

RETAIL EQUITY RESEARCH

India Shelter Finance Corporation Ltd.

Housing Finance

SENSEX: 69,551

NIFTY: 20,906

SUBSCRIBE

Price Range Rs.469 - Rs.493

An affordable housing finance company

India Shelter Finance Corporation Ltd. (ISFCL) is a retail-focused affordable Housing Finance Company (HFC) specializing in Tier-2, Tier-3, and rural regions. Incorporated in 1998, the company provides loans for house construction, extension, renovation, and the purchase of new homes or plots. The company also offers loans against property (LAP). The company offers loan amounts ranging from Rs. 5 lakhs to Rs. 50 lakhs for a tenure of up to 20 years. The company has a network of 203 branches spread across 15 states, with 203 branches as of September 30, 2023.

- The Indian housing finance market clocked a healthy ~13.5% CAGR growth in loan outstanding over FY19-23 period and expects to grow at ~15-16% CAGR over FY23-26.
- India Shelter Finance Corporation Ltd is backed by marquee institutional investors such as West Bridge Capital and Nexus Venture Partners.
- The company has an AUM of Rs.5,181cr in H1FY24, up from Rs.2,199cr in FY21, which grew at a CAGR of 41%, indicating its growing financial position.
- ISFCL's average cost of borrowing has reduced to 8.3% in FY23 from 8.7% in FY21, primarily due to its improved financial performance and credit rating.
- The company's net interest income rose to Rs.293cr in FY23 reflecting a 32% CAGR between FY21-23 while net profit of ISFCL increased from Rs.87cr to Rs.155cr at a 33% CAGR during the same period.
- ISFCL's Gross NPA ratios for FY22, FY23, and H1FY24 were 2.1%, 1.1%, and 1.0%, and their respective Net NPA ratios were 1.6%, 0.9%, and 0.7% indicating an improvement in asset quality.
- The Net interest margin was 8.9% in FY23, while return on assets and return on equity were 4.1% and 13.4% during the same period.
- At the upper price band of Rs.493, ISFCL is available at a P/B of 2.4x (FY24 annualized), which appears to be fairly priced as per industry peers' valuations. Considering the government's focus on housing, an increase in per capita income, ISFCL's consistent improvement in asset quality, and robust AUM growth with high yields, we assign a "Subscribe" rating for the issue on a short-term basis.

Purpose of IPO

The IPO is a combination of a fresh issue (Rs.800cr) and an OFS portion (Rs.400cr). The net proceeds from the fresh issue will be utilised for future capital requirements towards onward lending and general corporate purposes.

Key Risks

- Three states contributed 62.7% of AUM and 57.6% of branches and any adverse developments in these states could have an adverse effect on business.
- The self-employed customers, accounting for 70.6% of AUM, are often considered to be higher credit risk customers due to their increased exposure to fluctuations in cash flows.

Peer Valuation

Company	MCap(₹ cr)	AUM(₹ cr)	AUM Growth(%)	BV(₹)	EPS(₹)	RoE (%)	RoA (%)	P/BV	P/E(x)	CMP(₹)
India Shelter Finance Corp.	5,278	4,359	41.8	116	14.5	13.4	4.1	4.3	34	493
Aavas Financiers Ltd	12,057	14,166	24.8	414	54.3	14.1	3.5	3.7	28	1,523
Aptus Value Housing	16,444	6,738	30.1	67	10.1	16.1	7.8	4.7	32	318
Home First Finance	9,064	7,198	33.8	206	26.0	13.5	3.9	5.0	40	1,035

Source: Geojit Research, Bloomberg; Valuations of ISFCL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details

Date of opening	December 13, 2023
Date of closing	December 15, 2023
Total No. of shares offered (cr.)	2.43
Post Issue No. of shares (cr.)	10.7
Price Band	₹ 469- ₹ 493
Face Value	₹5
Bid Lot	460 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,790
Maximum application for retail (upper price band for 13 lot)	₹ 1,92,270
Listing	BSE,NSE
Lead Managers	ICICI Securities Ltd, CITI Group, Kotak Investment Banking, Ambit Pvt. Ltd
Registrar	KFin Technologies Ltd.

