Prabhudas Lilladher

Capital First

Strong performance; return ratios to improve over FY16-FY18E

Q4FY16 Result Update

May 15, 2016

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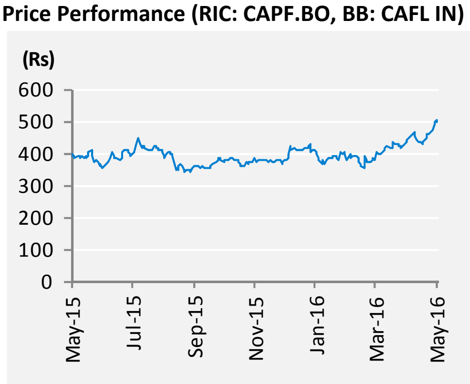
Rating	BUY
Price	Rs497
Target Price	Rs530
Implied Upside	6.6%
Sensex	25,490
Nifty	7,815

(Prices as on May 13, 2016)

Trading data			
Market Cap. (Rs bn)			45.3
Shares o/s (m)			91.2
3M Avg. Daily value (Rs m)			67.5
Major shareholders			
Promoters			65.20%
Foreign			7.28%
Domestic Inst.			9.91%
Public & Other			17.61%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	11.5	32.6	24.2
Relative	12.0	33.1	30.6
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2017	27.9	25.6	*9.0*
2018	39.6	34.8	*13.9*

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



Source: Bloomberg

Capital First (CAFL) reported steady earnings with total revenues of Rs3.06bn (5% ahead of PLe) representing 66% YoY growth. This was driven by 34% YoY / 7% QoQ growth in AUMs along with sharp margin expansion. Loan growth stood at strong 43% YoY led by strong growth in retail portfolio and declining share of off-balance sheet mix (21.8% currently). CAFL realigned its borrowing mix in favour of NCDs while on lending side share of high yielding two-wheeler and consumer durable business increased further. However operating expenses also increased sharply which coupled with higher credit cost resulted in 51% YoY growth in net profits. We revise our estimates and increase our PT to Rs530 from Rs450 (2.4x Sep-17E ABV) as we estimate CAFL to deliver 17% RoE by FY18E. Maintain BUY.

- **Revenue growth momentum remains strong; margins expand further:** CAFL reported 66% YoY growth in total revenues led by 43% YoY/34% YoY growth in loans/AUMs and ~58bps QoQ expansion in calc. margins. Margin expansion was aided by improvement in product mix in favour of high-yielding 2Ws and consumer durable loans. Recently launched new products viz. used car financing and low-ticket LAP has further aided interest income while shift towards NCDs in borrowing mix helped ease funding cost by 15bp QoQ (calc.). CAFL borrowing mix is still dominated by bank loans and hence offers an attractive opportunity to lower funding cost as it realigns its borrowing mix in favour of NCDs/CPs.
- **AUM grows 34% YoY; off-balance sheet mix declines further:** CAFL reported 34% YoY growth in total AUMs, led by continued traction in consumer durable and two-wheeler business while the growth in core MSME business remains steady. Wholesale portfolio reported modest 3% QoQ growth and its share in total AUMs declined to 14.3% (16% at FY15 end). We expect AUMs to grow at ~27% CAGR over FY16-18E led by continued traction in retail business.
- **Asset quality remains stable; CAFL remains well capitalized for growth:** GNPL and NNPL ratio increased by 18bp / 9bp QoQ on a low base to 1.07% and 0.55% respectively. This is as CAFL has been increasing the proportion of high-yielding retail products in its loan mix and hence also resulted in an increase in credit cost. CAFL remains well capitalized for growth with CAR of ~19.8% (14.5% Tier-I).

