India Shelter Finance Corporation

NBFCs

FY30 aim: INR 300bn AUM via >25% AUM CAGR and >17% RoE

India Shelter, during its maiden Analyst Day, shared Vision 2030 – AUM of INR 300bn by FY30, implying a >25% CAGR with RoE of >17%. Superior execution of business strategies (~40% AUM CAGR and >50% PAT CAGR between FY20–24) – since IPO, management has been able to deliver as per guidance despite a challenging operating environment in terms of MFI stress, tight liquidity etc. – is poised to continue going ahead. End-to-end digital processes (lower TAT, better customer service), 40–45 branch additions each year, ticket size growing 7–8% and penetration in existing geographies (already present in 15 states, accounting for >90% of India's mortgage market) shall driver AUM growth in coming years. Retain **BUY;** TP of INR 850 unchanged, valuing the company at 3.2x on Sep'25E BVPS.

Vision 2030: INR 300bn AUM with RoA/RoE at >4%/>17%

Management shared Vision 2030 during its first analyst meet post IPO. It aims for the company to reach an AUM size of INR 300bn (currently INR 75bn), implying a >25% CAGR till FY30 with RoE of >17%. It plans to add 40–45 new branches every year to take the total branch count to ~500 by FY30, from the current level of 265. While pursuing Vision 2030, it would continue to follow the same strategy of focusing on the high-yielding self-employed segment (~75% of its customer base) in Tier 2/3 cities (~91% of customers in these markets), maintain credit cost at 40–50bps, spread at ~6% and cost/asset at 4% vs. 4.6% currently.

Technology to remain core

Since its inception, India Shelter has focused on improving its field staff productivity (by digitising the process to the extent possible) and enhance customer service (lower TAT, better after sales-service etc.). It was way ahead of the industry in implementing Salesforce as its CRM and LOS in 2014. India Shelter is the first HFC to secure AUA/KUA license. It also emphasises on spending 20–25bps on technology to further strengthen and remain ahead of the curve in its tech infrastructure. Digital collection of ~96%, 97% E-NACH mandates, 98% e-signing and 78% customers registered in its iServe mobile app highlight its digital capabilities.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Interest Income	4,141	5,850	7,522	9,712
PAT	2,476	3,432	4,437	5,786
EPS (INR)	23.1	32.1	41.4	54.1
% Chg YoY	30.3	38.6	29.3	30.4
P/E (x)	30.1	21.7	16.8	12.9
P/BV (x)	3.2	2.8	2.4	2.0
Gross Stage - 3 (%)	1.0	1.2	1.2	1.2
RoA (%)	4.3	4.4	4.2	4.2
RoE (%)	10.8	13.0	14.4	15.8

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Market Data

Market Cap (INR)	75bn
Market Cap (USD)	867mn
Bloomberg Code	INDIASHL IN
Reuters Code	IDNI.BO
52-week Range (INR)	799 /521
Free Float (%)	33.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	9.9	(7.3)	10.4
Relative to Sensex	15.8	0.9	8.6

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
PAT	-	-

Previous Reports

08-02-2025: Q3FY25 results review

27-10-2024: Q2FY25 results review

End-to-end to digital Home loan process

India Shelter uses five mobile applications, right from customer sourcing to customer service post disbursements, to digitise its entire home loan process. The five mobile applications are: 1) iSales – customer acquisitions; 2) iCredit – credit underwriting; 3) iTech – collateral evaluation; 4) iCollect – collection management; and 5) iServe - customer service. Fully digitised process also helps in mitigating human errors while filling up loan application forms and data lake (captures 100+ data points on customer and collateral profiles) helps in better risk management and credit underwriting. It also implemented system-driven risk-based pricing model and the same helps it maintain industry-leading spread of >6%.

Increased focus on productivity improvement to drive operating leverage; expects ~50bps improvement in cost ratio over next 5 years

Its strategy of building a pan-India mortgage portfolio, state-of-art technology platform and strong supervisory team resulted in heavy upfront investments during its initial organisational journey. In line with its strategy, the company adequately invested towards building a strong mortgage franchise and as a result its cost to assets stands at 4.8%, as on Dec'24 vs. industry average of ~3%. However, management acknowledged this and is incrementally focused on improving productivity going ahead. Overall, it expects ~50bps improvement in cost ratio in the near term to 4.1%, from the current levels of 4.6%. Initial signs are encouraging with number of files per sales officer improving to three files per month in Q3FY25, from one file in FY21, branch manager productivity improving to AUM of INR 8.9mn in Q3FY25 from INR 5.3mn in FY21, area manager productivity to AUM of INR 70mn in Q3FY25 from INR30mn in FY21 and average AUM per branch improving to INR 290mn in Q3FY25 from INR 190mn in FY21.

Credit cost to remain at 40–50bps in the near-term

India Shelter, right from lead generation till disbursement, follows stringent tech-led credit underwriting to ensure best-in-class asset quality on a sustainable basis. ~98% of the customer sourcing is in-house, HL LTV at 55% and LAP LTV at 45%, 99% self-occupied residential properties, in 99% of loan co-applicants are women and 48% FOIR are key factors behind its GNPL ratio remaining <2% and credit cost <1% even during the Covid-19 period. All three-business vertical are independent and in-house – sales, credit and collection. Rejection rate at the company level is 45% and key reason behind rejection is improper collateral. Credit process is a blend of field and central operations. Initial customer screening is done by the field team and central operation team verifies the same (right from KYC documents to collateral). It also carries out customer scrubbing on a quarterly basis to keep a check on overall customer level leverage. Overall, it expects credit cost to remain at 40–50bps in the near-term.

Spread to sustain at ~6%...

India's mortgage market is primarily concentrated in the top 10–15 cities and caters to prime salaried customers. India Shelter on the other hand opted to expand mortgage penetration beyond metro cities (largely focuses on Tier-2/3 markets) and focus on the self-employed customer segment. The same enables it to command better yields at ~15% vs. ~13–14% for AHFC space. Further, it focuses on acquiring new-to-credit (first- time home purchase) customers rather than BT-in. The share of first-time home buyers is 70% and the same reflects its focus on penetration and deepening of markets. Similarly, the share of borrowers from Tier-3 markets increased to 55% by Dec'24, from 49% in Dec'23.

...effective liability management to support spreads

While superior asset yields is a prime reason behind India Shelter maintaining ~6% spread, effective liability management is also an equal contributor – evident in the steady borrowing cost despite the rising rate cycle. Its cost of funds remained flat at 8.8% since FY23. Notably, share of NHB borrowing is also lower than peers at 13%, as on Dec'24. It maintained diversified borrowing mix with 41% borrowings from private banks, 37% from PSBs, 13% from NHB and 8% from DFIs, as on Dec'24. While its current asset mix is tilted towards fixed rate (~60% of assets are on fixed rate), incrementally it is disbursing under floating rate. During 9MFY25, ~88% of loans were priced under floating rate given since banks in India usually lend on variable rate. Currently, it is rated by India Rating, ICRA & Care at AA- and it will look for rating upgrade, post crossing INR 100bn AUM. Once it gets credit rating upgrade to AA from AA-, lot of new avenues of borrowing would emerge like capital markets.

Strong management team with ~9% ESOP pool to ensure low attrition and superior execution

India Shelter, over the years, has built a strong management team (current MD is with company since Jun'20) and has been able to retain good talent. One of the important tools to retain talent and develop strong alignment of interest across hierarchy is to cover as many employees under ESOP. Current management team has 9% of ESOP pool. Further, ~25% of front-line staff (~2,500 people) are covered under ESOP policy. It also highlighted that attrition levels among employees with ESOP is lowest. Since IPO, management execution has been up to mark – in the past four quarters, management has been able to deliver as per guidance despite a challenging operating environment (MFI stress, tight liquidity etc.)

Key risks

- Top three states (Rajasthan, Maharashtra and Madhya Pradesh) constitute ~59% of overall book. Any adverse effect in any of these states could have a subsequent impact on the business.
- Lower growth than guidance of 30–35% for FY25/26.
- 42% of its portfolio is towards LAP; hence, any deterioration there could have an adverse impact on the overall portfolio quality.
- Owing to its in-house operating model and recent franchisee build-up through branch expansion and technology investments, the operating expenses of the company remained elevated. Its ability to achieve higher operational efficiencies through scale would be a key monitorable.

