

Capital First Ltd

Sector: NBFC / Small-Cap | Earnings Update – 4QFY18

BUY

7 May 2018

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 270bn as of 4QFY18 with a mix of Retail- 94% and Wholesale- 6%. The company has transformed into a large retail financing institution with operations in 225 locations across India and has financed over 6 mn customers.

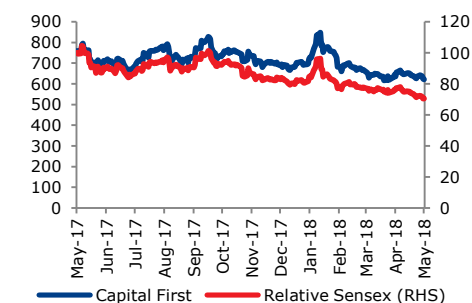
Sensex	35,208
Nifty	10,716
Price	INR 615
Target Price	INR 916
Recommendation	BUY
52 Week High/Low	INR 902/610
Bloomberg / Reuters	CAPF IN/CAPF.BO
Equity (shares in mn)	97.42
Mkt. Cap in bn	INR 60.91/ \$ 0.91
Avg. Daily Vol. ('000)	881.85
Avg. Daily Vol. (mn)	INR 542.74 / \$ 8.08

Shareholding	Mar-17	Dec 17	Mar-18
Promoters (%)	61.1	35.6	35.6
FII (%)	8.4	19.6	19.6
DII (%)	6.2	16.0	15.5
Others (%)	24.3	28.9	29.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Net Interest Inc	33.7	48.7	60.4
Other Inc	4.4	6.5	8.2
Pre Prov Profit	11.4	20.6	26.4
PAT	3.3	7.8	10.1
EPS	33.1	79.2	101.9
EPS growth (%)	35.1	139.1	28.7
PE	18.6	7.8	6.0
P /BV	2.3	1.8	1.4
Div Yield (%)	0.5	0.5	0.5
ROA (%)	1.5	2.7	2.8
ROE (%)	13.4	26.3	26.3
CAR (%)	17.2	17.1	16.3

Performance %	1M	3M	12M
CAPF	-2.3	-9.0	-18.2
Sensex	5.7	-0.4	15.9



AUM continues to grow at a robust pace; Asset quality deteriorates marginally (QoQ)

- CAFL's overall AUM recorded a robust growth of 36.2% YoY (9.1% QoQ), largely driven by MSME-secured and unsecured, Home loans, and Consumer durables segments. Going forward, the company expects the AUM to grow by ~25% 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 witnessed marginal deterioration sequentially and GNPA stood at 1.62% vs 1.59% in 3QFY18, which is still well below the industry (NBFC) average of 5.3%. NNPA rose to 1% from 0.93% in 3QFY18 and PCR stood at 38.3%.
- The company's total borrowings stood at INR 217bn, with 45% being funded by NCDs, 46% from banks (term loans and cash credits) and the rest from CP. The management aims at taking the share of NCDs to ~50% by FY19E.
- Net Interest Income was at INR 5.8bn, growing at 55.7% YoY(10.8% QoQ). Other income saw an overall growth of 26.5%YoY (14.2% QoQ), owing to growth in distribution services and income from loyalty cards and stood at INR 1.3bn.
- Operating expenses saw a 63.3%YoY growth and stood at INR 3.95bn. Provisions for 4QFY18 were to the tune of INR 1.74bn, increasing at 37.9%YoY and 3.1% QoQ. PAT grew by 34.5% YoY and 9.2% QoQ, and stood at INR 952mn.
- Going forward the management expects the NIMs to stabilize at current levels (with an upward bias), as incremental cost of funds are expected to rise by 5-10bps, due to rising bond yields. The management also highlighted that the merger with IDFC will take about 5-6 months for regulatory approvals.
- The board has declared a dividend of INR 2.8/ sh (face value INR 10/ sh), yielding 0.5% at CMP.

Valuation:

The stock is currently trading at P/BV of 1.4X, P/E of 6X FY20E. Considering the strong growth potential, we maintain the BUY rating, with a target price of INR 916, assigning a P/BV of 2.1X 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 3QFY18

Y/E March (INR bn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Net Interest Income	9.76	6.55	48.98%	8.83	10.50%
Other Income	1.29	1.02	26.49%	1.13	14.18%
Pre Provisioning Profit	3.17	2.35	35.17%	3.03	4.66%
PAT	0.95	0.71	34.48%	0.87	9.19%
Cost / Income (%)	55.46	50.75		52.60	
Gross NPA (%)	1.62	1.65		1.59	
Net NPA (%)	1.00	1.00		0.97	
Prov Coverage ratio (%)	38.27	39.39		38.99	
CAR (%)	17.20	18.80		17.00	

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