

Issue Size & Market Cap	
Type of Issue	Rs. Bn
Fresh Issue	8.0
Offer for Sale	4.0
Total Issue Size	12.0
Post-Issue Market cap*	52.8

*At Upper Price Band

Issue Break-Up	
	Shares in Mn
Fresh Issue	16.2
Offer for Sale	8.1
Total Issue	24.3
Reservation for	% of Offer
QIB	50%
NII (HNI)	15%
Retail	35%

*At Upper Price Band

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	13th Dec, 2023
Bid/Offer Closing Date	15th Dec, 2023
Listing Date	20th Dec, 2023

Use of Net Proceeds
To meet future capital requirements towards on-ward lending and general corporate purpose.

General Information
BRLMs ICICI Securities Ltd, Citigroup Global Markets India Pvt Ltd, Kotak Mahindra Capital Company Ltd, Ambit Pvt Ltd
Registrar KFin Technologies Ltd

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Affordable Housing Finance Play...Subscribe

Business Overview:

- ⇒ **Indian Shelter Finance Corporation Limited (ISFC)** is a retail focused affordable housing finance company having self-employed customer (focus on first time home loan takers) in the low- and middle-income group in Tier II and Tier III cities in India, as its target customers.
- ⇒ Its AUM has grown at 40.8% CAGR between FY21-23. As of Sep-23, its AUM was Rs. 51.8bn. In FY23, yield to advances was 14.9%, which was the third highest in India for such period. The GNPA as of Sep-23 was 1% while NNPA was 0.7%.
- ⇒ The company was **incorporated on October 26, 1998 as "Satyaprakash Housing Finance India Limited"**, a public limited company under the Companies Act, 1956. Subsequently, Mr. Anil Mehta, Individual Promoter, acquired control of the company in 2009 and the name of the company was changed to "India Shelter Finance Corporation Limited".
- ⇒ ISFC has an extensive and well-established network of 203 branches spread across 15 states with a significant presence in the states of **Rajasthan, Maharashtra, Madhya Pradesh, Karnataka and Gujarat** wherein the branch vintage is five year and above, as of Sep-23. ISFC is present in states which cover 94% of the affordable housing finance market in India, as of Mar-23. ISFC follows a growth strategy of deepening its penetration in regions having a substantial demand for affordable housing finance.
- ⇒ The company leverages technology and analytics across its operations and throughout the customer life cycle. Its tailored mobile solutions include **iSales** - integrates, streamlines and optimizes customer acquisition process, **iCredit** - facilitates underwriting and **iServe** - dedicated customer service solution designed to promptly address concerns and queries from existing customers online.
- ⇒ During the 6m ended Sep-23, 92.4% of collections were made through digital modes. ISFC has an **end-to-end in-house approach** for its lending operations including customer acquisition, underwriting, collateral valuation, legal assessment, and collections. This allows to directly connect with customers, minimize turnaround times, increase customer retention, and mitigate the risk of fraudulent activities. ISFC has been able to maintain average sanction loan to value ("LTV") on portfolio at 50.9% as of Sep-23.
- ⇒ As of Sep-23, ISFC obtains long-term funding from a diversified lender base comprising over 37 counterparties, including 24 scheduled commercial banks. It is having a healthy credit rating of ICRA A+ (stable) from ICRA Limited and CARE A+ (Positive) from CARE Limited, as of Sep-23.
- ⇒ Despite increase in the repo rate by the RBI by 250 basis points, its average cost of borrowings as of Sep-23 was 8.9%, and its average incremental cost of borrowings as of Sep-23 was 8.4%. It seeks a disciplined approach to ALM by focusing to raise long term liability in order to maintain a balance in tenure of assets and liabilities and a positive ALM across tenors. As of Sep-23, it had a positive cumulative ALM gap of Rs. 13.4bn.
- ⇒ ISFC has a professional and experienced management team with experience in the banking and finance sectors. It is led by Mr. Rupinder Singh, MD and CEO, who has extensive experience in mortgage financing. Promoters for ISFC are Mr. Anil Mehta, WestBridge Crossover Fund and Aravali Investment Holdings.

Valuation and View: At the upper price band on post issue basis, Indian Shelter Finance Corporation Ltd. is valued at **2.4x P/B on TTM basis**. The issue is attractively priced (discount of 43% when compared to peers set avg.). We have a **"Subscribe" rating to the issue** owing to (1) Increased scope for housing penetration; (2) Strong distribution network with significant presence in Tier 2 & 3 cities; (3) Backed by In-housing sourcing; (4) Healthy Spreads; (6%) and Stable Asset Quality across portfolio (5) Led by experienced management.

Shareholding Pattern, Selling Shareholders, Issue Breakup

Shareholding Pattern

	Pre Issue		Offer		Post Issue	
	# of shares (in Mn)	%	Type	# of shares (in Mn)	# of shares (in Mn)	%
Promoter & Promoter Group	51.7	56.9%	Fresh Issue + OFS	0.0	51.7	48.3%
Public	39.1	43.1%		16.2	55.3	51.7%
Total	90.8	100.0%			107.1	100.0%

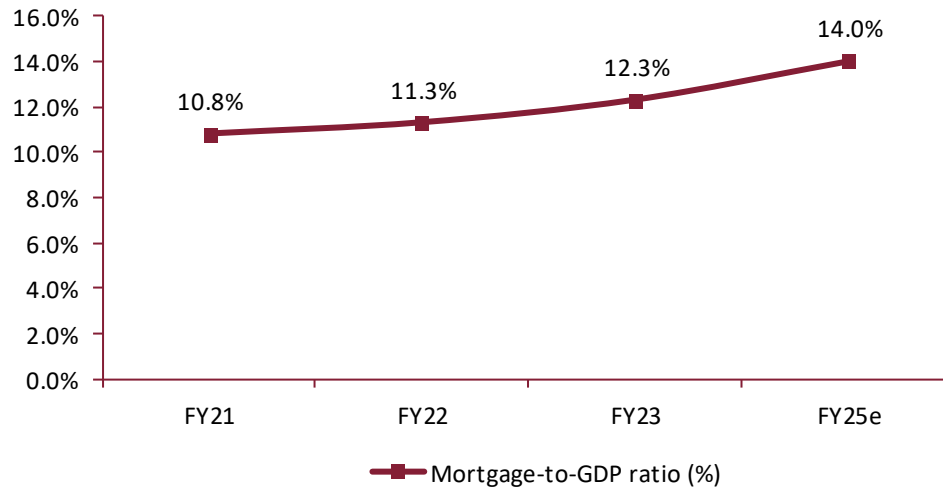
Selling Shareholders

	Type	# of Shares (in Mn)	OFS* (in Mn)
Catalyst Trusteeship Limited (as trustee of MICP Trust)	Public	0.0	0
Catalyst Trusteeship Limited (as trustee of Madison India Opportunities Trust Fund)	Public	3.5	1,713
Madison India Opportunities IV	Public	1.1	544
MIO Starrock	Public	0.6	318
Nexus Ventures III, Ltd.	Public	2.9	1,425
Total		8.1	4,000
<i>*At upper price band</i>			

