

# Buy

## Indostar Capital Finance

Industry: BFSI



### Fallen, but not beaten down!!!

We recently interacted with the management to get an understanding of the recent developments of the company post the liquidity crunch faced by the NBFCs. Key highlights were - incremental borrowings for the company have increased by 100-150 bps in Q3. Positively, it has simultaneously increased lending rates also by 100-150 bps to annul effects of rising borrowings cost. Hence, it is most likely would be able to observe stable to improving margin profile due to faster repricing of assets than borrowings. However, volumes of the business are 50% lower in Q3FY19 compared to last quarter as it is growing cautiously and prudently in the current tight liquidity scenario. Going forward, business growth is likely to return to normalcy in Q4. It has not observed any major setback on its asset quality – NPA levels have been maintained. In our view, we are constructively positive on the future growth outlook of the company. Retain BUY with TP of ₹593

We expect ROE to surge exponentially from 11.1% and 7.7% in FY17 & FY18 respectively to 14.8% by FY22E. Recently, the company has embarked upon strategy to diversify its business mix more towards the retail including housing, vehicle finance from earlier concentrated corporate & SME loan book. To grow these new segments, it has front-ended opex cost resulting in drop in ROAs 2.2% levels in Q1FY19 from ~4% during FY14-18 period. However, going forward, operating leverage benefits would be realized coupled with increase in the leverage of assets + improvement in the business mix – all these factors put together would give big boost to profitability. We expect earnings to grow at 46% CAGR over FY19-22E period.

#### Lower growth for a quarter, long term growth outlooks still promising

As per management, asset growth in Q3FY19 would be lackluster given the liquidity crunch faced by the NBFCs. A Q3 incremental disbursement for the quarter is anticipated to be ~5-7 bn vs. ₹13 bn in Q2 and ₹22.6 bn in Q1. Things are expected to return to normalcy by Q4 end. Over the longer run, AUM growth is expected to be robust driven by vehicle finance, retail, RE and non-RE loans. We expect loan to grow at 46% CAGR over FY19-21E. Also, change in the business mix is very much likely going forward with non-corporate loans occupying dominant share of 67% by FY22 vs. 26% in FY18. Corporate loans currently have major pie of 74% in total loans currently (FY18).

#### Increased liability cost has been passed onto borrowers

The company has raised incremental CP @9.75% and NCD @10.25-10.5% in Q3, which was 100-125 bps higher than the last quarter levels. However, this higher liability cost has been passed onto the borrowers as it has hiked lending rates by equal amount. Hence, in the near term, margins are expected to remain stable, although, growth would come off marginally. Reported margins were at 8.4% in Q2 vs. 6.4% in Q1. Positively, over the last 2 months, RBI has injected ample liquidity into the system resulting in drop in the g-sec yields by ~50 bps which has (from peak of 8.2% to 7.6%). Softening of rates shall enable the company to raise future borrowings at lower rates.

#### Asset quality outlook is stable

Despite tough times, the company has not observed any major setback on its asset quality – NPA levels have been maintained. As on Q2FY19, GNPA stood at 0.9% and NNPA at 0.6%.

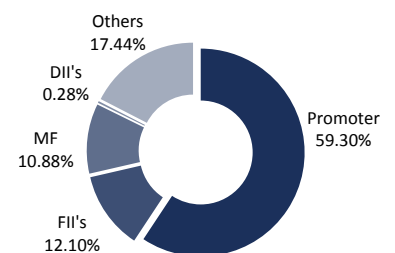
#### Undemanding valuations

Current valuations are very undemanding – it is trading at 1.2x FY20E and 1.0 FY21E ABV. Recent correction in the stock gives a good opportunity for long term investor. Also, with the softening of the g-sec yields, incremental borrowings of the NBFCs should come at lower rates.

