

Indostar Capital Finance

CMP: INR260

TP: INR315 (+21%)

Buy

Making steady progress in its core vehicle finance segment

Asset quality largely stable

Indostar Capital Finance (Indostar) reported healthy business momentum in 2QFY25. Key highlights: 1) consolidated disbursements grew ~36% YoY to ~INR17.2b and retail AUM rose ~35% YoY to ~INR99b; 2) the company added 594 employees in 2QFY25, taking the total count to ~5,170; 3) the CV segment contributed ~87% to the retail disbursement mix; and 4) asset quality was broadly stable with standalone GS3 remaining steady at ~5% and standalone NNPA rising ~15bp QoQ to 2.5%.

Financial highlights:

- Indostar reported a consol. PAT of INR317m, which grew ~28% YoY. In 1HFY25, PAT declined ~11% YoY. We expect PAT to grow ~70% YoY in 2HFY25. NII grew ~41% YoY to INR1.1b.
- Opex jumped ~50% YoY to INR1.3b. Operating expenses were higher due to increased hiring at the Feet-on-Street (FoS) level, recruitment at senior management positions, and ongoing expansion of the branch network.
- PPOP stood at INR371m (PY: INR86m due to the one-offs). Credit costs were INR193m, translating into annualized credit costs of ~80bp in 2Q.
- Total consol. AUM (including Corporate) stood at ~INR101b, up ~31% YoY and ~6% QoQ. VF + HFC AUM grew ~52% YoY and 9% QoQ.
- Asset quality was largely stable, with standalone GNPA remaining steady at ~5% and standalone NNPA rising ~15bp QoQ to 2.5%. Management shared that it does not foresee any need to raise its credit cost guidance.
- With better visibility on disbursement momentum, we estimate a CAGR of 37%/47% in AUM/PAT CAGR over FY24-27, aided by a healthy improvement in NIM to 6.5%/6.9% in FY25/FY26E. **Reiterate BUY with a TP of INR315 (premised on 1.2x Sept'26E BVPS).**

Healthy disbursements leading to ~31% YoY growth in AUM

- Disbursements in vehicle finance (VF) grew ~3% QoQ. VF disbursements stood at INR14.5b (PQ: INR14.1b).
- The company expects AUM to scale up to ~INR90b and ~INR120b by FY25 and FY26, respectively. ~99% of its CV disbursements are in the used CV segment, which positions it well for higher yields.

Key highlights from the management commentary

- Indostar expects money from the sale of the housing finance business to be used in its core businesses – vehicle finance and small-ticket MSME loans.
- Management guided for stronger loan growth and improved profitability. Yields have started going up, incremental CoB has started coming down, and it has begun repaying some of its high-cost NCDs (~INR5b of high cost NCDs were paid down in 2Q).

Bloomberg	INDOSTAR IN
Equity Shares (m)	136
M.Cap.(INRb)/(USD\$)	35.4 / 0.4
52-Week Range (INR)	343 / 156
1, 6, 12 Rel. Per (%)	-13/-8/21
12M Avg Val (INR M)	53

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	4.6	6.2	8.6
PPP	2.2	2.9	4.7
PAT	1.2	1.5	2.4
EPS (INR)	8.5	10.7	16.4
EPS Gr. (%)	-49	26	52
BV (INR)	238	248	260

Ratios

NIM (%)	6.4	6.5	6.9
C/I ratio (%)	69.3	67.7	60.0
RoA (%)	1.1	1.1	1.5
RoE (%)	3.7	4.4	6.7
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	30.5	24.2	15.9
P/BV (x)	1.1	1.0	1.0
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	73.6	73.6	75.0
DII	1.8	1.8	1.9
FII	2.3	2.1	1.4
Others	22.3	22.5	21.7

FII Includes depository receipts

Valuation and view

- Indostar has strategically prioritized the expansion of its loan book in the used CV segment. A reinforced management team, enhanced processes, and a favorable economic climate will serve as catalysts for growth in this segment.
- Corporate and SME segments now contribute only ~6% to the total AUM mix. The company 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 1x FY26E P/BV. **Reiterate BUY** rating on the stock with a TP of INR315 (premised on 1.2x Sep'26E BVPS).

