

Capital First

Reco: Buy

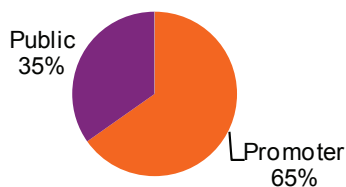
Stock Update

Improving business dynamics; Maintain buy with revised PT of Rs625
CMP: Rs543

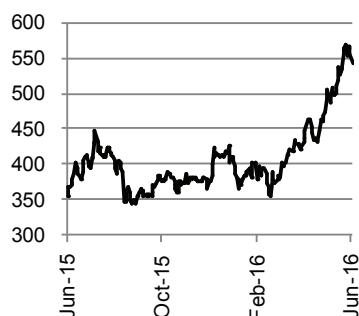
Company details

Price target:	Rs625
Market cap:	Rs4,961 cr
52-week high/low:	Rs578/321
NSE volume: (No of shares)	1.2 lakh
BSE code:	532938
NSE code:	CAPF
Sharekhan code:	CAPF
Free float: (No of shares)	3.18 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.9	44.7	48.5	51.9
Relative to Sensex	8.9	32.9	39.8	50.8

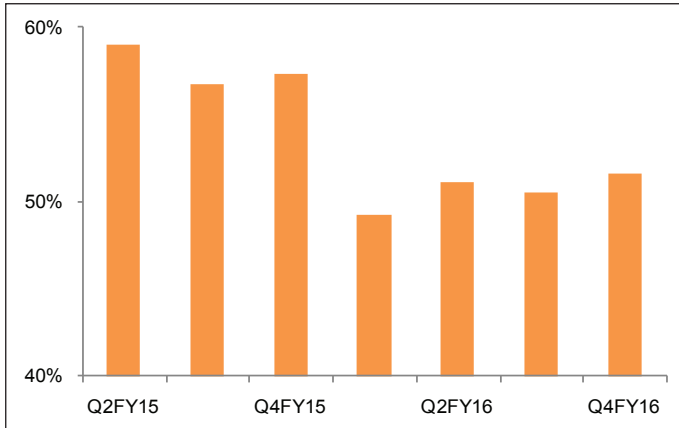
We met the management of Capital First (CAPF) to better understand their evolving business dynamics and overall business strategy going ahead. We are positive on CAPF and like its long-term business sustainability. We believe that there is a significant opportunity in this business in the years to come.

Key points

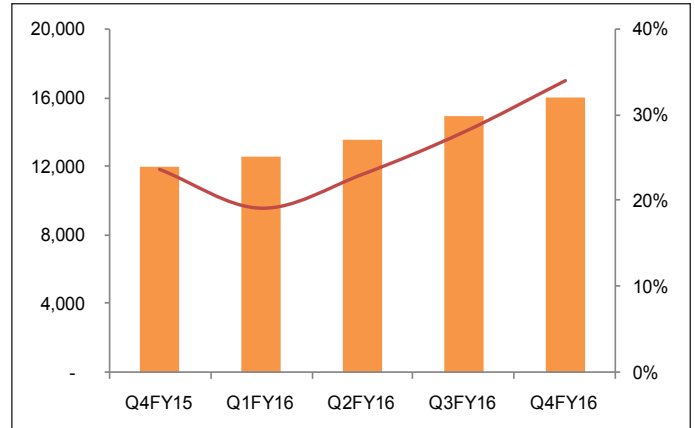
- Niche, changing business mix to aid profitability:** CAPF operates in a niche and less competitive SME finance market (61% of AUM), Two Wheeler loans (8-9% of AUM) and Consumer Durable Finance (~10% of AUM), which together comprise ~80% of its overall loan book. We foresee CAPF building an attractive business franchise similar to Bajaj Finance. Armed with a differentiated and technologically-driven business model, CAPF is likely to maintain its growth trajectory going forward. Also, since these segments traditionally enjoy higher yield than existing wholesale lending book, we believe there is ample scope for improvement in its margins.
- Return ratios expected to improve:** Though Return on Equity (RoE) for CAPF is presently depressed, but the same has been consistently improving, as its dependence on the low-yield wholesale business decreases and operating leverage benefits start to kick in. We believe that CAPF will maintain the trend of steadily improving its RoEs, which have improved from 4.9% in FY14, 8.3% in FY15 to 10.1% in FY16. We expect this trend to continue and expect CAPF to post ~13% and 16% RoE, respectively for the next two fiscal years. While GNPA's are attractive at ~1% (150 dpd), the management indicated that if the company migrates to 90 dpd norm, there will be only ~100bps addition to NPLs, which is largely a positive.
- Increasing tie-ups with Consumer Durable vendors to help traction:** The CAPF management indicated that the traction in client addition has been positive and it is now catering to ~25% market (of total NBFC-funded Consumer Durable segment), up from around 20% in FY15. However, the total NBFC finance to the Consumer Durables market is only ~15%, with ~40% purchases still happening on a cash basis. This gives us confidence that the segment has ample growth opportunity going forward. CAPF has been ramping up tie-ups with large-format retail digital stores and now gets ~60% incremental business from them. Also, tie-ups with leading e-commerce companies give CAPF ready access to a large universe of online vendors, which can help them wean away dependence on DSAs.
- Valuation; Buy with a revised PT of Rs625:** Going forward, CAPF should continue with a strong operating performance. Being a niche player in SME and retail loans (consumer durables, two-wheelers etc), we expect the asset growth momentum to continue due to a favourable base effect and strong asset quality. Also, the lower interest rate cycle would help the company to lower its borrowing cost, which is positive for margins. We have rolled over our estimates to FY2018 and value CAPF at 2.7x FY2018E adjusted book value, leading to a revised price target of Rs625. We maintain our Buy rating on the stock.