Vision 2030 – AUM at INR300bn, implying >25% CAGR, with RoE at >17% and RoA at ~4%

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It highlighted that RoE expansion from 14% currently to >17% on steady state is likely to be driven by 4.5% RoA and leverage increasing to 3.8x by FY30 from current levels of 2.7x. With higher leverage, thus normalised borrowing level, RoA is likely to moderate to steady state level of ~4%, from its current ~5.5%. While spreads are likely to sustain at current levels of ~6%, NIMs are likely to moderate by 100bps by FY30. Net revenue is likely to moderate by 70bps, as it expects asset yield compression to fall by 30bps to 14.6% and other income to slip 60bps due to increasing competition. However, with scale, cost of funds is also likely to moderate by 20bps and the same would partially offset the yield compression impact.

Respite is expected on the cost front, wherein due to efficiencies, India Shelter expects cost to moderate by ~15bps every year; hence, reaching 4.1% of assets vs. 4.6% currently. Credit cost is expected to be stable around 50bps of assets.

Exhibit 1: RoE likely to reach 17% on steady state basis in near term

Particulars	Current 2.8x Leverage	Stable State 4x Leverage	Rationale
Yield	14.9%	14.6%	
Cost of Funds	(8.8%)	(8.6%)	Rating Benefit
Spread	**6.1%**	**6.0%**	
PF Amortization	0.3%	0.3%	Stable
Negative Carry-on Liquidity	(0.2%)	(0.2%)	Stable
Gross Spread	**6.2%**	**6.1%**	
Cross Sell	0.8%	0.6%	Stable, linked to disbursement
Fees	0.9%	0.7%	Moderate, partially linked to disbursement
DA Upfront (Net)	1.0%	0.8%	DA to moderate, CLM to pickup gradually
Income Margins	**8.9%**	**8.2%**	
Equity Savings	3.3%	2.3%	COF/ Leverage
Gross Income Margins	**12.2%**	**10.5%**	
Opex	(4.6%)	(4.1%)	15 bps annual reduction
Credit Cost	(0.5%)	(0.5%)	Stable
ROTA (Pre-Tax)	**7.1%**	**5.9%**	
Tax	(1.6%)	(1.3%)	Effective Tax Rate at 22.7%
ROTA	**5.5%**	**4.5%**	
Avg. Leverage (ATA/ANW)	2.7x	3.8x	
RoE	**14.8%**	**17.2%**	

Source: Company data, I-Sec research

India Shelter got listed in Dec'23. Since then, it has delivered consistently on most of the key metrics. During the past 5 quarters, it delivered an average RoA of ~5.4% and RoE of ~14.4%. The profitability was mainly driven by consistent AUM growth in the range of 30–35% YoY supported by new branch addition of 40–45 on an annual basis. Spreads sustained above 6% and opex to AUM improved by ~20bps on an annual basis. Credit cost also remained within the guided range of 40–50bps; therefore, overall RoA sustained at >5%. On the credit rating front, it has seen rating upgrade post IPO – the next rating upgrade is expected post reaching AUM of INR 100bn. Overall, delivery has been broadly in-line with the IPO commentary across most of the business parameters.

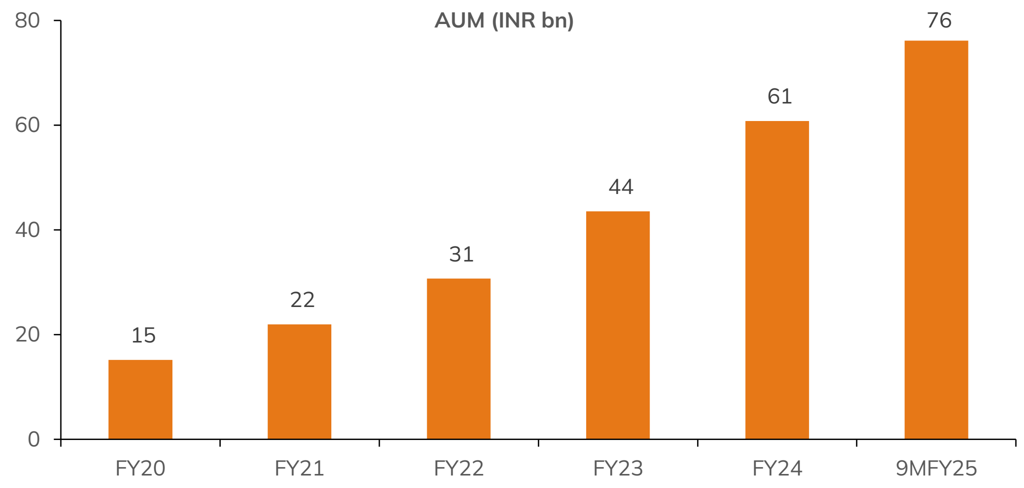
Exhibit 2: Superior management execution track record – business performance well within guided range since IPO

Particulars	Commentary	Progress
Number of States (#)	Horizontal expansion and deepening of existing geographies	On Track
Number of Branches (#)	40-45 branch opening for next few years	On Track
AUM Growth (%)	AUM growth guidance of 30-35% for next few years	On Track
Spread (%)	Maintain spreads in the range of 6% for new few years	On Track
Operating expenses / AUM (%)	Opex to AUM should improve by 20 bps for next few years	On Track
Credit Cost (%)	Credit Cost guidance of 40-50bps	On Track
RoA (%)	Maintain RoA in the range of 4%	On Track
Credit Rating	Expect credit rating improvement post the IPO	On Track

Source: Company data, I-Sec research

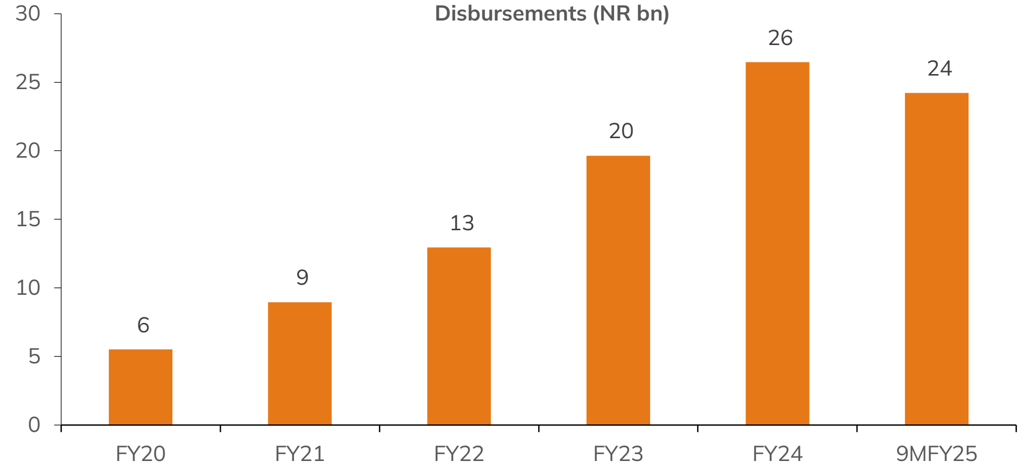
AUM as well as disbursements growth has seen steady uptick, since the past 4-5 years wherein AUM has grown at 41% CAGR from FY20-FY24 vs. 48% disbursements CAGR over the same period. The same is one of the highest amongst its peers. Overall, this has translated into steady uptick in return ratios, wherein for the current period of 9MFY25, India Shelter has clocked RoA of 5.5% and RoE of 14.7%. Overall, it plans to reach AUM of INR300bn by FY30, implying >25% CAGR and this would also entail an equity fund raise once before 2030. Branch network would expand to ~500 from 265 currently to support growth.

Exhibit 3: AUM CAGR stood at 41% between FY20-24...



