

Q2FY20 Result Update Can Fin Home Finance Limited

Stable operating performance in tough environment

CanFin Homes' (CFH) Q2FY20 numbers have been in line, primarily driven by a 16% growth in AUM (despite a 7% degrowth in disbursements), led by a lower repayment rate. CFH's net interest income has grown 19% YoY to INR 156cr, which is greater than the growth in AUMs, on the back of a 9-bps expansion in calculated NIM to 3.41%. The company's net revenue grew 18% YoY to INR 163cr (even as non-interest income degrew by 12% YoY to INR 7cr). Operating profit grew 14% to INR 137cr, in line with net revenue growth, while operating expenses also increased by 16% YoY. Net profit grew 20% YoY to INR 98cr as lower tax rates have aided higher profitability. Asset quality weakened marginally with GNPA/NNPA up 6 bps/16 bps QoQ/YoY to 0.79%/0.58%. Management managed to repossess assets worth INR 26 cr in Q2, which could improve asset quality, going forward.

Steady AUM growth led by lower repayment rate

CanFin's advances grew 16% YoY to INR 19,600 cr with disbursements growth decreasing by 7% YoY to INR 1,334 cr in the quarter. Growth in the core market of Karnataka has come in at 7% with the southern market accounting for 70% of the overall book. Both housing and non-housing segments have seen similar growth. Within the housing loans segment, loans to salaried grew 14%, while those to non-salaried grew 22% YoY. The company has liquidity in terms of undrawn bank lines and sanctioned bank borrowings to the tune of INR 5,400 cr, which would sustain growth for the next two quarters. Management has maintained its target of INR 40,000cr for FY22 loan book as it expects disbursements to pick up in the next 6-8 quarters, given the liquidity and demand scenario improves.

NIMs remain largely stable despite shift in borrowings to banks

Calculated NIMs remained largely stable at 3.41%, as yield increases compensated for the increase in cost of funds, which went up 3 bps YoY to 8.15% (since borrowing mix continued to shift towards Banks and NHB from commercial paper). Management has highlighted improvement in NIMs/spreads as a key parameter for the team. C/I ratio in Q2 increased 297 bps, largely on the back of increase in manpower and staff costs and CSR expenses, which were booked in H1FY20 (instead of H2 as in the previous year).

Asset quality marginally weaker; recoveries to aid improvement in H2FY20

Asset quality weakened marginally with GNPA's at 0.79% (vs. 0.73% in Q1FY20) and NNPA's at 0.58% (vs. 0.52% in Q1FY20). Management has initiated recoveries amounting to INR 26cr in Q2, which would materialize in Q3FY20 and lead to an improvement in asset quality, going ahead. GNPA's for the salaried segment and SENP came in at 0.47% and 1.57% respectively.

Growth recovery continues; reiterate BUY

Given the company's continued growth traction in the core southern markets and sustained expansion in the non-south markets, we believe it would achieve 19% CAGR over FY19-21E, while maintaining an ROA of 2% and ROE of 20%. We believe the stock has the potential to trade at 2.5x of FY21E BV, resulting in a target price of INR 494/share, which implies an upside of 19%.

INR crs	Q2FY20	Q2FY19	%change	Q1FY20	%change	FY19	FY20E	FY21E
Net revenue	163	130	24.9	149	9.6	562	682	823
Net profit	98	82	19.7	81	20.6	297	409	504
Dil. EPS (INR)	5.5	5.4	2.8	5.6	-1.0	22.3	30.7	37.9
Adj. Book Value						133.9	162.2	197.7
Price/Adj. book (x)						3.1	2.6	2.1
Price/Earning (x)						18.6	13.5	10.9

Raj Jha
Research Analyst
raj.jha@edelweissfin.com

Nikhil Shah
Research Analyst
nikhil.shah@edelweissfin.com

Harsh Vijay Shah
Research Analyst
Harshv.shah@edelweissfin.com

CMP INR: 414

Rating: Maintain BUY

Target Price INR: 494

Upside: 19%

Bloomberg:	CANF:IN
52-week range (INR):	433 / 229
Share in issue cr):	13.3
M cap (INR cr):	5,560
Avg. Daily Vol. BSE/NSE :('000):	762
Promoter Holding (%)	29.9

