# CD Equisearch Pvt Ltd

CD
CHANGING DIMENSIONS
CD EQUISEARCH

November 28, 2019

| Can Fin Homes Ltd. | |
|---|---|
| No. of shares (m) | 133.17 |
| Mkt cap (Rs crs/$m) | 5218/728.9 |
| Current price (Rs/$) | 392/5.5 |
| Price target (Rs/$) | 478/6.7 |
| 52 W H/L (Rs.) | 434/226 |
| Book Value (Rs/$) | 145/2.0 |
| Beta | 1.3 |
| Daily volume NSE (avg. monthly) | 360440 |
| P/BV (FY20e/21e) | 2.5/2.0 |
| P/E (FY20e/21e) | 13.2/11.2 |
| Cost to Income (FY19/20e/21e) | 16.3/16.3/16.2 |
| EPS growth (FY19/20e/21e) | 3.7/33.4/17.2 |
| NIM (FY19/20e/21e) | 3.1/3.2/3.2 |
| ROE (FY19/20e/21e) | 18.5/20.5/19.9 |
| ROA(FY19/20e/21e) | 1.7/2.0/2.0 |
| D/E ratio (FY19/20e/21e) | 9.5/8.9/8.5 |
| BSE Code | 511196 |
| NSE Code | CANFINHOME |
| Bloomberg | CANF.IN |
| Reuters | CNFH.NS |

| Shareholding pattern | % |
|---|---|
| Promoters | 30.0 |
| MFs / Banks / FIs/ Others | 5.0 |
| Foreign Portfolio Investors | - |
| Govt. Holding | - |
| Public & Others | 65.0 |
| **Total** | **100.0** |

As on Sep 30, 2019

**Recommendation**

**BUY**


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## Quarterly Highlights

- Despite slowdown in housing credit landscape and sluggish growth in its key market of Karnataka, Can Fin posted 15.8% (y-o-y) loan book growth in Q2FY20, driven by 13.8% rise in loans to salaried and professional clients while registering a more impressive growth of 20.8% in the self employed and non professional segment albeit on a smaller base- Housing loans comprised almost 88% of the loan book while non housing made up the remainder. New approvals and disbursements, however, witnessed tepid negative growth of 6.4% and 7.6% y-o-y respectively in Q2FY20. 71% of fresh loan approvals during the second quarter of FY20 were for the housing segment. Salaried class continues to be its mainstay, constituting 71% of its loan book (vs 72% in Q2FY19).
- Increase in cost of funds accompanied with an increase in average yield explain robust NII growth to 19.2% (YoY) in Q2FY20, compared to a mere 2.1% (YoY) growth in Q2FY19- NIMs for the quarter remained flat at 3.2% (an increase of 4 bps y-o-y). Significant increase in operating expenses and marginal rise of 1% (YoY) in average business per branch did not help the cost to income ratio which climbed a 169 bps to 15.4% (12.9% in Q2FY19). With pre-provision profits up by 13.9% y-o-y, not large provisions and lower taxes helped post-tax earnings grow by 19.7% y-o-y.
- Can Fin's asset quality deteriorated in Q2FY20, with Gross NPA and Net NPA of 0.8% and 0.6% respectively (vs Gross NPA of 0.6% and Net NPA of 0.4% a year ago). Recovery was deferred due to the festive season and less number of working days in the quarter. However, it only created a small provision (Rs. 6.27 cr) due to already excess provision being carried by it as per the ECL (expected credit loss) model.
- The stock currently trades at 2.5x FY20e BV (13.2x FY20e EPS of Rs 29.72) and 2x FY21e BV (11.2x FY21e EPS of Rs 34.84). With its focus on affordable housing loans and significant total network expansion (195 in Q2FY20), we expect its loan book to grow by 16% in FY20 and 15% in FY21. GOI's CLSS (Credit Link Subsidy Scheme) would also be a big boost as a majority of incremental loans are towards LIG (low-income group) and MIG-1 (Mid-income group with income from Rs 6 lacs up to Rs 12 lacs). NII growth would accelerate by 17.9% in FY20 and 17.3% in FY21. Return ratios would see an improvement – ROA and ROE of 20.5% and 2% respectively in FY20. Weighing odds, we assign 'buy' rating on the stock with target price of Rs 478 (previous target Rs 417) based on 2.5x FY21e BV for a period of 9-12 months.

