Date: March 28, 2024

To, **BSE Limited ("BSE"),** Corporate Relationship Department, 2nd Floor, New Trading Ring, P.J. Towers, Dalal Street, Mumbai – 400 001.	To, **National Stock Exchange of India Limited ("NSE"),** "Exchange Plaza", 5th Floor, Plot No. C/1, G Block, Bandra-Kurla Complex Bandra (East), Mumbai – 400 051.
BSE Scrip Code: 544044	**NSE Symbol: INDIASHLTR**
ISIN: INE922K01024	**ISIN: INE922K01024**

Dear Sir/ Madam,

Subject: Intimation of Credit Rating for Bank Loans of India Shelter Finance Corporation Limited

Pursuant to Regulation 30 and Regulation 51 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that India Ratings and Research (Ind-Ra) has rated the Bank Loans of the Company as follows:

Type of Facility/Instrument	**Amount (Rs. in billion)**	**Rating assigned**	**Rating Action**
Bank Loan	5.00	IND AA-/Stable	Assigned

The credit rating rationale issued by India Ratings and Research (Ind-Ra) confirming the above rating is enclosed.

Kindly take the same on record.

Thanking you,
Yours faithfully,
For India Shelter Finance Corporation Limited

MUKTI CHAPLOT
Digitally signed by MUKTI CHAPLOT
Date: 2024.03.28 20:13:28 +05'30'

Mukti Chaplot
Company Secretary and Chief Compliance Officer
M. No.: 38326

India Ratings Assigns India Shelter Finance Corporation's Bank Loan 'IND AA-'/Stable

Mar 28, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has rated India Shelter Finance Corporation Limited's (ISFC) bank loan as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/ Watch	Rating Action
Banks loans*	-	-	-	INR5.0	IND AA-/Stable	Assigned

*yet to be issued

Analytical Approach

Ind-Ra has taken a standalone view of ISFC to arrive at the rating.

Detailed Rationale of the Rating Action

The rating reflects ISFC's healthy credit profile, driven by an established and growing franchise in the retail affordable housing space with a deepening geographical presence. While the business model of granular low-ticket loan portfolio continues to be scalable, the agency believes competition in the segment will remain elevated over the near to medium term. The rating is also supported by ISFC's well-diversified funding access, adequate liquidity, sizeable capital base, stable profitability buffers and an adequate risk management process.

List of Key Rating Drivers

Strengths:
- Growing franchise in affordable housing segment
- Healthy capital level and low leverage provides room for scale up
- Diversified lender base with availability of long dated funding
- Experienced and stable management team
- Stable profitability remains

Weakness:
- Asset quality largely stable; remains monitorable for seasoning

- Fixed rate book vulnerable to interest rate movement
- Higher share of economically weaker section-low income group (EWS-LIG) segment and exposure to self-employed borrower keeps risk elevated.

Detailed Description of Key Rating Drivers

Growing Franchise in Affordable Housing Segment: ISFC is one of the key players in the affordable housing segment, with assets under management (AUM) of INR56.1 billion in 3QFY24 (FY23: INR43.6 billion). It has a presence across 15 states and union territories with 215 branches as of 3QFY24 (FY23: 183) and aims to increase to over 265 by FYE25, further augmenting its direct sourcing ability. The agency believes the successful execution of this geographic expansion strategy will be key for future AUM growth and market share gains, which will add to ISFC's growing market presence. The expansion will also result in its geographic diversification in certain key markets of ISFC and will balance the AUM mix further.

Healthy Capital Level and Low Leverage Provide Room for Scale up: ISFC's net worth steadily increased to INR22.1 billion at 9MFYE24 (FYE23: INR12.4 billion), largely driven by the primary issuance of INR8.0 billion through its public issue in December 2023, leading to its capital adequacy ratio (CAR) rising to 72.3% in 3QFY24 (FY23 :52.7%) and leverage (debt/equity) remaining comfortable at 1.6x (2.4x). The management aims to keep the leverage at around 3.0x over the near- to medium term. Ind-Ra believes the company is well positioned to scale up its AUM over the medium term given its existing capitalisation and the ability to mobilise funds through diverse sources.

