

IPO Flash

December 12, 2023

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India Shelter Finance Corporation

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IPO Details:

Issue opens	Wednesday, December 13, 2023
Issue closes	Friday, December 15, 2023
Issue size	Rs. 1,200 crore
Type of issue	Fresh issue and Offer for Sale
Fresh Issue size	Fresh issue of Rs. 800 crore
Face value	Rs. 5 per share
Price band	Rs. 469 – 493 per share
Bid lot	30 shares
QIB portion	Not more than 50% of the offer
Non-Institution portion	Not less than 15% of the offer
Retail portion	Not less than 35% of the offer

Source: Company RHP

About the IPO

India Shelter Finance Corporation (ISFC) is coming out with an initial public offer (IPO) comprising fresh issue of Rs. 800 crore and an offer for sale (OFS) of Rs. 400 crore. Total issue size is stood at Rs. 1,200 crore. **The price band is set at Rs. 469-493 per share.** At the higher price band of Rs. 493, the IPO comprises 1.62 crore shares as fresh issue.

Shareholding pattern

Shareholder	Pre-issue		Post-issue	
	No of shares	Holding (%)	No of shares	Holding (%)
Promoter & Promoter Group	51,701,854	56.9	51,701,854	48.3
Public	39,122,102	43.1	55,349,282	51.7
Total		100.0		100.0

Source: Company RHP

Major Shareholders

Major shareholders	% of Pre-IPO of share capital	Total no. of Shares
Aravali Investment Holdings	31.2	28,422,818
WestBridge Crossover Fund	23.8	21,708,302
Nexus Ventures III Ltd.	21.8	19,923,596
Nexus Opportunity Fund II	6.4	5,820,074
Catalyst Trusteeship Ltd.	5.2	4,759,908
MIO Starrock	4.9	4,435,108
Anil Mehta	1.7	1,570,734
Madison India Opportunities IV	1.4	1,266,936
Rupinder Singh	1.1	988,000
Total	98.48	442,613,292

Source: Company RHP

Objects of the issue

Objects	Rs. Crore
Augmenting Tier – 1 capital base	640
General corporate purposes	160
Fresh issue size	800

Source: Company RHP

About the company

India Shelter Finance Corporation (ISFC) is a retail-focused affordable housing company with an extensive distribution network across the country. The company's target segment is the self-employed customers with a focus on first-time home loan borrowers in the low-and-middle income group in Tier II and Tier III cities in India. With a network of 203 branches, the company has a presence in 15 states with significant business penetration in the states of Rajasthan, Maharashtra, Madhya Pradesh, Karnataka and Gujarat wherein branch vintage is five year and above as of September 2023. AUM stood at Rs. 5,181 crore as of Sep30' 2023 which grew at a CAGR of 40.8% over FY21-23. Among segments, home loans accounted for 58.2% and LAP 41.8% of the book. The company reported that 94% of customers are the first-time customers as of September 30, 2023. The company remained focused on providing loans with a self-occupied residential property as collateral. As of September 30, 2023, loans to self-employed customers stood at Rs. 3,658 crore, which accounted for 71% of AUM. PAT rose to Rs. 155 crore in FY23 from Rs. 87 crore in FY21. On return ratio front, ROE/RoA improved to 13.4%/4.1% in FY23 from 8.8%/0.95% in FY21.

Brief profile of directors & top management

- ♦ **Sudhin Bhagwandas Choksey (Chairman and Non-Executive Nominee Director):** Prior to joining the organisation, he was associated with Gruh Finance as MD and Bandhan Bank as executive director.
- ♦ **Rupinder Singh (MD & CEO):** He was previously associated with Cholamandalam Investment and Finance Company Limited as senior vice-president and business head, HDFC Bank Limited as senior vice-president and GE Money Financial Services Limited as regional sales manager.
- ♦ **Anup Kumar Gupta (Non-Executive Nominee Director):** He was previously associated with WNS Global Services as chief operating officer for WNS Group and with Booz Allen & Hamilton as a consultant. He has experience in business management.
- ♦ **Ashish Gupta (Chief Financial Officer):** He has been associated with company since August 13, 2019. He was previously associated with Satin Creditcare Network Limited as vice-president (finance), New Habitat Housing Finance and Development Limited as general manager (finance and accounts), HSBC-Electronic Data Processing India Private Limited as manager (finance operations), IFCI Factors Limited as senior associate vice-president, Price Waterhouse as assistant manager, Lodha & Co., Chartered Accountants, as senior executive, and O.P. Bagla & Co. Chartered Accountants as assistant.
- ♦ **Mukti Chaplot (Company Secretary and Chief Compliance Officer):** She has been associated with the company since April 1, 2013. In her current role, she is responsible for ensuring managerial, secretarial and regulatory compliances of company.
- ♦ **Sharad Pareek (Chief Risk Officer):** He has been associated with company since October 1, 2022. He was previously associated with Poonawalla Fincorp Limited as executive vice-president, HDB Financial Services Limited as policy head (consumer finance), Barclays' Bank PLC as regional credit manager (mortgage) and GE Money Financial Services Limited as manager.

