

**RATING RATIONALE**

12 Dec 2019

**SRG Housing Finance Ltd**

**Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities and Non-Convertible Debentures aggregating to Rs ₹. 269.22 Crores of SRG Housing Finance Ltd [hereafter referred to as “SRGHFL” or the “Company”].**

**Particulars:**

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Oct, 2018)	Present
Fund based	255	255	Long Term	BWR BBB Stable	BWR BBB Stable
NCD	20.69	14.22			
<b>Total</b>	<b>275.69</b>	<b>269.22</b>	<b>INR Two Hundred Sixty Nine Crores and Twenty Two Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

**RATING ACTION / OUTLOOK**

The rating reaffirmation takes into account the consistent improvement in the financial risk profile of the company, comfortable capitalisation, adequate liquidity and moderate asset quality. The rating reaffirmation has continued to factor, *inter alia*, the experienced Promoters & Management, expertise & track record of the company in rural housing financing, consistent improvement in the financial risk profile of the company, comfortable capitalisation, adequate liquidity, moderate asset quality and risk management practices. The rating is, however, constrained by low scale of operations given geographical concentration of the loan portfolio, the inherent risks associated with rural lending, ALM issues of HFCs and competition from banks and HFCs, in general.

## Rating Outlook: Stable

BWR believes SRGHFL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

## KEY RATING DRIVERS

### Credit Strengths:

- **Consistent growth in AUM and profitability:** AUM has consistently grown in last 3 years from Rs 81.83 Crs in FY17 to Rs 200.28 Crs in FY18 and to Rs 281.63 Crs in FY19. On back of which the company has reported Total revenues from operations and PAT of Rs 59.33 Crs and Rs 14.18 Crs for FY19 when compared to Total revenues from operations and PAT of Rs 34.13 Crs and Rs 8.08 respectively for FY18. For FY19, profitability of the company stood comfortable with ROA & ROE of 5.21% and 28.94% respectively with NIM of 12.98%.

However, as on 30 Sep 2019, the AUM moderated at Rs 285.53 Crs with Total Revenues from operations of Rs 35.99 Crs and PAT of Rs 10.31 Crs.

- **Comfortable Capitalization:** As on 30 Sep 2019, SRGHFL's CRAR comfortably stood at 35.65% as against NHB's stipulated minimum requirement of 12% (Tier I : 6%). As on 30 Sep 2019, the Company's Tangible networth stood at Rs 65.55 Crs against total debt of 259.86 Crs resulting in a moderate gearing of 3.96x.
- **Moderate Asset quality:** SRGHFL has always maintained good asset quality reflecting its prudent risk mitigating measures and strong credit appraisal systems in place. However, in FY19, the asset quality moderated with GNPA for FY19 increasing to 1.96% compared to 1.50% in FY18. However due to high provision coverage ratio of 76.53% (66.67% in FY18) NNPA has decreased from 0.50% in FY18 to 0.46% in FY19. GNPA & NNPA as on 30 Sep 2019 stood at 1.98% and 0.47% respectively. Given that 78% of the borrowers are self employed whose credit profile is weak , we expect the portfolio to further moderate in the next 2-3 years.
- **Adequate Liquidity:** Company's borrowings are in the form of term loans and NCDs which are long term in nature against average tenure of 6.7 years for the housing loans has helped the company to maintain adequate liquidity. As per ALM profile dated 30 Sep 2019, the company has no negative mismatches across various buckets. As on 30 Nov 2019, company has cash and cash equivalents of Rs 34 Crs against quarterly repayments of Rs ~16 Crs.

### Credit Risks:

- **Small scale of operations with geographical concentration risk:** Company operates in only 4 states, viz., Rajasthan which contributes to ~60% of the total portfolio, Madhya Pradesh which contributes to ~26% of the portfolio followed by Gujarat (~12%) and Maharashtra (1%). The company's operations are not geographically diversified and hence the scale of operations are relatively low. Going forward diversifying geographically and scaling up its operations will be a key rating monitorable.
- **Inherent risks associated with Rural Housing Finance:** Given the nature of borrower profile in rural areas, availability of clear land documents and challenges of foreclosure of mortgages, rural housing product has higher inherent risks, compared to similar portfolio in urban or metropolitan areas. However, this segment also benefits from Govt support under affordable housing plans, subsidies, etc. HFCs like SRGHFL face competition for their different loan segments from banks, other HFCs and NBFCs. The companies need to face this by quality and speed of decision making, attractive pricing, and improved operational efficiencies.

