Capital First (CMP: Rs385, PT: Rs425, ACCUMULATE)

Capitalizing on untapped opportunities

Nitin Kumar (nitinkumar@plindia.com)
+91-22-66322236

Pritesh Bumb (priteshbumb@plindia.com)
+91-22-66322232

Prabhudas Lilladher

Company Report

June 26, 2015

Capital First

Rating	**Accumulate**
Price	Rs385
Target Price	Rs425
Implied Upside	10.4%
Sensex	27,812
Nifty	8,381

(Prices as on June 26, 2015)

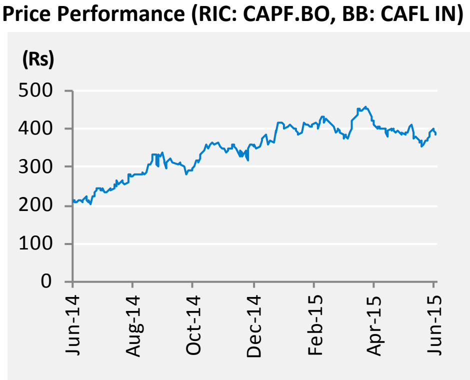
Trading data	
Market Cap. (Rs bn)	35,028.2
Shares o/s (m)	91.0
3M Avg. Daily value (Rs m)	76.1

Major shareholders	
Promoters	65.38%
Foreign	7.47%
Domestic Inst.	10.40%
Public & Other	16.75%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(1.5)	10.8	85.8
Relative	(2.5)	8.7	74.8

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2016	19.3	19.4	*-0.7*
2017	26.9	25.5	*5.5*

Price Performance (RIC: CAPF.BO, BB: CAFL IN)



Source: Bloomberg

Capital First (CFL) is Warburg Pincus promoted systemically important NBFC. The company offers MSME loans, two-wheeler & consumer durable financing and wholesale loans. CFL has steadily increased the composition of retail financing from 10% in FY10 to 84% currently, while it has grown its AUMs at 25% CAGR over FY12-FY15. It is well capitalized at 23.5%, has robust asset quality with Net NPL ratios at 0.17% and is rated AA+ by the rating agencies. We estimate company's return ratios to improve over next two years as operating leverage increases and estimate RoE to expand by 520bp to 13.5% by FY17E. We value the stock at 2.0x FY17E ABV at Rs425 per share. We initiate coverage on the stock with an ACCUMULATE rating.

- **Successfully cementing its niche positioning:** CFL has built a strong niche for itself in lending to MSME customers – segment which accounts for 45% of the India's industrial output and which has been overlooked by other lenders for several reasons. The company has strong underwriting skills which enables it to lend to MSMEs in a quick, affordable and convenient manner.
- **Well capitalized to support loan growth momentum:** CFL's loan book continues to grow at a strong pace as overall AUMs increased by ~25% CAGR over FY12-15 to ~Rs120bn and we expect AUM's to grow at ~24% CAGR over FY15-17E. CFL is well capitalized (CAR at 23.5%) to support such growth over coming years
- **Return ratios to improve as operating leverage increases:** Cost-income ratio has been higher at 57% though it has improved sharply from 71% in FY14. We expect cost-ratios to moderate further to 51% by FY17E as CFL gains scale and benefits from improving productivity levels.
- **Asset quality stands impressive**: CFL's shift to retail financing has helped it to move away from risky wholesale loans and has helped improve GNPL/NNPL ratio to 0.69%/0.17%, while the coverage ratio stands at healthy ~75%. Rigorous underwriting procedures and conservative LTV ratios keep asset quality healthy.
- **Valuation:** CFL is relatively smaller in size than most peers and its businesses are yet to achieve scale. We expect return ratios to improve significantly over next few years as the scale improves and leverage kicks in. We value the stock at 2.0x FY17E ABV at Rs425 per share and initiate coverage with "ACCUMULATE" rating.

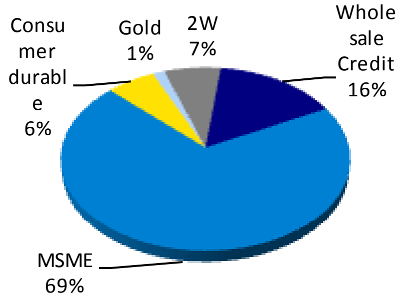
Key Financials (Y/e March)	2014	2015	2016E	2017E
Net interest income (Rs m)	3,314	5,363	7,245	8,986
Growth (%)	*20.8*	*61.8*	*35.1*	*24.0*
Non-interest income (Rs m)	—	—	—	—
Operating Profit (Rs m)	292	1,493	2,532	3,519
PAT (Rs m)	589	1,143	1,754	2,451
EPS (Rs)	7.7	13.2	19.3	26.9
Growth (%)	*(25.2)*	*70.9*	*45.9*	*39.7*
Net DPS (Rs)	2.0	2.5	3.5	4.1

Profitability & valuation	2014	2015	2016E	2017E
Spreads / Margins (%)	*3.8*	*5.2*	*6.1*	*6.2*
RoAE (%)	*5.5*	*8.3*	*10.7*	*13.5*
RoAA (%)	*0.7*	*1.1*	*1.5*	*1.7*
P/E (x)	49.8	29.2	20.0	14.3
P/BV (x)	2.7	2.2	2.0	1.8
P/ABV (x)	2.7	2.2	2.1	1.8
Net dividend yield (%)	*0.5*	*0.6*	*0.9*	*1.1*

Source: Company Data; PL Research

Capital First – A specialized MSME lender

Exhibit 1: CFL has become a specialized retail player especially on MSME funding



Source: Company Data, PL Research

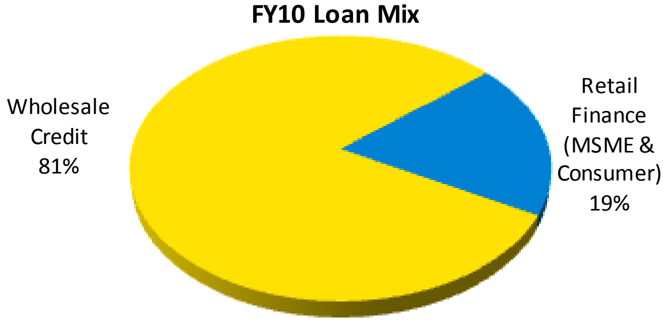
Capital First (CFL) is a systemically important NBFC providing financing to both retail and wholesale customers. The company offers comprehensive product suite to meet the multiple financing needs of its customers - including MSME borrowers, salaried employees, professionals and corporates. CFL has steadily increased the composition of its MSME and retail financing business from 10% in FY10 to 84% currently, while it has grown its AUMs at 25% CAGR over FY12-FY15E to ~Rs120bn currently. CFL has a strong distribution setup across India covering customers in 222 towns and has an employee base of 1,070. CFL is well capitalized at 23.5%, has healthy asset quality with GNPL/NNPL ratios at 0.69% and 0.17%, respectively and is rated AA+ by the rating agencies. The company is promoted by *Warburg Pincus* (a leading global PE firm) which holds 65.3% stake in the company.