Industry Overview

Housing is regarded as the engine of economic growth and can give a big push to the economy through its forward and backward linkages with more than 250 ancillary industries. Recognising the importance of housing as a basic human need, the government has announced multiple schemes to continue their focus on housing in the country. As per 2011 census, India has 331 million houses of which only 130 million houses were good habitable condition. Despite constant focus on the housing segment, housing in India is far from adequate. The shortage of housing in India has been a perpetual problem, deterring the economic growth of the country. The overall shortage of houses is much higher at 62.5 million due to changing social and demographic pattern in India such as nuclearisation of families and rapid growth of urbanisation.

Affordable housing loans is likely to be driven by following factors:-

- ♦ **Opportunity for financiers well-established in Affordable Housing segment:** As per the RBI report, the total value of units to fulfil the entire shortage is estimated at Rs. 149 trillion, out of which Rs. 58 trillion is estimated to be the aggregate loan demand for housing.
- ♦ **India's mortgage penetration is lower:** India has very low penetration in terms of housing finance as compared to its rising peers which shows the higher potential for Indian housing finance companies to expand. The housing finance market continues to face supply constraints from Banks and NBFCs, particularly for lower income group as they are perceived as risky due to informal sector.
- ♦ **Rise in per capita income to drive mortgage penetration growth in India:** India has gone through a similar trajectory like China with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 which is correlated to the increase in per capita income of the country from \$3,500 in 2008 to USD 6,200 in 2017.
- ♦ **Mortgage-to-GDP ratio in India to grow to 14-15% by Financial Year 2025:** In FY23, India's mortgage-to-GDP ratio stood at 12.3%. Though low compared with other developing countries, it has significantly improved from 6.5% in FY09. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearization of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth from FY23, credit rating agency CRISIL projects the mortgage-to-GDP ratio at 14-15% by FY25.

Key Strengths

- ♦ **Among fastest-growing HFCs; high yields and granular, retail-focused portfolio:** The company primarily finance the purchase and self-construction of residential properties by first-time home loan takers through home loans and also offer loans against property. The company maintain a focus on serving low and middle-income, salaried and self-employed individuals, catering to their financial needs. As of September 30, 2023, 70.7% of customers were first-time home loan takers and home loans account for 57.6% of AUM compared to loans against property (LAP) which represented 42.4% of our AUM. Average loan-to-value ratio for home loans and loan against property is at 55.1% and 45.3%, respectively as of September 30, 2023. The company AUM grew at a CAGR of 40.8% during FY21 to FY23.
- ♦ **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, the company distribution network has grown to 203 branches across 15 states in India. It has 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, 89.8% of portfolio is concentrated in Tier II and Tier III cities and has a branch vintage ranging from five to eight years in 12 states.
- ♦ **In-house origination model to ensure efficient and seamless operations across various key functions:** In the first six months of FY24, 98.5% of disbursed loans were originated in-house. To strengthen customer connections and build trust, the company has undertaken initiatives such as prioritizing localized hiring for branches which helps it to leverage the understanding and relationship rapport that local employees build with customers. As per the company, its in-house origination model enhances operations by enabling to conduct all aspects of 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:** As per the company, ISFC is a technology and analytics-driven affordable housing finance company and have built a scalable operating model that enables it to expand operations and drive growth in revenue. As a part of loan origination process, the company capture, 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.
- ♦ **Robust Underwriting, Collection and Risk Management Systems:** The company has developed and refined underwriting practices to primarily serve the lower- and middle-income self-employed segment in Tier II and Tier III cities in India. As per the management, underwriting process focuses on evaluating the four essential

aspects known as the "4 Cs": Customer Profile, Cash Flow assessment, Collateral Evaluation, and Controls. These criteria enable it to assess the creditworthiness and risk profile of borrowers. As of September 30' 2023, GNPA/NNPA reduced to 1.0%/0.72% compared to 1.92%/1.37% in FY21.

