

Can Fin Homes - ADD

A mixed quarter

Growth remains granular, NIM hardens, opex spikes and NPLs increase

Can Fin's loan book in Q2 FY20 grew in-line with our expectations at 3% qoq and 16% yoy. Both disbursements and portfolio run-off was marginally higher than our estimates. For H1 FY20, sanctions and disbursements stood flat yoy. Lower run-off rate (due to decline in competition) has been instrumental in keeping loan growth steady. The portfolio profile remains static for Can Fin, as growth continues to be driven by home loans (90% of loan book) and within this product, SENP portfolio (27% of HL book) continues to grow faster than Salaried & Professionals. With substantial branch/satellite office addition in Tier 2-4 growth markets over the past couple of years, the non-metro loan portfolio (grew 28% yoy) has been growing significantly faster than Metro portfolio (grew 10% yoy). Non-metro areas contributed 45% to sanctions during Q2 FY20 and 35% of the loan book. This has also kept a tab on average ticket size; and currently only 3% of portfolio comprises of loans >Rs5mn. Within this, there are handful of cases where loans exceed Rs10mn.

There was a slight increase in NIM supported by stable cost of funds. Given its pristine asset profile, minimal ALM mismatch and healthy capitalization, liquidity has been available to Can Fin across all avenues and at a fine price. Borrowing mix continues to move towards banks (funding at MCLR) due to systemic debt market issues related to unavailability of long-term money and inefficient pricing. As of Q2 FY20, company had unutilized bank lines of ~Rs22bn and has secured sanctions worth Rs14bn in the current quarter. Opex was elevated due to manpower addition, salary increments and higher CSR spending. Notwithstanding about 25% qoq decline in fresh slippages, the headline NPL ratios deteriorated.

CMP (Rs) 417

12-mts Target (Rs) 460

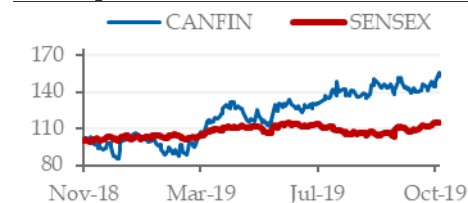
Upside 10%

Stock data (As on Nov 04, 2019)

Sector: Financials

| | |
|--------------------------|------------|
| Sensex: | 40,248 |
| 52 Week h/l (Rs) | 433/229 |
| Market cap (Rs bn) | 55 |
| Enterprise value (Rs bn) | - |
| 6m Avg t/o (Rs mn): | 206 |
| FV (Rs): | 2 |
| Div yield (%): | 0.5 |
| Bloomberg code: | CANF IN |
| BSE code: | 511196 |
| NSE code: | CANFINHOME |

Stock performance



Shareholding pattern (As of Sept '19 end)

| | |
|----------|-------|
| Promoter | 30.0% |
| FII+DII | 5.0% |
| Others | 65.0% |

Exhibit 1: Result table

| Y/e 31 Mar (Rs mn) | Q2 FY20 | Q1 FY20 | % qoq | Q2 FY19 | % yoy |
|----------------------------|--------------|--------------|-------------|--------------|-------------|
| Operating Income | 5,005 | 4,840 | 3.4 | 4,210 | 18.9 |
| Interest Expenses | (3,385) | (3,294) | 2.8 | (2,838) | 19.3 |
| Net Interest Income | 1,620 | 1,546 | 4.8 | 1,372 | 18.1 |
| Other income | 2 | 1 | 36.9 | 21 | (91.5) |
| Total Income | 1,622 | 1,548 | 4.8 | 1,392 | 16.5 |
| Operating expenses | (250) | (232) | 7.9 | (176) | 41.9 |
| Provisions | (63) | (87) | (27.5) | - | - |
| PBT | 1,309 | 1,229 | 6.5 | 1,216 | 7.6 |
| Tax | (333) | (419) | (20.6) | (448) | (25.7) |
| PAT | 976 | 810 | 20.5 | 768 | 27.1 |

