

## Can Fin Homes

### Marginal beat on earnings; business improving

Can Fin Homes (Canfin) overall earnings were slightly better than our estimates. AUM growth was 9.7% YoY while NIM at 3.8% was better due to lower cost of funds. Hence PPOP outperformed led by higher NII. Overall business has reached 65-70% of pre-COVID levels and the company is targeting a loan book of Rs230bn+ in FY21E which could translate to 11%+ YoY loan growth. Provisions remained elevated at Rs441mn and total COVID-19 provisions stand at Rs0.73bn (2.5% of unpaid EMI book). 28% of the loans are under moratorium (SENP:salaried mix is 55:45) while 14% of the book has paid no instalments. D/E ratio has further improved QoQ and CET-1 ratio at 20.5% remains strong. See FY21E RoA/RoE of 1.6%/15%. Maintain multiple at 2.2x FY22 ABV with TP of Rs437. BUY.

#### Q1FY21 – Better NIM led to a PPOP beat; additional COVID-19 provisions created

NII was higher at Rs1.9bn (est. Rs1.8bn), +28.7% YoY though AUM growth was largely in-line at 9.7% (est. 9.4%). Hence NIM (calc.) outperformed and came in at 3.8% (est. 3.7%) mainly led by reduction in funding cost. Disbursements were down 68.6% YoY to Rs401mn and repayments also dropped by 59% YoY. Other Income was much lower at Rs4mn owing to the lockdown which was offset by lower other opex. Driven by higher NII, PPOP was a beat at Rs1.7bn (est. Rs1.6bn), +29.4% YoY. Provisions were Rs441mn (est. Rs400mn). As expected, GNPA was stable QoQ at 0.75% while NNPA marginally improved by 4bps QoQ to 0.5% led by higher provisioning. PAT consequently was up 15% YoY to Rs932mn (est. Rs907mn).

#### Business recovered to 65-70% of pre-COVID levels; adequate liquidity available

Disbursements were mainly led by housing credit while other segments were largely flat. AUM mix of salaried/SENP was maintained QoQ at 71%/29%. Overall business is improving MoM and has reached 65-70% of pre-COVID levels except in few geographies where the impact is severe. Target FY21E disbursements/loans are Rs50bn/Rs230bn+ though we have been conservative in our estimates. Canfin is not facing any liquidity issues and un-availed limits are Rs40bn which is a 7-8 months cover. Funding cost further declined QoQ from 7.9% to 7.5%. Management guided that yield may contract but overall NIM and spreads might be stable though owing to higher slippages we see NIM contraction in FY21E.

#### Moratorium at 28% of loans; collection efficiency improving

As at August'20, 28% of overall loans are under moratorium of which SENP is 55% and the balance 45% is salaried. Customers contributing 14% to loans have not paid a single EMI. Management expects NPA to spike in Q3FY21E though slippages in FY21E would be much lesser compared to the HFC industry since only 0.5%/5% of the total portfolio is impacted by job losses/salary cut. Collection efficiency is improving MoM and has reached to 65-70% of pre-COVID levels. A substantial portion of the SMA-2 pool of Rs2.1bn that was under moratorium has already been recovered. The company does not expect provisioning to spike sharply in H2FY21E as adequate provisioning has already been done (Rs0.73bn or 2.5% of the unpaid EMI pool). Provision cost guidance is 0.35% for FY21E (our estimates 0.57%).

#### Valuation and risks

We have maintained our FY21/22 estimates though self-employed portfolio behaviour that is under moratorium, is the key. We like Canfin for its asset quality, sovereign backing and affordable housing focus. Maintain multiple at 2.2x FY22 ABV and TP of Rs437. Reiterate BUY. **Risks:** higher stress from SENP; rise in funding cost due to Canara Bank stake sale.