Valuation Particulars	FY14	FY15	FY16	FY17E	FY18E
NII	328	536	818	1,088	1,422
PAT	53	114	166	228	316
Growth (%)	-16.6	117.2	45.4	37.3	38.7
EPS (Rs)	6.4	12.6	18.2	25.0	34.7
RoE (%)	4.9	8.3	10.1	12.7	15.8
RoA (%)	0.6	1.1	1.3	1.4	1.6
BV (Rs)	142.8	173.0	186.7	210.9	237.5
P/BV (x)	3.8	3.1	2.9	2.6	2.3
P/E (x)	84.6	43.2	29.8	21.7	15.7

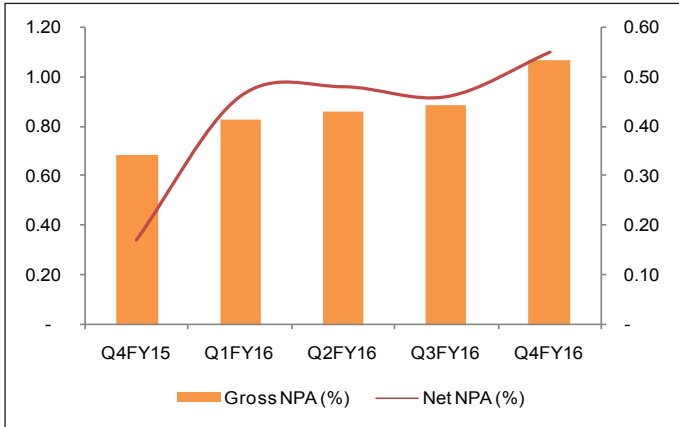
Cost-to-income ratio (%)



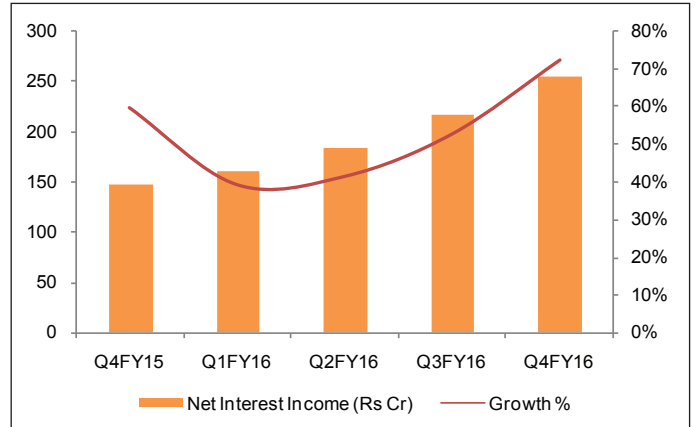
Asset under management (Rs cr)



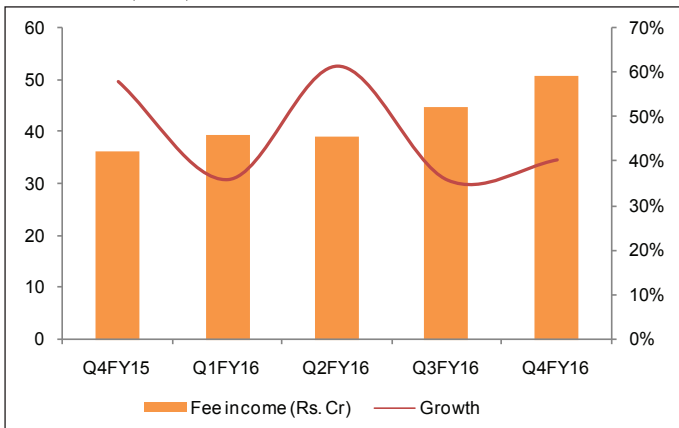
Asset quality (%)



