

Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	137
M.Cap.(INRb)/(USDb)	33.2 / 0.4
52-Week Range (INR)	369 / 218
1, 6, 12 Rel. Per (%)	-6/-25/-18
12M Avg Val (INR M)	65

Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	4.6	5.6	6.5
PPP	1.9	2.4	3.5
PAT	0.5	6.3	2.3
EPS (INR)	3.9	39.2	13.9
EPS Gr. (%)	-27	915	-64
BV (INR)	252	264	278

Ratios

NIM (%)	6.1	8.6	10.4
C/I ratio (%)	71.7	68.8	61.5
RoA (%)	0.5	5.8	1.9
RoE (%)	1.6	16.5	5.1
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	62.6	6.2	17.4
P/BV (x)	1.0	0.9	0.9
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	73.0	73.0	73.6
DII	2.5	2.4	1.8
FII	2.9	3.1	2.3
Others	21.7	21.5	22.3

FII Includes depository receipts

CMP: INR243

TP: INR285 (+17%)

Buy

Weak quarter; disbursements and loan growth remain muted

GS3 improved ~1pp QoQ aided by an ARC transaction; credit costs elevated

IndoStar Capital Finance (IndoStar) delivered a weak performance in 2QFY26, with muted disbursements and weak AUM growth as it continued to follow tightened underwriting norms and prioritized asset quality. However, the company expects growth momentum to pick up in 2HFY26, supported by improving business activity and a gradual revival in demand.

Key highlights: 1) Disbursements declined ~46% YoY and grew 8% QoQ to ~INR9.3b and standalone AUM was flat YoY and declined 3% QoQ to INR75.6b; 2) Credit costs stood at INR586m (PY: INR193m) 2) IndoStar sold a stressed CV portfolio of INR3.1b to an ARC for a consideration of INR2.2b, 3) NIM (calc.) expanded ~130bp QoQ driven by decline in CoB, and 5) opex optimization will be the most important theme in FY26, given that management targets to bring down the cost-to-income ratio to ~50% (from ~64%) over the medium term.

Financial highlights

- 2QFY26 PAT declined 67% YoY to INR105m. NII grew ~40% YoY to INR1.5b. Other income stood at INR396m (PQ: ~INR290m). Opex declined ~5% YoY to INR1.2b, translating into a cost-to-income ratio of ~64% in 2QFY26 (PY: 77% and PQ: 88%).
- PPOP grew ~86% YoY to INR692m. Credit costs stood at ~INR586m (PQ: ~INR193m), which translated into annualized credit costs of ~3% (PY: ~1%).
- AUM stood at ~INR75.6b and was flat YoY. VF AUM was flat YoY and declined 3% QoQ to INR70.3b due to weak disbursements and sale of stressed portfolio to an ARC.
- Micro-LAP AUM grew ~33% QoQ to INR1b. Disbursements in micro-LAP was flat QoQ at INR270m. LTV in this segment stood at 34.4% as of Sep'25.
- Management shared that disbursements in 2HFY26 are expected to be around 1.4-1.5x of 1H levels, indicating stronger seasonality-led momentum in the upcoming quarters. The micro-LAP segment will also likely see a rebound in 2HFY26, following a temporary slowdown after Mar'25.
- We estimate a CAGR of 11%/86% in AUM/PAT over FY25-28, aided by improvements in NIM to 8.6%/10.4% in FY26E/FY27E. **Maintain BUY with a TP of INR285 (premised on 1x Sep'27E BVPS).**

AUM was flat YoY; disbursements declined 38% YoY in VF

- Disbursements declined ~46% YoY and grew 8% QoQ to ~INR9.3b. Vehicle finance (VF) disbursements declined ~38% YoY to INR9b.
- Management shared that micro-LAP will be a key growth driver for IndoStar, supported by the appointment of a seasoned COO (with over 25 years of experience in the segment). The company has expanded its operations beyond Tamil Nadu by commencing disbursements in Andhra Pradesh and has strengthened its team with senior professionals possessing deep local market expertise.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- IndoStar plans to further scale its micro-LAP business in Tier-5 towns through smaller ticket sizes and a lean operating model and targets to be present across 3-4 states by the end-FY26.

