

CMP: INR 242

Rating: Buy

Target Price: INR 414

Stock Info

| | |
|--------------------------|-------------|
| BSE | 541336 |
| NSE | INDOSTAR |
| Bloomberg | INDOSTAR IN |
| Reuters | INDOSTAR.BO |
| Sector | NBFC |
| Face Value (INR) | 10 |
| Equity Capital (INR Cr) | 124 |
| Mkt Cap (INR Cr) | 3,243 |
| 52w H/L (INR) | 417 / 228 |
| Avg Yearly Vol (in 000') | 131 |

Shareholding Pattern %

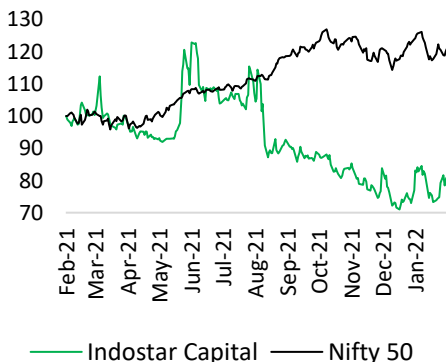
(As on December, 2021)

| | |
|-----------------|------|
| Promoters | 89.2 |
| FII | 1.2 |
| DII | 1.1 |
| Public & Others | 8.8 |

Stock Performance (%)

| | 1m | 3m | 12m |
|------------------|-------|-------|------|
| Indostar Capital | (3.2) | (5.7) | (20) |
| Nifty 50 | (3.7) | (2.7) | 14.6 |

Indostar Vs Nifty 50



Indostar Capital Finance (Indostar) has posted healthy performance during Q3FY22 in terms of disbursements growth, margin expansion and on operational front. However, profit of the company de-grew by 40% YoY to INR 15 cr was lower than our estimate of INR 51 cr on account of sequential increase in credit cost. Provision expense for the quarter stood at INR 43 cr vs. provision write back of INR 3 cr in the previous quarter. Disbursements momentum of the company continues to be strong with highest ever single quarter disbursements of INR 1,480 cr, driven by CV and Housing finance. In line with company's retailisation strategy, retail loan share has increased further to 81% from 80% QoQ.

Key Highlights:

- NII for the quarter grew marginally by 1% YoY/7% QoQ to INR 157 cr vs. our estimate of INR 182 cr. Operating profit for the quarter de-grew by 19% YoY to INR 62 cr. NIM (Reported) improved from 5.3% to 6.4% sequentially driven by 50bps decline in cost of funds at 9%. Yield on assets increased by 30bps QoQ at 11.8%.
- Gross AUM declined by 1% YoY but grew by 8% QoQ to INR 9,236 cr. Sequentially, Corporate loans was flat and declined by 32% YoY. The proportion of Corporate AUM dropped to ~18%. Retail AUM was up 10% QoQ to INR 7,594 cr driven by 15% QoQ increase in CV Finance portfolio and 10% increase in Housing portfolio.
- Gross stage 3 assets (As per Ind-As model) declined from 4.7% to 4.3% on QoQ basis. Net stage 3 assets remained stable at 2.3%. In absolute terms, Gross/Net stage 3 assets stood at INR 363 cr/INR 188 cr respectively. Management in the concall stated that as per RBI's circular on NBFC NPA norms, its GNPA stood at 7.2%. Collections efficiency held up well and remained above 140% for the quarter. Indostar is building a separate collection vertical to further improve its collections mechanism and demonstrate a sustainable improvement in asset quality. Restructuring in % term reduced from 8.2% to 7.1% QoQ with absolute amount being stable at INR 537 cr.

Valuation and View: Company is on its path towards 'retailization' as share of its retail loans has increased to 82% from 69% over the last two years. Company has reported second consecutive quarter of strong disbursements growth driven by CV and housing finance business. Company is opening branches on a rapid pace with increasing employee base and strengthening management team to focus on growth. It has largely provided for its old CV book and new CV book built over the last 1 year has been performing well. Hence, we expect credit cost to normalize. We reduce our FY22E PAT by 31% to factor in higher credit cost. We maintain Buy rating on the stock with a revised TP of INR 414 (based on 1.2x FY24E P/ABV).

