

Retail Research	IPO Note
Sector: NBFC	Price Band (Rs): 469 - 493
11 <sup>th</sup> December 2023	Recommendation: Subscribe for Long Term Horizon

## India Shelter Finance Corporation Limited

### Company Overview:

India Shelter is a retail-focused affordable housing finance company with an extensive distribution network comprising 203 branches as of Sep 23 and a scalable technology infrastructure across business operations and throughout the loan life cycle. Between FY21 and FY23, the company witnessed a two-year CAGR growth of 40.8% in terms of assets under management. The company's 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 2 and Tier 3 cities in India, and affordable housing loans, i.e., loans with ticket sizes lower than Rs 25 Lakhs. This helps in generating relatively high yields on advances. For FY23, the yield to advances was 14.9%, which was the third highest in India for such a period. The company's credit and risk management policies, backed by technology and data analytics throughout the business processes, help them maintain asset quality leading to GNPA being 1.0% and 2.8% as of Sep 23 and Sep 22, respectively.

### Key Highlights:

**1. Pan India presence:** The company 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 years and above, as of Sep 23. The company has a presence in states which cover 94% of the affordable housing finance market in India, as of Mar 23. In 1HFY24 the company's 89% of AUM is concentrated in Tier 2 and Tier 3 cities.

**2. Turnaround times and transaction costs:** The company's information technology systems allow for increased productivity and reduce turnaround times and transaction costs. During the 1HFY24 and 1HFY23, 92.4% and 92.2%, respectively, of the collections were made through digital modes. Further, during FY23, 91.9% of the collections were made through digital modes, as compared to 86.7% in FY21, reflecting the commitment to leveraging technology for enhanced productivity and customer convenience. During 1HFY24 the company has a 3 days Low Sanction TAT (Turnaround times)

**3. Robust in-house infrastructure:** The company maintains a robust in-house infrastructure seeking to ensure seamless operations and independence across various key functions. During the 1HFY24, 98.5% of disbursed loans were originated in-house. To strengthen customer connections and build trust, they have undertaken initiatives such as prioritizing localized hiring for the branches. This helps in leveraging the understanding and relationship rapport that the local employees build with customers.

**Valuation:** The company is valued at P/BV of 2.4x/2.5x of its 1HFY24 financial data at the lower and upper price band respectively on post-issue capital. It is one of the fastest-growing housing finance companies in India, with an extensive distribution network and a well-established presence in Tier II and III cities. The business model is analytical-driven and scalable, with strong underwriting, collection, credit control, and collateral evaluation processes. We are optimistic about their niche presence in the affordable housing space and would recommend for medium to long term play.

Issue Details	
Date of Opening	13 <sup>th</sup> December 23
Date of Closing	15 <sup>th</sup> November 23
Price Band (Rs)	469 – 493
Issue Size (Rs cr)	1200
No. of shares (cr)	10.70-10.78 (33.3% OFS)
Face Value (Rs)	5.0
Post Issue Market Cap (Rs cr)	5318.6 – 5,277.6
BRLMs	ICICI Securities, Citigroup Global Markets, Kotak Mahindra Capital, Ambit Private Limited
Registrar	K Fin Technologies Limited
Bid Lot	30 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Objects of Issue	
	(Rs cr.)
To meet future capital requirements towards onward lending	640
General corporate purposes <sup>^*</sup>	-
Total Net Proceeds	-

<sup>^</sup>To be determined after finalisation of the Offer Price and updated in the Prospectus prior to filing with the RoC

\* The Net Proceeds will first be utilized towards the object of meeting future capital requirements towards onward lending as set out above

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	5,17,01,854	56.9
Public & Others	3,91,22,102	43.1
<b>Total</b>	<b>9,08,23,956.0</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	5,17,01,854	47.9
Public and Others	5,61,79,671	52.1
<b>Total</b>	<b>10,78,81,525</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	5,17,01,854	48.3
Public and Others	5,53,49,283	51.7
<b>Total</b>	<b>10,70,51,137</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials (Pre-Issue)

