

Retail Equity Research (South India Focus)

# Can Fin Homes Ltd

NBFC

BSE CODE : 511196

NSE CODE: CANFINHOME

BLOOMBERG CODE: CANF:IN

SENSEX : 34,911

**Buy**

12M Investment Period

Rating as per Small Cap

**CMP Rs.369 TARGET Rs.430 RETURN 17%** ↑

(Closing: 22-06-20)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↑

**EARNINGS** ↓

## Stable growth amidst slowdown

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 to Rs 20,708cr in Q4 FY20 registering a 13% YoY and 2.5% QoQ growth.
- Interest Income recorded a growth of 16% YoY and 2.3% QoQ whereas Net Interest Income grew by 37% YoY and 8.5% QoQ.
- Net Interest Margin increased by 9bps to 3.52% due to rising yield and declining cost.
- GNPA/NNPA improved to 0.76%/0.54% from 0.8%/0.59% in Q3 FY20.
- We value the stock at 2.1x on FY22E Adj BVPS of Rs.205.2 with a target price of Rs.430 and recommend Buy rating.

## Strong Loan Book and Clientele Growth

The loan book grew from Rs 18,381cr to Rs 20,708cr registering a growth of 13% YoY. This growth in loan book was supported by the company's growing client base which currently stands at 1.7 lakh customers. The major growth in loan book is contributed by growth in Housing loans(14% YoY), Top up personal loans(17% YoY) and Mortgage loans(7% YoY) from both the salaried and non-salaried class. The loan portfolio has 90% of its exposure to housing loans and 10% to mortgage loans, LAP etc. Company is very cautious in maintaining its exposure of loans to the salaried & professional class at 71% to hedge against risk from the self employed class. Going forward, we expect this portfolio characteristic to limit the downside of interest income under present conditions, where small businesses have little to nil cash flow to service their obligations.

## Commendable business growth with 9bps growth in NIM

Interest Income for Q4 FY20 grew by 16% YoY and 2.3% sequentially whereas Net Interest Income grew by 37% YoY and 8.5% sequentially, mainly due to lower interest expenses owing to lower cost of funds. For the current quarter, Net Interest Margin stood at 3.52%, 9bps higher than previous quarter. This rise in NIM is due to a 3bps increase in yield and 11bps decrease in cost of funds. As a result, the Net Interest spread increased by 14bps to 2.46%. Pre Provision Profit grew by 23% to Rs 579cr and Adj PAT grew by 27% to Rs 376cr in FY20. Around 28 to 29% of customers have opted for moratorium during this period. We expect lower cost of funds to persist in FY21E as incremental cost of funds is currently 7.5%. We expect PAT for FY21E to be Rs353cr. The growth in PAT is affected by lockdown and moratorium on the business along with higher provisions provided. We expect business to gain momentum by Q3FY21. In FY22E, we expect business to return back to pre-covid levels with growth in portfolio aided by recovery in economic activities in tier2&3 cities.

## Asset Quality, Liquidity & Capital Adequacy

Gross NPA ratio has decreased from 0.8% in last quarter to the current 0.76% and Net NPA ratio has declined from 0.59% to 0.54%. However, Provision for Standard asset and NPA has increased from Rs 4.55cr to Rs 40.83cr owing to higher risk in the portfolio under current circumstances. From the 29% customers opted for moratorium, delinquent accounts are expected to turn out as NPAs and GNPA levels are expected to increase to 1% in FY21E. In the liquidity front, Can fin remains well balanced with undrawn available credit lines of Rs 4,700cr which is enough to service till 4th Quarter. Capital Adequacy ratio stands at 22.3% currently which is fairly above the regulatory levels. We expect CAR to increase to around 23% going forward.

## Outlook & Valuations

Company with its growing clientele base, increasing branches and stable asset quality has huge upside potential for growth in the tier 3 cities. However, keeping in mind the current slowdown, we value the stock at 2.1x FY22E Adj BVPS with a target price of Rs 430 and recommend Buy rating on the stock.

