Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Can Fin Homes Ltd

Multiple growth triggers ahead

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: Rs. 582 / Price Target: Rs. 712 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING Updated Nov 08, 2021	30.69

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

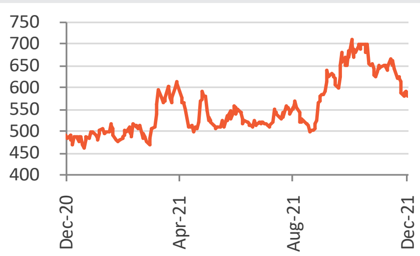
Company details

Market cap:	Rs. 7772 cr
52-week high/low:	Rs. 721/432
NSE volume: (No of shares)	10.1 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	9.3 cr

Shareholding (%)

Promoters	30.0
FII	11.2
DII	21.7
Others	37.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.8	-1.6	7.4	18.7
Relative to Sensex	-6.4	-0.6	-3.0	-10.5

Sharekhan Research, Bloomberg

Summary

- We re-initiate coverage on Can Fin Homes with a Buy rating and PT of Rs. 712. At CMP, CFHL trades at 2.3x of FY23E P/BV.
- Can Fin Homes commands higher valuations led by superior asset quality with best underwriting practices. Inherent, to the company's strategy it largely caters to salaried customers in metros and Tier-I/II cities. This makes its customer segment less risky with average ticket size of Rs. 21.02 lakh and ~74% of its customers are salaried and professionals. It competes with large HFCs and public/ private sector banks.
- We believe Can Fin Homes is one of the favoured plays among affordable/ mid size housing financiers with a healthy loan book growth and steady spreads going ahead.
- The company's ability to recover market share through differential pricing for customer segments/ geographies, makes it a preferred play in the affordable space.

With the rapid urbanisation and improved affordability coupled with supportive government initiatives for the sector and record low interest rates and discounts from real estate companies, the housing finance sector, especially the affordable housing segment, is set to grow exponentially. Nearly 66% of the India's population is below 35 years of age and ~32% of the population reside in cities currently which is estimated to be 50% by 2030. We believe HFCs stand to benefit from this housing sector growth opportunity as they are well-equipped with competitive product offerings and product pricing, superior customer service and last-mile connectivity with the potential customers where large banks are unable to service. Can Fin Homes (CFHL) is likely to be the key beneficiaries with its focus on housing space particularly affordable housing.

- **CHFL is well placed while competing with the larger players:** The company has managed to deliver superior growth in AUM which clocked 12% CAGR over FY18 to FY21. With continued focus of the Government on the affordable housing segment coupled with favourable incentives by the real estate sector, state governments and ultra-low prevailing interest rate regime, the HFCs stand to benefit in the near to medium term. We expect CFHL to deliver sustained growth of 15-17% over FY22E and FY24E. The company primarily caters to less risky customer segment (salaried customers) with a wider geographical footprint as compared to affordable housing peers across 21 states and UTs. It has the ability to charge differential rates in certain geographies and customer segments.
- **Best-in-class asset quality aided by favorable customer segment mix:** Can Fin has a strong liability franchise aided by superior credit ratings and a strong PSB parentage which helps it to garner funds at lower costs. It has best in class asset quality with GNPA ratio at 0.8% as on September 2021 aided by superior underwriting practices.
- **Adequate capital position and diversified funding profile:** With Tier 1 capital of 23.47% and CAR at 25.22%, we believe that CFHL's balance sheet is well-capitalised to augur healthy growth going ahead. The company's continued focus on affordable segment and mid-size segment small ticket size to drive growth over the past several years entails less capital/ less capital intensive vis-à-vis its larger peers. Due to this the company has been able to raise funds at competitive rates.

Our Call

Valuation: Re-initiate coverage on CFHL with a Buy rating and PT of Rs. 712 - Currently, at CMP, CFHL trades at 2.3x of FY23E P/BV. The stock has corrected ~18% for its highs and it offers a great opportunity. The company is well-placed to deliver loan book of ~16% CAGR in FY21 through FY24E. It continues to maintain superior asset quality with GNPA ratio at 0.8% as on September 2021 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating which enables it raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver an RoE of 17-18% over FY22E to FY24E. Hence, we re-initiate coverage on CFHL with a Buy rating and PT of Rs. 712.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted given its competition from large HFCs and banks.

