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Issue Details	
Price Band (Rs)	570-572
Face Value(Rs)	10
Issue Size(Rs)	1844cr
Issue Type	Book building
Minimum lot	26 shares
Issue Opens	May 09, 2018
Issue Closes	May 11, 2018
Listing on	NSE, BSE

Indicative Timeline	On or before
Finalization of Allotment	May 16,2018
Initiation of refund	May 17, 2018
Credit of Shares to Demat Accounts	May 18,2018
Listing on Stock Exchanges	May 21, 2018

Other Detail	
Book Running Lead Managers	JM Financial, Kotak Mahindra Capital, Morgan Stanley India, Motilal Oswal Investment, Noumra Financial Advisory
Registrar	Link Intime India Pvt Ltd

Indostar Capital Finance Ltd.

Company Background

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

IndoStar conducts its retail operations through 100 branches across Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune, and Indore with 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 548 personnel in its in-house sales team, and approximately 949 third-party direct sales associates (DSAs) and other third-party intermediaries.

Issue Details

IndoStar will be raising Rs 1844cr through the fresh issue of equity shares worth Rs 700cr and Offer For Sale of up to 2cr equity shares of face value of Rs 10/- each on the upper price band of Rs 572/-. Issue would comprise 25.4% of post offer paid up capital.

Details of selling shareholders

Sr No	Selling Shareholders	No of shares to be sold
1	IndoStar Capital	1,85,08,407
2	Vimal Bhandari	3,99,280
3	Shailesh Shirali	2,43,955
4	Jayant Gunjal	44,658
5	Vivek Agarwal	1,09,635
6	Sandeep Baid	6,94,065

Source: Company RHP, ACMIL

Issue Objective

Company proposes to utilize net proceeds towards:

- Augmenting capital base to meet future capital requirements
- To receive benefit of listing of equity shares

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs 570)	Upper Band (Rs 572)
QIB	50%	1,61,18,881	919	922
Non-Institutional Investors	15%	48,35,664	276	277
Retail Individual	35%	1,12,83,217	643	645
Total	100%	32237762	1838	1844

Source: Company RHP, ACMIL

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Outlook and Valuations

IndoStar is a leading non-banking finance company with a presence across 13 states and 100 branches. We believe NBFCs have played an important role in the domestic financial system by complementing and competing with banks, thus, bringing in efficiency and diversity into financial intermediation. According to CRISIL research, loan book of NBFCs would likely to grow at 15% in FY19. At the upper price band of Rs 572/-, IndoStar's stock trades at 1.98x FY18 P/B value of Rs 288/-, which looks attractive. Hence, we recommend to SUBSCRIBE the issue on a long term basis

Business Overview

IndoStar was incorporated as 'R V Vyapaar Private Limited' on July 21, 2009. The company got registered as a non-public deposit taking NBFC as per the certificate issued by the RBI on June 17, 2010. It is professionally managed and institutionally owned organization which is primarily engaged in providing Rupee denominated structured term financing solutions to corporate and loans to small and medium enterprise ("SME") borrowers in India. Further, the company expanded its portfolio through offering vehicle finance and housing finance products.

The company was benefitted and expects 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, 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. Further, the company's corporate lending business is operated from their registered and corporate office. Currently, IndoStar conducts its retail operations through 100 branches across India with its central support office in Mumbai.

Currently, the company operates in four principal lines of business under the following segments:

- 1. Corporate lending:** IndoStar's corporate lending business primarily consists of 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. They generally provide lending solutions against tangible collateral as well as security in other forms, such as charge on operating cash flows. IndoStar's corporate lending business accounts for 76.8% to total outstanding loan as on Dec 31st 2017. Moreover, as of Dec 31, 2017, corporate lending credit exposure amounted to Rs 3969cr.
- 2. SME lending:** The company's SME lending business commenced in 2015 and primarily involves extending secured loans for business purposes to small and medium size enterprises, including businessmen, traders, manufacturers, and self-employed professionals. The property securing these loans is typically completed and largely self-occupied residential and commercial property. They currently provide SME lending loans from their branches located in ten key locations across India - Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Jaipur, Surat, Ahmedabad, Pune, and Indore. The company's SME lending business accounts for 22.7% to total outstanding loan as on Dec 31st 2017. As of Dec 31, 2017, SME lending credit exposure amounted to Rs 1173cr.
- 3. Vehicle finance:** IndoStar's vehicle finance 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 Dec 31, 2017, Vehicle Finance Credit Exposure amounted to Rs 14cr.
- 4. Housing finance:** IndoStar's housing finance business comprises two business lines - affordable housing finance, which commenced operations in September 2017 and retail housing finance, which commenced operations in March 2018. Their 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 Rs 0.5cr. Their retail housing business line primarily extends loans to salaried and self-employed customers for the purchase of residential properties. As of Dec 31, 2017, their Housing Finance Credit Exposure amounted to Rs15cr.

