

December 17, 2024

To,  
**BSE Limited**  
Phiroze Jeejeebhoy Towers,  
Dalai Street, Fort,  
Mumbai 400 001

Dear Sir/ Madam,

**Sub: Disclosure under Regulation 51 and Regulation 55 of the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 in respect of Credit Rating- Revision of Credit Rating**

Pursuant to Regulation 51 and Regulation 55 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**Listing Regulations**”), read with Part B of Schedule III of the Listing Regulations, we hereby inform that India Ratings and Research Private Limited on December 17, 2024 has revised the credit rating and outlook of the Company’s Non-Convertible Debentures and Bank Loans as follows:

| Name of Agency                             | Facilities/Instrument      | Amount (INR in crore) | Revised Rating | Rating Action   |
|--|----------------------------|-----------------------|----------------|---|
| India Ratings and Research Private Limited | Non-Convertible Debentures | 6,580                 | IND AA/ Stable | Downgraded; off Rating Watch with Negative Implications |
|  | Bank Loans                 | 26,000                | IND AA/ Stable | Downgraded; off Rating Watch with Negative Implications |

The rating rationale issued by the ratings agencies is enclosed herewith.

We request you to kindly take the above information on record.

Yours Faithfully,  
For **Shriram Housing Finance Limited**

**Gauri Shankar Agarwal**  
**Chief Financial Officer**

Encl.: As Above.



## India Ratings Downgrades Shriram Housing Finance's NCDs and Bank Loans to 'IND AA'/ Stable; Off Rating Watch with Negative Implications

Dec 17, 2024 | Housing Finance Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on Shriram Housing Finance Limited's (SHFL) debt instruments:

### Details of Instruments

| Instrument Type             | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating assigned along with Outlook/Watch | Rating Action   |
|-----------------------------|------------------|-----------------|---------------|-------------------------|--|---|
| Non-convertible debentures* | -                | -               | -             | INR6,580                | IND AA/Stable                            | Downgraded; off Rating Watch with Negative implications |
| Bank loans                  | -                | -               | -             | INR26,000               | IND AA/Stable                            | Downgraded; off Rating Watch with Negative implications |

\*Details in the annexure

### Analytical Approach

Ind-Ra has changed its analytical approach to taking a standalone view of SHFL from the earlier support-driven rating construct. The agency had previously factored in the availability of support from SHFL's parent, Shriram Finance Ltd ([SFL: IND AA+/Stable](#)), due to the latter's significant stake in the company. However, with the sale of SFL's entire stake in SHFL to Mango Crest Investment Ltd, an affiliate of the private equity investor, Warburg Pincus, the aforementioned support is no longer available, leading to the change in the analytical approach.

### Detailed Rationale of the Rating Action

The downgrade and resolution of the Rating Watch with Negative Implications reflect the change in Ind-Ra's analytical approach following the transfer of shares from SFL and Valiant Partner L.P. to Mango Crest Investment. The rating reflects the size and scale of the franchisee in the housing finance space, well-diversified funding, adequate liquidity, and capitalisation. SHFL's fairly high growth in the past few quarter has resulted in a loan book with a significant share of recent originations, and so the book is unseasoned to that extent.

### List of Key Rating Drivers

#### Strengths

- Sizeable player within affordable housing finance space
- Experienced and stable management team
- Diversified lender base

- Capital position and leverage to improve

## Weaknesses

- Asset quality susceptible to volatility

## Detailed Description of Key Rating Drivers

**Sizeable Player within Affordable Housing Finance Space:** SHFL is a significant player in the affordable housing finance space, with AUM of INR144 billion at 1HFYE25 (FY23: 137.6 billion; FY23: INR80.5 billion). The company has developed a well-entrenched franchisee on a pan-India level. Furthermore, SHFL has a sizeable branch network diversified across India. At end-1HFYE2025, the company had a network of 155 branches and offices spread across 16 states and union territories. Major industrial states, Gujarat, Maharashtra and Tamil Nadu account for 18%, 18% and 16% of the AUM, respectively. The company focusses on borrowers from the middle-income group and low-income groups, mostly residing in urban and semi-urban regions, and has an average loan book ticket size of INR1.9 million, which is significantly higher than its peers in the affordable housing finance space. A larger proportion of SHFL's borrowers are self-employed (77%) and operating in a formal sector.

**Experienced and Stable Management Team:** SHFL has an operating track record of 14 years and has established its presence as a key player in the affordable housing finance market. Its top management consists of experienced professionals, with an average relevant experience of more than 25 years. Additionally, most of the senior leadership has been with the entity for the past five years. The company has a strong focus on technology, building digital capabilities, and management information systems. Following the conclusion of the share transfer from the erstwhile promoter to the new promoter, Mango Crest Investment Ltd, an affiliate of the private equity investor, Warburg Pincus, SHFL's board has been overhauled, and four new board members have been appointed, three of whom are independent. The managing director and chief executive officer of SHFL is also a member of the board. The key management team is likely to remain same after this transaction.

