

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	8,113,590
Fresh Issue (Shares)	16,227,181
Net Offer to the Public	24,340,771
Issue Size (Rs. Cr.)	1141-1200
Price Band (Rs.)	469-493
Offer Date	13-Dec-23
Close Date	15-Dec-23
Face Value	5
Lot Size	30 Shares

Issue Composition

	In shares
Total Issue for Sale	24,340,771
QIB	12,170,386
NIB	3,651,116
Retail	8,519,270

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	56.93%	48.30%
QIB	43.07%	40.33%
NIB	0.00%	3.41%
Retail	0.00%	7.96%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The company intends to utilize the net proceeds from the issue towards the funding of the following objects:

To meet future capital requirements towards onward lending, and

General corporate purposes.

Book Running Lead Manager

- Citygroup Global Markets India Private Limited
- Kotak Mahindra Capital Company Limited
- ICICI Securities Limited
- Ambit Private Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Incorporated in 1998, India Shelter Finance Corporation Limited is engaged in the business of housing finance. The company provides loans for house construction, extension, renovation, and purchase of new homes or plots. The company also offers loans against property (LAP). The company offers loan amounts between Rs. 5 Lakhs to Rs. 50 Lakhs for a tenure of up to 20 years. As of 30th Nov 2023, IndiaShelter has disbursed over Rs. 5500 Crores in loans, helping families own, extend, or improve their homes. The company has a network of 183 branches spread across 15 states with a presence in Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, and Gujarat. The company's number of branches increased from 115 as of March 31, 2021, to 130 as of March 31, 2022, and 183 as of March 31, 2023. India Shelter Finance Corporation Limited has an in-house team of over 300 collection officers, as of March 31, 2023. To enhance customer satisfaction, India Shelter has launched iServe - a dedicated customer service application catering to queries and concerns of existing customers online on time. As of March 31, 2023, of the company borrowers, 97.5% had one or more borrowers as women and 71.3% of its customers were first-time home loan takers.

Strength

One of the Fastest Growing Assets under Management among Housing Finance Companies in India, High Yields, and Granular, Retail Focused Portfolio: The company remained focused on providing loans with self-occupied residential property as collateral, and its lending portfolio showcases its commitment to serve retail customers. As of September 30, 2023, 100% of its loans catered to the retail segment. As of September 30, 2023, September 30, 2022, March 31, 2023, March 31, 2022 and March 31, 2021, loans to self-employed customers aggregated to Rs.3658.22 Crore , Rs.2487 crore, Rs.3036.29 crore , Rs.2078.31 crore and Rs.1411.23 crore , respectively, representing, 70.6%, 68.8%, 69.6%, 67.6% and 64.2% of AUM, respectively. The company has demonstrated a two-year CAGR growth of 40.8% in terms of assets under management (AUM) between Financial Year 2021 and Financial Year 2023. This indicates a robust and growing financial position.

Extensive and Diversified Phygital Distribution Network with Significant Presence in Tier II and Tier III cities: As of September 30, 2023, India Shelter Finance Corporation has a branch vintage ranging from five to eight years in 12 states in which it is present. It has presence in states which cover 94% of the affordable housing finance market in India, as of March 31, 2023. It has implemented a strategy of penetrative expansion across India by targeting areas with high economic growth and substantial demand for affordable housing finance, and a focused approach to serving low- and middle income groups in Tier II and Tier III cities in India. As of September 30, 2023, 89.8% of its portfolio is concentrated in Tier II and Tier III cities.

In-house Origination Model to Ensure Efficient and Seamless Operations across Various Key Functions: It maintains 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 its customer connections and build trust, it has undertaken initiatives such as prioritizing localized hiring for its branches. This helps it leverage the understanding and relationship rapport that its local employees build with customers. Its in-house origination model further enhances its operations by enabling it 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. The implementation of its in-

house origination model has provided pricing power for its loans, allowing it to offer competitive loan terms to its customers while maintaining healthy profit margins.

Technology and Analytics-Driven Company with Scalable Operating Model: India Shelter Finance Corporation is a technology and analytics-driven affordable housing finance company and has 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 its loan origination system and is integrated with its downstream and upstream applications, including mobile applications, its in-house business rule engine and predictive dialer. Furthermore, as part of its loan origination process, it captures, process and store data extensively on cloud-based platforms, thereby streamlining data management processes and offering customers a seamless onboarding experience aligning with 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, its information technology expenses aggregated to Rs.5.11 Crore, Rs.3.85 Crore, Rs.7.42 Crore, Rs.6.80 crore and Rs.4.82 crore, 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: India Shelter Finance Corporation has robust underwriting, collections and risk management systems, each of which contributes to its growth as an affordable housing finance company while maintaining asset quality. Its 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, it also considers 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 live ability and marketability of the collateral to be financed. It is focused on underwriting, collection and risk management initiatives. It registered the second highest reduction in GNPA in Financial Year 2023 to 1.13% as of March 31, 2023 from 2.12% as of March 31, 2022.

