

Company Overview

Headquartered in Haryana, India Shelter Finance Corporation Ltd. (ISFC) 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 its business operations and the loan life cycle. The company's target segment is the self-employed customer focusing on first-time home loan takers in the low and middle-income group in Tier II and Tier III cities in India, and affordable housing loans, i.e., loans with ticket sizes lower than Rs. 2.5 million as per the criteria set out in the Refinance Scheme under the Affordable Housing Fund for the Financial Year 2021-22 issued by the National Housing Bank. The company primarily finances the purchase and self-construction of residential properties by first-time home loan takers through home loans and also offers loans against property. Its main focus is serving low and middle-income, salaried, and self-employed individuals, catering to their financial needs. With over 13 years of operations as a housing finance company, the company has a significant presence in the states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, and Gujarat's affordable housing finance market in India.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ to meet future capital requirements towards onward lending; and
- ⇒ for general corporate purposes.

Investment Rationale

Fastest growing AUM among Housing Finance Companies in India, with high yields along with granular and retail-focused portfolio

ISFC achieved AUM growth of 40.8% between FY21-23, registering the highest growth among housing finance companies in India. The strong growth rate reflects the effectiveness of its operational model and the ability to underwrite and serve customers in the targeted segments in Tier II and Tier III cities in India. The company maintains a focus on serving low and middle-income, salaried, and self-employed individuals, catering to their financial needs. They have gained domain knowledge and understanding of the specific financial circumstances and challenges faced by the low and middle-income customer segment, and their underwriting process is tailored towards assessing their credit-worthiness. As of September 30, 2023, 100% of their loans catered to the retail segment. ISFC reported the second-highest total income-to-advance ratio at 16.8% compared to its peers and during the same period, it also reported the third-highest yield on advances at 14.9%. The company has been able to maintain a consistently high yield of more than 14% on its portfolio, driven by its commitment to deliver strong financial performance during the last three financial years.

Diversified borrowing profile with a demonstrated track record of reducing financing costs

The housing finance company focuses on maintaining a long-term and diversified borrowing profile by engaging with multiple lenders to ensure timely funding throughout the year. This approach mitigates the risk of relying on a single funding source and enables them to negotiate favourable borrowing costs. ISFC demonstrated the ability to improve its borrowing costs, even in environments characterized by rising interest rates. Their average borrowing costs reduced to 8.3% as of March 31, 2023, from 8.7% as of March 31, 2021. The company leverages its NHB borrowings to support its lending activities, ensuring a reliable and cost-efficient source of funding. In line with its 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 its portfolio is eligible for priority sector lending, it has carried out securitization and direct assignment transactions, thereby transferring credit risk and ensuring the optimization of its results of operations.

Issue Details

Offer Period	13 th Dec, 2023 - 15 th Dec, 2023
Price Band	Rs. 469 to Rs. 493
Bid Lot	30
Listing	BSE & NSE
Issue Size (no. of shares in mn)	24.3
Issue Size (Rs. in bn)	12
Face Value (Rs.)	5

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities, Citigroup Global Markets, Kotak Mahindra Capital, Ambit Private Ltd.
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Registrar	KFin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	56.93%	48.30%
Public - Others	43.07%	51.70%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

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India Shelter Finance Corporation Ltd.

Valuation and Outlook

The housing finance sector of India comprises Public Sector Banks, Private Sector Banks, Housing Finance Companies, NBFCs, and other players (including foreign banks, Small Finance Banks, etc.). Of the total Rs. 31 trillion credit outstanding of the housing loans market, HFCs had the second highest market share of 34% in FY23. Within the player groups, HFCs are expected to register strong growth due to their higher market share, deeper penetration in tier-II and tier-III cities, and adequate liquidity support. ISFC's profitability increased in FY23 owing to improved credit costs and an increase in interest yields. Going forward, borrowing costs are expected to stabilize in FY24 and the overall profitability of housing loans is still expected to be sustained, on account of higher interest income. The company plans to expand its branch staff, extend the branch network within existing geographical areas, and explore opportunities in adjacent markets for diversification. Their credit and risk management policies which is backed by technology and data analytics have helped them to maintain asset quality, leading to a fall in its GNPA to 1.0% as of September 30, 2023, compared to 2.8% as of September 30, 2022. Amongst its peer set, ISFC had the second-highest annualized RoA of 4.7% for the six months ended September 30, 2023. Furthermore, the company has posted steady growth in its top and bottom lines. **As the lender will utilize the net proceeds of the fresh equity shares issue to meet future capital requirements towards lending, we are positive about the IPO. At the current adjusted P/BV multiple of 2.5x, we believe the company is attractively valued and advise investors to "Subscribe" to the issue from a long-term perspective.**

