

Can Fin Homes Limited

BUY

CMP Rs383

Target Rs475

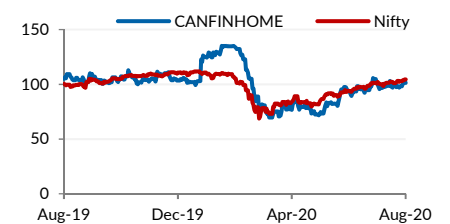
Upside 24.0%

HIGHLIGHTS	
	<ul style="list-style-type: none"> ✓ Significant NIM expansion and lower opex drove a small beat over our higher-than-street PPOP estimate. Precautionary covid-related provisions of Rs360mn (total at 35 bps of loan assets) suppressed PAT growth to 15% yoy. ✓ Notwithstanding low disbursements of Rs4bn (started from last week of May), there was a marginal increase in loan book (yoy growth moderated to 10%) supported by interest capitalization on moratorium pool and lower run-off. ✓ Portfolio mix was static product-wise (HL at 90%, grew 11% yoy) and customer-wise (Salaried/SENP at 71%/29%). Borrowing mix tilted towards Banks (59%) and NHB (20%). ✓ Accentuated fall in borrowing cost (45 bps qoq), driven by quicker re-pricing of bank loans (most linked to 1m/3m MCLR) and cheaper funds from NHB, caused a NIM increase of 20bps in Q1 FY21. ✓ Lending rate has been reduced by ~100 bps since March, but asset re-pricing is slower due to annual rate reset. Some pressure on NIM could emerge in H2 FY21. ✓ About 14% of customers (majority from regular pool) have not paid any installment in the six-month moratorium. Only 5-6% customers have witnessed salary cut or a job loss. CANF has substantially collected overdues as of March 1. ✓ Management does not expect any significant spike in NPL ratios and estimates a steady credit cost for FY21 (30-35 bps). CANF plans to raise equity capital up to Rs10bn.
Our View	<ul style="list-style-type: none"> ✓ Safest bet in HFC space given strongest balance sheet. Robust liquidity position and strong distribution in Tier 2-4 markets underpin stronger growth prospects. ✓ Retain BUY. Raise FY21/22 EPS & ABV estimates by 2-5%. Stock trades at 1.8x FY22 P/ABV for an avg. RoA/RoE delivery of 1.9%/17% over FY21-22 without equity raise.
Risk to our call	<ul style="list-style-type: none"> ✓ Unabated spread of Covid and more lockdowns

Stock data (as on Aug 27, 2020)

Nifty	11,559
52 Week h/l (Rs)	519 / 253
Market cap (Rs/USD mn)	50938 / 690
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	193
Div yield (%):	0.5
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	-0.5%	39.5%	-3.2%

Shareholding pattern

Promoter	30.0%
FII+DII	12.2%
Others	57.8%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	28.2	31.8	33.2
EPS (Old)	28.2	30.0	32.7
% change	-	6.1%	1.6%

Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	5,621	6,862	7,737	7,805
PPOP	4,706	5,786	6,563	6,491
Net profit	2,967	3,761	4,238	4,424
yoy growth (%)	3.7	26.8	12.7	4.4
EPS (Rs)	22.3	28.2	31.8	33.2
Adj.BVPS (Rs)	127.9	153.1	174.4	209.7
P/E (x)	17.2	13.6	12.0	11.5
P/adj.BV (x)	3.0	2.5	2.2	1.8
ROE (%)	18.2	19.1	18.1	16.1
ROA (%)	1.7	1.9	2.0	1.9
CAR (%)	16.4	22.3	24.7	25.1

