

Swagat Housing Finance Company Limited

April 07, 2020

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	10	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed

Details of Instruments/Facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings remain constrained by small scale of operations of Swagat Housing Finance Company Limited (SHFC) along with moderate profitability, geographic concentration of operations, limited resource base and weaker borrower profile which comprises of individuals in the low-income group which are vulnerable to economic downturns. The rating, however, factors in the experience of promoters of SHFC in the housing finance segment with long track record, moderate asset quality and low gearing.

Increase in the scale of operations with geographical diversification along with improvement in spreads and profitability, maintaining better asset quality are the key rating sensitivities.

Rating Sensitivities
Positive Factors

- Improvement in the asset quality with GNPA of less than 1% on sustained basis
- Improvement in the profitability with ROTA of 1.5% on sustained basis
- Sustained growth in the loan portfolio with year over year growth increasing by 10% or more
- Broad basing resource profile with additional source of liquidity

Negative Factors

- Deterioration in the asset quality with GNPA above 5%
- Reduction in the profitability leading to sustained losses

Detailed description of the key rating drivers
Key Rating Strengths
Experienced Promoters with long track record

The board of SHFC comprises of senior personnel having vast experience. The chairman, Mr. Ramesh Shankar Prabhu has more than two and a half decades of experience in housing sector. The MD, Mrs. Sahana Prabhu is also the Director of Prabhu Associates Consultants Pvt. Ltd. Mr. R B Harnal (independent director) is a former Chief General Manager (Tech.) of NABARD, General Manager (Tech) Reserve Bank of India, etc. Mr. Siddharth Prabhu (Executive Director), is a Chartered Accountant with over 7 Years of Experience in the fields of Audit & Taxation and has established credibility in spearheading the entire management activities and achieved portfolio growth in the affordable housing segment. Mr. Satish Kotian (Executive Director) has over two and a half decades of experience in Indian housing finance industry. He has strong domain knowledge in the areas of business operations and technology.

Low gearing and adequate capitalisation levels

SHFC's loan book has largely been funded by equity. The external debt stood at Rs.2.34 crore as on March 31, 2019 as compared to Rs.2.10 crore as on March 31, 2018. The net-worth of the company stood at Rs.15.19 crore as on March 31, 2019 as compared to Rs.12.67 crore as on March 31, 2018. The gearing level was low at 0.15 times as on March 31, 2019 as compared to 0.17 times as on March 31, 2018. Also, SHFC has reported a high capital adequacy of 169.73% as on March 31, 2019 (172.55% as on March 31, 2018). Going forward the company may increase its debt levels to support the business expansion.

Moderate Asset Quality

SHFC's asset quality has shown wide variations in asset quality parameters due to relatively smaller size of loan portfolio. GNPA for the FY17, FY18 and FY19 were 6.91, 8.58 and 2.97, respectively. The loan portfolio remains granular as the company largely lends in the affordable housing segment. 50% of customers have received PMAY subsidy. We believe that with robust underwriting, the company's asset quality shall continue to moderate going forward. Having said that, cash flow of borrowers under low income group availing affordable housing loans maybe more impacted by the COVID-19 related economic shock. As such, the asset quality parameters shall continue to remain as key monitorable for the company.

Key Rating Weakness

Small size of operations with small resource base

SHFC commenced its business in 1996 and had a loan book of Rs. 12.94 crore as of March 31, 2019 and total asset base of Rs. 18.22 crore. SHFC is in the business of providing HL for almost two decades. However, majority of the portfolio is built in last three years. Company is majorly funded by equity and thereby going forward, the ability of the company to broaden its resource base to fund its envisaged growth will be critical.

Moderate Profitability

PAT in FY19 was Rs. 0.48 crore on total income of Rs.2.37 crore as against Rs.0.36 crore on total income of Rs 1.74 crore in FY18. ROTA increased to 2.89% for FY19 from 2.40% in FY18. Profitability of the company has been muted mainly due to lower spreads and higher operating expense. Going forward, the company's ability to expand business and raise profitability shall remain as key monitorables.

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

The target segment of SHFC 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, policies and experience of the promoter group in the segment and average LTV of less than 65% provides comfort against that.

Geographical concentration

SHFC has presence in the Mumbai region only with two branches – Vasai and Andheri. The branches are used primarily only for sourcing the client. The company's primarily loan disbursement concentration is in the extended suburb region of Mumbai like Palghar, Vasai-Virar city, Thane and Kalyan

Liquidity Profile: Adequate

Borrowings of most HFCs are of shorter tenure in comparison to the loan portfolio which ranges between 5-20 years and therefore, the asset-liability mismatches are inherent in the housing finance business. However, the housing loan book of SHFC is mainly funded by Net-worth which makes liquidity profile of the company comfortable. Further as on March 31, 2019, SHFC had Rs.3.76 crore of cash and cash equivalents which also provide additional liquidity comfort and off balance sheet portfolio (Securitized loans) of Rs.0.90 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

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

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

[Financial Ratios- Financial Sector](#)

[Factoring Linkages in Ratings](#)

About the Company

Swagat Housing Finance Company Limited (SHFC) is a Mumbai-based small-sized housing finance company (HFC) engaged in the financing of housing loans (HL) SHFC was incorporated on July 15, 1996 with the paid up capital of Rs 5 lakhs. 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.12.94 crore in FY19 (Rs.12.91 crore in FY18) comprising of HL of 69.20%, Non Housing loans (Top Up Loans) of 28.40% and Inter-corporate loan of 2.50% as on March 31, 2019. 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 of the company are as under:

Particulars (Rs. Crore)	FY19 (A)	FY18 (A)
Total Operating Income	2.37	1.74
PAT	0.48	0.36
Interest coverage (times)	7.29	9.01
Total Assets	18.22	15.26
Net NPA (%)	2.11	7.11
ROTA (%)	2.88	2.41

Note: A: Audited. All ratios are as per CARE Calculations.

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	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long Term Bank Facilities	NA	NA	NA	NA	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 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.	Long Term Bank Facilities	LT	10.00	CARE BB; Stable	1)CARE BB; Stable (02-Apr-19)	1)CARE BB; Stable (04-Apr-18)	-	1)CARE BB; Stable (06-Feb-17)

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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