

# CAN FIN HOMES Limited

BUY

CMP Rs479

Target Rs615

Upside 28.4%

## A decisive improvement in growth commentary

Can We retain BUY on Can Fin and raise 12m PT to Rs615, following the introduction of FY23 estimates. While the Q3 results were a beat, the management commentary pertaining to growth decidedly turned positive. The confidence on growth comes from multiple factors viz. a) robust disbursements in December despite partial impact of Telangana registration issue (now resolved), b) a strategic reduction in loan pricing (now in-line with competition) which has arrested BT Out, increased BT In and substantially expanded market for fresh disbursements and c) a strong pick-up in housing demand in affordable and lower-middle segments (target for Can Fin) witnessed across most regions. Management has guided towards achieving steady 16-18% disbursement and portfolio growth in 6-8 quarters.

Though the current pricing strategy would correct margin and spreads in ensuing quarters (guidance of sustainable NIM/Spread of 3%+/2.3%), the hit at the RoA level will cushioned by normalization of credit cost. The SC stand-still is at 30 bps of loan book and restructuring is at 45 bps, while the additional provisions are at 45 bps. The collection efficiency has attained pre-Covid level of 93%. We estimate growth rebounding to 13-14% in FY22 after a delivery of 5% in the current fiscal. RoA will come-off a little on margin reduction, while RoE will be constricted by stable leverage. We have not factored capital raise as its timing remains difficult to predict. Current valuation at 1.9x FY23 P/ABV is amenable to re-rating with improvement in growth prospects.

## Management Commentary

### Disbursements, BT and Portfolio Growth

- ✓ Disbursements in Q3 FY21 were impacted by registration issues in Telangana which contributed 20% of incremental business in earlier quarters – otherwise disbursements would have been at par with Q3 FY20.
- ✓ As a strategy focused on collection and asset quality in the past few quarters – Now the focus has shifted back to business growth – with Telangana issue resolved, Q4 FY21 should see reversion towards normal growth.
- ✓ In next 6-8 quarters, loan and disbursement growth could reach 16-18%.
- ✓ Strategically changed pricing strategy to retain book and push growth - generally kept pricing 100-150 bps higher than Banks and large HFCs, but now pricing loans at similar rates (starting rate 6.95%) – have seen significant improvement in customer retention (reduction in BT Out).

## Exhibit 1: Financial Summary

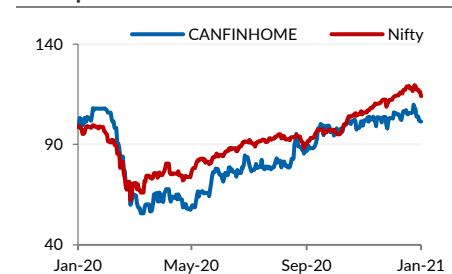
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	6,862	8,302	8,017	8,995
PPOP	5,786	7,118	6,655	7,442
Net profit	3,761	4,831	4,717	5,268
yoy growth (%)	26.8	28.4	(2.4)	11.7
EPS (Rs)	28.2	36.3	35.4	39.6
Adj. BVPS (Rs)	153.1	184.9	218.9	255.5
P/E (x)	16.8	13.1	13.4	12.0
P/adj.BV (x)	3.1	2.6	2.2	1.9
ROE (%)	19.1	20.4	16.8	16.1
ROA (%)	1.9	2.2	2.0	1.9
CAR (%)	22.3	24.9	25.6	25.8

Source: Company, YES Sec – Research

## Stock data (as on January 27, 2021)

Nifty	13,968
52 Week h/l (Rs)	530 / 253
Market cap (Rs/USD mn)	63794 / 875
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	228
Div yield (%):	0.4
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

## Stock performance



	1M	3M	1Y
Absolute return	-1.7%	5.8%	2.5%

## Shareholding pattern

Promoter	30.0%
FII+DII	15.3%
Others	54.7%

## Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	36.3	35.4	39.6
EPS (Old)	34.5	35.2	38.7
% change	5.1%	0.5%	2.4%

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# CAN FIN HOMES Limited

- ✓ Competition from PSU and Private Banks has increased due to lack of growth in other lending segments - Can Fin will keep taking stock of its current aggressive pricing strategy based on competitive dynamics – however, could maintain the stance for at least 4-6 quarters.
- ✓ Competitive pricing broad-basing growth opportunities; gives additional room in Metros and large cities and supports takeover of cases from Banks and HFCs – all this leading to a marginal increase in average disbursement ticket size.
- ✓ As of now, no plan to grow Construction Finance.
- ✓ Monthly run-off around Rs3.5-3.7bn.

