

**Rating:**



**Issue Summary:**

<b>Price Band (Rs)</b>	Rs.570-572 per share
<b>Face Value (Rs)</b>	10
<b>Market Lot</b>	26 shares and in multiples of 26 thereof.
<b>Opens</b>	9 <sup>th</sup> May 2018
<b>Closes</b>	11 <sup>th</sup> May 2018
<b>Issue Size (Rs)</b>	Rs. 1840cr – Rs. 1844cr
<b>No. of shares pre-issue</b>	78,901,199
<b>No. of shares post issue</b>	91,138,961
<b>Listing</b>	NSE & BSE

**Issue Break Up:**

<b>QIB Portion</b>	50%
<b>NIB Portion</b>	15%
<b>Retail Portion</b>	35%

**Book Running Lead Managers:**

➤ Motilal Oswal
➤ Nomura
➤ JM Financial
➤ Kotak Investment Banking
➤ Morgan Stanley

**Registrar**

➤ LINK Intime India Private Limited
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**Company & Business Profile:**

IndoStar Bank Ltd, is a leading non-banking finance company (non-deposit taking) registered with the RBI. It began operations in 2011. It is an institutionally owned organization which is primarily engaged in providing structured term financing solutions to corporates and loans to small and medium enterprise (“SME”). The company recently expanded its portfolio to offer vehicle finance and housing finance products.

It operates in four principal lines of business, namely corporate lending, SME lending, vehicle financing and housing financing.

1. Corporate lending – Its corporate lending business primarily consists of (i) lending to mid-to-large sized corporates in manufacturing, services and infrastructure industries, by way of senior secured debt, structured financing, promoter financing and special situation funding and (ii) lending to real estate developers, mainly for financing project level construction of residential and commercial building projects. It provides lending solutions against tangible collateral as well as security in other forms, such as charge on operating cash flows. Its corporate lending business accounted for 99.8%, 94.8%, 87.6% and 76.8% of their Total Credit Exposure for the fiscal 2015, 2016 and 2017 and the nine month period ended December 31, 2017 respectively. As of December 31, 2017, its Corporate Lending Credit Exposure amounted to Rs. 3969.4 cr.
2. SME lending –It commenced the SME lending business in 2015. This primarily involves them extending secured loans for business purposes to small and medium size enterprises, including businessmen, traders, manufacturers and self-employed professionals. The property securing these loans are typically completed and largely self-occupied residential and commercial property. It currently provides SME lending loans from their branches located in ten key locations across India, namely Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune and Indore. Its SME lending business accounted for 0.2%, 5.2%, 12.4% and 22.7% of the Total Credit Exposure for the fiscal year 2015, 2016 and 2017 and nine month period ended December 31, 2017, respectively. As of December 31, 2017, its SME Lending Credit Exposure amounted to Rs. 1173.4 cr.

3. **Vehicle Financing** – Its vehicle finance business primarily involves providing financing for purchases of used or new commercial vehicles, passenger vehicles and two-wheelers. The company commenced its vehicle finance business in November 2017. As of December 31, 2017, Vehicle Finance Credit Exposure amounted to Rs 14.3 cr.
4. **Housing Finance** - Its housing finance business comprises of two business lines, namely (i) affordable housing finance, which commenced operations in September 2017, and (ii) retail housing finance, which commenced operations in March 2018. The housing finance business operates through a wholly-owned subsidiary IndoStar Home Finance Private Limited. Affordable housing finance business line primarily involves loans to the salaried and self-employed customers for housing purposes where the property cost is typically up to Rs 50 lacs, the carpet area of the unit typically does not exceed 60 square meters and the loan amount is capped at Rs. 30 lacs. As of December 31, 2017, its Housing Finance Credit Exposure amounted to Rs 14.6 cr.

