

Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	137
M.Cap.(INRb)/(USD\$)	36.3 / 0.4
52-Week Range (INR)	369 / 218
1, 6, 12 Rel. Per (%)	-12/5/9
12M Avg Val (INR M)	81

Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	4.6	6.3	7.8
PPP	1.9	3.2	4.4
PAT	0.5	7.5	2.9
EPS (INR)	3.9	51.2	19.8
EPS Gr. (%)	-27	1,224	-61
BV (INR)	252	363	383

Ratios

NIM (%)	6.1	9.2	10.8
C/I ratio (%)	71.7	62.4	57.8
RoA (%)	0.5	6.5	2.2
RoE (%)	1.6	17.2	5.3
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	70.7	5.3	13.8
P/BV (x)	1.1	0.8	0.7
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	73.0	73.3	73.6
DII	2.4	2.3	1.8
FII	3.1	2.7	2.1
Others	21.5	21.7	22.5

FII Includes depository receipts

CMP: INR266

TP: INR330 (+24%)

Buy

Weak quarter; gain from HFC sale partly used for provisioning

Credit costs elevated; focus this year will be on opex optimization

IndoStar Capital Finance (IndoStar) delivered a weak performance in 1QFY26, with muted disbursements and weak AUM growth, impacted by tighter stringent underwriting and seasonal factors. Credit costs remained elevated, driven by technical write-offs and additional provisions made for accounts where recovery prospects remain uncertain.

Key highlights: 1) Disbursements declined ~39% YoY to ~INR8.58b and retail AUM rose ~9% YoY to INR77.8b; 2) Credit costs stood at INR4.9b (PQ: INR494m) 2) IndoStar partly utilized the gain from HFC sale for taking write-offs of ~INR1.6b, where the recovery of loans had become less certain, and for making incremental provisions of ~INR2.55b on select Security Receipts (SRs) as part of its focused efforts to accelerate resolutions and unlock value, 3) calc. NIM expanded ~25bp QoQ on lower CoB, and 5) opex optimization will be an important theme in FY26, given that management targets to bring down the cost-to-income ratio to ~50% over the medium term.

Financial Highlights

- Consolidated PAT stood at INR5.5b, which included pre-tax exceptional gain of INR11.7b from the sale of its housing finance subsidiary.
- NII grew ~25% YoY to INR1.3b. Opex rose ~26% YoY to INR1.4b, translating into a cost-to-income ratio of ~88% in 1QFY26 (PY: 78% and PQ: 66%). PPOP declined ~40% YoY to INR189m.
- Standalone AUM grew ~9% YoY to ~INR77.8b. VF AUM rose ~14% YoY to INR72b (PQ: ~INR74b).
- Micro-LAP AUM grew ~46% QoQ to INR760m. Disbursements in micro-LAP declined ~21% QoQ to INR270m. LTV in this segment stood at 33.3% as of Jun'25.
- Management indicated that demand for used commercial vehicles remains strong, supported by the vehicle scrappage policy and the high cost of new vehicles. Additionally, it shared that used CVs carry EMIs that are 40-50% lower than those for new vehicles, making them particularly attractive for small fleet operators and first-time buyers.
- We estimate a CAGR of 16%/135% in AUM/PAT over FY25-27, aided by improvements in NIM to 9.2%/10.8% in FY26E/FY27E. **Reiterate BUY with a TP of INR330 (premised on 0.9x Mar'27E BVPS).**

AUM grew ~9% YoY; disbursements declined 39% YoY in VF

- Disbursements declined ~47% YoY to ~INR8.6b. Vehicle finance (VF) disbursements declined ~39% YoY to INR8.3b.

- Management shared that the combined effect of policy tightening and the usual seasonal slowdown in 1Q resulted in weaker disbursement volumes. To offset this, the company is focusing on increasing the share of prime-quality borrowers in its portfolio. As its cost of borrowings declines further, it expects to expand its reach to a larger base of prime customers in the coming quarters. The company has guided for standalone AUM growth of ~12-15% in FY26. We model AUM CAGR of 16% over FY25-27E.