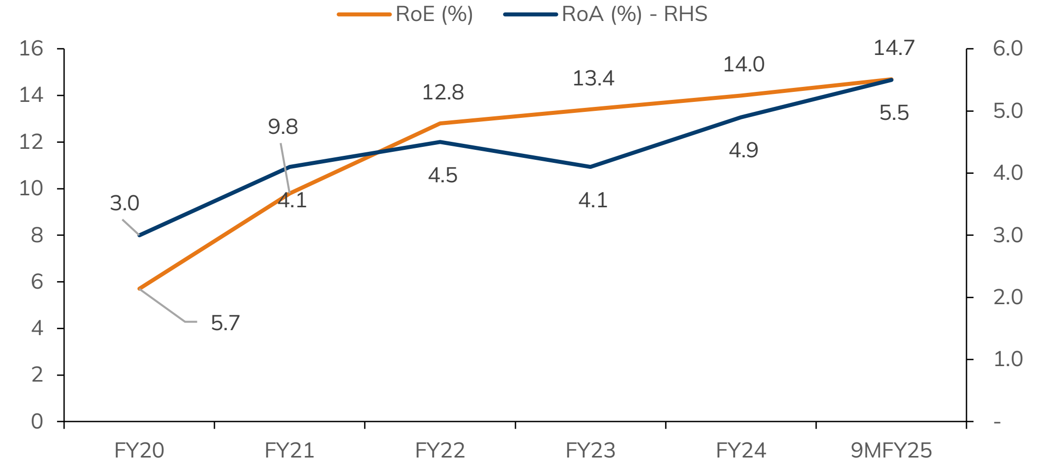
Source: Company data, I-Sec research

Exhibit 4: ... supported by 48% CAGR in disbursements



Source: Company data, I-Sec research

Exhibit 5: Improving profitability and increasing leverage led to RoE expanding to 14.7% by Dec'24 from low single digit during FY20-21



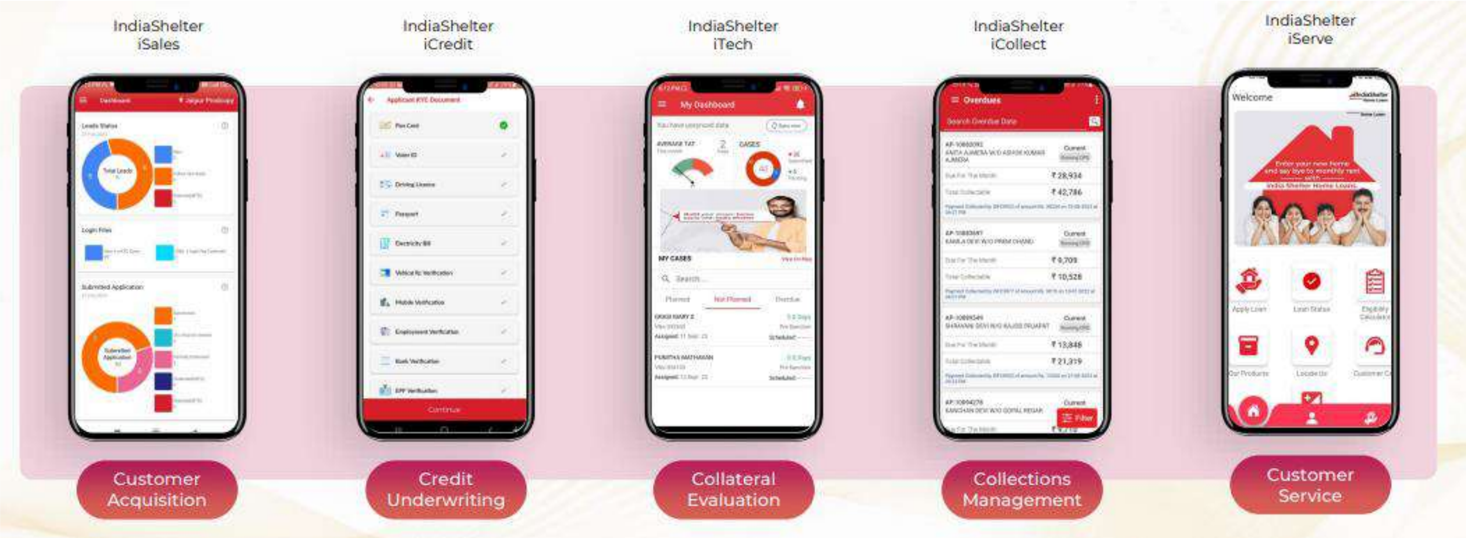
Source: Company data, I-Sec research

Tech at the core – right from sourcing to collections

India Shelter has built a tech-driven business model and was one of the early adopters of Salesforce and implemented the same in FY13 itself, with it being one of the first entities to do so within the affordable housing space.

The company's business model is driven by technology, right from sourcing to collections, with each of the processes being carried out in a separate in-house application. The company has (i) iSales application for customer acquisitions, (ii) iCredit application for facilitating the underwriting process, (iii) iTech application for collateral valuation, (iv) iCollect application for optimizing collection efforts and (v) iServe application for providing customer service. Salesforce is integrated with all the applications.

Exhibit 6: End to end digital process for home loans via various apps



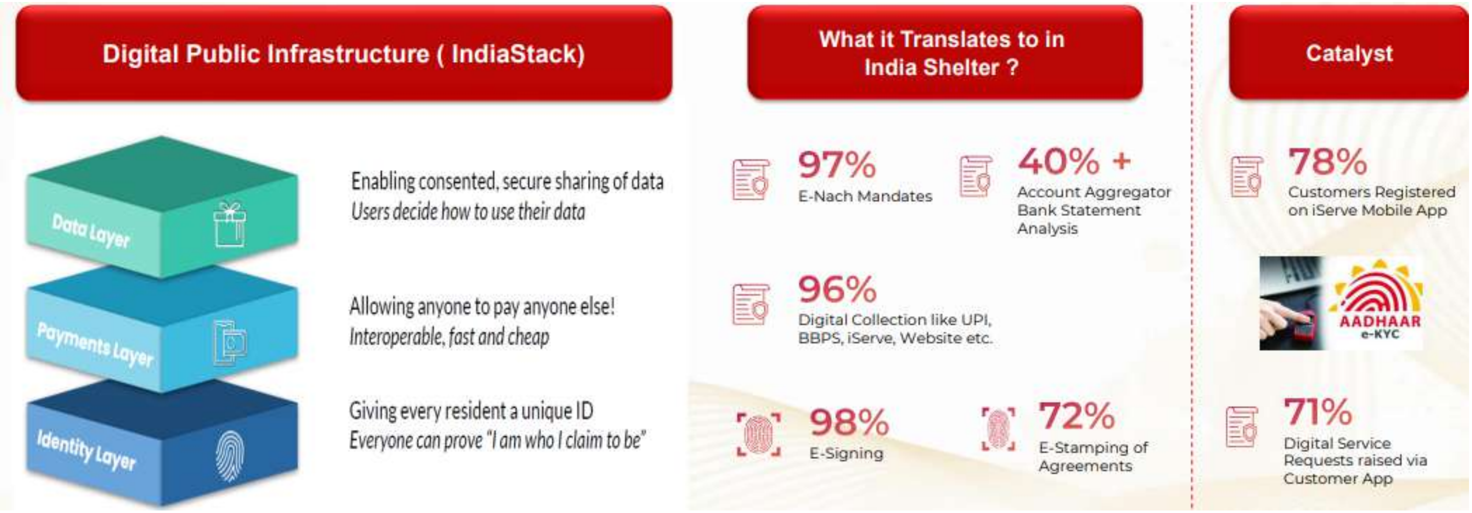
Source: Company data, I-Sec research

Some of the noteworthy features of the company's tech infra are as follows –

- India Shelter has built an extensive data base with 100+ data points on customer and collateral profiles – serving as a valuable resource for underwriting and carrying out risk assessment of the customers. The company's in-house business rule engine and radial tool, which provides estimated value of the collateral property based on historical property valuations, are an integral part of its tech infra ensuring accurate credit evaluations and efficient decision making.
- The company has an integrated customer relationship management and loan management system set up on a cloud-based customer relationship platform, i.e. Salesforce. Its integration with downstream and upstream applications expedites data consolidation, visualisation, machine learning model development, and model implementation and ensures increased operational efficiency and enhance customer convenience.
- Agreements with third-parties to develop tools and integrate APIs to access supplementary information such as fraud-related data, banking and investment records, PAN, Aadhar verification, etc.
- Geo-tagging of all properties during technical valuation.