Post Sept 2018, NBFCs/HFCs in India are facing liquidity and funding challenges, resulting in increased borrowing costs and potential ALM mismatches in the short term. This has adversely affected spreads for HFCs. Also raising short term funds is a challenge, and arranging long term secured funds takes time. Further, being in the competitive landscape of NBFCs, the Company is exposed to risks of growth with quality and spreads and increasing regulatory responsibilities.

### ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

SRGHFL is evaluated on the basis of its stand-alone financial strength. For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### RATING SENSITIVITIES

**Positive:** Substantial growth in portfolio and profitability while maintaining asset quality and gearing at current levels be key rating positives

**Negative:** Lower than expected growth in portfolio, deterioration in asset quality and profitability will be key rating sensitivities

## LIQUIDITY POSITION: Adequate

Company's borrowings are in the form of term loans and NCDs which are long term in nature against average tenure of 6.7 years for the housing loans has helped the company to maintain adequate liquidity. As per ALM profile dated 30 Sep 2019, the company has no negative mismatches across various buckets. As on 30 Nov 2019, company has cash and cash equivalents of Rs 34 Crs against quarterly repayments of Rs ~16 Crs.

## COMPANY PROFILE

SRG Housing Finance Limited (SRGHFL) is a BSE Listed Housing finance company headquartered in Udaipur, Rajasthan. It is engaged in providing Housing loans & Mortgage loans. SRGHFL commenced operations from 2002 after getting registered with National Housing Bank. The Company opened its corporate office in Mumbai in May 2016 with a view to increase its focus on operations in Maharashtra as well as for expanding resource base of the company. The Company is promoted by Mr. Vinod Kumar Jain, who has more than two decades of experience in credit & finance, with total Promoter & Promoter Group holding of 59.37% as of 30 Sep 2019. Company's major exposure in rural housing loans is in the States of Rajasthan (61%) and Madhya Pradesh (26%).

## KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY17	FY18	FY19
Result Type		Audited	Audited	Audited
AUM	Rs in Crs	81.83	200.28	281.63
Revenue from operations	Rs in Crs	14.53	34.13	59.33
PAT	Rs in Crs	2.71	8.08	14.18
Tangible Networkth	Rs in Crs	33.97	42.03	55.89
GNPA	%	1.57	1.50	1.96
NNPA	%	1.21	0.50	0.46
Total CRAR	%	72.72	33.38	30.27
Gearing	Times	2.21	3.97	4.56



**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Nil**  
**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: Nil**

**RATING HISTORY**

Sl. No.	Instrument/ Facility	Current Rating (Dec 2019)		Rating History		
				Oct 2018	Mar 2018	Aug 2017
		Rs in Crs				
1	Secured NCD	14.22	BWR BBB Stable Reaffirmed	BWR BBB Stable Reaffirmed	BWR BBB Stable Upgraded	BWR BBB-Stable
2	Bank loan	255				BWR BBB-Stable
3	Proposed Secured NCD	-	-	-	-	Withdrawal of BWR BBB-Stable
<b>Total</b>		<b>269.22</b>	<b>INR Two Hundred Sixty Nine crores and Twenty Two Lakhs only</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Banks and Financial Institutions](#)

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**SRG Housing Finance Ltd**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR (O/s as on 30/11/2019)**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	Term Loan	51.22	-	51.22
		Cash Credit	3.50	-	3.50
2	NHB	Term Loan	8.06	-	8.06
3	Andhra Bank	Term Loan	20.83	-	20.83
4	South Indian Bank	Term Loan	9.17	-	9.17
5	AU Small Finance Bank	Term Loan	19.70	-	19.70
6	DCB Bank	Term Loan	5.26	-	5.26
7	Uco Bank	Term Loan	8.31	-	8.31
8	Oriental Bank of Commerce	Term Loan	25.62	-	25.62
<b>Total Sanctioned facilities</b>			<b>151.67</b>	<b>-</b>	<b>151.67</b>
<b>Total Proposed facilities</b>			<b>103.33</b>	<b>-</b>	<b>103.33</b>
<b>Total Amount rated</b>					<b>255</b>

**Total Rupees Two Hundred Fifty Five Crores only.**



**SRG Housing Finance Ltd  
ANNEXURE II  
INSTRUMENT (NCD) DETAILS**

<b>Instrument</b>	<b>Issue Date</b>	<b>Amount in Crs.</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
NCD	21-Aug-2017	14.22	10.90%	21-Aug-2022	INE559N07017

**For print and digital media**

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**About Brickwork Ratings:** Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER**

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