Diversified Lender Base with Availability of Long Dated Funding: ISFC has mobilised funds from 38 financiers with average tenure of over seven years for borrowings across banks (3QFYE24: 54.7%), direct assignment (20.7%), non-convertible debentures (1.1%) and pass-through certificates (1.7%); it also has refinance lines from National Housing Bank ('IND AAA'/Stable) (16.2%). More importantly, ISFC has banking relationships with some of the largest public, private and foreign banks. Also, ISFC raised INR2.4 billion from United States International Development Finance Corporation through external commercial borrowing (3QFY24: 5.5%) and is focusing on increasing the share of such funding, providing more than 10 years of borrowing tenor. A major portion of its loan book qualifies for priority sector lending; therefore, securitisation/assignment is an additional source of fund raising. The company has also entered into partnerships for co-lending since FY23, wherein it offloads assets, thereby freeing up capital and maintaining similar return profiles on their share of co-lending.

Experienced and Stable Management Team: ISFC has an operating track record of over 14 years and has established its presence as a key player in the affordable housing finance market. Its top management consists of experienced professionals, with experience of more than 18 years on average. The company has a strong focus on technology and is building digital capabilities and management information systems. It has also benefited from the involvement of key institutional investors such as WestBridge Capital, which together held 46.8% equity as on 31 December 2023 and has fund life till 2040. ISFC's board is chaired by Sudhin Choksey (former managing director Gruh finance and nominee director from Westbridge Capital). In total, the board of directors comprises eight members, including four independent directors with varied industry experience, three investor nominee directors and the managing director and chief executive officer.

Stable Profitability: ISFC's spread has come under pressure over the past two years, with rising interest rates pushing up its cost of funds. The spread fell to 6.0% in 3QFY24 (FY23:6.00%, FY22: 6.60%); on a steady state basis. The management expects the spread to remain around 6.0% in the medium term, driven by continuing higher yield loan against property (LAP) disbursements as its share remains in higher in overall AUM. The spread management becomes crucial for the lenders as passing on the increase in its borrowing cost stands limited due to fixed rate book and competitiveness in the affordable housing and non-housing segment.

ISFC's profitability trajectory will depend on the benefits it derives from lowering its borrowing cost, driving fee income through direct assignment, deriving operating leverage benefits through the scaling up of the AUM, and maintaining control on the asset quality in the medium term. Ind-Ra believes the company's profitability ratio (pre-provisioning operating profit to credit cost), which stood at 17.2x in 9MFY24 (FY23: 15.3x; FY22: 14.9x) and adequate capitalisation are adequate to absorb the existing levels of stress in the loan book.

Asset Quality Largely Stable; Remains Monitorable for Seasoning: ISFC's gross stage three assets marginally increased to 1.2% in 3QFY24 (FY23:1.1%; FY22: 2.1%). Its 30+ days past due (dpd) marginally deteriorated to 3.5% in 3QFY24 (FY23:2.4%; FY22: 4.0%). Bounce rates improved compared to the level seen during COVID-19 and hovered around 20.8% in 9MFY24. In addition, the company's restructured portfolio declined to 0.38% of the AUM in 3QFY24 (around 19% of this was already in stage 3), with a provision coverage of 24.9%.

The company's stage 3 provision stood at 26.1% in 3QFY24 (FY23: 26.0%), with total provision coverage on the loan portfolio marginally higher at 1.20% (1.13%). With 92% of the AUM in 9MFY24 consisting of disbursements in the past 11 quarters and further continuation of strong growth resulting in lower seasoning where with growth slowdown asset quality would be a key monitorable.

