

Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	123
M.Cap.(INRb)/(USDb)	30.2 / 0.4
52-Week Range (INR)	280 / 111
1, 6, 12 Rel. Per (%)	27/32/73
12M Avg Val (INR M)	37

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	4.6	6.3	8.8
PPP	2.2	3.2	5.3
PAT	1.2	1.8	2.9
EPS (INR)	8.5	13.2	21.1
EPS Gr. (%)	-49	55	60
BV (INR)	238	251	272

Ratios

NIM (%)	6.4	6.7	7.2
C/I ratio (%)	69.3	63.6	54.6
RoA (%)	1.1	1.4	1.9
RoE (%)	3.7	5.4	8.1
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	28.7	18.5	11.6
P/BV (x)	1.0	1.0	0.9
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	75.0	75.0	89.2
DII	1.8	1.8	1.6
FII	1.5	1.3	1.2
Others	21.7	21.8	8.1

FII Includes depository receipts

CMP: INR244

TP: INR280 (+15%)

Buy

Turnaround in motion; access to liabilities a key monitorable

Improvements in disbursement momentum and asset quality continue

Indostar Capital Finance (Indostar) reported an improvement in business momentum during the quarter. The key highlights are: 1) 4QFY24 disbursements rose ~31% QoQ to ~INR17.7b; 2) it invested in human capital (added 302 employees in 4Q, taking the total count to ~4,000); 3) the CV segment contributed ~83% to the retail disbursement mix; and 4) asset quality improved with GS3 declining ~120bp QoQ (including sell-downs).

Financial highlights:

- Indostar reported a 4QFY24 PAT of INR353m, which rose 109% QoQ (PQ: INR169m). NII grew ~11% YoY to INR1.2b.
- Opex, in 4QFY24, jumped ~110% YoY to INR1.4b. This increase is not representative since the base quarter of 4QFY23 had a reversal of ~INR500m of ESOP expenses. PPOP grew ~97% YoY to INR1.4b.
- Provisions stood at INR1b, translating into annualized credit costs of ~5% in 4QFY24. Up-fronted assignment income during the quarter was utilized for strengthening the balance sheet and for increasing the provision coverage on the SRs and the wholesale loans.
- Total AUM stood at ~INR87.6b and grew ~9% QoQ. Retail AUM grew 9% QoQ/27% YoY to INR83.7b and contributed ~96% to the AUM mix.
- Asset quality improved significantly with GNPA/NNPA declining 120bp/60bp QoQ to 4.1%/1.8%.
- Bolstered by a credit rating upgrade from CARE to AA-/Stable, along with plans to monetize SRs and expectations of sanctions from the banks as early as the current quarter, the company is well poised to demonstrate a consistent improvement in its RoA profile.
- With better visibility on disbursement momentum, we estimate 37%/57% AUM/PAT CAGR over FY24-26, aided by a healthy NIM of 7.2% and benign credit costs of ~1.2%/1.3% in FY25/26. Indostar has announced a preferential equity raise of ~INR4.6b through the allotment of warrants to its promoter Brookfield and another investor Florintree. We will build this in our estimates after the completion of the equity raise. **Reiterate BUY with a TP of INR280 (premised on 1.0x FY26E BVPS).**

Disbursements improved in CV and Housing; looking to restart MSME

- Disbursements were healthy across all product segments. CV Finance disbursements for 4QFY24 stood at INR14.2b (PQ: INR10.7b).
- Management shared that it is working on its business model to restart the SME segment with small-ticket LAP in Tier 3-4 cities.

