Initiating Coverage

13th June 2025

# India Shelter Finance Corporation Ltd

SNM VALUE EDUCATOR RESEARCH SERVICES LLP:
Emerging Titans

RA No: INH000019789

# India Shelter Finance Corporation Ltd. | BUY

## Empowering Homeownership Across Bharat

We initiate a BUY rating on India Shelter Finance Corporation Ltd. (ISFC), a high-growth housing finance company focused on serving self-employed, low-to-mid income borrowers in Tier 2 and 3 towns. Since inception in 2010, it has expanded to 15 states with 266 branches, catering to over 101,000 customers. ISFC's loan book reached ₹8,189 crore AUM in FY25 (35% YoY growth), with Q4 FY25 PAT of ₹108 crore, its highest ever. It maintains industry-leading profitability with NIM at 6.2%, ROA at 5.8%, and ROE at 16.3%—among the best in its peer group. The company's direct sourcing model, strong underwriting, and lean cost structure help maintain stable asset quality (1% Stage 3) and low credit costs (~40 bps). Looking ahead, ISFC targets ₹30,000 crore AUM by FY30, focusing on its niche customer base and branch-led expansion.

### Strong Demand Tailwinds in Core Segment

ISFC operates in a large, underserved market of self-employed, low-to-mid income borrowers in Tier 2/3 India. Rising aspirations, limited bank competition, and government schemes like PMAY create a favourable backdrop for long-term home loan growth.

### High-Growth Outlook with Defined Expansion Plan

Management targets a 40% AUM CAGR, scaling from ₹8,189 crore in FY25 to ₹30,000 crore by FY30. The company will add 40-45 branches annually, with a focus on deepening existing geographies to maximize operating leverage and maintain strong unit economics..

### Consistently Stable Asset Quality

ISFC aims to keep Stage 3 assets below 1%, backed by direct sourcing and centralized underwriting. Credit costs are guided at 40-45 bps, with low LGDs (~11-12%) and prudent provisioning (PCR at 25%) supporting resilience in asset performance..

### Profitability Supported by Leverage and Maturing Branches

As branches mature, cost ratios are expected to improve. Management sees RoA moderating to 4.5% by FY27 while targeting RoE above 16%, aided by rising leverage (D/E up to ~4x) and stable NIMs.

IndiaShelter
Sabka Liye Ghar Ka Loan

| | |
|---|---|
| Recommendation | BUY |
| Allocation | 3% |
| CMP (at initiation) | ₹875 |
| Market Cap (₹ Cr) | ₹9418 |
| 52 Week High/Low | ₹938/ ₹607 |
| NSE code | INDIASHLTR |

### Shareholding pattern

| | |
|---|---|
| Promoter | 47.92% |
| FII+DII | 25.45% |
| Others | 41.77% |

### Financial Summary

| (₹ Cr) | FY23 | FY24 | FY25 |
|---|---|---|---|
| Revenues | 584 | 829 | 1164 |
| EBITDA (%) | 32% | 36% | 42% |
| PAT | 155 | 247 | 377 |
| ROE (%) | 13% | 14% | 15% |

## Company overview

India Shelter Finance Corporation (India Shelter / the company) was originally incorporated as "Satyaprakash Housing Finance India Ltd" in 1998. In 2002, the company was granted a certificate by the National Housing Board (NHB) to operate as a housing finance institution, exempt from accepting public deposits. In 2009, the company was taken over by Mr Anil Mehta and Mr Sanjay Gupta. Both Mr Mehta and Mr Gupta come from a banking background, having worked with ANZ Grindlays, ADB, Bank of America and HDFC. The company was rebranded as "India Shelter Finance Corporation Ltd." in 2010. It was granted a banking certificate by NHB in the same year. It commenced its lending operations in 2010, by opening its first branch in Rajasthan and disbursing loans of ₹1,00,000 with (LTV) of 10-12%.

Mr Anil Mehta stepped back from day-to-day operations and management in 2020, and the company was handed over to Mr Rupinder Singh who joined the company the same year. Mr Rupinder Singh took over operations and is leading the next leg of growth for the company. Mr Sudhin Choksey, the Chairman, adds further credibility with his prior experience as the head of Gruh Finance, a renowned institution in the housing finance sector.

