

IPO Report

Choice

“Subscribe with Caution” to India Shelter Finance Corporation Ltd.

While the valuation is favorable, its financial ratios are not too impressive.



Salient features of the IPO:

- **India Shelter Finance Corporation Ltd.** (ISFCL), a retail focused affordable housing finance company is coming up with an IPO to raise around Rs. 1,200cr. It opens on 13th Dec. and closes on 15th Dec. 2023. The price band is Rs. 469 – 493 per share.
- The IPO is a combination of fresh issue and OFS (offer for sale). ISFCL will not receive any proceeds from the OFS portion. From the fresh issue net proceeds, the company will be utilizing Rs. 640cr to meet future capital requirements towards onward lending. Residual funds will be used for general corporate purposes.

Key competitive 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

Risk and concerns:

- Geographical & concentration risks
- Changing legal and regulatory environment
- Volatility in interest rate
- A disruption in funding sources may negatively impact the business
- Competition

Below are the key highlights of the company:

- The company was incorporated on October 26, 1998, under the name "Satyaprakash Housing Finance India Limited." In 2009, Mr. Anil Mehta, the Individual Promoter, took over control of the company. Following this, the company's name was changed to "India Shelter Finance Corporation Limited" on May 13, 2010, with the approval of shareholders through a special resolution. ISFCL is a retail focused affordable housing finance company with an extensive distribution network and a scalable technology infrastructure across the business operations and throughout the loan life cycle.
- The primary target audience for ISFCL comprises self-employed individuals, specifically those seeking their first home loan. Their focus is on serving customers in the low and middle-income brackets, residing in Tier II and Tier III cities across India. The company specialize in providing affordable housing loans to meet the unique needs of this demographic. These loans fall within the criteria set by the Refinance Scheme under the Affordable Housing Fund for the Financial Year 2021-22, as outlined by the National Housing Bank. Particularly, the loan ticket size is below Rs. 25 lakh.
- IFSCCL has a strong and widely spread network of 203 branches across 15 states. They hold a significant presence, especially in Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, and Gujarat, where their branches have been established for five years or more as of September 30, 2023. According to a CRISIL Report as of March 31, 2023, their footprint extends to states that collectively represent 94% of the affordable housing finance market in India.

Issue details

Price band	Rs. 469 - 493 per share
Face value	Rs. 5
Shares for fresh issue	1.622 – 1.705cr shares
Shares for OFS	0.811 – 0.852cr shares
Fresh issue size	Rs. 800cr
OFS issue size	Rs. 400cr
Total issue size	2.43 – 2.55cr shares (Rs. 1,200cr)

Bidding date	13 th Dec. – 15 th Dec. 2023
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Implied MCAP at higher price band	Rs. 5,277.6cr
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Book running lead managers	ICICI Securities Ltd., Citigroup Global Markets India Pvt. Ltd., Citigroup Global Markets India Pvt. Ltd., Ambit Pvt. Ltd.
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Registrar	Kfin Technologies Ltd.
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Sector	Housing finance company
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Promoters	Anil Mehta, WestBridge Crossover Fund, LLC, Aravali Investment Holdings
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Issue break-up

Category	Percent of issue (%)	Number of shares
QIB portion	50%	1.215 – 1.275cr shares
Non institutional portion (Big)	10%	0.243 – 0.255cr shares
Non institutional portion (Small)	5%	0.121 – 0.127cr shares
Retail portion	35%	0.850 – 0.892cr shares

Indicative IPO process time line

Finalization of basis of allotment	18 th Dec. 2023
Unblocking of ASBA account	19 th Dec. 2023
Credit to demat accounts	19 th Dec. 2023
Commencement of trading	20 th Dec. 2023

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	56.93%	48.30%
Public	43.07%	51.70%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	30
Application money	Rs. 14,790 per lot

Key highlights of the company (Contd...):

Companies (Rs cr)	CMP (Rs/s)	Face Value	6M R%	12M R%	M Cap	P/BV (x)	P/E (x)	NIM (%)	GNPA (%)	NNPA (%)	D/E
India Shelter Finance Corporation Ltd.	493	5	-	-	5,278	2.4	26.3	6.0%	1.0%	0.7%	1.5
Aptus Value Housing Finance India Ltd	330	2	15.1%	7%	16,482	4.7	29.5	8.8%	1.2%	0.9%	1.2
AAVAS Financiers Ltd	1,519	10	8.1%	-23.1%	12,015	3.4	26.2	8.0%	1.0%	0.1%	3.2
Home First Finance Company India Ltd	1,019	2	28.6%	36.6%	9,014	4.6	33.3	6.0%	1.7%	1.2%	3.1
Average						4.2	29.7	7.6%	1.3%	0.7%	2.5