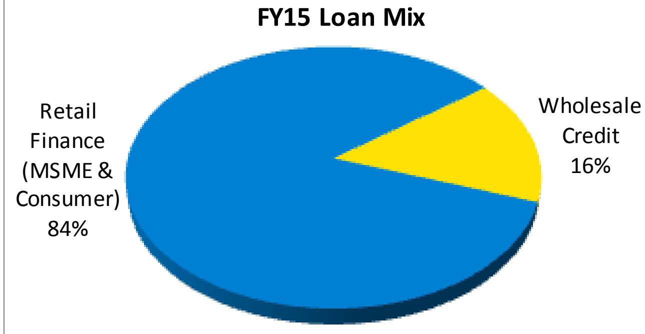
Exhibit 2: Evolution of CFL

Year	Evolution of CFL
FY10	• Commenced business as wholesale NBFC
FY11	• Entered gold loan segment • Divested forex business • Launched credit scoring for Consumer Durable
FY12	• Amalgamation of NBFC subsidiary with the Holding company • Long term credit rating upgraded to AA- from A+
FY13	• *Warburg Pincus* acquired majority stake and infused Rs1bn as primary equity • Future Capital Holdings name changed to Capital First • Long term credit rating upgraded by two notches to AA+ from AA-
FY14	• *Warburg Pincus* further infuses capital of Rs1.78 bn as fresh equity, *HDFC Standard Life* also infused Rs500m as capital • NHB awards Housing Finance Company license • Exited commodities and securities broking business
FY15	• Capital First crosses land mark AUM of Rs100bn and currently manages close to Rs120bn of AUM and financed 1.1m customers till date • Capital First raises Rs3.0bn capital through QIP

Source: Company Data, PL Research

Exhibit 3: CFL moved away from a wholesale lending model to a specialized retail lender





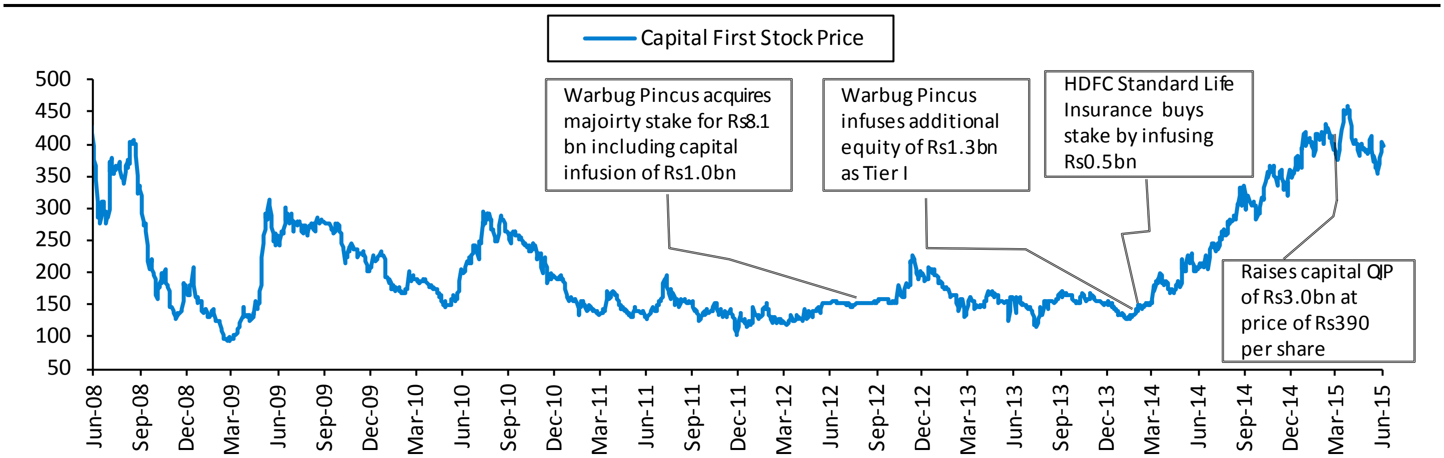
Source: Company Data, PL Research

Capital raising trend

US private equity firm Warburg Pincus bought controlling stake in Capital First in July 2012. Warburg paid Rs 162 per share to buy 66% stake and thus valued the non-banking finance company at Rs 10.5 bn. Warburg also infused another Rs1bn of capital into the company at the time of its acquisition thus taking the total investment to ~Rs8 bn. The investment was part of its strategy to tap opportunities in India's capital-starved micro, small and medium enterprises segment. CFL further had equity infusion of Rs1.78bn in 2014 of which Rs1.28bn was invested by the promoter Warburg Pincus and another Rs500 mn was raised from HDFC Standard Life. Warburg pincus thus subscribed to 8.36mn equity shares while HDFC Life subscribed to 3.25 mn shares. The said issuance was done Rs 153.8 per share which represented a 10% premium over the last traded price. During FY15, CFL had another round of primary equity of Rs3bn through QIP which further boosted CAR to current levels of 23.5%. Total capital (tier 1 + tier 2) now stands at Rs22.4 bn (post dividend) as at 31st March, 2015.

Mr V. Vaidyanathan – CMD of Capital First holds 5.78% stake in the company, including shares held by his associate firm where he is a partner.

Exhibit 4: Capital raising trend for CFL



Source: Company Data, PL Research

Capital First – product offerings

CFL offers MSME loans against collateral of property, working capital loans to MSMEs, two-wheeler loans and consumer durable loans under its retail business. CFL provides wholesale loans on selective basis to corporate customers, primarily to real estate developers, against security of underlying assets and supported by escrow of the project cash flows. CFL earlier used to offer gold loans, but have exited the business in FY15 due to business unviability and regulatory restrictions. It also used to offer, property services and securities/commodities broking earlier however due to strategic focus on core retail lending business, the company has exited these businesses in FY14.

Exhibit 5: CFL: Product characteristics

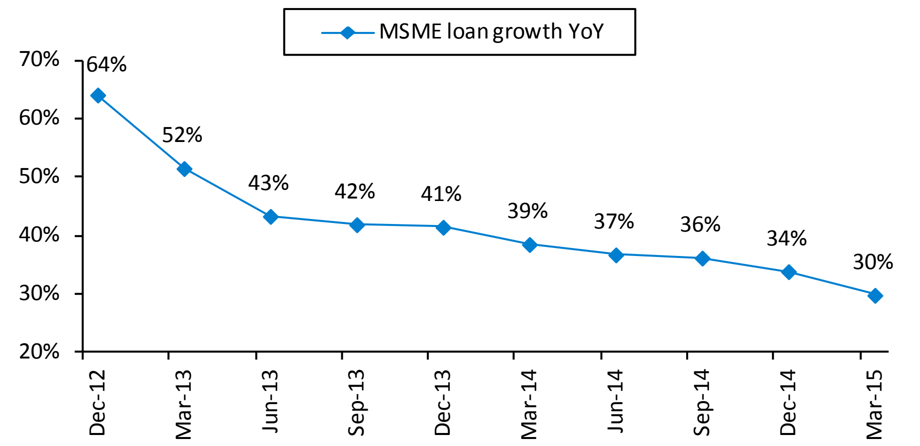
Capital First business, Rs m	% of AUM in FY15	% of AUM in FY13	3 yr CAGR	LTVs	Average Duration	Approximate yields (%)*
MSME loans	69%	62%	40%	42%-45%	5-6 years	13%-14%
Consumer Durable Loans	6%	2%	156%	76%	8-9 months	Based on IRR - Typically targeted 24%-30%
2Wheeler Loans	7%	2%	296%	70%	24 months	17%-22%
Gold Loans	1%	6%	-9%	50%-70%	12 months	15%-20%
Wholesale loans	16%	26%	-12%	NA	Customized	
Total AUM			**25%**			**16-17%**

Note: CFL stopped gold loans disbursements in FY14 and is looking to wind down its existing portfolio
Source: Company data, PL Research estimates ** industry inputs for various products*

Retail Lending

MSME Financing: This is one of the main product lines for the company and contributes ~82% of the total retail assets. Under this segment, CFL provides secured term loans to MSMEs, self-employed individuals and professionals against the residential or commercial property owned by them. All the loans offered in this segment are backed by cash flows of the underlying business which gives the company a big safety net. We believe this differentiates CFL from several other NBFCs/banks which are offering plain vanilla loans against property and rely solely on the underlying collateral to recover their dues in case of a default. We believe MSME segment will remain a strong growth driver, given lack of funding opportunities for such small enterprises, favourable demographics and growing industrialisation in the country.