## Business Model and Strategy

Focus on Affordable Home Loans ISFC's core offering is home loans for self-construction, home improvement, and purchase of new homes, tailored to the needs of families with informal income sources. Over 95% of its portfolio is home loan-related, and the remaining consists of loan against property (LAP), mostly to the same borrower base. Its strength lies in its deep understanding of informal income evaluation, leveraging in-house assessments, cash flow analyses, and on-ground intelligence rather than formal income documents. This has allowed ISFC to differentiate its underwriting capabilities and maintain strong asset quality despite customer risk profiles.

### Direct Sourcing & Centralized Underwriting Model

ISFC uses a 100% direct sourcing model with no reliance on DSAs or intermediaries. Leads are generated through local marketing, referrals, and brand visibility. All credit decisions are taken centrally by the risk team, ensuring strong portfolio control and uniformity in underwriting standards. This allows the company to scale without dilution of credit norms, and maintain tight control over turnaround time (TAT), which remains competitive despite the granular nature of the loans.

### Branch-Led Distribution with Operating Leverage

Branch expansion is central to ISFC's growth model. The company added 40 branches in FY25, and aims to open 40–45 new branches annually, targeting deeper penetration in existing geographies before entering new states. Older branches (4–5 years) operate at 7x AUM productivity compared to new ones. As more branches mature, operating leverage is expected to kick in, helping improve cost ratios and strengthen profitability.

## Technology-Led Efficiency

ISFC uses an integrated digital architecture for sourcing, credit assessment, disbursement, and collections. Its mobile-enabled apps for field staff improve productivity and real-time visibility, while back-end digitization enables centralized decision-making with minimal manual intervention. As customer acquisition scales, this digital backbone ensures ISFC can grow efficiently without proportionate increases in operating costs.

## Conservative Funding & ALM Management

ISFC raises funds from a mix of banks, NHB refinance, and development institutions. The company maintains a well-laddered borrowing profile, with a focus on fixed-rate liabilities to manage interest rate volatility. Its D/E of 2.9x is lower than industry average, and management is comfortable increasing leverage to ~4x in coming years, as internal accruals and growth needs align. The company's average cost of borrowings stands at ~8.7%, and it maintains a positive ALM profile.

## Industry Overview

Housing finance in India has been a sector of key focus since Independence. As stated by NHB in its annual review, the housing sector is an "engine of economic growth that can give a big push to the economy through its forward and backward linkages." This statement holds true because, for most individuals in India and globally, purchasing a house remains the largest financial decision they make. The sector has been a key focus since the early days of Independence. The government has transitioned from being a provider to a facilitator of home loans. While this shift has benefited urban India, rural India has struggled to access formal financing.

| Year | Scheme/Policy | Focus | Note |
|---|---|---|---|
| 1951 | First Five Year Plan | Core focus on infrastructure and urban housing in India | Coming out of Independence, the government tragetted basic infrastructure in urban areas |
| 1970 | Est. HUDCO (Housing & Urban Development Corporation) | Set up to enable infrastructure projects | |
| 1977 | National Housing Policy introduced | | |
| 1988 | Est. NHB (National Housing Board) | Set up to regulate the housing finance market in India and promote government initiatives by regulating liquidity to HFCs | |
| 1998 | Introduction of Golden Jubilee Rural Housing Finance Scheme | First scheme to focus on rural housing in India by providing subsisied rate loans to BPL & EWS faimlies. The benefits were channelled via Regional Rural Banks (RRBs), CoOperative Banks and HFCs | |
| 2005 | Interest Subsidy Scheme for Housing the Urban Poor (ISHUP) | Focused on housing EWS & LIG families in Urban area. Due to lack of awareness the scheme reached limited beneficiaries. | |
| 2013 | Rajiv Awas Yojna (RAY) | Focused on slum rehabilitation | |
| 2014 | Pradhan Mantri Awas Yojna (PMAY) | PMAY Urban and Gramin schemes introduced to focus on urban and rural housing | Intial traction was slow as previous schemes owing to lack of awareness, however it picked up steam as digital adoption across country started picking up |
| 2015 | Introduction of RERA | Introduced to increase transparency, accountability and efficiency in rea estate sector in india | RERA benefitted the urban home-owners and prospective buyers the most |
| 2016 | Introduction of REITS | Encouraged development of infrastructure with funding from investors (institutional & retail) | While SEBI made amendmnets to REITs in 2016, India's first REIT (Embassy) was launched in 2019. |

