

Indostar Capital Finance

Near term headwinds

INDOSTAR's 4Q performance was considerably below expectations as high credit costs on a/c of accelerated w/offes and COVID-19 related provisions wiped out profits. Asset quality was optically stable QoQ, aided by the accelerated write-offs. AUMs de-grew, led by the corporate book. The equity infusion by Brookfield is certainly a positive development, especially given the pedigree of the investor.) Not only does it augment the co.'s capital and liquidity buffers and its debt-raising ability but it also bolsters long-term growth prospects. However, near term challenges await- (1) AUMs are likely to de-grow in FY21E in the absence of adequate disbursal opportunities, (2) stress is likely to crystallise in view of broader economic circumstances and significant moratorium %, and consequent provisions will limit earnings. These underpin our reduce rating (TP of Rs 253, 0.9x FY22E ABV).

- Asset quality:** GNPA's dipped 4.2% QoQ to Rs 3.65bn (4.5%), however, they were cushioned by the standstill classification impact and by accelerated w/offes. Corp GNPA's were flat at Rs 1.55bn (5.4%) and VF GNPA's dipped to Rs 1.8bn (5.6%). The co made significant w/offes in the corp book relating to previously identified stressed exposures (fitness, media and real estate co., refer table page 2). Given the significant proportion of the portfolio under moratorium (~90% by value), we expect GNPA's to reach 7.2% by FY21E, even as the mgt has indicated that collection efficiency has improved and that the proportion of loans under moratorium 2.0 is lower (vs. 1.0).
- Funding and liquidity:** The co.'s performance on this front has improved considerably post the equity infusion announcement, as indicated by (1) CRAR, which has risen to ~41% (May-20) from 25.3% (Mar-20), (2) a QoQ rise in borrowings (5%), led by an increase in off-b/s financing (3) incremental funds of Rs 8.5bn raised in 4QFY20 (vs. Rs 4.5bn since the lockdown and Rs 4bn in 3QFY20) (4) liquid assets and undrawn bank lines of Rs 20.1bn which form ~21% of AUMs and the mgt indicated that this would suffice to meet all obligations for the year assuming no collections.
- COVID-19 related management commentary:** (1) The co. availed of moratorium on some portion of its bank borrowings, (2) Moratorium was granted only in case of standard a/cs in the first phase, (3) The mgt expects the % of book under moratorium to reduce drastically under the second phase and it has seen an increase in collection efficiency, (4) The co. raised funds under both rounds of the TLTRO (5) PSBs, the NHB and the SIDBI have been major sources of incremental funds, by way of securitization and otherwise, (6) Incremental CoF was 9-9.5%, (7) The management expressed its intent to bring down costs, by way of branch rationalisation (10% reduction in FY21E) and freezing new hiring.

Financial Summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Net-int inc.	1,369	1,772	-22.7	1,860	26.0	5,177	6,028	6,736	7,158
PPOP*	137*	1,118	-87.7	1,110	-87.6	3,954	3,837	4,752	4,872
PAT	-4,214	739	NA	2	NA	2,408	-3,246	1,142	2,140
EPS (Rs)	-45.6	8	NA	0	NA	26.1	-35.1	8.5	15.9
ROAE (%)						9.5	-11.4	4.0	5.2
ROAA (%)						2.47	-2.96	1.15	2.00
ABVPS (Rs)						275.5	226.2	246.8	275.7
P/ABV (x)						1.03	1.26	1.15	1.03
P/E (x)						10.9	NA	33.6	17.9

Source: Company, HSIE Research; *refer pages 2 & 3

REDUCE

CMP (as on 18 June 2020)	Rs 286
Target Price	Rs 253
NIFTY	10,092

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 253	Rs 253
EPS %	FY21E	FY22E
	-39.1%	-0.3%

KEY STOCK DATA

Bloomberg code	INDOSTAR IN
No. of Shares (mn)	123
MCap (Rs bn) / (\$ mn)	35/462
6m avg. traded value (Rs mn)	58
52 Week high / low	Rs 385/166

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.2	70.1	(24.3)
Relative (%)	(12.3)	87.7	(11.9)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	60.7	60.6
FIs & Local MFs	19.3	20.6
FPIs	11.9	10.7
Public & Others	8.1	8.1

