

Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	123
M.Cap.(INRb)/(USD\$)	25.7 / 0.3
52-Week Range (INR)	229 / 103
1, 6, 12 Rel. Per (%)	26/11/16
12M Avg Val (INR M)	26

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	4.6	7.1	9.7
PPP	1.0	3.9	6.6
PAT	1.1	2.3	3.8
EPS (INR)	7.8	17.3	28.1
EPS Gr. (%)	-53	122	63
BV (INR)	236	254	282
Ratios	4.6	7.1	9.7
NIM (%)	6.2	7.0	7.2
C/I ratio (%)	82.3	56.4	46.4
RoA (%)	1.1	1.8	2.3
RoE (%)	3.4	7.0	10.5
Payout (%)	0.0	0.0	0.0
Valuations	6.2	7.0	7.2
P/E (x)	26.6	12.0	7.4
P/BV (x)	0.9	0.8	0.7
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	75.0	75.0	89.2
DII	1.8	1.9	1.5
FII	1.3	1.4	1.2
Others	21.8	21.8	8.1

FII Includes depository receipts

CMP: INR207

TP: INR245 (+18%)

Buy

Improvement in CV business momentum; sell-downs in SME

Interest income lower due to the rundown of Corporate and SME loan books

Indostar Capital Finance (Indostar) reported an improvement in business momentum during the quarter. The key highlights: 1) 3QFY24 disbursements rose ~6% QoQ to ~INR13.5b; 2) it invested in human capital (added 185 employees in 3Q, taking the total count to ~3,700); 3) the CV segment contributed ~83% to the retail disbursement mix; and 4) asset quality improved with GS3 declining ~140bp QoQ (including sell-downs in SME).

Financial highlights:

- Indostar reported a 3QFY24 PAT of INR169m, which declined 32% QoQ (PQ: INR248m). This decrease was attributed to a revenue loss of ~INR370m resulting from the ARC sale in both the corporate and SME portfolios.
- Total AUM stood at ~INR80.4b and grew 4% QoQ. Corporate loans declined ~69% YoY, with their proportion at ~5% as of 3QFY24. Retail AUM grew 19% YoY/4% QoQ to INR76.6b. During the quarter, Indostar sold a portion of its SME loan portfolio, aggregating to a principal outstanding of ~INR2.9b to an ARC.
- Asset quality improved with GS3/NS3 declining 140bp/90bp QoQ to 5.3%/2.4%.
- Bolstered by a recent credit rating upgrade from CARE to AA-/Stable, along with plans to monetize SRs and a gradual improvement in the borrowing mix towards bank borrowings, the company is well-poised to demonstrate a consistent improvement in its RoA profile.
- With better visibility on disbursement momentum, we estimate 34%/19% AUM/PAT CAGR over FY23-26, aided by healthy NIM (7.0-7.2%) and benign credit costs (~1.2%) over FY25-26. **Reiterate BUY with a TP of INR245 (premised on 0.9x FY26E BVPS).**

Disbursements in used CV continue to gain momentum

- Disbursements were healthy across CV and Housing Finance. CV Finance disbursements for 3QFY24 stood at INR10.7b (PQ: 10b).
- Indostar has strategically prioritized the Used CV segment, with ~83% of its 3QFY24 retail disbursements coming from this segment. A change in product mix towards the used CV segment will enable higher blended yields.

Key highlights from the management commentary

- Management targets to scale up to an AUM of ~INR100b by FY24 and ~INR130b by FY25. We model an AUM CAGR of ~34% over FY23-FY26E.
- It guided for an RoA of ~2.5% by FY26 with a leverage of 4.0-4.5x.

Housing Finance

- HFC avg. yields of 16.1% and spreads to be maintained at 5.25-5.5%
- The company launched an automated loan kit and streamlined processes for e-stamping and loan signing.

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.
- With the sell-downs of stressed Corporate and SME loans to ARC, both of these segments now contribute only ~14% of the total AUM mix. It has made conservative provisions on stressed loans, and we expect credit costs at ~1.2 in each of FY25 and FY26.
- Over the last two quarters, Indostar has made some sound business decisions, which can help this franchise make a turnaround. The risk-reward is favorable at 0.7x FY26E P/BV. We have a **BUY** rating on the stock with a TP of INR245 (based on 0.9x FY26E BVPS).