Date: 5th November 2019

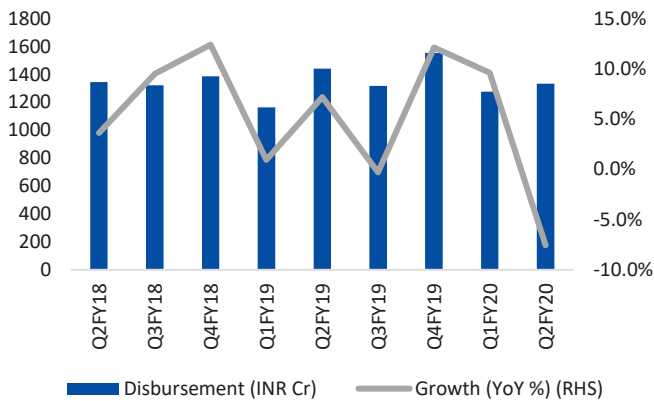
Q2FY20 Result Highlights

INR crs	Q2FY20	Q2FY19	%change	Q1FY20	%change
Interest Income	494	414	19	477	4
Interest Expense	338	284	19	329	3
Net interest income	156	130	20	149	5
Non-interest income	7	8	-12	7	-3
Net revenue	163	138	18	156	5
Operating expenses	26	18	45	24	7
Operating Profit	137	120	14	132	4
Provisions & Contingencies	6	0	NA	9	-28
PBT	131	120	9	123	7
Tax	33	39	-14	42	-21
PAT	98	82	20	81	21
Paid-up Capital	26.6	26.6	0	26.6	0
Adj. EPS (INR)	7.3	6.1	20	6.1	21
Ratio (cal.)					
C/I Ratio	15.75	12.78	297bps	15.4	35bps
Yield	10.78	10.53	25bps	10.7	7bps
Cost of funds	8.15	8.12	3bps	8.2	-8bps
Spread	2.63	2.40	23bps	2.5	15bps
NIM	3.41	3.31	9bps	3.3	7bps
RoAA	1.88	1.88	bps	1.7	15bps
RoE	19.10	21.63	-253bps	17.6	146bps
Balance Sheet					
Loan & Advances	19600	16935	15.7	19003	3.1
Borrowings	17260	15132	14.1	16823	2.6
Disbursement	1334	1443	-7.6	1276	4.5
Asset Quality					
GNPA (%)	0.79	0.63	16bps	0.73	6bps
NNPA (%)	0.58	0.42	16bps	0.52	6bps