#### Stock Data

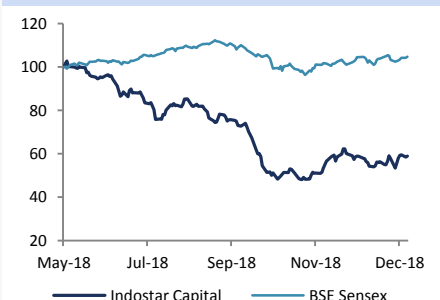
Rating	BUY
Current Market Price(₹)	340
12 M Price Target (₹)	593
Potential upside (%)	74
FV (₹)	10
Market Cap Full (₹ bn)	32
52-Week Range (₹)	607 / 275
BSE / NSE Code	541336 / INDOSTAR
Reuters / Bloomberg	INDOSTAR.BO/ INDOSTAR IN

#### Shareholding Pattern (as on Q2FY19)



YE Mar	FY18	FY19E	FY20E	FY21E
PAT (₹.mn)	2,244	1,972	3,436	4,610
yoy (%)	6.4%	-12.1%	74.2%	34.2%
BV (₹)	271.6	326.7	367.1	420.0
ABV (₹)	263.5	313.8	348.6	397.0
P/ABV (x)	2.1	1.3	1.2	1.0
ROE (%)	11.1	7.7	10.9	12.9
ROA (%)	3.5	2.1	2.3	2.2
Gross NPAs (%)	1.2	1.4	1.4	1.5
PCR (%)	16.7	23.3	31.4	42.4

#### Relative Price Performance



## About the Company

Promoted by Everstone Capital in 2009, Indostar Capital Finance is systematically important non-deposit taking NBFC which is largely into early stage financing to real estate developers. The company recently expanded its portfolio to offer vehicle finance & home finance products alongwith SME lending. As at Q2FY19, it had AUM of ₹ 77.7 bn, pan-India presence in 17 states with branch network of 155, employee base of 1545 and total customer size of 15037. Recently in May 2018, the company had raised capital via IPO amounting to ₹ 18.4 bn.

Last year, the company had appointed Mr. R.Sridhar as CEO of the company who has 3 decades of experience in financial industry and was instrumental in building vehicle finance book for Shriram Transport Finance Ltd.

Indostar Capital, is the holding company of Indostar Capital Finance, which again is owned by Everstone (51.2%), Beacon India PE Fund (10.8%), CDIB Capital Investments (4.7%). Also the NBFC has two fully owned 100% subsidiaries namely Indostar Home Finance (housing loans business is done via this subsidiary) and Indostar Asset Advisory

## Profit &amp; Loss Statement

(₹.mn)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)	FY22E (IndAS)
Interest Income	7,031	11,725	19,715	28,636	38,684
Interest Expense	3,244	5,675	10,099	15,562	21,792
<b>Net Interest Income (NII)</b>	<b>3,787</b>	<b>6,049</b>	<b>9,615</b>	<b>13,074</b>	<b>16,893</b>
Other Income	1,309	160	210	260	310
<b>Total Income</b>	<b>5,095</b>	<b>6,209</b>	<b>9,825</b>	<b>13,334</b>	<b>17,203</b>
<b>Total Expenses</b>	<b>1,509</b>	<b>2,444</b>	<b>3,508</b>	<b>4,884</b>	<b>6,227</b>
Employee Benefit Expense	816	1,505	1,968	2,568	3,152
Other Expenses	647	853	1,430	2,174	2,901
Depreciation & Amortization	47	86	110	142	174
<b>Total Operating Income</b>	<b>3,586</b>	<b>3,765</b>	<b>6,317</b>	<b>8,449</b>	<b>10,976</b>
Provisions	89	778	1,112	1,465	1,720
<b>PBT</b>	<b>3,497</b>	<b>2,988</b>	<b>5,206</b>	<b>6,984</b>	<b>9,256</b>
Tax Expense	1,253	1,016	1,770	2,375	3,147
<b>PAT</b>	<b>2,244</b>	<b>1,972</b>	<b>3,436</b>	<b>4,610</b>	<b>6,109</b>
Growth (%)	6.4	-12.1	74.2	34.2	32.5
EPS (₹)	28.5	21.7	37.8	50.7	67.2

