Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH
INDIA'S MOST ADMIRED BRANDS & LEADERS 2016

Capital First

Strong performance overall

Q2FY18 Result Update

October 31, 2017

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

R Sreesankar
rsreesankar@plindia.com / +91-22-66322214

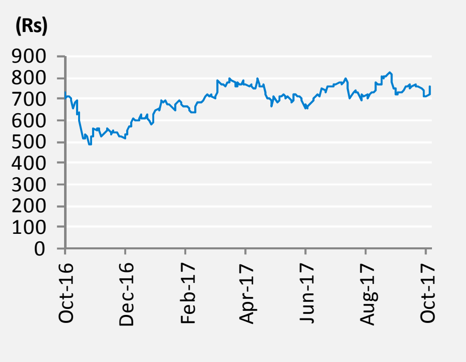
Vidhi Shah
vidhishah@plindia.com / +91-22-66322258

Rating	**BUY**
Price	Rs756
Target Price	Rs965
Implied Upside	27.6%
Sensex	33,213
Nifty	10,335

(Prices as on October 31, 2017)

Trading data			
Market Cap. (Rs bn)			73.6
Shares o/s (m)			97.4
3M Avg. Daily value (Rs m)			475.8
Major shareholders			
Promoters			35.97%
Foreign			29.20%
Domestic Inst.			8.25%
Public & Other			26.58%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	3.0	(0.8)	5.9
Relative	(3.1)	(11.8)	(13.0)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2018	32.8	33.0	*-0.4*
2019	46.1	43.9	*5.1*

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



Source: Bloomberg

CAFL's 2QFY18 earnings were slightly above our estimates with PAT at Rs785mn (PLe: Rs763mn). Higher beat was on NII which grew by 44% YoY on back of strong AUM growth of 28% YoY which was led by strong retail growth and resultant improvement in margins to 10% up 23bps QoQ. Asset quality on 90dpd improved sequentially on good loan base and some write-offs. CAFL continues to show strong growth in most of the product segments with high focus on shorter duration financing (CD, 2W, Unsecured BL) and as MSME segment settles it will again start contributing to overall growth. We remain positive on CAFL given the market opportunity in different segments and aggressive positioning. Retain BUY with revised TP of Rs965 (up from Rs856) on 3.0x Sep-19 ABV.

- **Overall performance remains strong:** NII growth of 44% YoY was strong and better than expectations mainly on better AUM growth of 28% and AUM mix continuing to improve margin profile which increased 23bps QoQ to 9.98% (calc). Overall opex growth of 40% YoY was slightly lower than expected and was mainly led by higher staff cost, but Opex to assets was steady 5.8% as asset growth was much healthier. We expect risk adjusted margin to further move up as mix changes towards higher IRR based lending as it continues to scale up.
- **Strong AUM growth in all segments:** Higher focus segments continued to grow robust mainly in CDs (64% YoY), 2W (40% YoY) & Housing Loans (77% YoY) Company saw some improvement in Secured MSME lending, while took some cautious stance on unsecured MSME (biz loans) as GST continues to unfold and hence saw slower growth. Overall mix continues to be 93% towards retail with MSME dominating at 61% and CD/2W at 15.4%/10.9% respectively.
- **Asset quality improves:** On 90dpd basis, CAFL saw improvement in GNPA/NNPA by 9bps /4bps to 1.6%/1.0% respectively. Improvement was on back of some write-offs and higher loan base (strong growth), but CAFL maintained its PCR at ~39% with credit cost of 360bps on loans.
- **Return ratios on track for improvement:** in Q2FY18, CAFL reported 13% ROEs & 1.6% ROAs and we believe it is on track to achieve 16% ROE in FY19 & 17.5% in FY20E on back of PAT CAGR of 34% over FY17-FY20E.