Exhibit 6: MSME remains strong focus area which is the largest part of the AUM



Source: Company Data, PL Research

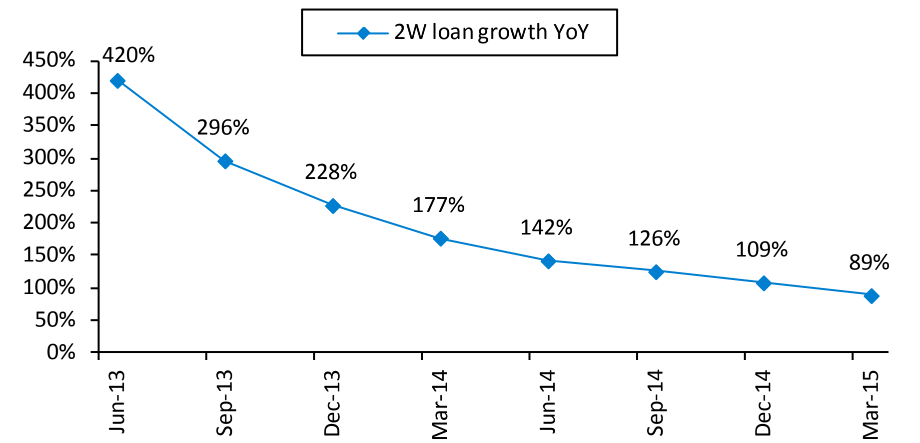
Exhibit 7: CFL has developed a strong niche in MSME financing - segment which constitutes ~66% of total AUMs

Source: Company Data, PL Research

Despite tough competition from banks and other large NBFCs, CFL has been able to grow its MSME portfolio by ~40% CAGR in the past three years. The product's average ticket size is Rs9.6m, typical actuarial tenure of 5-6 years (though prepayments are common) and Loan-To-Value ratio of ~42% at origination (based on FY15 origination data).

Two-Wheeler loans: CFL extends Two-Wheeler loans (2W loans) to both self employed customers like small businessman, kirana shop owners, milk/newspaper delivery people, traders etc. as well as to salaried employees, who usually take up their first job in the organized sector. CFL has extensively tied up with over 900 2W dealerships across Tier-1 and Tier-2 cities in India who help the company in sourcing of such loans. Ticket size for 2W loans is relatively small at Rs44,000 with LTVs of ~70% and typical tenor of 24 months. CFL has been able to expand its 2W loan portfolio at a CAGR of ~300% over FY12-15. This was aided by CFL's extensive reach, quick turnaround time and efficient customer services. The two wheeler loan book growth has been in triple digits for the last few years, though on a small base. The two wheeler loans grew 89% in FY15 and now constitutes 8.4% of total retail loan portfolio as against meagre 0.4% in FY12.

Exhibit 8: Two Wheeler loans growth has been strong, albeit on a low base

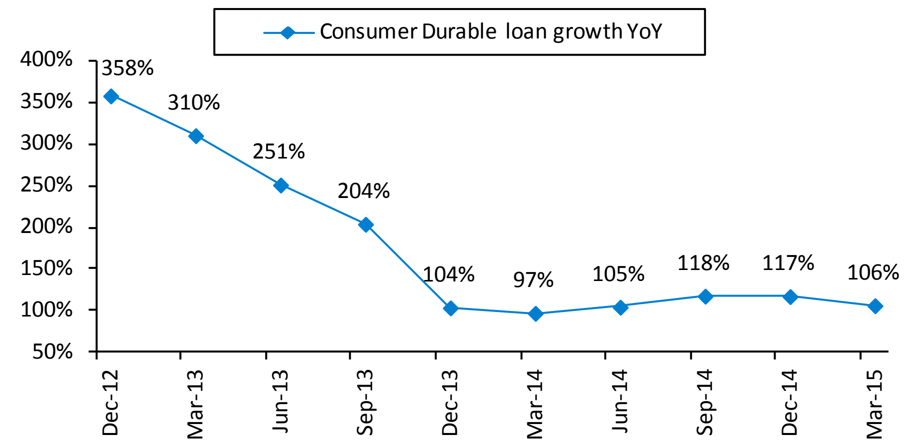


Source: Company Data, PL Research

Consumer Durable Loans: CFL provides financing for purchase of consumer durable goods like Fridge, Air Conditioners, Laptops, PCs and Furniture. These loans are typically offered to both salaried and self-employed customers as well as to small businesses. CFL has developed automated credit scoring engine which enables it to provide a credit decision instantly to the customer at the consumer dealership/store that the customer has approached.

The average ticket size in this segment is Rs30,000 with LTVs of 76% and tenor of ~9 months. CFL has tied up with leading consumer durable manufacturers & dealerships including large retail value chains across India to further promote growth in this segment. This has helped CFL in rapidly growing this portfolio from 1.3% of retail in FY12 to 7.3% currently. However, the business is yet to achieve sustainable scale and given the high operating cost, the return ratios will take some time to improve.

Exhibit 9: CFL has been reporting strong growth in its consumer durable financing portfolio

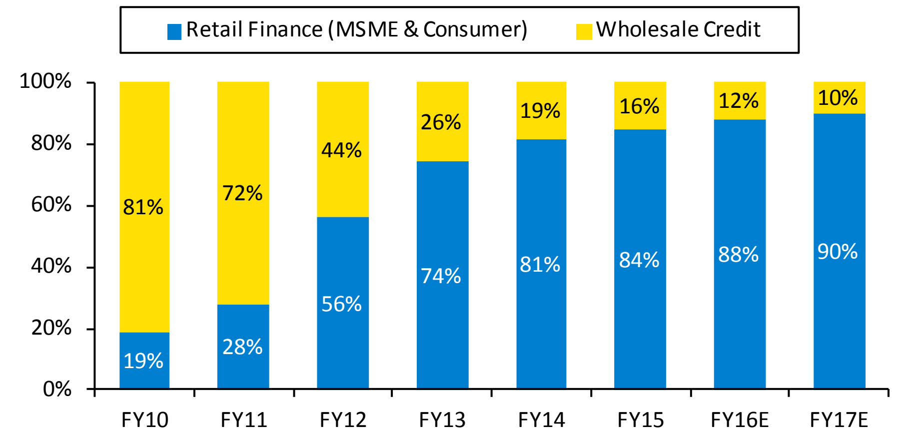


Source: Company Data, PL Research

Wholesale Business

CFL provides wholesale loans on selective basis to corporate customers, primarily to real estate developers, against security of underlying assets and supported by escrow of the project cash flows. CFL recognises that lending to this segment is inherently riskier due to large ticket lending and lack of adequate number of quality real estate developers. Accordingly, CFL has expanded its business in the retail segment, while the wholesale loan book has declined marginally over past few years. As of FY15 end, the wholesale credit AUM stood at Rs18.6bn (16% of AUM) marking a growth of only 4% YoY.