Pledged Shares

Source: BSE

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- AUMs** de-grew 17.4/5.2% YoY/QoQ, while loan assets de-grew 23.7/7.5%, indicating a rise in the proportion of off-b/s loans, which now constitute 19.5% of AUMs vs. 17.5% QoQ and 12.9% YoY. The decline in AUMs, was led by the corp book, which dipped 36.6/9.4% to ~Rs 28.7bn (now 29.6% of AUMs vs. 38.6% in FY19 and 73.2% in FY18). Within the corp book, non-real estate loans dipped 70/14.1% to form 18% of corporate loans. VF AUMs (46.6% of overall AUMs) were flat QoQ but dipped 5.4% YoY. On a small base, HE AUMs grew 51.7/7.9% to form 8.6% of overall AUMs. We expect tepid growth in the near term at an avg. of 70bps over FY21-22E, given the management's intention to run down the corporate book and focus on VF and affordable housing for which demand is likely to remain muted. However, INDOSTAR is well placed to capture lending opportunities and growth in the long term, give its large capital buffers.
- Non-tax provisions jumped** to Rs 5.77bn. However, as per the management, incl. credit costs associated with off-B/S loans (part of other opex*), total credit costs for the qtr were Rs 6.21bn (6.5%) of cl. AUMs. These incl. ~Rs 2.8bn of COVID-19 related provisions, majority of which (Rs 1.8bn) relate to the mandated 10% provisions as per the RBI, indicating a significant SMA 2%. Accelerated w/offers in the corp and VF portfolios also boosted credit costs. While commentary indicates that the co has provided for most of the erstwhile corporate stress, we continue to model for higher LLPs at ~2.8% over FY21-22E, in anticipation of further stress.

Moratorium details

Business segment	Moratorium % by	
	Number	Value
Corporate	84%	90%
VF	75%	88%
SME	92%	92%
HF	87%	85%
Total		89%

Source: Company, HSIE Research

FY20 provisioning details

Particulars (Rs mn)	Corporate	VF (ex-IIFL)	VF (IIFL)	SME	HF	Total
ECL	470	390	(490)	50	50	470
W/offers	1,270	70	1,100	260	-	2,700
ECL + w/offers	1,740	460	620	310	50	3,170
Accelerated w/offers	2,070	300	300	-	-	2,670
ECL + total w/offers	3,810	760	920	310	50	5,840
COVID-19 related						2,800
Total provisions						8,640

Source: Company, HSIE Research

Liquidity profile

Rs mn	Jun-20	Q2FY21	Q3FY21	Q4FY21
Op. cash & cash equivalents	20,135	16,760	13,983	14,719
Loan repayment inflows	163	1,000	4,426	5,310
Total inflows	20,298	17,760	18,409	20,029
Principal liability repayments	250	-	250	3,576
NCDs	3,288	3,777	3,440	4,175
TL & others	-	-	-	-
Total outflows	3,538	3,777	3,690	7,751
Cl. cash & cash equivalents	16,760	13,983	14,719	12,278

Source: Company, HSIE Research

Five quarters at a glance

Dip in NII was led by a sharp contraction in margins

Provisions elevated on a/c of accelerated w/offes and COVID-19 related provisions of Rs 2.8bn, certain credit costs related to off-b/s advances are incl. in other opex, driving its increase*

Sharp decline in corp AUMs led by the non-real estate segment

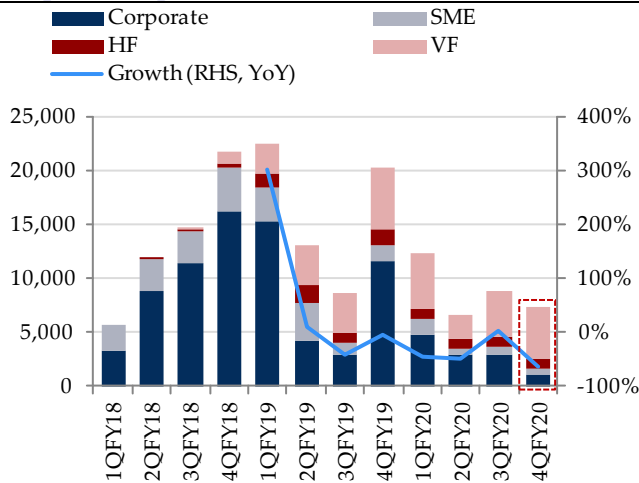
Sharp QoQ drop in yields evident, commentary indicates that this was because of upfront recognition of certain incomes in the base qtr

