CD EquisearchPvt Ltd

CHANGING DIMENSIONS
CD EQUISEARCH

April 27, 2021

Can Fin Homes Ltd.

No. of shares (m)	133.15
Mkt cap (Rscrs/$m)	7594/1016.2
Current price (Rs/$)	570/7.6
Price target (Rs/$)	655/8.8
52 W H/L (Rs.)	620/267
Book Value (Rs/$)	187/2.5
Beta	1.1
Daily volume NSE (avg. monthly)	521150
P/BV (FY21e/22e)	2.9/2.4
P/E (FY21e/22e)	15.5/13.7
Cost to Income (FY20/FY21e/22e)	15.7/13.9/14.4
EPS growth (FY20/21e/22e)	26.8/30.1/13.4
NIM (FY20/21e/22e)	3.5/3.9/3.9
ROE (FY20/21e/22e)	19.4/20.8/19.5
ROA(FY20/21e/22e)	1.9/2.3/2.4
D/E ratio (FY20/21e/22e)	8.8/7.3/6.9
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF.IN
Reuters	CNFH.NS

Shareholding pattern%	
Promoters	30.0
MFs / Banks / FIs/ Others	17.4
Foreign Portfolio Investors	-
Govt. Holding	-
Public & Others	52.6
Total	**100.0**

As on March 31, 2021

Recommendation

ACCUMULATE

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Quarterly Highlights

- As the Covid 19 laden economy started recovering, disbursements grew in Q3 from Q2 (Rs 1106 crs Vs Rs 825 crs) but declined by a surprising 43% in the first nine months of FY21. Shook by the pandemic, loan book witnessed no large growth. Although its share grew by 100 bps, salaried & professionals segment moved up narrowly (Rs 15093 crs by Q3FY21 vs Rs 14320 crs by Q3FY20), while the self employed segment closed almost in line with the last period.
- The much needed economic stimulus provided by RBI helped all financial institutions operate normally to which Can Fin was no exception- dramatic fall in cost of funds as well as yield explained the recent expansion in its spread (2.9% in Q3FY21 vs 2.3% in Q3FY20). A massive 25.9% growth in NII helped prop up NIMs in 9MFY21 on yoy basis. For provision, a large chunk of amount has been kept aside (Rs 60 crs in 9MFY21 vs Rs 19.48 crs in 9MFY20) on account of moratorium as well as RBI's special regulatory package, which still prevented PBT from de growing - stood at Rs 475 crs in 9MFY21 as against Rs 400 crs in the same period last year.
- To keep pace with the ongoing competition in the retail lending space, Can Fin dropped its yields to attract new as well as retain old customers. Profit for the nine month period outshined last year's by ~24% largely due to higher NII. Can Fin's asset quality marginally improved with Gross NPA for the period less than last year's (Rs 141.93 crs by Q3FY21 vs Rs 160.96 crs by Q3FY20), Net NPA also nosedived from Rs 118.72 crs to Rs 86.29 crs as a result of higher provisions.
- The stock currently trades at 2.9x FY21 BV (15.5x FY21e EPS of Rs 36.76) and 2.4x FY22 BV (13.7x FY22e EPS of Rs 41.67). Entrenched focus on salaried segment in its stronghold Southern market would help post some 15% loan book growth in the current fiscal. Yet recent cut in lending rate of home loans by banks have exposed the Indian NBFC sector to precarious competition. Despite strong presence in South, Can Fin can hardly boast of competitive advantage of any great sort. Buoyed by low interest rates, NII seem to barely stymie in the current fiscal. Weighing odds, we assign 'accumulate' rating on the stock with revised target of Rs 655 (previous target: Rs 447) based on 2.8x FY22e BV of Rs 234.

Figures in Rs crs	FY18	FY19	FY20	FY21e	FY22e
Net Interest Income	509.56	544.13	674.70	828.13	894.23
Non Interest Income	31.40	17.94	11.54	11.33	13.43
Pre-Provision Profits	453.18	470.60	578.60	722.60	776.59
Net profit	286.11	296.74	376.14	489.54	554.94
EPS(Rs)*	21.49	22.28	28.25	36.76	41.67
EPS growth (%)	21.8	3.7	26.8	30.1	13.4

*adjusted for stock split.