Key Financials (Y/e March)	**2015**	**2016E**	**2017E**	**2018E**
Net interest income (Rs m)	5,363	8,336	12,330	16,214
Growth (%)	*61.8*	*55.4*	*47.9*	*31.5*
Non-interest income (Rs m)	1,225	1,556	1,898	2,316
Operating Profit (Rs m)	2,718	4,877	7,358	9,736
PAT (Rs m)	1,143	1,672	2,545	3,612
EPS (Rs)	13.2	18.4	27.9	39.6
Growth (%)	*70.9*	*38.9*	*52.1*	*41.9*
Net DPS (Rs)	2.5	2.8	3.5	4.1

Profitability & valuation	**2015**	**2016E**	**2017E**	**2018E**
Spreads / Margins (%)	*5.0*	*6.0*	*6.8*	*7.2*
RoAE (%)	*8.3*	*10.2*	*14.0*	*17.2*
RoAA (%)	*1.1*	*1.3*	*1.5*	*1.7*
P/E (x)	37.6	27.1	17.8	12.5
P/BV (x)	2.9	2.7	2.3	2.0
P/ABV (x)	2.9	2.8	2.5	2.1
Net dividend yield (%)	*0.5*	*0.6*	*0.7*	*0.8*

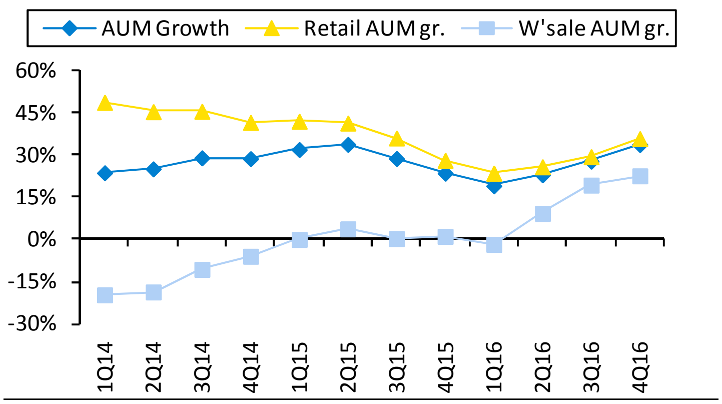
Source: Company Data; PL Research

Exhibit 1: Q4FY16 Financials – Operating performance continues to remain robust

Consolidated P&L (Rs m)	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY16	QoQ gr. (%)
Interest Income	5,582	3,841	*45.3*	4,956	*12.6*
Interest Expense	2,524	2,008	*25.7*	2,346	*7.6*
Net Interest Income	**3,058**	**1,833**	*66.9*	**2,609**	*17.2*
Other income	0	1		6	*(99.7)*
Total income	**3,060**	**1,843**	*66.0*	**2,623**	*16.6*
Employee Expense	483	336	*43.5*	470	*2.8*
Other Expenses	1,095	720	*52.1*	857	*27.8*
Operating Profit	**1,482**	**786**	***88.5***	**1,297**	***14.3***
Provisions	766	318	*140.8*	619	*23.7*
Tax	239	103	*131.7*	232	*3.1*
Net Profit	**476**	**365**	***30.5***	**445**	***6.9***
Balance Sheet (Rs m)					
AUM	**136,042**	**110,450**	***23.2***	**126,430**	***7.6***
-Retail loans (%)	85.8	84.0		85.2	
-Wholesale loans (%)	14.2	16.0		14.9	
Asset quality					
Gross NPL	1,342	606	*121.4*	1,049	*27.9*
Gross NPL (%)	*1.1*	*0.7*		*0.9*	
Net NPL	690	149	*361.9*	542	*27.2*
Net NPL (%)	*0.6*	*0.2*		*0.5*	
Coverage ratio (%)	48.6	75.4		48.3	
Others / Ratios (%)					
Yield on Loans	14.4	13.0		13.9	
Cost of Borrowings	8.8	9.3		9.0	
Spread	**5.6**	**3.7**		**4.9**	
NIMs	**7.9**	**6.2**		**7.3**	
Cost/ Income Ratio	51.58	57.34		50.57	

