

**Rating: SUBSCRIBE**

### Issue Offer

**Fresh Issue of 16,227,181 equity shares up to INR 8 bn and OFS of 8,113,590 up to INR 4 bn by Promoters group taking the total issue size at INR 12 bn**

#### Issue Summary

Price Band (INR)	469-493
Face Value (INR)	5
Implied Market Cap (INR Mn)	52,916.9
Market Lot	30
Issue Opens on	Dec, 13, 2023
Issue Close on	Dec, 15, 2023
No. of share pre-issue	90,823,956
No. of share post issue	107,051,137
Listing	NSE / BSE

#### Issue Break-up (%)

QIB Portion	≤50
NII (HNI) Portion	≥15
Retail Portion	≥35

#### Book Running Lead Managers

ICICI Securities Ltd., Ambit Private Limited
Citigroup Global Markets India Private Limited
Kotak Mahindra Capital Company Limited

#### Registrar

Kfin Technologies Limited

#### Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	56.75%	48.17%
Public & Others	43.25%	51.83%

#### Objects of the issue

- To meet future capital requirements towards onward lending
- General corporate purposes

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India Shelter Finance Corporation Limited is a housing finance firm that offers loans for house construction, extension, renovation, and the purchase of new homes or plots. The company also provides loans against property (LAP). India Shelter had disbursed over INR 55,000 Mn in loans as of November 30, 2023, assisting families to purchase, extend, or improve their houses. Established in year 1998 as Satyaprakash Housing Finance India Limited it has 203 branches spread across 15 states particularly in Rajasthan, Maharashtra, Madhya Pradesh, Karnataka, Gujarat and an AUM of INR 51,806.89 Mn as of 30th September 2023.

#### Investment Rationale

##### Fast-Growing Affordable Housing Finance Company

India Shelter Finance Corporation is among the fastest-growing affordable housing finance companies, with a CAGR of 40%, and has a 100% retail-focused portfolio and an average ticket size of INR 1 Mn. The company has established pan-India distribution network with over 200 branches, allowing it to capitalize on the demand for affordable housing in tier 2 and tier 3 cities. With a targeted focus on first-time home loan borrowers (which contributes 70% to the AUM mix), the low and middle-income groups (which contributes 75% to the AUM mix) and self-employed (which contributes 70% to the AUM mix), India Shelter is aligned with the significant opportunity in the affordable housing space in India.

##### Liabilities Franchise and Funding Lines

The company has 37 funding lines from various banks including NHB (National Housing Bank) which is the biggest funding line contributing nearly 19%. It secures low-cost funding with extended tenures, contributing to effective cost management even during challenging economic conditions.

##### Government Support

The favorable regulatory environment and government support, including long-term funding at cheaper cost of funds and beneficial risk weightage, position the company for sustained growth. Additionally, tax benefits further contribute to the support and development of the business.

##### In-house Sourcing

Company's sourcing through DSA is very low. During the FY23, sourcing from DSA amounts to only 2% whereas, the balance is done in-house. This shows that they have a strong customer network that will help them grow. Further, a low DSA sourcing indicates a lower commission expense as compared to its peers, which will help them to keep that cost to income ratio low.

##### Scalable Technology Infrastructure

India Shelter Finance has invested in scalable technology infrastructure, including the implementation of digital solutions. This enhances operational efficiency, improves customer experiences, and keeps the company at the forefront of technological innovation in the housing finance sector. The company has a strong underwriting collection and risk management system, which contributes to its growth as an affordable housing finance company while maintaining asset quality.

#### Outlook

The company's optimistic approach revolves around the expectation of a rating upgrade from BBB to A+ that will enable them to benefit from future rate cuts. The company will focus on improving productivity in existing states rather than immediate expansion into new states. The company is on track to meet the 60% home loan asset requirement by March 2024. Operating in a market with significant growth potential, as indicated by the rising mortgage-to-GDP ratio, the company is set for expansion. The anticipated 15-16% growth in the affordable housing segment further presents opportunities for future growth. We recommend a SUBSCRIBE rating.

### Key Highlights

- The company experienced a CAGR of 40.8% in AUM during the period spanning FY21 and FY23.
- AUM for H1FY24 stood at INR 5100 crore where 89% of AUM in Tier I and Tier II cities.
- In the FY23, yield on loan stood at 14.9%.
- They have presence in states which cover 94% of the affordable housing finance market in India, as of March 31, 2023.
- The GNPA level of 1% and around 0.7% of NNPA leads to stable asset quality. Stage 3 asset stood at 1% close to GNPA and stage 2 assets remains at 2%.
- The company's OPEX is high at present and is looking for better OPEX Strategy.
- As of and for the 6 months period ended Sep'30, RoA of 4.7 % and ROE at 16.4% and leverage stood at 3.5x.
- Chairman of the company is Mr. Sudhir Choksi, who is a well-known face in industry, specifically affordable housing.
- The company have implemented a paperless approach to customer acquisition and onboarding.
- It has well set up underwriting, collections and risk management system, each of which contributes to growth as an affordable housing finance company while maintaining asset quality with efficiencies in terms of collections are more than 99% and asset quality with 0.93% in terms of 90+DPD
- The company aims for a systematic strategy in managing assets and liabilities (ALM) , by prioritizing the increase of long-term liabilities.

### Risk Factors

- Three states contributed to 63.4% of the AUM for the Financial Year 2023, respectively. As such, any adverse developments in these states could have an adverse effect on the business.
- LAP contributes to less than 50% of the AUM. Hence, default by customers may adversely affect their business and asset quality.

### Source-Wise Disbursements

Particular	6 months ended Sep'30		For the Financial Year	
	% Share		% Share	
	FY23	FY22	FY23	FY22
Inhouse Sourcing	98%	97%	98%	97%
Direct Selling Agents	2%	3%	2%	3%
<b>Total</b>	100%	100%	100%	100%

### Financial Highlights

(INR Mn)	Net Sales	EBITDA	PAT	Net worth	EPS (INR)
<b>FY21</b>	3,227.9	2,234.0	873.9	9,327.7	10.19
<b>FY22</b>	4,598.1	3,217.8	1,2845	10,761.3	14.80
<b>FY23</b>	6,062.3	4,200.2	15,534	12,405.3	17.75

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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