India Shelter Finance Corporation Limited

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,335.00 (Enhanced from 1,035.00)	CARE A+; Positive	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating for long-term bank facilities of India Shelter Finance Corporation Limited (ISFCL), factoring its healthy capital structure, underpinned by the recent initial public offering (IPO) and majority stake-holding of WestBridge Capital, a private equity (PE) investor, with 47% as on December 31, 2023. The rating also considers the company's steadily growing scale of operations, having reported a five-year compounded annual growth rate (CAGR) of 40% of assets under management (AUM) up to FY2023, which continually grew at 29% ytd in 9MFY24 to AUM of ₹5,609 crore.

The rating also factors ISFCL's healthy profitability metrics, reflected in its return on total assets (ROTA) of 4.5% in 9MFY24 and fundraising ability through a diverse lender base, including banks, the National Housing Bank (NHB), and financial institutions (FIs), among others. The rating also considers the comfortable liquidity profile.

However, these strengths are constrained by the relatively low portfolio seasoning, with majority of the portfolio being generated over past few years, given the long-tenured advances and the relatively high geographical concentration; top three states account for 61% of the AUM as on December 31, 2023.

ISFCL mainly caters to low-middle income level borrowers that remain inherently vulnerable to macro-economic challenges. The rating is also constrained by interest rate risk, as majority of the lending is at a fixed rate whereas majority of the debt is at a floating rate. However, CARE Ratings notes that a large part of the loan book is funded by equity, thus mitigating the risk to an extent.

Rating sensitivities: Factors likely to lead to rating actions

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

- Sizable growth in the scale of operations, with the company maintaining gross non-performing assets (GNPA) of less than 2% on a sustained basis.
- Maintaining healthy profitability metrics with ROTA more than 3.5% on a sustained basis.

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

- Declining profitability, with ROTA reducing below 2%.
- Deteriorating asset quality, with GNPA of more than 3% on a sustained basis.
- Gearing levels increasing above 4x on a sustained basis.
- Material changes in the shareholding pattern, leading to a reduction in envisaged support from the existing promoters.

Analytical approach:

Standalone

Outlook: Positive

The positive outlook signifies CARE Ratings' expectation that the company will continue growing its business operations, as envisaged, in a calibrated manner with healthy profitability and asset quality metrics. The outlook takes comfort from the recent IPO issuance of ₹1,200 crore, boosting the capital position, and the consistent support received from its promoter, WestBridge Capital, focusing on long-term investment in ISFCL without plans of selling stake in the medium term. CARE Ratings expects the AUM to consistently grow, while improving asset quality.

However, the outlook may be revised to stable if ISFCL is unable to grow at the envisaged growth rate or its asset quality and profitability metrics moderate.

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

Detailed description of the key rating drivers:

Key strengths

Healthy capital base, further augmented with the recent IPO
PE investors have been regularly infusing equity in ISFCL up to FY19. In December 2023, the company issued an IPO of ₹1,200 crore, of which ₹800 was fresh issue. Post this, the company's tangible net worth (TNW) improved to ₹2,192 crore as on December 31, 2023, from ₹1,225 crore as on March 31, 2023. Capitalisation improved, with the capital adequacy ratio (CAR) at 72.3% as on December 31, 2023 (March 2023: 52.6%), well above the regulatory requirement for housing finance companies (HFCs), and gearing stood at 1.6x as on December 31, 2023 (March 2023: 2.4x).

The shareholding of WestBridge Capital, the company's promoter, stood at 47% as on December 31, 2023, (September 2023: 56%). Madison India Capital and Nexus Ventures Partner divested their stakes, post which their shareholding reduced to 5% (September 2023: 12%) and 21% (September 2023: 29%) as on December 31, 2023. Going forward, WestBridge plans to continue its association with the company over the long term. Nexus and Madison are expected to exit in the near to medium term, but no material impact is expected on their exit.

