IndoStar Capital Finance

Steered by CV, picked by Value

October 16, 2018

Company Update

Company Update

NALANDA RESEARCH

October 16, 2018

IndoStar Capital Finance

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	300	394	
		31% ▲	

We recently met the CFO Mr. Pankaj Thappar of IndoStar Capital to understand their strategy and outlook on the business. We expect company to score well in used vehicle financing space given strong capital adequacy and sufficient liquidity on company's book.

Company is backed by Everstone Group. Company began its journey by becoming sole financier to real estate developers having projects in last stages (post all approvals) and providing structured financing to manufacturing companies. Company grew its wholesale portfolio at CAGR 20% during FY13-FY18 and commands ~3% market share in wholesale lending. Gradually company also added SME in its portfolio. With an aim to diversify, company boarded R.Sridhar (former MD of Shriram Transport) to build and scale vehicle finance portfolio. Following strong traction, company aims to become market leader in small fleet operator category, in line with its niche segment focused strategy. With most of operating expenses incurred; most of lending book market linked; 45% fixed-rate borrowing; prudent disbursement quality; adequate capitalization for growth & sufficient liquidity (11% asset under liquid instruments) and low valuation (lowest among NBFCs), we expect AUM to grow by 51% CAGR over FY18-FY21E from 62.0bn to 214.9bn. We also expect interest income, pre-provisioning profit, PAT to grow by 47%, 30%, 28% over FY18-FY21E. We value the stock at 1.1x times FY20E book value and arrive at a target price of INR 394 with upside potential of 31%.

Robust AUM growth backed by CV, housing portfolio

Asset under management has reported growth of CAGR 24% over FY14-18. We expect AUM to grow by CAGR 51% over FY18-21E on the back of aggressive growth in vehicle finance segment, affordable housing segment and corporate lending segment. Company has expanded its branch network from 93 in FY18 to 129 as of Q1FY19.

R.Sridhar (CEO) boarded to build and scale vehicle finance business

Company has roped in R.Sridhar, who had been instrumental in making Shriram Transport market leader in CV financing business, to build and scale CV business especially used CV segment (5-12 years). Currently, used/new CV constitute 70%/30% of CV book. Company is targeting SFO (small fleet operators) segment and aims to become market leader in this segment. AUM rose by 208% QoQ from 1307mn in Q4FY18 to 4027mn in Q1FY19. We expect AUM to touch 12,809mn by FY19E.

Pricing power due to floating rate lending; however increase in leverage coupled with rise in borrowing cost might put pressure on NIMs

All incremental loans in wholesale book, SME book and housing book is of floating rate type. We expect overall yields to improve from 12.9% in FY18 to 13.9%/14.4%/14.6% in FY19E/FY20E/FY21E. However we believe, company being low on leverage, will increase its leverage from 3.2x in FY18 to 3.7x/4.6x/5.7x in FY19E/FY20E/FY21E. This would result in higher interest expense which would result in slow growth in net interest income. Thereby, we estimate NIM to move from 6.6% in FY18 to 6.7%/6.5%/6.3% in FY19E/FY20E/FY21E.

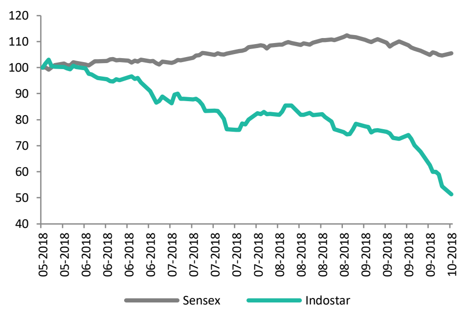
Internally sourced book reflective of strong footing

Corporate book is 100% internally sourced. Vehicle finance and housing book is 80% internal and 20% DSA-route. SME book is fully DSA sourced.

Market Data	
Industry	BFSI
Sensex	34,865
Nifty	10,512
Bloomberg Code	INDOSTAR:IN
Eq. Cap. (Rs. Mn)	910
Face Value (Rs.)	10
52-w L/H	278.2/607.8
Market Cap (Mn)	26,387

Valuation Data	FY19A	FY20E	FY21E
Yield on funds	13.9%	14.4%	14.6%
NIM	6.7%	6.5%	6.3%
RoA	2.2%	2.3%	2.3%
P/BV	0.9x	0.8x	0.7x

Indostar Vs SENSEX



Shareholding Pattern	Jun'18	May'18
Promoters	58.3	59.0
FIIs	13.1	6.8
MF	9.1	4.8
Retail	8.4	19.4
Others	11.1	10.1
	100.0	**100.0**

51%	47%	28%
AUM CAGR FY18-21E	**NII CAGR FY18-21E**	**PAT CAGR FY18-21E**

** Read last page for disclaimer & rating rationale*

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Economies of scale to kick in; branch expansion target complete

Company opened 36 branches in Q1FY19. Company had guided target of 37 branches in FY19. This suggest rise in absolute operating expense would be lower in coming quarters as compared to AUM growth leading to improvement in operational efficiency. We also expect benefits of economies of scale to kick in from FY20E. We estimate cost to income ratio to move from 29.6% in FY18 to 38.7%/35.9%/34.5% in FY19E/FY20E/FY21E.

Concentration risk mitigated by diversification

Company has been known for wholesale lending business (market share of ~3%). Wholesale business contribute 71% of total book as of Q1FY19. With thrust on vehicle finance and affordable housing book, we expect share of wholesale lending/vehicle finance/housing finance/SME to move from 74%/2%/1%/23% to 47%/28%/9%/16% by FY21E.

Prudent loan disbursement showcased in healthy asset quality

GNPA/NNPA moved from 1.7%/1.5% in Q1FY18 to 1.2%/1.0% in Q1FY19. Recovery has been robust. During Q1FY18, there were 2 accounts under NNPA with amount equivalent to 558mn in corporate lending. As of Q1FY19, only 1 account is outstanding with amount equivalent of 357mn. We expect recovery to continue in Q2FY19.

Adequately capitalized; No Asset Liability mismatch

Company is adequately capitalized with CAR of 32.0% (improved from Q4FY18 figure of 28.3%). Interestingly, Tier II ratio is very minimal (was 0.3% in Q4FY18). Thereby, providing sufficient cushion for growth. Also, company doesn't seem to have asset liability mismatch with cash balance of 2332mn and investments of 7360mn as of Q1FY19, representing 11% of total assets. Also, repayment arrangement is quite comforting, as in wholesale lending, ~80% of loans are scheduled in monthly installment, ~10% in quarterly installment.

