Initiating Coverage | 15 April 2019
Sector: Financials - NBFCs

# IndoStar Capital Finance

## A New Beginning


Research Analyst: Piran Engineer (Piran.Engineer@MotilalOswal.com); +91 22 6129 1539 | Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +91 22 6129 1526
Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com); +91 22 6129 1542

## Contents | IndoStar Capital Finance: A New Beginning

# IndoStar Capital Finance

| BSE Sensex | S&P CNX |
|---|---|
| 38,906 | 11,690 |

**CMP: INR411** **TP: INR525 (+28%)** **Buy**

INDOSTAR

**Stock info**

| | |
|---|---|
| Bloomberg | INDOSTAR IN |
| Equity Shares (m) | 91.1 |
| 52-Week Range (INR) | 607/275 |
| 1,6,12 Rel.Perf.(%) | 16/22/-- |
| M.Cap. (INR b) | 37.9 |
| M.Cap. (USD b) | 0.5 |
| 12M Avg Val (INR M) | 108 |
| Free float (%) | 39.7 |

**Financial Snapshot (INR b)**

| Y/E March | 2019E | 2020E | 2021E |
|---|---|---|---|
| NII | 5.1 | 8.9 | 11.9 |
| Total Income | 6.3 | 10.5 | 14.2 |
| PPoP | 3.9 | 6.6 | 9.4 |
| PAT | 2.3 | 3.6 | 5.0 |
| EPS (INR) | 24.7 | 39.2 | 54.4 |
| EPS Gr. (%) | 5 | 58 | 39 |
| BV (INR) | 335 | 377 | 433 |
| BVPS Gr. (%) | 23 | 12 | 15 |
| RoA (%) | 2.1 | 2.3 | 2.5 |
| RoE (%) | 8.7 | 11.0 | 13.4 |
| Payout (%) | 0.0 | 0.0 | 0.0 |
| **Valuations** | | | |
| P/E (x) | 16.6 | 10.5 | 7.6 |
| P/BV (x) | 1.2 | 1.1 | 0.9 |

**Shareholding pattern (%)**

| As On | Dec-18 |
|---|---|
| Promoter | 60.3 |
| DII | 11.3 |
| FII | 10.9 |
| Others | 17.5 |

**A New Beginning**

**Piran Engineer**

**Please click here for Video Link**

## A New Beginning

**Retail lending to be 75%+ of overall book by FY22**

- **IndoStar Capital Finance (INDOSTAR) commenced operations in 2011 with a significant capital commitment (INR9b) by the promoter, Everstone Capital. The company started out as a wholesale lender, and over time utilized the profits from this segment to build new businesses – SME, housing and vehicle finance. It hired Mr Sridhar as Executive VC & CEO in 2017.**
- **Over the next three years, INDOSTAR aims to make vehicle finance (VF) its key portfolio contributor. While it has organically built a VF portfolio of ~INR10b over the past year, it recently acquired the commercial vehicles (CV) portfolio (~INR36b) of India Infoline Finance. With a special focus on it, vehicle finance book should grow at ~40% CAGR over FY19-22, in our view.**
- **As a result, the share of retail and SME finance will increase from the current 42% (9MFY19) to 77% by FY22. If this 'retailization' strategy is executed well, INDOSTAR will have a healthy mix of high-RoE businesses (corporate and vehicle finance) and highly scalable businesses (SME and housing finance). This strategy will also provide three key benefits: (i) improvement in credit rating, (ii) increasing pool of assets eligible for PSL sell-downs and (iii) ability to increase leverage.**
- **However, the near-term RoE is likely to be modest at 9-11% due to (a) heavy investment in branch expansion (150 branches opened in the past one year) and (b) low leverage (Tier-I capital of 30%). Over the medium term, its RoE is expected to improve to 13-15% as INDOSTAR's branches mature, and its long-term sustainable RoE is likely to be 16%. We believe that at the stock's current valuations of 1.1x FY20E BV and 10x FY20E EPS, the risk-reward for INDOSTAR is favorable. We, thus, initiate coverage on the stock with a Buy rating and a TP of INR525 (1.2x FY21E BV).**

### Vehicle finance to comprise 50% of INR250b+ loan book by FY22

Traditionally a wholesale lender, INDOSTAR hired Mr Sridhar as Executive VC & CEO to lead its retail lending foray. Mr Sridhar had been instrumental in building Shriram Transport Finance into the largest CV financier in India. Over the past few years, retail lending has gained traction and accounts for 42% of INDOSTAR's overall loan book. **Also, in 4QFY19, INDOSTAR purchased IIFL's CV business comprising INR36b AUM and 161 branches. In our view, over the next three years, vehicle finance will be the key growth driver for INDOSTAR and account for 50% of its AUM by FY22.**

### Well-maintained asset quality despite high share of wholesale finance

In the corporate finance segment, INDOSTAR's focus has remained on ~50 clients over the past few years, which has helped in better monitoring of accounts. Currently, it has only one corporate account worth INR134m that is non-performing. However, in its SME lending book, INDOSTAR has witnessed an increase in the GNPL ratio to 3.2%. Nevertheless, management expects SARFAESI to assist in recoveries. The company's other two businesses, vehicle and housing finance, have only commenced in last one year, and thus, yet to see the impact of seasoning of portfolio. These businesses have negligible NPLs. **In the last seven years, the GNPL ratio has never exceeded 1.5% and cumulative write-offs amount to only ~INR40m.** However, as the vehicle finance book scales up, we expect the GNPL ratio to reach 2% and credit costs of ~1%.

## Well-managed liquidity and ALM

INDOSTAR has a policy of ALM matching in the sub-one year bucket. Hence, despite the tight liquidity environment, it was able to reduce the share of CPs outstanding from 25% to 10% in 3QFY19. At the same time, the company also increased its liquidity buffer – liquid assets increased from INR9b to INR15b QoQ. We believe the company is better placed now and can focus on growth. **In addition, it is gradually building a large, PSL-compliant vehicle finance book, bulk of which can be sold down to generate liquidity.**

## Near-term RoE to be subdued due strong investment in retail business

**With its grand plans for retail lending, especially vehicle finance, INDOSTAR has opened over 150 branches across 17 states over the past few quarters. Almost 90% of these branches are devoted to vehicle finance. This has resulted in its cost-to-income ratio more than doubling from 18% in FY17 to 39/40% in FY18/9MFY19.** These start-up expenses are likely to weigh on its overall profitability until the branches mature (which takes 12-18 months on average). However, the business acquired from IIFL is already profitable and should help improve INDOSTAR's overall profitability. **Hence, we expect the company's C/I ratio to gradually decline from 39% in FY18 to 32% in FY22. This should result in a gradual improvement in its RoE from 9% in FY19 to 15% in FY22.**

## Favorable risk-reward; Initiate with Buy

INDOSTAR is at the beginning of its 'second innings'. **Its ongoing business diversification will help drive growth, improve credit rating and also enable it to enjoy greater leverage.** While its RoE is expected to be subdued at 9-11% in the near term, it is likely to improve to 13-15% over the medium term. Over the long term, the RoE could improve to 16%+. With a capital adequacy ratio of 30%, it is well capitalized and will not require any further dilution over the medium term. We believe the risk-reward is favorable at current valuations of 1.1x FY20E BVPS. We, thus, initiate coverage on INDOSTAR with a **BUY rating and a target price of INR525 (1.2x FY21E BV).**

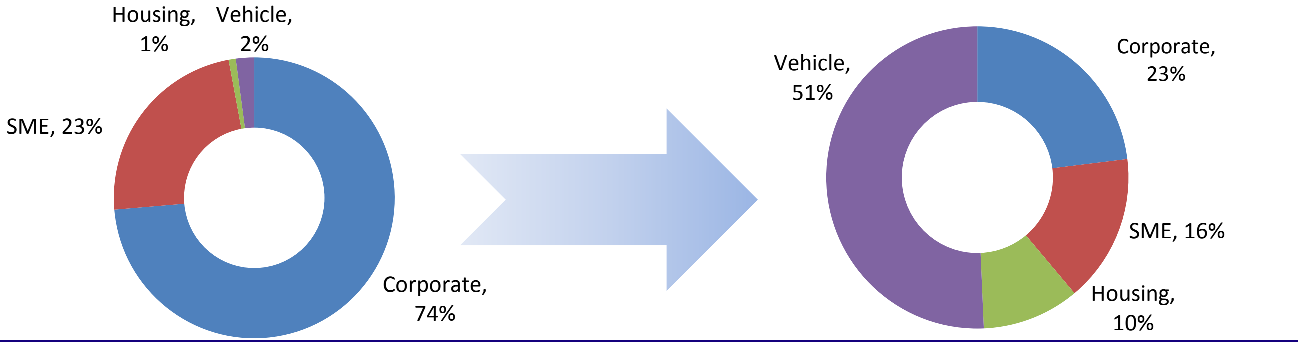
**Exhibit 1: Key financials – Transformation from FY18 to FY21E**

| | FY18 | FY22E |
|---|---|---|
| AUM (INR b) | 62.1 | 261.8 |
| **AUM mix (%)** | | |
| Wholesale | 73.7 | 23.1 |
| SME | 23.4 | 15.8 |
| Vehicle | 2.1 | 50.7 |
| Housing | 0.8 | 10.4 |
| **PAT (INR b)** | **1.8** | **6.3** |
| RoA (%) | 2.9 | 2.4 |
| **RoE (%)** | **9.2** | **14.7** |

Source: MOFSL, Company

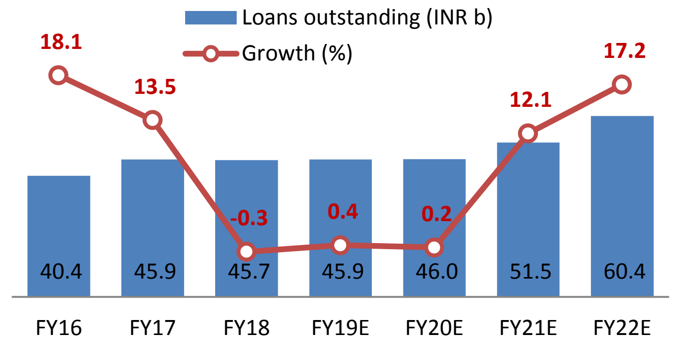
## Story in charts

**Exhibit 2: Loan mix to change meaningfully from FY18 (LHS) to FY22 (RHS)**



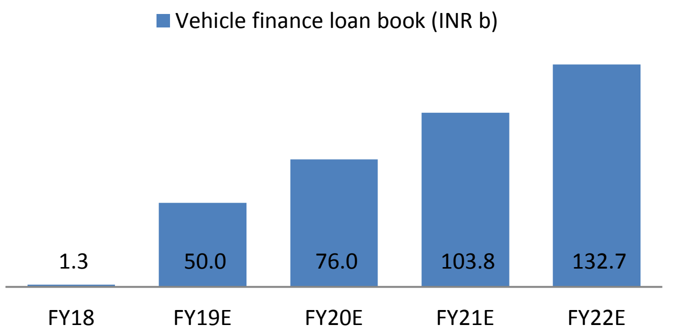

Source: MOFSL, Company

**Exhibit 3: Corporate loan growth to be calibrated**



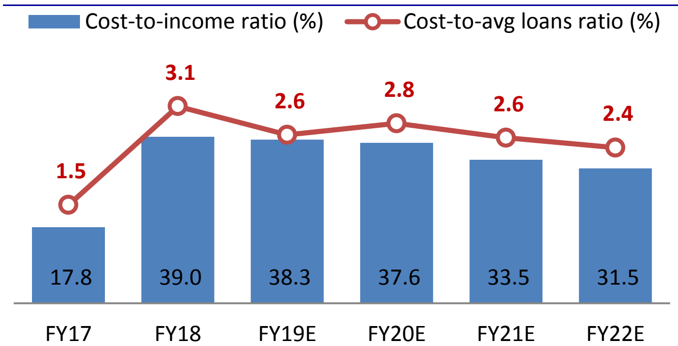

Source: MOFSL, Company

**Exhibit 4: Vehicle finance to be the key growth driver**



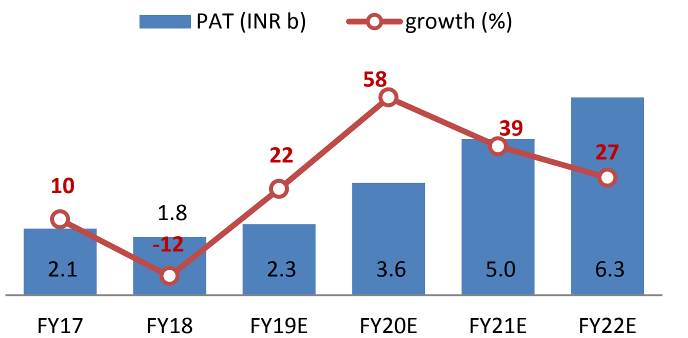

Source: MOFSL, Company

**Exhibit 5: C/I ratio to gradually decline FY21 onwards...**



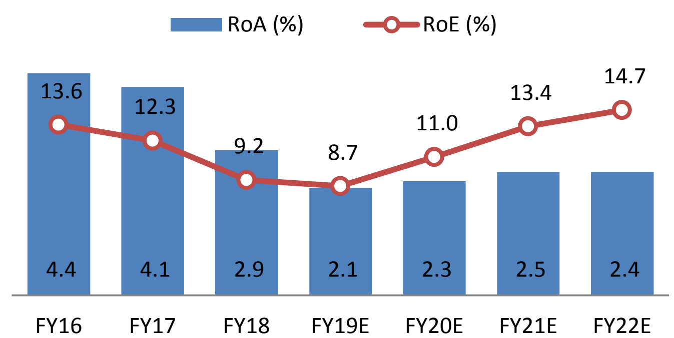

Source: MOFSL, Company

**Exhibit 6: ...resulting in a strong pick up in PAT**



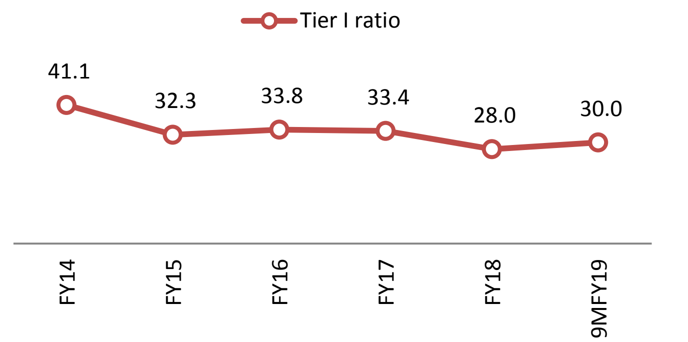

Source: MOFSL, Company

**Exhibit 7: Return ratios to improve meaningfully**




Source: MOFSL, Company

**Exhibit 8: Well-capitalized to sustain growth**




Source: MOFSL, Company

## Corporate lending the 'cash cow'

**5%+ RoA business; Profits invested in building other businesses**

- **Corporate lending was the first business started by INDOSTAR back in 2011. The business is divided into two segments: (a) Real Estate Lending, and (b) Non-Real Estate Lending.**
- **In Real Estate Lending, INDOSTAR lends at the project level during the construction phase. As of 9MFY19, the company has an exposure to 10 developers.**
- **In Non-Real Estate Lending, INDOSTAR provides financing by means of senior secured debt, structured finance, promoter finance, and special situations. In this segment, it has loans outstanding with 45 customers as of 9MFY19.**
- **Since the number of clients has been largely stable over the past four years, the company has been able to focus on asset monitoring better. Asset quality has been good - it currently has one non-performing account in this segment. Given its high margins and good asset quality, this segment generates high returns (RoA of 5%+), which are used to build new businesses.**

Corporate loans outstanding stood at INR45b (58% of total loans) as of 3QFY19

### Largely equal mix of real estate and non-real estate lending

Corporate lending primarily consists of (i) Lending to mid-to-large corporates in the 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 at the project-level, for the construction of residential properties, equity buy-backs and take-outs. The company provides lending solutions to mid-to-large corporates against secured collateral as well as security in other forms, such as charge on operating cash flows.