Exhibit 10: CFL has been strategically moving away from wholesale business



Source: Company Data, PL Research

Huge business opportunity; well placed to strengthen its niche positioning

MSME financing is a huge opportunity in a growing economy like India. There are more than 29m Micro, Small and Medium enterprises (MSME) across the country employing more than 70m people. The segment accounts for 45% of the India's industrial output and contributes ~40% to the total exports. MSME sector, especially the unorganized micro and small enterprises, lack credit support from formal banking channels owing to their small scale of operations, lack of proper financial reporting, absence of prior credit records and relatively high cost of credit appraisal for low ticket loans. This forces them to borrow from unregulated money-lenders at high interest rates for their entrepreneurial ventures and other working capital requirements. As per an estimate by IFC, financing (debt) demand for the MSME stands at more than Rs26tn.

Exhibit 11: Huge scope is available to penetrate in the MSME across the pyramid

% of MSME Industry	Type	Characteristics of MSME
0.2%	Medium Enterprise	Largely Public / Private Companies
4.7%	Small Enterprise	Partnerships / Co-operatives
95.1%	Micro Enterprises	Small Proprietorships / Partnerships

Source: Company Data, PL Research

Exhibit 12: Financing options range from top to bottom of the pyramid in MSME segment

Loan ticket size	Purpose
Rs1m to Rs20m	Catering to Small & Medium entrepreneurs financing based on customized cash flow analysis
Rs0.1m to Rs1m	Catering to Small entrepreneurs / partnership firms in need of immediate funds
Rs30,000 to Rs0.1m	Catering to Micro business owners and consumers for purchase of consumer durable & two wheelers
Rs20,000 to Rs30,000	

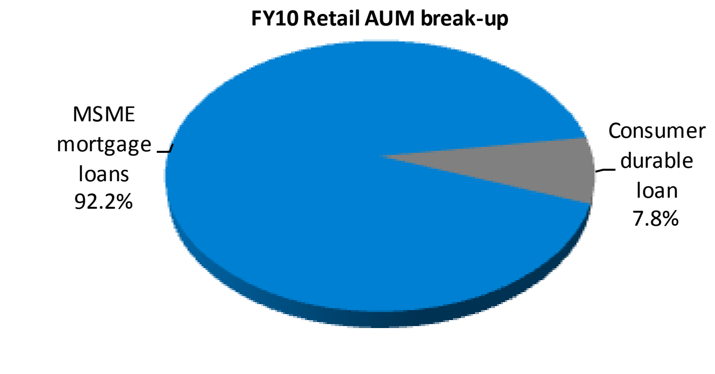
Source: Company Data, PL Research

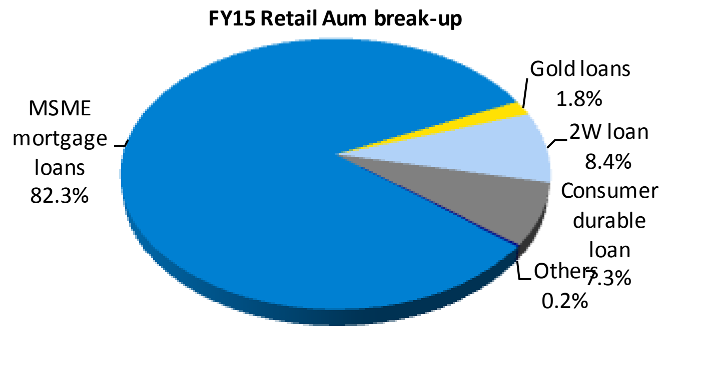
CFL recognizes that the conventional credit approach may not be as effective while assessing the credit worthiness of these MSME players. The company has developed a strong underwriting process (reflected in its strong asset quality) and through its extensive branch network, it is able to lend to MSMEs in a quick, affordable and convenient manner. Borrowers often use the funds thus raised as working capital, to cater to additional orders from their customers or for procuring additional plant and machinery for growth of their business. Over past three years, CFL has emerged as key lender to MSME customers.

Strategic shift to retail helped biz growth; return ratios to follow

CFL has strategically moved its asset mix in favour of retail business as the company decided to reduce its exposure to riskier wholesale loans which are quite lumpy in nature. Accordingly, the loan mix has changed from 10% retail in FY10 to 84% retail currently. Despite such a significant change in loan mix, the company was able to grow its AUMs at a CAGR of 25% over the past three years to ~Rs120bn currently led by sharp growth in MSME financing. CFL also launched the credit scoring for consumer durables in FY11 and has reported strong growth trajectory in consumer durable and two-wheeler financing space. The company aims to follow the current business strategy of focusing on the retail segment as it sees huge business opportunity in this space with manageable levels of risk.

Exhibit 13: MSME segment remains the mainstay for CFL, while growth in consumer durables and two-wheeler financing has also remained strong





Source: Company Data, PL Research

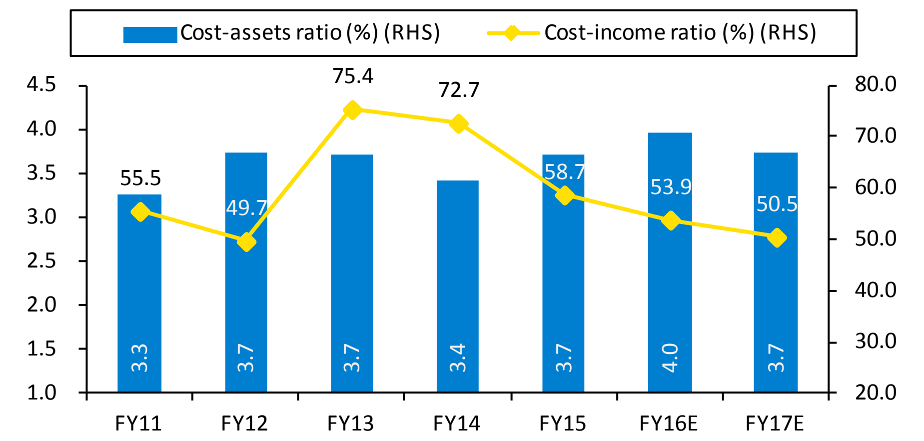
Loan book to maintain strong growth momentum

CFL's loan book continues to grow at a strong pace driven by loans to SME and retail segments. The overall AUMs increased by ~25% CAGR over FY12-15 to ~Rs120bn with retail comprising ~84% of total AUMs. Management expects the current growth momentum to continue buoyed by huge business opportunity, strong execution capabilities and manageable risk levels. Given strong demand environment in flagship MSME lending business, robust trends in consumer durable & two-wheeler financing and falling interest rates, we expect company's AUMs to grow at ~24% CAGR over the next two years. In the longer term, the company aims to build an AUM size of ~Rs280 bn by FY19.