The table below sets forth details in relation to their total credit exposure as on the dates indicated:

Loan Book Detail (Rs Cr)						
Total Credit Exposure	FY13	FY14	FY15	FY16	FY17	9MFY18
Corporate Lending	1833	2633	3422	4042	4586	3969
SME Lending			7	223	650	1173
Housing Finance						15
vehicle Finance						14
Total	1833	2633	3429	4265	5236	5171

Source: Company RHP, ACMIIL

Investment Rationale

Well-established corporate and strong SME lending businesses

The company has established a strong corporate lending business, primarily providing secured loans to manufacturing and service companies by way of structured financing, promoter financing and special situation funding and to leading real estate developers for financing project level construction of residential properties and take-outs of early stage equity investors. Further, company also have built a strong SME lending business focused on extending secured loans to small and medium size enterprises, including businessmen, traders, manufacturers and self-employed professionals. Company believe that successful corporate and SME lending businesses provide them with a strong platform for expanding into vehicle finance and housing finance, where they are able to leverage and optimize common infrastructure, such as corporate office, information technology and branch and sourcing networks, to further grow their business

High asset quality achieved through robust credit assessment and risk management framework

IndoStar has been able to maintain a high-quality loan portfolio through their robust credit assessment and risk management framework. They actively monitor the performance of their loans and the quality of their loan portfolio is reflected by Company's low rates of Gross NPAs and Net NPAs. As on Dec 31, 2017, the company's gross NPA and Net NPA stands at 1.7% and 1.3% respectively. Their credit assessment and risk management frameworks for all their business lines incorporate the requirement of senior management and credit committee approval, with built-in escalation matrices at pre-defined credit and risk triggers, which they believe allows them to ensure that more risky credits are considered and managed by members of their staff of sufficient seniority and decision-making authority, whilst their credit teams has sufficient autonomy to perform their roles. Further, they have formulated a vigil mechanism framework to enable employees to report concerns about unethical behavior and actual or suspected fraud or violation of any of their company's policies.

Well- diversified funding profile

Diversification of sources of funding has contributed to an overall reduction in their average cost of borrowings in recent fiscal periods. IndoStar believes that they have a well-diversified funding profile that underpins a strong liquidity management system, strong credit rating, and brand equity. It has historically and seeks to continue to secure cost effective funding through a variety of sources, including banks, mutual funds, insurance companies, and other financial institutions. The company maintains long-term relationships with lenders and, as of Dec 31, 2017, their lenders included, among others, 14 public sector banks, 13 private sector banks, 21 mutual funds, and four insurance companies and other financial institutions. IndoStar achieved a long-term debt rating of AA- and short-term rating of A1+ from 2012 within the first year of the inception of their business. Currently, their long-term debt is rated CARE AA-; Stable and IND AA-/Stable, respectively, by each of CARE and India Ratings & Research Private Limited. CARE, ICRA, and CRISIL has each rated IndoStar's commercial paper debt as A1+, which is the highest rating for short-term debt instruments. IndoStar's subsidiary, IndoStar Home Finance Private Limited, has its short-term commercial paper debt rated as CARE and ICRA as A1+.

Ownership by institutional investors ensuring international corporate governance standards

Indostar expects to continue benefiting from strong capital sponsorship and professional expertise of their promoter and other institutional shareholders. Their promoter, IndoStar Capital, is part of the Everstone Group and 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 them with capital raising and obtaining strong credit ratings, the company benefits from their relationship with their promoter such as access to best industry practices and international corporate governance standards.

Proven financial track record

In last five years (FY13-FY17), the company's net interest income and profitability have grown at a CAGR of 31% and 24% respectively. Further, during the same time, the company's loan book has grown at a CAGR of 30% and stands at Rs 5172cr as on Dec 2017. IndoStar's net interest margin has improved from 6% in FY13 to 6.9% as on 9MFY18. The company's average cost of borrowing has improved from 11.9% in FY15 to 9.1% as on 9MFY18. Moreover, the company's return-of-asset and return-on-average-equity stands at 3.8% and 10.9% as on 9MFY18. As on 9MFY18, the company's capital adequacy ratio stands at 31.6%. IndoStar believes that low leverage levels and high capital adequacy gives them a significant headroom to grow their business.