Issue size (upper price)	Rs.cr
Fresh Issue	800
OFS	400
Total Issue	1,200

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	56.9	48.3
Public & Others	43.1	51.7
Total	100.0	100.0

Issue structure	Allocation (%)	Size Rs.cr
Retail	35	420
Non-Institutional	15	180
QIB	50	600
Total	100	1,200

Y.E March (₹ cr) Consol.	FY22	FY23	H1FY24
Net Interest Income (NII)	225	293	180
% Change	33	30	-
Total Income	460	606	399
PAT Adj.	128	155	107
% Change	47	21	-
EPS	12.0	14.5	10.0
P/E (x)	41	34	49
P/BV (x)	4.9	4.3	2.4*
RoE (%)	12.8	13.4	8.2
RoA (%)	4.5	4.1	4.7

*Annualised

Business Operation

India Shelter Finance Corporation Ltd (ISFCL) is a retail focused affordable housing finance company with an extensive distribution network comprising 203 branches as of September 30, 2023 and a scalable technology infrastructure across our business operations and throughout the loan life cycle. Between Financial Year 2021 and Financial Year 2023, they witnessed a two year **CAGR** growth of 40.8% in terms of assets under management (**AUM**)(Source: *CRISIL Report*). Their target segment is the self-employed customer with a focus on first time home loan takers in the low and middle income group in Tier II and Tier III cities in India. This helps in generating relatively high yields on advances..

Strengths

- One of the Fastest Growing Assets under Management among Housing Finance Companies in India, High Yields, and Granular, Retail Focused Portfolio
- Extensive and Diversified Phygital Distribution Network with Significant Presence in Tier II and Tier III cities
- In-house Origination Model to Ensure Efficient and Seamless Operations across Various Key Functions
- Technology and Analytics-Driven Company with Scalable Operating Model
- Robust Underwriting, Collection and Risk Management Systems
- Diversified Financing Profile with a Demonstrated Track Record of Reducing Financing Costs
- Experienced Management Team Supported by Qualified and Experienced Personnel

Key Strategies

- Further grow and diversify the distribution network to achieve deeper penetration in key states and drive sustainable growth
- Leverage the technology stack to achieve scalability, improving efficiency and productivity of the existing branches
- Diversify borrowing profile and optimize borrowing costs
- Enhance brand equity and foster sustainability

Industry Outlook

The housing finance sector of India comprises public sector banks, private sector banks, housing finance companies, non-banking financial companies and other players. The overall size of the affordable housing finance market in India in terms of loan outstanding was around ₹11.5 trillion as of March 2023, constituting around 37% of the overall housing finance market. The Indian housing finance market recorded a CAGR of approximately 13.5% (growth in loan outstanding) over the financial years 2019-2023 on account of a rise in disposable income, healthy demand, and a greater number of players entering the segment (Source: *CRISIL Report*).

Promoter and promoter group

The Promoters of the company are Anil Mehta, WestBridge Crossover Fund, LLC and Aravali Investment Holdings.

Brief Biographies of directors

- **Sudhin Bhagwandas Choksey** is the Chairman and Non-Executive Nominee Director of the Company and has been nominated to the Board jointly by the Corporate Promoters, WestBridge Crossover Fund, LLC and Aravali Investment Holdings. He was previously associated with Gruh Finance Limited as the managing director and Bandhan Bank as executive director (designate). He has experience in the banking sector.
- **Rupinder Singh** is the Managing Director and Chief Executive Officer of the Company. He was previously associated with Cholamandalam Investment and Finance Company Limited as senior vice-president and business head, HDFC Bank Limited as senior vice-president and GE Money Financial Services Limited. He has experience in the finance sector.
- **Anup Kumar Gupta** is a Non-Executive Nominee Director of the Company, as a nominee of Nexus Ventures III, Ltd. and Nexus Opportunity Fund II, Ltd. He has been associated with the Company since July 21, 2012.
- **Shailesh J. Mehta** is a Non-Executive Nominee Director of the Company and has been nominated to the Board jointly by the Corporate Promoters, WestBridge Crossover Fund, LLC and Aravali Investment Holdings. He is also associated with Granite Hill Capital Partners as a general partner. He has experience in the finance sector.
- **Sumir Chadha** is a Non-Executive Nominee Director of the Company and has been nominated to the Board jointly by the Corporate Promoters, WestBridge Crossover Fund, LLC and Aravali Investment Holdings. He is the co-founder of WestBridge Capital.
- **Rachna Dikshit** is an Independent Director of the Company. She was previously associated with the Reserve Bank of India as a chief general manager. She has experience in the banking sector.
- **Thomson Kadantot Thomas** is an Independent Director of the Company. He has experience in the technology sector.
- **Parveen Kumar Gupta** is an Independent Director of the Company. He was previously associated with Bank of Baroda as senior advisor and State Bank of India as managing director (retail and digital banking).
- **Ajay Narayan Jha** is an Independent Director of the Company. He was previously associated with Department of Expenditure, Ministry of Finance, Government of India as finance secretary and was also appointed as a member of the Finance Commission in the year 2019.
- **Savita Mahajan** is an Independent Director of the Company.



CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	H1FY24
Interest Income	374	503	320
Interest Expense	148	210	140
Net Interest Income	225	293	180
% Change	33	30	-
Non-Interest Income	86	103	79
Operating income	311	396	259
Operating Expenses	133	180	111
Total Income	460	606	399
Total Expenditure	281	390	251
Pre-Prov.Profit	179	216	148
% Change	35	21	64
Provisions	12	14	9
PBT	167	202	138
Tax	38	47	31
Tax Rate %	23	23	22
Reported PAT	128	155	107
Adj.	-	-	-
Adj. PAT	128	155	107
% Change	47	21	-
Post Issue No.of Shares (Cr.)	10.7	10.7	10.7
Adj. EPS (Rs)	12.0	14.5	-
% Change	47	21	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	H1FY24
Liabilities			
Capital	43.7	43.8	45.0
Reserve & Surplus	1,032.4	1,196.8	1,329.9
Deposit	-	-	-
Borrowings	2,070.0	2,988.9	3,288.5
Provision & Other Liabilities	75.1	66.2	95.2
Total Liabilities	3,221	4,296	4,759
Assets			
Fixed Assets	16.6	23.8	24.9
Investments	237.3	137.1	229.2
Advances	2,622.5	3,609.1	4,266.1
Other Assets	14.5	18.1	28.4
Cash & Bank Balances	330.3	507.3	210.1
Total Assets	3,221	4,296	4,759

RATIOS

Y.E March	FY22	FY23	H1FY24
AUM Rs.Cr	3,073	4,359	5,181
Growth	40	42	43
Per Share Data (Rs.)			
EPS	12	14.5	10.0
BV	100.5	115.9	203.2*
Key Ratios			
Avg. Yield on loans o/s	14.9	14.6	14.7
Avg. Cost of Borrowing	8.3	8.3	8.9
Spread %	7.0	6.6	6.0
Avg. LTV %	49.4	50.7	50.9
Cr. cost to Avg Total Assets	0.4	0.4	0.4
Capital %			
CRAR %	56	53	49
Tier I	55	52	47.8
Tier II	0.5	0.7	0.8
Asset Quality %			
GNPA	2.1	1.1	1.0
NNPA	1.6	0.9	0.7
PCR	25.5	26.0	28.7
Return Ratios (%)			
RoE	12.8	13.4	8.2
RoA	4.5	4.1	4.7
Valuations			
P/E (x)	41	34	49
P/BV (x)	4.9	4.3	2.4*

*Annualised

DISCLAIMER & DISCLOSURES

Certification

We, Mithun T Joseph and Rajeev T, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

For General disclosures and disclaimer: Please Visit : <https://www.geojit.com/research-disclosures#fundamental-research>

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

Regulatory Disclosures:

Group companies of Geojit Financial Services Limited are Geojit Technologies Private Limited (Software Solutions provider), Geojit Credits Private Limited (NBFC), Geojit Investment Limited (financial Services Company (yet to start operations)), Geojit Techloan Private Ltd(P2P lending (yet to start operations)), Geojit IFSC Ltd (a company incorporated under IFSC Regulations(yet to start operations)), Qurum Business Group Geojit Securities LLC (a joint venture in Oman engaged in Financial Services), Barjeel Geojit Financial Services LLC (a joint venture in UAE engaged in Financial Services), Aloula Geojit Capital Company (a joint venture in Saudi Arabia (Under Liquidation)) and BBK Geojit Securities Co. K.S.C.C (a subsidiary in Kuwait-engaged in Financial services). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc. that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

((a) Have not received any compensation from the subject company. (b) Have not managed or co-managed public offering of securities for the subject company. (c) Have not received any compensation for investment banking or merchant banking from the subject company. However, we have a B2B arrangement with the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company. (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report. (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that we, Mithun T Joseph and Rajeev T, Research Analyst (s) of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

6. "Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors."

7. Standard Warning: "Investment in securities market are subject to market risks. Read all the related documents carefully before investing."

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com. **Compliance officer:** Ms. Indu K. Address: Geojit Financial Services Limited, 34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901367; Email: compliance@geojit.com. **For grievances: Grievance Officer:** Mr Nitin K; Address: Geojit Financial Services Limited,34/659 P, Civil Lane Road, Padivattom, Kochi - 682024; Phone: +91 484-2901363; Email: grievances@geojit.com. Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.

