[C] INTERVIEW: Capital First CMD sees AUM growing 25-30% CAGR for 5 yrs

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MUMBAI - Capital First Ltd is hoping to ride the growth wave by tapping the under-penetration two-wheeler and small and medium enterprise financing sector, Chairman and Managing Director V. Vaidyanathan told Cogencis in an interview. With a focus on offering products to the two segments that are generally not on the radar of banks, the company aims to grow its assets under management at a compounded annual growth rate of 25-30% over the next five years to 250 bln rupees.

As on Mar 31, Capital First's assets under management stood at 96.79 bln rupees.

The non-banking finance company's AUM grew at a compounded annual rate of 25% between 2011-12 (Apr-Mar) and 2013-14, with loans to SMEs contributing 83% of its retail assets in 2013-14. While admitting that the journey will be tough due to its choice to focus on these niche segments, Vaidyanathan said the company's growing expertise and innovation will be a game changer.

He sees the share of retail--which comprises two-wheeler loans, gold loans, consumer durable loans, and mortgage loans to SMEs--rising up to 90% of total assets under management in the next 12-18 months from 83% as on Mar 31. Shares of Capital First today ended down 0.2% at 206.35 rupees on the National Stock Exchange.

Below are the edited excerpts of the interview:

Q. Why are you only into two wheeler and not auto loans? When did you start this business?

A. Auto loans have very low margins, done by all banks and is commoditised. Two-wheeler loans ticket size is one-tenth of a car loan, and the effort of documentation is about the same. The average tenor is low at one year. Even on full throttle, with millions of customers, the loan book does not cross 10 bln rupees, so it may not be worth the effort for many large players. Also collections on small ticket loans are a challenge. So it is a niche for smaller players. We started this business in 2011. Our loan book just topped 4 bln rupees.

Q. What are the challenges and risks with the two-wheeler business? If this has so many uncertainties, why are you doing it?

A. The issues with this business are that most customers do not have a credit track record, and their income is not proven. So we have to go with some proxies. Also you deal with thousands of dealers across the country, manpower is very stretched. But make no mistake; this is a good opportunity in a niche sort of way.

Q. What is your take on the current state of the two-wheeler industry?

A. The two-wheeler industry itself has been under pressure for the last two years. As far as loan is concerned, when you compare with the car loan market, it is not a huge market, it is about one-twentieth of the car loan market, but it is under penetrated. Only 35% of two-wheelers are financed.

Q. What is your outlook on gold loans business?

A. Gold prices going up and down is part of the nature of this business. We collect interest from customers every month, so exposure does not increase. Gold is a very liquid security, so when prices come down, we remind customers and send notices once, twice, thrice, and request them to bring down their exposure. Most respond, some don't. In which case, we auction it. We have not (lost) any money to gold fluctuations in four years.

Q. Why the small and medium enterprises business? It is more difficult to lend.

A. Because the opportunity is large. You ask any SME, they always want funds. We all agree it is more difficult evaluating a SME loan compared to a home loan or a car loan, because of cash flow uncertainties, but we love it. We can do this business forever and never run out of customers.

Q. You have guided for 90% share of retail eventually? What is the timeline? And why such obsession for retail?

A. Within next one to one-and-a-half year, we will achieve that target. If it is faster, we will be happier. It's diversified.

Q. Do you have any capital raising plans?

A. For next one-and-a-half year or more, our current capital will last comfortably. Will think (about it) after that.

Q. What kind of net interest margin the company operates on? Are you happy with your current NIMs?

A. Overall, as a company, we have a NIM of about 5.5%, and we see margins somewhat expanding from here. We are over capitalised at 22% capital adequacy ratio. We would like overall returns to improve. Currently we are building scale, and the next few quarters and years look very promising.

Q. Are you planning to become a deposit taking non-banking finance company?

A. We have not applied, and to the best of our knowledge RBI is not giving any more licenses for deposit taking. Frankly, money is available on tap with a strong credit rating, money is easily available from mutual funds, provident funds, banks and the sort, so this is not an impediment for growth.

Q. When are you targeting an assets under management of 250 bln rupees?

A. We plan to achieve that in the next four to five years. We plan to grow 25-30% for next five years.

Q. Any plans to add more products?

A. We are always looking out for niche opportunities. Right now, we are digging deeper and deeper into the SME business. SME cannot always provide property and take funding. Many have other forms of collateral, like gold and fixed deposits. We are exploring such ideas.

Q. You have a matched asset liability profile? Does that mean you are paying a higher cost? What about non-convertible debentures?

A. Yes, we borrow five to six year loans, but lend shorter. We have not borrowed from the commercial paper market for a long time, which is 150 bps cheaper than a bank lending rate. So there is some inefficiency here, but this is like insurance actually, against any liquidity pressures. Today it looks inefficient, but this strategy was great when money was uncertain over the last two years.

Q. Do you see any significant up tick in SME loans due to the new government?

A. Not so quickly. Yet frankly, even with a bad economy, we can grow at 20-25%. Economy will certainly improve in three-four quarters, and the uptick will show then. We could grow by 25-30% with the uptick.

Q. How do you plan to expand your branches?

A. Our existing branch network can take more load of 50-60%. We don't need more branches.

Q. When do you see the promoter selling stake?

A. We do not even think about it yet. They have just entered and are committed to stay for a long time. The fund life is 12 years, out of which only two years have elapsed. End

-Edited by Namrata Bhatia

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