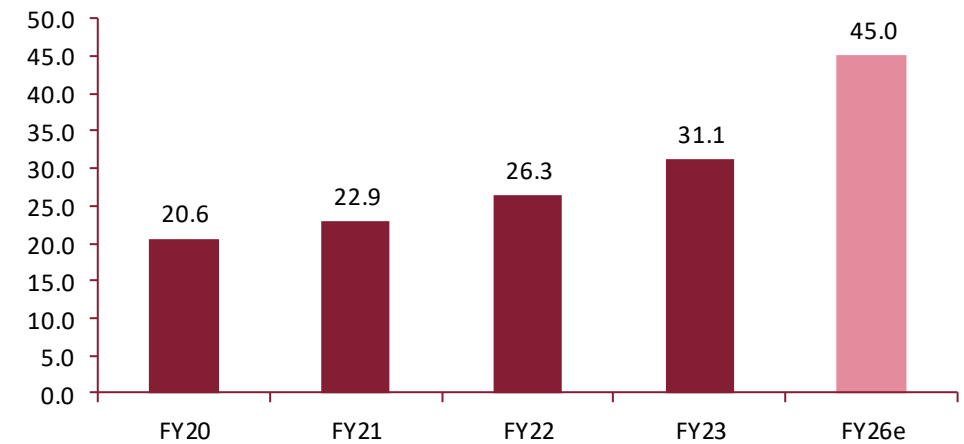
Issue Breakup	No of shares		Rs Mn	
	Floor	Cap	Floor	Cap
Fresh Issue	17,057,569	16,227,181	8,000	8,000
Offer for Sale (OFS)	8,528,785	8,113,590	4,000	4,000
Total Offer	25,586,354	24,340,771	12,000	12,000
QIB Portion (50% of Offer)	12,793,177	12,170,385	6,000	6,000
Total Anchor portion (60% of QIB)	7,675,906	7,302,231	3,600	3,600
Net QIB (40% of QIB)	5,117,271	4,868,154	2,400	2,400
QIB Portion reserved for MF (5% of Net QIB)	255,864	243,408	120	120
Balance Available for all QIB (95% of Net QIB)	4,861,407	4,624,746	2,280	2,280
Non Institutional portion (15% of Offer)	3,837,953	3,651,116	1,800	1,800
Retail portion (35% of Offer)	8,955,224	8,519,270	4,200	4,200

Industry

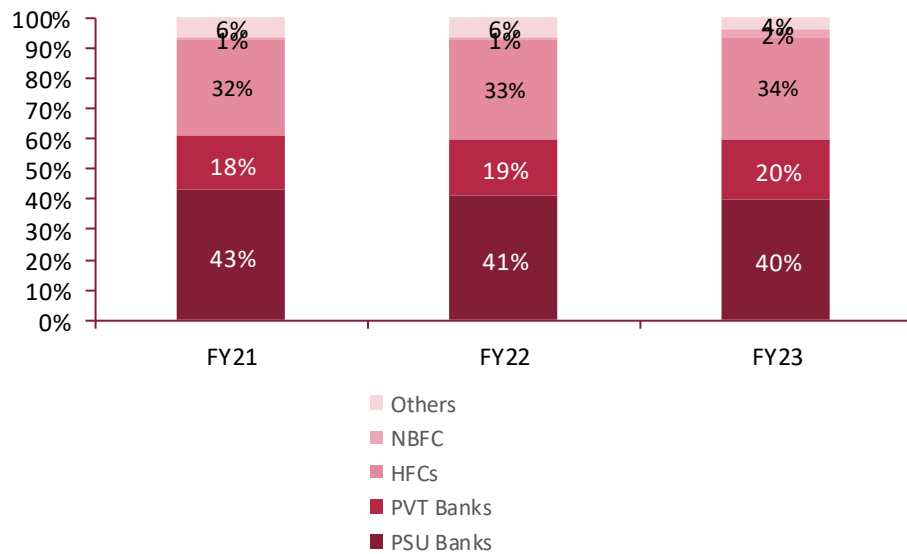
Mortgage to GDP Ratio (%)



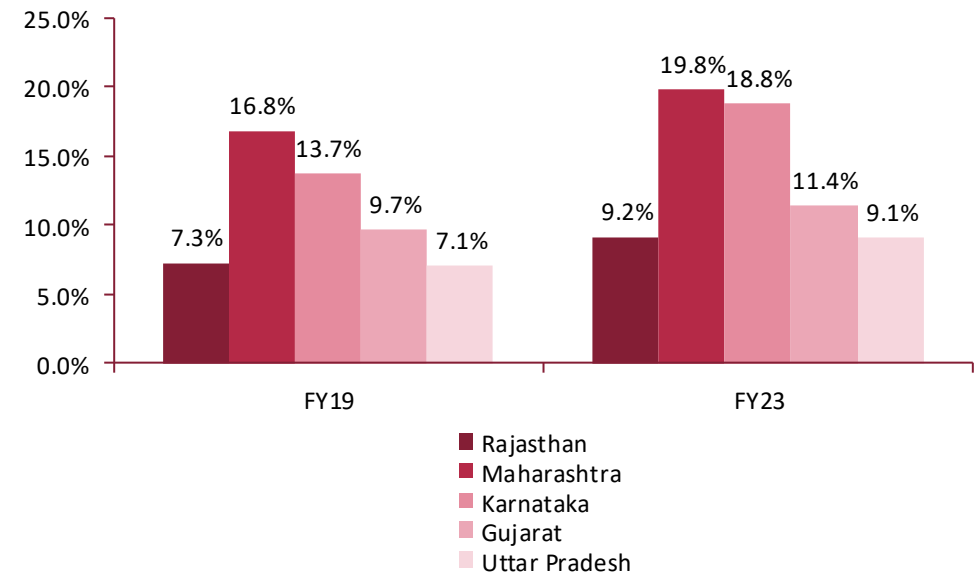
Outstanding Housing Loans (Rs. Trn) (CAGR @ 13% FY23-FY26e)



Market Share of HFC is 34% in FY23



Housing Loan Penetration (%) FY19 vs FY23 in key states where IFSC operates



Strengths

One of the Fastest Growing AUM among Housing Finance Companies in India, High Yields, and Granular, Retail Focused Portfolio

- ⇒ ISFC primarily finances the purchase and self-construction of residential properties by first-time home loan takers through home loans and also offer loans against property. It focuses on serving low and middle-income, salaried and self-employed individuals, catering to their financial needs. It provides loans with self-occupied residential property as collateral. It has been able to maintain consistently high yield of more than 14% on portfolio.
- ⇒ As of Sep-23, 70.7% of its customers were first-time home loan takers. Home loans account for 57.6% of AUM, while LAP represent 42.4% of AUM. ~75.7% of loan portfolio comprises loans with principal amounts < Rs. 1.5mn, while 95.0% of loan portfolio comprises loans with principal amounts <Rs. 2.5mn. In line with risk management practices, average loan-to-value ratio for home loans and loan against property is at 55.1% and 45.3% respectively as of Sep-23. Loans to self-employed customers aggregated to Rs. 36.6bn, representing 70.6% of AUM. 97.9% of loans had one or more borrowers as women.

Extensive and Diversified Phygital Distribution Network with Significant Presence in Tier II and Tier III cities

- ⇒ The company has implemented a strategy of penetrative expansion across India by targeting areas with high economic growth and substantial demand for affordable housing finance, and a focused approach to serving low- and middle-income groups in Tier II and Tier III cities in India. Expansion strategy involves initially establishing a presence with a few branches in a new state or region and subsequently expanding footprint based on the potential of the market as demonstrated by the performance of such initial branches. “Phygital” model of business, includes “feet-on-street” approach for physical onboarding of customers through a network of > 1,500 relationship managers, along with digitization of customer onboarding across loan origination and banking processes. In addition, branch-based sourcing model, has expanded sourcing network by forming alliances for lead generation.
- ⇒ ISFC has over 13 years of operations experience as a housing finance company. It has significant presence in the states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka and Gujarat, which, as of Mar-23 account for 47% of the affordable housing finance market in India. As of Sep-23, branch vintage is ranging from 5-8 years in 12 states. 89.8% of portfolio is concentrated in Tier II and Tier III cities.

In-house Origination Model to Ensure Efficient and Seamless Operations across Various Key Functions

- ⇒ ISFC maintains a robust in-house infrastructure seeking to ensure seamless operations and independence across various key functions. To strengthen customer connections and build trust, it has undertaken initiatives such as prioritizing localized hiring for branches. In-house origination model further enhances operations by enabling to conduct all aspects of lending operations in-house, including sourcing, underwriting, valuation, collections and customer service, and reduce turnaround times and transaction costs. To ensure customer satisfaction, IndiaShelter iServe, dedicated customer service solution is designed to promptly address concerns and queries from the customers online. The implementation of in-house origination model has provided pricing power for loans, allowing to offer competitive loan terms to customers while maintaining healthy profit margins.
- ⇒ During the 6m months ended Sep-23, 98.5% of disbursed loans were originated in-house.