Post the fund-raise CRAR is ~41%

(Rs mn)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY Growth	QoQ Growth
Net interest income (NII)	1,772.1	1,931	2,190	1,850	1,369	-22.7%	-26.0%
Total operating expenses	653.8	738	793	741	1,247	90.7%	68.3%
PPOP	1,118.3	1,193	1,397	1,110	137	-87.7%	-87.6%
Non-tax provisions	(73.4)	608	722	1,107	5,767	NA	420.9%
PBT	1,191.7	585	675	2.7	(5629.3)	NA	NA
Tax expense	450.9	114	181	0.3	(1,415.8)	NA	NA
PAT	740.8	471	494	2.4	(4,213.5)	NA	NA
Other details							
Disbursements (Rs mn)	20,280	12,357	6,611	8,759	7,324	-63.9%	-16.4%
Corp (%)	57.2	38.7	43.4	32.6	13.4	-4377 bps	-1915 bps
SME (%)	7.5	11.2	10.0	8.5	9.3	173 bps	77 bps
Housing (%)	6.4	8.2	13.9	9.9	11.3	484 bps	140 bps
VF (%)	28.8	41.9	32.6	49.0	66.0	3721 bps	1698 bps
AUM (Rs mn)	1,17,352	1,15,792	1,07,181	1,02,219	96,899	-17.4%	-5.2%
Corp (%)	38.6	37.2	33.8	31.0	29.6	-897 bps	-135 bps
SME (%)	16.1	16.4	17.4	17.6	18.0	198 bps	46 bps
Housing (%)	4.7	5.5	6.6	7.5	8.6	391 bps	104 bps
VF (%)	40.7	40.9	42.2	43.9	46.6	595 bps	271 bps
Borrowings (Rs mn)	89,357	80,863	76,246	63,541	66,798	-25.2%	5.1%
Profitability							
Yield on Advances (%)	12.90	14.40	15.40	14.50	13.90	100 bps	-60 bps
Cost of Funds (%)	9.70	10.30	10.50	10.60	10.50	80 bps	-10 bps
Spreads	3.20	4.10	4.90	3.90	3.30	10 bps	-60 bps
NIM (%)	6.70	6.70	8.00	7.40	6.20	-50 bps	-120 bps
Cost-Income ratio (%)	36.9	38.2	36.2	40.0	90.1	5319 bps	5006 bps
Tax rate (%)	37.8	19.4	26.8	11.1	25.2	-1269 bps	1404 bps
CRAR (%)	24.0	23.7	25.7	27.6	25.3	130 bps	-230 bps
Asset Quality							
GNPA	2,778	4,893	3,420	3,811	3,652	31.5%	-4.2%
NNPA	1,041	3,811	2,753	3,011	2,893	177.9%	-3.9%
GNPA (%)	2.60	4.70	3.70	4.40	4.50	190 bps	10 bps
NNPA (%)	1.70	3.70	3.00	3.50	3.60	190 bps	10 bps
PCR (%)	62.5	22.1	19.5	21.0	20.8	-4174 bps	-21 bps
Segment wise GNPA							
Corp (%)	-	3.50	4.20	4.80	5.40	540 bps	60 bps
SME (%)	3.10	4.00	3.10	2.00	1.80	-130 bps	-20 bps
VF (%)	6.10	7.00	4.00	5.70	5.60	-50 bps	-10 bps
Housing (%)	0.10	0.31	0.43	0.75	0.85	75 bps	10 bps