Quarterly Performance**(INR m)**

Y/E March	FY23				FY24				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	2,770	2,609	2,626	2,579	2,723	2,732	2,855	3,147	10,584	11,457
Interest Expenses	1,481	1,464	1,354	1,504	1,544	1,652	1,724	1,953	5,803	6,873
Net Interest Income	1,289	1,145	1,272	1,075	1,179	1,081	1,131	1,193	4,782	4,584
YoY Growth (%)	25.3	6.3	-6.6	-40.5	-8.6	-5.6	-11.1	11.0	-9.4	-4.1
Other Income	372	336	191	313	271	402	214	300	1,212	1,122
Total Income	1,662	1,481	1,463	1,388	1,450	1,482	1,345	1,493	5,994	5,706
YoY Growth (%)	31.3	0.4	-10.3	-31.3	-12.7	0.1	-8.1	7.6	-5.6	-4.8
Operating Expenses	1,021	1,120	1,209	662	1,153	1,185	1,192	1,219	4,011	4,749
Operating Profit	641	361	254	726	297	297	153	274	1,983	957
YoY Growth (%)	93.1	-33.9	-59.1	-37.7	-53.6	-17.7	-40.0	-62.2	-24.4	-51.7
Provisions & Loan Losses	-23	-202	-132	-47	-119	1	-38	-28	-404	-185
Profit before Tax	664	563	386	773	416	297	191	302	2,386	1,142
Tax Provisions	55	47	20	13	27	49	22	46	135	145
Net Profit	609	516	367	760	389	248	169	256	2,252	997
YoY Growth (%)	-265	31	152	-110	-36	-52	-54	-66.3	-130.6	-55.7
Key Operating Parameters (%)										
Yield on loans (Cal)	15.4	16.0	16.6	16.1	16.3	16.2	16.7			
Cost of funds (Cal)	9.8	10.2	9.8	10.8	10.7	11.5	11.2			
Spreads (Cal)	5.6	5.8	6.8	5.3	5.6	4.7	5.6			
NIMs (Cal)	5.8	5.7	6.5	5.6	5.9	5.5	5.7			
Credit Cost (Cal)	-0.1	-1.0	-0.7	-0.2	-0.6	0.0	-0.2			
Cost to Income Ratio	61.4	75.6	82.6	47.7	79.5	79.9	88.7			
Tax Rate	8.3	8.3	5.1	1.7	6.5	16.6	11.6			
Balance Sheet Parameters										
AUM (INR B)	82.5	79.1	76.7	78.1	80.6	77.3	80.4			
Change YoY (%)	-2.2	-7.7	-17.0	-19.1	-2.2	-2.3	4.8			
AUM Mix (%)										
Vehicle	46.5	45.7	45.2	47.0	48.7	56.7	60.3			
Housing	17.8	19.5	19.9	20.8	21.6	24.5	25.5			
SME & Others	20.1	19.5	18.7	16.5	14.6	13.7	9.1			
Corporate	15.6	15.4	15.9	15.7	14.8	4.7	4.7			
Disbursements (INR B)	3.4	3.3	5.2	9.0	11.2	12.7	13.5			
Change YoY (%)	-45.2	-70.4	-64.7	-47.5	224.4	279.9	157.7			
Asset Quality Parameters (%)										
GS 3 (INR B)	3.4	4.9	5.4	4.8	4.9	4.7	3.9			
Gross Stage 3 (% on Assets)	8.2	7.1	7.9	6.8	6.6	6.7	5.3			
Net Stage 3 (% on Assets)	3.6	2.9	3.6	3.2	3.1	3.3	2.4			
PCR (%)	57.8	60.1	56.2	54.2	53.6	51.5	56.9			

E: MOFSL estimates

Asset quality improves sequentially

- Asset quality improved with GNPA/NNPA declining 140bp/90bp QoQ to 5.3%/2.4%. During the quarter, the company sold its stressed SME loans of ~INR2.9b to an ARC for partial cash and Security Receipts (SR).
- The gross value of SR from the corporate book was ~INR6.8, against which it has maintained provisions of ~INR1b. It has additional SRs of ~INR1.6 from the SME book and has made provisions of ~INR300m. The redemption process for corporate loan SRs has commenced, with a notable portion expected in 4QFY24. For SME, it expects redemption over the next 3-4 quarters.
- Standalone GS3/NS3 improved ~160bp/ ~120bp QoQ to 6.5%/2.8%.
- Gross collection efficiency remained stable at 135% for 3QFY24.

