

Svatantra Micro Housing Finance Corporation Ltd.
(Erstwhile Micro Housing Finance Corporation Ltd.)
March 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating¹	Rating Action
Non-Convertible Debentures	53.10 (Rupees Fifty Three Crore and Ten Lakh Only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A-; Credit Watch with developing Implications (Single A Minus; Outlook: Credit Watch with Developing Implications)

* Details of instruments/facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

CARE has revised the rating assigned to the debt instrument of Svatantra Micro Housing Finance Corporation Limited (SMHFCL) to 'CARE A+; Stable' and removed the rating from 'Credit watch with developing implications' post the acquisition of entire shareholding in MHFCL by Svatantra Holdings Private Limited (SHPL).

The revision in rating factors in expected support from its promoters i.e. the Birla family and shareholders' investment companies which hold significant shareholding in the companies of the Aditya Birla group.

Significant majority (90%) of shareholding in SHPL is held by Ms. Ananyashree Birla who is the Founder and Chairperson of the Svatantra group and has received funding through preference shares (to be repaid after ten years) from Birla Group Holdings Private Limited (BGHPL) and IGH Holdings Private Limited (IGHPL) which are investment companies of Aditya Birla group.

The ratings factor in good capitalization levels and moderate gearing levels, stable business growth, experienced management team and expected growth on the back of untapped potential in the low income unorganized borrower segment along with government thrust in providing affordable housing throughout the country.

The ratings are constrained by SMHFCL's moderate profitability, moderate asset quality along with moderate seasoning of the loan portfolio along with exposure to customer base belonging to the low income group which has high susceptibility to economic slowdown.

Post the acquisition by SHPL, the company has focused on retail home loans and as a strategy has discontinued disbursements in builder loans. The operations under the new management follows a branch less model where in the sourcing of business is done project based and credit is done through a central credit committee. Performance of asset quality under the new management over the medium needs to be monitored and remains a key rating sensitivity.

Key Rating Sensitivities*Positive Factors*

- Substantial scaling up of operations
- Sustained improvement in profitability

Negative Factors

- Deterioration in asset quality
- Overall gearing exceeding 7 times
- Significant dilution in promoter stake

Detailed description of the key rating drivers**Key Rating Strengths**

Acquisition by Svatantra group and expected continued support from promoters

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

SHPL acquired the entire shareholding in SMHFCL from September, 2018. Consequent to the acquisition, the erstwhile directors and key management resigned w.e.f. September 15, 2018 and have been replaced by representatives from SHPL. The board of Directors of SMHFCL is headed by Ms. Ananyashree Birla and comprises senior personnel having vast experience in the financial sector. The Board includes Mr. Vineet Chatterjee (Managing Director) and Mr. Anil Chirania who have long experience with the Aditya Birla group. The senior management team comprises employees having vast experience in the housing finance sector. SMHFCL is expected to receive capital and management support from the promoters as and when required. Post-acquisition by SHPL, the name of the company has been changed to 'Svatantra Micro Housing Finance Limited' thereby extending the 'Svatantra' brand to the company. SHPL infused capital of Rs.10 crore in August, 2019 and Rs.10 crore in February, 2020 by way of compulsorily convertible preference shares (CCPS). SMHFCL is expected to receive funding support from the promoter group as and when required and is a key rating sensitivity.

Good capitalization levels and moderately low gearing levels

The company reported capital adequacy ratio (CAR) of 35.47% [Tier I CAR: 35.02%] with overall gearing of 4.94 times as on December 31, 2019 as compared to CAR of 37.78% [Tier I CAR: 37.31%] with overall gearing of 4.07 times as on March 31, 2019. The company has raised funds by way of bank loans and its borrowings stood at Rs.576.62 crore as on December 31, 2019 and Rs.466.93 crore as on March 31, 2019 as against Rs.378.95 crore as on March 31, 2018. The promoters infused Rs.20 crore by way of compulsorily convertible preference shares (CCPS) issued by the company till February 2020.

Healthy business growth albeit modest size of operations

The target segment of the company is first-time home buyers in Economically Weaker Segment (EWS) / Low Income Group (LIG) with loan requirements largely less than Rs.10 lakh and majority of the loan portfolio gets covered under Pradhan Mantri Awas Yojana (PMAY).

