

IndiaShelter

— 14th December, 2023 —

India Shelter Finance Corporation Ltd. (ISFCL) is a prominent player in the affordable housing finance sector in India, specializing in Tier-2, Tier-3, and rural regions. As of September 30, 2023, the company had established an extensive distribution network with 203 branches, making it well-positioned to serve its target market effectively. ISFCL focuses on providing financial assistance to self-employed individuals, particularly first-time home loan takers in the low and middle-income group, primarily in Tier II and Tier III cities. Their primary product offering includes affordable housing loans with ticket sizes lower than Rs. 0.25 crore, catering to the criteria set by the National Housing Bank and the Reserve Bank of India.

The company follows an end-to-end in-house approach to lending operations, encompassing customer acquisition, underwriting, collateral valuation, legal assessment, and collections. This approach not only enhances customer engagement and retention but also mitigates the risk of fraudulent activities.

ISFCL boasts a strong financial foundation with debt financing historically secured from diverse sources, including public and private sector banks, NHB refinancing, external commercial borrowings, and nonconvertible debentures. Additionally, the company holds a robust credit rating of ICRA A+ (stable) and CARE A+ (Positive) as of September 30, 2023, reflecting its financial stability.

One remarkable aspect of ISFCL's lending portfolio is its commitment to women empowerment, with nearly 98% of loans having one or more female borrowers. This approach has resulted in better financial decision-making within households and a consistent yield of over 14% on the loan portfolio during the last three financial years.

Offer Objective and Issue: India Shelter Finance Corporation Ltd. (ISFCL) is gearing up to make its debut in the stock market by launching an initial public offering (IPO) using a book-building route. The IPO is valued at approximately Rs. 1200 crore, comprising two components: fresh equity shares worth Rs. 800 crore and an Offer for Sale (OFS) valued at Rs. 400 crore. In terms of share price, the IPO has a price band ranging from Rs. 469 to Rs. 493 per share, with each share having a face value of Rs. 5. For potential investors, the minimum application size for this IPO is set at 30 shares.

The allocation of funds from the fresh equity share issue is strategically planned, with Rs. 640 crore earmarked for future capital requirements, specifically to facilitate onward lending activities. The remaining portion of the net proceeds will be dedicated to general corporate purposes. It's worth noting that this IPO constitutes 22.74% of the post-IPO paid-up equity capital of ISFCL.

To ensure the successful launch and management of this IPO, ISFCL has enlisted the expertise of four reputable joint Book Running Lead Managers (BRLMs): ICICI Securities Ltd., Citigroup Global Markets India Pvt. Ltd., Kotak Mahindra Capital Company Ltd., and Ambit Pvt. Ltd. Additionally, KFin Technologies Ltd. has been appointed as the registrar of the issue.

ISFCL's IPO signifies a crucial step to garner public capital for expansion in affordable housing finance. Investors, both institutional and retail, have the opportunity to partake in the company's growth, closely monitored by the financial community.

Issue Details	
Listing	BSE and NSE
Open Date	13 Dec, 2023
Close Date	15 Dec, 2023
Price Band	₹ 469 - ₹ 493/Sh
Face Value	₹ 5/Sh
Market Lot	30 Shares
Minimum Lot	1 Lot

Issue Structure	
Fresh Issue	1,62,27,181 Shares
Issue Size (Amount)	₹ 1,200 Cr
Issue Size (Shares)	24,34,0,771 shares
QIB (%)	20%
Non-Institutional (%)	15%
Retail Share (%)	35%
Pre-Issue Share (Nos.)	9,08,23,956
Post-Issue Share (Nos.)	10,70,51,137
Post-Issue M Cap (Rs.)	₹ 5,277.62Cr

Issue Size	
Fresh Issue	₹ 800 Cr
Offer for Sale	₹ 400 Cr

Retail Application Money at higher cutoff price per lot	
No. of Shares per Lot	30
Application Money per Lot	₹ 14,790

Shareholding	Pre (%)	Post (%)
Promoters	56.75%	48.17%
Public	43.25%	51.83%

Investment Rationale

The company prides itself on being a retail-focused affordable housing finance company with a robust distribution network and a scalable technology infrastructure. Its impressive track record, backed by reputable sources like the CRISIL Report, showcases a remarkable two-year CAGR of 40.8% in Assets Under Management (AUM) between Financial Year 2021 and 2023.

