

# Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	123
M.Cap.(INRb)/(USDb)	20.1 / 0.2
52-Week Range (INR)	193 / 103
1, 6, 12 Rel. Per (%)	-2/26/-6
12M Avg Val (INR M)	21

## Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	4.7	7.2	9.5
PPP	1.6	4.4	7.1
PAT	1.1	2.4	4.0
EPS (INR)	8.4	17.6	29.1
EPS Gr. (%)	-49	108	66
BV (INR)	237	255	284

## Ratios

NIM (%)	6.1	6.8	7.0
C/I ratio (%)	75.3	53.6	43.5
RoA (%)	1.1	1.8	2.4
RoE (%)	3.6	7.1	10.8
Payout (%)	0.0	0.0	0.0

## Valuations

P/E (x)	19.3	9.3	5.6
P/BV (x)	0.69	0.64	0.57
Div. Yield (%)	0.0	0.0	0.0

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	75.0	75.0	89.2
DII	1.9	1.9	1.5
FII	1.4	1.3	1.2
Others	21.7	21.8	8.0

FII Includes depository receipts

**CMP: INR162**

**TP: INR195 (+20%)**

**BUY**

## Disbursement momentum improving

Indostar Capital Finance (Indostar) reported an operationally good quarter. Key highlights: 1) 2QFY24 disbursements jumped ~14% QoQ to ~INR12.7b; 2) added 378 employees in 2Q to 3,512; 3) CV segment contributed ~82% to the retail disbursement mix; and 4) asset quality saw minor deterioration with GS3 up ~10bp QoQ.

## Financial highlights:

- PAT declined 36% QoQ to INR248m due to the normalization in credit costs and tax provisions.
- Total AUM stood at ~INR77.3b, down 4% QoQ. Corporate loans dipped 70% YoY (~5% share as of 2Q), due to the sale of two large corporate accounts with outstanding of ~INR9b to an asset reconstruction company (ARC).
- Retail AUM grew 10% YoY/7% QoQ to INR73.6b.
- With its senior leadership team in place, the focus remains on streamlining, enhancing processes and improving asset quality. It is well-positioned to deliver a steady improvement in its RoA profile.
- With better visibility on disbursement momentum, we estimate a CAGR of 34%/21% in AUM/PAT over FY23-26, aided by healthy NIM (6.8-7.0%) and benign credit costs (1.4-1.3%) over FY25-26. After a difficult FY23, we believe this franchise is now on course for a turnaround. We retain a BUY rating with a TP of INR195 (premised on 0.7x Sep'25E BVPS).

## Disbursements in used CV segment continue to gain momentum

- Disbursements continued to gain momentum and stood at INR12.6b in 2QFY24 (vs. ~INR11b in 1Q). Disbursements were strong across CV and Housing Finance. CV Finance disbursements stood at INR10b (vs. INR7.5b in 1Q).
- Indostar has strategically prioritized the Used CV segment, with ~82% of its 2Q retail disbursements coming from this segment. This change in the product mix toward used CV segment will enable higher blended yields.

## Key highlights from the management commentary

- Indostar has guided for disbursements of ~INR55b (~INR44b in CV) in FY24 and ~INR75b (~INR60b in CV) in FY25.
- It is expanding its operations with a focus on used CVs and will concentrate on highly profitable used CV markets in Tier 3 and Tier 4 towns.
- **Housing Finance:** The company is focusing on small towns and semi-urban geographies, which helped it maintain avg. ticket size of over INR1m.
- Even with a rise in interest rates, spreads remained at 5-5.5%.

