

Can Fin Homes Ltd.

No. of shares (m)	133.15
Mkt cap (Rs crs/\$m)	4571/605.6
Current price (Rs/\$)	343/4.5
Price target (Rs/\$)	447/5.9
52 W H/L (Rs.)	519/253
Book Value (Rs/\$)	159/2.1
Beta	0.9
Daily volume NSE (avg. monthly)	770520
P/BV (FY21e/22e)	1.8/1.5
P/E (FY21e/22e)	11.2/9.2
Cost to Income (FY20/21e/22e)	15.7/16.0/15.7
EPS growth (FY20/21e/22e)	26.8/8.1/22.6
NIM (FY20/21e/22e)	3.5/3.3/3.5
ROE (FY20/21e/22e)	19.4/17.6/18.2
ROA(FY20/21e/22e)	1.9/1.9/2.1
D/E ratio (FY20/21e/22e)	8.8/7.6/7.3
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF.IN
Reuters	CNFH.NS

Shareholding pattern

	%
Promoters	30.0
MFs / Banks / FIs/ Others	12.2
Foreign Portfolio Investors	-
Govt. Holding	-
Public & Others	57.8
Total	100.0

As on March 31, 2020

Recommendation

BUY

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Quarterly Highlights

- Hit by a global pandemic, disbursements witnessed considerable de-growth of 10.3% y-o-y in Q4FY20 due to the impact of nationwide lockdown beginning at the end of March. An already slowing housing credit landscape did Can Fin Homes no favours as loan book grew by 2.7% from December 2019 driven by balanced growth in its salaried and professional clients as well as self employed segment, albeit the self employed segment grew on a much smaller base; housing loans comprised over 90% of the loan book while non housing made up the remainder. Salaried class continues to be its mainstay, constituting 71% of its loan book, same as a year ago.
- Decline in cost of funds (7.8% vs 7.9%) accompanied with an increase in average yield (10.2% vs 10.1%) partially explain robust NII growth of 33.5% y-o-y in Q4FY20, compared to a mere 7.6% y-o-y growth in Q4FY19 - NIMs for the quarter expanded 19 bps to 3.5%. Operating expenses remained largely flat and marginal rise of 2.1% y-o-y in average business per branch helped the cost to income ratio which declined 471 bps to 16.9% (21.6% in Q4FY19). With pre-provision profits up by a massive 36.9% y-o-y, large provisions, partially due to change in RBI norms on account of COVID-19, PBT failed to match its growth, rising by merely 2.9%.
- Aided by moratorium, Can Fin's asset quality marginally deteriorated in Q4FY20 in comparison to last year, with Gross NPA and Net NPA of 0.8% and 0.5% respectively (vs Gross NPA of 0.6% and Net NPA of 0.4% a year ago) but held steady from last quarter where GNPA was higher by 4 basis points. Recovery was deferred due to the pandemic and less number of working days in the quarter. However, it created a significant provision (Rs. 40.84cr) higher than usually required by it as per the ECL (expected credit loss) model on account of extraordinary circumstances.
- The stock currently trades at 1.8x FY21e BV (11.2x FY21e EPS of Rs 30.53) and 1.5x FY21e BV (9.2x FY22e EPS of Rs 37.42). With its focus on affordable housing and favorable base effect (loan book to grow by just 4% in FY21 due to the impact of corona virus) we expect loan book to grow by 15% in FY22. GOI's CLSS (Credit Link Subsidy Scheme) would also be a big boost as majority of its disbursements would be towards LIG (low-income group) and MIG-1 (Mid-income group with income from Rs 6 lacs up to Rs 12 lacs). NII growth would accelerate by 1.7% in FY21 and 18% in FY22. Return ratios would see a decline – ROE and ROA of 17.6% and 1.9% respectively in FY21. Weighing odds, we assign 'buy' rating on the stock with target price of Rs 447 (previous target Rs 478) based on 2.0x FY22e BV for a period of 9-12 months.