The Target Market: The company's primary focus centers on self-employed customers, specifically first-time home loan applicants within the low and middle-income segments in Tier II and Tier III cities across India. This strategic approach not only addresses an underserved market but also allows the company to achieve attractive yields on advances, aligning with its commitment to affordable housing solutions.

Impressive Financial Performance: In the Financial Year 2023, the company's yield to advances reached an impressive 14.9%, making it the second-highest in India for that period, according to the CRISIL Report. This highlights the company's capability to provide compelling returns to its investors while maintaining a strong credit quality portfolio. The company's unwavering commitment to robust credit and risk management policies, supported by cutting-edge technology and data analytics, ensures its asset quality remains solid, as evidenced by a Gross Non-Performing Asset (GNPA) ratio of just 1.13% as of March 31, 2023.

Extensive Branch Network: The company has strategically positioned itself with 183 branches spread across 15 states, with a notable presence in states like Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, and Gujarat. Its branches, with a vintage of five years and above in these regions, provide the company with an intimate understanding of local nuances in affordable housing finance, enabling it to make highly accurate underwriting decisions based on precise assessments of cash flows and collateral.

Cutting-Edge Technology: Technology is at the core of the company's operations, enhancing the entire customer lifecycle, from onboarding and underwriting to collections and customer service. The company has implemented a seamless paperless approach to customer acquisition and onboarding, complemented by tailor-made mobile solutions that drive sales and productivity while fostering strong customer relationships.

Customer-Centric Approach: The company's integrated customer relationship management and loan management system, hosted on a cloud-based platform, offer real-time insights into all customer profiles throughout the loan lifecycle. This empowers the company to increase productivity, reduce turnaround times, and transaction costs. Furthermore, its unwavering focus on customer satisfaction is exemplified through its IndiaShelter iServe application, designed to promptly address customer concerns and queries online.

In-House Expertise: The company has adopted a comprehensive in-house approach to key aspects of its lending operations, including customer acquisition, underwriting, collateral valuation, legal assessment, and collections. This approach grants the company direct control over processes, ensuring efficiency, reliability, and personalized interactions with valued customers.

Diverse Funding Sources: The company's financing needs are consistently met from a diverse and long-term lender base, encompassing both public and private sector banks, NHB refinancing, external commercial borrowings, and non-convertible debenture issuances. As of March 31, 2023, the company maintains strong credit ratings from ICRA and CARE Limited, reinforcing its financial stability and resilience in various market conditions.

Effective Cost Management: Remarkably, despite the RBI increasing the repo rate, the company has effectively reduced its average cost of borrowings from 8.7% as of March 31, 2021, to 8.3% as of March 31, 2023. Its unwavering commitment to disciplined asset liability management (ALM) ensures a positive ALM across tenors, underscoring its proactive approach to managing costs and risks.

Experienced Leadership: The company is led by Mr. Rupinder Singh, its Managing Director and Chief Executive Officer, who brings extensive experience in the mortgage financing sector. Supported by corporate promoters and shareholders such as WestBridge Crossover Fund, LLC, and Aravali Investment Holdings, the company gains access to invaluable guidance and expertise, enhancing its market credibility and reinforcing its position as a reliable investment choice in the affordable housing finance sector.

Industry Overview

Macroeconomic Scenario: India is poised to remain one of the fastest-growing economies globally, displaying resilience amid various challenges. Factors such as COVID-19, geopolitical conflicts, climate change, and central bank actions have impacted the global economy. However, India has shown strong local consumption, limited reliance on global demand, and continued macroeconomic resilience. This positions India as the fastest-growing economy, with a projected GDP growth of 6.0% in Financial Year 2024, according to CRISIL MI&A. Despite this positive outlook, there are potential risks, including sluggish exports and the lagged impact of rate hikes on the economy.