IndoStar Home Finance Pvt Ltd (IHFPPL)

- AUM as of Dec'23 stood at ~INR20.5b and grew ~8% QoQ.
- GS3 for housing finance declined ~10bp to 1.2% (PQ: 1.3%).
- IHFPPL delivered a PAT of ~INR63m in 3QFY24 (v/s INR142m in 2QFY24) due to lower assignment income during the quarter.
- CAR stood at ~66.6%.



Highlights from the management commentary

Macro environment:

- GST collections rose 13%.
- Strong growth in various sectors, which was driven by increased demand.
- New commercial vehicle (CV) sales had a muted year, growing only 1% YoY.
- There was a healthy demand for used CVs.
- Focus on used vehicles in the current business scenario due to changes in emission standards (BS-V).

Business update:

- Technology is playing a crucial role in growth, with ongoing technology initiatives.
- Focused on the customer lifecycle, planning to add more products to raise funds without relying on unorganized lenders.
- Utilizing a "phygital" model for both digital and physical customer interaction.
- Financial Performance:
- NIM stood at ~5.6%.
- Operating expenses stood at INR 1.2b during 3QFY24.
- Collection efficiency improved, with INR10b collected during the quarter (CE of 135%).
- Incremental funding of INR 15.5b, raised in 3QFY24.
- Cash and cash equivalent of INR8.5b.
- (D/E) ratio at 2.1x.

Guidance

- To achieve an AUM of INR100b by FY24 and INR130b by FY25.
- ROA guidance of 2.5% by FY26
- Comfortable with leverage of 4.0-4.5x
- Guided to improve opex/assets to 3.75%-4.0%.

Profitability

- Management focuses on improving profitability through: 1) a reduced CoF from credit rating upgrade from CARE to AA-/stable; and 2) conversion of SR to cash at the earliest.

Sale of Book to ARC

- The sale of corporate loan book in 2QFY24 hit revenue by INR300m. Further, the sale of SME book affected revenue by INR70m.
- The redemption process for corporate loan SR has commenced, with a notable portion expected in 4QFY24. For SME, redemption is anticipated over the next 3-4 quarters.
- Adequate provisions have been made for SR at the same rate as the corresponding loans.
- SR of INR1.2b has completely been collected and adequately provided for.
- INR1.5b is still pending in relation to the ICICI book, of which 85% is in stage 1 and 7% in stage 2. INR450m of this has to come to Indostar's book and the balance has to be paid automatically.
- The gross value of SR from the corporate book was ~INR6.8, against which it has maintained provisions of ~INR1b. It has additional SRs of ~INR1.6 from the SME book and has made provisions of ~INR300m.

SME book

- It does not intend to grow the book.
- It will rebrand the SME business by pursuing loans with ATS of INR2.5-3.0m.
- 70% of the SME book sold was in stage 3.
- Remaining SME book in the portfolio includes DA and PTC of which stage 3 portion is INR150-200m and stage 1 is INR2.2b.

Housing Finance

- It reached an AUM of INR20b.
- Active customer base crossed 25k underlying granularity of the book
- Launched automated loan kit, streamlining processes for e-stamping and loan signing among select HFCs for enhanced accessibility.
- Secured INR5.3b in liabilities, establishing relationships with two new banks
- There was a 49:51 mix between salaried and self employed
- Focusing on taluka places with population of 0.25m and focus on self-construction needs.
- Continues to remain with ATS of INR0.9m
- 85% of disbursements are towards ATS of INR1.5m. 40% of disbursements in Tier 3 and Tier 4
- Loans disbursed at avg. yields of 16.1% and spreads to be maintained at 5.25-5.5%.

