



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INB 230766739 / INB 011107555

RESEARCH REPORT

7th Sept 2017

CAPRI GLOBAL CAPITAL LIMITED

NSE : CGCL

Sector: NBFC SERVICES

BSE: 531595

View - BUY

CMP : Rs. 86

Target Price: Rs 127 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Incorporated in 1997, Capri Global Capital Limited (CGCL) is one of the most widely extended Non Deposit Taking Systemically Important Non-Banking Financial Company (NBFC- ND- SI) in the country, offering versatile and simpler solutions. CGCL is a listed company on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE); and is also registered with the Reserve Bank of India (RBI).CGCL caters to the capital needs of MSMEs through its SME & Retail Lending vertical by offering them multiple products such as MSME business Loans, Working Capital Term Loans, Term Loans Against Property Rentals and Term Loans for Purchase of Property. CGCL has 38 branches as on date and is located at Ahmedabad, Bengaluru, , Delhi, Faridabad, Gurgaon, Ludhiana, Mumbai, Nashik, Noida, Pune, Rajkot, Surat, Vadodara and Vapi.

INVESTMENT HIGHLIGHTS

Strong Financials for CGCL as on Q1 FY18 –

CGCL reported a steady set of Q1FY18 numbers with net income at Rs 84.01 crs, with EBIDTA placed at Rs 54.70 crs from and the PAT in Q1 FY18 grew by 44% YoY to Rs 23.33 crs as compared to Rs 16.20 crs in Q1 last year.

For FY17 the company has recorded net income of Rs 235.08 crs, a EBIDTA of Rs 137.82 crs and a PAT of Rs 58.12 crs. CGCL has paid a dividend of 15% for FY17

CGCL is a NBFC offering Construction Finance, SME and MMSE loans as its main business drivers –

Starting in FY11 CGCL concluded by raising funds via a Qualified Institutional Placement (QIP), raising Rs 445 crs, foraying into Asset Financing & Lending business. CGCL attracted investments from Wellington Management Company LLP, Morgan Stanley, Fidelity, Goldman Sachs, etc.CGCL has also collaborated with Capri Capital Partners, LLC. – a Chicago based investment management company.

CGCL caters to the capital needs of MSMEs through its SME & Retail Lending vertical by offering them multiple products such as MSME business Loans, Working Capital Term Loans, Term Loans Against Property Rentals and Term Loans for Purchase of Property.

CGCL's Construction Finance vertical offers construction funding to Real Estate Developers and it provides multiple solutions in the structured credit space such as Project Funding, Acquisition Financing, Structured Debt Financing, Receivables Discounting, Inventory Funding and Advisory.

KEY DATA

FACE VALUE	Rs	2.00
DIVID YIELD %		0.34
52 WK HI/LOW		92/37
NSE CODE		CGCL
BSE CODE		CGCL
MARKET CAP	RS	1512 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	73%
BANKS, MFs & DIs	-	4%
FIs	-	9%
PUBLIC	-	14%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	23	25	25
PPP Gr%	23	25	25
PAT Gr%	51	37	25
EPS Gr%	22	23	11
EPS (Rs)	5	7	9
BV (Rs)	69	74	80
P/E(x)	17	12	10
P/B(x)	1.24	1.16	1.00



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CGCL operates in 3 main business segments which include –

MSME finance Product Portfolio –

These include Business loans against residential/ commercial/industrial properties

For purchase of commercial/ industrial properties

Ticket Size and Tenure

MSME-DSA Vertical: Rs 50 lacs to Rs 300 lacs

MSME-Direct Vertical: Rs 5 lacs to Rs 50 lacs

Tenure up to 15 years Security First and exclusive charge on { assests/properties Loan to value upto 65%

Debt service coverage ratio –{ 1.5 times

Construction Finance Portfolio –

Construction Finance Product Portfolio

These includes Construction finance/project finance loans which is Cash flow backed/asset backed financing

Focus on affordable housing/midsegment projects

Ticket Size and Tenure - Between Rs 10 crores to Rs 50 crs, with greater focus on < Rs 25 crores affordable segment

Tenure upto 4 years

Security First and exclusive charge on project funded, providing physical cover of around 2 times and net cash flow cover of around 2.25-2.5 times

Lending done against visible cash flows providing adequate cover towards debt servicing with dedicated Escrow Mechanism

Housing Finance Portfolio –

Housing Finance Product Offerings

Home loans for purchase of ready/ under construction residential units

Loans for construction/extension/ renovation of homes and Loans for plot purchase and home equity loans

Focus on rural segment and informal income segment in tier-3/ tier-4 towns

Here CGCL's focus is on projects having support of Govt. Credit Linked Subsidy Scheme (CLSS)

Ticket Size and Tenure

In Metro cities: Rs 5 lacs to Rs 50 lacs

Non metros: Rs 2 lacs to Rs 40 lacs

Tenure upto 20 years

Security Loan to value upto 90% for loans upto Rs 30 lacs

Loan to value upto 80% for loans above Rs 30 lacs

CGCL has clearly identified 3 strategic key focus areas going ahead which include –

Firstly CGCL want to become a trusted and preferred lending partner to micro and small enterprises. CGCL aspires a goal to offer credit solutions to these important organisations, assisting in moving them into the mainstream of the Indian economy.