GS3 declines ~1pp driven by sale of stressed CV portfolio to ARC

- Asset quality exhibited improvement, with standalone GNPA declining ~1pp QoQ to ~3.05% and standalone NNPA declining ~55bp QoQ to ~1.4%. The improvement in GNPA was primarily driven by the sale of a stressed portion of the CV portfolio to an ARC, involving a principal outstanding of INR3.1b, against which the company realized ~INR2.2b.
- Management shared that loans originated under the revised policy framework are performing much better with lower delinquency rates and with 30+dpd at nearly half the levels relative to what was seen in the past.
- Collection efficiency (including overdue) stood at ~94% (PQ: ~94%). CRAR was healthy at ~37.2% and the debt-equity ratio stood at 1.4x.

Key highlights from the management commentary

- The company is leveraging existing VF infrastructure to expand micro-LAP presence, resulting in minimal incremental capex.
- Forward flows and early delinquencies continue to trend downward, supported by proactive collection and monitoring mechanisms.
- The company plans to convert 48 micro-branches (currently operating with one sales staff) into full-fledged branches, which will result in further improvement in its growth momentum.

Valuation and View

- IndoStar delivered a weak performance in 2QFY26, with muted disbursements and weak AUM growth as it continued to follow tightened underwriting norms and prioritized asset quality. However, the company expects growth momentum to pick up in 2HFY26, supported by improving business activity, gradual revival in demand and improvement in forward flows, leading to better asset quality.
- IndoStar has prioritized the expansion of its loan book in the used CV segment and micro-LAP. A reinforced management team, enhanced processes, opex rationalization and expectations of an improvement in the economic climate will serve as catalysts for IndoStar. **Maintain BUY** rating on the stock with a TP of **INR285 (premised on 1x Sep'27E BVPS).**

Quarterly Performance

(INR M)

Y/E March	FY25				FY26		FY25	FY26E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest Income	2,703	2,956	3,125	3,184	3,146	3,172	11,965	12,596
Interest Expenses	1,668	1,878	1,930	1,933	1,855	1,667	7,408	7,031
Net Interest Income	1,035	1,078	1,196	1,251	1,291	1,506	4,557	5,565
YoY Growth (%)	-12.2	40.5	47.9	44.6	24.7	39.7	36.6	22.1
Other Income	387	565	611	566	291	396	2,159	2,156
Total Income	1,422	1,643	1,806	1,817	1,582	1,902	6,716	7,721
YoY Growth (%)	-1.9	75.6	93.1	-21.7	11.3	15.7	23.4	15.0
Operating Expenses	1,106	1,272	1,212	1,198	1,393	1,210	4,815	5,309
Operating Profit	317	371	594	619	189	692	1,901	2,413
YoY Growth (%)	6.4	333.5	1,044.5	-49.1	-40.2	86.3	22.9	26.9
Provisions & Loan Losses	210	193	479	494	4,904	586	1,375	6,155
Profit before Tax and exceptional item	297	363	331	442	-4,579	105	526	-3,742
Exceptional item (post-tax)	0	0	0	0	11,760	0	0	10,070
PBT (incl. exception gain/loss)	297	363	331	442	7,181	105	526	6,328
Tax Provisions	48	46	54	80	1,725	0	0	0
Reported PAT	249	317	277	362	5,456	105	526	6,328
YoY Growth (%)	-36.0	27.9	64.3	2.6	2,088.4	-66.9	-26.6	1,103.2
AUM Growth (%)	13.5	30.0	31.7	23.1	8.9	0.2		
NIM (%)	6.1	5.9	6.2	6.3	6.6	7.8		
Cost to Income Ratio (%)	77.7	77.4	67.1	65.9	88.0	63.6		
Tax Rate (%)	16.1	12.8	16.4	18.2	24.0	0.2		
Key Operating Parameters (%)								
Yield on loans (Cal)	17.0	17.1	17.6	17.8	17.6	18.0		
Cost of funds (Cal)	10.9	11.2	10.9	11.2	10.8	10.6		
Spreads (Cal)	6.1	5.9	6.7	6.6	6.8	7.4		
NIMs (Cal)	6.1	5.9	6.2	6.3	6.6	7.8		
Credit Cost (Cal)	1.2	1.0	2.5	2.5	24.9	3.1		
Cost to Income Ratio	77.7	77.4	67.1	65.9	88.0	63.6		
Tax Rate	0.1	0.1	0.1	0.2	24.0	0.2		
Balance Sheet Parameters								
AUM (INR B)	71.5	75.5	78.6	79.6	77.8	75.6		
Change YoY (%)	13.5	30.0	31.7	23.1	8.9	0.2		
AUM Mix (%)								
Vehicle	88.5	92.3	92.9	93.0	92.9	92.9		
Micro-LAP	0.0	0.0	0.0	0.7	1.0	0.0		
SME & Others	6.3	5.4	4.9	4.4	4.7	4.5		
Corporate	5.2	2.3	2.2	2.0	1.4	1.3		
Asset Quality Parameters (%)								
GS 3 (INR B)	3.5	3.7	3.6	3.4	3.0	2.2		
Gross Stage 3 (% on Assets)	4.2	5.0	4.9	4.5	4.0	3.0		
Net Stage 3 (% on Assets)	2.1	2.5	2.7	2.5	1.7	1.1		
PCR (%)	53.7	51.0	46.2	46.6	59.6	63.6		
E: MOFSL estimates								