Outlook & Recommendation

Industry Overview

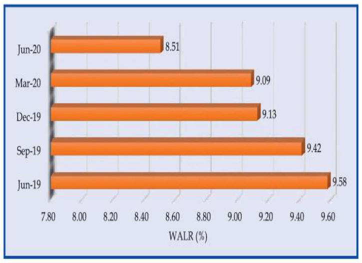
ICRA Ratings expects 8-10% growth in loan portfolios of housing finance companies in FY22 (6-8% growth estimate for FY21) as demand for housing loans have gained momentum from H2 of FY21. It reckons that with revival in demand for housing credit in the industry in last two quarters of FY21 most of the housing finance companies have already reached near pre-Covid level disbursements and have targeted to achieve higher disbursements in Q4.

ICRA also feels that given the cash flow stress faced by the borrowers, the over dues of HFCs have increased in 9MFY21 as reflected in proforma GNPA of around 2.7% as on 31st Dec 2020 as compared to reported GNPA of 2.4% as on March 31, 2020. – GNPA estimated 50-100 bps higher for FY21 compared to that in FY20- and expected to remain elevated in FY22 as well. The rating agency posits that profitability of HFCs would moderate in FY21 not least due to lower business growth and asset quality pressures.

Yet higher provision cover maintained by most of the entities could protect profitability from Covid 19 related asset quality stress in FY22. ICRA, however, raised alarm bells on rising Covid 19 infections and the resulting localized lockdowns. It noted that HFCs have been maintaining healthy on balance sheet liquidity for last few quarters and have gradually reduced their reliance on short term funding sources which helped improve asset liability mismatches in near term buckets.

Incentives rolled out in the recent budget like extension of tax holiday by another year for affordable housing projects, relaxation on tax compliance for REIT (real estate investment trusts) investors, deduction of interest on loans et al. underpins GOI's efforts to support housing demand across the country. Simultaneously, RBI contributed by holding policy rates at historically low levels to initiate a cycle of consumption-led growth following which the interest rate war begun. Banks and financial institutions slashed interest rates and competed among themselves to increase their loan book share- ultimately leaving the home buyers at an advantage.

HFCs weighted average lending rates fresh loans

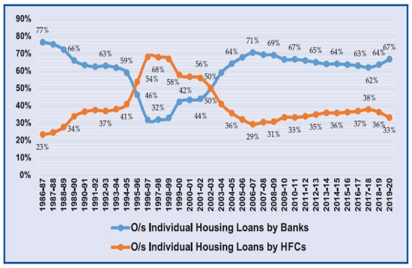


Source- RBI **Source: RBI & NHB**

According to GlobeNewswire, India home loan market is anticipated to grow at a CAGR of around 22% during 2021 - 2026 on account of increasing urbanization and affordable mortgage rates. Housing loan rate is low in India when compared with developing economies, presenting opportunities for the growth of home loan market in the country.

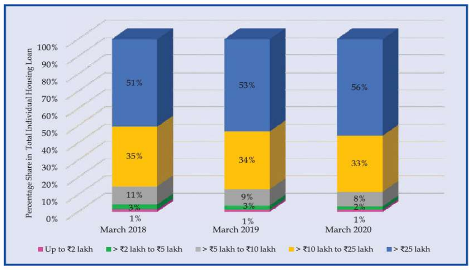
According to National Housing Bank's latest Trend and Progress of Housing in India report, the pace of growth of banks remained higher than that of HFCs, partly supported by portfolio buyouts leading to increase in their market share in individual loans. The market share of banks in individual loans has gone up from 62% in 2017-18 to 67% in 2019-20 while that of HFC s has come down from 38% to 33%.