Profitability

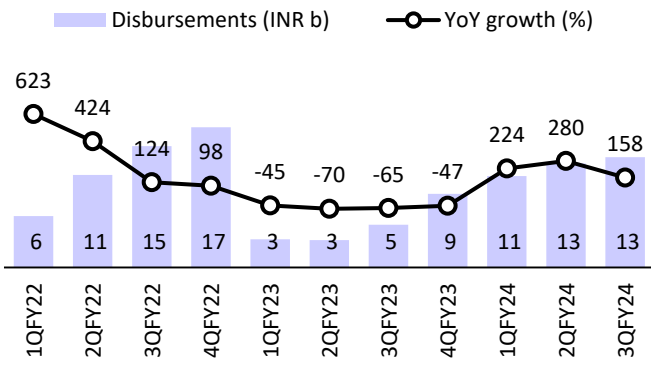
- High fund costs initially due to limited bank engagement. Actively sought funds using Non-Convertible Debentures in the past 4-5 quarters.
- Anticipating a significant cost reduction as banks show increased interest. Incremental cost of borrowings dropped to 10.5% in 3QFY24 from 12-12.5% in 2QFY24.
- High Cost/Income ratio due to revenue drop from selling corporate and SME portfolio, resulting in a loss of INR 370 million in interest income. Initiatives are in place to improve the ratio as revenue picks up.

Other

- CV yields at ~16%.
- Liquidity to be maintained for three months of repayments. The repayments would be in the range of INR4.5-5.0b.

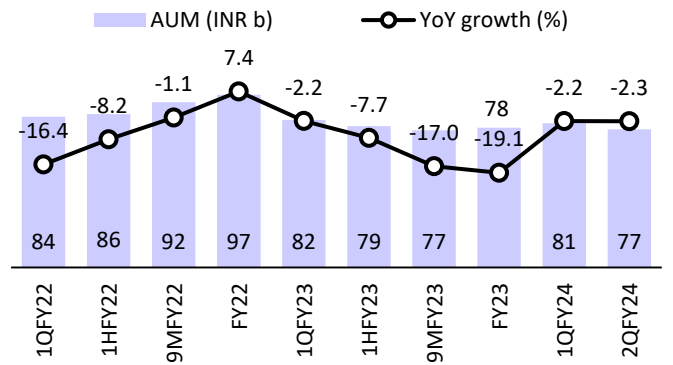
Key Exhibits

Exhibit 1: Disbursements grew 6% QoQ...



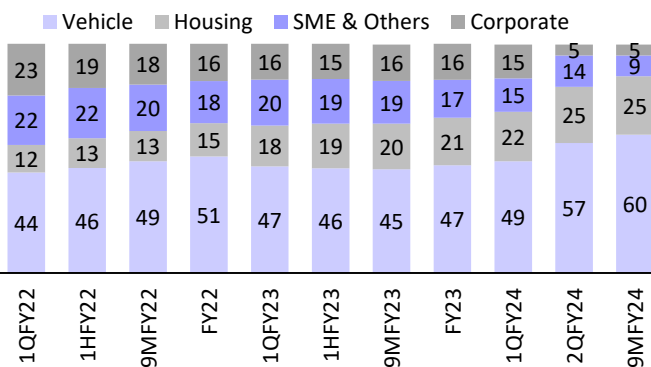
Source: MOFSL, Company

Exhibit 2: ...leading to an AUM growth ~4% QoQ



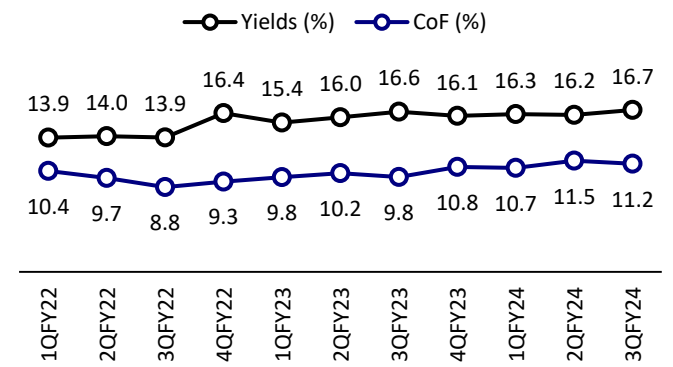
Source: MOFSL, Company

Exhibit 3: Share of SME book moderated QoQ (%)



