SRG Housing Finance Limited

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of SRG Housing Finance Limited (SRG) continues to derive strength from the long track record of the company and the promoter, managing the business operations in the housing finance segment. The rating considers the company's healthy profitability aided by high yielding loans, comfortable capital adequacy levels, and improvement in scale of operations. The rating factors in SRG's 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.

However, these rating strengths are partially offset by its relatively smaller size of operation, geographical concentration of the portfolio despite improvement, moderate seasoning of the book considering the loan portfolio growth in the past three years, 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.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the non-convertible debentures (NCDs) as the company has repaid the NCD in full and the withdrawal is in line with CARE Ratings' withdrawal policy, as applicable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- Deterioration in asset quality with gross non-performing asset (GNPA) ratio above 5%.
- Deterioration in profitability on a sustained basis.
- Overall gearing exceeding 4x.

Analytical approach: Standalone

Outlook: Stable

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 key rating drivers:

Key strengths

Long track record of operations

Established in 1999, SRG commenced operations from 2002 after 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. Vinod K Jain, Managing Director, having over 25 years of extensive

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

industry experience, heads the company operations. He is supported by an experienced senior management team, with over a decade in the banking and financial services industry. Archis Jain (son of Vinod K Jain) has been appointed as Chief Executive Officer of the company on April 24, 2023, and he has been part of the organisation from 2017. He oversees the business and operational activities of the company.

Comfortable capital adequacy levels

The company reported a capital adequacy ratio (CAR) of 39.44% (Tier-I CAR: 38.98%) as on September 30, 2024, against 35.67% (Tier-I CAR: 35.18%) as on March 31, 2024, which is above the regulatory requirement. As on September 30, 2024, the company's tangible net worth (TNW) stood at ₹196 crore (March 31, 2024: ₹154 crore) primarily due to equity infusion of ₹30 crore majorly through preferential allotment in H1FY25. The company's debt to equity ratio improved to 2.76x as on September 30, 2024, against 3.28x as on March 31, 2024, supported by equity infusion. CARE Ratings expects the company to maintain its overall gearing at less than 4x on a steady-state basis.

Healthy asset quality led by established risk management practices

SRG has an established risk management framework including monitoring the credit portfolio on a continuous basis. SRG follows conservative underwriting standards with a granular ticket size of ~₹8 lakh, largely lending to customers with a low LTV of ~40%. Subsequently, the company was able to maintain a healthy asset quality with a GNPA and net NPA (NNPA) of 2.29% and 0.69%, respectively, as on March 31, 2024 (March 31, 2023: GNPA of 2.50%, NPA of 0.51%). The asset quality metrics further improved to GNPA of 1.96% and NNPA of 0.59% as on September 30, 2024, due to better collections. Moreover, the company did not have restructured loans. The company's ability and the management to implement the same underwriting practices and maintaining strict internal controls with an increase in operational scale is a key rating sensitivity.

Healthy profitability levels

The company disburses loans to under banked segment, majorly providing home loan solutions to first-time borrowers, mainly to the self-employed segment with an average ticket size of ₹8 lakh bearing lending rate of above 21%. Consequently, net interest margin (NIM) stood at 10.29% in FY24 (FY23: 10.05%). The slight increase in NIM in FY24 was influenced by a marginal rise in yields. The company's expansion strategy highlighted by opening of 25 new branches (five branches in FY24 and 17 branches in H1FY25) and an increase in the employee strength, has driven the rise in the operational expenses as a percentage of total assets to 8.22% in FY24 compared to 7.26% in FY23. The credit costs improved to 0.24% in FY24 (FY23: 0.47%). Despite the elevated operating expenses, the pre-provisioning operating profit (PPOP) increased to ₹27.5 crore in FY24 against ₹23.2 crore in FY23. On account of the above, the return on total average assets (ROTA) stood healthy at 3.58% in FY24 against 3.70% in FY23.
In H1FY25, the NIM stood at 9.76% against 9.78%. The operating expenses to total assets (annualised) improved to 7.63% and credit costs was Nil as the company reversed few provisions. Thus, the ROTA stood at 3.50% in H1FY25 (H1FY24: 3.49%).
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.