**Exhibit 9: Corporate Lending – a snapshot**

| What? | Description |
|---|---|
| Ticket size | ❖ INR1.5-1.75b in real estate lending and INR1-1.25b in non-real estate lending |
| Sectors | ❖ Real Estate, Cement, Power, Media & Entertainment, Dairy, Financial Services and Infrastructure |
| Products | ❖ Senior secured debt, Structured finance, Promoter finance, Special situations, Construction finance, Take out finance |
| Type of financing | ❖ Cash flow-based; Less land financing and low approval risk |
| Sourcing | ❖ In-house |
| Team Size | ❖ 20-25 |
| Average yield | ❖ Real Estate: 15-16%; Non-real estate: 12-13% |
| Tenure | ❖ 2-3 years in real estate lending (due to pre-payment); 3-4 years in non-real estate lending |
| Fee Income | ❖ 1-2% |
| Other Info | ❖ Company encourages pre-payments and does not charge a pre-payment penalty. |
| GNPL ratio | ❖ 0.3% (one account classified as NPL) |
| RoA | ❖ 5%+ (9MFY19) |
| Head Office location | ❖ Mumbai |
| Key competitors | ❖ Yes, IIB, PIEL, HDFC, PNBHF |

Source: MOFSL, Company

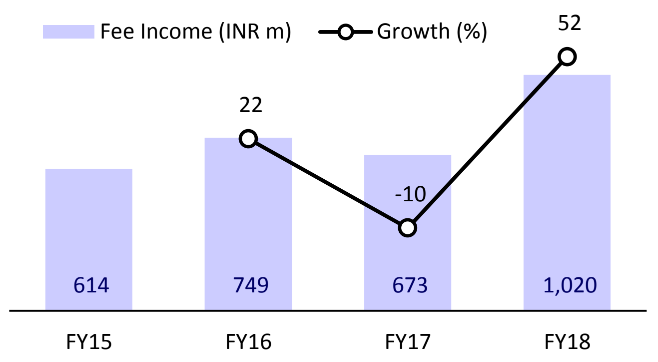
Fee income amounts to ~2% of disbursements in the corporate finance segment

### Focus on fee income generation

- One of the key drivers of high RoA in the corporate finance segment is the fee income generation. Fee income more than covers all the operating expenses of the segment.

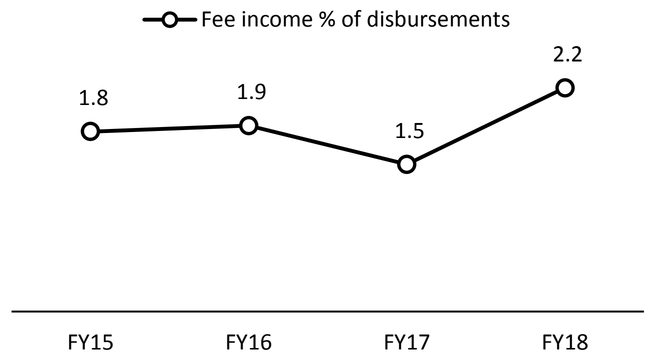
- The company earns fees from loan origination, loan syndication, advisory, etc.
- **Another unique source of fee income generation is by bringing a builder and a landowner together in a Joint Development Agreement (JDA).**

**Exhibit 10: Trend in fee income**




Source: MOFSL, Company; Note: Numbers as under I-GAAP

**Exhibit 11: Fee income as % of disbursements**



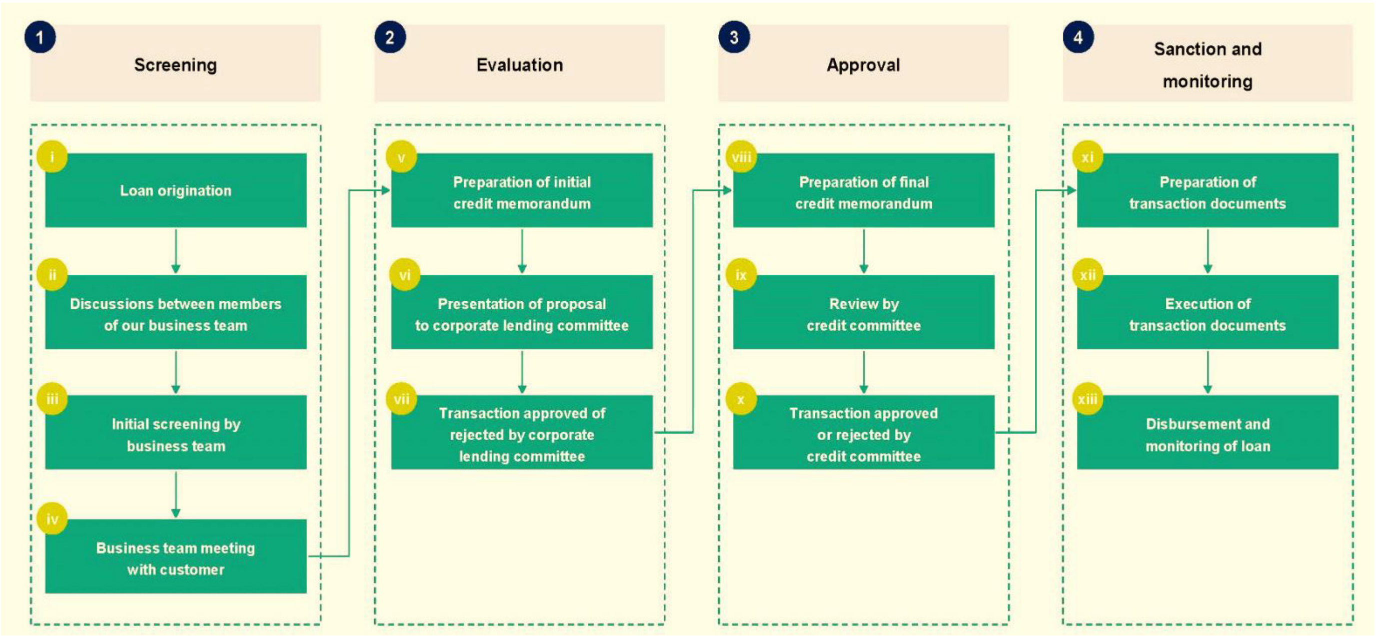

Source: MOFSL, Company

Taking senior lending position with multiple collaterals

## Taking senior lending position with multiple collaterals

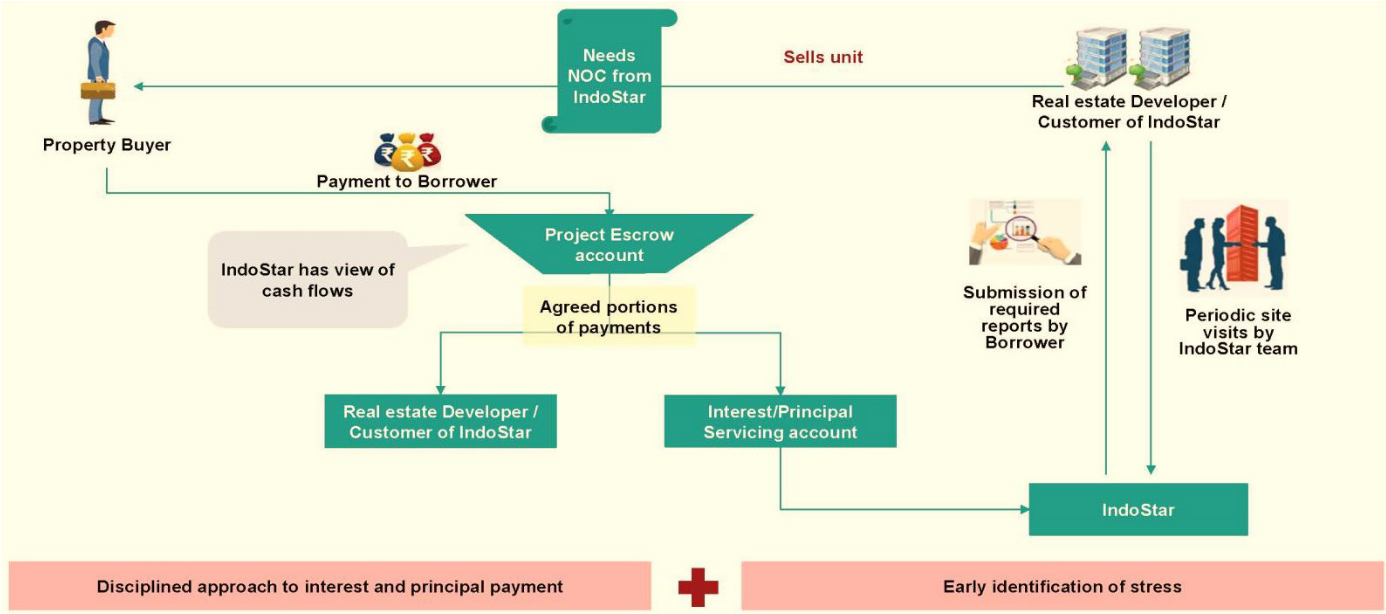
**INDOSTAR primarily takes a senior lending position with multiple collaterals.** In order to avoid conflict of interests, the sourcing, credit and operations teams are kept separate.

**Exhibit 12: Process flow in Corporate Lending segment**



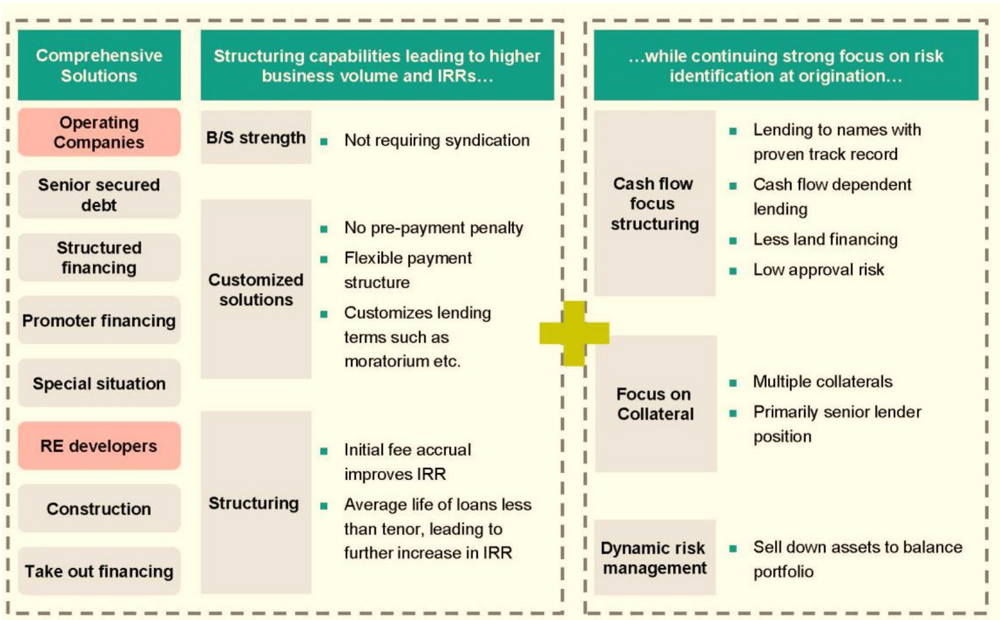

Source: MOFSL, Company

**Exhibit 13: Cash flows via Escrow account**




Source: MOFSL, Company

**Exhibit 14: Customized solutions catering to borrower's needs; Focus on collateral before loan disbursement**




Source: MOFSL, Company

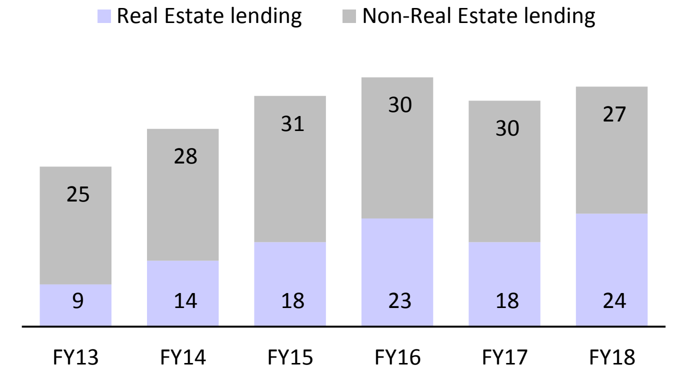
Number of corporate clients has been ~50 over the past three years as the company has focused on maintaining asset quality

## Calibrated growth over past few years

In order to maintain strong asset quality, INDOSTAR is quite particular about the number of clients and its quality of underwriting. Over the past three years, the number of clients in this segment has remained largely stable at ~50. The company does not believe in loan book growth at the cost of quality.