Source: Company, YES Sec - Research

Management expects a pick-up in growth, improvement in margin and asset quality in H2 FY20

The start to Q3 FY20 has been robust in terms of business traction and management is confident of delivering substantial growth in disbursements during H2 FY20 (budgeted at Rs35bn, versus Rs26bn in H1 FY20 and Rs28.7bn in H2 FY19). With liquidity not being an issue at all, Can Fin intends to capitalize on the resilient small-ticket housing loan demand in Tier 2-4 markets amid reduced competition. Management also expects NIMs to inch-up considering that incremental borrowing cost has materially softened in the past few months and that lending rate reduction (of 25bps in August) would impact portfolio yield gradually due to annual resets. As the company has initiated SARFAESI in significant number of NPL cases, and has also repossessed properties in selective accounts, the expected resolutions are likely to drive a reduction in NPL ratios by the end of fiscal.

Valuation has re-rated in recent months; Canara Bank's stake sale process an overhang

We make only slight changes to our estimates as Can Fin's Q2 FY20 performance was largely in-line with our expectations and the management commentary remains upbeat. The stock has witnessed significant valuation re-rating over the past 9-12 months amid a challenging operating environment and subdued investor sentiment for HFCs. Currently trading at 2.2x FY21 P/ABV, the valuations are near fair levels and further room for re-rating could be limited in the near term. Further, Canara Bank's stake sale process is under way, and thus Can Fin faces uncertainty with respect to profile of the incoming strategic investor, implications on its credit rating, potential alterations to operating culture, etc. While we remain positive on the franchise, we lower rating to ADD in the wake of a probable limited upside.

Exhibit 2: Key Ratios

| Ratio (%) | Q2 FY20 | Q1 FY20 | chg qoq | Q2 FY19 | chg yoy |
|-----------------|---------|---------|---------|---------|---------|
| NIM | 3.2 | 3.2 | 0.0 | 3.2 | 0.0 |
| Yield | 10.2 | 10.2 | 0.0 | 10.0 | 2.4 |
| Cost of Funds | 8.0 | 7.9 | 0.0 | 7.8 | 0.1 |
| Spread | 2.3 | 2.3 | (0.0) | 2.2 | 0.1 |
| Cost to Income* | 15.4 | 15.0 | 0.4 | 12.7 | 2.8 |
| Gross NPA | 0.8 | 0.7 | 0.1 | 0.6 | 0.2 |
| Net NPA | 0.6 | 0.5 | 0.1 | 0.4 | 0.2 |
| PCR* | 26.9 | 29.2 | (2.4) | 33.4 | (6.6) |
| RoA | 1.9 | 1.7 | 0.2 | 1.9 | - |
| RoE | 19.1 | 17.6 | 1.5 | 21.6 | (2.5) |
| CAR | 18.82 | 19.59 | (0.8) | 19.07 | (0.3) |