Key highlights from the management commentary

- In FY24, the new management executed the retailization plan by selling the corporate portfolio to ARC; consequently, the corporate portfolio declined to ~INR3.8b. Management also reduced the high-ticket SME portfolio to INR4.9b through the sale to ARC and direct assignments.
- It has guided for an RoA of ~1.3%-1.6% in FY25.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and

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 reinforced management team, enhanced processes, and a favorable economic climate will serve as catalysts for growth in these segments.
- With the sell-downs of stressed corporate and SME loans to ARC, both of these segments now contribute only ~10% of the total AUM mix. It has made conservative provisions on stressed loans, and we expect the benign credit costs to continue in the near future.
- Over the last one year, Indostar has made some sound business decisions, which can help this franchise make a turnaround. The risk-reward is favorable at 0.9x FY26E P/BV. We have a **BUY** rating on the stock with a TP of INR280 (based on 1.0x FY26E 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	2,855	3,143	10,584	11,453
Interest Expenses	1,481	1,464	1,354	1,504	1,544	1,652	1,724	1,954	5,803	6,873
Net Interest Income	1,289	1,145	1,272	1,075	1,179	1,081	1,131	1,189	4,782	4,580
YoY Growth (%)	25.3	6.3	-6.6	-40.5	-8.6	-5.6	-11.1	10.6	-9.4	-4.2
Other Income	372	336	191	313	271	402	214	1,636	1,212	2,522
Total Income	1,662	1,481	1,463	1,388	1,450	1,482	1,345	2,825	5,994	7,102
YoY Growth (%)	31.3	0.4	-10.3	-31.3	-12.7	0.1	-8.1	103.5	-5.6	18.5
Operating Expenses	1,021	1,120	1,209	662	1,153	1,185	1,192	1,392	4,011	4,922
Operating Profit	641	361	254	726	297	297	153	1,433	1,983	2,180
YoY Growth (%)	93.1	-33.9	-59.1	-37.7	-53.6	-17.7	-40.0	97.3	-24.4	10.0
Provisions & Loan Losses	-23	-202	-132	-47	-119	1	-38	1,041	-404	884
Profit before Tax	664	563	386	773	416	297	191	392	2,386	1,296
Tax Provisions	55	47	20	13	27	49	22	40	135	138
Net Profit	609	516	367	760	389	248	169	353	2,252	1,158
YoY Growth (%)	-265	31	152	-110	-36	-52	-54	-54	-130.6	-48.5
Key Operating Parameters (%)										
Yield on loans (Cal)	15.4	16.0	16.6	16.1	16.3	16.2	16.7	17.0		
Cost of funds (Cal)	9.8	10.2	9.8	10.8	10.7	11.5	11.2	11.0		
Spreads (Cal)	5.6	5.8	6.8	5.3	5.6	4.7	5.6	6.0		
NIMs (Cal)	5.8	5.7	6.5	5.6	5.9	5.5	5.7	5.7		
Credit Cost (Cal)	-0.1	-1.0	-0.7	-0.2	-0.6	0.0	-0.2	5.0		
Cost to Income Ratio	61.4	75.6	82.6	47.7	79.5	79.9	88.7	49.3		
Tax Rate	8.3	8.3	5.1	1.7	6.5	16.6	11.6	10.1		
Balance Sheet Parameters										
AUM (INR B)	82.5	79.1	76.7	78.1	80.6	77.3	80.4	87.6		
Change YoY (%)	-2.2	-7.7	-17.0	-19.1	-2.2	-2.3	4.8	12.2		
AUM Mix (%)										
Vehicle	46.5	45.7	45.2	47.0	48.7	56.7	60.3	63.8		
Housing	17.8	19.5	19.9	20.8	21.6	24.5	25.5	25.9		
SME & Others	20.1	19.5	18.7	16.5	14.6	13.7	9.1	5.5		
Corporate	15.6	15.4	15.9	15.7	14.8	4.7	4.7	4.4		
Disbursements (INR B)	3.4	3.3	5.2	9.0	11.2	12.7	13.5	17.7		
Change YoY (%)	-45.2	-70.4	-64.7	-47.5	224.4	279.9	157.7	96.8		
Asset Quality Parameters (%)										
GS3 (INR b)	3.4	4.9	5.4	4.8	4.9	4.7	3.9	0.0		
Gross Stage 3 (% on Assets)	8.2	7.1	7.9	6.8	6.6	6.7	5.3	4.1		
Net Stage 3 (% on Assets)	3.6	2.9	3.6	3.2	3.1	3.3	2.4	1.8		