**Valuation and view**

- Indostar has strategically prioritized the expansion of its loan book in the used CV and affordable housing finance segments. It anticipates that a strengthened management team, enhanced processes, and a favorable economic climate will serve as catalysts for growth in these segments.
- With the sell-down of corporate loans to ARC, this segment now contributes only ~5% of the total AUM mix. It has made conservative provisions on stressed loans and we expect credit costs at ~0.3/1.4/1.3% in FY24/FY25/FY26.
- Over the last two quarters, Indostar has made some sound business decisions, which can help it make a turnaround. Risk-reward is favorable at 0.6x Sep'25E P/BV. We retain a **BUY** rating on the stock with a TP of INR195 (premised on 0.7x Sep'25E BVPS).

**Quarterly Performance****(INR M)**

Y/E March	FY23			FY24				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Interest Income	2,770	2,609	2,626	2,579	2,723	2,732	2,896	3,263	10,584
Interest Expenses	1,481	1,464	1,354	1,504	1,544	1,652	1,734	1,974	5,803
<b>Net Interest Income</b>	<b>1,289</b>	<b>1,145</b>	<b>1,272</b>	<b>1,075</b>	<b>1,179</b>	<b>1,081</b>	<b>1,162</b>	<b>1,289</b>	<b>4,782</b>
YoY Growth (%)	25.3	6.3	-6.6	-40.5	-8.6	-5.6	-8.6	20.0	-9.4
Other Income	372	336	191	313	271	402	453	569	1,212
<b>Total Income</b>	<b>1,662</b>	<b>1,481</b>	<b>1,463</b>	<b>1,388</b>	<b>1,450</b>	<b>1,482</b>	<b>1,616</b>	<b>1,858</b>	<b>5,994</b>
YoY Growth (%)	31.3	0.4	-10.3	-31.3	-12.7	0.1	10.4	33.9	-5.6
Operating Expenses	1,021	1,120	1,209	662	1,153	1,185	1,231	1,254	4,011
<b>Operating Profit</b>	<b>641</b>	<b>361</b>	<b>254</b>	<b>726</b>	<b>297</b>	<b>297</b>	<b>384</b>	<b>604</b>	<b>1,983</b>
YoY Growth (%)	93.1	-33.9	-59.1	-37.7	-53.6	-17.7	51.1	-16.7	-24.4
Provisions & Loan Losses	-23	-202	-132	-47	-119	1	80	270	-404
<b>Profit before Tax</b>	<b>664</b>	<b>563</b>	<b>386</b>	<b>773</b>	<b>416</b>	<b>297</b>	<b>304</b>	<b>335</b>	<b>2,386</b>
Tax Provisions	55	47	20	13	27	49	53	73	135
<b>Net Profit</b>	<b>609</b>	<b>516</b>	<b>367</b>	<b>760</b>	<b>389</b>	<b>248</b>	<b>251</b>	<b>261</b>	<b>2,252</b>
YoY Growth (%)	-265	31	152	-110	-36	-52	-31.5	-65.6	-130.6
<b>Key Operating Parameters (%)</b>									
Yield on loans (Cal)	15.4	16.0	16.6	16.1	16.3	16.2			
Cost of funds (Cal)	9.8	10.2	9.8	10.8	10.7	11.5			
Spreads (Cal)	5.6	5.8	6.8	5.3	5.6	4.7			
NIMs (Cal)	5.8	5.7	6.5	5.6	5.9	5.5			
Credit Cost (Cal)	-0.1	-1.0	-0.7	-0.2	-0.6	0.0			
Cost to Income Ratio	61.4	75.6	82.6	47.7	79.5	79.9			
Tax Rate	8.3	8.3	5.1	1.7	6.5	16.6			
<b>Balance Sheet Parameters</b>									
AUM (INR B)	82.5	79.1	76.7	78.1	80.6	77.3			
Change YoY (%)	-2.2	-7.7	-17.0	-19.1	-2.2	-2.3			
AUM Mix (%)									
Vehicle	46.5	45.7	45.2	47.0	48.7	56.7			
Housing	17.8	19.5	19.9	20.8	21.6	24.5			
SME & Others	20.1	19.5	18.7	16.5	14.6	13.7			
Corporate	15.6	15.4	15.9	15.7	14.8	4.7			
Disbursements (INR B)	3.4	3.3	5.2	9.0	11.2	12.7			
Change YoY (%)	-45.2	-70.4	-64.7	-47.5	224.4	279.9			
<b>Asset Quality Parameters (%)</b>									
GS 3 (INR B)	3.4	4.9	5.4	4.8	4.9	4.7			
Gross Stage 3 (% on Assets)	8.2	7.1	7.9	6.8	6.6	6.7			
Net Stage 3 (% on Assets)	3.6	2.9	3.6	3.2	3.1	3.3			
PCR (%)	57.8	60.1	56.2	54.2	53.6	51.5			

