BUY (Maintained)

CMP: **INR 651** Target Price: **INR 800** ▲ 23%

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12 June 2024

India | Equity Research | Company Update

India Shelter Finance Corporation

NBFCs

Expects 30-35% YoY growth in near term; co focusing on providing tech-enabled credit solutions to last mile

India Shelter's FY24 annual report emphasises on its target of sustaining 30-35% YoY growth in the near term with 'purpose, integrity and technology' - (i) purpose –commitment to serve underserved customers in tier 2-3 cities (90% of borrowers), (ii) integrity – transparency in serving customers and conducting business and (iii) technology – providing easy and secure access to company's products and services. Deepening of presence in existing 15 states (94% of the mortgage industry) by adding 30-40 branches every year and on-boarding to sanction TAT of ~4 days vs >5 days for peers would drive growth. Steady asset quality with credit cost at ~40bps in near term would keep RoA at >4% in FY24-26E. Maintain **BUY** with an unchanged TP of INR 800, valuing the stock at 3x on Sep'25E BVPS.

Penetrative expansion strategy with focus on underserved customer group

In line with its stated strategy of serving the underserved customers in semi-urban and rural markets, in the past three years it has opened >90 branches, specifically targeting economically weaker sections and lower-income groups (together constituting >70% of AUM) in tier 2-3 cities (90% of branches). Nearly 72% self-employed customers, ~70% first-time home buyers and 98% women applicants are testimony to its commitment towards driving growth in underserved market. With presence in 15 states, covering 94% of the total mortgage industry, the company plans to penetrate deeper into the existing states by adding 30-40 branches every year, envisaging a growth of 30-35% YoY in the medium term.

Tech integration is enhancing operational efficiency

Since inception, India Shelter has been at the forefront in providing frictionless end-to-end digital credit solution to its customers – adoption of Salesforce in 2013 and one of the lowest turnaround times of 4 days (onboarding to sanction) in the industry is a reflection of its unwavering focus on building tech-enabled business processes. 92% digital collections, 99% E-Nach mandates, 98% e-signing in FY24 speak for tech penetration level.

Key risks: Lower growth vs guidance of >30% in FY25/26, deterioration in portfolio quality.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	2,931	4,141	5,846	7,511
PAT (INR mn)	1,553	2,476	3,349	4,355
EPS (INR)	17.7	23.1	31.3	40.7
% Chg YoY	20.8	30.3	35.3	30.0
P/E (x)	36.7	28.1	20.8	16.0
P/BV (x)	4.6	3.0	2.6	2.3
Gross Stage - 3 (%)	1.2	1.0	1.3	1.3
RoA (%)	4.1	4.9	4.9	4.8
RoE (%)	13.4	14.0	13.6	15.3

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Market Data

Market Cap (INR)	70bn
Market Cap (USD)	833mn
Bloomberg Code	INDIASHL IN
Reuters Code	IDNI.BO
52-week Range (INR)	725 /519
Free Float (%)	25.0
ADTV-3M (mn) (USD)	0.9

Price Performance (%)	3m	6m	12m
Absolute	9.5	-	-
Relative to Sensex	5.7	-	-

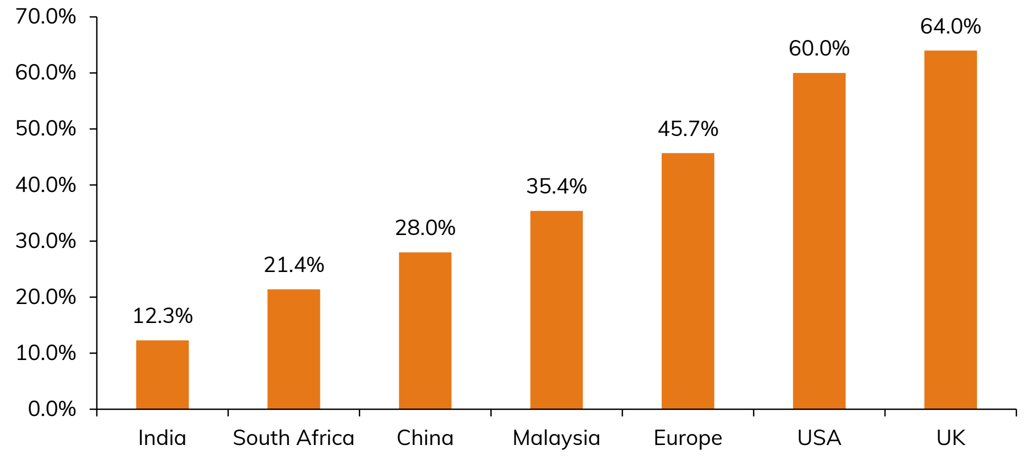
Previous Reports

02-06-2024: Initiating coverage

Encouraging sector outlook; affordable housing finance market to reach INR 18trn in FY26E

India has very low penetration in terms of housing finance as compared to other countries which shows higher potential for Indian housing finance companies to expand. Housing finance market continues to face supply constraints from banks and NBFCs, particularly for lower income group as they are perceived risky due to informal sector.

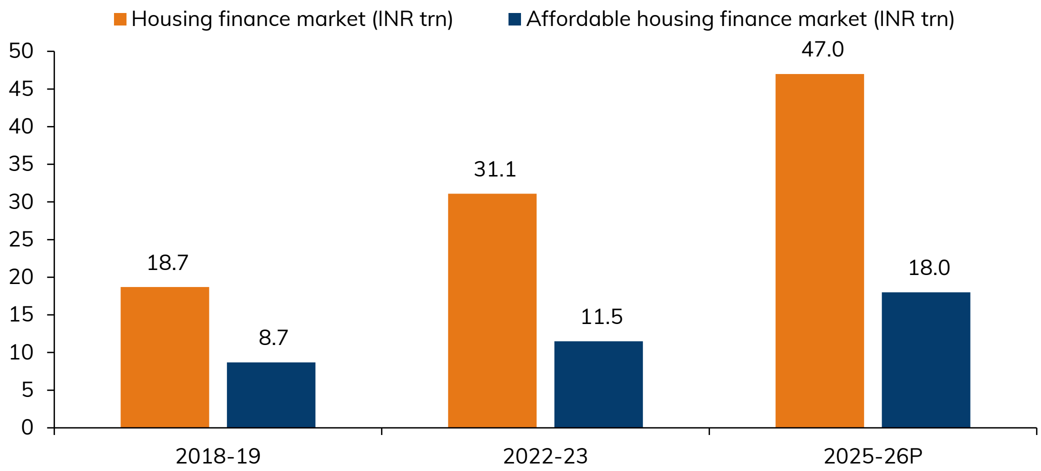
Exhibit 1: Mortgage-to-GDP ratio in India (FY23) compared with other countries (CY18)



Source: CRISIL Industry Report, Company data, I-Sec research

As per CRISIL Research, overall housing finance sector is likely to grow at 15% CAGR in FY23-26, to reach INR 47trn, of which affordable housing finance market (ticket size of less than INR 2.5mn) may reach INR 18trn in FY26 from INR 11trn in FY23, registering a CAGR of 16%.