Quarterly performance

Y/E March

(INR m)

	FY24				FY25		FY24	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest Income	2,723	2,175	2,855	3,143	2,703	2,956	11,453	15,746
Interest Expenses	1,544	1,408	1,724	1,954	1,668	1,878	6,873	9,332
Net Interest Income	1,179	767	1,131	1,189	1,035	1,078	4,580	6,414
YoY Growth (%)	-8.6	-33.0	-11.1	10.6	-12.2	40.5	-4.2	40.0
Other Income	271	169	214	1,636	387	565	2,522	2,775
Total Income	1,450	936	1,345	2,825	1,422	1,643	7,102	9,189
YoY Growth (%)	-12.7	-36.9	-8.1	103.5	-1.9	75.6	18.5	29.4
Operating Expenses	1,153	850	1,192	1,392	1,106	1,272	4,922	6,070
Operating Profit	297	86	153	1,433	317	371	2,180	3,119
YoY Growth (%)	-53.6	-76.3	-40.0	97.3	6.4	333.5	10.0	43.1
Provisions & Loan Losses	-119	-11	-38	1,041	210	193	884	1,112
Profit before Tax	416	297	191	392	297	363	1,296	2,007
Tax Provisions	27	49	22	40	48	46	138	301
Net Profit	389	248	169	353	249	317	1,158	1,706
YoY Growth (%)	-36.1	-52.0	-54.0	-53.6	-36.0	27.9	-48.5	47.3
Key Operating Parameters (%)								
Yield on loans (Cal)	16.3	14.3	16.7	17.0	17.0	17.1		
Cost of funds (Cal)	10.7	11.9	11.2	11.0	10.9	11.2		
Spreads (Cal)	5.6	2.4	5.6	6.0	6.1	5.9		
NIMs (Cal)	5.9	3.9	5.7	5.7	4.5	4.4		
Credit Cost (Cal)	-0.6	-0.1	-0.2	5.0	0.9	0.8		
Cost to Income Ratio	79.5	90.8	88.7	49.3	77.7	77.4		
Tax Rate	6.5	0.0	11.6	10.1	0.1	0.1		
Balance Sheet Parameters								
AUM (INR B)	80.6	77.3	80.4	87.6	95.7	101.1		
Change YoY (%)	-2.2	-2.3	4.8	12.2	18.6	30.9		
AUM Mix (%)								
Vehicle	48.7	56.7	60.3	63.8	66.1	68.9		
Housing	21.6	24.5	25.5	25.9	25.0	25.3		
SME & Others	14.6	13.7	9.1	5.5	4.7	4.0		
Corporate	14.8	4.7	4.7	4.4	3.9	1.7		
Disbursements (INR B)	11.2	12.7	13.5	17.7	16.3	17.2		
Change YoY (%)	224.4	279.9	157.7	96.8	45.8	35.9		
Asset Quality Parameters (%)								
GS 3 (INR B)	4.9	4.7	3.9	3.1	3.5	3.7		
Gross Stage 3 (% on Assets)	6.6	6.7	5.3	4.1	4.2	5.0		
Net Stage 3 (% on Assets)	3.1	3.3	2.4	1.8	2.1	2.5		
PCR (%)	53.6	51.5	56.9	59.1	53.7	51.0		

E: MOFSL estimates



Asset quality largely stable

- Asset quality was largely stable, with standalone GNPA being steady at ~5% and standalone NNPA rising ~15bp QoQ to 2.5%. Collection efficiency (including overdue) deteriorated to ~92.5% (PQ: ~94.7%).
- Management guided that it expects no further credit costs from its legacy book.

IndoStar Home Finance (IHFPL)

- AUM stood at ~INR26b as of Sep'24, and grew 35% YoY and ~7% QoQ.
- GS3 rose ~10bp QoQ to 1.4% and NS3 rose ~5bp QoQ to 1.1%.
- IHFPL delivered a PAT of INR140m in 2QFY25 (same as in 1QFY25).
- CRAR stood at ~56%; the debt-equity ratio stood at 3.2x.