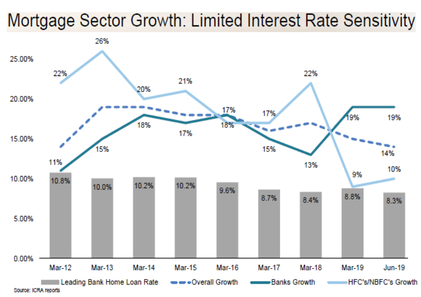
| (Rs crs) | FY17 | FY18 | FY19 | FY20e | FY21e |
|---|---|---|---|---|---|
| Net Interest Income | 421.99 | 509.56 | 530.45 | 625.32 | 733.48 |
| Non Interest Income | 47.69 | 31.4 | 31.8 | 36.91 | 41.82 |
| Pre-Provision Profits | 388.97 | 453.18 | 470.60 | 553.97 | 649.95 |
| Net profit | 234.91 | 286.11 | 296.71 | 395.83 | 463.91 |
| EPS(Rs)* | 17.65 | 21.49 | 22.28 | 29.72 | 34.84 |
| EPS growth (%) | 49.7 | 21.8 | 3.7 | 33.4 | 17.2 |

*adjusted for stock split.

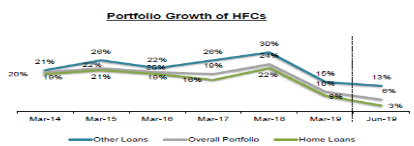
## Outlook & Recommendation

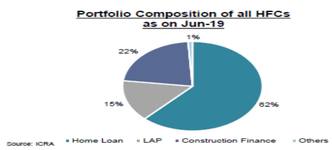
### Industry Overview

The liquidity crisis post the IL&FS default has hit the assets under management (AUM) of Housing Finance Companies (HFC) and also curtailed their disbursements, a report by rating agency Crisil said, adding that it expects growth to revive to 12 per cent to 14 per cent for these companies in the current and next fiscal. The industry AUM stood at Rs 12.4 lakh crore as on March 31, 2019, up 16% year-on-year. Given the HFCs' growth slowdown, banks managed to gain market share in home loans. Indeed, for the first time in at least five years, banks, supported by portfolio buy-outs, outpaced HFCs in home loans and grew at 19% in fiscal 2019. According to Krishnan Sitaraman, Senior Director, CRISIL Ratings, "Access to funding will determine the growth prospects for HFCs. As of now, lenders and investors seem to be differentiating between HFCs -- preferring those with strong parentage and credit profiles and going slow on those with a large wholesale portfolio. This will be reflected in business growth differing for these entities."

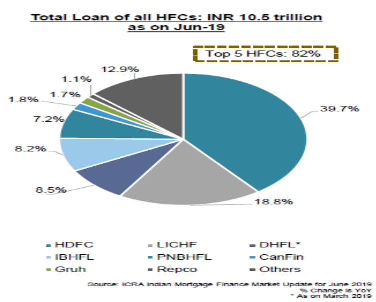


Source: ICRA



Source: ICRA



Source: ICRA

The Reserve Bank of India has suggested that housing finance companies in India must diversify their fundraising, and has proposed to establish a new intermediary to create a mortgage-backed securities market. Housing finance in India is a highly concentrated business, with the top five housing finance companies (HFCs) accounting for around 82 percent of the loans. While the large HFCs have access to bond markets in addition to banks borrowing and refinance as their source of funding, smaller HFCs, which play a critical role in providing home loans to economically weaker sections in India, almost entirely rely on banks and NHB refinance for funding. A deep and vibrant market for mortgage-backed securities will help accelerate the growth of smaller HFCs, RBI proposed in a recent report.