Technology and Analytics-Driven Company with Scalable Operating Model

- ⇒ Salesforce is a customer relationship management system, also used as loan origination system and is integrated with downstream and upstream applications, including mobile applications, in-house business rule engine and predictive dialer. Furthermore, as part of loan origination process, ISFC capture, process and store data extensively on cloud-based platforms, thereby streamlining data management processes and offering customers a seamless onboarding experience aligning with commitment to efficiency and customer-centricity.
- ⇒ iSales for customer acquisition, iCredit for underwriting, iTech for collateral evaluation, iCollect for collection and iServe for customer service are tailored apps from ISFC.
- ⇒ During the 6m ended Sep-23 and the FY23,FY22,FY21, information technology expenses aggregated to Rs. 51.1mn, Rs. 74.2mn, Rs. 68mn and Rs. 48.2mn, respectively, accounting to 2.0%, 1.8%, 2.3% and 2.3% of total expenses, respectively.

Strengths

Robust Underwriting, Collection and Risk Management Systems

- ⇒ ISFC underwriting approach is focused on empowering women customers. Its underwriting approach combines both tangible and intuitive elements, relying on the expertise of its on-ground team to evaluate customer profiles and cash flows. These evaluations are further supported by a centralized team that plays a crucial role in credit control framework.
- ⇒ Its underwriting process involves specialized and independent teams dedicated to credit evaluation, technical assessment, legal verification, and document authentication. Its underwriting process focuses on evaluating the four essential aspects known as the “4 Cs”: Customer Profile, Cash Flow assessment, Collateral Evaluation, and Credit Control Process. These criteria enable ISFC to assess the creditworthiness and risk profile of its borrowers. As of Sep-23, 68.9% of its customers maintained a credit score (CIBIL) of 650 or higher.
- ⇒ To optimize collection efforts, data team utilizes scorecards that guide strategies and resource allocation, towards enhancing efficiencies. To streamline collection efforts and ensure effective customer engagement, ISFC has developed a dedicated collection app.
- ⇒ ISFC faces various risks including credit, operational, market, liquidity, interest rate, foreign exchange, strategic, reputation, compliance, legal and information security risks. To ensure a thorough evaluation, measurement, and monitoring of these risks, it has implemented a risk management framework that includes dedicated committees to provide specialized oversight for specific risk areas.
- ⇒ Its growth strategy focuses on expanding customer base while maintaining a low average loan ticket size. It remains focused on underwriting, collection and risk management initiatives. It has registered the second highest reduction in GNPA in FY23 to 1.13% as of Mar-23 from 2.12% as of Mar-22.

Diversified Financing Profile with a Demonstrated Track Record of Reducing Financing Costs

- ⇒ ISFC focuses on maintaining a long-term and diversified borrowing profile by engaging with multiple lenders to ensure timely funding throughout the year. This approach not only mitigates the risk of relying on a single funding source but also enables to negotiate favorable borrowing costs. Furthermore, ALM is a core focus. ISFC seeks a disciplined approach to ALM to manage liquidity effectively, match cash flows, and mitigate interest rate risks.
- ⇒ It also leverages NHB borrowings to support lending activities, ensuring a reliable and cost-efficient source of funding. In line with commitment to diversification and innovative financing models, it has also embraced co-lending initiatives that involve partnering with other financial institutions to provide joint lending solutions. Furthermore, as a portion of portfolio is eligible for priority sector lending, ISFC has carried out securitization and direct assignment transactions, thereby transferring credit risk and ensuring optimization of its results of operations.
- ⇒ ISFC achieved an upgrade in credit rating from ‘CARE A- (stable)’ as of Mar-18, to ‘CARE A+ (positive)’ as of Sep-23. Its average cost of borrowings and average incremental cost of borrowings for the 6m ended Sep-23, was 8.9% and 8.3% respectively. As of Sep-23, ISFC has a positive cumulative ALM gap of Rs. 13.4mn.

Experienced Management Team Supported by Qualified and Experienced Personnel

- ⇒ ISFC is led by Chairman, Mr. Sudhin Bhagwandas Choksey, has experience in the banking sector, and MD and CEO, Mr. Rupinder Singh, has experience in the finance sector. WestBridge Crossover Fund, LLC and Aravali Investment Holdings are the Corporate Promoters, and other Shareholders include Nexus Ventures III, Ltd., MIO Starrock and Madison India Opportunities IV (Madison India Capital). ISFC benefits from the capital sponsorship and professional experience brought by Shareholders.

Strategies

Further Grow and Diversify Distribution Network to Achieve Deeper Penetration in Key States and Drive Sustainable Growth

- ⇒ ISFC intends to penetrate further in existing markets along with the growing size and scale of the Indian housing industry by the expansion of its branches. It aims to leverage market presence across Tier II and Tier III cities of India to capitalize on opportunities to grow operations and improve market share.
- ⇒ ISFC's primary objectives is to attain sustainable growth, reduce concentration risk, and reinforce its position in the housing loan and LAP market. It plans to expand branch staff, extend branch network within existing geographical areas, and explore opportunities in adjacent markets for diversification. Its core focus is on affordable home loans and LAP, primarily due to the higher yields and synergies offered by these products in terms of customer profile, collateral requirement and ticket size. By targeting first-time home loan takers and leveraging its experience and domain knowledge, ISFC aims to establish itself as a trusted partner for borrowers in the lower- and middle-income segment across the country.

Leverage Technology Stack to Achieve Scalability, Improving Efficiency and Productivity of its Existing Branches

- ⇒ It seeks to leverage technology to enhance lead sourcing and customer fulfilment process. It intends to introduce a customer-centric self on boarding journey to streamline and expedite the overall loan application experience for customers. Furthermore, it aims to carry out the entire authentication, verification and know-your-customer ("KYC") process digitally, thereby improving the ease of doing business and enabling underwriting at scale.
- ⇒ An integral part of technology infrastructure is in-house BRE and Radial tool which provides an estimated value of the collateral based on historical property valuations in the vicinity. It intends to develop machine learning based statistical models to predict the future behavior of prospective customers by leveraging data. Furthermore, risk containment will remain key focus for ISFC. It aims seeks to conduct effective fraud checks and gain valuable insights that contribute to business improvement and risk mitigation. It also intends to further develop iCollect, to utilize information available through credit bureaus to obtain periodic information on existing customers.

Diversify Borrowing Profile and Optimize Borrowing Costs

- ⇒ ISFC remains focused on diversifying borrowing profile, optimizing borrowing costs, and maintaining a positive ALM position. By adopting risk management measures, continuing to make investments in technology, and entering into co-lending agreements, it aims to enhance credit rating, and secure stable funding sources to support continued growth and expansion.
- ⇒ It considers low borrowing costs as essential to price loan products attractively, to drive business growth, increase margins and maintain a competitive position in the housing loan and LAP market. Diversifying funding mix and liability profile is a key focus area. In line with conservative approach to ALM, IFSC prioritizes long-term borrowing to ensure stability and mitigate liquidity risks. Exploring opportunities for co-lending in the variable rate segment is one such avenue IFSC is actively pursuing. It has entered into two co-lending agreements. It plans to collaborate with other lenders.

