

Retail Equity Research

Can Fin Homes Limited

NBFC

 BSE CODE: 511196 NSE CODE: CANFINHOME
 Bloomberg CODE: CANF:IN SENSEX: 37,481

ACCUMULATE

12M Investment period Rating as per Small cap

CMP Rs. 387 TARGET Rs. 432 RETURN 12% ↑
 (Closing: 31-07-19)

KEY CHANGES:
TARGET ↑

RATING ↓

EARNINGS ↓

Solid performance; Attractive valuation

Can Fin Homes Limited is the housing finance arm of Canara Bank. The company has dominance in South India with focus on Tier 1 and 2 cities. It provides housing loans, composite loans, non-housing loans, mortgage loans, site loans, loans for commercial properties, as well as fixed and cumulative deposits.

- Loans book grew 17.3% YoY, with housing loans (including non-salaried class) growing at 16.5% in Q1FY20.
- Net interest margin (NIM) remained flat YoY, owing to largely stable interest spread.
- GNPA/NNPA ratio stood at 0.73%/0.52% (vs. 0.62%/0.43% in Q4FY19), respectively.
- We value the stock at 2.4x on FY21E BVPS of Rs. 180 with a target price of Rs. 432 and downgrade to ACCUMULATE.

Salaried professionals and housing segment driving loan book

Company registered a strong growth in loans book during Q1FY20 (+17.3% YoY to Rs. 19,003 cr), with the housing segment contributing 89.4% of the total loans. During the quarter, 88.7% of fresh loan approvals were for housing and 11.3% for non-housing segment. The company's loan book relies on the salaried and professional segment (representing 71.1% of total loan book), which grew 14.7% YoY to Rs. 13,520 cr. On the funding side, banks contributed 50% of the funding (vs. 39% in Q1FY19).

Stable operating performance

In Q1FY20, NIM remained largely stable YoY at 3.2% (up 4bps sequentially), as improvements in yield on advances (+23bps YoY to 10.2%) were exactly offset by rising cost of funds (+22bps YoY to 7.9%). Non-interest income grew 9.8% YoY to Rs. 7cr. Cost-to-income ratio increased 36bps YoY to 15.4%. Pre-provision profit and net income increased 16.8% and 10.6% YoY, respectively.

Key highlights

- The company reached a clientele base of 1.5 lacs
- Management plans to enter into distribution of insurance products through corporate agency arrangement
- Company is targeting to reach loan book of Rs. 23,000cr by FY20-end and Rs. 40,000cr by FY22-end (CAGR of 26% over FY18-22). Our estimates are based on a slightly conservative growth assumptions for the loan book (21% CAGR over FY19-21).

Asset quality deteriorated slightly

The company's GNPA reached Rs. 139 cr., and GNPA ratio deteriorated marginally in Q1FY20 (+11bps QoQ to 0.7%). NNPA ratio also witnessed similar weakness (+9bps QoQ to 0.5%). Capital adequacy ratio increased to 19.6% in Q1FY20 versus to 18.7% in Q1FY19 and 16.4% in Q4FY19. The liquidity position remains strong with a projected surplus of Rs. 1,726cr by Q4FY20.

Outlook & Valuation

Robust loan growth outlook with increasing customer base, expansion of branches in non-metro, Tier 3 cities and stable asset quality are expected to support the company's overall margins and growth. We value the stock at 2.4x FY21E BVPS (vs. 1.8x earlier) with a target price of Rs. 432 and downgrade to ACCUMULATE.

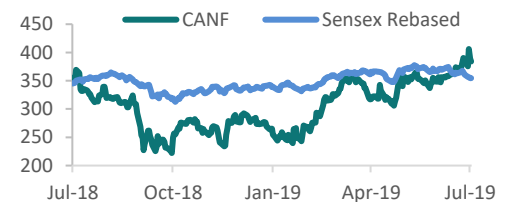
Company Data

Market Cap (cr)	Rs. 5,148
Outstanding Shares (cr)	13.3
Free Float	70.0%
Dividend Yield	0.6%
52 week high	Rs. 420
52 week low	Rs. 217
6m average volume (cr)	0.1
Beta	1.6
Face value	Rs. 2

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	30.0	30.0	30.1
FIIIs	0.8	0.8	0.6
MFs/Insti	3.5	3.1	1.3
Public	30.4	29.2	30.1
Others	35.4	37.0	38.0
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	22.9%	54.9%	7.2%
Absolute Sensex	-4.2%	5.1%	-0.3%
Relative Return*	27.1%	49.8%	7.5%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY19A	FY20E	FY21E
Net Interest Income	530	588	713
Growth (%)	4.1	10.8	21.4
NIM (%)	3.1	2.9	2.9
Pre-Provision Profit	471	509	618
Net Profit	297	316	388
Growth (%)	3.7	6.6	22.7
Adj. EPS	22.3	23.8	29.2
Growth (%)	3.7	6.6	22.7
BVPS	133.9	154.6	179.8
P/E	15.7	16.3	13.3
P/B	2.6	2.5	2.2
P/ABV	2.6	2.5	2.2
ROE (%)	18.2	16.5	17.4
ROA (%)	1.8	1.5	1.6

