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INDIA SHELTER FINANCE CORPORATION LIMITED

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IPO Report

12th Dec'23

Snapshot

Company 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 company's business operations and throughout the loan life cycle. 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 II and Tier III cities in India, and affordable housing loans, i.e., loans with ticket size lower than ₹2.5 million as per the criteria set out in the Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 issued by the National Housing Bank.

VALUATION

Company is bringing the issue at price band of Rs 469-493 per share at p/b multiple of 2.4x on post issue book value basis. Company being one of the fastest growing assets under management among housing finance companies in India has high yields, and granular, retail focused portfolio. Company's extensive and diversified Phygital distribution network with significant presence in Tier II and Tier III cities . Company has diversified financing profile with a demonstrated track record of reducing financing costs and experienced management team supported by qualified and experienced personnel .
Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	**469-493**
Opening date of the issue	**13th Dec '2023**
Closing Date of the issue	**15th Dec'2023**
No of shares pre issue	91232314 Eq Shares
Issue Size	Rs 1200 Cr
Fresh issue	Rs 800 Cr
Offer For Sale	Rs 400 Cr
Face Value (Rs/ share)	Rs 5/share
Bid Lot	30
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 12170383 Eq Shares)
Non-Institutional	15% of the offer (Approx 3651116 Eq Shares)
Retail	35 % of the offer (Approx 8519269 Eq Shares)
Employee Reservation	18,75,420 Equity Shares
Lead managers	ICICI Securities, Citigroup Global, Kotak Mahindra Capital, Ambit Pvt Ltd
Registrar to the issue	KFin Technologies Ltd.

WHAT WE LIKE

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

Company achieved AUM with a growth of 40.8%, among housing finance companies in India, between Financial Years 2021 and 2023. These growth rates reflect the effectiveness of company's operational model and its ability to underwrite and serve the customers in the targeted segments in Tier II and Tier III cities in India.

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

With over 13 years of operations as a housing finance company, company's distribution network has grown to 203 branches across 15 states in India, as of September 30, 2023. Company have a significant presence in the states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka and Gujarat, which, as of March 31, 2023 account for 47% of the affordable housing finance market in India. As of September 30, 2023, company have a branch vintage ranging from five to eight years in 12 states in which company is present. Company have presence in states which cover 94% of the affordable housing finance market in India, as of March 31, 2023

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

Company focus 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 company to negotiate favourable borrowing costs. Company achieved an upgrade in its credit rating from 'CARE A- (stable)' as of March 31, 2018, to 'CARE A (stable)' as of March 31, 2021, and 'CARE A+ (positive)' as of September 30, 2023.

COMPANY BACKGROUND

Between Financial Year 2021 and Financial Year 2023, company witnessed a two year CAGR growth of 40.8% in terms of assets under management ("AUM")
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, company's Individual Promoter, acquired control of Company in 2009 and the name of Company was changed to "India Shelter Finance Corporation Limited", as approved by its Shareholders pursuant to a special resolution dated May 13, 2010.

Company have 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 company's branch vintage is five year and above, as of September 30, 2023. Company have presence in states which cover 94% of the affordable housing finance market in India, as of March 31, 2023 (Source: CRISIL Report). Company have increased the scale of its operations and grown its branches by adopting a strategy of deepening its penetration in regions with a substantial demand for affordable housing finance. Company's vintage in these states has facilitated a better understanding of the location-specific intricacies in affordable housing finance. This experience has empowered company with insights into local businesses and property by-laws, enabling company to make better underwriting decisions based on accurate assessments of cash flows and collateral.

Company leverage technology and analytics across its operations and throughout the customer life cycle. This includes onboarding, underwriting, asset quality monitoring, collections and customer services. Company have implemented a paperless approach to customer acquisition and onboarding, with tailored mobile solutions that cater to different stages of the lending process. Company's iSales application integrates, streamlines and optimizes its customer acquisition process whereas company's IndiaShelter iCredit application facilitates underwriting. Through company's integrated approach combining digital solutions with personal interaction, overall sales and productivity is enhanced while maintaining customer relationships. To ensure customer satisfaction, company have introduced IndiaShelter iServe application, its dedicated customer service solution designed to promptly address concerns and queries from its existing customers online.

Company have an integrated customer relationship management and loan management system set up on a cloud-based platform. This provides company with connectivity and access to real time information with a holistic view of the profile of all its customers, throughout the loan lifecycle. Company's information technology systems allow it to increase productivity and reduce turnaround times and transaction costs. During the six months ended September 30, 2023 and September 30, 2022, 92.4% and 92.2%, respectively, of company's collections were made through digital modes. Further, during the Financial Year 2023, 91.9% of company's collections were made through digital modes, as compared to 86.7% in the Financial Year 2021, reflecting company's commitment to leveraging technology for enhanced productivity and customer convenience.