Technology has also translated into healthy digital adoption metrics for India Shelter, wherein 97% of its customers are registered for E-NACH mandate, 96% of its collections are via digital like UPI, BBPS, iServe, website etc. and ~98% of its documents are e-signed vs. ~5% in FY22 and 78% of its customers are registered on iServe app.

Exhibit 7: Digital adoption metrics for India Shelter



Source: Company data, I-Sec research

India Shelter was one of the few entities in the affordable housing finance space to start using Salesforce way back in 2013, when its AUM size was less than INR 1bn. It uses Salesforce as loan origination system, integrated with its downstream and upstream applications, including mobile applications, in-house business rule engine and predictive dialer. The same has helped India Shelter in building end-to-end paperless loan journey for its customers.

Exhibit 8: Tech has evolved quite well over the years

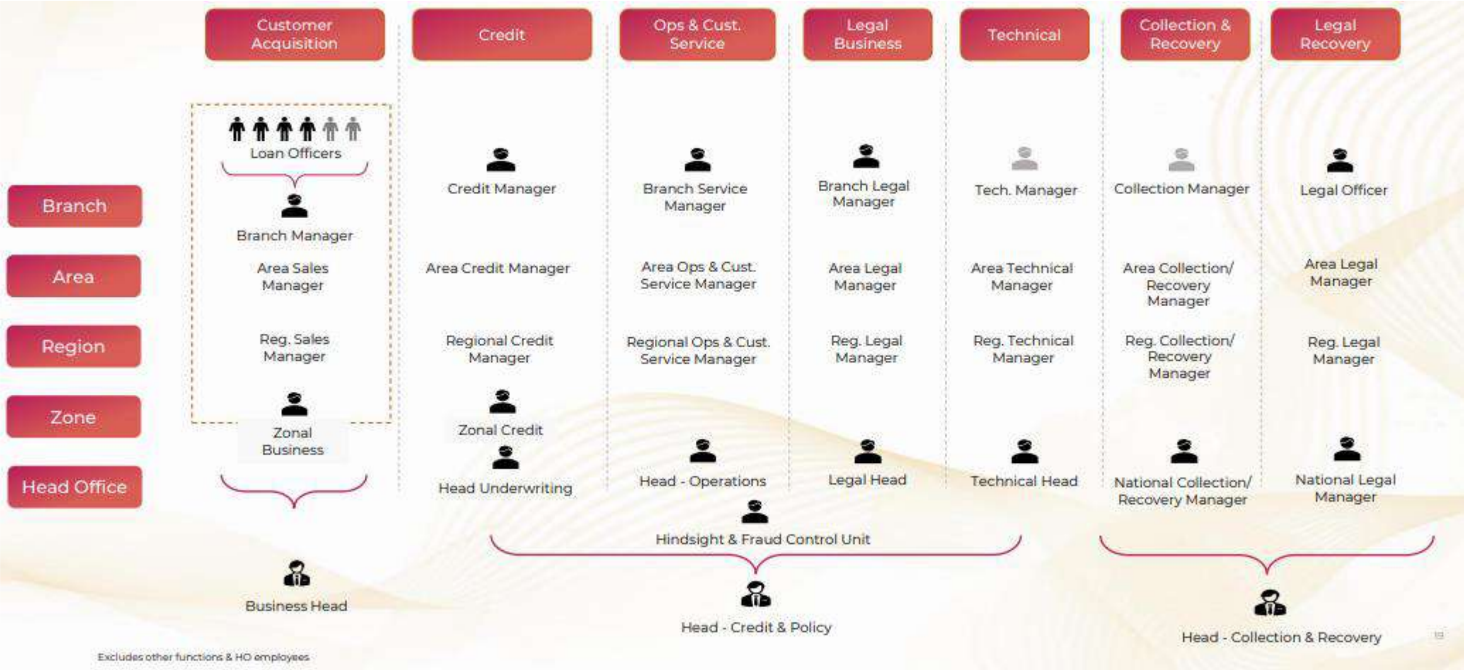
Source: Company data, I-Sec research

Underwriting: In-house sourcing and contiguous branch expansion strategy

India Shelter has focused on organic growth and building a model which is sustainable, predictable and scalable. In line with this, it preferred building end-to-end in-house capabilities, starting from sourcing to underwriting and finally collections unlike growing book via DSAs or employ third-party vendors for field visits, valuation, legal etc. In-house operations help in having complete control over on-boarding quality customers, strengthening the customer relationship and build trust with its customers.

The entire loan process of India Shelter, i.e., origination, underwriting, collateral/legal evaluation and collections, works with a different and separate vertical, which are independent to each other. Each vertical reports to a centralised team at head office, which provides comfort on better control over credit quality.

Exhibit 9: Separate hierarchy of key functions



Source: Company data, I-Sec research

Out of a total of 3,786 employees, it has more than 1,600 loan officers. A typical branch structure would comprise of 10-13 employees which would include 4-7 loan officers depending on the branch AUM, 1 branch manager, 1 credit manager and 1 operations manager. Moreover, it would comprise of 1 legal manager, 1 technical manager and 1 collections manager, who would be handling multiple branches.

Exhibit 10: Customer acquisition - business team structure

Source: Company data, I-Sec research

In terms of business structure, currently, it operates via six zones as follows:

- Rajasthan and Gujarat
- South India
- Maharashtra
- Madhya Pradesh
- North which includes Delhi NCR and Uttar Pradesh
- Punjab, Haryana, Chandigarh and Uttarakhand

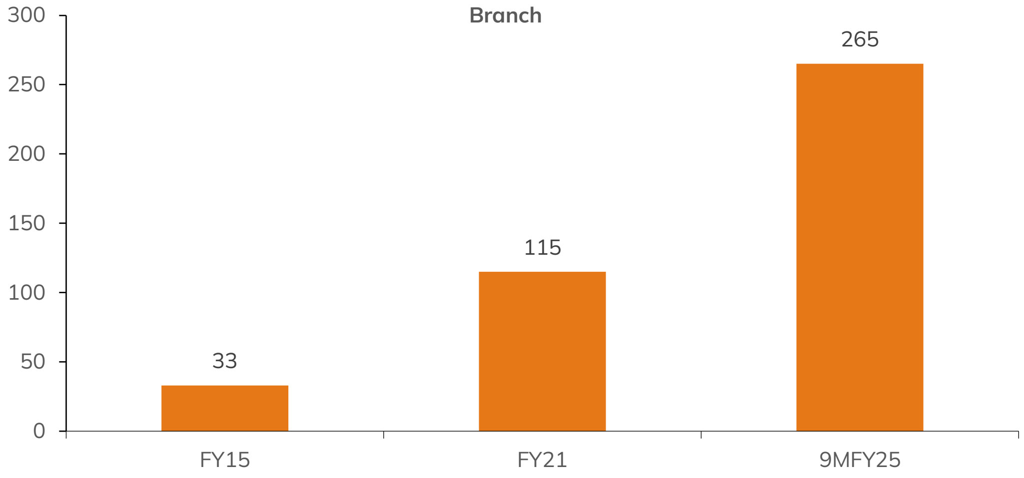
Credit process is a blend of field and central operations, wherein much of the customer-related interaction activity is done by the field team. There is a maker checker concept for each activity, wherein filed staff collates the data and central operations does most of the checker activity. On the collateral evaluation, it has a team strength of >150 people and ~75% of its evaluation is in-house. External valuation is done only in 2 cases namely for new branch and secondly for loans with ticket size of >INR1.5mn.

India Shelter has dominance in the northern market and currently follows a penetrative expansion strategy across India by targeting areas with high economic growth and focused approach on serving low and middle-income groups in tier-2 and tier-3 cities in India.

Branch network has expanded well over the years from mere 33 in FY15 to 115 in FY21 and 265 in Q3FY25. Company is targeting to add 40-45 branches every year and targets to reach a branch network of ~500 by 2030.

Of these 500 branches, company expects only 9% of branches would be a year old, while more than 60% branches would be more than 3 years old and hence would be of good size by then. The company commenced its operations from Rajasthan and has 71 branches in the state out of total 265 branches across India. Over the years, the company, through its contiguous expansion strategy at the initial stage of operation, has gradually expanded its market with presence in 15 states/UTs.

