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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

India Shelter Finance Corp. Ltd.

09 May 2024

Yet another quarter of strong performance

COMPANY UPDATE

Sector: NBFCs

Rating: NR

CMP: 600

Target Price: NA

Stock Info

Sensex/Nifty	73,020/22,165
Bloomberg	INDIASHL IN
Equity shares	107 mn
52-wk High/Low	723/519
Face value	Rs 5
M-Cap	Rs 64.3bn/USD 0.8bn
3-m Avg volume	USD 7.9mn

Financial Snapshot (Rs mn)

Y/E March	FY22	FY23	FY24
NII	2,293	2,931	4,141
PPP	1,789	2,160	3,384
PAT	1,284	1,554	2,476
EPS (Rs)	12.0	14.5	23.1
EPS Gr. (%)	47.0	21.0	59.4
BV/Sh (Rs)	101	116	215

Ratios

NIM (%)	8.7	7.9	7.9
C/I ratio (%)	42.6	45.5	40.9
RoA (%)	4.5	4.1	4.9
RoE (%)	12.8	13.4	14.0
Payout (%)	0.0	0.0	0.0

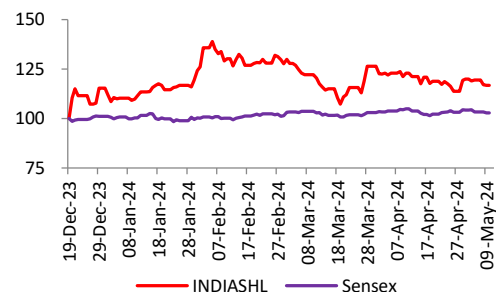
Valuations

P/E (x)	50.3	41.6	26.1
P/BV (x)	6.0	5.2	2.8

Shareholding pattern (%)

	Dec-23	Mar-24
Promoter	48.3	48.3
FII	5.8	5.3
DII	12.6	16.1
Others	33.2	30.3

Stock Performance (1-year)



India Shelter Finance Corp. Ltd (INDIASHL) 4QFY24 operational performance was strong led by robust business growth and margin expansion (partly supported by interest income on IPO proceeds). NII/OP came in at Rs 1.3bn / Rs 1bn registering a growth of 58% YoY/ 44% YoY. Opex to AUM ratio was steady at 4.4% while CI ratio improved to 38% aided by higher income levels. Despite higher provisions during the quarter at Rs 56mn, up 37% QoQ, PAT registered a strong growth of 47% YoY / 25% QoQ at Rs 779mn. In terms of business, AUM growth of 40% YoY / 9% QoQ led by healthy disbursements. On the asset quality front, GS3 / NS3 asset ratio improved 24bps / 16bps QoQ at 1.0% / 0.7%. The management is confident of achieving 35% YoY growth in AUM in FY25, which we believe is achievable given the low base and management's branch expansion plan. With a strong management team and presence in tier II and III, INDIASHL is well placed to capitalize on huge opportunity in the affordable housing segment. We remain optimistic about its niche placement in the affordable housing space. At CMP, stock is trading at 2.8x FY24 BV (annualized), which is ~25-35% discount to other peers like HOMEFIRST/ APTUS. We believe with higher growth than peers and superior underwriting and strong management team, the valuation discount with peers will narrow down gradually.

Key result highlights

- INDIASHL 4QFY24 operational performance was strong led by robust business growth and NIMs expansion (partly supported by interest income on IPO proceeds). NII/OP came in at Rs 1.3bn / Rs 1.0bn registering a growth of 58% YoY/ 44% YoY led by 40% YoY growth in AUM and NIM expansion of 132bps QoQ.
- Yields (reported) stood at 14.9% (vs 14.8% in Q3), coupled with steady cost of funds (reported) resulted in spreads of 6.1% (vs 6.0% in Q3).
- Opex to AUM ratio was largely steady at 4.4% while cost to income has improved to 38% (from ~40% in Q3FY24 and Q4FY23) led by higher income levels. Despite provisions inching at to Rs 56mn resulting in credit cost of ~40bps vs 30bps in Q3, PAT registered a strong growth of 47% YoY and 25% QoQ (Rs 779mn).
- AUM growth was strong at 40% YoY / 9% QoQ led by 24% YoY / 10% QoQ growth in disbursements. Home loans, which form 58% of AUM, grew 43% YoY / 9%, while LAP portfolio grew 35% YoY / 9% QoQ.
- GS3 / NS3 asset ratio improved by 24bps / 16bps QoQ at 1% / 0.7%. 30+ DPD also improved to 2.4% from 3.5% in Q3. PCR on stage 3 stood at 25% vs 26% in Q3.