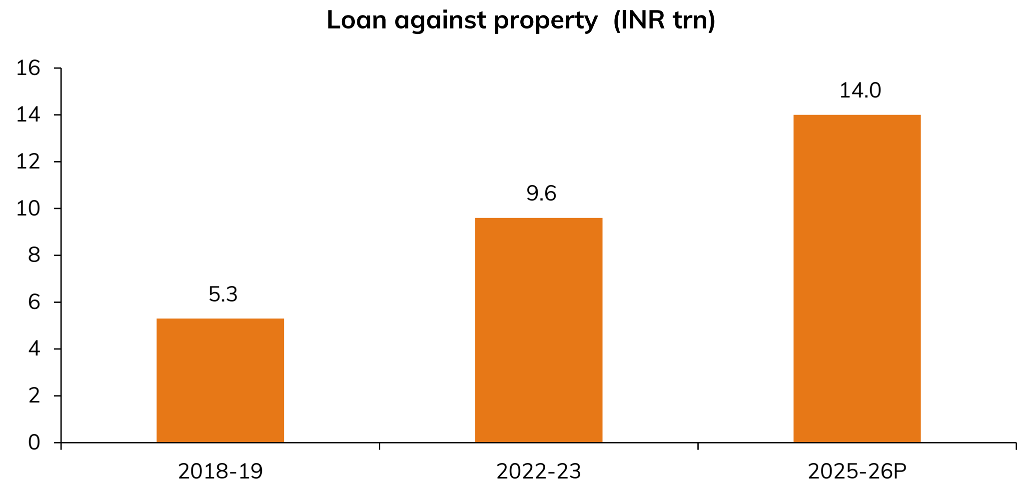
Exhibit 2: Affordable housing finance sector may reach INR 18trn in FY26



Source: CRISIL Industry Report, Company data, I-Sec research

While housing loans constituted 74% of overall AHFCs loan book as of Mar'23, the companies in the sector are gradually diversifying into non-housing segments (primarily LAP, MSME loans, small business loans, etc.). As of FY23, LAP portfolio stood at INR 9.6trn, which may further increase to INR 14trn in FY26.

Exhibit 3: LAP portfolio to reach INR 14trn by FY26



Source: Company data, I-Sec research

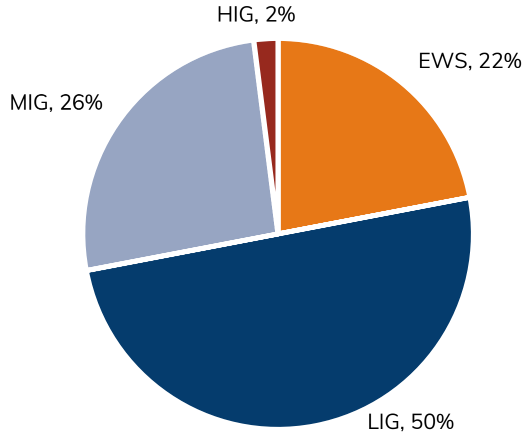
The growth in affordable housing finance, in the past, has been attributed to multiple factors such as rising income, improving affordability, growing urbanisation, emergence of tier 2- 3 cities, etc.

Notably, as per the report by RBI-appointed committee, India faced a housing shortage of 100mn units as of FY22. Of this, LIG and EWS account for 95% of shortage, with total demand for fulfilling the entire shortage estimated at INR 50-60trn. Therefore, affordable housing, which primarily caters to this segment, has a substantial growth potential going forward.

Targeting first-time home loan buyers in tier 2-3 cities

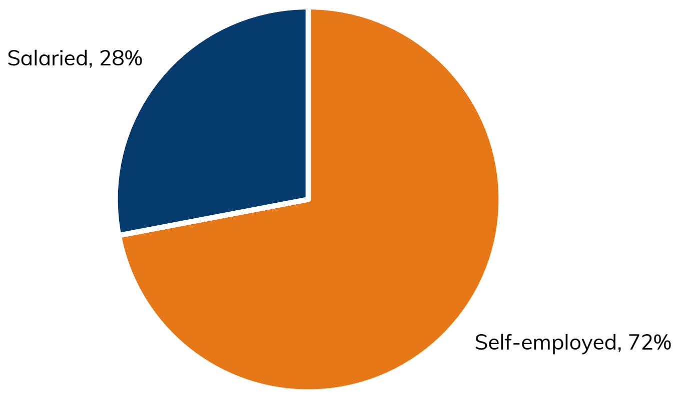
Driven by a purpose to serve underserved customer group, India Shelter primarily caters to self-employed individuals (72% of AUM as of Mar'24) with focus on first-time home loan takers (70% of borrowers) in low- and middle-income group segments (76% of borrowers) present across tier 2-3 cities (90% of borrowers).

