

28 AUGUST 2020

RESULTS FLASH

CAN FIN HOMES

CANF IN

INDIA / DIVERSIFIED FINANCIALS

BUY

TARGET PRICE	INR446.00
CLOSE	INR382.55
UP/DOWNSIDE	+16.6%
PRIOR TP	INR446.00
CHANGE IN TP	UNCHANGED

Risk-averse strategy paying off

Investment thesis on track; maintain BUY

We continue liking CANF for its 1) focus on safer segments – housing/salaried (c90%/71% of its loan book as of 1QFY21), 2) strong ratios – 1QFY21 ROE of 16.55% and ROA of 1.80% and 3) CAR of 22.3% and tier-1 of 20.5% which should enable it to capture growth prospects. CANF's strategy of adding incremental non-metro branches facilitates higher incremental spreads, in our view.

PAT beat on higher NIM; 29% of loans under moratorium

1QFY21 PAT of INR932m beat BNPPe by c5% on higher NIMs. Disbursements, at INR4b, were down c69% y-y vs a decline of c10% in 4QFY20. Loan growth of c10% y-y was mainly driven by a c10% rise in the housing loans to the salaried segment. Exposure to the riskier builder segment fell by c45% y-y to INR60m - c3% of its loans, which we think is positive. As per CANF, FY21 AUM growth may be lower than that in FY20 as the focus now shifts to maintaining liquidity and managing asset quality. Notably, c29% of loans by value (vs. 28% in phase 1) and 28% by volume are under moratorium. Of the 28% of customers who opted for moratorium, 14% have not paid any of the six EMIs due for March-August while the rest have paid some EMIs. Collections have been improving each month after hitting a low in April due to the lockdown. We believe CANF is likely to continue focusing on financing the MIG1/LIG1 categories (average ticket size below INR0.8m) and on non-metros (64% of branches), where spreads are much higher. These should support loan growth and profitability from FY21, in our view.

NIM, cost of funds and asset quality improve q-q

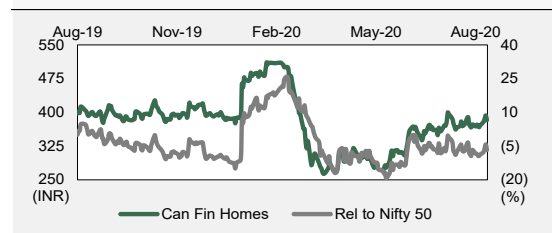
1QFY21 NIM/spreads expanded 18bps/26bps q-q to 3.7%/2.72%. Cost of funds declined by 46bps q-q to 7.31%, which is a comfortable level, as per management. GNPA's were stable q-q at 0.75%. CANF expects GNPA's to rise in the next two quarters (before stabilising at 0.8% by 1QFY22) but is confident that the rise will be lower than that of the overall industry because of the loan mix.

Capital raise due in FY21

Ceteris paribus, a c20% default on loans under moratorium with a 50% loss given default will impact CANF's tier-1 ratio by c580bps, reducing its tier 1 to 14.6%. Management, in the earnings call, indicated that it is looking to raise capital in FY21.

KEY STOCK DATA

YE Mar (INR m)	2019A	2020E	2021E	2022E
Operating Profit	4,695	5,176	5,780	6,841
Rec. net profit	2,967	3,880	4,335	5,131
Recurring EPS (INR)	22.29	29.14	32.56	38.54
Prior rec. EPS (INR)	22.29	29.14	32.56	38.54
Chg. In EPS est. (%)	-	-	-	-
EPS growth (%)	3.7	30.7	11.7	18.4
Recurring P/E (x)	17.2	13.1	11.7	9.9
Dividend yield (%)	0.5	0.5	0.5	0.5
Price/book (x)	2.9	2.4	2.0	1.7
ROE (%)	18.2	19.8	18.5	18.5
ROA (%)	1.7	1.9	1.8	1.8



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(1.0)	38.7	(3.7)
Relative to country (%)	(3.9)	12.6	(6.8)
Mkt cap (USD m)	685		
3m avg daily turnover (USD m)	3.2		
Free float (%)	54		
Major shareholder	CANARA BANK (30%)		
12m high/low (INR)	510.70/263.20		
3m historic vol. (%)	41.7		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	133		

Sources: FactSet Estimates; BNP Paribas estimates



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Our research is available on Thomson Reuters, Bloomberg, S&P Global, FactSet, RSRCHXchange and ONEaccess.