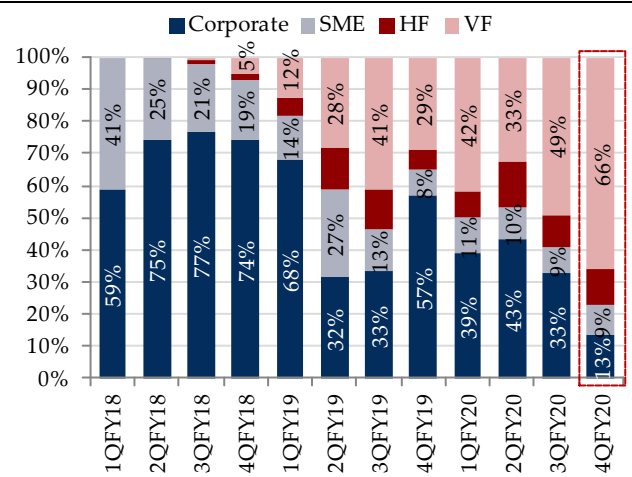
Source: Company, HSIE Research

Sharp QoQ dip in disbursals



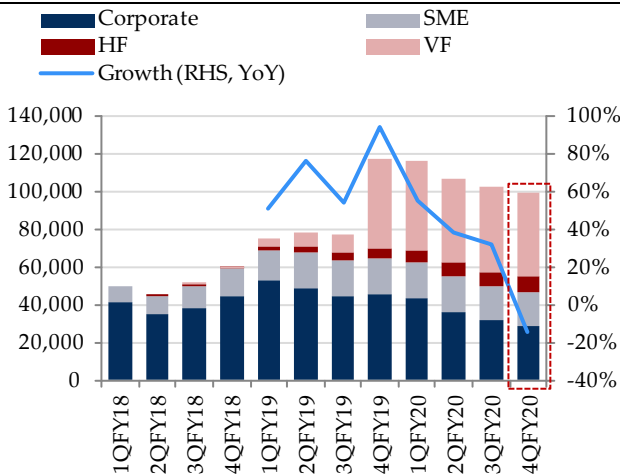
Source: Company, HSIE Research

Disbursals mix: Share of VF continues to rise



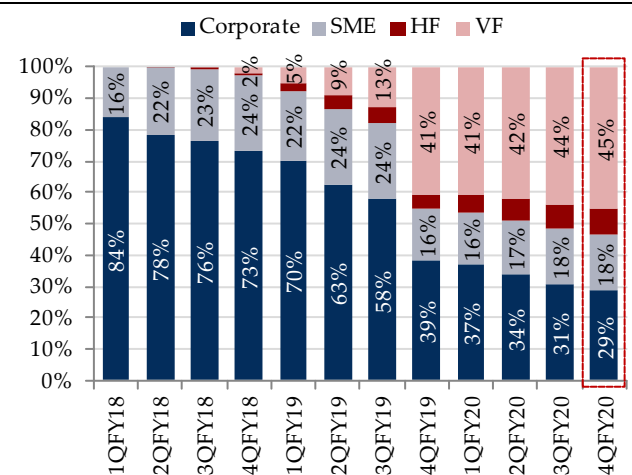
Source: Company, HSIE Research

Sustained decline in AUMs



Source: Company, HSIE Research

Retail now forms ~70% of AUMs



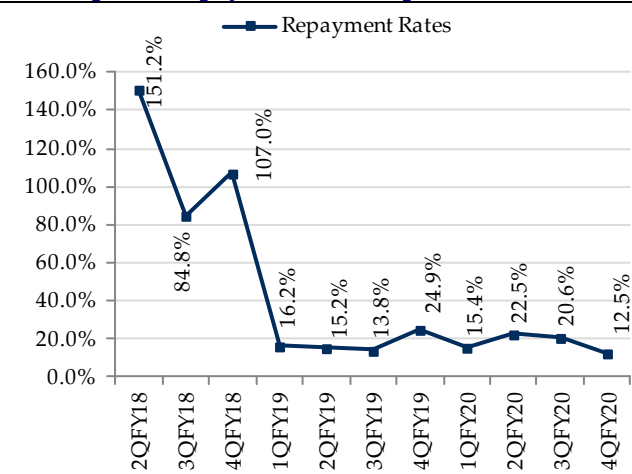
Source: Company, HSIE Research

Corporate book split: Share of non-RE loans dips



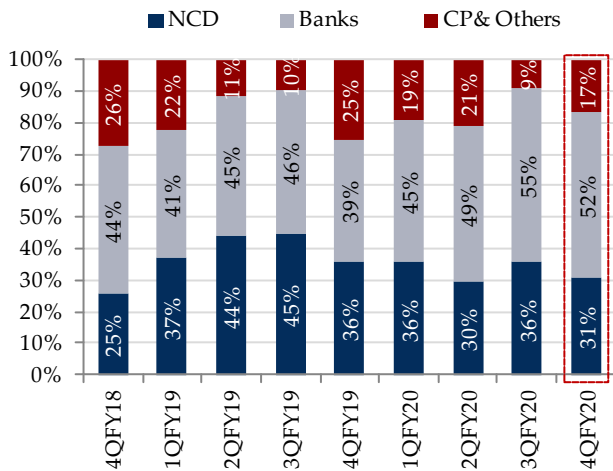
Source : Company, HSIE Research

