

Capital First

Continuing to grow strong

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Rating	BUY
Price	Rs622
Target Price	Rs965
Implied Upside	55.1%
Sensex	34,915
Nifty	10,618

(Prices as on May 04, 2018)

Trading data

Market Cap. (Rs bn)	60.6
Shares o/s (m)	97.4
3M Avg. Daily value (Rs m)	394.3

Major shareholders

Promoters	35.55%
Foreign	24.38%
Domestic Inst.	10.70%
Public & Other	29.37%

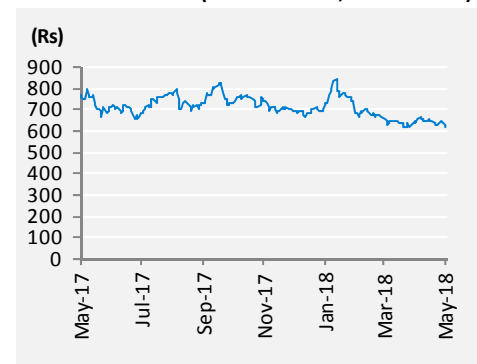
Stock Performance

(%)	1M	6M	12M
Absolute	(2.3)	(15.5)	(18.2)
Relative	(8.1)	(19.2)	(34.1)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	54.8	47.7	15.0
2020	69.0	62.3	10.9

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



Source: Bloomberg

CAFL's earnings was slightly slower at Rs952mn (PLe: Rs1,012mn) on back of increased provisioning & opex, but overall top line was much stronger than expected with continued increase in spreads and stronger AUM growth of 36% YoY. AUM mix continues to be steady within MSME/Consumer/2W segments. Wholesale mix (now 6.5%) and off B/s mix (now 13.0%) continue to decline. We expect merger should conclude by Dec'18 as certain approvals are yet to be received but CAFL will continue to build strong loan book and improve its return ratios gradually. We retain BUY with TP of Rs965 on 2.6x Mar-20 ABV (down from 2.9x Sep-19 ABV).

- **Strong operating performance:** NII growth continued to be on strong footing at ~49% YoY on back of strong AUM growth of 36% YoY and better spreads. NIMs/spreads continued to inch up further by 50bps QoQ as lag effect of benefit on funding cost continue to set in and much slower growth in off b/s loans & wholesale loans helping improve yields. Higher than expected opex cost was the only deterrent increasing C/I to 55% up 290bps QoQ and we expect it to remain up as investments continue to build-up used vehicle and housing loan segments.
- **Better than expected AUM growth:** AUM grew by 36% YoY/9% QoQ despite de-growth in off b/s loans (13% of AUM) and continued to be led by retail which grew 37.5% YoY. Wholesale growth was steady but mix continues to trend downwards. Mix within retail continued to be steady sequentially and unchanged with MSME loans at 57%, 2W/Consumer at 24% and others at 13%.
- **Asset quality marginal improvement:** Asset quality was broadly steady with credit cost trending down to 315bps of loans (despite higher than expected provisioning) keeping PCR steady at 38%. CAFL has not taken dispensation of RBI on NPA recognition for MSME and with loan book remain intact with no large issues.
- **Merger should conclude by Dec'18 –** CAFL-IDFCBK awaits RBI approval and then will require NCLT/Shareholders approval which will lead to likely conclusion of merger by Dec'18 and hence stock should remain range bound in near term but in the meantime CAFL continues to invest in adding resources and building loan book.

Key Financials (Y/e March)	2017	2018E	2019E	2020E
Net interest income (Rs m)	13,009	20,259	27,266	34,696
Growth (%)	60.2	55.7	34.6	27.2
Non-interest income (Rs m)	3,395	3,619	4,023	4,619
Operating Profit (Rs m)	8,105	11,306	14,624	17,821
PAT (Rs m)	2,390	3,339	5,343	6,724
EPS (Rs)	25.3	34.3	54.8	69.0
Growth (%)	37.8	35.2	60.0	25.8
Net DPS (Rs)	3.0	3.6	5.4	6.6

Profitability & valuation	2017	2018E	2019E	2020E
Spreads / Margins (%)	7.3	8.8	9.3	9.6
RoAE (%)	11.9	13.6	18.8	19.8
RoAA (%)	1.6	1.8	2.2	2.2
P/E (x)	24.5	18.1	11.3	9.0
P/BV (x)	2.6	2.3	2.0	1.6
P/ABV (x)	2.7	2.5	2.1	1.7
Net dividend yield (%)	0.5	0.6	0.9	1.1