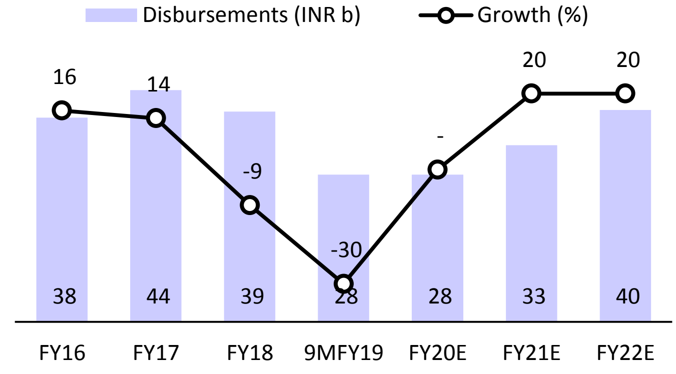
Its disbursements in Corporate Lending grew from INR29b in FY13 to INR44b in FY17 (11% CAGR). However, as loan demand dried up in the aftermath of demonetization, coupled with de-leveraging by corporates, disbursements declined 9% to INR39bin FY18.

**Exhibit 15: Number of wholesale clients largely stable**




Source: MOFSL, Company

**Exhibit 16: Disbursements to be subdued in FY19 and FY20**

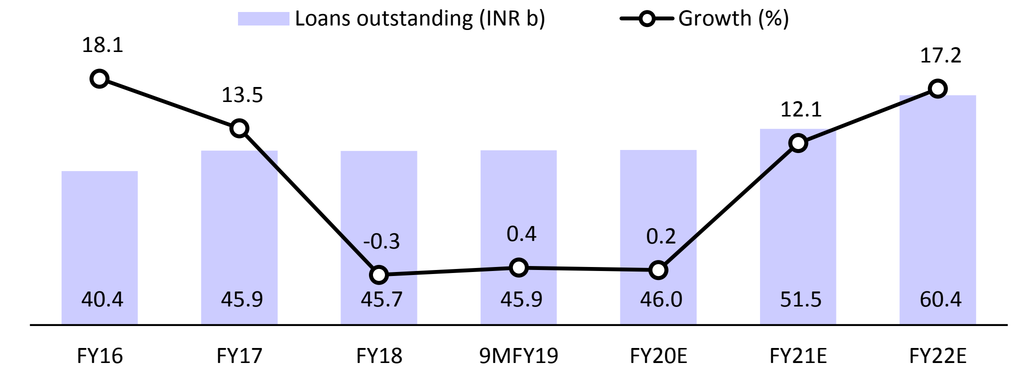



Source: MOFSL, Company

Share of corporate lending is expected to decline from 58% currently to 23%by FY22

Post the liquidity crunch in September 2018, management decided to calibrate growth in this segment and instead focus on retail segments. Even with liquidity normalizing, the annual disbursement run-rate in this business should be INR25-30b, which is significantly below the peak of INR44b in FY17. **As a result, the share of corporate lending in the company's portfolio should decline from the current 58% to 23% by FY22.**

**Exhibit 17: Loan growth in corporate lending to be calibrated**




Source: MOFSL, Company

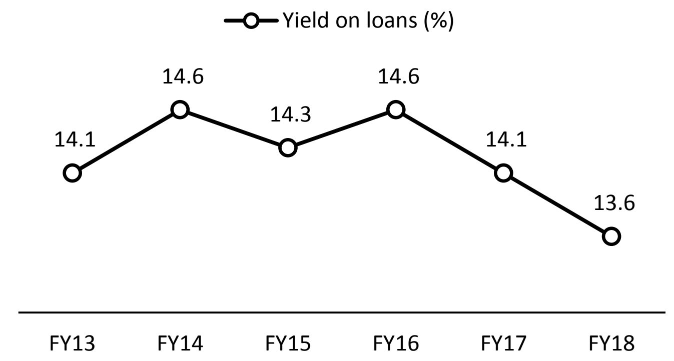
Only one corporate NPL amounting to ~INR134m currently in the portfolio

## Pristine asset quality

In real estate financing, at the screening stage itself, INDOSTAR focuses on a) Well-established developers b) project generating operating cash flows c) no pending approval risk d) no holding company financing, and e) developers who understand the micro market. In non-real estate corporate lending, INDOSTAR focuses on a) Bigger groups b) avoiding sectors linked to government linkages, and c) no Greenfield financing.

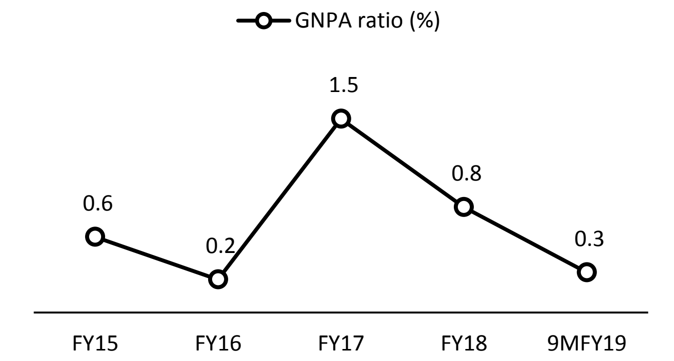
INDOSTAR also ensures additional security cover via promoter guarantee, cash flow from other projects and control on cash flow through the escrow mechanism. Hence, despite providing high-yield loans, INDOSTAR has maintained a good asset quality over the years on account of its strong underwriting standards. **INDOSTAR has only one corporate NPL amounting to ~INR134m in its portfolio.**

**Exhibit 18: Yields consistent at 13-14%**




Source: MOFSL, Company

**Exhibit 19: Healthy asset quality over time**




Source: MOFSL, Company

NIM + fees in the corporate lending segment at 9-10%

## High margins and low opex make corporate lending a high-RoE business

- In the corporate lending business, INDOSTAR earns a margin of 9-10% (including fees), given the high yields in both, builder finance and structured credit.
- With staff strength of only ~20 employees in this segment, the C/I ratio is sub-10%. Also, given the well-maintained asset quality, credit costs are negligible.
- This translates into 5%+ RoA and 18%+ RoE on average.

**Exhibit 20: DuPont Analysis of the corporate segment**

| (%) | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|---|---|---|
| Revenue from Operations | 16.8 | 15.5 | 14.7 | 13.4 | 16.7 | 15.7 |
| **Net Interest Income** | **11.1** | **9.9** | **8.9** | **7.4** | **10.4** | **9.3** |
| Operating Expenses | 0.8 | 0.7 | 0.5 | 0.4 | 0.5 | 0.2 |
| **Cost / Income** | **7.0** | **7.4** | **5.6** | **5.0** | **4.9** | **2.1** |
| Profit before Credit Costs | 10.3 | 9.2 | 8.4 | 7.0 | 9.9 | 9.1 |
| Credit Costs | -1.9 | 0.8 | -0.4 | 0.1 | 0.1 | -0.5 |
| **ROAA** | **8.0** | **5.9** | **5.4** | **4.5** | **6.6** | **6.4** |
| Leverage (x) | 2.7 | 2.7 | 3.1 | 3.2 | 3.2 | 3.3 |
| **ROAE** | **21.5** | **16.3** | **17.0** | **14.4** | **21.0** | **20.9** |

Source: MOFSL, Company

# SME Lending – A fast growing business

**Providing scale and granularity**

- **In FY15, the company commenced its SME Lending business, targeting small businessmen, traders, self-employed professionals, etc. Its SME lending book has grown well to ~INR19b.**
- **The business is carried out from 10 branches across India, and management intends to continue with this business operation for the medium-term.**
- **All lending is collateralized- collateral is generally self-occupied residential property. The average ticket size in this segment is INR12m with an LTV of ~65%. 50% of the book qualifies for PSL.**
- **The SME Lending business achieved breakeven in FY18 and is expected to become a more meaningful contributor to the company's PAT over the next few years.**

SME loans with average ticket size of INR12m provided in 10 locations across India

## First step into retail financing

INDOSTAR commenced SME lending in FY15, primarily involving loans for business against property to small and medium size enterprises, including businessmen, traders, manufacturers, and self-employed professionals. The type of property securing these loans is typically residential or commercial. INDOSTAR provides SME loans in 10 key locations across eight states in India – Chennai, Hyderabad, Bengaluru, Jaipur, Surat, Ahmedabad, Mumbai, Pune, Delhi and Indore.

The average ticket size of the loans is INR12m. Around 50% of the SME loans are qualified as priority sector lending. All SME loans are secured, with an average LTV ratio of ~65% and have a monthly interest servicing requirement. All of the outstanding loans are provided on a floating interest rate basis.

INDOSTAR's distribution network comprises ~210 personnel in its in-house sales team and ~648 third-party direct sales associates (DSAs), and other third-party intermediaries empanelled with the company.

**Exhibit 21: SME Lending – a snapshot**

| What? | Description |
|---|---|
| Clientele | ❖ SMEs, businessmen, traders, manufacturers and SEPs |
| Ticket size | ❖ INR12m |
| Key characteristics | ❖ Secured loans at floating rate with monthly interest servicing |
| Collateral | ❖ Mostly self-occupied residential or commercial property |
| Sourcing mix | ❖ Almost 100% is DSA-sourced; DSA commission at 1.4% |
| Average yield | ❖ 13-14% |
| Average LTV | ❖ 65% |
| Other Info | ❖ ~50% of loans qualify for PSL |

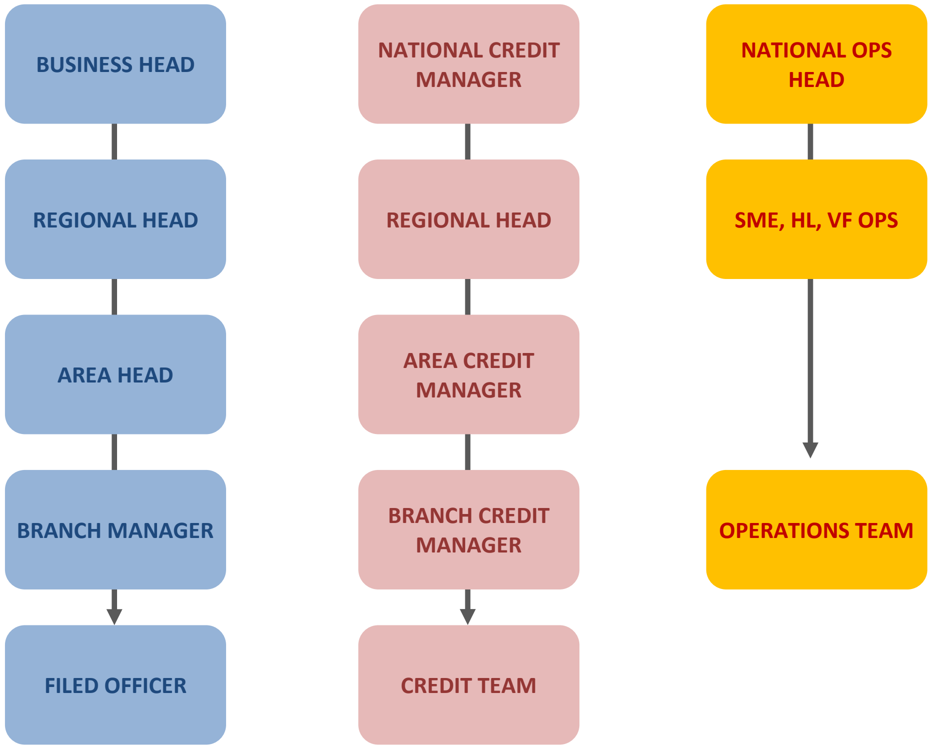
Source: MOFSL, Company

## Separate verticals for business, credit and operations

Unlike some companies that have a common vertical for business and credit, INDOSTAR has segregated these verticals in order to minimize any potential conflict of interests. Hence, there is no overlap/convergence among these verticals, even at higher levels.

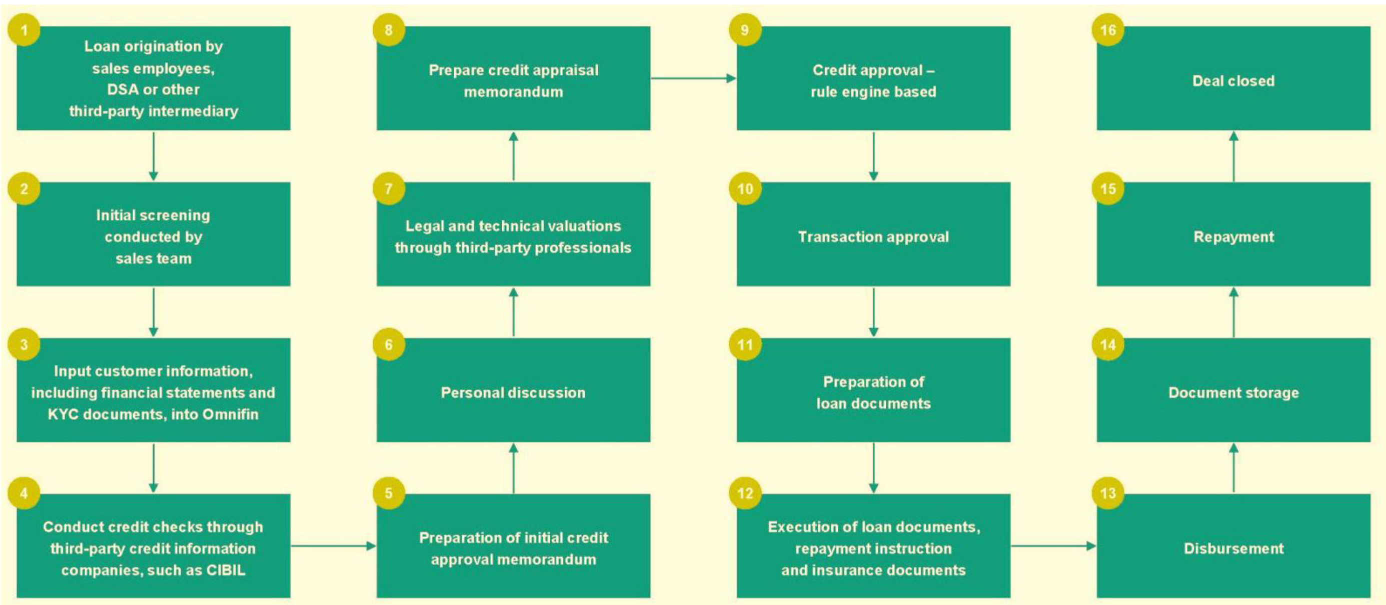
Separation of verticals to minimize conflict of interests