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY21A	1QFY20A	YoY (%)	4QFY20A	QoQ (%)	FY20A	FY21E	FY22E
NII	1,913	1,486	28.7	1,885	1.5	6,747	6,804	7,856
PPoP	1,702	1,316	29.4	1,598	6.5	5,786	5,832	6,729
Provisions	441	87	409.7	408	8.1	603	1,205	650
PAT	932	810	15.0	909	2.5	3,761	3,461	4,547
Laon growth (%)	9.7	17.3	(7.6)	12.7	(3.0)	12.7	5.0	14.0
NIM (%)	3.8	3.4	46bps	3.9	(2bps)	3.4	3.2	3.4
C / I (%)	11.2	15.4	(4.2)	16.9	(5.7)	15.7	15.6	16.1
GNPA (%)	0.8	0.7	2bps	0.8	(1bp)	0.8	1.7	1.1
RoA (%)	1.9	1.8	3bps	1.9	1bps	1.8	1.6	1.8
RoE (%)	18.1	19.5	(1.4)	18.5	(0.4)	19.1	15.0	17.0
P/ABV (x)						2.3	2.3	1.9

Source: Company, Centrum Broking

#### Result Update

India | BFSI

27 August, 2020

#### BUY

Price: Rs381

Target Price: Rs437

Forecast return: 15%

Institutional Research

#### Market Data

Bloomberg:	CANF IN
52 week H/L:	519/253
Market cap:	Rs50.9bn
Shares Outstanding:	133.2mn
Free float:	59.5%
Avg. daily vol. 3mth:	714,613

Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	Unchanged

Source: Centrum Broking

#### Shareholding pattern

	Jun-20	Mar-20	Dec-19	Sep-19
Promoter	30.0	30.0	30.0	30.0
FIIs	0.0	0.0	0.0	0.0
DIIIs	12.7	11.8	7.3	4.8
Public/other	57.3	58.2	62.7	65.2

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY21	Actual Q1FY21	Variance (%)
NII	1,913	1843	3.8
PPoP	1,702	1612	5.6
PAT	932	907	2.7
Loan growth (%)	9.7	9.4	0.3

Source: Bloomberg, Centrum Broking



**Gaurav Jani**

Analyst, BFSI

+91-22-4215 9110

gaurav.jani@centrum.co.in



**Rahul Nandwani**

Associate, BFSI

22-4215 9364

rahul.nandwani@centrum.co.in

BFSI

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY21E New	FY21E Old	Variance (%)	FY22E New	FY22E Old	Variance (%)
NII	6,804	6,804	-	7,856	7,856	-
PPoP	5,832	5,832	-	6,729	6,729	-
PAT	3,461	3,461	-	4,547	4,547	-
loan growth (%)	5.0	5.0	-	14.0	14.0	-
GNPA (%)	1.7	1.7	-	1.1	1.1	-

Source: Centrum Broking-

### Can Fin Homes versus Nifty Midcap 100

	1m	6m	1 year
CANF IN	1.8	(23.5)	(4.9)
NIFTY Midcap 100	12.7	(0.6)	9.9

Source: Bloomberg, NSE

### Key assumptions

YE Mar	FY21E	FY22E
Loan growth	5.0	14.0
NIM	3.2	3.4
Other inc / Assets	0.1	0.1
Cost / Assets	0.5	0.5
Provision costs	0.6	0.3

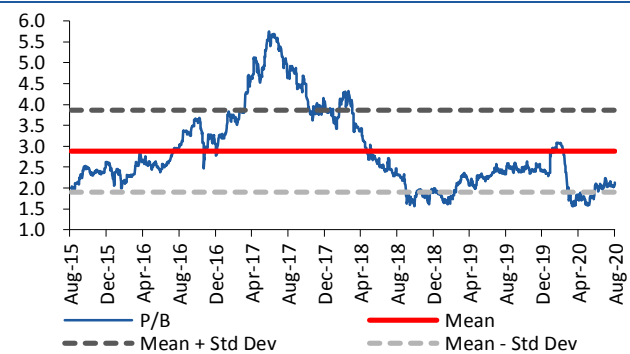
Source: Centrum Broking

### Valuations

We have maintained our FY21/22 estimates though self-employed portfolio behaviour that is under moratorium, is the key. We like Canfin for its asset quality, sovereign backing and affordable housing focus. Maintain multiple at 2.2x FY22 ABV and TP of Rs437. Reiterate BUY. Risks: higher stress from SENP; rise in funding cost due to Canara Bank stake sale.