Enhance Brand Equity and Foster Sustainability

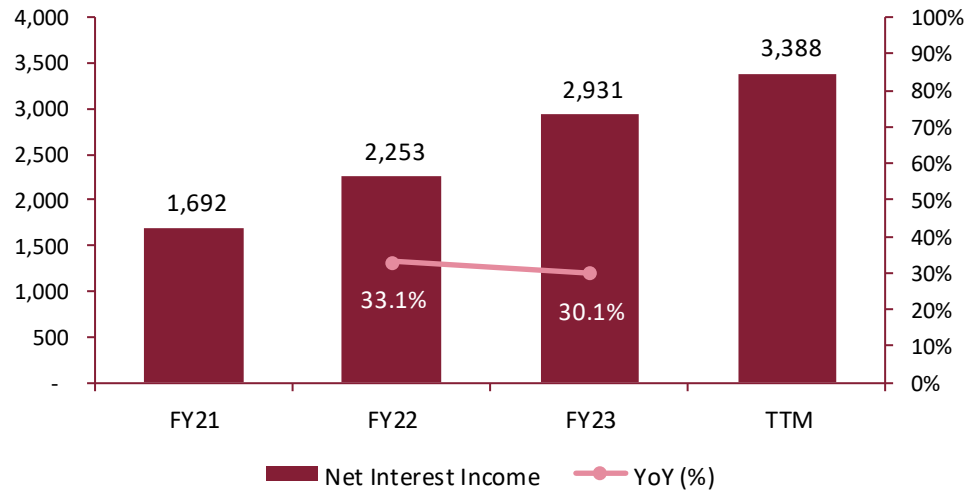
- ⇒ ISFC is committed to continue to build brand for customers and employees. It considers engaged and motivated employees to be key brand ambassadors. By fostering a positive work culture and providing professional development opportunities, it aims to ensure that employees are aligned with brand values and commitment to customer experiences. By utilizing a mix of digital and traditional marketing approaches, it aims to create a brand presence that resonates with our target audience.
- ⇒ In line with financial inclusion vision, it aims to continue to empower women through effective financial inclusion by ensuring that a majority of loans have women as the first applicant.
- ⇒ Furthermore, ISFC aims to increase the concentration of properties in areas governed by non-municipal corporations as it views these properties as growth assets, anticipating their potential for appreciation as they come under the purview of nearby municipal corporations in the future. This approach enables the company to identify opportunities for long-term value creation and strategic expansion.

Key Risks

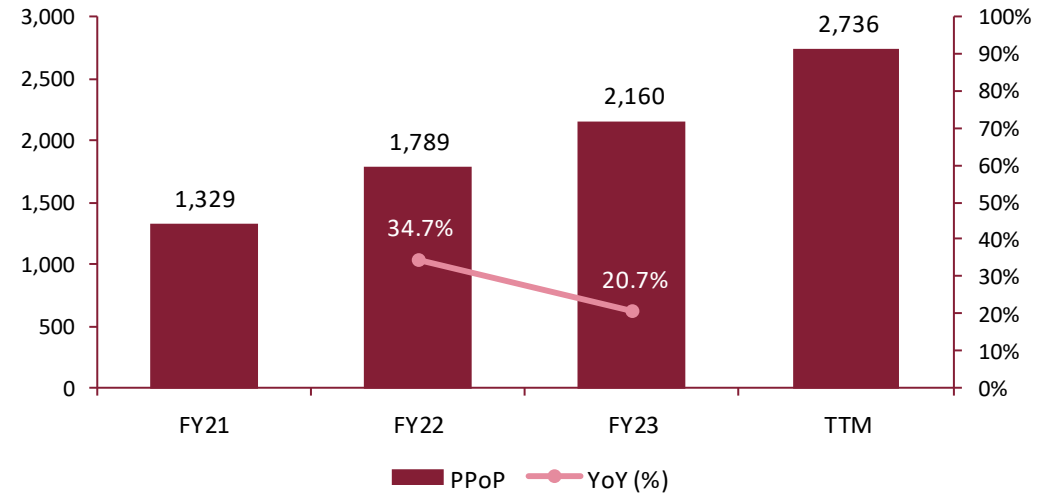
- ⇒ **Default Risk:** As of Sep-23, Self employed people account for 70.6% of the AUM. Low Income group account for 49.3% of the AUM. 70.7% of the borrowers are first time home loan takers generally may have higher risk of non-payment or default.
- ⇒ **Concentration Risk:** A major proportion of AUM is concentrated in three states which contributed 62.7% of the AUM as of Sep-23. Furthermore, of the 203 branches, 117 branches were located in these states namely Rajasthan, Maharashtra and Madhya Pradesh.
- ⇒ **Regulation Risk:** The Indian housing finance industry is extensively regulated and any changes in laws and regulations applicable to housing finance companies could have an adverse effect on business. ISFC is also subject to periodic inspections by the National Housing Bank and the Reserve Bank of India and non-compliance with observations made during any such inspections could result in penalties and fines, adversely affecting reputation, business, financial condition, results of operations and cash flows.
- ⇒ **Conflict of Interest Risk:** One of its Corporate Promoters, WestBridge Crossover Fund, LLC, has made investments in Aptus Value Housing Finance Limited, which is involved in the similar line of business. Further, Directors, Shailesh J. Mehta and Sumir Chadha, are directors on the board of Aptus Value Housing-Finance India Limited.
- ⇒ **Competition Risk:** The housing finance industry in India is highly competitive and ISFC competes with banks, other HFCs, small finance banks and NBFCs in each of the geographies in which we operate. Competitors may have more resources, a wider branch and distribution network, access to cheaper capital, superior technology and may have a better understanding of and relationships with customers in these markets. In addition, competitors may be able to rely on the reach of the retail presence of their affiliated group companies or banks. Competition in this market segment has also increased as a result of interest rate deregulation and other liberalization measures affecting the housing finance industry in India, and it expects competition to intensify in the future.
- ⇒ **Policy Risk:** Significant changes by the Government, the Reserve Bank of India or the National Housing Bank in their policy initiatives facilitating the provision of housing and housing finance or any change in the tax incentives that the Government currently provides to Housing Finance Companies may have an adverse effect on business, results of operations and financial condition.

India Shelter Finance Corporation Ltd. : Financial story in charts

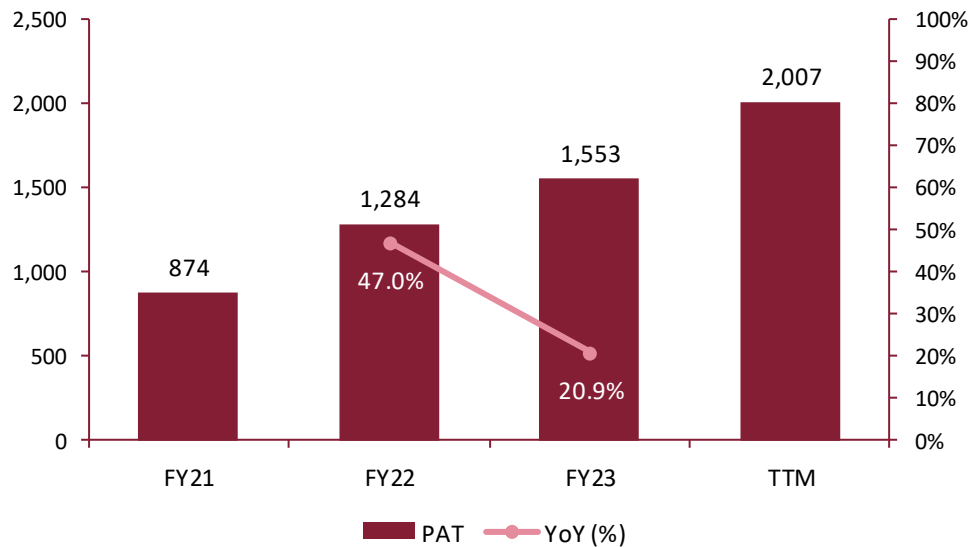
Net Interest Income (Rs. Mn) & YoY trend (%)