**Exhibit 22: Organizational structure – Separation of verticals to minimize conflict of interests**




Source: MOFSL, Company

**Exhibit 23: Process flow in the retail finance segment**



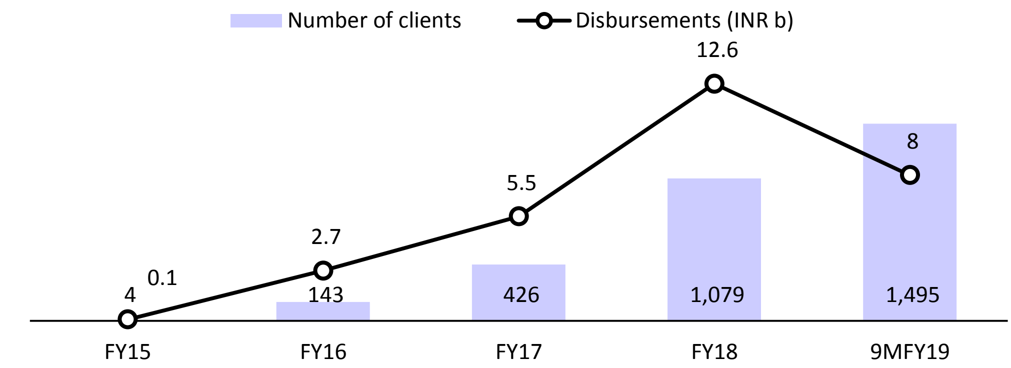

Source: MOFSL, Company

SME loan book grew to INR18.6b in 9MFY19 and expected to grow at 27% CAGR over FY19-22

## Gaining traction in SME Lending segment

Over the past three years, the company has grown its client base in this segment to ~1,500 customers. Consequently, disbursements in the SME lending segment more than quadrupled to INR13b over FY16-18. However, given the recent liquidity crunch, the company has scaled back disbursements in this segment. **We expect INR11b disbursements in FY20E vs INR13b in FY18.**

Exhibit 24: Expanding customer franchise

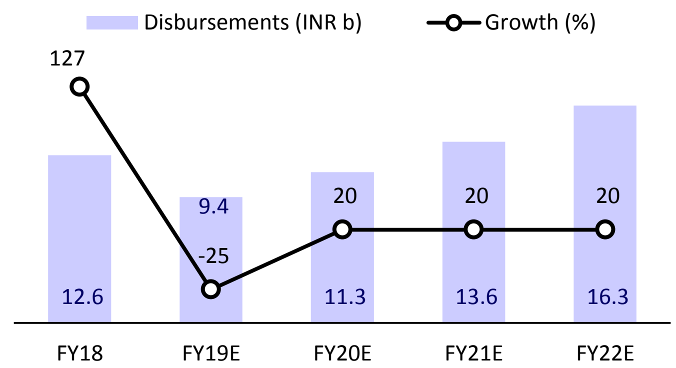



Source: MOFSL, Company

Share of SME lending to remain largely stable at ~16%

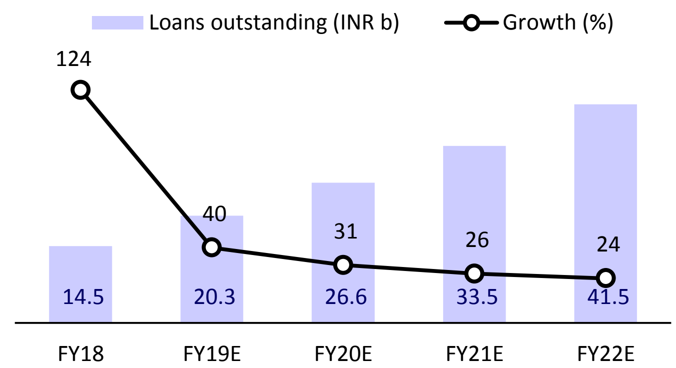
Consequently, the loan book increased from INR2.2b in FY16 to INR14.5b in FY18. **We expect it to grow at 27% CAGR over the next three years (FY19E-FY22E) to reach INR41b in FY22E.** Its share in the total loan book will remain largely stable at 16%.

Exhibit 25: Disbursements decline in FY19 due to the tight liquidity situation




Source: Company

Exhibit 26: SME loan book to surpass INR40b in FY22




Source: Company

High delinquencies in loans disbursed during first year of operations; improved underwriting standards to yield results

## Initial challenges in maintaining asset quality; Improved underwriting model and SARFAESI license expected to yield results

INDOSTAR's SME lending book has largely been built over the past three years, and almost 90% of the outstanding book comprises loans disbursed in the past two years. During the first year of its SME lending operations, the company disbursed several large ticket size loans (loans exceeding INR50m). There were a few delinquent accounts in this pool of loans. **In fact, 30-35% of the current NPLs stem from four large accounts disbursed during the initial days of the business**. To address this problem, the company not only overhauled its underwriting method, but also put a cap on the ticket size (INR30m). **In addition, in September 2018, INDOSTAR was authorized with using SARFAESI for bad loan recovery.** While the GNPL ratio still remains elevated at 3.2%, we expect increased recoveries going forward as SARFAESI resolutions play out.

Multiple levers for RoE improvement including reduction in share of DSA sourcing, reduction in credit costs and increase in leverage

## Business achieves breakeven in FY18; low leverage leads to single-digit RoE

- The SME lending segment achieved breakeven in FY18 and currently generates ~5% RoE.
- **In our view, there are multiple levers for an RoE improvement in this business**
  - **Gradually reducing DSA payouts**
  - **Reduction in credit costs from the current level of 1.4%**
  - **Increase in leverage from the current level of 3x**
- We believe that, with its strong execution, INDOSTAR will be able to improve the RoE of its SME lending business to 12-15% over the next two years.

**Exhibit 27: DuPont Analysis (%)**

| (%) | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 |
|---|---|---|---|---|---|---|
| Revenue from Operations | 12.8 | 11.8 | 10.8 | 11.2 | 12.4 | 13.0 |
| **Net Interest Income** | **7.1** | **6.1** | **4.8** | **5.2** | **5.9** | **6.4** |
| Operating Expenses | 3.3 | 3.0 | 1.9 | 1.9 | 1.8 | 1.3 |
| **Cost / Income** | **47.0** | **49.6** | **39.4** | **37.5** | **30.4** | **20.8** |
| Profit before Credit Costs | 3.8 | 3.1 | 2.9 | 3.2 | 4.1 | 5.0 |
| Credit Costs | 2.9 | 1.7 | 0.5 | 1.2 | 1.7 | 1.3 |
| **ROAA** | **0.6** | **1.0** | **1.5** | **1.3** | **1.6** | **2.5** |
| Leverage | 2.7 | 2.8 | 3.1 | 3.2 | 3.0 | 3.1 |
| **ROAE** | **1.6** | **2.7** | **4.7** | **4.3** | **4.9** | **7.6** |
| **GNPA** | **2.5** | **2.5** | **2.1** | **2.6** | **2.4** | **3.2** |
| **NNPA** | **2.3** | **2.2** | **1.8** | **2.3** | **1.9** | **2.3** |

Source: MOFSL, Company

# Full throttle on retail lending diversification

**Vehicle Finance to be the key growth driver**

- **INDOSTAR commenced its vehicle finance business in November 2017 and has already opened nearly 150 branches as well as hired over 1,000 people to grow this business. The company is focusing more on the used CV segment (5-12 years, target 80% of vehicle finance book) and customer segments such as small fleet operators or first time buyers. In March 2019, it purchased the vehicle finance portfolio (AUM of INR36b) of India Infoline Finance.**
- **The company also ventured into affordable housing finance in 2017 and retail housing finance in 2018. It aims to provide retail housing finance in Tier I geographies, while affordable housing finance will be offered in Tier II and III geographies.**
- **We believe that these two segments will not only help INDOSTAR scale up its loan book, but also provide it with much-needed diversification. This, in turn, will help improve INDOSTAR's credit rating and enable it to enjoy greater leverage. Vehicle finance, if executed well, will be a high-RoE scalable business and become a meaningful PAT contributor in the next 2-3 years.**

Recruitment of vehicle finance executives previously employed with peers such as SHTF, CIFC and SUF

## Vehicle Finance – increased focus on used CVs

**INDOSTAR intends to focus more on used CVs, particularly in the range of 5-10 years, which are expected to comprise 80% of the segment's loan book.** The business is headquartered in Chennai and carried out in 15 states across India. **The company has recruited executives who were previously employed with its peers such as Shriram Transport Finance, Cholamandalam Investment and Finance, Sundaram Finance and Hinduja Leyland Finance.** The company also expects to leverage its DSA/DMA network and has targeted sourcing 25% of loans through this network. **As of 9MFY19, INDOSTAR had 142 branches, 1,010 employees and ~16,000 customers.** The business has an outstanding AUM of INR10b.

**Exhibit 28: Vehicle Finance – Snapshot**

| What? | Description |
|---|---|
| Type of lending | ❖ Largely used CV with 5-12 year vintage |
| Sourcing | ❖ 75% In-house, 25% through DSA/DMA |
| Sourcing strength | ❖ 1,000+ employees |
| Headquarters | ❖ Chennai |
| Average yield | ❖ 16-17% IRR - a must for field staff |
| Average ticket size | ❖ ~INR0.7m |
| Key competitors | ❖ CIFC, SHTF, Equitas |
| Geographical reach | ❖ 15 states across South, West and North India |
| Business model | ❖ Hub and spoke; Separate teams for sourcing, credit and collection |
| Distribution reach | ❖ 142 branches as of 9MFY19. Additional 161 branches from IIFL acquisition |
| Underwriting | ❖ Power lies with area credit manager, not branch manager; Field officer will be responsible for collection as well |

Source: MOFSL, Company

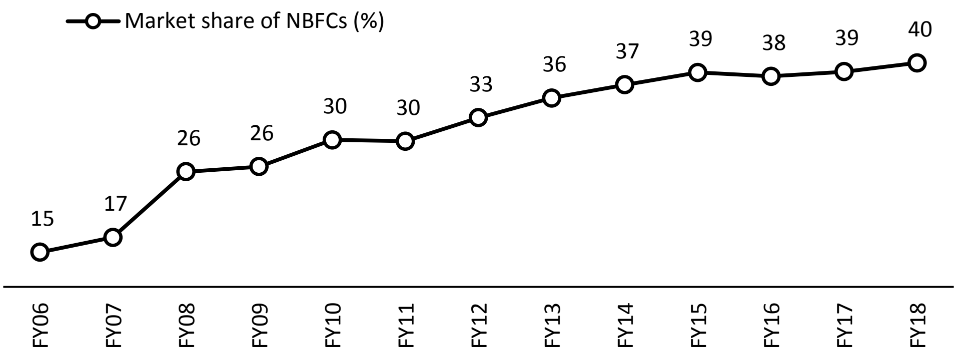
NBFCs' market share in vehicle finance has increased from 36% to 40% over the past five years

## NBFCs gaining market share from banks in vehicle finance

Vehicle finance has largely been the forte of banks, although NBFCs have been consistently gaining market share. Our analysis reveals that the market share of NBFCs in vehicle finance has increased from 36% to 40% in the past five years. In addition, NBFCs are more prominent in the CV and tractor financing space than in passenger car financing. Given below are some of the key metrics of NBFCs operating in the vehicle finance market, along with their FY18 DuPont analysis.

NBFCs gain substantial market share in vehicle finance from banks in past decade

**Exhibit 29: NBFCs gain market share in vehicle finance from banks**




Source: MOFSL

**Exhibit 30: Profile of top vehicle finance players in India**

| | SHTF | MMFS | CIFC | SUF |
|---|---|---|---|---|
| AUM (FY18, INR b) | 953 | 551 | 315 | 247 |
| Disbursements (FY18, INR b) | 517 | 268 | 205 | 156 |
| **Top 3 states as % of AUM** | TN - 15%, Kar - 11%, MH - 10% | MH - 18%, UP - 10%, MP - 6% | MH -13%, Raj - 9%, TN - 8% | |
| Number of branches | 1,213 | 1,284 | 873 | 622 |
| Disb/branch (INR m) | 426 | 209 | 235 | 251 |
| **AUM/branch (INR m)** | **786** | **429** | **361** | **398** |

Source: MOFSL, Company

Vehicle finance could be a 2.5-3% RoA business if executed well

**Exhibit 31: DuPont analysis of some of the largest vehicle finance players**

| FY18 DuPont (%) | SHTF | MMFS | CIFC |
|---|---|---|---|
| Interest Income | 14.0 | 14.4 | 13.9 |
| Interest Expended | 6.9 | 6.9 | 6.4 |
| **Net Interest Income** | **7.1** | **7.5** | **7.5** |
| Other Income | 1.8 | 0.5 | 1.0 |
| **Net Income** | **8.9** | **8.0** | **8.5** |
| Operating Expenses | 1.9 | 3.2 | 3.6 |
| **Operating Income** | **7.0** | **4.8** | **4.9** |
| Provisions | 4.0 | 1.3 | 1.0 |
| **PBT** | **3.0** | **3.5** | **4.0** |
| Tax | 1.0 | 1.3 | 1.4 |
| **Reported PAT** | **2.0** | **2.2** | **2.5** |
| Leverage | 6.3 | 5.6 | 7.7 |
| **RoE** | **12.7** | **12.5** | **19.5** |

Source: MOFSL, Company; Note: MMFS and SHTF migrated to 90dpd in FY18

While INDOSTAR has a strong presence in South India, IIFL has a strong presence in West and North India

## IIFL business acquisition gives INDOSTAR a ready platform

**Along with an AUM of INR36b, INDOSTAR also gets the branches and employees of IIFL readily. IIFL has a network of 161 branches, 1,000+ employees and 50,000+ customers. Also, note that while INDOSTAR has a strong presence in South India, IIFL has a strong presence in West and North India.** Our interaction with management suggests that this book is profit-making. We believe this is a good deal for INDOSTAR as the profits from the erstwhile IIFL book would partially offset the high set-up costs of INDOSTAR's branch network.

A vehicle finance branch has average AUM of INR300m-700m upon maturity

## How big can the Vehicle Finance book become in three years?

With the acquisition of IIFL's CV business, INDOSTAR's branch network adds up to ~300 branches. **Over half of these branches are running at sub-optimal capacity – it would take at least 2-3 years for all these branches to run at full capacity**. **For a typical vehicle finance player, the AUM per branch is INR300m-700m.** We look at a few different possibilities of how much the vehicle finance book can scale up to in a period of three years.

**Exhibit 32: Scenario analysis of size of vehicle finance book three years from now**

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|---|---|---|
| Number of branches | 300 | 300 | 300 |
| AUM/branch (INR m) | 300 | 400 | 500 |
| Total AUM (INR b) | 90 | 120 | 150 |

Source: Company

Hence, over the next three years, the vehicle finance book could scale up to anywhere between INR90b and INR150b. Our estimated loan book of the vehicle finance business as of FY22E stands at INR133b.