E: MOFSL estimates

Asset quality continues to improve

- Asset quality improved significantly with GNPA/NNPA declining 120bp/60bp QoQ to 4.1%/1.8%.
- Collection efficiency (including overdue) in 4QFY24 stood at 100.9% (PQ: ~96.3%).
- SRs are adequately provided for, and the one-time gain from the assignment transaction was utilized to create an additional provision of INR750m.

IndoStar Home Finance Pvt Ltd (IHFPL)

- AUM as of Mar'24 stood at ~INR22.7b and grew ~11% QoQ.
- GS3 for housing finance declined ~10bp to 1.1% (PQ: 1.2%).
- IHFPL delivered a PAT of INR160m in 4QFY24 (vs. INR60m in 3QFY24) aided by AUM growth and securitization transactions.
- CRAR stood at ~57%.



Highlights from the management commentary

Industry/Macro outlook

- The Indian economy is on a positive trajectory, driven by government expenditure and growth in manufacturing.
- Consumer demand is robust, which is driving growth across all sectors.
- The CV industry has witnessed a peak of the cycle and rise of high tonnage vehicle is poised for integration in FY25/26.
- Demand of M&HCV rebounded due to infrastructure growth and replacement demand.
- Consumer preference towards used car reflects rising aspiration and cost effectiveness. 70% of used car is from organized segment.
- Pricing correction is expected due to high demand and low supply.
- Management anticipates steady growth in used vehicle. Used Vehicle EMI has become more affordable leading to increase in demand for BS4 vehicle. Transition from BS4 to BS6 has further fueled demand with price differential of 25-30%.
- Used commercial pricing to remain stable in FY25/FY26.
- Introduction of FASTag and removal of Octroi have increased the life span of the vehicle, leading to higher re-sale value.

Business update

- Embarked on new initiatives. Goal is to introduce more products to address customer lifecycle. This will enable to secure funding at competitive rate and reduce dependence on unsecured sector.
- Approach blends physical and digital touchpoints, catering to the customers who are still evolving to adopt digital technology.
- Pursued the goal of reducing the GNPA through appropriate collection model, credit underwriting method and control measures.
- In FY24, the new management executed the retailization plan by selling the corporate portfolio to ARC; consequently, the corporate portfolio declined to ~INR3.8b. Management also reduced the high-ticket SME portfolio to INR4.9b through the sale to ARC and direct assignments.
- Expanding retail operations with a focus on used CV business in Tier 3-4 markets.

Financial Update

- Generated total revenue (consol.) of INR4.7b in 4QFY24.
- Opex incurred at INR1.4b.
- Disbursement at INR17.7b for 4QFY24.
- AUM stood at INR87.6b as of Mar'24 (PY: INR78.1b)
- Standalone revenue includes one-time gain of INR966m on account of sale of SR. These proceeds were used to create additional provisions to strengthen Balance sheet.
- Revenue includes revenue from cross sale of insurance for which corporate agency license is already procured.
- Total collections stood at INR7b for 4QFY24. CE including overdue reached 101% showcasing high operational efficiency.
- Credit cost arose mainly on account of additional provisions created for SR.
- CRAR of 28.9% and D/E of 2.3 gives ample headroom for future growth.

Vehicle Finance

- AUM stood at INR5.9b.
- Emphasis to grow the used CV segment.