Key Financials (Y/e March)	2016	2017	2018E	2019E
Net interest income (Rs m)	8,123	13,009	18,294	24,079
Growth (%)	*55.8*	*60.2*	*40.6*	*31.6*
Non-interest income (Rs m)	1,791	3,395	3,356	3,841
Operating Profit (Rs m)	4,887	8,105	9,940	12,391
PAT (Rs m)	1,676	2,390	3,200	4,493
EPS (Rs)	18.4	25.3	32.8	46.1
Growth (%)	*42.5*	*37.8*	*29.6*	*40.4*
Net DPS (Rs)	2.9	3.0	3.6	5.4

Profitability & valuation	2016	2017	2018E	2019E
Spreads / Margins (%)	*5.8*	*7.3*	*8.3*	*8.8*
RoAE (%)	*10.2*	*11.9*	*13.1*	*16.1*
RoAA (%)	*1.5*	*1.6*	*1.8*	*2.0*
P/E (x)	41.1	29.8	23.0	16.4
P/BV (x)	4.0	3.2	2.8	2.5
P/ABV (x)	4.2	3.3	3.0	2.6
Net dividend yield (%)	*0.4*	*0.4*	*0.5*	*0.7*

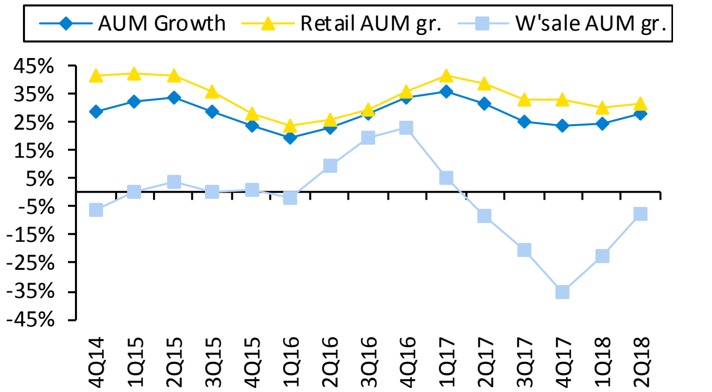
Source: Company Data; PL Research

Exhibit 1: Q2FY18 Financials – Strong earnings performance

Consolidated P&L (Rs m)	Q2FY18	Q2FY17	*YoY gr. (%)*	Q1FY18	*QoQ gr. (%)*
Interest Income	8,802	6,815	*29.1*	8,088	*8.8*
Interest Expense	3,268	2,961	*10.4*	3,065	*6.6*
Net Interest Income	**5,534**	**3,854**	***43.6***	**5,024**	***10.2***
Other income	89	1	*NA*	116	*(23.2)*
Total income	**5,643**	**3,902**	***44.6***	**5,140**	***9.8***
Employee Expense	777	586	*32.5*	699	*11.2*
Other Expenses	2,112	1,479	*42.8*	2,039	*3.6*
Operating Profit	**2,754**	**1,837**	***50.0***	**2,402**	***14.6***
Provisions	1,576	1,032	*52.8*	1,408	*11.9*
PBT	**1,178**	**805**	***46.3***	**994**	***18.5***
Tax	393	229	*71.5*	324	*21.2*
Net Profit	**785**	**576**	***36.3***	**670**	***17.2***
Balance Sheet (Rs m)					
AUM	**229,735**	**179,368**	***28.1***	**214,097**	***7.3***
-Retail loans (%)	92.8	90.1	*273*	92.9	*(2)*
-Wholesale loans (%)	9.9	18.0		14.3	
Asset quality					
Gross NPL	3,011	2,100	*43.4*	2,841	*6.0*
Gross NPL (%)	*1.6*	*1.5*	*11*	*1.7*	*(9)*
Net NPL	1,675	1,340	*25.0*	1,718	*(2.5)*
Net NPL (%)	*1.0*	*1.0*	*3*	*1.0*	*(4)*
Coverage ratio (%)	38.7	36.2	*247*	39.5	*(88)*
Others / Ratios (%)					
Yield on Loans	16.5	16.0	*41*	15.7	*76*
Cost of Borrowings	8.3	9.1	*(79)*	8.1	*21*
Spread	**8.2**	**7.0**	***120***	**7.6**	***55***
NIMs	**10.0**	**8.8**	***120***	**9.7**	***23***
Cost/ Income Ratio	51.2	52.9	*(174)*	53.3	*(206)*
CRAR	18.8	19.1	*(33)*	20.0	*(120)*