Diversified Financing Profile with a Demonstrated Track Record of Reducing Financing Costs: The Company maintains a diversified financing profile, driven by a disciplined approach to asset liability and liquidity management. One of the key aspects of its financing profile is its diversified mix of credit. It focuses 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 it to negotiate favorable borrowing costs. It 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. It has demonstrated the ability to improve its borrowing costs, even in environments characterized by rising interest rates. Its average cost of borrowings and average incremental cost of borrowings for the six months ended September 30, 2023 and September 30, 2022 was 8.9% and 8.3% , and 8.4% and 7.6%, respectively. Its average borrowing costs reduced to 8.3% as of March 31, 2023 from 8.7% as of March 31, 2021, and its average incremental cost of borrowings for March 31, 2023 was 7.9%, as compared to 8.0% for the Financial Year 2021.

Strategy

Further Grow and Diversify Distribution Network to Achieve Deeper Penetration in Key States and Drive Sustainable Growth: It intends to penetrate further in its existing markets along with the growing size and scale of the Indian housing industry by the expansion of its branches. It aims to leverage its market presence across Tier II and Tier III cities of India to capitalize on opportunities to grow its operations and improve its market share. As it expands its operations, it is committed to maintaining a balanced distribution of its incremental disbursements across all regions where it has a presence, to achieve sustainable growth while maintaining a geographically diversified portfolio. By targeting first-time home loan takers and leveraging its experience and domain knowledge in serving the affordable housing customers, it aims to enhance its market reach and establish itself as a trusted partner for borrowers in the lower- and middle-income segment across the country. To support its expansion plans, it aims to continue to invest in building branch networks, recruiting local talent, and

providing training and development opportunities to its employees.

Leverage Technology Stack to Achieve Scalability, Improving Efficiency and Productivity of Existing Branches:

It seeks to leverage technology to enhance its lead sourcing and customer fulfillment process. India Shelter Finance Corporation’s cloud-based IT infrastructure plays a pivotal role in facilitating real-time updates and delivering improved customer experiences, thereby further driving efficiency and improving productivity and actively contributing to delivering business growth. It aims to leverage its technological expertise by introducing a customer-centric self-onboarding journey to streamline and expedite the overall loan application experience for customers. Furthermore, it aims to carry out the entire authentication, verification and know-your-customer (“KYC”) process digitally, thereby improving the ease of doing business and enabling underwriting at scale.

Diversify Borrowing Profile and Optimize Borrowing Costs:

The company remains focused on diversifying its borrowing profile, optimizing borrowing costs, and maintaining a positive ALM position. By adopting risk management measures, continuing to make investments in technology, and entering into co-lending agreements, it aims to enhance its credit rating, and secure stable funding sources to support its continued growth and expansion. Its average cost of borrowings and average incremental cost of borrowings for the six months ended September 30, 2023 and September 30, 2022 was 8.9% and 8.3% , and 8.4% and 7.6%, respectively. Its average borrowing costs reduced to 8.3% as of March 31, 2023 from 8.7% as of March 31, 2021, and its average incremental cost of borrowings for March 31, 2023 was 7.9%, as compared to 8.0% for the Financial Year 2021, primarily due to its improved financial performance and credit rating.

Enhance Brand Equity and Foster Sustainability:

It recognizes the importance of enhancing its brand equity and fostering sustainability in its operations. It aims to build long-term relationships with its customers, while also fulfilling its responsibilities to society, the environment, and its stakeholders. It is committed to continue to build its brand for its customers and its employees. It considers engaged and motivated employees to be key brand ambassadors. By fostering a positive work culture and providing professional development opportunities, it aims to ensure that its employees are aligned with its brand values and commitment to customer experiences.

Risk factor

- The business heavily relies on substantial capital, and any disruption in financing sources may adversely impact operations, results, and financial condition.
- Failure to comply with financial and other covenants in debt financing arrangements could negatively affect business, results, and financial condition.
- The presence of stage 3 assets totaling Rs. 43.92 crore and Rs. 88.10 crore as of September 30, 2023, indicates potential credit quality deterioration. Ineffective monitoring and collection methods may adversely impact operations.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Aptus Value Hou.	1262.52	551.15	11.05	29.89	4.65	70.95	2.00	330.25	16476.97
AAVAS Financiers	1827.11	465.44	58.82	25.82	3.42	444.00	10.00	1518.55	12017.26
Home First Finan	974.63	266.20	30.13	33.85	4.63	220.34	2.00	1019.75	9009.70
India Shelter Finance Corporation Limited**	705.87	200.68	18.75	26.30	2.43	203.17	5.00	493.00	5277.62

*Peer companies financials are TTM based
 **India Shelter are based on TTM

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.493, the stock is priced at pre issue P/E of 22.31x on TTM EPS of Rs.22.10. Post issue, the stock is priced at a P/E of 26.30x on its EPS of Rs.18.75.. Looking at the P/B ratio at Rs.493, pre issue, book value of Rs. 151.39 of P/Bvx 3.26x. Post issue, book value of Rs. 203.17 of P/Bvx 2.43x.