Housing Finance

- Achieved monthly disbursal run rate of INR1b
- AUM stood at INR22.7b, up 40% YoY.
- Loan book stood at INR18.2b.
- Customer base stands at 28k, with avg ticket size of INR900k.
- TN, AP, Telangana and Maharashtra remain core geographies accounting for more than 85% of portfolio
- Converted 10 branches into digital locations. Total branch count stands at 124.
- 90+dpd stood at ~0.83% and 1+dpd at ~1.02%.
- GNPA stood at ~1.13%.
- Completed transition to 100% digital and paperless loan journey. Entire loan process is paperless.
- Raised INR11.5b over FY24
- Added nine new investors in the borrowing program.
- Liquidity of INR2.2b and additional INR1.65b of undrawn sanction available.

Security Receipts

- First transaction was sale of SR of INR1b of which INR600m was in form of cash and INR400m in SR.
- Second, DA transaction of INR1.43b, wherein SME portfolio is sold to another NBFC and amount was received in cash
- Collection on SR has started, able to recover money against the SR of corporate loan.
- SRs are adequately provided for. One time gain was used to create additional provision of INR750m.
- Do not see any need of additional provisioning as collections are coming from SR. 31% of total SR is provided for.
- SME SR collection to start from Jan'25.

Borrowings

- Based on number of proposals, the share of bank lending will increase.
- Negative outlook of CRISIL is an issue; however, GNPA and NNPA are improving. Management is confident that this will give comfort to lenders.
- ICICI Bank book of INR1.15b remaining. Management has strengthened the collection process. Amount of flow has reduced. The book is mature and no major challenges will be seen. Additional flow of INR100m might come on GNPA front.
- ARC signed an agreement to collect entire amount on one account by Feb'25.

Fundraise

- Preferential allotments to Brookfield and Florintree.
- Additional capital will give comfort to lenders.

Customer segment

- Predominantly funding market load operators, agriculture good dependent transporters. Such as transporter who carry goods for people of India under the scheme of govt.
- Not in the fleet operator segment. Pure target profile is retail or into open group transportation. Few of the clients are related to infra segment.
- No challenge will be seen, except for the industry issue of pollution in the month of Oct and Nov in Delhi.
- A model in place used to negotiate LTV with customer. Do not fund a specialize asset. However, if it comes from market load operator then the company will fund.

New Product

- Introducing allied product of CV e.g., tyres.
- In terms of SME, new product will be LAP. To be introduced in tier 3-4 market at lower ticket size.
- Liability Profile
- Over the last couple of quarters, mix is changed through reliance on PTC and CP. Incremental cost of borrowing has dropped to 10.6%. It will continue to go down.
- NPA is going down and thus the company is expecting the banks to fund the liability side and thus cost of borrowings to go down.
- Cost of borrowings is 11.4% (PQ: 11.7%)

Guidance

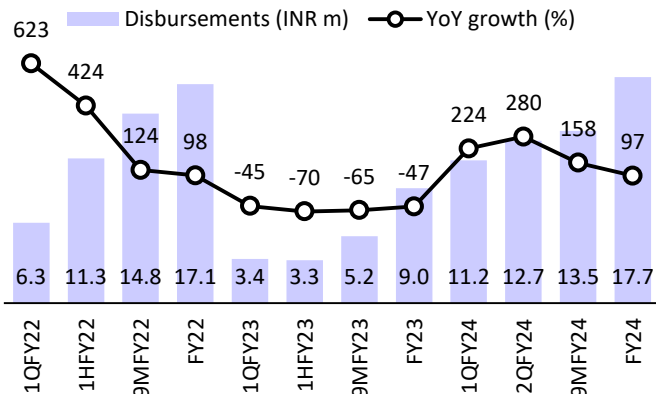
- Expect disbursements of INR60b in FY25. (Standalone business)
- ROA expected to inch upward. 1.3-1.6% for FY25 and 2% for FY26.
- Achieve AUM of INR115b-120b by FY25, Of which ~INR30b for Housing finance.