Risks & Concerns

- ♦ About 70% of AUMs contributed by self-employed and thus any impact of their business from economic uncertainties can impact the portfolio quality
- ♦ Increasing competition in the affordable housing market can impact the business growth
- ♦ Three states namely Rajasthan, Maharashtra and Madhya Pradesh contributed 63% of AUM which represents geographical risk to the business
- ♦ Indian housing finance industry is extensively regulated and any changes in laws and regulations could have an adverse effect on business

Key Financial Highlights

- ♦ Net Interest Income (NII) grew at a CAGR of 31% over FY21-23 to Rs. 293 crore
- ♦ Operating profit (PPOP) rose by 27% CAGR over FY21-23 to Rs. 215 crore
- ♦ Cost-to-income (C/I) stood at 46% in FY23; provisioning remained contained at ~0.4% of loans
- ♦ The company reported 33% CAGR in PAT over FY21-23 to Rs. 155 crore
- ♦ As of September 30, 2023, AUM stood at Rs. 5,181 crore which grew at a CAGR of 40.8% over FY21-23.
- ♦ Return ratio remained stable with RoA/RoE at 4.1%/13.4% in FY23.
- ♦ Assets quality remained at healthy level with GNPA/NNPA at 1.00%/0.72% as of September 30' 2023.

Valuation and view

At the higher price band of Rs. 493, IPO is valued at P/BV 2.4x Sep' 2023 BVPS (post-issue) which is at discount to peers. The company is in a higher growth phase, with AUM growing at 41% CAGR over FY21-23. It has posted strong growth in profitability (CAGR 31% over FY21-23), while asset quality remained stable. Given the strong industry tailwinds and a boost to capital position with a fresh capital addition of Rs. 800 crore, the company is well-placed to leverage these growth opportunities.

Peers Valuation (based on FY23 financials)

Name of Company	AUM	Trailing P/BV x	AUM CAGR FY21-23	NIM	RoA	RoE	GNPA	NNPA
India Shelter Homes	5,181	2.4	41%	10.6%	4.1%	13.4%	1.13%	0.85%
Aptus Value Housing	7,604	4.9	29%	13.3%	7.8%	16.1%	1.15%	0.87%
Aavas Financiers	15,319	3.7	22%	8.4%	3.5%	14.1%	0.92%	0.68%
Home First Finance	8,365	5.1	32%	8.3%	3.9%	13.5%	1.61%	1.07%

* - AUM as of September 2023, NIM - Net income/Avg. Assets
Source: Company RHP, Sharekhan Research

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Profit & Loss Statement

Rs crore

Particulars	FY21	FY22	FY23	Q2FY24
INCOME				
Interest Income	275	374	503	320
Interest Expenses	105	148	210	139.7
Net Interest Income	170	226	293	180
Other Income	48	86	103	79
Total Net Income	218	312	396	259
Operating Expenses	85	133	181	111
Operating Profits	133	179	215	148
Provisions and Contingencies	20	12	14	9.4
PBT	113	167	201	138
Tax	26	39	46	31
PAT	87	128	155	107

Source: Company RHP

Balance Sheet

Rs crore

Particulars	FY21	FY22	FY23	Q2FY24
Assets				
Cash & Bank Balance	413	330	507	210
Investments		175	47	100
Advances	1,981	2,622	3,609	4,266
Fixed Assets	15	17	24	25
Other Assets	54	77	109	158
Total Assets	2,463	3,221	4,296	4,759
Liabilities				
Equity Capital	43	44	44	45
Reserves and Surplus	894	1,032	1,197	1,330
R&S	937	1,076	1,241	1,375
Borrowings	1,491	2,070	2,989	3,288
Other Liabilities and Provisions	35	76	67	96
Total Equity & Liabilities	2,463	3,221	4,296	4,759

Source: Company RHP

Key Parameters

Rs crore

Particulars	FY21	FY22	FY23	Q2FY24
AUM	2,198	3,073	4,359	5,181
AUM Gr. (%)	44.7	39.8	41.8	43.3
Disbursements	895	1,295	1,964	1,220
YoA (%)	14.4	14.9	14.6	14.7
CoB (%)	8.7	8.3	8.3	8.9
GNPA ratio (%)	1.92	2.12	1.13	1.00
NNPA Ratio (%)	1.37	1.6	0.85	0.72
Net Income/AA (%)	10.2	11.0	10.6	11.5
ROA (%)	4.1	4.5	4.1	4.7
ROE (%)	9.8	12.8	13.4	16.4
CAR (%)	71.5	55.9	52.7	48.7

Source: Company RHP

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