Valuation

Company has incurred most of its operating expense (of full year) in Q1FY19 which led to drop in ROA from 3.5% in FY18 to 2.2% in Q1FY19. Furthermore, ROA has dropped from 4.1% in FY17 due to steadfast focus on diversification. We believe transition phase to put pressure on return ratios for another few quarters, although, due to floating-based lending & fixed-rate borrowing mechanism, realization of economies of scale coupled with prudent disbursement quality to augur well for company. We expect AUM/Interest Income growth of 51%/58% CAGR over FY18-FY21E from 62.0bn/7.0bn to 214.9bn/27.7bn. However, we expect rise in leverage to put drag on proportional growth in net interest income. Consequently, we expect net interest income, pre-provisioning profit, PAT to grow by 47%, 30%, 28% over FY18-FY21E. We value the stock at 1.1x times FY20E book value and arrive at a target price of INR 394 with upside potential of 31%.

(INR Million)	FY17 (IGAAP)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)
Interest Income	6,435.8	7,030.8	11,682.9	19,402.7	27,715.2
Growth%	*14%*	*9%*	*66%*	*66%*	*43%*
Net Interes Income	3,317.3	3,786.5	5,614.7	8,838.8	11,964.6
Growth%	*21%*	*14%*	*48%*	*57%*	*35%*
PAT	2,108.0	2,243.7	2,090.8	3,293.7	4,664.8
Growth%	*10%*	*6%*	*-7%*	*58%*	*42%*
BVPS (INR)	-	-	322.8	358.5	409.1
ABVPS (INR)	-	-	313.2	341.6	388.8
P/B (x)	-	-	0.9x	0.8x	0.7x
P/ABV (x)	-	-	1.0x	0.9x	0.8x

Source: Company, NSPL Research

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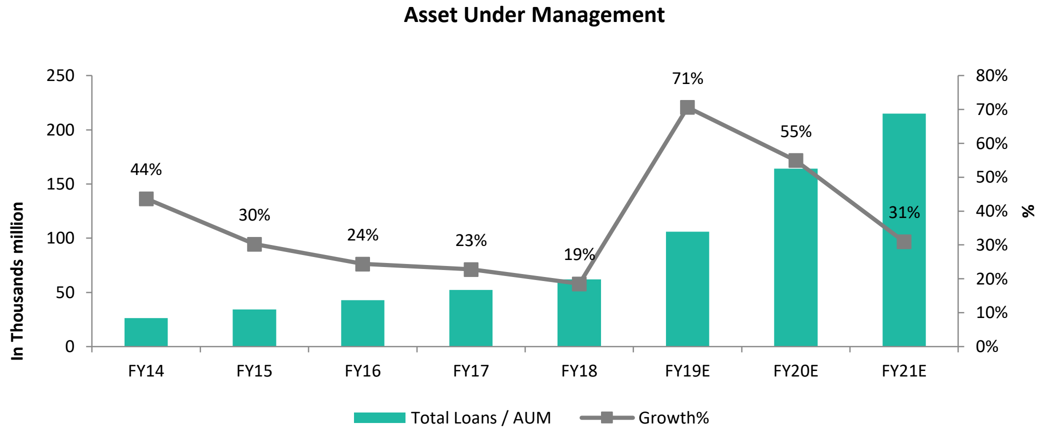
Investment Rationale

1. Robust AUM growth backed by CV, housing portfolio



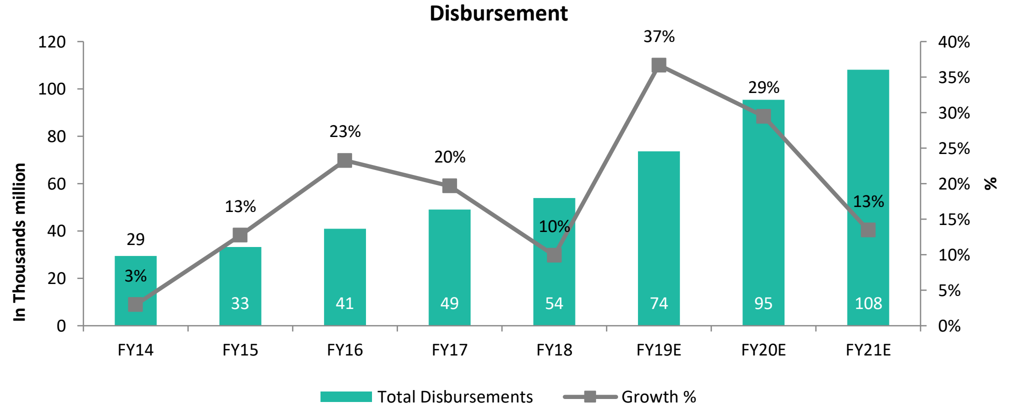
Source: Company, NSPL Research

During FY13 to FY14, company was only engaged in business of wholesale lending. From FY15 onwards, company ventured into SME lending. During Q3FY18, company commenced vehicle financing and affordable housing loans. Over FY14-18, company grew its AUM at a CAGR of 24% from 26.3bn in FY14 to 62.1bn in FY18.

We expect AUM to grow by CAGR 51% from 62.1bn to 214.9bn over FY18-21E on the back of aggressive growth in vehicle finance segment, affordable housing segment and corporate lending segment. We expect vehicle finance book to grow at a CAGR of 256% from 1.3bn in FY18 to 59.1bn in FY21E. We expect housing book to grow at a CAGR of 232% from 0.5bn in FY18 to 18.7bn in FY21E. We expect wholesale lending book to grow at a CAGR of 30% from 45.7bn in FY18 to 101bn in FY21E.

Subsequently, we expect share of vehicle finance book / housing book / wholesale lending book to move from 2.1%/0.8%/73.7% to 27.5%/8.7%/47.0% by FY21E. Since, company has completed most of its branch expansion activity (i.e. to have 130 branches by FY19), we believe company is well positioned to grow its book at an aggressive pace, given sufficient capital adequacy.

Consequently, we expect disbursement to grow at CAGR 26% from 53.8bn to 108.2bn over FY18-21E.