Highlights from the management commentary

Opening remarks

- Indostar announced the sale of its wholly-owned subsidiary
- Rating outlook upgraded by CRISIL to AA- "Stable" (from Negative earlier).
- Elevated CoF, increased competitive pressure from banks is expected to result in weakening profitability for the NBFC sector.
- CV industry has seen a good growth in both value and volume terms. Replacement demand is expected to remain steady because of the aging fleet and implementation of the scrappage policy.
- Given the rise in used-vehicle costs, used CVs will continue to see healthy demand from operators.
- Used CV has grown 30% aided by price hikes. Overhang of the scrappage policy will also push customers to sell their vehicles, which are 10-year old, and replace them with less-used CVs.
- CV disbursements stood at ~INR15b which grew 53% YoY
- GNPA (Standalone) stood at ~5%
- Started micro loans against property (micro LAP) in TN market

Guidance

- Management guided for stronger growth and improved profitability. Yields have started going up, incremental CoB has started declining, and it has begun repaying some of its high-cost NCDs (~INR5b of high-cost NCDs were repaid in 2Q).
- Management guided credit costs in the range of ~2% and significant improvement in RoA
- Expects AUM to scale up to ~INR90b and ~INR120b by FY25 and FY26, respectively
- Sale of the Housing Finance subsidiary to be completed by Mar-Apr'25
- Micro-LAP will be <5% in the near term
- Expects to scale up to 480 branches by Mar'25.
- Indostar guided that there will be no further credit costs from its legacy book.

Consolidated financials

- NIM stood at ~5.6%
- Consol. AUM was INR101.1b (vs. INR95.7b QoQ)
- Consol. Disbursements stood at INR17.24b (vs. INR16.3b QoQ)
- As of 30th Sep'24, there were cash and cash equivalents of INR7.9b; it repaid ~INR13b of debt in 2QFY25.

- Incremental borrowings stood at ~INR23.6b (including ~INR13.9b from banks in terms loans or WCDL or Securitisation)
- Incremental CoF has come down to ~10.1% in 2QFY25
- Maiden public issue of NCDs with cost of 10.3-10.7%
- CRAR of ~25.9% and D/E ratio at 2.5x
- About 99% of its CV disbursements were in the used-CV pool, which permits it to generate better yields.
- Total collections stood at INR9.93b (vs. ~INR9.05b QoQ)
- Collection efficiency (CE) was ~200bp lower than the immediately preceding quarter.
- Expects to improve its profitability over the next few quarters

Housing Finance

- INR2.6b of disbursements in 2QFY25. AUM stood at ~INR25.6b, which grew 13% YTD.
- TN, AP, Telangana, and Maharashtra are the core states for the company.
- It has 128 branches and continues to expand radially in the chosen locations via digital branches
- GNPA stood at ~1.4%
- Digital connector app has gone live and it can now on board connectors seamlessly from this quarter onwards.
- Corporate agency license from IRDAI and it can now distribute insurance products to its customers which will contribute to the top-line
- RoA stood at 3% for 1HFY25
- CRAR of 55.7% and D/E of 3.2x

Business outlook and festive demand

- It has not seen any freight increase and the first half of the festive season has been quite muted.
- Telangana announced a scrappage policy – positivity around the used-CV industry will remain. Customers moving from the unorganized segment to the organized segment will also help sustain growth

Write-off policy

- Above 730dpd, it can write-off the loans.

Asset quality

- Markets such as Andhra were flooded and if the vehicle gets stuck there, it does not get the return load
- Once the rainfall recedes, irrigation and mining will restart and one will see positive momentum.
- Extended monsoons hit collections - many vehicles were not able to move. However, for Southern markets, collections will be good. Wayanad and Kerala were hit by floods.
- Indostar is not seeing the impact of microfinance stress in its set of customers.
- The company does not foresee any need to increase its credit cost guidance.

Opex

- Opex is elevated because of hiring at the FoS level, hiring at the senior management level, and the expansion of branches.

Sale of HFC

- Expects the money from the sale of the Housing Finance business to be used for its core businesses Vehicle Finance and Small-ticket MSME loans.

