

Can Fin Homes Limited

BUY

CMP Rs463

Target Rs550

Upside 18.8%

Growth acceleration and equity raise can re-rate valuation further; Retain BUY with 12m PT of Rs550

Can Fin's Q2 FY21 result was exceptionally strong on the back of sharp NIM improvement and modest provisions (backed by management assessment of potential stress and extant healthy provisioning buffer). We concur with management that NPL increase and restructuring quantum would not be significant considering encouraging collection trends (93% in Sept and 96-97% in Oct) and customer profile of the book. Credit cost from H2 FY21 is expected to large normalize (15-20 bps annualized).

While the NIM could stay around the current elevated level (3.9-4%) for a couple of quarters (10-20 bps incremental decline in cost of funds possible), it will most likely start to come-off from the start of next fiscal. Lagged impact of asset re-pricing (annual reset + lending rates already cut by >100 bps since March), persistent high volume of foreclosure requests (competitive intensity to increase both from banks and larger peers) and bottoming out of the rate cycle could cause NIM to decline to sustainable levels of 3.2-3.4% in the longer run. However, regularization of credit cost would cushion the margin decline impact on profitability. On a cross-cycle basis, we believe Can Fin is 1.8-2%/18-20% RoA/RoE franchise. Valuation (currently at 2.1x FY22 P/ABV) can re-rate further on loan growth pick-up and execution of the planned capital raise. Retain BUY with 12m PT of Rs550.

Management Commentary

Collection & Bounce

- ✓ September collection efficiency at 93%, which is better than pre-Covid months. October collections are trending even better.
- ✓ Increase in bounce rate was 70-80% at industry level, but for Can Fin it was just about 20%. This demonstrates the quality of the portfolio
- ✓ 14% customers had not paid anything in the moratorium period, with bulk from self-employed segment. Within such salaried customers, only negligible % was impacted by job loss.

NIM & Liquidity

- ✓ Q2 NIM at 4.09% is not sustainable. Management will be happy sustaining at 3-3.5%, though it would take a while to reach here. Margins will contract as interest rate cycle reverses.
- ✓ Current spread at 2.86%, but sustainable at 2.4%.

Exhibit 1: Financial Summary

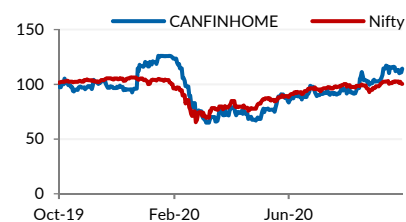
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	5,621	6,862	8,012	7,967
PPOP	4,706	5,786	6,936	6,730
Net profit	2,967	3,761	4,598	4,692
yoy growth (%)	3.7	26.8	22.3	2.0
EPS (Rs)	22.3	28.2	34.5	35.2
Adj.BVPS (Rs)	127.9	153.1	182.4	217.4
P/E (x)	20.8	16.4	13.4	13.1
P/adj.BV (x)	3.6	3.0	2.5	2.1
ROE (%)	18.2	19.1	19.5	16.8
ROA (%)	1.7	1.9	2.1	2.0

Source: Company, YES Sec - Research

Stock data (as on October 29, 2020)

Nifty	11,670
52 Week h/l (Rs)	519 / 253
Market cap (Rs/USD mn)	61684 / 832
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	232
Div yield (%):	0.4
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	9.7%	26.2%	17.4%

Shareholding pattern

Promoter	30.0%
FII+DII	13.2%
Others	56.8%

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 98925 92827



MANUJ OBEROI, Associate

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

Can Fin Homes Limited

- ✓ Company holds liquidity cover equivalent to next one year of business requirements.
- ✓ Engaged proactively with lenders to bring down the rates.

Asset Quality and Credit Cost

- ✓ GNPLs were at 0.7% on reported basis – proforma GNPL (incl. SC stand-still) only 6 bps higher.
- ✓ Company has so far provided Rs860mn towards potential covid impact (Rs360mn in Q4 FY20 + Rs360mn in Q1 FY21 + Rs130mn in Q2 FY21cr). Besides, there is Rs550mn NPL provisions and standard assets provisions (everything totaling Rs2.14bn).
- ✓ Covid provisioning buffer of Rs860mn factors expected NPL increase over next two quarters – so, additional provisioning requirement in H2 FY21 will be negligible - rather, management expects some write-back eventually.
- ✓ Gross NPLs are estimated to revert back to current level in four quarters.
- ✓ Rs14.4bn worth of delinquent pool as of March 1 who opted for moratorium stands reduced to Rs6.6bn as of September 30. This will be a part of the current delinquent pool which for Can Fin has historically been much lower than the industry.

