



**IPO note: Indostar Capital Finance Ltd. - "SUBSCRIBE"**

Incorporated on July 21, 2009, Indostar Capital Finance Limited ("Indostar") is the professionally managed and institutionally owned; leading Non-Banking Finance Company ("NBFC") which is primarily engaged in providing bespoke Indian Rupee denominated Structured Term Financing Solutions to Corporates and Loans to Small and Medium Enterprise ("SME") borrowers in India. The company has recently expanded their portfolio to offer Vehicle Finance and Housing Finance products. Indostar has and expect to continue to benefit from strong capital sponsorship and professional expertise of their promoter, which is part of the Everstone Group, an India and Southeast Asia focused investor.

The Company operates 4 principal lines of business, namely:

- Corporate lending,
- SME lending,
- Vehicle financing and
- Housing financing.

The Company operates its housing finance business through their wholly-owned subsidiary IndoStar Home Finance Pvt. Ltd. The Company's lenders included, among others, 14 public sector banks, 13 private sector banks, 21 mutual funds, 4 insurance companies and other financial institutions. The distribution network included approximately 548 personnel in their in-house sales team, and approximately 949 third-party direct sales associates (the "DSAs") and other third-party intermediaries who are empaneled with them. As of February 28, 2018, they conducted their retail operations through 71 branches across India and the central support office in Mumbai. As part of their efforts to grow retail operations, Indostar has opened their 100th branch in Vadodara, Gujarat, on April 6, 2018. In their SME lending and vehicle and housing finance businesses, their branches act as the primary point of sale and assist with the origination of loans, various collection processes and enhancing customer service, while their central support office provides support functions, such as loan processing and credit monitoring. Indostar maintains clear segregation between their sourcing and credit approval teams so as to ensure independence and effectively manage operational risks. The enterprise-wide loan management system integrates all activities and functions within their organization under a single technology and data platform, bringing efficiencies to their back-end processes.

In terms of financial performance, PAT has witnessed a CAGR of 23.7 percent to Rs.210.80 crore for the fiscal 2017 from Rs.90.09 crore for the fiscal 2013. As of Dec.31, 2017, the cumulative loans disbursed since commencement of operations amounted to Rs.22,592.98 crore out of which Rs.17,418.54 crore had been repaid. During the period FY13-17, its loan book increased by 30 per cent annually to Rs 5,235.9 crore. Of this, over 76 per cent consists of corporate loans and 23 per cent is SME credit. As of March 31, 2017 and December 31, 2017, the Gross NPAs accounted for 1.4% and 1.7% of the company's Gross Advances, while the Net NPAs accounted for 1.2% and 1.3% of the company's Net Advances, respectively.

<b>IPO note date</b>	8th May, 2018
<b>Issue date</b>	May 09 – May 11, 2018
<b>Listing date</b>	May 21, 2018
<b>Type of issue</b>	Fresh issue: Rs. 7 billion Offer for sale: 20 mn equity shares
<b>Face Value</b>	Rs. 10
<b>Price Band</b>	Rs. 570 – Rs. 572
<b>Issue size</b>	Rs. 18.44 billion
<b>Issue allocation</b>	QIB: 50% HNI: 15% Retail: 35%
<b>Lot size</b>	26 equity shares and in multiple thereof
<b>Equity shares post issue at upper end of price band</b>	91.138 mn equity shares
<b>Post issue market cap</b>	Rs. 52 bn
<b>Book Running Lead Managers</b>	JM Financial, Kotak Mahindra Capital, Morgan Stanley, Motilal Oswal, Nomura

**Registrar to the issue**

Y/e 31 Mar (Rs. mn)	9MFY18	FY17	FY16
<b>Total Income</b>	5,860	7,199	6,441
<b>PAT</b>	1,640	2,107	1,916
<b>Equity Share Capital</b>	787	783	733
<b>Networth</b>	20,768	19,027	15,418
<b>ROAE (%)</b>	7.9%^	11	12.4
<b>ROAA (%)</b>	3.8	4.1	4.4
<b>Book value (Rs.)</b>	264	243	210
<b>Post IPO EPS (Rs.)#</b>	23.99	23.1	21.0
<b>P/E (x)</b>	24	25	27
<b>P/BV (x)</b>	-	2.35	2.72

Source: RHP, ^ not annualized, # annualized

**Investment recommendation and rationale**

At the upper end of the price band, the issue is valued at 2.2 times of Q3 FY18 book value (pre-IPO) and 1.9 times of book value on a post dilution basis which is at a discount to peers in listed space trading at a P/BV multiple of 3-5x. We believe the the discount in the valuation is also owing to lack of presence of the Company in retail segment. However, the Company's recent focus on retail segments like vehicle finance and affordable homes is expected to support the yield and improve the asset quality in the future. With due consideration to factors like a) established strong corporate lending business, b) expanding portfolio to vehicle finance, c) continue to grow in SME lending and also entered housing finance business, d) growth in credit exposure and PAT at CAGR of 30 percent and 27 percent respectively, e) well diversified funding profile, f) robust risk management and high quality assets: only 2 NPAs in corporate lending, g) strong capital sponsorship of Everstone and other institutional investors. h) robust profitability metrics: NIMs of 6.9 percent and Cost/income ratio of 27.6 percent, i) superior return ratios with 3.8 percent of RoAA and RoAE of 10.9 percent, we recommend "SUBSCRIBE" to the issue.

## Objects of the issue

The Issue comprises of a Fresh Issue by the Company and an Offer for Sale by the Selling Shareholder.