Targeting affordable housing finance and retail housing finance

## Housing Finance – focusing on affordable as well as mass housing

The Housing Finance segment comprises two business lines: (i) Affordable housing finance, which commenced operations in September 2017, and (ii) retail housing finance. The housing finance business is conducted through its wholly-owned subsidiary, IndoStar Home Finance Private Limited. In retail housing finance, INDOSTAR is focusing on the self-employed population residing in the outskirts of urban markets and Tier II locations. This business is a mix of pure home loans as well as LAP. As of 9MFY19, INDOSTAR had 56 branches with 370 employees and 3,500+ customers in this business. The total AUM of this business was INR4b as of 9MFY19.

**Exhibit 33: Housing Finance – a snapshot**

| What? | Description |
|---|---|
| Products offered | ❖ Affordable housing finance, retail housing finance and LAP |
| Sourcing | ❖ 75-80% in-house; 20-25% through DSAs |
| Team | ❖ 370 employees |
| Number of branches | ❖ 56 branches as of 9MFY19, most of which are co-located with SME/VF |
| Ticket size | ❖ <INR1m in affordable housing finance, INR3m+ in retail housing finance |
| Target segment | ❖ Focusing primarily on self-employed customers; Offering several surrogate income programs |
| Yields | ❖ Affordable housing: 12.5-13%, Retail housing: 10.25-10.5% |

Source: MOFSL, Company

**Exhibit 34: DuPont analysis of key affordable housing finance players**

| (FY18, %) | CanFin | Repco | GRUH | Aavas |
|---|---|---|---|---|
| Interest Income | 10.19 | 11.33 | 11.44 | 12.55 |
| Interest Expended | 6.70 | 6.82 | 6.92 | 6.03 |
| **Net Interest Income** | **3.48** | **4.51** | **4.52** | **6.52** |
| Non-Interest Income | 0.39 | 0.32 | 0.45 | 1.32 |
| Other Income | 0.43 | 0.32 | 0.38 | 0.71 |
| **Net Income** | **3.87** | **4.83** | **4.96** | **8.56** |
| Operating Expenses | 0.59 | 0.82 | 0.73 | 3.97 |
| Cost to Income Ratio (%) | 15.21 | 17.00 | 14.78 | 46.43 |
| Employee Expenses | 0.32 | 0.51 | 0.38 | 2.34 |
| Other Expenses | 0.35 | 0.31 | 0.35 | 1.63 |
| **Operating Profit** | **3.28** | **4.01** | **4.23** | **4.58** |
| Provisions/write offs | 0.15 | 0.70 | 0.27 | 0.06 |
| **PBT** | **3.13** | **3.31** | **3.96** | **4.52** |
| Tax | 1.07 | 1.14 | 1.40 | 1.56 |
| Tax Rate (%) | 34.12 | 34.42 | 35.47 | 34.44 |
| **Reported PAT** | **2.06** | **2.17** | **2.55** | **2.97** |
| Leverage | 12.08 | 7.81 | 12.75 | 3.77 |
| **RoE** | **24.91** | **16.93** | **32.58** | **11.16** |

Source: MOFSL, Company

# Well-diversified liability mix

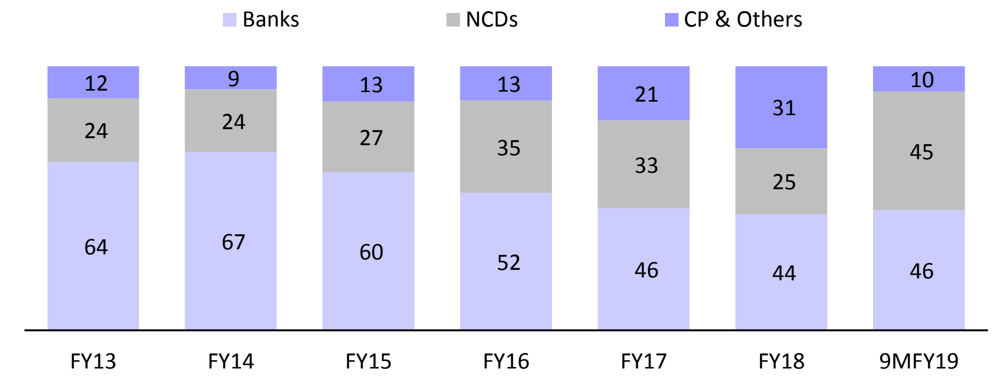
## Adequately capitalized to maintain strong credit rating

- **INDOSTAR always maintained low leverage which has helped it attain AA- credit rating despite its promoters lacking a lending business track record.**
- **The company has strong relationships with banks, MFs and other financial institutions. INDOSTAR has a diversified borrowing mix with a largely equal share of banks and market borrowings.**
- **Even prior to the liquidity crisis in 2018, it had a policy of ALM matching in sub-one year bucket. This has held the company in good stead over the past few months. In addition, the company shored up its liquidity buffer from INR10b in 2QFY19 to INR15b in 3QFY19. The share of CPs has also been reduced from 26% in FY18 to 10% in 9MFY19.**

Reducing dependence on commercial paper

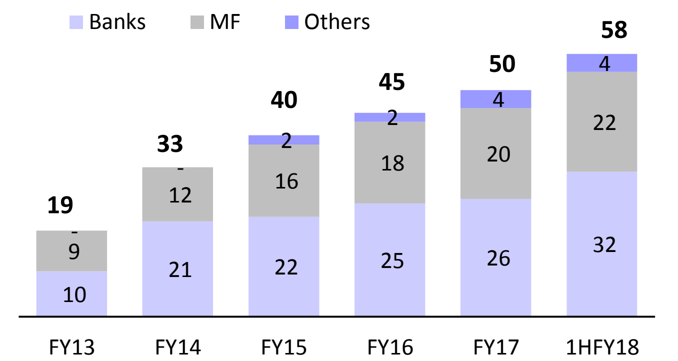
INDOSTAR has a diversified liability mix comprising bank loans, NCDs and commercial paper. **While the company has reduced its dependence on bank borrowings over the past few years (share down from 60% to 46% over FY15-9MFY19), it has increased the numbers of banks it borrows from.** This helped the company in 3QFY19 when the capital markets almost dried up for NBFCs. We expect its share of bank borrowings to increase in the near-term until the liquidity situation improves.

**Exhibit 35: Trend in borrowing mix (%) – dependence on bank borrowings reduced over the past few years**



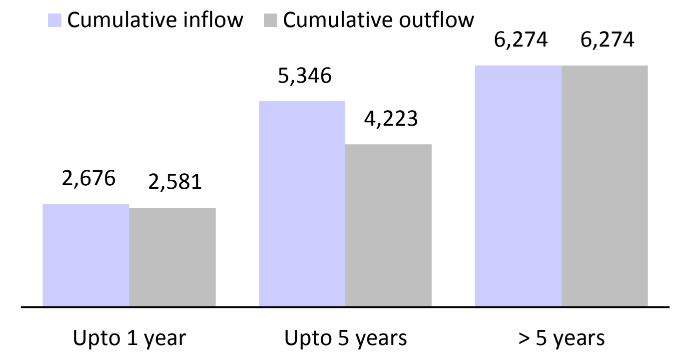

Source: MOFSL, Company

**Exhibit 36: Number of relationships**




Source: MOFSL, Company

**Exhibit 37: ALM profile (1HFY18)**




Source: MOFSL, Company

## Return ratios to improve from FY21

### Elevated opex to keep RoE subdued till FY20

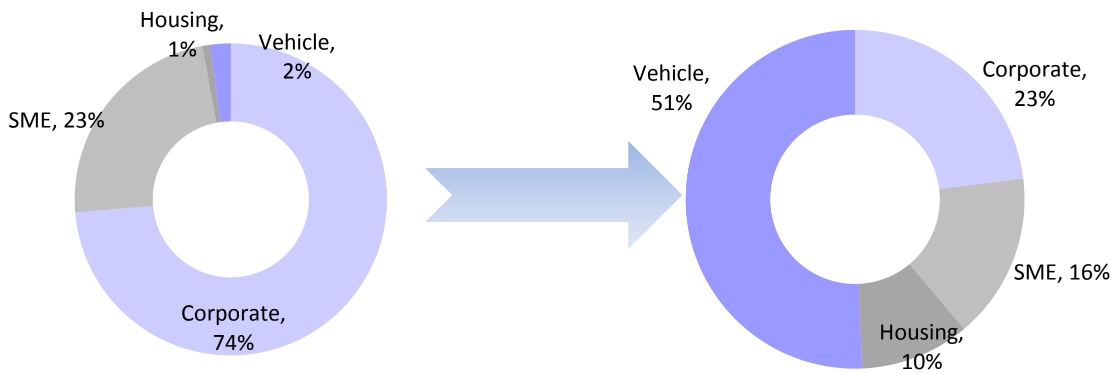
- **From being predominantly a corporate lender, INDOSTAR is expected to witness a meaningful change in its loan mix over the next three years, with Retail+SME growing to 77% of its total loans vs. the current 42%, in our view. The company will then have a balanced mix of retail/wholesale as well as high-RoE/scalable businesses.**
- **The housing finance and vehicle finance businesses are currently loss-making due to their high start-up expenses. With the scaling up of these businesses, we expect the overall C/I ratio to improve from 39% in FY18 to 32% in FY22E.**
- **With the increasing share of vehicle finance, we expect credit cost to be higher and rise to ~1%. All these factors together will result in the RoE improving to 15% by FY22E as compared to 9% in FY18.**

Vehicle finance loan book to grow to INR130b+ by FY22, comprising 51% of total AUM

### Loan mix to change meaningfully over the next 2-3 years

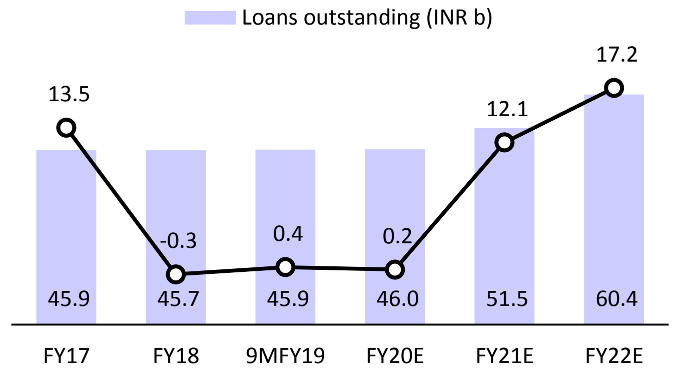
With new products taking off coupled with the recent CV book acquisition, we expect INDOSTAR's loan book mix to change significantly over the next few years. We expect the vehicle finance book to grow to INR130b+ by FY22 – making it the largest segment comprising 51% of total AUM. On the other hand, the corporate lending book is expected to remain largely stable, while the SME lending book is likely to grow at ~25% CAGR.

**Exhibit 38: Loan mix to change drastically from FY18 (LHS) to FY22 (RHS)**



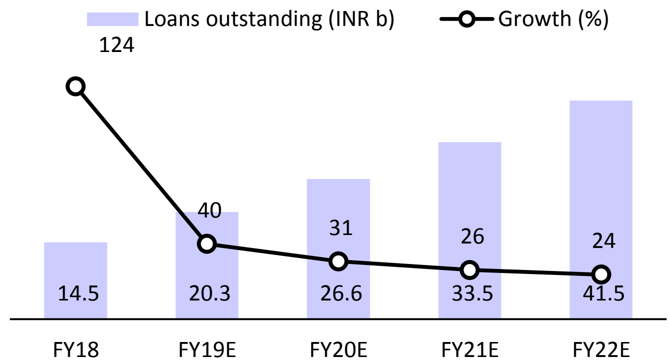

Source: MOFSL, Company

**Exhibit 39: Corporate Lending book to remain largely stable**



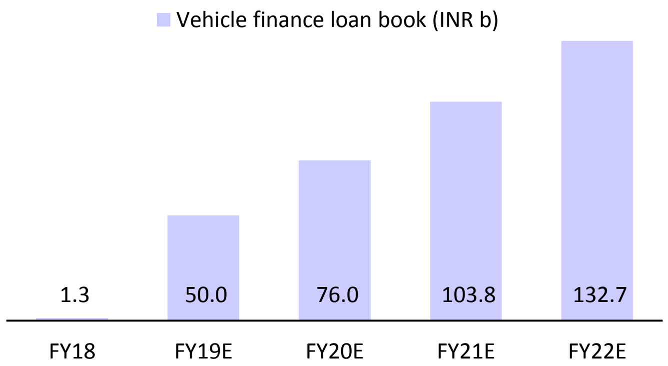

Source: MOFSL, Company

**Exhibit 40: Trend in SME Lending**



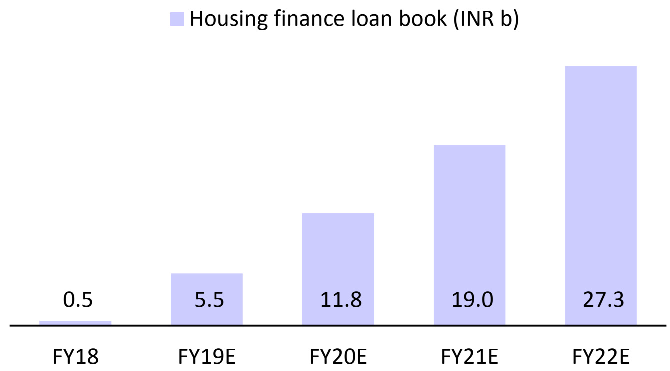

Source: MOFSL, Company

**Exhibit 41: VF loan book to surpass INR100b by FY21**




Source: MOFSL, Company

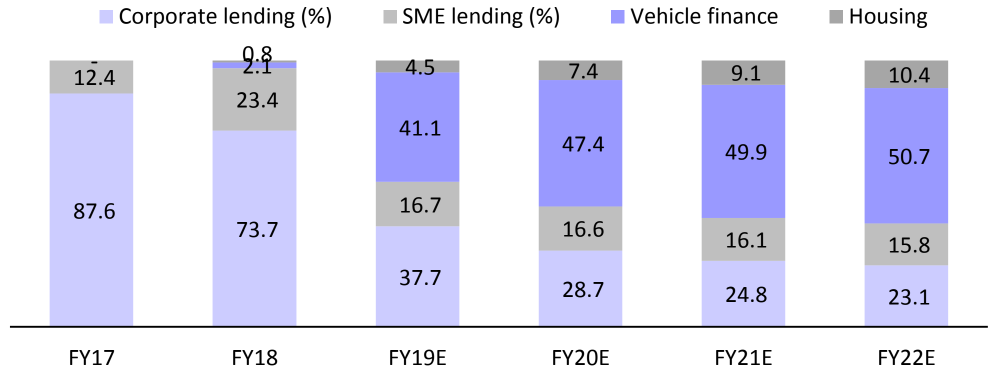
**Exhibit 42: Housing Finance loan book to scale up to ~INR27b**




Source: MOFSL, Company

Share of corporate lending to decline to 27% by FY22E from 74% in FY18

**Exhibit 43: Loan mix to change meaningfully over the next three years**




Source: MOFSL, Company

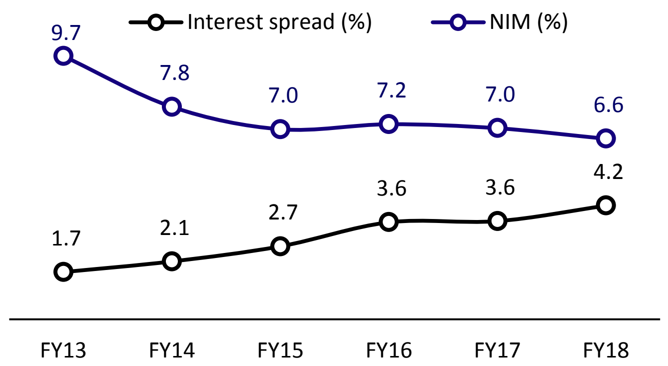
NIM to remain largely stable at 6.7% over the next two years

## Margins to remain largely stable despite spike in cost of funds

Over FY15-18, INDOSTAR did an impressive job of improving its spreads from 2.7% to 4.2%, despite increasing its SME lending share, which is lower yielding. The company benefited from a secular decline in cost of funds.

