

# INDOSTAR Capital Finance

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
38,970	11,709
Bloomberg	INDOSTAR IN
Equity Shares (m)	92
M.Cap.(INRb)/(USDb)	32.8 / 0.5
52-Week Range (INR)	607 / 275
1, 6, 12 Rel. Per (%)	-12/-10/-52
12M Avg Val (INR M)	100
Free float (%)	39.5

## Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
NII	5.2	9.0	12.1
Total Income	6.4	10.8	14.0
PPoP	4.0	6.8	9.3
PAT	2.4	3.5	4.9
EPS (INR)	26.1	38.4	53.5
EPS Gr. (%)	3	47	39
BV (INR)	326	367	422
BVPS Gr. (%)	24	13	15
RoA (%)	2.5	2.4	2.5
RoE (%)	9.5	11.1	13.6
Payout (%)	0.0	0.0	0.0
<b>Valuations</b>			
P/E (x)	13.8	9.3	6.7
P/BV (x)	1.1	1.0	0.8

**CMP: INR356**
**TP: INR525 (+48%)**
**Buy**

## Steady quarter; Acquisition of IIFL's CV financing business complete

- 4QFY19 PAT increased 83% YoY to INR741m, driven by healthy NII growth, higher upfronting of assignment income and controlled opex.
- The company completed the INR35.2b (INR22.4b on-book) acquisition of IIFL's CV financing business on 31<sup>st</sup> Mar'19, resulting in goodwill of ~INR3b. Excluding the acquisition, total AUM grew 8% QoQ to INR83.7b, largely driven by the VF portfolio.
- Disbursements in corporate finance rebounded from INR3-4b in the past two quarters to INR12b in 4QFY19, due to a structured finance deal of ~INR6b for a stressed asset. **INDOSTAR sold down INR3-4b and retained INR2.5b on its books. In the vehicle finance business too, disbursements improved from INR3.5b to INR5.8b QoQ.**
- NII declined 10% QoQ to INR1.27b, driven by a sharp 11% QoQ increase in interest expenses as incremental cost of funds rose to 10-10.5%.
- GNPL ratio jumped 170bp sequentially to 2.6% due to the IIFL book acquisition (GNPL ratio of ~9%). However, **management expects net credit loss of 100-150bp on a run-rate basis for the combined VF book.**
- For FY19, PAT grew 20% YoY to INR2.4b, while RoE remained largely stable at 9.5%.

**Valuation and view:** INDOSTAR is at the beginning of its 'second innings' – the ongoing business diversification into retail lending will help drive growth, improve credit rating and enable it to enjoy higher leverage. While RoE is likely to be subdued at 10-11% in the near term, it is likely to improve to 13-15% over the medium term. With capital adequacy ratio of 20%+, it is well capitalized and will not require any further dilution over the medium term. The key risk to our thesis lies in continued liquidity tightness leading to lower-than-expected growth in the vehicle finance segment. **We maintain our estimates. Buy with TP of INR525 (1.2x FY21 BVPS).**

## INDOSTAR: Quarterly Performance

Y/E March	FY18				FY19				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY2018	FY2019
Interest Income	1,813	1,970	2,069	2,036	2,234	2,786	2,886	2,907	7,631	10,813
Interest Expenses	766	740	781	968	1,119	1,404	1,474	1,639	3,256	5,636
<b>Net Interest Income</b>	<b>1,047</b>	<b>1,230</b>	<b>1,288</b>	<b>1,068</b>	<b>1,115</b>	<b>1,382</b>	<b>1,411</b>	<b>1,268</b>	<b>4,376</b>	<b>5,177</b>
YoY Growth (%)					6.5	12.4	9.6	18.8		18.3
Other Income	22	25	-247	106	17	412	311	504	258	1,244
<b>Total Income</b>	<b>1,069</b>	<b>1,255</b>	<b>1,041</b>	<b>1,174</b>	<b>1,132</b>	<b>1,794</b>	<b>1,722</b>	<b>1,772</b>	<b>4,634</b>	<b>6,420</b>
YoY Growth (%)					5.9	43.0	65.5	51.0		38.6
Operating Expenses	298	306	438	506	541	692	580	654	1,547	2,466
<b>Operating Profit</b>	<b>771</b>	<b>949</b>	<b>603</b>	<b>668</b>	<b>591</b>	<b>1,102</b>	<b>1,142</b>	<b>1,118</b>	<b>3,086</b>	<b>3,954</b>
YoY Growth (%)					-23.4	16.2	89.5	67.4		28.1
Provisions & Loan Losses	-17	-119	23	-21	77	111	48	-73	-38	163
<b>Profit before Tax</b>	<b>788</b>	<b>1,068</b>	<b>580</b>	<b>689</b>	<b>514</b>	<b>992</b>	<b>1,094</b>	<b>1,192</b>	<b>3,124</b>	<b>3,792</b>
Tax Provisions	277	373	186	285	200	352	381	451	1,122	1,384
<b>Net Profit</b>	<b>511</b>	<b>695</b>	<b>394</b>	<b>404</b>	<b>315</b>	<b>640</b>	<b>713</b>	<b>741</b>	<b>2,003</b>	<b>2,408</b>
YoY Growth (%)					-38.3	-7.9	80.7	83.4		20.2
AUM Growth (%)					23.3	4.0	(0.2)	51.5	18.6	89.1
NIM (%)		10.5	10.9	7.7	6.6	7.3	7.3	5.2	7.9	6.4
Cost to Income Ratio (%)	27.8	24.4	42.1	43.1	47.8	38.6	33.7	36.9	33.4	38.4
Tax Rate (%)	35.2	35.0	32.0	41.4	38.8	35.5	34.9	37.8	35.9	36.5