(Rs crs)	FY18	FY19	FY20	FY21e	FY22e
Net Interest Income	509.56	544.13	674.70	686.47	810.30
Non Interest Income	31.40	17.94	11.54	10.33	14.71
Pre-Provision Profits	453.18	470.60	578.60	585.50	695.69
Net profit	286.11	296.74	376.12	406.55	498.37
EPS(Rs)	21.49	22.28	28.24	30.53	37.42
EPS growth (%)	21.8	3.7	26.8	8.1	22.6

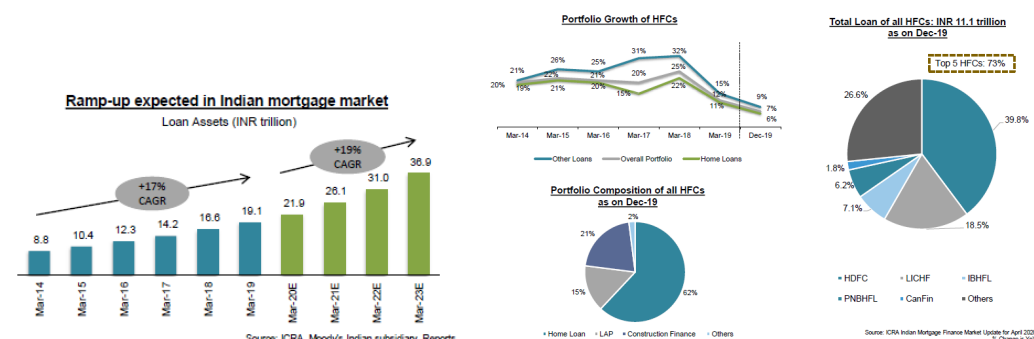
Outlook & Recommendation

Industry Overview

Growth in loan book and asset quality of housing finance companies will come under pressure following the economic impact of COVID-19 as salaried and self employed individuals face the prospect of job losses, salary cuts and loss in income according to ratings agency ICRA. It expects slowdown in home loans extended by HFC's in the first half of FY21 adding that, recovery in the second half of FY21 will depend on the overall economic scenario. It estimates credit growth in FY21 to be 9-12%, in comparison to 16% annual growth over last 3 years due to COVID-19.

"It is likely that people will defer their home purchases and home improvement/extension decisions in the current fiscal, till they are able to achieve stability in income levels and resumption of business activities" said Supreeta Nijjar, Vice President and sector head financial sector ratings, ICRA. Non performing assets in the housing sector are expected to increase to 1.8-2% by March 2021 from 1.4% as of December 2019. While slippages in the non-housing segment could be higher with gross NPAs increasing to 3-3.5% in FY2021 from 2.1% as on December 31, 2019. "Liquidity of repossessed properties could get impacted, leading to delays in recoveries or possibly higher losses on the sale of such properties" added Ms Nijjar.

The RBI has also taken steps to infuse liquidity into the system via targeted long-term repo operations (TLTROs), which could increase the available liquidity. The Rs. 50,000 crore of additional TLTROs announced on April 17, 2020 and the additional Rs. 10,000 crore of refinance facility to National Housing Bank (NHB) will support the immediate liquidity requirements of HFCs to some extent, especially those operating in the affordable housing space where collections are likely to be impacted more.



The real estate sector which had huge unsold inventory in 7 top cities - till last year, NBFCs and HFCs were the major providers of loans to builders. Now very few NBFCs can provide loans to developers that too in small ticket size. The non-availability of construction loan on one hand and low sale of flats on the other due to depressed demand and liquidity problem of HFCs adversely impacted the sector with reduced new launches. There are large number of stalled projects across the country; blocking huge financial resources, causing enormous suffering to home seekers and an increase in default to their lenders mainly HFCs/NBFCs.

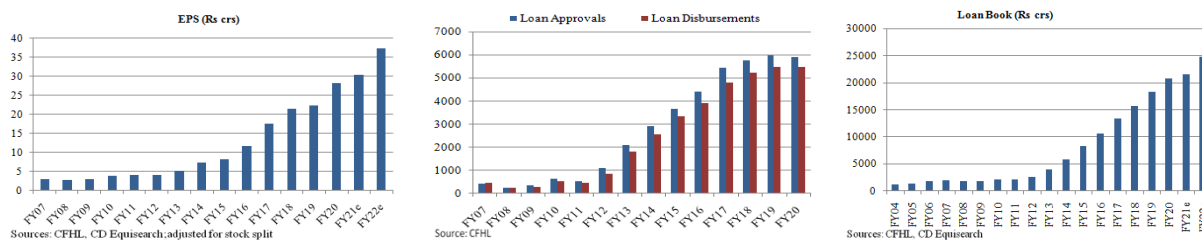
There would be consolidation in the HFC space, with larger and established players, with strong parentage, granular book, adequate vintage and funding continue gaining market share. As HFCs work on asset liability tenors, incremental dependence on short-term borrowing needs to be monitored, as there could be a widening of gaps in less than one year buckets during stress times, because prepayments which have been factored could moderate significantly.