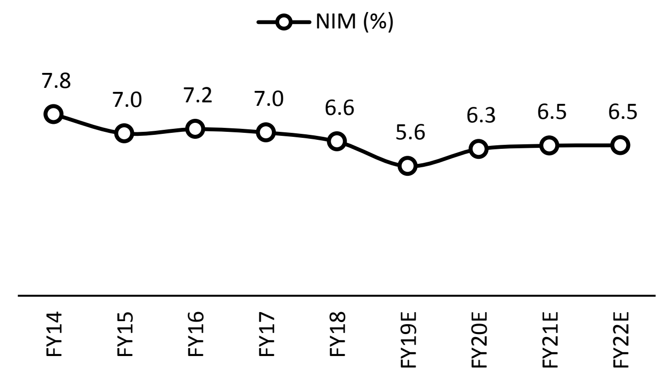
However, post the recent liquidity crisis, the cost of funds trajectory is reversing. We believe that INDOSTAR will be able to offset this by – (a) Increasing yields across all products and (b) increasing the share of vehicle finance, which is higher-yielding

**Exhibit 44: Spreads increasing consistently**




Source: Company

**Exhibit 45: Trend in net interest margin (NIM)**



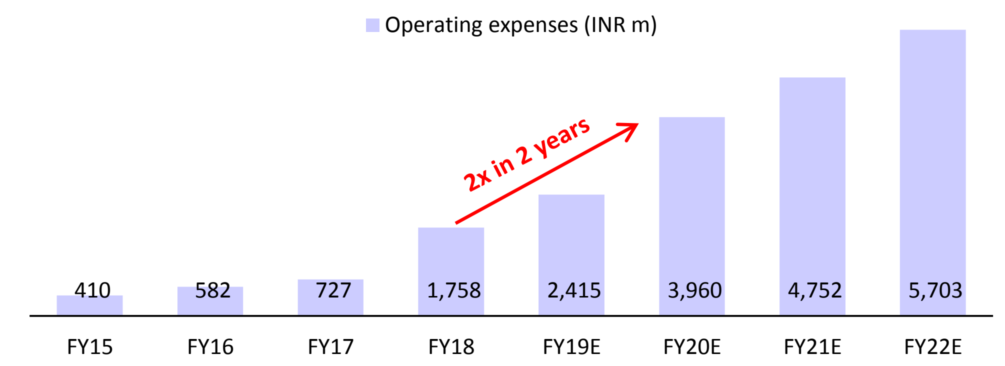

Source: Company

Average annual cost of running a vehicle finance branch stands at INR5-6m

## Branch expansion impacts opex in FY18 and FY19; likely to moderate going forward

Over the past six quarters, the company opened nearly 150 branches in the vehicle finance business. **Typically, the running cost for a vehicle finance branch is INR5-6m per year – this implies a breakeven period of 12-15 months for a vehicle finance branch.** We expect these branches to breakeven in 2HFY20. However, with the acquisition of IIFL's CV book, the company already gets a set of branches running at higher capacity. This will help moderate the overall expense ratio for its vehicle finance business.

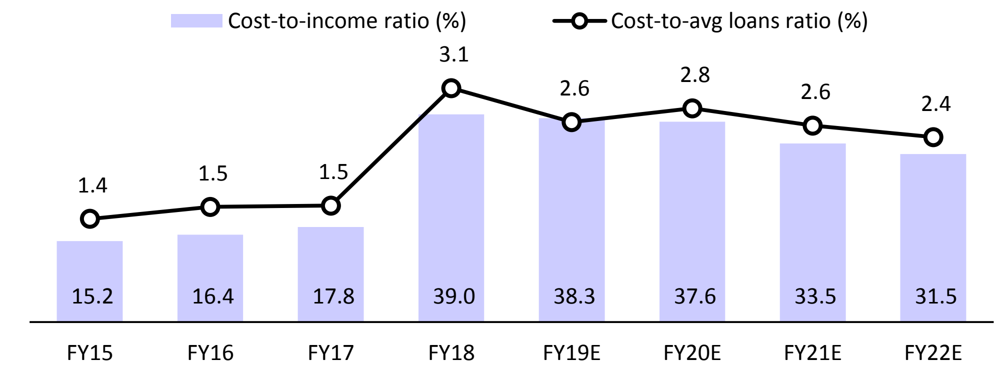
**Exhibit 46: Operating expenses to rise sharply over FY18-20 due to branch investments**




Source: Company

C/I ratio to decline from 39% in FY19 to 32% in FY22

**Exhibit 47: Cost-to-income surges in FY18, but expected to decline gradually**



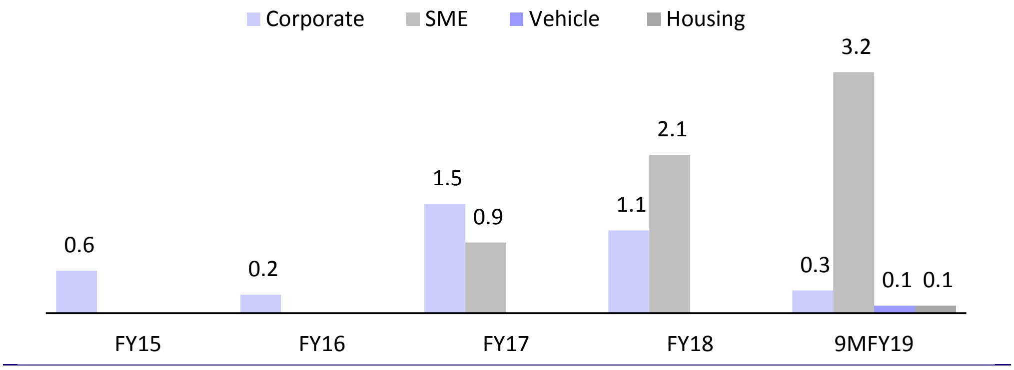

Source: Company

Credit costs to rise to ~1% by FY21

## Stable asset quality, but SME lending a concern

- Over FY14-FY18, INDOSTAR maintained a GNPA ratio of 0.2-1.4% and NNPA ratio of 0.2-1.2%. Credit costs have historically ranged between 10-25bp due to strong asset quality.
- However, the SME lending book recently witnessed a meaningful spike in its GNPL ratio from 0.9% in FY17 to 3.2% in 9MFY19. This is a key monitorable for the management.
- **Given the asset quality deterioration in its SME lending business, coupled with an increase in the share of vehicle finance, we expect credit costs to increase from 0.2% in FY18 to ~1% by FY21.** It must be noted that vehicle financiers typically have 1.5-2.5% credit costs on a run-rate basis.

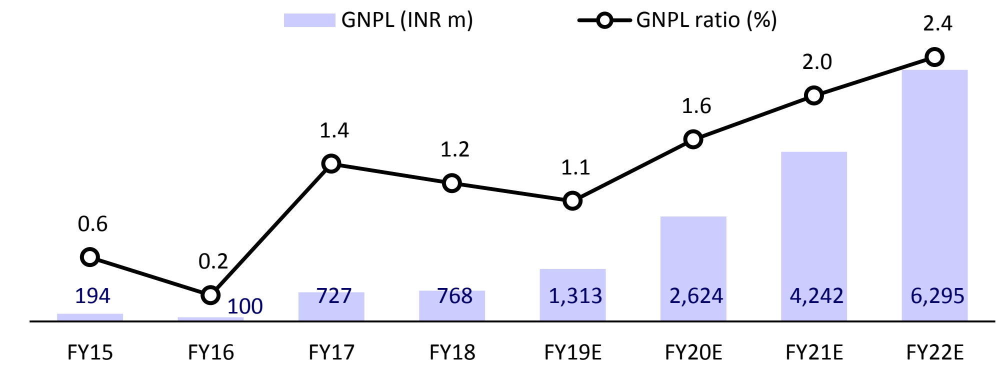
**Exhibit 48: Segment-wise asset quality trend**




Source: Company

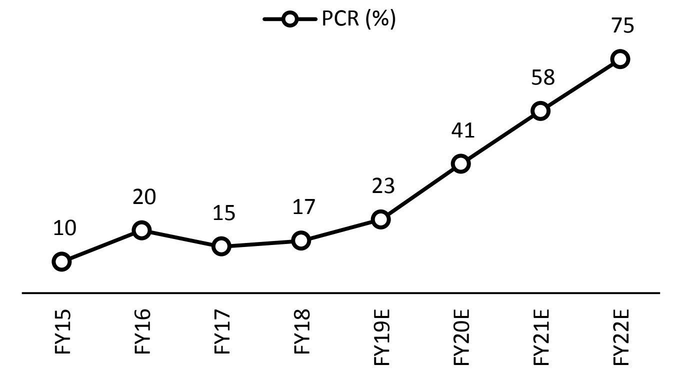
GNPL ratio to increase to 2.4% by FY22E

**Exhibit 49: GNPLs to increase as the book seasons and share of VF increases**



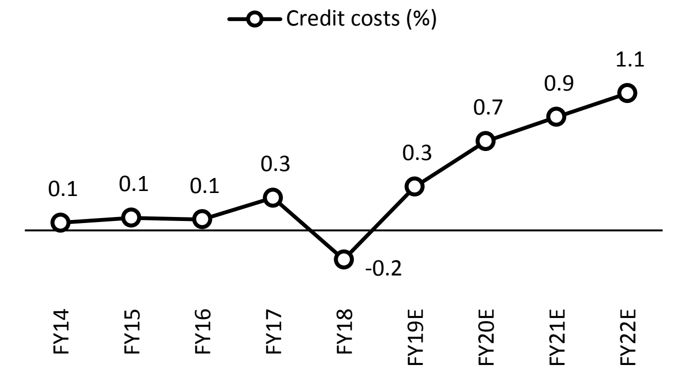

Source: Company

**Exhibit 50: Coverage ratio to improve…**




Source: MOFSL, Company; Note: PCR as defined under IGAAP

**Exhibit 51: ..leading to uptick in credit costs**



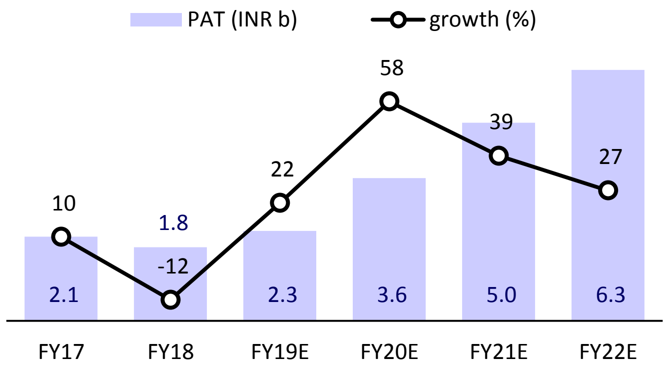

Source: MOFSL, Company; Note: FY18 numbers as MOFSL estimates under Ind-AS

RoA/RoE to improve to 2.4%/15% by FY22

## RoE to improve to 15% by FY22 as new branches mature and financial leverage increases

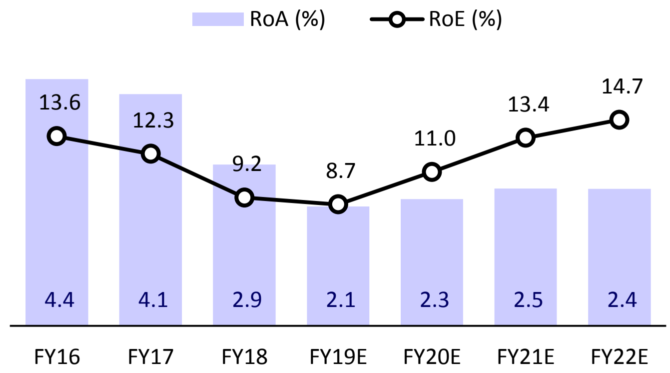
INDOSTAR has consistently maintained a RoA in excess of 3% over FY13-FY18 (under IGAAP). However, its RoE has remained in the low double-digits as the leverage on its balance sheet has been low. Additionally, over FY18-19, INDOSTAR began investing heavily in branch expansion which kept its C/I ratio at elevated levels. In our view, the company's C/I ratio will decline gradually as the effect of operating leverage plays out. This, coupled with increasing leverage, will drive an improvement in its RoE to ~15% by FY22.