ARC Sale

- Among three Corporate loans, foreclosures of two are being discussed and are in the advanced stages.
- In the third loan, when there was an opportunity, it was a portfolio of ~INR3.2b which was sold to the ARC

Liabilities

- Borrowed ~INR8.15b during the quarter including ~INR500m from Suryodaya SFB.
- Also borrowed from Tata Capital (Sanction of ~INR3.5b of which it has drawn down ~INR2.3b)
- Term Loans CoB was 10.0-10.5%

SR Portfolio

- Total outstanding SR of ~INR13.9b and provisions of ~INR3.5b (PCR of ~25%)

Yields

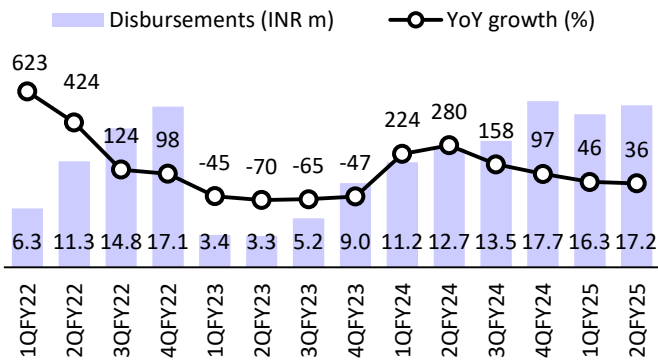
- Overall pricing looks lower because of lower-yielding Corporate and SME books. ~15% of the portfolio is still new vehicle lending, which was done prior to Mar'22. Overall yields will move towards ~18% after 2-3 quarters.

Others

- Co-origination arrangement (sourcing and servicing) with ICICI Bank was suspended in May'22
- Used cars are growing Pan-India and in used tractors segment, Indostar is focused on select markets where it sees end-user viability
- Used cars and used tractors are <10% of the AUM mix.
- Valuations of vehicles are done through three pan-India agencies such as Mahindra First Choice
- Collections are in-house – only repossessions are done through third-party collection agents.

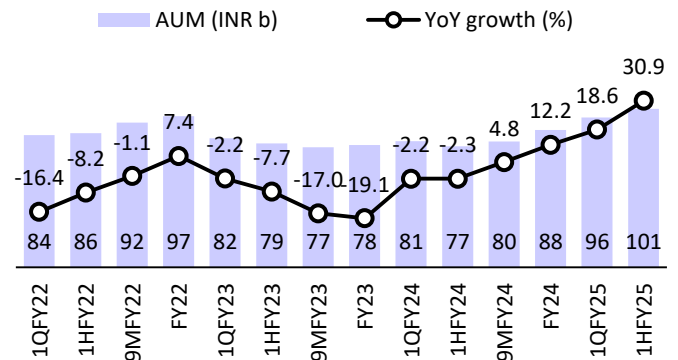
Key exhibits

Exhibit 1: Disbursements grew ~36% YoY...