Source: Company, YES Sec - Research

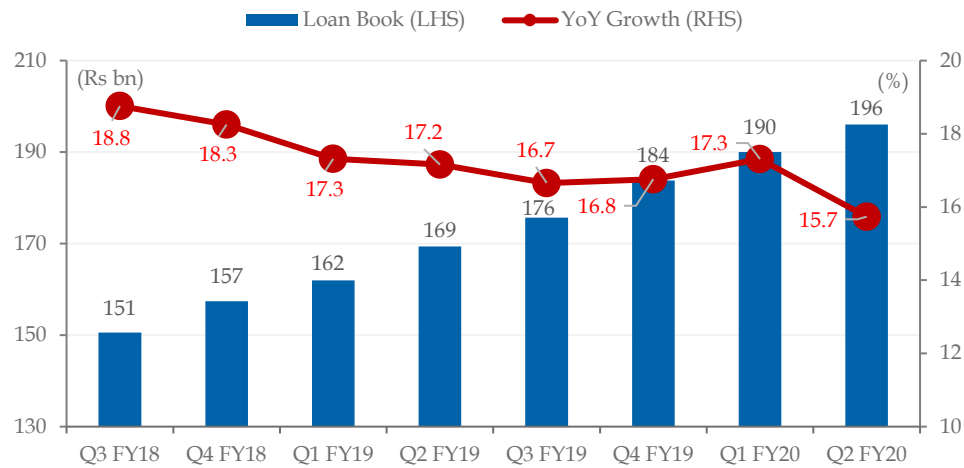
*Calculated

Exhibit 3: Business Data

| (Rs mn) | Q2 FY20 | Q1 FY20 | % qoq | Q2 FY19 | % yoy |
|----------------------|----------------|----------------|---------------|----------------|---------------|
| Loan Book | 196,000 | 190,030 | 3.1 | 169,350 | 15.7 |
| Salaried | 138,890 | 135,200 | 2.7 | 122,010 | 13.8 |
| Housing | 128,600 | 124,410 | 3.4 | 112,940 | 13.9 |
| Top-up Personal | 4,450 | 4,250 | 4.7 | 3,690 | 20.6 |
| Mortgage/Flex LAP | 3,810 | 3,820 | (0.3) | 3,700 | 3.0 |
| Loans for sites | 1,640 | 2,440 | (32.8) | 1,300 | 26.2 |
| Others | 390 | 280 | 39.3 | 380 | 2.6 |
| Non-Salaried | 56,880 | 54,550 | 4.3 | 47,070 | 20.8 |
| Housing | 47920 | 45520 | 5.3 | 39390 | 21.7 |
| Top-up Personal | 2410 | 2310 | 4.3 | 1930 | 24.9 |
| Mortgage/Flex LAP | 5240 | 5150 | 1.7 | 4630 | 13.2 |
| Loans for sites | 700 | 1000 | (30.0) | 540 | 29.6 |
| Others | 610 | 570 | 7.0 | 580 | 5.2 |
| Builder Loans | 60 | 110 | (45.5) | 100 | (40.0) |
| Staff Loans | 170 | 170 | - | 170 | - |

