

Industry Financial
Bloomberg INDOSTAR IN
BSE CODE 541336

Muted growth and higher credit cost affects profitability

RATING	NEUTRAL
CMP	187
Price Target	188
Potential Upside	1%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	442/177
Mkt Capital (Rs Cr)	1,730
Free float (%)	39%
Avg. Vol 1M (,000)	103
No. of Shares (Cr)	9
Promoters Pledged %	

Fig. in Rs Cr

KEY	FY19	FY20E	FY21E
NII	616	765	782
PPP	409	507	536
PAT	255	182	302
NIM %	6.4	6.2	6.5
EPS (Rs)	28	20	33
EPS	2.3	-28.6	65.4
ROE (%)	10.0	5.9	9.1
ROA (%)	2.6	1.5	2.3
BV	328	346	376
P/B (X)	0.6	0.5	0.5
P/E (x)	6.8	9.5	5.7

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2QFY20 Result Update

- ❑ NII has grown at the rate of 14% QoQ majorly on the back of margins expansion as management has resorted to securitization & assignment income for incremental growth which is cooling off the margin pressure due to lower incremental high cost borrowing uptake. The AUM has decreased on a QoQ basis due to higher repayment & sell down in the corporate segment along with lower disbursement. The C/I ratio has increased slightly on a YoY basis from 33% to 34.6%. PAT growth has decreased by 35% YoY.
- ❑ The margin expansion is majorly on the back of upfrontisation of the assignment income which is providing medium term solace to NIM. Borrowings are priced at 10-10.5% for on-balance sheet assets & 9.5-10% for off-balance sheet assets. Assignments led income has led to a spike in the NIM along with the rise in yield in the retail co-origination.
- ❑ Management has cautiously taken Rs 50 Cr for corporate accounts which are under stress & may slip in the next quarter. The vehicle finance segment has Rs 145 Cr of provision buffer left for the CV segment acquired from IIFL portfolio. The credit cost has remained elevated at 60 bps range.
- ❑ The AUM growth has decreased by 5% YoY mainly on the back of slowdown in the industry and lack of liquidity. Management has guided to change the asset mix orientation towards the retail segment: to corporate segment at 75%: 25% ratio. Management has already reduced the share of corporate to 29% from 63% on the back of higher repayment & sells down and has guided to decline it to below Rs 2800 Cr level by FY20.
- ❑ Disbursements have decreased by 49% as at 2QFY20 to Rs 661 Cr. The share of the corporate segment stood at 43% while retail stood at 57%.
- ❑ The GNPA has improved on a QoQ basis from 4.7% to 3.7% while NNPA has declined from 3.7% to 3%. The PCR has declined from 33% to 19% YoY. The GNPA in the corporate segment has increased sequentially from 3.59% to 4.26%, Housing Finance has increased from 30 bps to 37 bps while it has decreased in the CV & SME segment to 3.12% & 2.34%. PCR has almost remained stable for Corporate, CV & SME segment at 10%, 30% & 19% while the housing finance PCR has increased to 19.2% as at 2QFY20.
- ❑ Management has incrementally resorted to the term loan, co-origination partnership and higher quantum of securitization for incremental growth. The co-origination partnership with ICICI bank for CV financing stood at Rs 165 Cr. The quantum of sanctions under Partial Credit Guarantee Scheme stood at Rs 1500 Cr.
- ❑ The number of branches stood at 322 as of 2QFY20. With 305 branches for Commercial vehicle financing, 55 branches for housing finance and 10 branches for SME business. The employee base in retail lending has declined from 2356 to 2156 QoQ.
- ❑ The CRAR stood at 25.7% while Tier 1 CRAR stood at 23.8%.

View and Valuation

In the current liquidity stress and slowdown in the overall economy, management is shifting its focus to corporate from the retail segment. Corporate has not grown in the last few quarters due to management cautious approach to the sector. The NIM was affected on the back of the higher cost of funds and rising delinquency. The GNPA has remained elevated on the rising stress in the corporate, though management has made additional provision amounting to Rs 50 Cr for the likely stress in the corporate account, we remain cautious on the stock with the slowdown in the CV segment & lack of funding. We decrease our estimates by 16% in FY20 and decline our P/B to 0.50x to Rs 188

Key Risks to our rating and target

- ❑ Delinquency in Corporate Segment will hamper Credit cost.
- ❑ Lack of liquidity will affect Growth.