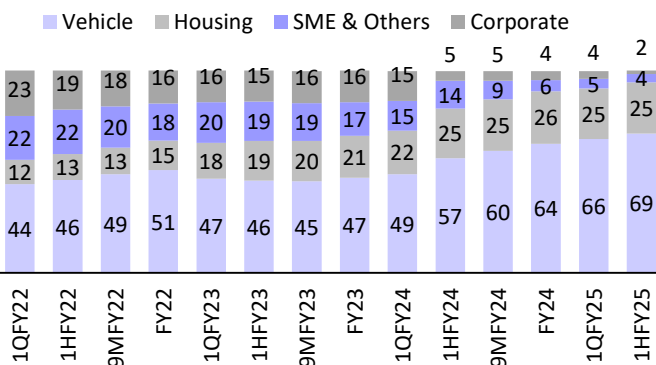
Source: MOFSL, Company

Exhibit 2: ...leading to ~31% YoY growth in AUM



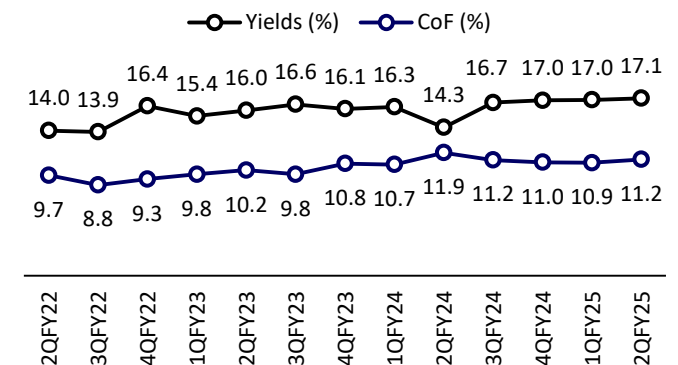
Source: MOFSL, Company

Exhibit 3: Share of vehicle loans continued to increase



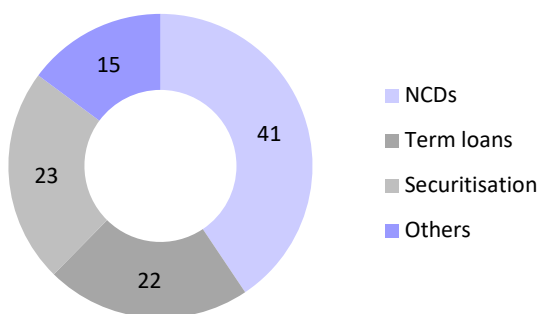
Source: MOFSL, Company

Exhibit 4: Spreads declined ~20bp QoQ (%)



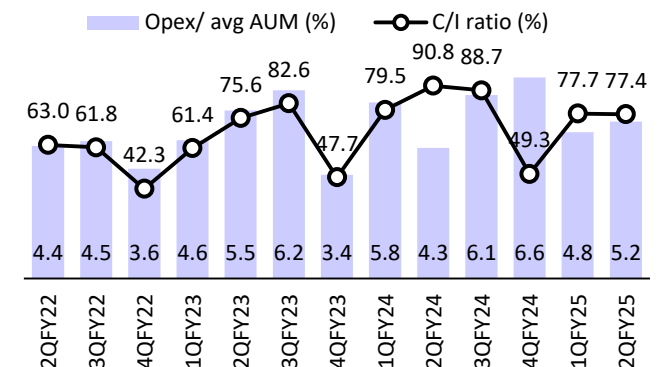
Source: MOFSL, Company;

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



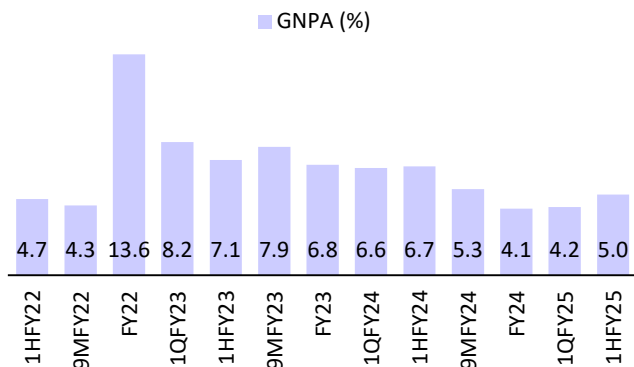
Source: MOFSL, Company

Exhibit 6: C/I ratio was largely stable QoQ



Source: MOFSL, Company;

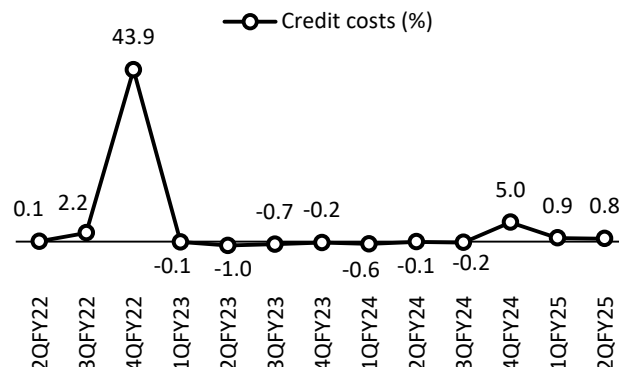
Exhibit 7: Standalone GNPA remained stable QoQ (%)



Source: MOFSL, Company

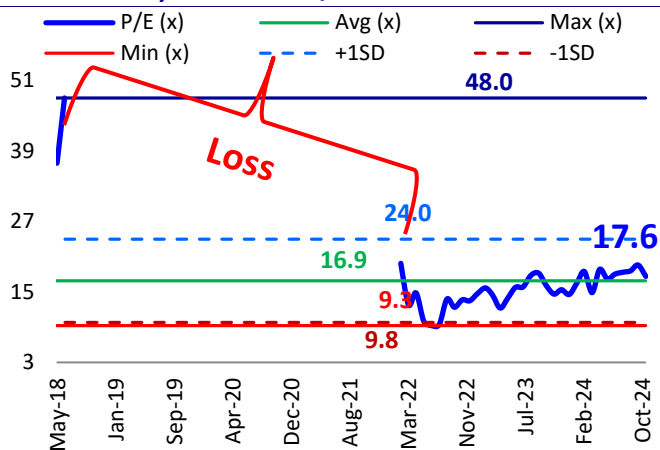
Note: For 1HFY25, GNPA relates to standalone financials

