Supreme Housing Finance Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	425.00 (Enhanced from 350.00)	CARE BBB; Stable	Reaffirmed
Non-convertible debentures	25.00	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to long-term bank facilities and non-convertible debentures (NCDs) of Supreme Housing Finance Limited (SHFL) continues to derive strength from improving scale of operations and strong capitalisation profile supported by regular equity infusion by the promoters, Supreme Securities Limited. Rating also factors in healthy profitability indicators, diversified resource profile and experienced management team.

Ratings continues to be constrained by relatively unseasoned loan book with majority disbursements happening in the last three years. Ratings are further constrained by geographical concentration with top two states, Madhya Pradesh and Rajasthan accounting for 88% of the overall loan book as on March 31, 2024.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could lead to positive rating action/upgrade:

- Significantly growing loan portfolio, while maintaining gross non-performing assets (GNPA) ratio below 1.5%.
- Significantly improving in the net worth position for further business growth.
- Healthy profitability with return on total assets (RoTA) above 3% on a sustained basis.

Negative factors

- Deteriorating asset quality parameters with GNPA ratio above 3%.
- Deteriorating profitability parameters on a sustained basis.
- Overall gearing exceeding 4x.
- Significantly rising asset-liability maturity (ALM) mismatches.

Analytical approach:

Standalone

Outlook: Stable

The 'stable' outlook for the long-term instruments of SHFL factors in the proven track record of growth in loan book with comfortable asset quality. The outlook also reflects CARE Ratings Limited's (CARE Ratings) expectation that company will be able to maintain consistent profitability.

Detailed description of key rating drivers:

Key strengths

Healthy capitalisation backed by periodic equity infusions provide adequate headroom for growth

SHFL has been able to raise equity capital at regular intervals and has been maintaining healthy capitalisation at comfortable levels against statutory minimum requirements. In FY24, the company was able to raise fresh equity of ₹21.28 crore, which and healthy internal accruals resulted into increased tangible net worth (TNW) of ₹182.19 crore as on March 31, 2024, as compared to ₹135.79 crore as on March 31, 2023. Total capital adequacy ratio (CAR) also stood comfortable at 80.97% as on March 31, 2024. The company's gearing levels stood at 1.80x on March 31, 2024, and 1.55x March 31, 2023, though is expected to increase

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

as the loan book expands. Going forward, support from promoters is expected to continue with the company planning to raise additional equity of ₹20 crore in FY25. The company's ability to maintain sufficient capital buffer as it expands operations remains a key rating monitorable.

Experienced promoters

SHFL is wholly owned by Supreme Securities Limited. As on March 31, 2024, promoters held 100% stake in the company through promotors' company Supreme Securities Limited and Samrat TradeLinks Private Limited. Sushil Singla, Managing Director, has 36 years' experience in financial services across multiple verticals with strong expertise in lending, risk management, general management, strategy and business development. Anil Kumar Gupta, Chief Executive Officer, has over 30 years of experience in the banking and financial services industry.

Adequate risk management systems for current scale of operations

The company has adequate risk management and control systems. It has developed its lending policies with defined criteria on financial appraisal specific to borrowers, quality, and maximum exposure limits to individual borrower. Per the policy, the first applicant on all loans should be the female of the house. The company was able to source 100% of its business in-house with focus on home loans and conservative loan-to-value of around 28%. The loan book has increased to ₹454 crore as on March 31, 2024, from ₹305 crore as on March 31, 2023.

Healthy profitability indicators

SHFL's profitability has been improving over the years with the rise in profit after tax (PAT) driven by improved net interest margins (NIMs) and controlled credit costs. In FY24, company reported PAT of ₹25 crore, up by 99% on a total income of ₹93 crore. The company's RoTA improved to 5.64% in FY24 from 4.31% in FY23 due to slightly increase in average yields to 20.05% in FY24 from 19.98% in FY23 resulting into better spreads and NIMs. With the company being in expansion mode, the company's operating expenses/average total assets (ATA) ratio remained high at 6.45% in FY24, though improved from 8.19% in FY23.

CARE Ratings notes that the loan book is relatively unseasoned and credit costs may increase in the medium term, though expected to remain under control.