Source: Company Data; PL Research

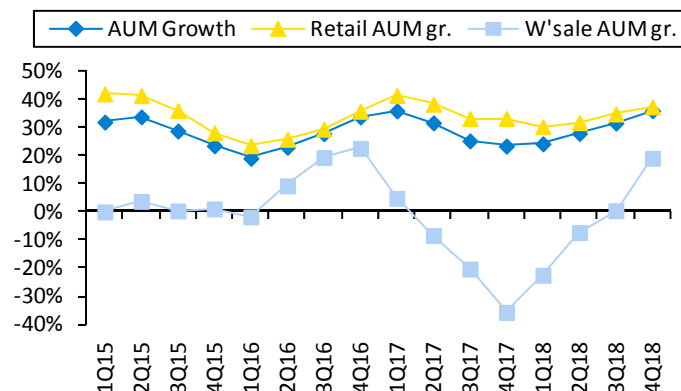
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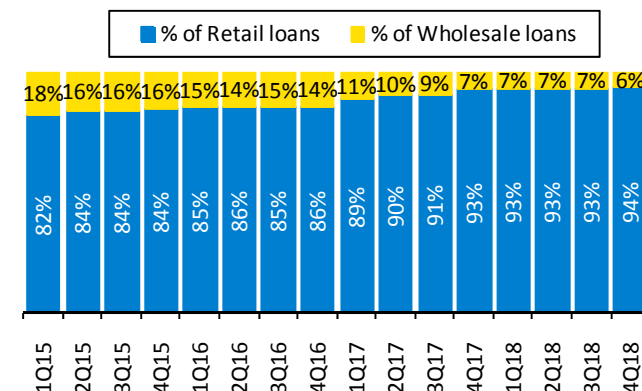
Exhibit 1: Q4FY18 Financials – Continued strong earnings performance, in-line with expectations

Consolidated P&L (Rs m)	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	QoQ gr. (%)
Interest Income	10,940	7,493	46.0	9,876	10.8
Interest Expense	3,926	2,803	40.1	3,566	10.1
Net Interest Income	7,014	4,691	49.5	6,310	11.1
Other income	106	52	102.7	83	28.8
Total income	7,120	4,766	49.4	6,393	11.4
Employee Expense	953	597	59.7	919	3.7
Other Expenses	2,996	1,823	64.3	2,444	22.6
Operating Profit	3,171	2,346	35.2	3,030	4.7
Provisions	1,743	1,264	37.9	1,691	3.1
PBT	1,428	1,082	32.0	1,339	6.7
Tax	474	374	26.6	467	1.4
Net Profit	955	708	34.8	872	9.5
Balance Sheet (Rs m)					
AUM	269,970	198,241	36.2	247,550	9.1
-Retail loans (%)	93.5	92.6	92	92.8	69
-Wholesale loans (%)	9.9	18.0	(811)	14.3	(436)
Asset quality					
Gross NPL	3,803	2,490	52.7	3,277	16.1
Gross NPL (%)	1.6	1.7	(3)	1.6	3
Net NPL	2,348	1,509	55.6	1,999	17.4
Net NPL (%)	1.0	1.0	-	1.0	3
Coverage ratio (%)	38.3	39.4	(112)	39.0	(72)
Others / Ratios (%)					
Yield on Loans	16.9	15.5	138	16.6	36
Cost of Borrowings	7.8	8.1	(29)	7.9	(11)
Spread	9.1	7.5	168	8.7	46
NIMs	10.8	9.7	112	10.6	27
Cost/ Income Ratio	55.5	50.8	468	52.6	286
CRAR	15.8	20.3	(454)	17.6	(180)
Tier I	NA-	16.0		13.2	