Return ratios to improve as operating leverage increases

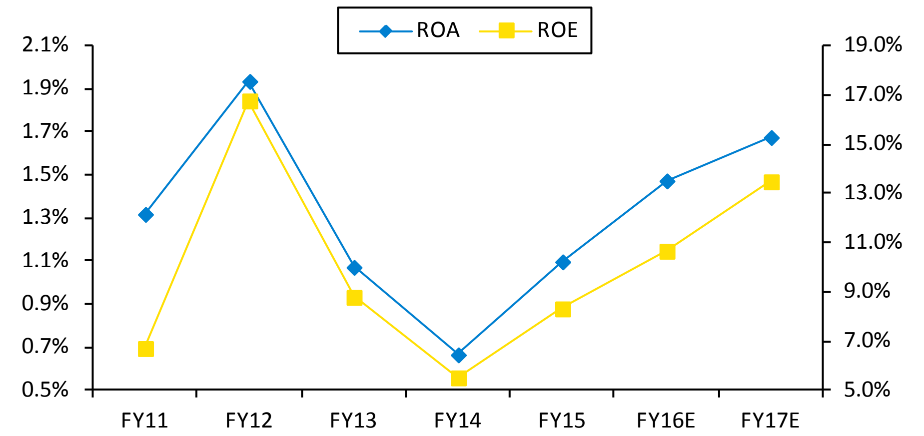
CFL's cost-income ratio has been higher at ~57% currently though it has improved sharply from ~71% in FY14. We expect cost-ratios to moderate further as CFL gain scale and reap the benefits of significant investments it has made in building up its retail franchise. The company aims to focus on improving productivity from existing network and improve upon its operating leverage. We, thus, estimate cost-income ratio to significantly moderate by 610bps to 51% by FY17E.

Exhibit 14: C-I likely to moderate by FY17E as company achieves economies of scale



Source: Company Data, PL Research

Exhibit 15: Return ratios are likely to improve as operating leverage gains ground



Source: Company Data, PL Research

High emphasis on customer service to further aid loan growth

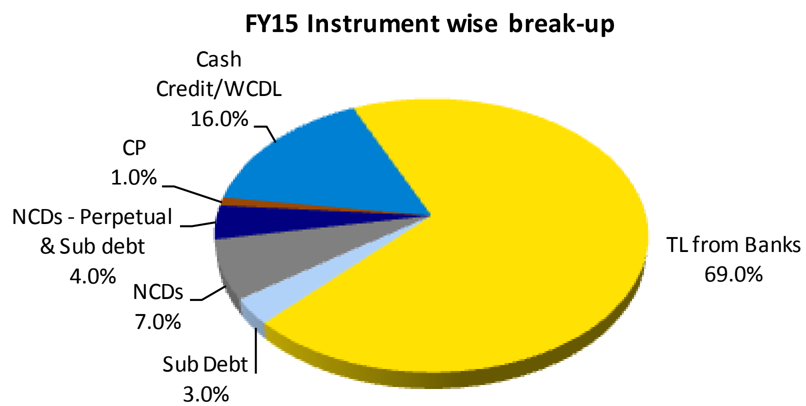
CFL has been investing significantly in technology and back-office operations to improve its customer service and turn-around time. The company makes continuous efforts to improve the engagement experience with its customers through physical branches, call centre and other mechanisms like regular automated SMS, welcome and awareness calling, e-mailers and follow up letters. This is done at regular intervals to keep the customer aware of the payment cycle and timely address any of their queries. The company has also put in place Management Information System (MIS) to assist it in monitoring of portfolios on a continuous basis and keep track of potentially troubled accounts. This has helped CFL in securing repeat business from the customers and has provided it with good word of mouth advertising.

Margins to remain resilient

CFL has been able to maintain healthy margins despite realigning its business mix over the past few years. In fact, the calculated NIMs have increased by 200bp over past three years to 5.2% in FY15 and we expect the same to increase to 6.1% in FY16. CFL has diversified its funding sources and benefitted in funding cost arising from three notch upgrade in its credit rating to AA+ over past three years. This has also helped the company in issuing debt instruments to a wide range of investors' viz. mutual funds, banks, provident funds, insurance companies and superannuation funds at a very competitive cost.

We expect borrowing cost to remain benign as RBI continues with its monetary easing and CFL moves away from bank loans in favour of low-cost NCD borrowings. Also, strong growth in high margin businesses like two-wheelers and consumer durables will be yield accretive and boost margins over the medium term. We note that while loans to MSME borrowers are floating in nature and linked to PLR, two-wheeler and consumer durable loans are based on fixed interest rates and will thus aid margins in a declining rate environment.

Exhibit 16: CFL has a higher composition of bank borrowings and will benefit from shift to wholesale borrowing while base rates have already been on a decline



Source: Company Data, PL Research

Prudent asset liability management will avoid margin shocks

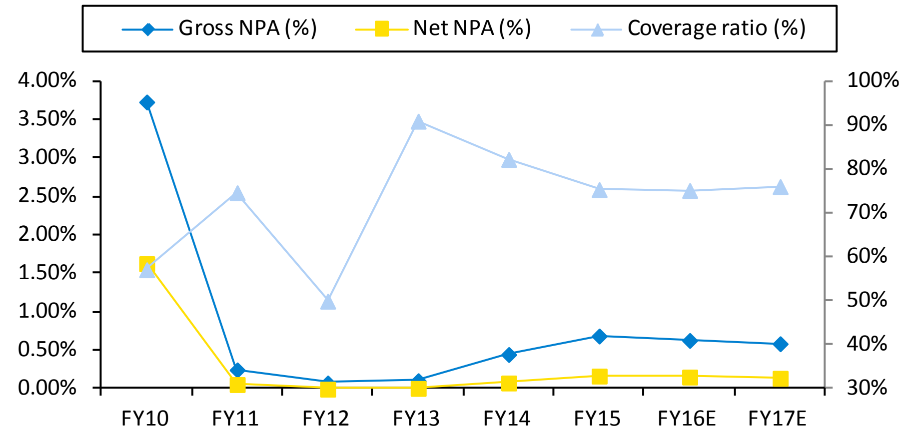
CFL places high priority on maintaining adequate liquidity at all times. As a prudent strategy, to protect itself from liquidity risks, the company follows a policy of matched funding, whereby all assets are entirely funded by corresponding liabilities of similar maturities on an actuarial basis. Floating rate loans are funded by floating rate liabilities to cover interest rate risks. The company runs a positive mismatch in all the maturity buckets as the maturing assets are higher than the maturing liabilities. This insulates the company from abrupt changes in interest rate, minimizes liquidity risk and thus, lends predictability to margins.

Asset quality: commendable performance in a challenging segment

CFL's shift to retail financing has helped it move away from risky wholesale lending to much granular loans where it has adequate collateral. The company has put in place detailed underwriting procedures and policies across all its product segments. It takes into account the borrower's credit history, predictability of the cash flows and valuation of the underlying collateral before sanctioning any loan. To avoid any conflict of interest, CFL has segregated the credit policy division, origination team, credit administration (implementation), operations, and collection vertical. This will ensure that there are proper checks and balances at all levels.

CFL has followed 180dpd NPL recognition till FY15 and plans to move to 150dpd NPL recognition by FY16 end. The move to new recognition process will not impact asset quality much, as large part of its loan book is based on monthly repayments and there are occasional instances of loans not being serviced in time. Also, the company already has been making provisions for assets which are 90dpd which will minimize the P&L impact as it migrates to early recognition of NPL, as suggested by the RBI. As at end of FY15, CFL has Gross and Net NPL ratio of 0.69% and 0.17%, respectively, while the coverage ratio stands at healthy ~75%.