BNP PARIBAS

The bank for a changing world

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Exhibit 1: 1QFY21 earnings summary

Income statement	1QFY21	1QFY20	4QFY20	----- Change -----		1QFY21E	Variance
	(INR m)	(INR m)	(INR m)	(y-y %)	(q-q %)	(INR m)	(%)
Interest income	5,221	4,772	5,251	9.4	(0.6)	5,201	0.4
Interest expense	3,308	3,294	3,398	0.4	(2.6)	3,564	(7.2)
Net interest income	1,913	1,479	1,853	29.4	3.3	1,637	16.9
Non-interest income	4	69	38	(94.2)	(89.5)	159	(97.5)
Total income	1,917	1,548	1,891	23.8	1.4	1,796	6.7
Total expenses	215	232	325	(7.4)	(33.9)	291	(26.2)
Pre provision operating profit	1,702	1,316	1,565	29.4	8.7	1,505	13.1
Provisions	441	87	408	NM	8.1	364	21.2
Exceptional	-	-	-			-	
Profit before tax	1,261	1,229	1,157	2.6	8.9	1,141	10.5
Tax	329	419	280	(21.5)	17.4	285	15.4
Profit after tax	932	810	909	15.0	2.5	887	5.0
Key ratios							
Cost to income ratio (%) - calc	11.2	15.0	17.2				
Advance yield (%)	10.04	10.24	10.23				
Cost of borrowings (%)	7.31	7.93	7.77				
NIM (%)	3.70	3.18	3.52				
Interest spread (%)	2.72	2.30	2.46				
Balance sheet data							
Loans O/S (INR m)	208,440	190,030	207,080	9.7	0.7		
-- Salaried	147,580	135,200	146,890	9.2	0.5		
-- Self Employed	60,630	54,550	59,960	11.1	1.1		
-- Others	230	280	230	(17.9)	-		
Capital adequacy							
Tier 1 (%)	20.46	17.96	20.47				
Tier 2 (%)	1.80	1.63	2.01				
CAR (%)	22.26	19.59	22.48				
Asset quality							
GNPA ratio (%)	0.75	0.73	0.76				

