

08 February 2025

India | Equity Research | Results update

India Shelter Finance Corporation

NBFCs

Steady quarter for margins and credit costs; robust AUM growth continues

Steady traction in earnings for India Shelter continued in Q3FY25 with RoE further expanding 30bps QoQ to 15.1%. Robust AUM growth at 8% QoQ, steady spread at >6% and stable credit cost QoQ were primary drivers of Q3 earnings growth of 7% QoQ / 54% YoY. Robust technology with one of the lowest TAT and end-to-end digital loan process without any physical movement of loan file are key enablers of industry-leading growth. We believe higher proportion of LAP portfolio (40% of AUM), resulting in better spreads than peers, ~60% fixed rate loans (dual advantage of low BT-out and better yields during downward interest rate cycle) would help India Shelter in sustaining better profitability than peers. Maintain **BUY** with TP of INR 850, valuing the stock at 3.2x on Sep'25E BVPS.

PMAY scheme and its robust tech platform to ensure sustenance of 30-35% AUM growth in near term

India Shelter delivered >40% AUM CAGR during FY21-24 and it sustained growth momentum during 9MFY25, as reflected in 8% QoQ / 36% YoY growth and 25% YTD growth, driven by 6% QoQ / 30% YoY disbursement growth. Incremental growth was tilted in favour of LAP which grew ~11% QoQ vs ~6% QoQ growth in home loans. However, for FY25-YTD, both the portfolios are equally up by ~25%. Overall, it is maintaining HL share in portfolio at 58-59% and balance is towards LAP. While it acknowledges reintroduction of the PMAY scheme to boost credit demand, it maintains medium-term AUM growth guidance of 30-35% YoY.

Credit cost stable QoQ despite tough environment

Higher share of LAP (~41% and perceived to be more vulnerable than HL) within AHFC space and ongoing stress in unsecured business loans raise uncertainty on the near-term asset quality performance for LAP players. However, management clarified that conservative LTVs of ~52%, average FOIR at 48%, 98% self-occupied residential properties and 98% in-house sourcing would ensure India Shelter sustains asset quality at current level. Despite challenging environment, its credit cost was stable QoQ and it maintains overall full-year FY25 credit cost guidance of 40-50bps.

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)	30.2	21.8	16.8	12.9
P/BV (x)	3.3	2.8	2.4	2.0
Gross Stage - 3 (%)	1.0	1.2	1.2	1.2
Dividend Yield (%)	-	-	-	-
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)	860mn
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	(2.0)	(2.9)	6.7
Relative to Sensex	0.1	(0.9)	(1.2)

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	4	2

Previous Reports

27-10-2024: [Q2FY25 results review](#)

09-08-2024: [Q1FY25 results review](#)

Steady asset quality across most parameters

Gross stage-3 as well as net stage-3 were flat QoQ at 1.2%/0.9% respectively, thereby, leading to PCR of ~25% on stage-3. Provisions on overall book was also stable QoQ at ~0.9% and credit cost for the quarter was flat on sequential basis at ~50bps of average AUM, which is within its guided range. On QoQ basis, CE was also flat at 99%. Overall, most asset quality parameters were stable on QoQ basis.

Lead indicators such as 30+ dpd rose 10bps QoQ and 20bps YoY to 3.7%, while 1+dpd was in the range of 700-750bps (up ~100bps YoY). However, Q4 is seasonally strong, and hence, management expects asset quality ratios to improve on sequential basis in Q4.

In Q2, there was rise in delinquency in a few geographies like Madhya Pradesh for India Shelter, wherein issues were internally related to its manpower. To address this, it has strengthened its team in these areas and normalcy is expected to kick in soon.

Q3FY25 financial performance: Steady RoA/RoE on QoQ basis

India Shelter reported strong AUM growth at 8 % QoQ / 36% YoY, taking the total AUM to INR 76.2bn, aided by healthy disbursements growth at 6% QoQ / 29% YoY. On margin front, it was a steady quarter with flat yield/cost/spread at 14.9%/8.8%/6.1%, respectively, while opex growth largely mirrored AUM growth. Overall, operating profit was up 7% QoQ / 56% YoY.

Asset quality metrics were stable with gross stage-3 being flat QoQ at 1.2% and even net stage-3 being flat QoQ at 0.9 and credit cost to total assets was also flat QoQ at 0.5% Overall, PAT was up 7% QoQ / 54% YoY at INR 0.9bn, translating into RoA of 5.5% (5.6% QoQ) and RoE of 15.1% (14.8% QoQ).