Key Risks

- ⇒ ISFC requires substantial capital for its business and operations. Any disruption in its sources of financing could have an adverse effect on the business, results of operations, and financial condition.
- ⇒ Three states contributed to 62.7% and 63.4% of its AUM for the six months ended September 30, 2023, and FY23, respectively. Any adverse developments in these states could affect its business, results of operations, and financial condition.
- ⇒ Their inability to recover the full value of collateral or amounts outstanding under defaulted loans on time, or at all, could adversely affect the business, results of operations, and financial condition.



India Shelter Finance Corporation Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Revenue from operations				
(i) Interest income	2,746	3,736	5,029	3,200
(ii) Fees and commission income	100	201	316	179
(iii) Net gain on fair value changes	29	46	61	58
(iv) Net gain on derecognition of financial instruments under amortised cost category	292	497	439	423
(I) Total revenue from operations	3,167	4,480	5,845	3,860
(II) Other income	61	118	217	126
(III) Total income (I+II)	3,228	4,598	6,062	3,986
Expenses				
(i) Finance costs	1,053	1,483	2,099	1,397
(ii) Impairment on financial instruments	199	120	141	94
(iii) Employee benefits expenses	620	1,013	1,346	844
(iv) Depreciation and amortisation	51	65	82	43
(v) Other expenses	175	247	376	223
(IV) Total expenses	2,098	2,929	4,043	2,602
(V) Profit before tax (III-IV)	1,130	1,669	2,020	1,384
(VI) Tax expense:				
(1) Current tax	248	318	465	306
(2) Deferred tax charge/(credit)	8	66	1	4
Total tax expense	256	385	466	310
(VII) Profit for the year (V-VI)	874	1,284	1,553	1,074
Earnings per equity share				
Basic (Rs.)	10.19	14.8	17.75	12.13
Diluted (Rs.)	9.93	14.63	17.47	12.00

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	-4,209	-4,953	-8,522	-5,637
Cash flow from investing activities	766	-1,858	1,625	-1,109
Cash flow from financing activities	5,600	5,918	9,068	3,216
Net increase/(decrease) in cash and cash equivalents	2,158	-893	2,171	-3,530
Cash and cash equivalents at the beginning of the period	173	2,331	1,438	3,609
Cash and cash equivalents at the end of the period	2,331	1,438	3,609	79

Source: RHP, BP Equities Research



India Shelter Finance Corporation Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Assets				
(1) Financial assets				
(a) Cash and cash equivalents	2,331	1,438	3,609	79
(b) Bank balance other than cash and cash equivalents	1,806	1,865	1,463	2,022
(c) Derivative financial instruments	0	0	1	0
(d) Loans	19,812	26,225	36,091	42,661
(e) Investments	0	1,753	469	996
(f) Other financial assets	281	620	902	1,296
(2) Non-financial assets				
(a) Current tax assets (net)	0	0	0	0
(b) Deferred tax assets (net)	93	30	30	43
(c) Property, plant and equipment	140	166	238	249
(d) Other intangible assets	11	5	5	4
(e) Other non-financial assets	117	78	82	140
(f) Assets held for sale	35	34	65	97
Total assets	24,626	32,212	42,956	47,587
Liabilities and equity				
Liabilities				
(1) Financial liabilities				
(a) Derivative financial instruments	0	0	0	31
(b) Trade payables				
(i) total outstanding dues of micro enterprises and small enterprises	1	0	0	0
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	45	46	61	87
(c) Debt securities	822	1,866	1,765	1,191
(d) Borrowings (other than debt securities)	14,091	18,834	28,123	31,694
(e) Other financial liabilities	239	595	534	682
(2) Non-financial liabilities				
(a) Provisions	36	51	47	68
(b) Current tax liabilities (Net)	0	43	7	41
(c) Other non-financial liabilities	20	15	12	44
Total liabilities	15,254	21,451	30,551	33,837
(3) Equity				
(a) Equity share capital	430	437	438	450
(b) Other equity	8,943	10,324	11,968	13,299
Total equity	9,373	10,761	12,405	13,750
Total liabilities and equity	24,626	32,212	42,956	47,587

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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