Individual housing loan market share



Sources: RBI & NHB

Slab wise outstanding individual housing loan of HFCs & SCBs

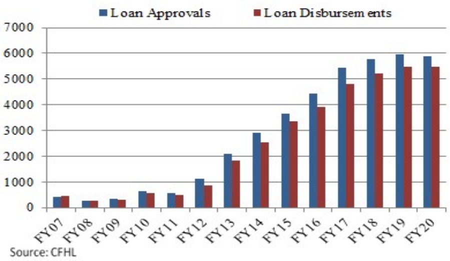


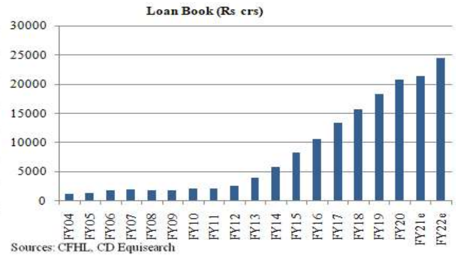
Sources: RBI & NHB

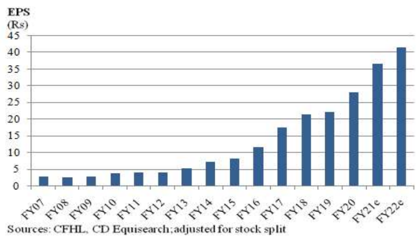
The report further states"The real estate and housing finance sector in India began to witness a moderation in growth after the IL&FS crisis in Sep 2018. However, with the proactive measures and various other initiatives of the GOI, RBI and NHB, the sector has started to gain momentum". Referring to growth in number of housing units financed with in IHL slab of Rs 25 lakh, NHB observed that affordable housing continues to grow on account of robust demand and various support measures towards this segment.

Financials and Valuations

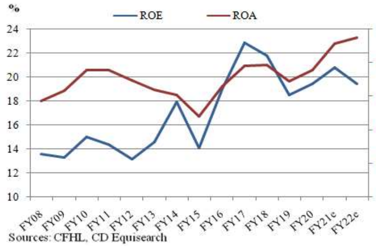
Can Fin's continues to boost its portfolio of affordable housing loans to low and middle income groups and so is voluntarily taking steps to expand in Tier 2 & 3 cities where competition is low and profit opportunities are high. In order to save its book from the ongoing competition in interest rates, it had to focus on retail space that partially explains the slow growth in its loan book(Rs 21004 crs as on 31st Dec 2020 vs Rs 20172 crs a year back). Disbursements too fell by an astonishing 43% in the first nine months of FY21. Lending mix witnessed virtually no change- 72% of the outstanding loan book came from salaried professionals while the rest 28% came from non salaried class & non professionals.

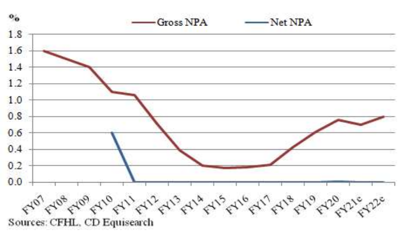


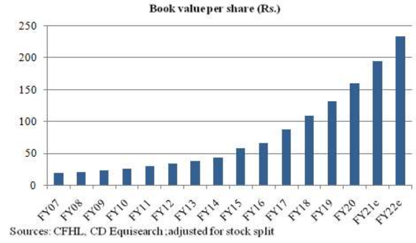




Given the Covid 19 situation, GNPA did not rise as much as was estimated earlier (Rs 141.93 crs in 9MFY21 vs Rs 160.96 crs in 9MFY20). Backed by more than enough provisions, Net NPA too fell from Rs 118.72 crs in 9MFY20 to Rs 86.29 crs in the same period in FY21. The special liquidity scheme carried out by government to support NBFCs has partially helped Can Fin gather funds at cheaper rate- there was a slight change in the borrowing mix with the share of National Housing Bank slightly increased from 15% to 21%. All the factors that led to fall in interest rates turned favorable for Can Fin in the recent quarters, though the buoyancy may not be sustainable. We expect NII to rise by 22.7% in FY21 before falling to 8% in FY22.