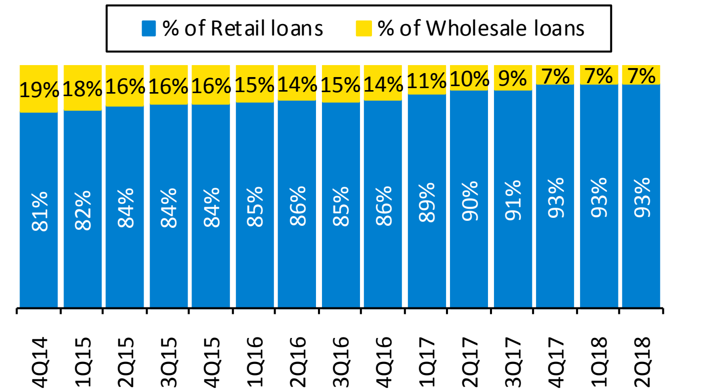
Source: Company Data, PL Research

Exhibit 2: Strong AUM growth led by retail; wholesale also up



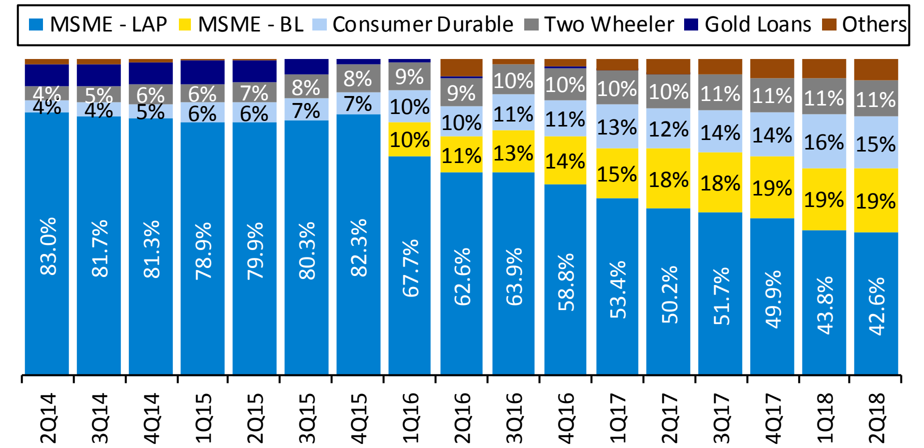
Source: Company Data, PL Research

Exhibit 3: Share of retail loans remained steady at 93% of AUM



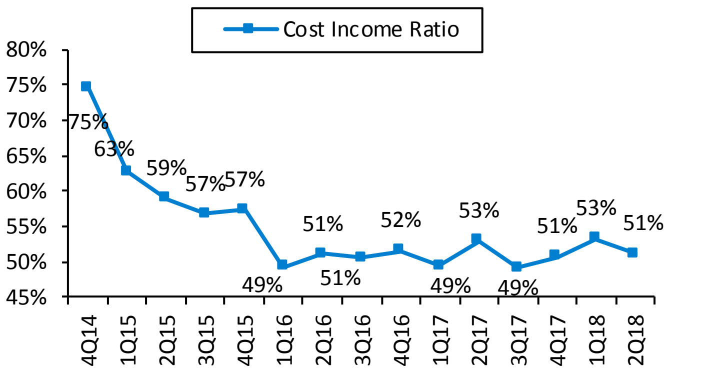
Source: Company Data, PL Research

Exhibit 4: Retail loan growth was led by CD, 2W and housing book



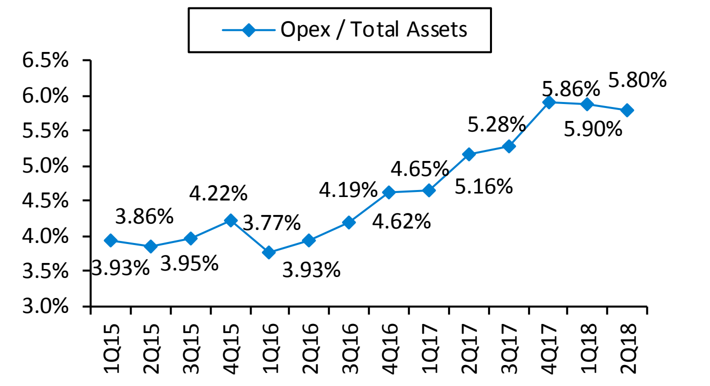
Source: Company Data, PL Research

Exhibit 5: Cost-income improves slightly on better income



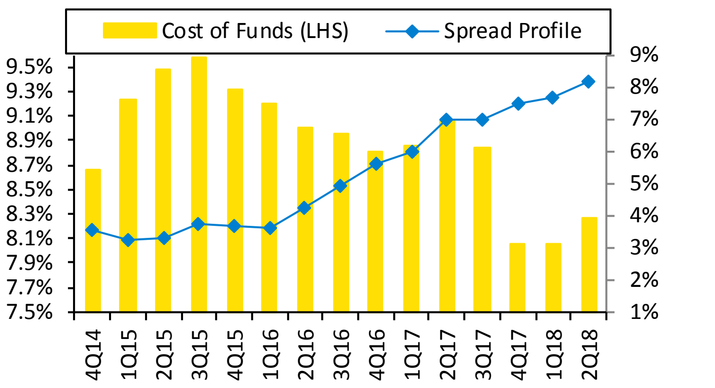
Source: Company Data, PL Research

Exhibit 6: Opex to assets increases further



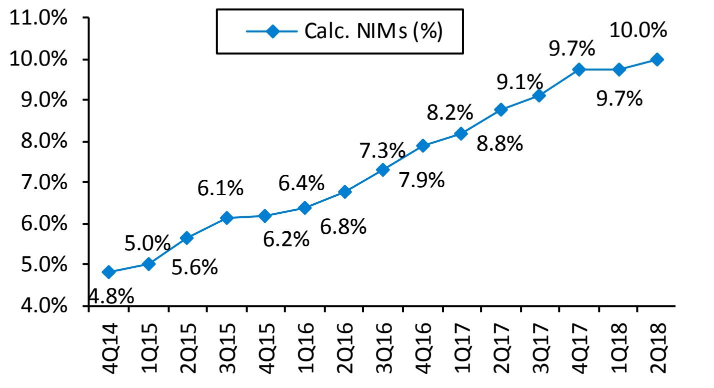
Source: Company Data, PL Research

Exhibit 7: Spreads continues to improve



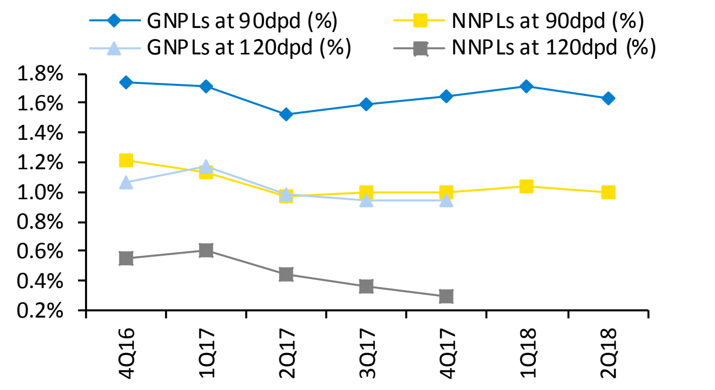