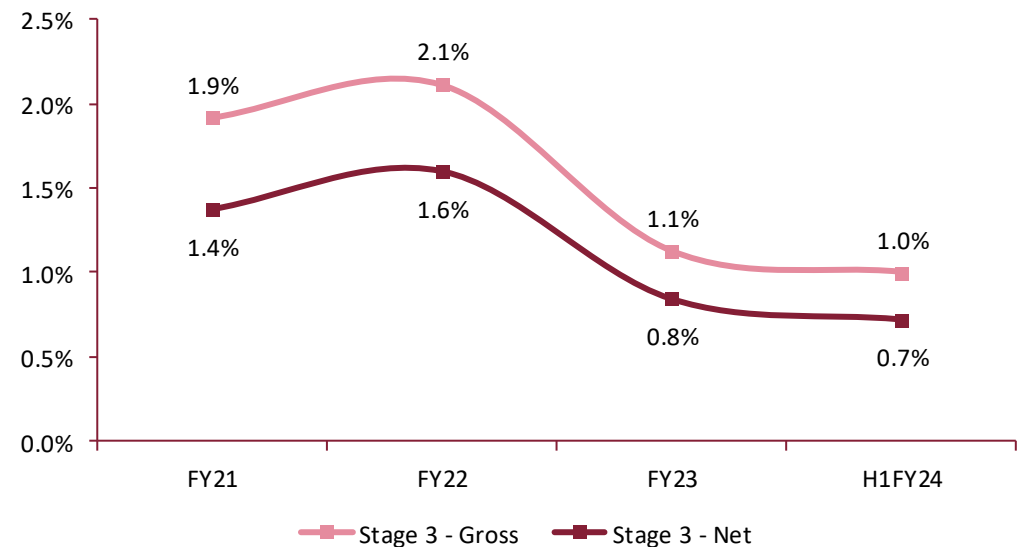
PPoP (Rs. Mn) & YoY trend (%)



PAT (Rs. Mn) & YoY trend (%)

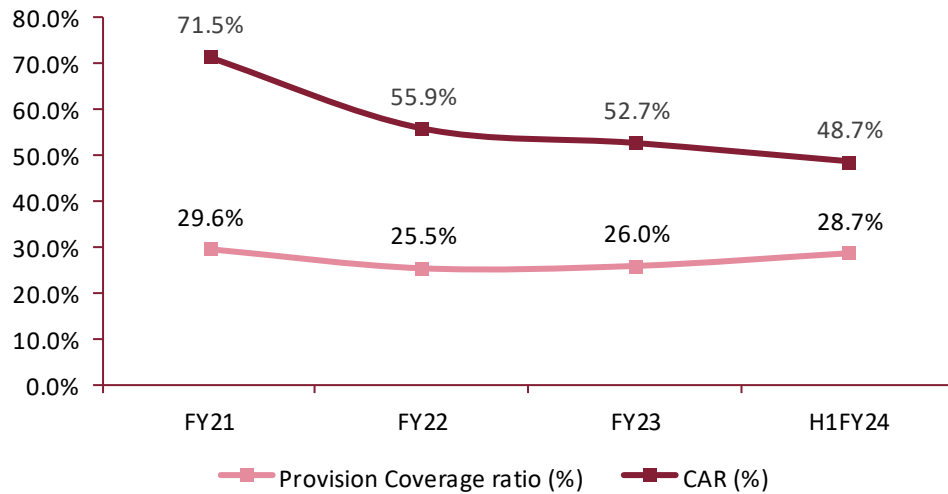


GNPA (%) and Net NNPA (%)

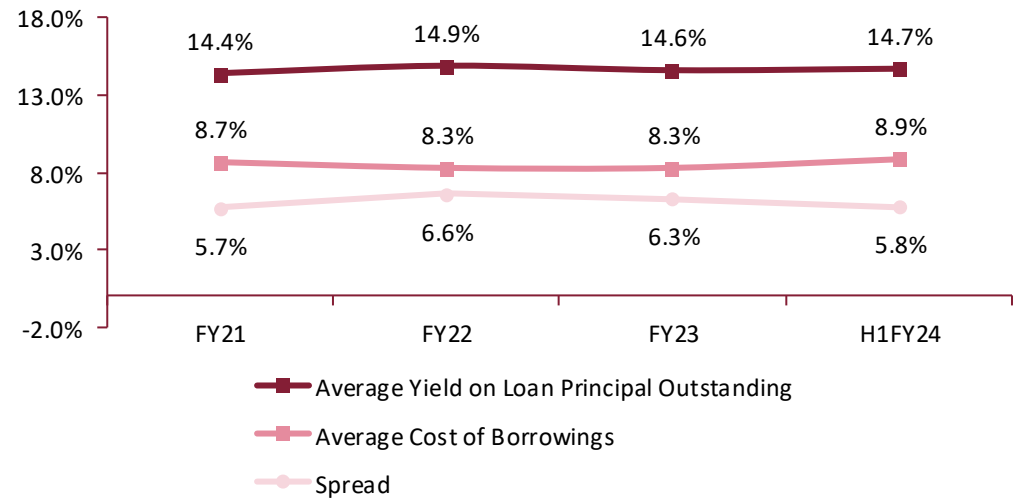


India Shelter Finance Corporation Ltd. : Financial story in charts

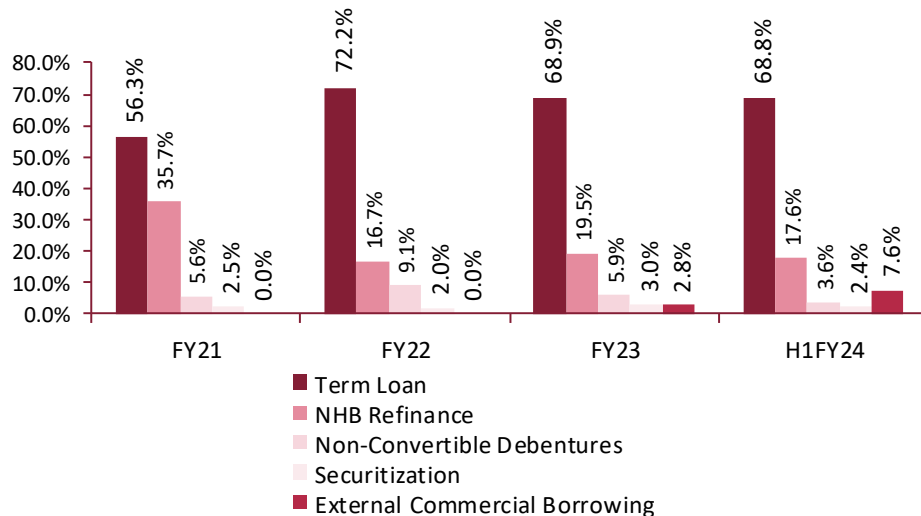
PCR (%) and CAR (%)



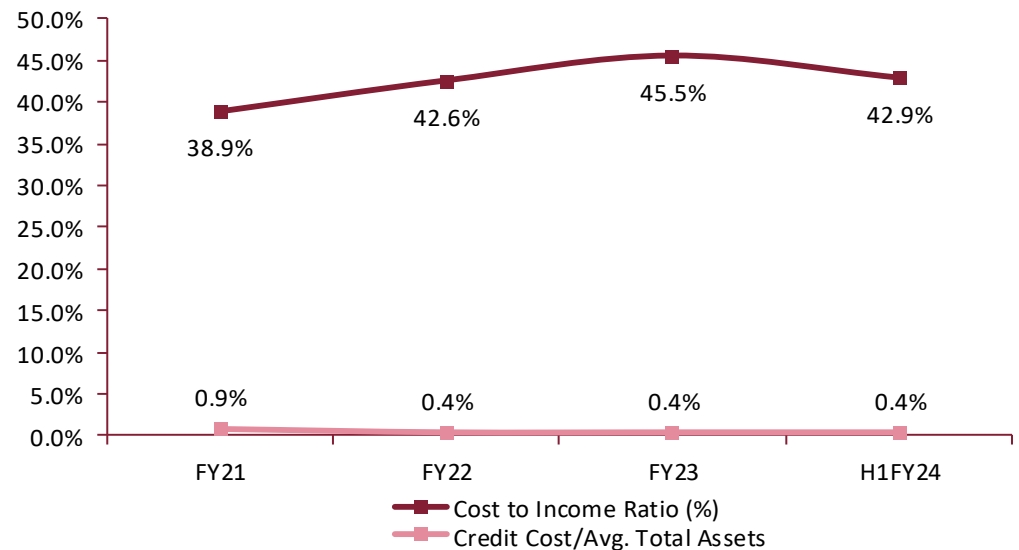
Yield, Cost & Spread (%)



