

## Press Release

### SRG Housing Finance Limited

November 28, 2022

### Rating Reaffirmed



| Product                            | Quantum (Rs. Cr) | Long Term Rating                 | Short Term Rating |
|------------------------------------|------------------|----------------------------------|-------------------|
| Non Convertible Debentures (NCD)   | 25.00            | ACUITE BBB   Stable   Reaffirmed | -                 |
| Total Outstanding Quantum (Rs. Cr) | 25.00            | -                                | -                 |
| Total Withdrawn Quantum (Rs. Cr)   | 0.00             | -                                | -                 |

### Rating Rationale

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

#### Rationale for the rating

The rating continues to factor in the SRG Housing Finance Limited's (SHFL) experienced management, established presence in its area of operations, healthy capital structure and financial risk profile. The rating also considers the granularity of the portfolio with average loan size in the range of Rs. 6-8 lakhs and LTV ratio of around 40 percent. SHFL has maintained healthy capital structure and demonstrated ability to attract funding from banks and financial institutions at a competitive rate of interests. SHFL reported a networth of Rs. 123 Cr. and Capital Adequacy Ratio (CAR) of 43.10 percent as on September 30, 2022(Prov.). SHFL was able to raise funds to the tune of ~Rs. 167 Cr. during FY2022 in the form of term loans facilities. The rating also factors in SHFL's GNPA levels of 2.46 percent and ~83.20 percent of on-times portfolio as on September 30, 2022 along with healthy scheduled collection efficiency of ~95 percent for the month of September 2022.

The rating is however, constrained by the relatively small scale of operations and geographical concentration of the loan portfolio with ~60 percent in Rajasthan followed by ~15 percent in Madhya Pradesh & ~24 percent in Gujarat. The rating is also constrained by inherent risks associated with lending in this segment.

#### About the company

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 59 branches spread across four states namely, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra as on September 30, 2022.

## Analytical Approach

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

## Key Rating Drivers

### Strength

#### 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 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. As on September 30, 2022 housing loans comprised ~66 percent of the outstanding portfolio of Rs. 260.3 Cr. followed by loan against property (30 percent) and builder/project loans (~4 percent). The company majorly caters to self-employed borrowers in rural and semi-urban areas. SHFL focuses on Tier II & Tier III cities with ~86 percent of loan portfolio in rural areas and ~11 percent in urban areas followed by ~3 percent in semi-urban areas. The company has modest loan portfolio of Rs.370.03 crore as on September 30, 2022 having average ticket size of Rs. 6-8 lakhs. SHFL has gradually diversified its operations from Rajasthan to Madhya Pradesh, Gujarat and Maharashtra over the years and has created a borrower base of ~7600 borrowers as on September 30, 2022.

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

#### Healthy capital structure & financial risk profile

SHFL's networth stood at Rs. 113.74 Cr. as on March 31, 2022 and reported a healthy capital adequacy ratio (CAR) of 38.30 percent majorly comprising Tier 1 capital. As on September 30, 2022 (Prov.) the CAR stood at ~43.10 percent, while networth improved to Rs. 123 Cr. The company's leverage indicators stood at 2.71 times as on September 31, 2022 and 2.52 times as on March 31, 2022. The company has a diversified lender profile comprising Banks and NBFC/FI's, with total debt of Rs. 333.77 Cr. outstanding as on September 30, 2022. In FY2021, the company has been able to raise funds under TLTRO from PSB's like Union Bank of India, Indian Bank, Bank of Baroda. With the support of PSB via NCD's and term loans and refinancing from National Housing Bank, SHFL was able to rationalize its cost of borrowings.

Rebound in portfolio growth during FY22, decline in cost of borrowings and modest credit costs have led to healthy profitability metrics. SHFL's Net Interest Margin (NIM) stood at 12.46 percent as on March 31, 2022 (12.67 percent as on March 31, 2021). The company's Return on Average Assets (RoAA) stood at 5.04 percent as on March 31, 2022 (5.24 percent as on March 31, 2021). Operating Expense to Earning Assets, remained high at 6.59 percent as on March 31, 2022 as against 5.93 percent as on March 31, 2021. During H1FY23, the company reported PAT of Rs. 9.30Cr. total income of Rs. 26.90 Cr. RoAA and NIM (annualized) as on September 30, 2022 stood at 4.23 percent and 11.11 percent respectively.

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

### Weakness

## **Small scale of operations & geographical concentration**

The company extends loan against property to borrowers who are self-employed and are engaged in small businesses and trading activities in Tier II & Tier III areas. With a loan portfolio of Rs. 370.03 crore as on September 30, 2022, the company has small scale of operations.

The company's operations are concentrated in Rajasthan with ~60 percent of the overall outstanding portfolio as on September 30, 2022. The top 5 districts contributed ~45 percent toward the loan portfolio as on September 30, 2022. 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.

Acuité believes that the company's ability to scale-up its business model & franchise as well as geographically diversify its operations are critical.