Credit costs high due to technical write-off and SR provisions

- Asset quality exhibited improvement, with standalone GNPA improving ~50bp QoQ to ~4.05% and standalone NNPA declining ~80bp QoQ to 1.7%. The improvement in GNPA was mainly driven by technical write-off of INR1.6b. During the quarter, the company revised its technical write-off policy for loans over 210dpd.
- Collection efficiency (including overdue) stood at ~94% (PQ: ~97%). CRAR was healthy at ~33% and the debt-equity ratio stood at 1.7x.

Key highlights from the management commentary

- The company plans to roll out its Micro-LAP operations in Andhra Pradesh, after the successful launch in Tamil Nadu last year. The strategy involves co-locating Micro-LAP operations within existing vehicle finance branches, enabling better utilization of branch infrastructure, enhancing productivity, and expanding market reach.
- Management highlighted that a revised incentive plan for sales teams and channel partners has been rolled out to boost disbursement volumes and maintain/improve portfolio quality.

Valuation and View

- IndoStar delivered a weak quarter as disbursements and AUM growth were subdued, impacted by tighter underwriting standards and seasonal factors. Credit costs remained elevated, driven by technical write-offs and additional provisions made for accounts where recovery prospects remain uncertain.
- IndoStar has strategically prioritized the expansion of its loan book in the Used CV segment and micro-LAP. A reinforced management team, enhanced processes, opex rationalization and an improvement in the economic climate will serve as catalysts for IndoStar. **Reiterate BUY** rating on the stock with a TP of **INR330 (premised on 0.9x Mar'27E BVPS)**.

Quarterly Performance
(INR m)

Y/E March	FY25				FY26	FY25	FY26E
	1Q	2Q	3Q	4Q	1Q		
Interest Income	2,703	2,956	3,125	3,184	3,146	11,968	10,603
Interest Expenses	1,668	1,878	1,930	1,933	1,855	7,408	6,522
Net Interest Income	1,035	1,078	1,196	1,251	1,291	4,560	4,080
YoY Growth (%)	-12.2	40.5	47.9	44.6	24.7	36.6	-10.5
Other Income	387	565	611	566	291	2,129	2,527
Total Income	1,422	1,643	1,806	1,817	1,582	6,688	6,607
YoY Growth (%)	-1.9	75.6	93.1	-21.7	11.3	26.8	-1.2
Operating Expenses	1,106	1,272	1,212	1,198	1,393	4,788	5,498
Operating Profit	317	371	594	619	189	1,901	1,109
YoY Growth (%)	6.4	333.5	1,044.5	-49.1	-40.2	24.0	-41.7
Provisions & Loan Losses	210	193	479	494	4,904	1,375	957
Profit before Tax and exceptional item	297	363	331	442	-4,579	1,434	152
Exceptional item	0	0	0	0	11,760		
Profit before Tax from continuing operations	297	363	331	442	7,181	1,434	152
Tax Provisions	48	46	54	80	1,725	229	35
Net Profit	249	317	277	362	5,456	1,205	117
YoY Growth (%)	-36.0	27.9	64.3	2.6	-	4.0	-90.3
AUM Growth (%)	13.5	30.0	31.7	23.1	8.9		
NIM (%)	6.1	5.9	6.2	6.3	6.6		
Cost to Income Ratio (%)	77.7	77.4	67.1	65.9	88.0		
Tax Rate (%)	16.1	12.8	16.4	18.2	24.0		
Key Operating Parameters (%)							
Yield on loans (Cal)	17.0	17.1	17.6	17.8	17.6		
Cost of funds (Cal)	10.9	11.2	10.9	11.2	10.8		
Spreads (Cal)	6.1	5.9	6.7	6.6	6.8		
NIMs (Cal)	6.1	5.9	6.2	6.3	6.6		
Credit Cost (Cal)	1.2	1.0	2.5	2.5	24.9		
Cost to Income Ratio	77.7	77.4	67.1	65.9	88.0		
Tax Rate	0.1	0.1	0.1	0.2	24.0		
Balance Sheet Parameters							
AUM (INR B)	71.5	75.5	78.6	79.6	77.8		
Change YoY (%)	13.5	30.0	31.7	23.1	8.9		
AUM Mix (%)							
Vehicle	88.5	92.3	92.9	93.0	92.9		
Micro-LAP	0.0	0.0	0.0	0.7	1.0		
SME & Others	6.3	5.4	4.9	4.4	4.7		
Corporate	5.2	2.3	2.2	2.0	1.4		
Asset Quality Parameters (%)							
GS 3 (INR B)	3.5	3.7	3.6	3.4	3.0		
Gross Stage 3 (% on Assets)	4.2	5.0	4.9	4.5	4.0		
Net Stage 3 (% on Assets)	2.1	2.5	2.7	2.5	1.7		
PCR (%)	53.7	51.0	46.2	46.6	59.6		