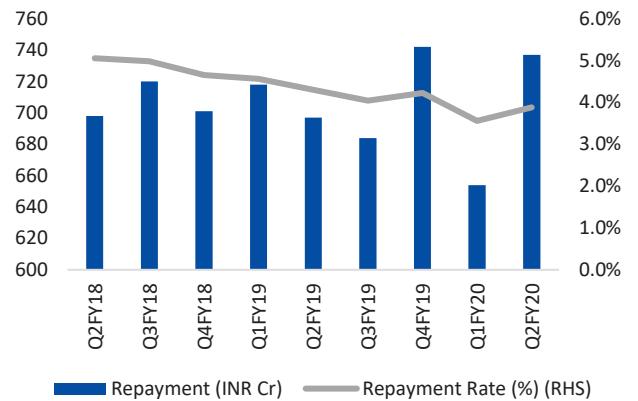
Can Fin Home Finance Limited

Q2FY20 Result Highlights

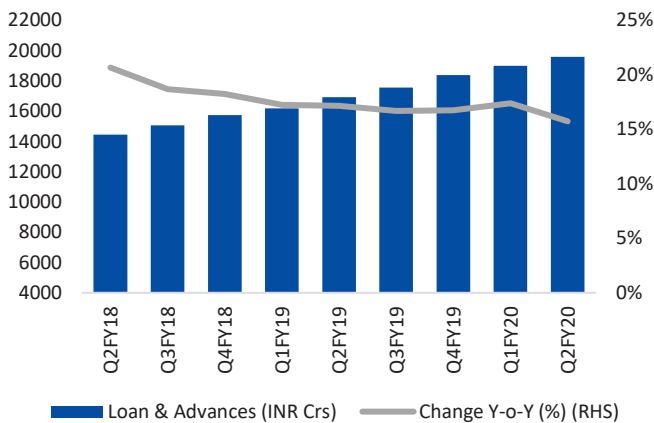
Disbursements register sequential uptick



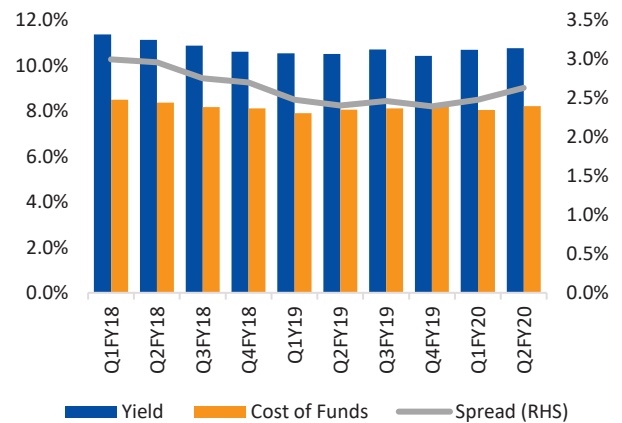
Repayment rate continues to remain low



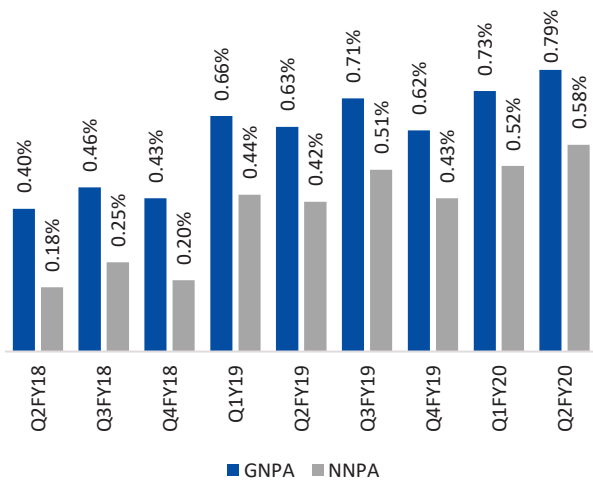
AUM growth remains above 15%



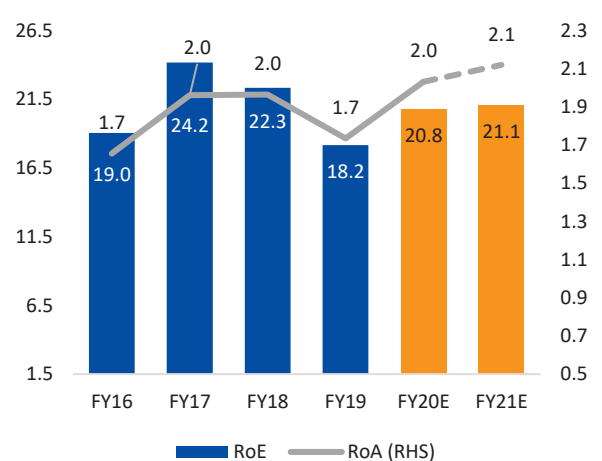
Spreads witness slight uptick QoQ



Asset quality weakens marginally



Improving RoA and RoE post equity dilution (%)



Source: Edelweiss Professional Investor Research

Previous Outlook

Q1FY20: Given the continued growth traction in the core South markets coupled with the calibrated expansion of the company in non-South markets, we believe the company is on track to achieve 19% CAGR growth over FY19-21E while maintaining an ROA 2% and ROE of 20%. We believe the stock has the potential to trade at 2.3x of FY21E BV resulting in a target price of INR 442/share, implying 16% upside.

