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Reinitiating coverage

## Financials

Target price: Rs695

## Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	74.7	74.6	69.9
Institutional investors	8.4	8.4	13.9
MFs and others	0.0	0.0	1.6
FIs/Banks	0.1	0.0	0.1
FII	8.3	8.4	12.2
Others	16.9	17.0	16.2

Source: CMIE

## ESG disclosure score

Year	2020	2021	Chg
<b>ESG score</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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**ICICI Securities**

# Capri Global Capital

**REDUCE**

Foray into gold loan business in FY23; car loan distribution gaining traction

**Rs747**

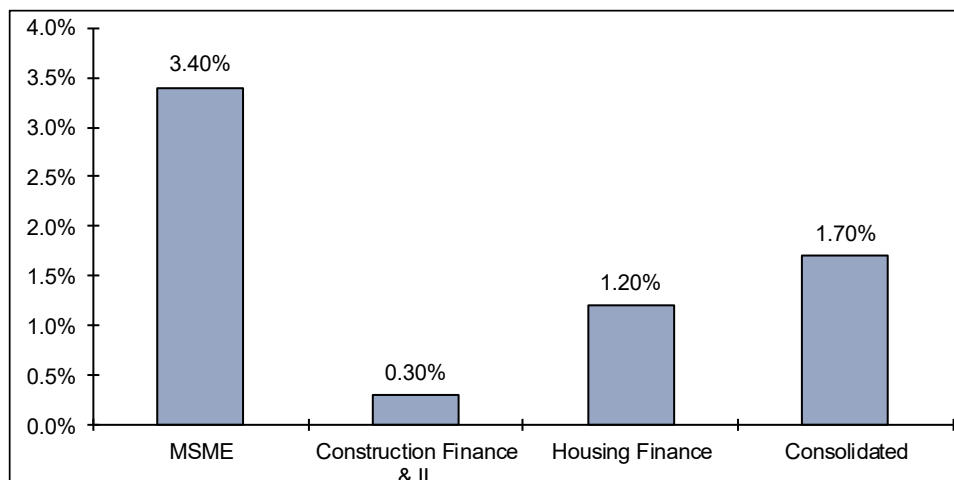
Capri Global Capital (Capri) demonstrated superior execution of its 'granularisation' strategy in FY23 with combined share of MSME, gold and affordable housing increasing to 79% (74% in FY22) and trimming construction finance (CF) share to 18% vs 19% in FY22. Notably, car loan business scaled new heights; it disbursed close to Rs60bn car loans in FY23 with branch+ fleet-on-street expanding to 450 by Mar'23 from 213 in Mar'22. During FY23, it forayed into gold financing and expects gold loan AUM to contribute ~25% of consolidated AUM over the next 4-5 years with total branch network of 1,500 in the near term. Considering high yields in gold loans (~18-21%) vs blended yield of 15.2% during Q4FY23, it expects NIM to improve or stabilise going ahead. Overall, with up-fronting gold loan related investment in FY23, likely AUM growth at 30-35% in FY24 (capital raising of Rs14.4bn via rights to support growth) and stable asset quality, it expects RoE to remain in mid-teens in FY24. The stock rerated sharply over the past six months capturing most positives, thus, leaving limited scope for rerating, in our view. We reinitiate coverage with a REDUCE rating and a TP of Rs695, assigning a multiple of 3.5x to Sep-24E BVPS, considering 2.6% RoA in FY25E.