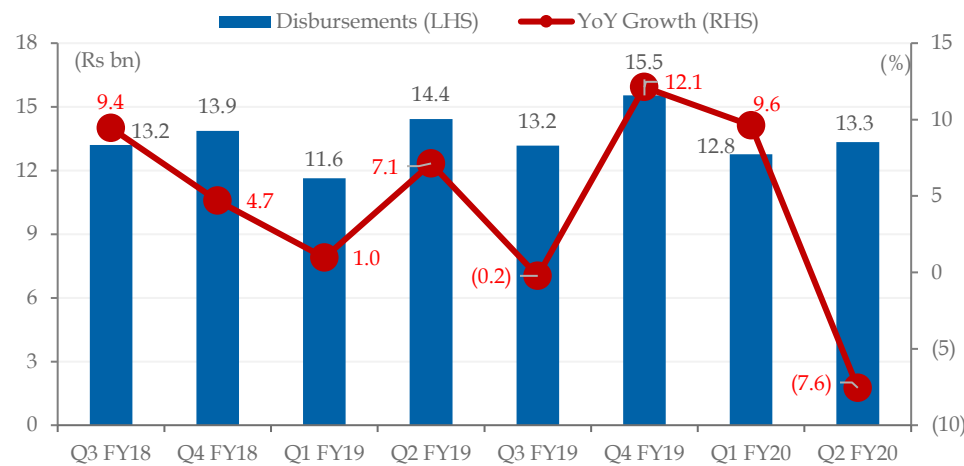
Source: Company, YES Sec - Research

Exhibit 4: Loan book continues to grow steadily



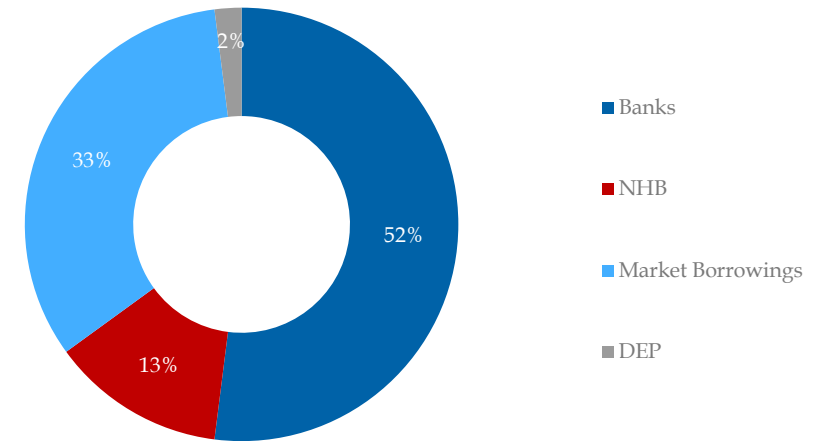
Source: Company, YES Sec - Research

Exhibit 5: Disbursements lackluster; ~8% contraction yoy



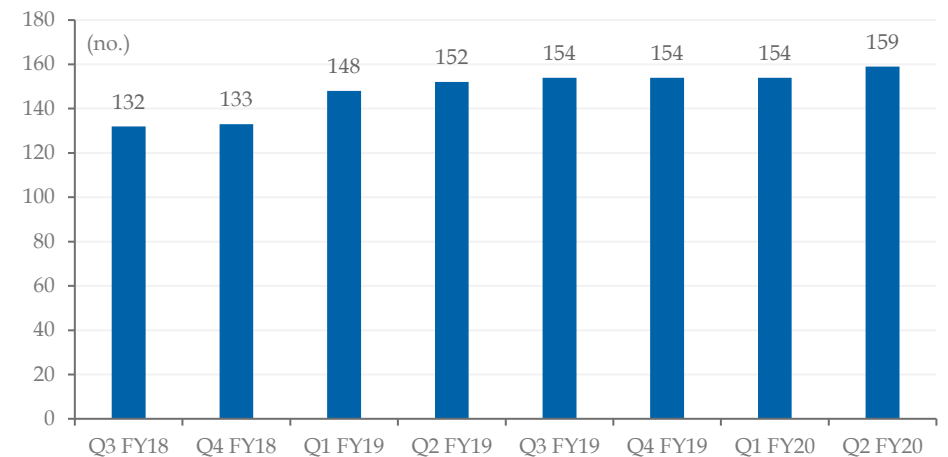
Source: Company, YES Sec - Research

Exhibit 6: Borrowing mix continues to tilt towards bank borrowings



Source: Company, YES Sec - Research

Exhibit 7: Branches expand after three quarters of being dormant



Source: Company, YES Sec - Research

Exhibit 8: Valuation summary

| Y/e 31 Mar (Rs mn) | FY18 | FY19 | FY20E | FY21E |
|-----------------------------------|-------|-------|-------|-------|
| Total operating income | 5,410 | 5,622 | 6,586 | 7,728 |
| yoy growth (%) | - | 3.9 | 17.1 | 17.3 |
| Operating profit (pre-provisions) | 4,532 | 4,706 | 5,441 | 6,411 |
| Net profit | 2,862 | 2,967 | 3,795 | 4,575 |
| yoy growth (%) | - | 3.7 | 27.9 | 20.5 |
| EPS (Rs) | 21.5 | 22.3 | 28.5 | 34.4 |
| Adj.BVPS (Rs) | 111.7 | 133.8 | 159.5 | 190.4 |
| P/E (x) | 19.4 | 18.7 | 14.6 | 12.1 |
| P/Adj.BV (x) | 3.7 | 3.1 | 2.6 | 2.2 |
| ROE (%) | - | 18.2 | 19.4 | 19.6 |
| ROA (%) | - | 1.7 | 1.9 | 1.9 |
| CAR (%) | 19.1 | 16.4 | 16.7 | 16.8 |

Source: Company, YES Sec - Research

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