

Swagat Housing Finance Company Limited

April 02, 2019

Ratings

Instruments	Volume (Rs. Cr)	Rating	Rating action
Long Term-Bank Facilities	10.00	CARE BB; Stable [Double B; Outlook: Stable]	Reaffirmed
Total facilities	10.00 (Rupees Ten crore only)		

Details of Instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors Swagat Housing Finance Company Limited's (SHFCL) promoter's experience in the housing finance segment, long track record and low gearing. SHFCL will also gain from the growing credit demand in the affordable housing space, supported by the Government's thrust in providing affordable housing throughout the country.

The rating, however, remains constrained by small scale of operations, moderate profitability, moderate asset quality, geographic concentration of operations and concentrated resource base and the target customer segment of SHFCL which comprises of individuals in the low-income group which may be vulnerable to economic downturns.

Increase in the scale of operations with geographical diversification along with improvement in spreads and profitability, maintaining the asset quality and capital adequacy ratios at the comfortable level are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with long track record of the company

The board of SHFCL comprises of senior personnel having vast experience. The chairman, Mr. R B Harnal (independent director) is a former Chief General Manager (Tech.) of NABARD, General Manager (Tech) Reserve Bank of India, etc. He is also the chairman of Swagat Group of Companies. The MD, Mrs Sahana R Prabhu has vast experience in the field of Finance & Investments. She is also a committee member of Meswa Metropolitan Co-op Credit Society Ltd, which is a credit society providing small loans. Mr. Siddharth Prabhu is a CA by profession and the Additional Director of the company. The company has appointed Mr. Ramesh Prabhu who is a CA by profession as Non-Executive Director.

The company is in the business of providing HL and LAP to the lower middle class segment of the society and has presence in the industry since the year 1996.

Low gearing and adequate capitalisation levels

SHFCL's loan book has been funded majority by equity. The external debt for the purpose of providing loans stood at Rs 2.10 crore as on March 31, 2018. Therefore, SHFCL has reported a high capital adequacy of 172.55% as on March 31, 2018 (182.72% as on March 31, 2017). The net-worth of the company stood at Rs.12.67 crore as on March 31, 2018 as compared to Rs. 12.31 crore as on March 31, 2017. The gearing level had marginally increased to 0.17 times as on March 31, 2018 as compared to 0.12 times as on March 31, 2017. In March 2019, the company has further raised equity of Rs.2 crore. The company is yet to expand its business operations and leverage its capital to expand its portfolio.

Comfortable Liquidity Profile

The borrowings of most HFCs are of shorter tenure in comparison to the loan portfolio which ranges from anything between 5-20 years and therefore, the asset-liability mismatches are inherent in the housing finance business. However, the housing loan book of SHFCL being majorly funded by Net-worth has rendered the liquidity profile of the company comfortable. Also, prepayments offer additional comfort to liquidity profile of the HFCs. Further as on March 31, 2018, SHFCL had Rs.1.74 crore of cash and cash equivalents which also provide additional liquidity comfort.

Relatively seasoned loan portfolio

SHFCL is in the business of providing HL and LAP for almost two decades. In order to comply with the NHB regulations, the company had changed its business structure from repaying public deposits to increasing the net owned funds. As on March 31, 2018, the company had an outstanding loan portfolio of Rs12.91 crore (P.Y: Rs.9.98 crore). However majority of the portfolio built in last three years, the average seasoning of current portfolio is three years.

Key Rating Weaknesses

Small size of operations with small resource base

SHFCL commenced its business in 1996 and had a loan book of Rs. 12.91 crore as of March 31, 2018 and total asset base of Rs. 15.26 crore. The company is majorly funded by equity and thereby going forward, the ability of the company to raise external money to fund its envisaged growth will be critical.

