Supreme Housing Finance Limited

October 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	350.00 (Enhanced from 150.00)	CARE BBB; Stable	Revised from CARE BBB-; Stable
Non-convertible debentures	25.00	CARE BBB; Stable	Revised from CARE BBB-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities and non-convertible debentures (NCDs) of Supreme Housing Finance Limited (SHFL) factors in the significant improvement in the scale of operations, while maintaining asset quality, strong capitalisation metrics backed by periodical capital infusion from the Promotor supreme securities limited, experienced management team, improved profitability indicators, diversified resource profile along with the company's adequate risk management systems.

The rating continues to be constrained by modest scale of operations and relatively unseasoned loan book with majority of disbursements happening over the past two years. Also, the ratings are constrained by geographical concentrations with top two states, Madhya Pradesh and Rajasthan accounting for 84%, of the overall loan book as on June 30, 2023.

Going forward, the company's ability to increase its scale of operations while maintaining asset quality remains a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

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

- Any significant mobilisation of equity capital for further growth in business.
- Sustained growth in the loan portfolio while maintaining a gross non-performing assets (GNPA) ratio below 1.5%,
- Healthy profitability with return on total assets (ROTA) above 3% on sustained basis.

Negative factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the asset quality parameters with a GNPA ratio above 3%.
- Deterioration in the profitability parameters on a sustained basis.
- Overall gearing exceeding 4x.

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 the expectation that company will be able to maintain consistent profitability.

Detailed description of the key rating drivers:

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

Key strengths

Healthy profitability indicators:

SHFL's profitability improved during FY23 (refers to the period April 1 to March 31) driven by improved net interest margins and controlled credit costs. While spreads moderated slightly in FY23, net interest margins improved with rise in share of loans as a proportion of total assets (86%, as on March 31, 2023 vs 76% as on March 31, 2022). With the company being in expansion mode, operating expenses/average total assets (ATA) ratio of the company remained high at 8.19% in FY23, though improved from 9.45% in FY22. Furthermore, in the quarter ending June 2023, operating expenses/ATA ratio reduced to 7.04%. The credit cost of the company remained manageable at 0.19% in FY23 and 0.24% in Q1FY24. 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. Overall, the company reported good profitability with rise in RoTA to 4.31% in FY23 from 2.93% in FY22. Furthermore, in Q1FY24, RoTA improved to 4.96%. Going forward, the company's ability to maintain its credit costs as the portfolio expands, will remain the key driver for the profitability.

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 vis-à-vis statutory minimum requirements. During FY23, the company was able to raise fresh equity of ₹20.71 crore, which along with healthy internal accruals resulted into increased tangible net worth (TNW) of ₹135.79 crore as on March 31, 2023, as compared with ₹103.56 crore as on March 31, 2022. Total capital adequacy ratio (CAR) also stood comfortable at 78.35% as on March 31, 2023. The gearing levels of the company stood at 1.55x end-March 31, 2023 and 1.75x June 30, 2023, though is expected to increase as the loan book expands. Going forward, support from the promoters is expected to continue with the company planning to raise additional equity of ₹20 crore in FY24. The ability of the company to maintain sufficient capital buffer as it expands its operations remains a key rating monitorable.

Diversified resource base:

Despite its small scale, the company has been able to raise funds through secured term loans from 24 lenders, including public sector banks (38% of borrowings as on June 2023), financial institutions (39%), and National Housing Bank (12%). Furthermore, it has raised NCDs of ₹25 crore from Northern Arc Capital Limited.

Adequate risk management systems for the current scale of operations:

The company has put in place adequate risk management and control systems. The company has developed its lending policies with defined criteria on financial appraisal specific to various borrowers, quality, and maximum exposure limits to individual borrower. As 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 30%. Portfolio remained granular with top 20 customers accounting for 0.88% of the overall loan book, as on June 30, 2023.

Key weaknesses

Limited track record with relatively unseasoned loan book:

The company started its operations in FY17, however majority of disbursements have happened over the past two years, with the company disbursing ₹176 crore in FY23 and ₹129 crore in FY22. While portfolio hovered around ₹50 crore till FY20, the assets under management (AUM) increased to ₹305.12 crore as on March 31, 2023 (₹169.23 crore as on March 31, 2022). SHFL's target customer segment is in the outskirts of Tier-II and Tier-III cities and the company initially had a presence in the states of Delhi, Haryana and Rajasthan. During FY21, the company entered into Madhya Pradesh and in the quarter ended June 2023, the company increased its geographical diversification by expanding its presence into Uttarakhand and increased its branch network to 47 branches as on June 30, 2023 (36 branches as on March 31, 2022). Majority of disbursement happened over the last two years and considering the long tenure of home loan products (87% of portfolio is home loan and 13% is loan against property as on June 30, 2023), the outstanding portfolio is largely unseasoned.

GNPA ratio stands at 1.23% as on March 31, 2023, though improved from 1.55% as on March 31, 2022, due to high disbursements. Furthermore, this has improved to 1.16% as on June 2023. The portfolio disbursed over the past 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 the top two states, Madhya Pradesh and Rajasthan contributing 84% of the loan book (Madhya Pradesh:56%, Rajasthan:28%), as on June 30, 2023. Concentration has increased over the past few years, with the share of Madhya Pradesh and Rajasthan increasing from 56% as on March 31, 2021 to 84% as on June 30, 2023. The company also has presence in three other states: Haryana (15%), Delhi (2%) and Uttarakhand (0.04%). For the next three years, the company's main focus will remain on central part of India and the Hindi belt states like: - Rajasthan, Haryana, MP, Uttarakhand, UP, Bihar.

Liquidity: Adequate

As per the asset-liability maturity (ALM) statement of June 30, 2023, 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 FY24 and prepayments expected from the home loan portfolio.
The company had cash and bank balance of ₹40.49 crore as on June 30, 2023 against the debt repayments of ₹77.43 crore up to one year.

Applicable criteria

[Definition of Default]
[Financial Ratios - Financial Sector]
[Rating Outlook and Rating Watch]
[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 ₹335 crore as on June 30, 2023, and has presence in five states, i.e., Madhya Pradesh, Rajasthan, Uttarakhand, Haryana and Delhi. As on June 30, 2023, 87% of loan outstanding was from home loans and 13% from loan against property. SHFL is owned by Supreme Securities Limited, with 91.06% equity stake. It deals in inward and outward remittances in foreign exchange business.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (U/A)
Total operating income	27.44	61.16	19.96
PAT	4.72	12.50	4.67
Interest coverage (times)	2.25	1.85	1.91
Total Assets*	224.12	356.35	396.98
Net NPA (%)	1.12	0.97	0.87
ROTA (%)	2.93	4.31	4.96

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
*Total assets are net of intangible assets and deferred tax assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	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	350.00	CARE BBB; Stable
Non-convertible debenture	INE02HE07027	31-Mar-2022	13.40%	31-Mar-2022	25.00	CARE BBB; Stable

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non-convertible debentures	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (23-Sep-22) 2)CARE BBB-; Stable (01-Apr-22)	-	-
2	Fund-based - LT-Term loan	LT	350.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (23-Sep-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various 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 the lender-wise details of bank facilities please click here

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

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