Calc. corporate repayment rates dip



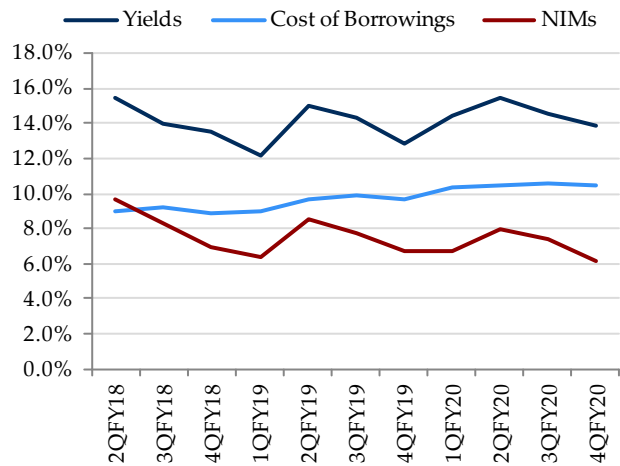
Source : Company, HSIE Research

Borrowing Mix: Share of CP & others* rises



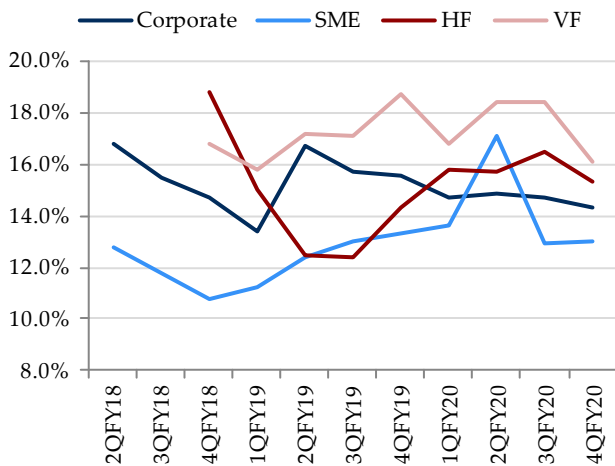
Source : Company, HSIE Research, *incl. securitisation

NIM volatility evident



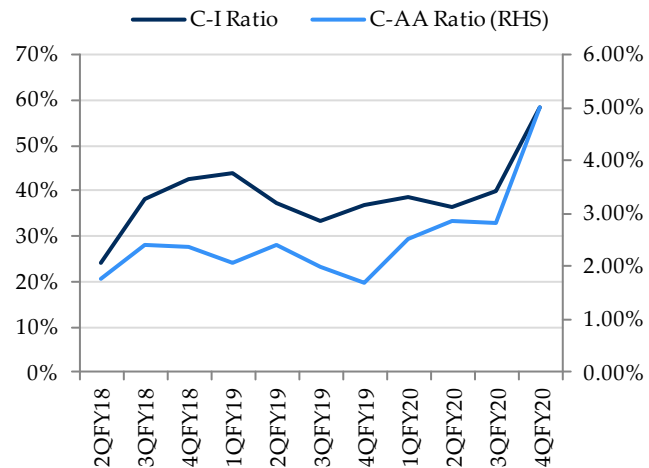
Source : Company, HSIE Research

Segment-wise yields



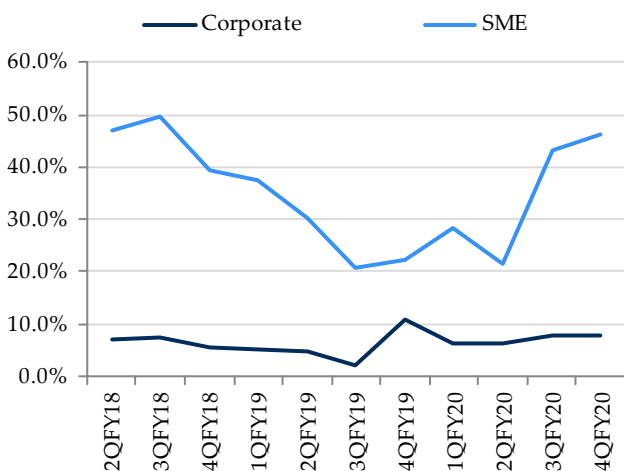
Source : Company, HDFC sec Inst Research

C-I and C-AA movement



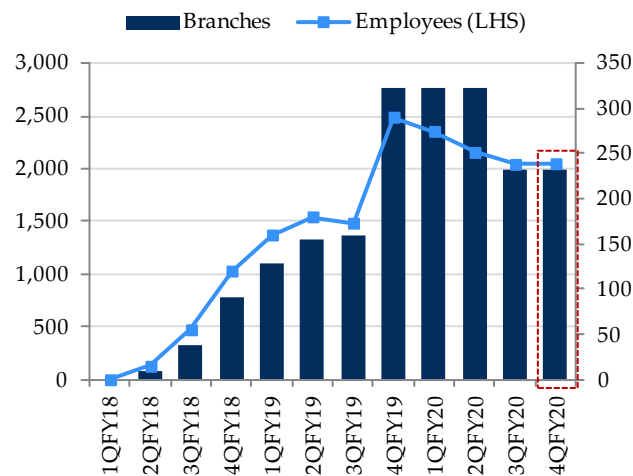
Source : Company, HDFC sec Inst Research

