

# Can Fin Homes

22 January 2020

Reuters: CNFH.NS; Bloomberg: CANF IN

## 20% growth in medium term; asset quality, NIM outlook bright

Can Fin Homes (CFHL) has reported its 3QFY20 results with the key pointers being: (1) Loan book growth was 15% YoY on the back of strong growth in disbursements (2) NIM, at 3.42%, expanded 8 bps QoQ, aided by reduction in CoF (3) Gross NPAs were stable at 0.80%; likely to improve going forward (See *comprehensive* conference call takeaways on page 2 for *significant incremental colour*). Per se, on the key P&L items, CFHL has posted 24% YoY NII growth at Rs1,680mn, PPOP growth of 24% YoY at Rs1,501mn and PAT growth of 41% YoY at Rs1,066mn. We have revised our estimates for FY20/FY21/FY22 and retained Buy rating on CFHL, revising our target price to Rs540 (from Rs490 earlier) and valuing the stock at 2.3x H1FY22E P/BV.

**Loan book growth was 15% YoY on the back of strong growth in disbursements:** Total disbursements grew by 12% YoY to Rs147.67bn and are expected to stay strong going forward. The management has guided for 15-20% growth in the near-to-medium term, which we believe would be higher than the industry average. Housing loans (incl. top-ups) grew by 15% YoY. Growth in the salaried segment was 14% YoY/3% QoQ while growth in the non-salaried segment was 17% YoY/3% QoQ. The company continues to see uplift in business in Karnataka, which has turned conducive since the last few quarters. Focus on affordable housing in tier 2/3/4 cities/non-metro regions continued to be supportive of growth. Outside of its home states, the company is growing in Andhra Pradesh, Telangana and North India, as a result of which, dependency on Karnataka has come down. At a time when the sector is going through funding challenges despite plentiful liquidity, the company remains well funded with unutilized bank lines of ~Rs40bn. The company has secured funding commitment upto July 2020 and has plans to raise NCDs, which provides growth visibility. We estimate loan book growth of 15.4%/17.3%/20.2% for FY20/21/22E. The company's awareness regarding asset quality challenges that could potentially come with higher growth (of 25-30%) is comforting.

**NIM, at 3.42%, expanded 8 bps QoQ, aided by reduction in CoF:** Focus remains on small markets where bank presence is less. Additionally, loan ticket sizes in such areas are relatively low, thereby reducing the scope for price negotiation compared to higher ticket size loans. These factors have been NIM accretive. Additionally, the company has been able to raise long-term funds at favorable rates despite the recent rating downgrade. As a result, incremental cost of borrowings has come down. For the quarter, cost of funds stood at 7.88%, down 7bps QoQ/1bps YoY. While the liability mix depends on the cost of each source, the company has said that it expects the share of market borrowings to increase slightly while the share of bank borrowings could come down. NHB funding is coming in at less than 7%. NIM expansion has played out in line with our earlier stance that the company would see favorable economics from a margin perspective. We increase our NIM estimates by 3-5 bps over FY20-22E to 3.3%.

**Gross NPAs stable at 0.80%; likely to improve going forward:** GNPA's were reported at Rs1.61 bn, a net addition of Rs61.9mn QoQ. As envisaged, the pace of bad asset addition has reduced over the last 3 quarters, in line with management guidance. NNPA's were 0.59% (+1bps QoQ). Having invested efforts in collections and recoveries, the company remains optimistic with respect to reduction in NPAs/improvement in asset quality over the next few quarters. Of the total portfolio, 75% exposure is towards self-construction while 25% is towards apartments. Given that the company funds only low rise projects and at near-completion stage, asset quality risk from exposure to under-construction apartments is negligible.

**Valuation and outlook:** We have revised our NII estimates by 0.8%/1.6%/2.8%, PPOP estimates by 1.1%/2.0%/3.3% and PAT estimates by 1.8%/2.1%/3.5% for FY20/FY21/FY22. We have retained Buy rating on CFHL, revising our target price to Rs540 (from Rs490 earlier) and valuing the stock at 2.3x H1FY22E P/BV.