Source: Company Data, PL Research

Exhibit 8: Margins at all-time high levels of ~10%



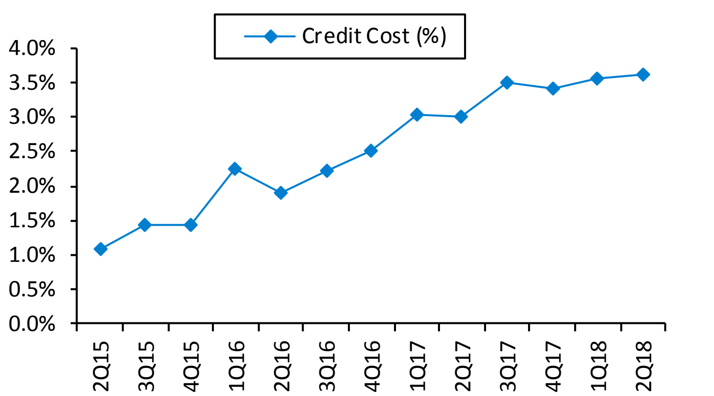
Source: Company Data, PL Research

Exhibit 9: Asset quality improved on 90dpd basis



Source: Company Data, PL Research

Exhibit 10: Credit cost was steady with steady PCR



Source: Company Data, PL Research

Exhibit 11: ROE Decomposition (on Assets)

ROA Decomposition (on Assets)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
NII	**4.2**	**3.8**	**5.0**	**6.4**	**8.0**	**9.5**	**10.6**	**11.5**
Other income	0.8	1.0	1.3	1.4	2.1	1.7	1.7	1.6
Total Income	**4.9**	**4.7**	**6.3**	**7.9**	**10.1**	**11.2**	**12.3**	**13.2**
Operating Cost	3.7	3.4	3.7	4.0	5.1	6.1	6.8	7.4
PPOP	**1.2**	**1.3**	**2.6**	**3.9**	**5.0**	**5.1**	**5.4**	**5.8**
Provisions	0.3	0.6	1.0	1.9	2.8	2.7	2.5	2.5
Taxes	0.2	0.1	0.5	0.7	0.7	0.8	1.0	1.1
ROA	**1.0**	**0.6**	**1.1**	**1.3**	**1.5**	**1.7**	**2.0**	**2.1**
Equity / Assets	14.6	13.3	15.1	13.5	14.2	13.4	13.1	13.0
ROE	**8.0**	**4.9**	**8.3**	**10.1**	**11.9**	**13.1**	**16.1**	**17.9**

Source: Company Data, PL Research

Exhibit 12: Earnings estimate change table – We have tweaked our business growth estimates and yields and increased our credit cost estimates

(Rs mn)	Old		New		*% change*		Introducing
	FY18E	FY19E	FY18E	FY19E	*FY18E*	*FY19E*	FY20E
Net interest income	18,294	24,079	18,294	24,079	-	-	31,220
Operating profit	9,940	12,391	9,940	12,391	-	-	15,598
Net profit	3,200	4,493	3,200	4,493	-	-	5,798
EPS, Rs.	32.8	46.1	32.8	46.1	-	-	59.5
BVPS, Rs.	259.0	299.3	259.0	299.3	-	-	351.6
Price target, Rs.	**894**		**965**		***7.9***		
Recommendation	**BUY**		**BUY**				