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2QFY20 Results Below Our Expectations

Asset Quality Concerns

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	313	312	330	405	407	29.8%	0.6%	787	1,177	49.6%
Interest Exp.	139	147	163	225	203	45.7%	-9.9%	326	561	72.4%
NII	174	165	167	179	204	17.2%	13.7%	461	616	33.5%
Other Income	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Total Income	174	165	167	179	204	17.2%	13.7%	461	616	33.5%
Opex Exp.	58	47	57	66	71	22.6%	7.7%	141	207	46.5%
PPP	117	118	110	114	133	14.5%	17.2%	320	409	27.8%
Provisions	11	5	(6)	61	72	5.75914	0.1899	(4)	16	-5.1501
PBT	106	113	116	53	61	-42.1%	15.1%	324	393	21.2%
Tax	35	38	45	19	15	-56%	-17.3%	112	138	22.6%
Net Profit	71	75	71	35	46	-35.3%	32.5%	212	255	20%

Concall Highlights

- INDOSTAR is resorting to bank, co-origination and off-book for incremental growth. Management plans to do foreign borrowings going ahead.
- Borrowings are priced at 10-10.5% for on balance sheet assets & 9.5-10% for off-balance sheet assets. Assignments led income has led to a spike in the NIM along with rise in yield in the retail co-origination.
- Management has guided credit costs will mainly acquire to corporate segment going ahead. Management is putting significant efforts to improve recovery in the corporate account.
- Management has taken precautionary provision of Rs 50 Cr for 2 non-real estate secured corporate accounts (totaling to Rs 200 Cr) where management expects there might be some stress.
- Stage 2 has 1 corporate exposure amounting to Rs 80-90 Cr with recovery amounting to Rs 30 Cr. Of the remaining outstanding of Rs 60 Cr provision of 25-30% is being provided. The account is secured by fixed asset with more than 1x coverage.
- ICICI bank co-lending has already started with Rs 165 Cr of business in 2QFY20; the volume is expected to go up in the quarters coming ahead.
- The corporate book is expected to come down below Rs 2000 Cr by March.
- Management aims at doing vehicle business of Rs 4000-5000 Cr per annum but with liquidity constraints and industry, slowdown growth is slow. Management remains optimistic about the good monsoon and festival season in 2HFY20. Management will target more to mid-level customers with more focus on the used vehicle portfolio. The retail business of CV is expected to be at 75% of the portfolio.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.9	33.1	28.6	34.2	36.6	34.6	1.54	-1.93
Empl. Cost/ Tot. Exp. %	23.1	21.3	15.3	20.9	20.0	20.0	-1.27	0.00
Other Exp/Tot. Exp.%	14.4	9.5	10.7	10.5	12.0	12.0	2.46	0.00
Provision/PPP %	11.4	9.2	3.8	(5.7)	53.2	54.1	44.91	0.83
Tax Rate %	34.0	34.0	34.0	34.0	34.0	34.0	0.00	0.00
Int Exp./Int Inc. (%)	50.6	44.5	47.0	49.5	55.6	49.9	5.42	-5.78
Other Inc./NII %							0.00	0.00
PPP/ Net Income %	59.1	66.9	71.4	65.8	63.4	65.4	-1.54	1.93
PAT/ Net Income %	34.5	40.7	45.7	42.5	19.3	22.5	-18.23	3.19
NII Growth % (YoY)	-	41.8	59.7	43.0	64.0	17.2	-24.63	-46.87
PPP Growth YoY %	-	20.8	85.6	51.3	75.6	14.5	-6.29	-61.16
PAT Growth %	-	(0.2)	76.8	53.3	(8.5)	(35.3)	-35.07	-26.77

Margin Performance

Margin %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	12.2	15.1	14.3	12.9	14.4	15.4	0.30	1.00
Cost of Funds	9.0	9.7	9.9	9.7	10.3	10.5	0.80	0.20
Spreads(Cal)	3.2	5.4	4.4	3.2	4.1	4.9	-0.50	0.80
NIM Reported.	6.4	8.6	7.7	6.7	6.7	8.0	-0.60	1.30