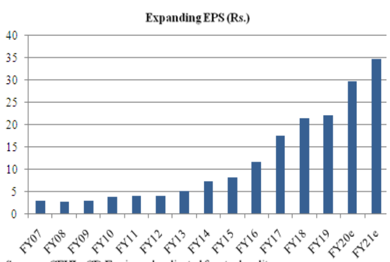
The HFCs have outstanding home loans of Rs 10.5 lakh crore, which is around 42 per cent of the total home loans and since they address around 40 per cent of the mortgage market, the recent liquidity crisis in the NBFCs have resulted in temporary stress for the sector. The government has operationalised a partial guarantee scheme for non-banking and housing finance companies (NBFCs and HFCs), which will allow PSU banks to purchase their assets. The move aimed to provide liquidity support to avoid distress sale of assets in a sector facing a shortage of cash due to asset-liability mismatch.

HFCs are the backbone of the Indian housing market and among the low and middle-income group houses, the proportion of loans from HFCs significantly increases. Thus, to achieve the BJP government's ambitious target of providing housing for all Indians by 2022, the HFCs need to remain healthy. The target of 'housing for all' needs an investment of Rs 100 lakh crore to build 10 crores more houses, going by the RBI report.

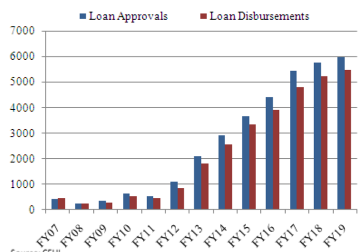
## Financials & Valuation

The company's initiative of setting up new branches in the non-metro areas to drive growth since FY16 has been visible. The number of non-metro branches has gone up to 109 in FY19 from 56 in FY16 (increase in total share from 51% to 63%) whereas the number in metros has gone up by just about 12 in the same period.CFL also plans to open about 30 new branches in FY20 in tier 3 and tier 4 cities taking the non-metro count to 140. This would almost double the number of total branches from March '16. Increasing competition and aggressive mortgage lending from banks and larger NBFCs/HFCs in metros and Tier I cities would provide CFL with stable growth avenues in Tier II and Tier III cities.

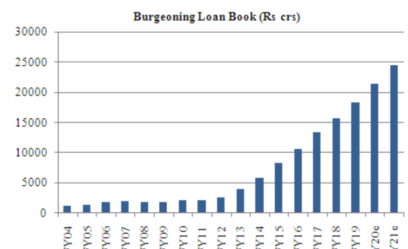
The company has also made progress by opening branches across the country thereby increasing its geographical presence- Out of the 189 branch network in FY19, 69 were in non south areas. The contribution from non south branches to new approvals increased to 31% in the last quarter of FY19 from 23% in FY16- The share of these branches in the total loan book increased from 24% to 29% over the same period. Karnataka still remains the dominant geography for Can Fin Homes with 21 branches but for a while, this market has been sluggish post events like demonetization, RERA, and GST which resulted in large amounts of unsold inventory and a slowdown in sales.



Sources: CFHL, CD Equisearch;adjusted for stock split



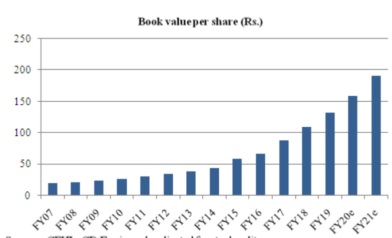
Source: CFHL



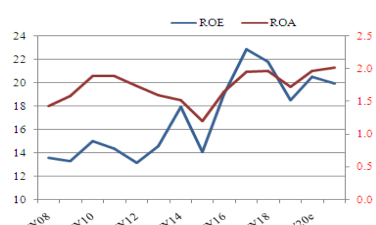
Sources: CFHL, CD Equisearch

The company's strategy to open more branches in the non-metro areas with the increase in presence from HFC's and NBFC's in Tier I and Tier II cities would provide it with modest growth opportunities while helping it maintain its margins. CFL's loan book in non-metros is growing by roughly around 30% while the same in metros is just above 10%. The average ticket size in non-metros is Rs. 10-12 lakhs and when this is the case, it can source its funding from NHBs affordable housing fund which is available only to the LIG segment- This enhances the company's spread to 3.5% here. This comes during a critical period where post the NBFC crisis, the funding costs have gone up for the NBFCs putting the banks in a more favourable position. As of FY18, 90% of the company's portfolio catered to affordable housing with close to 40% coming from the LIG segment.