- **FY23 AUM growth remained robust at 56% YoY; expect >30% growth in FY24.** Capri's AUM grew robust 56% YoY in FY23, driven by higher growth in focused segments (50% in HL, 21% in MSME, and scale up in gold loan, launched in Q2FY23). Construction finance portfolio, too, witnessed revival in H2FY23 – as a result, CF book grew 45% in FY23. Going ahead, company gold loan (750 branches), car loan distribution (partners with 8 banks) and housing finance to remain key growth drivers. Overall, it expects AUM growth of 35-40% in FY24. We expect Capri's comfortable liquidity and capital position (CAR at 40%) to ensure quicker return to normalcy vis-à-vis peers.
- **Focus on cost rationalisation.** To improve operational efficiency and productivity, Capri initiated a series of measures such as implementation of hub and spoke model, realigned its branch network, identified discretionary expenses and focused on curtailing them. It also rationalised the headcount, especially in branches where productivity was lower. Further, it upfronted set-up cost for gold loan business in FY23 and is now focusing on improving profitability at current GL branch network.
- **Focus on cross-sell.** Currently, Capri runs three key lending products – gold loans, home loans and MSME with separate branch network. However, currently, it is developing a technology to cross-sell products and make these branches composite (all branches capable of selling all products). The technology is likely to take 6-9 months to stabilise.
- **Stress in MSME segment is subsiding; asset quality in housing finance and construction finance remains robust.** Headline asset quality improved as reflected in GNPL in MSME segment moderating to 3.4% by Mar'23 from the peak of 4.6% in Jun'22. Similarly, total restructured book in MSME segment fell to Rs0.9bn by Mar'23 from Rs2bn in Mar'21. Housing and construction finance portfolios showed resiliency with GNPL settling lower at 1.2% and 0.3%, respectively. Total NNPL stands at 1.2% and ECL provision coverage on stage-3 assets stands at 31%. **Key risks:** a) AUM growth exceeding our expectation, and b) higher fee income from car loan distribution and co-lending.

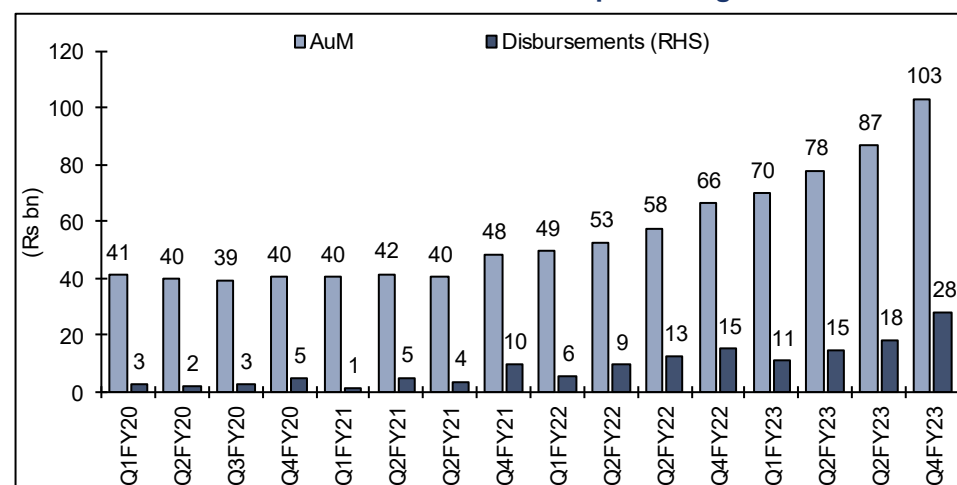
Market Cap	Rs154bn/US\$1.9bn
Reuters/Bloomberg	CAPG.BO/CGCL IN
Shares Outstanding (mn)	206.2
52-week Range (Rs)	817/571
Free Float (%)	30.1
FII (%)	12.2
Daily Volume (US\$'000)	1,978
Absolute Return 3m (%)	20.2
Absolute Return 12m (%)	13.0
Sensex Return 3m (%)	10.5
Sensex Return 12m (%)	24.3

Year to Mar	FY22	FY23	FY24E	FY25E
NII (Rs mn)	5,087	6,362	8,347	10,492
PAT (Rs mn)	2,050	2,047	3,487	4,570
EPS (Rs)	11.6	9.8	16.8	22.0
% Chg YoY	15.6%	-14.8%	70.4%	31.1%
P/E (x)	65.1	76.5	44.9	34.3
P/BV (x)	6.9	4.4	4.0	3.6
Net NPA (%)	1.7%	1.2%	1.1%	1.1%
BVPS (Rs)	108.4	171.5	187.8	209.4
RoA (%)	3.2%	2.2%	2.9%	2.9%
RoE (%)	11.3%	7.5%	9.3%	11.1%

