

# Indostar Capital Finance

**CMP: INR243**

**TP: INR290 (+19%)**

**Buy**

## Business momentum healthy; earnings down QoQ

### Minor seasonal deterioration in asset quality

Indostar Capital Finance (Indostar) reported healthy business momentum in 1QFY25. Key highlights: 1) Disbursements grew ~46% YoY to ~INR16.3b and Retail AUM grew ~34% YoY to ~INR92b; 2) It added 579 employees in 1Q, taking the total count to ~4,578; 3) The CV segment contributed ~87% to the retail disbursement mix; and 4) Minor seasonal deterioration in asset quality with GS3 increasing ~10bp QoQ to ~4.2%.

### Financial highlights:

- Indostar reported a PAT of INR249m, down 29% QoQ due to a one-off in other income in 4QFY24. NII grew ~17% YoY to INR1.4b.
- Opex jumped ~21% YoY to INR1.4b. The company is in an expansion phase and will add 80-100 branches in FY25. It is also ramping up manpower, which will keep opex elevated in the near term.
- PPOP grew ~77% YoY to INR 526m. Provisions stood at INR230m, translating into annualized credit costs of ~1% in 1QFY25.
- Total consol. AUM stood at ~INR95.6b, up ~19% YoY and ~9% QoQ. Core AUM (VF + HFC) grew ~54% YoY and 11% QoQ.
- Asset quality deteriorated, with GNPA/NNPA increasing ~10bp/30bp QoQ to 4.2%/2.1%. Generally, 1Q is a dull quarter for CV financiers in terms of loan growth and asset quality. This was further compounded by elections. The company has assured that asset quality will recover after monsoons and will be normal by the end of the year.
- With better visibility on disbursement momentum, we estimate a CAGR of 41%/52% in AUM/PAT CAGR over FY24-26, aided by a healthy improvement in NIM to 6.7%/7.0% in FY25/FY26E. **Reiterate BUY with a TP of INR290 (premised on 1.1x FY26E BVPS).**

### Healthy disbursement momentum in vehicle finance

- Disbursements in vehicle finance (VF) remained steady QoQ, which is positive. VF disbursements stood at INR14.1b (PQ: INR14.2b).
- The management shared that it is working on its business model to restart the SME segment, wherein it will offer micro-LAP products with a ticket size of INR300k-700k in Tier 3-4 cities. SME will be an ancillary business for the next two years and yields will be above ~20%.

### Key highlights from the management commentary

- Market is likely to remain stable and growth in used CVs will sustain. The company plans to launch ancillary products for the trucking industry.
- Indostar raised ~INR7.3b of borrowings in 1QFY25; some of those came from PSU banks and even long-term WCDL from banks. The company is also looking at raising funds from a public issue of NCDs.
- The management guided for credit costs of ~1.5%-2%.

Bloomberg	INDOSTAR IN
Equity Shares (m)	136
M.Cap.(INRb)/(USD\$)	30.1 / 0.4
52-Week Range (INR)	280 / 156
1, 6, 12 Rel. Per (%)	-8/11/15
12M Avg Val (INR m)	35

### Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	4.6	6.4	8.8
PPP	2.2	3.1	5.2
PAT	1.2	1.7	2.7
EPS (INR)	8.5	12.5	18.5
EPS Gr. (%)	-49	47	48
BV (INR)	238	250	264
<b>Ratios</b>			
NIM (%)	6.4	6.7	7.0
C/I ratio (%)	69.3	66.1	57.2
RoA (%)	1.1	1.3	1.7
RoE (%)	3.7	5.1	7.5
Payout (%)	0.0	0.0	0.0
<b>Valuations</b>			
P/E (x)	28.5	19.4	13.1
P/BV (x)	1.0	1.0	0.9
Div. Yield (%)	0.0	0.0	0.0

### Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	73.6	75.0	75.0
DII	1.8	1.8	1.9
FII	2.1	1.5	1.3
Others	22.5	21.7	21.8

FII Includes depository receipts

**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.
- Corporate and SME segments now contribute only ~9% of the total AUM mix. It has made conservative provisions on stressed loans, and we expect credit costs to remain benign in the near future. The risk-reward is favorable at 0.9x FY26E P/BV. We have a **BUY** rating on the stock with a TP of INR290 (based on 1.1x FY26E BVPS).

