

29 May 2024

India | Equity Research | Company Update

Capri Global Capital

NBFCs

INR 300bn AUM target for FY27; gold loans, co-lending and car loan distribution – key growth pillars

Capri Global (CGCL) has been successfully executing its revamped business strategy. The strategy encompasses a keen focus on scaling the gold loans business, expanding its partnership network for co-lending/car loan distribution and leveraging its pan-India distribution to grow MSME/housing in a calibrated manner. The >50% YoY AUM growth with gold loan AUM growing 3x YoY and fee income from car loan distribution/co-lending contributing >15% to net income in FY24 are testament to the efficacy of its strategy. Higher growth under co-lending/car loan distribution also enables effective capital utilisation, which in-turn should help the company deliver its aspirational mid-teen RoE by FY27. CGCL plans to scale its AUM to INR 300bn by FY27 – gold/housing loans would drive growth and likely grow >30% in the next two–three years. Retain ADD; TP revised to INR 230 (from INR 200, previous TP adjusted for stock split and bonus issue), valuing the stock at 2.1x on Sep'25E BVPS.

AUM guidance of INR 300bn for FY27E

Post covid, accelerated growth formed the bedrock of CGCL's revamped strategy. This has germinated in >50% AUM CAGR between FY22–24 and FY24 AUM reaching INR 156bn led by 3x growth in its gold loan book in FY24, >50% FY22-FY24 CAGR in housing book and construction finance book's CAGR of >40% in FY22-FY24. With strong credit demand for retail loans, expanded distribution and revamped digital infrastructure CGCL expects strong growth momentum to sustain. The company plans to scale AUM to INR 300bn by FY27 or ~25% CAGR for FY24-FY27 – with gold loan and housing finance segments being the primary contributors.

CGCL's gold loan AUM reached INR 35bn in FY24 helped by aggressive branch expansion – added ~188 gold-only branches in FY24, taking the total count to 750 branches. Management plans to reach 1,500 gold branches by FY27. With half its branches already being added since the launch of the product in Sep'22, CGCL will focus on improving the productivity in the existing branches. AUM per branch for gold stood at ~INR 50mn, as of FY24. Management plans to take this to INR 85mn by FY25. Notably, co-lending is also helping CGCL grow in this space as the share of gold loan in the overall co-lending book stood at 36% in FY24 (nil in FY23). The company plans to grow its overall gold loan book at 30–35% in the next two–three years.

CGCL's housing loan portfolio (grew 53% in FY23/FY24) is guided to grow at >30% in FY24–27, as management plans to add 20–30 branches to its housing book every year for the next two–three years. Further, its recent investments in building up LOS and LMS is expected to ensure faster TAT and drive growth.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	6,362	9,869	13,476	16,817
PAT (INR mn)	2,047	2,794	4,550	5,886
EPS (INR)	10.7	9.0	11.0	14.3
% Chg YoY	(8.3)	(15.7)	22.1	29.4
P/E (x)	19.7	23.4	19.1	14.8
P/BV (x)	1.2	2.3	2.0	1.8
Gross Stage - 3 (%)	1.7	1.7	2.1	2.1
RoAA (%)	2.2	2.1	2.7	2.8
RoAE (%)	7.5	7.5	11.2	12.9

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Market Data

Market Cap (INR)	174bn
Market Cap (USD)	2,093mn
Bloomberg Code	CGCL IN
Reuters Code	CAPG.BO
52-week Range (INR)	289 /173
Free Float (%)	30.0
ADTV-3M (mn) (USD)	3.2

Price Performance (%)	3m	6m	12m
Absolute	(13.1)	12.4	19.4
Relative to Sensex	(17.1)	(1.2)	(0.9)

Earnings Revisions (%)

	FY25E
Revenue	1
EPS	(10)

Previous Reports

19-12-2023: [Company update](#)

19-09-2023: [Company update](#)

Car-loan distribution and co-lending fuel top-line growth; insurance fee to further contribute FY25 onwards

CGCL's share of non-interest income has improved to 365bps of average total assets in FY24, from 219bps in FY22. Car loan distribution and co-lending have been the major contributors to the improvement, together generating ~INR 2bn of the total net non-interest income (net of fee and commission expense and net fair value changes).