Exhibit 17: Asset quality remains strong with NNPL ratio standing at 0.17%

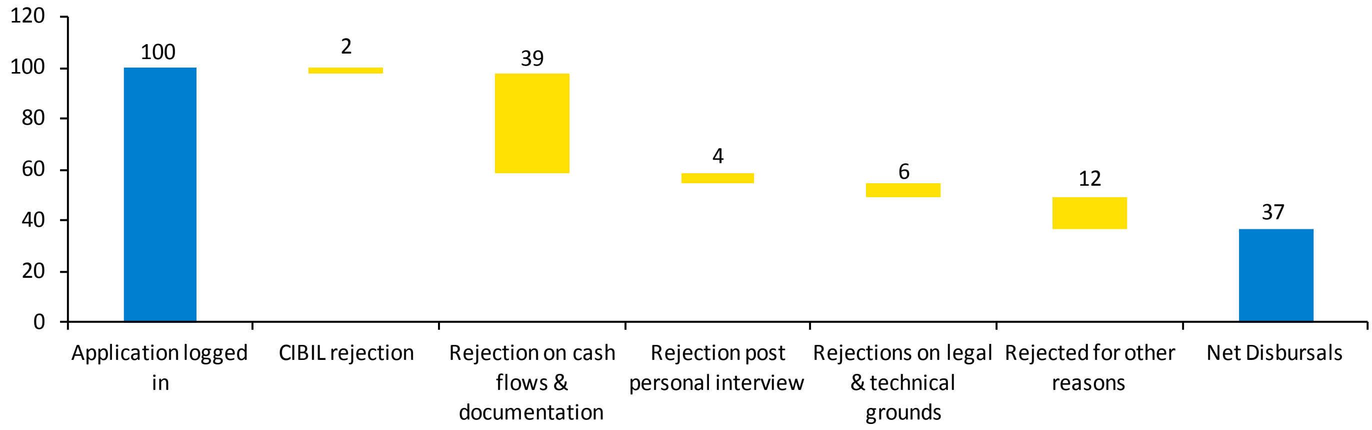


Source: Company Data, PL Research

Strong underwriting will further help keep control on credit cost

CFL has been able to maintain a strong control on credit cost owing to its strong underwriting practices. Though two of its business segments viz. consumer durables & two-wheeler loans have structurally higher credit cost and need intense collection efforts, we nevertheless believe that constant improvisation in CFL's lending criteria and refinement in its credit scoring model will help it to keep a check on credit costs.

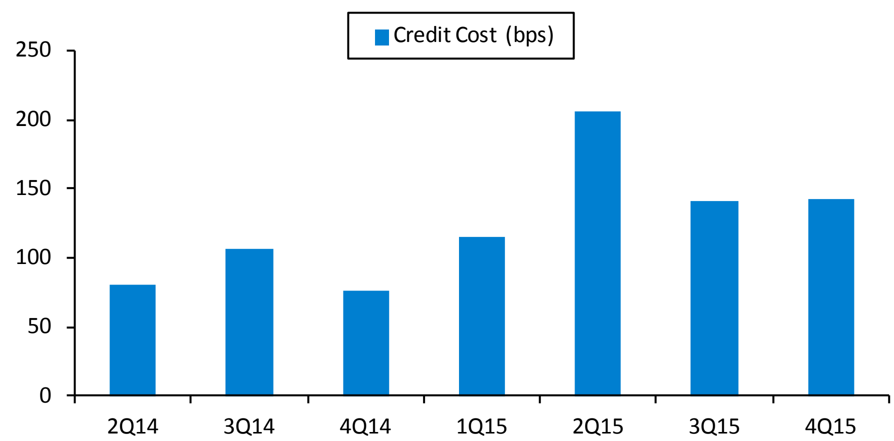
Exhibit 18: Only 37% of applications pass through the stringent process affirming strong credit underwriting process



Source: Company Data, PL Research

In mortgage business, about 37% of the total applications are disbursed after passing through several levels of scrutiny mainly centred on cash flow evaluation, credit bureau and reference checks. Insufficient cash flow or improper documentation remains the main reason of rejection and accounts for 39% rejection of total cases assessed for loan sanctioning.

Exhibit 19: Credit cost remains in a range of 100-150bps



Source: Company Data, PL Research

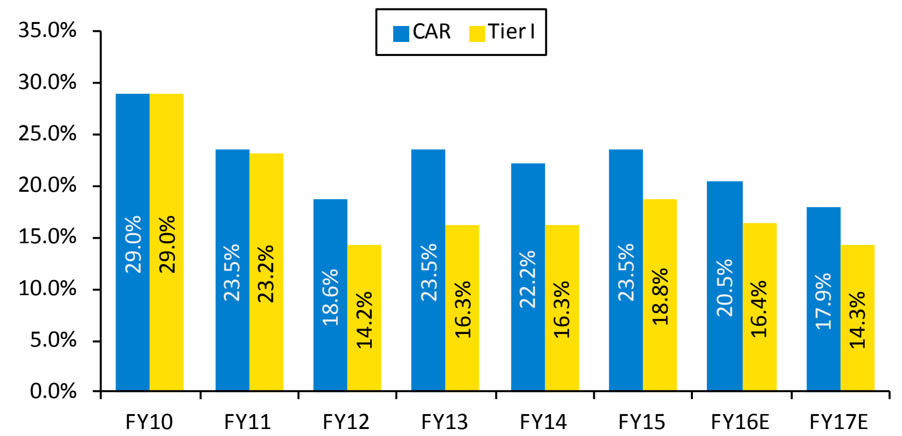
For small ticket loans such as two-wheelers and consumer durables, the company has developed an automated credit scoring system which enables it to make prompt credit decision. This also helps CFL in providing faster turnaround time for loan approvals and keep overhead costs under control. CFL lays strong emphasis on collections, and has put in place right infrastructure to send timely reminders to borrowers and handle customer complaints. This has helped CFL in maintaining strong asset quality, with NPL ratios faring better than the industry levels despite relatively riskier segments that the company operates in.

On gold loans, CFL has been winding down this business as profitability in this segment remains under pressure due to high overhead costs, branch expenses and waning demand, while regulatory restrictions on LTV and volatility in gold prices has also impacted growth prospects.

Healthy capital base will support business growth

CFL has a strong capital position aided by successive capital infusions, both by promoter Warburg Pincus and other key domestic investors – HDFC Standard Life. The company has a total CAR of 23.5% (against RBI requirement of 15%) of which Tier-I constitute 18%. We believe that the company is well capitalized for growth over the next 18-24 months and this reduces the risk of any further equity dilution in the near term.