Exhibit 11: Slow and steady growth in branch network; aim to add 40-45 branches every year



Source: Company data, I-Sec research

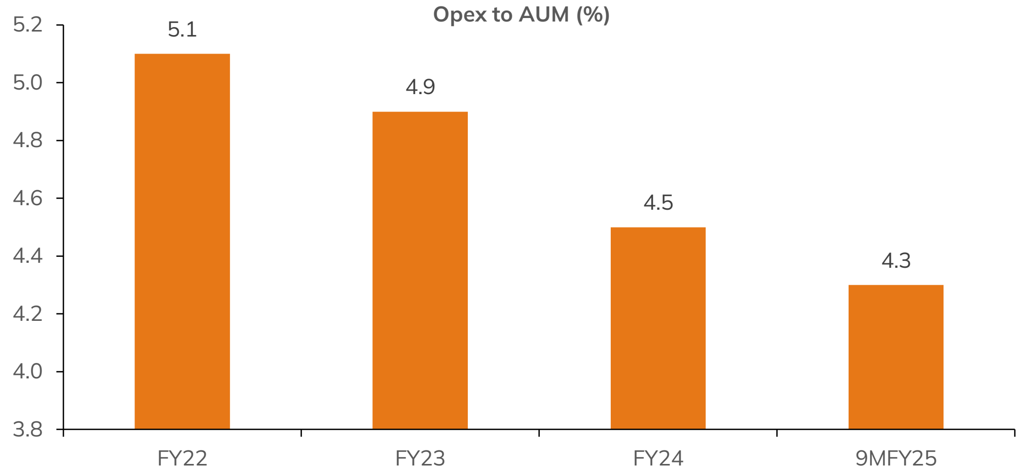
Despite establishing its dominance in one state, the contiguous expansion strategy has played out well, as after starting its operations in 2010 in Rajasthan, it started entering other states from 2011 itself. Notably, as it entered into newer geographies in its early state of operations, with last state-expansion in 2021, the company took its time to understand the nitty-gritties involved in the markets and is now in a position to expand deeper into the existing geographies. By FY21, it was present in 15 states and has since then, not expanded its presence beyond these states. North East, J&K, Kerels are the states where it doesn't operate and that is around 5-7% of the total market size. Hence, it is not looking to expand into new states beyond 15.

While Rajasthan formed the majority of the AUM pie at ~31%, owing to high diversification and deeper penetration across existing geographies, the company carried with it low portfolio concentration risk, with top 3 states contributing 60% of overall portfolio.

In-house model keeps cost elevated; operational efficiency likely to result in gradual decline in cost to assets

While the in-house model does keep portfolio quality in check, it also means relatively higher operating expenses as the company invests in on-roll employees across verticals and has nil off-roll employees. Notably, unlike other players with in-house operations, in case of India Shelter, even the legal and the technical teams are hired internally, thereby, resulting in higher operating expenses vs closest peers. However, it has seen gradual reduction in opex to AUM as it builds scale.

Exhibit 12: Slow and steady decline in opex to AUM as it builds scale



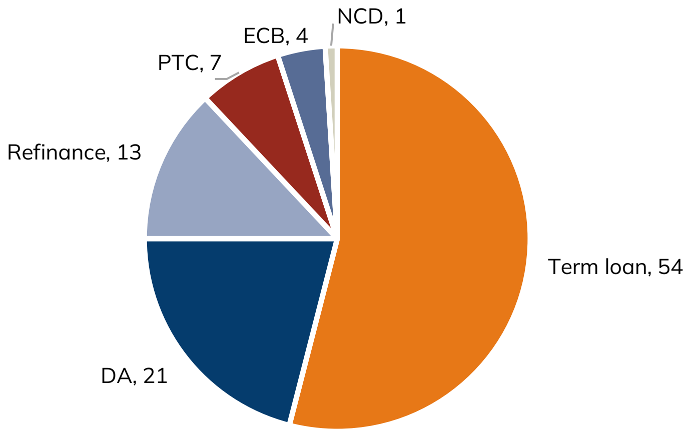
Source: Company data, I-Sec research

Effective asset-liability management and timely fund raising at competitive rates are of utmost importance in the lending business. India Shelter's disciplined approach on maintaining a long-term diversified borrowing profile with an average tenure of 7+ years, aided by well-established relationships across lenders have helped it in obtaining consistent credit rating upgrades in the last decade from BB+/Stable in 2012 to AA-/Stable in 2024 reflects its successful execution of business strategies resulting in robust financial performance. This in-turn has supported it in bringing down its cost of funds and keeping it steady, despite changing rate cycles.

With strong financial performance, consistent improvement in credit profile, India Shelter has been able to establish strong relationships with a diversified lender base spread across public sector banks, private sector banks, foreign banks, mutual funds and other financial institutions.

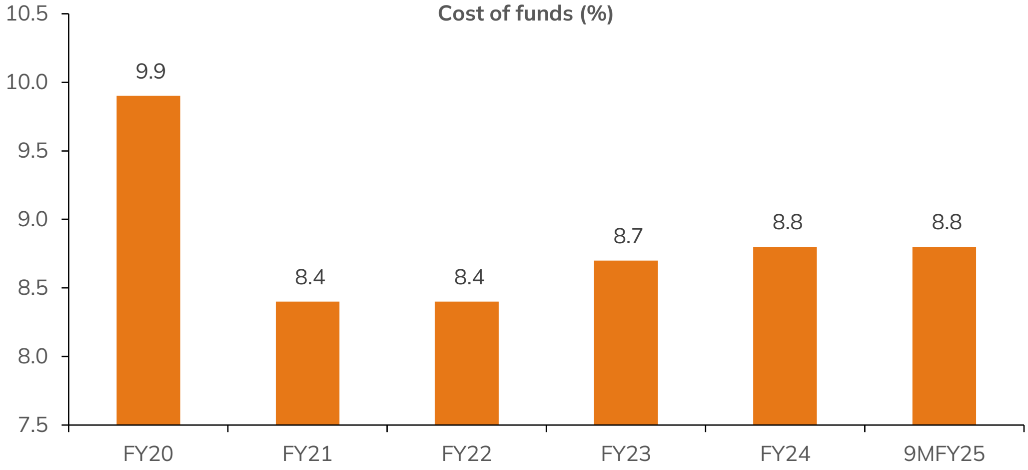
Its long-established relationships with these lenders have further helped the company to raise funds at competitive rates in the market. The funding profile of the company primarily consists of low-cost funding resources such as long-term funds through banks and FIs (54%) and direct assignment (21%). The average cost of funding for the company stood at 8.8%, as of Dec'24.

Exhibit 13: Diversified set of borrowings



Source: Company data, I-Sec research

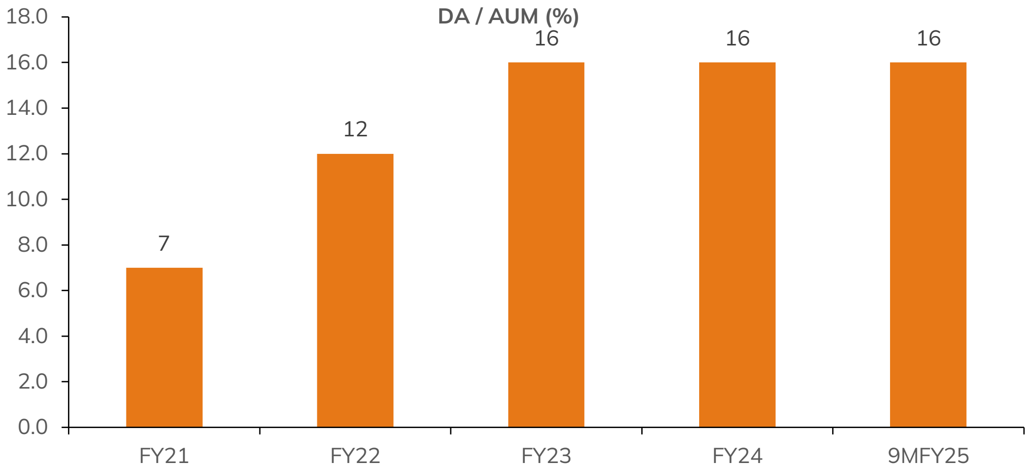
Exhibit 14: Cost of funds well managed around 8.8%



Source: Company data, I-Sec research

DA as a % of total AUM would be maintained around 15-18% in the medium-term and it has also ventured into co-lending which stood at 6% of total disbursements and this share is gradually inching-up. Under co-lending, 80% of the book is outsourced towards the lending partner.