\*Quarterly and annual numbers may not match due to different reporting formats

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Disbursements increased from INR3.5b to INR5.8b QoQ.

### Vehicle finance business on a steady path

- Vehicle finance was the key focus segment for the company in the quarter. **Disbursements increased from INR3.5b to INR5.8b QoQ. The company also assigned INR700m to banks during the quarter.**
- Excluding the IIFL acquisition, the VF AUM stood at INR14.6b at the end of 4QFY19.
- **However, the GNPL ratio increased from 0.1% to 6.1% QoQ for this segment due to the IIFL acquisition.**
- NIM improved from 10.5% to 11.6% YoY – some of this is due to upfront of assignment income in the quarter. In addition, the vehicle finance business broke even in the quarter.

Real estate finance constitutes 62% of the total corporate finance loan book

### Corporate disbursements pick up sequentially

- Disbursements rebounded from INR3-4b in the past two quarters to INR12b in 4QFY19. However, this was due to a structured finance deal of ~INR6b for a stressed asset. INDOSTAR sold down INR3-4b and retained INR2.5b on its books.
- The mix of real estate in the total corporate finance book continues to inch up – from 46% to 62% YoY. Growth in 4QFY19 was driven by disbursements linked to construction stage for existing projects.
- GNPL ratio was Nil at the end of the quarter
- This segment remains a strong cash flow generator with RoA/RoE of 5.5%/22% in 4QFY19.

Disbursements in SME and housing finance calibrated; asset quality stable

### Calibrated growth in SME and housing finance

- **In SME lending, disbursements are still calibrated – INR1.5b in 4QFY19 vs INR3-3.5b per quarter prior to the IL&FS crisis.**
- The share of SME and housing finance in the total loan book stood at 16% and 5% respectively.
- The company looks to deepen its presence in existing locations rather than open new branches. The number of branches in SME and housing finance remained largely stable at 10 and 55 respectively.
- The GNPL ratio in SME lending was stable at 3.1% while that in housing finance was 0.1%.

Overall, GNPL ratio increased from 0.9% to 2.6% QoQ due to IIFL's CV book acquisition

### Others

- Overall GNPL ratio increased from 0.9% to 2.6% QoQ due to the IIFL CV book acquisition. PCR stands at 35%.
- The borrowing mix is as follows – Banks: 39%, NCDs – 36%, CP & Others – 26%.
- Tier I CAR stood at 21.7%

### Valuation and view

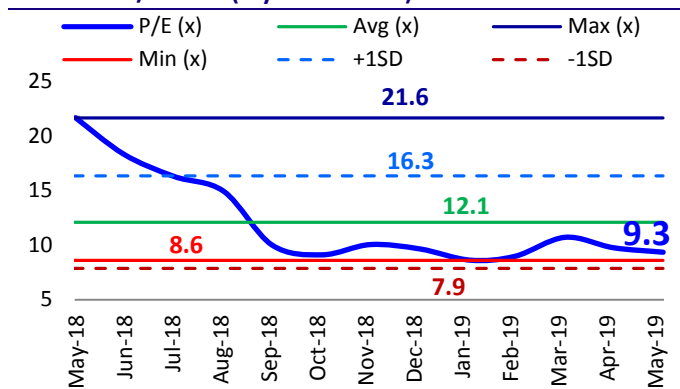
- INDOSTAR has a strong track record of growth with stable asset quality. Given its adequate capital, focus on qualitative growth and business diversification, we believe that INDOSTAR is improving the quality of its business.
- **By FY22E, we expect vehicle finance to account for 50%+ of the total AUM while corporate lending would account for 24% of total AUM.**
- The company has demonstrated its ability to sell-down loans across different segments in the past two quarters – this would help it raise debt capital in this tight liquidity environment.

- While the company's near-term RoE is expected to be at 9-11%, it does not fully factor in the long-term business profitability. In the medium-term, we expect the RoE to rise to 13-15% (with the effects of operating leverage and efficiency kicking in) while the long-term, sustainable RoE is likely to be 16%.
- However, the recent IIFL acquisition has led to creation of ~INR3b goodwill, which the management does not intend to write off.
- We maintain our estimates. Buy with TP of INR525 (1.2x FY21 BVPS).