Exhibit 4: >70% of AUM was towards EWS/LIG customer segment



Source: Company data, I-Sec research

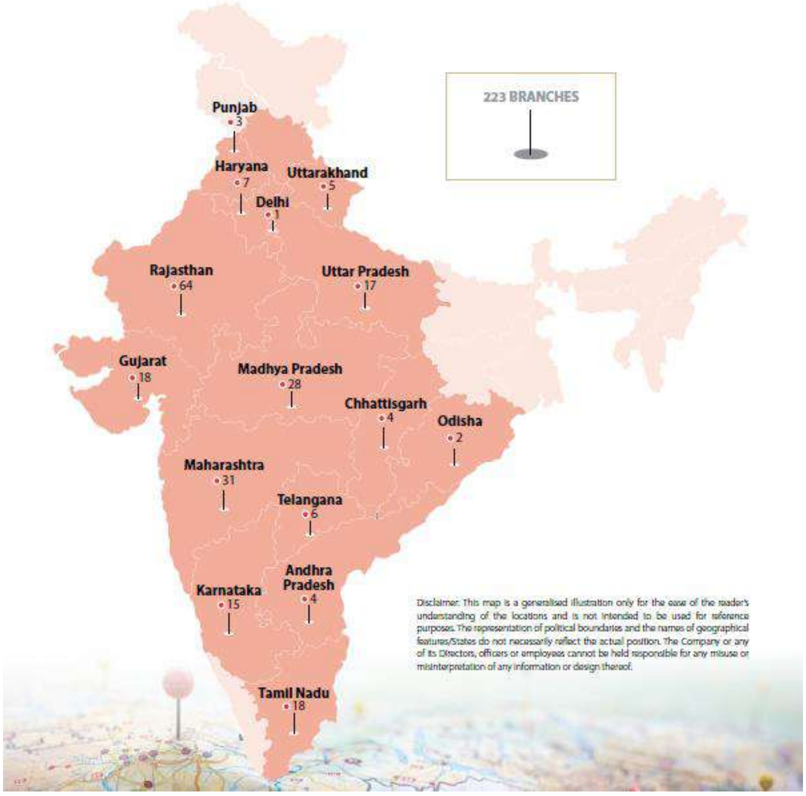
Exhibit 5: 72% of AUM was towards self-employed segment



Source: Company data, I-Sec research

The company, over the years, has scaled up its operations by expanding its branch network, especially in the regions with high demand for affordable housing. As of Mar'24, the company had 223 branches spread across 15 states/UTs. Notably, these 15 states constitute ~94% of overall mortgage market. Furthermore, within these 15 states, around 90% of the portfolio came from tier 2-3 cities, indicating its strategic focus to target the underserved population with high demand for housing loans.

Exhibit 6: State-wise branch presence



Source: Company data, I-Sec research

Tech-led operating model is ensuring improving efficiencies

India Shelter leverages technology in all facets of its operations, i.e., from onboarding to collections. The entire loan processing cycle runs on mobility solutions created for each and every part of the process. Some of the key notable aspects of company's tech infrastructure are as follows –

- Separate apps for customer acquisition (iSales), underwriting (iCredit), collateral valuation (iTech), collections (iCollect), and customer service (iServe), all of which are integrated with Salesforce. Notably, the company was one of the few entities to adopt Salesforce in 2013 itself when its AUM size was less than INR 1.0bn.
- Cloud-based solutions for customer relationship management and loan management; digital loan management done through FinnOne Neo.
- Microsoft D365 – for accounting and vendor management with Azure Active Directory ensuring centralised administration and authentication.
- Deployment of an Extended Detection and Response (XDR) solution for threat detection using artificial intelligence.

The company has spent an average of INR 70mn in the last four years on its IT systems and processes, which constitute around 4-5% of its opex.

Owing to the strong tech infrastructure, the company has been able to create a seamless customer journey and experience a TAT of just 4 days. Further, its digital initiatives also ensure better transparency and collections with 92% of overall collections being done via digital mode, 99% of e-NACH mandates and 98% of e-signing.

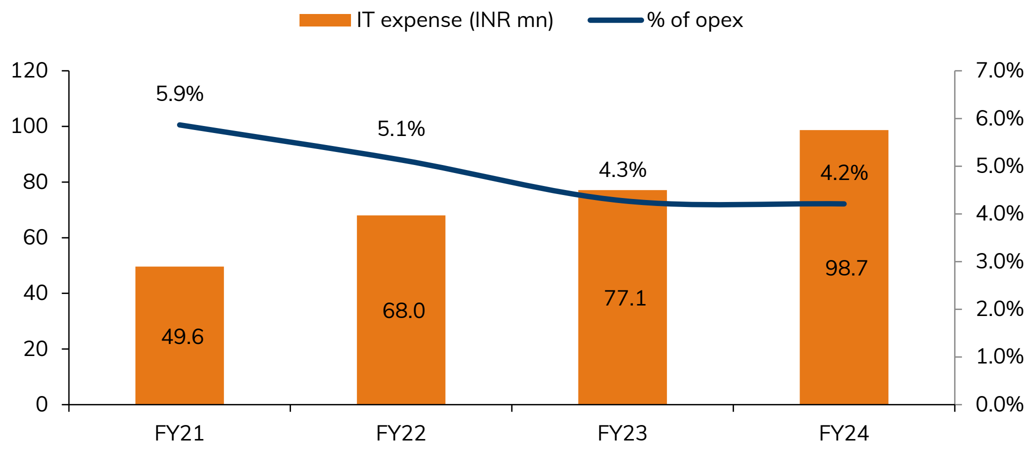
Exhibit 7: Mobile applications for streamlining the entire loan lifecycle

Source: Company data, I-Sec research

Exhibit 8: Strong tech architecture across processes

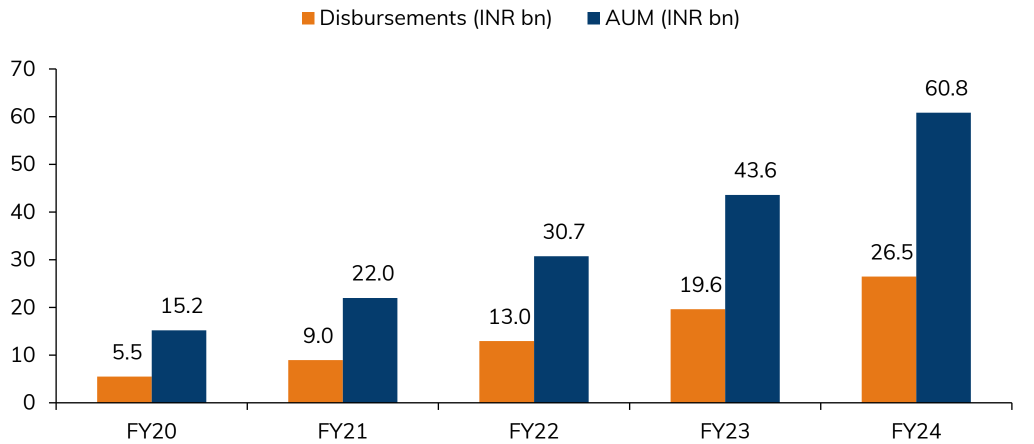
Source: Company data, I-Sec research

Exhibit 9: Average IT expense of INR 70mn in last 4 years, constituting 4-5% of overall opex



