June 18, 2020

Result Report | Sector: Financials

YES SECURITIES
INSTITUTIONAL EQUITIES

Can Fin Homes Limited

BUY	CMP Rs332	Target Rs415	Upside 25.1%

HIGHLIGHTS

- ✓ Can Fin delivered a robust PPOP performance (up 6% qoq and 37% yoy) in Q4 FY20, led by material NIM expansion (at 3.52%, +12 bps qoq and +20 bps yoy), which in turn was driven by resilient portfolio yield and decline in the cost of funds.
- ✓ An overall Covid related provisions of Rs365mn (includes Rs211mn @10% on overdue accounts as on Feb 29 where standstill benefit extended) constricted a significant jump in earnings.
- ✓ Lower disbursements due to Covid (would have grown 10% yoy ex-Covid, against a reported 10% yoy decline) and elevated portfolio run-off moderated loan book growth to 13% yoy (from 15% yoy in Q3).
- ✓ Portfolio mix in terms of customers (Salaried/SENP at 71/29) and with respect to products (home loans 90%, LAP 4.5% and Top-up 3.5%) continues to be stable.
- ✓ Management is not expecting significant growth in current fiscal with recovery in loan demand seen only from Q4 FY21. On NIMs, company is more sanguine on the outlook with expectations of persistent decline in funding cost in ensuing quarters and a calibrated decline in portfolio yield due to annual reset.
- ✓ About 30% of customers have taken moratorium. Here the customer mix is slightly skewed towards SENP segment. Management is confident about salaried customers who have taken moratorium to start paying from September. NPL flows are more expected from SENP segment, particularly from delinquent pool.

Our View

- ✓ Upgrade rating to BUY from ADD. Can Fin remains the safest bet in HFC space due to its strong balance sheet construct (least risky among all HFCs), robust liquidity position (see lenders offering funding at even finer rates) and thus better growth prospects when demand recovers (also supported by lower base and strong distribution in Tier 2-4 markets)
- ✓ The traction in NIM could continue and will offset the likely spike in credit cost cushioning return ratios. Estimate avg. RoA/RoE at 1.8%/16.5% without considering equity raise. Stock trades at 1.6x P/ABV and 10x P/E on FY22 basis.

Risk to our call

- ✓ Prolonged Covid episode causing deeper impact on growth and AQ

Exhibit 1: Financial Summary

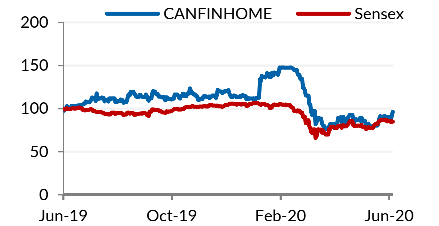
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	5,621	6,862	7,443	7,890
yoy growth (%)	3.9	22.1	8.5	6.0
PPOP	4,706	5,786	6,226	6,552
Net profit	2,967	3,761	3,989	4,350
yoy growth (%)	3.7	26.8	6.1	9.1
EPS (Rs)	22.3	28.2	30.0	32.7
Adj.BVPS (Rs)	127.9	153.1	165.5	202.6
P/E (x)	14.9	11.8	11.1	10.2
P/adj.BV (x)	2.6	2.2	2.0	1.6
ROE (%)	18.2	19.1	17.0	15.9
ROA (%)	1.7	1.9	1.9	1.9
CAR (%)	16.4	22.3	25.1	25.7

Source: Company, YES Sec – Research

Stock data (as on June 17, 2020)

Sensex:	33,508
52 Week h/l (Rs)	519 / 253
Market cap (Rs/USD mn)	44260 / 581
Outstanding Shares	133
6m Avg t/o (Rs mn):	255
Div yield (%):	0.6
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	12.4 %	(8.4) %	(0.8) %

Shareholding pattern (As of Mar'20 end)

Promoter	30.0%
FII+DII	12.2%
Others	57.8%

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CON-CALL HIGHLIGHTS

Moratorium

- 29% of customers have opted for moratorium. It is similar in terms of % of AUM.
- Can Fin's delinquent pool would be the lowest in industry. Generally, such customers move to NPLs
- Salaried customers have availed moratorium to hoard cash. Job loss or a cut in pay is a reason for few customers.
- The break-up of salaried customer base is 50:50 between those working with Private Organizations and with Government/PSU entities