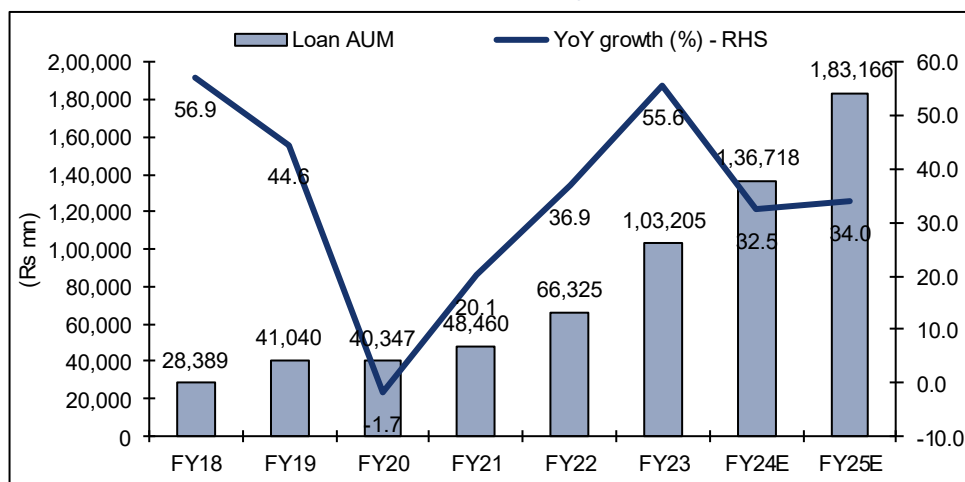
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**Chart 1: Segment-wise asset quality – MSME appears most vulnerable**

Source: Company data, I-Sec research

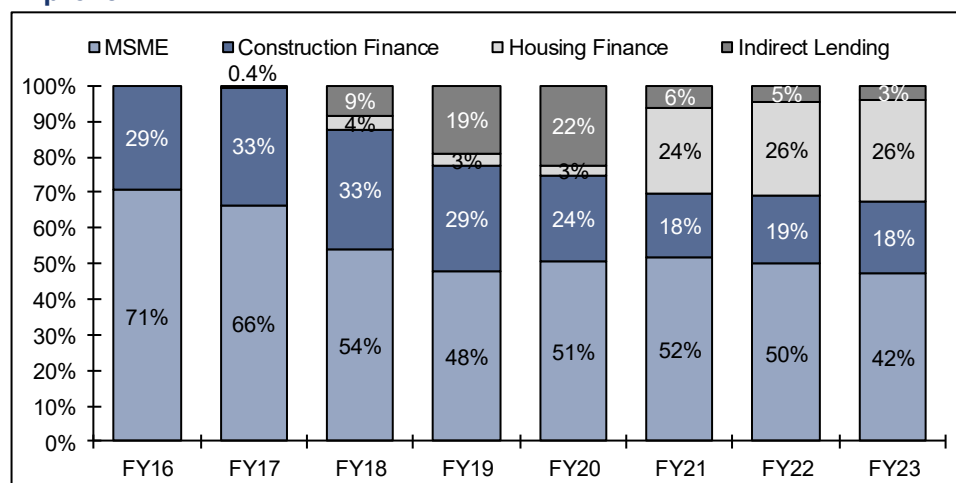
**Chart 2: Disbursements in Q4FY23 at multi-quarter high**