## **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. 370.03 Cr. as on September 30, 2022 has grown significantly from Rs. 81.83 Cr. as on March 31, 2017. Due to substantial growth in loan book in the last couple of years, ~36 percent of the overall portfolio has a seasoning of less than two years. Also, over 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. 370.33 Cr. as on September 30, 2022. The company's gross non performing assets (GNPA) levels (at PAR 90+ days past due) stood at 2.47 percent as on March 31, 2022 and 2.34 percent as on March 31, 2021. The GNPA levels for September 30, 2022 were at 2.46 percent with delinquencies in softer buckets of 0-30 dpd and 31-60 dpd at 5.42 percent and 8.92 percent respectively. Despite these delinquencies, SHFL has maintained GNPA at lower levels characterizing behaviour of portfolio having exposure to rural & semi-urban areas. The overall collection efficiency stood at an average of ~78 percent for 6-month period ended September 30, 2022. While the housing finance as an asset class has been relatively resilient, low portfolio seasoning coupled with any rising share of LAP could result into asset quality pressures.

Acuité believes that the company's ability to maintain its asset quality given low seasoning will remain a key rating monitorable.

## **ESG Factors Relevant for Rating**

SRG Housing Finance Limited (SHFL) belongs to the housing finance sector which complements banks' efforts in improving mortgage penetration in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contribution to financial inclusion and community development, responsible financing including funding of environmentally friendly housing projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. SHFL maintains adequate transparency in its business ethics practices as can be inferred from the entity's disclosures regarding related party transactions, vigil mechanism, insider trading and whistle blower policy. It also adheres to Reserve Bank of India's Fair Practices Code and has the necessary interest rate and grievance redressal policies. The board of directors of the company comprises four independent directors and two female directors out of a total of seven directors. The company works on several community development initiatives through its CSR projects.

## **Rating Sensitivity**

- Movement in collection efficiency and asset quality
- Movement in liquidity & capitalization buffers
- Movement in profitability metrics
- Changes in the regulatory environment

## Material Covenants

None

## Liquidity Position

### Adequate

SHFL's overall liquidity profile remains adequate with no negative cumulative mis-matches in near to medium term as per ALM dated September 30, 2022. The company has maintained cash and bank balances of ~Rs. 24.38 Cr. as on September 30, 2022. The borrowing profile of SHFL of ~Rs. 333 Cr. as on September 30, 2022 comprised Term loans from Banks (~42 percent), NBFC/FI's (~45 percent) and NCD's (~13 percent) As per ALM statement, the company has debt servicing obligations of Rs. ~126 Cr. over the period of one year vis a vis collection from advance and proceeds from investments of Rs.133.89 Cr. The company has undrawn sanctions of Rs. 15 Cr. as on September 30, 2022, and is in talks in raising additional fundings from banks. SHFL also has cash credit limits of Rs. 3.5 Cr. with average utilization of ~42 percent for 6-months ended September 2022. SHFL's scheduled collections during August and September 2022 were around Rs. 8.70 Cr. and Rs. 8.91 Cr. (~96 percent and ~96 percent) respectively.

## Outlook: Stable

Acuité 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 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 sharp decline in leverage indicators, asset quality or profitability margins.

## Other Factors affecting Rating

None

## Key Financials - Standalone / Originator

| Particulars                             | Unit    | FY22<br>(Actual) | FY21<br>(Actual) |
|---|---------|------------------|------------------|
| Total Assets                            | Rs. Cr. | 415.15           | 390.63           |
| Total Income*                           | Rs. Cr. | 49.89            | 45.81            |
| PAT                                     | Rs. Cr. | 20.32            | 18.83            |
| Networth                                | Rs. Cr. | 113.74           | 93.61            |
| Return on Average Assets (RoAA)         | (%)     | 5.04             | 5.24             |
| Return on Net Worth (RoNW)              | (%)     | 19.60            | 22.36            |
| Total Debt/Tangible Net Worth (Gearing) | Times   | 2.52             | 3.05             |
| Gross NPA's                             | (%)     | 2.47             | 2.34             |
| Net NPA's                               | (%)     | 0.42             | 0.42             |

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

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

None

## Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

| Date        | Name of Instruments/Facilities      | Term      | Amount (Rs. Cr) | Rating/Outlook                   |
|-------------|-------------------------------------|-----------|-----------------|----------------------------------|
| 01 Dec 2021 | Non Convertible Debentures          | Long Term | 25.00           | ACUITE BBB   Stable (Reaffirmed) |
| 26 Nov 2020 | Proposed Non Convertible Debentures | Long Term | 25.00           | ACUITE BBB   Stable (Assigned)   |

## Annexure - Details of instruments rated

| Lender's Name  | ISIN         | Facilities                       | Date Of Issuance    | Coupon Rate | Maturity Date       | Complexity Level | Quantum (Rs. Cr.) | Rating                           |
|----------------|--------------|----------------------------------|---------------------|-------------|---------------------|------------------|-------------------|----------------------------------|
| Not Applicable | INE559N07041 | Non-Convertible Debentures (NCD) | Dec 10 2020 12:00AM | 10.45       | Dec 10 2023 12:00AM | Simple / Complex | 25.00             | ACUITE BBB   Stable   Reaffirmed |

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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