Disbursements/Growth

- Can Fin has started disbursements from the last week of May. There has been a pick-up in June, but largely due to the stock of sanctions (however, disbursing after reappraising)
- Management expects that it will take at least 2-3 quarters for home loan demand to come back. Thus, expects disbursements to pick-up in any meaningful way from December onwards.
- Overall for FY21, Can Fin does not expect much growth in its loan portfolio.
- In the medium-to-longer term, company would look for opportunities to gain market share given its strong presence in Tier 2-4 markets
- The current customer mix of home loan portfolio (Salaried 71% and SENP 29%) will remain steady in the future
- There will be no compromise on profitability in pursuit of growth

NPLs

- There is likely to be a surge in NPLs after September in the SENP portfolio. Can Fin has funded small traders and businessmen who have witnessed income loss.
- The NPL flow will be higher from the delinquent pool as of Feb 29).
- Inherent health of company's portfolio is strong due to conservative underwriting policies. Thus, while delinquencies will spike, it will be much lesser than the industry.
- Most customers taken loan for self-occupation of the house, so there is strong sentimental connect.
- Management will strive to bring back NPLs to current level in 4-6 quarters

Liquidity

- Close to about Rs40bn of approved unavailed lines which can take care of all liability repayments till Dec/Jan even assuming 100% moratorium.
- Can Fin did not take more bank limits in Q4 FY20

Others

- Management's top priority would be liquidity and asset quality in the current year.
- Top-up loans are given based on repayment track-record of at least a couple of years. Its tenor would be lesser or co-terminus with the underlying home loan. For such loans, LTV headroom must be there. Loan purpose could be home improvement/extension, education, consumption, etc. The rate differential is 50 bps over the home loan.

- ✓ LAP is 5% of loan book. Only Rs60mn exposure to developers.
- ✓ Cost of funds is expected to decline further. Can Fin has received funding from NHB under the special liquidity facility at a low rate.
- ✓ All Bank Term Loans have tenor of 7-10 years.
- ✓ D/E ratio at 8.6x is comfortable. Company would look to raise some capital (but not in a hurry)

Exhibit 2: Result Table

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Operating Income	5,288	5,168	2.3	4,624	14.4
Interest Expenses	(3,366)	(3,398)	(0.9)	(3,140)	7.2
Net Interest Income	**1,922**	**1,770**	**8.6**	**1,483**	**29.6**
Other income	0	-	-	5	(93.0)
Total Income	**1,923**	**1,770**	**8.6**	**1,489**	**29.1**
Operating expenses	(325)	(269)	20.9	(322)	1.0
PPOP	**1,598**	**1,501**	**6.4**	**1,167**	**36.9**
Provisions	(408)	(45)	797.6	(11)	-
PBT	1,189	1,456	(18.3)	1,156	2.9
Tax	(280)	(390)	(28.1)	(495)	(43.4)
Adjusted PAT	**909**	**1,066**	**(14.7)**	**661**	**37.5**

Source: Company, YES Sec – Research

Exhibit 3: Business data

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Loan Book	**207,060**	**201,940**	**2.5**	**183,810**	**12.6**
Salaried	**146,870**	**143,200**	**2.6**	**130,640**	**12.4**
Housing	135,980	132,550	2.6	120,120	13.2
Top-up Personal	4,860	4,660	4.3	4,120	18.0
Mortgage/Flex LAP	3,970	3,900	1.8	3,790	4.7
Loans for sites	1,670	1,710	(2.3)	2,340	(28.6)
Others	390	380	2.6	270	44.4
Non-Salaried	**59,960**	**58,500**	**2.5**	**52,890**	**13.4**
Housing	50580	49280	2.6	44070	14.8
Top-up Personal	2560	2520	1.6	2220	15.3
Mortgage/Flex LAP	5510	5360	2.8	5080	8.5
Loans for sites	700	700	-	960	(27.1)
Others	610	640	(4.7)	560	8.9
Builder Loans	**60**	**70**	**(14.3)**	**110**	**(45.5)**
Staff Loans	**170**	**170**	**-**	**170**	**-**