No small focus on maintaining asset quality has presumably put brakes on growth of its loan book – FY21 loan growth would drop to historic low of 3%. The stock currently trades at 2.9x FY21 BV (15.5x FY21e EPS of Rs 36.76) and 2.4x FY22 BV (13.7x FY22e EPS of Rs 41.67). Backed by loan book growth in mid-teens in FY22, post tax earnings would grow at some 13.4%; though lower provisions could anything but stymie growth. Yet the company could boast of little competitive advantage (if any) in markets outside Southern India, thus limiting scope of scale effect. Weighing odds we assign "accumulate" rating on the stock with revised target of Rs 655 (previous target: Rs 447) based on 2.8x FY22e BV of Rs 234. For more info, refer to our June report.

Cross Sectional Analysis

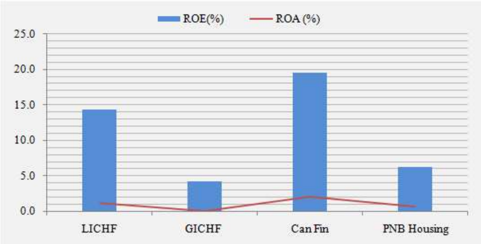
Company	Equity*	CMP (Rs)	Mcap*	NII*	Profit*	NIMs (%)	Loan Book growth(%)	ROE (%)	ROA (%)	P/E	P/BV
LICHF	100.9	397	20058	4874	2757	2.3	5.7	14.4	1.2	7.3	1.0
GICHF	53.9	114	614	378	52	2.9	-0.9	4.2	0.0	11.7	0.5
Can Fin	26.6	570	7594	801	444	3.9	4.1	19.6	2.1	17.1	3.0
PNB Housing	168.3	367	6183	1984	532	3.0	-6.7	6.3	0.7	11.6	0.7

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

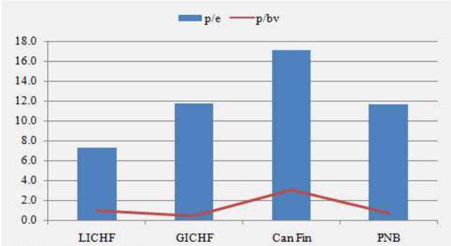
Despite the Covid issue, LICHF and Can Fin managed to post decent growth in its loan portfolio in 9MFY21, while GICHF & PNB Housing's loan book fell into negative territory (see table). Sturdy growth in individual (5%) as well as project loan (10%) portfolio justified LICHF's loan book growth; salaried segment (87%) continued to be its anchor customer while the self employed share stood at 13%. Disbursements, however, witnessed an 8% decline in 9MFY21 not least due to reduction in project loans (-18%) in the period ended 9MFY21; individual loan disbursements too slid by 7%. A not so impressive rise in NII (Rs 3739.6 crs in 9MFY21 vs Rs 3687.25 crs in 9MFY20) barely disrupted NIMs. PBT in 9MFY21 rose by 22.7% largely due to correction in one of its expenses- impairment of financial instruments which was some Rs 925 crs in 9MFY20 came down to Rs 340 crs in 9MFY21.

PNB Housing witnessed a feeble loan book performance (-6.7%) on account of higher attrition in its loan book. By way of contrast its NII rose from Rs 1393 crs in 9MFY20 top Rs 1563 crs in 9MFY21 (growth of over 12%). GNPA is known to be at 2.64% as on Dec 31, 2020 as compared to 1.75% on Dec 31, 2019, while net NPA for the same time period increased from 1.25% to 1.41%. PNB is sharpening its focus on the affordable housing projects given the favorable rules carried out by government under this segment. Its loan book encompasses 44% of the salaried segment and 39% of self employed and the rest comes from corporate.

Similar to PNB Housing, despite a marginal fall in interest income, GICHF's NII rose on account of cheaper source of funding. Its NII which was some Rs 215 crs in 9MFY20 increased to Rs 295 crs in 9MFY21 (up by 36.9%) leading to a rise in NIM. Higher impairment costs couldn't arrest fall in PBT – registering a de growth of 71% (Rs 69.34 crs to Rs 20.06 crs). Sanctions and Disbursements for the period fell dramatically (by 38% & 40%), while the loan book also declined by around 1%. Net NPA, however, was contained at 2.69% when compared with 2.81% in nine months ended Dec 31, 2019.