Exhibit 20: Capital adequacy ratio remains strong for CFL at 23.5%



Source: Company Data, PL Research

Valuation

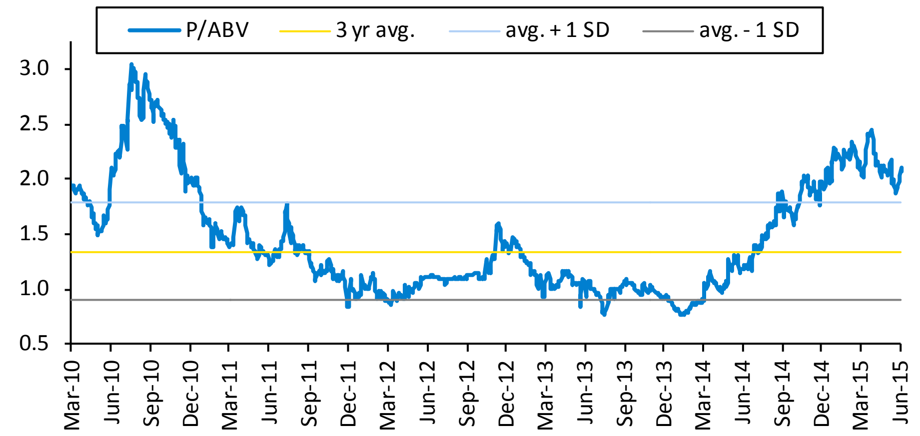
CFL is relatively smaller in size than most of its peers and its businesses are yet to achieve the desired scale. For this reason it has weaker return ratios (FY15 – RoA: 110bps, RoE: 8.30%) as compared to peers despite strong operating performance. We expect return ratios to improve significantly as the company maintains its healthy growth trajectory on the back of robust capital position and continued improvement in operating leverage. We, thus, expect RoA/RoE to improve to 170bps/13.5% by FY17E. The recent investment by the promoter *Cloverdell Investment Ltd (an affiliate of Warburg Pincus)* and *HDFC Standard Life* reflects the confidence of the investors in the company's business model, processes and governance. We value the stock at 2.0 FY17E ABV at Rs425 per share and initiate coverage with "ACCUMULATE" rating.

Exhibit 21: PT calculation and upside

PT calculation and upside	
Fair price - EVA	426
Fair price - P/ABV	423
Average of the two	**425**
Target P/ABV	**2.0**
Target P/E	**15.8**
Current price, Rs	385
Upside (%)	**10%**
Dividend yield (%)	1%
Total return (%)	**11%**

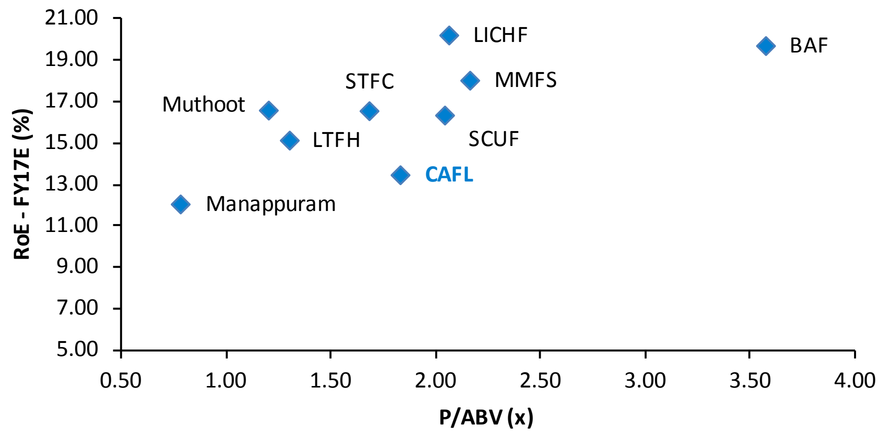
Source: Company Data, PL Research

Exhibit 22: CAFL is trading higher than its long term average, but given the strong growth potential we believe the stock will sustain its premium valuations



Source: Company Data, PL Research

Exhibit 23: P/ABV vs RoE trend for major NBFCs



Source: Company Data, PL Research

Exhibit 24: Dupont Analysis: Peer comparison

DuPont Analysis – FY17E	MMFS	SHTF	L&T Finance	Bajaj Finance	CAFL
NII/Avg assets	8.02%	7.77%	5.21%	9.37%	6.14%
Non-Int Income/Avg assets	0.41%	0.68%	0.80%	0.75%	1.26%
Total Income/Avg Assets	**8.43%**	**8.45%**	**6.01%**	**10.12%**	**7.40%**
Opex/Avg Assets	2.85%	1.92%	2.75%	4.57%	3.74%
PPOP/Avg Assets	**5.58%**	**6.53%**	**3.26%**	**5.55%**	**3.66%**
Provisions/Avg Assets	1.71%	2.46%	0.81%	1.22%	1.22%
PBT/Avg Assets	**3.87%**	**4.07%**	**2.45%**	**4.33%**	2.45%
Tax/Avg Assets	1.28%	1.38%	0.82%	1.29%	0.77%
ROA	**2.59%**	**2.68%**	**1.63%**	**3.03%**	**1.68%**
Leverage	7.49x	6.70x	8.83x	6.50x	8.05
ROE	**19.42%**	**17.99%**	**14.39%**	**19.71%**	**13.48%**

Source: Company Data, PL Research, **Bajaj Finance is based on consensus estimates*

Exhibit 25: Details of key shareholders

Key Shareholders	Holding
Warburg Pincus & affiliates	**65.4%**
JV & Associates LLP	5.25%
HDFC Life Insurance	4.28%
Birla Sun Life AMC	3.74%
Swiss Fin Corp Mauritius	2.17%
Goldman Sachs AMC	1.72%
DSP Blackrock	1.49%
Norges Bank Investment Mgmt	1.48%
Government Pension Fund	1.48%

**Shareholding as on 31st March 2015; Source: BSE, PL Research*

Key risks

- Prolonged economic downturn may impact the cash flows of the borrowers most of which belongs to relatively vulnerable small and micro-enterprises segment.

- CFL relies heavily on real estate as collateral for extending the MSME loans – segment which contributes ~69% of its total AUM. Any sharp correction in real estate prices (chances of which are quite low though) may adversely impact asset quality.

- Increasing competition in the Loan against property business which can potentially put pressure on lending yields and any regulatory action given the strong growth reported in this segment.

Management profile

Mr. V. Vaidyanathan is the Chairman and Managing Director of CFL. He joined CFL in 2010 from ICICI Prudential Life Insurance where he was the MD & CEO. He played a key role in launching ICICI's retail operations and helped transform it into a large retail bank with a network of over 1,400 branches across 800+ cities. He also built the SME and Rural Banking Business for ICICI Bank. He served as Executive Director on board of ICICI Bank, ICICI Lombard General Insurance Company, CIBIL and was also the Chairman of ICICI Home Finance company Ltd.

Mr. Vishal Mahadevia is a non-executive director of CFL since Sep-2012. He is MD and co-head of Warburg Pincus India. He has previously worked with Greenbriar Equity Group – a fund focused on private equity investments in the transportation sector, Three Cities Research Inc – a New York-based private equity fund and as a consultant with McKinsey & Company.

Mr. Narendra Ostawal is a non-executive director of CFL. He joined Warburg Pincus in 2007 and focuses on investments in India. He was earlier an associate at 3i, and a consultant with McKinsey & Company. Mr. Ostawal is a Chartered Accountant and received an M.B.A from IIM Bangalore.

Mr. Dinesh Kanabar is an independent director of CFL. He is the CEO of Dhruva Tax Advisors LLP and has over 25 years of experience in consulting domain. He was earlier the Deputy CEO of KPMG India and has also served as the Deputy CEO of RSM & Co and led the tax and regulatory practice of PWC. He is a member of the Rangachary Committee set up by the Prime Minister of India.