Loan growth

- ✓ Will take 2-3 quarters for growth to normalize - In Q4 FY21 may reach 85% of peak level – will only be back to pre-Covid level by Q1 FY22.
- ✓ Home loan demand at 70% of last year level in Sept 2020.
- ✓ Focus will remain on affordable housing, and the co. will resume branch addition.
- ✓ Company has tightened credit policy for self-employed segment and will remain cautious for few quarters.
- ✓ BT-in has always been <20% of disbursements. Prepayment and foreclosures combined has historically been at 10-15% of the opening portfolio.
- ✓ DSAs contribute 50-55% to originations (always been so), but their role is limited to lead generation.

Capital raising

- ✓ DER has been improving for the past few quarters as growth has decelerated significantly. Currently, it stands at 7.75x.
- ✓ Though capital position is comfortable currently, the company intends to raise some capital in Q4 FY21.

Exhibit 2: Result Table

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total Operating Income	5,254	5,224	0.6	5,005	5.0
Interest expended	(3,135)	(3,308)	(5.3)	(3,385)	(7.4)
Net Interest Income	2,120	1,916	10.6	1,620	30.8
Other income	4	1	285.1	2	127.4
Total Income	2,124	1,917	10.8	1,622	30.9
Operating expenses	(252)	(215)	17.3	(250)	0.7
PPOP	1,872	1,702	10.0	1,372	36.4
Provisions	(151)	(441)	(65.8)	(63)	-
PBT	1,720	1,260	36.5	1,309	31.4
Tax	(436)	(329)	32.6	(333)	31.1
PAT	1,284	932	37.9	976	31.5

Source: Company, YES Sec – Research

Exhibit 3: Business Data

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Loan Book	208,300	208,440	(0.1)	196,000	6.3
Salaried	148,180	147,580	0.4	138,890	6.7
Housing	137,500	136,760	0.5	128,600	6.9
Top-up Personal	4,820	4,850	(0.6)	4,450	8.3
Mortgage/Flex LAP	3,930	3,950	(0.5)	3,810	3.1
Loans for sites	1,580	1,650	(4.2)	1,640	(3.7)
Others	350	370	(5.4)	390	(10.3)
Non-Salaried	59,900	60,630	(1.2)	56,880	5.3
Housing	50730	51220	(1.0)	47920	5.9
Top-up Personal	2490	2560	(2.7)	2410	3.3
Mortgage/Flex LAP	5440	5560	(2.2)	5240	3.8
Loans for sites	660	690	(4.3)	700	(5.7)
Others	580	600	(3.3)	610	(4.9)
Builder Loans	50	60	(16.7)	60	(16.7)
Staff Loans	170	170	-	170	-

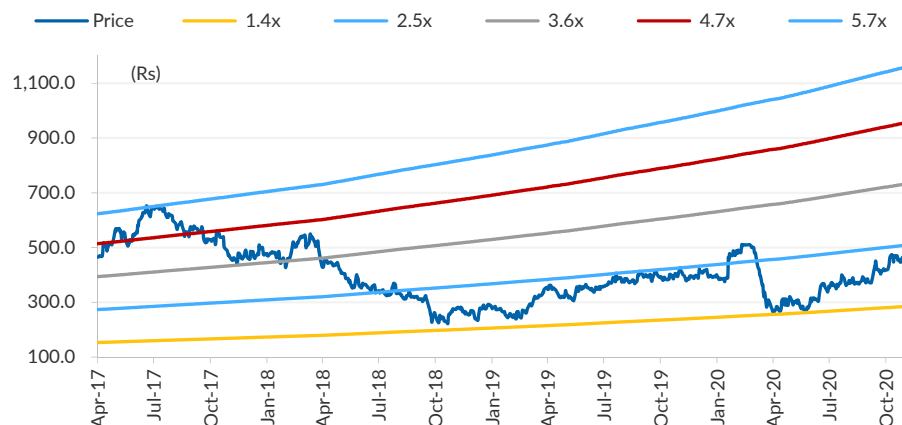
Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	3.9	3.7	0.2	3.3	0.6
Yield	10.0	10.0	(0.1)	10.2	(2.6)
Cost of Funds	7.1	7.3	(0.2)	8.0	(0.9)
Spread	2.9	2.7	0.1	2.3	0.6
Cost to Income*	11.9	11.2	0.7	15.4	(3.6)
Gross NPA	0.7	0.8	(0.0)	0.8	(0.1)
Net NPA	0.5	0.5	(0.0)	0.6	(0.1)
PCR*	36.4	33.7	2.7	26.9	9.5
RoA	2.1	1.8	0.3	1.9	0.3
RoE	18.8	16.6	2.2	19.1	(0.3)
CAR	24.8	19.6	5.2	18.8	6.0