Source: Company data, I-Sec research

Exhibit 10: AUM crossed INR 60bn in FY24, growing at >40% CAGR in FY20-FY24

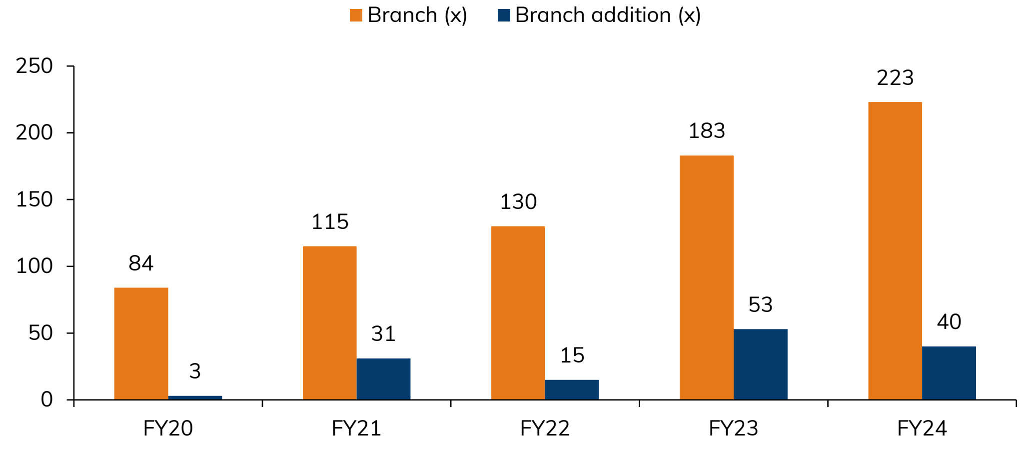


Source: Company data, I-Sec research

Tech-operating model driving lower turnarounds and streamlining operations has helped the company in higher portfolio scale-up, which has further helped in consistent improvement in productivity ratios, despite the franchisee build-up through branch expansion over the years.

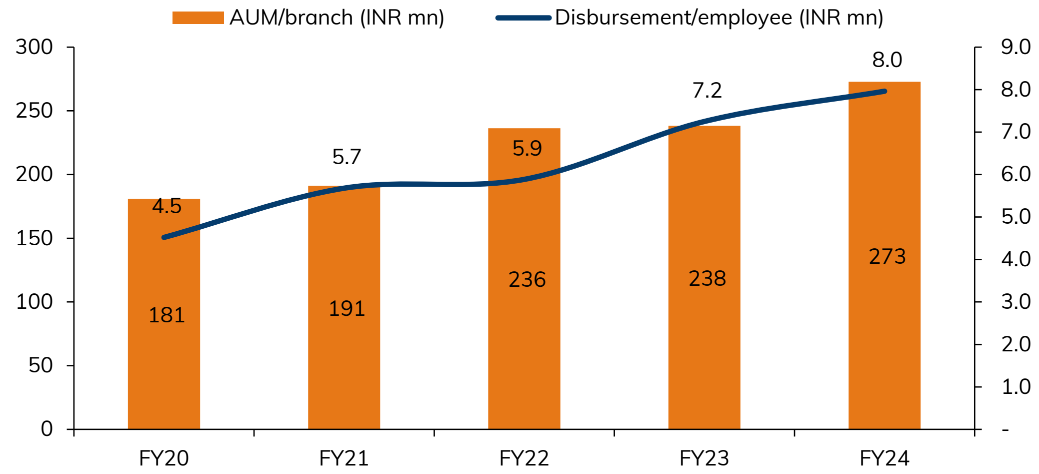
Of the total 223 branches, 139 branches were added in the last five years, despite that the productivity at branch level has seen consistent improvement with rapid portfolio scale-up. AUM/branch increased to INR 273mn in FY24 vs INR 181mn in FY20. Notably, almost 50% of branches had a vintage of less than 3 years, indicating further scope of improvement in operating leverage going forward.

Exhibit 11: Despite rapid branch expansion in last couple of years...



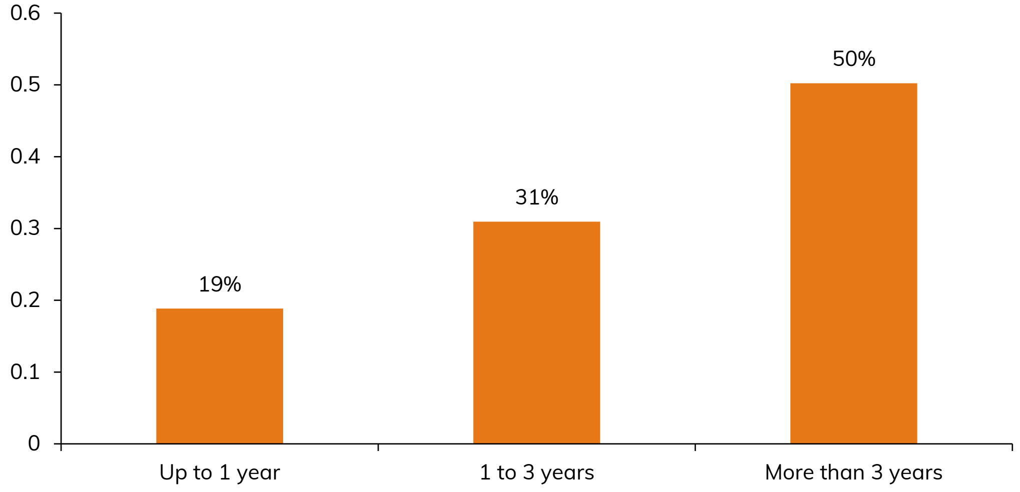
Source: Company data, I-Sec research

Exhibit 12: ...the company saw consistent improvement in productivity with higher growth



Source: Company data, I-Sec research

Exhibit 13: ~50% of branches have vintage of <3 years, indicating more scope for improvement in operating leverage



Source: Company data, I-Sec research

Strong underwriting processes with comfortable asset quality metrics

India Shelter, with 14 years of experience, has implemented a comprehensive and robust credit assessment and risk management framework to monitor and manage the risks. The company's underwriting process works on 4 C's – customer profile, cashflow assessment, collateral evaluation and credit controls, which has enabled it to access the credit worthiness of the customer in the right manner, while ensuring sustainability in growth.