Valuation — Rs cr

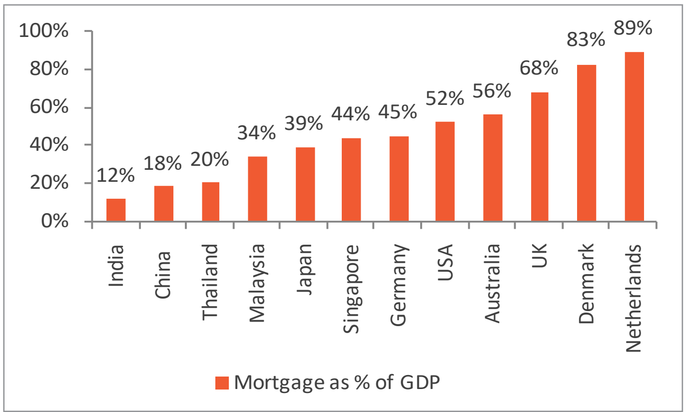
Particulars	FY21	FY22E	FY23E	FY24E
NII	798	801	945	1,046
PAT	456	482	575	640
EPS (Rs)	34.2	36.2	43.2	48.1
P/E (x)	17.2	16.3	13.6	12.2
P/BV (x)	3.0	2.8	2.3	1.9
RoA (%)	2.1	2.0	2.0	2.0
RoE (%)	19.2	17.7	18.4	17.4

Source: Company; Sharekhan estimates

Growth opportunities galore

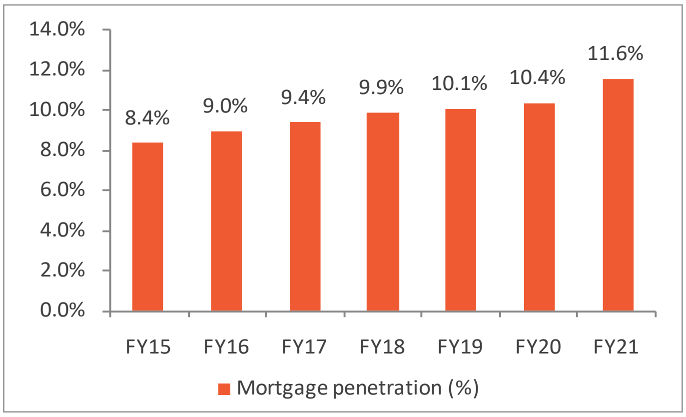
With the rapid urbanisation and improved affordability coupled with supportive government initiatives for the sector and record low interest rates and discounts from real estate companies, the housing finance sector is set to grow exponentially going ahead specially the affordable housing segment. ~66% of the India's population is below 35 years of age and ~32% of the population reside in cities currently which is estimated to be 50% by 2030. We believe housing finance companies (HFCs) stand to benefit from this housing sector growth as they are well equipped with competitive product offerings and product pricing, superior customer service and last mile connect with the potential customers where large banks are unable to service. As per the Ministry of Housing and Urban Affairs, the demand for affordable housing has been pegged at ~11.22 million houses. With the adaption of Pradhan Mantri Awas Yojana (PMAY) in 2015, the government had targeted to meet the demand for 11.22 mn houses. Under this programme, 11.4 mn houses have been sanctioned and out which 5.3 mn have been completed till date. This growing need for affordable housing in the urban India has thrown large opportunities with many developers seeking to exploit this opportunity. Over 50% of all India residential launches in the top eight cities in the last 5 years have been in the sub-Rs. 50 lakh segment. We believe HFCs would be the biggest beneficiaries of the housing cycle uptick with competitive product offerings with competitive prices supported by stable property houses over the years and government measures.

Lower penetration, opportunity for mortgage finance companies



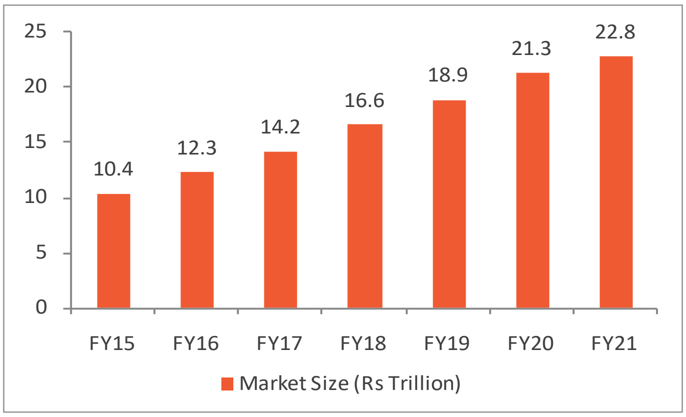
Source: Company (HDFC Ltd); Sharekhan Research