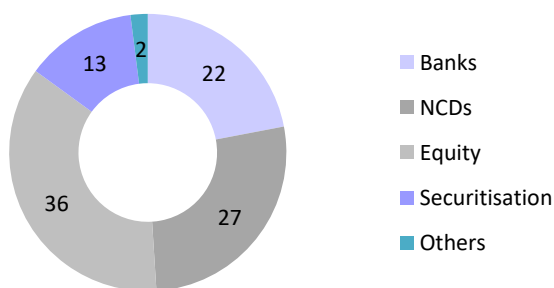
Source: MOFSL, Company

Exhibit 4: Spreads increased ~80bp QoQ (%)



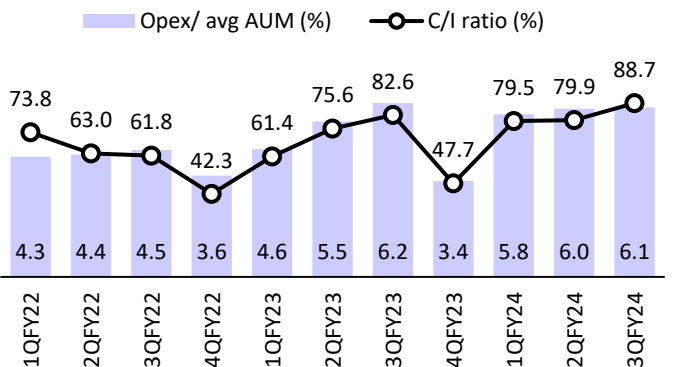
Source: MOFSL, Company;

Exhibit 5: Borrowing mix as of Dec'23 (%)



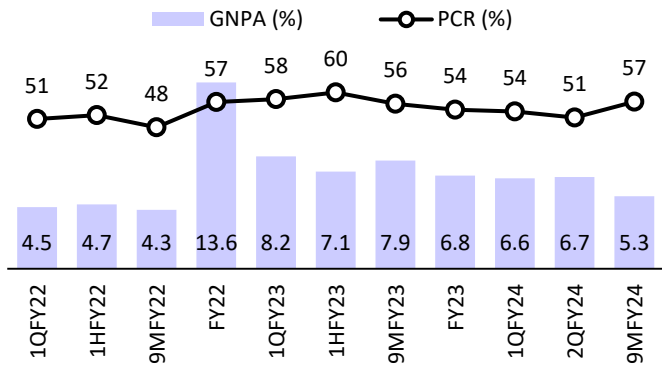
Source: MOFSL, Company

Exhibit 6: C/I ratio rose to ~89% in 3QFY24



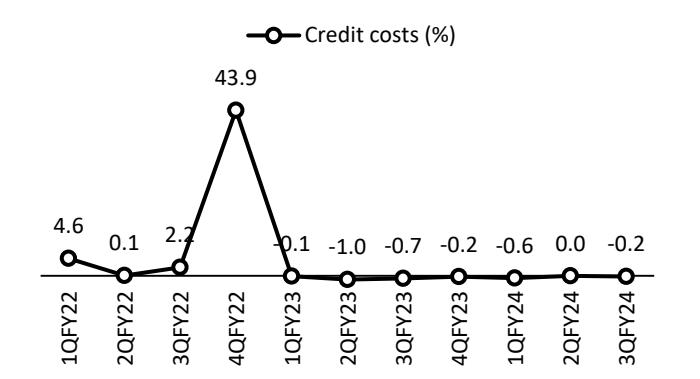
Source: MOFSL, Company;

Exhibit 7: PCR on S3 loans increased to 57% (%)