	FY21	FY22	FY23	1HFY23	1HFY24
Interest Income (Rs cr)	274.6	373.6	502.9	230.7	320.0
Other Income (Rs cr)	48.1	86.1	103.2	42.0	78.4
PAT (Rs cr)	87.3	128.4	155.3	62.1	107.2
Market Cap (Rs cr)	4,237.6	4,309.5	4,315.2	4,312.0	4,439.3
EPS (Rs)	10.2	14.7	17.7	7.1*	11.9*
PE (x)**	48.5	33.6	27.8	69.4*	41.4*
P/BV (x)***	4.5	4.0	3.5	3.8	3.2
RoA (%)	3.5	4.5	4.1	1.8*	2.4*
RoE (%)	9.3	12.8	13.4	5.6*	8.2*

\* Not Annualized

\*\* PE(x) is calculated on upper price band

\*\*\* P/BV (x) is calculated on upper price band

Source: RHP, SSL Research

## Risk Factors

- The business requires a substantial amount of capital for operations, and any disruption in sources of financing could harm the business, financial condition, and results of operations.
- Non-compliance with financial and other covenants under debt financing arrangements could adversely affect the business, its financial condition, and results of operations.
- There is a risk of non-payment or default by customers, which may adversely affect the business, its financial condition, and the results of operations.
- Assets under management for the 1HFY23 in the FY23 were contributed mainly by three states, and any adverse developments in these states could hurt the business, its financial condition, and results of operations.
- As of Sep 23, Sep 22, Mar 23, Mar 22, and Mar 21, stage 3 assets (gross) amounted to Rs 43.9 cr, Rs 88.1 cr, Rs 41.9 cr, Rs 57.0 cr and Rs 39.2 cr, respectively. If the credit quality of the loan book deteriorates and effective monitoring and collection methods are not implemented, it may adversely affect the results of operations.

## Growth Strategy

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

## Asset Under Management

Particulars (Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
AUM (Rs cr)	2198.5	3073.2	4359.4	3614.8	5180.6
AUM Growth (%)	44.7	39.8	41.8	43.6	43.3
Disbursement (Rs cr)	894.8	1295.2	1964.3	861.8	1220.3
Disbursement Growth (%)	62.3	44.7	51.7	83.2	41.6

Source: RHP, SSL Research

## Asset Quality

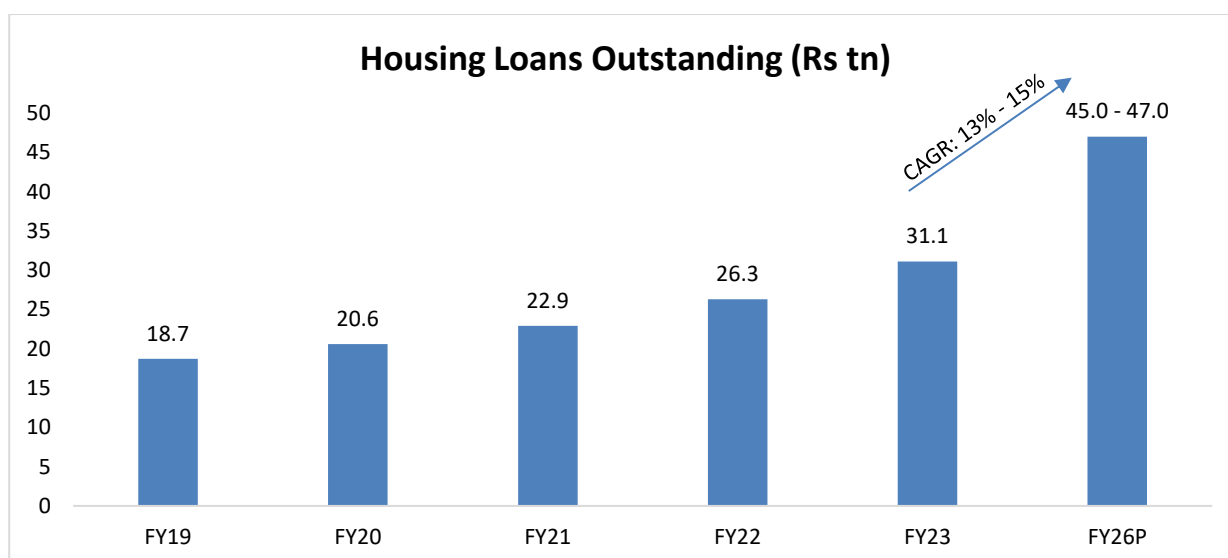
Particulars	FY21	FY22	FY23	1HFY23	1HFY24
GNPA (%)	1.9	2.1	1.1	2.8	1.0
NNPA (%)	1.4	1.6	0.9	2.2	0.7
PCR (%)	29.6	25.5	26.0	23.6	28.7