Stable spreads; could be beneficiary of rate cut cycle

Portfolio yield came in at 14.9% which was flat QoQ and close to its disbursements yield at ~15%. Cost of funds at 8.8% was also stable QoQ and its marginal cost of funds for 9MFY25 stood at 8.9%, largely equal to its current cost of funds. Moreover, it has undrawn sanction of INR 4.5bn from NHB. Spreads continue to hover in a tight range of 5.9-6.1% and for Q3, it was flat QoQ and it maintains its guidance on spreads of >6% for FY25.

In terms of rate cut, it has 90% of its borrowings on floating basis, while ~60% of its assets are on floating basis, thereby, giving India Shelter an opportunity to benefit from the rate cut cycle.

Branch opening front loaded; efficiencies to aid curtailment in opex to assets

India Shelter added 37 branches in H1 and another 5 in Q3, taking the total branch addition for 9MFY25 to 42 and total branch count now stands at 265. It guides for adding 40-45 branches in a year, which seems to be almost done for FY25. Overall, as operating efficiency kicks in and the company is able to reap the benefits of its investments in branches, with branch vintage, we can expect consistent moderation in opex to assets over medium term. It has been doing well on AUM as well as income growth fronts, and hence, despite such rapid branch addition, cost to income for 9MFY25 was 37.5% vs 42.3% for 9MFY24.

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.

Q3FY25 conference call takeaways

Guidance (medium-term)

- AUM growth of 30-35%
- Margins around 6%
- Credit cost at 40-50bps
- 40-45 branch additions every year.

Margins

- 40% floating on asset side
 - 85-90% of monthly disbursements currently are on floating basis.
- 90% floating on borrowing side
 - 1/3rd of total borrowings is linked to repo rate, while the larger part of MCLR borrowings is at 1-year reset.
- Disbursement yield at 15% vs portfolio yield of 14.9%.
- Undrawn sanction of INR 4.5bn from NHB.

AUM, disbursements

- **BT-out at 5.5% and is consistent since the past few quarters.**
- LAP portfolio was up 13% QoQ, but that can also be attributed to seasonality.
- 18-20% sourcing was via PMAY in PMAY 1.0 scheme.

Fee income

- **Fee income to be around 170-180bps of average AUM which includes income towards:**
 - Foreclosure
 - Loan servicing
 - Loan application
 - Insurance income
- Co-lending is picking up, which is contributing towards higher growth in fee income

Asset quality

- Consistent w/off policy after being in NPA for 2 years.
- **Technical w/off or INR 60mn and recovery from w/off at INR 40mn.**
- **1+dpd was around 7-7.5% (up ~100bps YoY). However, Q4 being seasonally strong in terms of asset quality, it expects some improvement in Q4.**

Opex

- 78% of total employees are in the form of executive as sales officer, collection officer etc.
- 15-18% in supervisory role as branch manager, area manager, regional manager etc.
- 4-5% at head office and heading various functions and doing supervisory roles.
- 60% cost is coming from field and the remaining 40% from supervisory / head office.
- Earlier, 10% of employees were covered under ESOP, which has now increased to 25%.

- Attrition rate is less than 10% for resources which are under ESOP policy.
- Overall attrition stands at 37-38%.
- Attrition for employees with more than 1 year and above in the company at 15-17%.

Miscellaneous

- It has hired a new team for sales and collection in Madhya Pradesh, and hence, it will need some time to get the book back on track.

Q2FY25 conference call takeaways

Disbursement

- 18-19% is NTC and these borrowers take a loan to buy their homes and demand for this product is good.
- Disbursement is pan-India and not just in any one particular state.
- Disbursement per branch – with vintage of <1 year is INR 7-7.5mn per month, 1-3 years is INR 1-110mn per month and >3 years is >120mn per month.

Asset quality

- Rise in delinquencies in Madhya Pradesh (MP) due to issues relating to manpower. There was higher attrition within senior folks. The issue stands resolved now with senior people being hired. There has been course correction. It will take 6 months to stabilise.
- *Stage 3 for HL stands at 1.15% and 1.4% for NHL.*
- *To maintain credit cost at 40-50bps in FY25.*
- 30+ DPD has remained stable at 3.5-3.6%.
- Stage 3- up by 10bps.