The stock currently trades at 2.5x FY20e BV (13.2x FY20e EPS of Rs 29.72) and 2x FY21e BV (11.2x FY21e EPS of Rs 34.84). Majority of the customer profile consists of salaried individuals which do not put pressure on the quality of loan book. As of March 2019, over 70% of the loan book comprised of salaried individuals. Karnataka remains a dominant contributor with almost 40% share of the loan book. CFL's fee income currently is mainly contributed by the processing fee component while the contribution from third party business remains negligible since the company just last year started cross-selling insurance products. This is a lucrative avenue for the company to explore going forward. Weighing odds, we assign 'buy' rating on the stock with target price of Rs 478 (previous target Rs 417) based on 2.5x FY21e BV for a period of 9-12 months. For more information, refer to our April 2019 report.



Sources: CFHL, CD Equisearch;adjusted for stock split



Sources: CFHL, CD Equisearch

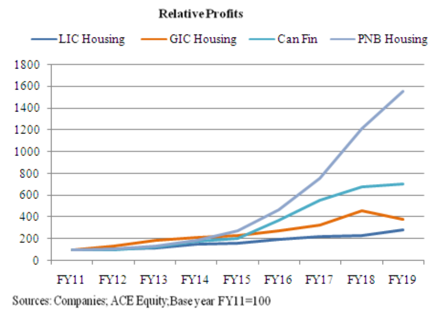
## Cross Sectional Analysis

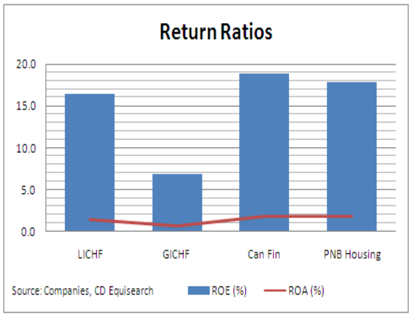
| Company | Equity* | CMP | Mcap* | NII* | Profit* | NIMs ***(%) | Loan Book growth(%) | ROE (%) | ROA (%) | P/E | P/BV |
|---|---|---|---|---|---|---|---|---|---|---|---|
| LICHF | 101 | 444 | 22405 | 4609 | 2673 | 2.4 | 14.5 | 16.5 | 1.4 | 8.4 | 1.3 |
| GICHF | 54 | 153 | 824 | 313 | 81 | 2.5 | 8.0 | 6.9 | 0.6 | 10.2 | 0.7 |
| Can Fin | 27 | 392 | 5218 | 577 | 321 | 3.2 | 15.8 | 18.8 | 1.7 | 16.3 | 2.7 |
| PNB Housing | 168 | 544 | 9154 | 2422 | 1334 | 3.4 | 11.3 | 17.8 | 1.7 | 6.9 | 1.1 |

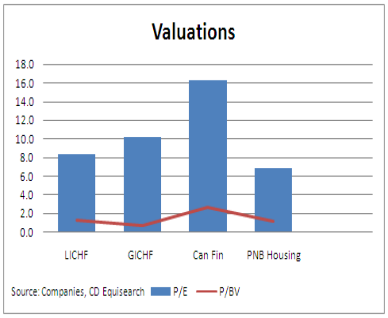
*figures in crores; calculations on ttm basis; standalone or consolidated data as available as on Sep 30, 2019.

Despite the recent liquidity crunch, LIC Housing Finance managed to post the highest growth (14.5%) in its loan portfolio in H1FY20 among CFL's peers, followed by PNB Housing Finance (see table). While many companies have gone through a difficult period, with the overall market scenario bleak, the affordable housing segment along with a non metro presence has helped some of these companies during this period. All companies experienced a sharp decline in their disbursements in Q2FY20- PNB Housing experienced a de-growth of 41% y-o-y, LIC Housing in comparison was just a 15% fall in Q2FY20 from last year while GIC Housing Finance experienced a dip of 49% for the half year ended 30th September 2019. Both LICHF and GICHF have similar current NIMs around the 2.5% mark, still way below Can Fin's 3.2% due to its presence in non-metros. LIC Housing Finance had the highest proportion of assets classified as stage 3 (2.4%) which is an indication of a high share of non-individual loans (24%).