Valuation & recommendation

INDIASHL is focused on affordable housing segment and targets self-employed customers (~72% of AUM). INDIASHL is well placed in the affordable housing segment in low ticket size segment (ticket size upto Rs 10 lakhs forms ~50% of AUM) with a major presence in tier II and III cities. We believe there is huge scope for growth in existing geographies where INDIASHL operates. At CMP, stock is trading at 2.8x FY24 BV (Annualized), which is ~25-35% discount to other peers like HOMEFIRST/ APTUS. We believe with higher growth than peers and superior underwriting and strong management team, the valuation discount with peers will narrow down gradually.

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Investors are advised to refer disclosures made at the end of the research report.

Management commentary

Business:

- Strong AUM growth of 40% (9% QoQ) driven by healthy 24% YoY (10% QoQ) growth in disbursements.
- Continued investments in branch, people and technology aided in strong growth.
- Repayment rates reduced by 3% (from 22% in FY23 to 19% in FY24). 1% of which due to removal of CLSS scheme and 2% due to decline in BT out rate.
- BT out rate is ~5.5% vs ~6.5% last year. Most of the customers gets shifted to PSU banks and large NBFCs. It is mainly happening in tier 1-2 towns.
- Disbursement cases per branch can reach upto ~17-18 (nos) per month.
- Strong liquidity pipeline coupled with consistent rating upgrades. Total liquidity available to the tune of Rs 1.2bn. Undrawn lines from NHB of Rs 2.1bn which will be utilised in Q1FY25.
- Share of affordable fund in NHB funding stood at 50-60% earlier which has reduced to 25-30% as allocation from government side has declined.
- Considering DA transactions, AUM mix at– HL:70%, LAP:30% on balance sheet.
- Share of co-lending stood at 2% and it should increase going forward. Tied up with Pvt and PSU banks for co-lending
- Branch vintage – on an average customer stay for 5-7 years.
- Share of Self-employed segment in overall AUM to increase from 72% to 78% in next 3-4 years.

Margins:

- Recent credit rating upgrade alongside increasing NHB's share in borrowing mix to aid in reducing the COF, expecting a 15-20bps improvement going ahead.
- COF stable at 8.8%, while marginal COF at 8.6%.
- NHB forms 15% of the sourcing mix, due to the credit rating upgrade see NHB share increasing to ~18-20% of the borrowing mix which in-turn will have a positive impact on spreads.

Asset quality:

- 30+DPD to maintained between 2.5% to 3%. 1+DPD improved to 4.2%.
- Restructured pool (covid impact) stands at Rs 300mn of which Rs 20mn is classified under NNPA and remaining Rs 180mn under stage 2.
- Have seen an improvement in LGD which now stands at 25% due to improvement in recovery trend.
- ECL stage 1 to remain in the range of 40-50bps while stage 3 provisions will be at ~24%-27%.

Opex:

- Added 40 new branches in FY24 and 8 new branches in Q4FY24.
- Guiding to add ~42 new branches in FY25 spread across quarters (8-9 per quarter), these will be spread across the 15 states; majority of them would be in South.
- As operating leverage kicks in, opex to come down gradually.

Guidance:

- AUM growth of 30-35% YoY can be achieved.
- Spreads will be maintained at 6%, driven by 15-20bps reduction in cost of funds.
- Opex to AUM to come down by 15-20bps and credit cost of 40bps to led RoA of ~4% in long run.