## NIM & Spreads

- ✓ Yields are coming down due to onboarding of new customers at lower rates and even re-pricing of the existing book at lower rates.
- ✓ Substantial coming down of funding cost supported a higher NIM of 4.12% and Spread of 2.9% in Q3.
- ✓ Over 4-6 quarters NIM/Spread will correct to 3%+/2.3-2.4% due to the pricing strategy adopted and some increase in the cost of funds.
- ✓ Current incremental cost of borrowing at 5.5-5.6% - the co. has started to tap bond markets - incremental borrowing cost expected to remain at 5.5-6% in near term.
- ✓ Can Fin has access to Rs40bn liquidity - Interest and Principal repayments at ~Rs16bn in Q4 FY21 and ~Rs10bn in Q1 FY22.

## Asset quality

- ✓ Including SC stand-still GNPL is <1% - have provided even for accrued interest on stand-still accounts – hold a provision of Rs130mn.
- ✓ Restructuring at Rs870mn, <50bps of loan book.
- ✓ Rs6.6bn was outstanding as of Sept 30 from customers who had availed moratorium – it has come down to Rs4bn as of Dec 31 with them having served EMLs and some even becoming current (clearing overdues).
- ✓ Company continues to have the lowest delinquent pool in the industry.
- ✓ Collection Efficiency at 93% on the billing, slightly better than pre-Covid levels – has come-off compared to Sept-Nov period where it was unsustainably high due to moratorium relief.
- ✓ Average income of salaried customers at 40000/month.
- ✓ Covid provisioning at Rs730mn and Rs130mn on stand-still NPLs - total provisioning at Rs2.2bn.

## Other important

- ✓ DER is 7.3x and CAR is 24% – no immediate requirement to raise capital – management comfortable up to 8x on leverage.
- ✓ Q3 FY21 opex had one-off provision of Rs60mn on likely salary increases – cost/Income on sustainable basis to be at 15-16%.
- ✓ Major branch expansion not required for growth – existing branches can support 40-50% increase of the book – however, co. has plans to add 10-15 branches every year.

## Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	5,027	5,258	(4.4)	5,168	(2.7)
Interest expended	(2,892)	(3,135)	(7.7)	(3,398)	(14.9)
Net Interest Income	2,135	2,123	0.6	1,770	20.6
Other income	0.5	0.5	(11.7)	-	-
Total Income	2,135	2,124	0.6	1,770	20.6
Operating expenses	(344)	(252)	36.7	(269)	28.2
PPOP	1,791	1,872	(4.3)	1,501	19.3
Provisions	(16)	(151)	(89.2)	(45)	-
PBT	1,775	1,720	3.2	1,456	21.9
Tax	(456)	(436)	4.4	(390)	16.9
PAT	1,319	1,284	2.7	1,066	23.7

Source: Company, YES Sec – Research

## Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Loan Book	210,040	208,300	0.8	201,940	4.0
Salaried	150,930	148,180	1.9	143,200	5.4
Housing	140,130	137,500	1.9	132,550	5.7
Top-up Personal	4,990	4,820	3.5	4,660	7.1
Mortgage/Flex LAP	3,990	3,930	1.5	3,900	2.3
Loans for sites	1,490	1,580	(5.7)	1,710	(12.9)
Others	330	350	(5.7)	380	(13.2)
Non-Salaried	58,890	59,900	(1.7)	58,500	0.7
Housing	49,980	50,730	(1.5)	49,280	1.4
Top-up Personal	2,430	2,490	(2.4)	2,520	(3.6)
Mortgage/Flex LAP	5,300	5,440	(2.6)	5,360	(1.1)
Loans for sites	620	660	(6.1)	700	(11.4)
Others	560	580	(3.4)	640	(12.5)
Builder Loans	50	50	-	70	(28.6)
Staff Loans	170	170	-	170	-