**Quarterly Performance**

Y/E March

(INR M)

	FY24				FY25		
	1Q	2Q	3Q	4Q	1Q	FY24	FY25
Interest Income	2,723	2,732	2,855	3,143	3,411	11,453	15,746
Interest Expenses	1,544	1,652	1,724	1,954	2,031	6,873	9,332
<b>Net Interest Income</b>	<b>1,179</b>	<b>1,081</b>	<b>1,131</b>	<b>1,189</b>	<b>1,380</b>	<b>4,580</b>	<b>6,414</b>
YoY Growth (%)	-8.6	-5.6	-11.1	10.6	17.0	-4.2	40.0
Other Income	271	402	214	1,636	533	2,522	2,775
<b>Total Income</b>	<b>1,450</b>	<b>1,482</b>	<b>1,345</b>	<b>2,825</b>	<b>1,913</b>	<b>7,102</b>	<b>9,189</b>
YoY Growth (%)	-12.7	0.1	-8.1	103.5	31.9	18.5	29.4
Operating Expenses	1,153	1,185	1,192	1,392	1,387	4,922	6,070
<b>Operating Profit</b>	<b>297</b>	<b>297</b>	<b>153</b>	<b>1,433</b>	<b>526</b>	<b>2,180</b>	<b>3,119</b>
YoY Growth (%)	-53.6	-17.7	-40.0	97.3	76.8	10.0	43.1
Provisions & Loan Losses	-119	1	-38	1,041	229	884	1,112
<b>Profit before Tax</b>	<b>416</b>	<b>297</b>	<b>191</b>	<b>392</b>	<b>297</b>	<b>1,296</b>	<b>2,007</b>
Tax Provisions	27	49	22	40	48	138	301
<b>Net Profit</b>	<b>389</b>	<b>248</b>	<b>169</b>	<b>353</b>	<b>249</b>	<b>1,158</b>	<b>1,706</b>
YoY Growth (%)	-36	-52	-54	-54	-35.96	-48.5	47.3
<b>Key Operating Parameters (%)</b>							
Yield on loans (Cal)	16.3	16.2	16.7	17.0	16.6		
Cost of funds (Cal)	10.7	11.5	11.2	11.0	10.6		
Spreads (Cal)	5.6	4.7	5.6	6.0	6.0		
NIMs (Cal)	5.9	5.5	5.7	5.7	6.0		
Credit Cost (Cal)	-0.6	0.0	-0.2	5.0	1.0		
Cost to Income Ratio	79.5	79.9	88.7	49.3	72.5		
Tax Rate	6.5	16.6	11.6	10.1	16.1		
<b>Balance Sheet Parameters</b>							
AUM (INR B)	80.6	77.3	80.4	87.6	95.7		
Change YoY (%)	-2.2	-2.3	4.8	12.2	18.6		
AUM Mix (%)							
Vehicle	48.7	56.7	60.3	63.8	66.1		
Housing	21.6	24.5	25.5	25.9	25.0		
SME & Others	14.6	13.7	9.1	5.5	4.7		
Corporate	14.8	4.7	4.7	4.4	3.9		
Disbursements (INR B)	11.2	12.7	13.5	17.7	16.3		
Change YoY (%)	224.4	279.9	157.7	96.8	45.8		
<b>Asset Quality Parameters (%)</b>							
GS 3 (INR B)	4.9	4.7	3.9	0.0	0.0		
Gross Stage 3 (% on Assets)	6.6	6.7	5.3	4.1	4.2		
Net Stage 3 (% on Assets)	3.1	3.3	2.4	1.8	2.1		
PCR (%)	53.6	51.5	56.9	0.0	0.0		

E: MOFSL estimates

**Seasonal deterioration in Asset quality**

- Asset quality deteriorated with GNPA/NNPA increasing ~10bp/30bp QoQ to 4.2%/2.1%. Collection efficiency (including overdue) stood at 94.7% (PQ: ~100.9%).
- Legacy loan book stood at ~INR2.1b and it will be resolved over the next two years. The company carries provisions of ~60% on this book.