Exhibit 1: Quarterly performance

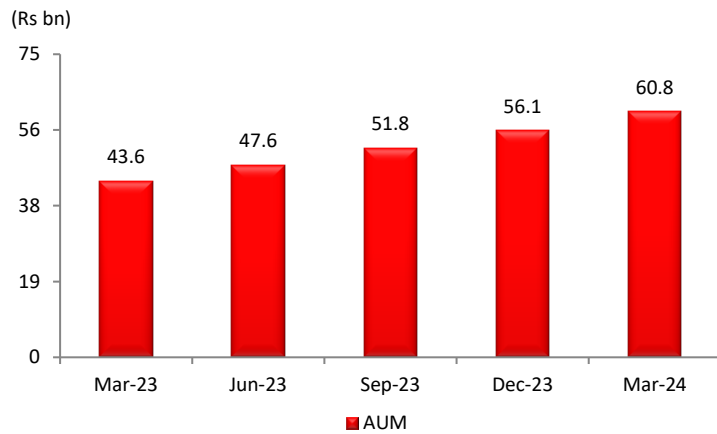
(Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	829	836	967	1,030	1,309	57.9	27.1
Other Income	386	362	423	413	389	0.8	-5.9
Net Income	1,214	1,198	1,390	1,443	1,697	39.8	17.7
Total Operating Expenses	485	547	563	590	644	32.8	9.2
<i>As % Of Net Income</i>	<i>39.9</i>	<i>45.7</i>	<i>40.5</i>	<i>40.9</i>	<i>38.0</i>	<i>(199bps)</i>	<i>(294bps)</i>
Employee Expenses	362	414	430	457	493	36.0	7.7
<i>As % Of Net Income</i>	<i>29.8</i>	<i>34.6</i>	<i>30.9</i>	<i>31.7</i>	<i>29.0</i>	<i>(82bps)</i>	<i>(267bps)</i>
Other Expenses	123	133	133	133	152	23.5	14.3
<i>As % Of Net Income</i>	<i>10.1</i>	<i>11.1</i>	<i>9.6</i>	<i>9.2</i>	<i>8.9</i>	<i>(117bps)</i>	<i>(27bps)</i>
Operating Profit	729	651	827	853	1,053	44.4	23.5
<i>As % Of Net Income</i>	<i>60.1</i>	<i>54.3</i>	<i>59.5</i>	<i>59.1</i>	<i>62.0</i>	<i>199bps</i>	<i>294bps</i>
Provisions	47	41	53	41	56	20.8	37.2
PBT	682	610	774	812	997	46.0	22.8
Total Tax	152	138	172	188	217	43.1	15.3
PAT	531	471	602	623	779	46.9	25.1
Adjusted PAT	531	471	602	623	779	46.9	25.1
Adjusted EPS	6.1	5.4	6.9	7.1	8.9	46.9	25.1

Yield Analysis (%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (bps)	QoQ (bps)
Yield on net loans (calc)	15.9	16.1	16.4	15.9	17.0	108bps	104bps
Cost of borrowing	7.9	8.9	8.9	8.7	8.6	73bps	(9bps)
NIMs (calc)	8.0	7.3	7.8	7.6	9.0	98bps	132bps
Yields (reported)	14.7	14.7	14.7	14.8	14.9	20bps	10bps
Cost of funds (reported)	8.7	8.7	8.8	8.8	8.8	10bps	0
Spreads (reported)	6.0	6.0	5.9	6.0	6.1	10bps	10bps

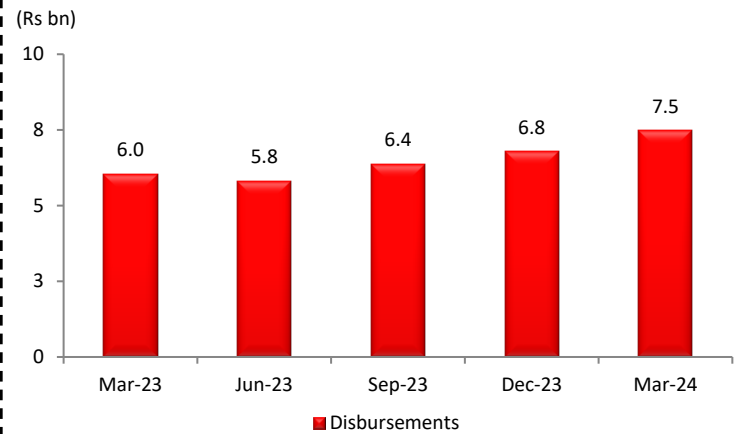
Asset quality (IndAs)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)
Gross Stage 3	419	409	439	570	501	19.6	-12.1
Net Stage 3	310	300	313	421	376	21.3	-10.7
Gross Stage 3 (%)	1.1	1.0	1.0	1.2	1.0	(17bps)	(24bps)
Net Stage 3 (%)	0.8	0.7	0.7	0.9	0.7	(11bps)	(16bps)
Provision cover (%)	26.0	26.7	28.7	26.1	25.0	(104bps)	(119bps)

