

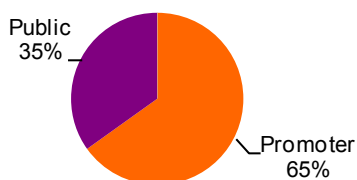
Capital First

Reco: Buy
Strong, in-line results with continued growth momentum
CMP: Rs682

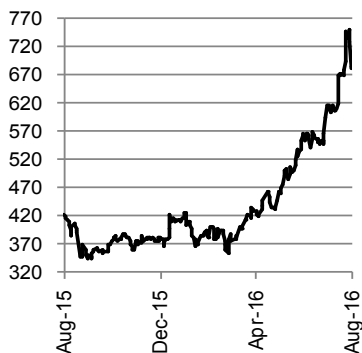
Company details

Price target:	Rs840
Market cap:	Rs6,240 cr
52-week high/low:	Rs796/321
NSE volume: (No of shares)	1.7 lakh
BSE code:	532938
NSE code:	CAPF
Sharekhan code:	CAPF
Free float: (No of shares)	3.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.6	48.1	79.8	62.2
Relative to Sensex	12.0	33.8	55.5	62.7

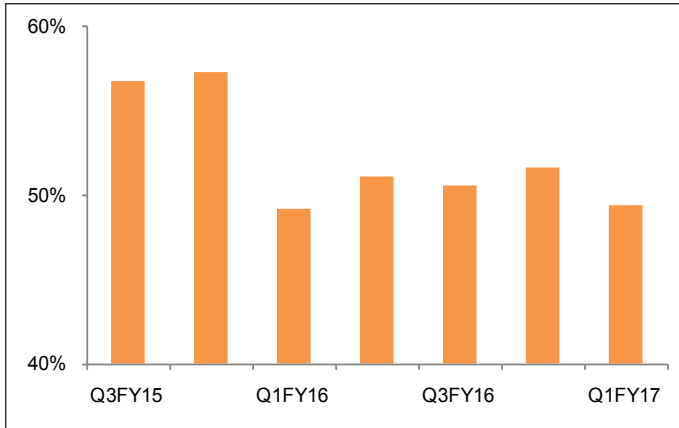
Key points

- Continued strong growth; cost-to-income ratio improves sequentially:** Capital First (CAFL) results for Q1FY2017 are in line with expectations, with sturdy Net Interest Income (NII) growth as well as better control on operational costs. On a consolidated basis, net total income at Rs345.8 crore is up 73% YoY and 13.0% QoQ, with pre-provision profit at Rs174.78 crore, up 72% YoY and 18% QoQ. However, provisions of Rs99.45 crore (up 96% YoY and 30% QoQ) are higher than expectations and impacted profit growth. Consequently, Profit After Tax (PAT) stood at Rs49.16 crore, up 48% YoY and 3% QoQ. CAFL has seen strong growth in both, loan book (Rs13,665 crore, up 45.4% YoY and 7.9% QoQ) and Assets Under Management (AUM) (Rs 17,212 crore, up 36% YoY and 7.3% QoQ). Customer traction has also been robust not only in Q1FY2017 but largely in the last 12 quarters, and we believe that the trajectory will continue in the near term. With scale benefits, CAFL's Cost-to-Income ratio (C/I) also improved to 49.5% in Q1FY2017 from 51.6% in Q4FY2016.
- Despite strong growth asset quality maintained:** CAFL has seen 28% three-year CAGR in its loan book, but its asset quality has been largely stable. In Q1FY2017, gross NPA increased to 1.18%, but seen in light of the RBI's directive the performance is positive. Provisions were higher by Rs18 crore due to change in norms with relation to standard asset provisioning for mortgage and housing loans. Adjusting for provisions, PAT growth is better than expectations. However, at CRAR of 18.7% (Tier 1 @13.8%), we believe CAFL may go for capital raising in the near term, which at current valuations will be book value accretive and positive for investors.
- Outlook and Valuation:** CAFL is led by experienced and competent management and is backed by marquee private equity (PE) firm Warburg Pincus (owns 65% stake). The company is one of the fastest-growing NBFCs. Factors like rising urban consumption and increasingly improving credit score methodology are well entrenched long-term growth triggers in favor of the company. While the company's business is similar in nature to Bajaj Finance, CAFL is valued ~35% cheaper (despite growth) mainly due to smaller size and relatively shorter operating history. We maintain our Buy rating on the stock and have revised our price target (PT) to Rs840, which translates into adjusted book value of 3.5x FY18E.