Risk Factors

- The company could be affected by volatility in interest rates for both lending as well as treasury operations, which could cause their net interest income to vary and consequently affect their profitability.
- Any disruption in sources of funding could adversely affect the company's liquidity and financial condition.
- The company operates in a highly competitive industry and any inability to compete effectively may adversely affect their business.
- Quality of their portfolio may be impacted due to higher levels of NPAs and thus, business may be adversely affected if they unable to provide for such higher levels of NPAs.

Peer Comparison - FY17

Name of Company	L&T Finance	Piramal Enterprise	Abirla Capital	Capital First	Shriram Transport	Sundaram Finance	Chola Investment	Repco Home	Indostar Capital
Face Value (Rs)	10	2	10	10	10	10	10	10	10
EPS (Rs)	5.1	72.6	6.4	24.0	55.8	61.5	46.0	30.0	28.7
Net Asset Value (Rs)	51.87	862.4	53.5	236.5	499.5	433.5	276.8	183.7	242.8
P/B Value	3.3	3.09	2.94	2.78	3.17	3.92	5.51	3.3	2.35
P/E	32.9	36.7	24.8	25.7	28.4	27.6	33.1	20.2	19.9
RONW	11.40%	8.40%	8.04%	10.40%	11.20%	14.20%	16.60%	16.30%	11.10%

Source: Company RHP, ACMIIL



Financials

Consolidated Income statement

Particulars (Rs Mns)	FY14	FY15	FY16	FY17	9MFY18
Net Interest Income	3,946	5,280	6,440	7,193	5,802
Less: Operating exp					
Finance cost	1919	2579	2893	3118	2291
Employee Cost	252	281	395	482	565
Other Expenses	84	123	182	226	395
Total Expenses	2255	2983	3470	3826	3251
EBITDA	1,691	2,297	2,970	3,367	2,551
EBITDA %	42.9%	43.5%	46.1%	46.8%	44.0%
Less : Dep & Amortization	9	7	5	19	23
EBIT (before Other income)	1682	2290	2965	3348	2528
Add : Other Income	23	0	0	6	58
EBIT (After Other Income)	1705	2290	2965	3354	2586
Less: Provisions & write off	13	30	34	123	86
PBT	1692	2260	2931	3231	2500
Less : Tax	571	770	1016	1122	858
Net Profit	1,121	1,490	1,915	2,109	1,642
EPS (Rs)	16.34	21.7	26.8	28.7	20.9

Source: Company RHP, ACMIIL

Consolidated Balance sheet

Particulars (Rs Mns)	FY14	FY15	FY16	FY17	9MFY18
Share Capital	683	684	733	784	787
Reserves	10673	12169	14684	18244	19982
Total Shareholders Fund	11356	12853	15417	19028	20769
Non Current Liabilities					
Long term borrowings	11916	16138	17589	19106	15418
Other long term liabilities	578	139	103	72	39
Long term provisions	109	119	146	269	342
Total Non Current Liabilities	12603	16396	17838	19447	15799
Current Liabilities					
Short term borrowings	1668	3439	4994	7865	13120
Trade Payables	1	4	7	54	20
Other Current Liabilities	5950	7166	8618	8337	10640
Short Term Provision	30	58	59	156	103
Total Current Liabilities	7649	10667	13678	16412	23883
Total Liabilities	31,608	39,916	46,933	54,887	60,451
Assets					
Tangible Assets	10	6	30	69	122
Intangible Assets	1	2	3	18	16
CWIP	0	0	4	0	122
Non Current Investment	608	546	0	630	1388
Deferred tax assets	81	85	104	164	183
Long term loans & advances	21368	24338	30993	39331	39240
Other non current assets	104	54	0	0	0
Total Non Current Assets	22172	25031	31134	40212	41071
Current Asset					
Current Investment	0	0	0	1239	5727
Cash & Cash Eq	4682	4856	3596	652	754
Short Term Loans & Advances	4496	9583	11846	12275	12440
Other Current Assets	258	446	357	509	459
Total Current Asset	9436	14885	15799	14675	19380
Total Asset	31,608	39,916	46,933	54,887	60,451

Source: Company RHP, ACMIL

Asit C. Mehta

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