In terms of network, LICHFL boasts of large geographic presence with 282 marketing offices across India. Other players like GICHF have strong regional presence in western India, while Can Fin derives most of their business from southern India. Western India is PNB Housing's largest market, with 40% of assets under management, followed by North and South at 30% each. With increase in competitive intensity-rise in number of players and stress in the NBFC sector has led to dilution in lending norms, thereby impacting asset quality. Despite recent turmoil in the housing finance industry, HFCs are on a high growth path with affordable housing one of the main focus area of the government.




Note: Graphs on standalone or consolidated data as applicable.

## Financials

### Quarterly Results

Figures in Rs crs

| | Q2FY20 | Q2FY19 | % chg. | H1FY20 | H1FY19 | % chg. |
|---|---|---|---|---|---|---|
| Net Interest Income | 155.52 | 130.50 | 19.2 | 303.40 | 256.91 | 18.1 |
| Non Interest Income | 6.68 | 7.64 | -12.5 | 13.57 | 13.91 | -2.4 |
| **Total Operating Income** | **162.20** | **138.13** | **17.4** | **316.97** | **270.82** | **17.0** |
| Operating Expenses | 25.03 | 17.75 | 41.0 | 48.25 | 37.81 | 27.6 |
| **Pre-Provision Profits** | **137.17** | **120.38** | **13.9** | **268.72** | **233.01** | **15.3** |
| Provision | 6.27 | 0.00 | - | 14.93 | 0.00 | - |
| **PBT** | **130.89** | **120.38** | **8.7** | **253.79** | **233.01** | **8.9** |
| Tax | 33.27 | 38.83 | -14.3 | 75.19 | 78.24 | -3.9 |
| **PAT** | **97.62** | **81.55** | **19.7** | **178.60** | **154.77** | **15.4** |
| Extraordinary items | - | - | **-** | - | - | - |
| **Adjusted Net Profit** | **97.62** | **81.55** | **19.7** | **178.60** | **154.77** | **15.4** |
| Basic EPS (F.V.2) | 7.33 | 6.12 | **19.7** | 13.41 | 11.62 | 15.4 |

### Income Statement

Figures in Rs crs

| | FY17 | FY18 | FY19 | FY20e | FY21e |
|---|---|---|---|---|---|
| Net Interest Income | 421.99 | 509.56 | 530.45 | 625.32 | 733.48 |
| Non Interest Income | 47.69 | 31.40 | 31.80 | 36.91 | 41.82 |
| **Total Operating Income** | **469.68** | **540.96** | **562.25** | **662.23** | **775.29** |
| Operating Expenses | 80.71 | 87.77 | 91.65 | 108.26 | 125.34 |
| **Pre-Provision Profits** | **388.97** | **453.18** | **470.60** | **553.97** | **649.95** |
| Provision | 18.80 | 22.10 | 1.09 | 25.00 | 30.00 |
| **PBT** | **370.17** | **431.08** | **469.50** | **528.97** | **619.95** |
| Tax | 134.91 | 144.89 | 172.77 | 133.14 | 156.04 |
| **PAT** | **235.26** | **286.19** | **296.74** | **395.83** | **463.91** |
| Extraordinary items | 0.35 | 0.08 | 0.03 | 0.00 | 0.00 |
| **Adjusted Net Profit** | **234.91** | **286.11** | **296.71** | **395.83** | **463.91** |
| Basic EPS (F.V.2) | 17.65 | 21.49 | 22.28 | 29.72 | 34.84 |