Segment-wise C-I ratios



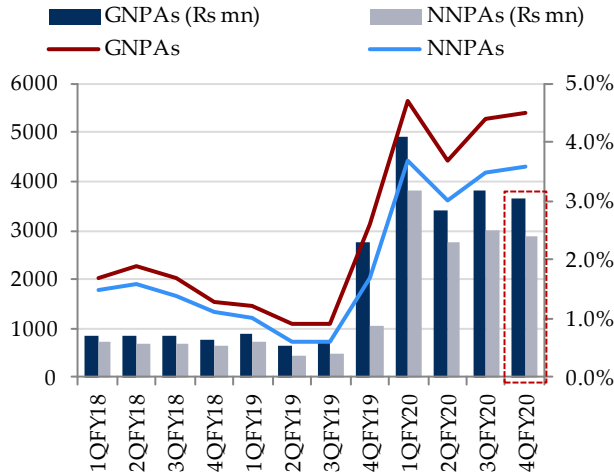
Source : Company, HDFC sec Inst Research

Branch and employee count



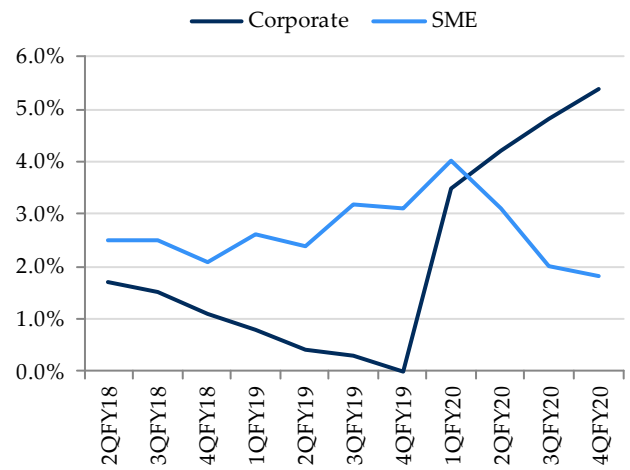
Source : Company, HDFC sec Inst Research

G/NNPAs dip slightly QoQ



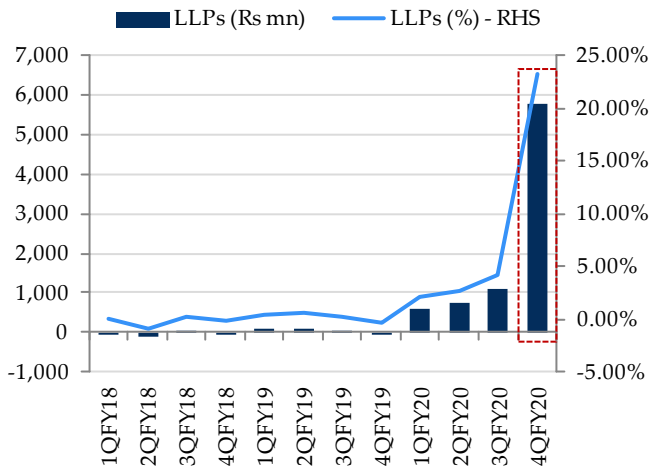
Source : Company, HDFC sec Inst Research

Segment-wise GNPA



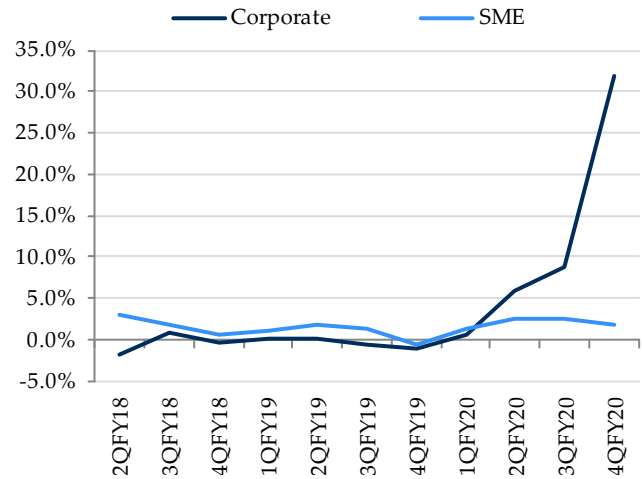
Source : Company, HDFC sec Inst Research; 1QFY18 onwards as per IND-AS