Mortgage Penetration (%) India

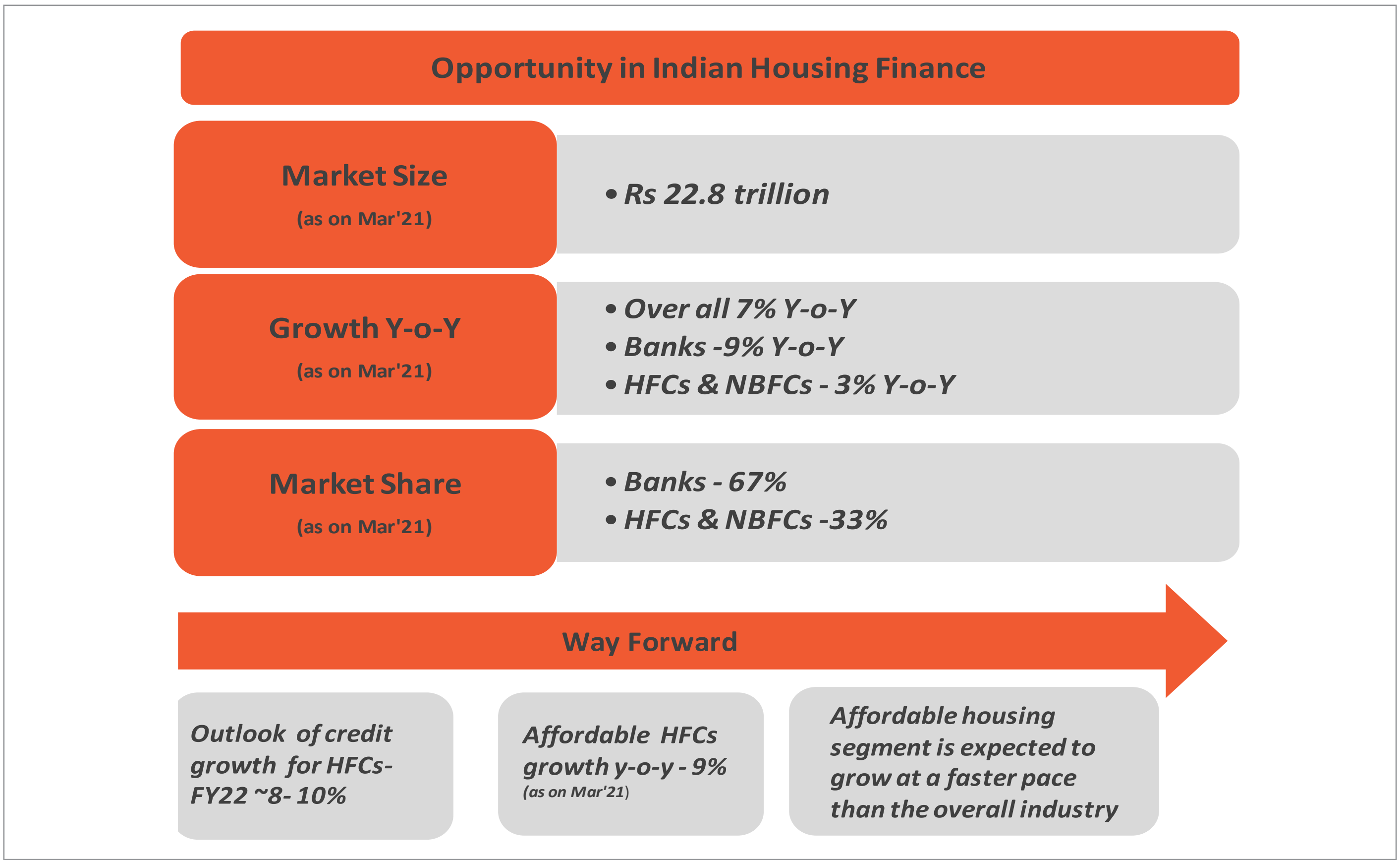


Source: Company (Aavas); Sharekhan Research

Housing market India



Source: Company (Aavas); Sharekhan Research

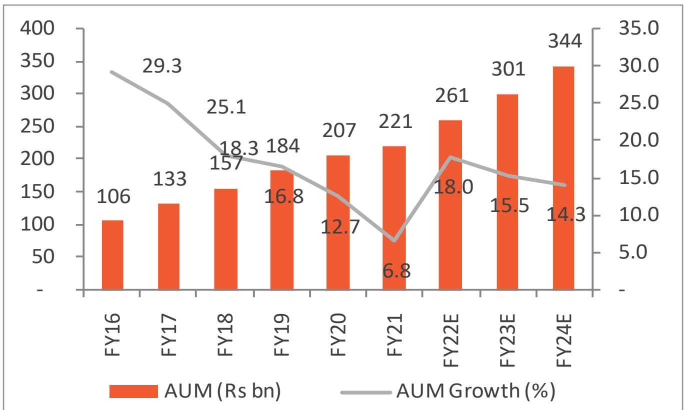


Source: Company (Aavas); Sharekhan Research

CHFL is well placed versus larger peers

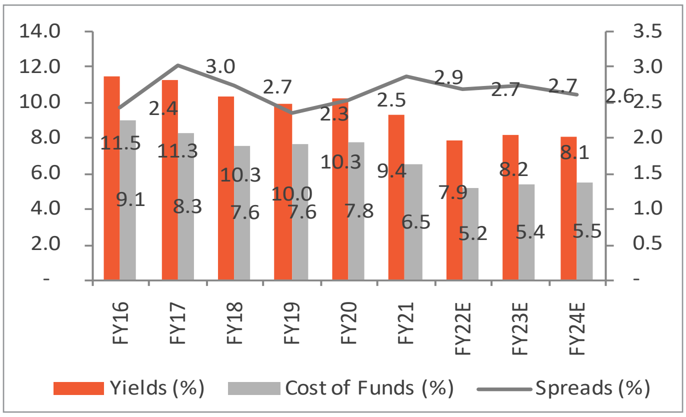
CFHL has managed to deliver superior growth in AUM which clocked 12% CAGR over FY18 to FY21. With continued focus of the government on the affordable housing segment coupled with favourable incentives by the real estate sector, state governments and ultra-low prevailing interest rates, HFCs stand to benefit in the near to medium term. We expect CFHL to deliver sustained growth of 15-17% over FY22E and FY24E. The company primarily focuses on housing loans to individuals with housing loans contributing to 90% to the loan book while non housing loans forms 10% of the book. Further, customers in the salaried and professionals buckets constitute 74% of the book with government employees forming 50% of the salaried book. This profile of customers is considered to be less risky segment enabling it to maintain a healthy asset quality. The average age of the incremental borrowers is ~35 years who are mostly first time home buyers and the average ticket size for housing and non-housing loans is Rs. 21.02 lakh and Rs. 9.41 lakh respectively. The company has continued to focus on Tier II and III locations and has the ability to strategically charge differential rates from different segments and geographies which makes its competitive with larger HFCs and banks.