Others

- Standalone credit costs of INR1.02b consist of provisions on SR amounting to INR750m and additional provision of INR260m on corporate loan.
- Corporate book is all real estate. SME book is adequately provided for.
- Collection efficiency excluding overdue is 93% in CV book (84% 2 years ago) due to change in process. Company is comfortable with CE of 92%. 95% for housing and including overdue will be 99%.

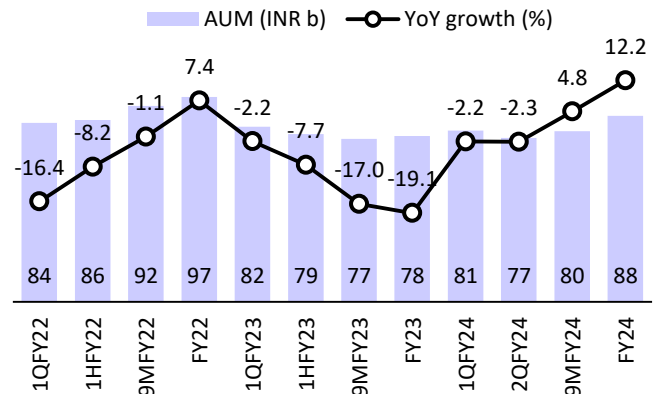
Key Exhibits

Exhibit 1: Disbursements grew 31% QoQ...



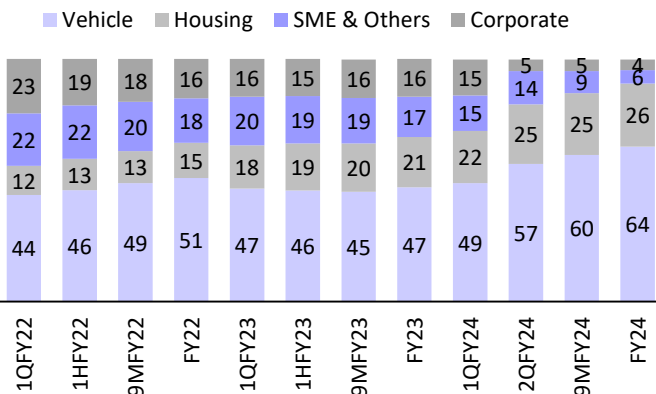
Source: MOFSL, Company

Exhibit 2: ...leading to an AUM growth of ~9% QoQ



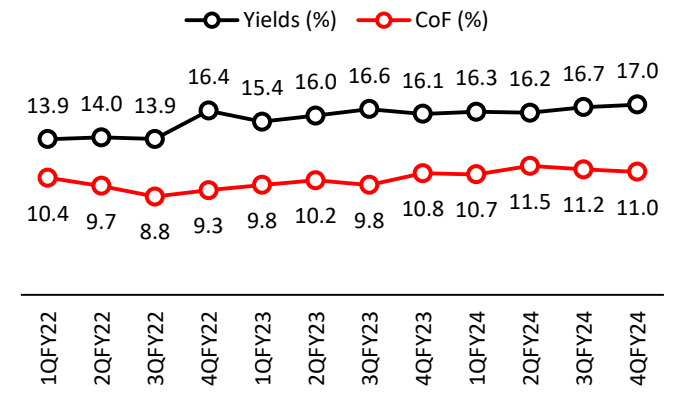
Source: MOFSL, Company

Exhibit 3: Share of SME book moderated QoQ (%)



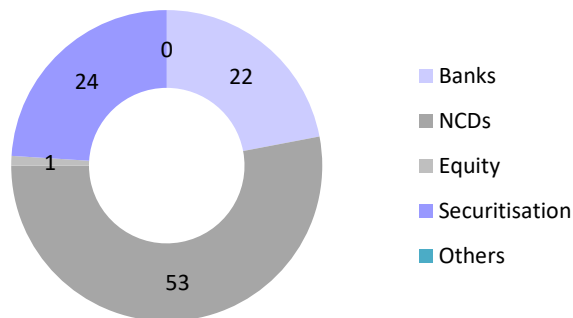
Source: MOFSL, Company

Exhibit 4: Spreads increased ~45bp QoQ (%)



