CAPITAL FIRST

From	:	22-01-2016
To	:	31-05-2017
Performance	:	85%
Recommendation	:	OPEN

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 that currently holds 61.2% stake in the Company. 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. Current (FY17) AUM stands at Rs. 200bn, which has grown at a CAGR of 27% and 26% over the past three and five years respectively. 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 42% seen in FY12.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 222 locations.

Investment Thesis

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

a) **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).

b) **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).

c) **Stable asset quality** (CAPF's gross NPLs at 0.95% are better than industry average of 5.18% and NNPLs at 0.30% is also best in class. The company is already providing for NPAs at 90dpd but it recognizes NPAs on books at 120 dpd. Thus, the shift to 90dpd over the next two years will optically elevate reported GNPAs; however, given conservative provisioning policy already followed by CAPF, NPAs may remain contained below 1% level).

d) **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

Book value is projected to increase from Rs.230 in FY17 to Rs.285 in FY19. RoE and RoA in this period is likely to touch 16% and 1.9% mark, compared to 11.1% RoE and 1.4% RoA reported in FY17. "Hence, we recommend a "BUY" on CAPF".

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