**IndoStar Home Finance (IHFPL)**

- AUM as of Jun'24 stood at ~INR24b, up ~6% QoQ.
- GS3 increased ~25bp to 1.3% (PQ: 1.1%).
- PAT stood at INR140m vs. INR160m in 4QFY24.
- CRAR stood at ~56%.

**Highlights from the management commentary****Demand Outlook**

- The cost of new vehicles has been going up and the company expects the trend to continue as it will benefit the used CV industry.
- Scarcity and unavailability of old vehicles should further result in good demand for used vehicles.
- Market is likely to remain stable and growth in used CVs will sustain. It plans to launch ancillary products for the trucking industry. The company is trying to increase the well-being of its customers and will be expanding its lending operations.
- Rural demand will pick up on the back of good monsoons and will result in good demand for CVs.

**Guidance**

- Guided for standalone AUM of ~INR95b and consolidated AUM of ~INR120b.
- Guided for credit costs of 1.5%-2.0%
- Credit cost was ~40bp in the HFC business and it is expected to remain at the current levels.
- The company has started getting insurance income from the preceding quarter and the yields have also improved. In terms of expenses, Indostar is in an expansion phase and will add 80-100 branches in FY25. It is also ramping up manpower, which will keep opex elevated in the near term.
- Guided for M&HCV share in the vehicle mix to decline to ~35% from ~45% now.

**Financial Update**

- Actively pursued goals to improve GNPA
- GNPA stood at ~4.19% (consolidated) and ~4.97% (standalone)
- April/May are dull months for CVs, and this time it was compounded by elections. Indostar assured that asset quality will recover after monsoons and will return to normalcy by the end of the year.
- Legacy loan book stood at ~INR2.1b and it will be resolved over the next 2 years. The company carries provisions of ~60% on this book.

**SR Book**

- Gross SR stood at ~INR11.75b as of Mar'24. Indostar collected ~INR530m in 1QFY25. Gross SR declined to ~INR11.25b and Net SR stood at ~INR7.66b (PCR of ~32%). SRs will get resolved over the next 2-3 years.

- Company guided that it has already created additional provisioning on the SR book and does not expect any additional provisioning requirement on the SR book.

#### **SME Product**

- New SME product targeted at Tier 3 and 4 markets.
- Indostar is leveraging its existing branches for the new MSME product. There will be some increase in the operating expenses from the increase in manpower.
- Ticket size around INR300-700K - Micro LAP product. The company has started piloting in TN - predominantly targeted toward business people.
- SME will be an ancillary business for the next 2 years and yields will be above ~20%.

#### **Consolidated Financial Performance**

- NII stood at ~INR1.86b (up ~29% YoY) and NIM stood at ~6%.
- Operating expenses stood at ~INR1.39b (vs. INR1.15b in 1QFY24 and INR1.39b in 4QFY24).
- Non-recurring one-time income of ~INR1.16b in 4QFY24, which was absent in the current quarter.
- Consol. AUM stood at ~INR95.65b, up ~11% QoQ.

#### **Standalone**

- Standalone disbursements stood at ~INR14.2b and standalone AUM stood at INR71.7b (up ~13% QoQ).
- CE (including overdue) stood at 95%.

#### **Vehicle Finance**

- AUM stood at ~INR63.23b.
- Guided for overall income to start improving and NIM to expand in the coming quarters.
- Earlier Indostar used to focus predominantly on M&HCVs. It has now started focusing on pickups and small CVs - 60% of the units are coming in small ticket sizes, which pulled down ATS.

