

**Press Release****SRG Housing Finance Limited**

November 26, 2020

**Rating Assigned**

<b>Total Facilities Rated*</b>	Rs. 25.00 crore
<b>Long Term Rating</b>	ACUITE BBB/ Stable (Assigned)

\*Refer annexure for details

**Rating Rationale**

Acuité has assigned the long term rating of '**ACUITE BBB' read as (ACUITE triple B)**' on the Rs. 25.00 crore proposed non-convertible debentures of SRG Housing Finance Limited (SHFL). The outlook is '**Stable**'.

The rating factors in the SRG Housing Finance Limited's (SHFL) demonstrated resilience amidst the significant credit events and economic disruptions. Rating also considers the granularity of the portfolio with an average loan size in the range of Rs. 6-8 lakhs and LTV ratio of around 40%. Acuité believes that the company is well positioned to benefit from the demand for housing and stabilization of operations of MSME Sector once the economic environment stabilizes. SHFL has a healthy capital structure and has demonstrated the ability to attract funding from banks and financial institutions at a competitive rate of interests. SHFL was able to raise funds to the tune of ~Rs. 100 crore during the pandemic period in the form of term loans facilities and NCD's under TLTRO. The rating is constrained by the relatively small scale of operations and geographical concentration of the loan portfolio with ~61 percent in Rajasthan followed by ~23 percent in Madhya Pradesh. The rating is also constrained by inherent risks associated with lending in this segment.

**About SHFL**

SRG Housing Finance Limited (which was originally incorporated as Vitalise Finlease Private Limited in 1999 and later renamed in 2000 as SRG Housing Finance Private Limited) is an Udaipur based Housing Finance Company (HFC). In 2002, the company was registered as HFC with National Housing Bank and in 2004 was reconstituted as a public limited company. SHFL is engaged in extending Home loans and Loan against property. The company is promoted by Mr. Vinod Kumar Jain, who has over two decades of experience in financial services. SHFL is listed on BSE platform. The company operates through a network of 34 branches spread across four states namely, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra as on September 30, 2020.

**Analytical Approach**

Acuité has considered the standalone business and financial risk profile of SHFL to arrive at the rating.

**Key Rating Drivers****Strengths****• Established presence in the areas of operations**

SRG Housing Finance Limited commenced its lending operations as a housing finance company since 2002. SHFL has established its presence as a housing finance company, especially in Rajasthan. The promoter of the company Mr. Vinod Kumar Jain, has over two decades of experience in financial services. Mr. Jain has been associated with the financial services sector since 1991 by way of providing vehicle financing. Later on, the promoter family shifted its focus on Housing Finance. SHFL primarily extends housing loans, loan against property and builder/project loans. The company majorly caters to the borrowers in rural and semi-urban areas.

SHFL has gradually diversified its operations from Rajasthan to Madhya Pradesh, Gujarat and Maharashtra over the years and has created a borrower base of ~5,990 borrowers as on September 30, 2020. The

company's Asset under Management (AUM) has grown sharply during FY2017 to FY2019. The loan portfolio has grown to Rs. 281.6 crore as on March 31, 2019 as against Rs. 200.3 crore as on March 31, 2018 and Rs. 81.8 crore as on March 31, 2017. As on September 30, 2020 the loan portfolio of SHFL stood at Rs. 288.68 crore.

Acuite believes that the company will benefit from its experienced promoters and established presence in the financial services industry.

- **Healthy financial risk profile**

SHFL's networth stood at Rs. 74.86 crore as on March 31, 2020 and reported a healthy capital adequacy ratio (CAR) of 40.04 percent majorly comprising Tier 1 capital. As on September 30, 2020 the CAR improved to 41.28 percent on the back of improved networth of Rs. 84.38 crore. The company's leverage indicators have also improved to 3.28 times as on March 31, 2020 as compared to 4.50 times as on March 31, 2019 on the back of improved networth supported by retained earnings. The company has a diversified lender profile comprising Banks and NBFC/FI's, with total debt of Rs. 245.58 crore outstanding as on March 31, 2020. Recently the company has been able to raise funds under TLTRO from PSU's like Union Bank of India, Indian Bank.

SHFL's profitability indicators are also healthy marked by Net Interest Margin (NIM) which stood at 13.15 percent as on March 31, 2020 (13.36 percent as on March 31, 2019). The company's Return on Average Assets (RoAA) stood at 5.54 percent as on March 31, 2020 (5.48 percent as on March 31, 2019). Operating Expense to Earning Assets stood at 6.76 percent as on March 31, 2020 as against 4.89 percent as on March 31, 2019. The increase in opex was a result of the expansion of its network of branches.