### Promoter and Promoter Group:

The promoter is Indostar Capital. It holds 71,102,635 equity shares, representing 90.12% of the issued, subscribed and paid-up equity share capital. The promoters of Indostar Capital are Indostar Everstone and Everstar Holdings. They hold 42.54% and 8.70% respectively.

**Dhanpal Jhaveri** is the Chairman and Non-Executive Director of the company. He has a significant experience in the banking sector.

**R. Sridhar** is the executive vice-chairman and CEO of the company.

### Objectives of issue:

- The company proposes to utilise the Net Proceeds from the fresh issue towards augmenting its capital base to meet future capital requirements.
- The selling shareholders will be entitled to the proceeds of the Offer for Sale. The company will not receive any proceeds from the Offer for Sale.

### Peer Comparison:

31 <sup>st</sup> March 2017							
Company Name	Face Value (Rs.)	EPS (Basic)	EPS (Diluted)	P/E	P/B	NAV	RoNW (%)
IndoStar Capital Finance Ltd	10	28.69	26.31	19.9*	2.37*	242.82	11.08
L&T Finance Holdings Ltd	10	5.21	5.14	32.86	3.30	51.87	11.44
Aditya Birla Capital	10	6.35	6.35	24.76	2.94	53.82	8.04
Shriram Transport Finance Co Ltd	10	55.78	55.78	28.38	3.17	499.46	11.17
Sundaram Finance Ltd	10	61.52	61.52	27.62	3.92	433.47	14.19

\*IndoStar P/E and P/B valued at upper price band and at pre-listing no of shares.

**Asset Quality**

31 <sup>st</sup> March 2017	NIM (%)	Cost to income Ratio (%)	Capital Adequacy Ratio (%)	Tier 1 capital (%)	Gross NPA (%)	Net NPA (%)
<b>IndoStar Capital Finance</b>	<b>7.6</b>	<b>17.8</b>	<b>33.8</b>	<b>33.4</b>	<b>1.4</b>	<b>1.2</b>
L&T Finance Holdings Ltd	5.25	28.9	15.4	11.5	7.79	4.94
Aditya Birla Capital	-	-	-	-	-	-
Shriram Transport Finance Co Ltd	7.16	21.15	16.94	15.2	8.16	2.65
Sundaram Finance Ltd	-	36.9	17.9	14.4	1.54	0.55

**Competitive Strengths:**

- High asset quality achieved through robust credit assessment and risk management framework
- Highly motivated, professional and experienced management team
- Ownership by institutional investors ensuring international corporate governance standards

**Strategy going forward:**

- Selectively expand business operations, including sourcing and sale of the products, into regions of expecting increase in urbanisation, commercial activity and household incomes to result in demand of the various loan products.
- Increase use of technology and data analytics to support business growth and improve efficiency as well as to further strengthen the risk management framework.

**Financial Snapshot:**

Particulars				
	(Rs. in Cr)	Dec 31,2017	March 31,2017	March 31,2016
Interest income		351.1	407.4	354.7
PBT		249.9	323.0	293.2
PAT		164.0	210.7	191.6
BVPS pre listing		263.2	241.1	195.4
BVPS post listing		227.9	208.8	169.2

**Valuation:**

The issue has been offered at a price band of Rs 570-572 per equity share. At the upper price band of Rs 572, the stock is available at **price-to-book value multiple of 2.74(x)** its BVPS post listing of Rs208.8 as at Mar2017. Considering the business model, we have **“4 star”** rating for the issue.

**Arihant Research Desk**

E. [research@arihantcapital.com](mailto:research@arihantcapital.com)  
T. 022-42254800

**Head Office**

#1011, Solitaire Corporate park,  
Building No. 10, 1<sup>st</sup> Floor,  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E)  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

**Registered Office**

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

**Research Analyst Registration  
No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677 [www.arihantcapital.com](http://www.arihantcapital.com) [research@arihantcapital.com](mailto:research@arihantcapital.com)**Disclaimer:**

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