While the profitability indicators (Return on Equity) are likely to remain range-bound in FY20 between 13 to 15 per cent, a prolonged slowdown in growth and the Covid-19-related impact on the asset quality, could lead to an increase in the credit costs in FY21, cautioned ICRA. This could lead to a moderation in the profitability indicators for FY21 by around 200-300 basis points, it added.

Financials & Valuation

Headquartered in Bangalore, Can Fin Homes has 184 branches and 14 satellite offices across 21 States and Union Territories – It added 9 branches during the year ended March 2020. Geographically, the loan mix is skewed towards salaried individuals in South India while it is slightly more towards SENP (Self Employed and Non Professionals) in non-south regions - the company intends to add branches in areas where it doesn't have to compromise on its profitability, mainly in tier 2 and tier 3 cities.

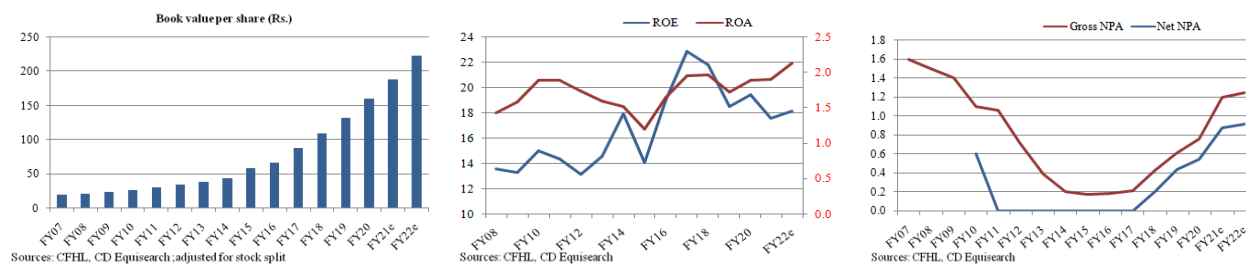
Can Fin barely expect robust growth in disbursements in FY21 due to enormously challenging circumstances (FY20 disbursements were at Rs. 5481 cr). The focus has historically been on salaried professionals, there is no expected change in the lending mix for FY21 – 71% of the outstanding loan book comes from salaried professionals as of March '20, while 29% comes from SENP (Self Employed and Non Professionals). Growth in metros has been 10-11% last year while in non-metros it has been upwards of 25%; roughly 60% of the loan book comes from metro cities, while its share of branches is just around 36%.



Low ticket size is one of the core strengths of Can Fin Homes – average ticket size for incremental housing loans is Rs. 18 lakhs while non housing loans is Rs. 9 lakhs. Given the visible stress in the SME space, a surge in NPA's in the SME space is not ruled out– the management expects NPAs to peak by Q3FY21. It will take time for clients to start servicing the loans, till the traders and businessmen resume their activity to a certain level. Damaging effect on capital will be largely contained as 70% of the loan book is to salaried professionals.

COVID-19 has had a considerable impact on the operations of the company, with operations stopped since March 24 to April 20. Lending was impacted as well till the third week of May. The company has enough liquidity and sufficient unavailed sanction limits from banks and financial institutions to meet all business obligations.

Net interest income is expected to grow by a shade below 2% in FY21 and 18% in FY22 with the growth in latter driven by bounce back in net interest margins to 3.5%; we expect loan book to grow tepidly by 4% in FY21 due to the nerve wracking impact of the pandemic on the economy. With revival in housing demand in FY22, we expect loan book to grow by 15%. The stress in the SME space is expected to creep up GNPA to 1.2% in FY21 while net NPA is expected to rise to 0.9% in the same year. Return on Equity will decline by almost 2% to 17.6% in FY21 from 19.4% in FY20 while ROA is expected to remain stable at 1.9% before rising to 2.1% in FY22.