Sources: CD Equisearch; Companies



Sources: CD Equisearch; Companies

Financials

Quarterly Results

Figures in Rs crs

	Q3FY21	Q3FY20	% chg.	9MFY21	9MFY20	% chg.
Net Interest Income	210.41	173.79	21.1	612.29	486.43	25.9
Non Interest Income	3.14	3.22	-2.5	5.30	7.56	-29.8
Total Operating Income	**213.55**	**177.01**	**20.6**	**617.59**	**493.99**	**25.0**
Operating Expenses	34.45	26.89	28.1	81.15	75.14	8.0
Pre-Provision Profits	**179.10**	**150.12**	**19.3**	**536.44**	**418.84**	**28.1**
Provision	1.63	4.55	-64.3	60.87	19.48	212.5
PBT	**177.48**	**145.57**	**21.9**	**475.57**	**399.36**	**19.1**
Tax	45.56	38.96	16.9	122.08	114.15	6.9
PAT	**131.92**	**106.61**	**23.7**	**353.49**	**285.21**	**23.9**
Extraordinary items	-	-	-	-	-	-
Adjusted Net Profit	**131.92**	**106.61**	**23.7**	**353.49**	**285.21**	**23.9**
Basic EPS (F.V.2)	9.91	8.01	23.7	26.55	21.42	23.9

Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Net Interest Income	509.56	544.13	674.70	828.13	894.23
Non Interest Income	31.40	17.94	11.54	11.33	13.43
Total Operating Income	**540.96**	**562.07**	**686.24**	**839.46**	**907.66**
Operating Expenses	87.77	91.47	107.64	116.86	131.06
Pre-Provision Profits	**453.18**	**470.60**	**578.60**	**722.60**	**776.59**
Provision	22.10	1.09	60.32	64.00	30.00
PBT	**431.08**	**469.50**	**518.29**	**658.60**	**746.59**
Tax	144.89	172.77	142.16	169.06	191.65
PAT	**286.19**	**296.74**	**376.12**	**489.54**	**554.94**
Extraordinary items	0.08	-	-0.01	-	-
Adjusted Net Profit	**286.11**	**296.74**	**376.14**	**489.54**	**554.94**
Basic EPS (F.V.2)	21.49	22.28	28.25	36.76	41.67

Balance Sheet

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Sources Of Funds	**15706.29**	**18705.48**	**21009.69**	**21761.07**	**25018.40**
Shareholders Funds	**1486.99**	**1782.19**	**2150.07**	**2612.98**	**3141.28**
Share Capital	26.63	26.63	26.63	26.63	26.63
Reserves and Surplus	1460.35	1755.55	2123.44	2586.34	3114.65
Financial Liabilities	**14168.77**	**16905.87**	**18811.40**	**19051.52**	**21755.27**
Debt Securities	4898.27	5634.69	3809.55	3512.68	4024.58
Borrowings (Other than debt securities)	9022.75	11142.49	14835.98	15357.05	17537.97
Other Financial Liabilities	247.75	128.70	165.87	181.79	192.73
Non Financial Liabilities	**50.54**	**17.43**	**48.22**	**96.57**	**121.85**
Provisions	33.63	26.64	66.23	124.00	147.53
Other Non Financial Liabilities	40.15	14.80	15.89	17.47	19.22
Deferred Tax Liability	-23.24	-24.01	-33.89	-44.90	-44.90
Application of Funds	**15706.29**	**18705.48**	**21009.69**	**21761.07**	**25018.40**
Financial Assets	**15681.54**	**18673.53**	**20945.72**	**21699.04**	**24960.26**
Cash and Cash Equivalents	19.02	420.25	392.44	471.22	542.72
Investments	16.00	16.30	24.31	24.00	24.00
Loans and Advances	15644.00	18234.18	20525.69	21200.24	24389.63
Other Financial Assets	2.52	2.81	3.28	3.58	3.92
Non Financial Assets	**24.75**	**31.95**	**63.97**	**62.03**	**58.14**
Tangible Assets	9.57	9.85	37.90	32.98	27.36
Other Non Financial Assets	15.18	22.10	26.08	29.05	30.79