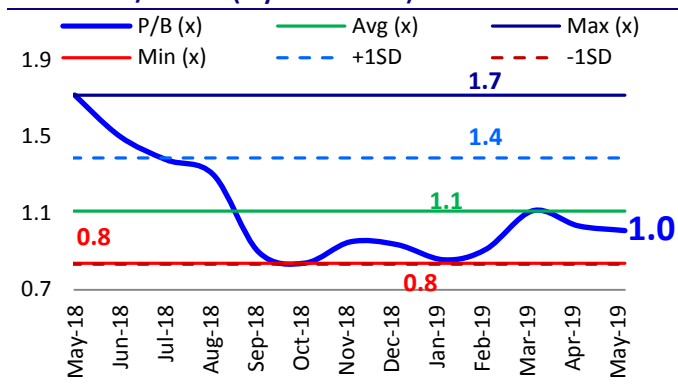
**Exhibit 1: We largely maintain our FY20/21 estimates**

INR B	Old Est.		New Est.		% change	
	FY20	FY21	FY20	FY21	FY20	FY21
NII	8.9	11.9	9.0	12.1	0.5	1.2
Other Income	1.9	1.8	1.8	1.9	-4.1	5.7
<b>Total Income</b>	<b>10.8</b>	<b>13.7</b>	<b>10.8</b>	<b>14.0</b>	<b>-0.3</b>	<b>1.8</b>
Operating Expenses	4.1	4.8	4.0	4.7	-1.8	-3.4
<b>Operating Profits</b>	<b>6.7</b>	<b>8.9</b>	<b>6.8</b>	<b>9.3</b>	<b>0.7</b>	<b>4.6</b>
Provisions	1.0	1.7	1.2	1.6		
<b>PBT</b>	<b>5.6</b>	<b>7.8</b>	<b>5.5</b>	<b>7.7</b>	<b>-0.7</b>	<b>-0.4</b>
Tax	2.0	2.8	2.0	2.8	-0.7	-0.5
<b>PAT</b>	<b>3.6</b>	<b>5.0</b>	<b>3.5</b>	<b>4.9</b>	<b>-0.7</b>	<b>-0.4</b>
AUM	160	208	154	200	-3.8	-4.0
Borrowings	138	182	137	176	-0.5	-3.4
RoA	2.3	2.5	2.4	2.5		
RoE	11.2	13.4	11.1	13.6		

Source: MOFSL, Company

**Exhibit 2: P/E chart (1-year forward)**

Source: MOFSL, Company

**Exhibit 3: P/B chart (1-year forward)**

Source: MOFSL, Company



## Concall highlights

### Business Updates

- Raised INR15b of debt capital in 4Q v/s INR12b in 3Q.
- **Targeting INR4b monthly disbursements in vehicle finance.**
- Will grow disbursements by 25-30% in FY20.
- C/I ratio to reduce to 25-30% in FY21.
- **For the IIFL portfolio acquisition, INDOSTAR paid INR4b in 4Q and will pay INR5.1b each quarter for the next four quarters.**
- The company does only senior secured lending, no subordinate lending.

### Asset Quality

- **Expect 100-150bp run-rate credit costs in the vehicle finance business.**

### Others

- **INDOSTAR does plenty of repeat business with existing developers. Over the past five years, would have funded 10-12 projects per developer.**
- CRISIL did an assessment of the valuation and ultimate credit loss of the IIFL portfolio.
- Real estate loan book would be steady at INR25-30b.
- Used vehicle prices to rise when new vehicle era shifts to BS6.
- INR3b goodwill – under Ind-AS, goodwill is tested for impairment, but does not get written off.
- BMM Ispat was the first stressed asset deal for INDOSTAR. There is a strategic partner in this deal. INDOSTAR looks forward to more such deals. Disbursed INR6b but sold down INR3.5b to Edelweiss. Will exit in 18 months.
- In the OFS last year, INDOSTAR was asked to deduct TDS before paying out ICM (Indostar Capital Mauritius, parent). Everstone went to court against the TDS and won the case, but there are still some regulatory requirements pending.
- For the parent, 20% of post issue capital (~19m shares) is locked in for three years since the IPO.
- INR2b loan to Essel promoters against shares of Zee Entertainment.

