

Capital First Ltd

Sector: NBFC / Small-Cap | Earnings Update – 2QFY18

BUY

2 November 2017

Background: Capital First Ltd (erstwhile Future Capital Holdings Ltd) is a non-deposit taking NBFC with large focus on retail lending. Capital First provides loans to retail customers (in the form of secured and unsecured loans to small and medium enterprises (MSME), consumer durables loans, two-wheelers loans and housing loans) and corporate customers (loans to real estate developers) on a selective basis. AUM (Asset under Management) stood at INR 230bn as of 2QFY18 with a mix of Retail- 93% and Wholesale- 7%. The company has transformed into a large retail financing institution with operations in 228 locations across India and has financed over 5.1mn customers.

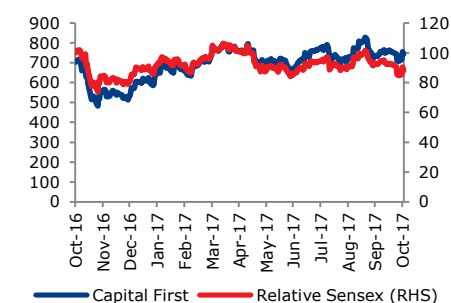
Sensex	33,573
Nifty	10,424
Price	INR 739
Target Price	INR 952
Recommendation	BUY
52 Week High/Low	INR 839/465
Bloomberg / Reuters	CAPF IN/CAPF.BO
Equity (shares in mn)	97.42
Mkt. Cap in bn	INR 71.99/ \$ 1.11
Avg. Daily Vol. ('000)	933.43
Avg. Daily Vol. (mn)	INR 689.80 /\$ 10.68

Shareholding	Sep 16	Jun 17	Sep 17
Promoters (%)	65.11	61.06	36.0
FII (%)	7.54	8.42	25.69
DII (%)	7.57	6.24	10.9
Others (%)	19.78	24.28	27.41
Pledge (% of promoter holding)	14.05	14.05	0.00

Valuation Summary (INR bn)

Y/E March	2017	2018E	2019E
Net Interest Inc	24.6	31.9	40.4
Other Inc	3.4	4.6	6.4
Pre Prov Profit	8.1	12.0	15.9
PAT	2.4	4.0	5.4
EPS	24.5	40.8	55.8
EPS growth (%)	-	66.3	36.9
PE	30.1	18.1	13.2
P /BV	3.1	2.7	2.3
Div Yield (%)	0.4	0.4	0.4
ROA (%)	1.5	1.9	2.1
ROE (%)	11.9	16.1	18.8
CAR (%)	16.0	18.8	17.9

Performance %	1M	3M	12M
CAFL	1.4	-4.0	3.9
Sensex	7.4	3.2	20.5



Stable growth in AUM; NIM increases

- CAFL's overall AUM grew by 28.1% YoY (7.3% QoQ) to INR 229.74bn, largely driven by MSME- secured and unsecured (82.5% YoY and 9.2% QoQ), Home loans (76.1% YoY, 47.5% QoQ) and Consumer durables (28.1% YoY, 23.8% QoQ) segments. Going forward, the company expects the AUM to grow to INR 300bn (31%) by FY19E, by tapping the emerging affordable housing segments. Consequently it expects the share of home loans in overall AUM to double from current levels of 5%.
- Asset quality improved and GNPA stood at 1.63% vs 1.73% in 1QFY18, which is well below the industry (NBFC) average of 5.3%. NNPA was at 1% and PCR stood at 39%. The company's securitized assets stands at INR 45bn as of 1HFY18 (no change since FY17).
- The company's total borrowings stood at INR 175bn, with 43.5% being funded by NCDs, 52% from banks (term loans and cash credits) and the rest from CP. Averages cost of funds stood at 7.8%, declining by 90bps YoY (20bps QoQ). The yield on overall portfolio is currently at 18%, which grew by 40bps YoY. The management aims at taking the share of NCDs to ~50% by FY18E.
- The company has a positive asset liability mismatch wherein their average maturity on borrowings is greater than the average maturity on their loan book (assets).
- Owing to favorable movements in cost of funds and yield on overall portfolio, NIMs saw a growth of 80bps and stood at a healthy 10.4%, while the Net Interest Income was at INR 4.67bn, growing at 47.9% YoY (12.3% QoQ). Other income saw an overall growth of 30.9% YoY, owing to growth in distribution services and income from loyalty cards and stood at INR 983mn.
- Operating expenses saw a 40% YoY growth and stood at INR 2.89bn. Provisions for 2QFY18 were to the tune of INR 1.57bn, increasing at 52.9% YoY and 11.9% QoQ. PAT grew by 35.9% YoY and 16.6% QoQ, and stood at INR 783mn.

Valuation:

The stock is currently trading at P/BV of 2.3X, P/E of 13.3X FY19E. Considering the strong growth potential, we maintain the BUY rating, with a revised (18 month) target price of INR 952, assigning a P/BV of 2.95X on FY19E and 2.5X on FY20E.

Risk: Weakness on the asset quality from the MSME segment, higher than estimated operating cost could put pressure on RoA, leading to slower improvement in the ROE.

Results Summary 2QFY18

Y/E March (INR bn)	2QFY18	2QFY17	YoY Growth	1QFY18	QoQ Growth
Net Interest Income	7.93	6.11	29.71%	7.21	9.91%
Other Income	0.98	0.75	30.90%	0.99	-0.85%
Pre Provisioning Profit	2.75	1.84	49.98%	2.40	14.65%
PAT	0.78	0.58	35.89%	0.67	16.58%
Cost / Income (%)	51.20	52.94		53.26	
Gross NPA (%)	1.63	1.52		1.72	
Net NPA (%)	1.00	0.97		1.04	
Prov Coverage ratio (%)	39.00	55.00		39.00	
CAR (%)	18.81	19.10		19.10	

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