FY25 onwards, the company plans to add used car finance and new car loan (distribution), which should add to overall profitability.

CGCL also recently received a composite license from the IRDAI to distribute life and non-life insurance policies – it aims to generate INR 200mn (net) in insurance income in FY25. Improving and diversifying fee income should support CGCL's RoE aspirations going ahead.

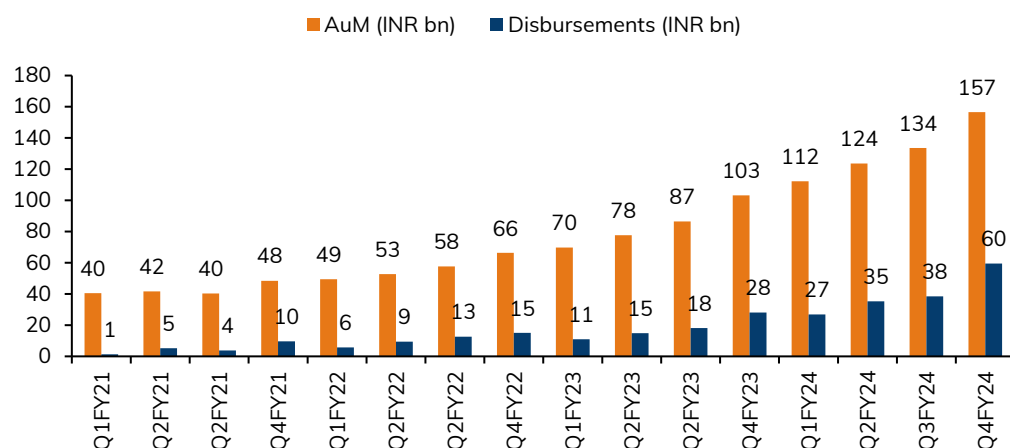
Mid-teen RoE by FY27E with better spreads and operating efficiencies

While current RoE remained subdued at 7.5% in FY23/FY24 vs. 11.3% in FY22 due to the strategic investment towards gold loan business and INR1.12bn towards technology and equity dilution due to rights issue (Mar'23), however, going forward, the rising share of high-yield gold loans, fee-based product offerings and improving operating leverage is expected to drive RoE to >12% by FY26E.

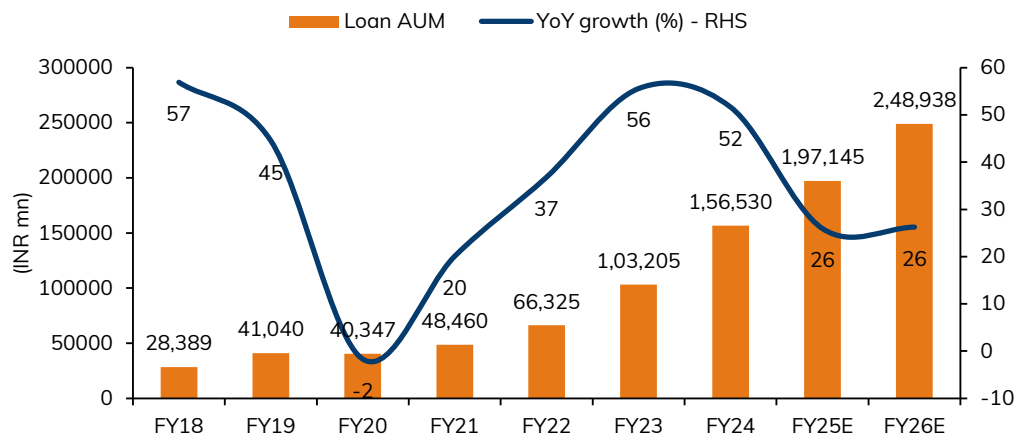
With most of the borrowings being repriced, management expects cost of borrowing to remain stable in FY25. Considering accelerated growth in high-yielding gold loans and steady growth in construction finance, management expects 40–50bps improvement in spreads during FY25E.

