

# Indostar Capital Finance

**BSE SENSEX** 76,848  
**S&P CNX** 23,843



Bloomberg	INDOSTAR IN
Equity Shares (m)	162
M.Cap.(INRb)/(USDb)	35.2 / 0.4
52-Week Range (INR)	369 / 179
1, 6, 12 Rel. Per (%)	9/-4/-24
12M Avg Val (INR M)	58

## Financials & Valuations (INR b)

Y/E March	FY26E	FY27E	FY28E
NII	6.3	7.0	8.5
PPP	2.5	3.4	4.7
PAT	5.8	2.2	3.4
EPS (INR)	36.1	13.8	21.3
EPS Gr. (%)	834	-62	55
BV (INR)	261	275	296

## Ratios

NIM (%)	9.7	11.1	12.0
C/I ratio (%)	67.1	61.4	56.3
RoA (%)	5.3	1.9	2.4
RoE (%)	15.2	5.1	7.5
Payout (%)	0.0	0.0	0.0

## Valuations

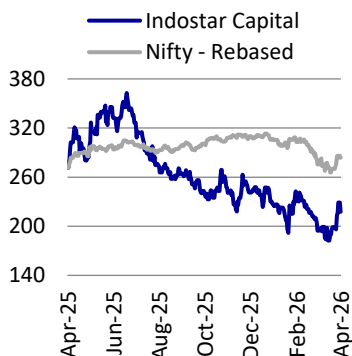
P/E (x)	6.1	15.9	10.3
P/BV (x)	0.8	0.8	0.7
Div. Yield (%)	0.0	0.0	0.0

## Shareholding pattern (%)

As of	Dec-25	Sep-25	Dec-24
Promoter	70.4	73.0	73.6
DII	2.1	2.5	1.9
FII	2.3	2.9	2.4
Others	25.3	21.7	22.1

FII includes depository receipts

## Stock performance (one year)



**CMP: INR219**

**TP: INR270 (+24%)**

**Buy**

## From structural reset to scalable compounding

Moderating opex & improving asset quality likely to drive 2.5% RoA by FY28

We attended an analyst/investor meet hosted by IndoStar Capital Finance (Indostar).

The following are our key takeaways from the management meet:

- Indostar has evolved from a wholesale-focused NBFC into a granular, retail-led franchise with a diversified mix across vehicle finance and MLAP. After a deliberate underwriting tightening phase since Jan'25, the business is now seeing a more balanced trajectory, with improving growth, asset quality, and costs, setting the stage for stable, scalable long-term compounding.
- Following the recent reset, growth has rebounded meaningfully, led by stronger execution, expanded sales capacity, and improving lender confidence. Indostar is targeting ~40% disbursement growth in FY27, supported by a 450+ branch network across 23 states, a diversified borrower base, and deeper penetration in northern markets. Vehicle finance, especially used vehicles, remains the core engine, while MLAP is being scaled in a calibrated manner, given its longer seasoning cycle, and is expected to reach ~15% of AUM over the next two years.
- Despite some moderation in yields due to a conscious shift toward prime borrowers, margins have remained stable, supported by a meaningful decline in CoF and improving lender confidence. Incremental borrowings are now being raised at lower rates, reflecting a structurally stronger funding profile.
- Operating efficiency has improved materially, fueled by cost rationalization, vendor renegotiations, and increased digitization across underwriting, approvals, and onboarding segments. About 65% of credit decisions are now scorecard-driven, enhancing both speed and consistency.
- Tighter underwriting has been a key strategic shift, with sharper credit filters and reduced exposure to higher-risk segments. While this temporarily slowed AUM growth, it has driven a marked improvement in portfolio quality and a steady decline in delinquencies. The share of new book is rising (~60% of AUM), improving visibility on sustained asset quality going forward.
- The business is entering a phase where a cleaner portfolio, an improving funding profile, and a more efficient operating model are converging to support sustainable growth. As execution stabilizes and underwriting benefits flow through, the key monitorables will be the durability of AUM growth and profitability. We estimate a CAGR of 23%/36% in AUM/PPOP over FY26-28, supported by NIM improvement to 11.1%/12% in FY27E/FY28E. Reiterate BUY with a TP of INR270 (based on 0.9x FY28E BVPS).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