Source: RHP, SSL Research

## Industry Overview

### Housing loans outstanding projected to grow at 13-15% over FY23-FY26P

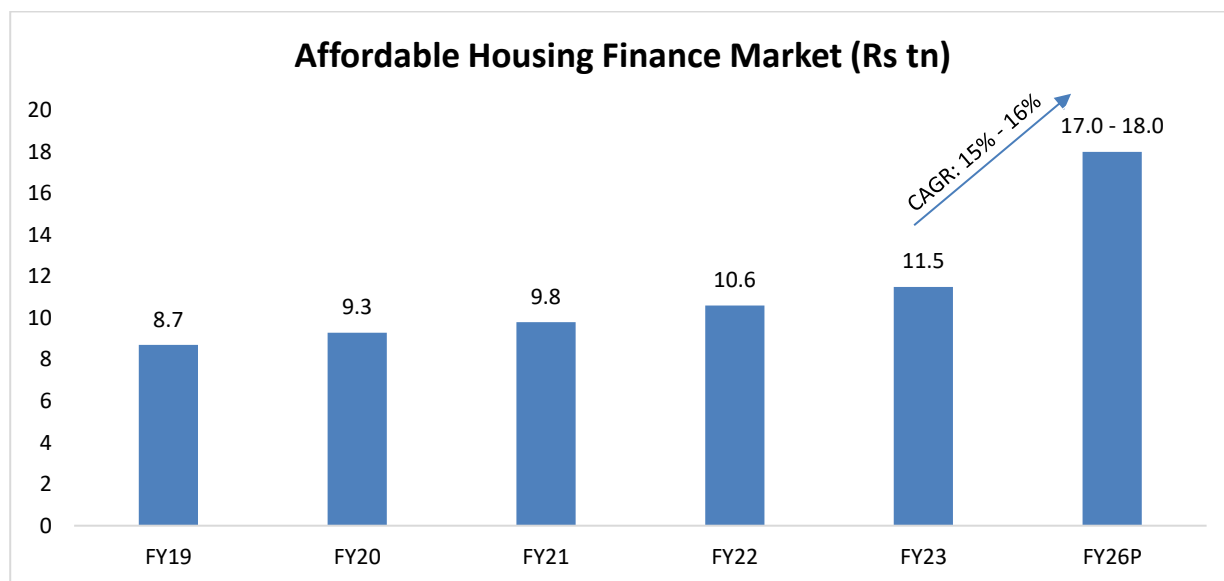
The Indian housing finance market clocked a healthy ~13.5% CAGR (growth in loan outstanding) over FY19 - FY23 on account of a rise in disposable incomes, healthy demand, and a greater number of players entering the segment. Housing Finance to log a CAGR of 13-15% in the long term between FY23 and FY26. Over the past two financial years, the housing finance segment has seen favorable affordability on account of stable property rates and improved annual income of individual borrowers. The overall housing finance segment credit outstanding is ~ Rs 31.1 tn as of Mar 23.