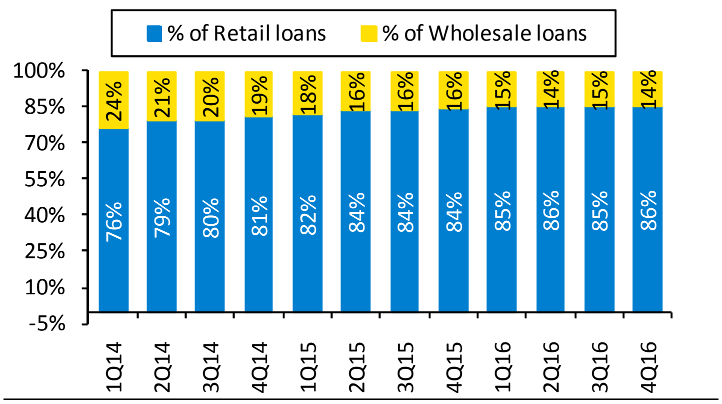
Source: Company Data, PL Research
**Asset quality for Q4FY15 is based on 180dpd, while Q4FY16 & Q3FY16 as based on 150dpd*

Exhibit 2: AUM growth contribution from both Wholesale & Retail



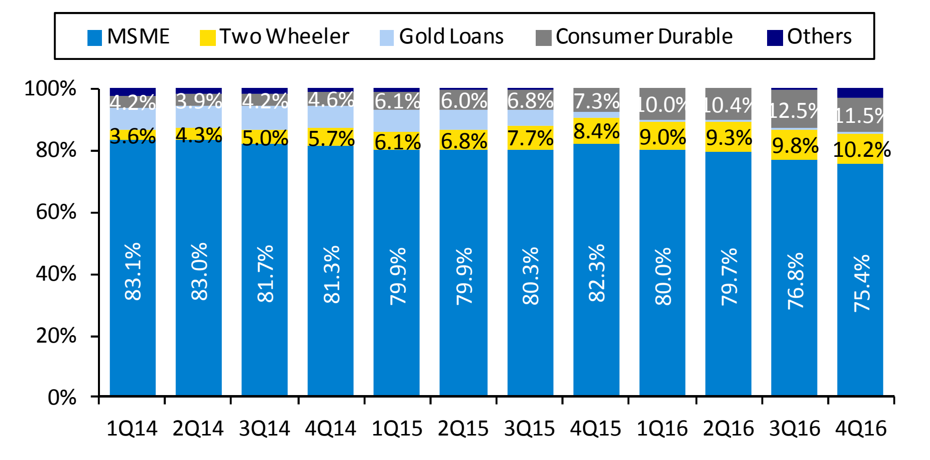
Source: Company Data, PL Research

Exhibit 3: AUM mix remains highly skewed towards Retail



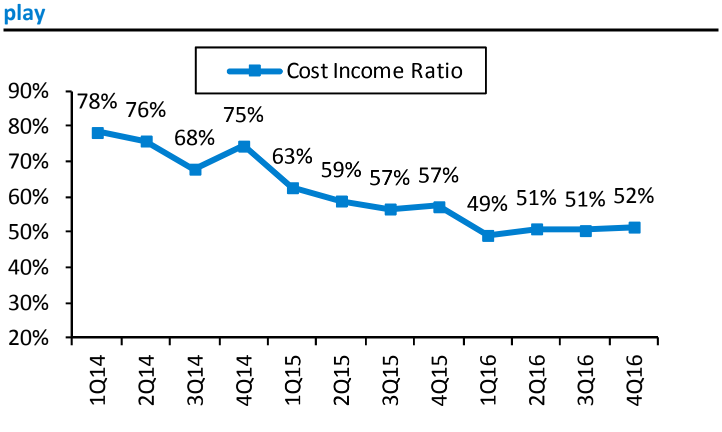
Source: Company Data, PL Research

Exhibit 4: MSME share continues to move down on back of improving share in retail