Loan book growth



Source: Company; Sharekhan Research

To maintain spread going ahead

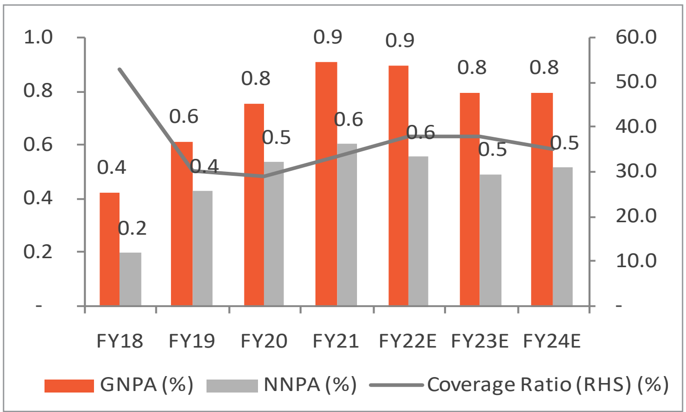


Source: Company; Sharekhan Research

Best-in-class asset quality aided by favorable customer segment mix

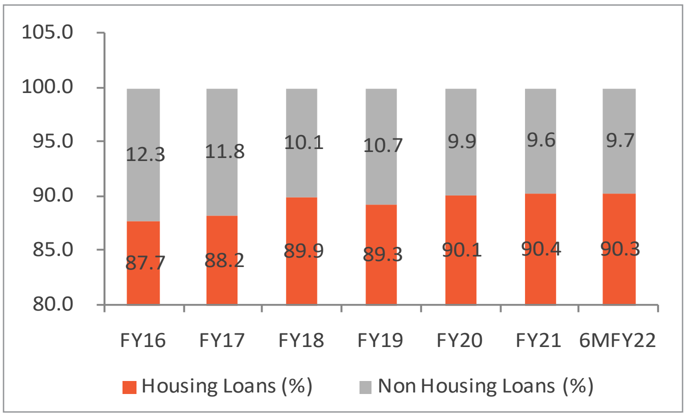
CFHL's asset quality continues to be best in class amongst its peers with stage 3 assets at 0.78% and NNPA ratio at 0.47% in Q2FY22. Its overall re-structuring book stood at Rs. 645 crore (~2.7% of the loan book) on the back of higher than expected restructuring and the management expects, 7-8% of the restructured book to turn NPAs going ahead. However, the management is confident of maintaining its NPAs at <1%. The company primarily focuses on housing loans to individuals with housing loans contributing to 90% to the loan book while non housing loans forms 10% of the book. Further, salaried and professionals constitute 74% of the book with government employees forming 50% of the salaried book. This profile of customer segment is considered to be less risky segment enabling it to maintain a healthy asset quality. The average ticket size for housing and non-housing loans is Rs. 21.02 lakh and Rs. 9.41 lakh respectively with loan to value ratio (LTV) at 64%. With a favourable borrower profile, its presence in the low-risk customer segment coupled with lower LTVs , places the company as a safer bet in the housing finance sector.

Asset quality



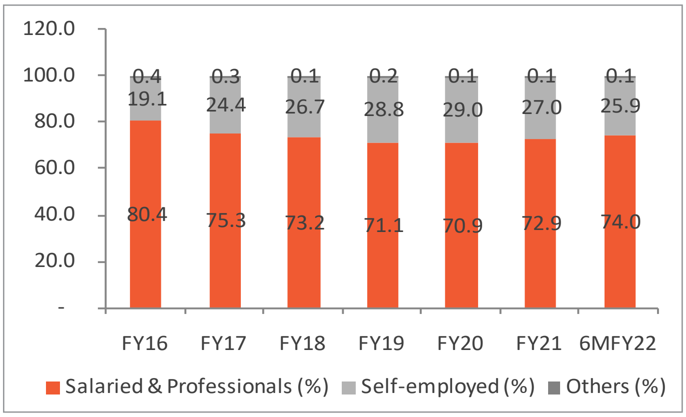
Source: Company; Sharekhan Research

Product mix



Source: Company; Sharekhan Research

Customer mix

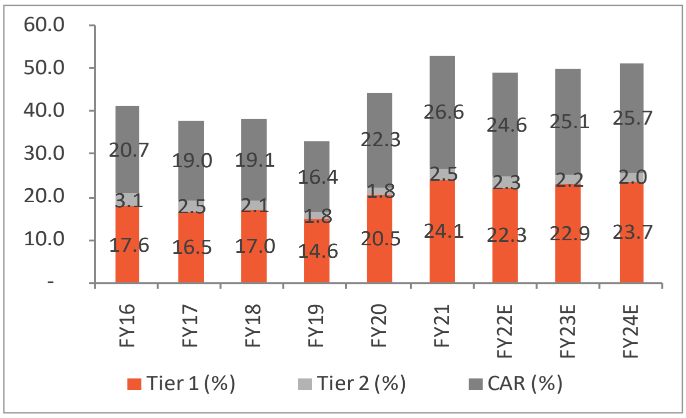


Source: Company; Sharekhan Research

Adequate capital position and diversified funding profile

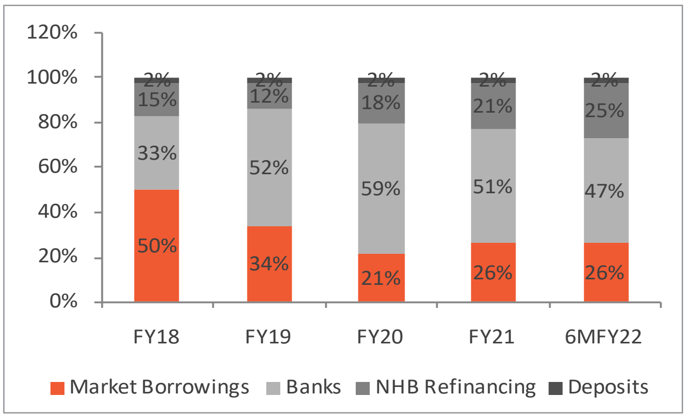
With a Tier-1 capital ratio of 23.47% and CAR at 25.22%, we believe that CFHL's balance sheet is well capitalised to augur healthy growth going ahead. The company's continued focus on affordable segment and mid-size segment small ticket size to drive growth over the past several years entails less capital/ less capital intensive vis-à-vis its larger peers. Due to this the company has been able to raise funds at competitive rates. Additionally, with strong parentage, CFHL enjoys strong financial flexibility and enables it to raise funds through diversified sources at competitive rates.