Source: Company, NSPL Research

We observed disbursement grew at CAGR 16% during FY14 to FY18. We expect strong disbursement of vehicle loans (growing at an average rate of 39% MoM from 230mn in Jan'18 to 1099mn in Jun'18) to continue, housing loan disbursement to record CAGR of 186%, while SME loan disbursement to report moderate CAGR of 5%. We expect branch count to touch 130/210/260 by FY19E/FY20E/FY21E from current level of 129.

2. R.Sridhar (CEO) boarded to build and scale vehicle finance business

Company boarded Sridhar in April'17 to build and scale vehicle finance business and bring diversification in its portfolio from just being a wholesale lending entity. Sridhar has been instrumental in making Shriram Transport a market leader in vehicle financing business and has experience of more than three decades.

Strategy: Company is looking to increase presence in used CV segment (5-12 years) and is targeting SFO (small fleet operators) and aims to become market leader in this niche segment. Currently, used/new CV constitute 70%/30% of total vehicle finance book.

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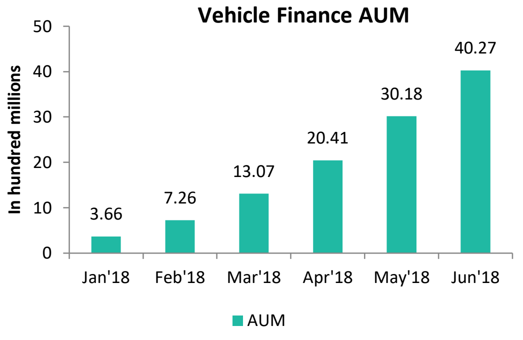
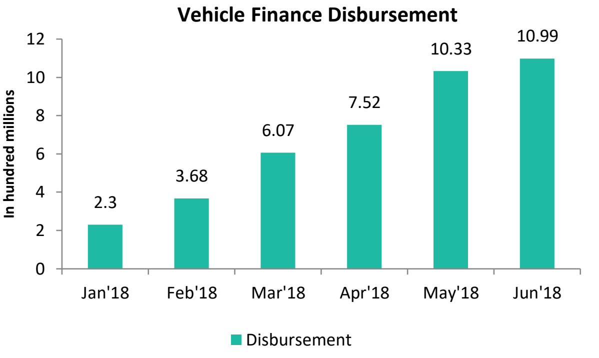
Run-Rate: company commenced disbursement of vehicle finance loans in Q3FY18 and has moved from 230mn disbursement per month to 1099mn per month. We expect this growth trajectory to continue.





Source: Company, NSPL Research

Drivers	Q1FY19	Q4FY18	Growth
Branches	114	75	52%
Employees	883	604	46%
Customers	5979	1876	219%
AUM (mn)	4027	1307	208%

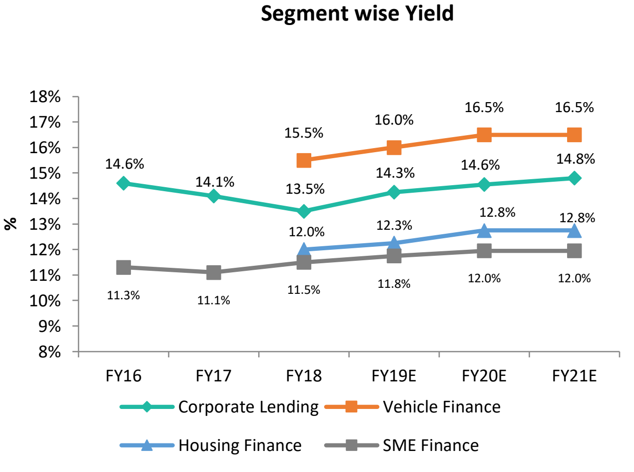
AUM rose by 208% QoQ from 1307mn in Q4FY18 to 4027mn in Q1FY19. We expect AUM to touch 12,809mn by FY19. Yield in this segment has hovered in range of 16%. Yield on used CV has been 17-18% while yield on new CV has been 11-12%.

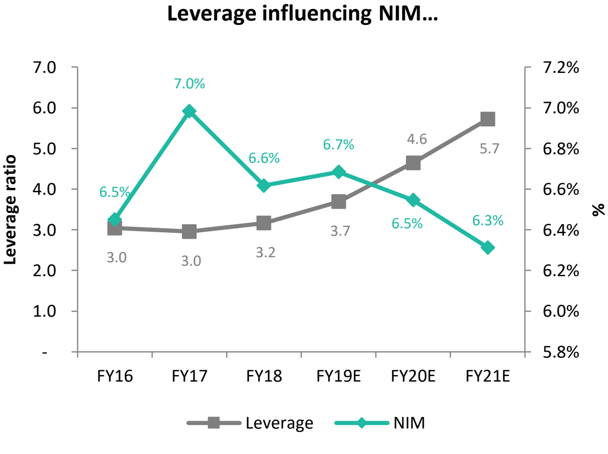
Sourcing: around 80% of loans are sourced internal, while remaining 20% are sourced through direct sales agent (DSA).

Pricing Power: initial loans were disbursed at a fixed rate. Although, now all incremental loans are floating rate.

3. Pricing power due to floating rate lending; however increase in leverage coupled with rise in borrowing cost might put pressure on NIMs

Company has pricing power due to disbursement of floating rate loans. All incremental loans in corporate lending, SME, housing space are of floating rate type. Company is giving amortizing loans (as oppose to bullet loans) in wholesale lending. Consequently, we expect overall yields to improve from 12.9% in FY18 to 13.9%/14.4%/14.6% in FY19E/FY20E/FY21E.





Source: Company, NSPL Research

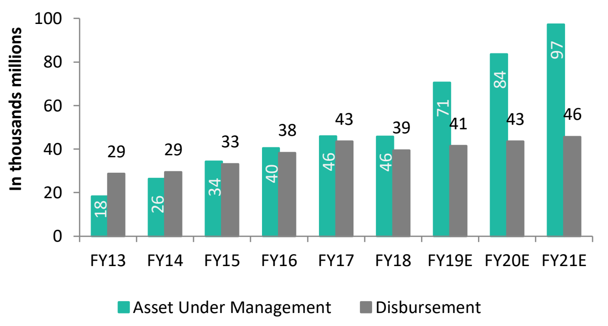
On borrowing front, company has 45% borrowing from banks (floating rate), remaining 55% is fixed.