**Exhibit 52: Trend in profit after tax**




Source: MOFSL, Company; Note: FY18 onwards, numbers as of Ind-AS

**Exhibit 53: Trend in RoA/RoE**



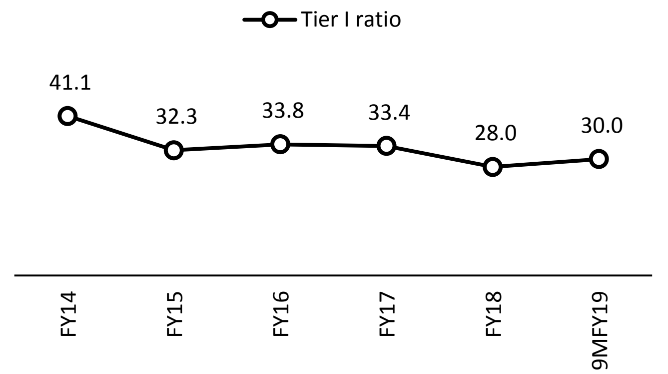

Source: MOFSL, Company; Note: Ind-AS numbers FY18 onwards

30% Tier I capital ratio; well-capitalized to sustain growth over the next three years

## Well-capitalized for the next few years

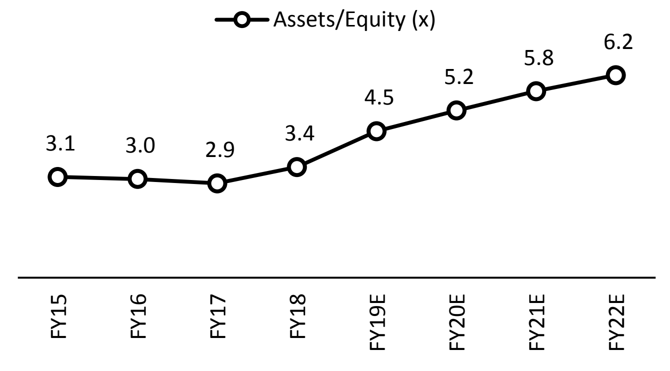
INDOSTAR's Tier-I capital ratio stands at 30% and has generally remained north of 30%. However, since credit rating agencies look at leverage from the asset-to-equity perspective rather than from the CRAR % perspective, we believe that it is imperative to look at the future trend in assets/equity. In our view, rating agencies will be comfortable with a leverage of 6-7x if the company's balance sheet becomes skewed towards a higher share of retail assets. As per our estimates, INDOSTAR will achieve a leverage of 6x only in FY22. Hence, until then, the company is well-capitalized for growth.

**Exhibit 54: Tier-I capital ratio (%)**




Source: Company

**Exhibit 55: Comfortable leverage for next three years**




Source: Company

# Bull & Bear case

## Bull Case

- ☑ In our bull case, we assume the total AUM to grow to INR297b by FY22 (vs INR262 in the base case)
- ☑ Margins would increase 160bp over FY19-22 to 7.2%.
- ☑ We expect significant cost control, with the cost-to-income ratio declining to 28% by FY22 as compared to 32% in our base case.
- ☑ This translates into a PAT of INR8.3b by FY22 resulting in RoA/RoE of 2.9%/18%.
- ☑ Based on the above assumptions, we value the stock at INR772 (2.0x FY20E BVPS) – an upside of 91%.

## Bear Case

- ☑ In our bear case, we expect the total AUM to grow to INR210b by FY22 (vs INR262b in the base case)
- ☑ We expect margins to improve only 70bp over FY19-22 to 6.3%.
- ☑ Cost-to-income ratio is likely to increase to 42% by FY22 as compared to 32% in our base case.
- ☑ Asset quality is likely to worsen with GNPL ratio of 3.2% by FY22 vs 2.4% in our base case
- ☑ This translates into a PAT of INR2.8b by FY22, with RoA/RoE of 1.3%/7.4%
- ☑ Based on the above assumptions, we value the stock at INR294 (0.8x FY20E BVPS) - a downside of 27%.

**Exhibit 56: Scenario analysis – Bull case**

| Bull Case | FY20E | FY21E | FY22E |
|---|---|---|---|
| Total Income | 12,240 | 16,817 | 21,952 |
| Opex | 4,220 | 5,064 | 6,077 |
| Provisions | 1,056 | 1,808 | 2,903 |
| PBT | 6,964 | 9,945 | 12,972 |
| PAT | 4,457 | 6,365 | 8,302 |
| NIM (%) | 7.3 | 7.3 | 7.2 |
| RoA (%) | 2.8 | 3.0 | 2.9 |
| RoE (%) | 13.6 | 16.6 | 18.1 |
| EPS | 48.9 | 69.8 | 91.1 |
| BV | 386 | 458 | 549 |
| **Target multiple (FY20E)** | **2.0** | | |
| **Target price (INR)** | **772** | | |
| **Upside (%)** | **91%** | | |

**Exhibit 57: Scenario analysis – Bear case**

| Bear Case | FY20E | FY21E | FY22E |
|---|---|---|---|
| Total Income | 10,055 | 12,207 | 14,475 |
| Opex | 4,220 | 5,064 | 6,077 |
| Provisions | 1,431 | 2,525 | 3,994 |
| PBT | 4,405 | 4,618 | 4,405 |
| PAT | 2,819 | 2,956 | 2,819 |
| NIM (%) | 6.4 | 6.4 | 6.3 |
| RoA (%) | 1.9 | 1.6 | 1.3 |
| RoE (%) | 8.8 | 8.4 | 7.4 |
| EPS | 30.9 | 32.4 | 30.9 |
| BV | 368 | 403 | 433 |
| **Target multiple (FY20E)** | **0.8** | | |
| **Target price (INR)** | **294** | | |
| **Upside (%)** | **-27%** | | |

Source: Company, MOFSL

## Key risks

### Large wholesale book

Around 58% of the loan book comprises wholesale lending. While its asset quality has remained healthy so far, even a few accounts slipping into NPL could worsen the company's asset quality as a whole.

### Increasing GNPL ratio in SME lending

Over the past four quarters, asset quality in the SME lending book worsened – the GNPL/NNPL ratio increased from 2.5%/2.2% to 3.2%/2.3%. While the company recently got the license to use SAFAESI, one has to wait and see how the recovery pans out over the near term.

### Dependence on external sourcing partners

INDOSTAR is dependent on external sourcing partners for all its three retail segments – SME Finance, Housing Finance, and Vehicle Finance. This would not only be more expensive but also be prone to higher levels of churn, as witnessed in the housing finance industry.

### Downturn in the CV cycle

INDOSTAR is betting strongly on the vehicle finance segment. The company has invested in opening nearly 150 branches and has also purchased IIFL's CV book. However, recent CV sales numbers have not been very encouraging and a continuation of this trend could lead to subdued profitability for the company.

## Initiate coverage with a Buy rating

### Favorable risk-reward

- **INDOSTAR has a strong track record of growth with quality. Given its adequate capital, focus on qualitative growth and business diversification (unlike other monoline businesses), we believe that INDOSTAR is improving the quality of its business.**
- **While the company's near-term RoE is expected to be at 9-11%, it does not fully factor in the long-term business profitability. In the medium-term, we expect the RoE to rise to 13-15% (with the effects of operating leverage and efficiency kicking in) while the long-term, sustainable RoE is likely to be 16%.**
- **INDOSTAR's employees will hold a 10%+ stake on a fully diluted basis in the company through ESOPs – this should ensure retention of talent and alignment of employee and shareholder interests.**
- **In the near term, strong growth and successful execution of business strategy will drive re-rating. Over the longer-term, the re-rating will be driven by an improvement in the company's RoE.**
- **We believe current valuations of 1.1x PBV FY20, INDOSTAR offers an attractive risk reward ratio. We initiate coverage with an RI-based target price of INR525 (1.2x FY21 BV). Our key assumptions are - RF of 7.5%, Beta of 1.1x and Risk premium of 5%. We have used a three-stage growth model with very high growth rates until FY23, followed by a moderation in growth rates and a terminal rate of 6%.**

**Exhibit 58: DuPont Analysis**

| % | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|
| Interest Income | 13.05 | 13.00 | 12.64 | 11.00 | 9.97 | 13.11 | 13.42 | 13.57 |
| Interest Expended | 7.21 | 6.66 | 6.13 | 5.09 | 5.14 | 7.12 | 7.27 | 7.44 |
| **Net Interest Income** | **5.84** | **6.34** | **6.52** | **5.91** | **4.84** | **5.99** | **6.14** | **6.14** |
| Fee Income | 1.68 | 1.83 | 1.48 | 1.00 | 0.78 | 0.81 | 0.91 | 0.91 |
| Other Income | 0.03 | 0.00 | 0.02 | 0.15 | 0.28 | 0.19 | 0.18 | 0.17 |
| **Net Income** | **7.55** | **8.17** | **8.02** | **7.06** | **5.91** | **6.99** | **7.23** | **7.22** |
| Operating Expenses | 1.15 | 1.34 | 1.43 | 2.75 | 2.30 | 2.68 | 2.50 | 2.37 |
| **Operating Income** | **6.41** | **6.83** | **6.59** | **4.31** | **3.61** | **4.31** | **4.73** | **4.86** |
| Provisions | 0.08 | 0.08 | 0.24 | -0.21 | 0.30 | 0.64 | 0.82 | 1.00 |
| **PBT** | **6.32** | **6.75** | **6.35** | **4.52** | **3.30** | **3.67** | **3.91** | **3.86** |
| Tax | 2.15 | 2.34 | 2.20 | 1.63 | 1.22 | 1.32 | 1.41 | 1.39 |
| **Reported PAT** | **4.17** | **4.41** | **4.14** | **2.89** | **2.08** | **2.35** | **2.50** | **2.47** |
| Leverage | 2.95 | 3.07 | 2.97 | 3.18 | 4.07 | 4.86 | 5.46 | 5.99 |
| **RoE** | **12.31** | **13.56** | **12.30** | **9.17** | **8.47** | **11.41** | **13.65** | **14.79** |

Source: MOFSL, Company

# Company overview

**Founded and promoted by Everstone Capital**

AA- long term rating by CARE and India Ratings

Indostar Capital Finance (INDOSTAR) is a systemically important, non-deposit-taking NBFC in India. The company was founded by Everstone Capital, which infused INR9b as equity capital on Day-1. In June 2018, INDOSTAR came out with an IPO of INR18.4b (6.8x subscribed), out of which INR7b was fresh issue and the balance was OFS. The company operates in four business lines – corporate lending, SME lending, vehicle finance, and housing finance. It has two subsidiaries, IndoStar Asset Advisory Pvt. Ltd. and IndoStar Housing Finance Ltd. Its long-term debt is presently rated CARE AA- Stable and IND AA-/Stable.

**Exhibit 59: Company history**

| Year | Milestone |
|---|---|
| 2011 | ❖ Received investment from Indostar Capital, Mauritius. Commenced wholesale finance |
| 2012 | ❖ Received AA- credit rating from CARE |
| 2014 | ❖ PAT crossed INR1b mark |
| 2015 | ❖ Commenced SME finance |
| 2017 | ❖ Mr. R. Sridhar appointed as Vice-Chairman & CEO |
| 2017 | ❖ Commenced vehicle finance and affordable housing finance |
| 2018 | ❖ Commenced retail housing finance |
| 2019 | ❖ Acquired IIFL's CV financing business |

Source: MOFSL, Company

## Shareholding pattern

INDOSTAR is majority-owned by Indostar Capital, Mauritius (ICM), which in turn, is owned by Indostar Everstone (42.54%) and other investors. The promoters' stake of ~59% in the company is locked in for one year and 20% is locked in for three years.

**Exhibit 60: Shareholding pattern (%)**

| | |
|---|---|
| **Promoter** | **58.3** |
| - Indostar Capital | 57.1 |
| - Everstone Capital Partners II LLC | 1.2 |
| Banks/MFs/FIs | 9.3 |
| FPI | 13.1 |
| Others | 19.3 |
| **Total** | **100.0** |

Source: MOFSL, Company

## Some mutually-agreed upon terms among IndoStar Capital's (parent) shareholders

- Up to 39 months from the date of allotment, a share sale can take place only via a block trade and there has to be a six-month gap after every trade.
- Post 39 months (August 2021), a stake sale can take place only after providing an advance notice of 90 days.

## Key Management Personnel

Brief profiles of the Board of Directors and Key Management Personnel:

### Dhanpal Jhaveri, Chairman

Mr. Dhanpal Jhaveri, aged 49 years, is the Chairman and Non-Executive Director, and has been associated with the company as Director since September 2, 2010. He holds a Bachelor's Degree in Commerce from the University of Mumbai and a Master's Degree in Business Administration from Babson College. He has several years of experience in the fields of investing, corporate strategy, mergers and acquisitions, and investment banking. He has previously worked with Vedanta Group, ICICI Securities and Finance Company Limited, KPMG India Private Limited, and Everstone Capital Advisors Private Limited.

### R Sridhar, Vice Chairman & CEO

Mr. R Sridhar, aged 59 years, is the Executive Vice Chairman and Chief Executive Officer, and has been associated with the company as Director since April 18, 2017. He has previously been associated with various entities forming part of the Shriram Group and held the position of Managing Director at Shriram Transport Finance Company Limited. He holds a Bachelor's degree in Science from the University of Madras and is a Chartered Accountant from the Institute of Chartered Accountants of India.

### Shailesh Shirali, Managing Director, Head – Corporate Lending and Markets

Mr. Shailesh Shirali, aged 48 years, is Managing Director and Head – Corporate Lending and Markets since November 5, 2012. He has several years of experience in the financial services sector and has previously worked at Future Capital Holdings. He holds a Bachelor's degree in Commerce from the University of Mumbai and is a Chartered Accountant from the Institute of Chartered Accountants of India.

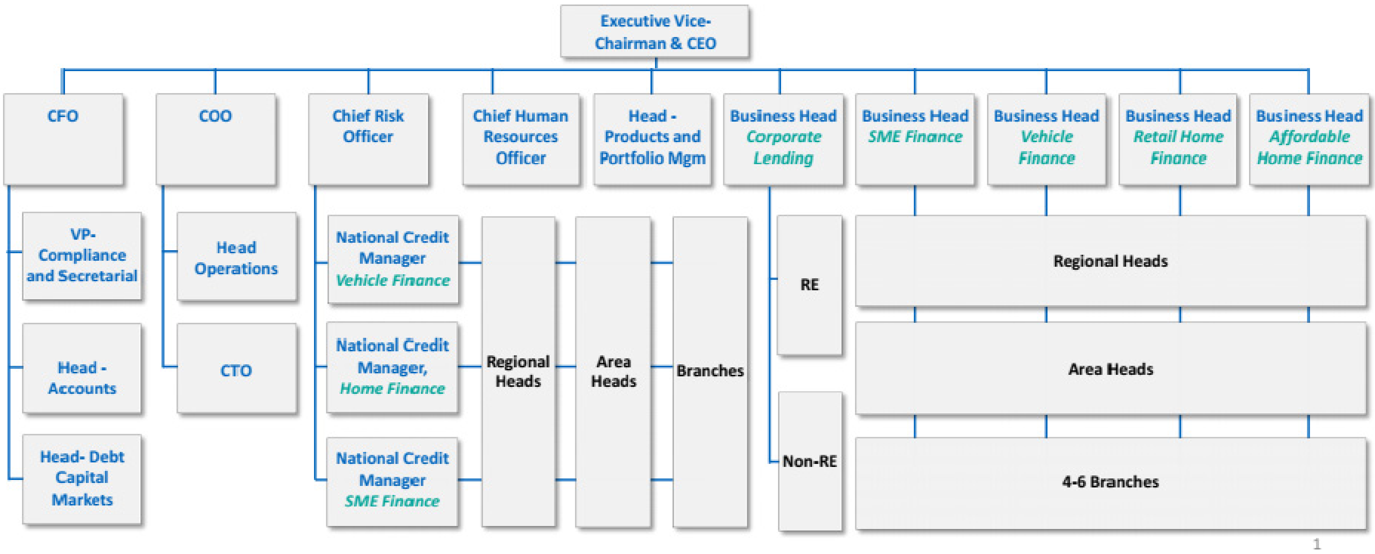
### Pankaj Thapar, Chief Financial Officer

Mr. Pankaj Thapar, aged 56 years, 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 with Indian and international entities, such as Everstone Capital, Dentsu Marcom Private Limited, Coca-Cola India, ANZ Grindlays Bank, Citibank India, and ICICI. He holds a Bachelor's degree in Commerce and a Master's Degree in Business Administration from the University of Delhi.