Capital adequacy



Source: Company; Sharekhan Research

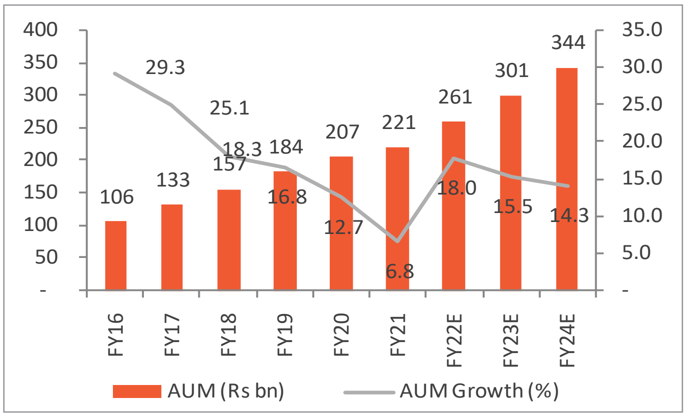
Borrowings trend



Source: Company; Sharekhan Research

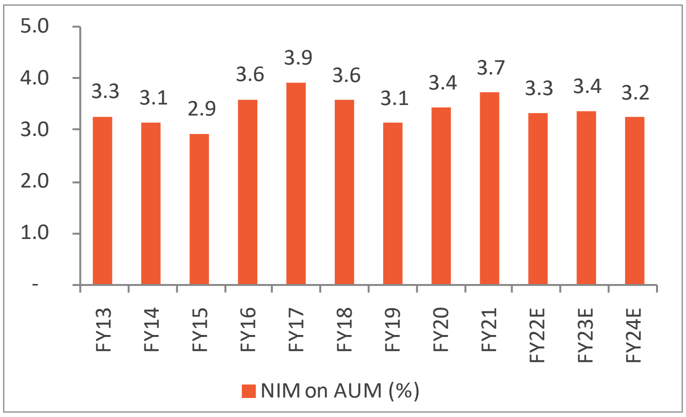
Financials in charts

Loan book growth



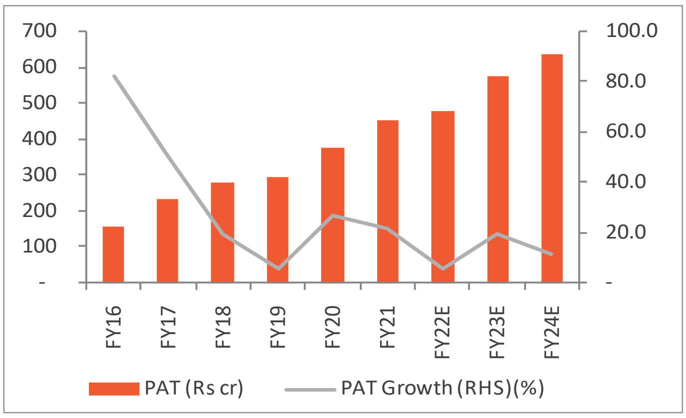
Source: Company, Sharekhan Research

NIM on Average Loan AUM (%)



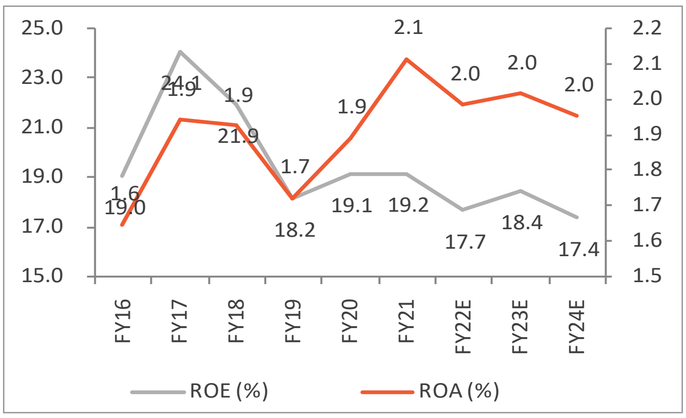
Source: Company, Sharekhan Research

PAT trend



Source: Company, Sharekhan Research

ROA and ROE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Housing demand to grow exponentially on favourable macros, improved affordability and low interest rates