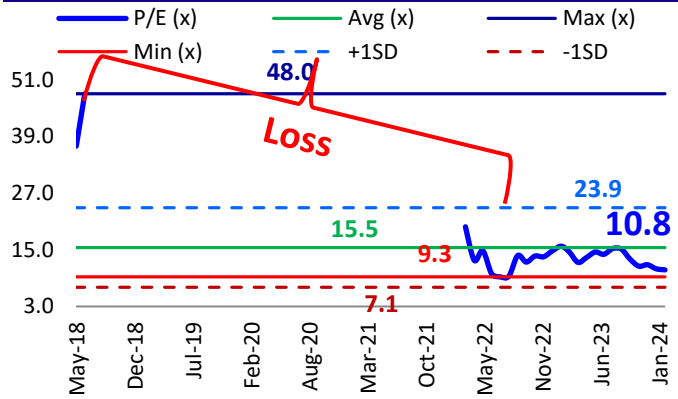
Source: MOFSL, Company

Exhibit 8: Provision write back of ~INR38m in 3QFY24 (%)



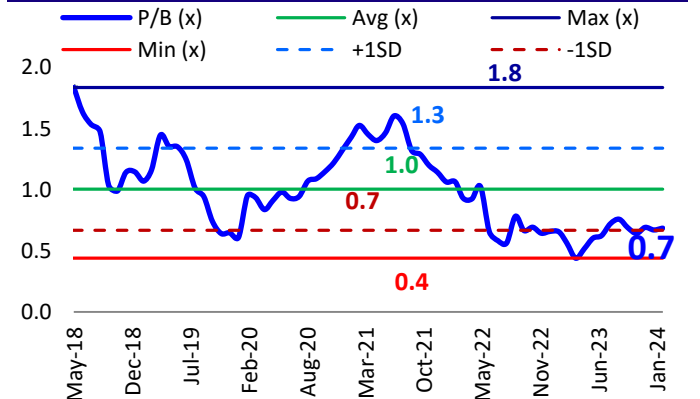
Source: MOFSL, Company

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	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Interest Income	7,631	10,813	14,662	11,739	10,672	10,584	11,457	16,157	21,546	
Interest Expended	3,255	5,636	8,634	7,086	5,395	5,803	6,873	9,073	11,876	
Net Interest Income	4,376	5,177	6,028	4,653	5,276	4,782	4,584	7,083	9,670	
Change (%)	31.9	18.3	16.4	-22.8	13.4	-9.4	-4.1	54.5	36.5	
Fee Income	159	620	515	327	444	542	569	910	1,183	
Other Income	99	624	812	806	627	671	617	1,036	1,416	
Net Income	4,634	6,420	7,355	5,786	6,348	5,994	5,770	9,030	12,269	
Change (%)	13.6	38.5	14.6	-21.3	9.7	-5.6	-3.7	56.5	35.9	
Operating Expenses	1,548	2,466	3,120	3,055	3,726	4,011	4,749	5,095	5,697	
Operating Income	3,087	3,954	4,235	2,731	2,621	1,983	1,021	3,935	6,573	
Change (%)	-8.0	28.1	7.1	-35.5	-4.0	-24.4	-48.5	285.5	67.0	
Provisions and W/Offs	-38	162	8,602	4,920	11,585	-404	-185	1,170	1,608	
PBT	3,125	3,792	-4,367	-2,189	-8,964	2,386	1,205	2,764	4,964	
Tax	121	1,384	-1,120	-48	-1,599	135	145	415	1,142	
Tax Rate (%)	35.9	36.5	25.7	2.2	17.8	5.6	12.0	15.0	23.0	
PAT	2,003	2,408	-3,246	-2,141	-7,365	2,252	1,061	2,350	3,823	
Change (%)	-5.0	20.2	-234.8	-34.0	244.0	-130.6	-52.9	121.5	62.7	