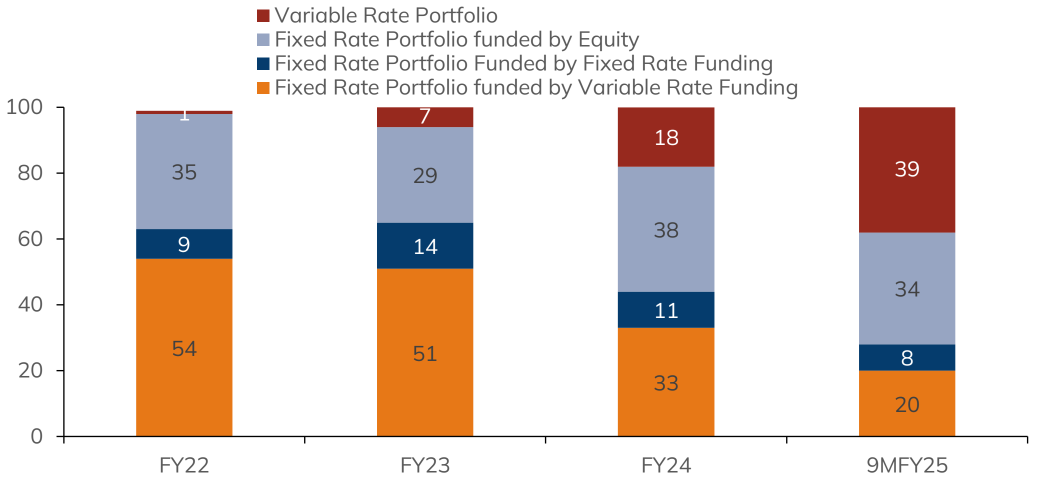
Exhibit 15: DA as a % of AUM has been stable around 16% and likely to be in the range of 15-18%



Source: Company data, I-Sec research

Of the total book, ~60% is fixed and ~40% is semi variable, which is 3 years fixed and post that, it would be floating. It is consciously increasing variable rate lending to reduce interest rate risk, since banks in India usually lend on variable rate.

Exhibit 16: Slowly moving towards variable linked portfolio to reduce interest rate risk



Source: Company data, I-Sec research

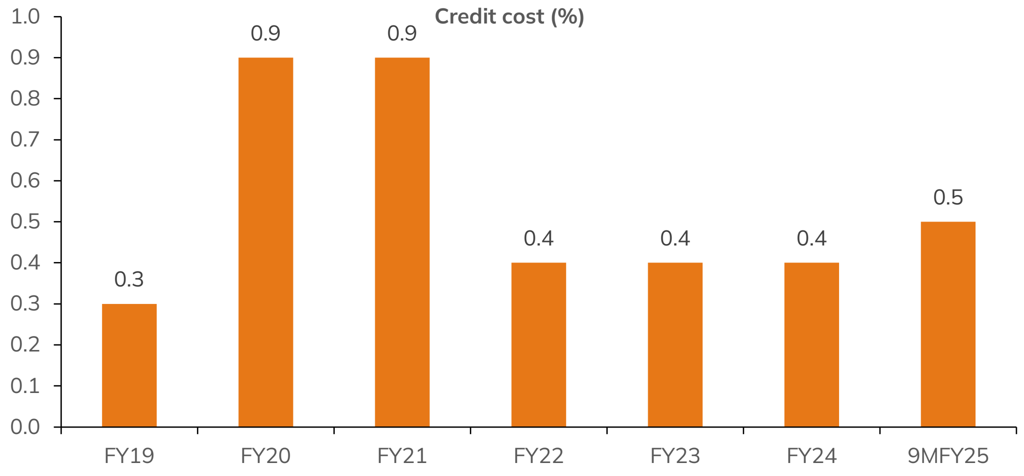
In-house business model safeguards sound asset quality

Robust underwriting led by strong tech infrastructure, with stringent risk measures such as low LTV of ~52%, low ticket size of ~INR 1.0mn and ~99% of collateral being self-occupied residential property, have kept the company's asset quality metrics comfortable with an average GNPA of ~1.5% in the last 7 years. Barring the pandemic, average gross NPA remained ~1.2%. For 9MFY25 as well, GNPA has averaged at ~1.2% and Q4 seasonally being strong quarter with regards to asset quality, some respite is expected on that front. In terms of credit cost, it has hovered in the range of 40-50bps and India Shelter continues to maintain this guidance.

Even in terms of collections, the company has a dedicated collections team to effectively manage the recoveries and prepayments. Herein also, the company extensively uses technology and analytics to predict the customer behaviour, enabling it to implement an efficient collection strategy through risk-based allocation. The company uses 'iCollect App' which provides 360-degree view of the customer profile to the collections team, wherein, the application gives real-time updates on the customer's profile in terms of past recoveries/delinquencies, outstanding dues and payments transactions. Owing to its streamlined collection strategy, the company has been able to clock digital collections at ~96% of overall collections and 97% of customers being registered under e-NACH mandate.

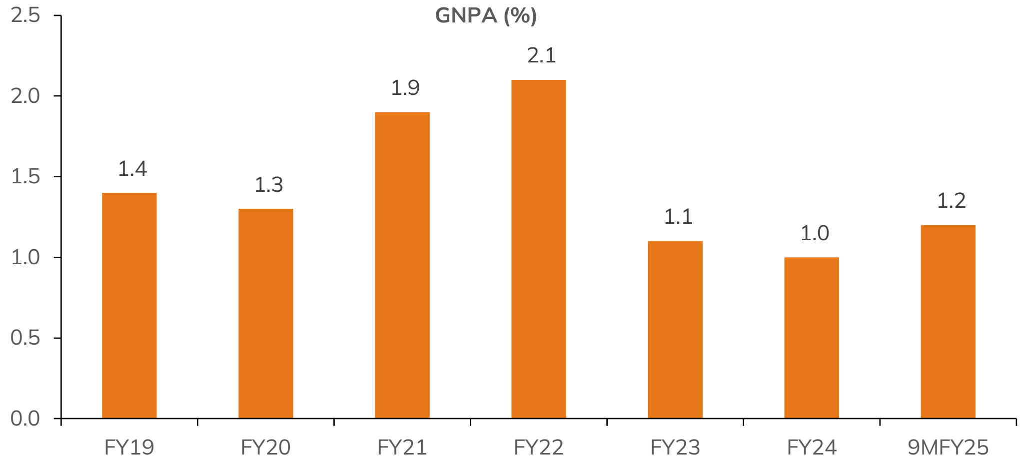
On the collection front, company does not distinguish between housing loan and LAP collection team. They have two collections team for cases above 12 MOB wherein if an account crosses 60+ dpd, hard bucket collection team takes over. Moreover, for accounts over 90+ dpd, legal team supports hard bucket collection team. Also, it doesn't have reply on any third party for collections and post disbursement, it runs customer bureau score scrub once every quarter.