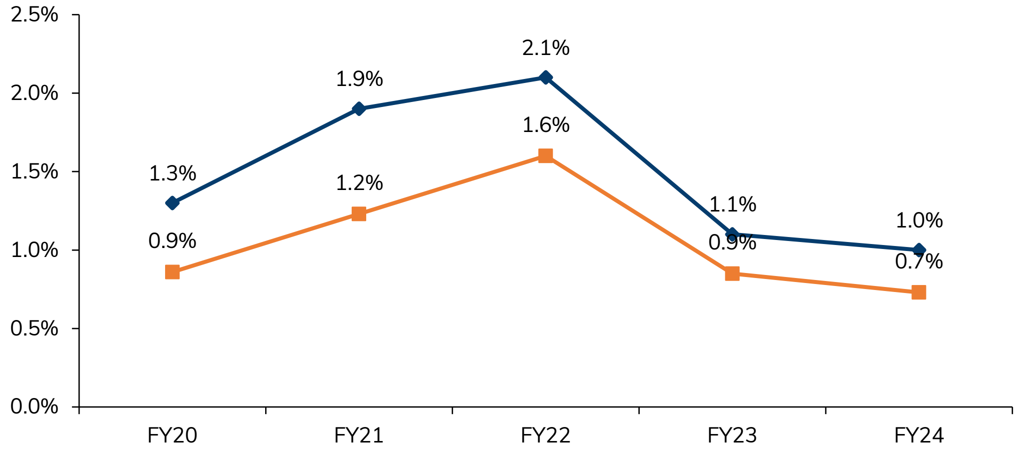
- **Customer profile –** The company evaluates the customer profile by taking into consideration various factors such as – business vintage & sustainability, past repayment behaviour across business cycles, referral feedback from borrowers within same industry, credit bureau reports, and other basis lifestyle indicators (standard of living).
- **Cashflow assessment –** This includes household and business visits to triangulate income, expenses and savings. In addition to this, the company leverages on its in-house technology for real-time KYC validation and API-based bank statement analysis (including account aggregator framework).
- **Collateral evaluation –** Proper identification and occupancy status of collateral, geotagging, radial tool for valuation and marketability of the collateral.
- **Credit control –** Usage of in-house BRE for conducting checks on customer which includes, digital presence, fraud detection, pending legal cases, and other adverse observations. The company also has a centralised risk containment unit for checking the documents provided by the customers and verifying cases submitted by the field credit team, thereby, ensuring the application of maker-checker across processes.

In addition to 4Cs, the company has a separate legal evaluation team which checks the legal authenticity of the collateral documents and ensures that all properties are executable under the SARFAESI Act.

Over and above the robust processes, the company's risk management is further complemented by higher granularity through low ticket size, LTV and FOIR of INR 1mn, 51% and 46%, respectively. This is coupled with high share of self-occupied residential property at 98%, which ensures high moral obligation on the customer's end to pay the loan on time.

Stringent risk management and strong collection efficiency levels at 99.5% as of Mar'24 contributed to comfortable asset quality metrics with gross NPAs at 1% as of Mar'24.

Exhibit 14: Gross NPAs at 1% in FY24



Source: Company data, I-Sec research

Exhibit 15: Asset quality supported by improving slippages and reductions

Movement of NPA (INR mn)	FY20	FY21	FY22	FY23	FY24
Opening GNPA	159	196	362	570	419
Additions	146	278	412	274	416
Reductions	109	112	203	425	334
Closing GNPA	196	362	570	419	501
Slippages %	**1.2%**	**1.8%**	**1.9%**	**0.9%**	**1.0%**
Reductions as a % of opening GNPA	**69%**	**57%**	**56%**	**75%**	**80%**

Source: Company data, I-Sec research

Strong capitalisation metrics and comfortable liability profile

Post IPO fresh issue of INR 8.0bn (in Q3FY24), India Shelter's capitalisation metrics saw strong improvement as the net worth of the company increased to INR 22.9bn in FY24 vs INR 12.4bn in FY23, with tier 1 capital improving to 70.05% in FY24 vs 51.93% in FY23.

Exhibit 16: CRAR improved to 70% post IPO issue

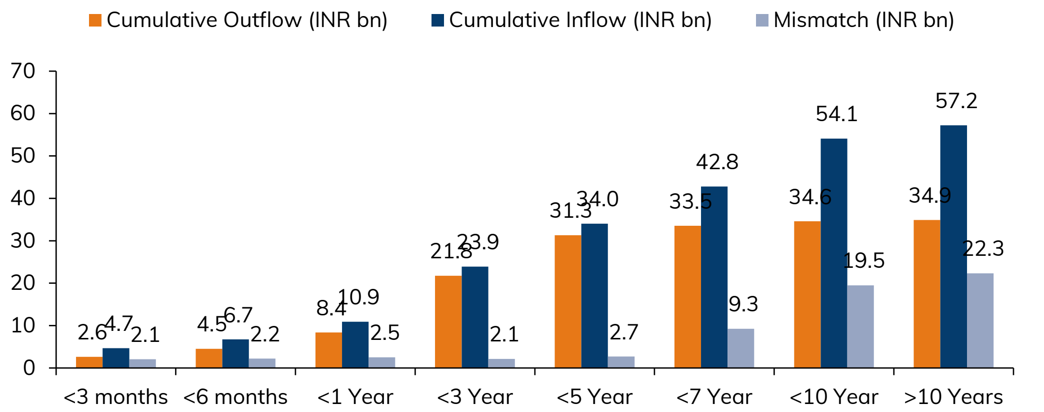
	FY21	FY22	FY23	FY24
CRAR %	71.5%	55.9%	52.7%	70.9%
CRAR-Tier I capital %	70.8%	55.4%	51.9%	70.1%
CRAR-Tier II capital %	0.7%	0.5%	0.7%	0.8%

Source: Company data, I-Sec research

Additionally, the company's liquidity profile also remained strong led by effective asset-liability management. As of Mar 31, '24, the company had INR 4.5bn of liquid assets and INR 7.6bn of undrawn sanctions in hand. Its liquidity coverage stood at 140% against minimum regulatory liquidity coverage requirement of 60%.