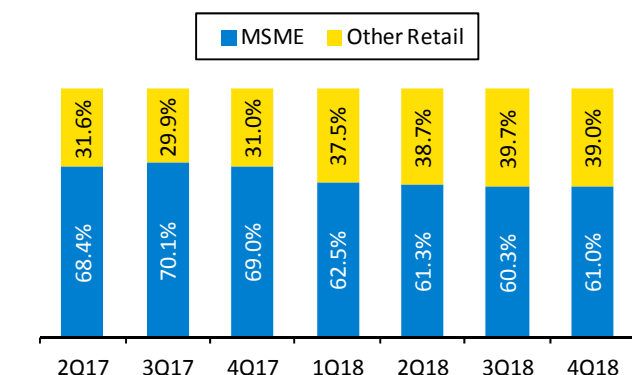
Source: Company Data, PL Research

Exhibit 2: Strong AUM growth led by retail; wholesale growth slower


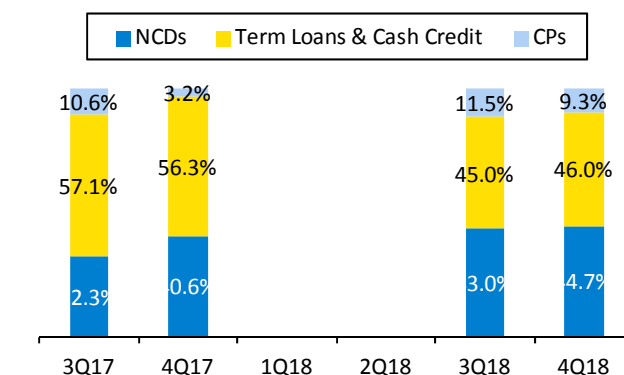
Source: Company Data, PL Research

Exhibit 3: Share of retail loans moves up to 93.5%


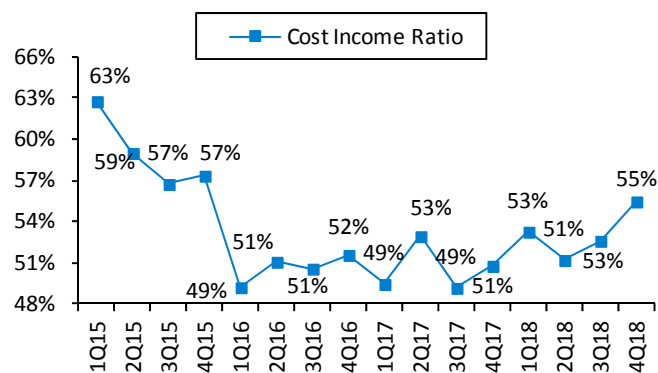
Source: Company Data, PL Research

Exhibit 4: Core retail slowly inching up


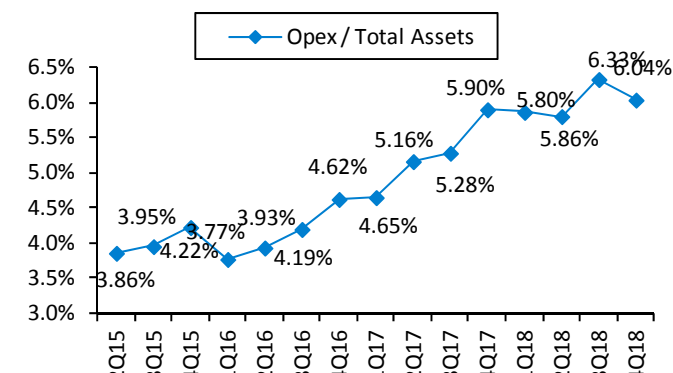
Source: Company Data, PL Research

Exhibit 5: Borrowing mix improves towards NCDs (longer term)