The stock currently trades at 1.8x FY21e BV (11.2x FY21e EPS of Rs 30.53) and 1.5x FY21e BV (9.2x FY22e EPS of Rs 37.42). Despite having a granular loan book with focus on salaried segment (salaried professionals comprise 71% of the loan book), Can Fin has been unable to replicate robust growth in its loan book over the last few years that it showed during FY12-17, CAGR of 37.9%. Low NPA ratios (gross NPA at 0.76% in FY20), and loan book focused on salaried professionals could be an advantage at this point when some of the peers are struggling with their asset quality. Weighing odds, we assign 'buy' rating on the stock with target price of Rs 447 (previous target Rs 478) based on 2.0x FY22e BV for a period of 9-12 months.

Cross Sectional Analysis

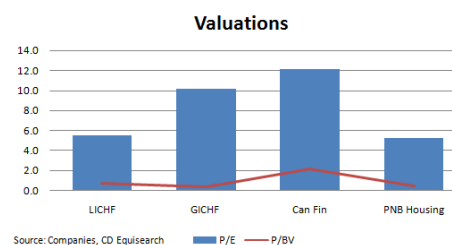
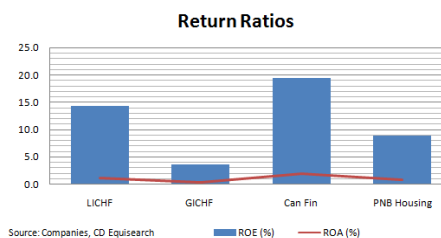
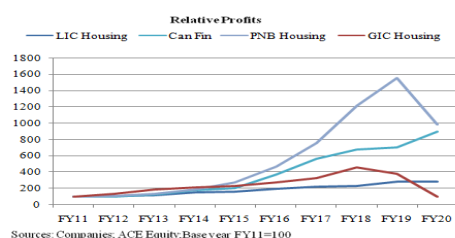
Company	Equity*	CMP	Mcap*	NII*	Profit*	NIMs ***(%)	Loan Book growth(%)	ROE (%)	ROA (%)	P/E	P/BV
LICHF	101	265	13351	4821	2402	2.4	8	14.3	1.2	5.6	0.8
GICHF	54	86	463	300	46	2.3	1	3.7	0.3	10.2	0.4
Can Fin	27	343	4571	675	376	3.5	13	19.4	1.9	12.2	2.2
PNB Housing	168	213	3574	1814	682	2.6	-9	9.0	0.8	5.2	0.4

*figures in crores; calculations on ttm basis; standalone or consolidated data as available as on March 31, 2020.

Despite the liquidity crunch in the housing finance market in FY20, LIC Housing Finance managed to post decent growth in its loan portfolio to the extent of 8.2% on the back of balanced growth in individual loan portfolio (increased by 8.1%) and project portfolio (increased by 8.9%) – its loan book remains focussed on the salaried segment, which constitutes 85% of the loan book. Disbursements saw a sharp decline, falling by 12.9% to Rs. 46936 cr for the year ended March 20. Despite a rise in NII to the tune of 10.4% in FY20, PBT fell by 3.3% y-o-y in FY20 (Rs. 3269 cr) not least due to higher impairments, which increased by over Rs. 600 cr but also higher employee expenses which increased by 20.7%. Net interest margins held almost steady at 2.4% in FY20.

PNB Housing Finance showed reasonable growth, with its interest income and NII increasing by 13.3% and 11.8% y-o-y in FY20 but its reckless lending has cost it considerably, with impairment costs increasing by Rs. 1062 cr hurting profits which fell by almost 37% in FY20; gross NPAs skyrocketed to 2.75% as against 0.48% in March 2019. 37% of its outstanding loan book is to self employed and 18% to corporate; since 18% of its loan book amounting to over Rs. 12000 cr is to corporates, significant stress in this portfolio could terribly dent its capital.

Difficult economic scenario impeded loan book growth in FY20 which grew by under 1%. Slightly higher interest income in FY20 (2% over FY19), failed to stop net interest income from declining over 15% to Rs. 300 cr in FY20 from 355 cr a year ago as finance costs increased by 9.1%. Higher impairments (Rs. 100 cr in FY20 vs Rs. 33 cr) punctured profits which fell by over 73% from last year (PAT for FY20 –Rs. 46 cr) thus impacting return ratios – ROE was at 3.7%. Barely diminishing non performing assets are a cause of concern to GIC as it's a drag on the balance sheet.



