

IndoStar Capital Finance Ltd.

IndoStar Capital Finance (ICFL) is a Mumbai-headquartered non-deposit taking NBFC. It is the first of its kind to be promoted by global investors, Everstone Capital and Goldman Sachs. ICFL started its business by offering corporate loans and gradually expanded offering to SME, Vehicles, and Housing. It has growing loan book at healthy rate but with pristine asset quality (GNPA -1.4%, NNPA -1.2%). On the profit front, it reported CAGR of 23% in PAT for the four years ended FY17.

Expanding offerings to support Loan growth: ICFL had begun its journey with clear focus on corporate lending and FY15 onwards SME, which helped them to grow at healthy CAGR of 30% since inception. Post induction of R.Sridhar in beginning of FY17 (Previously associated with Shriram group) ICFL expanded its portfolio to offer vehicle finance and housing finance.

Experienced management, branch network expansion to support loan book: ICFL management team has extensive experience in the financial services and banking industries in India. We expect ICFL ESOP program (9.8% of diluted shares) help to develop ownership mindset in top to mid level management. To gain retail lending (Vehicle & Housing) business it has increased Branch network from 7 in FY17 to 43 as on Q3FY18 and added another ~57 in Q4FY18.

Strong asset quality; sufficient CAR to support growth: Robust credit assessment process and clever understanding of targeted market has helped to keep GNPA at 1.3% as on 3QFY18. As on 3QFY18, CAR stood at 31.6% and post IPO CAR would further increase. With strong internal capital generation ability, present high CAR and IPO proceeds would not require ICFL to dilute equity for high growth in near future.

Outlook & Valuation: At the upper end of the price band, ICFL is valued at 2.2x of Q3FY18 book value (Pre-IPO) and on post dilution basis at 1.9x of Book value. The strong sponsorship of Everstone and other shareholders, along with a well-capitalised balance sheet and an experience and focused management provide an excellent base for the next level of growth. **Based on the above positive factors we assign SUBSCRIBE rating to the issue.**

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	9MFY18
NII	168	207	275	332	286
YoY Growth (%)		24	33	21	-
PAT	112	149	192	211	164
YoY Growth (%)		33	29	10	-
EPS	14	19	24	27	21
Book Value	144	163	195	241	-
P/E	40	30	24	21	-
P/BV	4.0	3.5	2.9	2.4	-
ROE (%)	10	18	16	14	-
ROA (%)	4	6	5	5	-

Source: RHP, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

Please refer to important disclosures at the end of this report

SUBSCRIBE

Issue Open: May 09, 2018
 Issue Close: May 11, 2018

Issue Details

Face Value: ₹10
Present Eq. Paid up Capital: ₹78.7cr
Offer for Sale: 2cr Shares
Fresh issue: ₹700cr
Post Eq. Paid up Capital: ₹91.1cr
Issue size (amount): *₹1,840cr - **1,844 cr
Price Band: ₹570-572
Lot Size: 26 shares and in multiples thereafter.
Post-issue implied mkt. cap: *₹5,195cr - **₹5,213cr
Promoters holding Pre-Issue: 91.6%
Promoters holding Post-Issue: 57%
*Calculated on lower price band
** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	57%
Others	43%

Jaikishan J Parmar

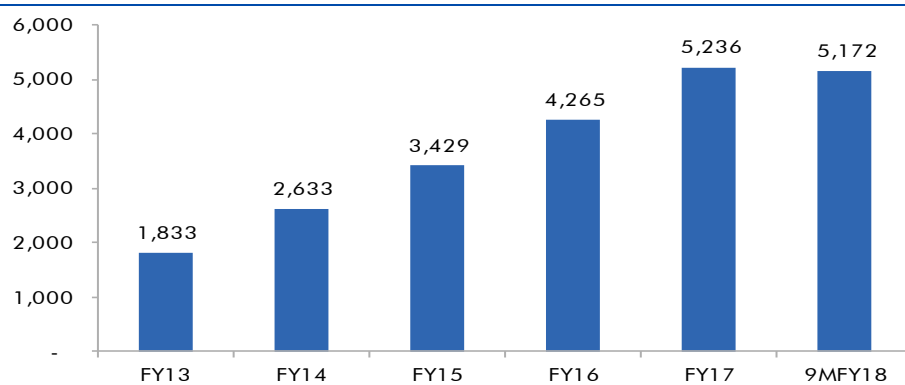
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Company Background

IndoStar Capital Finance (ICFL) is a Mumbai-headquartered NBFC, incorporated in 2009. It was incorporated by the name 'RV Vyapaar Pvt. Ltd' and changed the name to the existing one in 2010. It is promoted by Singapore based Everstone Capital Partners. The company started its operations by providing finance solution to corporates and SMEs. Later on it added housing finance and vehicle finance to its product portfolio in September 2017 and November 2017, respectively. Of all the product offerings, corporate loan contributes major revenue. SME loan constitutes least portion of the total business. The company operates through 100 branches and its corporate office situated in Mumbai. The financing activity is primarily focused on middle and large sized customer segments. The company aims of expanding retail lending business via mortgages, asset financing and SME loans. It also plans to concentrate on rural areas to increase its housing loan business.