Balance Sheet										(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	787	923	925	1,237	1,361	1,361	1,361	1,361	1,361	
Reserves & Surplus	19,960	29,140	25,881	35,745	27,930	29,755	30,816	33,166	36,988	
Net Worth	20,747	30,063	26,806	36,982	29,291	31,116	32,177	34,526	38,349	
Other Capital Instruments	0	0	0	0	0	0	0	0	0	
Borrowings	48,834	90,617	71,419	60,076	62,234	56,481	74,433	1,10,740	1,39,277	
Change (%)	39.3	85.6	-21.2	-15.9	3.6	-9.2	31.8	48.8	25.8	
Other liabilities	2,357	2,321	3,061	3,757	5,089	3,626	3,988	4,387	5,264	
Total Liabilities	71,938	1,23,002	1,01,286	1,00,815	96,614	91,222	1,10,598	1,49,653	1,82,890	
Investments	10,070	3,009	2,306	15,914	5,477	10,394	11,225	12,123	13,335	
Change (%)	439.2	-70.1	-23.4	590.2	-65.6	89.8	8.0	8.0	10.0	
Loans and Advances	59,004	1,03,637	82,931	71,393	77,069	65,157	82,704	1,19,075	1,48,959	
Change (%)	16.8	75.6	-20.0	-13.9	8.0	-15.5	26.9	44.0	25.1	
Net Fixed Assets	641	3,704	4,214	3,865	3,990	3,902	4,098	4,302	4,518	
Other Assets	2,222	12,652	11,835	9,643	10,078	11,769	12,572	14,153	16,078	
Total Assets	71,938	1,23,002	1,01,286	1,00,815	96,614	91,222	1,10,598	1,49,653	1,82,890	

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)									
Yield on Portfolio	13.1	13.0	15.6	14.9	14.1	14.6	15.2	15.8	15.9
Cost of Borrowings	7.8	8.1	10.7	10.8	8.8	9.8	10.5	9.8	9.5
Interest Spread	5.3	4.9	4.9	4.1	5.3	4.9	4.7	6.0	6.4
Net Interest Margin	8.0	6.4	6.5	6.0	7.1	6.7	6.2	7.0	7.2
Profitability Ratios (%)									
RoE	10.2	9.5	-11.4	-6.7	-22.2	7.5	3.4	7.0	10.5
RoA (on balance sheet)	3.2	2.5	-2.9	-2.1	-7.5	2.4	1.1	1.8	2.3
Debt: Equity (x)	2.4	3.0	2.7	1.6	2.1	1.8	2.3	3.2	3.6
Leverage (x)	3.5	4.1	3.8	2.7	3.3	2.9	3.4	4.3	4.6
Efficiency Ratios (%)									
Int. Expended/Int.Earned	42.7	52.1	58.9	60.4	50.6	54.8	60.0	56.2	55.1
Op. Exps./Net Income	33.4	38.4	42.4	52.8	58.7	66.9	82.3	56.4	46.4
Empl. Cost/Op. Exps.	68.8	60.6	60.5	56.9	55.0	44.3	56.2	57.6	58.7
Fee income/Net Income	3.4	9.7	7.0	5.6	7.0	9.0	9.9	10.1	9.6
Asset quality									
GNPA	768	3,051	3,652	3,441	12,030	4,790	4,265	4,653	4,924
NNPA	640	1,995	2,893	1,580	5,190	2,190	1,919	2,094	2,314
GNPA %	1.3	2.9	4.4	4.7	13.6	6.8	5.0	3.8	3.2
NNPA %	1.1	1.9	3.5	2.2	6.7	3.4	2.3	1.8	1.6
PCR %	16.7	34.6	20.8	54.1	56.9	54.3	55.0	55.0	53.0
Valuation									
Book Value (INR)	264	326	290	299	215	229	236	254	281.8
BV Growth (%)	12.3	23.6	-11.0	3.1	-28.0	6.2	3.4	7.3	11.1
Price-BV (x)			0.7	0.7	1.0	0.9	0.9	0.8	0.7
Adjusted BV (INR)	257	303	262	279	153	204	215	230	256.5
Price-ABV (x)	0.8	0.7	0.8	0.7	1.3	1.0	1.0	0.9	0.8
EPS (INR)	25.5	26.1	-35.1	-17.3	-54.1	16.5	7.8	17.3	28.1
EPS Growth (%)	-5.4	2.5	-234.5	-50.7	212.8	-130.6	-52.9	121.5	62.7
Price-Earnings (x)			-5.9	-12.0	-3.8	12.5	26.6	12.0	7.4
Dividend per share			2.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)			1.0	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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