Highlights from the management commentary

Business performance

- The company has successfully transitioned from a corporate-focused lender to a retail-oriented NBFC, emphasizing vehicle finance and micro-LAP segments.
- The sale of its subsidiary, Niwas Housing, has enabled management to sharpen its focus on vehicle finance and micro-LAP businesses, ensuring efficient capital allocation and better strategic clarity.
- Vehicle finance disbursements grew by 8% QoQ.
- Historically, disbursements in the second half of the year is 1.4-1.5x of 1H levels, suggesting stronger seasonality-driven momentum in upcoming quarters.
- The company achieved significant diversification within vehicle finance, reducing dependence on MHCVs with MHCV now contributing only one-third of total disbursements while scaling up LCV, SCV, car, and bus segments.
- Loans originated under the revised policy framework are performing significantly better, with 30+ DPD and delinquency levels now about half of earlier levels.
- Portfolio growth is supported by several operational improvements, including better sourcing quality, enhanced credit filters, and strengthened collection processes.
- Management acknowledged that while disbursement growth is tracking slightly below internal guidance, it will try to compensate the same in 2HFY26

Financial Highlights

- Retail disbursements stood at INR9.3b in 2QFY26 vs. INR8.6b in 1QFY26, indicating sequential improvement. Disbursement yields stood at 17.8%, aided by higher share of business from tier-3 and tier-4 towns and growing share of lower-ticket secured loans
- During the quarter, the company sold stress portion of CV portfolio to an ARC. The transaction involves dues amounting to INR3.1b, which were sold for INR2.2b. The ARC transaction was a strategic step aligned with newly adopted policy to write-off loans over 210dpd with an aim of maintaining high quality book and keep headline GNPA under control.
- Forward flows from the 210+ dpd bucket are expected to trend downward, supported by stronger underwriting and recovery efforts.
- Asset quality improved during the quarter, with GNPA trending lower due to portfolio clean-up and disciplined recovery efforts.
- The company maintains comfortable leverage at 1.4x D/E, providing ample headroom for growth.
- NIMs rose to 7.6% from 6.2% in 1QFY26.

Asset quality and risk management

- During 4Q, the company highlighted proactive credit policy adjustment taken in response to collection softness. Loan originated under the revised policy framework are performing much better including lower delinquency rates with 30+dpd at nearly half the levels seen in the past.
- In future, the company will continue to strengthen credit policies if required which will improve portfolio performance reduce credit costs.

- The company now targets a headline GNPA of around 3%.
- Forward flows and early delinquencies continue to trend downward, supported by proactive collection and monitoring mechanisms.

Growth and branch expansion

- The total branch count has remained broadly stable, with minor consolidation to improve productivity.
- The company plans selective branch openings in Tamil Nadu and Kerala while stabilizing productivity across the existing network.
- The company plans to convert 48 micro-branches (with single sales staff) into full-fledged branches, which will result in further improving growth momentum.
- This transition will also increase the overall employee base as new sales personnel are being onboarded.
- Focus remains on improving operating productivity and stabilizing branch economics before large-scale expansion.