Valuations	Rs/share
FY22E ABVPS (Rs)	203
Historical P/ABV (x)	2.9
Premium assigned	(24%)
Ascribed P/ABV (x)	2.2
Fair value/share (Rs)	437

### P/BV mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap Rs bn	CAGR FY20-FY22E (%)			P/BVPS			RoA (%)			RoE (%)		
		Total inc	PPoP	PAT	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Can Fin Homes	50.7	8.1	7.8	10.0	2.1	2.1	1.8	1.9	1.6	1.9	19.1	15.0	17.1
LIC Housing	153.4	5.0	4.6	5.7	1.1	0.8	0.7	1.1	0.9	1.2	13.9	10.2	12.8
HDFC	3281.0	6.0	9.7	7.4	3.7	3.6	3.4	3.2	1.8	2.0	19.7	11.8	13.0
Repco	10.1	11.1	12.1	12.8	0.6	0.5	0.4	2.5	2.3	2.4	17.6	15.1	15.1
PNB	46.1	4.7	5.9	(1.0)	0.6	0.5	0.5	1.2	1.1	1.2	11.6	8.1	10.6
Indiabulls	86.6	(21.2)	(36.5)	(34.2)	0.5	0.5	0.5	1.5	1.4	1.6	15.1	8.6	3.2

Source: Company, Centrum Broking

**Exhibit 1: Key concall takeaways and metrics**

<b>FY21E Guidance</b>	<b>Q1FY21</b>	<b>Q4FY20</b>	<b>Our Comments</b>
Loan growth	Target loan book for FY21E is >Rs230bn	-	Although quarterly disbursements dropped sharply on a YoY basis, credit flow is improving and has reached 65-70% of pre-COVID levels. Can Fin targets Rs50bn disbursements and loans of >Rs230bn for FY21E. We would like to wait for a quarter before we raise our loan growth estimate for FY21E and hence we maintain it at 5.0% YoY. FY22E might see a bounce back and loans might grow by 14.0% YoY.
NIM	>3%		Incremental funding cost (reported) has reduced to 7.5% (vs 7.9% QoQ). Sovereign rating and higher share of lower cost Bank/NHB funding (80% share) could see the beneficial funding cost trend to be intact which could cushion NIM in a challenging FY21E. We see NIM (calc.) to retrace back to FY20 levels (3.4%) in FY22E as compared to 3.2% in FY21E.
Provisions	0.35%	-	Management has created total additional provisions of Rs0.73bn in the last two quarters and the cover on unpaid EMI pool (14% of loans) is 2.5%. A large portion of the SMA-2 portfolio (Rs2.10bn) that was under moratorium has been recovered. H2FY21E might see a spike in slippages though the management suggested that compared to the industry, Canfin could perform much better on asset quality. Consequently, incremental provisions in H2FY21E may not escalate sharply and there might be a provision write-back in Q4FY21E. Hence, provisions guidance is lower for FY21E at 0.35% (our est. 0.57%).
RoA	-	-	Despite of a tough macro environment due to the COVID-19 lockdown, we see RoA/RoE of 1.6%/15.0% in FY21E which might rebound to 1.9%/17.0% in FY22E.