Sources: CanFin Homes; BNP Paribas estimates

Financial statements

Can Fin Homes

Profit and Loss (INR m) Year Ending Mar	2018A	2019A	2020E	2021E	2022E
Interest income	14,906	16,996	20,153	23,462	27,809
Interest expense	(9,810)	(11,691)	(14,066)	(16,307)	(19,328)
Net interest income	5,096	5,305	6,087	7,155	8,480
Net fees & commission	273	274	302	352	417
Foreign exchange trading income	0	0	0	0	0
Securities trading income	0	0	0	0	0
Dividend income	0	0	0	0	0
Other income	41	44	219	254	306
Non interest income	314	318	521	606	723
Total income	5,410	5,622	6,607	7,760	9,204
Staff costs	(448)	(414)	(497)	(596)	(715)
Other operating costs	(430)	(503)	(576)	(688)	(822)
Operating costs	(878)	(917)	(1,073)	(1,284)	(1,537)
Pre provision operating profit	4,532	4,706	5,535	6,477	7,667
Provisions for bad and doubtful debts	(221)	(11)	(359)	(697)	(826)
Other provisions	0	0	0	0	0
Operating profit	4,311	4,695	5,176	5,780	6,841
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	4,311	4,695	5,176	5,780	6,841
Tax	(1,449)	(1,728)	(1,296)	(1,445)	(1,710)
Profit after tax	2,862	2,967	3,880	4,335	5,131
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	2,862	2,967	3,880	4,335	5,131
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	2,862	2,967	3,880	4,335	5,131
Per share (INR)					
Recurring EPS *	21.49	22.29	29.14	32.56	38.54
Reported EPS	21.49	22.29	29.14	32.56	38.54
DPS	2.00	2.00	2.00	2.00	2.00
Growth					
Net interest income (%)	20.7	4.1	14.7	17.5	18.5
Non interest income (%)	(33.3)	1.3	63.8	16.3	19.4
Pre provision operating profit (%)	16.7	3.8	17.6	17.0	18.4
Operating profit (%)	16.5	8.9	10.2	11.7	18.4
Reported net profit (%)	21.6	3.7	30.7	11.7	18.4
Recurring EPS (%)	21.6	3.7	30.7	11.7	18.4
Reported EPS (%)	21.6	3.7	30.7	11.7	18.4
Income Breakdown					
Net interest income (%)	94.2	94.3	92.1	92.2	92.1
Net fees & commission (%)	5.0	4.9	4.6	4.5	4.5
Foreign exchange trading income (%)	0.0	0.0	0.0	0.0	0.0
Securities trading income (%)	0.0	0.0	0.0	0.0	0.0
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	0.8	0.8	3.3	3.3	3.3
Operating performance					
Gross interest yield (%)	10.36	10.07	10.18	10.15	10.15
Cost of funds (%)	7.48	7.53	7.70	7.70	7.70
Net interest spread (%)	2.88	2.54	2.47	2.45	2.45
Net interest margin (%)	3.54	3.14	3.07	3.10	3.10
Cost/income (%)	16.2	16.3	16.2	16.5	16.7
Cost/assets (%)	0.61	0.53	0.53	0.55	0.55
Effective tax rate (%)	33.6	36.8	25.0	25.0	25.0
Dividend payout on recurring profit (%)	9.3	9.0	6.9	6.1	5.2
ROE (%)	22.3	18.2	19.8	18.5	18.5
ROE - COE (%)	9.0	4.8	6.5	5.2	5.1
ROA (%)	1.98	1.73	1.92	1.84	1.84
RORWA (%)	4.01	3.51	3.90	3.75	3.75

*Pre exceptional, pre goodwill and fully diluted

Sources: Can Fin Homes; BNP Paribas estimates

Financial statements

Can Fin Homes

Balance Sheet (INR m) Year Ending Mar	2018A	2019A	2020E	2021E	2022E
Gross customer loans	156,440	182,845	215,259	249,330	301,336
Total provisions	(738)	(931)	(1,076)	(1,247)	(1,507)
Interest in suspense	0	0	0	0	0
Net customer loans	155,702	181,914	214,182	248,084	299,830
Bank loans	0	0	0	0	0
Government securities	0	0	0	0	0
Trading securities	0	0	0	0	0
Investment securities	160	161	169	177	186
Cash & equivalents	190	4,203	2,594	3,730	4,161
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	96	99	103	109	114
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	90	251	264	277	291
Total assets	156,471	186,868	217,552	252,617	304,822
Customer deposits	0	0	0	0	0
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	141,601	169,046	196,171	227,222	274,616
Non interest bearing liabilities	0	0	0	0	0
Hybrid Capital	0	0	0	0	0
Total liabilities	141,601	169,046	196,171	227,222	274,616
Share capital	266	266	266	266	266
Reserves	14,604	17,556	21,115	25,129	29,939
Total equity	14,870	17,822	21,381	25,395	30,205
Minority interests	0	0	0	0	0
Total liabilities & equity	156,471	186,868	217,552	252,617	304,822
Supplementary Items					
Risk weighted assets (RWA)	77,513	91,804	106,909	124,139	149,794
Average interest earning assets	143,870	168,808	198,048	231,133	273,957
Average interest bearing liabilities	131,098	155,323	182,608	211,696	250,919
Tier 1 capital	13,146	13,440	16,999	21,014	25,824
Total capital	14,789	15,093	18,652	22,666	27,476
Gross non performing loans (NPL)	675	1,135	2,045	2,493	2,411
Per Share(INR)					
Book value per share	111.66	133.87	160.61	190.76	226.89
Tangible book value per share	111.66	133.87	160.61	190.76	226.89
Growth					
Gross customer loans (%)	16.6	16.9	17.7	15.8	20.9
Average interest earning assets (%)	21.1	17.3	17.3	16.7	18.5
Total assets (%)	18.1	19.4	16.4	16.1	20.7
Risk weighted assets (%)	18.9	18.4	16.5	16.1	20.7
Customer deposits (%)	-	-	-	-	-
Leverage & capital measures					
Customer loans/deposits (%)	n/a	n/a	n/a	n/a	n/a
Equity/assets (%)	9.5	9.5	9.8	10.1	9.9
Tangible equity/assets (%)	-	-	-	-	-
RWA/assets (%)	49.5	49.1	49.1	49.1	49.1
Tier 1 CAR (%)	17.0	14.6	15.9	16.9	17.2
Total CAR (%)	19.1	16.4	17.4	18.3	18.3
Asset Quality					
Change in NPL (%)	141.8	68.2	80.2	21.9	(3.3)
NPL/gross loans (%)	0.4	0.6	1.0	1.0	0.8
Total provisions/gross loans (%)	0.5	0.5	0.5	0.5	0.5
Total provisions/NPL (%)	109.3	82.0	52.6	50.0	62.5
Valuation					
Recurring P/E (x) *	17.8	17.2	13.1	11.7	9.9
Recurring P/E @ target price (x) *	20.8	20.0	15.3	13.7	11.6
Reported P/E (x)	17.8	17.2	13.1	11.7	9.9
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
Price/book (x)	3.4	2.9	2.4	2.0	1.7
Price/tangible book (x)	3.4	2.9	2.4	2.0	1.7
Price/tangible book @ target price (x)	4.0	3.3	2.8	2.3	2.0