Source: Company, YES Sec - Research

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CON-CALL HIGHLIGHTS

Moratorium & Asset Quality

- ✓ Customers who have paid 1-5 EMIs during the 6-month moratorium period have been considered under moratorium.
- ✓ 14% of customers (similar in portfolio value) have not paid all 6 EMIs. They are a mix of both salaried and SENP borrowers. Major chunk is regular customers (no overdue) as of March 1 and in case of overdue customers, a significant part of overdue has been collected.
- ✓ Job loss experienced by <1% customers and pay cut happened for 4-5% of customer base. Thus, NPL flow from regular pool should be less in coming quarters.
- ✓ Q2 FY21 will not witness any notable spike in NPLs as considerable overdues as on March 1 have been collected. After spiking a bit in Q3 FY21, NPLs will revert to usual levels of around 0.8% in subsequent 2-3 quarters.
- ✓ On the SMA-2 exposure of Rs2.1bn as on March 1, 10% was provided in Q4 FY20 itself. However, it has been substantially collected (but provisions stay). Even a large portion of SMA 0 & 1 pool has been collected.
- ✓ Credit Cost was 30-35bps in FY20 and will be similar in FY21. Company has already provided Rs0.72bn (35 bps of loan assets) for Covid, which it believes is more than required.
- ✓ Company would offer restructuring to very few customers post detailed assessment.
- ✓ Delinquent pool (SMA buckets + NPL + Recovery accounts) has been lowest for Can Fin. For industry, it is 18-19% for home loans and 27% for LAP.

Spread & NIM

- ✓ Can maintain spread around 2.4-2.5% and NIMs comfortably above 3%. However, management does not see an immediate pressure on current high margin.
- ✓ Incremental bank borrowings coming at 7%. The share of NHB has increased due to expanded facility and lower rates.
- ✓ Company has a huge liquidity buffer with approved un-availed limits at Rs40bn.

Disbursements & Loan growth

- ✓ Started doing business from last week of May; initial loan disbursements represent pending sanctions.
- ✓ Affordable housing demand at 65% of pre-covid level; full normalization expected by Q4 FY21.
- ✓ Within affordable space, the builder segment will take more time. The non-builder segment (resale, self-construction, composite loans, etc.) is reviving quickly and it forms 75% of Can Fin's portfolio
- ✓ Aspirational target of achieving Rs50bn disbursements in FY21 (FY20 was Rs55bn and Q1 FY21 was Rs4bn).
- ✓ Strong liquidity and much lesser asset quality issues will enable company to grow ahead of industry when the market opens.
- ✓ To confine BT Out, company has a retention team. Generally, BT IN largely offsets BT Out in a given period.

Capital Raise & Others

- ✓ Plan to raise capital up to Rs10bn was approved in recent AGM. The method, exact quantum and timing not decided yet.
- ✓ Comfortable maintaining DER at 7.5-8x.
- ✓ C/I ratio should revert to usual levels (15-16%) as business normalizes.
- ✓ No incremental update on Canara Bank stake sale.

Exhibit 2: Result Table

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Total Operating Income	5,224	5,288	(1.2)	4,841	7.9
Interest Expenses	(3,308)	(3,366)	(1.7)	(3,294)	0.4
Net Interest Income	1,916	1,922	(0.3)	1,548	23.8
Other income	1	0	178.8	-	-
Total Income	1,917	1,923	(0.3)	1,548	23.8
Operating expenses	(215)	(325)	(33.9)	(232)	(7.4)
PPOP	1,702	1,598	6.5	1,316	29.4
Provisions	(441)	(408)	8.1	(87)	-
PBT	1,260	1,189	6.0	1,229	2.6
Tax	(329)	(280)	17.4	(419)	(21.5)
Adjusted PAT	932	909	2.5	810	15.0

Source: Company, YES Sec – Research

Exhibit 3: Loan Book break-up

(Rs mn)	Q1 FY21	Q4 FY20	% qoq	Q1 FY20	% yoy
Loan Book	208,440	207,060	0.7	190,030	9.7
Salaried	147,580	146,870	0.5	135,200	9.2
Housing	136,760	135,980	0.6	124,410	9.9
Top-up Personal	4,850	4,860	(0.2)	4,250	14.1
Mortgage/Flex LAP	3,950	3,970	(0.5)	3,820	3.4
Loans for sites	1,650	1,670	(1.2)	2,440	(32.4)
Others	370	390	(5.1)	280	32.1
Non-Salaried	60,630	59,960	1.1	54,550	11.1
Housing	51,220	50,580	1.3	45,520	12.5
Top-up Personal	2,560	2,560	-	2,310	10.8
Mortgage/Flex LAP	5,560	5,510	0.9	5,150	8.0
Loans for sites	690	700	(1.4)	1,000	(31.0)
Others	600	610	(1.6)	570	5.3
Builder Loans	60	60	-	110	(45.5)
Staff Loans	170	170	-	170	-