For this purpose CGSL is building a robust platform that entails a branch network in MSME hubs and a direct sales force to reach deeper into geographic regions, all supported by technology and training for its lending team for higher efficiency and compliance.



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Secondly, CGCL is targeting the affordable housing segment in a major way, not just through its construction finance activity but also through direct retail lending to home buyers.

Adequate housing for all Indians is a priority of the government through 2022 and initiatives such as the Real Estate Regulatory Act 2016, proposed infrastructure status to affordable housing; tax benefits to developers; and lowering the risk weights for small-ticket housing loans, REITs, etc. are all expected to boost credit growth in the affordable housing segment.

And finally CGCL is also looking at another exciting area which is the formal launching of its third-party asset management company under the strategic alliance with Capri Investment Group (CIG), USA.

The combination of favourable demographics, progressive government policies, and robust economic demand is attracting global capital to India. The proposed AMC seeks to capitalise on these conditions through CIG's timetested investment processes and well researched market strategies.

CGCL has a strong Credit Disbursement and Monitoring approach which has helped it keep its GPA low –

For business evaluation and customer credit assessment, CGCL has a team of professionals (including MBAs, CAs, etc).

Further, as a matter of credit prudence, CGCL provides SME and MSME funding only to customers with adequate credit track record; this partly helps deal with credit uncertainties.

Also with respect to computation of LTV, it has maintained conservative stance of sanctioning loans even if the property value is high,

Also CGCL has in place adequate systems of internal control which are designed to achieve highest degree of transparency in its operations and effective compliance with applicable laws and regulations.

CGCL has, over the years, created an inclusive asset base ranging from construction finance, MSME loans, urban retail loans to housing finance. This has helped it create a steady and sustainable revenue stream

Going ahead CGCL plans to take its existing branches to their optimal level of performance in terms of MSME loan disbursements and profitability; build construction finance by financing high quality affordable housing projects while balancing overall portfolio mix; strengthen reporting and add mobility platform to enhance customer service and reduce turnaround time; and tap new sources of funding/ increase leverage to improve return to shareholders.

CGCL is largely present around Delhi, Gujarat and Maharashtra –

In the last 5 years CGCL has built a sizable presence in NCR, Gujarat and Maharashtra. CGCL endeavours to go deeper in these states with more branches.

At present the break up of its 38 branches is as follows –

Delhi NCR 11 Gujarat 10 Haryana 5 Madhya Pradesh 2 Maharashtra 8 Punjab 2 Total 38



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Going ahead CGCL is planning a big Retail expansion plan for the next 5 years. Currently CGCL has 38 branches and its plans to reach 60 branches this year by March and 100 branches by 2019.

A New management team of seasoned name in mortgages and retail have joined and is very serious in ramping up the operations.

At present CGCL is reportedly doing around Rs 20 cr per month in the housing segment which they intend to take it to Rs 100 crs by March and Rs 200 crs+ per month by 2019.

As a strategy CGCL is targeting tier2 and tier 3 towns of Gujarat, M.P, Maharashtra, Delhi and surroundings for first phase of expansion. For this property finalization and manpower recruitment process has already begun. Risk management and compliance strategy in place for retail lending.

CGCL which tapped the urban retail segment and which was conceived about two years ago with the mission to provide financial inclusion to the large self-employed populace that generally lack financial documentation which precludes them from accessing capital from banking channels.

Given the untapped nature of the market, CGCL has set up 30 distribution branches exclusively for urban retail with its own direct sales personnel of over 110 to source business. urban retail loans are high yield, small ticket size loans with lower delinquency rates, thereby reducing client concentration and improving portfolio quality.

Presently CGCL has a client base of over 2,712 with an average ticket size of Rs 43 lacs on the total MSME portfolio

Performance of the MSME Segment in the last 12 months

Book Size Rs increased from Rs 757.04 crs in FY16 to Rs 1213.79 crs in FY17 – up by 60% on YoY basis

Disbursals increased from Rs 476.43 crs in FY16 to Rs 752.23 crs in FY17 – up by 58% on YoY basis

The ATS here improved to Rs 43 lacs in FY17 from Rs 54 lacs in FY16.

Here the GNPA stand at 0.98% in FY17 as compared to 0.88% in FY16.