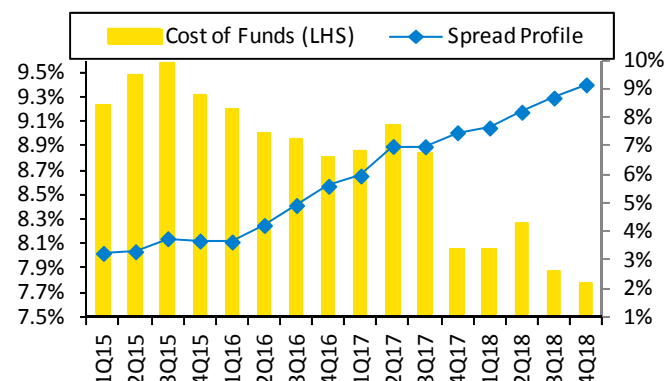
Source: Company Data, PL Research

Exhibit 6: Cost-income moves up


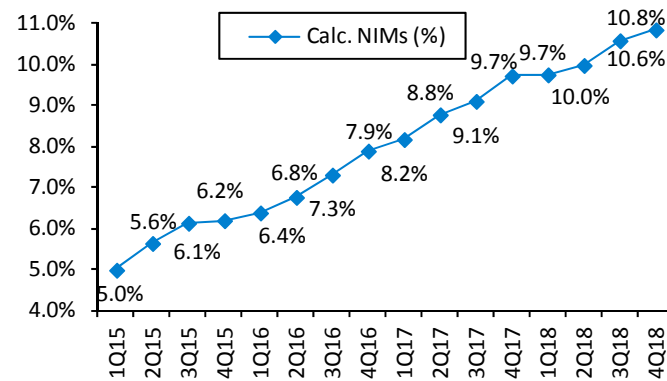
Source: Company Data, PL Research

Exhibit 7: Opex to assets was lower on faster assets growth


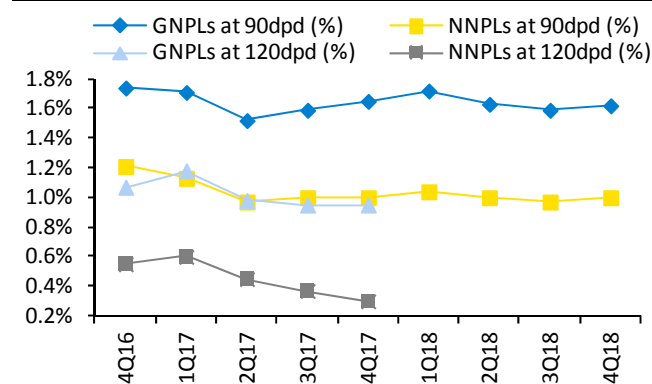
Source: Company Data, PL Research

Exhibit 8: Spreads improve from lowered funding cost


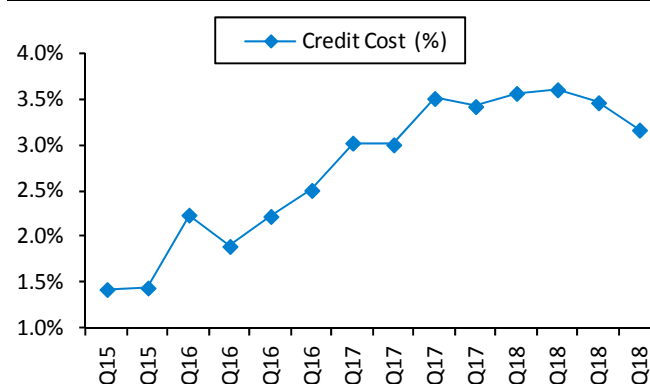
Source: Company Data, PL Research

Exhibit 9: Margins at much stronger levels


Source: Company Data, PL Research

Exhibit 10: Asset quality remains stable


Source: Company Data, PL Research

Exhibit 11: Credit cost was lower sequentially with steady PCR


Source: Company Data, PL Research

Exhibit 12: 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	10.5	12.0	12.8
Other income	0.8	1.0	1.3	1.4	2.1	1.9	1.8	1.7
Total Income	4.9	4.7	6.3	7.9	10.1	12.4	13.7	14.5
Operating Cost	3.7	3.4	3.7	4.0	5.1	6.5	7.3	7.9
PPOP	1.2	1.3	2.6	3.9	5.0	5.9	6.4	6.6
Provisions	0.3	0.6	1.0	1.9	2.8	3.3	2.9	2.8
Taxes	0.2	0.1	0.5	0.7	0.7	0.9	1.2	1.2
ROA	1.0	0.6	1.1	1.3	1.5	1.7	2.3	2.5
Equity / Assets	14.6	13.3	15.1	13.5	14.2	13.5	13.5	13.6
ROE	8.0	4.9	8.3	10.1	11.9	13.6	18.8	19.8

Source: Company Data, PL Research

Exhibit 13: Estimates change table – We currently retain our estimates as we await strategy on merger

(Rs mn)	Old			Revised			% Change		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
NII	20,259	27,266	34,696	20,259	27,266	34,696	-	-	-
Operating profit	11,306	14,624	17,821	11,306	14,624	17,821	-	-	-
Net profit	3,339	5,343	6,724	3,339	5,343	6,724	-	-	-
EPS (Rs)	34.3	54.8	69.0	34.3	54.8	69.0	-	-	-
ABVPS (Rs)	254.7	304.9	367.3	254.7	304.9	367.3	-	-	-
Price target (Rs)	965			965			0.0		
Recommendation	BUY			BUY					