Borrowing Profile (%)

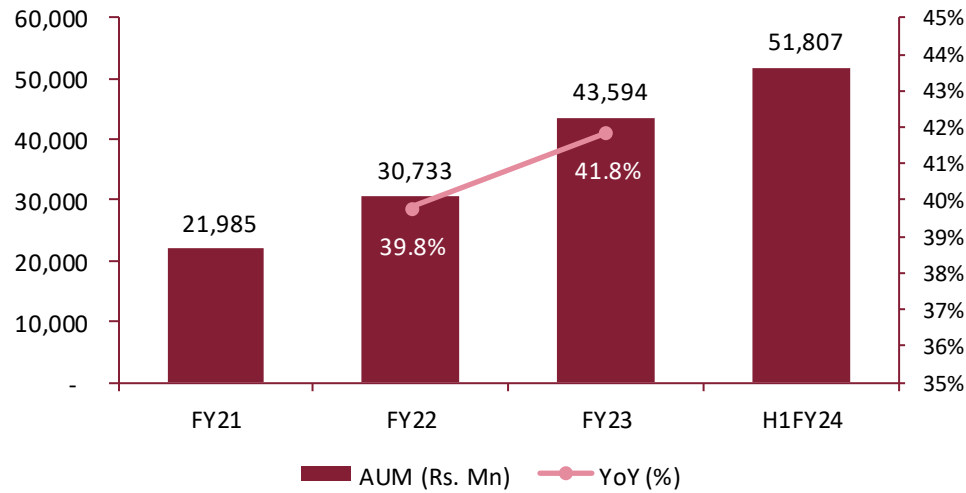


Cost to Income ratio (%) & Credit Cost (%)

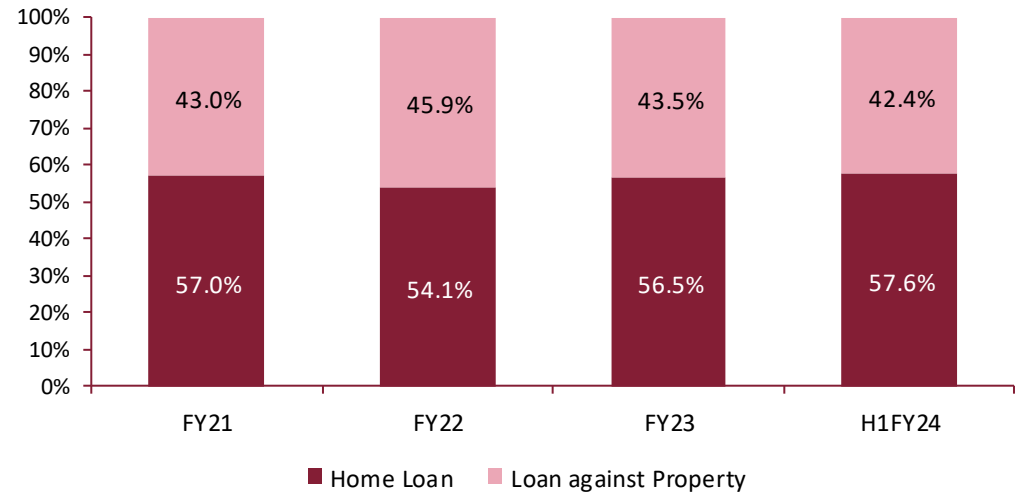


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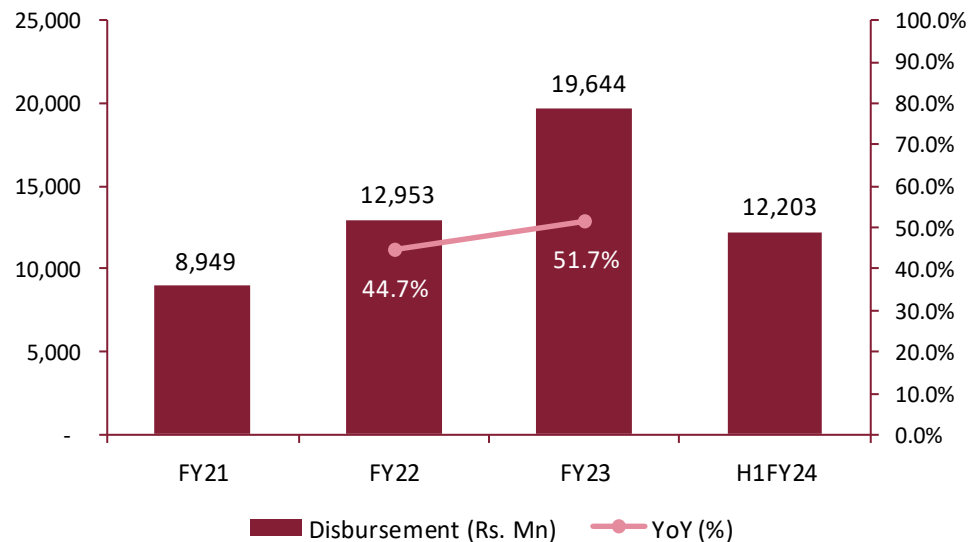
AUM (Rs. Mn) and Trend YoY (%)



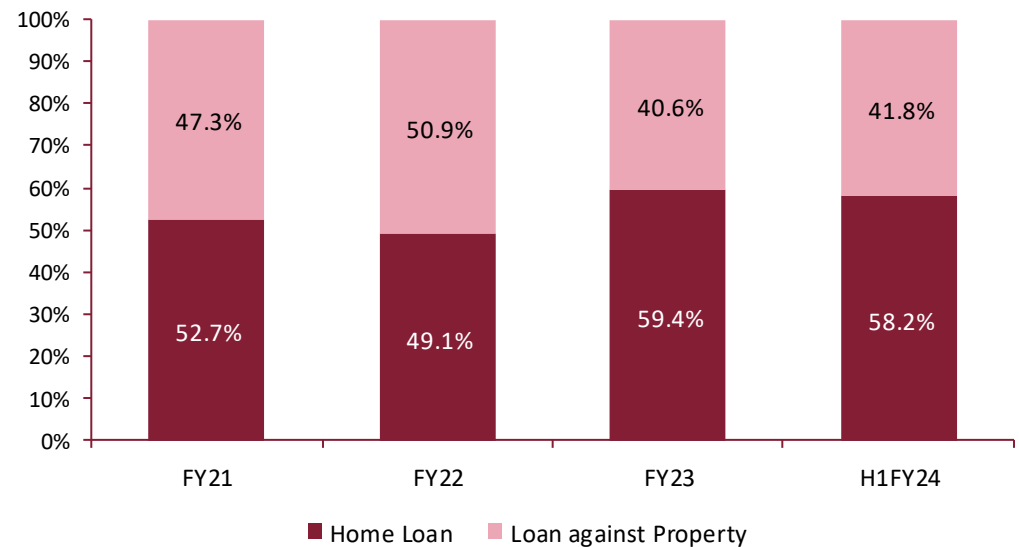
AUM Split by Products (%)



Disbursement (Rs. Mn) and Trend YoY (%)