CARE Ratings takes comfort from WestBridge Capital's consistent support for funding future growth in the form of equity, if required. CARE Ratings expects the capitalisation to remain comfortable for funding the company's envisaged growth plans, while maintaining its gearing below 4x.

Improvement in scale of operations
ISFCL's AUM been rising on a steady 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), further increased to ₹5,609 crore as on December 31, 2023 (+29% YTD). Traditionally, the company had been focused on housing loan (HL) segment. In recent years, ISFCL has focused in growing its loan against property (LAP) segment, which is higher yielded, which again amounted to 38% as on December 31, 2023 [Mar'23: 43% and Mar'22: 46%]. The company provides loans at an average ticket size of ₹10 lakh with an average loan-to-value (LTV) ratio of 51%. CARE Ratings also notes that ISFCL's portfolio is entirely in-house sourced.

The company carries out direct assignment (DA) and co-lending transactions mainly in LAP portfolio. As on December 31, 2023, off-book stood at 17% of the overall AUM.
ISFCL's operations are well-spread across 15 states and 215 branches as on December 31, 2023; however, top three states – Rajasthan, Maharashtra, and Madhya Pradesh – continue to dominate major operations. However, the concentration in top three states is on a declining trend with 61% of the AUM as on December 31, 2023, from 80% of the AUM as on March 31, 2019.
Going forward, CARE Ratings expects the company to continue scaling its operations at a healthy rate of about 35% y-o-y

Healthy profitability profile
ISFCL's profitability metrics were healthy in 9MFY24, owing to controlled credit costs and lower operating expenses as a percentage of total assets (opex), with ROTA at 4.5% as against 4.1% in FY23.

Amid high competition and the rising share of HL, yield-on-advances declined to 14.8% in FY23 from 15.2% in FY22. In 9MFY24, yields remained in a stable range at 14,7%. With the rising cost of funds in 9MFY24 to 8.8% as against 8.3% in FY23, spreads have moderated to 5.9% in 9MFY24 from 6.5%. In line with spreads, the CARE calculated net interest margin (NIM) stood at 7.5% in 9MFY24 (FY23: 7.8%). Going forward, CARE Ratings expects the company to maintain spreads and opex at a similar scale in the near term.

Diversified resource profile
ISFCL's lender-wise borrowing profile is diversified, with 38 lenders in the form of banks, FIs, developmental FIs (DFIs), non-banking financial companies (NBFCs), and mutual funds (MFs). ISFCL has majority of its borrowings from private banks (46%), followed by the NHB (16%), public sector banks (PSBs; 17%), NBFCs (8%), DFIs (7%), and the balance through capital markets as on December 31, 2023. Borrowings are mainly in the form of term loans (70%), followed by refinance from the NHB (16%), external commercial borrowings (ECBs; 7%), and the balance in the form of non-convertible debentures (NCD; 1%) as on December 31, 2023. CARE Ratings expects the resource profile to be diversified, with the company growing its operations.

Key weaknesses

Moderate asset quality
With slight slippages, GNPA and net non-performing assets (NNPA) ratios rose to 1.20% and 0.90%, respectively, as on December 31, 2023, as compared to 1.13% and 0.85%, respectively, as on March 31, 2023; however, remained under control. The company's restructured portfolio, excluding non-performing assets (NPA), reduced to ₹18 crore (0.4% of gross advances) as on December 31, 2023, from ₹21 crore (0.6% of gross advances) as on March 31, 2023. With this, net stressed assets ratio (percentage of net advances) declined to 1.08% as on December 31, 2023, from 1.33% as on March 31, 2023. Going forward, ISFCL's ability to contain its asset quality with its projected high growth remains key monitorable.

Limited portfolio seasoning
Although the company has been operating since 13 years, portfolio seasoning is limited, with the majority of the portfolio generated over past few years and disbursements of last nine months amounting to 34% of the AUM. The behavioural 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 company's performance in the long term is yet to be seen once the portfolio is seasoned.

