# India Shelter Finance Corporation Limited

July 02, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 1,335.00 | CARE AA-; Stable | Revised from CARE A+; Positive |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Revision in ratings for the long-term bank facilities of India Shelter Finance Corporation Limited (ISFCL) factors in the sizeable growth in the asset under management (AUM), having reported a five-year compounded annual growth rate (CAGR) of 41% till FY24 with improving asset quality and profitability. The revision further factors in healthy capital structure, underpinned by the rise in tangible net worth (TNW) owing to initial public offering (IPO) and healthy internal accruals.

Rating strengths also factor in diversified lender base and takes comfort from majority stake-holding of WestBridge Capital, a private equity (PE) investor and its long-term commitment with ISFCL.

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, though gradually declining. Rating strengths are partially offset by presence of interest rate risk, although the company has taken strategical steps to mitigate the same. Catering to low-middle-income level borrowers that remain inherently vulnerable to macro-economic challenges, exposes the company to downturn of economic events.

## 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 while maintaining profitability and asset quality parameters at comfortable levels.
- Significantly improving geographical diversification.

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

- Declining profitability, with return on total assets (ROTA) reducing below 2.5%.
- Gearing levels increasing above 5x on a sustained basis.
- Material changes in the stake of WestBridge, leading to a reduction in envisaged support.

## Analytical approach:

Standalone

## Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects ISFCL to continue growing the scale of operations while maintaining the asset quality and profitability.

## Detailed description of key rating drivers:

## Key strengths

### Improvement in scale of operation

ISFCL's AUM has been consistently rising over the years with five years CAGR of 41% till FY24 to ₹6,084 crore as on March 31, 2024, with yearly growth rate of 40%. The share of housing loan (HL) is on a lower side as compared to peers, with 62% of AUM and balance is towards loan against property (LAP) as on March 31, 2024. While adhering to the regulatory guideline to maintain the share of individual HL minimum of 60% of total assets by March 31, 2024, the company's share of HL to net total assets stood at 62% as on March 31, 2024.

ISFCL carries out off balance sheet transactions in form of direct assignment (DA) and co-lending for LAP portfolio only. These transactions also support the company to adhere to the regulatory guidelines. As on March 31, 2024, the share of off book portfolio stood at 16%.

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

ISFCL provides HL of a ticket size of ₹ 10 lakh for average tenure of 15 years at a rate of interest of 14.0% and LAP of a ticket size of ₹10 lakh for average tenure of 11 years at a rate of interest of 15.5%. The company has in-house sourcing of 98% of portfolio catering majorly to self-employed customer (72%) and balance to salaried customers (28%) as on March 31, 2024.

CARE Ratings expects the company to continue to grow the AUM on a consistent basis, while maintaining the share of on book portfolio to 80%.

**Healthy capital base, further augmented with recent IPO**
With ISFCL issuing IPO in December 2023 of ₹1,200 crore in a combination of fresh issue of ₹800 crore and offer for sale of ₹400 crore, coupled with healthy internal accruals, the TNW increased by 86% y-o-y to ₹2,282 crore as on March 31, 2024. Resultantly, the gearing level reduced to 1.5x as on March 31, 2024 from 2.4x as on March 31, 2023 and capital adequacy ratio (CAR) increasing to 71% as on March 31, 2024 from 53% as on March 31, 2023.

ISFCL's promoters, Anil Mehta and WestBridge, together held majority stake in the company with 48% as on March 31, 2024. WestBridge has no documented exit term and it intends to remain invested in ISFCL for minimum 8-10 years. The PE does not intend to increase its stake in the company in the immediate term, although in case of opportunity and/or if need arises, WestBridge may further invest with increasing its stake. Nexus and Madison are expected to exit in the near to medium term, but no material impact is expected on their exit.

CARE Ratings expects the company to continue to receive support from the promoters.

**Improving profitability profile**
ISFCL's profitability has been improving over the years with the rise in profit after tax (PAT) and return on total assets (RoTA). In FY24, the PAT increased to ₹247 crore, up by 59% y-o-y and RoTA increased to 4.9% in FY24 from 4.1% in FY23.

The yields of the company have been on similar level in FY24 with 14.74% as compared to FY23, although the cost of funds has increased to 9.01% in FY24 from 8.30% in FY23. This is majorly due to denominator effect as the company's borrowings reduced in Q4FY24 owing to the IPO issued in December 2023. The incremental cost of funds for ISFCL is 8.6%. The company has started variable rate lending, which is restricted to LAP segment (accounting to 15% of the overall AUM as on March 31, 2024).