Its robust ALM profile is also evident from the positive cumulative mismatches across the buckets.

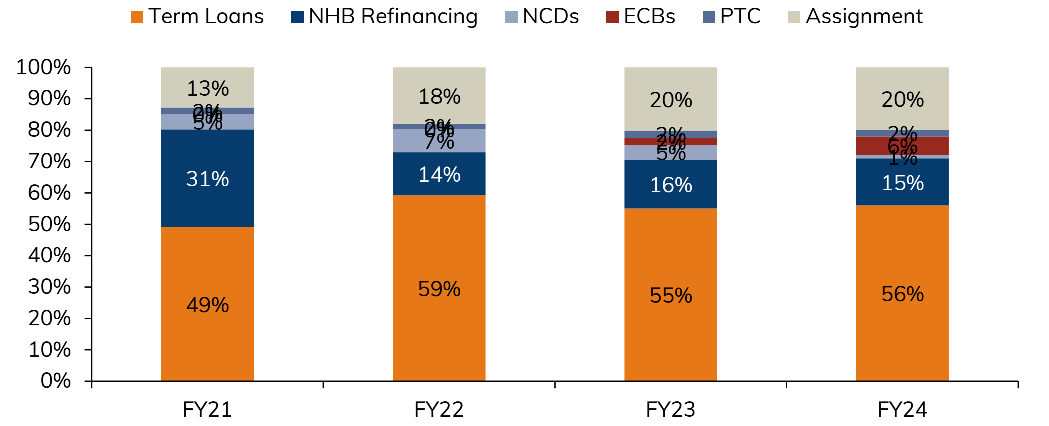
Exhibit 17: Surplus ALM across buckets



Source: Company data, I-Sec research

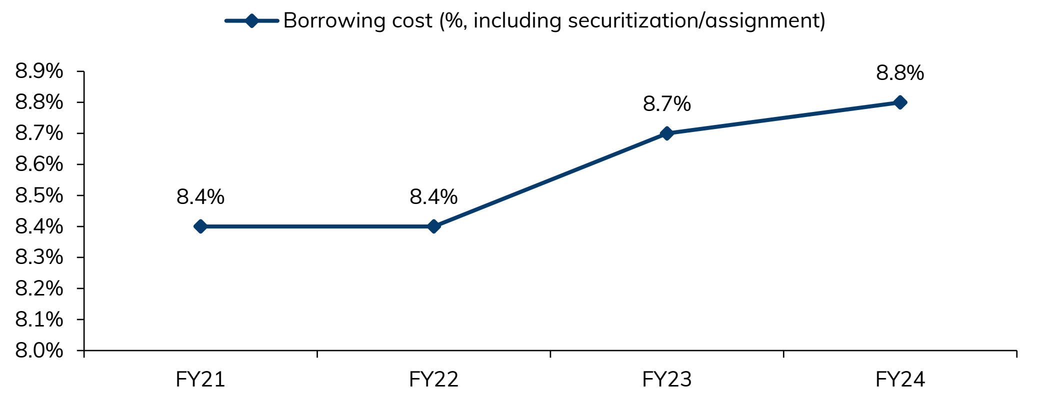
India Shelter's strong resource mobilisation is also reflective in its increasing share of low-cost bank borrowings and assignment book which increased to 56% and 20%, respectively, in FY24 vs 49% and 13% in FY21. The company may continue to actively tap the securitisation/direct assignment market to diversify its liability profile, support liquidity and minimise ALM mismatches. For FY24, the company received INR 4.5bn from transfer of LAP pool to banks.

Exhibit 18: Share of bank borrowings and direct assignment increased in last 4 years



Source: Company data, I-Sec research

Exhibit 19: Cost of borrowing increased by only 40bps against 250bps rate hike in FY21-FY24



Source: Company data, I-Sec research

In FY24, the company also got a credit rating of AA-/Stable from India Ratings and a positive outlook on the rating of A+ from ICRA and CARE. Going forward, the improving credit rating trend is likely to support its cost of borrowings.

Exhibit 20: India ratings assigned AA-/Stable rating, while other rating agencies put A+ rating on positive outlook

Agency	Instrument	Rating (Outlook)
Ind-Ra	Bank Loan	IND AA-/Stable
ICRA	Non-Convertible Debentures	ICRA A +(Positive)
ICRA	Long Term Borrowings	ICRA A + (Positive)
CARE	Long Term Borrowings	CARE A +(Positive)

Source: Company data, I-Sec research

Employee attrition elevated, management implemented best HR policies to retain talent

India Shelter's employee attrition rate, albeit improved marginally from 44% in FY23 to 42% in FY24, remained elevated.

Exhibit 22: Employee attrition remained elevated at ~40% in FY24

FY22			FY23			FY24		
Male	Female	Total	Male	Female	Total	Male	Female	Total
42%	33%	41%	44%	40%	44%	42%	38%	42%

Source: Company data, I-Sec research

In a high human touch business model, managing attrition is a prerequisite and retaining key employees becomes extremely important to manage book quality and sustain growth.