#### **Affordable Housing (HFC)**

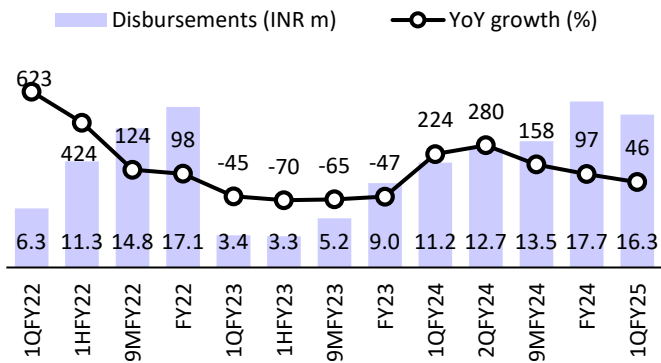
- AUM stood at ~INR24b. The average ticket size is INR900k.
- Total branches stood at 132 and will continue to expand through digital locations.
- 1+dpd of 3.95% (marginally higher than last quarter)
- GS3 stood at 1.34%. GNPA's are slightly higher in 1Q of the fiscal year, but they will moderate in the rest of the fiscal year.
- Gone live with end-to-end digital and paperless journeys.
- PAT stood at INR140m; RoA stood at 3% and debt-equity ratio of 2.6x; CRAR was healthy at ~56%.

#### **Liabilities and CoF**

- Higher-cost NCDs will be repaid over the next three quarters and will be replaced with lower-cost liabilities.
- Overall CoB declined to 10.8% and incremental CoB declined to ~10.5%.
- Raised ~INR7.3b of borrowings in 1QFY25- some of those came from PSU banks and long-term WCDL from banks.
- Confident that in 2Q, it will have substantial sourcing of borrowings from banks.
- It is also looking at raising funds (INR1.5b + INR1.5b) from public issue of NCDs.
- Large sanctions from PSU banks are in the final stages of documentation.

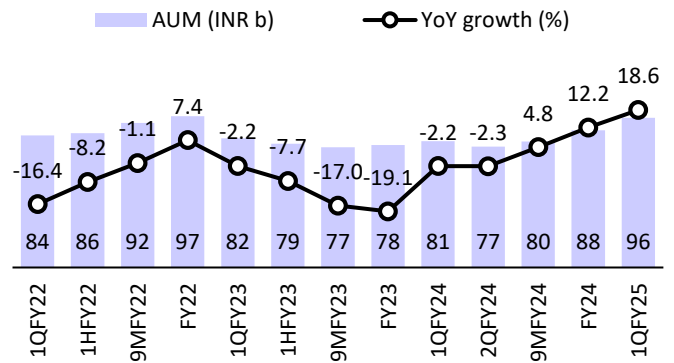
## Key Exhibits

Exhibit 1: Disbursements grew ~46% YoY...