Supported by lower operating expenses ratio and similar credit cost ratio in FY24 to that of in FY23, and increased net interest margin (NIM), the RoTA improved to 4.9% in FY24 from 4.1% in FY23.

CARE Ratings expects the profitability to remain at similar level.

**Moderate, yet improving asset quality**
ISFCL's asset quality has remained under control with reduction in the gross non-performing assets (GNPA) ratio to 0.97% from 1.13% as on March 31, 2023.

With reduction in restructured portfolio to 0.40% of gross loan as on March 31, 2024 from 0.74% of gross loan as on March 31, 2023 and 1.13% of gross loan as on March 31, 2022, the gross stressed assets ratio reduced to 1.34% as on March 31, 2023 from 1.74% as on March 31, 2023 and 3.16% as on March 31, 2022.

In FY24, the total provision coverage reduced to 0.85% from 0.96% in previous year considering the reduction the estimate of credit loss by the company. The provision for stage 1 has increased but provision for stage 2 and 3 has reduced. The reduction in provisioning for stage 2 is considering the reduction in the provisioning for restructured loan which is included in stage 2 loans.

Going forward, ISFCL's ability to contain its asset quality with its projected high growth remains key monitorable.

**Diversified resource profile**
ISFCL's lender-wise borrowing profile is diversified, comprising banks, National Housing Bank (NHB), non-banking finance companies (NBFCs), financial institution (FI), and capital markets. As on March 31, 2024, the majority borrowings are availed from private sector bank with 45% (PY: 41%), followed by public sector banks with 22% (PY: 17%), NHB with 19% (PY: 20%), NBFC and FI each with 7% (PY: 12%, 8%, respectively) and capital market with 1% (PY: 2%).

## Key weaknesses
**Limited portfolio seasoning**
Although the company has been operating for 14 years, portfolio seasoning is limited, with the majority of the portfolio generated over past few years. The disbursements over the last two years amount to 76% of the AUM as on March 31, 2024. 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.

**Geographically spread, although concentrated in three states**
ISFCL's operations have been well spread across 15 states. However, top three states, Rajasthan, Maharashtra, and Madhya Pradesh, continue to dominate the majority operations. Although the concentration in the top three states is on a declining trend with 62% of AUM as on March 31, 2024 from 64% of AUM as on March 31, 2023.

In line with the company's strategy to deepen its presence in the southern region, the exposure in Karnataka, Tamil Nadu and Telangana has been increasing over the years with 7%, 5% and 3%, respectively, as on March 31, 2024 from 7%, 4% and 2%, respectively, as on March 31, 2023.

With the company deepening its presence in the southern region, CARE Ratings expects the concentration in Rajasthan would reduce gradually.

**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 15% of the overall AUM as on March 31, 2024. With this, 82% of the AUM is still at a fixed interest rate, while majority of borrowings are at floating interest rate.

**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 majority of them having lack of formal income documents. Its customers are a mix of self-employed (72% of AUM as on March 31, 2024) and the balance to the 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 loan-to-value (LTV) of 50-60%.

**Liquidity**: Strong
ISFCL has positive cumulative mismatches across all buckets per the asset liability management statement as on March 31, 2024. The company has cash and cash equivalents of ₹438 crore in form of cash and bank balance and unencumbered investments as on March 31, 2024. The company also has adequate inflows in terms of repayable against advances and bank balance of up to one year of ₹969 crore as against debt obligations of up to one year of ₹765 crore.

**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 ISFCL's customer 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, 2023 (A) | March 31, 2024 (A) |
|---|---|---|
| Total operating income | 605.63 | 860.38 |
| PAT | 154.98 | 246.87 |
| Interest coverage (times) | 1.96 | 2.10 |
| Total Assets | 4,291.63 | 5,789.75 |
| Net NPA (%) | 0.85 | 0.74 |
| ROTA (%) | 4.13 | 4.90 |

A: Audited; Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:**
Not applicable

**Any other information:**
Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** 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 | - | - | - | July 2032 | 1335.00 | CARE AA-; Stable |

## Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Term loan | LT | 1335.00 | CARE AA-; Stable | - | 1)CARE A+; Positive (13-Mar-24)<br><br>2)CARE A+; Positive (30-Aug-23) | 1)CARE A+; Stable (02-Sep-22) | 1)CARE A; Positive (02-Mar-22) |

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

## Annexure-4: Complexity level of various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Term loan | Simple |

## Annexure-5: Lender details

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

**Note on complexity levels of 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

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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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