book considering the loan portfolio growth in the last one and a half years ended September 30, 2023. The ratings also remain constrained due to the moderate resource profile and the inherent risks associated with the borrower profile, mainly the self-employed segment, which comprises a large proportion of the loan book.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:
- Sustained growth in the 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, individually or collectively lead to negative rating action/downgrade
- Deterioration in the asset quality, with the gross non-performing assets (GNPA) ratio above 5%.
- Deterioration in profitability on a sustained basis.
- Overall gearing exceeding 4x.

Analytical approach: Standalone

Outlook: Stable
CARE Ratings Limited (CARE Ratings) believes that the entity will sustain its business and financial risk profiles, with credit costs under control over the medium term.

Detailed description of the key rating drivers

Key strengths
Long track record of operations
Established in 1999, SRG commenced operations from 2002, post getting registered with the National Housing Bank (NHB) and the 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 Vinod K Jain, Managing Director (MD), who has extensive experience of over 25 years in the industry. He is supported by an experienced senior management team, with experience of over a decade in the banking and financial services industry. Archis Jain, who has been part of the organisation from 2017, has been appointed as the Chief Executive Officer (CEO) of the company with effect from April 24, 2023.

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

Comfortable capital adequacy levels
The company's capital base has increased to ₹137.7 crore as on September 30, 2023 (March 31, 2022: ₹110.8 crore), supported by internal accruals. Consequently, the capital levels remained adequate, with a Tier-1 capital adequacy ratio (CAR) and CAR of 32.03% and 32.44%, respectively, as on September 30, 2023. SRG's overall gearing levels witnessed moderation on account of the loan book growth during FY23 and H1FY24 and stood at 3.23x as on September 30, 2023 (March 31, 2022: 2.63x). The company has also allotted share warrants of ₹10 crore, of which ₹2.5 crore has been converted into equity as on September 30, 2023. The balance of ₹7.5 crore will be converted into equity by Q1FY25.

CARE Ratings understands that additional capital infusions are planned in the near term by the promoters and investors. This is expected to further augment the capital base of SRG, thus enhancing its ability to fund growth in its business, along with aiding its financial flexibility. CARE Ratings expects the company to maintain its overall gearing at less than 4x on a steady-state basis.

Healthy profitability, aided by higher-yield loans
The company disburses loans to the under-banked segment, largely providing home loan solutions to first-time borrowers, mainly to the self-employed segment, with an average ticket size of ₹7 lakh with an average lending rate of above 21%. Consequently, SRG's net interest margin (NIM) stood at 10.04% during FY23 (FY22 (A): 10.82%) The decrease in NIM during FY23 is due to the increase in borrowing cost, in line with the rising interest rate scenario in the market.

With SRG opening 25 new branches and the increase in employee strength during FY23, the operational expenses/average total assets increased to 7.25% in FY23 as against 5.87% in FY22. Consequently, the pre-provision operating profit (PPOP) stood lower at ₹23.2 crore during FY23 (FY22: ₹26.3 crore). The credit cost slightly increased to 0.47% during FY23 (FY22: 0.18%). Consequently, the return on total assets (ROTA) stood lower, yet healthy at 3.69% during FY23, as against 5.04% during FY22. The ROTA continued to remain healthy at 3.48% during H1FY24.

Going forward, considering the company's branch expansion plans in the pipeline over the near to medium term, CARE Ratings expects the operational expenses to remain elevated. However, the same is expected to improve with growth in the scale of operations, owing to benefits of the economies of scale, enabling SRG to maintain healthy profitability levels.

Comfortable asset quality levels, led by established risk management practices
SRG has an established risk management mechanism framework, including monitoring of the credit portfolio on a continuous basis. It follows conservative underwriting standards with a granular ticket size of around ₹7 lakh, largely lending to customers with a low LTV of around 40%. Subsequently, the company was able to maintain a healthy asset quality, with GNPA and net non-performing asset (NNPA) ratios of 2.40% and 0.56%, respectively, as on September 30, 2023. Furthermore, the company did not have any restructured 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 Ratings notes that SRG's loan book has grown over a CAGR of 31.9% during FY23 and H1FY24, and taking into account the longer tenure nature of residential mortgage loans, this leads to moderate seasoning.