Companies (Rs cr)	RoE (%)	RoA (%)	Yield on Loans (%)	CAR (%)	PAT TTM	EPS	BVPS	Total Assets	Loans	Net Worth	AUM
India Shelter Finance Corporation Ltd.	9.2%	3.6%	14.9%	48.7%	201	19	203.2	4,759	4,266	2,175	5,181
Aptus Value Housing Finance India Ltd	17.0%	8.1%	17.2%	71.0%	551	11.1	71.0	7,892	7,435	3,540	7,604
AAVAS Financiers Ltd	13.6%	3.3%	13.2%	48.0%	465	58.9	443.9	15,038	12,403	3,513	15,320
Home First Finance Company India Ltd	15.6%	3.8%	13.6%	45.5%	266	30.2	220.4	8,043	7,025	1,947	8,365
Average	15.4%	5.1%	14.7%	54.8%							

Note: Financials as of TTM basis (with IPO adjustments); Source: Choice Broking Research

- The company has expanded its operations and increased the number of branches by strategically focusing on regions with a significant demand for affordable housing finance. By doing so, they have gained a deeper understanding of the unique challenges and opportunities in these areas. This experience has provided valuable insights into local businesses and property regulations, allowing them to make more informed underwriting decisions. Their enhanced understanding of cash flows and collateral assessments has empowered them to make better-informed decisions, ultimately contributing to the company's overall success.
- The company has implemented an integrated customer relationship management and loan management system on a cloud-based platform. This setup offers seamless connectivity and real-time access to comprehensive customer profiles throughout the entire loan lifecycle. Their advanced information technology systems play a pivotal role in enhancing productivity, minimizing turnaround times, and reducing transaction costs.
- For the six months ending on both September 30, 2023, and September 30, 2022, 92.4% and 92.2%, respectively, of the collections were conducted through digital channels. Moreover, in the Financial Year 2023, 91.9% of collections were made through digital means, showcasing a notable increase from 86.7% in the Financial Year 2021. This underscores the company's dedication to utilizing technology for heightened productivity and improved customer convenience.
- The company has consistently fulfilled its debt financing needs through a varied and long-term approach, drawing from sources such as public and private sector banks, NHB refinancing, external commercial borrowings, and the issuance of non-convertible debentures. As of September 30, 2023, the company secured long-term funding from a diverse group of over 37 counterparties, of which 24 are scheduled commercial banks. ISFCL maintains a robust credit rating, with ICRA A+ (stable) from ICRA Limited and CARE A+ (Positive) from CARE Limited as of September 30, 2023.
- In the last few years, the RBI raised the repo rate. Even though the RBI increased the repo rate by 250 basis points, the company's usual cost of borrowing was 8.9% on September 30, 2023, and 8.3% on September 30, 2022. Additionally, they managed to lower their average borrowing cost to 8.3% by March 31, 2023, from 8.7% on March 31, 2021.
- ISFCL has also adopted an end-to-end in-house approach to key aspects of lending operations including customer acquisition, underwriting, collateral valuation, legal assessment, and collections. This comprehensive strategy enables direct engagement with customers, reduces turnaround times, enhances customer retention, and mitigates the risk of fraudulent activities.

Key highlights of the company (Contd...):