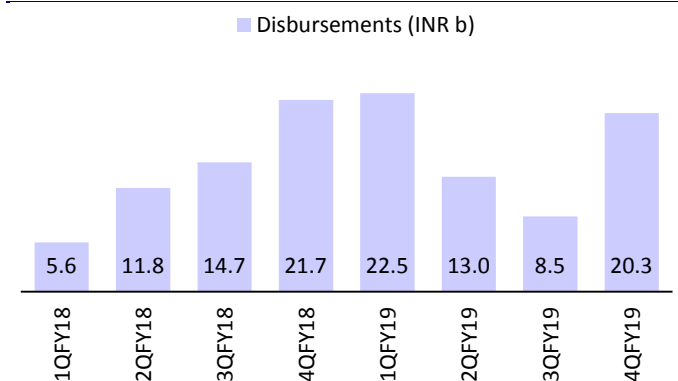
## Exhibit 4: Quarterly Snapshot

	FY18				FY19				Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	QoQ	YoY
<b>Profit and Loss (INR m)</b>										
Interest Income	1,813	1,970	2,069	2,036	2,234	2,786	2,886	2,907	1	43
Interest Expenses	766	740	781	968	1,119	1,404	1,474	1,639	11	69
<b>Net Interest Income</b>	<b>1,047</b>	<b>1,230</b>	<b>1,288</b>	<b>1,068</b>	<b>1,115</b>	<b>1,382</b>	<b>1,411</b>	<b>1,268</b>	<b>-10</b>	<b>19</b>
Fee Income	22	3	20	50	57	336	65	162	150	224
Other income	0	22	-267	56	-39	76	246	341	39	511
<b>Total Income</b>	<b>1,069</b>	<b>1,255</b>	<b>1,041</b>	<b>1,174</b>	<b>1,132</b>	<b>1,794</b>	<b>1,722</b>	<b>1,772</b>	<b>3</b>	<b>51</b>
Operating Expenses	298	306	438	506	541	692	580	654	13	29
Employee	243	239	265	318	323	456	332	382	15	20
Others	55	67	173	188	218	235	248	272	10	45
<b>Operating Profits</b>	<b>771</b>	<b>949</b>	<b>603</b>	<b>668</b>	<b>591</b>	<b>1,102</b>	<b>1,142</b>	<b>1,118</b>	<b>-2</b>	<b>67</b>
Provisions & Loan losses	-17	-119	23	-21	77	111	48	-73		
<b>PBT</b>	<b>788</b>	<b>1,068</b>	<b>580</b>	<b>689</b>	<b>514</b>	<b>992</b>	<b>1,094</b>	<b>1,192</b>	<b>9</b>	<b>73</b>
Taxes	277	373	186	285	200	352	381	451	18	58
<b>PAT</b>	<b>511</b>	<b>695</b>	<b>394</b>	<b>404</b>	<b>315</b>	<b>640</b>	<b>713</b>	<b>741</b>	<b>4</b>	<b>83</b>
<b>Asset Quality (%)</b>										
Gross NPA (%)	1.7	1.9	1.7	1.3	1.2	0.9	0.9	2.6	170	130
Net NPA (%)	1.5	1.6	1.4	1.1	1.0	0.6	0.6	1.7	110	60
PCR (Calculated, %)	12.4	15.8	17.6	16.7	16.3	33.3	33.3	34.6		
<b>Ratios (Calculated, %)</b>										
Yield	0.0	16.8	17.5	14.7	13.2	14.6	14.9	11.9	-294	-273
Cost of Funds	0.0	9.1	9.1	9.1	8.7	10.0	9.8	8.6	-116	-45
Spread	0.0	7.7	8.4	5.6	4.5	4.6	5.1	3.3	-178	-228
NIM	0.0	10.5	10.9	7.7	6.6	7.3	7.3	5.2	-207	-248
C/I ratio	27.8	24.4	42.1	43.1	47.8	38.6	33.7	36.9	321	-619
Tax rate	35.2	35.0	32.0	41.4	38.8	35.5	34.9	37.8		
<b>Business Details (INR b)</b>										
Disbursements	5.6	11.8	14.7	21.7	22.5	13.0	8.5	20.3	137	-7
AUM	49.7	44.1	50.4	60.6	74.7	77.7	77.5	117.4	51	94
<b>AUM Mix (%)</b>										
Corporate	83.8	78.3	76.4	73.2	70.3	62.7	57.8	38.6		
Vehicle	0.0	0.0	0.3	2.1	5.3	9.1	12.7	40.7		
Housing	0.0	0.0	0.3	0.8	2.4	4.3	5.5	4.7		
SME	16.2	21.7	23.0	23.9	22.0	23.9	24.0	16.1		
<b>Total Borrowing Mix (%)</b>										
Banks	0	0	0	44	41	45	46	39		
NCDs	0	0	0	25	37	44	45	36		
CPs and others	0	0	0	31	22	11	10	25		
<b>Other Details</b>										
Branches	7	10	39	91	129	155	159	322		
Tier I Capital ratio (%)						31	30	22		
Networth (INR b)	19.7	20.3	20.3	21.1	28.6	28.7	29.3	30.1		

