

Retail Equity Research (South India Focus)

Can Fin Homes Ltd

NBFC

BSE CODE : 511196

NSE CODE: CANFINHOME

BLOOMBERG CODE: CANF:IN

SENSEX : 39,872

Accumulate

12M Investment Period

Rating as per Small Cap

CMP Rs.488 TARGET Rs.557 RETURN 14% ↑
(Closing: 03-02-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Stable business growth along with asset quality

Can Fin Homes Ltd is the housing finance arm of Canara bank. The company has dominance in south India with focus on Tier 1 and Tier 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.

- Loan book grew 15% YoY, with housing loans (including non salaried class) growing at 15% YoY in Q3 FY20.
- Net interest margin (NIM) grew by 11 bps YoY to 3.42% due to increase in the yield by 14 bps YoY and a stable cost.
- GNPA/NNPA ratio stood relatively stable at 0.8%/0.59%(vs 0.79%/0.58% in Q2FY20), respectively.
- PAT grew by 41% YoY due to an improved topline performance.
- We value the stock at 2.4x on FY22E BVPS of Rs.232 with a target price of Rs.557 and retain Accumulate rating.

Growing Loan Book and Clientele base

In Q3FY20, Loan Portfolio surpassed the Rs.20,000Cr mark with a stable growth in clientele base. Company's loan portfolio registered a strong growth of 15% YoY in the current quarter with housing segment loans (including non salaried class) driving the growth. 90% of Loan portfolio comprises of housing segment loans with the rest 10% having exposures to top up loans, site loans, LAP etc. Company has maintained stable exposure of 71% to the salaried and professional segment which is expected to drive interest income going forward. In this quarter, Can fin has increased it's borrowings from banks to 57% YoY from 48% which will be one of the main factors reducing their costs in the coming quarters.

Strong business performance with 11bps YoY growth in NIM

For the current quarter, Net Interest Margin (NIM) stood at 3.42% registering a growth of 11 bps YoY from 3.31%. This was largely aided by growth in yield YoY to the tune of 14 bps and a slight decline in cost by 1 bps. Further, company's Cost to Income (C/I) Ratio has slightly decreased from 15.58% to 15.55% QoQ due to the decline in cost. Pre-provision profit and Net income grew by 24.17% and 40.6% YoY respectively. Noticeable growth in PAT was driven by the increase in interest spread from 2.17% to 2.32% YoY.

Key Highlights

- Company's clientele base reached 1.55 lakhs.
- Company currently planning to expand to 200 branches by March 2020.
- Company plans to raise fresh equity of about Rs1000cr through Rights issue/QIP/Preference shares.

Asset quality remains stable

Gross NPA ratio has marginally increased from 0.79% to 0.8% and Net NPA ratio has increased from 0.58% to 0.59% QoQ, overall the asset quality remains relatively stable with slippages accounting for marginal amounts. Capital adequacy ratio at 22.07% remains well above the required regulatory levels indicates good financial health of the company. Asset quality being one of the top priorities, management has taken stringent measures to maintain disbursement growth at moderate levels and average ticket size of loans are maintained as earlier to avoid bad assets.

Valuations

Company with its growing clientele base, increasing branches and stable asset quality has huge upside potential for growth in the tier 3 cities. Expansion to these areas and diversification of loan portfolio from the southern region is expected to reduce the concentration risk going forward. Also the impact of lower costs will be felt over the coming quarters which indicates strong earnings outlook. Hence we value the stock at 2.4x FY22E BVPS with a target price of Rs.557 and retain Accumulate rating on the stock.