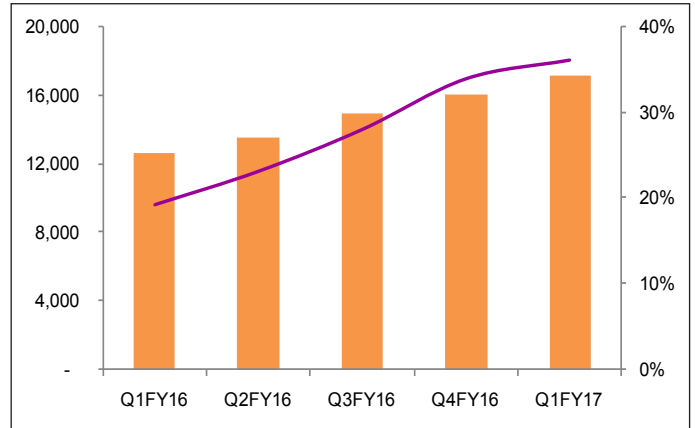
Results

Particulars	Q1FY17	Q1FY16	YoY %	Q4FY16	Rs cr	QoQ %
Interest income	553.9	358.9	54.3	507.5		9.1
Interest expense	276.0	198.6	39.0	252.4		9.4
Net interest income	277.9	160.3	73.4	255.1		8.9
Non-interest income	67.9	39.4	72.3	50.8		33.7
Net total income	345.8	199.7	73.2	305.9		13.0
Operating expenses	171.0	98.3	74.0	157.9		8.3
Pre-provisioning profit	174.8	101.4	72.4	148.0		18.1
Provisions	99.5	50.8	95.9	76.6		29.9
Profit before tax	75.3	50.6	48.8	71.4		5.5
Tax	26.1	17.5	49.1	23.9		9.2
Profit after tax	49.2	33.1	48.6	47.5		3.6
Key items						
AUM	17,213	12,643	36.1	16,041		7.3
-Wholesale	1,971	1,896	4.0	2,285		-13.7
-Retail	15,241	10,747	41.8	13,756		10.8
Loan Book	13,665	9,396	45.4	12,667		7.9
Key ratios						
Gross NPLs	1.18	0.83	35 BPS	1.07		11 BPS
Net NPLs	0.60	0.46	14 BPS	0.55		5 BPS
CAR	18.7	22.1	-345 BPS	19.8		-113 BPS
C/I ratio	49.5	49.2	23 BPS	51.6		-217 BPS

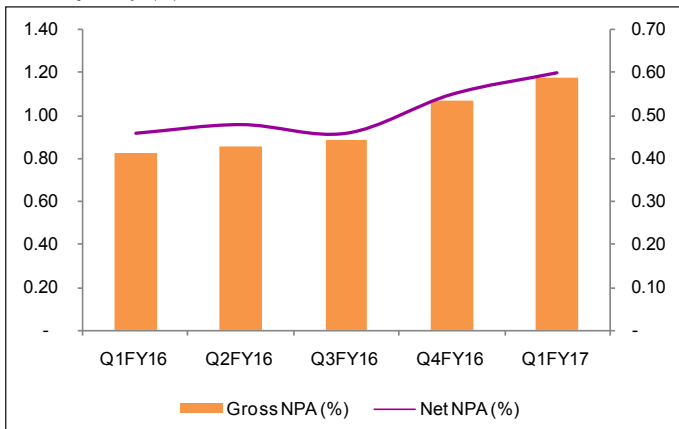
Cost to income ratio (%)



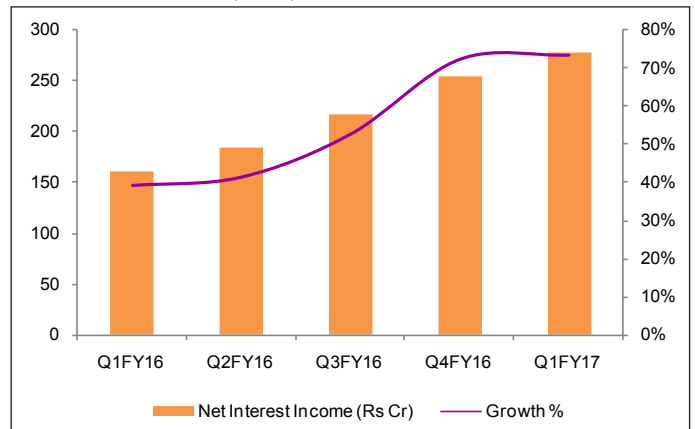
AUM (Rs cr)