Source: Company, MOFSL

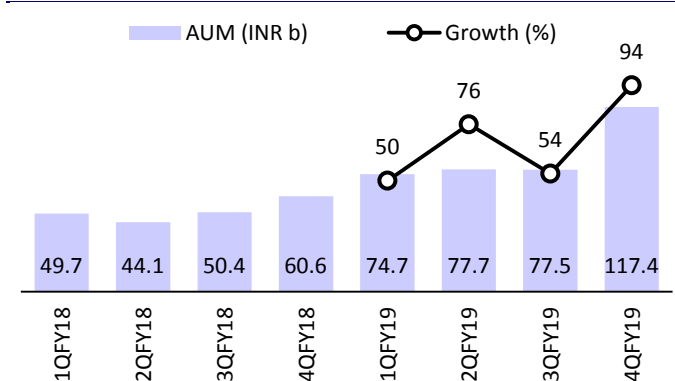
## Story in charts

**Exhibit 5: Disbursement trend**



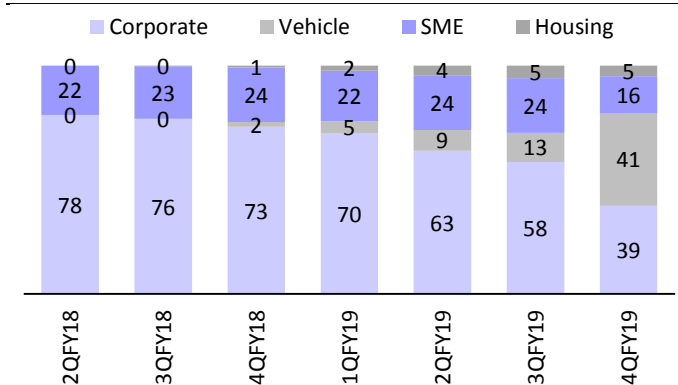
Source: Company, MOFSL

**Exhibit 6: AUM trend**



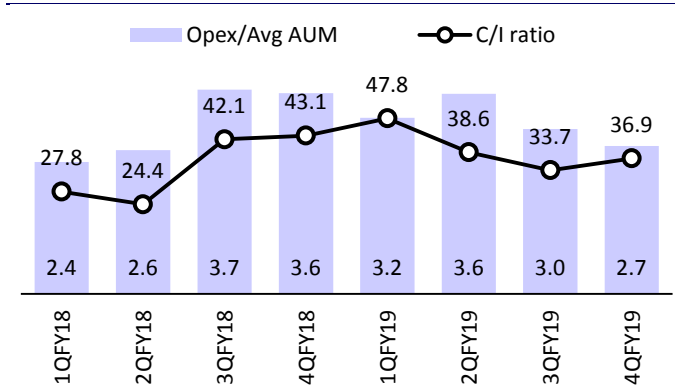
Source: Company, MOFSL; Note: Includes IIFL CV business acq. In 4QFY19