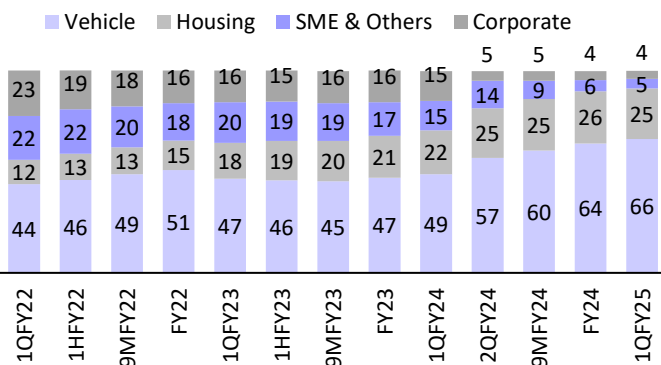
Source: MOFSL, Company

Exhibit 2: AUM grew ~19% YoY



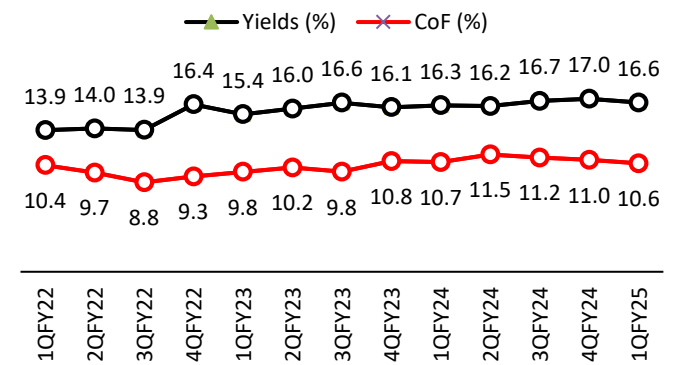
Source: MOFSL, Company

Exhibit 3: Share of Vehicle loans continues to increase



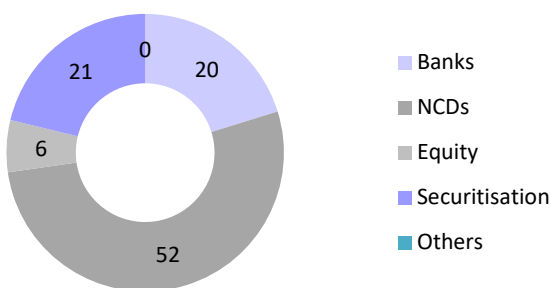
Source: MOFSL, Company

Exhibit 4: Spreads were stable QoQ (%)



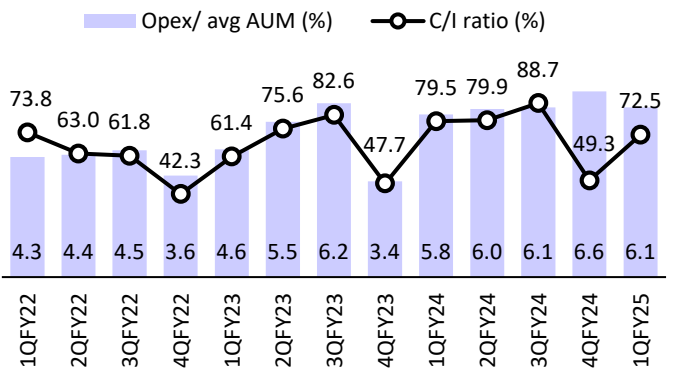
Source: MOFSL, Company;

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



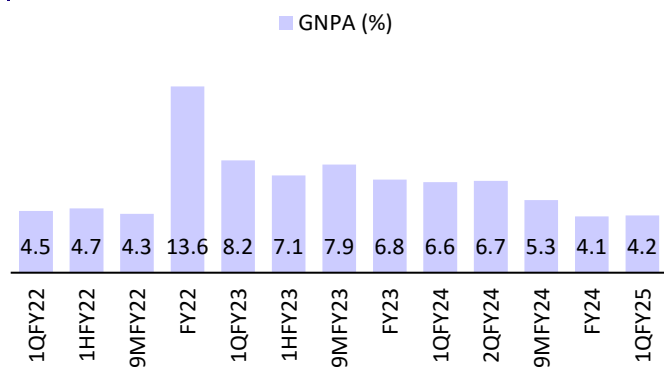
Source: MOFSL, Company

Exhibit 6: C/I ratio rose QoQ (4QFY24 had one-off in income)



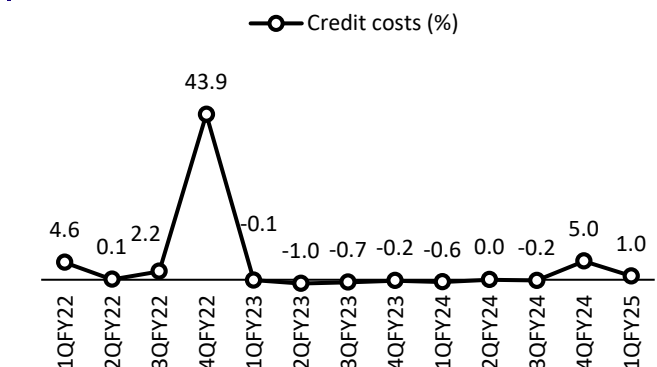
Source: MOFSL, Company;

Exhibit 7: GNPA deteriorated by ~10bp QoQ (%)