Q4FY19: Given the improvement in housing loans disbursements in Karnataka coupled with overall AUM growth, we believe, CanFin is poised to achieve 19% CAGR growth over FY19-21E while maintaining an ROA 2% and ROE of 20%. We believe the stock has the potential to trade at 2.2x of FY21E BV resulting in a target price of INR 430/share, implying 25% upside.

Q1FY20

Particulars	Q1 FY20	Q1 FY19	Q1 FY18
Revenue	1,000	800	600
Operating Profit	200	150	100
Net Profit	150	100	50
EPS	150	100	50
Operating Profit Margin	20%	18%	16%
Net Profit Margin	15%	12%	8%

Q4FY19

Particulars	Q4 FY19	Q4 FY18	Q4 FY17
Revenue	1,200	1,000	800
Operating Profit	250	200	150
Net Profit	200	150	100
EPS	200	150	100
Operating Profit Margin	20%	20%	18%
Net Profit Margin	16%	15%	12%

Company description

Can Fin Homes Ltd. (CANFIN) is a South India-based housing finance company with focus on Tier 2, 3 and 4 cities. The company was set up by Canara Bank in 1987, which owns 29.99% shareholding in it. CANFIN's customer profile comprises salaried individuals (71% of loans, mostly low-risk) and self-employed and nonprofessionals (29% of loans). The company primarily caters to the medium ticket size segment (average ticket size ~INR 17 lakh for housing loans and INR 13 lakh for non-housing loans). CANFIN's fundamentals have improved considerably, with gross NPAs improving 0.78% in Q2FY20 from 1.06% in FY11 and loan book expanding at 38% CAGR over FY12-17; however, growth has declined to ~17% (between FY17-H1FY20) due to demonetization and RERA. Now, we expect disbursements, which are back on track, to grow 15% over FY19-21E, resulting in an 18% growth in AUMs over the same period, taking the book size to ~INR 25,700 cr by FY21e.

Key risks

- Sustained growth pick-up seen in the core market of Karnataka
- Increases in slippage of asset quality resulting in higher GNPA's
- Inability to pass on higher cost of funds due to competitive pressures could negatively impact NIMs

Can Fin Home Finance Limited

Financials

Income statement					(INR Cr)
Year to March	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,306	1,491	1,700	2,058	2,455
Interest charges	884	981	1,169	1,444	1,704
Net interest income	422	510	530	614	750
Fee & other income	47	31	32	68	72
Net revenues	469	541	562	682	823
Operating expense	80	88	92	107	125
- Employee exp	39	45	41	42	49
- Other opex	41	43	50	65	76
Preprovision profit	389	453	471	575	698
Provisions	19	22	1	18	21
PBT	370	431	470	557	677
Taxes	135	145	173	148	173
PAT	236	286	297	409	504
Extraordinaries	0	0	0	0	0
Reported PAT	236	286	297	409	504
Basic number of shares (mn)	13	13	13	13	13
Basic EPS (INR)	18	22	22	31	38
Diluted number of shares (mn)	13	13	13	13	13
Diluted EPS (INR)	18	22	22	31	38
DPS (INR)	2	12	15	18	19
Pay-out ratio (%)	11	56	67	57	49

Balance Sheet					(INR Cr)
Year to March	FY17	FY18	FY19	FY20E	FY21E
Paid Capital	27	27	27	27	27
Share Application Money pending Allotment	0.5	0.0	0.0	0.0	0.0
Reserve & Surplus	1,050	1,460	1,756	2,133	2,605
Shareholder's Fund	1,077	1,487	1,782	2,159	2,631
Total Borrowings	11,872	13,925	16,699	19,705	23,252
Other Liabilities	509	395	299	373	467
Total Liabilities	13,458	15,807	18,780	22,237	26,350
Cash & Bank Balance	20	19	23	25	28
Investment	16	16	16	16	16
Loan & Advances	13,313	15,743	18,381	21,815	25,678
Net Fixed Assets	10	10	10	10	10
Other assets	99	19	350	371	619
Total Assets	13,458	15,807	18,780	22,237	26,350

