

CMP: INR 205

Rating: Rating under Review

The Audit Committee of IndoStar Capital Finance held a meeting to consider and discuss matters pertaining to an ongoing review by an independent external agency appointed by the company with regard to certain observations and control deficiencies identified, during audit, primarily relating to its commercial vehicles loan portfolio.

During the audit control deficiencies were observed primarily with respect to sanctioning of loans to existing customers, loan documentation and policy implementation gaps. Such aspects was primarily concerned with a part of the CV Loan Portfolio and it has arisen pursuant to liquidity concerns with customers caused by the onset of the COVID-19 pandemic.

Company has approved and appointed E&Y as an independent external agency for conducting detail review of CV portfolio of the company.

Preliminary Findings of the Commercial Vehicle Loan Portfolio Review

- Deviations from the credit policy of the company in approval processes for loans to existing customers and waivers in foreclosure cases in cases of certain loans.
- For restructured loans, the company did not follow the steps as detailed in the control description.

In this regard, it is likely that the Company may be required to make an additional estimated credit loss (ECL) provisioning between INR 557 cr to INR 677 cr.

The Loan Portfolio Review is expected to be completed by the time of finalisation of the audited financial statements of the Company for the year ended 31 March 2022 and the impact of the loan portfolio review shall be disclosed in the audited financial statements.

This additional provisioning is expected to impact the company's net-worth and capital adequacy ratio. CAR of the company as of 31 December 2021 was 35.1%.

Assuming the higher end of the range of additional provisioning, the revised CAR as on 31 December 2021 would be approximately above 25%.

View: This is largely from old book and some or large part of account may be active. Capital adequacy ratio despite post 100% additional provision is more than 25% which is well above regulatory requirement. However, we find this as big negative development for Indostar Capital Finance. This will have huge impact on the company's financial performance. More clarity on the potential impact on the company's financial performance will be emerged in annual or Q4FY22 result. Hence, we withdraw our Buy rating on the stock and make it our rating "rating under review".

Link to the press release:

<https://www.bseindia.com/xml-data/corpfiling/AttachHis/f5a48602-382e-4b6e-bd5b-82f3973d9625.pdf>

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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