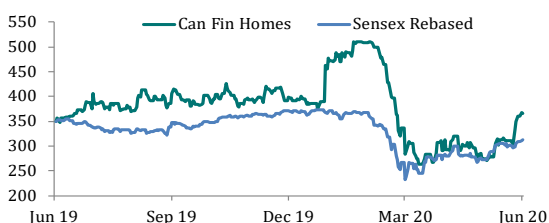
## Company Data

Market Cap (Rs cr)	4858
Outstanding Shares (cr)	13.31
Free Float	70%
Dividend Yield	0.45%
52 week high (Rs)	519
52 week low (Rs)	253
6m average volume (cr)	0.07
Beta	1.12
Face value (Rs)	2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	29.99	29.99	29.99
FPI's	0	0	0
MFs/Institutions	5.01	7.73	12.23
Public	65	62.28	57.87
Total	100	100	100

Price Performance	3 month	6 month	1 year
Absolute Return	21.1%	-6.7%	4.7%
Absolute Sensex	23%	-14.7%	-10.3%
Relative Return*	-1.9%	8.1%	15.0%

\*over or under performance to benchmark index



Standalone (Rs Cr)	FY20A	FY21E	FY22E
NII	666	709	717
Growth	25.5%	6.5%	1.1%
NIM(%)	3.40	3.27	2.93
Provisions	60	134	51
Adj. PAT	376	353	410
Growth	26.8%	-6.1%	15.9%
Adj. EPS	28.2	26.5	30.8
Growth	26.7%	-6.1%	15.9%
BVPS	161	186	214
Adj BVPS	158	179	205
P/E	13.0	13.9	12.0
P/B	2.28	1.98	1.72
Adj. P/B	2.33	2.05	1.79
ROE (%)	19.13	15.29	15.40

K Jose Francis  
Research Analyst

## Quarterly Financials

(Rs Cr)	Q4FY20	Q3FY20	QoQ Growth (%)	Q4FY19	YoY Growth (%)	FY20	FY19	YoY Growth (%)
Interest Income	525	514	2%	451	16%	2,010	1,700	18.3%
Interest Expense	337	340	-1%	314	7%	1,344	1,169	15.0%
Net Interest Income (NII)	188	174	8%	138	37%	666	530	25.5%
Fee and Other Income	4	3	16%	12	-69%	2,065	3,180	-35.1%
Total Income	192	177	9%	150	28%	2,730	3,710	-26.4%
Expenditure	33	27	21%	33	0%	108	92	17.4%
Pre-Provision Profit	160	150	6%	118	36%	2,623	3,618	-27.5%
Provision	41	5	798%	1	-	60	1	-
PBT	119	146	-18%	116	2%	2,562	3,617	-29%
Tax	28	39	-28%	49	-43%	142	173	-18%
Reported PAT	91	107	-15%	67	36%	2,420	3,445	-30%
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	91	107	-15%	67	36%	2,420	3,445	-30%
Diluted EPS (Rs)	6.83	8.01	-15%	0	-	28.25	22.29	27%

## Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	647	809	709	717	9.6%	-11.4%
Net Interest Margin (%)	2.9	3.3	3.3	2.9	37bps	-37bps
Pre-Provision Profit	568	723	607	598	6.8%	-17.3%
Adj. PAT	395	512	353	410	-10.6%	-20.0%
Diluted EPS (Rs)	29.7	38.4	26.5	30.8	-10.7%	-19.9%

**PROFIT & LOSS**

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	1,491	1,700	2,010	2,112	2,493
Interest Expense	981	1,169	1,344	1,403	1,776
<b>Net Int. Income</b>	<b>510</b>	<b>530</b>	<b>666</b>	<b>709</b>	<b>717</b>
<i>Change</i>		4.1%	25.5%	6.5%	1.1%
Non Int. Income	31	32	21	24	37
Total Income	541	562	686	733	754
Operating Expenses	88	92	108	126	156
<b>Pre Prov. Profit</b>	<b>453</b>	<b>471</b>	<b>579</b>	<b>607</b>	<b>598</b>
<i>Change</i>	-	3.8%	23.0%	4.9%	-1.4%
Prov. & Conting.	22	1	60	134	51
<b>PBT</b>	<b>431</b>	<b>470</b>	<b>518</b>	<b>472</b>	<b>547</b>
<i>Change</i>	-	8.9%	10.4%	-8.9%	15.9%
Tax	145	173	142	119	138
Tax Rate (%)	34%	37%	27%	25%	25%
Reported PAT	286	297	376	353	410
Adj*	0	0	0	0	0
<b>Adj. PAT</b>	<b>286</b>	<b>297</b>	<b>376</b>	<b>353</b>	<b>410</b>
<i>Change</i>	-	3.7%	26.8%	-6.1%	15.9%
No. of shares (Cr)	13.3	13.3	13.3	13.3	13.3
EPS (Rs)	21.5	22.3	28.2	26.5	30.8
<i>Change</i>		3.7%	26.7%	-6.1%	15.9%
DPS (Rs)	2.0	2.0	2.0	2.0	2.0