Note: Graphs on standalone or consolidated data as applicable.

Financials

Quarterly Results

Figures in Rs crs

	Q4FY20	Q4FY19	% chg.	FY20	FY19	% chg.
Net Interest Income	188.46	141.14	33.5	674.70	544.13	24.0
Non Interest Income	3.80	7.74	-50.8	11.54	17.94	-35.6
Total Operating Income	192.27	148.88	29.1	686.24	562.07	22.1
Operating Expenses	32.51	32.18	1.0	107.64	91.47	17.7
Pre-Provision Profits	159.76	116.70	36.9	578.60	470.60	23.0
Provision	40.84	1.09	3638.8	60.32	1.09	5422.4
PBT	118.92	115.61	2.9	518.29	469.50	10.4
Tax	28.01	49.47	-43.4	142.16	172.77	-17.7
PAT	90.91	66.14	37.5	376.12	296.74	26.8
Extraordinary items	-	-	-	-	-	-
Adjusted Net Profit	90.91	66.14	37.5	376.12	296.74	26.8
Basic EPS (F.V.2)	6.83	4.97	37.5	28.24	22.28	26.8

Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Net Interest Income	509.56	544.13	674.70	686.47	810.30
Non Interest Income	31.40	17.94	11.54	10.33	14.71
Total Operating Income	540.96	562.07	686.24	696.80	825.01
Operating Expenses	87.77	91.47	107.64	111.30	129.32
Pre-Provision Profits	453.18	470.60	578.60	585.50	695.69
Provision	22.10	1.09	60.32	42.20	29.69
PBT	431.08	469.50	518.29	543.30	666.00
Tax	144.89	172.77	142.16	136.75	167.63
PAT	286.19	296.74	376.12	406.55	498.37
Extraordinary items	0.08	-	-	-	-
Adjusted Net Profit	286.11	296.74	376.12	406.55	498.37
Basic EPS (F.V.2)	21.49	22.28	28.24	30.53	37.42

Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Sources Of Funds	15706.29	18705.48	21009.69	21800.14	25001.66
Shareholders Funds	1486.99	1782.19	2150.07	2529.99	3001.72
Share Capital	26.63	26.63	26.63	26.63	26.63
Reserves and Surplus	1460.35	1755.55	2123.44	2503.35	2975.09
Financial Liabilities	14168.77	16905.87	18811.40	19220.34	21948.38
Debt Securities	4898.27	5634.69	3809.55	3868.86	4434.18
Borrowings (Other than debt securities)	9022.75	11142.49	14835.98	15183.11	17336.74
Other Financial Liabilities	247.75	128.70	165.87	168.38	177.46
Non Financial Liabilities	50.54	17.43	48.22	49.81	51.56
Provisions	33.63	26.64	66.23	66.23	66.23
Other Non Financial Liabilities	40.15	14.80	15.89	17.47	19.22
Deferred Tax Liability	-23.24	-24.01	-33.89	-33.89	-33.89
Application of Funds	15706.29	18705.48	21009.70	21800.14	25001.66
Financial Assets	15681.54	18673.53	20945.72	21735.33	24940.38
Cash and Cash Equivalents	19.02	420.25	392.44	399.92	403.89
Investments	16.00	16.30	24.31	20.00	20.00
Loans and Advances	15644.00	18234.18	20525.69	21311.82	24512.57
Other Financial Assets	2.52	2.81	3.28	3.58	3.92
Non Financial Assets	24.75	31.95	63.97	64.81	61.28
Tangible Assets	9.57	9.85	37.90	35.42	32.42
Other Non Financial Assets	15.18	22.10	26.08	29.39	28.86