E: MOFSL estimates



Highlights from the management commentary

Guidance

- Guided for AUM growth of 12-15% in FY26 and ~15-17% in FY27.
- The company has guided for a 15% QoQ increase in disbursements in 2QFY26 and aims to keep disbursement volumes broadly in line with the FY25 levels.
- Expects to achieve savings in annualized opex cost of 8-10% due to its drive in reducing operating cost. The company targets to gradually reduce its cost-to-income ratio to ~50% over the medium term.
- It expects further benefits of ~20-25bp in CoB over the next three quarters.
- No immediate plans to launch new products; focus remains on scaling vehicle finance and micro-LAP.

Opening remarks and macro

- Inflation has eased. Monsoon outlook remains normal. The RBI has already cut the repo rate by 100bp, the benefit of which should gradually transmit to borrowers in the next few quarters, driving consumption and credit demand.
- The CV industry outlook is turning positive after facing two years of subdued demand. New vehicle sales in FY26 are expected to grow around 5%, supported by higher infrastructure spending and execution, replacement demand and fleet modernization initiatives.
- Used CV demand remains robust, aided by the vehicle scrappage policy, elevated cost of new vehicles and lower EMIs for used CVs (40-50% lower than new CVs), making them attractive for small fleet operators and first-time buyers.
- Demand for micro-LAP is resilient, particularly in rural and semi-urban markets.
- The company will continue to strengthen its multi-product branch model and deeper penetration in rural regions.
- It will continue to improve COF by repaying high-cost debt using low-cost funds.
- The company aims to have fairly diversified and more granular book in terms of vehicle finance, with no focus on a specific segment.

Asset quality

- In 4QFY25, IndoStar implemented proactive credit policy tightening aimed at strengthening asset quality amid a challenging environment.
- Loans booked under the new policy framework have 30+dpd levels at half of last year's comparable levels.
- IndoStar revised its technical write-off policy to 210dpd (more conservative), which resulted in INR1.6b of write-offs in 1QFY26. IndoStar created additional provisions of INR2.55b for accounts with low near-term recovery visibility. Recovery efforts will continue despite technical write-offs.
- OTS settlements led to INR450m of losses, with INR290m incremental provisions based on ECL.
- Increased CIBIL score cut-offs after spotting higher stress in low CIBIL score segments. It also tightened lending to certain rental profile categories.

Disbursements

- The combined impact of policy tightening and seasonal softness of 1Q led to a moderation in disbursement volumes. To mitigate lower disbursement volumes,

the company is onboarding a higher proportion of prime-quality borrowers. As CoB declines, IndoStar can cater to more prime customers going forward.

- A revised incentive plan for sales teams and channel partners has been rolled out to boost disbursement volumes and maintain or improve portfolio quality.
- Disbursements are generally slow in 1Q. It is seeing good traction in 2Q.
- There was a general slowdown in market and the company tightened its policy measures, which led to a slowdown in disbursements.

Liability and NIMs

- CoB in 1QFY26 was 60bp lower YoY.
- Successfully replaced INR8.7b of high-cost long-term debt (which has average cost of ~12%), with fresh borrowings at 9.5%, saving INR210m annually.
- It plans to replace INR14.8b of additional high-cost debt over the next three quarters.

Micro-LAP

- The company aims to launch Micro-LAP expansion in Andhra Pradesh, following the successful launch in Tamil Nadu last year.
- The aim is to co-locate micro-LAP operations with existing vehicle finance branches to optimize reach and branch productivity.
- Initial rollout in AP will cover 16 branches, staffed by senior professionals with deep micro-market expertise.
- Product parameters: ATS: INR600k, LTV: <40%, Tenor: 5-7 years, Yields: ~22%, SORP: >95% cases and Origination: 100% in-house.