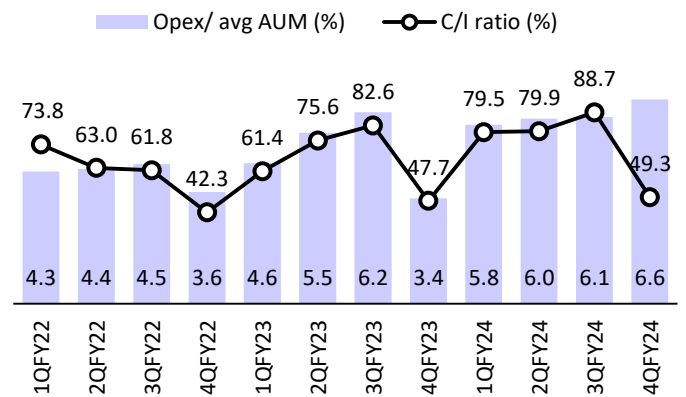
Source: MOFSL, Company;

Exhibit 5: Borrowing mix as of Mar'24 (%)



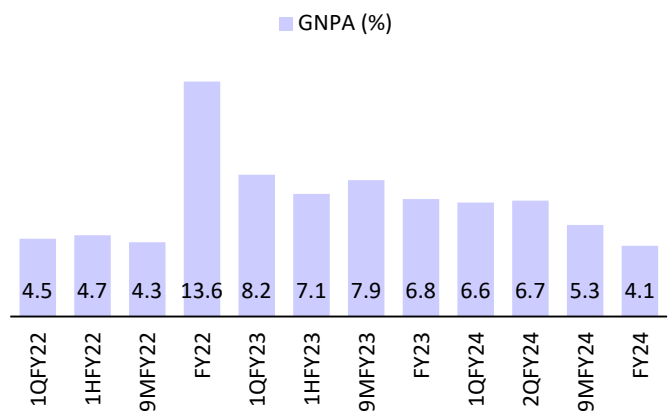
Source: MOFSL, Company

Exhibit 6: C/I ratio improved sharply to ~49.3% in 4QFY24



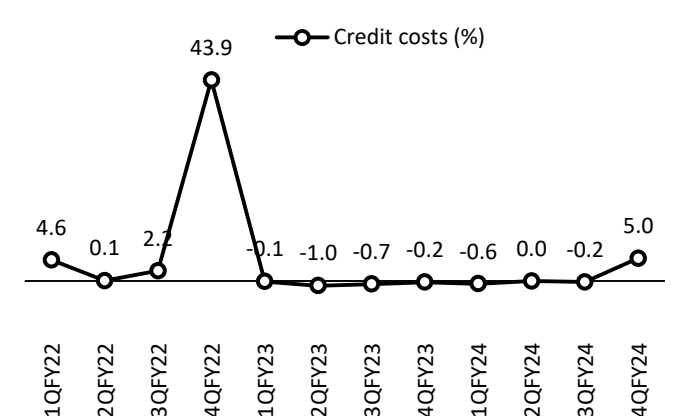
Source: MOFSL, Company;

Exhibit 7: GNPA continues to improve QoQ (%)



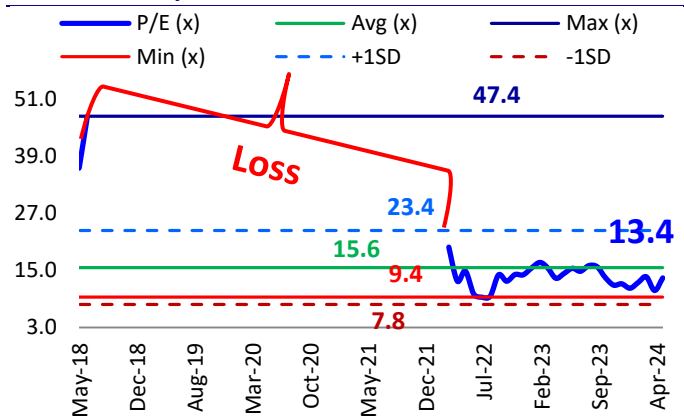
Source: MOFSL, Company

Exhibit 8: Credit costs increased to 5% in 4QFY24 (%)