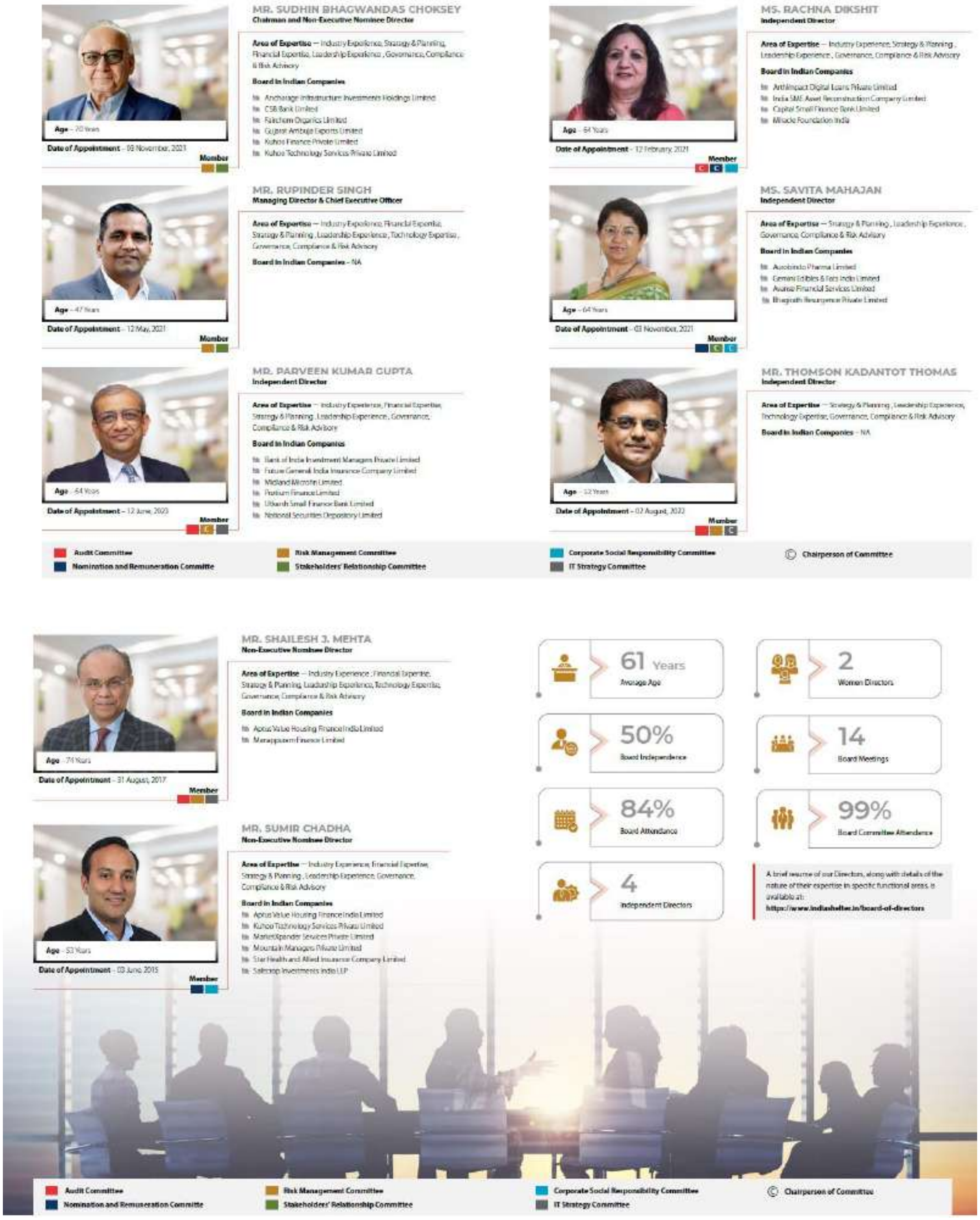
In order to foster a better work culture and attain better retention, the company has taken a few initiatives –

- Employee training and development: >19,000 person hours of training provided in FY24; 'Prarambh – a leadership journey' – an initiative to make employees future ready by training them on lending operations, KYC, AI/ML, etc.
- ESOP – 294 employees (9% of total employee base) covered under ESOP programme.
- Local staff hiring – with field staff recruited from tier 2-3 cities.

Strong corporate governance with diversified Board

In order to achieve the highest standard of corporate governance, the company has a well-diversified and experienced Board which looks into the interests of all stakeholders while regularly reviewing the regulatory compliances and providing management with strategic guidance and direction. As of Mar'24, the Board of the company comprised 8 directors, of whom 4 were independent directors and 3 were non-executive directors and one was managing director. Of this, 25% are women directors. Further, the average age of the Board is 61 years.

Exhibit 23: Profile of Board of Directors



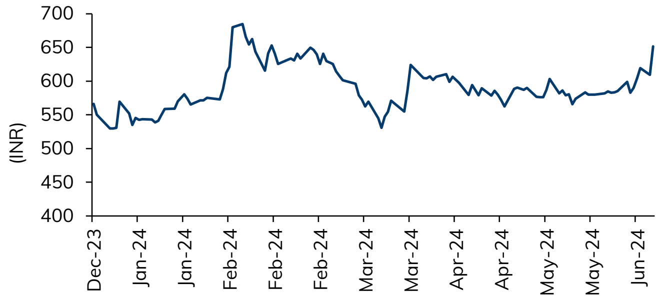
Source: Company data, I-Sec research

Exhibit 24: Shareholding pattern

%	Dec'23	Mar'24
Promoters	48.3	48.3
Institutional investors	18.3	21.3
MFs and others	9.9	13.2
FIs/Banks	1.4	1.6
Insurance	1.2	1.2
FIIs	5.8	5.3
Others	33.4	30.4

Source: Bloomberg

Exhibit 25: Price chart



Source: Bloomberg

Financial Summary

Exhibit 26: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	5,029	7,026	9,627	13,031
Interest Expenses	(2,099)	(2,885)	(3,781)	(5,520)
Net Interest Income (NII)	**2,931**	**4,141**	**5,846**	**7,511**
Other Income	1,033	1,588	2,057	2,780
Total Income (net of interest expenses)	**3,964**	**5,729**	**7,904**	**10,291**
Employee benefit expenses	(1,346)	(1,794)	(2,659)	(3,330)
Depreciation and amortization	(82)	(99)	(99)	(99)
Other operating expenses	(376)	(452)	(562)	(791)
Total Operating Expense	**(1,803)**	**(2,345)**	**(3,320)**	**(4,219)**
Pre Provisioning Profits (PPoP)	**2,160**	**3,384**	**4,584**	**6,072**
Provisions and write offs	(141)	(192)	(230)	(411)
Profit before tax (PBT)	**2,020**	**3,192**	**4,354**	**5,661**
Total tax expenses	(466)	(716)	(1,005)	(1,307)
Profit after tax (PAT)	**1,553**	**2,476**	**3,349**	**4,355**