Key weaknesses

Relatively small scale of operations with a geographically concentrated presence

The company's asset under management (AUM) witnessed growth of 37% in FY24 y-o-y, and 26% in H1FY25 y-o-y, and stood at ₹651 crore as on September 30, 2024 (March 31, 2024: ₹ 602 crore). The company's portfolio was primarily concentrated in Rajasthan. Over the years, it has expanded its presence into other states as well. Currently, SRG has operations in four states, Rajasthan, Madhya Pradesh, Gujarat, and Maharashtra. The number of branches also increased to 84 as on September 30, 2024. The top state concentration continues to remain high at 53% of AUM in Rajasthan as on September 30, 2024, although it has improved with expansion in other states. The company has a long track record of over two decades in the housing finance segment. Going forward, the company plans to expand its reach in Maharashtra, Andhra Pradesh, and Karnataka and penetrate in the deeper pockets of the existing states.

Moderately diversified resource profile

The company's borrowing profile majorly comprises term loans from banks and non-banking finance companies (NBFCs)/housing finance companies (HFCs) forming 92% of borrowings as on September 30, 2024, remaining from NHB (8%). However, the company has an established lender relationship with 32 lenders, as on September 30, 2024. The cost of funds for SRG increased to 11.98% in FY24 from 11.54% in FY23, mainly due to the rising interest rate scenario, however, it improved to 11.20% in H1FY25. The company's ability to source funds from diversified sources and 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, majority of whom have undocumented incomes. This 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 ~40% mitigates the risk to some extent. Given that this segment is highly susceptible to the impact of economic downturn, the company's ability to maintain good asset quality while increasing the scale of operations, is a key rating monitorable.

Liquidity: Adequate

SRG's liquidity profile stands adequate. As per the asset liability management (ALM) statement dated September 30, 2024, the company's liquidity profile is comfortable with positive cumulative mismatches in all timeframes buckets up to five years. As on September 30, 2024, SRG has unencumbered liquidity of ₹51 crore consisting of cash and cash equivalents, bank balance and investments, which is sufficient for debt repayment obligation for the next three months. The company's liquidity is supported by regular equity infusion from the promoters.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks – Not applicable

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Withdrawal Policy
Housing Finance Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Housing finance company

SRG is an Udaipur-based HFC engaged in financing housing loans and mortgage loans. SRG commenced operations from 2002 after getting registered with 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 equity public issue in September 2012 and raised ₹7.01 crore from the IPO proceeds and got listed on BSE's SME segment.

The company has been promoted by Vinod K Jain who looks after overall management of the company. He has an overall experience of over 20 years in different businesses such as transport, finance, insurance, and construction and has been associated with SRG since inception. Archis Jain (son of Vinod K Jain) has been appointed as Chief Executive Officer of the company on April 24, 2023, and he has been part of the organisation from 2017. He oversees the business and operational activities of the company. As on September 30, 2024, SHFL has a branch network of 84 branches spread across six states and has total employee strength of 800+. Loan portfolio outstanding as on September 30, 2024, stood at ₹651 crore with housing loan forming 71.1% and loan against property (LAP) portfolio constituting 28.9%.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	30-09-2024 (UA)
Total Income	94	127	71
PAT	17	21	12
Total Assets	507	669	756
Net NPA (%)	0.51	0.69	0.59
ROTA (%)	3.70	3.58	3.50

A: Audited UA: Unaudited; 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Debentures-Non-convertible debentures	INE559N07041	10-Dec-2020	10.45%	10-Dec-2023	0.00	Withdrawn
Fund-based-Long term	-	-	-	-	500.00	CARE BBB; 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-Long term	LT	500.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Dec-23)	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)CARE BBB; Stable (07-Dec-23)	1)CARE BBB; Stable (20-Dec-22)	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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