Credit Penetration in India: India has lower credit penetration compared to other developing countries, indicating untapped potential. Credit to GDP ratio and credit to households as a proportion of GDP in India are lower than in many other markets. Notably, rural India presents a significant opportunity for growth, with only 8% of overall banking credit directed toward rural areas, despite accounting for 47% of GDP. The government's focus on financial inclusion, rising financial awareness, increased smartphone and internet penetration, and the use of alternative data for underwriting are expected to drive credit services in rural areas.

Retail Credit Market: The retail credit market in India is expected to grow at a healthy pace and remain profitable. Factors such as rising GDP, changing consumer attitudes toward debt, urbanization, data availability from credit bureaus, and technological advancements will fuel this growth. Retail loans, particularly in the housing segment, are expected to be a significant driver of credit growth in Financial Year 2024.

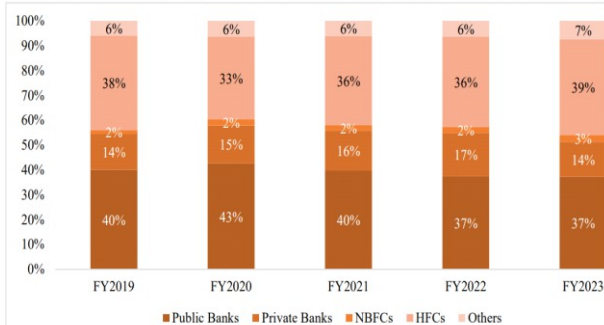
Housing Scenario in India: Housing is considered a key driver of economic growth in India, with significant potential for economic development. However, despite various government schemes and initiatives, there is a substantial shortage of housing in the country. The shortage is estimated to be around 100 million units by 2022, with a potential housing loan demand of ₹50 to ₹60 trillion. This shortage presents a substantial opportunity for financiers specializing in affordable housing.

Mortgage Penetration and Housing Finance: India's mortgage penetration is lower compared to other economies, indicating significant room for growth. Factors such as rising per capita income and urbanization are expected to drive mortgage penetration in India. The mortgage-to-GDP ratio in India is projected to grow to 14-15% by Financial Year 2025.

Affordable Housing Finance Market: The affordable housing finance market, catering to low-income segments, constitutes around 37% of the overall housing finance market. Housing Finance Companies (HFCs) have gained market share in this segment, primarily due to their focus on last-mile service, strong customer engagement, and understanding of the low-income customer segment. HFCs hold a 39% market share in terms of disbursement in the housing finance market.

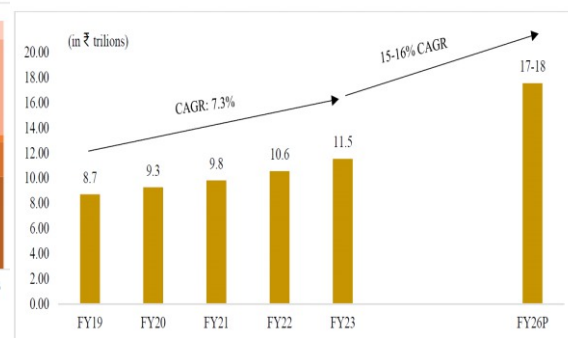
Industry Outlook for India Shelter Finance Corporation: India Shelter Finance Corporation, operating in the affordable housing finance sector, is well-positioned to capitalize on the growing demand for housing finance, especially in the low-income segment. The company can leverage the untapped potential in rural and semi-urban areas, where credit penetration remains low. Additionally, its focus on customer service, non-salaried customer profiles, and presence in smaller cities align with the market dynamics favoring HFCs.