The industry witnessed a 15% CAGR in AUM  growing from ₹6 trillion to ₹33 trillion in 2024. This growth was led by the following factors:

**Increased Competition**

The industry also witnessed strong competition between traditional banks and housing finance companies. While banks focused on extending a basket of services to borrowers (often overlooking customer needs), HFCs focused solely on providing more flexible loan terms, faster approvals and personalised customer service

**Increasing Awareness Via Digital Modes**

The widespread adoption of mobile phones and the rise of digital platforms have played a pivotal role in increasing awareness about housing finance schemes among India's younger, tech-savvy population. With improved internet access and the proliferation of smartphones, housing finance companies leveraged digital channels such as social media, mobile apps and online portals to educate potential customers about various housing schemes, loan options and government initiatives like PMAY.

**Introduction of RERA**

Prior to RERA, the sector was plagued by issues such as project delays, bankruptcies and fraudulent practices. RERA addressed these challenges by imposing stricter regulations on builders, including mandatory project registration, timely completion and the use of escrow accounts to ensure funds are utilised solely for construction.

**Positive impact of RBI's rate cut**

The recent rate cut by the RBI is expected to positively impact the housing finance industry, particularly the affordable segment. A lower repo rate reduces the cost of borrowing for HFCs, enabling them to either improve spreads or pass on benefits to borrowers in the form of lower EMIs.

**Risks**

**1. Asset Quality in an Informal Segment**

While ISFC has consistently maintained Stage 3 loans around 1%, its customer base remains vulnerable to economic shocks, income volatility, and local disruptions (e.g., monsoon failures, informal job losses). Maintaining asset quality during macro stress periods remains a key monitorable.

**2. Execution Risk in Branch Expansion**

ISFC's aggressive branch rollout strategy (40+ per year) involves upfront costs and slower branch break-even timelines. There is a risk of operating leverage lag if new branches underperform or take longer to reach AUM efficiency.

**3. Margin Compression from Rising Borrowing Costs**

ISFC's cost of funds at ~8.7% could rise in a tightening interest rate environment, while competitive pressure may limit loan yield increases. This may compress NIMs, especially if funding mix shifts more toward market borrowings.

**4. Regulatory & Policy Risks**

Any tightening of HFC regulations, NHB funding guidelines, or changes in affordable housing incentives (e.g., PMAY expiry, interest subsidy limits) could impact sector profitability or growth visibility.

