

**Profitability supported by decline in credit cost;
Disbursements picked up sharply**

CMP: INR 278

Rating: Buy

Target Price: INR 439

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)	3,452
52w H/L (INR)	417 / 262
Avg Yearly Vol (in 000')	119

Shareholding Pattern %

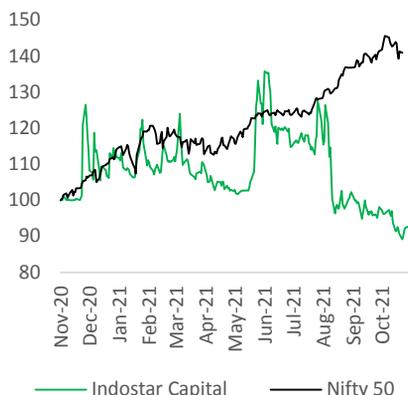
(As on September, 2021)

Promoters	88.2
FII	1.3
DII	2.5
Public & Others	8.0

Stock Performance (%)

	1m	3m	12m
Indostar Capital	-3.0	-18.3	-5.7
Nifty 50	-0.5	9.8	40.2

Indostar Vs Nifty 50



Indostar Capital Finance (Indostar) has posted decent performance during Q2FY22 with returning into profitability, strong disbursements and stable asset quality. It has crossed INR 1000 cr retail disbursement for the first time, driven by CV and Housing portfolio disbursements. AUM de-growth of the company has been arrested during the quarter as it grew by 3% QoQ (vs. -6% QoQ in Q1FY22). Company has reported net profit of INR 39 cr (+25% YoY) as against our expectation of INR 45 cr. In line with company's retailisation strategy, retail loan share has increased further to 80% from 77% QoQ, which is expected to be 100% by the next year.

Key Highlights:

- NII grew by 17% QoQ/flat YoY to INR 147 cr was lower than our estimate of INR 172 cr. Sequential growth in NIM was supported by 90bps QoQ increased in margins at 6.6%.
- PPOP for the quarter stood at INR 50 cr was higher by 52% QoQ due to high operating income and cost efficiency. OPEX increased by 4% QoQ to INR 97 cr. Cost to Income ratio declined from 74% to 66% QoQ.
- Provisions write back (mainly in Corporate lending and SME segment) for the quarter stood at INR 3 cr vs. provision expense of INR 82 cr in the previous quarter. Provisions write back aided into PAT of INR 39 cr vs. our estimate of INR 45 cr (vs. loss of INR 37 cr in Q1FY22 and profit of INR 32 cr in Q2FY21).
- AUM fell by 11% YoY but rose by 3% QoQ to INR 8,117 cr. Within this, Retail AUM grew by 7% QoQ while Corporate AUM declined further by 11% QoQ. Total disbursements was higher by 5.2x YoY/1.8x QoQ to INR 1,129 cr. Retail disbursements across the products (CV/HF/SME) has picked up sharply on a sequential basis.
- Asset quality of the company deteriorated marginally as its GNPA/NNPA for the quarter increased by 20bps/10bps QoQ at 4.7%/2.3% QoQ. PCR of the company stood at 51%. GNPA in absolute term increased by 8% QoQ, largely led by CV business.
- Restructuring book of the company was higher than the peers and it stood at INR 540 cr, which has increased from 4.7% to 8.2% of AUM on QoQ basis. Restructuring in CV and SME book stood at INR 324 cr and INR 214 cr respectively while housing finance restructuring stood negligible at INR 1.7 cr.
- As a part of its expansion plan, company has opened 38 new branches during the quarter leading to a total of 278 branches.

Valuation and View: Q2FY22 performance of the company was like turnaround quarter in terms of business growth and profitability. Bank 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 remain soft. Disbursement momentum of the company expected to remain strong going ahead led by its retail business. We largely maintain our estimate and Buy rating on the stock and have a target price of INR 439 (based on 1.3x FY24E P/ABV).

YE March (INR Cr)	NII	PPOP	PAT	BVPS (INR)	RoAA (%)	RoAE (%)	P/BV(x)
FY21A	571	239	-214	299	-2.2	-6.7	1.0
FY22E	665	293	110	305	1.0	2.9	0.9
FY23E	863	462	260	326	2.0	6.7	0.9
FY24E	1,070	639	367	356	2.2	8.7	0.8