**Exhibit 7: AUM mix moving towards retail lending (%)**



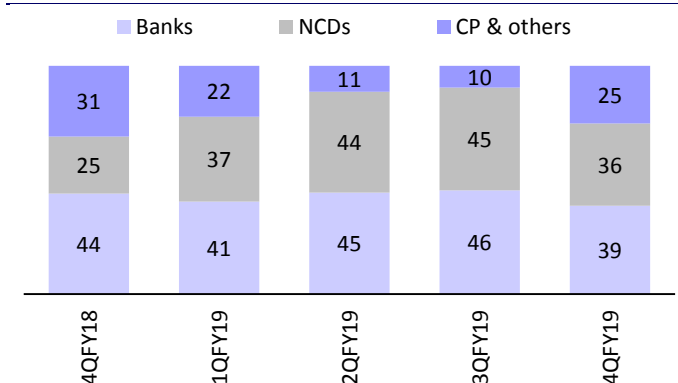
Source: Company, MOFSL

**Exhibit 8: Opex/Avg AUM ratio on the decline (%)**



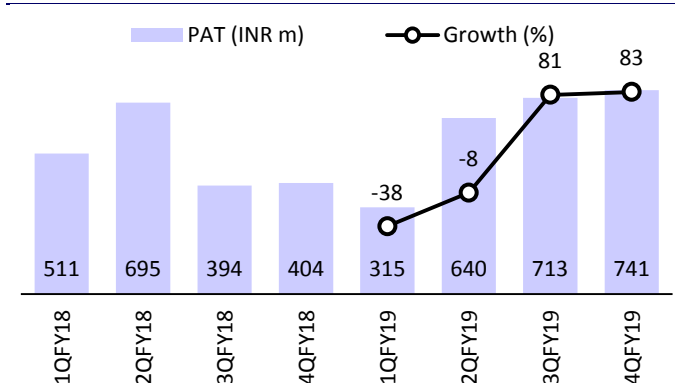
Source: Company, MOFSL

**Exhibit 9: Liability mix trend**



Source: Company, MOFSL

**Exhibit 10: PAT trend**



Source: Company, MOFSL

**Exhibit 11: Financials: Valuation matrix**

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ICICI* <sup>*</sup>	Buy	400	37.7	5.2	21.2	56.8	14.0	166	181	1.8	1.6	0.4	1.3	3.2	12.4
HDFCB	Buy	2,404	95.0	79.3	94.4	30.3	25.5	548	624	4.4	3.9	1.8	1.9	16.5	16.1
AXSB	Buy	773	28.9	18.2	40.0	42.5	19.3	259	301	3.0	2.6	0.6	1.2	7.2	14.3
KMB*	Neutral	1,487	41.1	37.7	44.1	39.4	33.7	303	346	4.9	4.3	1.7	1.8	12.2	13.2
YES	Buy	141	4.8	7.5	14.1	18.9	10.0	116	138	1.2	1.0	0.5	0.8	6.5	11.0
IIB	Buy	1,448	12.8	53.8	99.4	26.9	14.6	427	541	3.4	2.7	1.4	2.2	13.1	20.6
FB	Buy	101	2.9	6.3	8.0	16.1	12.7	67	73	1.5	1.4	0.8	0.9	9.8	11.4
DCBB	Buy	230	1.0	10.5	14.0	21.9	16.5	96	110	2.4	2.1	1.0	1.1	12.0	14.1
SIB	Buy	14	0.4	1.4	2.2	10.1	6.1	29	30	0.5	0.5	0.3	0.4	4.7	7.4
Equitas	Buy	133	0.7	6.3	9.3	21.0	14.4	73	81	1.8	1.6	1.5	1.7	9.0	12.0
RBL	Buy	669	4.2	20.3	25.2	32.9	26.5	177	245	3.8	2.7	1.2	1.3	12.2	12.4
<b>Private Aggregate</b>															
SBIN (cons)*	Buy	338	44.1	2.6	33.5	117.4	#N/A	247	278	1.2	#N/A	0.0	0.7	0.4	13.4
PNB	Neutral	86	4.8	-14.6	5.8	-5.9	14.9	112	117	0.8	0.7	-0.6	0.3	-11.2	4.8
BOI	Neutral	88	2.3	-22.0	3.2	-4.0	27.9	121	122	0.7	0.7	-0.9	0.2	-14.1	2.4
BOB	Buy	125	4.7	7.8	14.8	16.0	8.5	164	177	0.8	0.7	0.3	0.5	4.7	8.4
CBK	Neutral	261	2.8	17.0	42.3	15.3	6.2	448	484	0.6	0.5	0.2	0.4	3.5	8.2
UNBK	Neutral	72	1.2	4.5	12.8	16.0	5.6	236	246	0.3	0.3	0.1	0.3	2.1	5.5
<b>Public Aggregate</b>															
<b>Banks Aggregate</b>															
HDFC*	Buy	2,114	50.9	41.2	47.0	27.7	24.3	325	357	3.5	3.2	1.7	1.7	13.7	13.8
LICHF	Buy	525	3.8	48.1	54.3	10.9	9.7	320	364	1.6	1.4	1.3	1.3	16.0	15.9
IHFL	Under Review	808	5.0	95.9	101.9	8.4	7.9	396	442	2.0	1.8	3.4	3.5	25.7	24.3
PNBHF	Buy	788	1.9	71.1	73.2	11.1	10.8	440	502	1.8	1.6	1.6	1.4	17.8	15.6
REPCO	Buy	425	0.4	38.4	43.3	11.1	9.8	243	284	1.7	1.5	2.3	2.3	17.1	16.5
<b>Housing Finance</b>															
SHTF	Buy	1,086	3.6	113.1	129.7	9.6	8.4	698	812	1.6	1.3	2.5	2.6	17.6	17.2
MMFS	Buy	402	3.6	25.3	29.5	15.9	13.7	170	191	2.4	2.1	2.5	2.3	15.8	16.3
BAF	Neutral	3,433	28.1	69.5	86.8	49.4	39.5	335	412	10.2	8.3	3.8	3.5	22.9	23.2
CIFC	Under Review	1,417	3.2	76.8	88.6	18.5	16.0	392	472	3.6	3.0	2.4	2.3	21.4	20.5
SCUF	Buy	1,476	1.4	149.9	165.5	9.8	8.9	969	1,116	1.5	1.3	3.5	3.5	16.7	15.9
LTFH	Buy	125	3.6	11.2	13.1	11.2	9.5	68	80	1.8	1.6	2.3	2.3	18.0	17.7
MUTH	Neutral	619	3.5	49.2	55.3	12.6	11.2	230	269	2.7	2.3	5.7	5.5	23.2	22.2
INDOSTAR	Buy	356	0.5	26.1	45.0	13.6	7.9	326	373	1.1	1.0	2.5	2.8	9.5	12.9
MAS	Buy	542	0.4	28.1	33.0	19.3	16.4	165	193	3.3	2.8	4.5	4.2	18.3	18.4

UR=Under Review\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Source: MOSL, Company