### Growth reignited: Disbursement momentum bounces back strongly!

- Indostar has undergone a significant evolution over the years, transitioning from a wholesale-focused NBFC into a granular, retail-led franchise over the years. With a presence across 23 states, an extensive branch network (with ~450+ branches and ~4,500 employees), and a scalable operating platform, it has built the capacity to sustain meaningful growth going forward.
- Disbursement momentum, which moderated during the underwriting reset phase, has now rebounded strongly. Management is confident in achieving ~40% growth in FY27, supported by improved portfolio quality, expanded sales capacity, and better lender confidence. The growth strategy remains calibrated, prioritizing sustainability over aggressive expansion.
- Geographically, while the southern markets remain well penetrated, incremental growth is expected to be driven by gradual expansion in northern regions. Additionally, the company continues to benefit from a diversified borrower base, spanning small to large operators, which provides resilience across cycles.
- While vehicle finance continues to anchor disbursements, MLAP is being expanded cautiously, given its longer seasoning cycle (~18-24 months), with a long-term aspiration of becoming a meaningful contributor (~15% AUM in the next two years). We expect Indostar to deliver an AUM growth of ~23% over FY26-28.

### Margins to improve: Prioritizing pricing power over aggressive growth

- Indostar has seen a meaningful improvement in its funding profile, with borrowing costs declining significantly. Incremental borrowing is now being raised at materially lower rates (~9.5%), reflecting improved lender confidence and stronger balance sheet credibility.
- Despite a moderation in lending yields due to the shift toward higher-quality borrowers, overall margins remain stable. This is aided by a favorable funding mix and disciplined pricing.
- Management remains confident of sustaining spreads, with a stated intent to maintain yields at healthy levels rather than chasing growth through aggressive repricing. We expect Indostar to maintain an NIM of ~11.1%/12% in FY27/FY28E.

### Leaner cost base through structural optimization

- A strong focus on operational efficiency has led to significant cost rationalization. The company has reduced non-essential expenditures through vendor negotiations, process optimization, and better cost controls, without disrupting core operations.
- Digitization has been a key enabler, with increased adoption of scorecard-based underwriting, faster turnaround times, and automation across processes such as approvals, documentation, and channel partner pay-outs. A majority of credit decisions (~65%) are now driven by automated systems, enhancing both efficiency and consistency.
- Importantly, investments in frontline sales capacity have been scaled up in a cost-efficient manner, supporting growth without materially increasing the overall cost base. We model the cost-to-income ratio to decline from ~67% in FY26E to 61.4%/56.3% in FY27/ FY28E.

### Asset quality reset: A decisive pivot towards prudence

- The most significant transformation has been on the asset quality front. In response to industry-wide collection challenges, Indostar undertook a sharp tightening of underwriting standards starting Jan'25.
- This tightening included raising credit thresholds (from 650 to 700), restricting exposure to higher-risk segments, and systematically pruning weaker borrower cohorts (pruned the bottom 35% in Jan'25). While this constriction led to a temporary moderation in AUM growth, it has resulted in a substantial improvement in portfolio health.
- Delinquencies have dipped materially (~50% YoY), and the share of the new, better-underwritten book is steadily increasing. As this proportion rises further, management expects continued improvement in asset quality metrics, with limited residual stress in the legacy portfolio. We expect the credit costs for Indostar to decline sharply from ~9.5% in FY26E to ~1.9%/1.8% over FY27/28E.

### MLAP: Secured growth engine with low LTV and high risk-adjusted returns

- The MLAP business is being scaled in a measured manner, given its secured nature and longer credit cycles. With low LTVs and strong collateral backing, the segment offers attractive risk-adjusted returns and higher customer lifetime value.
- Current performance indicators remain encouraging, with minimal early-stage delinquencies (5 0+ DPD customers out of 2500 customers) . However, management is consciously pacing expansion, adding geographies gradually and monitoring portfolio behavior before scaling further.
- Over the medium term, MLAP is likely to contribute meaningfully to the overall portfolio mix (~15% over the next two years) while maintaining prudent risk controls.

