

4 June 2012

## Future Capital Holdings

Change in promoter holding. We retain a Buy

Rating: **BUY**

Target Price: ₹187

Share Price: ₹144

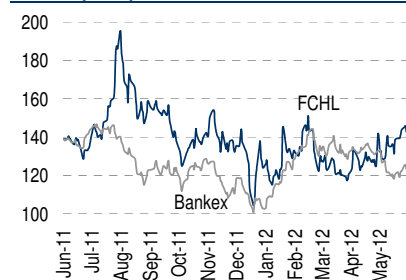
The Board of Future Capital Holdings has approved a share-purchase agreement between Pantaloon Retail (India) (PRIL), Future Value Retail (FVRL) and Cloverdell Investment, a subsidiary of Warburg Pincus, for the sale of a stake in FCH at ₹162 a share.

- Contours of the deal.** Cloverdell has agreed to purchase a minimum 40% (maximum 53.67%) in FCH, at ₹162 a share (1.3x FY12 BV), and an 18.3% premium to yesterday's closing. As a result, Warburg will acquire a controlling stake in FCH, subject to shareholder approval. Cloverdell has also agreed to infuse capital into FCH, of ₹1bn in the form of Compulsorily Convertible Preference shares, at ₹162 each. Additionally, Cloverdell is proposing to launch a mandatory open offer to acquire an additional 26% at an offer price of ₹162, similar to the deal price paid to existing promoters.
- Outlook.** From FCH's perspective Warburg's presence mitigates the promoter-change overhang and strengthens the Board and enhances decision-making capabilities. Additionally, capital infusion of ₹1bn in FCH by Warburg would boost tier-1 capital and aid the NBFC to sustain its high loan-growth of more than 35% over FY12-14e. Robust disbursement growth, better productivity and stable asset quality are likely to drive an improved RoE to 17.8% by FY14e (6.8% in FY11). The valuation, at 0.9x FY13e ABV, is inexpensive. We retain our estimates and price target.
- Valuation:** At our target of ₹187, the stock would trade at FY13e and FY14e PBV of 1.2x and 1.1x respectively. **Risk:** slower-than-expected economic growth could hurt loan growth and higher-than-expected delinquencies could impact profit growth.

Key data	FCHL IN / FCHL.BO
52-week high / low	₹200 / ₹91
Sensex / Nifty	15988 / 4848
3-m average volume	US\$1.1m
Market cap	₹9bn / US\$162mn
Shares outstanding	64.8m

Shareholding pattern (%)	Mar-12	Dec-11	Sep-11
Promoters	56.3	61.0	61.0
- of which, Pledged	n.a	n.a	n.a
Free Float	43.7	39.0	39.0
- Foreign Institutions	2.1	2.2	2.2
- Domestic Institutions	2.5	2.5	2.0
- Public	39.1	34.2	34.8

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY10	FY11	FY12	FY13e	FY14e
Net interest income (₹m)	624	871	1,788	2,915	4,078
Net profit (₹m)	594	491	1,058	1,389	1,934
EPS (₹)	9.3	7.6	16.4	21.4	29.8
Growth (%)	(284.8)	(18.8)	115.7	30.4	39.2
PE (x)	15.5	19.1	9.1	6.8	4.9
PABV (x)	1.4	1.3	1.1	0.9	0.8
RoE (%)	8.7	6.8	13.4	14.8	17.8
RoA (%)	3.7	1.7	2.3	2.2	2.3
Dividend yield (%)	0.7	1.0	1.0	1.6	1.9
Net NPA (%)	1.6	0.1	0.0	0.1	0.1

Source: Company, Anand Rathi Research

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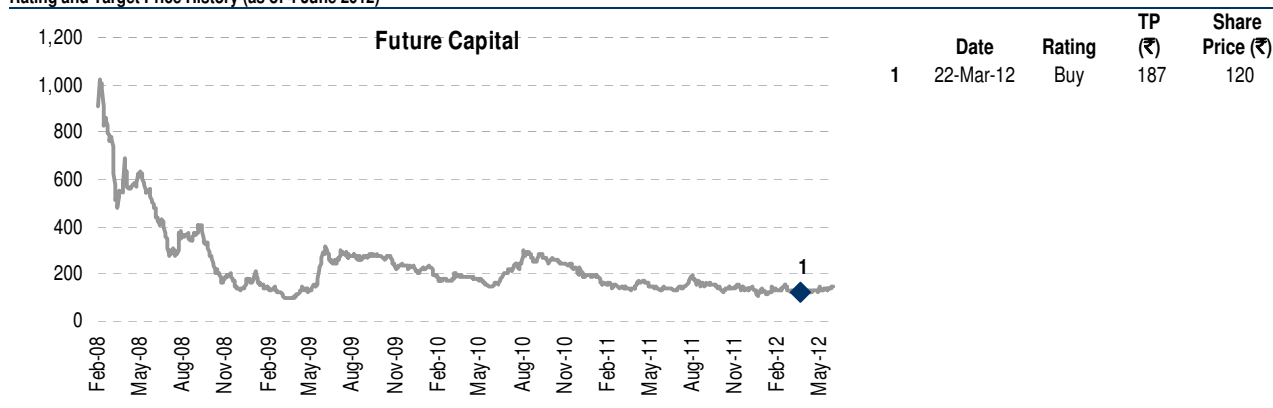
## Appendix 1

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

#### Anand Rathi Research Ratings Distribution (as of 20 February 2012)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (138)	76%	12%	12%
% who are investment banking clients	6%	6%	0%

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