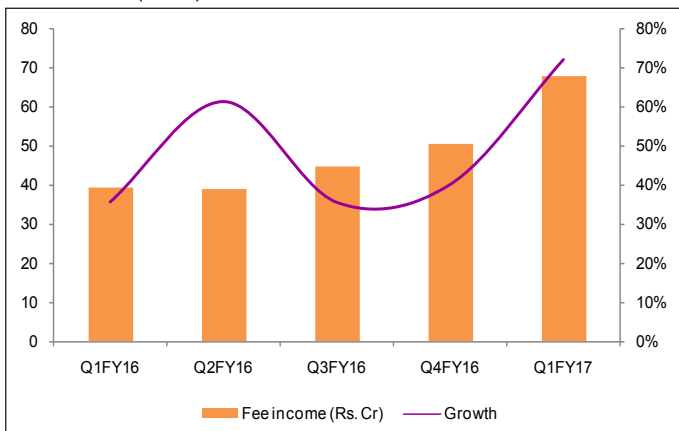
Asset quality (%)



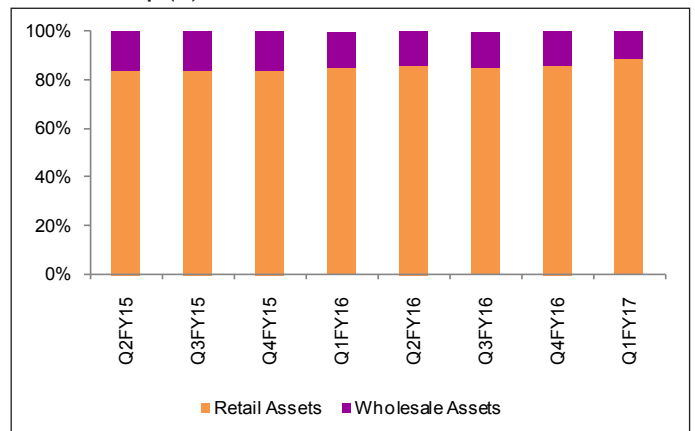
Net interest income (Rs cr)



Fee income (Rs cr)



AUM break-up (%)



Profit and loss statement

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net interest income	328	501	807	1,088	1,435
Non interest income	88	153	185	212	255
Net total income	416	654	992	1,300	1,690
Operating expenses	302	386	503	650	843
Pre-provisioning profit	114	268	489	650	846
Provision	49	105	236	296	346
Profit before tax	65	163	252	354	501
Tax	6	52	86	117	165
Reported Profit after tax	53	114	166	237	336
Adj. Profit after tax	58	111	166	237	336

Balance sheet

Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Share capital	82	91	91	91	91
Reserves and surplus	1,089	1,483	1,612	1,794	2,052
Networth	1,172	1,574	1,703	1,885	2,143
Borrowings	8,422	8,437	11,955	15,201	19,310
Current liabilities and provisions	538	671	867	1,040	1,248
Total Liabilities	10,132	10,682	14,525	18,126	22,700
Net block	28	19	29	32	35
Investments	347	95	42	46	50
Loans and advances	7,323	9,033	12,656	16,001	20,326
Current assets	2,411	1,493	1,743	1,993	2,234
Deffered tax assets	17	42	55	55	55
Other assets (incl goodwill)	6	0	0	0	0
Total Assets	10,132	10,682	14,525	18,126	22,700

Key ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
Per share data (Rs)					
Reported earnings	6.4	12.6	18.2	26.0	36.8
Adj. earnings	7.1	12.2	18.2	26.0	36.8
Book value	142.8	173.0	186.7	211.6	239.9
Adj. book value	141.3	172.8	186.5	206.4	234.6
Dividend	2.0	2.2	2.4	5.2	7.4
Spreads (%)					
Yield on funds	14.7	15.8	15.7	15.6	15.5
Cost of funds	8.8	9.3	8.8	8.4	8.0
Net interest margins	5.0	6.1	7.4	7.6	7.9
Operating ratios (%)					
Interest expended/ Interest earned	66.3	61.1	52.7	51.2	49.0
Cost to income	72.7	59.0	50.7	50.0	49.9
Non interest income / net total income	21.1	23.3	18.6	16.3	15.1
Return ratios (%)					
RoAE	4.9	8.3	10.1	13.2	16.7
RoAA	0.6	1.1	1.3	1.5	1.6
Assets/Equity (x)	8.6	6.8	8.5	9.6	10.6
Dividened yield	0.3	0.3	0.4	0.8	1.1
Growth ratios (%)					
Net interest income	33.9	52.8	60.9	34.8	31.9
Pre-provisioning profit					
Profit after tax	-16.6	117.1	45.4	42.6	41.6
Advances	23.9	23.3	40.1	26.4	27.0
Borrowings	35.2	0.2	41.7	27.2	27.0
Valuation ratios (x)					
P/E	106.0	54.1	37.3	26.2	18.5
P/BV	4.8	3.9	3.6	3.2	2.9
P/ABV	4.8	3.9	3.6	3.3	2.9
Asset Quality (%)					
Gross NPA	0.45	0.69	1.07	0.95	0.95
Net NPA	0.1	0.2	0.6	0.3	0.3

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