### The Offer for Sale (OFS)

The proceeds of the Offer for Sale shall be received by the Selling Shareholder. The Company will not receive any proceeds from the Offer for Sale. The following are the selling shareholders:

- a) Indostar Capital – the Promoter Shareholder: 18,508,407 equity shares offered in OFS
- b) Vimal Bhandari: 399,280 equity shares
- c) Shailesh Shirali: 243,955 equity shares
- d) Jayant S Gunjal: 44,658 equity shares
- e) Vivek Agarwall: 109,635 equity shares
- f) Sandeep Baid: 694,06 equity shares

### The Fresh Issue – Rs. 7 bn

The Company proposes to utilise the Net Proceeds towards funding of the following objects:

1. To utilize the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements.
2. To achieve the benefits of listing the Equity Shares on the Exchanges and to carry out offer for sale of equity shares
3. General Corporate Expenses

## Promoters' background

**Dhanpal Jhaveri** is the Chairman and non-executive Director of the company and has been associated with the company since September 2, 2010. He has several years of experience in the fields of investing, corporate strategy, mergers and acquisitions and investment banking. He has worked with Vedanta Group, ICICI Securities and Finance Company Limited, KPMG India Private Limited and Everstone Capital Advisors Private Limited.

**Sameer Sain** is a non-executive Director of the company and has been associated with the company since April 28, 2011. He has several years of experience in investment management and institutional wealth management, and special investments.

**Alok Oberoi** is a non-executive Director of the company and has been associated with the company since April 28, 2011. He has several years of experience in the field of investments and structuring international joint venture and transactions. He is also associated with ACPI Investments Limited.

**R. Sridhar** is a whole-time Director designated as the Executive Vice-Chairman and Chief Executive Officer of the company

**Dinesh Kumar Mehrotra, Hemant Kaul, Bobby Parikh and Naina Krishna Murthy** are the Non-Executive Independent Director of the company.

## Key management team

**R. Sridhar** is a whole-time Director designated as the Executive Vice-Chairman and Chief Executive Officer of the company and has been associated with the company since April 18, 2017. He is responsible for the overall management and administration of the business and affairs of the company. He has approximately 3 decades of experience in the financial services industry. He was previously associated with various entities forming part of the Shriram group and held the position of managing director of Shriram Transport Finance Co. Ltd.

**Pankaj Thapar** is the Chief Financial Officer and has been associated with the company since November 1, 2011. He has more than 30 years of experience in various fields including corporate finance with Indian and international entities like Everstone Capital Advisors Pvt. Ltd., Dentsu Marcom Pvt. Ltd, Coca-Cola India Inc., ANZ Grindlays Bank Ltd, Citibank India and ICICI Ltd. He is responsible for raising resources, treasury, accounting, regulatory compliance and board related matters.

**Prashant Joshi** is the Chief Operating Officer and has been associated with the Company since August 1, 2016. He has more than 20 years of experience across small and medium enterprises, and corporate banking. He has previously worked with Deutsche Bank AG, Standard Chartered Bank, IDBI Bank Ltd and ICICI Ltd. His function and areas of experience in the Company pertains to operations, technology and administration related functions.

**Sanjay Athalye** is the Chief Risk Officer and has been associated with the company since January 25, 2017. He has several years of experience in the fields of commercial finance, managing credit and risk, and portfolio quality. He has previously worked with Reliance Capital Ltd, Centurion Bank of Punjab Ltd, IDBI Bank Ltd, ICICI Ltd, Reliance Telecom Ltd and Modi Xerox Ltd.



**Shailesh Shirali** is the Managing Director, Head – Corporate Lending and Markets and has been associated with the company since November 5, 2012. He is responsible for the corporate lending and markets business segment. He has several years of experience in the financial services sector, and has previously worked at Future Capital Holdings Ltd.

**Hansraj Thakur** is the Business Head - SME Finance and has been associated with the company since April 3, 2017. He has several years of experience in the fields of small and medium enterprises, commercial banking, and sales and relationship management. He has previously worked at IDFC Bank Limited and Standard Chartered Bank.

**Gowthaman** is the Business Head – Vehicle Finance and has been associated with the company since July 6, 2017. He has more than 20 years of experience in financial institutions and has previously worked with Chola Mandalam Investment & Finance Company Ltd, Shriram Transport Finance Company Ltd, Shriram Investments Ltd and Inter Trim Linings Super Markets Pvt. Ltd.

**Prabhat Kumar Tripathy** is the Business Head – Retail Home Finance of IndoStar Home Finance Pvt. Ltd, the company subsidiary, since September 29, 2017. He has more than 20 years' experience with financial institutions such as Equitas Small Finance Bank Ltd, ICICI Ltd, Dewan Housing Finance Corporation Ltd and Maharishi Housing Development Finance Corporation Ltd.

**Shreejit Menon** is the Business Head – Affordable Home Finance of IndoStar Home Finance Pvt. Ltd, the company subsidiary, since May 2, 2017. He has been appointed as a whole-time director of IndoStar Home Finance Pvt. Ltd with effect from March 19, 2018. He has several years of experience with Financial Institutions like Religare Housing Development Finance Corporation Ltd, Muthoot Housing Finance Co. Ltd and HSBC Ltd.

**Jitendra Bhati** is the Company Secretary and has been associated with the company since August 1, 2011. He has previously worked at Future Capital Holdings Ltd, and has experience in the fields of legal, secretarial and compliance.

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