Borrowing and cost of funds

- The company's cost of funds declined from 10.8% to 10.2% YoY (a 60bp reduction), reflecting improved funding mix and better market access.
- Incremental borrowings are being sourced at 9-9.25%, which should help further reduce the overall CoF in the coming quarters.
- Some of the higher-cost borrowings have already been repaid, and the remainder are expected to be retired by next quarter.
- The company remains focused on lowering borrowing costs and diversifying its lender base.

Micro-LAP

- Micro-LAP continues to be a strong growth engine for Indostar. The company onboarded an experienced business head as COO with over 25 years in the segment.
- Disbursements have been initiated in Andhra Pradesh, expanding beyond Tamil Nadu. The company has hired senior professionals with deep experience in micro markets of the state. The company plans to scale further into tier-5 towns with smaller ticket sizes and a structurally efficient model. The company plans to be present in 3-4 states by FY26 end.
- The micro-LAP business is expected to witness significant momentum in 2HFY26 after a temporary slowdown after March.
- The company is leveraging existing vehicle finance infrastructure to expand micro-LAP presence, resulting in minimal incremental capex.
- A dedicated local team of over 300 people focuses exclusively on the micro-LAP business in Tamil Nadu, operating through shared branch networks for cost efficiency.
- The company has a strong presence across tier-3 and tier-4 towns in southern states, where micro-LAP potential remains significant.
- The company aims to increase the share of micro-LAP to 20-30% of the overall AUM mix over a period of time.

Used vehicle finance

- Vehicle disbursements grew 8% QoQ, with stronger momentum expected in 2HFY26.
- After tightening credit policies last year due to emerging stress, the company now observes steady improvement in asset quality and borrower performance.
- With cost of funds reducing, the company plans to increase exposure to prime used-vehicle customers, supporting yield and risk balance.
- Management noted that used vehicle prices are expected to soften if new vehicle prices decline.

Macro trends

- Credit growth remains robust across retail and MSME segments, supported by resilient consumption trends and improved borrower confidence.
- The NBFC sector is expected to register 15-17% growth in FY26, led by sustained traction in micro-lending, MSME, and retail finance segments.
- As per ICRA, overall commercial vehicle (CV) volumes are projected to grow by 3-5% in FY26, primarily driven by higher demand for small and light commercial vehicles (SCL and LCV), while demand for MHCVs is expected to remain moderate.
- Used vehicle demand continues to strengthen, aided by better resale value realization, strong replacement demand, and affordability compared to new vehicles.
- Micro-LAP segment is expected to grow by around 25% in FY26, driven by deeper penetration in semi-urban and rural areas and increased participation of smaller NBFCs.

Others

- Collection efficiency continues to improve, with expectations of further strengthening in 2HFY26.
- Over time, the company intends to roll out micro-LAP products across most of its vehicle finance branches and gradually scale the segment to 20-30% of total AUM.
- Focus remains on sustaining high governance standards, expanding as a multi-product retail NBFC, and balancing growth with prudent risk management.