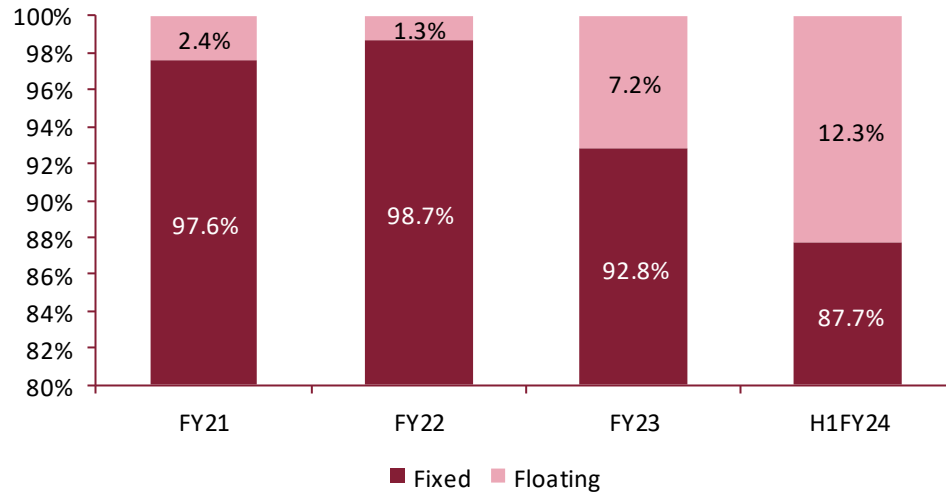


Disbursement Split by Products (%)

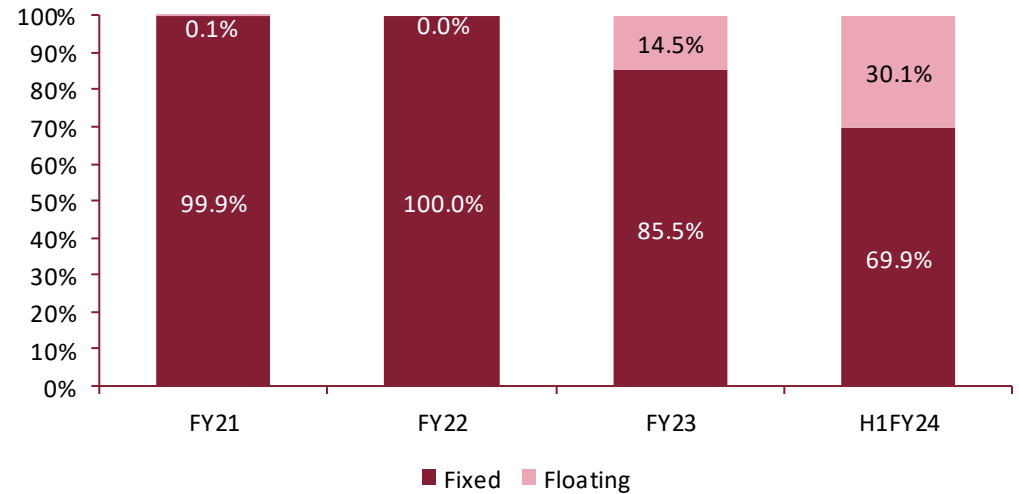


India Shelter Finance Corporation Ltd. : Financial story in charts

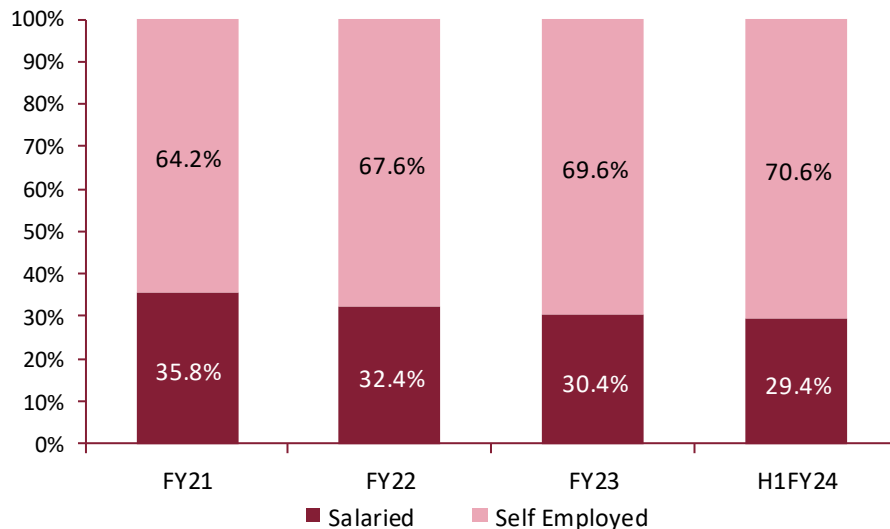
AUM by Rate Method (%)



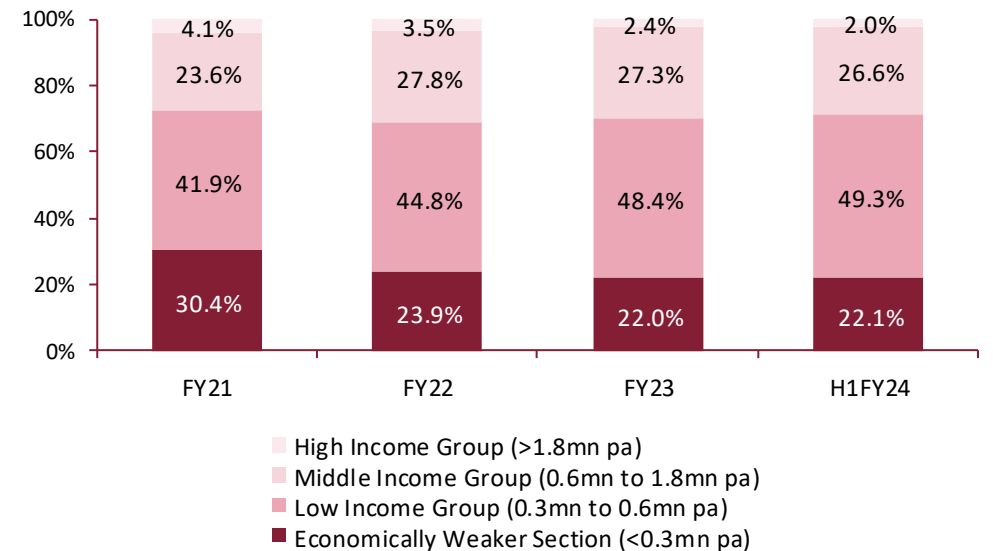
Disbursement by Rate Method (%)



AUM by Customer Occupation (%)

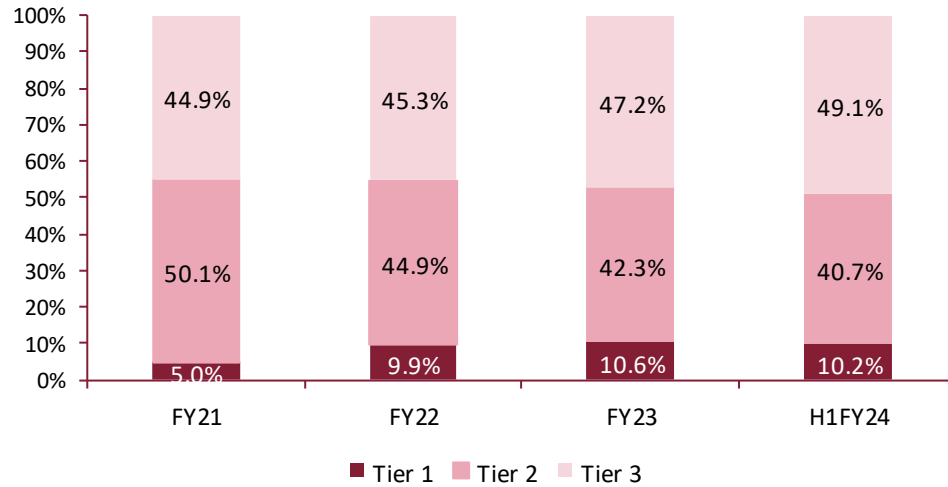


AUM by Income Group (%)