Dr. Brinda Jagirdar is an independent director of CFL. She is an independent consulting economist and has over 38 years of experience in banking industry. She retired as Chief Economist – State Bank of India and was associated with Raghuram Rajan committee on Financial Sector Reforms in India.

Mr. N. C. Singhal is an independent director of CFL since Sep-2010. He was the founder CEO, designated as the Vice- Chairman & Managing Director of The Shipping Credit & Investment Corporation of India. He is non-executive Chairman/Director of several companies; including, Axis Bank, Shipping Corporation of India Limited and Max New York Life Insurance Company Limited.

Mr. M S Sundar Rajan is an independent director of CFL since Feb 2013. He was the Chairman and Managing Director of Indian Bank and has total experience of over 38 years in the banking industry. He has also earlier worked with Union Bank of India for over 33 years.

Mr. Hemang Raja is an independent director of CFL since Feb 2013. He has a vast experience in financial services encompassing project finance and corporate banking at IL&FS. He has been involved in the private equity and fund management business with Credit Suisse and Asia Growth Capital Advisers as MD and Head-India. He has served on the executive committee of the board of National Stock Exchange.

Income Statement (Rs m)

Y/e March	2014	2015	2016E	2017E
Int. Inc. / Opt. Inc.	9,781	13,241	16,164	19,819
Interest Expenses	6,467	7,878	8,919	10,834
Net interest income	**3,314**	**5,363**	**7,245**	**8,986**
Growth (%)	*20.8*	*61.8*	*35.1*	*24.0*
Non interest income	—	—	—	—
Growth (%)	—	—	—	—
Net operating income	3,314	5,363	7,245	8,986
Expenditure				
Employees	1,268	1,358	1,698	1,970
Other expenses	1,695	2,412	3,015	3,498
Depreciation	59	100	—	—
Total expenditure	3,022	3,870	4,713	5,467
PPP	**292**	**1,493**	**2,532**	**3,519**
Growth (%)	*0.2*	*411.5*	*69.6*	*39.0*
Provision	489	1,055	1,478	1,779
Other income	844	1,225	1,507	1,838
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	**647**	**1,664**	**2,560**	**3,578**
Tax	58	520	806	1,127
Effective tax rate (%)	*9.0*	*31.3*	*31.5*	*31.5*
PAT	**589**	**1,143**	**1,754**	**2,451**
Growth (%)	*21.6*	*93.9*	*53.4*	*39.7*

Quarterly Financials (Rs m)

Y/e March	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Interest Income / Operating Income	3,135	3,427	3,761	3,784
Income from securitization	—	—	—	—
Interest Expenses	1,892	1,922	2,039	1,977
Net Interest Income	**1,243**	**1,505**	**1,722**	**1,807**
Growth	*40.3*	*53.5*	*65.3*	*59.9*
Non interest income	128	15	1	9
Net operating income	**1,371**	**1,520**	**1,723**	**1,816**
Growth	*53.2*	*55.1*	*61.1*	*34.1*
Operating expenditure	832	907	987	1,047
PPP	**539**	**612**	**736**	**769**
Growth	*202.4*	*155.2*	*112.3*	*49.6*
Provision	211	215	303	315
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	328	398	433	455
Tax	108	139	148	98
Provision for deferred tax liability	—	—	—	—
Effective tax rate (%)	*32.9*	*34.9*	*34.2*	*21.6*
PAT	**220**	**259**	**285**	**356**
Growth	*190.8*	*246.1*	*150.6*	*(21.0)*

Balance Sheet (Rs m)

Y/e March	2014	2015	2016E	2017E
Sources of funds				
Equity	820	910	910	910
Reserves & Surplus	10,890	14,828	16,227	18,304
Networth	11,710	15,738	17,137	19,214
Growth (%)	*21.9*	*34.4*	*8.9*	*12.1*
Loan funds	84,192	84,138	105,633	132,466
Growth (%)	*35.1*	*(0.1)*	*25.5*	*25.4*
Others	—	—	—	—
Minority Interest	5,417	6,945	8,404	9,753
Deferred Tax Liability	(171)	(421)	(489)	(567)
Total	**101,149**	**106,399**	**130,685**	**160,866**
Application of funds				
Net fixed assets	340	191	242	222
Advances	69,657	87,845	109,279	136,162
Growth (%)	*26.0*	*26.1*	*24.4*	*24.6*
Net current assets	3,844	2,917	3,588	4,485
Investments	23,605	11,519	13,257	15,245
Growth (%)	*98.1*	*(51.2)*	*15.1*	*15.0*
Other Assets	3,702	3,927	4,320	4,752
Total	**101,149**	**106,399**	**130,685**	**160,866**

Source: Company Data, PL Research estimates.

Key Ratios

Y/e March	2014	2015	2016E	2017E
CMP (Rs)	385	385	385	385
Eq. Shrs. O/s. (m)	82	91	91	91
Market Cap (Rs m)	31,615	35,069	35,069	35,069
Market Cap to AUM (%)	31.3	33.0	26.8	21.8
EPS (Rs)	7.7	13.2	19.3	26.9
Book Value (Rs)	142.8	173.0	188.4	211.2
Adjusted Book Value (Rs)	142.1	171.3	186.5	209.1
P/E (x)	49.8	29.2	20.0	14.3
P/BV (x)	2.7	2.2	2.0	1.8
P/ABV (x)	2.7	2.2	2.1	1.8
DPS (Rs)	2.0	2.5	3.5	4.1
Dividend Yield (%)	0.5	0.6	0.9	1.1

Asset Quality

Y/e March	2014	2015	2016E	2017E
Gross NPAs (Rs m)	313	606	691	803
Net NPAs (Rs m)	56	149	172	193
Gross NPAs to Gross Adv. (%)	0.5	0.7	0.6	0.6
Net NPAs to Net Adv. (%)	0.1	0.2	0.2	0.1
NPA Coverage (%)	82.2	75.4	75.2	76.0

Profitability (%)

Y/e March	2014	2015	2016E	2017E
NIM	3.8	5.2	6.1	6.2
RoAA	0.7	1.1	1.5	1.7
RoAE	5.5	8.3	10.7	13.5

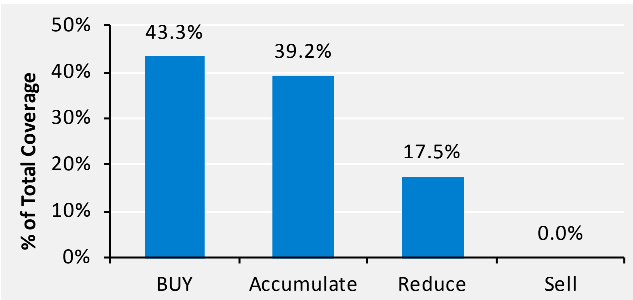
Source: Company Data, PL Research estimates.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

DISCLAIMER/DISCLOSURES

ANALYST CERTIFICATION

We/I, Mr. Nitin Kumar (B.E, PGDM, CFA), Mr. Pritesh Bumb (MBA, M.com), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Nitin Kumar (B.E, PGDM, CFA), Mr. Pritesh Bumb (MBA, M.com), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all o the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (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 subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

DISCLAIMER/DISCLOSURES (FOR US CLIENTS)

ANALYST CERTIFICATION

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

Terms & conditions and other disclosures:

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.