### Prashant Joshi, Chief Operating Officer

Mr. Prashant Joshi, aged 46 years, is the Chief Operating Officer and has been associated with the company since August 1, 2016. He has over 20 years of experience across small and medium enterprises, and corporate banking. He has held senior positions at Deutsche Bank AG, Standard Chartered Bank, IDBI Bank, and ICICI. He holds a Bachelor's degree in Commerce from the University of Bombay and a Master's Degree in Business Administration from the Indian Institute of Management Calcutta.

**Exhibit 61: Organizational structure**




Source: Company

# Financials and Valuation

| Income Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| Y/E March | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
| Interest Income | 4,667 | 5,644 | 6,436 | 7,031 | 10,551 | 20,263 | 26,614 | 34,104 |
| Interest Expended | 2,579 | 2,893 | 3,118 | 3,255 | 5,418 | 11,346 | 14,709 | 18,877 |
| **Net Interest Income** | **2,087** | **2,751** | **3,317** | **3,776** | **5,133** | **8,917** | **11,905** | **15,227** |
| Change (%) | 22.6 | 31.8 | 20.6 | 13.8 | 35.9 | 73.7 | 33.5 | 27.9 |
| Fee Income | 602 | 796 | 756 | 637 | 827 | 1,270 | 1,841 | 2,348 |
| Other Income | 12 | 1 | 8 | 99 | 350 | 350 | 420 | 504 |
| **Net Income** | **2,701** | **3,548** | **4,081** | **4,512** | **6,310** | **10,537** | **14,166** | **18,079** |
| Change (%) | 31.8 | 31.3 | 15.0 | 10.6 | 39.9 | 67.0 | 34.4 | 27.6 |
| Operating Expenses | 410 | 582 | 727 | 1,758 | 2,415 | 3,960 | 4,752 | 5,703 |
| **Operating Income** | **2,291** | **2,966** | **3,354** | **2,754** | **3,895** | **6,577** | **9,414** | **12,376** |
| Change (%) | 34.3 | 29.5 | 13.1 | -17.9 | 41.4 | 68.9 | 43.1 | 31.5 |
| Provisions and W/Offs | 30 | 34 | 123 | -133 | 319 | 1,001 | 1,663 | 2,564 |
| **PBT** | **2,260** | **2,932** | **3,230** | **2,887** | **3,575** | **5,576** | **7,751** | **9,812** |
| Tax | 770 | 1,016 | 1,122 | 1,042 | 1,323 | 2,007 | 2,791 | 3,532 |
| Tax Rate (%) | 34.1 | 34.6 | 34.7 | 36.1 | 37.0 | 36.0 | 36.0 | 36.0 |
| **PAT** | **1,490** | **1,916** | **2,108** | **1,845** | **2,253** | **3,569** | **4,961** | **6,279** |
| Change (%) | 32.9 | 28.6 | 10.0 | -12.5 | 22.1 | 58.4 | 39.0 | 26.6 |
| Proposed Dividend (Incl Tax) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| Balance Sheet | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| Y/E March | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E |
| Equity Share Capital | 683 | 734 | 784 | 787 | 911 | 911 | 911 | 911 |
| Reserves & Surplus | 12,169 | 14,684 | 18,084 | 20,584 | 29,629 | 33,437 | 38,588 | 44,867 |
| **Net Worth** | **12,852** | **15,418** | **18,868** | **21,371** | **30,540** | **34,348** | **39,499** | **45,779** |
| **Borrowings** | **25,738** | **30,009** | **33,733** | **48,228** | **103,478** | **137,925** | **181,838** | **233,041** |
| Change (%) | 35.6 | 16.6 | 12.4 | 43.0 | 114.6 | 33.3 | 31.8 | 28.2 |
| Other liabilities | 1,327 | 1,506 | 2,287 | 3,365 | 4,038 | 4,846 | 5,815 | 6,978 |
| **Total Liabilities** | **39,916** | **46,933** | **54,888** | **72,964** | **138,056** | **177,119** | **227,152** | **285,797** |
| Investments | 546 | 0 | 1,870 | 7,931 | 8,724 | 8,724 | 8,724 | 8,724 |
| Change (%) | -10.3 | -100.0 | N.A | 324.2 | 10.0 | 0.0 | 0.0 | 0.0 |
| **Loans and Advances** | **33,858** | **42,779** | **51,549** | **62,073** | **121,738** | **160,378** | **207,815** | **261,844** |
| Change (%) | 31.2 | 26.3 | 20.5 | 20.4 | 96.1 | 31.7 | 29.6 | 26.0 |
| Net Fixed Assets | 9 | 38 | 88 | 616 | 923 | 1,385 | 2,078 | 3,116 |
| Other Assets | 5,503 | 4,117 | 1,381 | 2,344 | 6,670 | 6,632 | 8,535 | 12,113 |
| **Total Assets** | **39,916** | **46,933** | **54,888** | **72,964** | **138,056** | **177,119** | **227,152** | **285,797** |

E: MOFSL Estimates

Note: FY18 numbers have been restated by MOFSL under Ind-AS as per our best estimates.

# Financials and Valuation

| AUM Details | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** | **2022E** |
| **AUM (INR Bn)** | **34** | **43** | **52** | **62** | **122** | **160** | **208** | **262** |
| **AUM Mix** | | | | | | | | |
| **Corporate** | **99.8** | **94.8** | **87.6** | **73.7** | **37.7** | **28.7** | **24.8** | **23.1** |
| **Retail** | **0.2** | **5.2** | **12.4** | **26.3** | **62.3** | **71.3** | **75.2** | **76.9** |
| SME | 0.2 | 5.2 | 12.4 | 23.4 | 16.7 | 16.6 | 16.1 | 15.8 |
| Vehicle | 0.0 | 0.0 | 0.0 | 2.1 | 41.1 | 47.4 | 49.9 | 50.7 |
| Housing | 0.0 | 0.0 | 0.0 | 0.8 | 4.5 | 7.4 | 9.1 | 10.4 |

| Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2015** | **2016** | **2017** | **2018** | **2019E** | **2020E** | **2021E** | **2022E** |
| **Spreads Analysis (%)** | | | | | | | | |
| Yield on Portfolio | 14.2 | 13.9 | 13.4 | 12.1 | 11.3 | 14.2 | 14.3 | 14.4 |
| Cost of Borrowings | 11.5 | 10.4 | 9.8 | 7.9 | 9.7 | 9.4 | 9.2 | 9.1 |
| Interest Spread | 2.7 | 3.6 | 3.6 | 4.2 | 1.6 | 4.8 | 5.1 | 5.3 |
| Net Interest Margin | 7.0 | 7.2 | 7.0 | 6.6 | 5.6 | 6.3 | 6.5 | 6.5 |
| | | | | | | | | |
| **Profitability Ratios (%)** | | | | | | | | |
| RoE | 12.3 | 13.6 | 12.3 | 9.2 | 8.7 | 11.0 | 13.4 | 14.7 |
| RoA (on balance sheet) | 4.2 | 4.4 | 4.1 | 2.9 | 2.1 | 2.3 | 2.5 | 2.4 |
| Debt: Equity (x) | 2.0 | 1.9 | 1.8 | 2.3 | 3.4 | 4.0 | 4.6 | 5.1 |
| Average Leverage (x) | 3.0 | 3.1 | 3.0 | 3.2 | 4.1 | 4.9 | 5.5 | 6.0 |
| | | | | | | | | |
| **Efficiency Ratios (%)** | | | | | | | | |
| Int. Expended/Int.Earned | 55.3 | 51.3 | 48.5 | 46.3 | 51.3 | 56.0 | 55.3 | 55.4 |
| Op. Exps./Net Income | 15.2 | 16.4 | 17.8 | 39.0 | 38.3 | 37.6 | 33.5 | 31.5 |
| Empl. Cost/Op. Exps. | 68.4 | 67.8 | 66.3 | 60.6 | 60.4 | 58.9 | 58.9 | 58.9 |
| Fee income/Net Income | 22.3 | 22.4 | 18.5 | 14.1 | 13.1 | 12.0 | 13.0 | 13.0 |
| | | | | | | | | |
| **Asset quality** | | | | | | | | |
| GNPA | 194 | 100 | 727 | 768 | 1,313 | 2,624 | 4,242 | 6,295 |
| NNPA | 175 | 80 | 620 | 640 | 1,006 | 1,544 | 1,780 | 1,604 |
| GNPA % | 0.6 | 0.2 | 1.4 | 1.2 | 1.1 | 1.6 | 2.0 | 2.4 |
| NNPA % | 0.5 | 0.2 | 1.2 | 1.0 | 0.8 | 1.0 | 0.9 | 0.6 |
| PCR % | 10.0 | 20.0 | 14.8 | 16.7 | 23.4 | 41.1 | 58.0 | 74.5 |
| | | | | | | | | |
| **Valuation** | | | | | | | | |
| Book Value (INR) | 188.1 | 210.2 | 240.8 | 271.6 | 335.1 | 376.9 | 433.4 | 502.3 |
| BV Growth (%) | 13.2 | 11.7 | 14.6 | 12.8 | 23.4 | 12.5 | 15.0 | 15.9 |
| **Price-BV (x)** | | | | **1.5** | **1.2** | **1.1** | **0.9** | **0.8** |
| EPS (INR) | 21.8 | 26.1 | 26.9 | 23.4 | 24.7 | 39.2 | 54.4 | 68.9 |
| EPS Growth (%) | 32.9 | 19.8 | 3.0 | -12.9 | 5.4 | 58.4 | 39.0 | 26.6 |
| **Price-Earnings (x)** | | | | **17.5** | **16.6** | **10.5** | **7.6** | **6.0** |
| Dividend per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Dividend Yield (%)** | | | | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

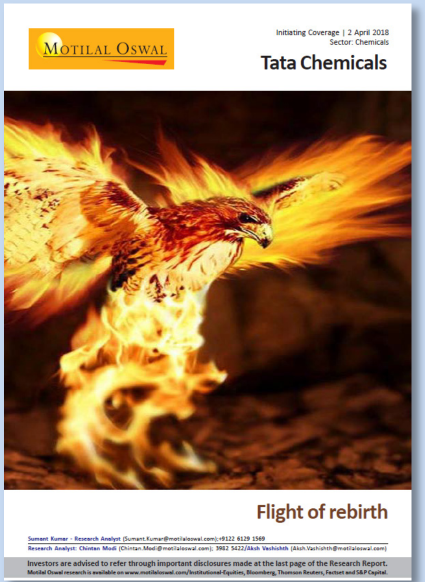
E: MOFSL Estimates

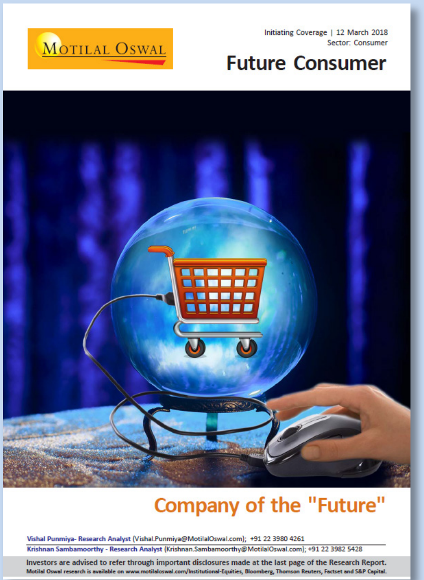
# REPORT GALLERY

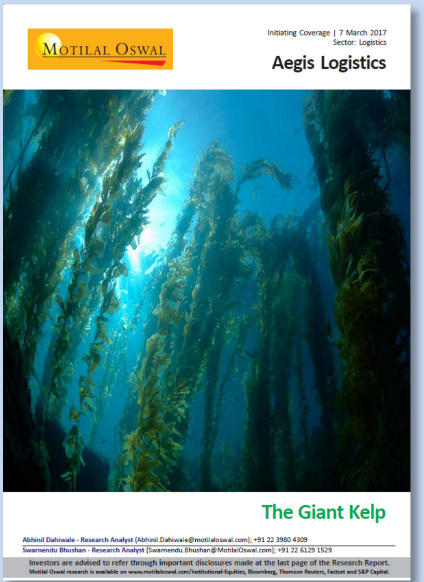
## RECENT INITIATING COVERAGE REPORTS






| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | > - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

## Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL)* is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and BSE Limited (BSE), Multi Commodity Exchange of India (MCX) & National Commodity & Derivatives Exchange Ltd. (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

MOSL, it's associates, Research Analyst or their relative may have any financial interest in the subject company. MOSL and/or its associates and/or Research Analyst may have actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. MOSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. MOSL and/or its associates may have received any compensation from the subject company in the past 12 months.

In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, MOSL or any of its associates may have:

a) managed or co-managed public offering of securities from subject company of this research report,
b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report,
c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report.
d) Subject Company may have been a client of MOSL or its associates during twelve months preceding the date of distribution of the research report.

MOSL and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. To enhance transparency, MOSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report. MOSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

**Terms & Conditions:**

This report has been prepared by MOSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOSL will not treat recipients as customers by virtue of their receiving this report.

**Analyst Certification**

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

| **Disclosure of Interest Statement** | **IndoStar Capital Finance** |
|---|---|
| Analyst ownership of the stock | No |

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOSL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

**Regional Disclosures (outside India)**

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL & its group companies to registration or licensing requirements within such jurisdictions.

**For Hong Kong:**

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

**For U.S.**

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

**For Singapore**

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore, as per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

**Disclaimer:**

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient shall take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details of group entities: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100.Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. * Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products

**_MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f. August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench. The existing registration no(s) of MOSL would be used until receipt of new MOFSL registration numbers._**