## Financials

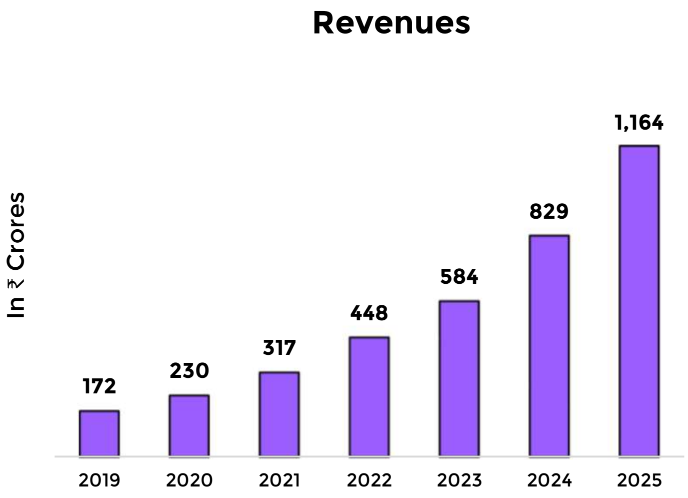
### Profit & Loss Statement

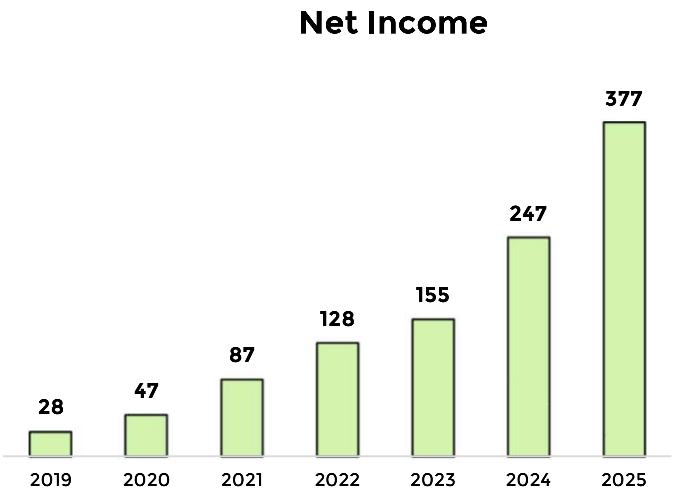
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Revenue | 172 | 230 | 317 | 448 | 584 | 829 | 1,164 |
| Interest | 49 | 76 | 106 | 149 | 211 | 290 | 355 |
| Expenses | 83 | 84 | 99 | 138 | 185 | 243 | 320 |
| Financing Profit | 40 | 70 | 112 | 162 | 188 | 297 | 489 |
| Financing Margin % | 23% | 30% | 35% | 36% | 32% | 36% | 42% |
| Other Income | 0 | 0 | 6 | 12 | 22 | 32 | 10 |
| Depreciation | 2 | 6 | 5 | 7 | 8 | 10 | 12 |
| Profit before tax | 38 | 64 | 113 | 167 | 201 | 318 | 488 |
| Tax % | 26% | 27% | 23% | 23% | 23% | 22% | 23% |
| Net Profit | 28 | 47 | 87 | 128 | 155 | 247 | 377 |
| EPS in Rs | 6.59 | 10.95 | 20.33 | 29.39 | 35.32 | 23.06 | 34.95 |

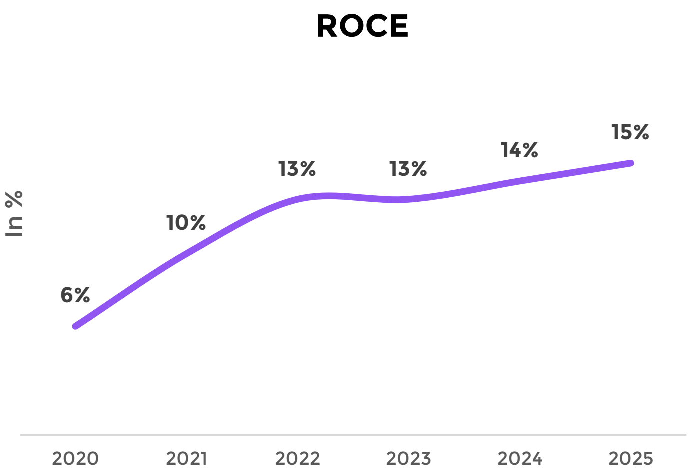
### Balance Sheet

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Equity Capital | 42 | 43 | 43 | 44 | 44 | 54 | 54 |
| Reserves | 751 | 805 | 894 | 1,032 | 1,196 | 2,244 | 2,653 |
| Borrowing | 508 | 689 | 1,491 | 2,070 | 2,989 | 3,415 | 4,969 |
| Other Liabilities | 61 | 262 | 41 | 75 | 66 | 80 | 70 |
| Total Liabilities | 1,362 | 1,799 | 2,470 | 3,221 | 4,295 | 5,793 | 7,746 |
| Fixed Assets | 7 | 18 | 15 | 17 | 24 | 30 | 29 |
| CWIP | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investments | 80 | 94 | 0 | 175 | 59 | 170 | 327 |
| Other Assets | 1,276 | 1,687 | 2,455 | 3,029 | 4,212 | 5,593 | 7,389 |
| Total Assets | 1,362 | 1,799 | 2,470 | 3,221 | 4,295 | 5,793 | 7,746 |

## Financials


Revenues
In ₹ Crores
172
230
317
448
584
829
1,164
2019
2020
2021
2022
2023
2024
2025


Net Income
28
47
87
128
155
247
377
2019
2020
2021
2022
2023
2024
2025


ROCE
In %
6%
10%
13%
13%
14%
15%
2020
2021
2022
2023
2024
2025

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Date: 2025.06.13 18:57:42 +05'30'