E: MOFSL estimates



### Asset quality impacted marginally

- Asset quality deteriorated slightly, with GNPA/NNPA up 10bp/20bp QoQ to 6.7%/3.3%. PCR declined to ~52% from ~54% in 1Q.
- Gross collection efficiency stood at 135% vs. ~139% in 1Q.
- Standalone Stage 3 increased ~20bp QoQ to 8.1%. The increase was on account of a reduction in AUM due to the sale of its corporate lending portfolio.

### IndoStar Home Finance Pvt Ltd (IHFPPL)

- As of Sep'23, AUM stood at ~INR18.9b, up ~9% QoQ.
- GS3 for housing finance increased to 1.3% (PQ: 1.2).
- IHFPPL delivered a PAT of ~INR140m in 2QFY24 (vs. INR8m in 1QFY24).
- CAR stood at ~71%.

### Highlights from the management commentary

#### CV Business

- The industry is expected to grow strongly due to continuing industrial activities.
- GST collections and FASTag collections, along with stable fuel prices, indicate a good year for the CV business.
- Demand remained robust for used CV vehicles, mainly driven by the transition from BS IV to BS VI engines that resulted in price differential of 30%.
- The uptrend in prices of used CVs is expected to continue.

#### Business update

- Indostar is expanding its operations with a focus on used CVs and will concentrate on highly profitable used CVs in Tier 3 and Tier 4 towns.
- Harnessing a technology-enabled system to improve productivity metrics.
- During the quarter, Indostar sold a significant portion of legacy corporate book to ARC, which included two Mumbai-based real estate accounts aggregating to ~INR9.15b.
- Retail mix has increased to 95% of total AUM.
- Actively exploring fresh projects and strategy to generate additional income.
- The company will run down only Stage 3 SME book for now. Overall SME book is ~INR8b (o/w ~INR1b is in stage 3).

#### Guidance

- Overall disbursements would be INR55b (~INR44b in CV) in FY24 and ~INR75b (~INR60b in CV) in FY25.
- ROA of 1% in FY24 and 2% in FY25
- Opex/AUM is guided to be 4.5% in FY24 and 3.5-3.6% in FY25.
- Credit cost should be at 1.25% in FY24 and 1.25-1.5% in FY25.

#### Housing Finance

- Focus primarily on Tier 2 and tier 3 markets.
- Continues to focus on small towns and semi-urban geographies that helped it maintain avg. ticket size of >INR1m.
- Targeted loan segment is self-construction and Micro LAP.
- Even with a rise in interest rates, spreads remained at 5-5.5%.

- Mix remains at 50:50 between self-employed and salaried.
- Raised ~INR4.23b raised through various lenders.
- Capital adequacy stood at ~70.8% and strong underlying ability to support business growth.
- Tier 1 markets accounted for <30% of book and semi-urban markets made up ~70%.

### Profitability

- The sale of its corporate portfolio led to a reduction of INR290m in interest income.
- NIM expanded by 20bp to reach ~6.7%.
- Yields have improved since it has been focusing on Tier3 and Tier 4 markets.
- Opex increased to INR1.2b due to an increase in manpower to sustain growth.
- One-time cost of ~INR30m incurred in relation to ARC.