*Pre exceptional pre - goodwill and fully diluted

Sources: Can Fin Homes; BNP Paribas estimates

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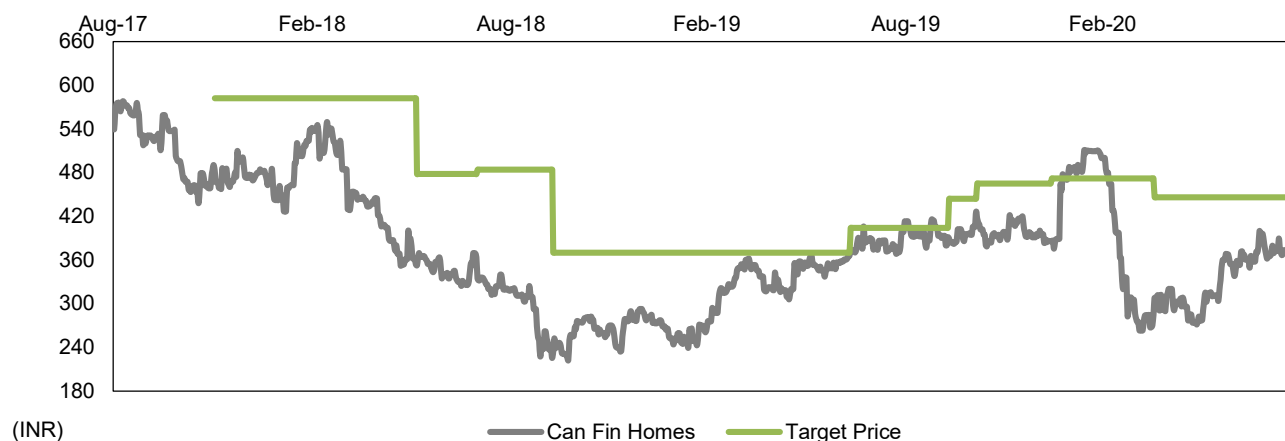
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History of change in investment rating and/or target price

Can Fin Homes (CANF IN)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
30-Nov-17	Buy	582.00	09-Oct-18	Buy	370.00	05-Nov-19	Buy	465.00
05-Jun-18	Buy	478.00	11-Jul-19	Buy	404.00	13-Jan-20	Buy	472.00
31-Jul-18	Buy	484.00	10-Oct-19	Buy	444.00	17-Apr-20	Buy	446.00

Avneesh Sukhija started covering this stock from 11 Jul 2019

Price and TP are in local currency

Sources: FactSet; BNP Paribas

Company	Ticker	Price	Rating	Valuation & Risks
Can Fin Homes	CANF IN	INR 382.55	Buy	Residual Income model based TP. Key risk for the company is a deterioration in retail asset quality.

Sources: Factset, BNP Paribas

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