Opex

- Cost optimization program is launched, targeting 9-10% annualized opex savings, to be reflected over the next 12 months.
- Medium-term goal: reduce cost-to-income ratio to ~50%.

Financial highlights

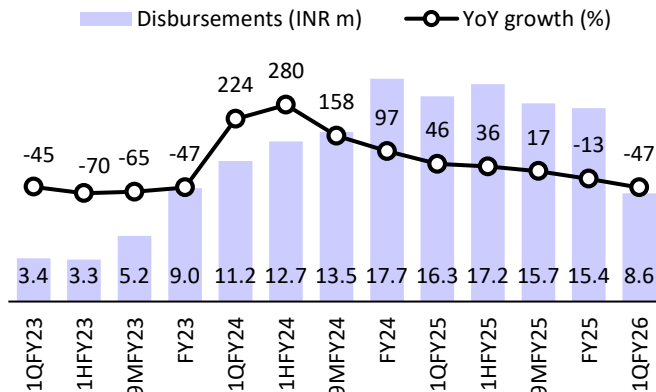
- Disbursements stood at INR8.58b. Disbursement yields stood at 18.4% due to continuous focus on Tier 3 & Tier 4 towns.
- AUM stood at INR77.8b, up 9% YoY (down QoQ due to write-offs done in 1Q).
- NII stood at INR1.58b, up 10% YoY, supported by improved NIMs.
- GNPA/NNPA stood at 4.04%/1.68%.
- NIMs stood at 6.2% (vs. 5.9% in PQ).
- EMI-to-EMI collection efficiency at 89% and overall collection efficiency at 94%.
- Strong CRAR provides sufficient growth headroom.

Sale of Niwas Housing finance

- In Jun'25, IndoStar successfully completed all necessary conditions for the sale of Niwas Housing Finance. The company derecognized its investment in Niwas Housing Finance and received sale proceeds on 17th Jul'25. This transaction resulted in a one-time gain of INR11.7b in 1QFY26 (post-tax gain of INR10.07b).
- Following the sale, IndoStar is now operating as a standalone NBFC, focusing exclusively on two core product lines; Vehicle Finance and Micro Loans.