## BUY

Sector: NBFC

CMP: Rs464

Target Price: Rs540

Upside: 16%

**Raghav Garg, CFA**

 Research Analyst  
 raghav.garg@nirmalbang.com  
 +91-22-6273 8192

**Arjun Bagga**

 Research Associate  
 arjun.bagga@nirmalbang.com  
 +91-22-6273 8111

### Key Data

Current Shares O/S (mn)	133.2
Mkt Cap (Rsbn/US\$m)	61.7/867.3
52 Wk H / L (Rs)	467/235
Daily Vol. (3M NSE Avg.)	330,375

### Price Performance (%)

	1 M	6 M	1 Yr
Can Fin Homes	18.2	19.4	75.4
Nifty Index	(0.8)	6.6	11.0

Source: Bloomberg

Y/E Mar (Rsmn)	Q3FY20	Q3FY19	Q2FY20	YoY (%)	QoQ (%)
Interest Income	5,078	4,376	4,940	16.0	2.8
Interest Expense	3,398	3,016	3,385	12.7	0.4
<b>Net Interest Income</b>	<b>1,680</b>	<b>1,360</b>	<b>1,555</b>	23.5	8.0
<b>NIM (%)</b>	<b>3.42</b>	<b>3.31</b>	<b>3.34</b>	11bps	8bps
Fee & Other income	90	63	67	42.0	34.7
<b>Total Income</b>	<b>1,770</b>	<b>1,424</b>	<b>1,622</b>	24.3	9.1
Staff Cost	138	85	123	63.3	12.8
Other Op Exp	130	130	128	0.2	2.1
Total Operating Expenses	269	215	250	25.1	7.4
Cost to Income (%)	15.2	15.1	15.4	10bps	-25bps
Cost to AUM (%)	0.5	0.5	0.5	4bps	2bps
<b>Pre-Provisioning Operating profit</b>	<b>1,501</b>	<b>1,209</b>	<b>1,372</b>	24.2	9.4
Provisions	45	-	63	NA	(27.5)
Credit Cost (%)	0.09	-	0.13	9bps	-4bps
<b>PBT</b>	<b>1,456</b>	<b>1,209</b>	<b>1,309</b>	20.4	11.2
Tax	390	451	333	(13.5)	17.1
-effective tax rate	26.8	37.3	25	-1,051bps	134bps
<b>PAT</b>	<b>1,066</b>	<b>758</b>	<b>976</b>	40.6	9.2
Other Comprehensive Income	(5)	(16)	(5)	(70.6)	(5.4)
<b>Total Comprehensive Income</b>	<b>1,061</b>	<b>742</b>	<b>971</b>	43.0	9.3
EPS (Rs)	8.0	5.6	7.3	43.0	9.3
Advances	201,716	175,680	194,902	14.8	3.5

Source: Company, Nirmal Bang Institutional Equities Research

## Comprehensive conference call takeaways

### Asset Quality

- Having put efforts in collection and recovery, the company expects asset quality to improve going forward.
- The company continues to emphasize on declared income over surrogate income as one of the underwriting measures.
- NPAs in the self-employed segment are more than double of those in the salaried segment.
- As per the company, differences in asset quality are more specific to products and profiles rather than geography.

