Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Can Fin Homes Ltd

Strong quarter, outlook positive

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: Rs. 642
Price Target: Rs. 760 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.69

Updated Feb 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

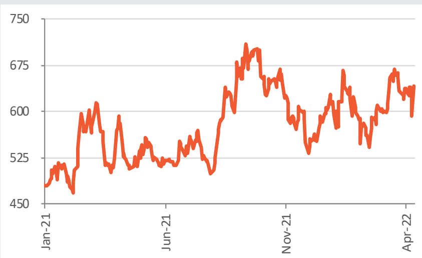
Company details

Market cap:	Rs. 8,555 cr
52-week high/low:	Rs. 721 / 492
NSE volume: (No of shares)	7.6 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	9.3 cr

Shareholding (%)

Promoters	30.0
FII	-
DII	24.7
Others	45.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	2.9	-0.5	17.3
Relative to Sensex	3.1	6.1	4.1	0.3

Sharekhan Research, Bloomberg

Summary

- Can Fin Homes reported PAT of Rs. 123 crore, which was a tad below our expectation of Rs. 127 crore, increased by ~20% y-o-y and 6% q-o-q. This was primarily due to higher provisions than estimated. Provisions stood at Rs. 30 crore in Q4FY2022 versus Rs. 16 crore in Q3FY2022.
- Disbursements rose by 35% y-o-y and 9% q-o-q and led to strong AUM growth of 21% y-o-y and 7% q-o-q. Management plans to disburse ~Rs. 10,000 crore in FY2023E.
- Asset quality improved during the quarter. GNPA ratio was at 0.64%, down 28 bps y-o-y and 7 bps q-o-q.
- At the CMP, the stock trades at 2.4x/ 2.1x its FY2023E and FY2024E P/BV, respectively. We maintain our Buy rating on Can Fin Homes with a revised PT of Rs. 760.

Can Fin Homes Ltd (CHFL) reported PAT of Rs. 123 crore versus our expectation of Rs. 127 crore, up ~20% y-o-y and 6% q-o-q. This was primarily due to higher provisions than estimated. Provisions stood at Rs. 30 crore in Q4FY2022 versus Rs. 16 crore in Q3FY2022. Disbursements rose by 35% y-o-y and 9% q-o-q, which led to strong AUM growth of 21% y-o-y and 7% q-o-q. Net interest income (NII) stood at Rs. 237 crore, up ~28% y-o-y and 15% q-o-q. PPoP grew strongly by 30% y-o-y and 13% q-o-q. Net interest margin (NIM) stood at 4.2%, up 46 bps q-o-q. Total operating expenses grew by 12% y-o-y and 19% q-o-q. On the other hand, employee expenses declined by 17% y-o-y and 15% q-o-q. Other operating expenses surged during the quarter on account of technology spends, CSR, and commissions paid out by the company. Spreads continued to improve and stood at 2.6% in Q4FY2022, up 23 bps y-o-y and 17 bps q-o-q. Asset quality improved during the quarter. GNPA ratio stood at 0.64%, down 28 bps y-o-y and 7 bps q-o-q. Credit costs were high due to higher standard asset provisioning and aging-related provisions.

Key positives

- The company witnessed continued robust disbursement growth of 35% y-o-y in Q4FY2022.
- Headline asset quality improved by 7 bps q-o-q to 0.64%.

Key negatives

- Opex surged during the quarter with opex to loan book ratio increasing by 8 q-o-q to 0.74% in Q4FY2022.

Management Commentary

- It has been a robust quarter for the company along with healthy improvement in the real estate sector; management believes buoyancy would remain for the next four to five years going ahead.
- The company witnessed strong demand for housing among salaried class, while self-employed and non-professionals also saw incremental demand.
- The company expects net interest margin (NIM) of 3.5-3.7% going ahead. It foresees spreads to be ~2.5%.

Our Call

Valuation – We maintain a Buy rating with a revised PT of Rs. 760. Currently, at the CMP, the stock trades at 2.4x and 2.1x its FY2023E and FY2024E P/BV, respectively. The company is one of the favorite plays in the housing segment with better asset quality and superior underwriting practices. It continues to maintain best-in-class asset quality with GNPA ratio at 0.6% as on March 2022 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating, which enables it to raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver RoE of 15-16% over FY2022E to FY2024E. Hence, we maintain our Buy recommendation on CFHL with a revised PT of Rs. 760.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted given its competition from large HFCs and banks.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
NII	798	816	948	1,063
PAT	456	471	519	593
EPS (Rs)	34.2	35.4	39.0	44.5
P/E (x)	18.8	18.2	16.5	14.4
P/BV (x)	3.3	2.8	2.4	2.1
Net NPA (%)	0.6	0.6	0.5	0.5
RoA (%)	2.12	1.88	1.71	1.67
RoE (%)	19.16	16.60	15.65	15.43