However we believe, company being low on leverage, will increase its leverage from 3.2x in FY18 to 3.7x/4.6x/5.7x in FY19E/FY20E/FY21E. This would result in higher interest expense which would result in slow growth of net interest income and consequently will put pressure on NIM. Thereby, we estimate NIM to move from 6.6% in FY18 to 6.7%/6.5%/6.3% in FY19E/FY20E/FY21E.

4. Internally sourced book reflective of strong footing

Company commenced its journey by primarily focusing on wholesale lending. With a prudent approach and quick loan processing, company cornered ~3% market share in wholesale lending. Corporate book has been 100% internally sourced.

Corporate lending



Company began disbursement of vehicle finance and housing loans in previous year. Company is looking to become market leader in SFO segment. As an approach, company opted for 80% internal loan sourcing and 20% through DSA-route.

SME book is fully DSA sourced.

5. Economies of scale to kick in; branch expansion target complete

Company guided opening of 37 branches in FY19. Company inaugurated 36 branches in Q1FY19. Also, company proportionally increased its employee count. This suggest rise in absolute operating expense would be lower in coming quarters leading to improvement in operational efficiency. Thereby, we expect cost to income ratio to move from 38.9% in Q1FY19 to 38.7%/35.9%/34.5% in FY19E/FY20E/FY21E.

Vehicle finance	Q1FY19	**Q4FY18**	Growth
Branches*	114	75	52%
Employees	883	604	46%
Customers	5979	1876	219%

Housing Finance	Q1FY19	**Q4FY18**	Growth
Branches*	40	31	29%
Employees	391	341	15%
Customers	1442	437	230%

SME Lending	Q1FY19	**Q4FY18**	Growth
Branches*	10	10	0%
Employees	77	65	18%
Customers	1293	1079	20%

**some branches have multiple operating segments*
Source: Company

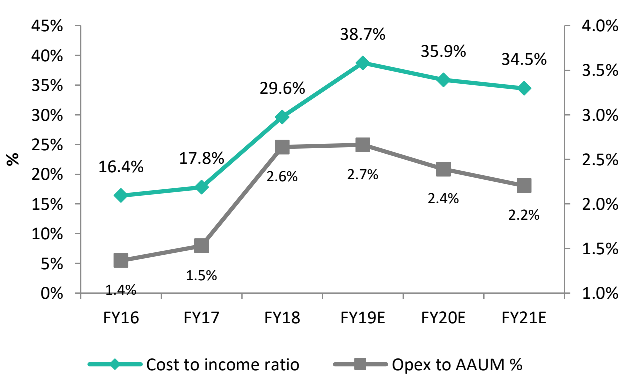
Branch expansion and hiring of new employees is in last stages. We expect customer acquisition to continue its robust pace as showcased by 219% QoQ rise. We expect AUM to grow by monthly CAGR of 77% from 1,307mn in FY18 to 12,809mn by FY19E.

We expect AUM to grow by monthly CAGR of 69% from 512mn in FY18 to 4,198mn by FY19E.

We expect AUM to grow by monthly CAGR of 10.7% from 14,532mn in FY18 to 21,821mn by FY19E.

Further, we expect branch count to increase to 130/210/260 by FY19E/FY20E/FY21E from current level of 129. Consequently, in the longer run, we expect benefits of economies of scale to kick in from FY20E.

Operational Efficiency



We estimate cost to income ratio to move from 29.6% in FY18 to 34.5% in FY21E and Opex to average AUM to move from 2.6% to 2.7%/2.4%/2.2% by FY19E/FY20E/FY21E.

Typically, every branch requires asset under management of 120-140mn for breakeven.

Source: Company, NSPL Research

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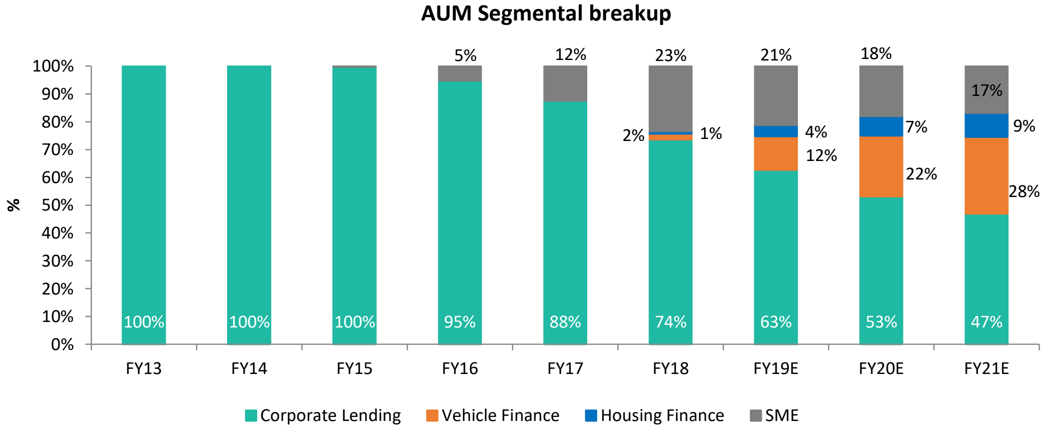
6. Concentration risk mitigated by diversification



Company has been known for wholesale lending business (market share of ~3%). Wholesale business contributed 100% of total book till FY15. Company gradually commenced SME lending business (100% DSA sourced) to bring diversification in its portfolio. Continuing the approach, wholesale business contribution was pruned to 74%/71% of total book as of FY18/Q1FY19. Given company's thrust on vehicle finance and affordable housing book, we expect share of wholesale lending/vehicle finance/housing finance/SME to move from 74%/2%/1%/23% to 47%/28%/9%/16% by FY21E.

7. Robust asset quality showcase prudent loan disbursement approach

Particulars	Q2FY19*	Q1FY19	**Q4FY18**	Q1FY18
GNPA (in mn)	660	884	768	838
NNPA (in mn)	460	740	640	734
Corporate Lending				
NPA Accounts	1	1	1	2
NNPA (in mn)	110	357	376	558
Retail Lending				
NPA Accounts	22	21	14	6
NNPA (in mn)	350	383	263	176

Source: Company
**As per BSE filing*

GNPA/NNPA moved from 1.7%/1.5% in Q1FY18 to 0.8%/0.6%/1.2%/1.0% in Q2FY19/Q1FY19. Recovery has been robust. As it can be observed, in Q1FY18, there were 2 accounts under NPA with amount equivalent to 558mn. As of Q1FY19, only 1 account is outstanding with amount equivalent of 357mn. We expect company to maintain robust asset quality going ahead.