Margins

- Securitisation margins are high, as securitisation is mainly from NHL book, and yield on that book is 15% and COB is 9%.
- COF has been flat in Q2 though there was increase in MCLR by 40-50bps which was offset by the benefit of improved credit rating.
- COF may come down by 10-15bps in near term.
- In medium term, yield will remain at 15% and spread at 6% and if benefit occurs due to improvement in COB, company will pass the benefit to customer.
- Majority of book is fixed and if rate cut will give advantage, then it will pass on the advantage to customer.

Product

- Large ticket size (TS) has shown weak performance.
- LAP delinquency is higher than HL. H1 has seasonality impact on LAP customer and the trend of H1 being weaker is always observed.
- Not much stress but more effort needs to be added on collection side.
- There are 93,500 customers on book and those are 100% secured with average LTV of 52%. 92% of customers are sourced from T2 and T3 cities. 76% customers are self-employed.

Fee Income

- *DA income is in line with AUM. DA as a % of AUM is 16%.*
- *In co-lending business, company has 100% share in fee income, Co-lending at this point of time is around 6% of total disbursement.*

Branch:

- *It opens 40-42 branches every year. As the base is growing, opex will go down, currently opex is 4.25bps vs 4.4bps earlier.*
- *It plans to open 42 branches in FY25 of which it has already opened 37 as of Sep'24.*
- *Monthly customers per branch is 25-30 but disbursement is ~11-12 customers. Min ~5-6 people are hired for a new branch.*

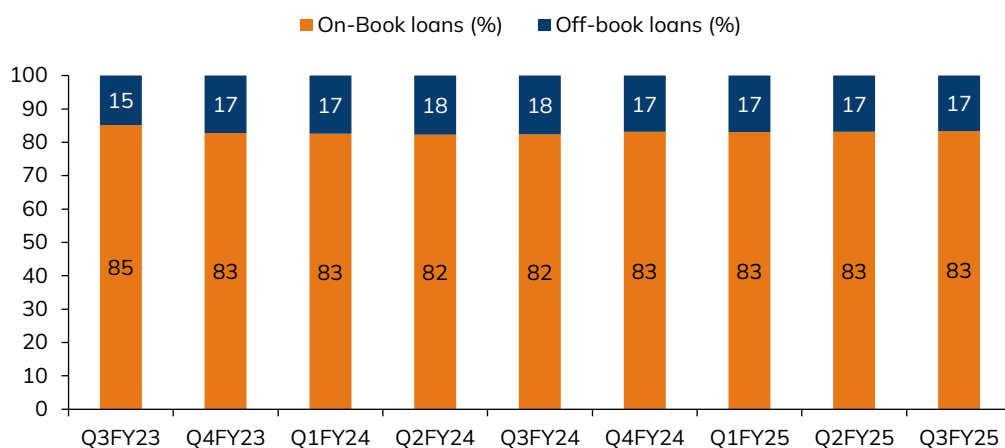
Others:

- *6% is the BT out.*
- *RoE is 14.8%- there will be improvement of 10-15bps QoQ and will reach 17% in medium term.*
- *Rating upgrade from ICRA. AA- from all rating agencies.*
- *90% of disbursement is directly sourced.*