Fixed Rate Book Vulnerable to Interest Rate Movement: Largely due to higher focus on Tier 2 and Tier 3 cities for incremental disbursements, a majority of the disbursements were towards self-employed customer base (3QFY24: 71% of AUM) and largely being fixed rate in nature (3QFY24: 86% % of AUM), even though fixed liabilities share was lower at 45.3%. The company manages this issue through keeping higher share of liquidity on balance sheet.

However, the management intends to increase the variable share of the book, which formed 14% in 3QFY24 (FY23: 7%) to 30% in the medium term, largely through incremental LAP originations. Furthermore, ISFC continues to balance the risk through maintaining loan to value (LTVs) around 51%, specifically 55% for Housing loan and 45% for LAP originations and tech-based monitoring on continuous basis.

Higher Share of EWS-LIG segment and Exposure towards Self-employed Borrower Keeps Risk Elevated: ISFC's lending operations are largely concentrated in the vulnerable EWS-LIG segment (71.4%), which makes is susceptible economic cycles and limited ability to withstand shocks. Furthermore of 40.6% CAGR growth in AUM from INR 22.0 billion at FY21 to 9MFY24 at INR 56.1 billion, LAP segment account for nearly 42%, which is highly prone to commercial risk in economy. ISFC has tried to curtail the risk by originating LAP book which is backed by self-occupied residential properties (98% of AUM), keeping woman as main-borrowers (98%) and LTVs of 45.3% for LAP originations. Across HFCs, LAP tends to have higher delinquency in comparison to the home loan portfolio and needs to be tracked closely to avoid any asset quality shock and increase in the provisioning cost.

Liquidity

Adequate: As on 31 December 2023, ISFC had unencumbered cash/bank balances and liquid investments of INR9.8 billion, which is sufficient to meet the entire debt obligations until December 2024 without factoring inflows and assuming nil disbursements. During the same period, the company had undrawn bank lines of INR5.9 billion. On an ongoing basis, ISFC aims at maintaining liquidity of over three months of disbursements (factoring in nil inflows). Furthermore, in the up-to-one-year bucket, ISFC maintained a surplus on a cumulative basis during 3QFY24, and even when the structural liquidity statement is stressed by the agency, the surplus continues. Given that borrower cashflows in the affordable housing segment are more susceptible to shocks and even persistent inflationary pressures, Ind-Ra expects the company to maintain above-average liquidity buffers on an ongoing basis.

Rating Sensitivities

Positive: Significant growth in the scale of operations with market share gains, continued geographic diversification, sustained profitability levels, continued improvements in the funding profile and cost of funding relative to peers and a demonstrated ability to manage its asset quality could lead to a positive rating action.

Negative: Significant deterioration in the profitability, impacting the capital buffers, and challenges in mobilising incremental funds could lead to a negative rating action. Furthermore, deterioration in the asset quality with the gross NPAs crossing 3.5% on a sustained basis could lead to a rating review.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on ISFC, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Gurgaon-based ISFC is an affordable housing finance company, primarily engaged in extending home loans to borrowers in the low-to-middle income groups. It operates through a network of 215 branches across 15 states and union territories. The company's key investors include WestBridge Capital (46.8%), Nexus Venture Partners (21.3%) and Madison (4.9%). The company was listed on the BSE Limited and National Stock Exchange of India Limited in FY24.

FINANCIAL SUMMARY

Particulars (INR billion)	9MFY24	FY23	FY22
Total assets	58.1	43.0	32.2
Total equity	22.1	12.4	10.8
Net income	1.7	1.5	1.3
Return on average assets (%)	4.46	4.12	4.52
Equity/assets (%)	38.0	28.9	33.4
Capital adequacy ratio (%)	72.3	52.7	55.9
Source: Ind-Ra, ISFC			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating
Bank loan	Long-term	INR5.0	IND AA-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

Instrument Description	Complexity Indicator
Bank loans	Low

For details on complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

APPLICABLE CRITERIA

Non-Bank Finance Companies Criteria

Evaluating Corporate Governance

The Rating Process

Financial Institutions Rating Criteria

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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