

Retail Research	IPO Note
Sector: NBFC	Price Band (Rs): 469 - 493
11th 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 th December 23
Date of Closing	15 th 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 ^{^*}	-
Total Net Proceeds	-

[^]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
Total	9,08,23,956.0	100.0

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
Total	10,78,81,525	100.0

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
Total	10,70,51,137	100.0

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

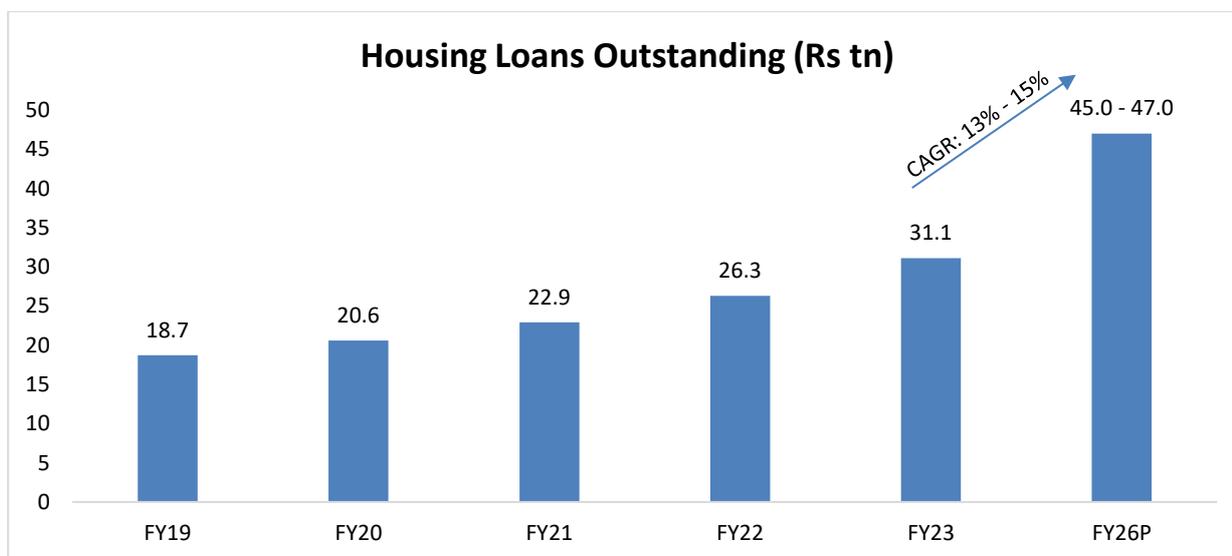
Particulars	FY21	FY22	FY23	1HFY23	1HFY24
GNPA (%)	1.9	2.1	1.1	2.8	1.0
NNPA (%)	1.4	1.6	0.9	2.2	0.7
PCR (%)	29.6	25.5	26.0	23.6	28.7

Source: RHP, SSL Research

Industry Overview

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

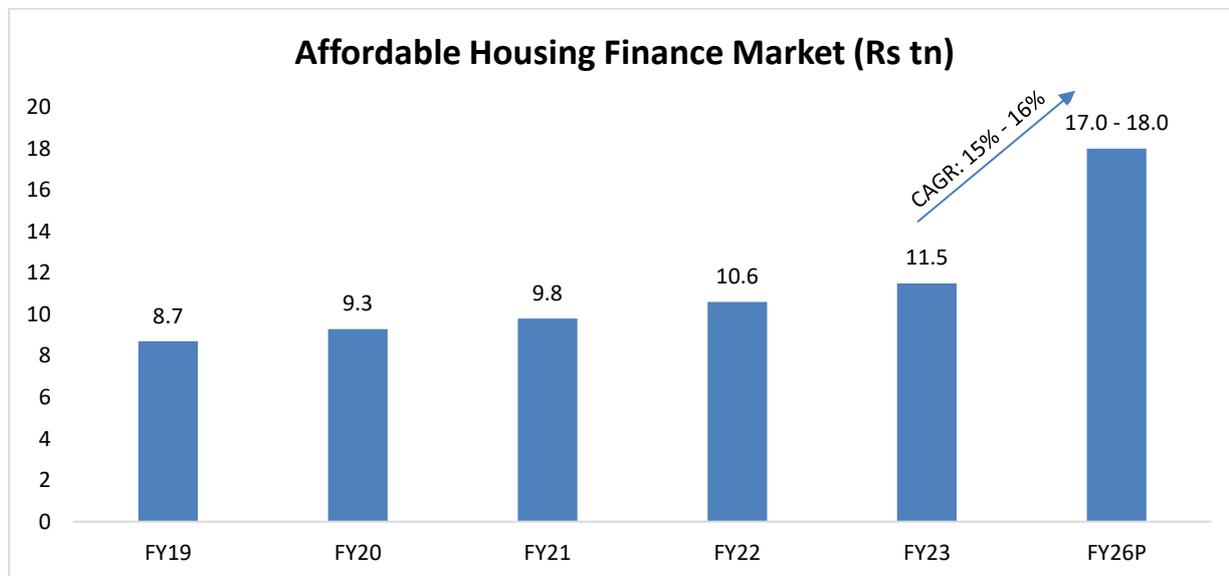
The Indian housing finance market clocked a healthy ~13.5% CAGR (growth in loan outstanding) over FY19 - FY23 on account of a rise in disposable incomes, healthy demand, and a greater number of players entering the segment. Housing Finance to log a CAGR of 13-15% in the long term between FY23 and FY26. 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
Net Interest Income	169.2	225.3	293.1	134.6	180.3
Other Income	48.1	86.1	103.2	42.0	78.4
Total Income	217.3	311.4	396.3	176.6	258.6
Operating Expenditures	84.6	132.5	180.3	86.4	111.0
Employee Exps.	62.0	101.3	134.6	64.1	84.4
Other Exps.	22.6	31.2	45.7	22.3	26.6
Operation Profit Before Provision	132.8	178.9	216.0	90.2	147.6
Provisions Excluding Tax	19.9	12.0	14.1	8.9	9.4
Operating Profit After Provision	112.9	166.9	201.9	81.3	138.2
Exceptional Items					
Profit Before Tax	112.9	166.9	201.9	81.3	138.2
Provision for Tax	25.6	38.5	46.6	19.2	31.0
Profit After Tax	87.3	128.4	155.3	62.1	107.2

BALANCE SHEET					
(Rs cr)	FY21	FY22	FY23	1HFY23	1HFY24
Particulars					
Shareholder's fund	937.3	1,076.1	1,240.5	1,142.0	1,375.0
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
Non-current liabilities	1,525.4	2,145.1	3,055.1	2,608.0	3,383.7
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
Total Equity and Liabilities	2,462.6	3,221.2	4,295.6	3,750.0	4,758.7
Assets					
Non-current assets					
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
Total assets	2,462.6	3,221.2	4,295.6	3,750.0	4,758.7

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			
CMP (Rs)	469.0	493.0	1,491.2	317.9	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

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