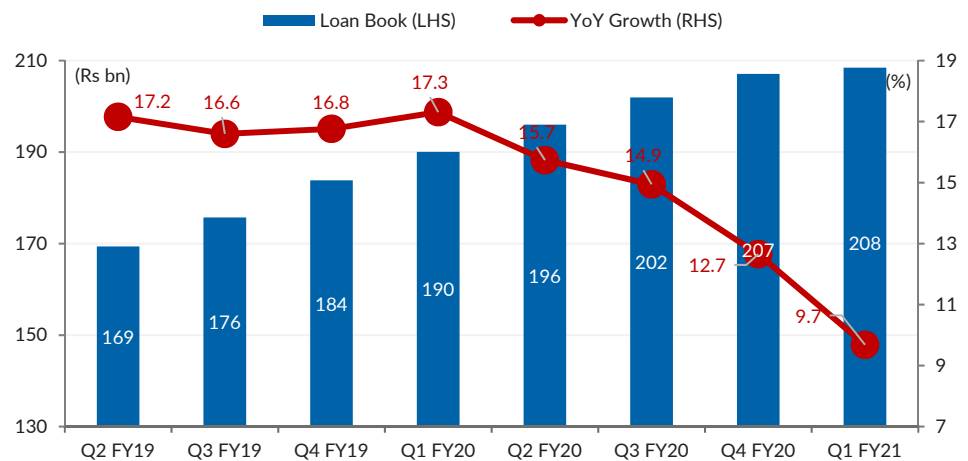
Source: Company, YES Sec – Research

Exhibit 4: Key Ratios

(%)	Q1 FY21	Q4 FY20	chg qoq	Q1 FY20	chg yoy
NIM	3.7	3.5	0.2	3.2	0.5
Yield	10.0	10.2	(0.2)	10.2	(2.0)
Cost of Funds	7.3	7.8	(0.5)	7.9	(0.6)
Spread	2.7	2.5	0.3	2.3	0.4
Cost to Income*	11.2	16.9	(5.7)	15.0	(3.8)
Gross NPA	0.8	0.8	(0.0)	0.7	0.0
Net NPA	0.5	0.5	(0.0)	0.5	(0.0)
PCR	33.7	28.8	4.8	29.2	4.4
RoA	1.8	1.9	(0.1)	1.7	0.1
RoE	16.6	17.4	(0.9)	17.4	(0.8)
CAR	22.3	22.3	0.0	19.6	2.7

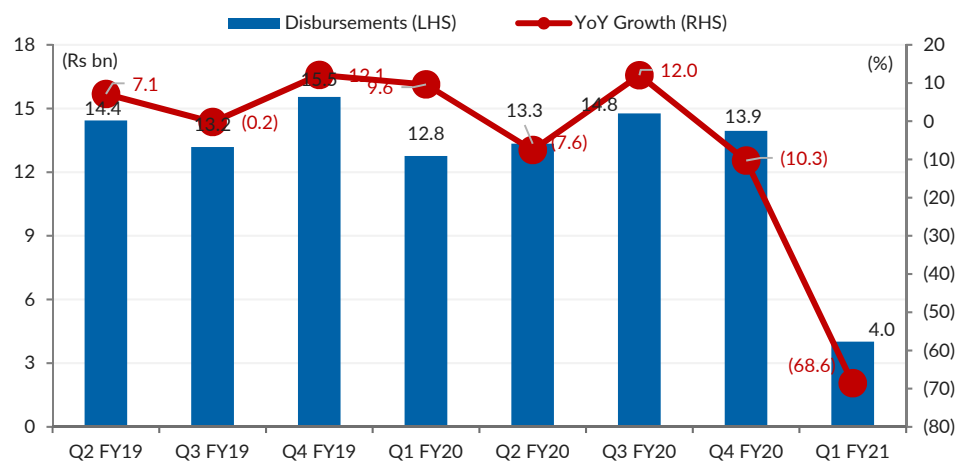
Source: Company, YES Sec – Research; * Computed