AUM (Rs mn)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	YoY (%)	QoQ (%)	% of total
Home Loan	24,631	27,126	29,843	32,532	35,287	43.3	8.5	58
LAP	18,964	20,464	21,967	23,558	25,553	34.7	8.5	42
Total	43,594	47,590	51,810	56,090	60,840	39.6	8.5	100

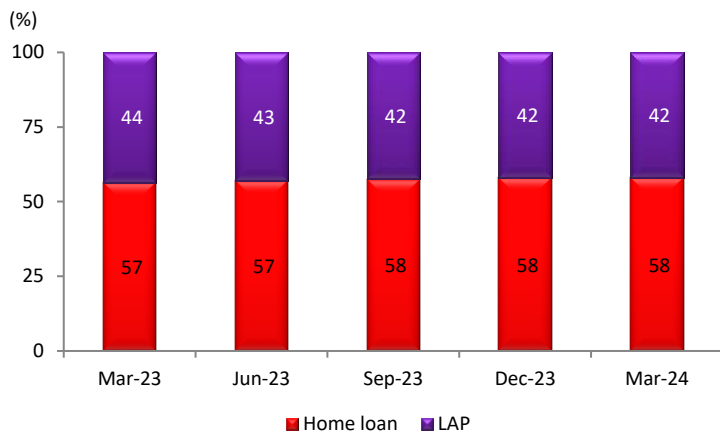
Source: Company, Systematix Institutional Research

Exhibit 2: AUM grew 40% YoY and 9% QoQ

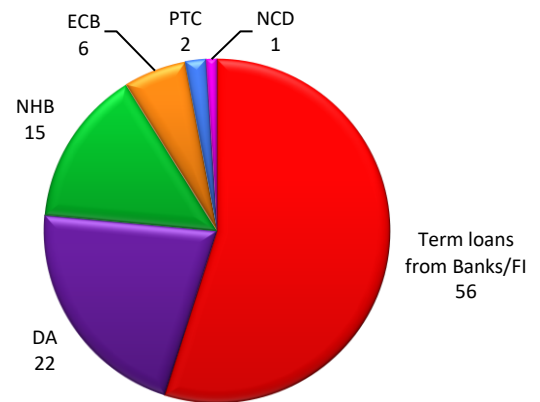
Source: Company, Systematix Institutional Research

Exhibit 3: led by 24% YoY / 10% QoQ growth in disbursements

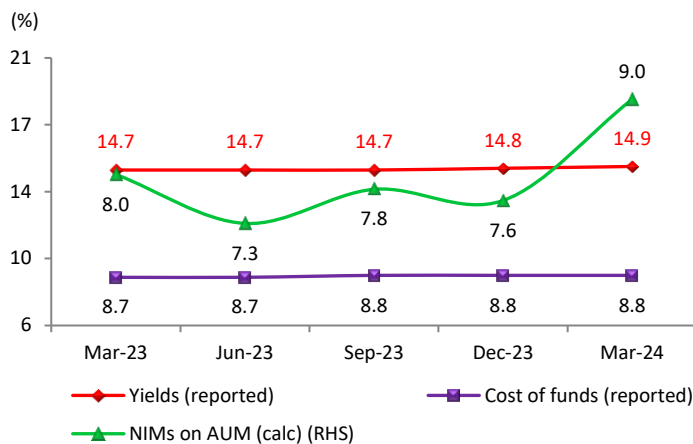
Source: Company, Systematix Institutional Research

Exhibit 4: Home loan segment share steady at 58%

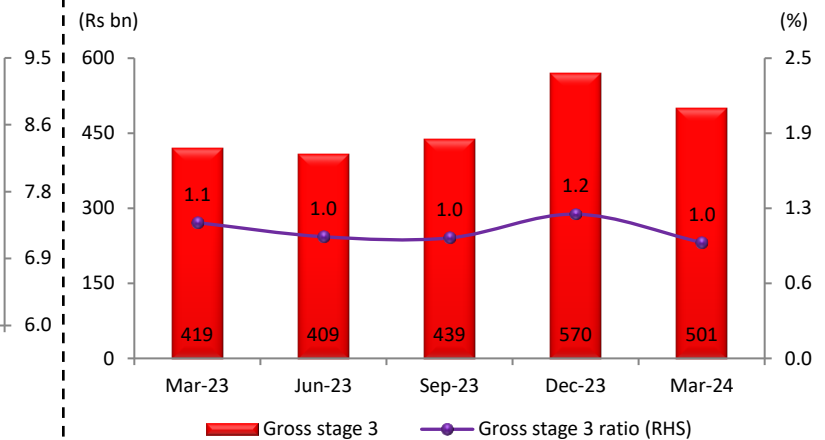
Source: Company, Systematix Institutional Research