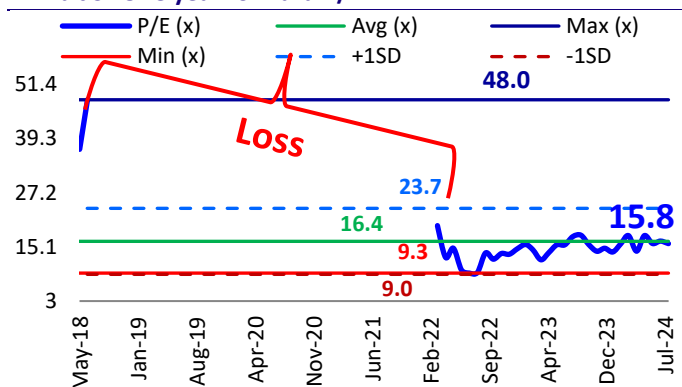
Source: MOFSL, Company

Exhibit 8: Credit costs improved to ~1% in 1QFY25



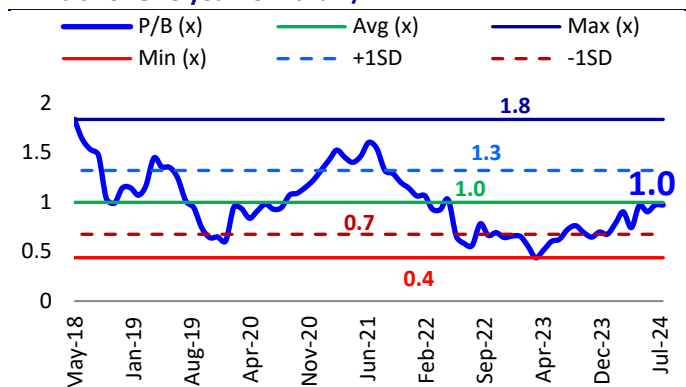
Source: MOFSL, Company

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	15,746	20,640
Interest Expended	5,636	8,634	7,086	5,395	5,803	6,873	9,332	11,815
<b>Net Interest Income</b>	<b>5,177</b>	<b>6,028</b>	<b>4,653</b>	<b>5,276</b>	<b>4,782</b>	<b>4,580</b>	<b>6,414</b>	<b>8,825</b>
Change (%)	18.3	16.4	-22.8	13.4	-9.4	-4.2	40.0	37.6
Fee Income	620	515	327	444	542	615	1,046	1,255
Other Income	624	812	806	627	671	1,907	1,729	2,006
<b>Net Income</b>	<b>6,420</b>	<b>7,355</b>	<b>5,786</b>	<b>6,348</b>	<b>5,994</b>	<b>7,102</b>	<b>9,189</b>	<b>12,086</b>
Change (%)	38.5	14.6	-21.3	9.7	-5.6	18.5	29.4	31.5
Operating Expenses	2,466	3,120	3,055	3,726	4,011	4,922	6,070	6,910
<b>Operating Income</b>	<b>3,954</b>	<b>4,235</b>	<b>2,731</b>	<b>2,621</b>	<b>1,983</b>	<b>2,180</b>	<b>3,119</b>	<b>5,176</b>
Change (%)	28.1	7.1	-35.5	-4.0	-24.4	10.0	43.1	66.0
Provisions and W/Offs	162	8,602	4,920	11,585	-404	884	1,112	1,637
<b>PBT</b>	<b>3,792</b>	<b>-4,367</b>	<b>-2,189</b>	<b>-8,964</b>	<b>2,386</b>	<b>1,296</b>	<b>2,007</b>	<b>3,539</b>
Tax	1,384	-1,120	-48	-1,599	135	138	301	814
Tax Rate (%)	36.5	25.7	2.2	17.8	5.6	10.6	15.0	23.0
<b>PAT</b>	<b>2,408</b>	<b>-3,246</b>	<b>-2,141</b>	<b>-7,365</b>	<b>2,252</b>	<b>1,158</b>	<b>1,706</b>	<b>2,725</b>
Change (%)	20.2	-234.8	-34.0	244.0	-130.6	-48.5	47.3	59.7