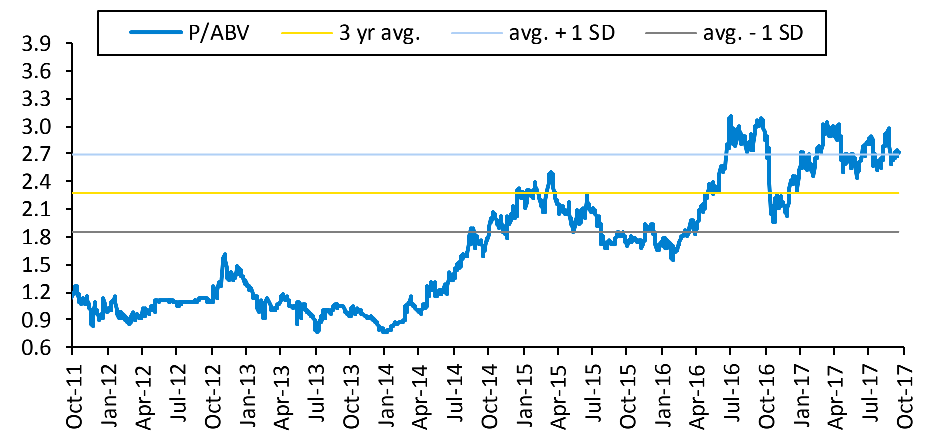
Source: Company Data, PL Research

Exhibit 13: We increase our TP to Rs965 (from Rs856) with P/ABV of 3.0x Sep-19

PT calculation and upside	
Fair price - EVA	962
Fair price - P/ABV	967
Average of the two	**965**
Target P/ABV	**3.0**
Target P/E	**18.3**
Current price, Rs	755
Upside (%)	**28%**
Dividend yield (%)	1%
Total return (%)	**28%**

Source: Company Data, PL Research

Exhibit 14: Capital First – One year forward P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)				
Y/e March	**2016**	**2017**	**2018E**	**2019E**
Int. Inc. / Opt. Inc.	17,095	24,615	31,863	40,384
Interest Expenses	8,972	11,606	13,570	16,305
Net interest income	**8,123**	**13,009**	**18,294**	**24,079**
Growth (%)	*55.8*	*60.2*	*40.6*	*31.6*
Non interest income	1,791	3,395	3,356	3,841
Growth (%)	*34.9*	*89.5*	*(1.1)*	*14.4*
Net operating income	9,914	16,404	21,650	27,920
Expenditure				
Employees	1,768	2,394	3,064	3,861
Other expenses	3,160	5,867	8,646	11,669
Depreciation	100	38	—	—
Total expenditure	5,028	8,299	11,710	15,529
PPP	**4,887**	**8,105**	**9,940**	**12,391**
Growth (%)	*82.4*	*65.9*	*22.6*	*24.7*
Provision	2,363	4,530	5,127	5,634
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	**2,524**	**3,575**	**4,812**	**6,757**
Tax	848	1,185	1,612	2,264
Effective tax rate (%)	*33.6*	*33.1*	*33.5*	*33.5*
PAT	**1,676**	**2,390**	**3,200**	**4,493**
Growth (%)	*50.1*	*42.6*	*33.9*	*40.4*

Balance Sheet (Rs m)				
Y/e March	**2016**	**2017**	**2018E**	**2019E**
Sources of funds				
Equity	912	974	974	974
Reserves & Surplus	16,123	22,064	24,947	28,912
Networth	17,035	23,038	25,921	29,886
Growth (%)	*8.2*	*35.2*	*12.5*	*15.3*
Loan funds	119,549	141,081	171,583	205,403
Growth (%)	*41.7*	*18.0*	*21.6*	*19.7*
Others	—	—	—	—
Minority Interest	8,666	9,183	10,482	11,828
Deferred Tax Liability	(546)	(722)	(795)	(874)
Total	**144,704**	**172,581**	**207,192**	**246,243**
Application of funds				
Net fixed assets	292	646	808	1,010
Advances	124,593	150,914	190,906	242,451
Growth (%)	*42.6*	*21.1*	*26.5*	*27.0*
Net current assets	4,316	4,925	5,910	7,092
Investments	1,836	2,587	502	577
Growth (%)	*(5.4)*	*40.9*	*(80.6)*	*15.0*
Other Assets	2,539	2,563	2,768	2,824
Total	**133,577**	**161,635**	**200,895**	**253,954**

Source: Company Data, PL Research.