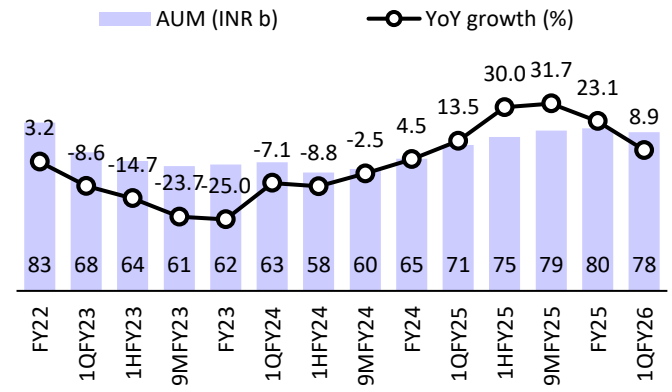
Key exhibits

Exhibit 1: Disbursements declined ~47% YoY



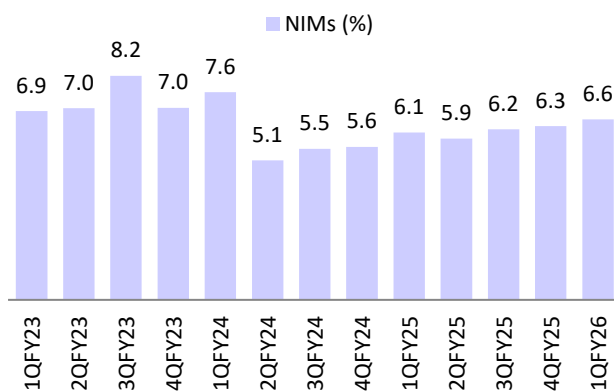
Source: MOFSL, Company

Exhibit 2: AUM grew ~9% YoY



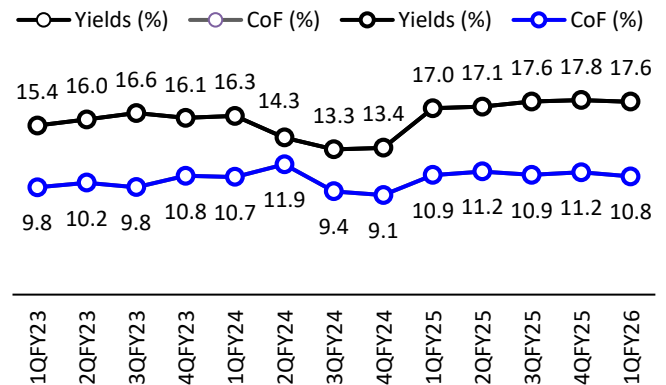
Source: MOFSL, Company

Exhibit 3: Cal. NIMs improved ~25bp QoQ



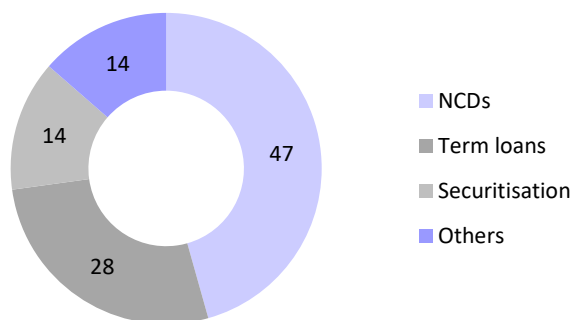
Source: MOFSL, Company

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



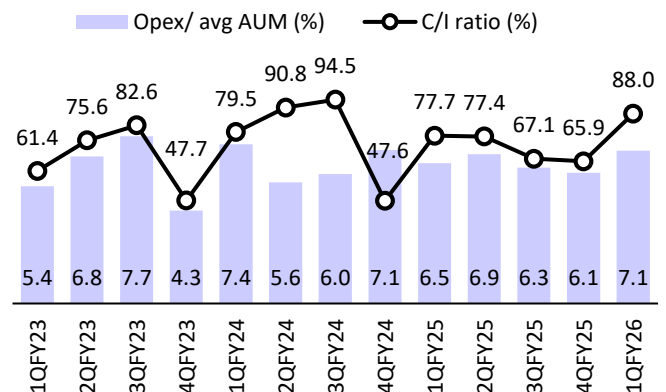
Source: MOFSL, Company;

Exhibit 5: Borrowing mix as of Jun'25 (%)



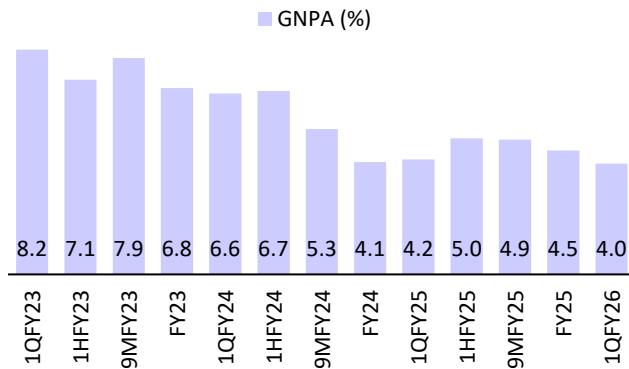
Source: MOFSL, Company

Exhibit 6: C/I ratio increased to ~88%



Source: MOFSL, Company;

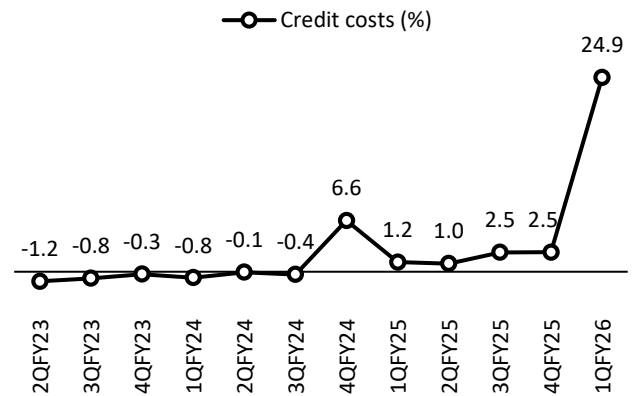
Exhibit 7: Standalone GNPA improved ~50bp QoQ (%)