**Balance Sheet**

Figures in Rs crs

| | FY17 | FY18 | FY19 | FY20e | FY21e |
|---|---|---|---|---|---|
| **Sources Of Funds** | **13277.06** | **15706.29** | **18755.83** | **21385.54** | **24587.26** |
| **Shareholders Funds** | **1203.70** | **1486.99** | **1782.19** | **2145.91** | **2577.71** |
| Share Capital | 26.62 | 26.63 | 26.63 | 26.63 | 26.63 |
| Reserves and Surplus | 1177.08 | 1460.35 | 1755.55 | 2119.27 | 2551.08 |
| **Financial Liabilities** | **12042.13** | **14168.77** | **16904.56** | **19160.93** | **21920.25** |
| Debt Securities | 3697.57 | 4898.27 | 3450.15 | 3618.12 | 4023.24 |
| Borrowings (Other than debt securities) | 8169.95 | 9022.75 | 13244.29 | 15287.85 | 17605.54 |
| Other Financial Liabilities | 174.61 | 247.75 | 210.13 | 254.96 | 291.47 |
| **Non Financial Liabilities** | **31.23** | **50.54** | **69.08** | **78.70** | **89.30** |
| Provisions | 27.13 | 33.63 | 26.64 | 28.25 | 30.01 |
| Other Non Financial Liabilities | 15.04 | 40.15 | 66.45 | 74.76 | 83.92 |
| Deferred Tax Liability | -10.94 | -23.24 | -24.01 | -24.31 | -24.63 |
| **Application of Funds** | **13277.06** | **15706.29** | **18755.83** | **21385.54** | **24587.26** |
| **Financialt Assets** | **13262.22** | **15681.54** | **18723.88** | **21361.30** | **24561.47** |
| Cash and Cash Equivalents | 19.95 | 19.02 | 420.25 | 19.96 | 21.57 |
| Investments | 15.99 | 16.00 | 16.07 | 16.07 | 16.07 |
| Loans and Advances | 13224.14 | 15644.00 | 18284.52 | 21321.96 | 24520.25 |
| Other Financial Assets | 2.14 | 2.52 | 3.04 | 3.31 | 3.58 |
| **Non Financial Assets** | **14.83** | **24.75** | **31.95** | **24.24** | **25.79** |
| Tangible Assets | 10.17 | 9.57 | 9.85 | 9.42 | 8.67 |
| Other Non Financial Assets | 4.66 | 15.18 | 22.10 | 14.82 | 17.12 |

## Key Financial Ratios

| | FY17 | FY18 | FY19 | FY20e | FY21e |
|---|---|---|---|---|---|
| **Growth Ratios (%)** | | | | | |
| Net Interest Income | 40.2 | 20.8 | 4.1 | 17.9 | 17.3 |
| Total Operating Income | 38.0 | 15.3 | 3.9 | 17.8 | 17.1 |
| Pre Provision Profits | 42.3 | 16.6 | 3.9 | 17.7 | 17.3 |
| Net Profit | 49.7 | 21.8 | 3.7 | 33.4 | 17.2 |
| EPS | 49.7 | 21.8 | 3.7 | 33.4 | 17.2 |
| Loan Book | 25.1 | 18.3 | 16.8 | 16.0 | 15.0 |
| **Return Ratios (%)** | | | | | |
| ROE | 22.9 | 21.8 | 18.5 | 20.5 | 19.9 |
| ROA | 2.0 | 2.0 | 1.7 | 2.0 | 2.0 |
| **Margins (%)** | | | | | |
| Cost To Income Ratio | 17.2 | 16.2 | 16.3 | 16.3 | 16.2 |
| Net Interest Margin (% of Loan Book) | 3.5 | 3.5 | 3.1 | 3.2 | 3.2 |
| **Asset Quality (%)** | | | | | |
| Gross NPA | 0.2 | 0.4 | 0.6 | 0.7 | 0.7 |
| Net NPA | 0.0 | 0.2 | 0.4 | 0.4 | 0.3 |
| **Valuation Ratios** | | | | | |
| P/BV | 4.8 | 4.4 | 2.7 | 2.5 | 2.0 |
| P/E | 24.0 | 22.5 | 15.7 | 13.2 | 11.2 |
| **Other Ratios** | | | | | |
| Debt / Equity | 10.1 | 9.6 | 9.5 | 8.9 | 8.5 |