Source: RHP, SSL Research

**Encouraging trends in the Affordable Housing Finance market**

The overall size of the affordable housing finance market in terms of loan outstanding was around Rs 11.5 tn as of Mar 23, constituting around 37% of the overall housing finance market, as per CRIF data. Between FY19 and FY23, the growth in affordable housing loans has remained subdued, with the segment witnessing a CAGR of 7.3% as compared to overall housing loans, which has grown by ~13.5% during the same time. In the longer term, CRISIL MI&A expects the segment to bounce back sharply in terms of loan outstanding and grow at ~15-16% CAGR over FY23 - FY26P.



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT					
(Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
Interest Income	274.6	373.6	502.9	230.7	320.0
Interest & Other Financial Charges	105.3	148.3	209.9	96.1	139.7
<b>Net Interest Income</b>	<b>169.2</b>	<b>225.3</b>	<b>293.1</b>	<b>134.6</b>	<b>180.3</b>
Other Income	48.1	86.1	103.2	42.0	78.4
<b>Total Income</b>	<b>217.3</b>	<b>311.4</b>	<b>396.3</b>	<b>176.6</b>	<b>258.6</b>
<b>Operating Expenditures</b>	<b>84.6</b>	<b>132.5</b>	<b>180.3</b>	<b>86.4</b>	<b>111.0</b>
Employee Exps.	62.0	101.3	134.6	64.1	84.4
Other Exps.	22.6	31.2	45.7	22.3	26.6
<b>Operation Profit Before Provision</b>	<b>132.8</b>	<b>178.9</b>	<b>216.0</b>	<b>90.2</b>	<b>147.6</b>
Provisions Excluding Tax	19.9	12.0	14.1	8.9	9.4
<b>Operating Profit After Provision</b>	<b>112.9</b>	<b>166.9</b>	<b>201.9</b>	<b>81.3</b>	<b>138.2</b>
Exceptional Items					
<b>Profit Before Tax</b>	<b>112.9</b>	<b>166.9</b>	<b>201.9</b>	<b>81.3</b>	<b>138.2</b>
<b>Provision for Tax</b>	<b>25.6</b>	<b>38.5</b>	<b>46.6</b>	<b>19.2</b>	<b>31.0</b>
<b>Profit After Tax</b>	<b>87.3</b>	<b>128.4</b>	<b>155.3</b>	<b>62.1</b>	<b>107.2</b>

BALANCE SHEET					
(Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
<b>Particulars</b>					
<b>Shareholder's fund</b>	<b>937.3</b>	<b>1,076.1</b>	<b>1,240.5</b>	<b>1,142.0</b>	<b>1,375.0</b>
Share capital	43.0	43.7	43.8	43.7	45.0
Reserves and surplus	894.3	1,032.4	1,196.8	1,098.3	1,329.9
<b>Non-current liabilities</b>	<b>1,525.4</b>	<b>2,145.1</b>	<b>3,055.1</b>	<b>2,608.0</b>	<b>3,383.7</b>
Debt securities	82.2	186.6	176.5	178.9	119.1
Borrowings	1,409.1	1,883.4	2,812.3	2,362.5	3,169.4
Other Liability and Provision	34.1	75.1	66.2	66.6	95.2
<b>Total Equity and Liabilities</b>	<b>2,462.6</b>	<b>3,221.2</b>	<b>4,295.6</b>	<b>3,750.0</b>	<b>4,758.7</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Cash and cash equivalents	233.1	143.8	360.9	129.2	7.9
Bank balances other than cash and cash equivalents	180.6	186.5	146.3	128.2	202.2
Investments	-	175.3	46.9	297.8	99.6
Advances	1,981.2	2,622.5	3,609.1	3,066.8	4,266.1
Fixed Assets	14.0	16.6	23.8	23.6	24.9
Other Assets	53.8	76.5	108.4	104.4	158.0
<b>Total assets</b>	<b>2,462.6</b>	<b>3,221.2</b>	<b>4,295.6</b>	<b>3,750.0</b>	<b>4,758.7</b>