Growth ratios (%)					
Year to March	FY17	FY18	FY19	FY20E	FY21E
NII growth	40.2	20.7	4.1	15.7	22.2
Net revenues growth	37.9	15.3	3.9	21.3	20.6
Opex growth	19.6	9.9	4.4	17.0	16.2
PPP growth	42.4	16.4	3.8	22.1	21.5
Provisions growth	(3.1)	17.5	(95.1)	1,550.8	17.7
PAT growth	50.3	21.2	3.7	37.9	23.3

Can Fin Home Finance Limited

Financials

Operating ratios (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Yield on advances	10.9	10.2	9.9	10.2	10.3
Cost of funds	8.3	7.6	7.6	7.9	7.9
Spread	2.6	2.6	2.3	2.3	2.4
Net interest margins	3.5	3.5	3.1	3.0	3.2
Cost-to-income	17.0	16.2	16.3	15.7	15.2
Tax rate	36.4	33.6	36.8	26.5	25.5

Balance sheet ratios (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Loan growth	25.1	18.3	16.8	18.7	17.7
EA growth	25.0	18.2	16.7	18.7	17.7
Gross NPA ratio	0.2	0.4	0.6	0.7	0.7
Net NPA ratio	0.0	0.2	0.4	0.3	0.3
Provision coverage	100	53	33	54	62

RoE decomposition (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net interest income/Assets	3.5	3.5	3.1	3.0	3.2
Other Income/Assets	0.4	0.2	0.2	0.3	0.3
Net revenues/Assets	3.9	3.7	3.3	3.4	3.5
Operating expense/Assets	0.7	0.6	0.5	0.5	0.5
Provisions/Assets	0.2	0.2	0.0	0.1	0.1
Taxes/Assets	1.1	1.0	1.0	0.7	0.7
Total costs/Assets	1.9	1.7	1.6	1.4	1.3
ROA	2.0	2.0	1.7	2.0	2.1
Equity/Assets	9.0	10.2	10.4	10.7	11.1
ROAE	24.2	22.3	18.2	20.8	21.1

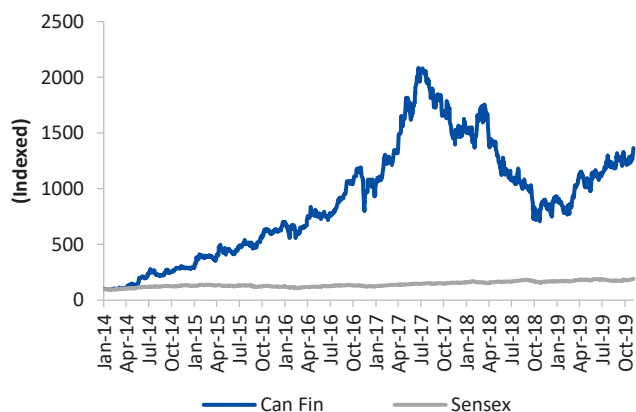
Valuation metrics

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	17.7	21.5	22.3	30.7	37.9
EPS growth (%)	50.3	21.2	3.7	37.9	23.3
Adjusted BV per share	80.9	111.7	133.9	162.2	197.7
Diluted P/E (x)	23.4	19.3	18.6	13.5	10.9
Price/Adj. Book Value(x)	5.1	3.7	3.1	2.6	2.1
Price/ Earning (x)	23.4	19.3	18.6	13	10.9

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kiroi Road, Kurla(W)
 Board: (91-22) 4272 2200

Vinay Khattar
 Head Research
vinay.khattar@edelweissfin.com

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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