

INDOSTAR CAPITAL FINANCE IPO

RATING



Issue Details

| | |
|--------------------------------|---------------------------|
| IPO Open Date | May 09, 2018 |
| IPO Close Date | May 11, 2018 |
| Face Value | INR. 10 per share |
| Minimum Bid (no. of shares) | 26 |
| Price Band | INR. 570.00 - INR. 572.00 |
| Listing on | NSE & BSE |
| ALLOCATION | |
| Retail Allocation | 35% of the offer |
| Qualified Institutional Buyers | 50% of the offer |
| Non-Institutional Bidders | 15% of the offer |

| | |
|---|-------------|
| Earnings per Share (EPS March 2017) | INR. 26.31 |
| Price/Earnings (P/E) | 21.66-21.74 |
| P/B | 2.16 |
| Net Asset Value per equity share (March 2017) | INR 263.96 |
| Average Return on Net Worth (March 2017) | 11.08% |

Company Profile

Incorporated in the year 2009, Mumbai based IndoStar Capital Finance Limited is a NBFC registered with the RBI as a systemically important non-deposit taking company. The company operates four principal lines of business, namely, corporate lending, SME lending, vehicle financing, and housing financing. It recently expanded its portfolio to offer vehicle finance and housing finance products.

Investment Rationale

- Proven track record of delivering results
- Strong SME lending businesses

Key Promoters

The promoter of the company is:

- IndoStar Capital

OUTLOOK

The company has posted strong financials for the last 4 years. At the upper price band of INR 572, P/E estimated is 21.74 as compared to industry P/D of 40.06. Since the company is presently a corporate lender and does not have presence in retail business. As the segment is highly competitive and the Company does not have experience in retail credit.

We recommend to **AVOID** for listing gains and include for long term at a discounted price.

Summary of Financial Performance (in INR Crores)

| | FY14 | FY15 | FY16 | FY17 | 9 months FY18 |
|------------------|--------|--------|--------|--------|---------------|
| Total Revenues | 396.90 | 528.10 | 644.10 | 719.90 | 585.90 |
| Total Expense | 227.70 | 302.00 | 350.80 | 396.90 | 336.00 |
| Profit After Tax | 112.10 | 149.00 | 191.60 | 210.80 | 164.10 |

Objects of Issue

The objects of the issue are to:

- Augment the capital base to meet future capital requirements.
- General corporate purposes.

Lead Managers

- JM Financial Consultants Pvt. Ltd.
- Kotak Mahindra Capital Company Ltd.
- Morgan Stanley India Company Pvt. Ltd.
- Motilal Oswal Investments Advisors Pvt. Ltd.
- Nomura Financial Advisory And Securities (India) Pvt. Ltd.

Product Portfolio

- **Corporate Lending:** The business primarily consists of (i) lending to mid-to-large sized corporates in manufacturing, services, and infrastructure industries, by way of senior secured debt, structured financing, promoter financing, and special situation funding and (ii) lending to real estate developers, mainly for financing project level construction of residential and commercial building projects and take-out of early-stage equity investors. As of December 31, 2017, the Corporate Lending Credit Exposure amounted to INR. 39,693.97 million.
- **SME Lending:** Started in 2015, the SME lending business involves extending secured loans for business purposes to small and medium size enterprises. The company currently provides SME lending loans from 10 branches located in Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune, and Indore. As of December 31, 2017, the SME Lending Credit Exposure amounted to INR. 11,733.97 million.
- **Vehicle Finance:** The business primarily involves providing financing for purchases of used or new commercial vehicles, passenger vehicles, and two-wheelers. The company commenced vehicle finance business in November 2017. As of December 31, 2017, the Vehicle Finance Credit Exposure amounted to INR. 143.01 million.
- **Housing Finance:** The housing finance business comprises two business lines, namely (i) affordable housing finance and (ii) retail housing finance. It operates housing finance business through wholly owned subsidiary, **IndoStar Home Finance Private Limited**. The affordable housing finance business line primarily involves loans to the salaried and self-employed customers for housing purposes where the property cost is typically up to INR. 5.0 million. The retail housing business line primarily extends loans to salaried and self-employed customers for the purchase of residential properties. As of December 31, 2017, the Housing Finance Credit Exposure amounted to INR. 145.95 million.

IndoStar conducts its retail operations through ten branches across Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune, and Indore and central support office in Mumbai.

The lenders of the company include, among others, 14 public sector banks, 13 private sector banks, 21 mutual funds and four insurance companies and other financial institutions. The distribution network includes approximately 210 personnel in its in-house sales team, and approximately 648 third-party direct sales associates (DSAs) and other third-party intermediaries.

Peer Groups

| Company | Basic EPS | P/E | RoNW (%) | Net Asset Value | P/B |
|----------------------------------|-----------|-------|----------|-----------------|------|
| IndoStar Capital Finance Limited | 26.31 | 21.74 | 11.08 | 263.96 | 2.16 |
| L&T Finance Holdings | 5.21 | 32.86 | 11.44 | 51.87 | 3.36 |
| Piramal Enterprises | 72.57 | 36.67 | 8.41 | 862.44 | 3.09 |
| Aditya Birla Capital | 6.35 | 24.76 | 8.04 | 53.52 | 2.94 |

| Company | Basic EPS | P/E | RoNW (%) | Net Asset Value | P/B |
|------------------------------|-----------|-------|----------|-----------------|------|
| Capital First | 25.56 | 25.69 | 10.37 | 236.48 | 2.78 |
| Shriram Transport Finance Co | 55.78 | 28.38 | 11.17 | 499.46 | 3.17 |
| Sundaram Finance | 61.52 | 27.62 | 14.19 | 433.47 | 3.92 |
| Cholamandalam Investment | 46.03 | 33.10 | 16.63 | 276.79 | 5.51 |
| Repc Home Finance | 30.00 | 20.21 | 16.32 | 183.75 | 3.30 |

Prospectus Documents

[Draft Offer Documents filed with SEBI](#) | [Red Herring Documents filed with ROC](#)

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