Source: MOFSL, Company

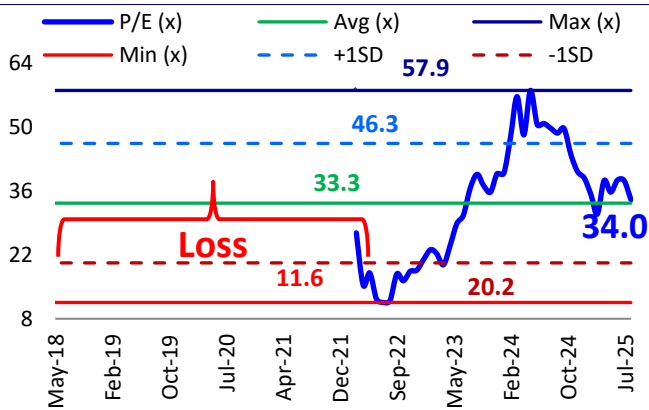
Note: For 1HFY25 onwards, GNPA relates to standalone financials

Exhibit 8: Credit costs elevated due to technical write-offs



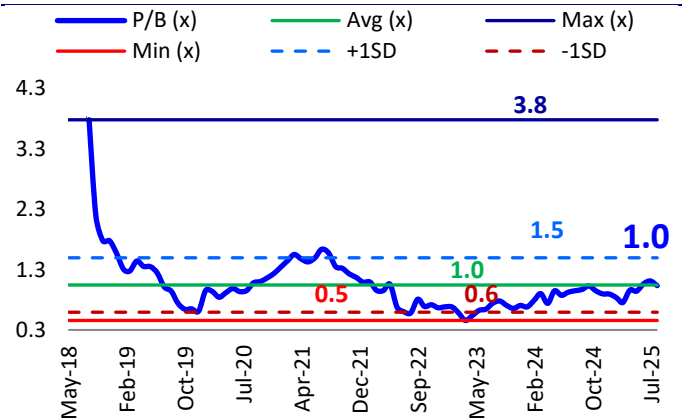
Source: MOFSL, Company

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 (Standalone)							(INR M)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	14,195	11,056	9,558	8,895	9,148	11,965	13,447	15,283
Interest Expended	8,574	6,923	5,143	5,180	5,812	7,408	7,175	7,441
Net Interest Income	5,621	4,134	4,414	3,715	3,336	4,557	6,272	7,842
Change (%)		-26.5	6.8	-15.9	-10.2	36.6	37.6	25.0
Fee Income	481	314	385	471	512	1,196	1,172	1,348
Other Income	724	562	593	565	1,592	962	1,015	1,147
Net Income	6,827	5,010	5,392	4,751	5,441	6,716	8,459	10,337
Change (%)		-26.6	7.6	-11.9	14.5	23.4	26.0	22.2
Operating Expenses	2,750	3,057	3,293	3,279	3,894	4,815	5,279	5,976
Operating Income	4,076	1,953	2,099	1,471	1,547	1,901	3,180	4,361
Change (%)		-52.1	7.5	-29.9	5.1	22.9	67.3	37.2
Provisions and W/Offs	8,553	4,524	11,508	-401	831	1,375	5,730	1,454
PBT	-4,477	-2,571	-9,409	1,873	716	526	-2,550	2,907
Exceptional Gain (Post-tax)	0	0	0	0	0	0	10,070	0
Tax	0	-156	-1,717	0	0	0	0	0
PAT	-4,477	-2,415	-7,692	1,873	716	526	7,520	2,907
Change (%)		-46.1	218.5	-124.3	-61.8	-26.6	-	-61.3