Lender wise share in affordable housing finance market (in term of disbursements)



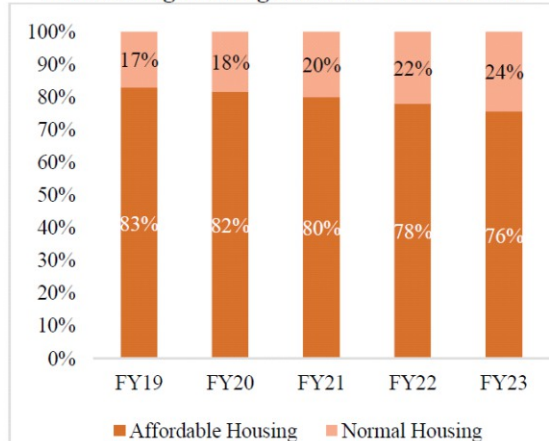
Note: Others include foreign banks and other small players. Source: CRIF Highmark, CRISIL MI&A

Affordable Housing finance market to grow at 15-16% between Financial Years 2023 and 2026



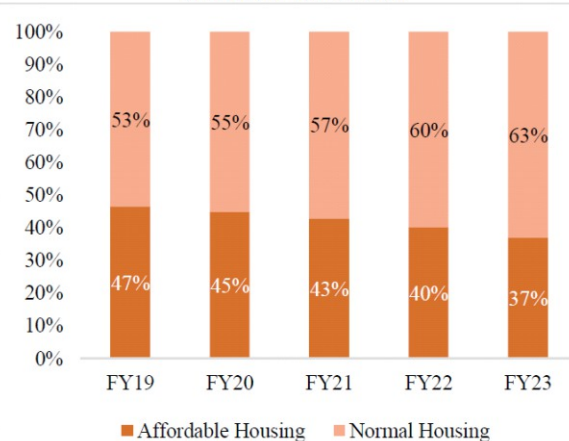
Note: P: Projected; Source: CRIF Highmark, CRISIL MI&A

Affordable housing comprises major share in outstanding housing loans in volume terms

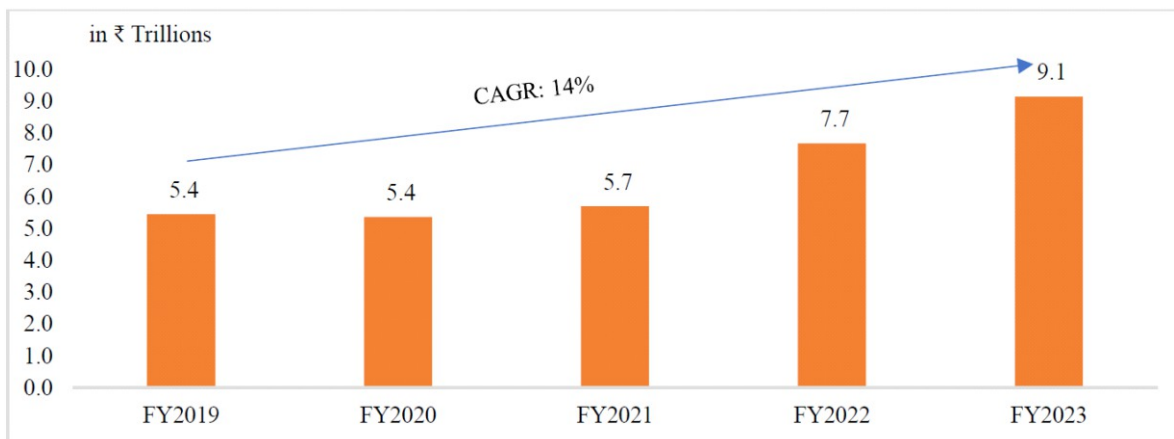


Source: CRIF Highmark, CRISIL MI&A

Leading to 37% share in credit outstanding in Financial Year 2023



Housing loans disbursements increased by ~14% CAGR between Financial Year 2019 & 2023



Note: Sanctioned amount has been taken for gauging disbursement trend for all the Financial Years (excludes PMAY); Source: CRIF Highmark, CRISIL MI&A

A SWOT analysis of the company, based on the provided data, can be summarized as follows:

Strengths

Fastest Growing AUM: The company has experienced rapid growth in Assets under Management (AUM) among Housing Finance Companies in India, reflecting its ability to attract and manage assets effectively.

High Yields: The company maintains a high yield on its portfolio, consistently exceeding 14%, which demonstrates its ability to generate attractive returns for investors.

