



COMPANY NAME : **Capital First**

BSE Code : **532938**

Time Duration : **1 year**

CMP : **₹535 (as on 17 Nov., 2016)**

Target Price : **₹650**

Our Mid Bridge for the month of Nov,16 is Capital First. Capital First is a leading financial service provider to retail, real estate and corporates. After taking over by Mr. V. Vaidyanathan, Capital First transformed itself from wholesale lending NBFC to a strong retail lending NBFC post 2011. Under his leadership the real estate to retail lending mix has changed to 90% retail lending vs 10% earlier. The real estate has been reduced to minuscule 10% of the AUM vs 90% earlier. The company has achieved growth at 48% CAGR over FY10-H1FY17 to achieve AUM of Rs.17,937cr from Rs.935cr on account of metamorphosed loan mix. CFL emerged as significant player in retail lending segment with rise in total loan book by cent percent CAGR to Rs.16163.4cr from Rs.94.4cr in last six years. We expect upside of ~38% in topline and ~28% in bottom-line in FY17E due to growing demand for white goods, MSME and two-wheelers. We see 30% upside in scrip from current level. However, due to demonetization the AUM growth might be slower over the next two quarters.

#### **Differentiated loan mix translating to strong AUM growth**

CFL's portfolio tilt towards retail loan mix with 90% of the overall loan pie will benefit the company over long term. Also the rest 10% is from wholesale loans. In retail segment CFL offers MSME loan, two wheelers and consumer durables loan while wholesale loans are principally collateralized. CFL caters majorly to underserved markets with more thrust for retail, smaller ticket size loans and strict credit evaluation (with 37% rejection ratio). Also leveraging the technology, it reduced loan turnaround time.

With presence over 222 locations with 1400+ employee base, the company recorded growth in AUM by 11.81% yoy to Rs 17937 cr in H1FY17 vs rise of 33.33% over FY15-16. The AUM growth in second quarter was aided by 15% growth in SME business and 40% growth in consumer and two-wheeler financing businesses. Going forward we see 20%+ CAGR growth in AUM segment over FY16-18E due to expanding white goods market, major retail mix, effective risk management and demand for capital at regular intervals.

#### **Capital raised to boost book value**

Recently CFL raised Rs.340 cr by selling 47.8 lakh preferential

share at Rs.712.7 per share to Caladium investment. We expect capital adequacy ratio of company to increase to 21.2% from 19.14%. We also see rise in book value of company to Rs.223 from Rs.194 per share.

#### **Improved NPA, return ratios and healthy margins poised for growth**

The company successfully improved GNPA and NNPA from 5.28 /3.78% to 0.98 /0.45% with effective risk management, rigorous credit underwriting process coupling innovative technology to reduce loan turnaround time. CFL improved ROE and ROCE from 2.31/ 2.45% to 10.42/10.36% respectively due to long way transition from wholesale to retail lending. CFL also maintains EBITDA and PAT margin above 60% over FY12-16 due to effective cost management and asset-liability mix which helps to maintain strong liquidity position and sustain margins.

#### **Demonetization Impact**

Its 95% of collection is in the form of non-cash either in electronic form or post-dated cheques. Only 5% cash collection are exposed to demonetization impact in short term. We believe non-cash transactions are going to increase after this move and economy is going to welcome new currency. So we expect normalised condition after two quarters in economy. As far as loan against property are concerned, about 42% is the loan to value against collateral, so we expect major defaults to occur. The real estate prices though might lead to correction in the collateral value.

#### **Financial Performance**

Q2FY17- Net sales stood at Rs 681.53 cr vs Rs 433.45 cr yoy. EBITDA and PAT margin shrank by 792bps and 104bps to 55.56% and 8.39% YoY. PAT of the company rose up by 40.29% to Rs 57.58 cr YoY.

H1FY17- Net sales surged up by 56.63% to Rs 1297.6 cr YoY. EBITDA increased by 38.44% to Rs 730 cr YoY and PAT rise up by 43.93% to Rs 106 cr YoY. EBITDA and PAT margin stood at 56.05 /8.19% vs 63.29 /8.90% in H1FY16 due to rise in employee cost and other operational expenses.

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## Valuation

We see the whole financial system to be stressed over the next two quarters till the currency transition is completed. This impact will be clearer after a quarter. However, we believe that low cost and affordable housing will still be at the fore front of the government initiatives. This will help the company in lower ticket size lending and also with better management, the company is well poised to tide over this. We also believe that historical growth rates will not be sustainable in future with high compe-

titition in the sector and pricing pressure. Within this economic scenario, Company is well juxtaposed to perform better than industry. We see CFL at FY17 EPS of Rs 23.39 per share and trading at FY17 P/E of 22.74x. Considering improved return ratios, strong foundation and continuous growth, we suggest to **BUY** this scrip in the range of Rs 500-565 (CMP-535) with target price of Rs 650. Investors are advised to invest in piece meal/ SIPs due to volatile market conditions.

### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	1882.24	1424.40	1053.01	800.29	740.15
Total Income	1889.08	1446.57	1062.51	808.64	743.74
Total Expenditure	663.12	449.38	326.37	260.87	188.97
PBIDT	1225.96	997.20	736.15	547.77	554.78
PAT	166.19	114.28	58.95	69.77	105.83
Dividend %	24.00	22.00	20.00	18.00	15.00
Adj. EPS(Rs)	18.21	12.56	7.19	10.37	16.41
P/E	25.09	32.5	39.12	16.4	8.44

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var%
Net Sales	681.53	616.08	10.62	433.45	57.23
Total Expenditure	304.95	267.54	13.98	158.93	91.88
PBIDT (Excl OI)	381.32	348.93	9.28	276.30	38.01
PAT	57.58	49.16	17.12	41.04	40.29
PBIDTM% (Excl OI)	55.56	56.60	-1.84	63.48	-12.48
PBIDTM%	55.57	57.46	-3.29	63.52	-12.52
PATM%	8.39	7.97	5.27	9.43	-11.03
Adj. EPS(Rs)	6.24	5.38	15.99	4.50	38.67