8. Adequately capitalized; No Asset Liability mismatch

Liquidity positioning is highlighted below:

Particulars [INR Crore]	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	FY 20
Opening Cash & Equivalents*	1,263	1,058	945	888	908	939	828
Loan repayment inflows [Principal]	46	109	121	66	67	139	1,998
Total Inflow	1,309	1,167	1,066	954	975	1,078	2,826
Liability Repayment [Principal]							
Commercial Paper	125	100	85	-	-	125	115
NCDs	3	-	-	-	10	25	1,105
Term Loans & Others	124	122	93	46	26	99	710
Total Outflow	251	222	178	46	36	249	1,930
Closing Cash and equivalents	1,058	945	888	908	939	828	896

* Details of Opening Cash & Equivalents

Particulars	**INR Crore**
Cash and Bank Balance	451
Cash equivalents	
Liquid Debt Mutual Funds	318
Term Deposits with Banks	23
Undrawn funding Lines	361
Treasury Assets	110
Total	**1,263**

Source: Company
**As per BSE filing*

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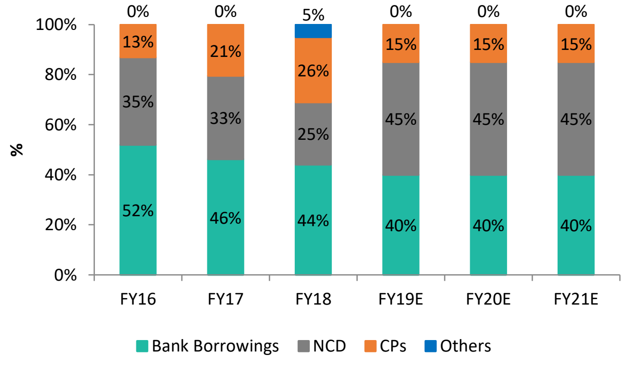
Financial highlights

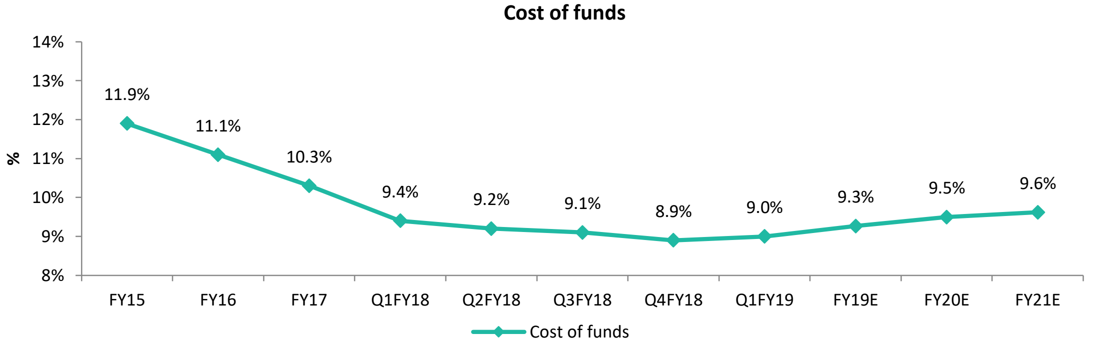
Borrowing Profile and Credit rating



Company has consciously focused on reducing its dependence on floating rate borrowing by pruning share of bank borrowings from 52% in FY16 to 44%/38% in FY18/Q1FY19. Further, share of commercial paper moved from 13% in FY16 to 26% in FY18 and 22% in Q1FY19. We expect further reduction in share of CP going forward.

Resultant, share of floating rate linked to 55% as of today.

On cost of borrowing front, company has witnessed continuous reduction in their borrowing cost from 11.9% in FY15 to 9.4%/8.9%/9.0% by Q3FY18/Q4FY18/Q1FY19.



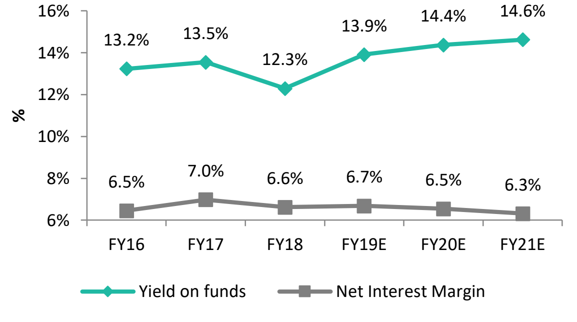
Borrowing Type	Rating firm	FY18 - Ratings
Term Loans	INDIA RATINGS / CARE	AA (-)
Redeemable NCDs	INDIA RATINGS / CARE	AA (-)
CPs	CRISIL / CARE / ICRA	A1 (+)

Source: Company

However, we believe rising interest rate regime to uptick cost of borrowings to 9.3%/9.5%/9.6% in FY19E/FY20E/FY21E. As of result we believe NIM to be under slight pressure.

Company's 95% of borrowings are rated above A, which we believe would assist in procuring funds at lower rates.

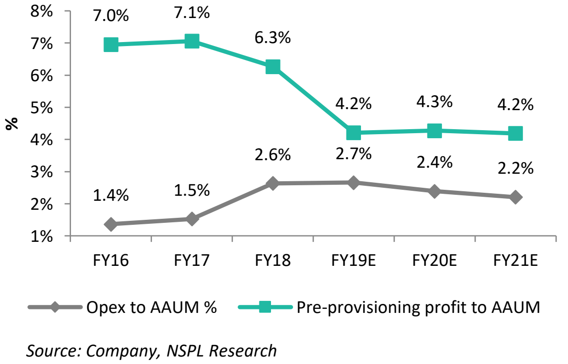
Yield on funds and NIM



As per our estimates share of vehicle financing is expected to touch 12%/22%/29% by FY19E/FY20E/FY21E. Average yield hovers in the range of 16%. Also, due to incremental floating rate loans, we expect yield on funds to move from 12.3% to 13.9%/14.4%/14.6% in FY19E/FY20E/FY21E.

