

CAN FIN HOMES LTD

HOUSING FINANCE

Q4FY17: Affordable housing scheme to sustain loan book growth

Can Fin Homes Ltd (CFHL) reported significant earnings growth of 49% YoY at Rs 71 cr which was led by healthy NII growth backed by strong advance growth and improvement in NIMs. CFHL, advance growth for FY17 was at 25% (as against 27% in Q3 FY17) at Rs 13,313 cr and management guided for 28% loan book growth in FY18 to reach Rs.17,000 cr. CFHL's NII during the quarter was up by 36% at Rs 134cr. With operating leverage led by lower increase in operating costs CFHL's cost to income ratio has declined to 17.2% as against 18.5% YoY. CFHL's borrowing has strong AAA ratings which have reduced its cost of borrowing and also CFHL has reduced its dependence on Bank Loans from 27% in FY16 to 19% in FY17 which has resulted in reducing its cost of borrowing and in turn led to margin expansion.

27 APR 2017

Quarterly Update

BUY

Target Price: Rs 2,900

CMP : Rs 2,545
Potential Upside : 14%

MARKET DATA

No. of Shares : 2.66 cr
FV (Rs) : 10
Market Cap : Rs 6,774 cr
52-week High / Low : Rs 2669/ Rs 1080
Avg. Daily vol. (6mth) : 103,749 shares
Bloomberg Code : CANF.IN
Reuters Code : CANF.BO
BSE Code : 511196
NSE Code : CANFINHOME

Outlook & Valuations

CFHL reported the loan book of Rs.13,313 cr as against target of Rs.13,500 cr along with improvement in margins with stable asset quality. Management guided to maintain growth (28% growth) momentum with target of Rs.17,000 cr loan book by FY18 which would be led by affordable housing scheme as well as high growth in non housing portfolio.

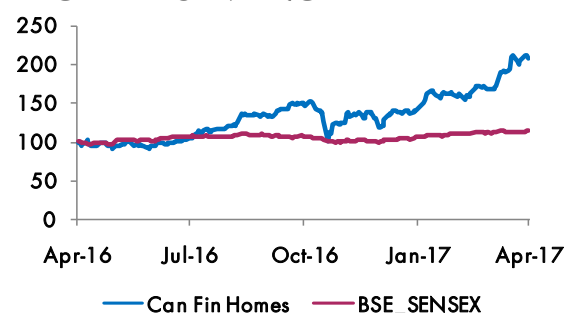
We believe valuation multiple expansion will be contingent upon sustainability of high loan book growth, further improvement in profitability and stable asset quality especially LAP. At CMP the stock trades at 5.1x its FY18E ABV and 3.9x FY19E P/ABV. We value CFHL at FY19E P/ABV multiple of 4.5x to arrive at target price of Rs.2900 and continue to have **BUY** rating.

FINANCIAL SUMMARY

Y/E	PAT	EPS	Change	P/E	BV	P/BV	GNPA	Adj BV	P/Adj.BV	RoE	RoA
Mar	(Rs. Cr)	(Rs.)	YoY (%)	(x)	(Rs.)	(x)	(%)	(Rs.)	(x)	(%)	(%)
FY16	157	59	82	19	330	3.5	0.2	330	3.5	18	1.7
FY17	235	88	50	19	404	3.5	0.2	404	3.5	22	2.0
FY18E	341	128	45	20	500	4.6	0.2	500	4.6	25	2.1
FY19E	451	169	32	14	645	3.6	0.2	645	3.6	26	2.2