Source: Company data, I-Sec research

**Chart 3: Expect loan AUM to remain healthy over FY23-FY25E**

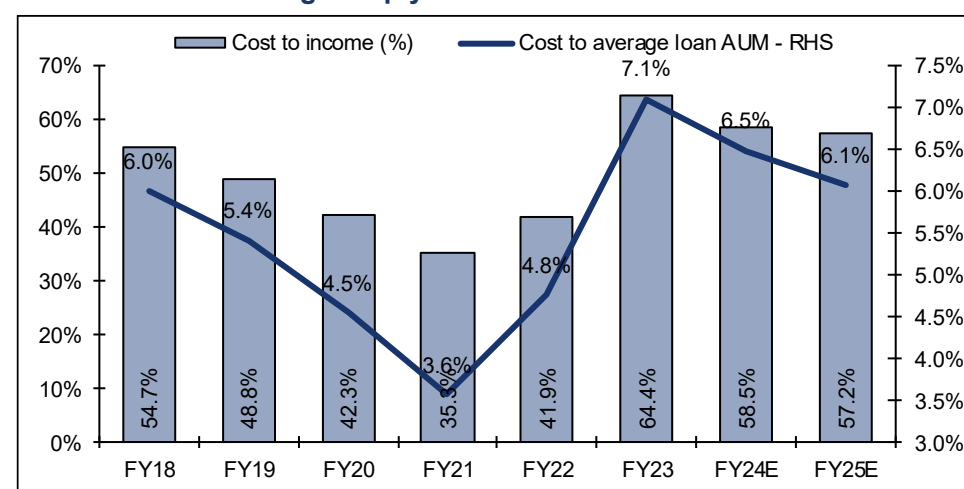
Source: Company data, I-Sec research

**Chart 4: Expect the proportion of home loan, gold loan in overall portfolio to improve**



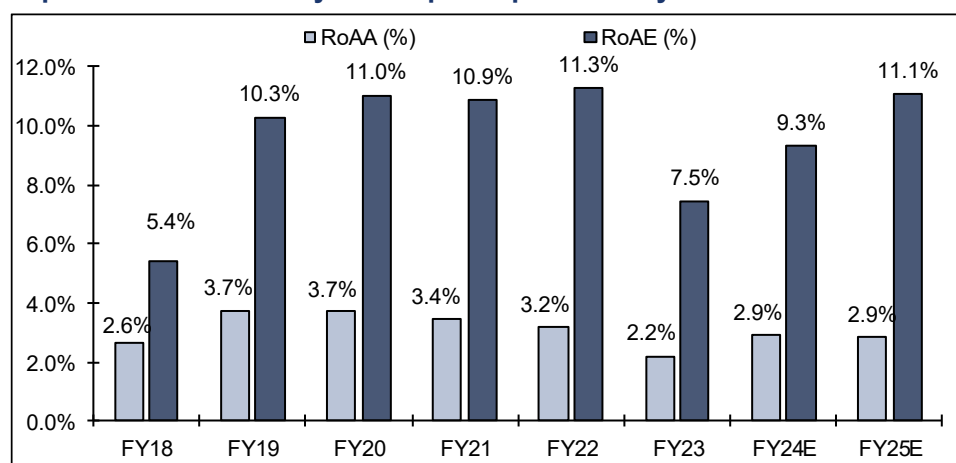
Source: Company data, I-Sec research

**Chart 5: Up-front investment towards setting up of gold loan business resulted in cost ratio increasing sharply in FY23**

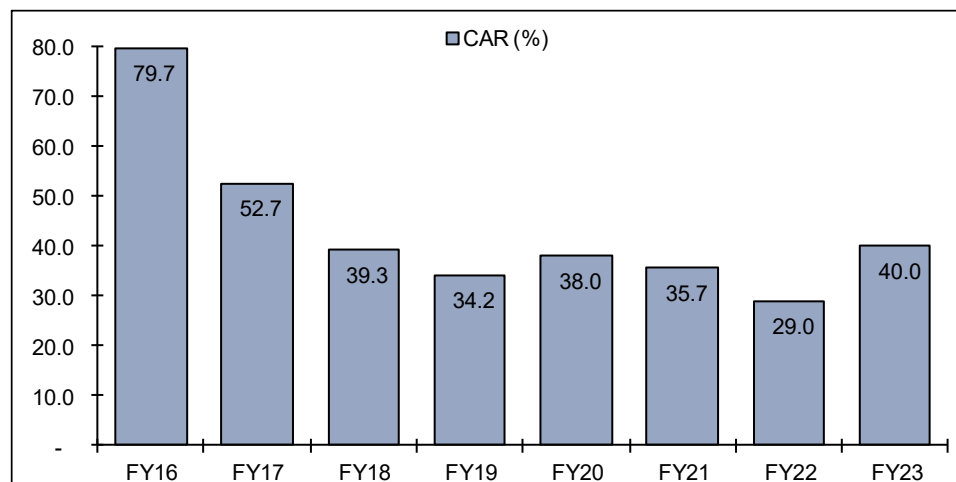


Source: Company data, I-Sec research

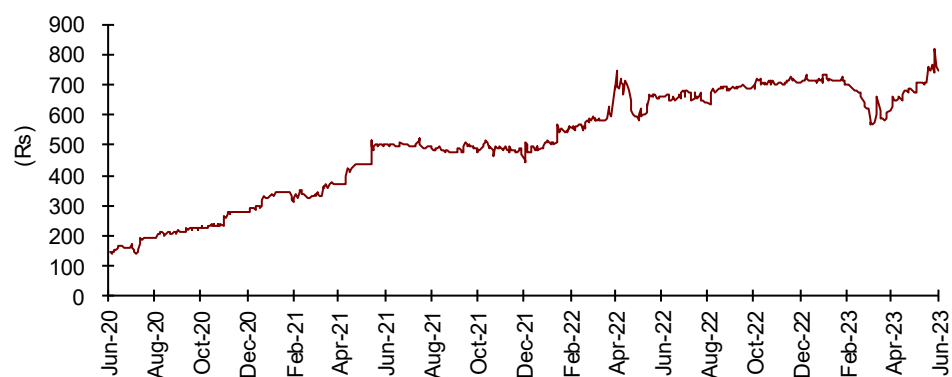
**Chart 6: Return ratios to remain healthy even as the company may look to expand AUM selectively and improve productivity**