- A centralized credit control unit was established by the organization prior to disbursing loans. All properties are visited by qualified staff to evaluate the valuations of collaterals. This team is complemented by a robust technological infrastructure, aiding in the validation of collateral assessments. As of September 30, 2023, the organization has successfully maintained an average sanctioned loan-to-value ("LTV") ratio on its portfolio at 50.9%.
- Over the period spanning from FY 2021 to FY 2023, they observed a robust two-year CAGR of 40.8% in Assets Under Management (AUM). In FY21, the AUM stood at Rs. 2,198.5cr, witnessing significant growth to reach Rs. 4,359.4cr by the end of FY23. Moreover, as of September 30, 2023, their AUM has further surged to Rs. 5,180.7cr, marking a significant year-on-year growth of 43.3% compared to Rs. 3,614.8 cr on September 30, 2022.
- ISFCL primarily supports individuals in acquiring and constructing residential properties through first-time home loans. Additionally, the company extends loans against property. As of September 30, 2023, home loans constitute 57.6% of AUM, while loans against property make up 42.4% of the AUM.
- The company maintains a strategic focus on providing loans secured by self-occupied residential properties, demonstrating a steadfast commitment to serving retail customers. As of September 30, 2023, all of the company's loans, accounting for 100%, are directed towards the retail segment. Particularly, as of the same date, 97.9% of these loans have one or more female borrowers, underscoring the company's dedication to supporting women in their home ownership events.
- As of September 30, 2023, the loans extended to self-employed customers amounted to Rs. 3,658.2cr, constituting 70.6% of their AUM. Comparatively, on September 30, 2022, the corresponding figure was Rs. 2,486.9cr, representing 68.8% of AUM. Additionally, on March 31, 2023, March 31, 2022, and March 31, 2021, the loans aggregated to Rs. 3,036.2cr, Rs. 2,078.3cr, and Rs. 1,411.2cr, respectively, with proportions of 69.6%, 67.6%, and 64.2% of their AUM during those periods.
- For loans granted to salaried customers, the figures were Rs. 1,522.4cr, Rs. 1,127.8cr, Rs. 1,323.1cr, Rs. 994.9cr, and Rs. 787.2cr as of September 30, 2023, September 30, 2022, March 31, 2023, March 31, 2022, and March 31, 2021, respectively. These amounts represented 29.4%, 31.2%, 30.4%, 32.4%, and 35.8% of their AUM during the respective time frames.
- In terms of financial performance, the company demonstrated impressive growth in both revenue and profitability over the period from FY21 to FY23. Interest Income saw a remarkable CAGR of 35.3%, reflecting strong and consistent expansion. PAT also experienced an impressive CAGR of 33.3% which signifies impressive and sustained growth in profitability over the specified time frame. Moreover, there was a marginal improvement in the Net Interest Margin (NIM), which increased from 6.1% in FY21 to 6.6% in FY23.
- In FY23, the company maintained stable levels of yield on loans of 14.9% compared to 14.8% in FY21. This consistency indicates a robust return on the company's loan portfolio, reflecting the effectiveness of its lending activities. PAT for FY23 surged to Rs. 155.3cr, signifying a substantial increase in overall profitability. Moreover, the company's profit margin declined marginally to 39.2% from 40.2% in FY21.
- ISFCL has demonstrated robust growth in its loan portfolio, achieving an impressive CAGR of 35%. The portfolio surged from Rs. 1,981.2cr in FY21 to Rs. 3,609.1cr in FY23. As of September 30, 2023, the company's AUM has witnessed a substantial increase, reaching Rs. 5,180.7cr. However, it is noteworthy that the Capital Adequacy Ratio (CAR) experienced a decline from 71.5% in FY21 to 52.7% in FY23. In the same fiscal year, the company's borrowing escalated to Rs. 2,988.9cr from Rs. 1,491.3cr in FY21. Consequently, there was a marginal increase in the debt-to-equity ratio, rising from 1.6x to 2.4x. The RoE has shown improvement, rising to 13.4% in FY23 from 9.8% in FY21.

Peer comparison and valuation: ISFCL is a housing finance company that caters to retail customers, specifically targeting the low and medium-income groups in Tier II and Tier III cities in India. The company has consistently demonstrated growth in both its revenue and profits.

At the higher price band of Rs. 493, ISFCL's issue is priced at a P/BV of 2.4x based on post-issue Adj. BVPS, representing a discount compared to its peer group's average P/BV of 4.2x. However, even with this apparent discount, ISFCL's financial ratios do not appear as impressive as those of its competitors. The company's return ratios do not quite match the steady growth seen in both revenue and profit. Considering this, we suggest a **"Subscribe with Caution"** rating for the issue.