Considering the P/E valuation, on the lower end of the price band of Rs.469, the stock is priced at pre issue P/E of 21.23x on TTM EPS of Rs.22.10. Post issue, the stock is priced at a P/E of 25.02x on its EPS of Rs.18.75. Looking at the P/B ratio at Rs.469, pre issue, book value of Rs. 151.39 of P/Bvx 3.10x. Post issue, book value of Rs. 203.17 of P/Bvx 2.31x.

Industry Outlook

The housing finance sector of India comprises public sector banks, private sector banks, housing finance companies, non-banking financial companies and other players. The overall size of the affordable housing finance market in India in terms of loan outstanding was around Rs.11.5 trillion as of March 2023, constituting around 37% of the overall housing finance market. The Indian housing finance market recorded a CAGR of approximately 13.5% (growth in loan outstanding) over the financial years 2019-2023 on account of a rise in disposable income, healthy demand, and a greater number of players entering the segment.

Outlook

ISFCL is specializing in affordable housing in Tier-2, Tier-3 and rural regions. It has created a niche place in affordable housing finance in middle and lower middle class and has extended its reach in 15 states with 203 branches. The company has marked steady growth in its top and bottom lines for the reported periods. However, the business heavily relies on substantial capital, and any disruption in financing sources may adversely impact operations, results, and financial condition. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	13-December-23
BID/ISSUE CLOSES ON	15-December-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	18-December-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	19-December-23
Credit of Equity Shares to demat accounts of Allottees	19-December-23
Commencement of trading of the Equity Shares on the Stock Exchanges	20-December-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest income	320.01	502.95	373.62
Interest expenses	139.75	209.87	148.34
Net Interest Income	180.26	293.08	225.28
Other Operating Income	65.99	81.58	74.36
Operating Profit	246.24	374.66	299.64
Other Income	12.59	21.70	11.83
Total Net Income	258.83	396.36	311.47
Other Expenses	116.13	186.21	138.03
PBDT	142.69	210.15	173.44
Depreciation	4.34	8.20	6.54
PBT	138.36	201.95	166.90
Tax	31.00	46.61	38.45
PAT	107.35	155.34	128.45

Note -

Provision coverage ratio	Average cost of Borrowings	Total Debt to Total Assets	Gross NPAs (%)	Capital Adequacy Ratio	Net NPAs (%)
2021 - 29.61%	2021 - 8.70%	2021 - 0.61	2021 - 1.92%	2021 - 70.80%	2021 - 1.37%
2022 - 25.47%	2022 - 8.30%	2022 - 0.64	2022 - 1.63%	2022 - 55.40%	2022 - 1.60%
2023 - 25.99%	2023 - 8.30%	2023 - 0.70	2023 - 1.06%	2023 - 51.90%	2023 - 0.83%

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	24.92	23.84	16.57
Other Intangible Assets	0.37	0.48	0.47
other non-financial assets	14.02	8.16	7.75
Assets held for sale	9.71	6.45	3.37
Deferred Tax Assets (Net)	4.28	3.04	2.95
Total non-current assets	53.28	41.97	31.11
Financial Assets			
Cash and Cash Equivalents	7.94	360.94	143.80
Bank Balances other than cash and cash equivalents as above	202.19	146.33	186.49
Derivative Financial Instruments	0.00	0.06	0.00
Loans	4266.07	3609.14	2622.53
Other Financial Assets	129.60	90.21	61.98
Investments	99.60	46.93	175.32
Total current assets	4705.40	4253.62	3190.11
Total Assets	4758.68	4295.59	3221.22
Non-current liabilities			
Derivative Financial Instruments	3.06	0.00	0.00
Total O/s dues of creditors other than MSME	8.69	6.15	4.59
Borrowings	3169.35	2812.34	1883.41
Debt securities	119.13	176.53	186.60
Other Financial Liabilities	68.18	53.44	59.52
Total non-current liabilities	3368.40	3048.45	2134.12
Current liabilities			
Financial Liabilities			
Provisions	6.80	4.69	5.13
Current tax liabilities	4.13	0.69	4.32
Trades Payable - MSME	4.38	1.24	1.52
Total current liabilities	15.31	6.61	10.97
Total	3383.71	3055.06	2145.09
Net worth represented by:			
Equity Share Capital	45.02	43.77	43.71
Other equity	1329.94	1196.76	1032.42
Net Worth	1374.97	1240.53	1076.13

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.-4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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