Company have also adopted an end-to-end in-house approach to key aspects of its lending operations including customer acquisition, underwriting, collateral valuation, legal assessment, and collections. This allows company to directly connect with its customers, minimize turnaround times, increases customer retention, and mitigate the risk of fraudulent activities. Company's underwriting processes are customized to assess creditworthiness of the low and middle-income segment and consequently, company have developed data centric and iterative processes. Company have different and separate verticals to underwrite customer's creditworthiness, collateral legal verification, and collateral valuation. All these verticals work in parallel and are independent to each other. Company have also established a centralized team that serves as a credit control unit prior to disbursement. All properties are visited by qualified staff to evaluate the valuations of collaterals. This team is further augmented with company's tech infrastructure which helps company validate its assessment of collateral. Company have been able to maintain its average sanction loan to value ("LTV") on portfolio at 50.9% as of September 30, 2023. By conducting company's operations inhouse, company is able to maintain direct control over its processes, ensuring efficiency and reliability. Company's customercentric approach emphasizes personalized interactions and prompt decision-making. Company;s debt financing requirements have been historically met from diverse and long-term sources, including public and private sector banks, refinancing from the NHB, external commercial borrowings and the issuance of nonconvertible debentures. As of September 30, 2023, company obtained long-term funding from a diversified lender base comprising over 37 counterparties, including 24 scheduled commercial banks. Company have a healthy credit rating of ICRA A+ (stable) from ICRA Limited and CARE A+ (Positive) from CARE Limited, as of September 30, 2023.

INVESTMENT RATIONALE	
In-house Origination Model to Ensure Efficient and Seamless Operations across Various Key Functions	Company maintain a robust in-house infrastructure seeking to ensure seamless operations and independence across various key functions. During the six months ended September 30, 2023, 98.5% of disbursed loans were originated in-house. To strengthen company's customer connections and build trust, company have undertaken initiatives such as prioritizing localized hiring for its branches. This helps company leverage the understanding and relationship rapport that its local employees build with customers. Company's in-house origination model further enhances its operations by enabling company to conduct all aspects of its lending operations in-house, including sourcing, underwriting, valuation, collections and customer service, and reduce turnaround times and transaction costs.
Technology and Analytics-Driven Company with Scalable Operating Model	Company is a technology and analytics-driven affordable housing finance company and have built a scalable operating model that enables it to expand its operations and drive growth in revenue. Salesforce is a customer relationship management system, also used as company's loan origination system and is integrated with company's downstream and upstream applications, including mobile applications, company's in-house business rule engine and predictive dialer. Furthermore, as part of company's loan origination process, company capture, process and store data extensively on cloud-based platforms, thereby streamlining its data management processes and offering its customers a seamless onboarding experience aligning with its commitment to efficiency and customer-centricity. During the six months ended September 30, 2023 and September 30, 2022 and the Financial Years 2023, 2022 and 2021, company's information technology expenses aggregated to ₹51.10 million, ₹38.52 million, ₹74.20 million, ₹67.99 million and ₹48.24 million, respectively, accounting to 2.0%, 2.0%, 1.8%, 2.3% and 2.3% of its total expenses, respectively.
Robust Underwriting, Collection and Risk Management Systems	Company have robust underwriting, collections and risk management systems, each of which contribute to its growth as an affordable housing finance company while maintaining asset quality. Company's underwriting approach is focused on empowering women customers and recognizing their role as the driving force behind a household. This aligns with its mission of promoting financial inclusion. In addition to traditional appraisal and valuation factors, company also consider various other factors including the availability of basic amenities such as sanitation, water and draining facilities and the proximity to nearby schools, hospitals, playgrounds, and parks, each of which significantly enhance the liveability and marketability of the collateral to be financed.
Experienced Management Team Supported by Qualified and Experienced Personnel	Company have a professional and experienced management team led by its Board, which comprises of qualified Key Managerial Personnel and Senior Management personnel. Company's Chairman, Mr. Sudhin Bhagwandas Choksey, has experience in the banking sector, and its Managing Director and CEO, Mr. Rupinder Singh, has experience in the finance sector. Company have recruited and retained employees from a variety of backgrounds, including credit evaluation, risk management, recovery, treasury, technology, and marketing as part of company's Key Managerial Personnel and Senior Management. Company's Key Managerial Personnel and Senior Management have diverse experience in various financial services and functions related to company's business, and several of its Key Managerial Personnel and Senior Management personnel have previously worked together at other organisations. Company rely on the knowledge and experience of its Key Managerial Personnel and Senior Management for the growth of company's business and expansion into new geographies.

OBJECTS OF OFFER

Offer for Sale
Each of the Selling Shareholders will be entitled to their respective portion of the proceeds of the Offer for Sale in proportion to the Equity Shares respectively offered by them after deducting their proportion of Offer expenses and relevant taxes thereon
Fresh Issue
Company proposes to utilize the Net Proceeds towards the following: (i) to meet future capital requirements towards onward lending; and (ii) general corporate purposes.