Financial Snapshot

| YE March (INR Cr) | NII | PPOP | PAT | BVPS (INR) | RoAA (%) | RoAE (%) | P/BV(x) |
|-------------------|-------|------|------|------------|----------|----------|---------|
| FY21A | 571 | 242 | -214 | 299 | -2.1 | -6.7 | 0.8 |
| FY22E | 625 | 245 | 75 | 306 | 0.7 | 2.0 | 0.8 |
| FY23E | 883 | 461 | 253 | 326 | 2.0 | 6.5 | 0.7 |
| FY24E | 1,094 | 638 | 358 | 355 | 2.2 | 8.5 | 0.7 |

Source: Company, Arihant Research

Raju Barnawal

raju.b@arihantcapital.com

022 67114870

Q3FY22 Result update snapshot

| Quarterly Result Update (Rs Cr) | Q3FY22 | Q2FY22 | Q3FY21 | Q-o-Q | Y-o-Y |
|-------------------------------------|--------------|--------------|--------------|---------------|---------------|
| Interest Income | 282 | 284 | 334 | -0.8% | -15.7% |
| Interest Expended | 125 | 137 | 179 | -8.7% | -30.2% |
| Net Interest Income | 157 | 147 | 155 | 6.5% | 1.0% |
| Other Income | 11 | 0 | 1 | 4923.8% | 1451.5% |
| Operating Income | 168 | 148 | 156 | 13.5% | 7.4% |
| Operating Expenses | 105 | 97 | 79 | 8.2% | 32.6% |
| Employee Expenses | 60 | 53 | 47 | 12.5% | 27.7% |
| Other Operating Expenses | 45 | 44 | 32 | 2.9% | 39.7% |
| PPOP | 62 | 50 | 77 | 23.9% | -18.8% |
| Provisions | 43 | -3 | 46 | -1607.4% | -7.1% |
| PBT | 20 | 53 | 31 | -63.2% | -36.3% |
| Tax Expenses | 5 | 14 | 7 | -63.1% | -23.1% |
| Net Income | 15 | 39 | 24 | -63.2% | -39.8% |
| Spreads | | | | | |
| NIMs (%) | 7.0% | 6.6% | 5.8% | 43bps | 113bps |
| Cost of Funds | 8.8% | 9.7% | 10.0% | -94bps | -128bps |
| Asset Quality | | | | | |
| GNPA | 364 | 361 | 228 | 0.7% | 59.4% |
| NNPA | 175 | 189 | 142 | -7.3% | 23.2% |
| GNPA (%) | 4.3% | 4.7% | 2.1% | -40bps | 220bps |
| NNPA (%) | 2.3% | 2.3% | 1.8% | 0bps | 50bps |
| PCR (%) | 46.5% | 51.1% | 14.3% | -455bps | 3223bps |
| Returns & Expenses | | | | | |
| RoA | 0.6% | 1.6% | 0.9% | -103bps | -27bps |
| RoE | 1.6% | 4.3% | 2.4% | -274bps | -84bps |
| Cost / Income Ratio | 62.9% | 66.0% | 50.9% | -310bps | 1196bps |
| Asset growth trend | | | | | |
| Total AUM | 9,236 | 8,572 | 9,339 | 7.7% | -1.1% |
| Disbursements Break-up (A+B) | 1,480 | 1,129 | 661 | 31.0% | 123.8% |
| A. Retail | 1,456 | 1,108 | 477 | 31.5% | 205.4% |
| - CV | 1,134 | 783 | 260 | 44.9% | 335.5% |
| - HF | 162 | 135 | 85 | 20.0% | 90.0% |
| - SME | 161 | 190 | 132 | -15.4% | 22.4% |
| B. Corporate | 24 | 22 | 184 | 8.3% | -87.2% |

Key Concall takeaways

- Company has opened 65 new branches during the quarter and total count has reached to 343. Management targeting to increase its branch count up to 400 by FY22 end and another 100-150 new branches expected to be open by FY23.
- GNPA as per RBI's circular stood at 7.2%. Management has stated that there is no incremental financial impact due to this.
- Company focusing aggressively into Housing finance segment.
- Stage 2 assets of the company increased from 21% to 26% QoQ. Company is not expecting any major loss from this portfolio.
- Going forward, Incremental credit cost is expected to be on declining trend.
- To strengthen the collection framework, company has started call center services.
- Company is carrying total ECL provision of INR 600 cr (Corporate: INR 150 cr, SME: INR 84 cr, CV: INR 350 cr and Housing Finance at 18 cr).
- Company has appointed Mr. Amit Kothari as a chief technology officer who is purely from Fintech background. Company is working on app with help of KPMG. Also, company is investing into automation and improving the productivity.