Exhibit 8: Credit costs decreased ~15bp QoQ to ~0.8%



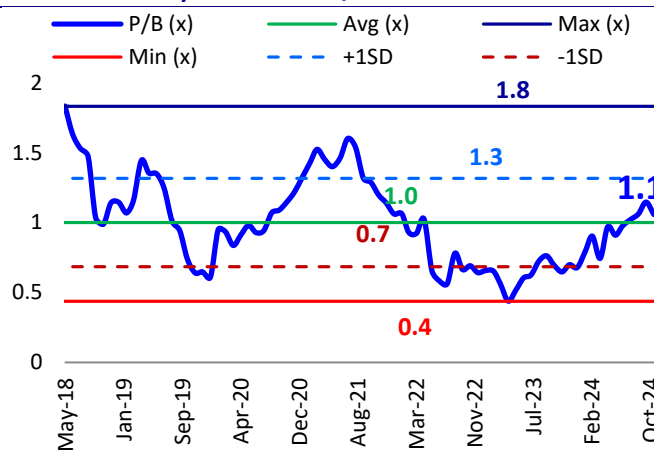
Source: MOFSL, Company

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	FY27E
Interest Income	10,813	14,662	11,739	10,672	10,584	11,453	15,465	20,209	25,601
Interest Expended	5,636	8,634	7,086	5,395	5,803	6,873	9,278	11,637	14,430
Net Interest Income	5,177	6,028	4,653	5,276	4,782	4,580	6,187	8,572	11,171
Change (%)	18.3	16.4	-22.8	13.4	-9.4	-4.2	35.1	38.5	30.3
Fee Income	620	515	327	444	542	615	1,046	1,255	1,456
Other Income	624	812	806	627	671	1,907	1,729	2,006	2,289
Net Income	6,420	7,355	5,786	6,348	5,994	7,102	8,962	11,833	14,916
Change (%)	38.5	14.6	-21.3	9.7	-5.6	18.5	26.2	32.0	26.1
Operating Expenses	2,466	3,120	3,055	3,726	4,011	4,922	6,070	7,095	8,139
Operating Income	3,954	4,235	2,731	2,621	1,983	2,180	2,892	4,738	6,777
Change (%)	28.1	7.1	-35.5	-4.0	-24.4	10.0	32.7	63.8	43.0
Provisions and W/Offs	162	8,602	4,920	11,585	-404	884	1,172	1,613	2,046
PBT	3,792	-4,367	-2,189	-8,964	2,386	1,296	1,720	3,125	4,731
Tax	1,384	-1,120	-48	-1,599	135	138	258	719	1,088
Tax Rate (%)	36.5	25.7	2.2	17.8	5.6	10.6	15.0	23.0	23.0
PAT	2,408	-3,246	-2,141	-7,365	2,252	1,158	1,462	2,406	3,643
Change (%)	20.2	-234.8	-34.0	244.0	-130.6	-48.5	26.2	64.6	51.4

Balance Sheet									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	923	925	1,237	1,361	1,361	1,361	1,361	1,469	1,469
Reserves & Surplus	29,140	25,881	35,745	27,930	29,755	30,991	32,453	36,751	40,394
Net Worth	30,063	26,806	36,982	29,291	31,116	32,352	33,814	38,220	41,863
Other Capital Instruments	0	0	0	0	0	0	0	0	0
Borrowings	90,617	71,419	60,076	62,234	56,481	75,717	1,08,014	1,29,486	1,71,150
Change (%)	85.6	-21.2	-15.9	3.6	-9.2	34.1	42.7	19.9	32.2
Other liabilities	2,321	3,061	3,757	5,089	3,626	3,138	3,452	4,143	4,971
Total Liabilities	1,23,002	1,01,286	1,00,815	96,614	91,222	1,11,207	1,45,281	1,71,849	2,17,984
Investments	3,009	2,306	15,914	5,477	10,394	11,182	12,077	13,284	14,613
Change (%)	-70.1	-23.4	590.2	-65.6	89.8	7.6	8.0	10.0	10.0
Loans and Advances	1,03,637	82,931	71,393	77,069	65,157	78,098	1,12,515	1,35,587	1,79,214
Change (%)	75.6	-20.0	-13.9	8.0	-15.5	19.9	44.1	20.5	32.2
Net Fixed Assets	3,704	4,214	3,865	3,990	3,902	3,941	4,138	4,345	4,562
Other Assets	12,652	11,835	9,643	10,078	11,769	17,985	16,551	18,632	19,594
Total Assets	1,23,002	1,01,286	1,00,815	96,614	91,222	1,11,207	1,45,281	1,71,849	2,17,984

