

Indostar Capital Finance

Asset quality risks remain elevated

INDOSTAR's 1Q earnings came in above the estimates due to lower-than-expected operating and tax expenditure. The company is now well-positioned on the liquidity, capital and funding fronts, as a result of the equity infusion by Brookfield.. While the retail portfolio under moratorium registered a sharp fall, the corporate portfolio under moratorium was sticky, which would keep asset quality risks and provisions elevated and return ratios subdued in the near term. We, thus, maintain REDUCE with a target price of Rs 267.

- **1QFY21 highlights:** NII grew 10.4% QoQ to Rs 1.34bn and was in line with estimates. PPOP, at Rs 737mn (-38% YoY), was 14.7% ahead of estimates due to better-than-expected cost control. PAT was 57% higher than estimates, as tax costs fell sharply.
- **Funding and liquidity trends:** The equity infusion by Brookfield has strengthened INDOSTAR's position on these fronts. CRAR now stands at 37.7%, with a Tier 1 of 33.4%. Cash and cash equivalents at Rs 21.3bn now constitute ~30% of borrowings. The company raised ~Rs 7.3bn during the quarter from banks and capital markets at sub 9% (vs. 9.5% earlier).
- **Asset quality, moratorium and provisioning:** GNPA's were up 2.8% QoQ to Rs 3.76bn (4.5%). VF GNPA's (5.9%) rose ~10% QoQ while SME GNPA's (1.1%) dipped 35.4%. The portfolio under moratorium dipped to 57.7% (from 90%) due to a 52% fall in the retail portfolio to ~44%. Worryingly, the corporate portfolio under moratorium remained at ~90%. We, thus, believe that asset quality risks remain elevated in the near term (we build GNPA's of 7.8% in FY21E). Non-tax provisions were 61.8/96% lower YoY/QoQ, and INDOSTAR did not make additional COVID-related provisions, which stood at Rs 2.8bn.
- **Growth:** AUMs were 15.3% lower YoY, this has been on account of the fall in the corporate portfolio (-32% YoY), now ~30% of AUMs. Given INDOSTAR's comfortable funding position, it is well-positioned to resurgent growth. We estimate negligible AUM growth over FY21-22E.

Financial summary

| YE Mar (Rs mn) | 1Q FY21 | 1Q FY20 | YoY (%) | 4Q FY20 | QoQ (%) | FY19 | FY20 | FY21E | FY22E |
|-------------------|------------|------------|------------|------------|------------|-------|---------|-------|-------|
| NII | 1,344 | 1,557 | (13.6) | 1,217 | 10.4 | 5,177 | 6,028 | 6,879 | 7,268 |
| PPOP | 737 | 1,193 | (38.2) | 137 | 437.5 | 3,954 | 3,837 | 5,072 | 5,011 |
| PAT | 471 | 477 | (1.3) | (4,213.9) | NA | 2,408 | (3,246) | 1,281 | 2,150 |
| EPS (Rs) | 3.8 | 5.2 | (26.1) | (45.6) | NA | 26.1 | (35.1) | 9.5 | 16.0 |
| ROAE (%) | | | | | | 9.5 | (11.4) | 4.5 | 5.2 |
| ROAA (%) | | | | | | 2.47 | (3.0) | 1.28 | 1.98 |
| ABVPS (Rs) | | | | | | 275.5 | 226.2 | 244.8 | 277.4 |
| P/ABV (x) | | | | | | 0.92 | 1.12 | 1.04 | 0.92 |
| P/E (x) | | | | | | 9.7 | NA | 26.8 | 15.9 |

Change in estimates

| Rs mn | FY21E | | | FY22E | | |
|------------|--------|--------|--------|---------|---------|--------|
| | Old | New | Change | Old | New | Change |
| AUM | 91,824 | 91,824 | 0.0% | 100,283 | 100,283 | 0.0% |
| NIM (%) | 7.0 | 7.2 | 15 bps | 7.5 | 7.6 | 11 bps |
| NII | 6,736 | 6,879 | 2.1% | 7,158 | 7,268 | 1.5% |
| PPOP | 4,752 | 5,072 | 6.7% | 4,872 | 5,011 | 2.8% |
| PAT | 1,142 | 1,281 | 12.1% | 2,140 | 2,150 | 0.5% |
| ABVPS (Rs) | 246.8 | 244.8 | -0.8% | 275.7 | 277.4 | 0.6% |

Source: Bank, HSIE Research

REDUCE

| | |
|-------------------------|--------|
| CMP (as on 13 Aug 2020) | Rs 254 |
| Target Price | Rs 267 |
| NIFTY | 11,300 |

| KEY CHANGES | OLD | NEW |
|--------------|--------|--------|
| Rating | REDUCE | REDUCE |
| Price Target | Rs 266 | Rs 267 |
| EPS % | FY21E | FY22E |
| | 12.1% | 0.5% |

KEY STOCK DATA

| | |
|-----------------------------|-------------|
| Bloomberg code | INDOSTAR IN |
| No. of Shares (mn) | 123 |
| MCap (Rs bn) / (\$ mn) | 31/416 |
| 6m avg traded value (Rs mn) | 60 |
| 52 Week high / low | Rs 298/166 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|--------|--------|--------|
| Absolute (%) | (8.3) | (10.6) | (12.1) |
| Relative (%) | (28.0) | (3.1) | (15.7) |

SHAREHOLDING PATTERN (%)

| | Mar-20 | Jun-20 |
|-----------------|--------|--------|
| Promoters | 60.6 | 45.5 |
| FIs & Local MFs | 20.6 | 2.4 |
| FPIs | 10.7 | - |
| Public & Others | 8.1 | 52.1 |

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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