Quarterly Financials (Rs m)				
Y/e March	**Q3FY17**	**Q4FY17**	**Q1FY18**	**Q2FY18**
Int. Inc. / Operating Inc.	7,259	7,493	8,088	8,802
Income from securitization	—	—	—	—
Interest Expenses	3,082	2,803	3,065	3,268
Net Interest Income	**4,177**	**4,691**	**5,024**	**5,534**
Growth	*60.1*	*53.4*	*47.9*	*43.6*
Non interest income	100	75	116	109
Net operating income	**4,277**	**4,766**	**5,140**	**5,643**
Growth	*63.0*	*55.8*	*48.7*	*44.6*
Operating expenditure	2,104	2,420	2,738	2,889
PPP	**2,174**	**2,346**	**2,402**	**2,754**
Growth	*67.6*	*58.3*	*37.5*	*50.0*
Provision	1,240	1,264	1,408	1,576
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	934	1,082	994	1,178
Tax	320	374	324	393
Prov. for deferred tax liability	—	—	—	(2)
Effective tax rate (%)	*34.3*	*34.6*	*32.6*	*33.4*
PAT	**614**	**708**	**670**	**783**
Growth	*37.8*	*48.8*	*36.3*	*36.0*

Key Ratios				
Y/e March	**2016**	**2017**	**2018E**	**2019E**
CMP (Rs)	756	756	756	756
Eq. Shrs. O/s. (m)	91	97	97	97
Market Cap (Rs m)	68,962	73,636	73,636	73,636
Market Cap to AUM (%)	51.6	45.6	36.7	29.0
EPS (Rs)	18.4	25.3	32.8	46.1
Book Value (Rs)	186.7	236.5	266.1	306.8
Adjusted Book Value (Rs)	179.4	231.8	256.0	296.1
P/E (x)	41.1	29.8	23.0	16.4
P/BV (x)	4.0	3.2	2.8	2.5
P/ABV (x)	4.2	3.3	3.0	2.6
DPS (Rs)	2.9	3.0	3.6	5.4
Dividend Yield (%)	0.4	0.4	0.5	0.7

Asset Quality				
Y/e March	**2016**	**2017**	**2018E**	**2019E**
Gross NPAs (Rs m)	1,309	1,434	2,223	2,556
Net NPAs (Rs m)	668	453	985	1,037
Gross NPAs to Gross Adv. (%)	1.1	1.0	1.2	1.1
Net NPAs to Net Adv. (%)	0.5	0.3	0.5	0.4
NPA Coverage (%)	49.0	68.4	55.7	59.4

Profitability (%)				
Y/e March	**2016**	**2017**	**2018E**	**2019E**
NIM	5.8	7.3	8.3	8.8
RoAA	1.5	1.6	1.8	2.0
RoAE	10.2	11.9	13.1	16.1

Source: Company Data, PL Research.

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

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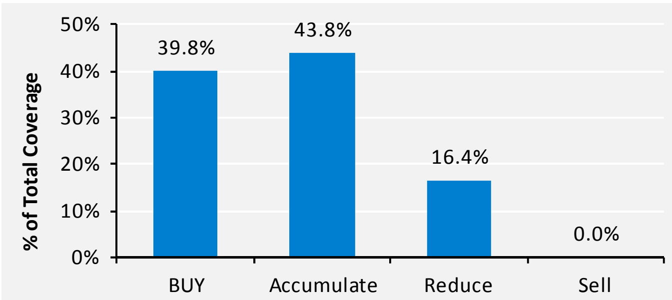

PL's Recommendation Nomenclature

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

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