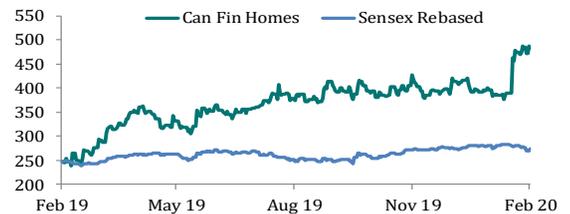
Company Data

Market Cap (Rs cr)	6,495
Outstanding Shares (cr)	13.31
Free Float	70%
Dividend Yield	0.45%
52 week high (Rs)	512
52 week low (Rs)	235.5
6m average volume (cr)	0.035
Beta	1.01
Face value (Rs)	2

Shareholding (%)	Q1FY20	Q2FY20	Q3FY20
Promoters	30.11	29.99	29.99
FPI's	0	0	0
MFs/Institutions	1.85	5.01	7.73
Public	68.04	65	62.28
Total	100	100	100

Price Performance	3 month	6 month	1 year
Absolute Return	17.4%	26.2%	95.2%
Absolute Sensex	0.4%	8.8%	11%
Relative Return*	17%	17.4%	84.2%

*over or under performance to benchmark index



Standalone (cr)	FY20E	FY21E	FY22E
NII	645	740	835
Growth(%)	21.6	14.8	12.8
NIM(%)	3.24	3.23	3.21
Provisions	26	28	32
Adj. PAT	394	474	534
Growth(%)	32.6	20.5	12.5
Adj. EPS	29.6	35.6	40.1
Growth(%)	32.6	20.5	12.5
BVPS	161	194	232
Adj BVPS	153	185	221
P/E	13.7	11.4	10.1
P/B	2.52	2.09	1.75
Adj. P/B	2.65	2.2	1.83
ROE (%)	20.05	20.05	18.81

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Research Analyst

Quarterly Financials (Standalone)

(Rs cr)	Q3FY20	Q2FY20	QoQ Growth (%)	Q3FY19	YoY Growth (%)	9M FY20	9M FY19	YoY Growth (%)
Interest Income	508	494	3%	438	16%	1,479	1,248	18.5%
Interest Expense	340	338	0%	302	13%	1,008	855	17.8%
Net Interest Income (NII)	168	156	8%	136	24%	471	393	20.0%
Fee and Other Income	9	7	35%	6	42%	23	20	11.5%
Total Income	177	162	9%	142	24%	494	413	19.6%
Expenditure	27	25	7%	21	25%	75	59	26.7%
Pre-Provision Profit	150	137	9%	121	24%	419	354	18.4%
Provision	5	6	-27%	0	-	19	0	-
PBT	146	131	11%	121	20%	399	354	13%
Tax	39	33	17%	45	-14%	114	123	-7%
Reported PAT	107	98	9%	76	41%	285	231	24%
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	107	98	9%	76	41%	285	231	24%
Diluted EPS (Rs)	8.01	7.33	9%	5.69	41%	21.42	17.32	24%

Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	713	-	740	835	3.8%	-
Net Interest Margin (%)	2.9	-	3.2	3.2	33bps	-
Pre-Provision Profit	618	-	662	746	7.1%	-
Adj. PAT	388	-	474	534	22.2%	-
Diluted EPS (Rs)	29.2	-	35.6	40.1	22.0%	-

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	1,491	1,700	2,009	2,279	2,645
Interest Expense	981	1,169	1,364	1,539	1,810
Net Int. Income	510	530	645	740	835
<i>Change</i>		4.1%	21.6%	14.8%	12.8%
Non Int. Income	31	32	31	46	53
Total Income	541	562	676	786	888
Operating Expenses	88	92	104	124	142
Pre Prov. Profit	453	471	572	662	746
<i>Change</i>	-	3.8%	21.5%	15.8%	12.7%
Prov. & Conting.	22	1	26	28	32
PBT	431	470	546	634	713
<i>Change</i>	-	8.9%	16.3%	16.2%	12.5%
Tax	145	173	152	160	180
Tax Rate (%)	34%	37%	28%	25%	25%
Reported PAT	286	297	394	474	534
Adj*	0	0	0	0	0
Adj. PAT	286	297	394	474	534
<i>Change</i>	-	3.7%	32.6%	20.5%	12.5%
No. of shares (Cr)	13.3	13.3	13.3	13.3	13.3
EPS (Rs)	21.5	22.3	29.6	35.6	40.1
<i>Change</i>		3.7%	32.6%	20.5%	12.5%
DPS (Rs)	2.0	2.0	2.0	2.0	2.0