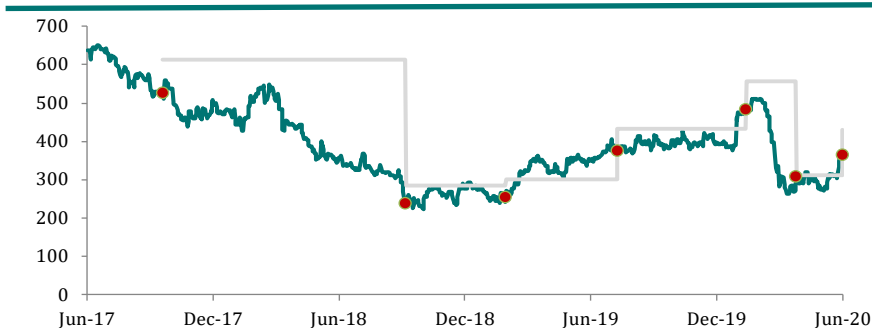
**BALANCE SHEET**

Y.E March (Rs cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	1	402	372	418	416
Loans & Advances	15,644	18,285	20,526	22,417	26,100
Investments	16	16	24	24	24
Gross Fixed Assets	28	31	69	112	161
Net Fixed Assets	10	10	38	71	108
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	23	24	34	42	41
Other Assets	36	44	49	68	79
<b>Total Assets</b>	<b>15,730</b>	<b>18,780</b>	<b>21,044</b>	<b>23,039</b>	<b>26,770</b>
Deposits	228	261	305	338	394
Debt Funds	13,693	16,433	18,443	20,072	23,369
Other Liabilities	291	278	79	90	105
Provisions	30	25	66	68	53
Equity Capital	27	27	27	27	27
Reserves & Surplus	1,460	1,756	2,123	2,445	2,822
Shareholder's Funds	1,487	1,782	2,150	2,471	2,849
<b>Total Liabilities</b>	<b>15,730</b>	<b>18,780</b>	<b>21,044</b>	<b>23,039</b>	<b>26,770</b>
<b>BVPS (Rs)</b>	<b>111.7</b>	<b>133.8</b>	<b>161.5</b>	<b>185.6</b>	<b>213.9</b>
<i>Change</i>	-	19.9%	20.6%	14.9%	15.3%
Adj. BVPS (Rs)	109.0	131.3	158.1	179.1	205.2
<i>Change</i>	-	20.5%	20.4%	13.3%	14.6%

**RATIOS**

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
Interest yield (%)	10.2	10.0	10.3	9.8	10.2
Cost of funds (%)	7.6	7.6	7.6	7.2	8.0
Spread(%)	2.6	2.3	2.7	2.6	2.2
NIM (%)	3.5	3.1	3.4	3.3	2.9
ROE (%)	21.3	18.2	19.1	15.3	15.4
ROA(%)	2.0	1.7	1.9	1.6	1.6
<b>Business Growth</b>					
Loans & Advances (%)	18.3	16.8	12.6	8.9	16.4
Borrowings (%)	17.6	20.0	12.2	8.8	16.4
<b>Operating Ratios</b>					
Cost to Income (%)	16.2	16.3	15.7	17.2	20.7
<b>Capital Adequacy</b>					
CAR (%)	21.3	21.2	22.3	23.4	23.0
<b>Asset Quality</b>					
GNPA (%)	0.4	0.6	0.8	1.0	1.0
NNPA (%)	0.2	0.4	0.5	0.6	0.5
<b>Valuation</b>					
P/E (x)	17.1	16.5	13.0	13.9	12.0
P/B (x)	3.3	2.7	2.3	2.0	1.7
Adj. P/B (x)	3.4	2.8	2.3	2.1	1.8

## Recommendation Summary



Source: Bloomberg, Geojit Research.

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
17 April 20	Hold	312
23 June 20	Buy	430

## Investment Criteria

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

### 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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