## Financials and valuations

Income Statement								(INR m)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Interest Income	4,667	5,644	6,436	7,631	10,813	19,956	26,601	33,844
Interest Expended	2,579	2,893	3,118	3,256	5,636	10,992	14,551	18,164
<b>Net Interest Income</b>	<b>2,087</b>	<b>2,751</b>	<b>3,317</b>	<b>4,376</b>	<b>5,177</b>	<b>8,964</b>	<b>12,050</b>	<b>15,680</b>
Change (%)	22.6	31.8	20.6	31.9	18.3	73.2	34.4	30.1
Fee Income	602	796	756	258	1,244	1,831	1,946	2,254
Other Income	12	1	8	1	0	0	0	0
<b>Net Income</b>	<b>2,701</b>	<b>3,548</b>	<b>4,081</b>	<b>4,634</b>	<b>6,420</b>	<b>10,795</b>	<b>13,996</b>	<b>17,934</b>
Change (%)	31.8	31.3	15.0	13.6	38.5	68.1	29.7	28.1
Operating Expenses	410	582	727	1,547	2,466	4,023	4,682	5,459
<b>Operating Income</b>	<b>2,291</b>	<b>2,966</b>	<b>3,354</b>	<b>3,087</b>	<b>3,954</b>	<b>6,772</b>	<b>9,314</b>	<b>12,475</b>
Change (%)	34.3	29.5	13.1	-8.0	28.1	71.3	37.5	33.9
Provisions and W/Offs	30	34	123	-38	163	1,234	1,597	2,686
<b>PBT</b>	<b>2,260</b>	<b>2,932</b>	<b>3,230</b>	<b>3,125</b>	<b>3,792</b>	<b>5,538</b>	<b>7,718</b>	<b>9,789</b>
Tax	770	1,016	1,122	1,122	1,384	1,994	2,778	3,524
Tax Rate (%)	34.1	34.6	34.7	35.9	36.5	36.0	36.0	36.0
<b>PAT</b>	<b>1,490</b>	<b>1,916</b>	<b>2,108</b>	<b>2,003</b>	<b>2,408</b>	<b>3,544</b>	<b>4,939</b>	<b>6,265</b>
Change (%)	32.9	28.6	10.0	-5.0	20.2	47.2	39.4	26.8
Proposed Dividend (Incl Tax)	0	0	0	0	0	0	0	0

Balance Sheet								(INR m)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Equity Share Capital	683	734	784	787	923	923	923	923
Reserves & Surplus	12,169	14,684	18,084	19,961	29,140	32,924	38,054	44,319
<b>Net Worth</b>	<b>12,852</b>	<b>15,418</b>	<b>18,868</b>	<b>20,747</b>	<b>30,063</b>	<b>33,847</b>	<b>38,976</b>	<b>45,241</b>
<b>Borrowings</b>	<b>25,738</b>	<b>30,009</b>	<b>33,733</b>	<b>48,228</b>	<b>89,357</b>	<b>137,283</b>	<b>175,643</b>	<b>223,569</b>
Change (%)	35.6	16.6	12.4	43.0	85.3	53.6	27.9	27.3
Other liabilities	1,327	1,506	2,287	2,963	3,581	4,298	5,157	6,189
<b>Total Liabilities</b>	<b>39,916</b>	<b>46,933</b>	<b>54,888</b>	<b>71,938</b>	<b>123,002</b>	<b>175,428</b>	<b>219,777</b>	<b>274,999</b>
Investments	546	0	1,870	10,070	3,009	3,009	3,009	3,009
Change (%)	-10.3	-100.0	N.A	438.6	-70.1	0.0	0.0	0.0
<b>Loans and Advances</b>	<b>33,858</b>	<b>42,779</b>	<b>51,549</b>	<b>59,004</b>	<b>103,637</b>	<b>154,251</b>	<b>199,594</b>	<b>251,201</b>
Change (%)	31.2	26.3	20.5	14.5	75.6	48.8	29.4	25.9
Net Fixed Assets	9	38	88	597	3,664	5,497	8,245	12,367
Other Assets	5,503	4,117	1,381	2,266	12,692	12,672	8,929	8,422
<b>Total Assets</b>	<b>39,916</b>	<b>46,933</b>	<b>54,888</b>	<b>71,938</b>	<b>123,002</b>	<b>175,428</b>	<b>219,777</b>	<b>274,999</b>