Granular, Retail Focused Portfolio: The company's portfolio is primarily focused on retail customers, which can provide stability and diversified income sources.

First-Time Home Loan Focus: A significant portion of the customer base consists of first-time home loan takers (71.3% as of March 31, 2023), indicating a strong presence in this crucial market segment.

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Weaknesses

Concentration in Residential Property: The company's lending portfolio heavily relies on residential properties as collateral, which could expose it to risks associated with the real estate market's fluctuations.

Income Levels of Customers: A large proportion of customers have a monthly income of up to ₹50,000, which may pose challenges in terms of creditworthiness and repayment capacity.

High Loan-to-Value Ratio: The loan-to-value ratios for home loans (55.3%) and loans against property (44.9%) are relatively high, potentially increasing the risk in case of default.

Dependence on Women Borrowers: While lending to women is commendable, a high dependency (97.5% of loans) on women borrowers may pose concentration risk if the demographics change.

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Opportunities

Rising Urbanization: The expected increase in urbanization in India presents an opportunity for higher demand in housing and related amenities, aligning with the company's core business.

Growing Disposable Income: As disposable incomes rise, more individuals may become eligible for housing finance, expanding the potential customer base.

Favorable Demographics: India's demographic trends, including a young and growing population, bode well for long-term growth in the housing finance sector.

Government Measures: Supportive government initiatives can further boost mortgage penetration and housing finance activities.

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Threats

Real Estate Market Volatility: The real estate market's instability and fluctuations can impact the value of collateral and the company's asset quality.

Economic Downturn: Economic downturns and financial crises can lead to a rise in non-performing assets and credit risk.

Regulatory Changes: Changes in regulatory policies and compliance requirements can affect the company's operations and profitability.

Competition: Intense competition in the housing finance sector could exert pressure on margins and market share.

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Balance Sheet (Rs. In Millions)

Particulars	FY23	FY22	FY21
Financial Assets	5845.30	4479.78	3167.07
Cash and cash equivalents	217.01	118.28	60.92
Bank balance other than cash and cash equivalents	6062.31	4598.06	3227.99
Derivative Financial Instruments	4042.79	2929.05	2098.42
Loans	2019.52	1669.01	1129.57
Investments	466.10	384.54	255.68
Other Financial Assets	1553.42	1284.47	873.89
Non-Financial Assets	(6.23)	(6.89)	(2.13)
Current Tax Assets	1547.19	1277.58	871.76
Deferred Tax Assets	17.75	14.80	10.19
Property, Plant and Equipment	17.47	14.63	9.93
Other Assets	146.15	111.19	152.21
Intangible Assets	4.84	4.65	10.77
TOTAL ASSETS	42955.91	32212.21	24626.40
Financial Liabilities	30484.53	21341.21	15197.76
Non Financial Liabilities	66.10	109.73	55.95
Equity	12405.28	10761.27	9372.69
TOTAL LIABILITIES AND EQUITY	42955.91	32212.21	24626.40

Income Statement (Rs. In millions)

Particulars	FY23	FY22	FY21
Revenue from Operations	5845.30	4479.78	3167.07
Other income	217.01	118.28	60.92
Total Income	6062.31	4598.06	3227.99
Total Expenses	4042.79	2929.05	2098.42
Profit Before Tax	2019.52	1669.01	1129.57
Tax Expense	466.10	384.54	255.68
Net Profit	1553.42	1284.47	873.89
Total Other Comprehensive Income	(6.23)	(6.89)	(2.13)
Total Comprehensive Income	1547.19	1277.58	871.76
Earnings Per Share (Basic)	17.75	14.80	10.19
Earnings Per Share (Diluted)	17.47	14.63	9.93

Cash Flow Statement (Rs. In millions)

Particulars	FY23	FY22	FY21
Cash Flow from Operating Activities	(8521.82)	(4952.82)	(4208.51)
Cash Flow from Investing Activities	1624.96	(1857.78)	766.42
Cash Flow from Financing Activities	9068.28	5917.68	5599.63

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