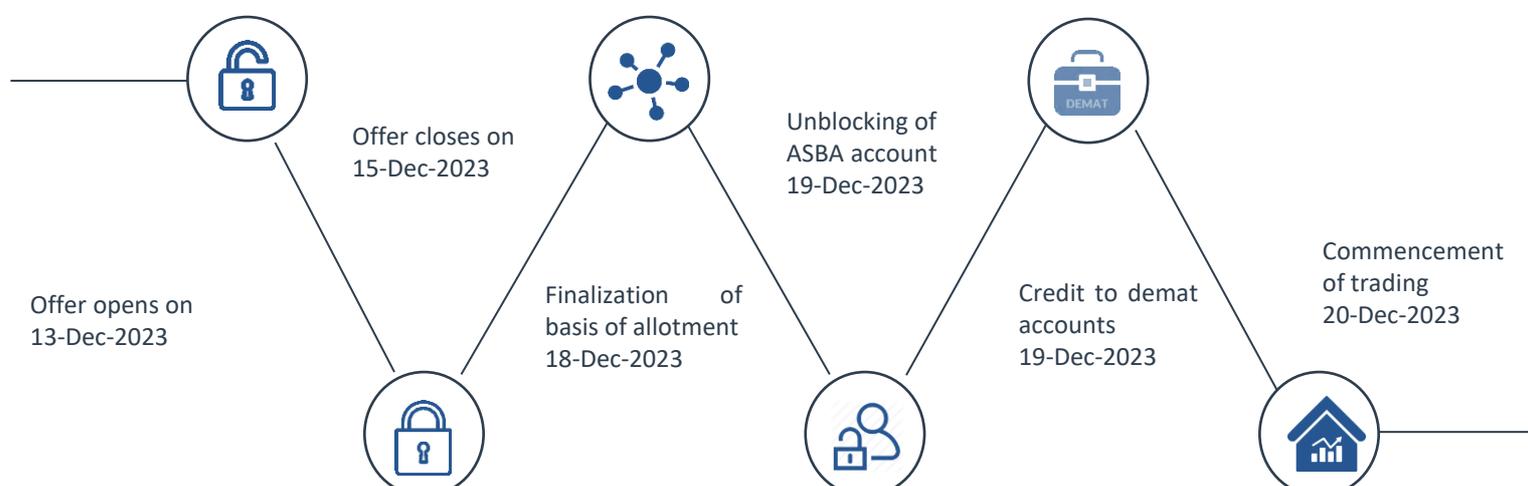
About the issue:

- ISFCL is coming up with an IPO with 2.43-2.55cr shares (fresh issue: 1.622-1.705cr shares; OFS: 0.811-0.852cr shares) in offering. This offer represents 22.74% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 1,200cr.
- The issue is through the book building process with a price band of Rs. 469 - 493 per share.
- Lot size comprises of 30 equity shares and in multiple of 30 shares thereafter.
- The issue will open on 13th Dec. 2023 and close on 15th Dec. 2023.
- The IPO is a combination of fresh issue and OFS (offer for sale). ISFCL will not receive any proceeds from the OFS portion. From the fresh issue net proceeds, the company will be utilizing Rs. 640cr to meet future capital requirements towards onward lending. Residual funds will be used for general corporate purposes.
- 50% of the net issue is reserved for qualified institutional buyers, while 15% and 35% of the net issue are reserved for non-institutional bidders and retail investors, respectively.
- Promoter & promoter group currently have 56.93% in the company, which will get reduced to 48.30% post-IPO. Consequently, the public stake will increase from 43.07% to 51.70% post-IPO.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	56.93%	48.30%
Public	43.07%	51.70%

Source: Choice Equity Broking

Indicative IPO process time line:



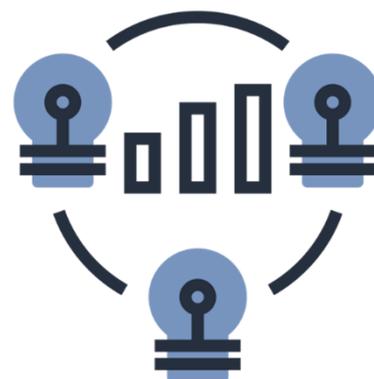


Competitive strengths:

- 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

Business strategy:

- 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



Risk and concerns:

- Geographical & concentration risks
- Changing legal and regulatory environment
- Volatility in interest rate
- A disruption in funding sources may negatively impact the business
- Competition

Financial statements:

Profit And Loss Statement (Rs.cr)

Particulars	FY21	FY22	FY23	Sep 30'2023	TTM	CAGR over FY21-23	Annual Growth over FY22)
Interest Earned	274.6	373.6	502.9	320	592	35.3%	34.6%
Growth (%)	0%	36%	35%	39%			
Interest Expended	105.3	148.3	209.9	140	253	41.1%	41.5%
Growth (%)	0%	41%	41%	45%			
Net Interest Income	169.2	225.3	293.1	180	339	31.6%	30.1%
Net Interest Margin	6.1%	7.0%	6.6%	6.0%		50 bps	(40) bps
Other Income	48.2	86.2	103.3	79	140	46.3%	19.8%
% of Interest Income	18%	23%	21%	25%	24%		
Total Income	217.5	311.5	396.4	259	478	35.0%	27.3%
Growth (%)	0%	43%	27%	46%			
Operating & Other expenses	84.6	132.6	180.3	111	205	46.0%	36.1%
Pre-Prov. Operating Profit	132.9	178.9	216.0	148	274	27.5%	20.7%
Provisions and contingencies	19.9	12.0	14.1	9	14	-15.9%	17.1%
P&C % of Advances	-	0.5%	0.4%	0.2%			
Operating Profit before Tax	113.0	166.9	202.0	138	259	33.7%	21.0%
Growth (%)	0%	48%	21%	70%			
Pre-tax Margin %	52%	54%	51%	53%	54%		
Tax	25.6	38.5	46.6	31	58	35.0%	21.2%
% of PBT	23%	23%	23%	22%	23%		
Reported PAT	87.4	128.4	155.3	107	201	33.3%	20.9%
Net Profit Margin %	40.2%	41.2%	39.2%	41%	41.9%	(100) bps	(205) bps
Net Profit Growth %		47.0%	20.9%				