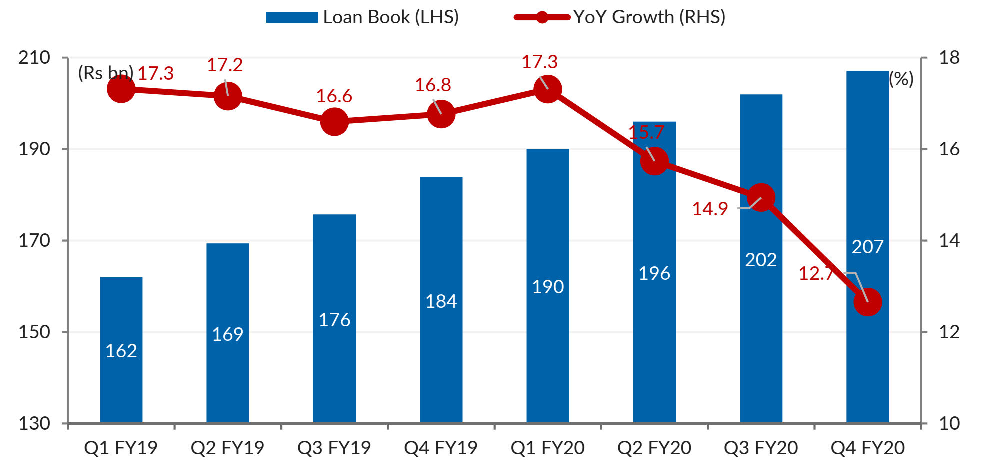
Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q4 FY20	Q3 FY20	chg qoq	Q4 FY19	chg yoy
NIM	**3.5**	**3.4**	**0.1**	**3.3**	**0.2**
Yield	10.2	10.2	0.0	10.1	1.7
Cost of Funds	7.8	7.9	(0.1)	7.9	(0.1)
Spread	2.5	2.3	0.1	2.2	0.3
Cost to Income	16.9	15.2	1.7	21.6	(4.7)
Gross NPA	**0.8**	**0.8**	**(0.0)**	**0.6**	**0.1**
Net NPA	0.5	0.6	(0.0)	0.4	0.1
PCR	28.8	26.2	2.6	29.9	(1.1)
RoA	1.9	2.0	(0.1)	1.8	0.2
RoE	**17.4**	**19.7**	**(2.3)**	**18.2**	**(0.7)**
CAR	**22.3**	**22.1**	**0.2**	**16.4**	**5.8**

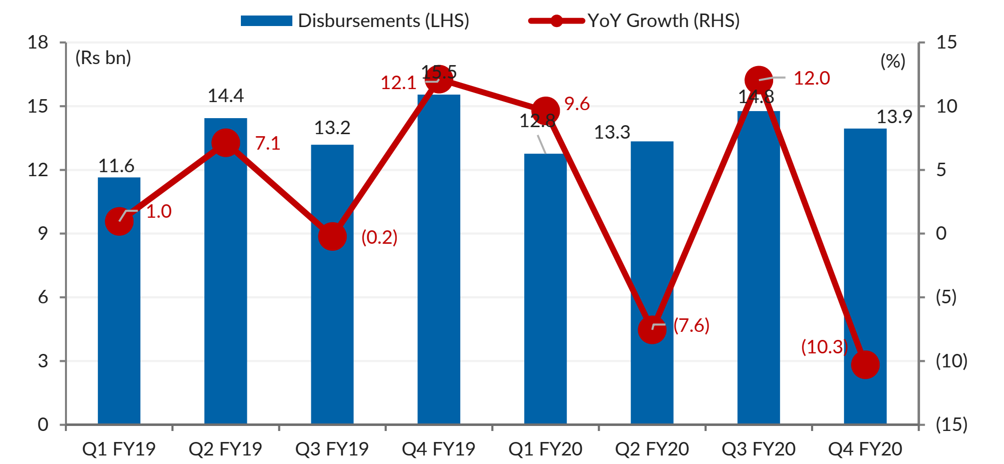
Source: Company, YES Sec – Research; * Computed