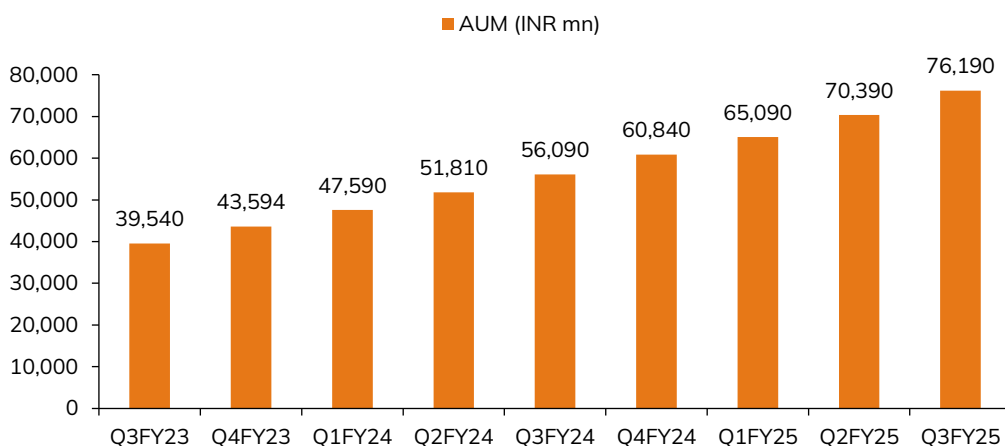
Exhibit 1: Q3FY25 result review

(INR mn)	Q3FY24	Q2FY25	Q3FY25	% YoY	% QoQ
Income statement					
Interest income	1,768	2,248	2,407	36.1	7.1
Interest expenses	741	846	920	24.2	8.8
Net interest income	1,027	1,402	1,486	44.7	6.0
Non-interest Income	413	583	634	53.5	8.8
Total Income (net of interest expenses)	1,440	1,985	2,121	47.2	6.8
Employee expenses	457	546	600	31.3	10.1
Depreciation and amortization	25	28	30	21.8	6.4
Other operating expenses	108	164	161	49.0	(2.1)
Total Operating Expense	590	738	791	34.1	7.2
Pre-provisioning profit (PPoP)	850	1,247	1,330	56.3	6.6
Provisions and write offs	41	78	89	115.1	13.3
PBT	809	1,169	1,241	53.4	6.2
Tax expenses	188	270	282	49.9	4.3
PAT (Adjusted)	621	899	959	54.4	6.7
EPS (INR)	6.7	8.4	8.9	32.5	6.4
Balance Sheet					
Share capital	535	537	539	0.7	0.4
Reserves & surplus	21,553	24,349	25,408	17.9	4.3
Shareholders' funds	22,088	24,886	25,947	17.5	4.3
Borrowings	35,127	40,109	45,498	29.5	13.4
Other Liabilities and provisions	867	1,006	1,228	41.6	22.1
Total Liabilities and SHE	58,082	66,001	72,673	25.1	10.1
Fixed assets	289	300	303	4.8	1.0
Loans	46,220	58,569	63,503	37.4	8.4
Cash & bank balances	7,779	1,974	3,158	(59.4)	60.0
Investments	2,070	3,231	3,617	74.7	11.9
Other Assets	1,725	1,927	2,092	21.3	8.6
Total Assets	58,083	66,001	72,673	25.1	10.1
Key ratios					
AUM (INR mn)	56,090	70,390	76,190	35.8	8.2
Disbursements (INR mn)	6,790	8,280	8,790	29.5	6.2
Yields (%)	14.8	14.9	14.9	9 bps	0 bps
COB (%)	8.8	8.8	8.8	0 bps	0 bps
Spreads (%)	6.0	6.1	6.1	9 bps	0 bps
Gross Stage 3 (%)	1.2	1.2	1.2	0 bps	0 bps
Net Stage 3 (%)	0.9	0.9	0.9	0 bps	0 bps
DPD 30+	3.5	3.6	3.7	20 bps	10 bps
ECL Provision (%)	1.0	0.9	0.9	-3 bps	0 bps
Annualised credit cost (%)	0.31	0.46	0.48	17 bps	2 bps
Opex to AUM (%)	4.37	4.36	4.32	-6 bps	-4 bps
ROA (%)	4.7	5.6	5.5	80 bps	-10 bps
ROE (%)	13.9	14.8	15.1	120 bps	29 bps