Key Financials

| Profit & Loss Statement (in INR Cr) | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E |
|-------------------------------------|------------|-------------|-------------|------------|------------|--------------|
| Interest Income | 1,206 | 1,528 | 1,280 | 1,180 | 1,657 | 2,168 |
| Interest Expended | 564 | 794 | 709 | 555 | 774 | 1,075 |
| Net Interest Income | 642 | 734 | 571 | 625 | 883 | 1,094 |
| Other Income | 0 | 1 | 7 | 11 | 0 | 0 |
| Operating Income | 642 | 736 | 579 | 636 | 883 | 1,094 |
| Operating Expenses | 247 | 352 | 337 | 391 | 422 | 456 |
| Employee Expenses | 149 | 189 | 174 | 211 | 225 | 241 |
| Other Operating Expenses | 97 | 163 | 163 | 180 | 197 | 215 |
| PPOP | 395 | 384 | 242 | 245 | 461 | 638 |
| Provisions | 16 | 820 | 461 | 144 | 122 | 159 |
| PBT | 379 | -437 | -219 | 101 | 338 | 479 |
| Tax Expenses | 138 | -112 | -5 | 26 | 85 | 120 |
| Net Income | 241 | -325 | -214 | 75 | 253 | 358 |

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

| Balance Sheet (in INR Cr) | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| Equity & Liabilities | | | | | | |
| Net Worth | 3,006 | 2,681 | 3,698 | 3,787 | 4,040 | 4,398 |
| Borrowings | 9,062 | 7,142 | 6,008 | 6,712 | 9,609 | 13,345 |
| Other Liabilities and Provisions | 232 | 306 | 376 | 451 | 586 | 762 |
| Total Capital & Liabilities | 12,300 | 10,129 | 10,082 | 10,950 | 14,235 | 18,506 |
| Assets | | | | | | |
| Investments | 1,420 | 776 | 2,112 | 2,042 | 2,655 | 3,452 |
| Advances | 10,364 | 8,293 | 7,139 | 7,996 | 10,395 | 13,513 |
| Fixed Assets | 370 | 383 | 366 | 415 | 540 | 701 |
| Other Assets | 146 | 677 | 465 | 497 | 646 | 839 |
| Total Assets | 12,300 | 10,129 | 10,082 | 10,950 | 14,235 | 18,506 |

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Ratios

| Ratios | FY19A | FY20A | FY21A | FY22E | FY23E | FY24E |
|---|-------|--------|--------|-------|--------|-------|
| Growth rates | | | | | | |
| Advances (%) | 71.0% | -20.0% | -13.9% | 12.0% | 30.0% | 30.0% |
| Total assets (%) | 74.7% | -17.7% | -0.5% | 8.6% | 30.0% | 30.0% |
| NII (%) | 42.1% | 14.3% | -22.2% | 9.4% | 41.2% | 23.9% |
| Pre-provisioning profit (%) | 32.2% | -3.0% | -37.0% | 1.3% | 88.0% | 38.5% |
| PAT (%) | 20.2% | NA | NA | NA | 235.6% | 41.6% |
| Balance sheet ratios | | | | | | |
| Leverage (x) (Asset/Shareholder's Fund) | 4.1% | 3.8% | 2.7% | 2.9% | 3.5% | 4.2% |
| CAR (%) | 23.5% | 25.3% | 34.6% | 35.5% | 31.9% | 28.7% |
| Operating efficiency | | | | | | |
| Cost/income (%) | 38.4% | 47.8% | 58.2% | 61.5% | 47.8% | 41.7% |
| Opex/total assets (%) | 2.6% | 3.1% | 3.3% | 3.7% | 3.4% | 2.8% |
| Profitability | | | | | | |
| NIM (%) | 5.4% | 8.1% | 6.2% | 6.2% | 6.8% | 6.4% |
| RoA (%) | 2.5% | -2.9% | -2.1% | 0.7% | 2.0% | 2.2% |
| RoE (%) | 9.5% | -11.4% | -6.7% | 2.0% | 6.5% | 8.5% |
| Asset quality | | | | | | |
| Gross NPA (%) | 2.6% | 4.8% | 4.4% | 3.5% | 3.1% | 2.7% |
| Net NPA (%) | 1.7% | 3.8% | 2.1% | 1.6% | 1.7% | 1.4% |
| PCR (%) | 34.6% | 20.8% | 52.3% | 53.5% | 46.7% | 47.6% |
| Credit cost (%) | 0.2% | 9.9% | 6.5% | 1.8% | 1.2% | 1.2% |
| Per share data / Valuation | | | | | | |
| EPS (INR) | 26.1 | -35.1 | -17.3 | 6.1 | 20.4 | 28.9 |
| BVPS (INR) | 326 | 290 | 299 | 306 | 326 | 355 |
| ABVPS (INR) | 315 | 254 | 286 | 294 | 311 | 337 |
| P/E (x) | 9.3 | -6.9 | -14.0 | 39.7 | 11.8 | 8.4 |
| P/BV (x) | 0.7 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| P/ABV (x) | 0.8 | 1.0 | 0.8 | 0.8 | 0.8 | 0.7 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|--|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| 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% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|-----------------------------------|-------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | research@arihantcapital.com |

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880