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs. cr)	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Interest Income	477	396	20.4	451	5.7
Interest Expense	329	270	22.0	314	5.0
Net Interest Income (NII)	148	126	17.0	138	7.4
Non-Interest Income	7	6	9.8	12	(44.5)
Total Net Income	155	133	16.6	150	3.1
Total Income	484	403	20.2	464	4.4
Operating Expenses	23	20	15.8	33	(28.6)
Total Expenditure	353	290	21.6	346	1.8
Pre-Provision profit	132	113	16.8	118	11.9
Provisions	9	-	n.m.	1	n.m.
Profit Before Tax	123	113	9.1	116	5.5
Tax	42	39	6.4	49	(15.3)
Net Profit	81	73	10.6	67	20.8
EPS (Rs.)	6.1	5.5	10.5	5.0	20.9

Business Performance

(Rs. cr)	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Loans	19,003	16,189	17.4	18,381	3.4
Approvals	1,289	1,209	6.6	1,738	(25.8)
Disbursements	1,276	1,164	9.6	1,554	(17.9)

Change in Estimates

(Rs. cr)	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	685	805	588	713	(14.2)	(11.4)
Net Interest Margin (%)	3.5	3.5	2.9	2.9	(61bps)	(58bps)
Pre-Provision Profit	638	755	509	618	(20.3)	(18.2)
Net Profit	401	474	316	388	(21.1)	(18.1)
EPS (Rs.)	30.1	35.6	23.8	29.2	(21.0)	(18.1)

PROFIT & LOSS

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	1,306	1,491	1,700	2,052	2,508
Interest Expense	884	981	1,169	1,465	1,794
Net Int. Income	422	510	530	588	713
% Change	40.2	20.8	4.1	10.8	21.4
Non-Int. Income	47	31	32	33	33
Net Income	469	541	562	620	747
Total Income	1,353	1,522	1,731	2,085	2,541
Operating Exp.	81	88	92	112	129
Total Exp.	965	1,069	1,261	1,576	1,923
Pre-Prov. Profit	388	453	471	509	618
Provisions	19	22	1	28	29
PBT	370	431	470	480	589
Tax	135	145	173	164	201
Tax Rate (%)	36.5	33.6	36.8	34.2	34.1
Net Profit	235	286	297	316	388
% Change	49.4	22.0	3.7	6.6	22.7
No. of Shares (cr)	13	13	13	13	13
Adj. EPS (Rs)	17.6	21.5	22.3	23.8	29.2
% Change	49.7	21.9	3.7	6.6	22.7
DPS (Rs)	0.0	2.0	2.0	3.0	4.0

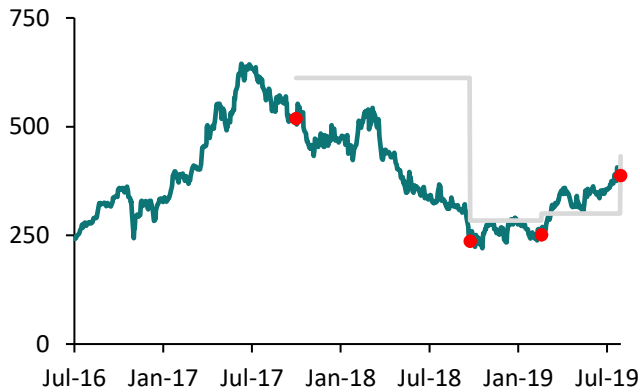
BALANCE SHEET

Y.E March (Rs. cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	20	19	420	363	667
Investments	16	16	16	17	18
Advances	13,224	15,644	18,285	22,124	26,770
Fixed Assets	10	10	10	10	11
Other Assets	18	41	49	49	49
Total Assets	13,288	15,730	18,780	22,563	27,515
Capital	27	27	27	27	27
Reserves & Surplus	1,177	1,460	1,756	2,032	2,367
Deposits	227	228	261	300	330
Borrowings	11,641	13,693	16,433	19,852	24,380
Other Liabilities	217	322	303	353	411
Total Liabilities	13,288	15,730	18,780	22,563	27,515
BVPS (Rs)	90.5	111.7	133.9	154.6	179.8
% Change		23.4	19.9	15.5	16.3

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	23.6	23.5	15.7	16.3	13.3
P/BV (x)	4.6	4.5	2.6	2.5	2.2
Div. Yield (%)	0.0	0.4	0.6	0.8	1.0
Profitab. & Return (%)					
Yield on Advances	11.0	10.3	10.1	10.2	10.3
Cost of Deposits	8.4	7.7	7.9	8.0	8.0
Spread	2.6	2.6	2.2	2.2	2.3
NIM	3.5	3.5	3.1	2.9	2.9
ROE	21.9	22.4	18.2	16.5	17.4
ROA	2.0	2.1	1.8	1.5	1.6
Capital Adequacy (%)					
CAR	18.5	19.1	16.4	16.6	16.8
Tier I	16.0	17.0	14.6	14.9	15.3
Tier II	2.5	2.1	1.8	1.6	1.5
Asset Quality (%)					
GNPA	0.2	0.4	0.6	0.7	0.8
NNPA	0.0	0.2	0.4	0.5	0.5
Operating Ratios (%)					
Debt/Equity	10.0	9.5	9.5	9.9	10.4
Cost/Income	17.2	16.2	16.3	18.0	17.2

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
10-Oct-17	BUY	612
28-Sep-18	BUY	284
20-Feb-19	BUY	300
01-Aug-19	ACCUMULATE	432

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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