Given the relatively lower portfolio base, SMHFCL's loan portfolio has grown at a CAGR of around 33% over the last three years, while its home loan disbursements grew at a CAGR of 37% over the same period. Post the acquisition by Svatantra, the loan portfolio has continued to consistently grow to Rs.649 crore as on December 31, 2019. The Company has stopped disbursements to developers and corporate loans and the entire focus is on home loans. The non-home loan portfolio has reduced to around 3% of total loan portfolio as on December 31, 2019 from around 10% as on March 31, 2017.

Diversified resources profile

Post-acquisition by Svatantra group, the funding profile as well access to funding for the company has increased. The borrower base of the company has widened to 12 banks and 2 NBFCs as on December 31, 2019.

The company has mobilized longer tenure borrowings from banks & FIs which comprised 62% of total borrowings as on March 31, 2019 while NHB refinance constituted 27% of the total borrowings as on December 31, 2019. Post-acquisition, there are 6 new banks which have lent Rs.210 crore of term loan and sanctioned CC Limit of Rs.10 crore and 1 NBFC which has lent Rs.50 crore in form of term loan.

As the company intends to remain focused on the low income segment with limited margins, it would continue to rely on refinance from NHB. However, SMHFCL's ability to maintain low cost borrowings proportion in the form of NHB refinance and broad basing its bank borrowings remains to be seen. The company's liquidity profile was comfortable with long term funding sources mobilized by the company to match with the tenor of housing loans.

Key Rating Weaknesses

Moderate asset quality parameters

The company's Gross NPA ratio improved to 1.54% [P.Y.: 0.99%], and its Net NPA ratio improved to 1.22% [P.Y.: 0.77%] at the end of FY19. The NPA to net worth ratio stood at 6.06% as on March 31, 2019 as against 3.30% as on March 31, 2018. Gross NPA ratio on housing loans was 1.53% while it was 1.73% on non-housing loans. The company has a cap on the total amount of the project funded and enters a project that is at least 80% complete to reduce the project risk.

Moderate profitability

During FY19, total income increased by 20% supported by a 19% growth in interest income. However, due to a 34% increase in interest expenses on account of higher borrowings and increased rate of borrowings due to overall market conditions of the NBFC sector, accordingly there was 5% de-the growth in net interest income. The company caters to price sensitive segment and accordingly did not increase its rates to cover the increased interest rates. Consequently, SMHFCL's net interest margin (NIM) in FY19 declined to 3.11% from 4% in FY18. The profitability was further impacted due to 62.56% increase in operating expenses and higher provisioning. SMHFCL reported Profit After Tax (PAT) of Rs.7.85 crore on total income of Rs.63.59 crore during FY19 as against PAT of Rs.10.22 crore on total income of Rs.53.15 crore in FY18. As a result, the company's ROTA decreased from 2.29% in FY18 to 1.44% in FY19, while RONW declined to 7.08% from 10.00% in FY18.

The company reported PAT of Rs.1.86 crore for 9MFY20 (refers to period from April 01 to December 31) as against Rs.5.61 crore due to increase in employee cost which constitutes 64% of the total operating expense as the company puts together a new team to serve the market as well as increase in interest cost on account of rise in interest rates for HFCs.

Geographical concentration of the portfolio

SMHFC's loan portfolio is spread across 93 locations spread over 11 states. Top three locations namely, Ahmedabad, Pune and Surat account for a substantial 43% of the total outstanding home loan portfolio as on December 31, 2019 [FY18: 50%]. The top three states viz. Gujarat, Maharashtra and Rajasthan constituted 84% of the home loan portfolio as on December 31, 2019 [FY18: 85%]. As on Dec 31, 2019, portfolio outstanding in top 10 under construction projects wherein SMHFC has granted individual home loans comprised 5% [FY18: 13%] of the total loan portfolio.

The company has discontinued lending to developers and corporate which reduces risk of large ticket size exposures to corporate entities and adds to the granularity of the loan portfolio.

Limited portfolio seasoning and vulnerable asset quality on account of exposure to economically weaker borrower profile

SMHFC commenced full-fledged lending operations in FY11; as a result, the loan portfolio of SMHFCL has limited seasoning. Although the company has so far demonstrated strong ability to recover its overdues and maintain asset quality performance through different economic cycles and geographies is yet to be established. Though, the company has managed moderate asset quality, its target borrower segment is largely economically vulnerable comprising self-employed micro-entrepreneurs and un-organized sector salaried workers.

Liquidity: Adequate

The ALM profile as on December 31, 2019 had no cumulative negative mismatches up to 1 year. As on December 31, 2019, company had cash and cash equivalents of Rs.46.46 crore. The company has received capital infusion of Rs.10 crore in 9MFY20 and another tranche of Rs.10 crore in February 2020 from its parent Svatantra Holdings by way of CCPS and expects capital infusion from its parent to the tune of Rs.50 crore for FY21. The company gets its loans re-financed by National Housing Board (NHB) which further helps the liquidity of the company.