### People and Leadership

- The company has strengthened its leadership team and organizational capabilities through key senior hires across business, HR, technology, and compliance functions.
- Additionally, a focused effort has been made to hire and build frontline sales capacity to support future growth.
- The organization is also restructuring its business verticals, for example, creating separate segments for PV, CE, and farm equipment, which is expected to improve execution and scalability.

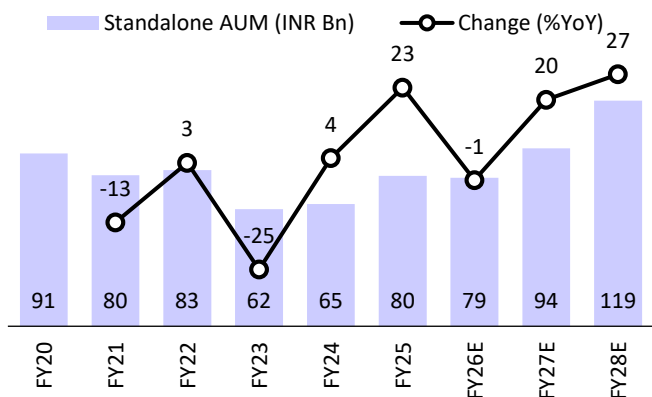
### Valuation and view

- Overall, the company appears to be at an inflection point where earlier structural tightening is now translating into improved growth visibility and stronger portfolio outcomes. The combination of better underwriting, declining cost of funds, and operating discipline is creating a more stable earnings base. With execution gaining consistency, the medium-term trajectory looks more predictable and scalable. This provides a clearer foundation for sustained performance as the business moves into its next phase of expansion.
- We estimate a CAGR of 23%/36% in AUM/PPOP over FY26-28, supported by NIM improvement to 11.1%/12% in FY27E/FY28E. Reiterate BUY with a TP of INR270 (based on 0.9x FY28E BVPS).

**Exhibit 1: Valuation matrix of Indostar and its peers**

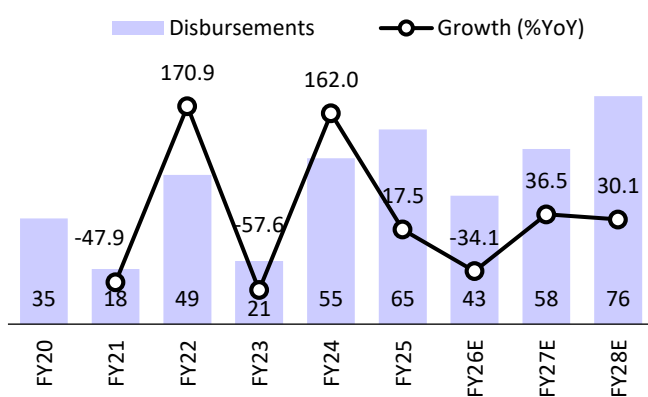
Val summary	Rating	CMP (INR)	Mkt. Cap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
<b>Indostar</b>	<b>Buy</b>	<b>219</b>	<b>31</b>	<b>13.8</b>	<b>21.3</b>	<b>275</b>	<b>296</b>	<b>1.9</b>	<b>2.4</b>	<b>5.1</b>	<b>7.5</b>	<b>15.9</b>	<b>10.3</b>	<b>0.8</b>	<b>0.7</b>
Cholamandalam	Buy	1,508	1,330	73.4	94.2	428	520	2.4	2.6	18.9	19.9	20.5	16.0	3.5	2.9
MMFS	Buy	297	420	23.3	27.9	194	215	2.1	2.2	12.5	13.6	12.8	10.6	1.5	1.4
Shriram Finance	Buy	1,004	1,931	53.7	68.7	485	543	3.6	3.9	14.1	13.4	18.7	14.6	2.1	1.8