Key exhibits

Exhibit 1: Disbursements declined ~46% YoY

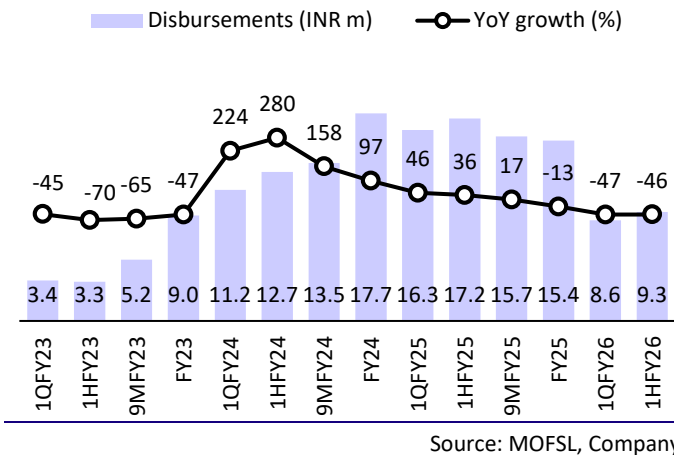


Exhibit 2: AUM remained flat YoY

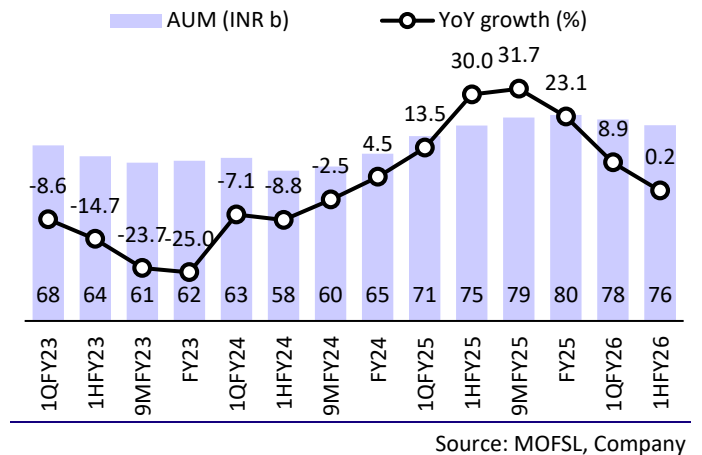


Exhibit 3: Cal. NIMs improved ~130bp QoQ

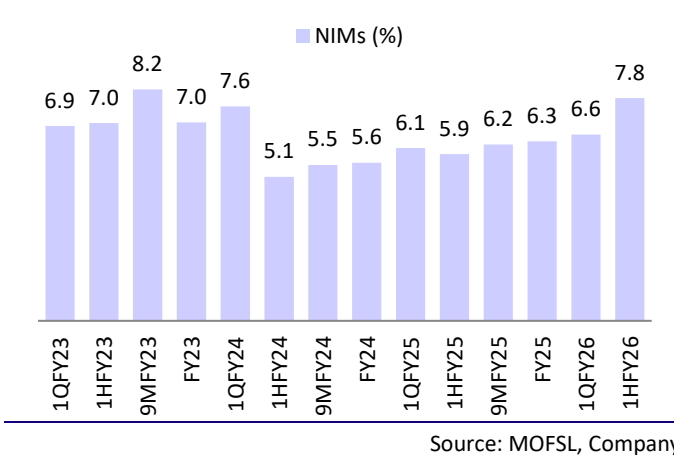


Exhibit 4: Spreads (Calc.) improved ~60bp QoQ

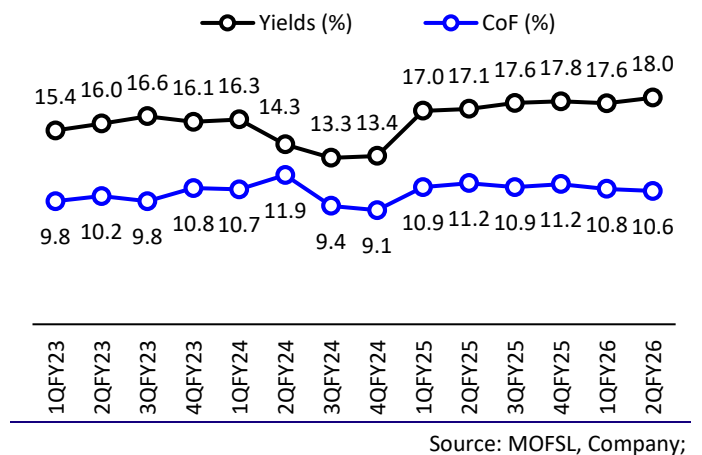


Exhibit 5: Borrowing mix as of Sep'25 (%)