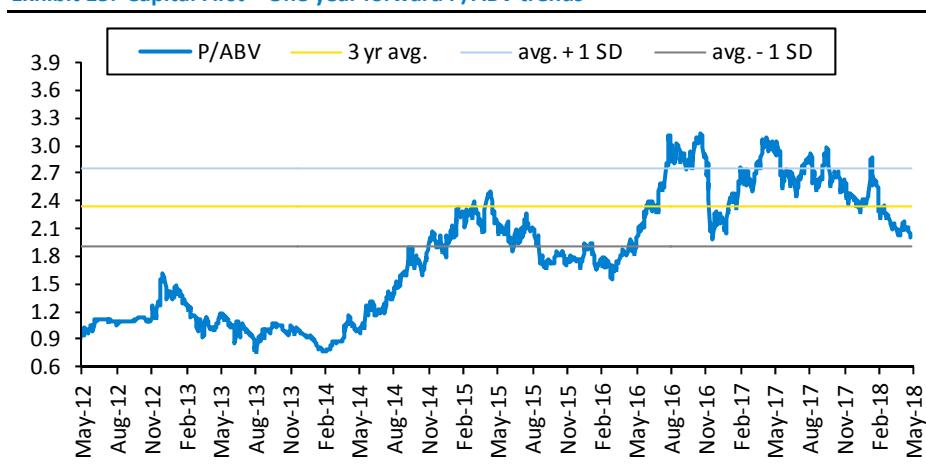
Source: Company Data, PL Research

Exhibit 14: We retain our TP of Rs965 based on 2.6x Mar-20 ABV (from 2.9x Sep-19 ABV)

PT calculation and upside	
Fair price - EVA	967
Fair price - P/ABV	963
Average of the two	965
Target P/ABV	2.6
Target P/E	15.6
Current price, Rs	612
Upside (%)	58%
Dividend yield (%)	1%
Total return (%)	59%

Source: Company Data, PL Research

Exhibit 15: Capital First – One year forward P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Int. Inc. / Opt. Inc.	24,615	34,016	43,854	54,650
Interest Expenses	11,606	13,757	16,587	19,954
Net interest income	13,009	20,259	27,266	34,696
<i>Growth (%)</i>	<i>60.2</i>	<i>55.7</i>	<i>34.6</i>	<i>27.2</i>
Non interest income	3,395	3,619	4,023	4,619
<i>Growth (%)</i>	<i>89.5</i>	<i>6.6</i>	<i>11.2</i>	<i>14.8</i>
Net operating income	16,404	23,878	31,290	39,315
Expenditure				
Employees	2,394	3,352	4,223	5,321
Other expenses	5,867	9,220	12,443	16,174
Depreciation	38	—	—	—
Total expenditure	8,299	12,572	16,666	21,495
PPP	8,105	11,306	14,624	17,821
<i>Growth (%)</i>	<i>65.9</i>	<i>39.5</i>	<i>29.3</i>	<i>21.9</i>
Provision	4,530	6,286	6,589	7,710
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	3,575	5,020	8,034	10,111
Tax	1,185	1,682	2,692	3,387
<i>Effective tax rate (%)</i>	<i>33.1</i>	<i>33.5</i>	<i>33.5</i>	<i>33.5</i>
PAT	2,390	3,339	5,343	6,724
<i>Growth (%)</i>	<i>42.6</i>	<i>39.7</i>	<i>60.0</i>	<i>25.8</i>

Balance Sheet (Rs m)