### Borrowings & CoF (Standalone Entity)

- Raised incremental funding of ~INR9.7b in 2QFY24.
- In the standalone entity, the company will start to increase the mix of term loan from banks, which will aid CoF. Term loan of ~INR1b sanctioned from a private bank in 2QFY24.
- Higher CoF was due to NCDs raised at a higher rate. CoF to decline significantly in next two-three quarters due to increase of bank borrowings in the mix.

### Asset Quality

- Standalone stage 3 assets increased marginally to 6.7% due to the sale of corporate lending book
- 90dpd increased because of sourcing and servicing arrangement with ICICI. Indostar is obligated to buy the loan post 60dpd. Directly comes into the book as 90+dpd where customer keeps paying one EMI. Most of these customers pay for some months and move to other financiers.
- Guided for healthy reduction in non-housing stage 3 and within SME, Indostar has tightened the legal recovery procedures.
- Working to reduce Stage 3 stress in SME loans and might be able to find a resolution by Mar'24. Carries a ~37% provision on S3 MSME book.

### Discussion with JM Financial for Housing business

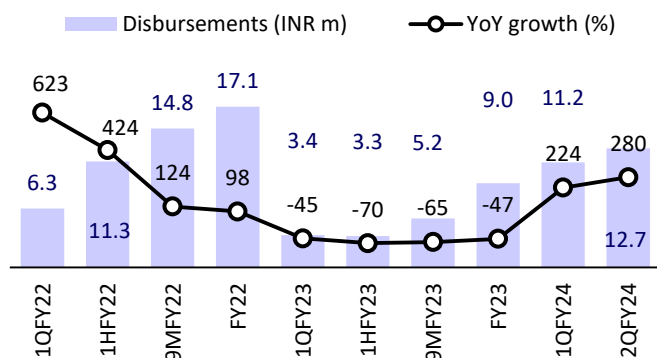
- Due diligence is completed but negotiations are going on.
- No comment on timeline for completion of the transaction.

### Others

- D/E stood at 1.8x.
- On the sale of its corporate portfolio of INR9.15b, INR1.03b realized in cash and the rest was in the form of SR (typical 85:15 SR transaction).
- In the HFC business, the bounce rates increased because of: a) seasoning of the portfolio, b) Changing mix from HL to LAP. C) Absolute pool of delinquent customer is going up.
- In the used CV business, the interest rate of new portfolio is 300bp higher than that of old portfolio.

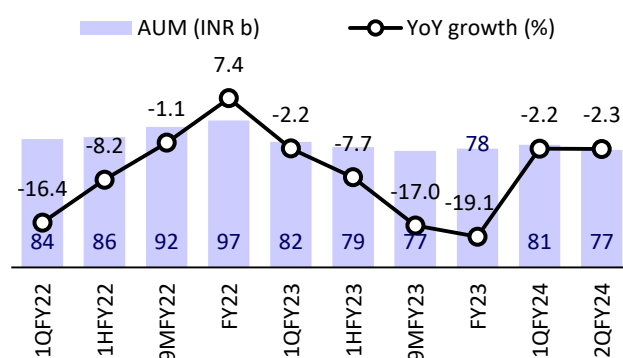
## Key Exhibits

Exhibit 1: Disbursements grew 13% QoQ...