Balance Sheet (Standalone)							(INR M)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	925	1,237	1,361	1,361	1,361	1,361	1,470	1,470
Reserves & Surplus	25,962	35,552	27,419	28,865	29,660	32,901	51,882	54,790
Net Worth	26,887	36,790	28,780	30,226	31,021	34,262	53,352	56,259
Other Capital Instruments	0	0	0	0	0	0	0	0
Borrowings	70,872	57,607	54,830	48,131	60,494	69,165	63,706	76,684
Change (%)	#DIV/0!	-18.7	-4.8	-12.2	25.7	14.3	-7.9	20.4
Other liabilities	2,874	3,477	4,633	3,036	2,387	4,195	5,453	6,544
Total Liabilities	1,00,633	97,873	88,243	81,393	93,901	1,07,622	1,22,511	1,39,488
Investments	4,318	17,885	9,771	14,571	15,709	18,182	20,000	21,600
Change (%)	#DIV/0!	314.2	-45.4	49.1	7.8	15.7	10.0	8.0
Loans and Advances	80,737	66,925	64,910	51,956	59,873	72,165	80,640	97,069
Change (%)	#DIV/0!	-17.1	-3.0	-20.0	15.2	20.5	11.7	20.4
Net Fixed Assets	4,071	3,790	3,936	3,814	3,796	3,781	3,970	4,169
Other Assets	11,507	9,274	9,626	11,052	14,524	13,494	17,900	16,650
Total Assets	1,00,633	97,873	88,243	81,393	93,901	1,07,622	1,22,511	1,39,488

E: MOFSL Estimates

Financials and valuations

AUM Details							(INR M)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Standalone. AUM (INR Bn)	91	80	83	62	65	80	90	108
AUM Mix								
Corporate	31	24	19	20	6	2	0.3	0.1
Retail	69	76	81	80	94	97	95.7	91.1
Vehicle	49	52	59	59	87	93	92.8	89.3
SME	19	23	22	21	7	4	2.9	1.8

Ratios							(%)	(%)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)								
Yield on Portfolio	17.6	15.0	14.5	15.2	16.4	18.1	17.6	17.2
Cost of Borrowings	12.1	10.8	9.1	10.1	10.7	11.4	10.8	10.6
Interest Spread	5.5	4.2	5.4	5.2	5.7	6.7	6.8	6.6
Net Interest Margin	6.0	5.4	5.9	5.2	4.7	6.1	9.2	10.8

Profitability Ratios (%)								
RoE	-16.6	-7.6	-23.5	6.3	2.3	1.6	17.2	5.3
RoA (on balance sheet)	-4.4	-2.4	-8.3	2.2	0.8	0.5	6.5	2.2
Debt: Equity (x)	2.6	1.6	1.9	1.6	2.0	2.0	1.2	1.4
Leverage (x)	3.7	2.7	3.1	2.7	3.0	3.1	2.6	2.4

Efficiency Ratios (%)								
Int. Expended/Int.Earned	60.4	62.6	53.8	58.2	63.5	61.9	53.4	48.7
Op. Exps./Net Income	40.3	61.0	61.1	69.0	71.6	71.7	62.4	57.8
Empl. Cost/Op. Exps.	60.0	50.9	53.5	41.4	54.4	61.8	63.2	65.3
Fee income/Net Income	7.1	6.3	7.1	9.9	9.4	17.8	13.9	13.0

Asset quality								
GNPA	3,652	3,441	12,030	4,790	4,265	4,584	4,219	3,856
NNPA	2,893	1,580	5,190	2,190	1,950	2,063	1,983	1,890
GNPA %	4.4	4.7	13.6	6.8	5.3	6.1	6.3	4.7
NNPA %	3.5	2.2	6.7	3.4	2.5	2.9	3.1	2.3
PCR %	20.8	54.1	56.9	54.3	54.3	55.0	53.0	51.0

Valuation								
Book Value (INR)	291	297	211	222	228	252	363	383
BV Growth (%)	-	2.3	-28.9	5.0	2.6	10.4	44.2	5.4
Price-BV (x)	0.9	0.9	1.3	1.2	1.2	1.1	0.8	0.7
Adjusted BV (INR)	263	278	150	197	206	228	342.9	364.4
Price-ABV (x)	1.0	1.0	1.8	1.4	1.3	1.2	0.8	0.7
EPS (INR)	-48.4	-19.5	-56.5	13.8	5.3	3.9	51.2	19.8
EPS Growth (%)	-	-59.7	189.6	-124.3	-61.8	-26.6	1,224.1	-61.3
Price-Earnings (x)	-5.6	-14.0	-4.8	19.8	51.9	70.7	5.3	13.8
Dividend per share	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

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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