

# Indostar Capital Finance

## Asset quality risks persist

INDOSTAR's earnings were below estimates on account of worse-than-expected operating performance. The company, like many of its peers, reported a sharp improvement in retail collection efficiency (~100% in October; incl. overdues). De-growth in the corporate portfolio will continue to weigh down on overall growth in the near term, and this portfolio could continue to pose asset quality risks. This drives our REDUCE rating (target price of Rs 303). In the near term, we will watch for steps towards compliance with promoter shareholding requirements and possible inorganic growth.

- **Asset quality:** INDOSTAR sold VF GNPA's worth Rs 1.6bn to ARCs, and this contributed to the sharp reduction in GNPA's. INDOSTAR saw a sharp rise in retail collection efficiency (incl. overdues) to ~100% in October. On the wholesale side, billing and collections were limited. However, the management remarked that two accounts had crossed 30dpd. The company expects significant recoveries from a singular developer NPA in FY20. So far, the company has restructured ~1.4% of retail AUMs. While we have lowered our GNPA estimates (6.2% in FY21E) to factor in sales to ARCs and a significant improvement in retail collection efficiency, they remain elevated due to the risk of high corporate NPAs.
- **Funding and liquidity trends:** Since the capital infusion by Brookfield, INDOSTAR has been quite well placed on these fronts. CRAR stood at ~35%, which will support strong growth (organic and possibly inorganic). Liquid assets at Rs 25.8bn, amounted to ~36% of borrowings. More recently, the company has been able to raise funds at rates between 8-8.8%.
- **Growth:** Overall AUMs de-grew 15.2/7.4% due to 31.7/15.5% de-growth in the wholesale book. INDOSTAR intends to entirely run down its wholesale portfolio over the next 12-15 months. However, it is difficult to ascertain the period over which this could occur. On the retail side, the company looks to increase disbursements meaningfully. We expect the overall portfolio to de-grow 11% in FY21E, led by de-growth in the corporate portfolio. We build AUM growth of ~17.8% over FY22-23E.

### Financial summary

YE Mar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	1,229	1,670	(26.4)	1,344	(8.5)	6,028	6,677	7,068	8,508
PPOP	506	1,397	(63.8)	738	(31.4)	3,837	4,692	4,741	5,836
PAT	316	495	(36.2)	471	(33.0)	(3,246)	1,476	2,401	3,541
EPS (Rs)	2.6	5.4	(52.2)	3.8	(33.0)	(35.1)	11.0	17.8	26.3
ROAE (%)						(11.4)	5.2	5.8	7.9
ROAA (%)						(2.96)	1.47	2.21	2.85
ABVPS (Rs)						226.2	253.7	276.4	303.3
P/ABV (x)						1.30	1.16	1.07	0.97
P/E (x)						(8.4)	26.9	16.6	11.2

### Change in estimates

Rs mn	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
Loan	91,824	88,716	-3.4%	100,283	98,001	-2.3%	122,074	122,552	0.4%
NIM (%)	7.2	7.1	-10 bps	7.6	7.6	0 bps	7.8	7.7	-4 bps
NII	6,879	6,677	-2.9%	7,268	7,068	-2.7%	8,625	8,508	-1.4%
PPOP	5,072	4,692	-7.5%	5,011	4,741	-5.4%	5,958	5,836	-2.1%
PAT	1,281	1,476	15.2%	2,150	2,401	11.7%	3,471	3,541	2.0%
Adj. BVPS (Rs)	244.8	253.7	3.6%	277.4	276.4	-0.4%	304.8	303.3	-0.5%

Source: Bank, HSIE Research

## REDUCE

CMP (as on 6 Nov 2020)	Rs 295
Target Price	Rs 303
NIFTY	12,264

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 299	Rs 303
	FY21E	FY22E
EPS %	15.2%	11.7%

### KEY STOCK DATA

Bloomberg code	INDOSTAR IN
No. of Shares (mn)	123
MCap (Rs bn) / (\$ mn)	36/490
6m avg traded value (Rs mn)	48
52 Week high / low	Rs 332/166

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.7	8.2	48.8
Relative (%)	8.5	(24.0)	45.3

### SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	45.5	93.7
FIs & Local MFs	2.4	2.5
FPIs	-	-
Public & Others	52.1	3.8

### Pledged Shares

Source : BSE

Pledged shares as % of total shares

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