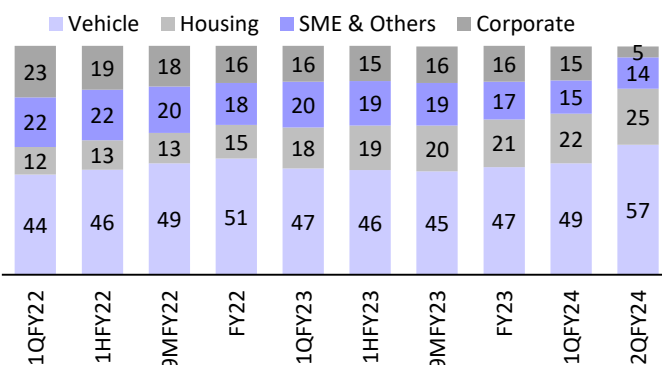
Source: MOFSL, Company

Exhibit 2: ...while AUM declined ~4% QoQ



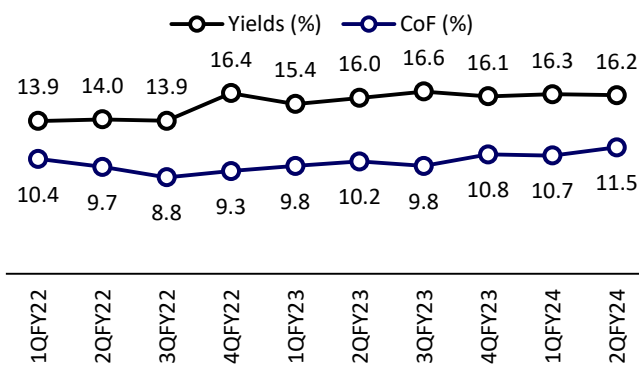
Source: MOFSL, Company

Exhibit 3: Share of corporate book moderated sequentially



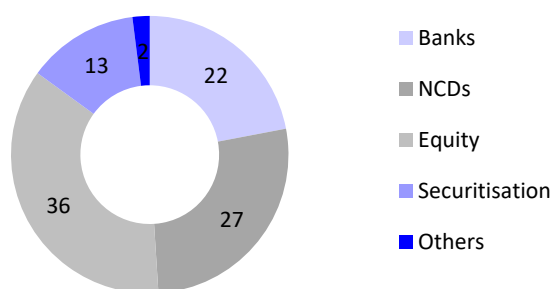
Source: MOFSL, Company

Exhibit 4: Spreads contracted ~90bp QoQ (%)



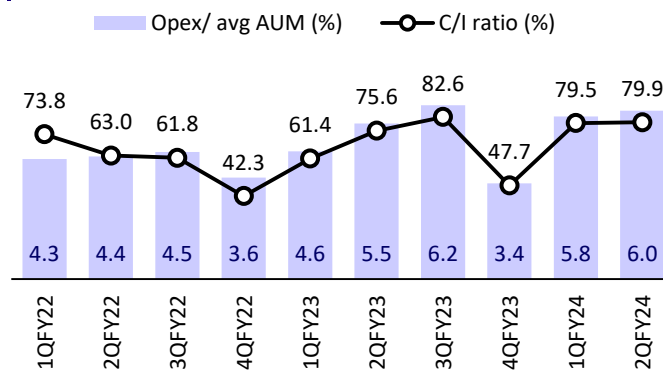
Source: MOFSL, Company;