Exhibit: Yield and Cost
Spreads has Improved

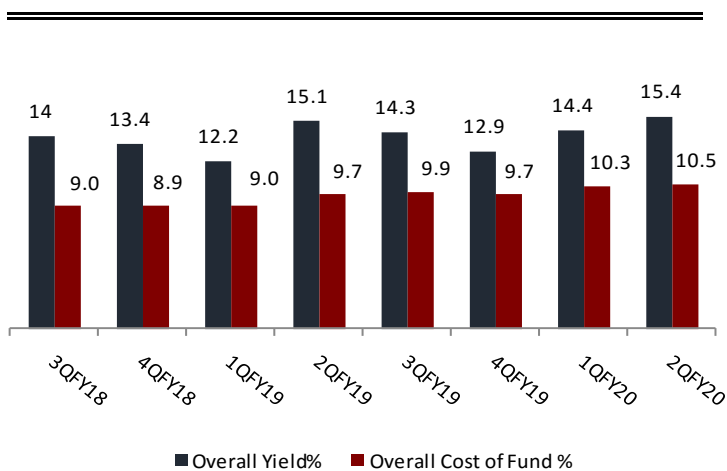
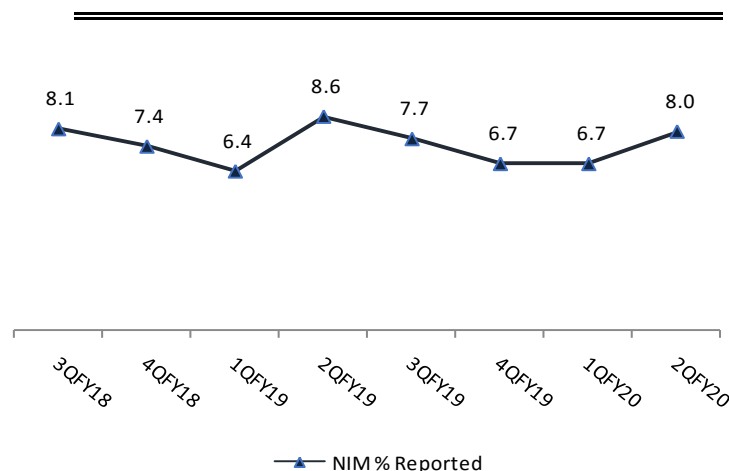


Exhibit: Net Interest Margin
NIM has Improved Sequentially



Asset & Borrowings Growth Trend

Fig. in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	2174	2252	1305	854	2028	1236	661
Growth YoY %	52	303	11	-42	-7	-45	-49
AUM	6060	7470	7767	7846	13248	13002	12377
Growth YoY %	32	79	76	56	119	74	59
Borrowings	4602	5335	5803	6231	8936	9861	9316
Growth YoY %	36	#DIV/0!	#DIV/0!	#DIV/0!	94	85	61

Exhibit: AUM Growth %

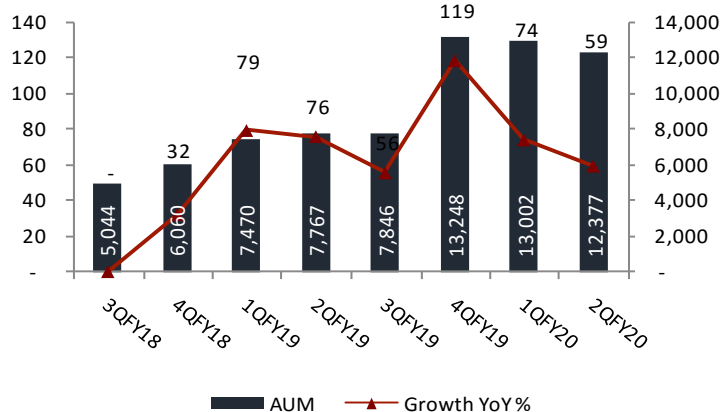
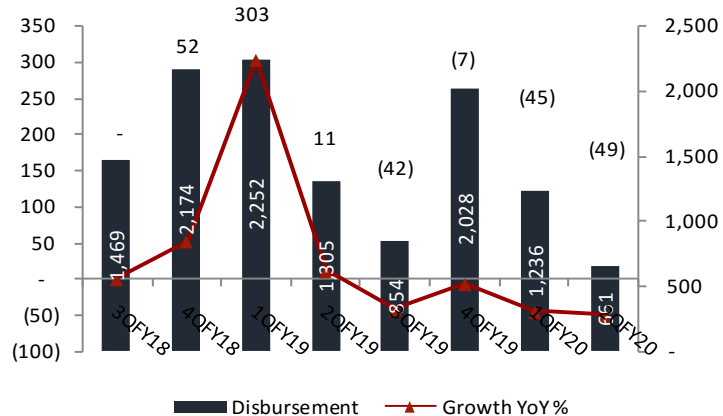


Exhibit: Disbursement Growth %



AUM Break up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Corporate (%)	78	76	73	70	63	57	34	33	29
SME (%)	22	23	24	22	24	24	14	15	15
Housing (%)	0	0	1	2	4	5	4	5	6
Vehicle (%)	-	0	2	5	9	13	36	36	37
Others (%)						-	1	11	13