**Exhibit 2: AUM to clock a CAGR of ~23% over FY26-28E...**



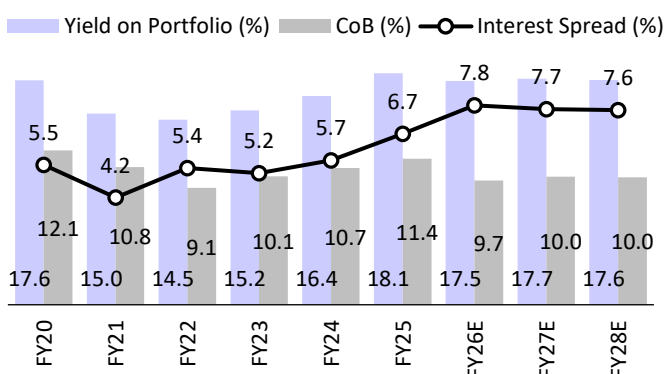
Source: MOFSL, Company

**Exhibit 3: ...supported by a disbursement CAGR of ~33%**



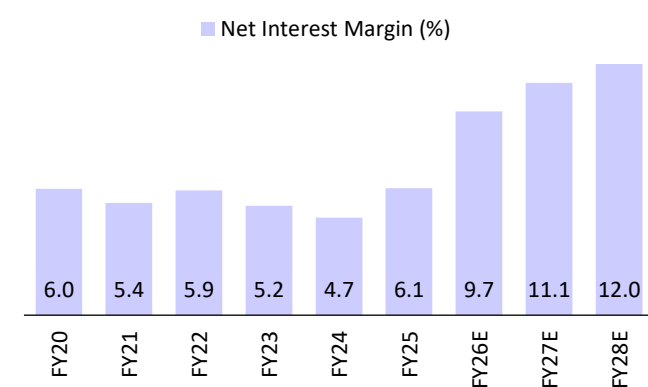
Source: MOFSL, Company

**Exhibit 4: Spreads to remain steady over FY27/28E**



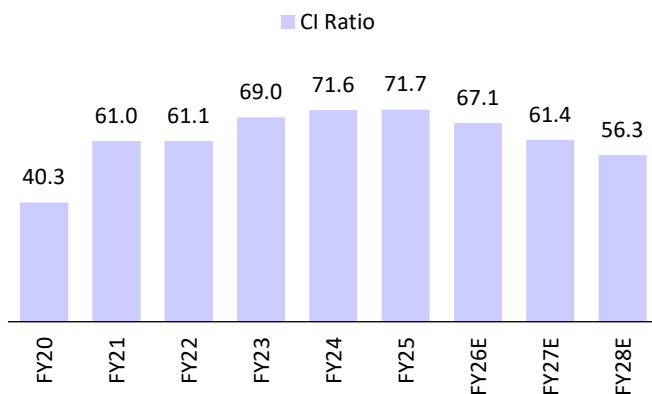
Source: MOFSL, Company

**Exhibit 5: NIM expected to be 12% by FY28**



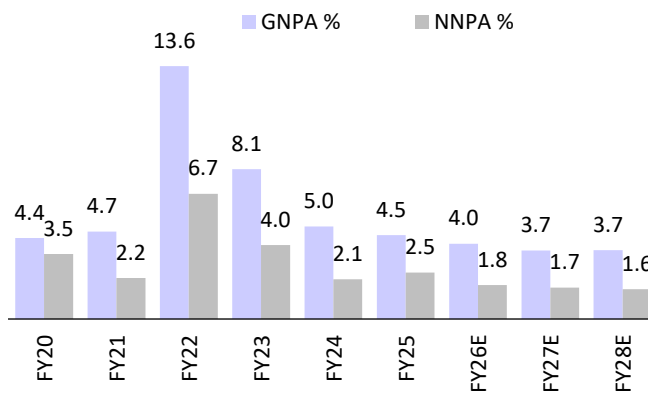