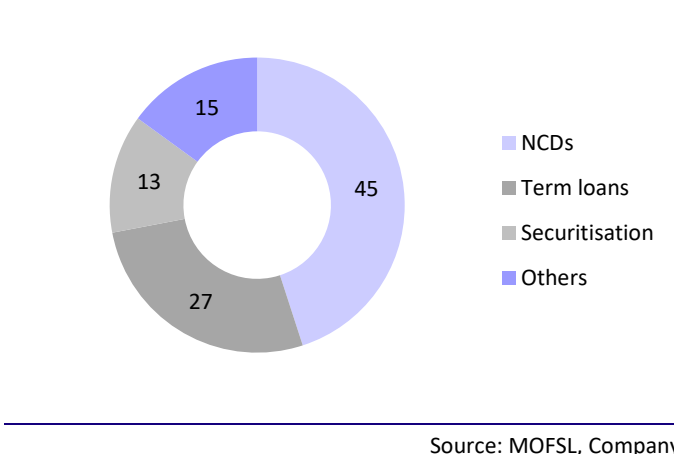


Exhibit 6: C/I ratio declined to ~64%

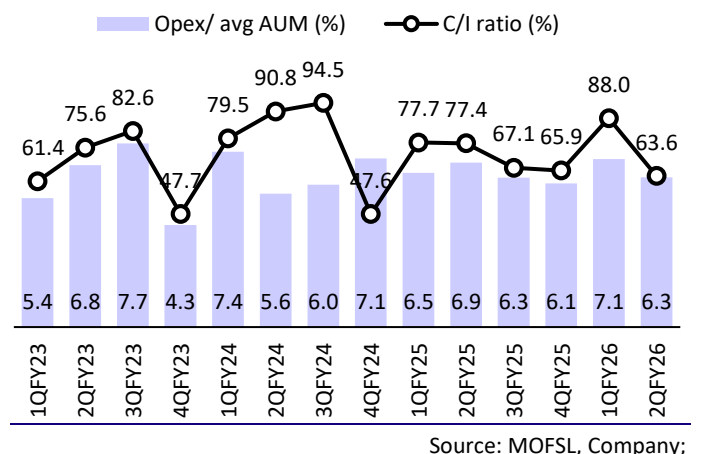
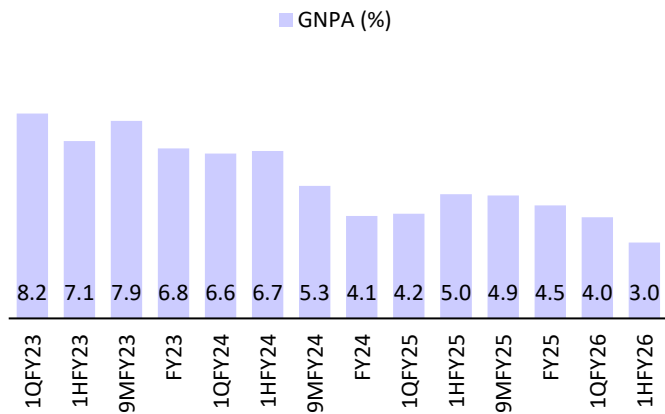


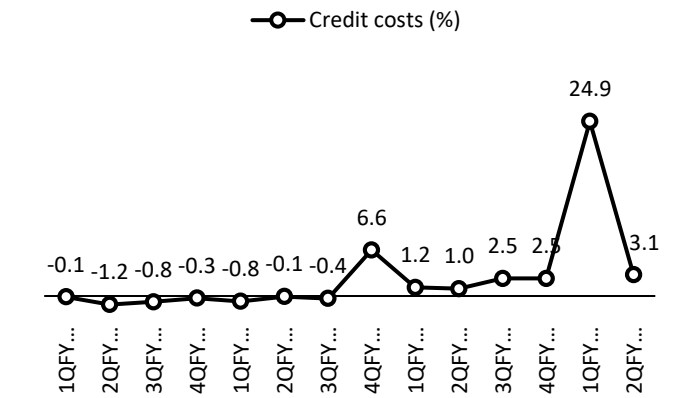
Exhibit 7: Standalone GNPA improved ~100bp QoQ (%)



Source: MOFSL, Company

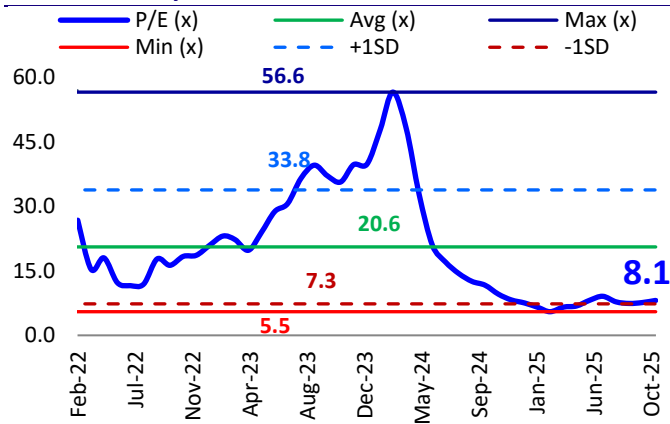
Note: For 1HFY25 onwards, GNPA relates to standalone financials