Moderate Profitability

PAT in FY18 was Rs. 0.36 crore on total income of Rs.1.74 crore as against Rs.0.61 crore on total income of Rs 1.88 crore in FY17. ROTA decreased to 2.40% for FY18 from 4.14% in FY17. The profitability declined in FY18 mainly due to decrease in income from housing loan and provisions. Operating expenses increased to Rs.0.89 crore in FY18 as compared to Rs.0.74 crore in FY17.

Moderate Asset Quality

SHFCL's Gross NPA and the Net NPA ratio stood at 8.58% (FY17-6.91%) and 7.11% (FY17-5.97%) respectively. Net NPA to Net-worth ratio stood at 7.23% at the end of FY18 as compared to 4.79% at the end of FY17. GNPA stood at Rs.1.11 crore which comprised of 4 non-performing assets as on March 31, 2018. Out of the said accounts, the account of Rs.0.64 crore had cleared its outstanding dues during FY18-19. The company was successful in obtaining the orders of other 3 non-performing accounts in its favour under the SARFAESI Act as well.

Geographical concentration

SHFCL has presence in the Mumbai region only with two branches – Vasai and Andheri. The branches are used primarily for sourcing the client. The company's primarily loan concentration is in the extended suburb region of Mumbai like Dahisar, Palghar, Vasai, Boisar, Thane, Kalyan, Dombivali, etc.

Target customer segment comprises low and middle income group, which may be vulnerable to economic downturns

The target segment of SHFCL is low and middle income group which may be vulnerable to and may impact the asset quality during economic downturns. The strong credit appraisal processes and policies and experience of the promoter group in the segment provide comfort.

Analytical approach: Standalone

Liquidity Profile:

As the housing loan book of SHFCL is being majorly funded by Net-worth, the liquidity profile of the company is comfortable. Also, prepayments offer additional comfort to liquidity profile of the HFCs. Further as on March 31, 2018, SHFCL had Rs.1.74 crore of cash and cash equivalents which also provide additional liquidity comfort.

Applicable Criteria

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

[CARE's policy on default recognition](#)

[CARE's methodology on HFC](#)

[Financial Ratios- Financial Sector](#)

About the Company

Swagat Housing Finance Company Limited (SHFCL) is a Mumbai-based small-sized housing finance company (HFC) engaged in the financing of housing loans (HL) and loan against property (LAP). SHFCL was incorporated on July 15, 1996 with the paid up capital of Rs 5 lakhs. By 2002, the company had a portfolio of around Rs 3 crores in HL and LAP and was allowed to accept public deposit for the deployment as loan and advances. In the year 2003, all the housing finance companies were mandatorily asked to register with National Housing Board (NHB), repay public deposits and increase net owned funds to Rs 25 lakhs. And therefore, the company repaid the deposit and received NHB license - Certificate of Registration on April 8, 2003. In 2008, the NHB mandated to increase the net owned funds to Rs 2 crores and w.e.f April 1, 2014, the said requirement has increased to Rs 10 crores

The company provides loans for the purpose of purchase (HL) or renovation of residential properties (LAP) to both salaried and non-salaried people. SHFCL's loan portfolio is Rs.12.91 crore in FY18 (Rs.9.98 crore in FY17) comprising of HL of 70.35%, other loans of 26.03% and Inter-corporate loan of 3.56% as on March 31, 2018. The company's loan amounts range from Rs. 5 lakhs to Rs. 20 lakhs with a repayment tenure ranging from 5 to 20 years.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1.88	1.74
PAT	0.61	0.36
Interest coverage (times)	4.13	7.32
Total Assets	14.37	15.26
Net NPA (%)	5.97	7.11
ROTA (%)	4.14	2.40

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

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.

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About CARE Ratings:

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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
Fund-based - LT-Term Loan	-	-	-	10.00	CARE BB; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	10.00	CARE BB; Stable	1)CARE BB; Stable (04-Apr-18)	-	1)CARE BB; Stable (06-Feb-17)	1)CARE BB (12-Aug-15)

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