

Indostar Capital Finance

Stress yet to subside; balance sheet yet to stabilise

INDOSTAR's 4QFY21 earnings were significantly below our estimates on account of elevated provisioning (~17% of AUM, annualised) as the asset quality continued to deteriorate. GNPA inched up to 4.4% (3QFY21 pro-forma at 2.8%), while the GS-II portfolio increased from 20% to 25% sequentially. Business growth continued to gain traction with disbursements growth at 31% QoQ. INDOSTAR is targeting high growth in the vehicle (46% of AUM) and affordable housing segments (12%), while running down its corporate book to sub-10%. We revise our FY22/FY23 earnings estimates downward by 10.6/10.3%, largely due to moderation in loan growth and higher provisioning for the incipient stress pool and maintain our REDUCE rating with revised TP of INR 285 (earlier INR 312).

- Asset quality - no signs of stability:** INDOSTAR's asset quality continued to disappoint on account of a sub-par vehicle finance (VF) back book (acquired in 2019). VF's GNPA shot up to 8%, along with a further ~32% in GS-II bucket, indicative of incipient stress in the portfolio. SME portfolio GNPA also increased to 2.6%, while impairment recognition in the corporate portfolio seems to be over (GNPA at 0%). With an elevated early-bucket pool (25% of AUM, including 4.7% restructured portfolio) and the likely impact from the second wave, near-term stress is unlikely to subside.
- Accelerated provisioning could induce normalised provisions:** Provisions were clocked in at INR 3.8bn (~17% of AUM, annualised) during the quarter. While the GS III PCR nearly doubled sequentially to 52%, provisioning on GS I and II rose to ~7% of AUM, reflecting a high proportion of assets in the GS-II bucket. We factor in provisions of 1.3% for FY22-23E.
- Retail-driven growth, inorganic opportunities awaited:** Retail disbursements grew by 78% QoQ, as INDOSTAR continues to rationalise its corporate loan book. The company continues its focus on vehicle finance and affordable housing (~INR 10bn AUM) for growth. However, with CAR of ~35% and promoter shareholding at 93%, we believe that the company could look at inorganic growth triggers to help enhance its return ratios and help achieve regulatory compliance on the shareholding pattern as well.

Financial summary

(INR mn)	4Q FY21	4Q FY20	YoY (%)	3Q FY21	QoQ (%)	FY20	FY21P	FY22E	FY23E
NII	1,030	1,217	(15.4)	1,050	(1.8)	6,028	4,653	6,016	7,657
PPOP	383	137	178.9	766	(50.0)	3,837	2,431	3,692	5,210
PAT	-3,171	-4,214	(24.8)	242	NA	-3,246	-2,141	1,793	2,897
EPS (INR)	-25.6	-45.6	(43.8)	2.0	NA	-35.1	-15.8	13.2	21.3
ROAE (%)						-11.4	-8.9	4.7	7.2
ROAA (%)						-2.96	-2.17	1.70	2.47
ABVPS (INR)						226.2	237.2	248.0	270.3
P/ABV (x)						1.57	1.50	1.44	1.32
P/E (x)						-10.1	-22.6	27.0	16.7

Change in estimates

INR mn	FY22E			FY23E		
	Old	New	Chg	Old	New	Chg
AUM	1,02,418	95,779	-6.5%	1,28,257	1,12,308	-12.4%
NIM (%)	6.8	6.7	-9 bps	7.5	7.4	-10 bps
NII	6,617	6,016	-9.1%	8,601	7,657	-11.0%
PPOP	4,029	3,692	-8.4%	5,584	5,210	-6.7%
PAT	2,006	1,793	-10.6%	3,228	2,897	-10.3%
ABVPS (INR)	265.7	248.0	-6.7%	293.3	270.3	-7.9%

Source: Company, HSIE Research

REDUCE

CMP (as on 18 June 2021)	INR 356
Target Price	INR 285
NIFTY	15,683

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 312	INR 285
EPS %	FY22E	FY23E
	-10.6%	-10.3%

KEY STOCK DATA

Bloomberg code	INDOSTAR IN
No. of Shares (mn)	124
MCap (INR bn) / (\$ mn)	44/594
6m avg traded value (INR mn)	36
52 Week high / low	INR 424/238

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.3	6.3	25.1
Relative (%)	3.9	(5.2)	(27.9)

SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	93.5	93.3
FIs & Local MFs	2.7	2.7
FPIs	-	0.1
Public & Others	3.8	4.0
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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