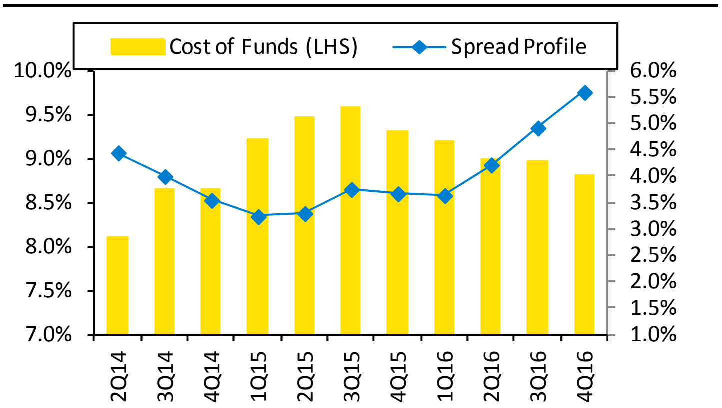
Source: Company Data, PL Research

Exhibit 5: Cost-income remains steady as operating levers come into play



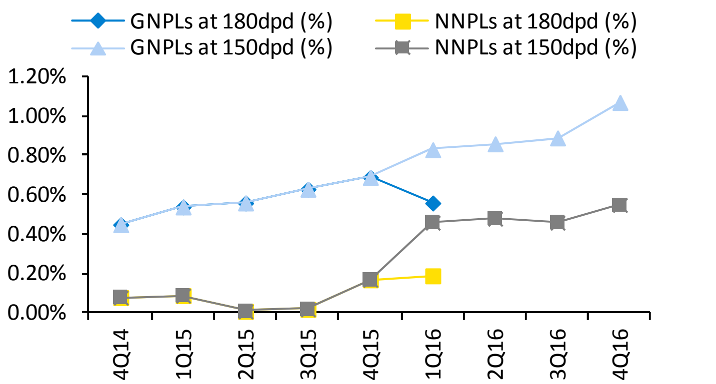
Source: Company Data, PL Research

Exhibit 6: Spreads remain on upward trajectory on improving asset mix



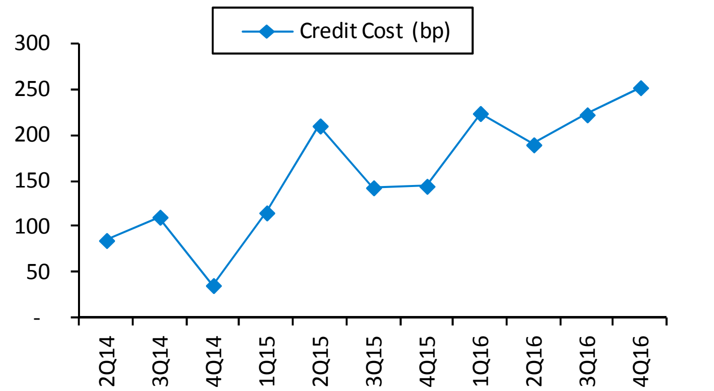
Source: Company Data, PL Research

Exhibit 7: Asset quality witness slight deterioration mainly on some slippages from LAP & as mix moves towards risky segments...



Source: Company Data, PL Research

Exhibit 8: ..as a result credit cost increased to 252bps of loans up 30bps QoQ



Source: Company Data, PL Research

Exhibit 9: Earnings estimate change table – We have tweaked our earnings slightly to factor in better core performance and higher credit cost (mainly on standard assets)

(Rs mn)	Old		New		*% change*	
	FY17E	FY18E	FY17E	FY18E	*FY17E*	*FY18E*
Net interest income	10,359	13,081	12,330	16,214	*19.0*	*24.0*
Operating profit	6,355	8,332	7,358	9,736	*15.8*	*16.9*
Net profit	2,435	3,488	2,545	3,612	*4.5*	*3.5*
EPS, Rs.	26.8	38.3	27.9	39.6	*4.1*	*3.4*
BVPS, Rs.	209.6	242.1	200.9	231.7	*(4.2)*	*(4.3)*
Price target, Rs.	**450**		**530**		***17.8***	
Recommendation	**BUY**		**BUY**			