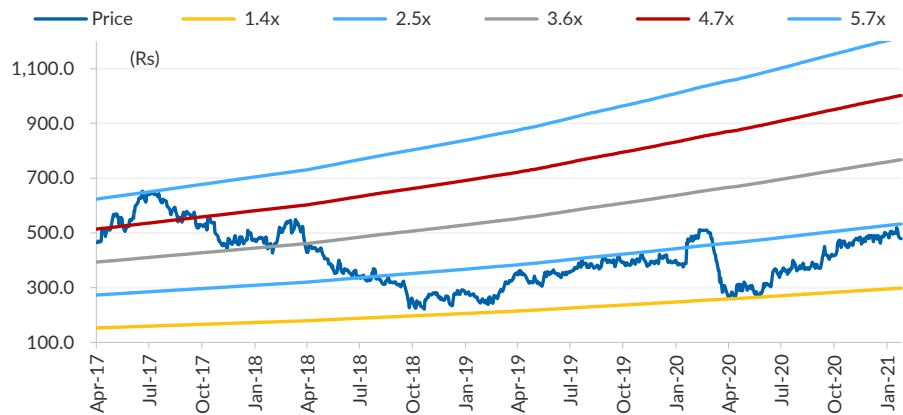
Source: Company, YES Sec – Research

## Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	4.0	3.9	0.1	3.4	0.6
Yield	9.8	10.0	(0.2)	10.2	(4.1)
Cost of Funds	6.9	7.1	(0.2)	7.9	(1.0)
Spread	2.9	2.9	0.1	2.3	0.6
Cost to Income*	16.1	11.9	4.3	15.2	0.9
Gross NPA	0.7	0.7	(0.0)	0.8	(0.1)
Net NPA	0.4	0.5	(0.1)	0.6	(0.2)
PCR*	39.2	36.4	2.8	26.2	13.0
RoA	2.3	2.1	0.1	2.0	0.3
RoE	18.8	18.8	0.1	19.7	(0.9)
CAR	24.4	24.8	(0.4)	22.1	2.3

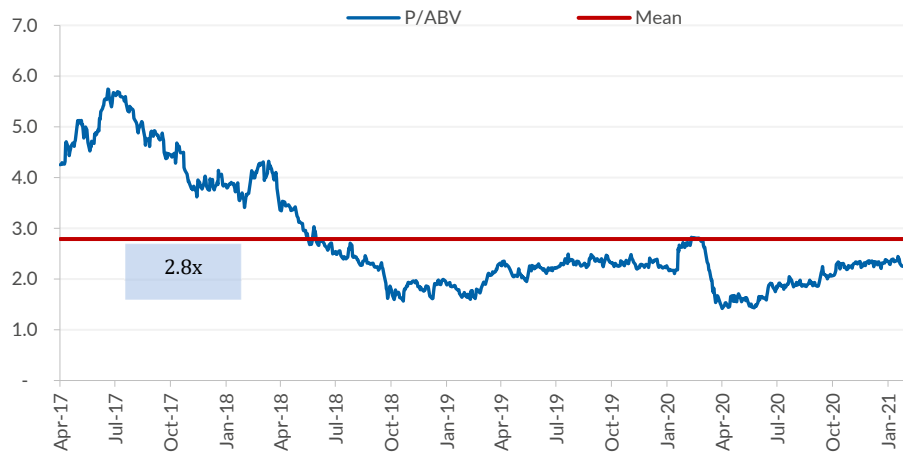
Source: Company, YES Sec – Research; \*Calculated

**Exhibit 5: 1-year rolling P/ABV band**



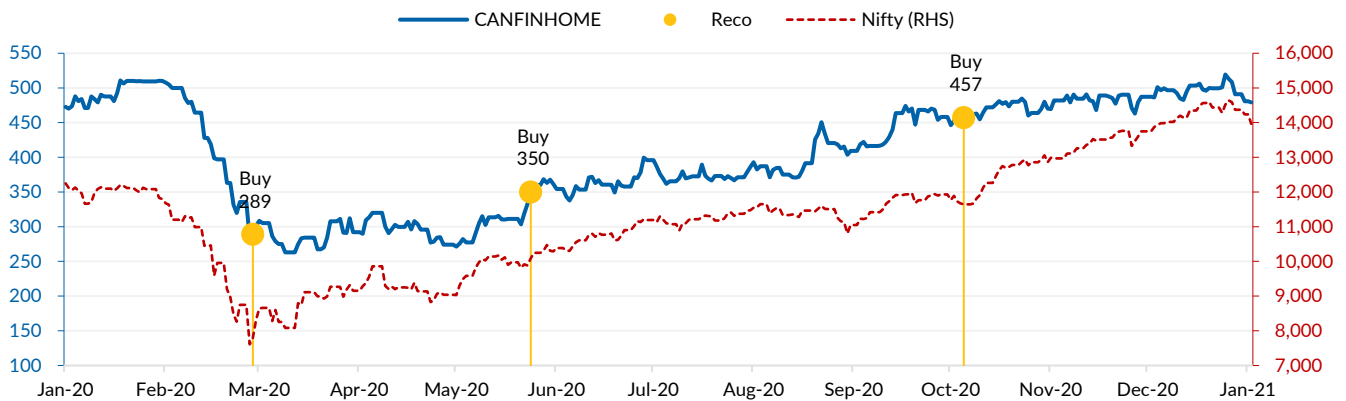
Source: Company, YES Sec – Research

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



Source: Company, YES Sec – Research

## Recommendation Tracker



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