Source: MOFSL, Company

**Exhibit 6: Opex to moderate to 56.3% in FY28 (%)**



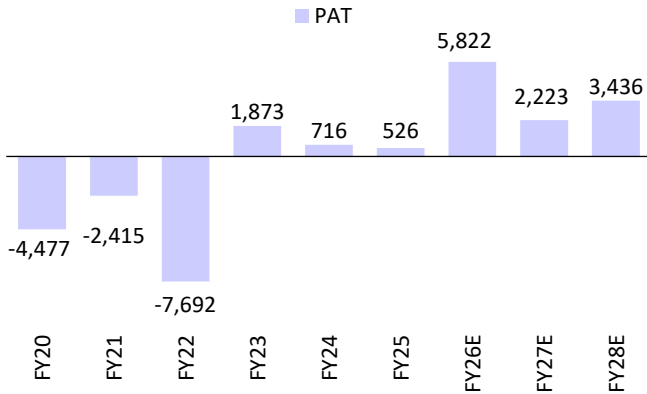
Source: MOFSL, Company

**Exhibit 7: Asset quality to witness a gradual improvement**



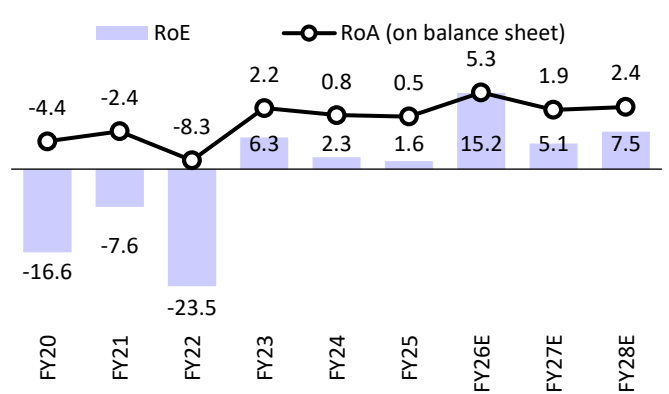
Source: MOFSL, Company

**Exhibit 8: PAT expected to touch ~INR3.4b by FY28 (in m)**



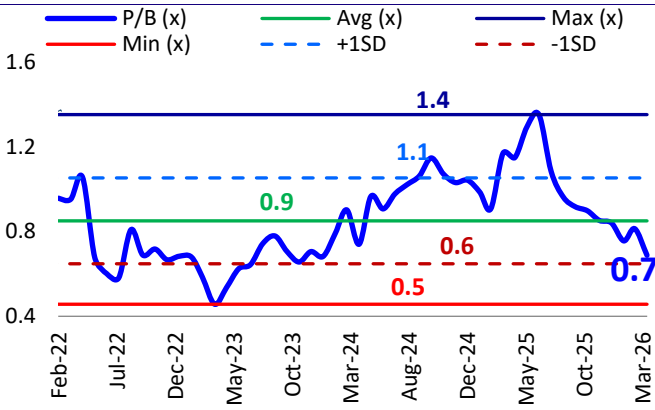
Note: FY26E PAT includes exceptional gain; Source: MOFSL, Company