**Cumulative Financial Data**

| | FY10-12 | FY13-15 | FY16-18 | FY19-21e |
|---|---|---|---|---|
| NII | 219 | 408 | 1232 | 1889 |
| Pre-provision profits | 182 | 336 | 1114 | 1674 |
| PBT | 174 | 319 | 1054 | 1618 |
| PAT | 124 | 216 | 678 | 1156 |
| Dividends | 18 | 47 | 96 | 96 |
| Loan Book* | 2674 | 8231 | 15743 | 24520 |
| Loan Book growth (%) | 42.5 | 207.8 | 91.3 | 55.8 |
| Cost to Income (%) | 23.9 | 28.6 | 17.4 | 16.3 |
| NIM (%) | 3.2 | 2.5 | 3.4 | 3.1 |
| ROE (%) | 14.0 | 12.9 | 20.3 | 19.3 |
| ROA (%) | 1.8 | 1.3 | 1.9 | 1.9 |
| GNPA (%)* | 0.7 | 0.2 | 0.4 | 0.7 |
| Dividend payout ratio (%) | 14.3 | 21.7 | 14.2 | 8.3 |

FY10-12 implies three year period ending fiscal 12;*as on terminal year.

Strong growth in the housing finance industry and fast expanding branch network (from 41 in FY11 to 189 in FY19) have helped Can Fin post almost 6.0x loan book growth from FY12 to FY19. Its strategy of mobilizing funds from various sources partially explains the increase in NII growth of 202% during FY16-18 period (see table). Cost to income improved significantly after peaking to 28.6% during FY13-15 period because of a rise in operating expenses in FY13. NIMs too seem to have improved in three years ending FY18, largely because of moderation in cost to income ratio.

With expected improvement in liquidity scenario in HFC space, Can Fin would witness loan book growth of 55.8% by end of FY21 from that in FY18. Higher interest expenses would however curtail NIMs expansion (see table). However, significant cost control at operational levels and improved employee productivity would perk up cost to income ratio to 16.3% in the three year period ending FY21. Increase in profits along with lower provisions would help sustain ROE at 19.3%.

**Financial Summary- US$ denominated**

| million $ | FY17 | FY18 | FY19 | FY20e | FY21e |
|---|---|---|---|---|---|
| Equity capital | 4.1 | 4.1 | 3.9 | 3.7 | 3.7 |
| Shareholders funds | 180.70 | 223.7 | 253.0 | 295.3 | 355.6 |
| Total debt | 1830.3 | 2140.2 | 2413.5 | 2640.8 | 3021.2 |
| Total loans and advances | 2039.6 | 2405.2 | 2643.5 | 2978.4 | 3425.2 |
| Investments | 2.5 | 2.5 | 2.3 | 2.2 | 2.2 |
| Total assets | 2047.7 | 2414.7 | 2711.5 | 2987.2 | 3434.4 |
| | | | | | |
| Net Interest Income | 62.9 | 79.1 | 75.9 | 87.3 | 102.5 |
| Pre-provision Profits | 57.9 | 70.3 | 67.3 | 77.4 | 90.8 |
| PBT | 55.1 | 66.9 | 67.2 | 73.9 | 86.6 |
| PAT | 35.0 | 44.4 | 42.5 | 55.3 | 64.8 |
| EPS($) | 0.26 | 0.33 | 0.32 | 0.42 | 0.49 |
| Book value ($) | 1.36 | 1.68 | 1.90 | 2.22 | 2.67 |

Income statement figures translated at average rates; balance sheet at year end rates; Projections at current rates (Rs 71.59/$).
All dollar denominated figures are adjusted for extraordinary items.

## Disclosure & Disclaimer

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| buy: >20% | accumulate: >10% to ≤20% | hold: ≥-10% to ≤10% | reduce: ≥-20% to <-10% | sell: <-20% |
|---|---|---|---|---|

Exchange Rates Used- Indicative

| Rs/$ | FY16 | FY17 | FY18 | FY19 |
|---|---|---|---|---|
| Average | 65.46 | 67.09 | 64.45 | 69.89 |
| Year end | 66.33 | 64.84 | 65.04 | 69.17 |

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.