**Diversified Lender Base:** SHFL has mobilised funds from 29 financiers, including term loan from banks (42.2% of total borrowings at end-Nov 2024) and a large non-banking finance company (1.2%), external commercial borrowing (7.8%), and capital market borrowings such as non-NCDs (12.8%) and commercial paper (5.9%). It also has refinance lines from the National Housing Bank ([IND AAA/Stable](#)), which stood at 13.2% at FYE24 (FY24: 14%; FYE23: 9%). The management intends to increase the share of NHB borrowings over the medium, which will enable it to lower its overall cost of borrowing.

Furthermore, SHFL has banking relationships with some of the largest public, private, and foreign banks. A significant portion of its loan book qualifies for priority sector lending; therefore, securitisation/assignment is an additional source of fundraising. SHFL also has a co-lending arrangement with three banks, which helps the company grow with minimum capital utilisation. The share of co-lending stood at 5.7% of the total AUM at 1HFYE25, which the company intends to increase over the medium term. Subsequently, the share of total off-book AUM will also increase from the current level of 21.2% over the medium term. Ind-Ra does not foresee any major challenge for the company in incrementally raising debt funds to meet its growth plans over the remaining FY25.

**Capital Position and Leverage To Improve:** SHFL's leverage (debt to equity) stood at 5.3x at 1HFYE25. Nonetheless, with the conclusion of the share purchase transaction, the company has received fresh equity of INR12 billion. In addition to this capital injection, the company has an equity line of INR4 billion from the promoter, which it can raise as and when required. The infusion of capital will help the company bring its debt-to-equity ratio comfortably below 4x and strengthen its capital base. Its capital adequacy ratio remained comfortable at 25% at 1HFYE25, which the management expects to increase to around 35% by the end of FY25, including the current capital infusion. Capital consumption will remain high, given the strong growth momentum, as the company plans to scale up its AUM to INR170 billion-180 billion by end-FY25 (FY24: INR130 billion; FY23: INR80 billion). Ind-Ra believes the capital raise will be sufficient to support growth over the near-to-medium term, but SHFL will continue to raise capital to sustain the current momentum.

**Asset Quality Susceptible to Volatility:** SHFL's borrower mix is skewed towards self-employed customers, accounting for 77% of the total AUM at 1HFYE25. The segment is susceptible to income volatility, which can accentuate during an economic downturn. The company's underwriting remains stringent, as borrowers with bureau score of 700 and above

accounted for 83% of the total AUM at 1HFYE25. Additionally, nearly 59% of the exposure has loan-to-value of below 60%. Ind-Ra believes conservative underwriting standard are crucial to performance of the portfolio, especially given the company's focus on the low ticket size affordable segment.

SHFL's gross stage-3 assets saw a marginal uptick to 1.22% in 1HFY25 (FY24: 1.03%; FY23:0.93%). Furthermore, 1+ days past due (dpd) increased to 4.4% in 1HFY25 (FY24: 3.3%; FY23: 4.1%), though this was largely in line with its peers. The bounce rate has largely remained steady, hovering between 13%-14%, while the bounce rate in the portfolio originated post January 2019 has consistently outperformed the overall bounce rate, signifying that the newer originations that have been subjected to the new risk and pricing frameworks might fare better. In addition, the company's restructured portfolio declined to 0.68% of the AUM at FYE24 (around 19% of this is already in stage 3), with a provision coverage of 20.6%.

The company's stage 3 provision stood at 24.1% in 1HFY25(FY24: 22.7%; FY23: 25.4%), while the total provision coverage on the loan portfolio was 0.7% (0.7%; 0.78%). Additionally, 82.8% of the AUM in 1HFY25 consisted of disbursements in the past eight quarters (46.2% in the past four quarters), which have remained unseasoned. SHFL plans to increase its AUM to INR170 billion - 180 billion by end-FY25, making the asset quality a key area to monitor.

## Liquidity

**Adequate:** The behavioural asset-liability management for September 2024 showed a positive cumulative gap in the up-to-one-year bucket. At end-September 2024, SHFL had cash and cash equivalents of INR6.2billion and unutilised bank lines of INR5.7 billion. The company has total debt obligations (principal and interest) of INR5.7billion over October-December 2024. As per the management, the company plans to maintain minimum liquidity to meet one-and-a-half month of disbursements. Given that the borrower cashflows in the affordable housing segment are more susceptible to shocks and even persistent inflationary pressures, Ind-Ra expects the company to maintain above-average liquidity buffers on an ongoing basis.

## Rating Sensitivities

**Positive:** Future developments that could, collectively, lead to a positive rating action include:

- a significant increase in the franchisee, along with asset quality control and a further penetration in existing geographies,
- maintenance of adequate capital buffers in line with book granularity and scale,
- maintenance of adequate liquidity buffers
- completion of multiple business cycles with adequate seasoning

**Negative:** Future developments that could, individually or collectively, lead to a negative rating action include:

- deterioration in the asset quality on a sustained basis,
- leverage exceeding 5.0x on a sustained basis,
- challenges in fund raising and erosion in liquidity buffers.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SHFL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## About the Company

SHFL was registered as a housing finance company with NHB in August 2011 and started lending operations in December 2011. The company has a network of 155 branches across 17 states and union territories.