Source: Company and Axis Securities. CMP as on 26th Apr 2017

PRICE PERFORMANCE



Bunty Chawla
bunty.chawla@axissecurities.in

Key Highlights

- **Loan book target almost achieved; FY18 target at 28%:** Loan book grew by 25% YoY in FY17 to Rs.13,313 cr as against target of Rs.13,500 cr led by strong disbursement growth of 22% YoY and growth of 23% YoY of loan approvals. Also, 96% of fresh approvals under Housing Loans to Individuals with income below Rs.18 lakh which comprises of 55% with annual income upto Rs.6 lakh (LIG) and 41% with income above Rs.6 & upto Rs.18 lakh (MIG). Thus, Affordable housing scheme under PMAY should support the strong growth as targeted by management at 28% in FY18
- **Margin expansion with changing borrowing mix and product mix:** CFHL margins expanded during the quarter by 5bps (QoQ) at ~3.54%. NIMs expansion was mainly led by changing borrowing mix and product mix. Earlier, CFHL was heavily relying on banks borrowing (44% in FY14) and NHB refinance (48% FY14) to meet its borrowing need. However, CFHL has recently changed its borrowing mix by borrowing from money market (CP/NCD) where rates have come down recently. CFHL borrowing mix now (Q4FY17) contains bank loan 19%, NHB refinance 28%, Public deposit 2% and CP/NCD 51%. This cheaper source of borrowing has resulted in lowering cost of funds in turn led to NIMs expansion. Apart from this CFHL has also reshuffled its product mix in loan book. Earlier, CFHL was more focused on salaried class customers but now it has also started focusing on high yielding non salaried segment which has increased from 10% in FY12 to 24% as of FY17. Also, share of LAP has recently increased which is high yielding product, this has resulted in higher yield on advances and in turn margin expansion. Management expects benefits of product mix and low borrowing cost to continue in coming quarters also.
- **Healthy Asset quality:** CFHL continue to report healthy asset quality by providing (100% PCR) for its NPAs to have nil (0.0%) Net NPAs. In Q4FY17, CFHL's Gross NPAs and Net NPAs has improved to 0.21% (0.24% QoQ) & 0.0% (0.01% QoQ). CFHL has negligible credit cost from last three years. However, we expect credit cost should increase over the period due to rising non-housing loan portfolio.

Results Update

Can Fin Homes Ltd	Quarterly					Yearly			
Fig in Rs.Cr	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	FY17	FY18E	FY19E	2 Yr CAGR (%)
Interest earned	360.8	295.0	22.3	349.5	3.2	1,352	1,758	2,250	29.0
Interest expenses	226.9	196.7	15.4	230.4	(1.5)	884	1,123	1,426	27.0
NII	133.8	98.3	36.1	119.1	12.4	468	635	824	32.7
Other Income	0.7	0.2	-	0.2	-	1	1	1	-
Total Income	361.5	295.3	22.4	349.6	3.4	469	636	825	32.6
Operating expenses	23.0	18.2	26.4	24.5	(6.2)	77	90	106	17.5
- Staff expenses	9.6	8.2	16.4	10.4	(8.0)	39	46	55	18.0
- Other expenses	13.4	9.9	34.7	14.0	(4.8)	38	44	52	17.0
Operating Profit (PPoP)	111.6	80.4	38.8	94.8	17.7	392	545	718	35.3
Provisioning & Cont.	0.0	0.0	-	0.0	-	18	33	42	52.1
Depreciation	1.1	1.0	14.6	0.9	21.1	4	3	3	-
PBT	110.5	79.4	39.1	93.9	17.7	370	509	673	34.8
Tax	39.6	32.0	23.8	34.3	15.5	135	168	222	28.3
PAT	70.9	47.4	49.4	59.6	18.9	235	341	451	38.4
EPS (Rs)	26.6	17.8	49.4	22.4	18.9	88	128	169	38.4
BVPS (Rs)	404.0	330.0	22.4	381.3	6.0	397	500	645	27.4
Gross NPA (%)	0.21	0.19	-	0.24	-	0.2	0.2	0.2	-
Advance growth (%)	25.1	39.4	-	28.2	-	30	30	30	-
NIMs (%)	3.54	3.24	-	3.49	-	3	3	3	-
CAR (%)	18.5	20.69	-	18.76	-	18	17	16	-

Source: Company and Axis Securities

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HOLD	Between 10% and -10%
SELL	Less than -10%

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