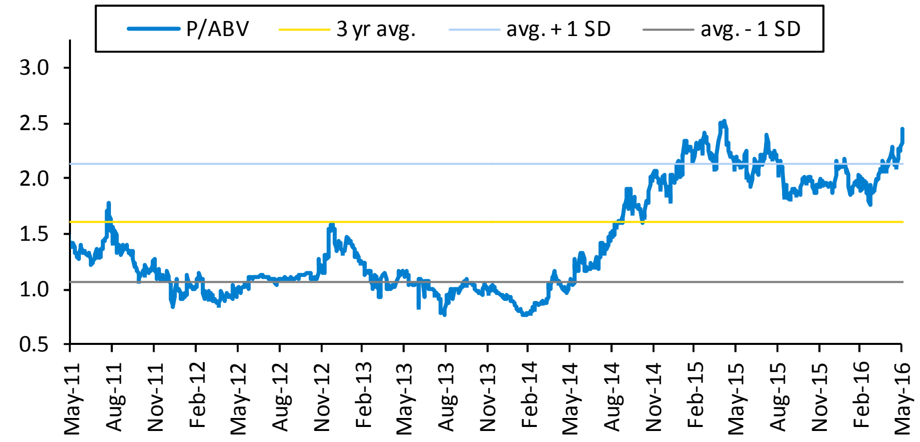
Source: Company Data, PL Research

Exhibit 10: We increase our TP to Rs530 (from Rs450) as we assign higher multiple of 2.4x Sep-17 ABV on robust performance and higher growth

PT calculation and upside	
Fair price - EVA	538
Fair price - P/ABV	520
Average of the two	**530**
Target P/ABV	**2.4**
Target P/E	**15.7**
Current price, Rs	496
Upside (%)	**7%**
Dividend yield (%)	1%
Total return (%)	**7%**

Source: Company Data, PL Research

Exhibit 11: Capital First historical P/ABV trends



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Int. Inc. / Opt. Inc.	13,241	18,113	25,437	32,659
Interest Expenses	7,878	9,777	13,107	16,445
Net interest income	**5,363**	**8,336**	**12,330**	**16,214**
Growth (%)	*61.8*	*55.4*	*47.9*	*31.5*
Non interest income	1,225	1,556	1,898	2,316
Growth (%)	*45.1*	*27.0*	*22.0*	*22.0*
Net operating income	6,588	9,892	14,228	18,530
Expenditure				
Employees	1,358	1,807	2,475	3,168
Other expenses	2,412	3,208	4,395	5,626
Depreciation	100	—	—	—
Total expenditure	3,870	5,015	6,870	8,794
PPP	**2,718**	**4,877**	**7,358**	**9,736**
Growth (%)	*139.2*	*79.4*	*50.9*	*32.3*
Provision	1,055	2,344	3,501	4,264
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	**1,664**	**2,533**	**3,857**	**5,472**
Tax	520	861	1,311	1,861
Effective tax rate (%)	*31.3*	*34.0*	*34.0*	*34.0*
PAT	**1,143**	**1,672**	**2,545**	**3,612**
Growth (%)	*93.9*	*46.2*	*52.3*	*41.9*

Quarterly Financials (Rs m)

Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Int. Inc. / Operating Inc.	3,950	4,335	4,956	5,582
Income from securitization	—	—	—	—
Interest Expenses	1,986	2,116	2,346	2,524
Net Interest Income	**1,964**	**2,218**	**2,609**	**3,058**
Growth	*55.3*	*45.4*	*49.7*	*66.9*
Non interest income	33	20	14	1
Net operating income	**1,997**	**2,238**	**2,623**	**3,060**
Growth	*38.6*	*44.5*	*49.5*	*66.0*
Operating expenditure	983	1,143	1,327	1,578
PPP	**1,014**	**1,095**	**1,297**	**1,482**
Growth	*88.9*	*72.4*	*70.7*	*88.5*
Provision	508	471	619	766
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	506	624	678	716
Tax	175	213	232	239
Prov. for deferred tax liability	—	—	—	—
Effective tax rate (%)	*34.5*	*34.2*	*34.3*	*33.5*
PAT	**331**	**410**	**445**	**476**
Growth	*58.8*	*51.7*	*48.9*	*30.5*

