

# Investor worry not warranted on Warburg part-exit from Capital First

## Stock falls 5%, but analysts believe PE's move a routine one

HAMSINI KARTHIK

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The stock of Capital First fell a little over five per cent on Wednesday, reacting to its private equity promoter, Warburg Pincus, making a partial exit.

At the opening of trade, Capital First announced that Cloverdell Investment, an affiliate of the Warburg Pincus group, would initiate this. During the day Warburg sold about 25 million equity shares (nearly 25 per cent stake) held in the company. With this deal, Warburg's stake in Capital First has reduced to about 36 per cent, from 59.78 per cent.

However, investors need not read much into this. On the

downside, Warburg was an initial investor in Capital First, in 2012, and was instrumental in the non-banking finance company acquiring the operations of Future Capital, which has helped Capital First to hasten its loan growth. In this context, some analysts feel Warburg's part-exit might be a sentiment dampener, justifying the five per cent fall in the stock price.

However, a large section also feel the exit might be linked to the nature of funds through which the investment was made in Capital First. "It is more a routine financial exit. Typically, when funds have a tenure of five to seven years, such exits are quite likely," explains Rajiv Mehta of IIFL.

The exit plan was known to the Street, he says, and so, wasn't much of a surprise.

The other important aspect is that there are equally strong hands which have bought this stake. Among these are GIC, the Singapore government's arm. It already owned about five per cent prior to this deal and bought about nine per cent, taking its stake to 14 per cent. "GIC's funds are open-ended and don't have a fund life. The other investors which bought Warburg's stake are also long-only funds of Indian and foreign investors," says V Vaidyanathan, executive chairman, Capital First.

He adds that Warburg is not likely to sell further stake in

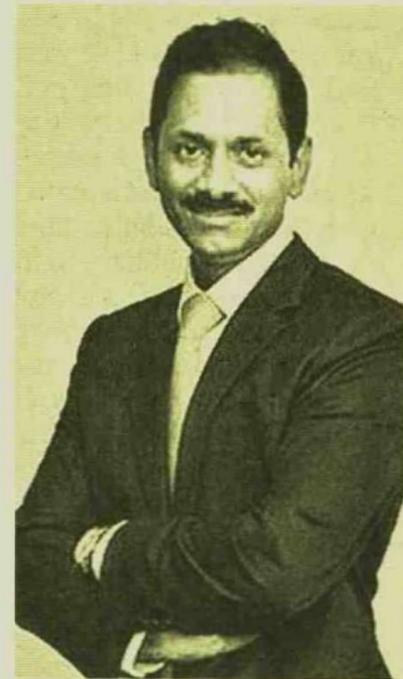
the company in the medium term.

"This is positive as Capital First won't have to deal with such stake sale issues for the next 10 years or so," says a person privy to the transaction. Also, Warburg continues to hold a major stake (36 per cent after Wednesday's stake), which is positive.

The stake sale aside, Mehta believes there isn't much to be worried on the fundamentals of Capital First. "The NBFC is well-positioned to scale up its business. While a few believe that Capital First could be the next Bajaj Finance, the management is focused on positioning itself uniquely," he adds.

This is why despite the 26

per cent year-to-date run-up in its stock price, analysts polled on Bloomberg expect an 18 per cent upside in the next 12 months. Much of the faith comes from Capital First's ability to grow its loan book without losing track of asset quality. In FY17, despite a tough period from November 2016, net interest income grew by 60 per cent to ₹1,300 crore, while net profit at ₹239 crore grew by 42 per cent over a year. Asset quality also looked stable, with the gross non-performing assets (NPA) ratio at one per cent and the net NPA ratio at 0.3 per cent. The net interest margin expanded from 5.8 per cent a year before to 7.3 per cent in FY17.



V Vaidyanathan, executive chairman, Capital First