



SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	NBFC
Total Issue (Shares) - Offer for sale	20,000,000
Total Issue (Shares) - Fresh Issue	12,237,762
Net Offer to the Public	32,237,762
Issue Size (Rs. Cr.)	1837-1844
Price Band (Rs.)	570-572
Offer Date	9-May-18
Close Date	11-May-18
Face Value	Rs.10
Lot Size	26 Equity Share

Issue Composition

Issue Composition	In shares
Total Issue for Sale	32,237,762
QIB	16,118,881
NIB	4,835,664
Retail	11,283,217

About the Company

Promoted by Everstone Group, Indostar Capital Finance Limited was incorporated in the year 2009 as a non-banking finance company. The company is registered with the Reserve Bank of India as a non deposit taking company. The company started its operations in the year 2011 and currently has four lines of business, namely, corporate lending, SME lending, vehicle financing and housing financing. As of February 28, 2018, the company had 71 retail branches across India. As of December 31, 2017, lenders of the company included 14 public sector banks, 13 private sector banks, 21 mutual funds and 4 insurance companies among other financial institutions. As of February 28, 2018, distribution network of the company included 548 employees in sales team, and approximately 949 third-party direct sales associates and other third party intermediaries who are empaneled with the company. Revenue of the company has grown to Rs.719.91 Cr for the fiscal 2017 from Rs.241.58 Cr for the fiscal 2013 at a CAGR of 31.4%. As of December 31, 2017, cumulative loans disbursed since commencement of operations amounted to Rs.22592.98 cr out of which Rs.17418.54 Cr had been repaid. As of March 31, 2015, 2016 and 2017 and December 31, 2017, the company's gross NPAs accounted for 0.6%, 0.2%, 1.4% and 1.7% of gross advances.

Strength

Diversified Customer base

The company provides lending to 4 lines of business, i.e., corporate lending, SME lending, vehicle financing and housing financing;

- **Corporate lending** business primarily consists lending to mid-to-large sized corporate in manufacturing, services and infrastructure industries, by way of senior secured debt, structured financing, promoter financing and special situation funding and lending to real estate developers. Corporate lending business accounted for 99.8%, 94.8%, 87.6% and 76.8% of Total Credit Exposure for the fiscal 2015, 2016 and 2017 and the nine month period ended December 31, 2017 respectively.
- **SME lending** involves extending secured loans for business purposes to small and medium size enterprises, including businessmen, traders, manufacturers and self-employed professionals. SME lending business accounted for 0.2%, 5.2%, 12.4% and 22.7% of Total Credit Exposure for the fiscal 2015, 2016 and 2017 and nine month period ended December 31, 2017, respectively.
- **Vehicle finance** involves providing financing for purchases of used or new commercial vehicles, passenger vehicles and two-wheelers. The company commenced its vehicle finance business in November 2017. As of December 31, 2017, the Vehicle Finance Credit Exposure amounted to Rs.14.30 Cr.
- **Housing finance** business comprises two business lines, namely affordable housing finance, and retail housing finance. The company operates its housing finance business through its wholly-owned subsidiary IndoStar Home Finance Private Limited. As of December 31, 2017, Housing Finance Credit Exposure amounted to Rs.14.60 Cr.

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	91.55%	57.32%
QIB	0.00%	17.69%
NIB	5.16%	9.77%
Retail	3.29%	15.22%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- The Objects Of The Issue is to utilize the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements

Book Running Lead Manager

- JM Financial Limited
- Kotak Mahindra Capital Company Limited
- Morgan Stanley India Company Private Limited
- Nomura Financial Advisory and Securities (India) Private Limited
- Motilal Oswal InvestmentAdvisors Limited

Name of the registrar

Link Intime India Private Limited

High asset quality achieved through robust credit assessment and risk management

framework: The Company maintains a high-quality loan portfolio as it actively monitors the performance of its loans and the quality of its loan portfolio is reflected by in its low rates of Gross NPAs and Net NPAs. As of December 31, 2017, the company only had two NPAs in their corporate lending business. As of March 31, 2015, 2016 and 2017 and December 31, 2017, the company's Gross NPAs accounted for 0.6%, 0.2%, 1.4% and 1.7% of their Gross Advances, while their Net NPAs accounted for 0.5%, 0.2%, 1.2% and 1.3% of the Company's NetAdvances, respectively.

Proven track record of delivering results

Between the fiscal year 2013 and 2017, total credit exposure and total revenue of the company grew at a CAGR of 30.0% and 31.4%, respectively. Since fiscal year 2013, profit after tax of the company has grown every year, registering a CAGR of 23.7%. Net Interest Margin of the company have been strong for the fiscal year 2015, 2016 and 2017 and nine month period ended December 31, 2017 at 6.0%, 6.5%, 6.8% and 6.9%, respectively. Over the same periods, Return on Average Assets stood at 4.2%, 4.4%, 4.1% and 3.8%, Return on Average Equity was 12.3%, 13.6%, 12.2% and 10.9%, and debt to equity ratio was 2.00, 1.95. 1.77 and 1.78, and capital adequacy ratio was 32.6%, 34.2%, 33.8% and 31.6%, respectively.