Source: RHP, SSL Research

Key Financials and Valuation Ratios (Post-Issue)				
	FY22	FY23	1HFY24	1HFY24
			Lower	Upper
CMP (Rs)	493.0	493.0	469.0	493.0
EPS (Rs)	14.7	17.7	19.9*	20.0*
Market Cap (Rs cr)	4,309.5	4,315.2	5,059.6	5,277.6
BV per share (Rs)	118.1	136.7	197.4	199.0
PE(x)	33.6	27.8	23.6*	24.6*
P/BV (x)**	4.2	3.6	2.4	2.5
NIM (%)	8.2	8.0	8.3*	8.3*
ROA (%)	4.5	4.1	4.7*	4.7*
Cost of fund (%)	8.3	8.3	8.9*	8.9*
Yield on Assets (%)	13.5	13.8	14.6*	14.6*
Spread (%)	5.2	5.5	5.7	5.7
Cost to Income Ratio (%)	42.6	45.5	42.9	42.9
RoE (%)	12.8	13.4	16.4*	16.4*
GNPA (%)	2.1	1.1	1.0	1.0
NNPA (%)	1.6	0.9	0.7	0.7
PCR (%)	25.5	26.0	28.7	28.7

*\*Annualized*

*\*\* P/BV is calculated at the upper band on post-issue capital based on net worth data as of 1HFY24.*

*Source: RHP, SSL Research*

## Peer Comparison

	India Shelter Finance Corporation Limited		Aavas Financiers Limited	Aptus Value Housing Finance	Home First Finance Company
	Lower	Upper			
<b>CMP (Rs)</b>	<b>469.0</b>	<b>493.0</b>	<b>1,491.2</b>	<b>317.9</b>	1,033.4
Market. Cap (Rs Cr)	5,318.6	5,277.6	11,799.4	15,855.7	9,111.6
P/BV (x)	2.5	2.5	3.3	4.9	4.7
P / E (x)	24.8*	24.6*	25.3	34.9	34.3
AUM (Rs bn)	5,180.6	5,180.6	14,166.7	6,738.0	7,198.0
NIM (%)	8.3*	8.3*	8.4	13.3	8.3
ROA (%)	2.4*	2.4*	3.5	7.8	3.9
NNPA %	0.7*	0.7*	0.8	0.9	1.2

\* Annualized

The data is based on FY23 financial data.

For India Shelter Finance Corporation, P/BV(x) is calculated on post-issue equity share capital based on net worth data as of 1HFY24 data. CMP as of 10th November'23.

Source: RHP, SSL Research

**SBICAP Securities Limited**

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered &amp; Corporate Office: Marathon Futorex, A Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

**022-6854 5555****E-mail: [helpdesk@sbicapsec.com](mailto:helpdesk@sbicapsec.com) | Web: [www.sbisecurities.in](http://www.sbisecurities.in)****DISCLOSURES & DISCLAIMERS:**

**Analyst Certification:** The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

- (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MMS-Finance	DVP- Technical & Derivative Research
Sunny Agrawal	B.E, MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Harsh Vasa	CA	Research Analyst - Equity Fundamentals
Sumeet Shah	B.E., CFA	Research Analyst - Equity Fundamentals
Sweta Padhi	MBA (Finance)	Research Analyst - Equity Fundamentals
Uday Chandgothia	B-Tech, MBA (Finance)	Research Associate - Equity Fundamentals
Gautam Updhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Vinayak Gangule	BE (IT)	Research Analyst - Equity Technicals
Pratik Patni	BSc (Biotech Entire)	Research Analyst- Equity Derivatives
Ghanshyam Gupta	MBA (Finance)	Research Analyst- Currency Derivative
Sagar Peswani	B.Tech (ECE)	Research Associate - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

For other Disclosures please visit: [https://bit.ly/R\\_disclaimer02](https://bit.ly/R_disclaimer02)