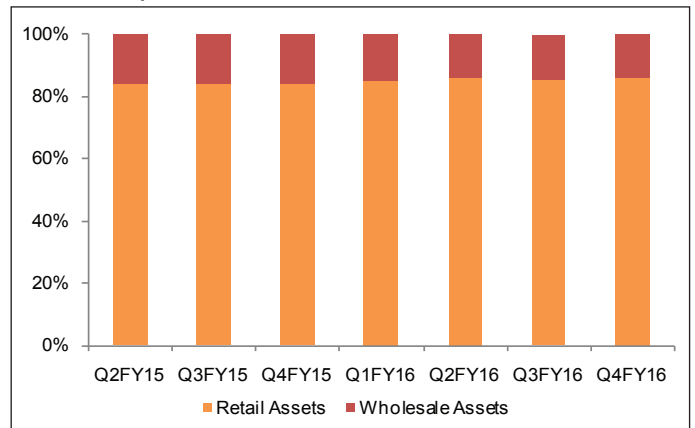
Net interest income (Rs cr)



Fee income (Rs cr)



AUM break-up



Profit and loss statement					Rs cr
Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	328	536	818	1,088	1,422
Non interest income	88	123	174	200	240
Net total income	416	659	992	1,287	1,662
Operating expenses	302	387	503	651	844
Pre-provisioning profit	114	272	489	637	818
Provision	49	105	237	296	346
Profit before tax	65	166	252	341	472
Tax	6	52	86	112	156
Reported profit after tax	53	114	166	228	316

Balance sheet					Rs cr
Particulars	FY14	FY15	FY16	FY17E	FY18E
Share capital	82	91	91	91	91
Reserves and surplus	1,089	1,483	1,612	1,787	2,030
Networth	1,172	1,574	1,703	1,878	2,121
Borrowings	8,422	8,437	11,955	15,201	19,310
Current liabilities and provisions	538	671	867	1,040	1,248
Total liabilities	10,132	10,682	14,525	18,119	22,679
Net block	28	19	29	32	35
Investments	347	95	42	46	50
Loans and advances	7,323	9,033	12,656	16,001	20,326
Current assets	2,411	1,493	1,743	1,986	2,213
Deffered tax assets	17	42	55	55	55
Other assets (incl goodwill)	6	0	0	0	0
Total assets	10,132	10,682	14,525	18,119	22,679

Key ratios					
Particulars	FY14	FY15	FY16	FY17E	FY18E
Per share data (Rs)					
Reported earnings	6.4	12.6	18.2	25.0	34.7
Adj. earnings	7.1	12.6	18.2	25.0	34.7
Book value	142.8	173.0	186.7	210.9	237.5
Adj. book value	141.3	172.8	186.5	205.6	232.2
Dividend	2.0	2.2	2.5	5.0	6.9
Spreads (%)					
Yield on funds	14.7	16.2	15.8	15.6	15.4
Cost of funds	8.8	9.3	8.8	8.4	8.0
Net interest margins	5.0	6.6	7.5	7.6	7.8
Operating ratios (%)					
Interest expended/ Interest earned	66.3	59.5	52.3	51.2	49.3
Cost to income	72.7	58.7	50.7	50.6	50.8
Non interest income / net total income	21.1	18.6	17.5	15.5	14.4
Return ratios (%)					
RoAE	4.9	8.3	10.1	12.7	15.8
RoAA	0.6	1.1	1.3	1.4	1.6
Assets/Equity (x)	8.6	6.8	8.5	9.6	10.7
Dividned yield	0.4	0.5	0.5	1.0	1.4
Growth ratios (%)					
Net interest income	33.9	63.4	52.5	32.9	30.8
Pre-provisioning profit	41.7	139.2	79.8	30.3	28.5
Profit after tax	-16.6	117.2	45.4	37.3	38.7
Advances	23.9	23.3	40.1	26.4	27.0
Borrowings	35.2	0.2	41.7	27.2	27.0
Valuation ratios (x)					
P/E	84.6	43.2	29.8	21.7	15.7
P/BV	3.8	3.1	2.9	2.6	2.3
P/ABV	3.8	3.1	2.9	2.6	2.3
Asset quality (%)					
Gross NPA	0.5	0.7	1.1	1.0	1.0
Net NPA	0.1	0.2	0.6	0.3	0.3

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.