Sharp rise in provisions



Source : Company, HDFC sec Inst Research

Segment-wise provisions



Source : Company, HDFC sec Inst Research

Peer set comparison

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E	FY20P	FY21E	FY22E
CIFC	146	178	BUY	225	84	92	112	13.9	13.0	10.7	2.11	1.94	1.58	14.7	12.9	13.9	1.73	1.73	1.98
SHTF	151	667	ADD	825	530	568	754	6.0	6.9	5.4	1.26	1.17	0.88	14.8	11.5	13.0	2.28	1.90	2.28
INDOSTAR	35	286	REDUCE	253	225	247	276	NA	33.7	18.0	1.26	1.16	1.04	-11.4	4.0	5.2	-2.96	1.15	2.00
LICHF	143	284	REDUCE	288	284	281	346	5.6	6.5	5.7	1.00	1.01	0.82	14.8	11.5	11.8	1.21	0.96	0.99
REPCO	8	121	ADD	215	246	258	303	2.6	3.0	3.1	0.49	0.47	0.40	17.7	13.1	11.5	2.55	2.05	1.96

Source: Company, HSIE Research

Financials

Income statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Interest earned	4,667	5,644	6,436	7,631	10,813	13,966	13,313	13,651
Interest expended	2,581	2,893	3,118	3,255	5,636	7,938	6,577	6,493
Net interest income	2,086	2,751	3,317	4,376	5,177	6,028	6,736	7,158
Other income	614	796	763	258	1,244	1,328	1,343	1,496
Total income	2,700	3,548	4,081	4,634	6,420	7,355	8,079	8,654
Operating expenses	409	582	727	1,548	2,466	3,518	3,327	3,782
PPOP	2,291	2,966	3,354	3,087	3,954	3,837	4,752	4,872
Non-tax provisions	30	34	123	(38)	162	8,204	3,225	2,012
PBT	2,260	2,932	3,230	3,125	3,791	(4,367)	1,526	2,860
Tax expense	770	1,016	1,122	1,121	1,384	(1,121)	384	720
PAT	1,490	1,916	2,108	2,003	2,408	(3,246)	1,142	2,140

Source: Bank, HSIE Research

Statement of assets and liabilities

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS								
Share capital	684	734	784	787	923	925	1,347	1,347
w/w Preference share capital							121	121
Reserves and surplus	12,169	14,685	17,611	19,960	29,140	25,881	38,851	40,991
Shareholders' funds	12,852	15,418	18,395	20,747	30,063	26,806	40,198	42,338
Borrowings	25,757	30,041	33,733	48,228	89,357	66,798	59,686	65,184
Other liabilities	1,307	1,473	1,703	2,963	3,581	2,771	3,048	3,353
Total liabilities	39,916	46,933	53,831	71,938	1,23,002	96,374	1,02,931	1,10,874
APPLICATION OF FUNDS								
Advances	33,921	42,839	50,536	59,004	1,03,637	78,019	68,868	75,212
Investments	546	-	1,868	10,070	3,009	2,306	2,421	2,542
Fixed assets	9	38	88	641	702	1,212	1,273	1,336
Other Assets	5,441	4,056	1,339	2,222	15,654	14,837	30,370	31,784
w/w Goodwill					3,002	3,002	3,002	3,002
Total assets	39,916	46,933	53,831	71,938	1,23,002	96,374	1,02,931	1,10,874