Source: Company data, I-Sec research

**Chart 7: Strong capital position to help Capri in sustaining current high growth**

Source: Company data, I-Sec research

**Price chart**

Source: Bloomberg

## Financial summary

**Table 1: Profit and loss statement**

(Rs mn, year ending Mar 31)

	FY21	FY22	FY23	FY24E	FY25E
Interest earned	6,735	8,396	11,673	16,361	21,724
Interest expended	2,887	3,308	5,311	8,014	11,232
<b>Net interest income</b>	<b>3,848</b>	<b>5,087</b>	<b>6,362</b>	<b>8,347</b>	<b>10,492</b>
<b>Non-interest income</b>	636	1,422	2,977	4,943	6,456
Employee costs	994	1,746	4,061	5,279	6,599
Depreciation	105	99	439	527	632
Other operating expenses	484	882	1,514	1,968	2,461
<b>Total Operating expenses</b>	<b>1,583</b>	<b>2,726</b>	<b>6,014</b>	<b>7,774</b>	<b>9,692</b>
<b>Pre-provisioning op profit</b>	<b>2,902</b>	<b>3,783</b>	<b>3,325</b>	<b>5,515</b>	<b>7,256</b>
Provisions & contingencies	545	1,057	642	957	1,282
<b>Profit before tax and exceptional items</b>	<b>2,357</b>	<b>2,726</b>	<b>2,683</b>	<b>4,558</b>	<b>5,974</b>
Exceptional items	0	0	0	0	0
<b>Profit before tax (PBT)</b>	<b>2,357</b>	<b>2,726</b>	<b>2,683</b>	<b>4,558</b>	<b>5,974</b>
Income taxes	588	676	636	1,071	1,404
<b>Net profit (PAT)</b>	<b>1,770</b>	<b>2,050</b>	<b>2,047</b>	<b>3,487</b>	<b>4,570</b>

Source: Company data, I-Sec research

**Table 2: Balance sheet**

(Rs mn, year ending Mar 31)

	FY21	FY22	FY23	FY24E	FY25E
Share Capital	351	351	412	412	412
Reserves and surplus	16,822	18,873	35,242	38,640	43,121
<b>Shareholder's equity</b>	<b>17,173</b>	<b>19,225</b>	<b>35,655</b>	<b>39,053</b>	<b>43,533</b>
Borrowings	37,689	48,084	75,113	1,02,539	1,41,038
Current liabilities and provisions	3,246	4,128	7,046	8,455	10,146
Other Non-current Liabilities and provisions	24	91	133	159	191
<b>Total liabilities &amp; stockholders' equity</b>	<b>58,131</b>	<b>71,528</b>	<b>1,17,946</b>	<b>1,50,206</b>	<b>1,94,909</b>
Fixed Assets (net)	76	318	2,840	3,266	3,756
Investments	8,075	3,775	2,150	3,441	5,505
Loans & advances	46,863	62,708	94,754	1,23,046	1,64,850
Deferred tax assets	257	367	476	0	0
Cash and bank balances	2,243	3,531	15,103	17,046	16,234
Other current and non-current assets	618	829	2,623	3,407	4,564
<b>Total assets</b>	<b>58,131</b>	<b>71,528</b>	<b>1,17,946</b>	<b>1,50,206</b>	<b>1,94,909</b>