E: MOFSL Estimates

Financials and valuations

AUM Details							(INR m)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Consol. AUM (INR b)	117	100	90	97	78	87	124	169	224
AUM Mix									
Corporate	39	29	22	16	16	4	1	0.3	0.1
Retail	61	71	78	84	84	96	99	99.7	99.9
Vehicle	41	45	47	51	47	64	71	72.6	73.1
SME	16	18	21	18	17	6	3	3.2	3.7
Housing	5	8	11	15	21	26	25	23.9	23.1

Ratios							(%)	(%)	(%)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Yield on Portfolio	13.0	15.6	14.9	14.1	14.6	15.7	16.0	16.1	16.1
Cost of Borrowings	8.1	10.7	10.8	8.8	9.8	10.4	10.1	9.8	9.6
Interest Spread	4.9	4.9	4.1	5.3	4.9	5.3	5.9	6.3	6.5
Net Interest Margin	6.4	6.5	6.0	7.1	6.7	6.4	6.5	6.9	7.1
Profitability Ratios (%)									
RoE	9.5	-11.4	-6.7	-22.2	7.5	3.7	4.4	6.7	9.1
RoA (on balance sheet)	2.5	-2.9	-2.1	-7.5	2.4	1.1	1.1	1.5	1.9
Debt: Equity (x)	3.0	2.7	1.6	2.1	1.8	2.3	3.2	3.4	4.1
Leverage (x)	4.1	3.8	2.7	3.3	2.9	3.4	4.3	4.4	4.9
Efficiency Ratios (%)									
Int. Expended/Int.Earned	52.1	58.9	60.4	50.6	54.8	60.0	60.0	57.6	56.4
Op. Exps./Net Income	38.4	42.4	52.8	58.7	66.9	69.3	67.7	60.0	54.6
Empl. Cost/Op. Exps.	60.6	60.5	56.9	55.0	44.3	55.0	58.4	61.0	63.3
Fee income/Net Income	9.7	7.0	5.6	7.0	9.0	8.7	11.7	10.6	9.8
Asset quality									
GNPA	3,051	3,652	3,441	12,030	4,790	4,265	4,584	4,784	5,247
NNPA	1,995	2,893	1,580	5,190	2,190	1,919	2,063	2,248	2,571
GNPA %	2.9	4.4	4.7	13.6	6.8	5.3	4.0	3.5	2.9
NNPA %	1.9	3.5	2.2	6.7	3.4	2.5	1.8	1.7	1.4
PCR %	34.6	20.8	54.1	56.9	54.3	55.0	55.0	53.0	51.0
Valuation									
Book Value (INR)	326	290	299	215	229	238	248	260	285
BV Growth (%)	23.6	-11.0	3.1	-28.0	6.2	4.0	4.5	4.7	9.5
Price-BV (x)		0.9	0.9	1.2	1.1	1.1	1.0	1.0	0.9
Adjusted BV (INR)	303	262	279	153	204	216	225	237.3	259.9
Price-ABV (x)		0.9	1.0	0.9	1.7	1.3	1.2	1.1	1.0
EPS (INR)	26.1	-35.1	-17.3	-54.1	16.5	8.5	10.7	16.4	24.8
EPS Growth (%)	2.5	-234.5	-50.7	212.8	-130.6	-48.5	26.2	52.4	51.4
Price-Earnings (x)		-7.4	-15.0	-4.8	15.7	30.5	24.2	15.9	10.5
Dividend per share		2.0	0.0	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	0.0

E: MOFSL Estimates

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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