Exhibit 5: Borrowings mix as on Sep'23



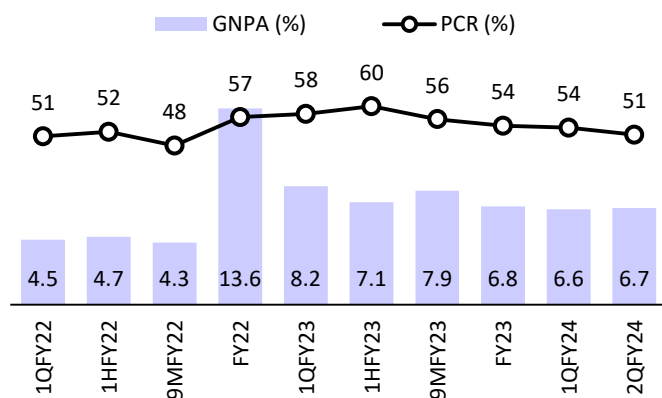
Source: MOFSL, Company

Exhibit 6: C/I ratio remained stable at ~80%



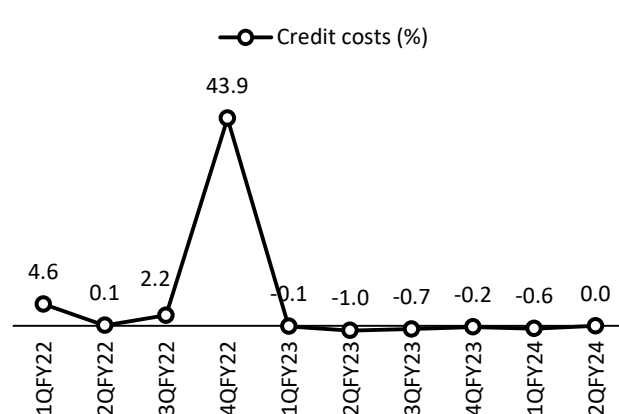
Source: MOFSL, Company;