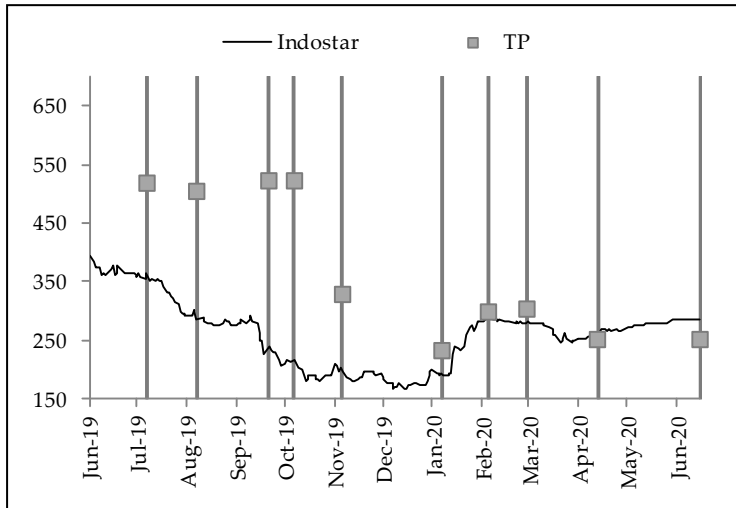
Source: Bank, HSIE Research

Key ratios

	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Valuation ratios								
EPS (Rs)	21.7	26.8	28.7	25.5	26.1	-35.1	8.5	15.9
Earnings growth (%)	32.9	28.6	10.0	-5.0	20.2	-234.8	-135.2	87.4
BVPS (Rs)	187.3	215.2	250.3	263.7	325.9	289.9	298.4	314.3
Adj. BVPS (Rs)	184.7	214.1	241.9	256.1	275.5	226.2	246.8	275.7
ROAA (%)	4.2	4.4	4.2	3.2	2.5	-3.0	1.1	2.0
ROAE (%)	12.3	13.6	12.5	10.2	9.5	-11.4	4.0	5.2
P/E (x)	13.1	10.7	9.9	11.2	10.9	NA	33.6	17.9
P/ABV (x)	1.5	1.33	1.18	1.11	1.03	1.26	1.15	1.03
P/PPOP (x)	4.3	3.4	3.1	3.6	3.3	3.4	4.0	3.9
Dividend yield (%)	-	-	-	-	0.3	-	-	-
Profitability (%)								
Yield on advances	15.4	14.67	13.55	13.34	12.05	12.87	13.90	14.21
Cost of funds	11.5	10.38	9.78	7.94	8.19	10.17	10.40	10.40
Core spread	3.9	4.29	3.76	5.39	3.86	2.70	3.50	3.81
NIM	6.88	7.15	6.98	7.65	5.77	5.55	7.03	7.45
Operating efficiency								
Cost/avg. asset ratio (%)	1.3	1.5	1.5	2.7	2.7	3.2	3.5	3.9
Cost-income ratio	15.1	16.4	17.8	33.4	38.4	47.8	41.2	43.7
Balance sheet structure ratios								
Loan growth (%)	30.2	24.4	22.8	18.6	89.1	-15.1	-7.9	9.2
Borrowing growth (%)	35.7	16.6	12.3	43.0	85.3	-25.2	-10.6	9.2
Equity/assets (%)	32.2	32.9	34.2	28.8	24.4	27.8	39.1	38.2
Equity/loans (%)	37.5	36.1	35.1	33.4	25.6	26.9	43.8	42.2
CRAR	32.7	34.2	33.8	28.3	24.0	25.3	37.2	36.6
Tier I CAR	32.3	33.8	33.4	28.0	21.7	23.8	35.5	34.7
Asset quality								
Gross NPLs (Rs mn)	193.8	100.0	727.3	943.2	2,770.6	3,651.2	6,621.2	5,226.1
Net NPLs (Rs mn)	174.5	80.0	619.5	596.8	1,642.1	2,893.0	3,952.8	2,200.7
Gross NPLs (%)	0.60	0.20	1.40	1.30	2.60	4.60	7.21	5.21
Net NPLs (%)	0.50	0.20	1.20	1.10	1.40	2.90	4.30	2.19
Coverage Ratio (%)	16.7	-	14.3	15.4	46.2	36.9	40.3	57.9
Provision/Avg. Loans (%)	0.09	0.08	0.24	-0.06	0.14	8.23	3.51	2.01
RoAA Tree								
Net interest income	5.83%	6.34%	6.58%	6.96%	5.31%	5.50%	6.76%	6.70%
Non-interest income	1.72%	1.83%	1.52%	0.41%	1.28%	1.21%	1.35%	1.40%
Operating cost	1.14%	1.34%	1.44%	2.46%	2.53%	3.21%	3.34%	3.54%
Non-tax provisions	0.08%	0.08%	0.24%	-0.06%	0.17%	7.48%	3.24%	1.88%
Tax	2.15%	2.34%	2.23%	1.78%	1.42%	-1.02%	0.39%	0.67%
ROAA	4.17%	4.41%	4.18%	3.19%	2.47%	-2.96%	1.15%	2.00%
Leverage (x)	2.95	3.07	2.98	3.21	3.84	3.86	2.97	2.59
ROAE	12.31%	13.56%	12.47%	10.24%	9.48%	-11.42%	4.02%	5.19%

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	355	BUY	520
10-Aug-19	287	BUY	506
22-Sep-19	225	BUY	524
9-Oct-19	218	BUY	524
11-Nov-19	195	BUY	330
9-Jan-20	190	NEU	234
8-Feb-20	290	NEU	300
2-Mar-20	279	ADD	305
15-Apr-20	263	REDUCE	253
18-Jun-20	286	REDUCE	253

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

We, **Darpin Shah, MBA, Aakash Dattani, ACA & Punit Bahlani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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