Source: Company, Centrum Broking

**Exhibit 2: Quarterly financials**

Particulars (Rs mn)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>Income statement</b>								
Interest earned	4,142	4,376	4,552	4,772	4,940	5,135	5,251	5,221
Interest expended	2,838	3,015	3,140	3,286	3,379	3,398	3,366	3,308
Net interest income	1,304	1,361	1,411	1,486	1,561	1,737	1,885	1,913
Other income	76	55	77	69	67	33	38	4
Total income	1,380	1,415	1,489	1,555	1,628	1,770	1,923	1,917
Operating expenses	176	216	322	239	256	269	325	215
Employees	60	85	163	126	123	138	155	138
Others	116	131	159	113	134	130	170	77
<b>Operating profit</b>	<b>1,204</b>	<b>1,200</b>	<b>1,167</b>	<b>1,316</b>	<b>1,372</b>	<b>1,501</b>	<b>1,598</b>	<b>1,702</b>
Provisions	0	0	11	87	63	45	408	441
Profit before tax	1,204	1,200	1,156	1,229	1,309	1,456	1,189	1,260
<b>Tax</b>	<b>388</b>	<b>451</b>	<b>495</b>	<b>419</b>	<b>333</b>	<b>390</b>	<b>280</b>	<b>329</b>
<b>Profit after tax</b>	<b>816</b>	<b>749</b>	<b>661</b>	<b>810</b>	<b>976</b>	<b>1,066</b>	<b>909</b>	<b>932</b>
<b>Balance sheet</b>								
AUM	169,350	175,690	183,810	190,030	196,000	201,940	207,080	208,430
Borrowings	150,722	156,364	163,591	169,127	174,440	178,111	178,111	182,000
Equity	16,330	17,259	17,822	18,855	19,372	20,438	21,501	22,432
<b>Balance sheet ratios (%)</b>								
AUM growth YoY (%)	17.2	16.7	16.8	17.3	15.7	14.9	12.7	9.7
Debt / Equity	9.2	9.1	9.4	9.0	8.9	8.7	8.6	8.1
Assets / Equity	10.2	10.1	10.2	10.0	10.0	9.7	9.3	9.0
<b>Capital ratios (%)</b>								
Total CRAR	18.7	19.4	16.4	19.6	18.8	22.1	22.3	22.3
Tier-1	16.7	17.5	14.6	18.0	17.3	20.4	20.5	20.5
Tier-2	2.0	1.9	1.8	1.6	1.5	1.7	1.8	1.8
<b>Profitability ratios (%)</b>								
Yield on AUM	10.6	10.7	10.7	10.8	10.8	10.9	10.7	10.5
Cost of funds	8.1	8.3	8.3	8.4	8.3	8.1	7.9	7.5
NIM	3.3	3.3	3.3	3.4	3.4	3.7	3.9	3.8
Other inc. / Total inc.	5.5	3.9	5.2	4.4	4.1	1.8	2.0	0.2
Cost / Income (%)	12.8	15.2	21.6	15.4	15.7	15.2	16.9	11.2
Cost / Assets	0.4	0.5	0.8	0.5	0.6	0.6	0.7	0.4
RoA	2.1	1.8	1.6	1.8	2.1	2.3	1.9	1.9
RoE	23.1	20.0	14.8	19.5	21.9	22.6	18.5	18.1
<b>Asset quality ratios (%)</b>								
GNPA	0.6	0.7	0.6	0.7	0.8	0.8	0.8	0.8
NNPA	0.4	0.5	0.4	0.5	0.6	0.6	0.5	0.5
Provision coverage	33.4	28.7	30.0	29.2	26.9	26.2	28.8	33.3

Source: Company, Centrum Research

P&L					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest income	14,906	17,134	20,189	21,036	23,264
Interest expense	9,810	11,693	13,442	14,232	15,408
NII	5,096	5,441	6,747	6,804	7,856
Other income	314	179	115	110	165
Total income	5,410	5,621	6,862	6,914	8,021
Operating expenses	878	915	1,076	1,082	1,292
Employee	448	414	542	553	669
Others	334	392	411	407	479
PPOP	4,532	4,706	5,786	5,832	6,729
Provisions	221	11	603	1,205	650
PBT	4,311	4,695	5,183	4,627	6,080
Tax	1,449	1,728	1,422	1,166	1,532
PAT	2,862	2,967	3,761	3,461	4,547