Source: Company; Sharekhan estimates

Key result highlights

- **Disbursements robust, NIM expanded on increased interest rate:** The company reported PAT of Rs. Rs. 123 crore versus our expectation of Rs. 127 crore, increased by ~20% and 6% q-o-q. This was primarily due to lower provisions than estimated. NII grew by 28% y-o-y and 15% q-o-q. NIM stood at 4.2%, expanded by 41 bps q-o-q and 46 bps y-o-y. This was primarily on account of LCR investments and other income contribution. The company expects NIM to be at 3.5% to 3.7% going ahead. It foresees insurance income, which is part of other income to grow by ~20% going forward. Disbursements rose by 35% y-o-y and 9% q-o-q, which led to strong AUM growth of 21% y-o-y and 7% q-o-q. The company plans to disburse loans of ~Rs. 10,000 crore in FY2023E.
- **Stable asset quality:** The company's reported GNPA and NNPA stood at 0.64% (down 7 bps q-o-q) and 0.30% (down 9 bps q-o-q) on account of better collection efficiency (CE). Credit cost stood at Rs. 30 crore in Q4FY2022 versus Rs. 16 crore in Q3FY2022. Provisions on standard assets and on NPA stood at Rs. 98 crore and Rs. 105 crore, respectively. CE of the restructured pool is close to 100%. The company expects credit costs at ~40 bps going ahead.
- **Others:** Cost of funds (CoF) have increased marginally during the quarter with incremental CoF at 5.03% in Q4FY2022 and portfolio yield at 8.11%. The mix of AUM stands at housing loans and non-housing loans at 90:10. The concentration of loans from southern states has reduced from 72% to 65% with other regions contributing to 35% in Q4FY2022. The company had slightly slowed down its disbursements in Delhi and NCR region. BT outs stood at Rs. 293 crore versus Rs.593 crore in FY2021 on account of aggressive retention strategy adopted by the company. As guided earlier, the company plans to add 12-15 branches every year. The company said that there is no rejig at management level and MD and CEO would continue till the end of term. On concerns of audit, the company cleared that it is a regular audit by NHB, which is a routine investigation and there were no abnormalities reported by the regulator.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Interest income	556	461	502	20.7	10.7
Interest expenses	319	275	296	15.9	7.6
Net interest income	**237**	**186**	**206**	**27.7**	**15.2**
Non-interest Income	5	7	6	(19.2)	(15.3)
Total Income	**243**	**193**	**212**	**26.1**	**14.3**
Employee expenses	18	22	21	(16.6)	(14.7)
Depreciation and amortization	2	2	3	(8.4)	(17.1)
Fees and Commission expenses	8	6	8	49.4	6.7
Other operating expenses	19	13	8	49.8	129.8
Total Operating Expense	**48**	**43**	**40**	**12.4**	**19.4**
Pre-provisioning profit (PPoP)	**195**	**150**	**172**	**30.0**	**13.1**
Provisions and write offs	30	8	16	294.7	84.9
PBT	**164**	**142**	**156**	**15.7**	**5.6**
Tax expenses	41	39	40	5.0	3.6
PAT	**123**	**103**	**116**	**19.8**	**6.3**
EPS (Rs)	**9.2**	**7.7**	**8.7**	**19.8**	**6.3**

Source: Company; Sharekhan Research

Key ratios

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
AUM	**26,711**	**22,105**	**25,091**	**20.8**	**6.5**
-Salaried & Professionals	19,851	16,115	18,616	23.2	6.6
-Non-Salaried - SENP	6,860	5,968	6,454	14.9	6.3
-Housing Loans	23,937	19,972	22,547	19.9	6.2
-Top-up personal loans	1,068	802	978	33.2	9.2
-Mortgage Loans/Flexi LAP	1,368	1,008	1,242	35.7	10.1
Disbursements	**2,705**	**2,001**	**2,472**	**35.2**	**9.4**
Yields on loans (%) [Quarterly-calculated]	8.6	8.5	8.1	3 bps	33 bps
Borrowing costs (%) [Quarterly-calculated]	5.6	6.0	5.6	-45 bps	-10 bps
Spreads (%) [Quarterly-calculated]	3.0	2.5	2.6	48 bps	43 bps
NIM (%) [Quarterly-calculated]	**3.7**	**3.4**	**3.4**	**21 bps**	**28 bps**
Op cost as % of avg loan-book	**0.7**	**0.8**	**0.7**	**-6 bps**	**8 bps**
Cost to income (%)	19.8	22.3	19.0	-242 bps	84 bps
GNPA (%)	**0.64**	**0.91**	**0.71**	**-28 bps**	**-7 bps**
NNPA (%)	**0.30**	**0.61**	**0.39**	**-31 bps**	**-9 bps**
Provision coverage ratio (%)	**52.7**	**33.5**	**45.2**		
Credit cost as a % of avg loan-book [annualized]	0.47	0.14	0.27	32 bps	19 bps
CRAR (total) (%)	**23.3**	**25.6**	**24.2**	**-233 bps**	**-88 bps**