RISKS

Three states contributed to 62.7% and 63.4% of company's assets under management for the six months ended September 30, 2023 and the Financial Year 2023, respectively. As such, any adverse developments in these states could have an adverse effect on company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Regulatory Authority on HFCs shifted from NHB to the RBI

The Union Budget 2019-20 announced the transfer of regulatory power on housing finance companies (HFCs) from National Housing Bank (NHB) to the Reserve Bank of India (RBI). This has resulted in streamlined regulations and implementation as well as better risk management framework for HFCs. The RBI Act will be amended to give the central bank powers to regulate HFCs. This move is expected to ensure there is greater parity in regulations for NBFCs and HFCs. PSL eligibility increased in Housing The RBI has increased (under the notification released in June 2018) eligibility for priority sector lending (PSL) in housing loans with a view to converge PSL guidelines with Pradhan Mantri Awas Yojana (PMAY). The eligibility has been increased from ₹2.8 million to ₹3.5 million for metropolitan centers and from ₹2 million to ₹2.5 million for other centers. The cost of dwelling unit has been capped at ₹4.5 million in metropolitan centers and at ₹3 million in other centers. The on-lending limits given to NBFC/HFCs from Banks was also raised from ₹1 million to ₹2 million. Under the eligibility criteria prescribed by the National Housing Bank under The Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 ("Refinance Scheme") read with paragraph 12.1(i) of the Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020 ("PSL Master Directions"), individual housing loans with a ticket size lower than ₹2.5million in nonmetropolitan areas are considered as affordable housing loans. Furthermore, paragraph12.1(i) of the PSL Master Directions sets out that loans up to ₹3.5 million to individuals in metropolitan centres (with population of one million and above); and up to ₹2.5 million to individuals in other centers, for the purchase or construction of a dwelling unit, per family, will be eligible for priority sector classification, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹4.5 million and ₹3.0 million, respectively. NHB's Refinance to aid borrowing cost for HFCs catering to Affordable housing While access to the debt markets allows large HFCs to mobilize resources at competitive rates, niche HFCs have benefited from the NHB's refinance schemes. The NHB runs various schemes under which it refinances banks and HFCs. This funding is available to affordable housing players at a very low rate but its comes with an with interest rate capping. It leads to improvement in borrowing cost but at the same time reduces the yield too, while keeping the spread at similar levels. Real Estate (Regulation and Development) Act The year 2017 stands out for policy initiatives in the real estate sector. One such initiative was the implementation of the Real Estate (Regulation and Development) Act (RERA), which had a direct impact on the supply-demand dynamics in the sector. The RERA is expected to improve transparency, timely delivery, and organised operations over time. The Act does not permit developers to launch new projects before registering them with the real estate authority. This is a major shift from the practices followed earlier by developers, wherein they managed to sell part of the project through soft/pre-launch activities. The RERA puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project. Besides, developers have to disclose project-related information, such as project plan, layout, government approvals, carpet area of units, construction status and delivery schedule. However, more than three years after it came into force the implementation of the RERA – which was aimed at

Consolidated Financials

(Rs in Mn)

Financials (Mn)	FY21	FY22	FY23	H1FY24
Total Income	3227.99	4598.06	6062.31	3985.76
Total Expenses	1899.48	2808.93	3902.11	2508.09
Pre Provision Profit	1328.51	1789.13	2160.20	1477.67
Provisions	198.94	120.12	140.68	94.10
PBT	1129.57	1669.01	2019.52	1383.57
Tax	255.68	384.54	466.10	310.03
PAT	873.89	1284.47	1553.42	1073.54
Eq Cap	429.78	437.07	437.65	450.23
Net Worth	9,372.69	10,761.27	12,405.28	13,749.66
EPS	10.19	14.80	17.75	12.13
Book value	109.04	123.11	141.38	152.70
NIM %	10.2	11.0	10.6	11.5
CAR%	71.5	55.9	52.7	48.7
ROE%	9.80	12.80	13.40	8.20
ROA%	4.1	4.5	4.1	4.7
Credit cost	0.9	0.4	0.4	0.4

(Source: RHP)

Peer Comparison

Company Name	Face value	EPS	NAV	P/E	P/B	RONW %
India Shelter Finance Corporation Limited#	***5***	***17.754***	***141.38***	***[.]***	***[.]***	***13.4***
Peers						
Aptus Value Housing Finance India Limited	2	10.11	67.05	29.9	4.5	16.1
Aavas Financiers Limited	10	54.38	413.58	27.4	3.6	14.1
Home First Finance Company India Limited	2	26.01	206.48	27.7	4.6	13.5

(Source: RHP)

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