Exhibit 17: Credit cost inches up a bit, in line with GNPA, but broadly in line with its guidance



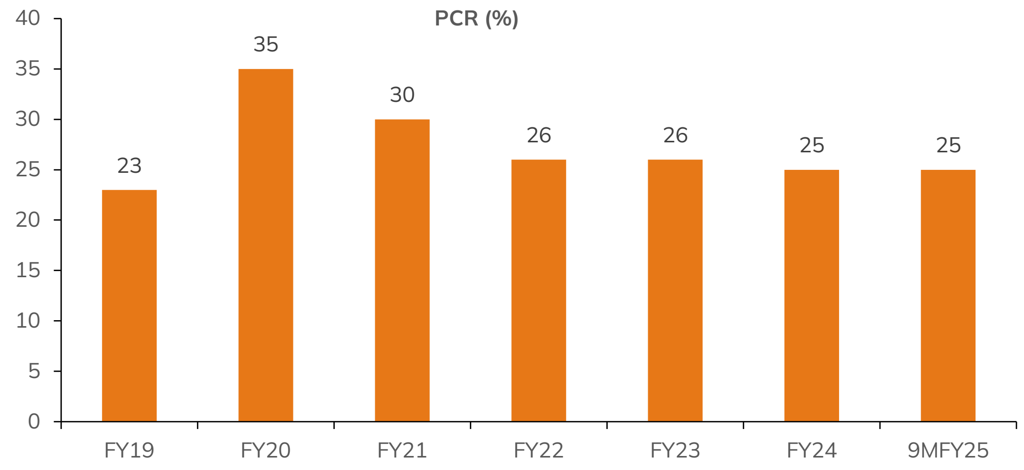
Source: Company data, I-Sec research

Exhibit 18: GNPA inched up a bit in 9MFY25, but still considerably lower vs. its previous peak



Source: Company data, I-Sec research

Exhibit 19: PCR stable around 25% since the past 2-3 years



Source: Company data, I-Sec research

Investor and Analyst Day Takeaways

India Shelter at 2030

- **AUM to reach INR 300bn vs. INR 76.2bn currently, implying >25% CAGR**
- **For achieving this growth, it could have to raise equity once before 2030**
- **RoA target at 4.0% and aiming at ~17% RoE**
- **Number of branches expected to be ~500**

Guiding principles

- Grow and diversify distribution network
- Optimise brand equity and foster sustainability
- Leverage technology for scalability and productivity
- Diversify borrowings and optimise borrowing costs

About India Shelter

- India Shelter provides affordable home loans and loan against property in Tier 2 and 3 geographies in India for last 15 years as it was started in March 2010
- Current MD & CEO is part of this company since ~5 years i.e. June 2020
- It is a professionally managed company

Customer profile and sourcing

- **Book has ~3/4th self-employed and on disbursements, this number is even higher**
- **Every customer who is being given the loan, has to visit the branch once. This is all about engaging with the customer.**
- Loan is not given to the individual, but the family. It advises customer that women of the family should be on the loan and it is able to achieve the same for almost 99%.
- 98% are direct sourcing and they are trying to build reach and brand equity via referrals
- **Customer acquisition is via offline lead generation and digital lead generation. Offline would include marketing and outreach and via referral. Digital would be via QR code and social media campaigns.**
- Average customer age is 7-8 years
- LTV at 52%, well below NHB threshold of 80%
- 99% property type is residential and balance 1% is commercial under LAP

Underwriting

- Credit process is a blend of field and central operations. Much of the customer interaction activity is done by the field team. There is a maker checker concept for each activity and hence central operations does most of the checker activity.
- Credit underwriting process (first 3 days)
  - Day 1
    - Login by loan officer via mobile application and uses account aggregator for bank statements
  - Day 2 and 3
    - Technical, Credit and Legal - All 3 would be notified by salesforce that there is a loan application in queue
- Collateral valuation has a team of ~150 people
  - **75% of valuations would be in-house**
  - **External valuation is done only in 2 cases which is new branch and high ticket size which is above INR 1.5mn**
- **On an average, rejection rate is ~45% at the country level and ~55% is the country level sanction rate**
- ***Most of the rejection is due to collateral rejection and lesser customer cashflows***
- **Around 2.5% + GST is average loan processing fees wherein home loan is lower and LAP is higher**

Network

- India Shelter has strong distribution moat with its pan-India network in 15 states via 265 branches and maintains a granular portfolio with ATS of ~INR 1mn
- Looking to add 40-45 branches every year
- **Current branch network divided into 6 zones as follows:**
    - Rajasthan and Gujarat
    - South India
    - Maharashtra
    - Madhya Pradesh
    - North which includes Delhi NCR and Uttar Pradesh
    - Punjab, Haryana, Chandigarh and Uttarakhand
- **Number for branches expected to be 500 by FY30 with vintage split expected as follows:**
    - 9% up to 1 year branches
    - 29% 1-3 year branches
    - 62% More than 3 year branches
- **Usually, it covers 50-60 kms of AUM via a single branch**
- ***Operation executive is hired on Day 1 of opening branch and it is responsible for customer service***
- **North East, J&K, Kerels are the states where it doesn't operate and that is around 5-7% of the total market size. Hence, it is not looking to expand into new states beyond 15**

Employees

- **None of its employees are off-roll employees**
- **All functions which accountability or responsibility on sales/collections are given ESOP**
- **All employees who have been given ESOP have a low attrition rate of less than 10%**
- 329 employees are covered under ESOP program, comprising: ~25% of the employees excluding frontline staff
- **Attrition rate is 40-45% at entry level.** However, Regrettable attrition is much lesser than non-regrettable attrition

Productivity

- LO productivity - 1 in FYF21 to 3 in Q3FY25
- Branch manager productivity - INR 5.3mn to INR 8.9mn
- Area manager productivity – INR30mn in FY21 to INR 70mn in Q3FY25
- Average AUM per branch– INR 190mn in FY21 to INR 290mn

Lead generation by loan officer (LO)

- Average LO earns 7-8k variable incentive on fresh sourcing and fixed salary is 20-25k
- **LO should be local** and born and brought up in that market. He can therefore generate referrals and build relationships
- LO usually generate leads/business basis their relationship
- Company doesn't provide any referral to LO for lead generation

Margins

- **~60% is fixed and ~40% is semi variable, which is 3 years fixed and post that, it would be floating**
- Increased variable rate lending to reduce interest rate risk, since banks in India usually lend on variable rate

DA and co-lending

- DA to AUM would be maintained around 15-18% in the medium-term
- Started doing co-lending past year with Axis Bank for only LAP
- Total disbursements to co-lending now at 6% and is gradually inching-up
- 80:20 is the ratio for co-lending with 80% towards bank

AUM

- Adding 40-45 branches every year and improving productivity per employee will aid the company to reach AUM growth target of INR 300bn.
- **Consistent BT-out is 5.5-6%**
- **Most of the BT-out is to large banks**
- **Multiple levers for growth**
  - *Loan officer productivity and branch vintage*
  - *Penetration in existing geographies*
  - *Operating leverage*
  - *Ticket size increase of around 7-8%*

Asset quality

- **Credit cost guidance is 40-45bps and it is looking to maintain around similar levels**
- ~3,000 NPA accounts got resolved in the past 15 years since incorporation. Of this, it has repossessed 350 properties while for >2,500, it has not resorted to repossession. This is lower because even customer equity is also involved in housing loan and hence typically, customer would look for settlement rather than letting go the property
- **Customer bureau score is reviewed every quarter post disbursement**
- It does not have any third party agency for collections
- **NPA peaks at 36-48 MOB**

Collection

- 1-30dpd for 12 MOB goes to business team
- 1-60dpd beyond 12 MOB goes to collection team
- For 90+ dpd, legal team also enters collection methodology
- **HL and LAP has same collection team**

Risk

- India Shelter was one of the early adopters of EDF and it was the first HFC to go live on EDF
- It is a proprietary in-house risk model
- **One of the benefits of scorecard is risk based pricing**
- Risk management is embedded in every process at India Shelter
- Legal & technical fee calculator eliminates manual entry and ensures accuracy

Technology

- **Radial analyzer tool prepared in partnership with Google - This helps in geo mapping of customer address**
- Most of the heavy cost is already absorbed related to technology
- It has started a lot of customers centric and tech centric initiatives
- *97% E-NACH mandate*
- *96% digital collection like UPI, BBPS, iServe, website etc.*
- *72% e-stamping of agreements*
- **78% of customers are registered on iServe app**
- **Digital collection: 90% in FY23 to 95% in FY25**
- **E-sign: 5% in FY22 to 99% in FY25**

Rating profile

- **Rated by India Rating, ICRA & Care: Rating at AA- by all 3 agencies**
- It will look for rating upgrade, post crossing INR 100bn AUM. Once it gets rating upgrade to AA from AA- currently, then it would be able to tap capital markets as well.

Regulatory aspect

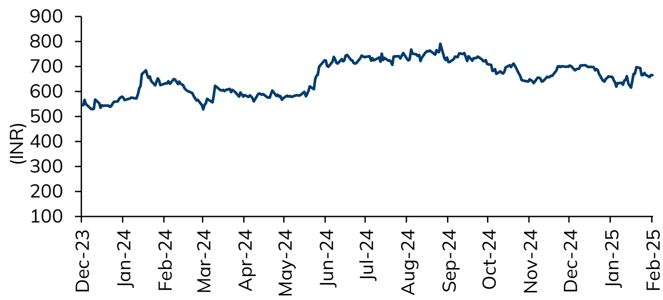
- It has recently gone through NHB regular audit and there were no red flags raised by the regulator.