Source: Company data, I-Sec research

**Table 3: Key ratios***(Year ending Mar 31)*

	FY21	FY22	FY23	FY24E	FY25E
<b>AUM and Disbursements (Rs mn)</b>					
AUM	48,460	66,325	1,03,205	1,36,718	1,83,166
Disbursements	19,993	42,839	72,009	65,097	78,093
<b>Growth (%):</b>					
AUM	20%	37%	56%	32%	34%
Disbursements	57%	114%	68%	40%	30%
Total Assets	31%	23%	65%	27%	30%
Net Interest Income	-1%	32%	25%	31%	26%
Operating expenses	-14%	72%	121%	29%	25%
Pre provisioning operating profits	15%	30%	-12%	66%	32%
PAT	10%	16%	0%	70%	31%
EPS	10%	16%	-8%	58%	31%
<b>Yields, interest costs and spreads (%)</b>					
NIM on Loan AUM	8.7%	8.9%	7.5%	7.0%	6.6%
Yield on Loan AUM	15.0%	14.1%	13.8%	13.6%	13.6%
Average cost of funds	8.7%	7.7%	8.6%	9.0%	9.2%
Interest Spread on Loan AUM	6.3%	6.4%	5.1%	4.6%	4.4%
<b>Capital Structure</b>					
Debt-Equity ratio	2.2	2.5	2.1	2.6	3.2
Leverage [Assets/Net-worth] (x)	3.4	3.7	3.3	3.8	4.5
CAR (%)	35.7%	29.0%	40.0%	30.8%	26.5%
Tier 1 CAR (%)	34.6%	28.1%	33.5%	30.1%	25.9%
Tier 2 CAR (%)	1.0%	0.9%	0.7%	0.7%	0.6%
<b>Asset quality and provisioning</b>					
GNPA (Rs mn)	1,454	1,392	1,578	2,099	3,199
NNPA (Rs mn)	951	776	805	1,320	1,759
GNPA (% of AUM)	3.3%	2.4%	1.7%	1.8%	2.0%
NNPA (% of AUM)	0.9%	1.7%	1.2%	1.1%	1.1%
Coverage ratio (%)	72.6%	29.2%	29.4%	37.1%	45.0%
Credit costs as % of average AUM	1.2%	1.8%	0.8%	0.8%	0.8%
<b>Return ratios &amp; capital management</b>					
RoAA (%)	3.4%	3.2%	2.2%	2.9%	2.9%
RoAE (%)	10.9%	11.3%	7.5%	9.3%	11.1%
Payout ratio (%)	4.0%	4.3%	5.0%	2.1%	1.6%
<b>Valuation Ratios</b>					
EPS (Rs)	10.0	11.6	9.8	16.8	22.0
Price to Earnings (x)	75.3	65.1	76.5	44.9	34.3
BVPS (fully diluted) (Rs)	97.0	108.4	171.5	187.8	209.4
Price to book (x)	7.8	6.9	4.4	4.0	3.6
Adjusted book value (fully diluted)	93.2	105.3	168.8	183.4	203.5
Price to adjusted book (x)	8.1	7.2	4.5	4.1	3.7

Source: Company data, I-Sec research

**Table 4: DuPont analysis (on average assets)***(%, year ending Mar 31)*

	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
Interest earned	13.1%	13.0%	12.3%	12.2%	12.6%
Interest expended	5.6%	5.1%	5.6%	6.0%	6.5%
<b>Gross Interest Spread</b>	<b>7.5%</b>	<b>7.8%</b>	<b>6.7%</b>	<b>6.2%</b>	<b>6.1%</b>
Provisioning for NPAs	1.1%	1.6%	0.7%	0.7%	0.7%
<b>Net Interest Spread</b>	<b>6.4%</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.5%</b>	<b>5.3%</b>
Operating cost	3.1%	4.2%	6.3%	5.8%	5.6%
<b>Lending spread</b>	<b>3.4%</b>	<b>2.0%</b>	<b>-0.3%</b>	<b>-0.3%</b>	<b>-0.3%</b>
Non interest income	1.2%	2.2%	3.1%	3.7%	3.7%
<b>Operating spread</b>	<b>4.6%</b>	<b>4.2%</b>	<b>2.8%</b>	<b>3.4%</b>	<b>3.5%</b>
Tax	1.1%	1.0%	0.7%	0.8%	0.8%
<b>ROA</b>	<b>3.4%</b>	<b>3.2%</b>	<b>2.2%</b>	<b>2.6%</b>	<b>2.6%</b>
Effective leverage (AA/ AE)	3.2	3.6	3.5	3.6	4.2
<b>RoAE</b>	<b>10.9%</b>	<b>11.3%</b>	<b>7.5%</b>	<b>9.3%</b>	<b>11.1%</b>

Source: Company data, I-Sec research

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