With rapid urbanisation and improved affordability coupled with supportive government initiatives for the sector and record low interest rates and discounts from real estate companies, we expect the housing finance companies is set to grow exponentially going ahead specially the affordable housing segment. ~66% of the India's population is below 35 years of age and ~32% of the population reside in cities currently which is estimated to be 50% by 2030. We believe HFCs stand to benefit from this housing sector growth as they are well equipped with competitive product offerings and product pricing, superior customer service and last mile connect with the potential customers where large banks are unable to service. The COVID-19 pandemic has bought in a blessing as there is demand potential through shift in preferences by the end-consumers to own a home. Furthermore, the Government push towards affordable and mid-segment housing is likely to propel demand in the segment due to continuation of credit linked subsidy for affordable housing till March 2022.

■ Company outlook - Favoured play in the affordable space with strong balance sheet and best-in-class asset quality

CFHL commands a premium valuation vis-à-vis its peers due to: 1) Its ability to deliver to deliver superior growth in AUM; 2) The company's focus to strategically charge differential pricing for customer segments/ geographies and recover its market share; 3) Its asset quality continues to be best in class amongst its peers with Stage-3 assets at 0.78% and NNPA ratio at 0.47% in Q2FY22; and 4) Additionally, with the strong parentage, CFHL enjoys strong financial flexibility and enables it to raise funds through diversified sources at competitive rates.

■ Valuation - Re-initiate coverage on CFHL with a Buy rating and PT of Rs. 712

Currently, at CMP, CFHL trades at 2.3x of FY23E P/BV. The stock has corrected ~18% for its highs and it offers a great opportunity. The company is well-placed to deliver loan book of ~16% CAGR in FY21 through FY24E. It continues to maintain superior asset quality with GNPA ratio at 0.8% as on September 2021 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating which enables it raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver an RoE of 17-18% over FY22E to FY24E. Hence, we re-initiate coverage on CFHL with a Buy rating and PT of Rs. 712.

Peer valuation

Companies	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Can Fin Homes	582	7,770	16.3	13.6	2.8	2.3	17.7	18.4	2.0	2.0
Aavas Financiers	2,774	21,889	59.5	43.2	7.9	6.6	14.2	16.7	3.1	3.3
Repco Home	306	1,911	6.3	5.4	0.8	0.7	13.9	14.1	2.4	2.7

Source: Company, Sharekhan Research

About company

CFHL operates in housing finance segment providing loans to individuals and non-housing loans including mortgage loans, site loans, loans for commercial properties, loan against rent receivables, top-up loans and personal loans. It has 200 branches across 21 states and Union Territories. It offers housing loans and mortgage loans at competitive interest rates both to salaried and self-employed borrowers. The company's focuses on housing loans to individuals with 90% of the book constituting to home loans while the rest comes from non-housing segment.

Investment theme

The housing finance market is expected to be driven by multiple triggers going ahead. Favourable operating environment marked by benign cost of funds and liquidity measures by RBI and Government is likely to provide impetus to the growth of the sector. Additionally, the transmission of the lower interest rates to the end consumers have further improved the affordability thereby driving sale of housing units particularly in the affordable and mid income segment.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted given its competition from large HFCs and banks.

Additional Data

Key management personnel

Mr. Girish Kousgi	MD & CEO
Mr. Amitabh Chatterjee	Deputy Managing Director
Mr. Prashanth Joishy	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Bank	30.0
2	Chhattisgarh Investments Ltd	7.0
3	Nippon Life India Asset Management	2.6
4	Vanguard Group Inc	2.5
5	DSP Investment Managers Pvt Ltd	2.2
6	Axis Asset Management Co Ltd	2.2
7	UTI Asset Management Co Ltd	1.8
8	L&T Mutual Fund Trustee Ltd	1.8
9	PGIM India Asset Management Pvt Ltd	1.3
10	Canara Reecco Asset Management Co Ltd	1.2

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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