Exhibit 8: Credit costs remained elevated



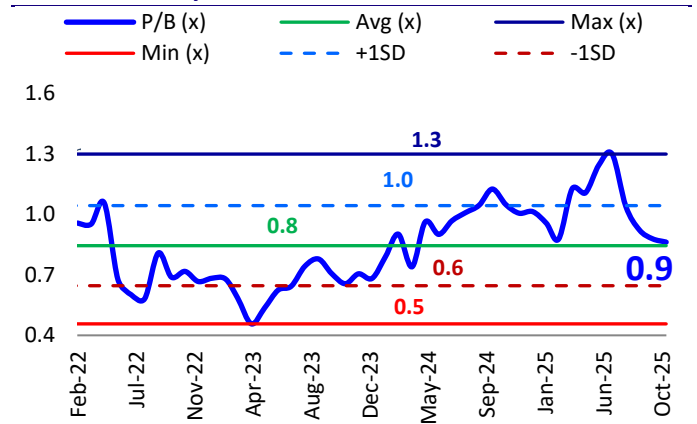
Source: MOFSL, Company

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	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	14,195	11,056	9,558	8,895	9,148	11,965	12,596	13,255	15,680
Interest Expended	8,574	6,923	5,143	5,180	5,812	7,408	7,031	6,790	7,997
Net Interest Income	5,621	4,134	4,414	3,715	3,336	4,557	5,565	6,465	7,683
Change (%)		-26.5	6.8	-15.9	-10.2	36.6	22.1	16.2	18.8
Fee Income	481	314	385	471	512	1,196	1,077	1,271	1,499
Other Income	724	562	593	565	1,592	962	1,080	1,265	1,484
Net Income	6,827	5,010	5,392	4,751	5,441	6,716	7,721	9,001	10,667
Change (%)		-26.6	7.6	-11.9	14.5	23.4	15.0	16.6	18.5
Operating Expenses	2,750	3,057	3,293	3,279	3,894	4,815	5,309	5,536	5,966
Operating Income	4,076	1,953	2,099	1,471	1,547	1,901	2,413	3,465	4,700
Change (%)		-52.1	7.5	-29.9	5.1	22.9	26.9	43.6	35.7
Provisions and W/Offs	8,553	4,524	11,508	-401	831	1,375	6,155	1,215	1,323
PBT	-4,477	-2,571	-9,409	1,873	716	526	-3,742	2,250	3,378
Exceptional Gain (Post-tax)	0	0	0	0	0	0	10,070	0	0
Tax	0	-156	-1,717	0	0	0	0	0	0
PAT	-4,477	-2,415	-7,692	1,873	716	526	6,328	2,250	3,378
Change (%)		-46.1	218.5	-124.3	-61.8	-26.6	-	-64.4	50.1

Balance Sheet									(INR M)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	925	1,237	1,361	1,361	1,361	1,361	1,614	1,614	1,614
Reserves & Surplus	25,962	35,552	27,419	28,865	29,660	32,901	40,988	43,238	46,616
Net Worth	26,887	36,790	28,780	30,226	31,021	34,262	42,602	44,852	48,230
Other Capital Instruments	0	0	0	0	0	0	0	0	0
Borrowings	70,872	57,607	54,830	48,131	60,494	69,165	61,035	70,807	85,989
Change (%)		-18.7	-4.8	-12.2	25.7	14.3	-11.8	16.0	21.4
Other liabilities	2,874	3,477	4,633	3,036	2,387	4,195	5,453	6,544	7,853
Total Liabilities	1,00,633	97,873	88,243	81,393	93,901	1,07,622	1,09,090	1,22,203	1,42,072
Investments	4,318	17,885	9,771	14,571	15,709	18,182	20,000	21,600	23,328
Change (%)		314.2	-45.4	49.1	7.8	15.7	10.0	8.0	8.0
Loans and Advances	80,737	66,925	64,910	51,956	59,873	72,165	70,971	81,387	98,837
Change (%)		-17.1	-3.0	-20.0	15.2	20.5	-1.7	14.7	21.4
Net Fixed Assets	4,071	3,790	3,936	3,814	3,796	3,781	3,970	4,169	4,377
Other Assets	11,507	9,274	9,626	11,052	14,524	13,494	14,149	15,047	15,529
Total Assets	1,00,633	97,873	88,243	81,393	93,901	1,07,622	1,09,090	1,22,203	1,42,072