Acuite believes that the company's comfortable capitalization levels will support its growth plans over the medium term.

## **Weaknesses**

- **Susceptible to inherent risks in LAP segment amidst relatively low seasoned portfolio; likelihood of elevated stress in asset quality**

SHFL's product portfolio comprises housing loans and loan against property having an average tenure of 7-8 years. The company's loan book of Rs. 288.68 crore as on September 30, 2020 has grown significantly from Rs. 81.83 crore as on March 31, 2017. Due to substantial growth in loan book in the last couple of years, ~52 percent of the overall portfolio has a seasoning of less than two years. Also, over the past three years, the company's product mix has gradually changed towards loan against property. Initially, loan against property constituted ~9 percent of the overall loan book as on March 31, 2017, which has increased to ~30 percent of the total outstanding portfolio of Rs. 288.68 crore as on September 30, 2020.

The company extends loan against property primarily to MSMEs to support working capital needs. Primarily caters to borrowers who are self-employed and are engaged in small businesses and trading activities. The cashflows of these borrowers are dependent on the overall economic activity in the region. The current slowdown in the overall economic activity has impacted the cashflows of these borrowers, the extent of the impact on their credit profile will be known in the next one or two quarters. The company's operations are concentrated in Rajasthan with ~61 percent of the overall outstanding portfolio as on March 31, 2020. The top 5 districts contributed ~50 percent toward the loan portfolio as on March 31, 2020. SHFL has started to diversify its geographical presence by operating branches in Madhya Pradesh, Gujarat and Maharashtra. Occurrence of events such as slowdown in economic activity or shifting of activity to other geographies could impact the cash flows of the borrowers, thereby impacting the credit profile of SHFL.

The company's gross non-performing assets (GNPA) levels (at PAR 90+ days past due) stood at 2.21 percent as on March 31, 2020 deteriorating from 1.97 percent as on March 31, 2019. The GNPA levels for September 30, 2020 were at 2.40 percent. The collection efficiency stood at an average of ~77 percent for 12-month period ended March 31, 2020. Relatively low seasoning of the portfolio with a concentration in Rajasthan is expected result in increased asset quality pressures due to the current operating environment.

Acuite believes that the company's ability to maintain its asset quality given the low seasoned loan book and increased presence in the newer geographies will remain a key rating monitorable.

### Rating Sensitivity

- Impact of natural calamities like Covid-19 on ongoing operations
- Movement in collection efficiency and asset quality
- Movement in liquidity buffers
- Movement in profitability metric
- Changes in the regulatory environment

### Material Covenants

SHFL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others.

### Liquidity: Adequate

SHFL's overall liquidity profile remains adequate with no negative cumulative mismatches in near to medium term as per ALM dated March 31, 2020. The company has maintained unencumbered cash and bank balances of ~Rs. 23.72 crore as on September 30, 2020. The borrowing profile of SHFL of Rs. 245.24 crore as on March 31, 2020 comprised Term loans from Banks (~53 percent), NBFC/FI's (~42 percent) and NCD's (~5 percent) As per ALM statement, the company has debt servicing obligations of Rs. ~61 crore over the period of one year. The company has undrawn sanctions of around Rs. 30 crore and is in talks in raising additional fundings from banks under TLTRO. SHFL also has cash credit limits of Rs. 3.5 crore with average utilization of ~22 percent for 6-months ended October 2020. SHFL's collections during September and October 2020 were around Rs. 8.45 crore and Rs. 8.25 crore (~70 percent and ~72 percent) respectively.

### Outlook: Stable

Acuite believes that SHFL will maintain a 'Stable' outlook over the near to medium owing to its established track record supporting its operational performance along with a healthy earning profile. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its AUM while maintaining profitability, asset quality and capitalization indicators. Conversely, the outlook may be revised to 'Negative' in case of a sharp decline in leverage indicators, asset quality or profitability margins.

### About the Rated Entity - Key Financials

Particulars	Unit	FY20 (Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	328.49	319.93
Total Income*	Rs. Cr.	42.22	35.32
PAT	Rs. Cr.	17.97	14.64
Networth	Rs. Cr.	74.86	56.70
Return on Average Assets (RoAA)	(%)	5.54	5.48
Return on Net Worth (RoNW)	(%)	27.32	29.56
Total Debt/Tangible Net Worth (Gearing)	Times	3.28	4.50
Gross NPA's	(%)	2.21	1.96
Net NPA's	(%)	0.51	0.94

\* Total income equals to Net interest income plus other income

### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

None

### \*Annexure – Details of instruments rated

Name of the Facilities	Bank Name	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed Non-Convertible Debentures	-	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/ Stable (Assigned)

### Contacts

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### About Acuité Ratings & Research:

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