AUM Break up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Real Estate (%)	56	54	46	52	54	56	62	64	73
Non- Real Estate (%)	44	46	54	48	46	44	38	36	27

Asset Quality

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GNPA Calc.	81	80	72	81	69	70	274	617	470
GNPA (%)	1.90	1.70	1.30	1.20	0.90	0.90	2.60	4.70	3.70
NNPA Calc.	69	66	61	68	46	47	179	486	381
NNPA (%)	1.60	1.40	1.10	1.00	0.60	0.60	1.70	3.70	3.00
PCR (%)	16	18	15	17	33	33	35	21	19

Branch

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
SME	10	10	10	10	10	10	10	10	10
Housing	5	15	31	40	46	56	55	55	55
Vehicle		60	75	114	136	142	305	305	305
Total	10	39	91	129	155	159	322	322	322

Financial Details

Balance Sheet

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	68	68	73	78	79	92	92	92
>> Equity Capital	68	68	73	78	79	92	92	92
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1067	1217	1468	1822	2005	2938	3096	3375
Networth	1136	1285	1541	1900	2084	3030	3188	3467
Change (%)	11	13	20	23	10	45	5	9
Total Borrowings	1899	2574	3001	3373	4602	8936	8662	9875
Change (%)	72	36	17	12	36	94	-3	14
Provisions	14	18	20	43	0	0	0	0
Other Liabilities	112	115	130	169	508	312	332	379
Total Liabilities	3161	3992	4692	5485	7194	12278	12183	13721
Investments	61	55	10	197	1067	502	487	557
Loans	2572	3492	4043	4587	5850	10183	9879	11312
Change (%)	45	36	16	13	28	74	-3	15
Fixed Assets	1	1	4	9	62	67	65	74
Other Assets	59	-41	286	638	93	478	291	333
Cash Balances	468	486	350	54	122	1048	1461	1445
Total Assets	3161	3992	4692	5485	7194	12278	12183	13721

Income Statement

Fig. In Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	395	528	641	715	787	1,177	1,630	1,652
Interest expended	192	258	289	312	326	561	865	870
Net Interest Income	203	270	352	403	461	616	765	782
Change (%)	22	33	30	14	14	33	24	2
Total Net Income	205	270	352	404	461	616	765	782
Change (%)	24	32	30	15	14	33	24	2
Operating Expenses	34	41	56	71	141	207	258	246
Change (%)	3	19	38	26	99	46	25	(5)
>> Employee Expenses	25	28	39	48	97	123	160	156
Change (%)	13	11	41	21	104	26	30	(2)
>>Other Expenses	9	13	17	23	44	84	99	90
Pre-provisioning Profit	171	229	296	333	320	409	507	536
Change (%)	29	34	29	13	(4)	28	24	6
Provisions	1	3	3	12	(4)	16	257	133
Change (%)	(51)	124	11	265	(132)	(515)	1,474	(48)
PBT	169	226	292	320	324	393	250	403
Tax	57	77	101	111	112	138	68	101
Profit After Tax	112	149	191	209	212	255	182	302
Change (%)	24	33	28	9	1	20	(29)	65
Adjusted Profit After Tax	112	149	191	209	212	255	182	302
Change (%)	24	33	28	9	1	20	(29)	65

Financial Details

Fig. In Rs Cr

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	2572	3492	4043	4587	6060	13248	11261	12838
>> Off-Book AUM	0	0	0	0	6060	11735	9879	11312
AUM Growth (%)	45.5	35.8	15.8	13.4	32.1	118.6	(15.0)	14.0
Borrowing Growth (%)	72.0	35.5	16.6	12.4	36.4	94.2	(3.1)	14.0
Loan/Borrowing Ratio	1.4	1.4	1.3	1.4	1.3	1.1	1.1	1.1
Disbursement (Rs Cr)	0	0	4903	1429	2174	2028	1689	1926
Disbursement Growth (%)	N/A	N/A	N/A	(71)	52	(7)	(17)	14
CRAR (%)	42	33	34	34	28	24	28	27
>> Tier 1 (%)	41.1	32.3	33.8	33.4	28.0	21.7	28.3	27.0
>> Tier 2 (%)	0.5	0.3	0.4	0.4	0.3	2.3	0.2	0.2
Debt/Equity (x)	135.4	135.7	134.7	136.0	127.1	114.0	114.0	114.5