**Exhibit 9: RoA/RoE expected to be 2.4%/7.5% by FY28 (%)**



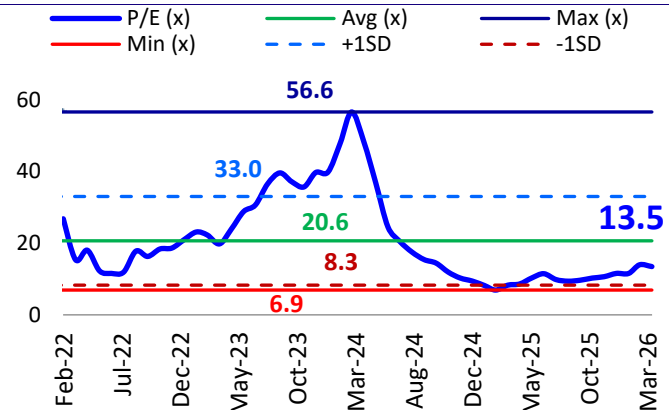
Source: MOFSL, Company

**Exhibit 10: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 11: One-year forward P/E**



Source: MOFSL, Company

## Financials and Valuation

Income Statement <span style="float: right;">(INR M)</span>									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	14,195	11,056	9,558	8,895	9,148	11,965	12,693	14,089	17,236
Interest Expended	8,574	6,923	5,143	5,180	5,812	7,408	6,436	7,040	8,764
<b>Net Interest Income</b>	<b>5,621</b>	<b>4,134</b>	<b>4,414</b>	<b>3,715</b>	<b>3,336</b>	<b>4,557</b>	<b>6,256</b>	<b>7,049</b>	<b>8,472</b>
Change (%)		-26.5	6.8	-15.9	-10.2	36.6	37.3	12.7	20.2
Fee Income	481	314	385	471	512	1,196	1,053	1,316	1,579
Other Income	724	562	593	565	1,592	962	366	535	708
<b>Net Income</b>	<b>6,827</b>	<b>5,010</b>	<b>5,392</b>	<b>4,751</b>	<b>5,441</b>	<b>6,716</b>	<b>7,675</b>	<b>8,900</b>	<b>10,759</b>
Change (%)		-26.6	7.6	-11.9	14.5	23.4	14.3	16.0	20.9
Operating Expenses	2,750	3,057	3,293	3,279	3,894	4,815	5,149	5,469	6,052
<b>Operating Income</b>	<b>4,076</b>	<b>1,953</b>	<b>2,099</b>	<b>1,471</b>	<b>1,547</b>	<b>1,901</b>	<b>2,527</b>	<b>3,431</b>	<b>4,707</b>
Change (%)		-52.1	7.5	-29.9	5.1	22.9	32.9	35.8	37.2
Provisions and W/Offs	8,553	4,524	11,508	-401	831	1,375	6,875	1,208	1,271
<b>PBT</b>	<b>-4,477</b>	<b>-2,571</b>	<b>-9,409</b>	<b>1,873</b>	<b>716</b>	<b>526</b>	<b>-4,348</b>	<b>2,223</b>	<b>3,436</b>
Exceptional Gain (Post-tax)	0	0	0	0	0	0	10,070	0	0
Tax	0	-156	-1,717	0	0	0	-100	0	0
<b>PAT</b>	<b>-4,477</b>	<b>-2,415</b>	<b>-7,692</b>	<b>1,873</b>	<b>716</b>	<b>526</b>	<b>5,822</b>	<b>2,223</b>	<b>3,436</b>
Change (%)		-46.1	218.5	-124.3	-61.8	-26.6	-	-61.8	54.6

Balance Sheet <span style="float: right;">(INR M)</span>									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	925	1,237	1,361	1,361	1,361	1,361	1,614	1,614	1,614
Reserves & Surplus	25,962	35,552	27,419	28,865	29,660	32,901	40,483	42,706	46,141
<b>Net Worth</b>	<b>26,887</b>	<b>36,790</b>	<b>28,780</b>	<b>30,226</b>	<b>31,021</b>	<b>34,262</b>	<b>42,096</b>	<b>44,319</b>	<b>47,755</b>
Other Capital Instruments	0	0	0	0	0	0	0	0	0
<b>Borrowings</b>	<b>70,872</b>	<b>57,607</b>	<b>54,830</b>	<b>48,131</b>	<b>60,494</b>	<b>69,165</b>	<b>63,129</b>	<b>77,102</b>	<b>98,523</b>
Change (%)		-18.7	-4.8	-12.2	25.7	14.3	-8.7	22.1	27.8
Other liabilities	2,874	3,477	4,633	3,036	2,387	4,195	5,453	6,544	7,853
<b>Total Liabilities</b>	<b>1,00,633</b>	<b>97,873</b>	<b>88,243</b>	<b>81,393</b>	<b>93,901</b>	<b>1,07,622</b>	<b>1,10,678</b>	<b>1,27,966</b>	<b>1,54,131</b>
Investments	4,318	17,885	9,771	14,571	15,709	18,182	20,000	21,600	23,328
Change (%)		314.2	-45.4	49.1	7.8	15.7	10.0	8.0	8.0
<b>Loans and Advances</b>	<b>80,737</b>	<b>66,925</b>	<b>64,910</b>	<b>51,956</b>	<b>59,873</b>	<b>72,165</b>	<b>72,562</b>	<b>86,632</b>	<b>1,09,227</b>
Change (%)		-17.1	-3.0	-20.0	15.2	20.5	0.5	19.4	26.1
Net Fixed Assets	4,071	3,790	3,936	3,814	3,796	3,781	3,970	4,169	4,377
Other Assets	11,507	9,274	9,626	11,052	14,524	13,494	14,146	15,565	17,198
<b>Total Assets</b>	<b>1,00,633</b>	<b>97,873</b>	<b>88,243</b>	<b>81,393</b>	<b>93,901</b>	<b>1,07,622</b>	<b>1,10,678</b>	<b>1,27,966</b>	<b>1,54,131</b>