Further, with increasing productivity from its gold loan branches, management expects AUM per branch to improve to INR 85mn in FY25 vs. INR 50mn in FY24, and also envisages better operational efficiencies driven by revamped tech infrastructure (introduced in-house LOS, Flexcube LMS by oracle, collection module and data-analytics driven decision making in FY24) to enable improvement in cost to income ratio. Management aims to attain, or exceed, mid-teen RoE by FY27.

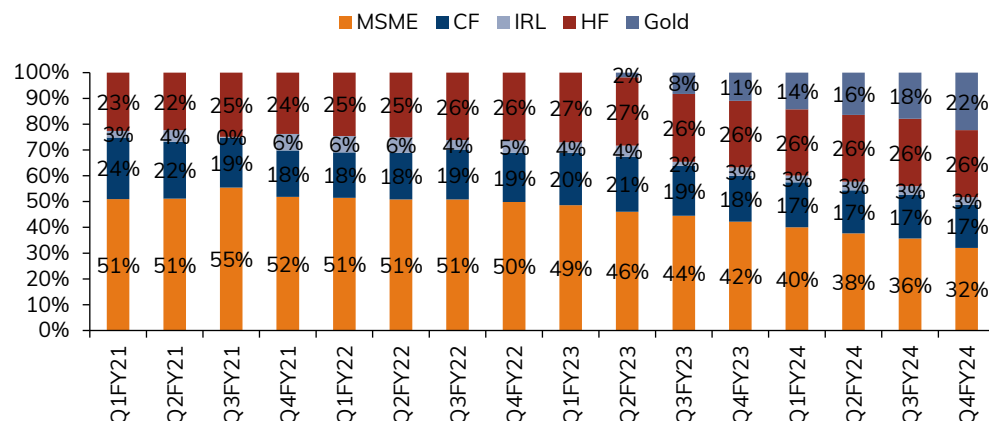
Key risks: 1) Elevated opex weighing on RoA improvement; and 2) stress unfolding higher-than-anticipated.