Assets Quality Metrics

Gross NPA (Rs)	-	10	5	32	72	274	338	449
Gross NPA (%)	-	0.6	0.2	1.4	1.3	2.6	3.0	3.5
Net NPA (Rs)	-	9	4	28	61	179	323	434
Net NPA (%)	-	0.5	0.2	1.2	1.1	1.7	2.9	3.4
Provision Coverage (%)	-	10	17	14	15	35	15	15
Provision/Average Advances (%)	0.1	0.1	0.1	0.3	(0.1)	0.3	2.3	1.1

Margin Metrics

Yield On Advances (%)	18.2	17.4	17.0	16.6	14.8	12.2	13.3	13.7
Cost Of Funds (%)	12.8	11.5	10.4	9.8	8.2	8.3	9.8	9.4
Spread (%)	5.4	5.9	6.6	6.8	6.6	3.9	3.5	4.3
NIM on AUM (%)	9.3	8.9	9.3	9.3	8.7	6.4	6.2	6.5

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	48.6	48.8	45.1	43.6	41.4	47.7	53.0	52.6
Other Income/NII (%)	1.2	0.0	0.0	0.2	-	-	-	-
Operating Profit/ Net Income (%)	83.2	84.8	84.0	82.4	69.4	66.4	66.2	68.5
Net Profit/Net Income (%)	54.7	55.2	54.2	51.8	45.9	41.4	23.8	38.6
Cost to Income (%)	16.8	15.2	16.0	17.6	30.6	33.6	33.8	31.5
Employee Exp/ Net Income (%)	12.3	10.4	11.2	11.8	21.1	19.9	20.8	20.0
Cost on Average Assets (%)	0.1	0.1	0.1	0.2	(0.1)	0.2	2.1	1.0
Provisions/PPP (%)	0.8	1.3	1.1	3.7	(1.2)	4.0	50.6	24.8
Tax Rate (%)	33.7	34.1	34.7	34.8	34.6	35.0	27.2	25.1

Valuation Ratio Metrics

EPS (Rs)	16	22	26	27	27	28	20	33
Change (%)	24.7	32.8	19.4	2.4	1.4	2.3	(28.6)	65.4
ROAE (%)	10.4	12.3	13.5	12.1	10.6	10.0	5.9	9.1
ROAA (%)	4.2	4.2	4.4	4.1	3.3	2.6	1.5	2.3
Dividend Payout (%)	-	-	-	-	-	3.6	10.1	6.1
Dividend yield (%)	-	-	-	-	-	0.5	1.1	1.1
Dividend Per Share	-	-	-	-	-	-	1.0	1.0
Book Value (Rs)	166	188	210	243	266	328	346	376
Change (%)	11.0	13.1	11.8	15.4	9.7	23.4	5.3	8.8
P/B (X)	-	-	-	-	-	0.6	0.5	0.5
P/E (X)	-	-	-	-	-	6.8	9.5	5.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	14.7	14.8	14.8	14.0	12.4	12.1	13.3	12.8
<i>Interest expended</i>	7.1	7.2	6.7	6.1	5.1	5.8	7.1	6.7
<i>Net Interest Income</i>	7.6	7.6	8.1	7.9	7.3	6.3	6.3	6.0
<i>Non-Fund Based Income</i>	7.6	7.6	8.1	7.9	7.3	6.3	6.3	6.0
<i>Total Income</i>	7.6	7.6	8.1	7.9	7.3	6.3	6.3	6.0
<i>Total Operating Expenses</i>	1.3	1.1	1.3	1.4	2.2	2.1	2.1	1.9
>> <i>Employee Expenses</i>	0.9	0.8	0.9	0.9	1.5	1.3	1.3	1.2
>> <i>Other Expenses</i>	0.3	0.4	0.4	0.5	0.7	0.9	0.8	0.7
<i>Operating Profit</i>	6.4	6.4	6.8	6.5	5.0	4.2	4.1	4.1
<i>Provisions</i>	0.1	0.1	0.1	0.2	(0.1)	0.2	2.1	1.0
<i>Others</i>								
<i>PBT</i>	6.3	6.3	6.7	6.3	5.1	4.0	2.0	3.1
<i>Tax</i>	2.1	2.2	2.3	2.2	1.8	1.4	0.6	0.8
<i>PAT/RoAA</i>	4.2	4.2	4.4	4.1	3.3	2.6	1.5	2.3
<i>Equity Multiplier (x)</i>	2.5	3.0	3.1	3.0	3.2	3.8	3.9	3.9
<i>ROAE</i>	10.4	12.3	13.5	12.1	10.6	10.0	5.9	9.1

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