

## Background & Business

CAPF was set up in 2012, when Mr. V Vaidyanathan took management control of Future Capital Holdings. The Rs. 8.1bn buyout was backed by private equity firm, Warburg Pincus (WB) that currently holds 34.73% stake in the Company (through Cloverdell Investment Ltd., an affiliate of WB). With a career spanning over 26 years, Mr. Vaidyanathan has previously served at various senior management roles in premier financial institutions like ICICI Bank and Citi Bank. Post management restructuring, CAPF has strategically moved away from wholesale lending to retail financing. AUM (as on 30th Sep 2017) stands at Rs. 229bn, which has grown at a CAGR of nearly 30% over past three and five years. This growth in AUM has largely been fueled by a marked shift towards retail portfolio, which now contributes 93% to the total AUM as compared to 10% seen in FY10. The company has over 5,000 customer touch points (through presence in Consumer Durable showrooms and Two-Wheeler dealerships) in addition to its own full-service branch network at 228 locations.

From : 22-01-2016  
To : 30-11-2017  
Performance : 85%  
Recommendation : OPEN

## Investment Thesis

Some factors which are expected to lead the growth story for CAPF over the next 3 – 5 years are:

- Strong loan book growth led by presence in niche segments** (CAPF's loan book has grown at nearly 30% CaGR over past five years led by a gradual shift towards high-margin retail segments such as consumer durables, 2Ws and unsecured business loans. Going ahead, growth would be triggered further by cross-selling opportunities and expansion of product offerings).
- Adequately funded to support growth** (CAPF has maintained a healthy 20% CAR on an average over past five years. In FY17, it raised Rs. 3.4bn by allotting preference shares to Singapore Sovereign Fund GIC and also has approval in place for raising another Rs. 5bn through FCCBs, rupee denominated bonds and QIP. Hence, no further equity dilution is necessary).
- Stable asset quality** (Notwithstanding challenges (GST implementation), asset quality remained strong with GNPLs at 1.63% (on 90dpd). This is indicative of CAPF's sound underwriting skills and better collection efficiency supported by strong analytics, cutting edge technology, and competent score cards).
- NIM expansion due to shift towards high-yielding retail segments and reduction in cost of funds** (CAPF has consistently improved its NIM from 4.4% in FY12 to 10.0% in FY17 as the company shifted its focus towards high yielding retail loans. Going forward, we expect NIMs to sustain ~10-9.5% by FY22).

## Outlook

At the CMP of Rs.736, CAPF is trading at 3.0-x on Q2FY18 BV of Rs.247 (TTM PE of 26xs). Basis strong growth in book value going forward and stable outlook on asset quality, we expect valuation for CAPF to expand. Overall, we expect an upside 45-70% from current levels over the next 15 to 18-month period by valuing at Avg.FY19 & FY19-FY20 BV of Rs.307/- at a multiple of 3.5 4xs.