Analytical approach: Standalone business profile, management and financial risk profile of SMHFCL along with support and linkages from promoters and investment companies of Aditya Birla Group which hold 100% stake in SMHFC.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Financial sector](#)

[CARE's criteria for Housing Finance Companies](#)

[Rating Methodology: Factoring Linkages in Rating](#)

About the Company

Svatantra Micro Housing Finance Corporation Limited (SMHFCL) (formerly known as Micro Housing Finance Corporation Ltd.) a Housing Finance Company registered with National Housing Bank "NHB". SMHFCL was incorporated on May 16, 2008 as 'Micro Housing Finance Corporation Limited' was initially promoted by three professionals having vast and rich experience in the financial sector space. The company got its registration certificate on February 09, 2009 and started its operations in June, 2009 and now is into 10th year of its operations.

Svatantra Holdings Private Limited (SHPL) acquired the entire shareholding in MHFCL w.e.f. September 14, 2018. SHPL is a part of by the Svatantra group headed by Ms. Ananyashree Birla who is also the founder and Chairperson of Svatantra Microfin Private Limited (SMPL) (rated 'CARE A-; Stable'). Post-acquisition of MHFCL, Mr. Madhusudan Menon (Chairman), Mr. Rajnish Dhall (Managing Director and Chief Executive Officer; CEO) and Mr. Nachiket Shelgikar (Director and Chief Financial Officer; CFO) resigned from their respective positions w.e.f. September 15, 2018 and Ms. Ananyashree Birla, Mr. Vineet Bijendra Chattree and Mr. Anil Chirania were appointed as additional Directors of the company, while Mr. Sahil Mehta was appointed as the CFO of the company w.e.f. September 15, 2018.

The company received an approval for change of name to 'Svatantra Micro Housing Finance Corporation' from 'Micro Housing Finance Corporation' on August 22, 2019.

As on March 31, 2019, SMHFC had a loan book of Rs.572.70 crore and balance sheet size of Rs.594.28 crore. The average tenure of the portfolio outstanding as on December 31, 2019 stood at 16.01 years. The average ticket size is low at Rs.7.7 lakhs with an average ROI of 11.10%. Presently, the company has around 273 employees. The company has an office in Mumbai and no branches. Over the years the SMHFCL has shown a robust growth both operationally as well as on financial front. With cumulative client base of more than 25,000; the company has sanctioned more than Rs.1,000 crore. of housing loans since inception majorly covering 6 states (Gujarat, Maharashtra, Madhya Pradesh, Rajasthan, West Bengal, and Chhattisgarh). The portfolio of the company as on December 2019 is close to Rs.649 crore spread across more than 140 cities. Since inception the company has been profitable year on year and as on date the net worth of the company is close to Rs.126 crore with capital adequacy ratio of more than 35%.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	53.15	63.59
PAT	10.22	7.85
Total Assets	496.46	594.28
Net NPA (%)	0.77	1.22
ROTA (%)	2.29	1.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	June 22, 2017	9.45%	November 18, 2024	26.50	CARE A+; Stable
Debentures-Non Convertible Debentures	June 25, 2018	10.60 %	November 18, 2024	26.60	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	350.00	CARE A-; (Under Credit watch with Developing Implications)	-	1)CARE A- (Under Credit watch with Developing Implications) (10-Oct-18) 2)CARE A-; Stable (24-Jul-18)	1)CARE A-; Stable (12-Jul-17)	1)CARE A- (08-Dec-16)
2.	Debentures-Non Convertible Debentures	LT	53.10	CARE A+; Stable	-	1)CARE A- (Under Credit watch with Developing Implications) (10-Oct-18) 2)CARE A-; Stable (24-Jul-18)	1)CARE A-; Stable (12-Jul-17)	1)CARE A- (08-Dec-16)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us**Media Contact**

Mradul Mishra
 Contact no.: +91-22-6837 4424
 Email ID – mradul.mishra@careratings.com

Analyst Contact

Aditya Acharekar
 Contact no: 022-6754 3528
 Mobile: + 91-9819013971
 Email: aditya.acharekar@careratings.com

Relationship Contact

Mr. Ankur Sachdeva
 Contact no. – +91-22-6754 3495
 Email ID – ankur.sachdeva@careratings.com

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