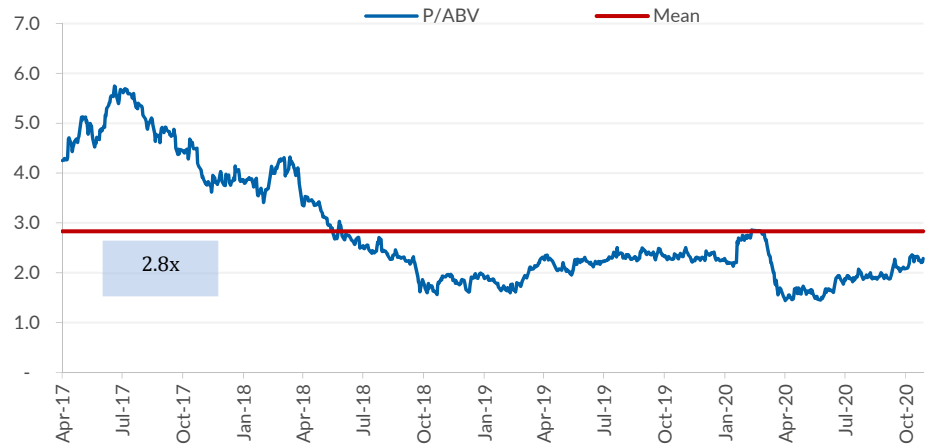
Source: Company, YES Sec - Research; *Calculated

Exhibit 5: 1-year rolling P/ABV band



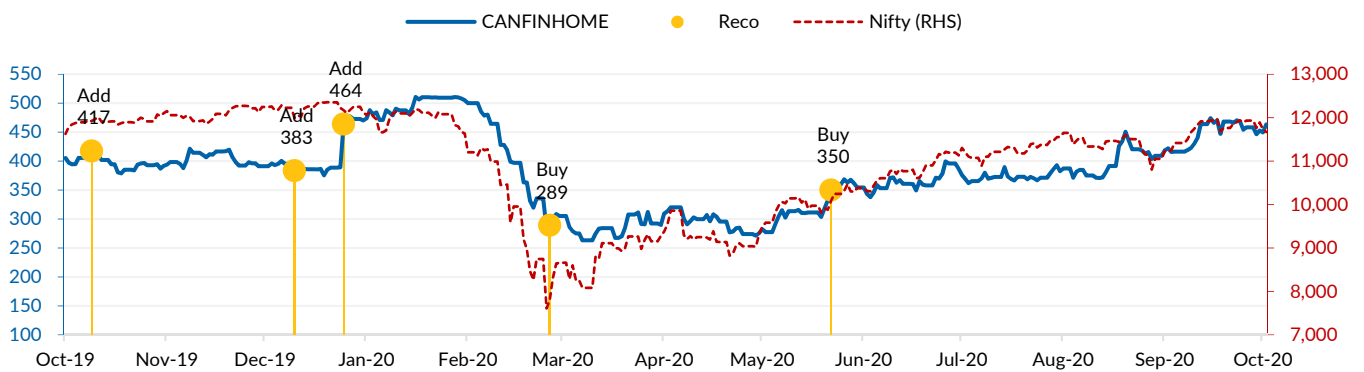
Source: Company, YES Sec - Research

Exhibit 6: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec - Research

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India
Email: research@ysil.in | Website: <https://yesinvest.in>

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Details of Compliance Officer: Vaibhav Purohit (For Broking / Research / Investment Adviser): Email: compliance@ysil.in / Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking): Email: dhanraj.uchil@ysil.in / Contact No.: 022-33479684

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