Source Company data, I-Sec research

Exhibit 27: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	438	535	535	535
Reserves & surplus	11,968	22,451	25,801	30,155
Shareholders' funds	**12,405**	**22,987**	**26,336**	**30,690**
Borrowings	29,889	34,151	50,807	73,229
Provisions & Other Liabilities	662	804	815	853
Total Liabilities and Stakeholder's Equity	**42,956**	**57,942**	**77,958**	**1,04,773**
Cash and balance with RBI	5,073	3,777	5,499	8,329
Fixed assets	238	295	310	326
Loans	**36,091**	**50,624**	**68,741**	**92,540**
Investments	469	1,578	1,657	1,740
Deferred tax assets (net)	30	31	32	34
Other Assets	1,054	1,637	1,719	1,805
Total Assets	**42,956**	**57,942**	**77,958**	**1,04,773**

Source Company data, I-Sec research

Exhibit 28: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	43,594	60,840	82,613	1,11,215
On-book Loans	36,091	50,624	68,741	92,540
Off-book Loans	7,503	10,216	13,872	18,675
Disbursements	19,644	26,460	35,192	46,821
Sanctions	-	-	-	-
Repayments	6,782	9,617	13,419	18,218
Growth (%):				
Total AUM (%)	41.8	39.6	35.8	34.6
Disbursements (%)	51.7	34.7	33.0	33.0
Sanctions (%)	-	-	-	-
Repayments (%)	61.3	41.8	39.5	35.8
Loan book (on balance sheet) (%)	37.6	40.3	35.8	34.6
Total Assets (%)	33.4	34.9	34.5	34.4
Net Interest Income (NII) (%)	30.1	41.3	41.2	28.5
Non-interest income (%)	19.8	53.7	29.6	35.1
Total Income (net of interest expenses) (%)	27.3	44.5	38.0	30.2
Operating Expenses (%)	36.1	30.0	41.6	27.1
Employee Cost (%)	32.8	33.3	48.2	25.2
Non-Employee Cost (%)	52.1	20.2	24.4	40.7
Pre provisioning operating profits (PPoP) (%)	20.7	56.6	35.5	32.5
Provisions (%)	17.1	36.3	20.0	78.4
PBT (%)	21.0	58.0	36.4	30.0
PAT (%)	20.9	59.4	35.3	30.0
EPS (%)	20.8	30.3	35.3	30.0
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	9.4	9.6	9.8	9.3
NIM on IEA (%)	7.1	7.3	7.7	7.2
NIM on AUM (%)	7.9	7.9	8.2	7.8
Yield on loan assets (%)	16.1	16.2	16.1	16.2
Yield on IEA (%)	12.2	12.4	12.6	12.6
Yield on AUM (%)	13.5	13.5	13.4	13.4
Cost of borrowings (%)	8.3	9.0	8.9	8.9
Interest Spreads (%)	7.8	7.2	7.2	7.3
Operating efficiencies				
Non interest income as % of total income	48.3	48.1	50.0	47.5
Cost to income ratio	45.5	40.9	42.0	41.0
Op.costs/avg assets (%)	4.8	4.6	4.9	4.6
Op.costs/avg AUM (%)	4.9	4.5	4.6	4.4
No of employees (estimate) (x)	2,709	3,323	3,924	4,593
No of branches (x)	183	223	270	325
Salaries as % of non-interest costs (%)	74.6	76.5	80.1	78.9
NII /employee (INR mn)	1.1	1.2	1.5	1.6
AUM/employee(INR mn)	16.1	18.3	21.1	24.2
AUM/ branch (INR mn)	238.2	272.8	305.6	342.2
Capital Structure				
Average gearing ratio (x)	2.4	1.5	1.9	2.4
Leverage (x)	3.5	2.5	3.0	3.4
CAR (%)	52.7	71.0	60.4	53.6
Tier 1 CAR (%)	51.9	70.5	60.0	53.3
Tier 2 CAR (%)	0.7	0.5	0.4	0.3
RWA (estimate) - INR mn	22,061	30,814	41,796	55,234
RWA as a % of loan assets	61.1	60.9	60.8	59.7

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.0	1.3	1.3
NNPA (%)	0.9	0.7	0.9	0.9
GNPA (INR mn)	419	501	859	1,157
NNPA (INR mn)	310	376	645	868
Coverage ratio (%)	26.0	25.0	25.0	25.0
Credit Costs as a % of avg AUM (bps)	38	37	32	42
Credit Costs as a % of avg on book loans (bps)	45	44	39	51
Return ratios				
RoAA (%)	4.1	4.9	4.9	4.8
RoAE (%)	13.4	14.0	13.6	15.3
ROAAUM (%)	4.2	4.7	4.7	4.5
Valuation Ratios				
No of shares	88	107	107	107
No of shares (fully diluted)	88	107	107	107
ESOP Outstanding	-	-	-	-
EPS (INR)	17.7	23.1	31.3	40.7
EPS fully diluted (INR)	17.5	23.1	31.3	40.7
Price to Earnings (x)	36.7	28.1	20.8	16.0
Price to Earnings (fully diluted) (x)	37.3	28.1	20.8	16.0
Book Value (fully diluted)	142	215	246	287
Adjusted book value	139	212	241	281
Price to Book	4.6	3.0	2.6	2.3
Price to Adjusted Book	4.7	3.1	2.7	2.3

Source Company data, I-Sec research

Exhibit 29: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	37,584	50,449	67,950	91,365
Average Loans (INR mn)	31,158	43,358	59,682	80,640
Average Equity (INR mn)	11,583	17,696	24,661	28,513
Interest earned (%)	13.4	13.9	14.2	14.3
Interest expended (%)	5.6	5.7	5.6	6.0
Gross Interest Spread (%)	**7.8**	**8.2**	**8.6**	**8.2**
Credit cost (%)	0.4	0.4	0.3	0.4
Net Interest Spread (%)	**7.4**	**7.8**	**8.3**	**7.8**
Operating cost (%)	4.8	4.6	4.9	4.6
Lending spread (%)	**2.6**	**3.2**	**3.4**	**3.2**
Non interest income (%)	2.7	3.1	3.0	3.0
Operating Spread (%)	**5.4**	**6.3**	**6.4**	**6.2**
Tax rate (%)	23.1	22.4	23.1	23.1
ROAA (%)	**4.1**	**4.9**	**4.9**	**4.8**
Effective leverage (AA/ AE)	3.2	2.9	2.8	3.2
RoAE (%)	**13.4**	**14.0**	**13.6**	**15.3**

Source Company data, I-Sec research

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