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	1,469
Reserves & Surplus	29,140	25,881	35,745	27,930	29,755	30,991	32,697	37,313
<b>Net Worth</b>	<b>30,063</b>	<b>26,806</b>	<b>36,982</b>	<b>29,291</b>	<b>31,116</b>	<b>32,352</b>	<b>34,058</b>	<b>38,783</b>
Other Capital Instruments	0	0	0	0	0	0	0	0
<b>Borrowings</b>	<b>90,617</b>	<b>71,419</b>	<b>60,076</b>	<b>62,234</b>	<b>56,481</b>	<b>75,717</b>	<b>1,09,076</b>	<b>1,32,042</b>
Change (%)	85.6	-21.2	-15.9	3.6	-9.2	34.1	44.1	21.1
Other liabilities	2,321	3,061	3,757	5,089	3,626	3,138	3,452	4,143
<b>Total Liabilities</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>1,11,207</b>	<b>1,46,586</b>	<b>1,74,967</b>
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
<b>Loans and Advances</b>	<b>1,03,637</b>	<b>82,931</b>	<b>71,393</b>	<b>77,069</b>	<b>65,157</b>	<b>78,098</b>	<b>1,13,621</b>	<b>1,38,264</b>
Change (%)	75.6	-20.0	-13.9	8.0	-15.5	19.9	45.5	21.7
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	16,751	19,074
<b>Total Assets</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>1,11,207</b>	<b>1,46,586</b>	<b>1,74,967</b>

E: MOFSL Estimates

## Financials and valuations

AUM Details							(INR M)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Consol. AUM (INR Bn)	117	100	90	97	78	87	125	173
AUM Mix								
Corporate	39	29	22	16	16	4	1	0.3
Retail	61	71	78	84	84	96	99	99.7
Vehicle	41	45	47	51	47	64	71	72.8
SME	16	18	21	18	17	6	3	2.6
Housing	5	8	11	15	21	26	25	24.2
Ratios							(<strong>%)</strong>)	
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	16.2	16.2
Cost of Borrowings	8.1	10.7	10.8	8.8	9.8	10.4	10.1	9.8
Interest Spread	4.9	4.9	4.1	5.3	4.9	5.3	6.1	6.4
Net Interest Margin	6.4	6.5	6.0	7.1	6.7	6.4	6.7	7.0
Profitability Ratios (%)								
RoE	9.5	-11.4	-6.7	-22.2	7.5	3.7	5.1	7.5
RoA (on balance sheet)	2.5	-2.9	-2.1	-7.5	2.4	1.1	1.3	1.7
Debt: Equity (x)	3.0	2.7	1.6	2.1	1.8	2.3	3.2	3.4
Leverage (x)	4.1	3.8	2.7	3.3	2.9	3.4	4.3	4.4
Efficiency Ratios (%)								
Int. Expended/Int.Earned	52.1	58.9	60.4	50.6	54.8	60.0	59.3	57.2
Op. Exps./Net Income	38.4	42.4	52.8	58.7	66.9	69.3	66.1	57.2
Empl. Cost/Op. Exps.	60.6	60.5	56.9	55.0	44.3	55.0	58.4	60.6
Fee income/Net Income	9.7	7.0	5.6	7.0	9.0	8.7	11.4	10.4
Asset quality								
GNPA	3,051	3,652	3,441	12,030	4,790	4,265	4,584	4,799
NNPA	1,995	2,893	1,580	5,190	2,190	1,919	2,063	2,256
GNPA %	2.9	4.4	4.7	13.6	6.8	5.3	3.9	3.4
NNPA %	1.9	3.5	2.2	6.7	3.4	2.5	1.8	1.6
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	250	264
BV Growth (%)	23.6	-11.0	3.1	-28.0	6.2	4.0	5.3	5.4
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	241.1
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	12.5	18.5
EPS Growth (%)	2.5	-234.5	-50.7	212.8	-130.6	-48.5	47.3	47.9
Price-Earnings (x)		-6.9	-14.0	-4.5	14.7	28.5	19.4	13.1
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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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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