Background

Incorporated in 1985, Capital Trust Ltd is engaged in advancing enterprise and microfinance loans. It provides loans to micro and small enterprises (MSE) and micro finance customers, and manages a total portfolio of Rs 2,045 million as of March 2015. The loans are provided for farming, dairy livestock, small manufacturing firms, trade, etc. The company operates in four North Indian states Uttar Pradesh, Uttarakhand, Delhi and Punjab. It derives 66% of its revenue from small enterprise finance, 25% from portfolio management and balance from interest on loan and commission income.

Key Highlights

Business correspondent with YES bank In 2014-15, the company signed an agreement with YES Bank to provide services including self-help group (SHG) identification and recommendation, SHG savings account and individual savings account opening and SHG loan account sourcing and servicing.

Key Risks

Volatility in interest rate

Default by borrowers

Industry Outlook

Nonbank financial companies

Based on the underlying assets being pledged, non-bank financial companies (NBFCs) can be classified into infrastructure, housing, auto, construction equipment, microfinance, gold, loan against property (LAP) and unsecured small business loans. By virtue of access to lowcost funds and extensive branch network, banks compete with NBFCs, especially on the cost front. However, with their strategic presence in lending segments as well as geographies, NBFCs have carved out a niche for themselves to effectively compete with banks. Currently, NBFCs only dominate the construction equipment finance segment, but they are slowly gaining market share in housing and LAP segments. While the market share of NBFCs in microfinance is expected to increase sharply in the near term, it will be marginal in housing and LAP. We expect the share in infrastructure loans to decline as Infrastructure Development Finance Company (IDFC) will convert into a bank.
NBFCs' loans outstanding grew at around 21% CAGR between 2009-10 and 2014-15, and as of March 2015, they accounted for almost 18% of the overall systemic credit. So far, NBFCs have gained market share at the expense of banks owing to focused lending, widening reach and resource rai

sing ability. However, going forward, we believe
the growth will moderate significantly given a slew of regulations for convergence with banks. Further, with slowing corporate demand for loans, banks
have shifted their focus to retail assets. As a result, the pace of growth in NBFCs' market share in most o
f the segments will slow down, compared with the past.

Valuation

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 E	2019-20 E
Net Profit	1.8	9.7	20.2	36.9	1.5	70	115
EPS	2.4	12.9	14.3	24.1	1	47	75.1

Based on the rapid CAGR in profits, A PE of 20 can easily be applied to the FY 2019-20 EPS of 75.1….. So a target price of 1500 (75.1*25) can be expected in 2020.