Exhibit 7: PCR on S3 loans declined to 51%



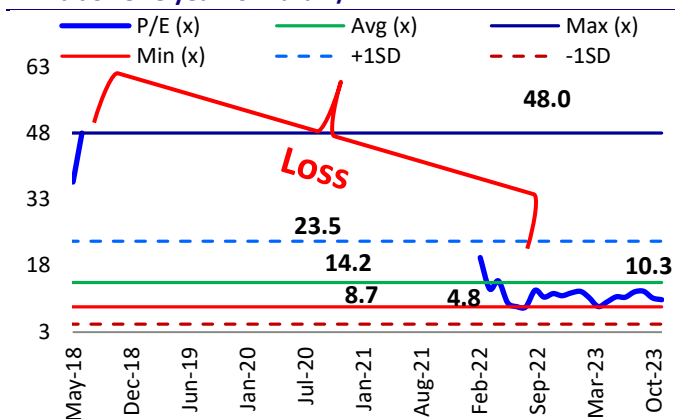
Source: MOFSL, Company

Exhibit 8: Credit costs normalized in 2QFY24



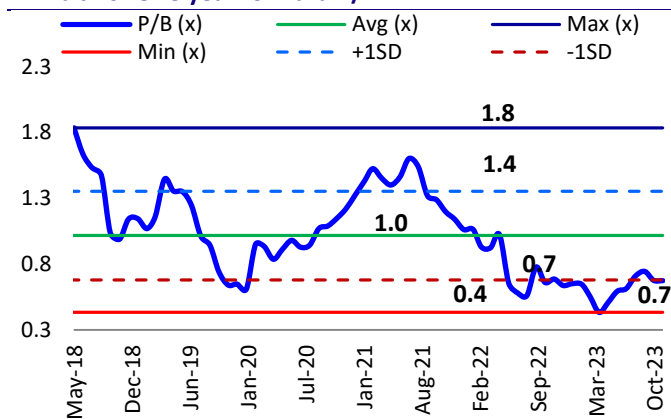
Source: MOFSL, Company

Exhibit 9: One year forward P/E



Source: MOFSL, Company

Exhibit 10: One year forward P/B



Source: MOFSL, Company

## Financials and valuations

### Income Statement

(INR M)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	7,631	10,813	14,662	11,739	10,672	10,584	11,615	16,732	21,563
Interest Expended	3,255	5,636	8,634	7,086	5,395	5,803	6,903	9,518	12,037
<b>Net Interest Income</b>	<b>4,376</b>	<b>5,177</b>	<b>6,028</b>	<b>4,653</b>	<b>5,276</b>	<b>4,782</b>	<b>4,712</b>	<b>7,214</b>	<b>9,527</b>
Change (%)	31.9	18.3	16.4	-22.8	13.4	-9.4	-1.5	53.1	32.1
Fee Income	159	620	515	327	444	542	704	951	1,188
Other Income	99	624	812	806	627	671	990	1,378	1,792
<b>Net Income</b>	<b>4,634</b>	<b>6,420</b>	<b>7,355</b>	<b>5,786</b>	<b>6,348</b>	<b>5,994</b>	<b>6,406</b>	<b>9,542</b>	<b>12,507</b>
Change (%)	13.6	38.5	14.6	-21.3	9.7	-5.6	6.9	49.0	31.1
Operating Expenses	1,548	2,466	3,120	3,055	3,726	4,011	4,822	5,114	5,446
<b>Operating Income</b>	<b>3,087</b>	<b>3,954</b>	<b>4,235</b>	<b>2,731</b>	<b>2,621</b>	<b>1,983</b>	<b>1,584</b>	<b>4,428</b>	<b>7,061</b>
Change (%)	-8.0	28.1	7.1	-35.5	-4.0	-24.4	-20.1	179.6	59.5
Provisions and W/Offs	-38	162	8,602	4,920	11,585	-404	231	1,440	1,766
<b>PBT</b>	<b>3,125</b>	<b>3,792</b>	<b>-4,367</b>	<b>-2,189</b>	<b>-8,964</b>	<b>2,386</b>	<b>1,352</b>	<b>2,988</b>	<b>5,295</b>
Tax	1,121	1,384	-1,120	-48	-1,599	135	203	598	1,334
Tax Rate (%)	35.9	36.5	25.7	2.2	17.8	5.6	15.0	20.0	25.2
<b>PAT</b>	<b>2,003</b>	<b>2,408</b>	<b>-3,246</b>	<b>-2,141</b>	<b>-7,365</b>	<b>2,252</b>	<b>1,149</b>	<b>2,391</b>	<b>3,961</b>
Change (%)	-5.0	20.2	-234.8	-34.0	244.0	-130.6	-49.0	108.0	65.7

### Balance Sheet

(INR M)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	787	923	925	1,237	1,361	1,361	1,361	1,361	1,361
Reserves & Surplus	19,960	29,140	25,881	35,745	27,930	29,755	30,904	33,295	37,256
<b>Net Worth</b>	<b>20,747</b>	<b>30,063</b>	<b>26,806</b>	<b>36,982</b>	<b>29,291</b>	<b>31,116</b>	<b>32,265</b>	<b>34,656</b>	<b>38,616</b>
Other Capital Instruments	0	0	0	0	0	0	0	0	0
<b>Borrowings</b>	<b>48,834</b>	<b>90,617</b>	<b>71,419</b>	<b>60,076</b>	<b>62,234</b>	<b>56,481</b>	<b>80,215</b>	<b>1,14,023</b>	<b>1,39,380</b>
Change (%)	39.3	85.6	-21.2	-15.9	3.6	-9.2	42.0	42.1	22.2
Other liabilities	2,357	2,321	3,061	3,757	5,089	3,626	3,988	4,387	5,264
<b>Total Liabilities</b>	<b>71,938</b>	<b>1,23,002</b>	<b>1,01,286</b>	<b>1,00,815</b>	<b>96,614</b>	<b>91,222</b>	<b>1,16,469</b>	<b>1,53,066</b>	<b>1,83,261</b>
Investments	10,070	3,009	2,306	15,914	5,477	10,394	11,225	12,123	13,335
Change (%)	439.2	-70.1	-23.4	590.2	-65.6	89.8	8.0	8.0	10.0
<b>Loans and Advances</b>	<b>59,004</b>	<b>1,03,637</b>	<b>82,931</b>	<b>71,393</b>	<b>77,069</b>	<b>65,157</b>	<b>89,128</b>	<b>1,22,605</b>	<b>1,49,069</b>
Change (%)	16.8	75.6	-20.0	-13.9	8.0	-15.5	36.8	37.6	21.6
Net Fixed Assets	641	3,704	4,214	3,865	3,990	3,902	4,098	4,302	4,518
Other Assets	2,222	12,652	11,835	9,643	10,078	11,769	12,018	14,035	16,338
<b>Total Assets</b>	<b>71,938</b>	<b>1,23,002</b>	<b>1,01,286</b>	<b>1,00,815</b>	<b>96,614</b>	<b>91,222</b>	<b>1,16,469</b>	<b>1,53,066</b>	<b>1,83,261</b>