E: MOFSL Estimates

Financials and valuations

AUM Details							(INR M)		
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Standalone. AUM (INR Bn)	91	80	83	62	65	80	79	90	110
AUM Mix									
Corporate	31	24	19	20	6	2	1.2	0.6	0.3
Retail	69	76	81	80	94	97	96.3	93.9	89.8
Vehicle	49	52	59	59	87	93	92.7	91.6	88.4
SME	19	23	22	21	7	4	3.6	2.3	1.4

Ratios							(%))		
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)									
Yield on Portfolio	17.6	15.0	14.5	15.2	16.4	18.1	17.6	17.4	17.4
Cost of Borrowings	12.1	10.8	9.1	10.1	10.7	11.4	10.8	10.3	10.2
Interest Spread	5.5	4.2	5.4	5.2	5.7	6.7	6.8	7.1	7.2
Net Interest Margin	6.0	5.4	5.9	5.2	4.7	6.1	8.6	10.4	11.3
Profitability Ratios (%)									
RoE	-16.6	-7.6	-23.5	6.3	2.3	1.6	16.5	5.1	7.3
RoA (on balance sheet)	-4.4	-2.4	-8.3	2.2	0.8	0.5	5.8	1.9	2.6
Debt: Equity (x)	2.6	1.6	1.9	1.6	2.0	2.0	1.4	1.6	1.8
Leverage (x)	3.7	2.7	3.1	2.7	3.0	3.1	2.8	2.6	2.8
Efficiency Ratios (%)									
Int. Expended/Int.Earned	60.4	62.6	53.8	58.2	63.5	61.9	55.8	51.2	51.0
Op. Exps./Net Income	40.3	61.0	61.1	69.0	71.6	71.7	68.8	61.5	55.9
Empl. Cost/Op. Exps.	60.0	50.9	53.5	41.4	54.4	61.8	63.4	63.8	63.9
Fee income/Net Income	7.1	6.3	7.1	9.9	9.4	17.8	13.9	14.1	14.1
Asset quality									
GNPA	3,652	3,441	12,030	4,790	4,265	4,584	2,343	2,662	3,084
NNPA	2,893	1,580	5,190	2,190	1,744	2,448	1,031	1,198	1,388
GNPA %	4.4	4.7	13.6	8.1	5.0	4.5	4.0	3.8	181.8
NNPA %	3.5	2.2	6.7	4.0	2.1	2.5	1.8	1.8	#DIV/0!
PCR %	20.8	54.1	56.9	55.2	59.1	46.6	56.0	55.0	55.0

Valuation									
Book Value (INR)	291	297	211	222	228	252	264	278	299
BV Growth (%)		2.3	-28.9	5.0	2.6	10.4	4.9	5.3	7.5
Price-BV (x)	0.8	0.8	1.1	1.1	1.1	1.0	0.9	0.9	0.8
Adjusted BV (INR)	263	278	150	197	206	228	253.8	266.4	285.5
Price-ABV (x)	0.9	0.9	1.6	1.2	1.2	1.1	1.0	0.9	0.8
EPS (INR)	-48.4	-19.5	-56.5	13.8	5.3	3.9	39.2	13.9	20.9
EPS Growth (%)		-59.7	189.6	-124.3	-61.8	-26.6	914.7	-64.4	50.1
Price-Earnings (x)	-5.0	-12.4	-4.3	17.6	46.0	62.6	6.2	17.4	11.6
Dividend per share	2.0	0.0	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	0.0

E: MOFSL Estimates

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Explanation of Investment Rating	
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UNDER REVIEW	Rating may undergo a change
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