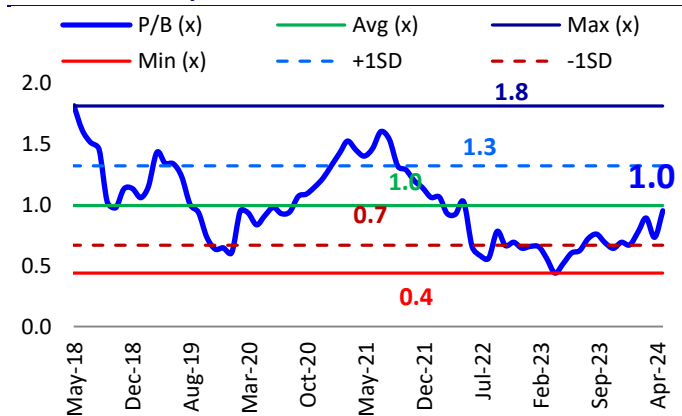
Source: MOFSL, Company

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	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	10,813	14,662	11,739	10,672	10,584	11,453	15,374	19,837
Interest Expended	5,636	8,634	7,086	5,395	5,803	6,873	9,048	11,063
Net Interest Income	5,177	6,028	4,653	5,276	4,782	4,580	6,326	8,774
Change (%)	18.3	16.4	-22.8	13.4	-9.4	-4.2	38.1	38.7
Fee Income	620	515	327	444	542	615	769	923
Other Income	624	812	806	627	671	1,907	1,713	1,988
Net Income	6,420	7,355	5,786	6,348	5,994	7,102	8,808	11,685
Change (%)	38.5	14.6	-21.3	9.7	-5.6	18.5	24.0	32.7
Operating Expenses	2,466	3,120	3,055	3,726	4,011	4,922	5,603	6,376
Operating Income	3,954	4,235	2,731	2,621	1,983	2,180	3,206	5,309
Change (%)	28.1	7.1	-35.5	-4.0	-24.4	10.0	47.0	65.6
Provisions and W/Offs	162	8,602	4,920	11,585	-404	884	1,099	1,583
PBT	3,792	-4,367	-2,189	-8,964	2,386	1,296	2,107	3,726
Tax	1,384	-1,120	-48	-1,599	135	138	316	857
Tax Rate (%)	36.5	25.7	2.2	17.8	5.6	10.6	15.0	23.0
PAT	2,408	-3,246	-2,141	-7,365	2,252	1,158	1,791	2,869
Change (%)	20.2	-234.8	-34.0	244.0	-130.6	-48.5	54.6	60.2

Balance Sheet							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	923	925	1,237	1,361	1,361	1,361	1,361	1,361
Reserves & Surplus	29,140	25,881	35,745	27,930	29,755	30,991	32,782	35,651
Net Worth	30,063	26,806	36,982	29,291	31,116	32,352	34,143	37,012
Other Capital Instruments	0	0	0	0	0	0	0	0
Borrowings	90,617	71,419	60,076	62,234	56,481	75,717	1,05,251	1,22,858
Change (%)	85.6	-21.2	-15.9	3.6	-9.2	34.1	39.0	16.7
Other liabilities	2,321	3,061	3,757	5,089	3,626	3,138	3,452	4,143
Total Liabilities	1,23,002	1,01,286	1,00,815	96,614	91,222	1,11,207	1,42,846	1,64,012
Investments	3,009	2,306	15,914	5,477	10,394	11,182	12,077	13,284
Change (%)	-70.1	-23.4	590.2	-65.6	89.8	7.6	8.0	10.0
Loans and Advances	1,03,637	82,931	71,393	77,069	65,157	78,098	1,11,376	1,32,105
Change (%)	75.6	-20.0	-13.9	8.0	-15.5	19.9	42.6	18.6
Net Fixed Assets	3,704	4,214	3,865	3,990	3,902	3,941	4,138	4,345
Other Assets	12,652	11,835	9,643	10,078	11,769	17,985	15,254	14,278
Total Assets	1,23,002	1,01,286	1,00,815	96,614	91,222	1,11,207	1,42,846	1,64,012