Key weaknesses
Relatively small scale of operations with a geographically concentrated presence
As on September 30, 2023, SRG operates out of the four states of Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra, with 65 branches. The loan portfolio stood at ₹515 crore, with the top geographic exposure being Rajasthan, which forms 56.9% of the portfolio. the geographical diversification is expected to improve gradually, as the company increases its scale over the medium term. However, in the immediate term, the company will continue to operate in the existing geographies.

Moderately diversified resource profile
SRG's borrowing profile mainly comprises term loans from banks and non-banking financial companies (NBFCs) or housing finance companies (HFCs) forming 86.9% of the borrowings as on September 30, 2023. The remaining are from NHB (12.7%) and NCDs (0.4%) as on September 30, 2023. However, the company has an established lender relationship with 29 lenders, as on September 30, 2023. The cost of funds for SRG stood higher during FY23 compared to FY22, on account the rising interest rate scenario in the market. The ability of the company to source funds from diversified sources and at competitive rates will remain a key monitorable.

Exposed to inherent risk associated with the borrower segment
SRG primarily focuses on the self-employed and informal income borrower segment in rural areas (75.9% as on September 30, 2023), the 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 the risk to some extent.

Liquidity: Adequate
As per the asset and liability management (ALM) statement submitted by the company as on September 30, 2023, its liquidity profile is adequate, with no negative cumulative mismatches in any of the time buckets up to one-year, aided by sufficient cash

and liquid investments maintained by the company compared to its borrowings. The company had cash and bank balance and liquid investments of ₹52 crore as on September 30, 2023.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Housing Finance Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Housing finance company

SRG is an Udaipur-based HFC engaged in the financing of housing loans and mortgage loans. It commenced operations from 2002 after getting registered with the NHB. Initially, the company was incorporated as Vitalise Finlease Private Limited on March 10, 1999. Subsequently, the name of the company was changed to SRG Housing Finance Private Limited in December 2000, and further, its name was changed to SRG Housing Finance Limited, and its constitution was changed to public limited in January 2004. SHFL came out with an equity public issue in September 2012 and raised ₹7.01 crore from the initial public offering (IPO) proceeds and was listed in the small and medium enterprise (SME) segment on the Bombay Stock Exchange (BSE).

The company has been promoted by Vinod K Jain, who looks after the overall management of the company. He 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, 2023, the company has a branch network of 65 branches spread across five states and has a total employee strength of more than 600. The loan portfolio outstanding as on September 30, 2023, stood at ₹515.4 crore, with housing loans forming 64.3% and the loan-against-property (LAP) portfolio constituting 35.7%. SRG was listed on the National Stock Exchange (NSE) on August 21, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	80.46	93.83	58.05
PAT	20.32	17.06	9.66
Total Assets	415.13	508.63	601.68
Net NPA (%)	0.43	0.51	0.56
ROTA (%)	5.04	3.69	3.48

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

Status of non-cooperation with previous CRA: Brickwork Ratings has placed the long-term rating of SRG in the 'Issuer not cooperating' category on account of the inadequate information and continued lack of management cooperation vide press release dated September 19, 2023.

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-Long-term	-	-	-	19-05-2032	375.21	CARE BBB; Stable
Fund-based-Long-term-Proposed	-	-	-	-	124.79	CARE BBB; Stable
Non-convertible debentures	INE559N07025	29-06-2020	11.35%	29-06-2023	-	Withdrawn^
Non-convertible debentures	INE559N07033	31-07-2020	11.00%	31-07-2023	-	Withdrawn^
Non-convertible debentures	INE559N07041	10-12-2020	10.45%	10-12-2023	1.20@	CARE BBB; Stable
Non-convertible debentures (proposed)	-	-	-	-	-	Withdrawn^

@Outstanding amount. ^The instruments have been redeemed or not mobilised.

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-Long-term	LT	500.00	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Dec-22) 2)CARE BBB; Stable (05-Jul-22) 3)CARE BBB; Stable (04-May-22)	-	-
2	Debentures-Non-convertible debentures	LT	1.20	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Dec-22)	-	-

*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	Debentures-Non-convertible debentures	Simple
2	Fund-based-Long-term	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:

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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