Interest rate risk
ISFCL had been previously lending at fixed interest rates, while majority of its borrowings were at floating rates, thus exposing it to interest rate risk. CARE Ratings notes that the company has started variable rate lending in its LAP segment, which makes 14% of the overall AUM as on December 31, 2023. With this, 86% of the AUM is still at a fixed interest rate, while majority of borrowings are at floating interest rate.

However, as a large part of the loan book is funded by equity, the risk is mitigated to an extent. Also, the company charges prepayment penalty in cases where loans have been taken on fixed interest rates, further adding to the bottom-line in a falling interest rate scenario.

Exposure to relatively vulnerable borrower segment
As an affordable HFC, ISFCL is focused on providing secured retail home loans to low- and middle-income borrowers in Tier-II and Tier-III regions, with the majority of them having lack of formal income documents. Its customers are a mix of self-employed (71% of the AUM as on December 31, 2023) and the balance 29% as salaried borrowers, with most of them in Tier-III cities, exposing the company to the relatively economically vulnerable borrower segment. Since this segment is highly susceptible to the impact of economic downturns, maintaining good asset quality while increasing the scale of operations is a key sensitivity. However, the company has put in place adequate credit appraisal mechanisms and an integrated management information system (MIS). ISFCL operates in physical and digital modes (branded as 'Phygital') through a system-driven approach from sales to collection. The company's entire portfolio is secured with a moderate LTV of 51%.

Liquidity: Strong

ISFCL has positive cumulative mismatches across all buckets per the ALM statement as on December 31, 2023. The company has cash and cash equivalents of ₹6.3 crore, liquid investments of ₹207.5 and total fixed deposits, excluding lien marked, of ₹684.9 crore. The company also has advances repayments of ₹700 crore up to one year as against ₹801 crore of debt obligations up to one year per the ALM statement as on December 31, 2023.

Environment, social, and governance (ESG) risks

Given that ISFCL is engaged in the lending business, it is exposed to environmental risks indirectly through the portfolio of assets. In case a customer of ISFCL has exposure to environmental risks, it can translate into credit risks for the company.

ISFCL has been taking steps towards environment and social fundamentals by embedding into it the business. With this, the company has taken approaches towards building educational, healthcare, and women empowering initiatives by partnering with NGOs. ISFCL Nayi Umeed is one such initiative focused on uplifting underprivileged women by providing them with employable skills.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
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 was originally incorporated as Satya Prakash Housing Finance Private Limited on October 26, 1988, with the NHB, and was re-incorporated as ISFCL on March 12, 2010, post-acquisition by Anil Mehta and others. The company commenced operations in its present form in March 2010 under the new management. It extends loans for an average ticket size of ₹10 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 such as home construction, extension, improvement, purchase, and LAP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total income	459.81	605.63	616.22
PAT	128.45	154.98	169.13
Interest coverage (times)	2.13	1.96	2.02
Total Assets	3217.81	4,291.63	5,803.62$
Net NPA (%)	1.60	0.85	0.85
ROTA (%)	4.53	4.13	4.47

A: Audited UA: Unaudited; Note: 'the above results are 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 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	10-Nov-30	1335.00	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*	1335.00	CARE A+; Positive	1)CARE A+; Positive (30-Aug-23)	1)CARE A+; Stable (02-Sep-22)	1)CARE A; Positive (02-Mar-22)	1)CARE A; Stable (18-Mar-21)

LT: Long term*

Annexure-3: Detailed explanation of 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: 91 44 2850 1001 E-mail: pradeep.kumar@careedge.in	Gaurav Dixit Director **CARE Ratings Limited** Phone: 91-120-4452002 E-mail: gaurav.dixit@careedge.in Neha Kadiyan Associate Director **CARE Ratings Limited** Phone: 91-120-4452022 E-mail: Neha.Kadiyan@careedge.in Anushree Chhabra Rating Analyst **CARE Ratings Limited** E-mail: Anushree.Chhabra@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in