Exhibit 1: Loan Book Trend, 30% CAGR over FY13-17



Source: Company

Key Management Personnel

Mr. Dhanpal Jhaveri is the Chairman & Non-executive director of ICFL. He holds a bachelor's degree in commerce from the University of Mumbai and a master's degree in business administration from Babson College. He has experience in investing, corporate strategy, mergers and acquisitions and investment banking.

Mr. R. Sridhar is a whole-time director designated as the Executive Vice-Chairman and Chief Executive Officer. He holds a bachelor's degree in science from University of Madras and is a qualified chartered accountant from the Institute of Chartered Accountants of India. He was the managing director of Shriram Transport Finance before joining IndoStar Capital Finance.

Mr. Alok Oberoi is serving ICFL as the Non-Executive Director since April, 2011. He holds a bachelor's degree in science and a master's degree in business administration from Cornell University. He has several years of experience in the field of investments and structuring international joint venture and transactions

Issue details

This IPO is a mix of OFS and issue of fresh shares. The issue would constitute fresh issue worth of ₹700cr and OFS worth of ₹1,144cr. OFS largely would offer exit to early investors namely Everstone (PE), Sandeep Baid, Vimal Bhandari, Shailesh Shirali and few others.

Exhibit 2: Exhibit 2: Pre and Post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	7,22,37,635	92	5,22,37,635	57
Investor/Public	66,63,564	8	3,89,01,326	43
	7,89,01,199	100	9,11,38,961	100

Source: RHP Note: Calculated on upper price band

Objects of the offer

- The Company would utilise the proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.
- To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares.

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Exhibit 3: Relative comparison

Company	Adv Growth FY13-18	GNPA	NPA	RoE	RoA	P/B	PE
Indo star	31.0	1.7	1.3	10.1	3.2	1.7	24.8
Capital First	29.0	1.6	1.0	13.8	1.8	2.4	18.8
Shriram City Union Finance	15.0	9.0	3.4	12.3	2.8	2.7	23.5
STFC	21	9	3	14	3	3	23

Source: Company, Angel Research, Valuation are based on FY18 numbers

Risk

- The ICFL has expanded into new lines of business (Vehicle & Housing) and if it is unable to successfully grow loan book and profitably, it would adversely impact financials of the company.
- Any downgrade in credit ratings could increase borrowing costs and adversely affect ICFL's access to capital and lending markets and could also affect interest margins.

Income Statement

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	9MFY18
Nil	168	207	275	332	286
- YoY Growth (%)		24	33	21	-
Other Income	38	63	80	76	71
- YoY Growth (%)		67	28	-5	-
Operating Income	205	270	355	408	357
- YoY Growth (%)		32	31	15	-
Operating Expenses	35	41	58	73	98
- YoY Growth (%)		19	42	25	-
Pre - Provision Profit	171	229	297	335	259
- YoY Growth (%)		34	30	13	-
Prov. & Cont.	1	3	3	12	9
- YoY Growth (%)		121	10	262	-
Profit Before Tax	169	226	293	323	250
- YoY Growth (%)		33	30	10	-
Prov. for Taxation	57	77	102	112	86
- as a % of PBT	34	34	35	35	-
PAT	112	149	192	211	164
- YoY Growth (%)		33	29	10	-

Balance Sheet

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	9MFY18
Share Capital	68	68	73	78	79
Reserve & Surplus	1,067	1,217	1,468	1,824	1,998
Net Worth	1,136	1,285	1,542	1,903	2,077
Total Borrowings	1,404	1,979	2,258	2,697	2,854
- Growth (%)		41	14	19	-
Total provisions	14	18	20	43	45
Other Liabilities	608	709	872	841	1,068
Total Liabilities	3,161	3,992	4,693	5,489	6,045
Cash and Cash equivalents	468	486	360	65	75
Investments	61	55	-	187	712
Total Loans & Advances	2,586	3,392	4,284	5,161	5,168
- Growth (%)		31	26	20	-
Fixed Assets	1	1	4	9	26
Other Assets	44	59	46	67	64
Total Assets	3,161	3,992	4,693	5,489	6,045

Key Ratio

Y/E March	FY15	FY16	FY17
Profitability ratios (%)			
NIMs	8	7	6
RoA	6	5	5
RoE	18	16	14
C/I	15	16	18
Asset Quality (%)			
Gross NPAs (cr)	19	10	73
Net NPAs (cr)	17	8	62
Gross NPAs %	0.6	0.2	1.4
Net NPAs %	0.5	0.2	1.2
Credit Cost	0.1	0.1	0.3
Per Share Data (₹)			
EPS	19	24	27
BVPS	163	195	241
Adj BV	161	194	234
Valuation Ratios			
PER (x)	30	24	21
P/BVPS (x)	3.5	2.9	2.4
P/ABVPS (x)	3.6	2.9	2.4
DuPont Analysis			
Interest Income	13.0	13.0	12.6
Interest Expenses	5.4	5.9	5.7
NII	8	7	7
Provision	0.1	0.1	0.2
Adj NII	8	7	7
Other Inc.	2	2	2
Total Income	9	9	8
Opex	1	1	1
PBT	8	7	7
Taxes	2	2	2
RoA	6	5	5
Leverage	3	3	3
RoE	18	16	14

Note- Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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