

Indostar Capital Finance

Soft core; asset quality concerns galore

INDOSTAR's 3QFY21 earnings were ahead of our estimates aided by one-off gains on de-recognition of loan assets. The company witnessed improving business traction, with a broad-based rise in disbursements (~3x QoQ) - a comfortable capitalisation offers valuable dry powder for growth. Despite a reasonable asset quality performance with pro forma GNPA's at 2.8% (vs. 2.9% in 2Q), we are cautious in our outlook given the sizeable pool of GS-II (~20% of loans), underpinning our REDUCE rating (revised target price of INR309). In the near term, we will watch for steps towards compliance with promoter shareholding requirements and possible inorganic growth.

- Weak core operating performance:** Adjusted for one-off gains of INR300mn on de-recognition of loans in 3Q, PPOP dipped ~8% sequentially on the back of a 14.6% drop in NII (15.9% below our estimates). The significant sequential dip in NII was driven by a lower margins. We reduce our NIM forecasts over FY21-23E to 6.4% from 6.7% earlier.
- Asset quality concerns :** Pro forma GNPA's were just 2.8% and the company restructured ~3.7% of its retail portfolio. The corporate book, which has been the largest source of stress, witnessed no restructuring (except for DCCO extension in select projects). GS-II stood at ~20% and was significantly higher than pre-COVID-19 levels and peers (SHTF reported a GS-II of ~11% in 3QFY21) with retail businesses contributing disproportionately. We are cautious on asset quality as we build GNPA's of 4.8% in FY21E.
- Business traction improving:** INDOSTAR witnessed a sustained uptrend in disbursements in 3QFY21, clocking overall disbursements of ~INR6.6bn (~3x QoQ), led by the retail segment, which constituted ~72% of overall disbursements. However, overall AUMs de-grew 2.4% QoQ, driven by conscious de-growth in the corporate segment (-7.6% QoQ, part of a conscious strategy) and higher repayments in the VF segment (-3.7% QoQ). Although the company is comfortable on capitalisation (CRAR of ~35%), we build in an AUM CAGR of 8.8% over FY21-23E.

Financial summary

YE Mar (INR mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net int. income	1,050	1,584	(33.7)	1,229	(14.6)	6,028	4,679	6,617	8,601
PPOP	766	1,110	(31.0)	506	51.4	3,837	2,546	4,029	5,584
PAT	242	2	NM	316	(23.5)	(3,246)	474	1,940	3,228
EPS (INR)	2.0	0.0	NM	2.6	(23.6)	(35.1)	3.5	14.4	24.0
RoAE (%)						(11.4)	1.7	4.8	7.5
RoAA (%)						(3.0)	0.45	1.67	2.53
Adj. BVPS (INR)						226.2	248.2	265.9	293.5
P/ABV (x)						1.5	1.38	1.28	1.16
P/E (x)						NA	97.1	23.7	14.2

Changes in estimates

INR mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
AUM	92,360	92,615	0.3%	103,278	102,418	-0.8%	130,382	128,257	-1.6%
NIM (%)	5.6	4.9	-76 bps	7.0	6.8	-18 bps	7.6	7.5	-9 bps
NII	5,405	4,679	-13.4%	6,809	6,617	-2.8%	8,822	8,601	-2.5%
PPOP	3,035	2,546	-16.1%	3,955	4,029	1.9%	5,494	5,584	1.6%
PAT	580	474	-18.4%	1,948	1,940	-0.4%	3,348	3,228	-3.6%
ABVPS (INR)	249.1	248.2	-0.4%	265.8	265.9	0.0%	291.3	293.5	0.7%

Source: Bank, HSIE Research

REDUCE

CMP (as on 5 Feb 2021)	INR 342
Target Price	INR 309
NIFTY	19,924

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 314	INR 309
EPS %	FY21E	FY22E
	-18.4%	-0.4%

KEY STOCK DATA

Bloomberg code	INDOSTAR IN
No. of Shares (mn)	123
MCap (INR bn) / (\$ mn)	42/579
6m avg traded value (INR mn)	22
52 Week high / low	INR 424/225

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.6	36.3	19.7
Relative (%)	(7.1)	1.6	(3.6)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	93.7	93.5
FIs & Local MFs	2.5	2.7
FPIs	-	-
Public & Others	3.8	3.8
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Krishnan ASV

venkata.krishnan@hdfcsec.com
+91-22-6171-7328

Aakash Dattani

aakash.dattani@hdfcsec.com
+91-22-6171-7337

Punit Bahlani

punit.bahlani@hdfcsec.com
+91-22-6171-7354

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com