E: MOFSL Estimates

Financials and valuations

AUM Details							(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Consol. AUM (INR b)	117	100	90	97	78	87	122	165
AUM Mix								
Corporate	39	29	22	16	16	4	2	0.7
Retail	61	71	78	84	84	96	98	99.3
Vehicle	41	45	47	51	47	64	69	70.7
SME	16	18	21	18	17	6	3	3.2
Housing	5	8	11	15	21	26	26	25.3
Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Yield on Portfolio	13.0	15.6	14.9	14.1	14.6	15.7	16.0	16.1
Cost of Borrowings	8.1	10.7	10.8	8.8	9.8	10.4	10.0	9.7
Interest Spread	4.9	4.9	4.1	5.3	4.9	5.3	6.0	6.4
Net Interest Margin	6.4	6.5	6.0	7.1	6.7	6.4	6.7	7.2
Profitability Ratios (%)								
RoE	9.5	-11.4	-6.7	-22.2	7.5	3.7	5.4	8.1
RoA (on balance sheet)	2.5	-2.9	-2.1	-7.5	2.4	1.1	1.4	1.9
Debt: Equity (x)	3.0	2.7	1.6	2.1	1.8	2.3	3.1	3.3
Leverage (x)	4.1	3.8	2.7	3.3	2.9	3.4	4.2	4.3
Efficiency Ratios (%)								
Int. Expended/Int. Earned	52.1	58.9	60.4	50.6	54.8	60.0	58.9	55.8
Op. Exps./Net Income	38.4	42.4	52.8	58.7	66.9	69.3	63.6	54.6
Empl. Cost/Op. Exps.	60.6	60.5	56.9	55.0	44.3	55.0	58.0	60.1
Fee income/Net Income	9.7	7.0	5.6	7.0	9.0	8.7	8.7	7.9
Asset quality								
GNPA	3,051	3,652	3,441	12,030	4,790	4,265	4,584	4,768
NNPA	1,995	2,893	1,580	5,190	2,190	1,919	2,063	2,241
GNPA %	2.9	4.4	4.7	13.6	6.8	5.3	4.0	3.5
NNPA %	1.9	3.5	2.2	6.7	3.4	2.5	1.9	1.7
PCR %	34.6	20.8	54.1	56.9	54.3	55.0	55.0	53.0
Valuation								
Book Value (INR)	326	290	299	215	229	238	251	272.0
BV Growth (%)	23.6	-11.0	3.1	-28.0	6.2	4.0	5.5	8.4
Price-BV (x)		0.8	0.8	1.1	1.1	1.0	1.0	0.9
Adjusted BV (INR)	303	262	279	153	204	216	227	247.5
Price-ABV (x)		0.8	0.9	1.6	1.2	1.1	1.1	1.0
EPS (INR)	26.1	-35.1	-17.3	-54.1	16.5	8.5	13.2	21.1
EPS Growth (%)	2.5	-234.5	-50.7	212.8	-130.6	-48.5	54.6	60.2
Price-Earnings (x)		-6.9	-14.1	-4.5	14.7	28.7	18.5	11.6
Dividend per share		2.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)		0.8	0.0	0.0	0.0	0.0	0.0	0.0
E: MOFSL Estimates								

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BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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