Ratios					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Growth (%)					
AUM	18.3	16.8	12.7	5.0	14.0
Borrowings	17.3	21.3	11.1	3.2	12.8
NII	20.8	6.8	24.0	0.8	15.5
Other income	(33.3)	(42.9)	(35.6)	(4.8)	49.8
Opex	9.9	4.2	17.7	0.5	19.4
PPoP	16.5	3.8	23.0	0.8	15.4
Provisions	17.5	(95.1)	NA	99.8	(46.1)
PAT	21.6	3.7	26.8	(8.0)	31.4
Profitability (%)					
Yield on advances	10.2	10.0	10.3	9.9	10.0
Cost of funds	7.6	7.6	7.5	7.5	7.5
NIM (on AuM)	3.5	3.2	3.4	3.2	3.4
Other Income/ Total Income	5.8	3.2	1.7	1.6	2.1
Other Income / Total Assets	0.2	0.1	0.1	0.1	0.1
Cost/Income	16.2	16.3	15.7	15.6	16.1
Employee	8.3	7.4	7.9	8.0	8.3
Others	6.2	7.0	6.0	5.9	6.0
Opex/ Avg AuM	0.6	0.5	0.5	0.5	0.5
Provisions	0.2	0.0	0.3	0.6	0.3
Tax Rate	33.6	36.8	27.4	25.2	25.2
RoA	1.8	1.6	1.8	1.6	1.8
RoE	21.3	18.2	19.1	15.0	17.0

DuPont (% avg assets)					
YE Mar	FY18A	FY19A	FY20A	FY21E	FY22E
Interest income	10.3	9.9	10.1	9.7	9.9
Interest expense	6.8	6.8	6.7	6.6	6.5
NII	3.5	3.2	3.4	3.1	3.3
Other income	0.2	0.1	0.1	0.1	0.1
Total income	3.7	3.3	3.4	3.2	3.4
Operating expenses	0.5	0.5	0.5	0.4	0.5
Employee	0.3	0.2	0.3	0.3	0.3
Others	0.2	0.2	0.2	0.2	0.2
PPOP	3.2	2.8	3.0	2.8	2.9
Provisions	0.2	0.0	0.3	0.6	0.3
PBT	3.0	2.8	2.7	2.2	2.6
Tax	1.0	1.0	0.7	0.5	0.6
PAT	2.0	1.8	1.9	1.7	2.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Financial assets</b>	<b>156,815</b>	<b>186,735</b>	<b>209,457</b>	<b>219,917</b>	<b>249,102</b>
Cash	7	4,015	3,723	3,915	2,975
Bank balance	183	187	201	239	297
Loans	156,440	182,342	205,257	215,462	245,535
Investment	160	163	243	261	248
Other financial assets	25	28	33	39	47
<b>Non-financial assets</b>	<b>480</b>	<b>560</b>	<b>979</b>	<b>870</b>	<b>892</b>
Current tax assets	138	206	240	214	219
Deferred tax assets	232	240	339	259	264
Fixed Assets	96	99	379	379	390
Other Non-fin. assets	14	15	20	18	19
<b>Total Assets</b>	<b>157,295</b>	<b>187,295</b>	<b>210,436</b>	<b>220,787</b>	<b>249,994</b>
<b>Financial liabilities</b>	<b>141,687</b>	<b>169,059</b>	<b>188,114</b>	<b>195,108</b>	<b>220,053</b>
Debt securities	69,739	56,347	38,096	39,283	43,652
Borrowings	69,471	111,425	148,360	154,230	174,608
Subordinated Debt	0	1,029	1,029	971	1,096
Other financial liabilities	2,477	258	630	623	697
<b>Non-financial liabilities</b>	<b>738</b>	<b>414</b>	<b>821</b>	<b>968</b>	<b>1,091</b>
Provisions	336	266	662	780	880
Other Non-fin liabilities	402	148	159	187	211
<b>Total equity</b>	<b>14,870</b>	<b>17,822</b>	<b>21,501</b>	<b>24,711</b>	<b>28,850</b>
Share capital	266	266	266	266	266
Other equity	14,604	17,556	21,235	24,445	28,583
<b>Total Liabilities</b>	<b>157,295</b>	<b>187,295</b>	<b>210,436</b>	<b>220,787</b>	<b>249,994</b>
<b>Balance Sheet ratios (%)</b>					
Debt / Equity	9.4	9.5	8.7	7.9	7.6
Assets / Equity	10.6	10.5	9.8	8.9	8.7
Cash / Borrowings	0.1	2.5	2.1	2.1	1.5
<b>Capital Adequacy (%)</b>					
CRAR	19.1	19.2	22.3	22.5	21.9
Tier-1	17.0	17.4	20.5	20.8	20.2
Tier-2	2.1	1.8	1.8	1.8	1.8
<b>Asset quality (%)</b>					
GNPA (Rs mn)	675	1,135	1,571	3,631	2,612
NNPA (Rs mn)	316	795	1,118	2,423	1,800
GNPA	0.4	0.6	0.8	1.7	1.1
NNPA	0.2	0.4	0.5	1.1	0.7
PCR	53.1	30.0	28.8	33.3	31.1
NNPA / Equity	2.1	4.5	5.2	9.8	6.2
<b>Per share (Rs)</b>					
EPS	21.5	22.3	28.2	26.0	34.1
BVPS	111.7	133.8	161.5	185.6	216.6
ABVPS	109.3	127.9	153.1	167.4	203.1
<b>Valuation (x)</b>					
P/E	23.8	11.1	15.0	14.7	11.2
P/BV	4.0	1.9	2.1	2.1	1.8
P/ABV	4.2	2.1	2.3	2.3	1.9