Balance Sheet (Rs m)

Y/e March	2015	2016E	2017E	2018E
Sources of funds				
Equity	910	912	912	912
Reserves & Surplus	14,828	16,123	18,433	21,670
Networth	15,738	17,035	19,345	22,582
Growth (%)	*34.4*	*8.2*	*13.6*	*16.7*
Loan funds	84,138	119,549	156,396	197,253
Growth (%)	*(0.1)*	*42.1*	*30.8*	*26.1*
Others	—	—	—	—
Minority Interest	6,945	8,666	10,162	11,788
Deferred Tax Liability	(421)	(546)	(633)	(735)
Total	**106,399**	**144,704**	**185,270**	**230,888**
Application of funds				
Net fixed assets	191	292	222	256
Advances	87,845	125,246	160,565	202,312
Growth (%)	*26.1*	*42.6*	*28.2*	*26.0*
Net current assets	2,917	3,588	4,485	5,561
Investments	11,519	11,259	15,245	17,532
Growth (%)	*(51.2)*	*(2.3)*	*35.4*	*15.0*
Other Assets	3,927	4,320	4,752	5,227
Total	**106,399**	**144,704**	**185,270**	**230,888**

Source: Company Data, PL Research.

Key Ratios

Y/e March	2015	2016E	2017E	2018E
CMP (Rs)	497	497	497	497
Eq. Shrs. O/s. (m)	91	91	91	91
Market Cap (Rs m)	45,209	45,327	45,327	45,327
Market Cap to AUM (%)	42.5	31.3	24.5	19.6
EPS (Rs)	13.2	18.4	27.9	39.6
Book Value (Rs)	173.0	186.7	212.1	247.6
Adjusted Book Value (Rs)	171.3	179.2	200.9	231.7
P/E (x)	37.6	27.1	17.8	12.5
P/BV (x)	2.9	2.7	2.3	2.0
P/ABV (x)	2.9	2.8	2.5	2.1
DPS (Rs)	2.5	2.8	3.5	4.1
Dividend Yield (%)	0.5	0.6	0.7	0.8

Asset Quality

Y/e March	2015	2016E	2017E	2018E
Gross NPAs (Rs m)	606	1,342	2,099	3,181
Net NPAs (Rs m)	149	690	1,022	1,447
Gross NPAs to Gross Adv. (%)	0.7	1.1	1.3	1.6
Net NPAs to Net Adv. (%)	0.2	0.6	0.6	0.7
NPA Coverage (%)	75.4	48.6	51.3	54.5

Profitability (%)

Y/e March	2015	2016E	2017E	2018E
NIM	5.0	6.0	6.8	7.2
RoAA	1.1	1.3	1.5	1.7
RoAE	8.3	10.2	14.0	17.2

Source: Company Data, PL Research.

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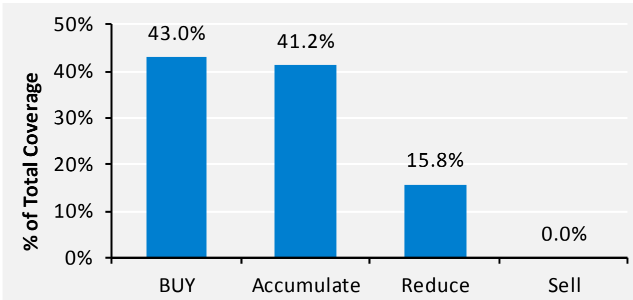

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
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