We believe NIM to be under pressure due to a) high leverage and, b) rising cost of borrowing. However, we expect NIM to revive and hover around 6.3% going ahead.

Operational Matrix



Source: Company, NSPL Research

We expect company to realize benefit of economies of scale from FY20E and report pre-provisioning profit as 4.2%/4.3%/4.2% of AAUM in FY19E/FY20E/FY21E.

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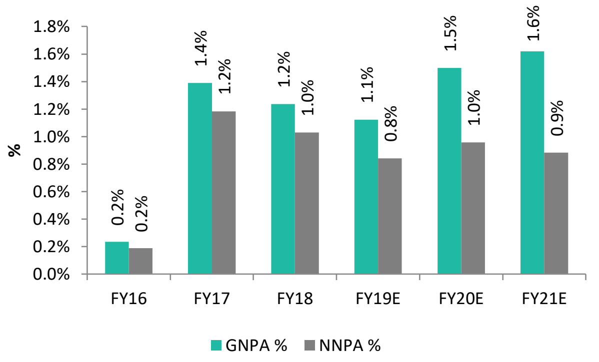
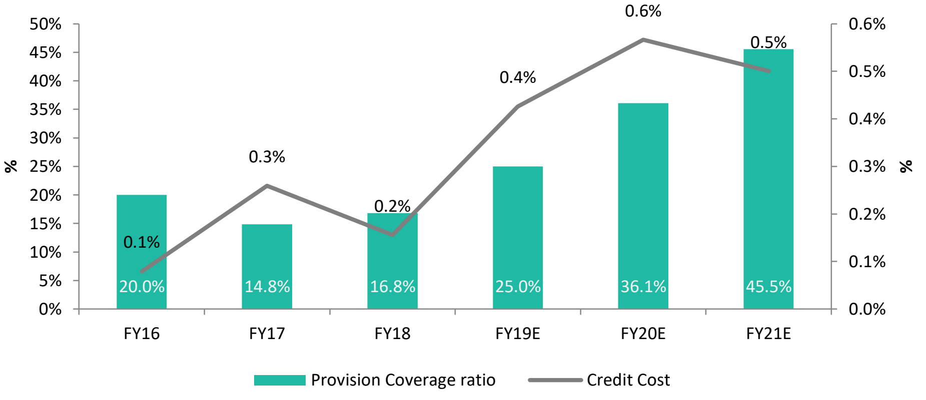
Asset Quality

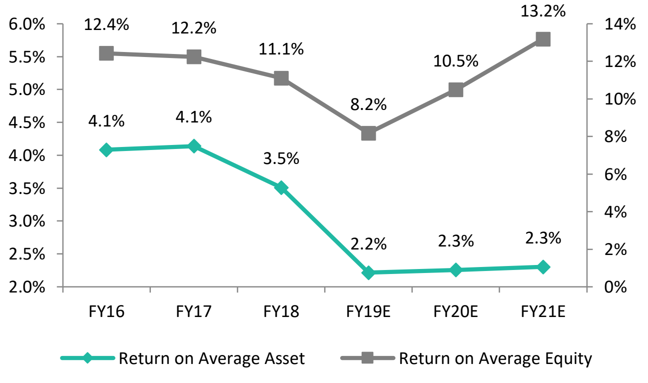


We expect company to maintain GNPA/NNPA in FY19E around FY18 levels. However, FY20E onwards with rise in share of vehicle finance segment in total book, we expect marginal uptick in GNPA/NNPA from 1.2%/1.0% to 1.5%/1.0%/1.6%/0.9% in FY20E/FY21E.

Resultant, we expect credit cost to move from 0.2% to 0.4%/0.6%/0.5% in 19E/FY20E/FY21E.



Return Ratios



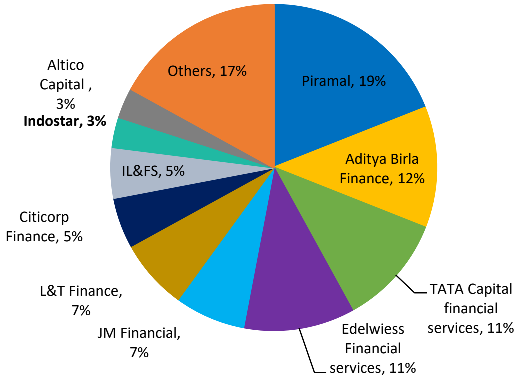
We expect return on equity to improve to 13.2% due to a) improvement in return on asset ratio from 2.2% to 2.3% and, b) leverage going up from 3.2x to 3.6x/4.6x/5.7x in 19E/FY20E/FY21E.

Source: Company, NSPL Research

Industry

Company disburses loan for four verticals namely: wholesale lending (71% of total book), vehicle loans (growth driver of company), housing loans, SME loans. Within wholesale lending, company has ~3% market share.

Wholesale Lending Major Players



Crisil estimates market size of wholesale lending to be INR 25 trillion as of Mar'17. Market has grown at 9% during 2012 to 2017, while NBFCs grew by 31%, increasing their market share from 2% in FY12 to 5% in FY17.

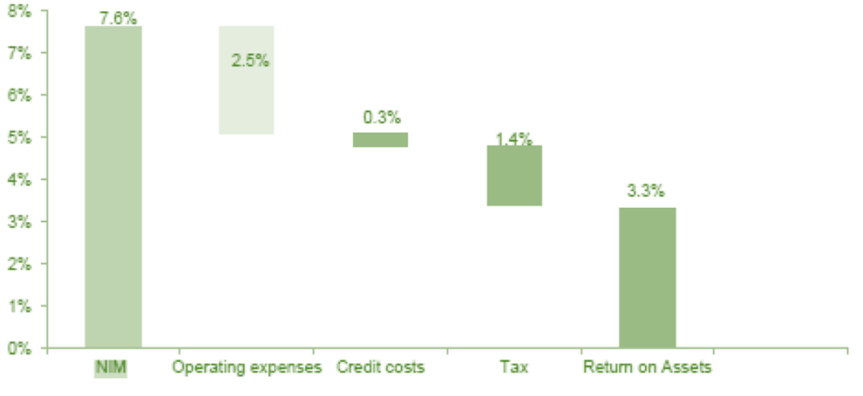
Crisil anticipates NBFC growth of 23-26% for next two years, implying major players to strong growth. We expect wholesale lending business of Indostar to grow by 29% till FY21E from 45.7bn in FY18 to 97.3bn

Wholesale book is divided into two verticals: a) 50% real estate developer loans and, b) 50% non-real estate loans (called structured corporate lending). Company provides real estate loans to developers focusing on developing residential projects in Mumbai (primarily) at an average ticket size of 1.5-2.0bn with average tenure of 4 years. Loan type is amortizing. Other major players are: Piramal, PNB housing, L&T finance.