Exhibit 5: Loan growth deceleration continues in Q1



Source: Company, YES Sec – Research

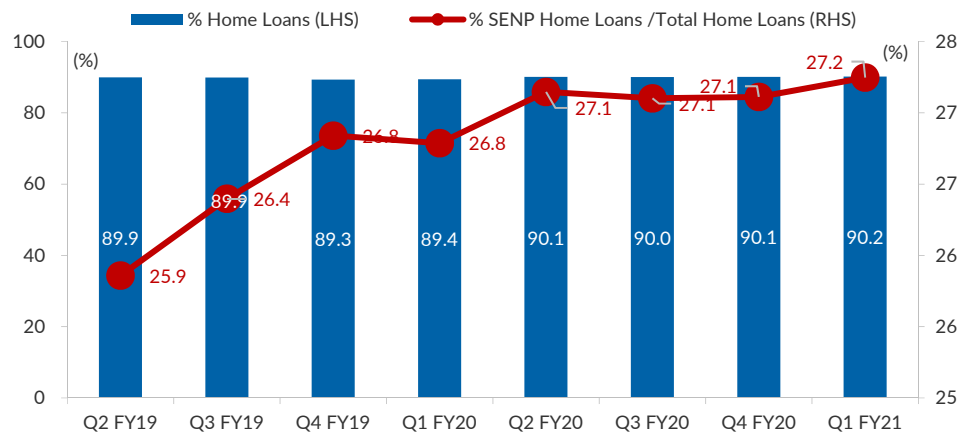
Exhibit 6: Disbursements witnessed a step decline



Source: Company, YES Sec – Research

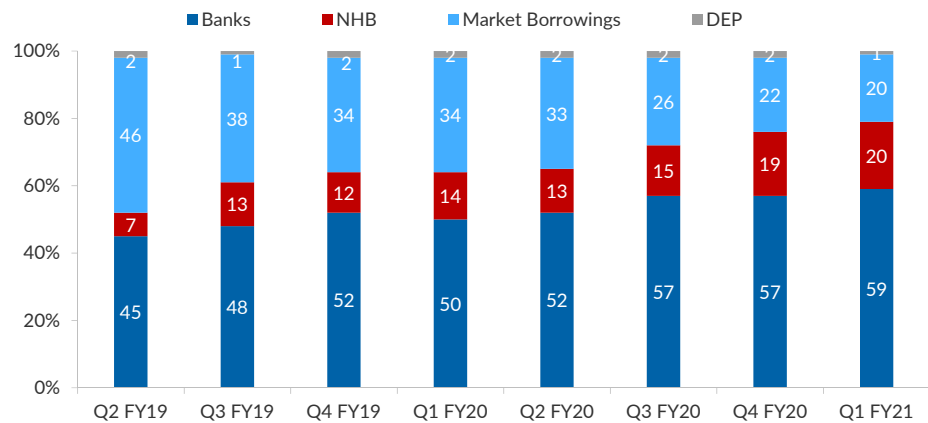
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Exhibit 7: Loan book character remained intact