Exhibit 5: Loan book growth moderated in Q4



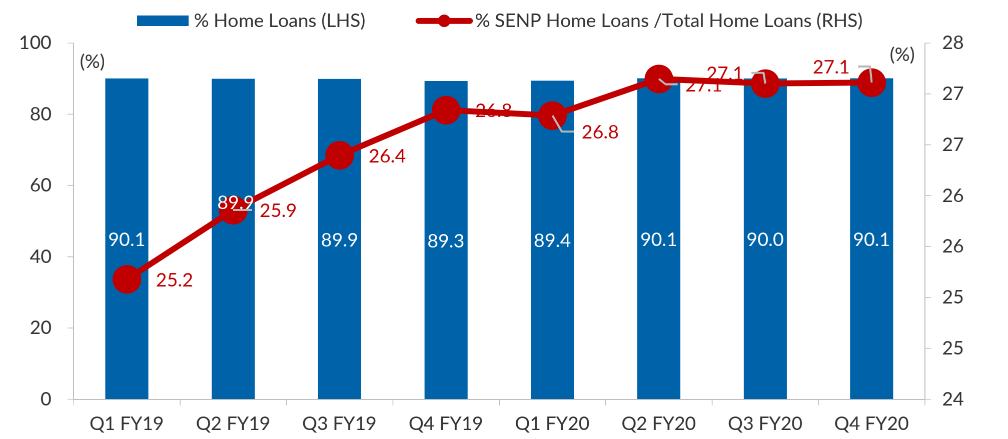
Source: Company, YES Sec – Research

Exhibit 6: Disbursements impacted by Covid, otherwise would have been up 10% yoy



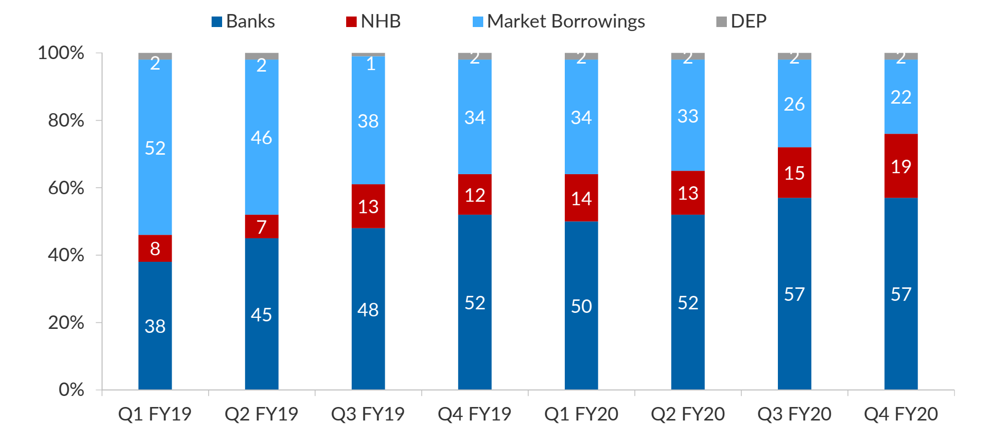
Source: Company, YES Sec – Research

Exhibit 7: Loan book character remained intact



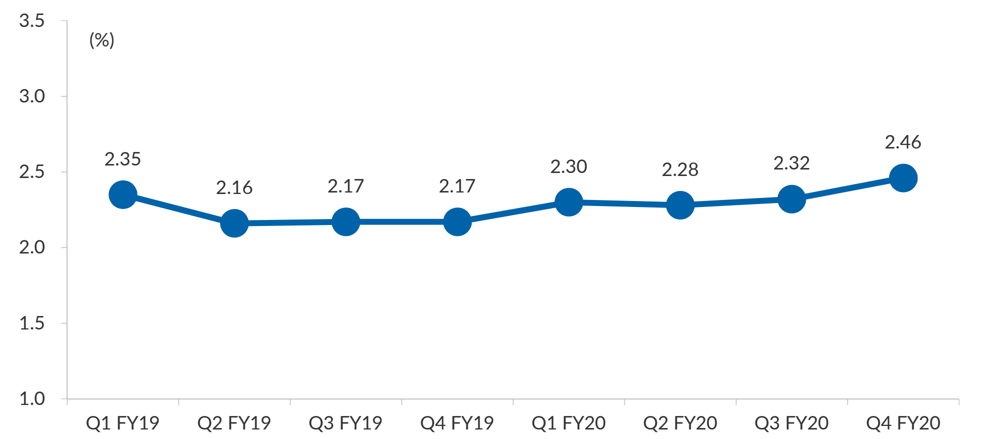
Source: Company, YES Sec – Research

Exhibit 8: Borrowing mix – Banks and market borrowings captures a major share