Diversified resource base

Despite its small scale, the company has been able to raise funds through secured term loans from 25 lenders, including public sector banks (13% of borrowings as on March 24), Private Sector banks (28%), financial institutions (47%), and National Housing Bank (8%). It has raised NCDs of ₹25 crore from Northern Arc Capital Limited.

Key weaknesses

Limited track record with relatively unseasoned loan book

The company started operations in FY17, however, majority disbursements have happened in the last three years, disbursing ₹196 crore in FY24, ₹176 crore in FY23 and ₹129 crore in FY22. While the portfolio hovered around ₹50 crore till FY20, assets under management (AUM) increased to ₹454 crore as on March 31, 2024 (₹305 crore as on March 31, 2023). SHFL's target customer segment is in the outskirts of Tier-II and Tier-III cities and it initially had a presence in Delhi, Haryana and Rajasthan. In FY21, the company entered Madhya Pradesh and in quarter-ended June 2023, increasing its geographical diversification by expanding its presence in Uttarakhand and increased its branch network to 47 branches as on March 31, 2024 (36 branches as on March 31, 2023). Majority disbursement happened in the last three years and considering the long tenure of home loan products (91% of portfolio is home loan and 9% is loan against property as on March 31, 2024), the outstanding portfolio is largely unseasoned.

GNPA ratio stands at 1.15% as on March 31, 2024, though improved from 1.23% as on March 31, 2023, due to high disbursements. The portfolio disbursed in the last few quarters have shown negligible delinquencies; however, it is to be noted that the portfolio is relatively unseasoned and there could be rise in delinquencies, going forward. The company's ability to control its asset quality metrics as the portfolio grows remains a key rating sensitivity.

Geographically concentrated operations

Geographical concentration exists with top two states, Madhya Pradesh and Rajasthan contributing 88% of the loan book (Madhya Pradesh:68%, Rajasthan:20%), as on March 31, 2024. Concentration increased in the last few years, with the share of Madhya Pradesh and Rajasthan increasing from 56% as on March 31, 2021, to 88% as on March 31, 2024. The company also has presence in three other states: Haryana (11%), Delhi (1%) and Uttarakhand (0.24%). For the next three years, the company's focus will remain on central India and the Hindi belts such as: - Rajasthan, Haryana, MP, Uttarakhand, UP, and Bihar.

Liquidity: Adequate

Per the ALM statement of March 31, 2024, the company has negative cumulative mismatches in six months to one-year time bucket and one-three-year bucket. However, comfort comes from the company's track record of raising funds through diverse sources, plan to raise additional equity capital in FY25 and prepayments expected from the home loan portfolio.

The company had repayment of ₹107.05 crore up to one year against which company holds ₹42.33 crore as cash and bank balance and is expecting inflows of ₹29.70 crore from advances.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Housing Finance Companies

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Financial services	Financial services	Finance	Housing finance company

Incorporated in October 2014, SHFL received Housing Finance Company license in 2015 and commenced operations in 2016. The company has loan book of ₹454.35 crore as on March 31, 2024, and has presence in, Madhya Pradesh, Rajasthan, Uttarakhand, Haryana, and Delhi. As on March 31, 2024, 91% of loan outstanding was from home loans and 9% from loan against property. SHFL is owned by Supreme Securities Limited, with 92.26% equity stake. It deals in inward and outward remittances.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	27.44	61.16	93.49
PAT	4.72	12.50	24.83
Interest coverage (times)	2.25	1.84	2.07
Total Assets	224.12	356.35	524.13
Net NPA (%)	1.11	0.97	0.87
ROTA (%)	2.93	4.31	5.64

A: Audited P: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

CareEdge RATINGS

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	October 27, 2029	425.00	CARE BBB; Stable
Non-Convertible Debenture	INE02HE07027	31-Mar-2022	13.40	31-Mar-2025	25.00	CARE BBB; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non-Convertible Debentures	LT	25.00	CARE BBB; Stable	-	1)CARE BBB; Stable (17-Oct-23)	1)CARE BBB-; Stable (23-Sep-22) 2)CARE BBB-; Stable (01-Apr-22)	-
2	Fund-based - LT-Term Loan	LT	425.00	CARE BBB; Stable	-	1)CARE BBB; Stable (17-Oct-23)	1)CARE BBB-; Stable (23-Sep-22)	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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