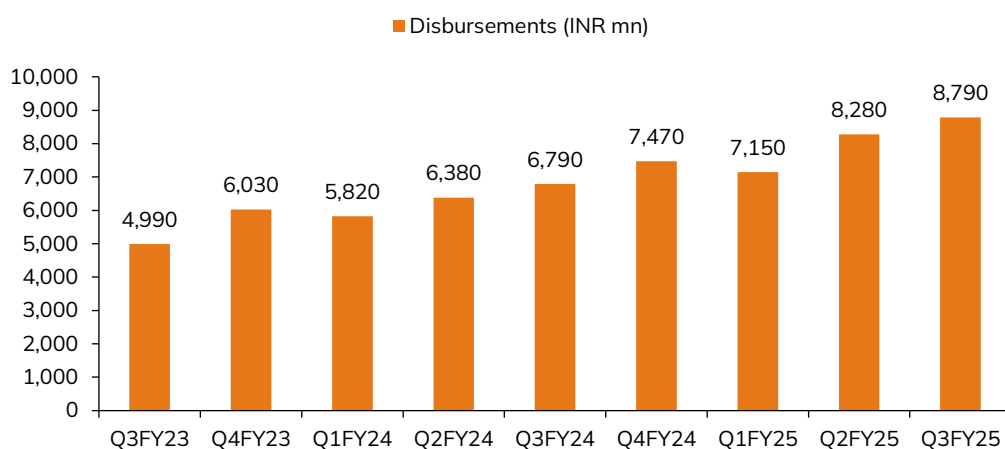
Source: Company data, I-Sec research

Exhibit 2: Off-book loan share steady in the range of 17-18%


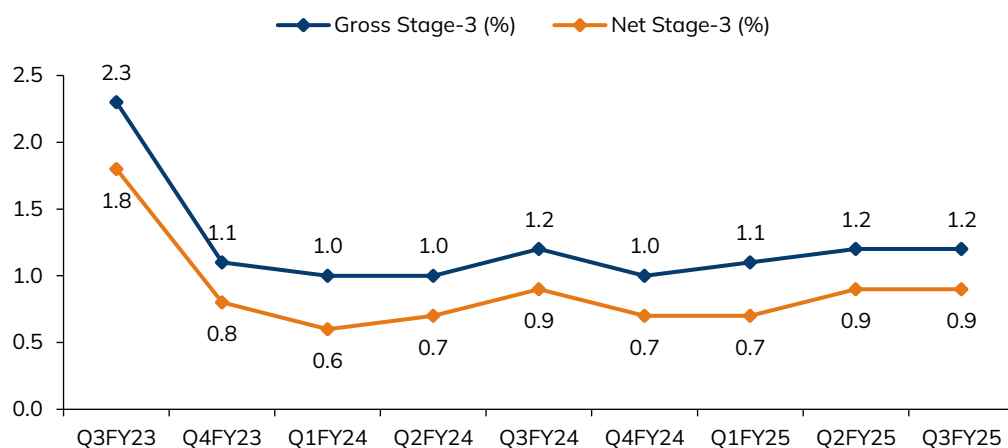
Source: Company data, I-Sec research

Exhibit 3: AUM sees gradual and consistent uptick


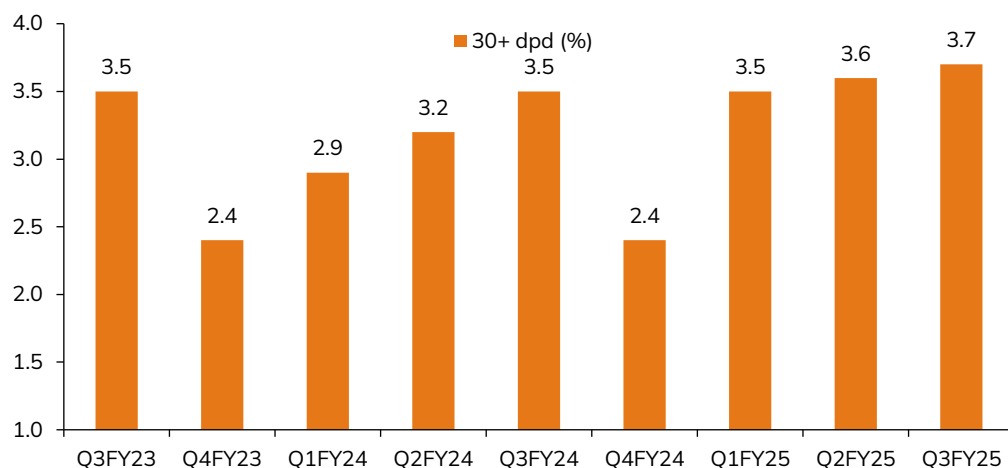
Source: Company data, I-Sec research

Exhibit 4: Disbursements momentum continues in Q3 as well


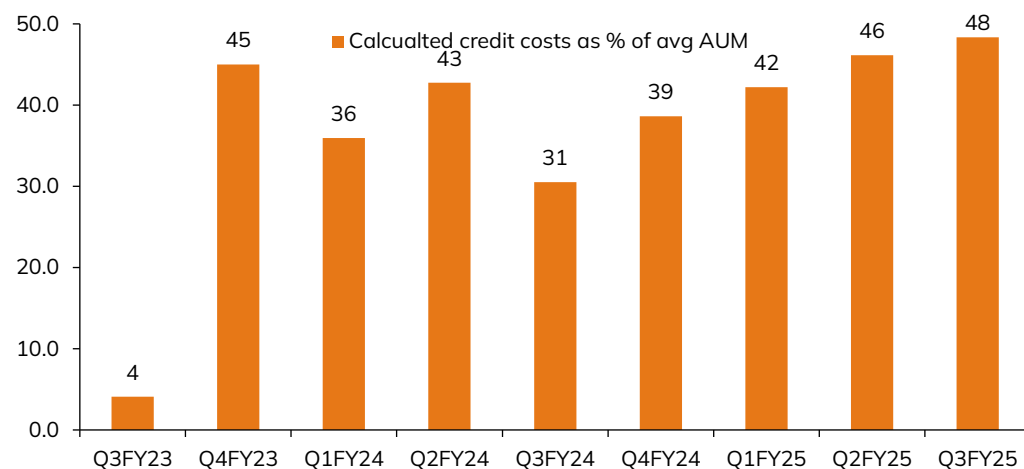
Source: Company data, I-Sec research

Exhibit 5: Gross as well as net stage-3 flat QoQ

Source: Company data, I-Sec research

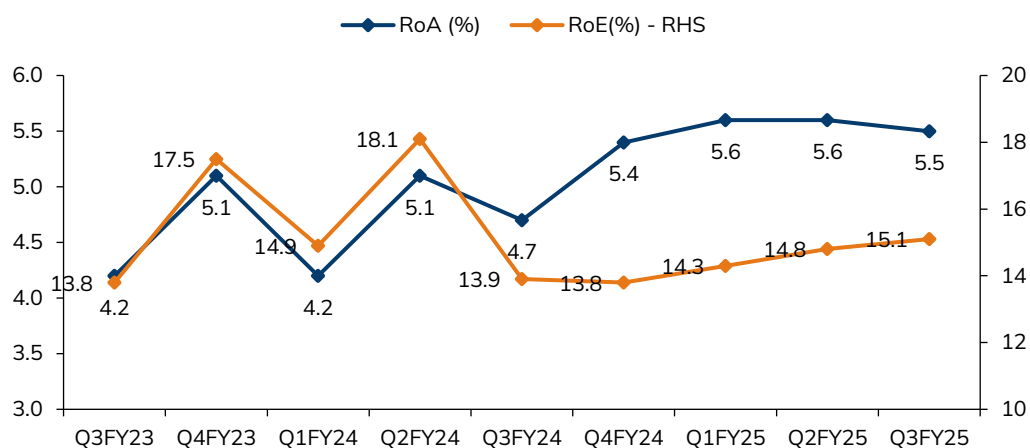
Exhibit 6: 30+ dpd 10bps higher QoQ

Source: Company data, I-Sec research

Exhibit 7: Credit cost has inched up a tad QoQ

Source: Company data, I-Sec research

Exhibit 8: RoA sustains above 5%



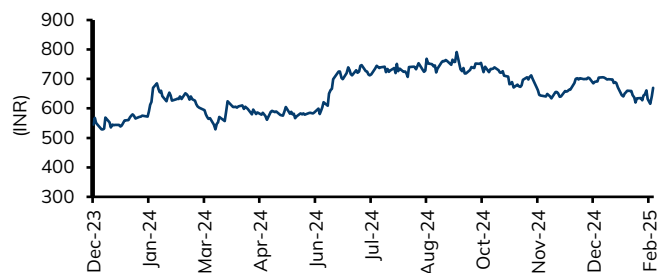
Source: Company data, I-Sec research

Exhibit 9: 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
FIIIs	5.8	6.4	6.8
Others	29.1	24.2	25.1

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: 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 12: 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 13: 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
Non-interest income (%)	53.7	29.6	35.1	34.3
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
Tier 2 CAR (%)	0.5	0.4	0.3	0.2
RWA (estimate) - INR mn	30,814	41,796	55,234	74,038
RWA as a % of loan assets	60.9	60.8	59.7	59.7

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)	30.2	21.8	16.8	12.9
Price to Earnings (fully diluted) (x)	30.2	21.8	16.8	12.9
Book Value (fully diluted)	215	247	288	342
Adjusted book value	212	243	283	335
Price to Book	3.3	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 14: 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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