E: MOFSL Estimates

AUM Details <span style="float: right;">(INR M)</span>									
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Standalone. AUM (INR Bn)</b>	<b>91</b>	<b>80</b>	<b>83</b>	<b>62</b>	<b>65</b>	<b>80</b>	<b>79</b>	<b>94</b>	<b>119</b>
<b>AUM Mix</b>									
<b>Corporate</b>	<b>31</b>	<b>24</b>	<b>19</b>	<b>20</b>	<b>6</b>	<b>2</b>	<b>1.2</b>	<b>0.6</b>	<b>0.2</b>
<b>Retail</b>	<b>69</b>	<b>76</b>	<b>81</b>	<b>80</b>	<b>94</b>	<b>97</b>	<b>96.8</b>	<b>93.9</b>	<b>88.6</b>
Vehicle	49	52	59	59	87	93	93.2	91.7	87.3
SME	19	23	22	21	7	4	3.6	2.2	1.3

## Financials and Valuation

Ratios	(%)								
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Spreads Analysis (%)</b>									
Yield on Portfolio	17.6	15.0	14.5	15.2	16.4	18.1	17.5	17.7	17.6
Cost of Borrowings	12.1	10.8	9.1	10.1	10.7	11.4	9.7	10.0	10.0
Interest Spread	5.5	4.2	5.4	5.2	5.7	6.7	7.8	7.7	7.6
Net Interest Margin	6.0	5.4	5.9	5.2	4.7	6.1	9.7	11.1	12.0
<b>Profitability Ratios (%)</b>									
RoE	-16.6	-7.6	-23.5	6.3	2.3	1.6	15.2	5.1	7.5
RoA (on balance sheet)	-4.4	-2.4	-8.3	2.2	0.8	0.5	5.3	1.9	2.4
Debt: Equity (x)	2.6	1.6	1.9	1.6	2.0	2.0	1.5	1.7	2.1
Leverage (x)	3.7	2.7	3.1	2.7	3.0	3.1	2.9	2.8	3.1
<b>Efficiency Ratios (%)</b>									
Int. Expended/Int.Earned	60.4	62.6	53.8	58.2	63.5	61.9	50.7	50.0	50.8
Op. Exps./Net Income	40.3	61.0	61.1	69.0	71.6	71.7	67.1	61.4	56.3
Empl. Cost/Op. Exps.	60.0	50.9	53.5	41.4	54.4	61.8	65.8	66.3	65.9
Fee income/Net Income	7.1	6.3	7.1	9.9	9.4	17.8	13.7	14.8	14.7
<b>Asset quality</b>									
GNPA	3,652	3,441	12,030	4,790	4,265	4,584	2,343	2,658	3,132
NNPA	2,893	1,580	5,190	2,190	1,744	2,448	1,031	1,196	1,409
GNPA %	4.4	4.7	13.6	8.1	5.0	4.5	4.0	3.7	3.7
NNPA %	3.5	2.2	6.7	4.0	2.1	2.5	1.8	1.7	1.6
PCR %	20.8	54.1	56.9	55.2	59.1	46.6	56.0	55.0	55.0
<b>Valuation</b>									
Book Value (INR)	291	297	211	222	228	252	261	275	296
BV Growth (%)		2.3	-28.9	5.0	2.6	10.4	3.6	5.3	7.8
<b>Price-BV (x)</b>	<b>0.8</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
Adjusted BV (INR)	263	278	150	197	206	228	250.7	263.1	282.3
<b>Price-ABV (x)</b>	<b>0.8</b>	<b>0.8</b>	<b>1.5</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>
EPS (INR)	-48.4	-19.5	-56.5	13.8	5.3	3.9	36.1	13.8	21.3
EPS Growth (%)		-59.7	189.6	-124.3	-61.8	-26.6	833.6	-61.8	54.6
<b>Price-Earnings (x)</b>	<b>-4.5</b>	<b>-11.2</b>	<b>-3.9</b>	<b>15.9</b>	<b>41.6</b>	<b>56.7</b>	<b>6.1</b>	<b>15.9</b>	<b>10.3</b>
Dividend per share	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Dividend Yield (%)</b>	<b>0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

E: MOFSL Estimates

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## NOTES

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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

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