In line with its strategy, CGCL added 15 branches during the year to take the total to 38 wherein new branches have been added in tier 2/3 cities like Karnal, Gandhidham, Indore, Jamnagar, Mehsana, Nagpur, Nasik, Panvel, Panipat and Vadodara.

The MSME book size increased to Rs 1,213.79 crs an increase of 60.33% from a year ago while disbursals increased by 57.89% to Rs 752.23 crs in FY2017. Direct sourcing accounted for 35.4% of total business generated during the year.

Portfolio quality further improved during the year with an increase in number of customers and decline in average ticket size. Average ticket size has declined from Rs 54 lacs in FY2016 to Rs 43 lacs in FY2017. Gross NPA has remained range-bound at 0.98% in FY2017 as compared to 0.88% in FY2016, a testament of the Company's robust credit assessment.



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Performance of the Construction Segment in the last 12 months

Book Size Rs increased from Rs 353.53 crs in FY16 to Rs 602.80 crs in FY17 – up by 71% on YoY basis

Disbursals increased from Rs 216.31 crs in FY16 to Rs 600.01 crs in FY17 – up by 177% on YoY basis

The ATS here improved to Rs 27.79 crs in FY17 from Rs 43.53 crs in FY16.

CGCL has been focusing on increasing its book size in MSME lending over the last four years and consequently the share of construction finance in the overall book size has been on a consistent downtrend.

The turmoil in real estate sector in FY2016 led the Company to reduce exposure to construction finance. During FY2017, it increased its construction finance book by lending to quality affordable housing projects.

Going forward, CGCL expects to consolidate and maintain a steady growth rate in the range of 15% to 20% over the foreseeable future. Currently operating in NCR, Mumbai and Pune, it is looking forward to expanding in Southern markets, namely Bengaluru and Chennai

Going ahead CGCL is looking at pushing business via its new HFC business which will start reflecting numbers from FY18 onwards. It also plans to get in to ARC business for which a new company has been started under a new subsidiary.

CGCL enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain steady going ahead –

CGCL enjoys a strong balance sheet with reasonable debt of around Rs 587 crs on the balance sheet as on FY17 as compared to a tangible networth of Rs 1160 crs as on March 2017.

We expect that going ahead overall bottomline growth in the next 2 years starting FY17 onwards should easily touch 35-40% and with reasonable debt and healthy cash flows being generated.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Revenue is expected to touch Rs 289 crs.

On the bottomline level we expect the company to record a PAT of Rs 87.55 crs in FY18E. Thus on a conservative basis, CGCL should record a EPS of Rs 5 for FY18E. For FY19E and FY20E our expectation is that earnings traction for CGCL will be strong and remain attractive wherein we expect a EPS of Rs 7 and Rs 9 respectively.

Loan growth is expected to remain strong at 25% CAGR over FY17-20E. Presence in greatly underpenetrated segments will aid growth for CGGL while geographic expansion and increase in customer acquisition is gaining momentum for CGCL. We also expect margins to improve over the next three years and change in loan mix to high yielding retail loans and low funding cost will drive NIM expansion

Going ahead we expect CGCL's earnings to grow at a 35- 40% CAGR over FY17-20E led by a rising healthy AUM growth, prudent product shift strategy, operating leverage benefits, controlled credit cost and new business opportunities.

The CGCL stock trades at a P/B of 1.24x and 1.16x based on FY18E and FY19E, which looks attractive considering its strong execution capability, consistent financial track record and healthy industry trends in the NBFC sector.

Hence we believe that the CGCL stock should be purchased at the current price for a price target of around Rs 127 over the next 12 to 18 months.

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FINANCIALS

For the Year Ended March RsCr	FY16A	FY17A	FY18E	FY19E	FY20E
Total Income	190.59	235.08	289.15	361.44	451.79
Post Provisioning Profits	70.89	137.82	169.44	211.98	265.20
PPP %	37.20	58.63	58.60	58.65	58.70
Profit Before Tax	55.63	95.53	135.53	160.1	198.2
Profit After Tax	43.64	58.12	87.55	120.1	150.2
Diluted EPS (Rs)	2.49	3.32	5.00	6.90	8.60
BV Per Share (Rs)	62.01	64.95	69.00	74.00	80.00
Equity Capital	35.02	35.02	35.02	35.02	35.02
Reserves	1067.5	1125.62	1203.17	1306.27	1436.47
Borrowings	113.12	587.00	900.00	1500.00	2100.00
Advances	924.89	1569.44	1850.10	2300.00	2800.00

Source Company our Estimates

KEY CONCERNS

Increase in competition in mortgages by banks as they find growth in corporate lending difficult to come by.

Asset quality has remained stable in the current cycle. Prior to credit bureau setup consumer lending had resulted in NPL issues. Repeat of cycle is a potential risk

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