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios (%)					
Net Interest Income	20.8	6.8	24.0	1.7	18.0
Total Operating Income	15.3	3.9	22.1	1.5	18.4
Pre Provision Profits	16.6	3.9	23.0	1.2	18.8
Net Profit	21.8	3.7	26.8	8.1	22.6
EPS	21.8	3.7	26.8	8.1	22.6
Loan Book	18.3	16.8	12.7	4.0	15.0
Return Ratios (%)					
ROE	21.8	18.5	19.4	17.6	18.2
ROA	2.0	1.7	1.9	1.9	2.1
Margins (%)					
Cost To Income Ratio	16.2	16.3	15.7	16.0	15.7
Net Interest Margin (% of Loan Book)	3.5	3.2	3.5	3.3	3.5
Asset Quality (%)					
Gross NPA	0.4	0.6	0.8	1.2	1.2
Net NPA	0.2	0.4	0.5	0.9	0.9
Valuation Ratios					
P/BV	4.4	2.7	1.7	1.8	1.5
P/E	22.5	15.7	9.9	11.2	9.2
Other Ratios					
Debt / Equity	9.6	9.6	8.8	7.6	7.3

Cumulative Financial Data

Figures in Rs crs	FY11-13	FY14-16	FY17-19	FY20-22e
NII	252	613	1476	2171
Pre-provision profits	201	536	1312	1860
PBT	194	498	1270	1728
PAT	139	319	818	1281
Dividends	23	69	96	80
Loan Book*	4016	10643	18381	24767
Loan Book growth (%)	90.6	165.0	72.7	34.7
Cost to Income (%)	27.5	23.6	16.5	15.8
NIM (%)	2.7	2.8	3.4	3.4
ROE (%)	13.9	16.7	20.7	18.1
ROA (%)	1.5	1.4	1.9	2.0
GNPA (%)*	0.4	0.2	0.6	1.2
Dividend payout ratio (%)	16.2	21.8	11.8	6.2

FY11-13 implies three year period ending fiscal 13; *as on terminal year.

Strong growth in housing finance industry and fast expanding branch network (from 41 in FY11 to 194 in FY20 have helped Can Fin post almost 4.6x expansion in loan book from FY11 to FY19. Its strategy of mobilizing funds from cheaper sources (NHB) partially explains the increase in NII growth of 141% in FY17-19 period (see table). Cost to income improved significantly (after peaking to 27.5% in FY11-13) to 16.5% in FY17-19 because of stellar increase in net interest income. NIMs too seem to have improved in three years ending FY19, largely because of a moderation in net interest income.

With deteriorating liquidity scenario in the HFC space, Can Fin would witness loan book growth of merely 34.7% by the end of FY22 over the preceding 3 year period not least due to the impact of COVID-19. Stable NIMs (on the back of lower finance costs) are expected to improve NII from Rs. 1476 cr in period ending FY 17-19 to Rs. 2171 cr in FY20-22 - an improvement of 47.1% (see table). Profit before tax is expected to increase by a reasonable 36.1%, whereas PAT is expected to increase by a mammoth 56.6% in the period ending FY22 mainly due to the tax cut provided by the Govt. of India in FY20. Significant cost control at operational levels would perk up cost to income ratio to 15.8% in the three year period ending FY22. ROE is expected to fall to 18.1% in FY20-22e from 20.7% in the previous period while ROA is expected to tepidly improve to 2%.

Financial Summary- US\$ denominated

million \$	FY18	FY19	FY20	FY21e	FY22e
Equity capital	4.1	3.9	3.5	3.5	3.5
Shareholders funds	223.7	253.0	281.7	331.7	394.2
Total debt	2140.2	2425.5	2473.3	2524.3	2884.5
Total loans and advances	2405.2	2636.2	2722.9	2823.8	3247.9
Investments	2.5	2.4	3.2	2.6	2.6
Total assets	2414.7	2704.3	2787.0	2888.4	3312.5
Net Interest Income	79.1	77.9	95.2	91.0	107.4
Pre-provision Profits	70.3	67.3	81.6	77.6	92.2
PBT	66.9	67.2	73.1	72.0	88.2
PAT	44.4	42.5	53.1	53.9	66.0
EPS(\$)	0.33	0.32	0.40	0.40	0.50
Book value (\$)	1.68	1.90	2.12	2.49	2.96

Income statement figures translated at average rates; balance sheet at year end rates; Projections at current rates (Rs 75.48/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY16	FY17	FY18	FY19	FY20
Average	65.46	67.09	64.45	69.89	70.88
Year end	66.33	64.84	65.04	69.17	75.39

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.