Balance Sheet (Rs.cr)

Particulars	FY21	FY22	FY23	Sep 30'2023	TTM	CAGR over FY21-23	Y-o-Y (over FY22)
Cash and cash equivalents	233.1	143.8	360.9	7.9	360.9	24.4%	151.0%
Bank balance other than cash and cash equivalents	180.6	186.5	146.3	202.2	146.3	-10.0%	-21.5%
Derivatives financial instruments	-	-	0.1	-	0.1		
Loans	1,981.2	2,622.5	3,609.1	4,266.1	3,609.1	35.0%	37.6%
Investments	-	175.3	46.9	99.6	46.9		-73.2%
Fixed assets	15.1	17.0	24.3	25.3	24.3	26.9%	42.7%
Other assets	52.7	76.0	107.9	157.6	107.9	43.1%	41.8%
TOTAL ASSETS	2,462.6	3,221.2	4,295.6	4,758.7	4,295.6	32.1%	33.4%
Capital	43.0	43.7	43.8	45.0	43.8	0.9%	0.1%
Reserves and Surplus	894.3	1,032.4	1,196.8	1,329.9	1,196.8	15.7%	15.9%
Provisions	3.6	5.1	4.7	6.8	4.7	14.2%	-8.6%
Borrowings	1,491.3	2,070.0	2,988.9	3,356.7	2,988.9	41.6%	44.4%
Other liabilities	30.5	70.0	61.5	20.3	61.5	42.0%	-12.1%
TOTAL CAPITAL AND LIABILITIES	2,462.6	3,221.2	4,295.6	4,758.7	4,295.6	32.1%	33.4%

Note: Pre-IPO financials; Source: Choice Equity Broking

Financial statements (Contd...):

Financial Ratios

Particulars	FY21	FY22	FY23	Sep 30'2023
Return / Profitability Ratios (%)				
Net interest margin (NIM)	6.1%	7.0%	6.6%	6.0%
Avg Yield on advances	14.8%	15.3%	14.9%	14.9%
Cost of Borrowings	8.7%	8.3%	8.3%	8.9%
RoA	4.1%	4.5%	4.1%	4.7%
RoE	9.8%	12.8%	13.4%	16.4%
Operating Ratios (%)				
Cost-to-Income (C/I)	38.9%	42.6%	45.5%	43.1%
AUM (Rs. Cr)	2,198.5	3,073.3	4,359.4	5,180.7
Disbursement (Rs.Cr)	894.9	1,295.3	1,964.4	1,220.3
Loans	1,981.2	2,622.5	3,609.1	4,266.1
Leverage (times)	2.4x	2.8x	3.2x	3.5x
Capitalization Ratios (%)				
CET	70.8%	55.4%	51.9%	47.9%
Tier-1	70.8%	55.4%	51.9%	47.9%
Tier-2	0.7%	0.5%	0.7%	0.8%
CAR (Basel III)	71.5%	55.9%	52.7%	48.7%
Equity / Assets	38.1%	33.4%	28.9%	28.9%
Loans / Assets	80.4%	81.4%	84.0%	89.6%
AUM / Assets	89.3%	95.4%	101.5%	108.9%
Asset Quality Ratios (%)				
GNPA	1.92%	2.12%	1.13%	1.0%
NNPA	1.37%	1.60%	0.85%	0.7%
Per Share Data (Rs)				
EPS (Diluted)	8.2	12.0	14.5	10.0
BVPS	87.6	100.5	115.9	128.4
Valuation ratios (x)				
P/E (x)	60.4	41.1	34.0	49.2
P/BV (x)	5.6	4.9	4.3	3.8
Growth ratios (%)				
Loans		32.4%	37.6%	
AUM		39.8%	41.8%	
Disbursement		44.7%	51.7%	
Net Interest Income		33.1%	30.1%	
Interest Earned		36.1%	34.6%	
PAT		47.0%	20.9%	

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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