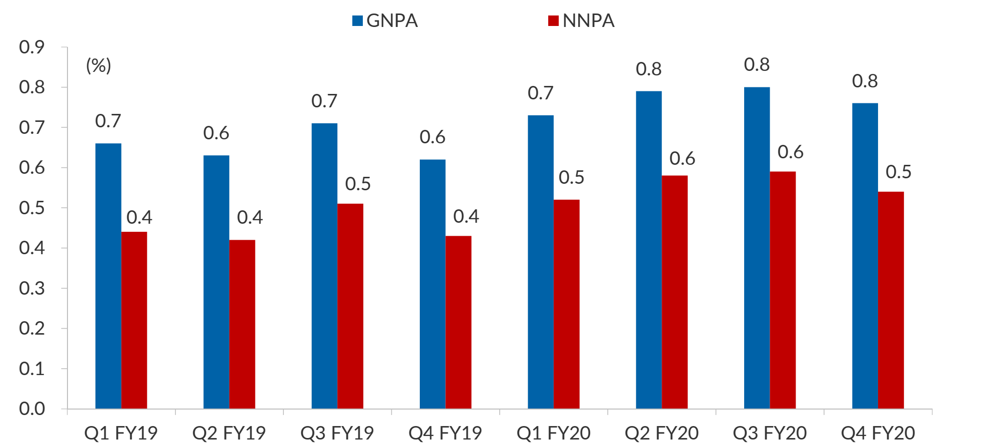
Source: Company, YES Sec – Research

Exhibit 9: Spreads improves sequentially



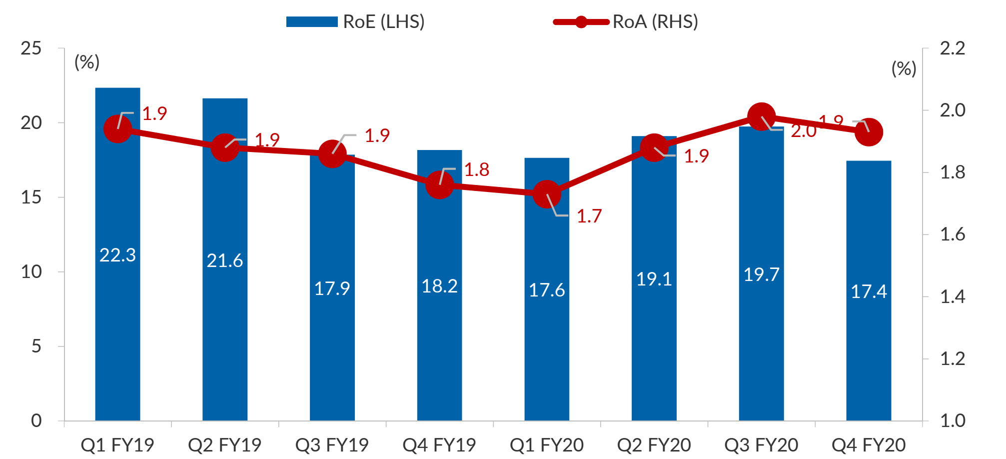
Source: Company, YES Sec – Research

Exhibit 10: Asset quality remained largely stable



Source: Company, YES Sec – Research

Exhibit 11: Strong profitability despite elevated provisions



Source: Company, YES Sec – Research

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