Exhibit 20: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	48.2	48.1	48.0
Institutional investors	22.7	27.7	26.9
MFs and others	14.0	14.6	14.0
FIs/Banks	0.0	0.0	0.0
Insurance	2.9	6.7	6.1
FIIs	5.8	6.4	6.8
Others	29.1	24.2	25.1

Source: Bloomberg

Exhibit 21: Price chart



Source: Bloomberg

Financial Summary

Exhibit 22: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Interest Income	7,026	9,627	13,031	17,489
Interest Expenses	(2,885)	(3,777)	(5,509)	(7,777)
Net Interest Income (NII)	**4,141**	**5,850**	**7,522**	**9,712**
Total Income (net of interest expenses)	5,729	7,907	10,302	13,444
Employee benefit expenses	(1,794)	(2,419)	(3,231)	(4,186)
Depreciation and amortization	(99)	(99)	(99)	(99)
Other operating expenses	(452)	(644)	(791)	(1,093)
Total Operating Expense	(2,345)	(3,163)	(4,121)	(5,378)
Pre Provisioning Profits (PPoP)	**3,384**	**4,744**	**6,181**	**8,066**
Provisions and write offs	(192)	(283)	(413)	(544)
Profit before tax (PBT)	3,192	4,461	5,768	7,522
Total tax expenses	(716)	(1,030)	(1,331)	(1,736)
Profit after tax (PAT)	**2,476**	**3,432**	**4,437**	**5,786**

Source Company data, I-Sec research

Exhibit 23: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Share capital	535	535	535	535
Reserves & surplus	22,451	25,883	30,320	36,106
Shareholders' funds	**22,987**	**26,418**	**30,855**	**36,641**
Borrowings	**34,151**	**50,724**	**73,065**	**1,01,710**
Provisions & Other Liabilities	804	815	853	893
Total Liabilities and Stakeholder's Equity	**57,942**	**77,958**	**1,04,773**	**1,39,244**
Cash and balance with RBI	3,777	5,499	8,329	11,159
Fixed assets	295	310	326	342
Loans	**50,624**	**68,741**	**92,540**	**1,23,986**
Investments	1,578	1,657	1,740	1,827
Deferred tax assets (net)	31	32	34	35
Other Assets	1,637	1,719	1,805	1,895
Total Assets	**57,942**	**77,958**	**1,04,773**	**1,39,244**

Source Company data, I-Sec research

Exhibit 24: Key Ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
AUM and Disbursements (INR mn)				
AUM	60,840	82,613	1,11,215	1,49,007
On-book Loans	50,624	68,741	92,540	1,23,986
Off-book Loans	10,216	13,872	18,675	25,021
Disbursements	26,460	35,192	46,821	62,314
Repayments	9,617	13,419	18,218	24,522
Growth (%):				
Total AUM (%)	39.6	35.8	34.6	34.0
Disbursements (%)	34.7	33.0	33.0	33.1
Repayments (%)	41.8	39.5	35.8	34.6
Loan book (on balance sheet) (%)	40.3	35.8	34.6	34.0
Total Assets (%)	34.9	34.5	34.4	32.9
Net Interest Income (NII) (%)	41.3	41.3	28.6	29.1
Total Income (net of interest expenses) (%)	44.5	38.0	30.3	30.5
Operating Expenses (%)	30.0	34.9	30.3	30.5
Employee Cost (%)	33.3	34.8	33.5	29.5
Non-Employee Cost (%)	20.2	42.7	22.7	38.2
Pre provisioning operating profits (PPoP) (%)	56.6	40.2	30.3	30.5
Provisions (%)	36.3	47.7	46.0	31.6
PBT (%)	58.0	39.8	29.3	30.4
PAT (%)	59.4	38.6	29.3	30.4
EPS (%)	30.3	38.6	29.3	30.4
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	9.6	9.8	9.3	9.0
NIM on IEA (%)	7.3	7.7	7.2	6.9
NIM on AUM (%)	7.9	8.2	7.8	7.5
Yield on loan assets (%)	16.2	16.1	16.2	16.2
Yield on IEA (%)	12.4	12.6	12.6	12.5
Yield on AUM (%)	13.5	13.4	13.4	13.4
Cost of borrowings (%)	9.0	8.9	8.9	8.9
Interest Spreads (%)	7.2	7.2	7.3	7.3
Operating efficiencies				
Cost to income ratio	40.9	40.0	40.0	40.0
Op.costs/avg assets (%)	4.6	4.7	4.5	4.4
Op.costs/avg AUM (%)	4.5	4.4	4.3	4.1
Salaries as % of non-interest costs (%)	76.5	76.5	78.4	77.8
NII /employee (INR mn)	1.2	1.5	1.6	1.8
AUM/employee (INR mn)	18.3	21.1	24.2	27.8
AUM/ branch (INR mn)	272.8	305.6	342.2	383.3
Capital Structure				
Average gearing ratio (x)	1.5	1.9	2.4	2.8
Leverage (x)	2.5	3.0	3.4	3.8
CAR (%)	71.0	60.6	53.9	48.0
Tier 1 CAR (%)	70.5	60.2	53.6	47.8

Source Company data, I-Sec research

	FY24A	FY25E	FY26E	FY27E
Asset quality and provisioning				
GNPA (%)	1.0	1.2	1.2	1.2
NNPA (%)	0.7	0.9	0.9	0.9
GNPA (INR mn)	501	825	1,110	1,488
NNPA (INR mn)	376	603	811	1,087
Coverage ratio (%)	25.0	27.0	27.0	27.0
Credit Costs as a % of avg AUM (bps)	37	39	43	42
Credit Costs as a % of avg on book loans (bps)	44	47	51	50
Return ratios				
RoAA (%)	4.9	5.1	4.9	4.7
RoAE (%)	14.0	13.9	15.5	17.1
ROAAUM (%)	4.7	4.8	4.6	4.4
Dividend Payout ratio (%)	-	-	-	-
Valuation Ratios				
No of shares	107	107	107	107
No of shares (fully diluted)	107	107	107	107
EPS (INR)	23.1	32.1	41.4	54.1
EPS fully diluted (INR)	23.1	32.1	41.4	54.1
Price to Earnings (x)	30.1	21.7	16.8	12.9
Price to Earnings (fully diluted) (x)	30.1	21.7	16.8	12.9
Book Value (fully diluted)	215	247	288	342
Adjusted book value	212	243	283	335
Price to Book	3.2	2.8	2.4	2.0
Price to Adjusted Book	3.3	2.9	2.5	2.1
DPS (INR)	-	-	-	-
Dividend yield (%)	-	-	-	-

Source Company data, I-Sec research

Exhibit 25: Key Metrics

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
DuPont Analysis				
Average Assets (INR mn)	50,449	67,950	91,365	1,22,009
Average Loans (INR mn)	43,358	59,682	80,640	1,08,263
Average Equity (INR mn)	17,696	24,702	28,637	33,748
Interest earned (%)	13.9	14.2	14.3	14.3
Interest expended (%)	5.7	5.6	6.0	6.4
Gross Interest Spread (%)	**8.2**	**8.6**	**8.2**	**8.0**
Credit cost (%)	0.4	0.4	0.5	0.4
Net Interest Spread (%)	**7.8**	**8.2**	**7.8**	**7.5**
Operating cost (%)	4.6	4.7	4.5	4.4
Lending spread (%)	**3.2**	**3.5**	**3.3**	**3.1**
Non interest income (%)	3.1	3.0	3.0	3.1
Operating Spread (%)	**6.3**	**6.6**	**6.3**	**6.2**
Tax rate (%)	22.4	23.1	23.1	23.1
ROAA (%)	**4.9**	**5.1**	**4.9**	**4.7**
Effective leverage (AA/ AE)	2.9	2.8	3.2	3.6
RoAE (%)	**14.0**	**13.9**	**15.5**	**17.1**

Source Company data, I-Sec research

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