Source: Company, LKP Research

## Balance Sheet

(₹.mn)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)	FY22E (IndAS)
Share Capital	787	910	910	910	910
Reserves and Surplus	20,584	28,806	32,482	37,292	43,551
<b>Shareholders' Funds</b>	<b>21,371</b>	<b>29,716</b>	<b>33,392</b>	<b>38,201</b>	<b>44,460</b>
Borrowings	48,228	85,045	141,486	199,910	267,890
Non-Current Liabilities	363	902	1,903	3,155	4,359
Current Liabilities	3,003	3,002	3,002	3,002	3,002
<b>Total Liabilities</b>	<b>72,964</b>	<b>118,664</b>	<b>179,782</b>	<b>244,268</b>	<b>319,711</b>
Cash and Bank Balances	1,278	1,200	1,200	1,200	1,200
Loans & Advances	60,403	113,030	173,906	240,242	315,517
Investments	9,891	3,000	3,000	1,000	1,000
Fixed Assets (Tangible + Intangible)	641	685	927	1,076	1,244
Deferred Tax Assets (Net)	165	165	165	165	165
Other Current Assets	584	584	584	584	584
<b>Total Assets</b>	<b>72,964</b>	<b>118,664</b>	<b>179,782</b>	<b>244,268</b>	<b>319,711</b>

Source: Company, LKP Research

## Ratios

	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)	FY22E (IndAS)
<b>Total Assets</b>	<b>32.9</b>	<b>62.6</b>	<b>51.5</b>	<b>35.9</b>	<b>30.9</b>
AUM (%)	18.6	81.6	54.0	38.2	31.4
Disbursements (%)	9.9	60.7	42.3	20.9	19.2
Borrowings (%)	43.0	76.3	66.4	41.3	34.0
Interest Income (%)	9.2	66.8	68.1	45.2	35.1
NII (%)	14.1	59.8	58.9	36.0	29.2
Total Expenses (%)	107.6	61.9	43.5	39.2	27.5
Operating Income (%)	6.9	5.0	67.8	33.8	29.9
Provisions (%)	6.9	5.0	67.8	33.8	29.9
PAT (%)	6.4	-12.1	74.2	34.2	32.5
<b>Yields (%)</b>					
Yield on loans (%)	12.6	13.5	13.7	13.8	13.9
Cost of Borrowings (%)	7.9	8.5	8.9	9.1	9.3
Gross Spread (%)	4.6	5.0	4.8	4.7	4.6
Margins (%)	6.0	6.4	6.5	6.2	6.0
<b>Cost Ratios</b>					
Cost/Income ratio (%)	29.6	39.4	35.7	36.6	36.2
Opex / AUM (%)	2.4	2.2	2.0	2.0	2.0
Opex / Avg. Assets	2.4	2.6	2.4	2.3	2.2
<b>Asset Quality</b>					
Gross NPAs (%)	1.2	1.4	1.4	1.5	1.7
Net NPAs (%)	1.0	1.0	1.0	0.9	0.8
PCR (%)	16.7	23.3	31.4	42.4	49.7
Credit Cost (%)	0.0	0.5	0.5	0.5	0.5
Delinquency Rate (%)	0.5	1.5	1.2	1.2	1.2
<b>Return Ratios (%)</b>					
ROE (%)	11.1	7.7	10.9	12.9	14.8
ROA (%)	3.5	2.1	2.3	2.2	2.2
Leverage (%)	3.4	4.0	5.4	6.4	7.2
D/E	2.3	2.9	4.2	5.2	6.0
<b>Per Share Data</b>					
Share Capital (₹.mn)	786.8	909.6	909.6	909.6	909.6
FV (₹)	10.0	10.0	10.0	10.0	10.0
No. of shares (mn)	78.7	91.0	91.0	91.0	91.0
EPS (₹)	28.5	21.7	37.8	50.7	67.2
BV (₹)	271.6	326.7	367.1	420.0	488.8
ABV (₹)	263.5	313.8	348.6	397.0	460.0
P/E (x)	20.1	19.6	11.3	8.4	6.3
P/BV (x)	2.1	1.3	1.2	1.0	0.9
P/ABV (x)	2.2	1.4	1.2	1.1	0.9
<b>Branches Data (%)</b>					
No. of branches (No.)	93.0	130.0	210.0	260.0	310.0
AUM / Branch	667.5	867.2	826.7	922.9	1016.9
No. of employees (No.)	1094.0	1509.0	2440.7	3032.3	3624.0
Employee Per Branch	12	12	12	12	12
Salary / Employee	0.7	0.8	0.7	0.8	0.8

Source: Company, LKP Research

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