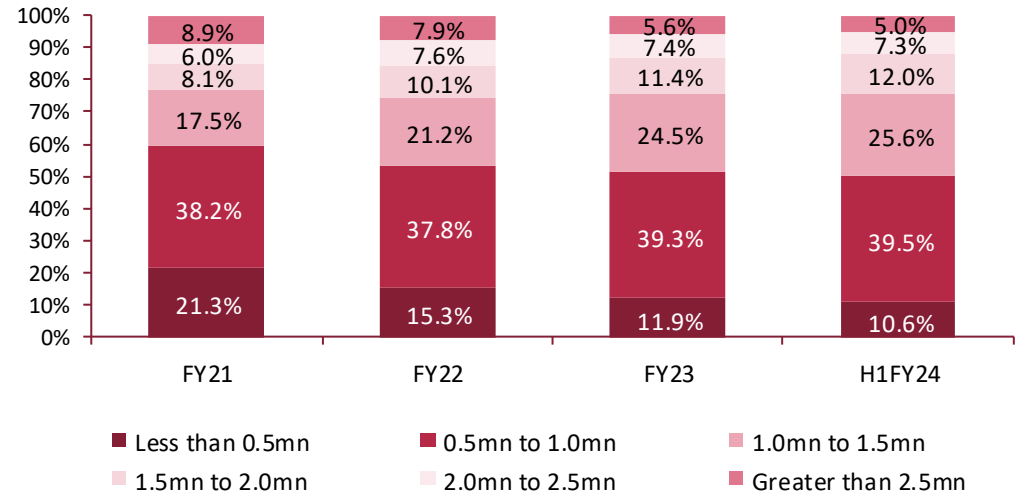


India Shelter Finance Corporation Ltd. : Financial story in charts

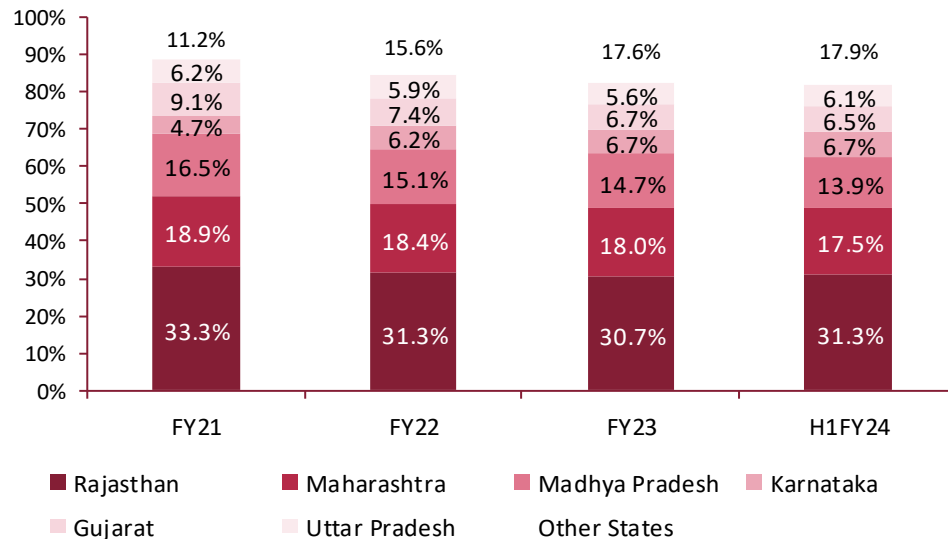
AUM by City Tier Classification (%)



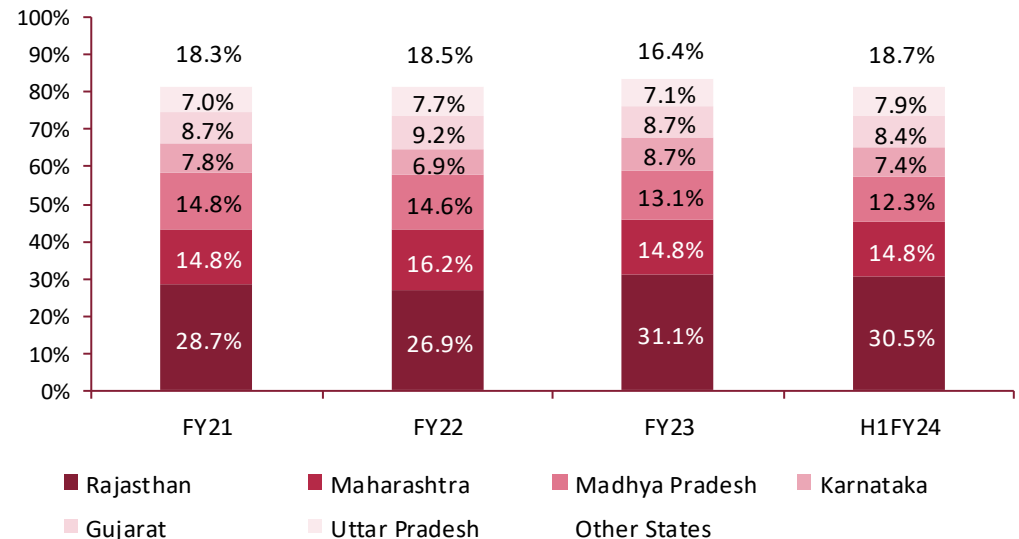
AUM by Avg. Ticket size (%)



AUM by State (%)



Branch by State (%)



Peer Performance

1H FY24	Peer Performance			
	India Shelter Finance Corporation Limited	Aavas Financiers Limited	Aptus Value Housing Finance India Limited	Home First Finance Company India Limited
AUM (Rs. Mn)	51,807	153,195	76,037	83,654
AUM growth (%)	43.3%	22.1%	28.2%	33.3%
Disbursement (Rs. Mn)	12,203	23,267	13,910	18,543
Disbursement growth (%)	41.6%	3.9%	23.2%	36.0%
Avg. Ticket Size on Disbursements (Rs. Mn)	1.0	0.9	0.8	1.1
Branches	203.0	350.0	250.0	120.0
AUM Mix (%)				
Home Loan	57.6%	69.7%	59.0%	87.0%
LAP	42.4%	30.3%	NA	12.0%
AUM Mix (%)				
Self-Employed	70.6%	59.9%	72.0%	31.0%
Salaried	29.4%	40.1%	28.0%	69.0%
AUM/branch	255.2	437.7	304.2	697.1
AUM/employee	17.3	NA	29.0	67.4

Peer Performance

TTM Basis/1H FY24	Peer Performance			
	India Shelter Finance Corporation Limited^	Aavas Financiers Limited	Aptus Value Housing Finance India Limited	Home First Finance Company India Limited
Net Interest Income	3,388	8,784	8,537	4,791
PPoP	2,736	6,157	7,414	3,748
PAT	2,007	4,654	5,511	2,662
Net Income/Avg Total Assets	11.5%	8.1%	12.7%	8.5%
Opex/Avg Total Assets	4.9%	3.8%	2.6%	3.0%
PAT/Avg Total Assets	4.7%	3.3%	7.7%	3.9%
Gross NPA (%)	1.0%	1.0%	1.2%	1.7%
Net NPA (%)	0.7%	0.8%	0.9%	1.2%
PCR (%)	28.7%	27.5%	25.0%	30.3%
Credit Cost (%)	0.4%	0.2%	0.2%	0.4%
CAR (%)	48.7%	48.2%	71.0%	45.5%
Avg. Yield on Advances (%)	14.9%	14.0%	NA	13.9%
Avg. Cost of Borrowings (%)	8.9%	7.4%	8.9%	8.3%
Spread (%)	6.0%	6.6%	NA	5.6%
RoA	3.6%	3.1%	7.0%	3.3%
RoE	9.2%	13.2%	15.6%	13.7%
Price (Rs.)	493	1547	327	1023
Book Value (Rs.)	203	444	71	221
P/Bx	2.4	3.5	4.6	4.6
Market Cap (Rs. Mn)	52,776	122,417	163,070	90,200

Note: ^RoA,RoE,BV,P/Bx,Market Cap are calculated on Post issue basis.

INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

DISCLOSURE

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