Raju Barnawal
raju.b@arihantcapital.com
022 67114870

Q2FY22 Result update snapshot

Quarterly Result Update (Rs Cr)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Interest Income	284	265	334	7.4%	-14.8%
Interest Expended	137	139	186	-1.2%	-26.4%
Net Interest Income	147	126	148	16.9%	-0.3%
Other Income	0	1	6	-58.0%	-96.3%
Operating Income	148	127	154	16.6%	-3.9%
Operating Expenses	97	94	100	4.1%	-3.0%
Employee Expenses	53	49	41	8.7%	30.7%
Other Operating Expenses	44	45	60	-1.1%	-26.0%
PPOP	50	33	53	52.0%	-5.6%
Provisions	-3	82	8	NA	NA
PBT	53	-49	45	NA	16.8%
Tax Expenses	14	-12	14	NA	-1.4%
Net Income	39	-37	32	NA	24.8%
Spreads					
NIMs (%)	6.55%	5.78%	5.59%	77bps	96bps
Cost of Funds	9.71%	9.59%	10.59%	11bps	-88bps
Yield on Average Advances	14.21%	13.01%	14.13%	121bps	8bps
Asset Quality					
GNPA	361	333	237	8.5%	52.2%
NNPA	189	163	174	15.9%	8.6%
GNPA (%)	4.70%	4.50%	2.90%	20bps	180bps
NNPA (%)	2.30%	2.20%	2.10%	10bps	20bps
PCR (%)	51.06%	51.11%	27.59%	-5bps	2348bps
Returns & Expenses					
RoA	1.63%	-1.50%	1.15%	312bps	48bps
RoE	4.32%	-4.02%	3.19%	834bps	113bps
Cost / Income Ratio	65.96%	73.89%	65.35%	-793bps	61bps
Asset growth trend					
Total AUM	8,117	7,888	9,084	2.9%	-10.6%
AUM Break-up (%)					
Corporate	20%	23%	27%	-300bps	-700bps
Retail	80%	77%	73%	300bps	700bps
Disbursements Break-up (A+B)					
A. Retail	1,108	627	205	76.6%	441.6%
- CV	783	520	86	50.5%	814.1%
- HF	135	47	76	188.2%	77.1%
- SME	190	61	43	214.7%	343.8%
B. Corporate	22	1	11	4240.0%	102.8%

Key Concall takeaways

- Company has a plan to increase its branch count from 278 to 1000 in next couple of years with the target of reaching 400 branches by current year end.
- Collections efficiency remained in excess of 100% in Q2FY22. The company is to build a separate collections vertical to improve its collections/risk mechanism and demonstrate a sustainable improvement in asset quality.
- In the last 1 year (Nov'20-Oct'21), Company has disbursed nearly ~2500 cr in CV business where more than 98% assets are in stage 1.
- Margins are likely to stabilize at 8%.
- Incremental borrowing from Banks/MF is coming at the rate of 8-9%.
- Stage 2 assets of the company stood at 21% (CV at 29% and SME at 35%).
- Company has included Odspd customers also in the restructuring.
- Credit cost to be in the range of 1-1.5% for CV and 50-60bps for HFC.

Key Financials

Profit & Loss Statement (in INR Cr)	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Interest Income	1,206	1,528	1,280	1,223	1,657	2,168
Interest Expended	564	794	709	573	774	1,073
Net Interest Income	642	734	571	650	883	1,095
Other Income	0	1	7	1	0	0
Operating Income	642	736	579	651	883	1,095
Operating Expenses	247	352	337	380	409	441
Employee Expenses	149	189	174	199	212	227
Other Operating Expenses	97	163	163	181	197	213
PPOP	395	384	242	271	474	655
Provisions	16	820	461	121	122	159
PBT	379	-437	-219	150	352	495
Tax Expenses	138	-112	-5	38	89	125
Net Income	241	-325	-214	112	263	371

Source: Arianth 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	4,051	4,421
Borrowings	9,062	7,142	6,008	6,712	9,599	13,323
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: Arianth 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%	13.8%	35.9%	24.0%
Pre-provisioning profit (%)	32.2%	-3.0%	-37.0%	12.1%	75.0%	38.0%
PAT (%)	20.2%	NA	NA	NA	135.3%	40.8%
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%	32.0%	28.9%
Operating efficiency						
Cost/income (%)	38.4%	47.8%	58.2%	58.4%	46.3%	40.2%
Opex/total assets (%)	2.6%	3.1%	3.3%	3.6%	3.2%	2.7%
Profitability						
NIM (%)	5.4%	8.1%	6.2%	6.5%	6.8%	6.5%
ROA (%)	2.5%	-2.9%	-2.1%	1.1%	2.1%	2.3%
RoE (%)	9.5%	-11.4%	-6.7%	3.0%	6.7%	8.8%
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%	1.5%	1.2%	1.2%
Per share data / Valuation						
EPS (INR)	26.1	-35.1	-17.3	9.0	21.3	29.9
BVPS (INR)	326	290	299	306	327	357
ABVPS (INR)	315	254	286	294	312	339
P/E (x)	10.7	-7.9	-16.1	30.7	13.1	9.3
P/BV (x)	0.9	1.0	0.9	0.9	0.8	0.8
P/ABV (x)	0.9	1.1	1.0	0.9	0.9	0.8

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 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