Y/e March	2017	2018E	2019E	2020E
Sources of funds				
Equity	974	974	974	974
Reserves & Surplus	22,064	25,085	29,900	35,979
Networth	23,038	26,059	30,874	36,953
<i>Growth (%)</i>	<i>35.2</i>	<i>13.1</i>	<i>18.5</i>	<i>19.7</i>
Loan funds	141,081	171,583	205,403	245,530
<i>Growth (%)</i>	<i>18.0</i>	<i>21.6</i>	<i>19.7</i>	<i>19.5</i>
Others	—	—	—	—
Minority Interest	9,183	10,482	11,828	13,180
Deferred Tax Liability	(722)	(795)	(874)	(961)
Total	172,581	207,330	247,231	294,702
Application of funds				
Net fixed assets	646	808	1,010	1,262
Advances	150,914	208,261	262,409	330,636
<i>Growth (%)</i>	<i>21.1</i>	<i>38.0</i>	<i>26.0</i>	<i>26.0</i>
Net current assets	4,925	5,910	7,092	8,511
Investments	2,587	502	577	664
<i>Growth (%)</i>	<i>40.9</i>	<i>(80.6)</i>	<i>15.0</i>	<i>15.0</i>
Other Assets	2,563	2,768	2,824	2,993
Total	161,635	218,250	273,912	344,066

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Int. Inc. / Operating Inc.	8,088	8,802	9,876	10,940
Income from securitization	—	—	—	—
Interest Expenses	3,065	3,268	3,566	3,926
Net Interest Income	5,024	5,534	6,310	7,014
<i>Growth</i>	<i>47.9</i>	<i>43.6</i>	<i>51.1</i>	<i>49.5</i>
Non interest income	116	109	83	106
Net operating income	5,140	5,643	6,393	7,120
<i>Growth</i>	<i>48.7</i>	<i>44.6</i>	<i>49.5</i>	<i>49.4</i>
Operating expenditure	2,738	2,889	3,363	3,949
PPP	2,402	2,754	3,030	3,171
<i>Growth</i>	<i>37.5</i>	<i>50.0</i>	<i>39.4</i>	<i>35.2</i>
Provision	1,408	1,576	1,691	1,743
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	994	1,178	1,339	1,428
Tax	324	393	467	474
Prov. for deferred tax liability	—	(2)	(3)	(2)
<i>Effective tax rate (%)</i>	<i>32.6</i>	<i>33.4</i>	<i>34.9</i>	<i>33.2</i>
PAT	670	783	870	952
<i>Growth</i>	<i>36.3</i>	<i>36.0</i>	<i>41.7</i>	<i>34.5</i>

Key Ratios

Y/e March	2017	2018E	2019E	2020E
CMP (Rs)	622	622	622	622
Eq. Shrs. O/s. (m)	97	97	97	97
Market Cap (Rs m)	60,572	60,572	60,572	60,572
Market Cap to AUM (%)	37.5	27.8	22.1	17.6
EPS (Rs)	25.3	34.3	54.8	69.0
Book Value (Rs)	236.5	267.5	316.9	379.3
Adjusted Book Value (Rs)	231.8	249.2	299.8	362.1
P/E (x)	24.5	18.1	11.3	9.0
P/BV (x)	2.6	2.3	2.0	1.6
P/ABV (x)	2.7	2.5	2.1	1.7
DPS (Rs)	3.0	3.6	5.4	6.6
Dividend Yield (%)	0.5	0.6	0.9	1.1

Asset Quality

Y/e March	2017	2018E	2019E	2020E
Gross NPAs (Rs m)	1,434	3,011	3,162	3,478
Net NPAs (Rs m)	453	1,779	1,666	1,674
Gross NPAs to Gross Adv. (%)	1.0	1.4	1.2	1.1
Net NPAs to Net Adv. (%)	0.3	0.9	0.6	0.5
NPA Coverage (%)	68.4	40.9	47.3	51.9

Profitability (%)

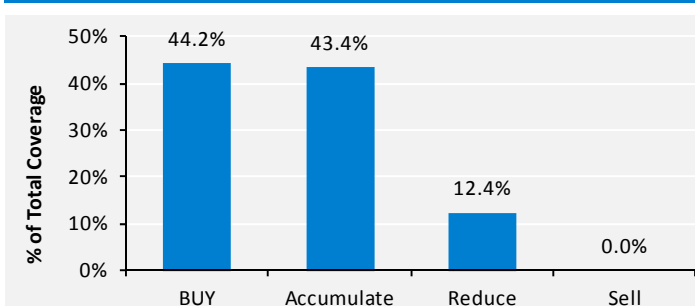
Y/e March	2017	2018E	2019E	2020E
NIM	7.3	8.8	9.3	9.6
RoAA	1.6	1.8	2.2	2.2
RoAE	11.9	13.6	18.8	19.8

Source: Company Data, PL Research.

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