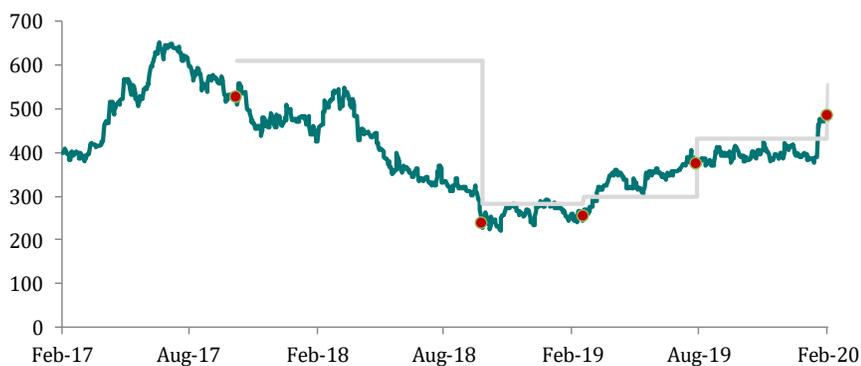
BALANCE SHEET

Y.E March (Rs cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	1	402	348	431	614
Loans & Advances	15,644	18,285	21,278	24,238	27,499
Investments	16	16	16	16	16
Gross Fixed Assets	28	31	34	38	42
Net Fixed Assets	10	10	4	-2	-9
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	23	24	61	56	54
Other Assets	36	44	77	73	75
Total Assets	15,730	18,780	21,784	24,812	28,249
Deposits	228	261	321	366	415
Debt Funds	13,693	16,433	18,837	21,361	24,207
Other Liabilities	291	278	450	463	498
Provisions	30	25	32	37	41
Equity Capital	27	27	27	27	27
Reserves & Surplus	1,460	1,756	2,117	2,559	3,061
Shareholder's Funds	1,487	1,782	2,144	2,586	3,087
Total Liabilities	15,730	18,780	21,784	24,812	28,249
BVPS (Rs)	111.7	133.8	161.0	194.2	231.9
<i>Change</i>	-	19.9%	20.3%	20.6%	19.4%
Adj. BVPS (Rs)	109.3	127.9	153.3	184.9	221.4
<i>Change</i>	-	17.0%	19.8%	20.6%	19.7%

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab. & Return					
Interest yield (%)	10.2	10.0	10.1	9.9	10.2
Cost of funds (%)	7.6	7.6	7.6	7.5	7.8
Spread(%)	2.6	2.3	2.5	2.4	2.3
NIM (%)	3.5	3.1	3.2	3.2	3.2
ROE (%)	21.3	18.2	20.1	20.1	18.8
ROA(%)	2.0	1.7	1.9	2.0	2.0
Business Growth					
Loans & Advances (%)	18.3	16.8	16.5	13.9	13.5
Borrowings (%)	17.6	20.0	14.6	13.4	13.3
Operating Ratios					
Cost to Income (%)	16.2	16.3	15.4	15.8	16.0
Capital Adequacy					
CAR (%)	21.3	21.2	21.6	22.6	23.5
Asset Quality					
GNPA (%)	0.4	0.6	0.7	0.8	0.9
NNPA (%)	0.2	0.4	0.5	0.5	0.5
Valuation					
P/E (x)	18.9	18.2	13.7	11.4	10.1
P/B (x)	3.6	3.0	2.5	2.1	1.8
Adj. P/B (x)	3.7	3.2	2.6	2.2	1.8
Adj. P/B (x)	1.8	1.6	1.4	1.3	1.1

Recommendation Summary



Dates	Rating	Target
10 October 17	Buy	612
28 September 18	Buy	284
20 February 19	Buy	300
01 August 19	Accumulate	432
04 February 20	Accumulate	557

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

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

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