Farsight

MORNING FARSIGHT

Friday, June 29, 2018

INDOSTAR CAPITAL   CMP:RS 510   TRGT:RS 600   TIME HORIZON: 1 YEAR

Indostar Capital is looking a good buy at current levels, given recent share price correction, post fund raising via IPO just last month, with healthy prospects seen for the current year. Listed on the bourses since 21st May 2018, pursuant to a Rs. 1,844 crore IPO (including fresh issue of Rs.700 cr) at an issue price of Rs. 572, this young NBFC (less than 8 years old) has a loan book of Rs. 6,200 cr, split 75% into structured corporate loans, 23% SME loans, 2% used commercial vehicle (CV) and 1% home loans. The last two segments commenced operations less than 6 months ago, hence having small base. Going forward, company is looking to focus on corporate and used CV lending (to make up 50% and 25% of loan book respectively), where spreads are at an upward of 6% and also sustainable. even in a hardening interest rate scenario. Company's FY18 net interest income (NII) grew 21% YoY to Rs. 494 cr, albeit lower PAT growth of 12% to Rs. 236 cr, due to higher operating expenses in terms of employee and branch expenses, which did not meaningfully contribute to topline last year. To put things into perspective, in March 2018 quarter alone, employee count doubled to 1,094from 531, as of 31-12-17, while branches increased to 91from 43, as of 31-12-17 and from 7,as of 31-3-17. Thus,company looks set to tap the resources it has put in place last year. While disbursements for whole of FY18 stood at Rs. 5,388 cr, up 10%YoY, for Q4FY18 alone, it disbursed Rs. 2,183 cr, a run-rate which is likely to be maintained in the ongoing fiscal , as current retail run rate (aggregate of SME, vehicle and home loan is about Rs. 300-350 cr per month). Company has guided doubling of AUM to Rs. 12,000 cr as of 31-3-19, from current Rs. 6,200 cr. To fuel this growth, it is also planning to raise Rs. 800 cr via listed NCDs. While FY18 RoE came in low at 11%,RoA was healthy at 3.5%. Asset quality has improved in FY18, with net NPAs at 1.1%, based on 90 dpd (days past due), down from 1.2%as of 31-3-17, based on 120 dpd. As of 31-3-18, BVPS stood at Rs. 272, which after giving effect of Rs. 700 cr fresh issue from IPO, having expanded to Rs. 311. This discounts the current share price by PBV multiple of 1.7x, on historic basis, and on 1.5x, based on FY19E. Promoter holding comprising of 4 PE funds stands at 59%, while 57 institutional investors own little over 22%, besides Prof Mankekar holding 1.8%. R Shirdhar of Shriram Transport Finance fame has been roped into the company from March 2018, to spearhead growth, particularly in the used CV business. Thus the foundation seems to be in place and company looks poised to channelize it**. Morgan Stanley has also initiated coverage on the stock with an ‘Overweight’ rating and a price target of Rs 650**—an upside potential of nearly 25 percent from current levels. Share ruling at 510 can move to 600 in 1 year.