

Indostar Capital Finance Limited

Issue Snapshot:

Issue Open: May 09 – May 11, 2018

Price Band: Rs. 570 – 572

Issue Size: *32,237,762 Equity Shares
(Including Fresh issue of *12,237,762 eq sh + Offer for sale of 20,000,000 eq sh)

Offer Size: Rs.1837.5 crs – 1844.0 crs

QIB Upto 50% eq sh
Retail at least 35% eq sh
Non Institutional at least 15% eq sh

Face Value: Rs 10

Book value: Rs 263.96 (Dec 31, 2017)

Bid size: - 26 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 78.90 cr
Post issue Equity: Rs. 91.14 cr*

Listing: BSE & NSE

Book Running Lead Manager: JM Financial Limited, Kotak Mahindra Capital Company Limited, Morgan Stanley India Company Private Limited, Motilal Oswal Investment Advisors Limited, Nomura Financial Advisory and Securities (India) Private Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	91.55	58.95
Public & Others	8.45	41.05
Total	100.0	100.0

Source for this Note: RHP

* = Assuming issue subscribed at the higher band

Background & Operations:

Indostar Capital Finance Ltd (ICFL) is a leading non-banking finance company (NBFC) registered with the Reserve Bank of India as a systemically important non-deposit taking company. It is a professionally managed and institutionally owned organization which is primarily engaged in providing bespoke Indian Rupee denominated structured term financing solutions to corporates and loans to small and medium enterprise (SME) borrowers in India. It recently expanded its portfolio to offer vehicle finance and housing finance products. It operates four principal lines of business, namely corporate lending, SME lending, vehicle financing and housing financing.

Corporate lending. ICFL's corporate lending business primarily consists of (i) lending to mid-to-large sized corporates in manufacturing, services and infrastructure industries, by way of senior secured debt, structured financing, promoter financing and special situation funding and (ii) lending to real estate developers, mainly for financing project level construction of residential and commercial building projects and take-out of early-stage equity investors. It generally provide lending solutions against tangible collateral as well as security in other forms, such as charge on operating cash flows.

SME lending. ICFL's SME lending business, which it commenced in 2015, primarily involves it extending secured loans for business purposes to small and medium size enterprises, including businessmen, traders, manufacturers and self-employed professionals. The property securing these loans are typically completed and largely self-occupied residential and commercial property. It currently provides SME lending loans from its branches located in ten key locations across India, namely Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune and Indore.

Vehicle finance. ICFL's vehicle finance business primarily involves providing financing for purchases of used or new commercial vehicles, passenger vehicles and two-wheelers. Its vehicle finance operations involves a relatively larger sourcing team as compared to its other business lines as it is largely based on its experience of working with customers with limited credit history and its ability to effectively assess risks associated with financing used vehicles.

Housing finance. ICFL's housing finance business comprises two business lines, namely (i) affordable housing finance, which commenced operations in September 2017, and (ii) retail housing finance, which commenced operations in March 2018. It operates its housing finance business through wholly-owned subsidiary IndoStar Home Finance Private Limited.

Its corporate lending business is operated from its registered and corporate office. As of February 28, 2018, ICFL conducted its retail operations through 71 branches across India and its central support office in Mumbai. In its SME lending and vehicle and housing finance businesses, its branches act as the primary point of sale and assist with the origination of loans, various collection processes and enhancing customer service, while central support office provides support functions, such as loan processing and credit monitoring. ICFL maintains clear segregation between its sourcing and credit approval teams so as to ensure independence and effectively manage operational risks. Its enterprise-wide loan management system integrates all activities and functions within organization under a single technology and data platform, bringing efficiencies to its back-end processes and enabling to focus its resources on delivering quality services to its customers.

ICFL maintains long-term relationships with its lenders and, as of December 31, 2017, its lenders included, among others, 14 public sector banks, 13 private sector banks, 21 mutual funds and four insurance companies and other financial institutions. As of February 28, 2018, its distribution network included 548 personnel in in-house sales team, and approximately 949 third-party direct sales associates (the "DSAs") and other third party intermediaries who are empaneled with ICFL.

Objects of Issue:

The Offer consists of the Fresh Issue and the Offer for Sale. The Selling Shareholders will be entitled to the proceeds of the Offer for Sale of their respective portions of the Offered Shares, respectively net of their share of the Offer related expenses. ICFL will not receive any proceeds from the Offer for Sale.

Objects of the Fresh Issue and requirement of funds

The details of the proceeds of the Fresh Issue are summarized below:

Particulars	Amount
Gross proceeds of the Fresh Issue	7000
(Less) Offer related expenses in relation to the Fresh Issue	*
Net Proceeds	*

Competitive Strengths

- Highly motivated, professional and experienced management team
- Well-established corporate and strong SME lending businesses
- High asset quality achieved through robust credit assessment and risk management framework
- Proven track record of delivering results
- Well diversified funding profile
- Ownership by institutional investors ensuring international corporate governance standards

Business Strategy:

- Four Pillars strategy focused on secured lending
- Expand geographical footprint and sourcing platform for products across India.
- Increase use of technology and data analytics to support business growth and improve efficiency as well as to further strengthen risk management framework.
- Continue to create brand awareness to become the preferred NBFC for borrowers in target customer segments.

The principal components of all borrowings as of the dates indicated are set out below:

Rs in million

Particulars	As of December 31, 2017	As of March 31, 2017	As of March 31, 2016	As of March 31, 2015	As of March 31, 2014	As of March 31, 2013
Term loans from banks	15,543.06	14,653.98	14,522.21	15,410.64	12,808.60	7,055.68
Redeemable Nonconvertible debentures	8,219.30	11,213.46	10,492.16	6,888.01	4,504.84	2,650.00
Commercial paper	12,560.83	6,918.04	3,905.49	3,439.22	1,668.42	1,337.58
Bank overdrafts	509.34	947.47	1,088.67	-	-	-
Inter corporate deposit	50	-	-	-	-	-
Total	36,882.53	33,732.95	30,008.53	25,737.87	18,981.86	11,043.26

The table below sets forth details in relation to Total Credit Exposure as of the dates indicated:

Rs in million

Total Credit Exposure	As of December 31, 2017	As of March 31, 2017	As of March 31, 2016	As of March 31, 2015	As of March 31, 2014	As of March 31, 2013
Corporate lending	39,693.97	45,857.93	40,418.73	34,218.24	26,328.97	18,329.32
SME lending	11,733.97	6,500.74	2,232.14	74.08	-	-
Housing finance	145.95	-	-	-	-	-
Vehicle Finance	143.01	-	-	-	-	-
Total	51,716.90	52,358.67	42,650.87	34,292.32	26,328.97	18,329.32

Key Concerns

- Volatility in interest rates for both lending and treasury operations, which could cause net interest income to vary
- Inability to successfully run the new businesses profitably
- Inability to sustain growth or manage it effectively
- Any disruption in sources of funding
- Inability to compete effectively

- Changes in laws and regulations
- Inability to retain existing members of management team and recruit new members for management team; and
- Any failure or significant weakness of internal controls system

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