Exhibit 1: Disbursements in Q4FY24 at multi-quarter high

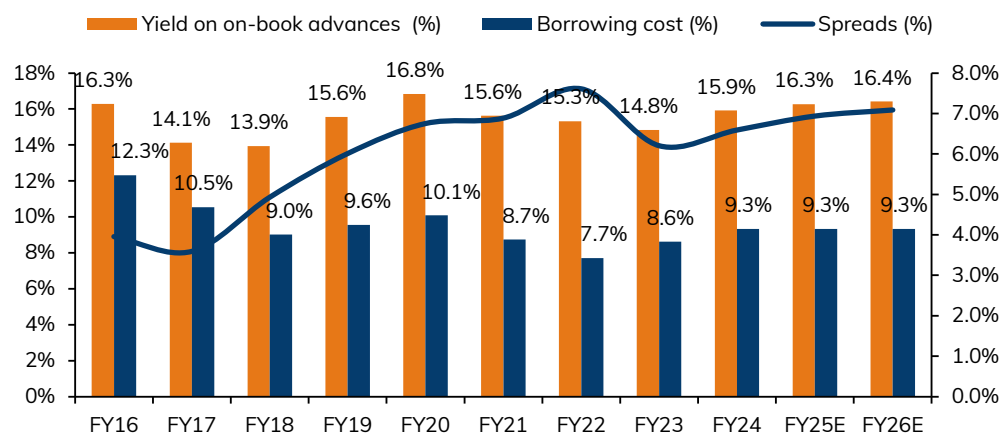
Source: Company data, I-Sec research

Exhibit 2: AUM expected to grow >25% in FY25E/FY26E

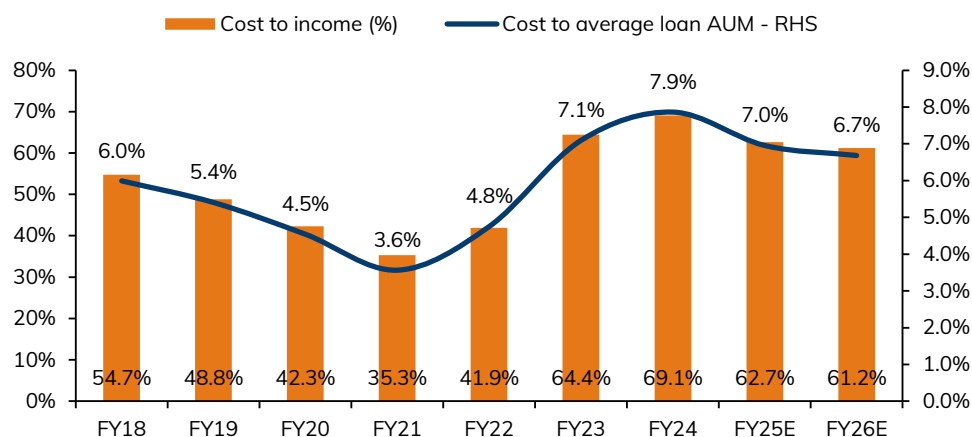
Source: Company data, I-Sec research

Exhibit 3: High granularity in the portfolio as housing/gold loan drive growth

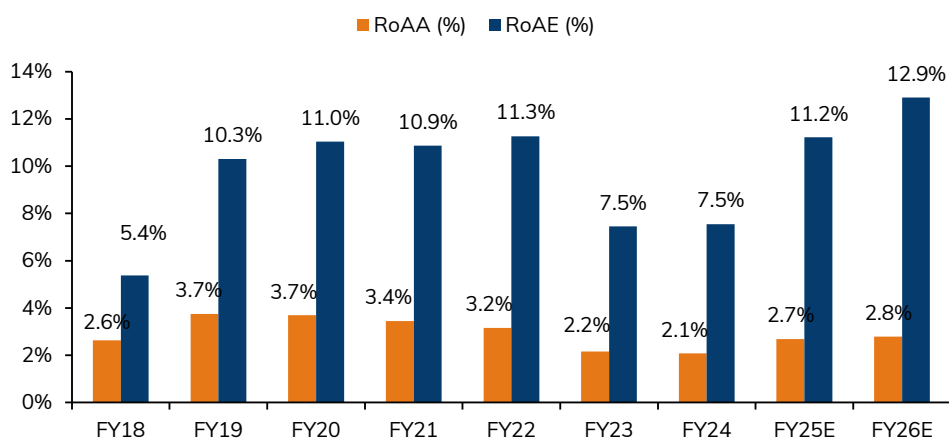
Source: I-Sec research, Company data

Exhibit 4: Spreads likely to improve driven by higher growth in gold loan

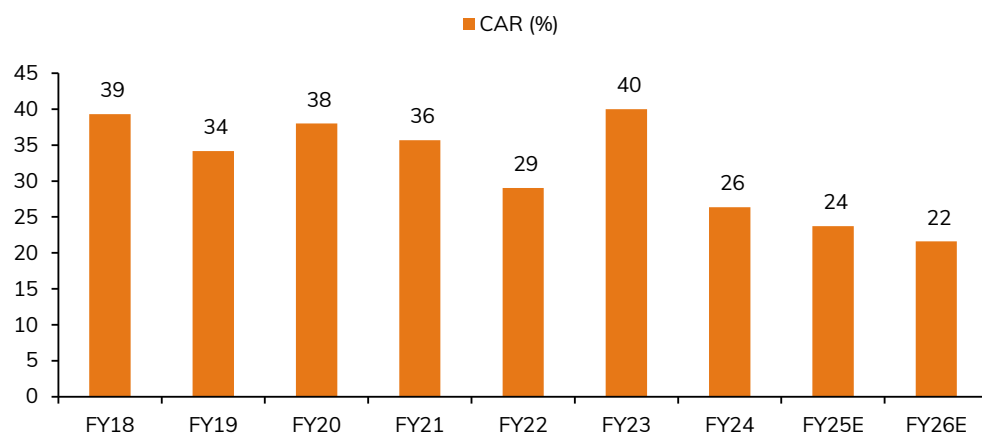
Source: Company data, I-Sec research

Exhibit 5: Expectation of higher productivity to drive operational efficiencies

Source: Company data, I-Sec research

Exhibit 6: Mid-teen RoE expected by FY27E

Source: Company data, I-Sec research

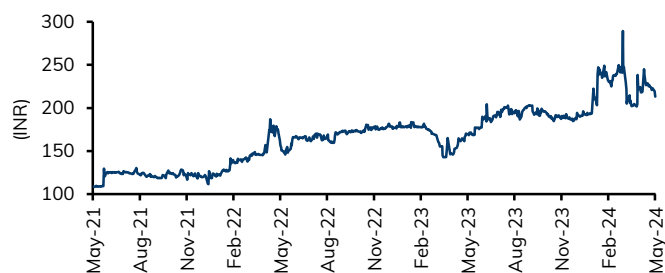
Exhibit 7: Strong capital position to help in sustaining high growth


Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	69.9	69.9	69.9
Institutional investors	15.0	15.0	15.0
MFs and other	1.6	1.6	1.6
Fls/Banks	0.1	0.1	0.1
Insurance	12.7	12.5	12.5
FIs	0.6	0.8	0.8
Others	15.1	15.1	15.1

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	11,673	18,228	24,546	31,127
Interest Expenses	(5,311)	(8,359)	(11,070)	(14,309)
Net Interest Income (NII)	6,362	9,869	13,476	16,817
Other Income	2,977	4,914	6,153	7,528
Total Income (net of interest expenses)	9,339	14,783	19,629	24,345
Employee benefit expenses	(4,061)	(6,237)	(7,484)	(8,981)
Depreciation and amortization	(439)	(879)	(1,098)	(1,373)
Other operating expenses	(1,514)	(3,098)	(3,718)	(4,554)
Total Operating Expense	(6,014)	(10,214)	(12,300)	(14,908)
Pre Provisioning Profits (PPoP)	3,325	4,569	7,328	9,437
Provisions and write offs	(642)	(913)	(1,380)	(1,743)
Profit before tax (PBT)	2,683	3,656	5,948	7,694
Total tax expenses	(636)	(862)	(1,398)	(1,808)
Profit after tax (PAT)	2,047	2,794	4,550	5,886

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	412	825	825	825
Reserves & surplus	35,242	37,541	41,912	47,620
Shareholders' funds	35,655	38,366	42,737	48,445
Borrowings	75,113	1,04,069	1,33,221	1,73,510
Provisions	133	246	295	354
Current Liabilities and short-term provisions	7,046	8,816	10,579	12,695
Other Liabilities	133	246	295	354
Total Liabilities and Stakeholder's Equity	1,17,946	1,51,497	1,86,833	2,35,004
Fixed assets	2,840	3,210	3,692	4,245
Loans	94,754	1,34,212	1,67,573	2,11,597
Investments	2,150	2,162	3,460	5,535
Deferred tax assets (net)	476	706	-	-
Current Assets including cash and bank	15,103	6,746	6,539	6,594
Other Assets	2,623	4,460	5,569	7,032
Total Assets	1,17,946	1,51,497	1,86,833	2,35,004