Key Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios (%)					
Net Interest Income	20.8	6.8	24.0	22.7	8.0
Total Operating Inc.	15.3	3.9	22.1	22.3	8.1
Pre Provision Profits	16.6	3.9	23.0	24.9	7.5
Net Profit	21.8	3.7	26.8	30.1	13.4
EPS	21.8	3.7	26.8	30.1	13.4
Loan Book	18.3	16.8	12.7	3.0	15.0
Return Ratios (%)					
ROE	21.8	18.5	19.4	20.8	19.5
ROA	2.0	1.7	1.9	2.3	2.4
Margins (%)					
Cost To Income Ratio	16.2	16.3	15.7	13.9	14.4
Net Interest Margin	3.5	3.2	3.5	3.9	3.9
Asset Quality (%)					
Gross NPA	0.4	0.6	0.8	0.7	0.8
Net NPA	0.2	0.4	0.5	0.2	0.3
Valuation Ratios					
P/BV	4.4	2.7	1.7	3.2	2.4
P/E	22.5	15.7	9.9	16.7	13.7
Other Ratios					
Debt / Equity	9.6	9.6	8.8	7.3	6.9

Cumulative Financial Data

Figures in Rs crs	FY14-16	FY17-19	FY20-22e
NII	613	1476	2397
Pre-provision profits	536	1312	2078
PBT	498	1270	1923
PAT	319	818	1421
Dividends	69	96	80
Loan Book*	10643	18381	24529
Loan Book growth (%)	165.0	72.7	33.4
Cost to Income (%)	23.6	16.5	14.6
NIM (%)	2.8	3.4	3.7
ROE (%)	16.7	20.7	19.5
ROA (%)	1.4	1.9	2.2
GNPA (%)*	0.2	0.6	0.8
Dividend payout ratio (%)	21.8	11.8	5.6

FY14-16 implies four year period ending fiscal 16;*as on terminal year.

On the back of falling interest rate scenario along with Can Fin's quest to retain its customers by keeping the rates competitive, especially for high rated borrowers, cumulative NII is bound to show some traction in the three year period FY20-22 (Rs 2397 crs vs Rs 1476 crs); though the growth would perceptibly moderate when compared to that in FY17-19 period. Buoyed by sharp fall in cost of funds, NIM would harden to 3.7% in FY20-22 period when compared with 3.4% in the previous three year period. As a result of higher NII, Cost to Income is also expected to improve to 14.6% from 16.5% in FY17-19 (see table).

If it would not have been for the tightened liquidity conditions induced by Covid 19, loan book would have shown much greater traction. Loan book also faced inertia due to economic slowdown before Covid -19 set in. It grew by 72.7% in FY17-19 period but the looming health crisis has posed no small friction to demand. ROE too is not expected to show any hardening in ensuing period (19.5% in FY20-22e Vs 20.7% in FY17-19), yet ROA will remain marginally inch upwards to 2.2%. Recent cash preservation stance of NBFCs would all but explain the fall in Can Fin's dividend payout ratio.

Financial Summary- US$ denominated

million $	FY18	FY19	FY20	FY21e	FY22e
Equity capital	4.1	3.9	3.5	3.6	3.6
Shareholders funds	223.7	253.0	281.7	351.9	416.8
Total debt	2140.2	2425.5	2473.3	2567.1	2885.4
Total loans and advances	2405.2	2636.2	2722.9	2884.3	3263.8
Investments	2.5	2.4	3.2	3.3	3.2
Total assets	2414.7	2704.3	2787.0	2960.4	3347.8
Net Interest Income	79.1	77.9	95.2	111.6	119.7
Pre-provision Profits	70.3	67.3	81.6	97.4	103.9
PBT	66.9	67.2	73.1	88.8	99.9
PAT	44.4	42.5	53.1	66.0	74.3
EPS($)	0.33	0.32	0.40	0.50	0.56
Book value ($)	1.68	1.90	2.12	2.64	3.13

Income statement figures translated at average rates; balance sheet at year end rates; FY21 projections at current rates (Rs 74.73/$). 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/$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

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.