Exhibit 5: Well diversified borrowing mix (%) (Mar-24)

Source: Company, Systematix Institutional Research

Exhibit 6: Spreads improved 10bps QoQ at 6.1%

Source: Company, Systematix Institutional Research

Exhibit 7: GS3 asset ratio improved by 24bps QoQ

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24
Net interest income	1,692	2,293	2,931	4,141
Other income	482	822	1,033	1,588
Net Income	2,175	3,115	3,964	5,728
Operating expenses	846	1,326	1,803	2,345
Preprovision profit	1,328	1,789	2,160	3,384
Provisions	198	120	141	192
Profit before tax	1,130	1,669	2,020	3,192
Tax	256	385	466	716
Tax rate	22.6	23.0	23.1	22.4
Reported Profit after tax	874	1,284	1,554	2,476

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24
Equity	430	437	438	535
Reserves	8,943	10,324	11,964	22,451
Net worth	9,373	10,761	12,402	22,987
Borrowings	14,913	20,700	29,889	34,151
Others	341	751	661	804
Total liabilities	24,626	32,212	42,951	57,941
Cash	4,137	3,303	4,948	3,777
Investments	-	1,753	589	1,578
Loans	19,812	26,225	36,091	50,624
Others	527	760	1,079	1,664
Total assets	24,626	32,212	42,951	57,941

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24
Interest Income	12.9	13.3	13.4	13.9
Interest Expense	4.9	5.2	5.6	5.7
Net Interest Income	7.9	8.1	7.8	8.2
Other income total	2.3	2.9	2.7	3.1
Net Income total	10.2	11.0	10.5	11.4
Operating expenses total	4.0	4.7	4.8	4.6
Preprovision profit	6.2	6.3	5.7	6.7
Provisions	0.9	0.4	0.4	0.4
Profit before tax and exce. items	5.3	5.9	5.4	6.3
Profit after tax	4.1	4.5	4.1	4.9

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY21	FY22	FY23	FY24
Yield on portfolio	15.9	16.4	16.1	16.2
cost of borrowings	8.7	8.3	8.3	9.0
Interest Spread	7.2	8.1	7.8	7.2
NIM (on AUM)	9.1	8.7	7.9	7.9
Cost/ Income (%)	38.9	42.6	45.5	40.9
Credit cost (%)	0.9	0.4	0.4	0.4
RoA(%)	4.1	4.5	4.1	4.9
RoE(%)	9.8	12.8	13.4	14.0
Leverage (x)	2.4	2.8	3.2	2.9
Gross NPA (%)	1.9	2.1	1.1	1.0

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY21	FY22	FY23	FY24
Net interest income	23.7	35.5	27.8	41.3
Net Income total	40.7	43.2	27.3	44.5
Preprovision profit	75.7	34.7	20.8	56.6
Profit before tax	76.9	47.8	21.0	58.0
Profit after tax	86.3	47.0	21.0	59.4
Loan	34.3	32.4	37.6	40.3
Disbursement	62.4	44.7	51.7	34.7
AUM	44.6	39.8	41.8	39.6

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24
FDEPS (Rs)	8.2	12.0	14.5	23.1
PER (x)	74.0	50.3	41.6	26.1
Book value (Rs)	87.6	100.5	115.9	214.7
P/BV (Rs)	6.9	6.0	5.2	2.8
Adjusted book value (Rs)	85.0	96.6	113.0	211.2
P/ABV (Rs)	7.1	6.3	5.3	2.9
P/PPP (x)	48.7	36.1	29.9	19.1

Source: Company, Systematix Institutional Research

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DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

I, **Pradeep Agrawal, Pravin Mule, Ronak Dhruv**, hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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