Source: Company, Centrum Broking

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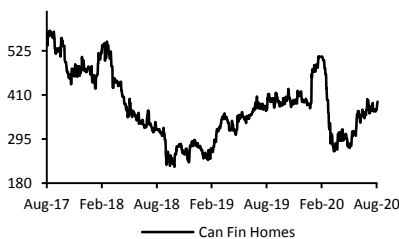
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**Can Fin Homes**



Source: Bloomberg

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PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Research Analyst

SEBI Registration No. INH000001469

Mutual Fund Distributor

AMFI REGN No. ARN- 147569

**Website:** www.centrum.co.in**Investor Grievance Email ID:** investor.grievances@centrum.co.in**Compliance Officer Details:**

Ashok D Kadambi

(022) 4215 9937; Email ID: compliance@centrum.co.in

**Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)****Registered Office Address**Bombay Mutual Building,  
2nd Floor, Dr. D. N. Road,  
Fort, Mumbai - 400 001**Corporate Office & Correspondence Address**Centrum House  
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai  
400 098.  
Tel: (022) 4215 9000 Fax: +91 22 4215 9344



Centrum Broking Institutional Equities Team Details			
<b>Nischal Maheshwari</b>	<b>CEO</b>	<b>nischal.maheshwari@centrum.co.in</b>	<b>+91-22-4215 9841</b>
<b>Research Analyst</b>	<b>Sector</b>	<b>E-mail</b>	<b>Phone number</b>
Gaurav Jani	BFSI	gaurav.jani@centrum.co.in	+91-22-4215 9110
Milind Suresh Raginwar	Cement & Metals	milind.raginwar@centrum.co.in	+91-22-4215 9201
Shirish Pardeshi	FMCG	shirish.pardeshi@centrum.co.in	+91-22-4215 9634
Ashish Shah	Infra & Aviation	shah.ashish@centrum.co.in	+91-22-4215 9021
Madhu Babu	IT	madhu.babu@centrum.co.in	+91-22-4215 9855
Probal Sen	Oil & Gas	Probal.sen@centrum.co.in	+91-22-4215 9001
Cyndrella Carvalho	Pharma	cyndrella.carvalho@centrum.co.in	+91-22-4215 9643
Sparsh Chhabra	Economist	sparsh.chhabra@centrum.co.in	+91-22-4215 9035
Joaquim Fernandes	Quant	Joaquim.Fernandes@centrum.co.in	+91-22-4215 9363
<b>Equity Sales</b>	<b>Designation</b>	<b>Email</b>	<b>Phone number</b>
Rajesh Makharia	Director	rajesh.makharia@centrum.co.in	+91-22-4215 9854
Paresh Shah	MD	paresh.shah@centrum.co.in	+91-22-4215 9617
Anil Chaurasia	Sr. VP	anil.chaurasia@centrum.co.in	+91-22-4215 9631
Himani Sanghavi	AVP	himani.sanghavi@centrum.co.in	+91-22-4215 9082
Saahil Harwani	Associate	saahil.harwani@centrum.co.in	+91-22-4215 9623