## Key Financial Indicators

| Particulars                  | FY24  | FY23 |
|------------------------------|-------|------|
| Total assets (INR billion)   | 118.6 | 77.4 |
| Total equity (INR billion)   | 19.2  | 12.9 |
| Net income (INR billion)     | 2.1   | 1.3  |
| Return on average assets (%) | 2.2   | 2.4  |
| Tier 1 capital (%)           | 16.5  | 23.3 |
| Source: SHFL, Ind-Ra         |       |      |

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type            | Current Rating/Outlook |                        |               | Historical Rating/Outlook                      |                |                |                |                          |                          |                           |                 |                  |                 |               |
|----------------------------|------------------------|------------------------|---------------|--|----------------|----------------|----------------|--------------------------|--------------------------|---------------------------|-----------------|------------------|-----------------|---------------|
|                            | Rating Type            | Rated Limits (million) | Rating        | 23 May 2024                                    | 14 March 2024  | 15 March 2023  | 1 March 2023   | 10 January 2023          | 2 January 2023           | 13 December 2022          | 20 July, 2022   | 20 December 2021 | 3 December 2021 |               |
| Bank loan                  | Long-term              | INR2,000               | IND AA/Stable | IND AA+/Rating watch with Negative implication | IND AA+/Stable | IND AA+/Stable | IND AA+/Stable | IND AA+/Stable           | IND AA+/Stable           | IND AA+/Stable            | IND AA/Positive | IND AA/Positive  | IND AA/Positive | IND AA/Stable |
| Non-convertible debentures | Long-term              | INR6,580               | IND AA/Stable | IND AA+/Rating watch with Negative implication | IND AA+/Stable | IND AA+/Stable | IND AA+/Stable | IND AA+/Stable           | IND AA+/Stable           | IND AA/Positive           | IND AA/Positive | IND AA/Positive  | IND AA/Positive | IND AA/Stable |
| PP-MLDs                    | Long-term              | INR2,000               | -             | -  | -              | -              | WD             | IND PP-MLD AA+emr/Stable | IND PP-MLD AA+emr/Stable | IND PP-MLD AAemr/Positive | -               | -                | -               |               |

## Bank wise Facilities Details

### Complexity Level of the Instruments

| Instrument Type           | Complexity Indicator |
|---------------------------|----------------------|
| Bank loan                 | Low                  |
| Non-convertible debenture | Low                  |

## Annexure

| Instrument                 | ISIN         | Date of Issuance  | Coupon Rate (%)        | Maturity Date     | Size of Issue (million) | Rating/Outlook |
|----------------------------|--------------|-------------------|------------------------|-------------------|-------------------------|----------------|
| Non-convertible debentures | INE432R07257 | 11 December 2020  | 9.60                   | 11 December 2030  | INR170                  | IND AA/Stable  |
| Non-convertible debentures | INE432R07265 | 15 January 2021   | 9.42                   | 15 January 2031   | INR210                  | IND AA/Stable  |
| Non-convertible debentures | INE432R07273 | 3 May 2021        | 9.32                   | 2 May 2031        | INR100                  | IND AA/Stable  |
| Non-convertible debentures | INE432R07299 | 4 March 2022      | 3-month T-bill + 375bp | 4 March 2025      | INR1,000                | IND AA/Stable  |
| Non-convertible debentures | INE432R08040 | 30 September 2022 | 8.60                   | 30 September 2037 | INR350                  | IND AA/Stable  |
| Non-convertible debentures | INE432R07356 | 9 February 2023   | 9.09                   | 9 February 2033   | INR2,400                | IND AA/Stable  |
| Non-convertible debentures | INE432R07364 | 14 March 2023     | 8.95                   | 13 March 2026     | INR750                  | IND AA/Stable  |
| Non-convertible debentures | INE432R07380 | 1 June 2023       | 8.8                    | 1 December 2026   | INR500                  | IND AA/Stable  |
| Non-convertible debentures |              | Total utilised    |                        |                   | INR5,480                |                |
| Non-convertible debentures |              | Unutilised        |                        |                   | INR1,100                |                |
|                            |              | <b>Total</b>      |                        |                   | <b>INR6,580</b>         |                |

Source: NSDL, Company

## Contact

### Primary Analyst

Vivek Singh

Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40001756

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in)

### Secondary Analyst

Pankaj Naik

Director

+91 22 40001723

### Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## **APPLICABLE CRITERIA AND POLICIES**

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### **Non-Bank Finance Companies Criteria**

### **Evaluating Corporate Governance**

### **Financial Institutions Rating Criteria**

### **The Rating Process**

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