Source: Company; Sharekhan Research

Outlook and Valuation

■ **Sector view – Housing demand to grow exponentially on favourable macros with improved affordability**

With rapid urbanisation and improved affordability coupled with supportive government initiatives for the sector and record low interest rates and discounts from real estate companies, we expect housing finance companies to grow exponentially going ahead, especially the affordable housing segment. About 66% of India's population is below 35 years of age and ~32% of the population resides in cities currently, which is estimated to be 50% by 2030. We believe HFCs stand to benefit from the housing sector's growth, as they are well equipped with competitive product offerings and product pricing, superior customer service, and last-mile connect with potential customers where large banks are unable to service. The COVID-19 pandemic has brought in a blessing as there is demand potential through shift in preferences by end-consumers to own a home. Furthermore, the government's push towards affordable and mid-segment housing is likely to propel demand in the segment due to continuation of credit-linked subsidy for affordable housing till March 2022.

■ **Company outlook – Favoured play in the affordable space with strong balance sheet and best-in-class asset quality.**

CFHL commands a premium valuation vis-à-vis its peers due to: 1) its ability to deliver superior growth in AUM; 2) the company's focus to strategically charge differential pricing for customer segments/geographies and recover its market share; 3) its asset quality continues to be best in class among peers with stage-3 assets at 0.64% and NNPA ratio at 0.30% in Q4FY2022; and 4) additionally, with the strong parentage, CFHL enjoys strong financial flexibility and enables it to raise funds through diversified sources at competitive rates.

■ **Valuation – We maintain a Buy rating with a revised PT of Rs. 760**

Currently, at the CMP, the stock trades at 2.4x and 2.1x its FY2023E and FY2024E P/BV, respectively. The company is one of the favorite plays in the housing segment with better asset quality and superior underwriting practices. It continues to maintain best-in-class asset quality with GNPA ratio at 0.6% as on March 2022 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating, which enables it to raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver RoE of 15-16% over FY2022E to FY2024E. Hence, we maintain our Buy recommendation on CFHL with a revised PT of Rs. 760.

Peer valuation

Particulars	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Can Fin Homes	642	8,555	16.3	14.3	2.4	2.1	15.7	15.4	1.7	1.7
HDFC Ltd	2,264	4,10,233	28.1	48.0	1.2	1.1	12.9	13.2	2.3	2.3
Repco Home	178	1,112	3.7	3.1	0.5	0.4	13.8	14.3	2.4	2.6

Source: Company, Sharekhan research

About company

CFHL operates in the housing finance segment, providing loans to individuals and non-housing loans, including mortgage loans, site loans, loans for commercial properties, loan against rent receivables, top-up loans, and personal loans. The company has 200 branches across 21 states and Union Territories. The company offers housing loans and mortgage loans at competitive interest rates both to salaried and self-employed borrowers. The company focuses on housing loans to individuals with 90% of the book constituting to home loans, while the rest comes from the non-housing segment.

Investment theme

The housing finance market is expected to be driven by multiple triggers going ahead. Favourable operating environment marked by benign cost of funds and liquidity measures by the Reserve Bank of India (RBI) and the government is likely to provide impetus to the sector's growth. Additionally, the transmission of lower interest rates to end-consumers has further improved affordability, thereby driving sale of housing units particularly in the affordable and mid-income segment.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted by competition from large HFCs and banks.

Additional Data

Key management personnel

Mr. Girish Kousgi	MD & CEO
Mr. Amitabh Chatterjee	Depty Managing Director
Mr. Prashanth Joishy	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Bank	30.0
2	Chhattisgarh Investments Ltd	7.0
3	Nippon Life India Asset Management	2.6
4	Vanguard Group Inc	2.5
5	DSP Investment Managers Pvt Ltd	2.2
6	Axis Asset Management Co Ltd	2.2
7	UTI Asset Management Co Ltd	1.8
8	L&T Mutual Fund Trustee Ltd	1.8
9	PGIM India Asset Management Pvt Ltd	1.3
10	Canara Reecco Asset Management Co Ltd	1.2

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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