Well diversified funding profile: The Company secures cost effective funding through a variety of sources, including banks, mutual funds, insurance companies and other financial institutions. As of December 31, 2017, lenders of the company included 14 public sector banks, 13 private sector banks, 21 mutual funds and 4 insurance companies among other financial institutions. Due to diversification of sources of funding has helped in reducing the company's Average Cost of Borrowings in recent fiscal periods. For fiscal 2015, 2016 and 2017 and the nine month period ended December 31, 2017, Average Cost of Borrowing was 11.9%, 11.1%, 10.3% and 9.1%, respectively. The decrease in Cost of Borrowings has allowed the company to maintain sufficient interest margins and achieve liquidity goals, as well as maintain funding stability.

Ownership by institutional investors ensuring international corporate governance

standards: The company stands to benefit from strong capital sponsorship and professional expertise of its Promoter and other institutional shareholders. The Promoter, which is part of the Everstone Group, is an India and Southeast Asia focused investor which was recognized as 'Private Equity Firm of the Year in India' by Private Equity International for six consecutive years from 2011 to 2016, with approximately US\$4.0 billion of assets under management. In addition to assisting the company with capital raising and obtaining strong credit ratings, the company also benefits from its relationship with the Promoter such as access to best industry practices and international corporate governance standards.

Strategies

Four Pillars strategy focused on secured lending: The Company intends to continue to expand its scale of operations primarily through the implementation of the four pillars strategy wherein they operate each business line as an independent profit centre with its dedicated management team.

Expand geographical footprint and sourcing platform for products across India: The Company plans to selectively expand its business operations, including sourcing and sale of products, into regions where they expect increasing urbanization, commercial activity and household incomes to result in demand for its various loan products. The company expects that a significant portion of its geographic expansion will include tier I, tier II and tier III cities in the northern, southern and western regions of India. Furthermore, the company intends to grow its branches in fifteen key states across India and currently expects to have approximately 130 branches by June 2018 out of which approximately 100 will be focused on vehicle finance business and remaining 30 for SME lending and housing finance business. Most of the new branches will be opened for vehicle finance

business with the potential for affordable housing business to use these branches, where practicable.

Increase use of technology and data analytics to support business growth and improve efficiency: The Company intends to further develop and invest in technology to support its growth, improve the quality of services and achieve superior turnaround time in its operations. As of March 31, 2017, the company have incurred Rs.6.84 Cr on capital expenditure to expand and develop IT Infrastructure. During Fiscal 2018, Rs.4 Cr has already been incurred as of December 31, 2017, including commitments of Rs.1.19 Cr. The company utilizes an enterprise-wide loan management system, OmniFin, to provide an integrated technology platform for providing operational and decision-making support. Further, the company's continued focus on the effective use of technology is aimed at allowing employees across its office network to collect and enter data to a centralized management system, providing the senior management realtime access to credit processing and decision making.

Risk Factors

- **Risk from higher levels of NPAs:** Increase in the level of NPAs may affect the quality of the portfolio of the company and may adversely affect the operations and profitability of the company.
- **Highly competitive industry:** The company operates in highly competitive industry and inability to compete effectively may adversely affect the business of the company.
- **Dependent on the accuracy and completeness of information about customers and counterparties:** Any misrepresentation, errors in or incompleteness of information about customers and counterparties could adversely affect the business and financial performance of the company.
- **Corporate lending business is concentrated on single area:** The main operations of the company are conducted in the Mumbai Metropolitan Region, any adverse changes in the conditions affecting these markets can adversely impact the business, financial condition and results of operations.

Peer comparison

COMPANY NAME	TOTAL INCOME	PAT	MCAP	EPS	P/E	P/BV	FV	PRICE	BV
Piramal Enterp.	10400.24	1495.40	45429.87	82.95	30.38	2.71	2.00	2520.05	930.39
Sundaram Finance	2661.58	542.63	19440.28	60.61	28.87	4.04	10.00	1749.80	433.49
Shriram Trans.	12416.58	1476.60	35702.97	65.20	24.13	2.84	10.00	1573.65	554.83
Cholaman. Inv.&Fn	5501.26	975.42	26119.85	62.39	26.78	5.06	10.00	1670.80	330.35
Repco Home Fin	1098.06	200.10	3675.17	30.00	19.58	3.20	10.00	587.45	183.75
Capital First	3812.05	327.44	6103.84	33.09	18.64	2.33	10.00	616.75	264.48
Aditya Birla Cap	11568.15	725.38	34754.93	3.30	47.91	3.03	10.00	157.90	52.05
L&T Fin.Holdings	10499.94	1459.49	35304.90	7.31	24.19	2.30	10.00	176.90	77.06
Indostar Capital Finance	781.26	218.77	5213.15	24.00	23.83	1.84	10.00	572.00	310.68

* Financials are annualised

**Peer companies financials are based on TTM

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 572, the stock is priced at pre issue P/E of 20.63x on its estimated annualised FY18 EPS of Rs. 27.73. Post issue, the stock is priced at a P/E of 23.83x on its EPS of Rs. 24.00. Looking at the P/B ratio at Rs. 572 the stock is priced at P/B ratio of 2.17x on the pre issue book value of Rs.263.22 and on the post issue book value of Rs. 310.68 the P/B comes out to 1.84x.