Structured loans are given to small and mid-cap manufacturing companies with average ticket size of 1.0-1.5 bn with tenure of 2-5 years. These are higher yield loans as compared to developer loans.

Average blended yield (including fees) is 14.5-15%. Both these loans are 100% internal sourced.

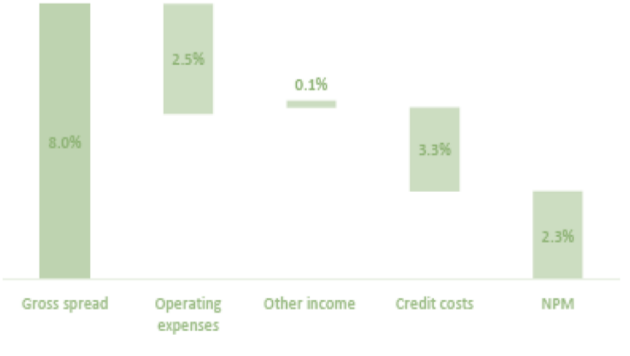
Wholesale industry operational breakup



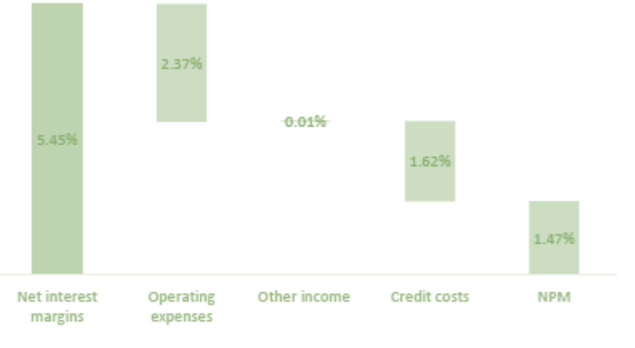
Vehicle finance

Company's vehicle finance book is 30% contributed from new vehicles and used vehicle contribution is 70%. Company is looking to increase share of used vehicles further due to a)higher yields, b) higher return ratios. Within, used vehicles company is targeting SFO category, and is looking to become market leader in same.

Used CV Profitability as oppose to...



New CV Profitability



Source: Company

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Customer Profile	Parameters	New Commercial Vehicle	Used Commercial Vehicles
LFO	Average ticket size (MHCV)	1.6-1.8 mn	1.0-1.2 mn
	Yield (MHCV)	11-12%	12-13%
MFO	Average ticket size (LCV)	0.5-0.8 mn	0.3-0.5 mn
	Yield (LCV)	15-16%	16-17%
SFO	Average ticket size (LCV)	0.4-0.6 mn	0.3-0.4 mn
	Yield (LCV)	16-18%	18-20%
FTU/FTB	Average ticket size (LCV)	0.4-0.6 mn	0.3-0.4 mn
	Yield (LCV)	18-20%	20-22%

Source: Company

Within new vehicles, company is disbursing 2W/3W loans also. Overall, disbursement rate has reached 1100 mn per month. Average blended yield on loan is 15.5-16%. Loans are sourced 80% internally and 20% through DSA.

About Company

Company is backed by private equity group Everstone. Company has always focused on targeting niche segments. Company began by doing early stage financing of real estate developers. Now company is moving towards vehicle financing, within which company is targeting SFO segment. Also, company is looking to grow its affordable housing portfolio and SME portfolio.

Timeline

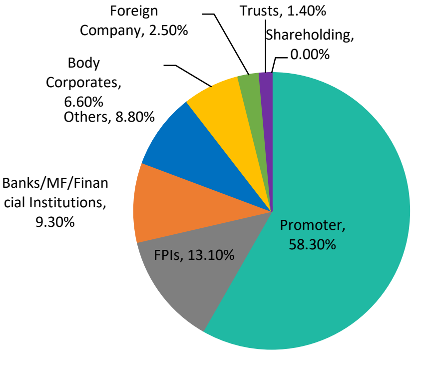
Calendar Year	Details
2009	Incorporation of our Company as R V Vyapaar Private Limited.
2010	Registered as a non-public deposit taking non-banking financial company with the RBI.
2010	Change of name to IndoStar Capital Finance Private Limited.
2011	Received investment from Indostar Capital.
2012	Company entered into its first loan facility agreement.
2012	Company received long term external credit rating of CARE AA- from CARE for long term facilities of 5,000 million.
2012	Company received external credit rating of CARE A1+ from CARE for its proposed commercial papers with a limit of 500 million.
2012	Issuance of commercial papers worth 1,000 million.
2012	Issuance of NCDs worth 2,000 million.
2013	Incorporation of IndoStar Asset Advisory Private Limited.
2014	Conversion to public limited company.
2015	Registered office shifted from Kolkata to Mumbai.
2015	Launch of SME business and disbursement of first SME loan.
2015	Registration of "IndoStar Credit Fund (managed by IAAPL) with SEBI.
2016	Launch of housing finance business and incorporation of IndoStar Home Finance Private Limited.
2016	Implementation of OmniFin
2016	IHFPL received license from NHB to carry on the business of a housing finance institution without accepting public deposits.
2017	Disbursement of first housing loan.
2017	Launch of vehicle finance business and disbursement of first vehicle finance loan.
2018	Opening of the 100th branch of the Company
2018	Company reaches employee count of 1,000
2018	IHFPL received credit rating of ICRA A1+ and CARE A1+ for its commercial paper programme of 2,000 million.