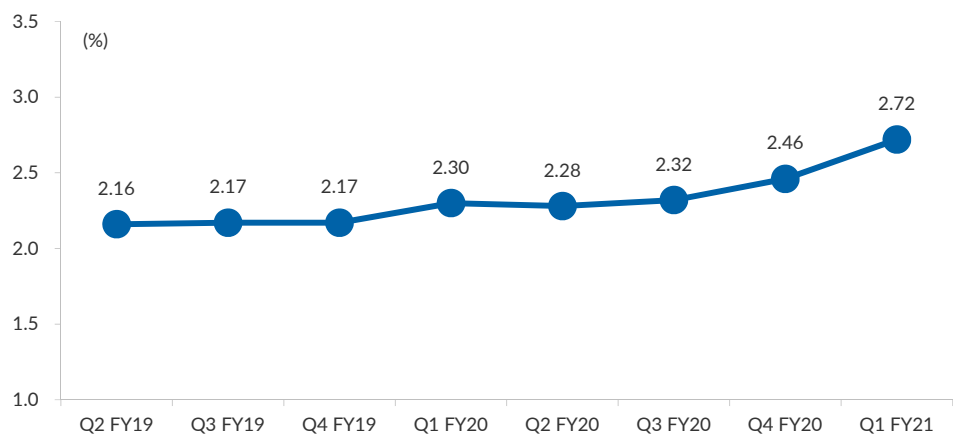
Source: Company, YES Sec - Research

Exhibit 8: Borrowing mix - Banks captures a lion share



Source: Company, YES Sec - Research

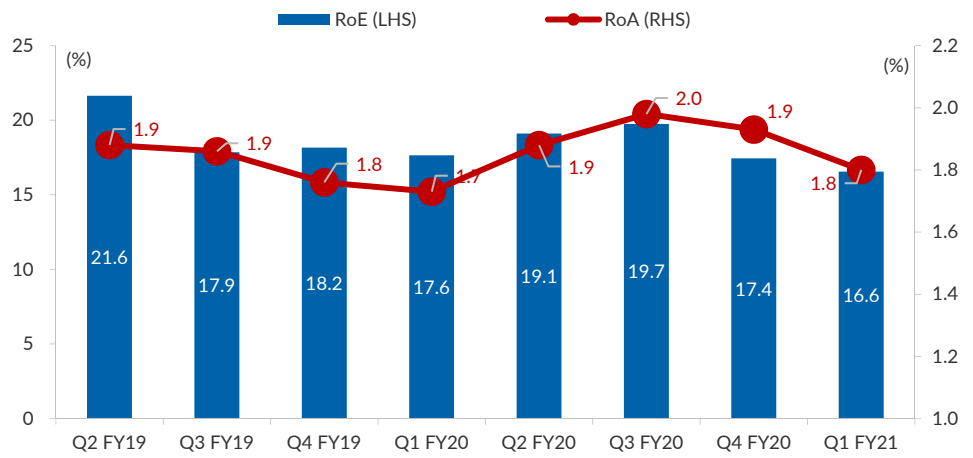
Exhibit 9: Spreads improves 26bps sequentially



Source: Company, YES Sec - Research

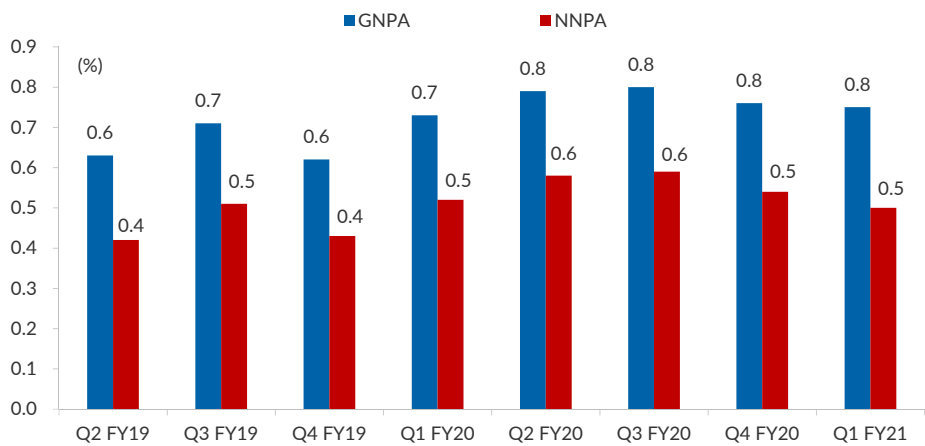
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Exhibit 10: Elevated provisions an overhang on return ratios



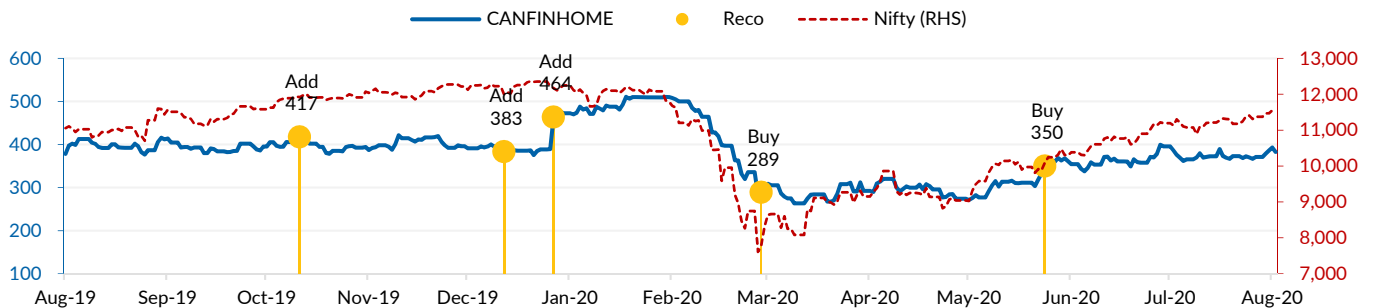
Source: Company, YES Sec - Research

Exhibit 11: Asset quality remained stable



Source: Company, YES Sec - Research

Recommendation Tracker



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