E: MOFSL Estimates



## Financials and valuations

<b>AUM Details</b>						<b>(INR m)</b>		
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>AUM (INR Bn)</b>	<b>34</b>	<b>43</b>	<b>52</b>	<b>62</b>	<b>117</b>	<b>154</b>	<b>200</b>	<b>251</b>
<b>AUM Mix</b>								
<b>Corporate</b>	<b>99.8</b>	<b>94.8</b>	<b>87.6</b>	<b>73.7</b>	<b>38.6</b>	<b>29.3</b>	<b>25.4</b>	<b>23.6</b>
<b>Retail</b>	<b>0.2</b>	<b>5.2</b>	<b>12.4</b>	<b>26.3</b>	<b>61.4</b>	<b>70.7</b>	<b>74.6</b>	<b>76.4</b>
SME	0.2	5.2	12.4	23.4	16.1	15.3	14.5	14.0
Vehicle	0.0	0.0	0.0	2.1	40.7	47.9	50.9	51.8
Housing	0.0	0.0	0.0	0.8	4.7	7.5	9.3	10.6
<b>Ratios</b>								
<b>Y/E March</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
<b>Spreads Analysis (%)</b>								
Yield on Portfolio	14.2	13.9	13.4	13.6	13.1	15.3	14.9	14.9
Cost of Borrowings	11.5	10.4	9.8	7.9	8.2	9.7	9.3	9.1
Interest Spread	2.7	3.6	3.6	5.6	4.9	5.6	5.6	5.8
Net Interest Margin	7.0	7.2	7.0	7.9	6.4	7.0	6.8	7.0
<b>Profitability Ratios (%)</b>								
RoE	12.3	13.6	12.3	10.1	9.5	11.1	13.6	14.9
RoA (on balance sheet)	4.2	4.4	4.1	3.2	2.5	2.4	2.5	2.5
Debt: Equity (x)	2.0	1.9	1.8	2.3	3.0	4.1	4.5	4.9
Average Leverage (x)	3.0	3.1	3.0	3.2	3.8	4.7	5.4	5.9
<b>Efficiency Ratios (%)</b>								
Int. Expended/Int.Earned	55.3	51.3	48.5	42.7	52.1	55.1	54.7	53.7
Op. Exps./Net Income	15.2	16.4	17.8	33.4	38.4	37.3	33.5	30.4
Empl. Cost/Op. Exps.	68.4	67.8	66.3	68.8	60.6	57.6	58.4	59.1
Fee income/Net Income	22.3	22.4	18.5	5.6	19.4	17.0	13.9	12.6
<b>Asset quality</b>								
GNPA	194	100	727	768	3,051	4,514	6,696	9,349
NNPA	175	80	620	640	1,995	2,501	3,358	3,651
GNPA %	0.6	0.2	1.4	1.3	2.9	2.9	3.3	3.6
NNPA %	0.5	0.2	1.2	1.1	1.9	1.6	1.7	1.5
PCR %	10.0	20.0	14.8	16.7	34.6	44.6	49.9	60.9
<b>Valuation</b>								
Book Value (INR)	188.1	210.2	240.8	263.7	325.8	366.9	422.5	490.4
BV Growth (%)	13.2	11.7	14.6	9.5	23.6	12.6	15.2	16.1
<b>Price-BV (x)</b>					<b>1.1</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>
EPS (INR)	21.8	26.1	26.9	25.5	26.1	38.4	53.5	67.9
EPS Growth (%)	32.9	19.8	3.0	-5.3	2.5	47.2	39.4	26.8
<b>Price-Earnings (x)</b>					<b>13.8</b>	<b>9.3</b>	<b>6.7</b>	<b>5.3</b>
Dividend per share					0.0	0.0	0.0	0.0
<b>Dividend Yield (%)</b>					<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

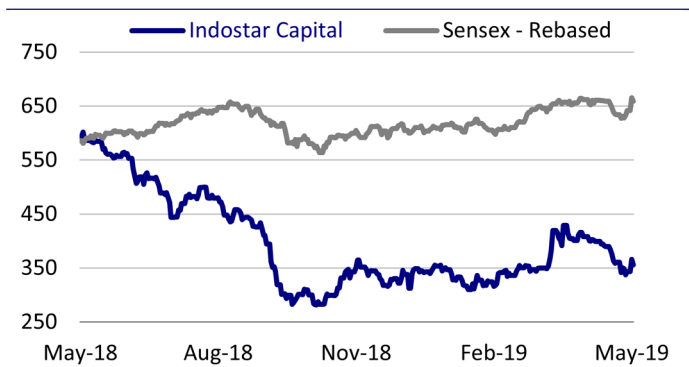
E: MOFSL Estimates

## Corporate profile: INDOSTAR Capital Finance

### Company description

Indostar Capital Finance (INDOSTAR) is a diversified systemically important, non-deposit-taking NBFC in India. The company operates in four business lines – corporate lending, SME lending, vehicle finance, and housing finance. On March 31, 2019, the company acquired the CV financing business of IIFL Finance. With the acquisition, its total AUM stood at INR117b as of FY19. The company is promoted by IndoStar Capital (Mauritius) which owns 57% stake. Its long-term debt is presently rated CARE AA- Stable and IND AA-/Stable.

### Exhibit 19: Sensex rebased



### Exhibit 12: Shareholding pattern (%)

	Mar-19	Dec-18	Jun-18
Promoter	60.5	60.3	58.3
DII	11.6	11.3	9.3
FII	10.1	10.9	13.1
Others	17.9	17.5	19.3

Note: FII Includes depository receipts

### Exhibit 13: Top holders

Holder Name	% Holding
Sbi Equity Hybrid Fund	7.8
Fidelity Investment Trust Fidelity Series Emerging	2.5
Mission Street Pte Ltd	2.5
Lenarco Limited	2.1
Icici Prudential Life Insurance Company Limited	2.0

### Exhibit 14: Top management

Name	Designation
RAMACHANDRAN SRIDHAR	Chief Executive Officer
PANKAJ THAPAR	Chief Financial Officer
JITENDRA BHATI	Company Secretary

### Exhibit 15: Directors

Name	Name
ALOK OBEROI	RAVI DHARM NARAIN
BOBBY KANUBHAI PARIKH	SAMEER SAIN
BROOKS LORRANCE ENTWISTLE	SHWETA BHATIA
DEEPAK ISHWARDAS SHAHDADPURI	SIVANANDHAN DHANUSHKODI
DHANPAL ARVIND JHAVERI	VIMAL BHANDARI
ERIC STUART SCHWARTZ	RAMACHANDRAN SRIDHAR
	SHAILESH SHANKARNARAYAN SHIRALI

\*Independent

### Exhibit 16: Auditors

Name	Type
S R Batliboi & Associates LLP	Statutory

### Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	38.4	35.9	7.1
FY21	53.5	49.2	8.8

## NOTES

## Explanation of Investment Rating

### Investment Rating

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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