Name	Designation	Description
Dhanpal Jhaveri	Chairman & Non-Executive Director	Director since 2010; Partner at Everstone Capital
R.Sridhar	Executive Vice Chairman & CEO	30+ years of experience in financial services industry, previously led Shriram Transport
Shailesh Shirali	Managing Director, Head-Corporate Lending	20+ years of experience. Previously worked with Future Capital Holdings
Prashant Joshi	Chief Operating Officer	20+ years of experience across SME, retail, corporate banking. Previously worked with Deutsche Bank, IDBI Bank
Pankaj Thapar	Chief Financial Officer	30+ years of experience in corporate finance. Previously worked with Everstone Capital, Citibank, Dentsu Marcom
A. Gowthaman	Business Head – Vehicle Finance	20+ years of experience. Previously worked with Cholamandalam, Shriram Transport Finance
Shreejit Menon	Business Head – Affordable HF	Previously worked with Religare housing, HSBC, Muthoot Housing
Prabhat Kumar Tripathy	Business Head – Retail HF	20+ years of experience. Previously worked with Equitas, DHFL, ICICI

Top 5 Mutual Funds	% holding
SBI Mutual Fund	5.9%
HDFC Mutual Fund	2.0%
Birla Sun Life Mutual Fund	0.7%
Sundaram Mutual Fund	0.7%
BOI AXA Mutual Fund	0.1%

Source: Company

Shareholding



Profit & Loss (INR Million)	FY17 (IGAAP)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)
Interest earned	6,435.8	7,030.8	11,682.9	19,402.7	27,715.2
Interest expended	3,118.5	3,244.3	6,068.2	10,563.9	15,750.6
Net interest income	**3,317.3**	**3,786.5**	**5,614.7**	**8,838.8**	**11,964.6**
Non-interest income	763.4	1,309.0	160.0	160.0	160.0
Total income	**4,080.7**	**5,095.5**	**5,774.7**	**8,998.8**	**12,124.6**
Operating expenses	727.0	1,509.4	2,236.6	3,228.0	4,178.5
Pre-provisioning profit	**3,353.7**	**3,586.1**	**3,538.1**	**5,770.8**	**7,946.1**
Provisions	123.3	89.2	370.2	780.5	878.1
Profit before tax (PBT)	**3,230.4**	**3,496.9**	**3,167.8**	**4,990.4**	**7,067.9**
Tax expense	1,122.4	1,253.2	1,077.1	1,696.7	2,403.1
Adjusted PAT	**2,108.0**	**2,243.7**	**2,090.8**	**3,293.7**	**4,664.8**

Balance Sheet (INR Million)	FY17 (IGAAP)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)
Shareholders' Funds	19,027	21,371	29,762	33,056	37,720
Share Capital	784	787	910	910	910
Reserves and Surplus	18,244	20,584	28,852	32,146	36,811
Total Borrowings	33,733	48,228	82,728	139,728	187,728
Long Term Borrowings	19,106	19,920	34,170	57,713	77,538
Current maturity of LTB	6,761	9,677	16,600	28,038	37,669
Short Term Borrowings	7,866	18,631	31,958	53,978	72,520
Non-Current Liabilities	342	363	363	363	363
Current Liabilities	1,785	3,002	3,002	3,002	3,002
Total Liabilities	**54,888**	**72,963**	**115,855**	**176,148**	**228,813**
Fixed Assets	88	641	721	1,006	1,209
Net Block	88	558	638	923	1,126
Capital WIP	0	83	83	83	83
Investments	1,870	9,891	5,059	5,059	5,059
Non-Current Investments	630	1,099	1,099	1,099	1,099
Current Investments	1,239	8,792	3,961	3,961	3,961
Loans & Advances	51,606	60,403	106,212	164,419	215,243
Portfolio Loans	51,450	60,112	105,920	164,128	214,952
Advances	15	127	127	127	127
Deposits (Rental and Security)	26	86	86	86	86
Prepaid Expenses	114	78	78	78	78
Deferred Tax Assets (Net)	164	165	165	165	165
Other Current Assets	509	584	584	584	584
Cash and Bank Balances	651	1,278	3,114	4,915	6,553
Total Assets	**54,888**	**72,963**	**115,855**	**176,148**	**228,813**

Source: Company, NSPL Research

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Key Ratios	FY17 (IGAAP)	FY18 (IGAAP)	FY19E (IndAS)	FY20E (IndAS)	FY21E (IndAS)
Growth %					
AUM	22.8%	18.6%	70.6%	55.0%	31.0%
Interest Income	14.0%	9.2%	66.2%	66.1%	42.8%
NIM	20.6%	14.1%	48.3%	57.4%	35.4%
PPP	13.1%	6.9%	-1.3%	63.1%	37.7%
PAT	10.0%	6.4%	-6.8%	57.5%	41.6%
Interest yields					
Yield on Loans %	13.5%	12.3%	13.9%	14.4%	14.6%
Cost of Borrowings %	10.3%	8.9%	9.3%	9.5%	9.6%
Gross Spread %	3.2%	3.4%	4.6%	4.9%	5.0%
NIM %	7.0%	6.6%	6.7%	6.5%	6.3%
Operational matrix					
Cost / Income %	17.8%	29.6%	38.7%	35.9%	34.5%
Opex / AAUM %	1.5%	2.6%	2.7%	2.4%	2.2%
PPP/AAUM %	7.1%	6.3%	4.2%	4.3%	4.2%
Asset Quality					
Gross NPA / Loans	1.4%	1.2%	1.1%	1.5%	1.6%
Net NPA / Loans	1.2%	1.0%	0.8%	0.9%	0.9%
Coverage Ratio	14.8%	16.8%	26.9%	36.0%	45.3%
Credit Cost % (Provisions / Loan Assets)	0.3%	0.2%	0.4%	0.6%	0.5%
Return Ratios					
ROA %	4.1%	3.5%	2.2%	2.3%	2.3%
ROE %	12.2%	11.1%	8.2%	10.5%	13.2%
Valuations					
P/BV	-	-	0.9x	0.8x	0.7x
P/ABV	-	-	1.0x	0.9x	0.8x
P/E	-	-	10.5x	8.4x	5.9x

Source: Company, NSPL Research

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IndoStar Capital Finance			
Date	**CMP (INR)**	**Target Price (INR)**	**Recommendation**
October 16, 2018	300	394	Strong Buy

Rating Legend	
Strong Buy	**More than 15%**
Buy	**5% - 15%**
Hold	**0 – 5%**
Reduce	**-5% - 0**
Sell	**Less than -5%**

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	• NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI • **SEBI Registration Number: INH000004617**
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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