### Business and Loan Growth

- The company continues to see opportunities in the affordable housing space. The focus will be on projects in tier 2/3/4 cities where property values are low.
- Core focus for the company will continue to be home loans. Non-home loans have shown higher growth as the base is small.
- There was no portfolio buyout during the quarter. The company is not looking at inorganic growth presently.
- The average ticket size for LAP/Non-LAP loans is similar to previous quarters.
- Majority of the high ticket size loans (above Rs5mn) are home loans and salaried customer loans.
- The company has guided for 15-20% AUM growth going forward.
- Despite the market being vacated by a few HFCs, the company is not pursuing these opportunities due to their own risk underwriting parameters/threshold.
- Company has customer retention mechanisms in place and is managing it well. The increase in repayment rate during the quarter was due to CLSS subsidy of Rs 1.45-1.5bn.
- While the company doesn't compete with banks at the time of sourcing business, but after 3-4 years, customers may move out due to rate difference compared to banks. This an inherent risk in the HFC model.
- As per the management, their top 3 priorities are growth, asset quality and profitability.
- As per the company, 20% of the monthly disbursements are inward balance transfers.
- In apartment funding, the company funds only low-rise projects which are nearing completion. Proportion of under construction loans is very small.
- RERA registration challenges in Karnataka have been resolved and growth has resumed for the company.
- The company's dependency on Karnataka is coming down while at the same time, the company is growing in Telangana, Andhra Pradesh and Northern markets.
- The company expects the 70/30 mix of salaried/self employed to be maintained going forward.
- The company now has presence in all critical states and going forward, plan is to expand within smaller cities in existing geographies.
- The company has no plans to expand in developer loans and the exposure would not exceed 0.4%-0.5%.
- Non-home loans may increase to a maximum of 10-11% of total book in the next 3 years, compared to ~5% presently.
- While demand has come down in affordable housing, it is still strong compared to other segments. As per the company, the next 6-8 quarters are not the right time to pursue growth aggressively.
- South India forms 70% of the loan book, however, incremental growth is stronger in other regions due to the company's decision of expanding in other geographies. Within south India, loan book is majorly concentrated in Karnataka (25-26%), Andhra Pradesh (19-20%) and Tamil Nadu (13-14%).

## Margin, Liabilities and Liquidity

- The company would maintain its current NIM/spread levels going forward; significant expansion is unlikely.
- The outstanding borrowings stand at Rs 178bn.
- As per the company, decrease in interest rates translates into reduced cost of borrowings meaningfully with a lag of 3-4 quarters.
- The company plans to raise NCDs going forward and will take a call in the next few months.
- Despite a rating downgrade during the quarter, the company has raised funds at rates as good as AAA. There may be a ratings revision in the coming days.
- The company currently has unutilized credit lines of ~Rs40bn.
- The incremental cost of bank borrowings stood at ~7.75%.
- Over the last 6 months, the company has cut home loan rates by 30-50 bps in different segments.
- The minimum interest rate offered by the company stands at 8.75%.
- Over the last 6-8 months, the company has borrowed funds from NHB at very competitive rates.
- The blended cost of borrowing from NHB was <7%.
- As per the bank, it has enough funds to meet commitments upto July. ALM mismatch is positive.
- Going forward, the liabilities mix would largely be the same with minor changes. There may be drop in the share of bank borrowings and increase in NHB and market borrowings.

## Operating Expenses

- The company plans to achieve branch count of 200 by March 2020. Branch count currently stands at 196.
- Increase in employee expenses was due to increased headcount.

## Capital adequacy

- CAR has seen a significant improvement due to reclassification of loans.
- The company reiterated its plans to raise capital over the next 3-6months. The decision regarding doing a QIP or rights issue would be taken later. The intention behind raising equity capital is to reduce leverage.

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net interest income	5,096	5,304	6,438	7,616	8,994
Pre-provisioning operating profit	4,532	4,706	5,744	6,821	8,030
PAT	2,862	2,967	4,105	4,856	5,761
EPS (Rs)	21.5	22.3	30.8	33.7	40.0
BV (Rs)	111.7	133.8	162.2	216.2	253.8
P/E (x)	21.6	20.8	15.1	13.8	11.6
P/BV (x)	4.2	3.5	2.9	2.1	1.8
Gross NPAs (%)	0.4	0.6	0.7	0.7	0.6
Net NPAs (%)	0.2	0.5	0.4	0.4	0.3
RoA (%)	2.0	1.7	2.1	2.1	2.1
RoE (%)	21.3	18.2	20.8	18.4	17.0