E: MOFSL Estimates

## Financials and valuations

AUM Details							(INR M)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Consol. AUM (INR Bn)	62	117	100	90	97	78	98	135	186
AUM Mix									
Corporate	74	39	29	22	16	16	3	1	0.2
Retail	28	61	71	78	84	84	97	99	99.8
Vehicle	2	41	45	47	51	47	63	68	69.9
SME	26	16	18	21	18	17	9	6	4.2
Housing	1	5	8	11	15	21	25	26	25.7
Ratios							(<div>%)</div>)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)									
Yield on Portfolio	13.1	13.0	15.6	14.9	14.1	14.6	14.8	15.6	15.7
Cost of Borrowings	7.8	8.1	10.7	10.8	8.8	9.8	10.1	9.8	9.5
Interest Spread	5.3	4.9	4.9	4.1	5.3	4.9	4.7	5.8	6.2
Net Interest Margin	8.0	6.4	6.5	6.0	7.1	6.7	6.1	6.8	7.0
Profitability Ratios (%)									
RoE	10.2	9.5	-11.4	-6.7	-22.2	7.5	3.6	7.1	10.8
RoA (on balance sheet)	3.2	2.5	-2.9	-2.1	-7.5	2.4	1.1	1.8	2.4
Debt: Equity (x)	2.4	3.0	2.7	1.6	2.1	1.8	2.5	3.3	3.6
Leverage (x)	3.5	4.1	3.8	2.7	3.3	2.9	3.6	4.4	4.6
Efficiency Ratios (%)									
Int. Expended/Int.Earned	42.7	52.1	58.9	60.4	50.6	54.8	59.4	56.9	55.8
Op. Exps./Net Income	33.4	38.4	42.4	52.8	58.7	66.9	75.3	53.6	43.5
Empl. Cost/Op. Exps.	68.8	60.6	60.5	56.9	55.0	44.3	54.6	55.6	56.4
Fee income/Net Income	3.4	9.7	7.0	5.6	7.0	9.0	11.0	10.0	9.5
Asset quality									
GNPA	768	3,051	3,652	3,441	12,030	4,790	4,265	4,749	5,041
NNPA	640	1,995	2,893	1,580	5,190	2,190	1,919	2,137	2,369
GNPA %	1.3	2.9	4.4	4.7	13.6	6.8	4.7	3.8	3.3
NNPA %	1.1	1.9	3.5	2.2	6.7	3.4	2.2	1.7	1.6
PCR %	16.7	34.6	20.8	54.1	56.9	54.3	55.0	55.0	53.0
Valuation									
Book Value (INR)	264	326	290	299	215	229	237	255	283.8
BV Growth (%)	12.3	23.6	-11.0	3.1	-28.0	6.2	3.7	7.4	11.4
Price-BV (x)			0.6	0.5	0.8	0.7	0.7	0.6	0.6
Adjusted BV (INR)	257	303	262	279	153	204	215	230	257.8
Price-ABV (x)	0.6	0.5	0.6	0.6	1.1	0.8	0.8	0.7	0.6
EPS (INR)	25.5	26.1	-35.1	-17.3	-54.1	16.5	8.4	17.6	29.1
EPS Growth (%)	-5.4	2.5	-234.5	-50.7	212.8	-130.6	-49.0	108.0	65.7
Price-Earnings (x)			-4.6	-9.4	-3.0	9.9	19.3	9.3	5.6
Dividend per share			2.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)			1.2	0.0	0.0	0.0	0.0	0.0	0.0
E: MOFSL Estimates									

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Explanation of Investment Rating	
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