On the lower end of the price band of Rs.570 the stock is priced at pre issue P/E of 20.56x on its FY18 EPS of Rs. 27.73. Post issue, the stock is priced at a P/E of 23.75x on its EPS of Rs. 24.00. Looking at the P/B ratio at Rs. 570, the stock is priced at P/B ratio of 2.17x on the pre issue book value of Rs. 263.22 and on the post issue book value of Rs. 310.68, the P/B comes out to 1.83x.

Industry Overview

Non-Banking Financial Companies (“NBFCs”) have played an important role in the Indian financial system by complementing and competing with banks, and by bringing in efficiency and diversity into financial intermediation. India’s financing requirements have risen in sync with the economy’s notable growth over the past decade. NBFCs have played a major role in meeting this need by providing financial services with respect to products as well as customer and geographic segments at the grassroots level, making them a critical cog in the financial machine. They also cater to the unbanked masses in rural and semi-urban areas, and lend to the informal sector and people without credit histories. This key service has enabled the Government and regulators to realize the mission of financial inclusion. As of March 31, 2017, they accounted for 16% of the overall systemic credit. NBFCs have evolved considerably in terms of operations, heterogeneity, asset quality and profitability, and regulatory architecture. So far, NBFCs have gained market share at the expense of banks owing to focused lending, widening reach, and resource-raising ability. With slowing corporate demand for loans, banks have shifted their focus to retail assets, thereby increasing competition for NBFCs.

Outlook

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. Though the company has four diversified business segment namely Corporate lending, SME lending, Vehicle finance and Housing finance but it has negligible presence in Vehicle finance and Housing finance business. On the flip side the SME financing business has witnessed a stupendous growth in business within a shorts period of time. The SME lending business accounted for 0.2%, 5.2%, 12.4% and 22.7% of its Total Credit Exposure for the fiscal 2015, 2016 and 2017 and nine month period ended December 31, 2017, respectively. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	May 09, 2018
Bid/Offer Closing Date	May 11, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	May 16, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	May 17, 2018
Credit of Equity Shares to depository accounts of Allottees	May 18, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	May 21, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-17 (9 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	580.16	719.30	644.00
Total expenditure	104.65	83.15	61.07
Operating Profit	475.52	636.15	582.93
OPM%	81.96	88.44	90.52
Other Income	5.79	0.61	0.05
PBDIT	481.30	636.77	582.98
Depreciation	2.35	1.88	0.51
PBIT	478.95	634.89	582.47
Interest	229.05	311.85	289.26
PBT	249.90	323.04	293.21
Tax	85.82	112.25	101.57
Profit after tax	164.08	210.80	191.64

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-17	As on 31-Mar-17	As on 30-Sep-16
Non-current assets	0.00	0.00	0.00
Fixed assets			
Tangible assets	12.23	6.92	3.02
Intangible Assets	1.42	1.88	0.29
Capital Work In Progress	12.23	0.00	0.44
	25.89	8.80	3.75
Non-current investment	138.85	63.03	0.00
Deferred tax assets	18.32	16.37	10.30
Long term receivables	0.00	0.00	0.00
Long-term loans and advances	3924.01	3933.09	3099.25
	4107.06	4021.29	3113.30
Current assets			
Current Investment	572.73	123.94	0.00
Cash and Bank balances	75.43	65.13	359.61
Short-term loans and advances	1243.96	1227.54	1184.65
Other current assets	45.90	50.88	35.74
Total current assets	1938.02	1467.48	1580.00
Total Assets	6045.08	5488.77	4693.30
Non-current liabilities			
Long-term borrowings	1541.84	1910.61	1758.87
Other long-term liabilities	3.91	7.24	10.27
Long-term provisions	34.21	26.95	14.61
Total non-current liabilities	1579.96	1944.80	1783.75
Current liabilities			
Short-term borrowings	1312.02	786.55	499.42
Current maturities of long term borrowings	0.00	0.00	0.00
Other current liabilities	1064.04	833.75	861.82
Short-term provisions	10.29	15.64	5.85
Trade payables	1.93	5.28	0.67
Total current liabilities	2388.29	1641.22	1367.75
Total	3968.24	3586.02	3151.50
NET Worth	2076.83	1902.75	1541.80
Net worth represented by:			
Share capital	78.68	78.36	73.35
Reserves and surplus	1998.16	1824.39	1468.45
Net Worth	2076.83	1902.75	1541.80

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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