Source Company data, I-Sec research

Exhibit 12: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	1,03,205	1,56,530	1,97,145	2,48,938
On-book Loans	94,754	1,34,212	1,67,573	2,11,597
Off-book Loans	8,451	22,318	29,572	37,341
Disbursements	72,009	1,60,114	2,00,143	2,50,178
Growth (%):				
Total AUM (%)	55.6	51.7	25.9	26.3
Disbursements (%)	68.1	122.4	25.0	25.0
Loan book (on balance sheet) (%)	51.1	41.6	24.9	26.3
Total Assets (%)	64.9	28.4	23.3	25.8
Net Interest Income (NII) (%)	32.8	55.1	36.5	24.8
Non-interest income (%)	73.3	65.1	25.2	22.3
Total Income (net of interest expenses) (%)	43.5	58.3	32.8	24.0
Operating Expenses (%)	120.6	69.8	20.4	21.2
Employee Cost (%)	132.6	53.6	20.0	20.0
Non-Employee Cost (%)	71.7	104.6	20.0	22.5
Pre provisioning operating profits (PPoP) (%)	(12.1)	37.4	60.4	28.8
Provisions (%)	(39.3)	42.2	51.2	26.3
PBT (%)	(1.6)	36.3	62.7	29.4
PAT (%)	(0.2)	36.5	62.9	29.4
EPS (%)	(8.3)	(15.7)	22.1	29.4
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	6.7	7.4	8.0	7.9
NIM on IEA (%)	6.8	7.0	7.3	7.3
NIM on AUM (%)	7.5	7.6	7.6	7.5
Yield on loan assets (%)	12.3	13.6	14.6	14.7
Yield on IEA (%)	12.4	12.9	13.4	13.6
Yield on AUM (%)	13.8	14.0	13.9	14.0
Cost of borrowings (%)	8.6	9.3	9.3	9.3
Interest Spreads (%)	6.2	6.6	6.9	7.1
Operating efficiencies				
Non interest income as % of total income	43.4	42.6	43.9	43.5
Cost to income ratio	41.1	44.1	40.1	38.6
Op.costs/avg assets (%)	6.3	7.6	7.3	7.1
Op.costs/avg AUM (%)	7.1	7.9	7.0	6.7
Salaries as % of non-interest costs (%)	67.5	61.1	60.8	60.2
Capital Structure				
Average gearing ratio (x)	2.1	2.7	3.1	3.6
Leverage (x)	3.3	3.9	4.4	4.9
CAR (%)	34.1	26.4	23.7	21.6
Tier 1 CAR (%)	33.5	25.8	23.2	21.1
Tier 2 CAR (%)	0.7	0.6	0.6	0.6
RWA (estimate) - INR mn	1,06,587	1,48,829	1,84,504	2,29,977
RWA as a % of loan assets	112.5	110.9	110.1	108.7

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.7	1.9	2.0	2.0
NNPA (%)	1.2	1.1	1.1	1.1
GNPA (INR mn)	1,578	2,277	3,537	4,461
NNPA (INR mn)	1,178	1,506	1,945	2,453
Coverage ratio (%)	29.4	42.1	45.0	45.0
Credit Costs as a % of avg AUM (bps)	76	70	78	78
Credit Costs as a % of avg on book loans (bps)	82	80	91	92
Return ratios				
RoAA (%)	2.2	2.1	2.7	2.8
RoAE (%)	7.5	7.5	11.2	12.9
ROAAUM (%)	2.4	2.2	2.6	2.6
Dividend Payout ratio (%)	5.0	7.4	3.3	2.5
Valuation Ratios				
No of shares	206	412	412	412
No of shares (fully diluted)	208	414	414	414
ESOP Outstanding	2	2	2	2
EPS (INR)	10.7	9.0	11.0	14.3
EPS fully diluted (INR)	9.8	6.7	11.0	14.2
Price to Earnings (x)	19.7	23.4	19.1	14.8
Price to Earnings (fully diluted) (x)	21.4	31.3	19.2	14.8
Book Value (fully diluted)	172	93	103	117
Adjusted book value	167	90	100	113
Price to Book	1.2	2.3	2.0	1.8
Price to Adjusted Book	1.3	2.3	2.1	1.9
DPS (INR)	0.5	0.7	0.4	0.4
Dividend yield (%)	0.3	0.3	0.2	0.2

Source Company data, I-Sec research

Exhibit 13: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	94,737	1,34,722	1,69,165	2,10,918
Average Loans (INR mn)	78,731	1,14,483	1,50,893	1,89,585
Average Equity (INR mn)	27,440	37,010	40,552	45,591
Interest earned (%)	12.3	13.5	14.5	14.8
Net gain on fair value changes (%)	-	-	-	-
Interest expended (%)	5.6	6.2	6.5	6.8
Gross Interest Spread (%)	6.7	7.3	8.0	8.0
Credit cost (%)	0.7	0.7	0.8	0.8
Net Interest Spread (%)	6.0	6.6	7.2	7.1
Operating cost (%)	6.3	7.6	7.3	7.1
Lending spread (%)	(0.3)	(0.9)	(0.1)	0.1
Non interest income (%)	3.1	3.6	3.6	3.6
Operating Spread (%)	2.8	2.7	3.5	3.6
Tax rate (%)	23.7	23.6	23.5	23.5
ROAA (%)	2.2	2.1	2.7	2.8
Effective leverage (AA/ AE)	3.5	3.6	4.2	4.6
RoAE (%)	7.5	7.5	11.2	12.9

Source Company data, I-Sec research

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