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Actual performance versus our estimates

(Rsmn)	Q3FY20	Q3FY19	Q2FY20	YoY (%)	QoQ (%)	Q3FY20E	Devi. (%)
Net interest income	1,680	1,360	1,555	23.5	8.0	1,643	2.3
Pre-provisioning Operating Profit	1,501	1,209	1,372	24.2	9.4	1,464	2.5
PAT	1,066	758	976	40.6	9.2	1,039	2.6

Source: Company, Nirmal Bang Institutional Equities Research.

## Exhibit 3: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income (Rs mn)	6,438	7,616	8,994	6,387	7,495	8,748	0.8	1.6	2.8
Net Interest Margin (%)	3.3	3.3	3.3	3.2	3.3	3.2	3 bps	5 bps	9 bps
Operating Profit (Rs mn)	5,744	6,821	8,030	5,682	6,688	7,769	1.1	2.0	3.3
Profit after tax (Rs mn)	4,105	4,856	5,761	4,034	4,756	5,567	1.8	2.1	3.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	14,906	16,995	20,008	23,025	27,101
Interest expense	9,810	11,691	13,569	15,409	18,107
<b>Net interest income</b>	<b>5,096</b>	<b>5,304</b>	<b>6,438</b>	<b>7,616</b>	<b>8,994</b>
Non-interest income	314	318	338	409	476
<b>Net revenues</b>	<b>5,410</b>	<b>5,622</b>	<b>6,776</b>	<b>8,025</b>	<b>9,470</b>
Operating expenses	878	916	1,032	1,203	1,440
-Employee expenses	448	414	499	575	686
-Other expenses	430	503	533	629	754
<b>Pre-prov. Op. Profit</b>	<b>4,532</b>	<b>4,706</b>	<b>5,744</b>	<b>6,821</b>	<b>8,030</b>
Provisions	221	11	257	330	328
PBT	4,311	4,695	5,488	6,492	7,702
Tax	1,449	1,728	1,383	1,636	1,941
<b>PAT</b>	<b>2,862</b>	<b>2,967</b>	<b>4,105</b>	<b>4,856</b>	<b>5,761</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	266	266	266	288	288
Reserves & surplus	14,604	17,556	21,340	30,827	36,242
<b>Net worth</b>	<b>14,870</b>	<b>17,822</b>	<b>21,606</b>	<b>31,115</b>	<b>36,530</b>
Borrowings	1,39,210	1,66,944	1,87,812	2,15,045	2,58,345
Other liability & provisions	3,215	3,032	3,143	3,341	5,017
<b>Total liabilities</b>	<b>1,57,295</b>	<b>1,87,798</b>	<b>2,12,561</b>	<b>2,49,501</b>	<b>2,99,892</b>
Fixed assets	96	99	400	440	484
Investments	160	161	165	165	165
Loans	1,56,440	1,82,845	2,11,090	2,47,693	2,97,798
Cash	190	4,203	317	495	596
Other assets	409	491	590	708	849
<b>Total assets</b>	<b>1,57,295</b>	<b>1,87,798</b>	<b>2,12,561</b>	<b>2,49,501</b>	<b>2,99,892</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Key ratios

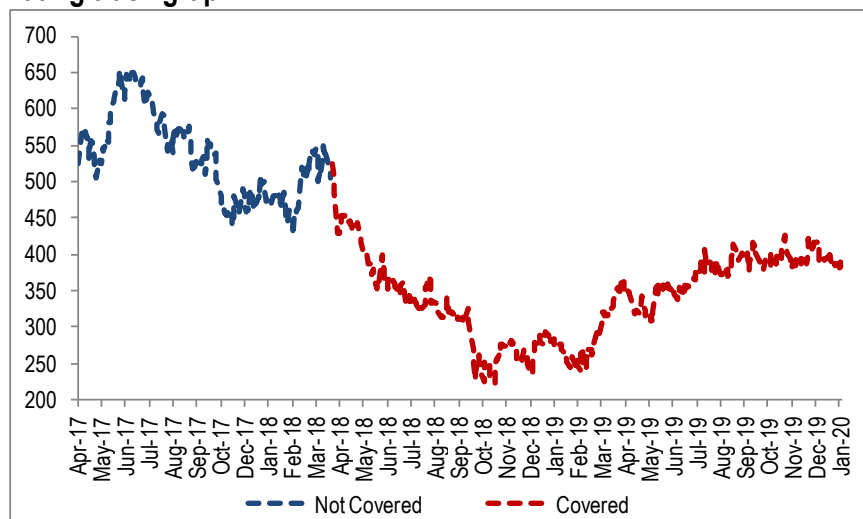
Y/E March- Ratios	FY18	FY19	FY20E	FY21E	FY22E
<b>Growth (%)</b>					
Net Interest Income	20.8	4.1	21.4	18.3	18.1
Operating Profit	23.6	3.8	22.1	18.7	17.7
Profit After Tax	28.2	3.7	38.3	18.3	18.6
<b>Business (%)</b>					
Advance Growth	18.3	16.9	15.4	17.3	20.2
<b>Spreads (%)</b>					
Yield on loans	10.3	10.0	10.2	10.0	9.9
Cost of Borrowings	7.6	7.6	7.7	7.7	7.7
Spread	2.7	2.4	2.5	2.4	2.3
NIMs	3.5	3.1	3.3	3.3	3.3
<b>Operational Efficiency (%)</b>					
Cost to Income	16.2	16.3	15.2	15.0	15.2
Cost to AUM	0.6	0.5	0.5	0.5	0.5
<b>CRAR (%)</b>					
Tier I	17.0	14.6	18.4	21.4	20.4
Tier II	2.1	1.8	2.0	2.3	2.2
Total	19.1	16.4	20.5	23.7	22.7
<b>Asset Quality (%)</b>					
Gross NPA	0.4	0.6	0.7	0.7	0.6
Net NPA	0.2	0.5	0.4	0.4	0.3
Provision Coverage	56.0	27.5	43.5	47.0	50.0
Credit Cost (excluding std asset)	0.1	0.0	0.1	0.1	0.0
Credit Cost (including std asset)	0.2	0.0	0.1	0.1	0.1
<b>Return Ratio (%)</b>					
ROE	21.3	18.2	20.8	18.4	17.0
ROA	2.0	1.7	2.1	2.1	2.1
<b>Per Share (%)</b>					
EPS	21.5	22.3	30.8	33.7	40.0
BV	111.7	133.8	162.2	216.2	253.8
ABV	109.4	127.7	156.0	209.8	247.6
<b>Valuation (x)</b>					
P/E	21.6	20.8	15.1	13.8	11.6
P/BV	4.2	3.5	2.9	2.1	1.8
P/ABV	4.2	3.6	3.0	2.2	1.9

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	503	638
30 April 2018	Buy	421	513
31 July 2018	Buy	335	441
9 October 2018	Buy	225	321
23 October 2018	Buy	227	316
24 January 2019	Buy	255	355
8 April 2019	Buy	360	420
2 May 2019	Buy	343	422
8 July 2019	Buy	360	426
23 July 2019	Buy	405	472
7 October 2019	Buy	393	470
5 November 2019	Buy	416	486
8 January 2020	Buy	384	490
22 January 2020	Buy	464	540

## Rating track graph



## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** We, Raghav Garg, research analyst and Arjun Bagga Research Associate the authors of this report, hereby certify that the views expressed in this research report accurately reflects our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analysts was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analysts are principally responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

### DISCLAIMER

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

**Access all our reports on Bloomberg, Thomson Reuters and Factset.**

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010