

CAN FIN HOMES LTD. ACCUMULATE

22-Aug-17

INDUSTRY - HFC
BSE Code - 511196
NSE Code - CANFINHOME
NIFTY - 9754

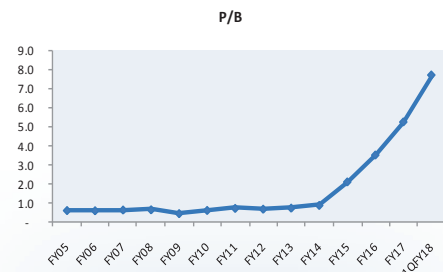
Company Data

CMP	2791
Target Price	3145
Previous Target Price	N/A
Upside	13%
Change from Previous	N/A
52wk Range H/L	3333/1252
Mkt Capital (Rs Cr)	7431
Av. Volume (,000)	11.44

Share Holding Pattern %

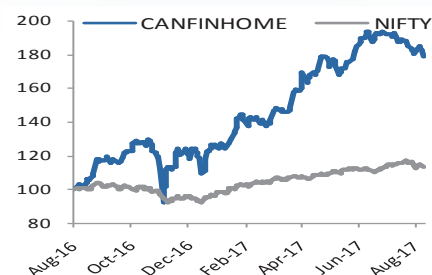
	1QFY18	4QFY17	3QFY17
Promoters	30.7	30.6	44.1
DII	1.6	0.8	0.4
FII	0.2	0.4	0.2
Others	67.6	68.2	55.2

Sharp rise in P/B of CANFINHOME



Stock Performance %

	1Mn	1Yr	YTD
Absolute	-8.8	94.2	99.4
Rel.to Nifty	-6.7	81.7	85.9



DEEPAK KUMAR
Deepak.kumar@narnolia.com

Key Highlights of the report:

- ✓ With the best assets quality among peers, CANFINHOME is one of the fastest growing HFC in the industry.
- ✓ Loan book has grown at a CAGR of 38% over last 5 years while earnings have grown by 40% CAGR during the same period.
- ✓ With the focus on salaried segment customer and low ticket size loan, CANFINHOME is well poised to cash the opportunity from affordable housing theme in India.
- ✓ While demonetization and RERA have impacted the growth in short term, it is expected that the growth will buoyant given the focus and various initiative taken the Government under affordable housing scheme.
- ✓ Due to rich valuation, we rate **ACCUMULATE** on the stock with target price of Rs 3145.

Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
NII	178	301	422	548	697
PPP	152	273	389	508	648
PAT	86	157	235	315	401
NIM %	2.5	3.2	3.5	3.6	3.6
EPS (Rs)	32	59	88	118	151
EPS growth (%)	-13	83	50	34	27
ROE (%)	14	19	24	26	27
ROA (%)	1.2	1.6	1.9	2.1	2.1
BV	290	330	404	496	629
P/B (X)	2.1	3.5	5.2	5.6	4.4
P/E (x)	18.7	19.6	23.9	23.5	18.5

Recent Development : Key Highlights of Result Update

- ✓ Disbursement growth moderated to 10% while sanction was flat YoY. Loan book growth declined to 24% YoY against level of 27%-29% pre-demonetization.
- ✓ Despite slowdown in portfolio in 1Q FY18, management is committed towards Rs 17000 Cr loan book in FY18.
- ✓ GNPA ratio spiked during the quarter due to termination of dispensation benefit provided by RBI during the demonetization period.
- ✓ Margins remained healthy and continued on the track of expansion. During the quarter NIM improved by 26 bps to 3.65%.
- ✓ NII grew at a healthy rate of 34% YoY and PAT registered growth of 43% YoY on the back of margin expansion and cost control.
- ✓ Board has approved to raise capital to the extent of Rs 1000 Cr and management plans to raise it through right issue somewhere around 3rd quarter of FY18.

Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	299	320	341	346	357	19.1%	3.1%	1,044	1,306	25.1%
Interest Exp.	207	219	230	227	233	12.5%	2.8%	743	884	19.0%
NII	92	101	110	119	123	34.2%	3.7%	301	422	40.2%
Other Income	10	12	9	16	12	16.7%	-22.0%	39	47	20.7%
Total Income	102	113	119	135	136	32.4%	0.7%	341	470	38.0%
Ope Exp.	18	20	19	23	20	11.1%	-13.5%	67	80	19.5%
PPP	84	93	100	111	115	37.0%	3.7%	273	389	42.5%
Provisions	6	6	6	1	4	-24.5%	484.5%	19	20	1.2%
PBT	79	87	94	110	111	41.3%	0.6%	254	370	45.6%
Tax	29	32	34	40	40	38.8%	0.9%	97	134	38.8%
Exceptional Item	-	-	-	-	-					
Net Profit	50	55	60	71	71	43%	0.5%	157	235	49.8%

Operating profit remained healthy backed by NIM expansion and cost control.

Profitability remained healthy, Margins continue to expand.

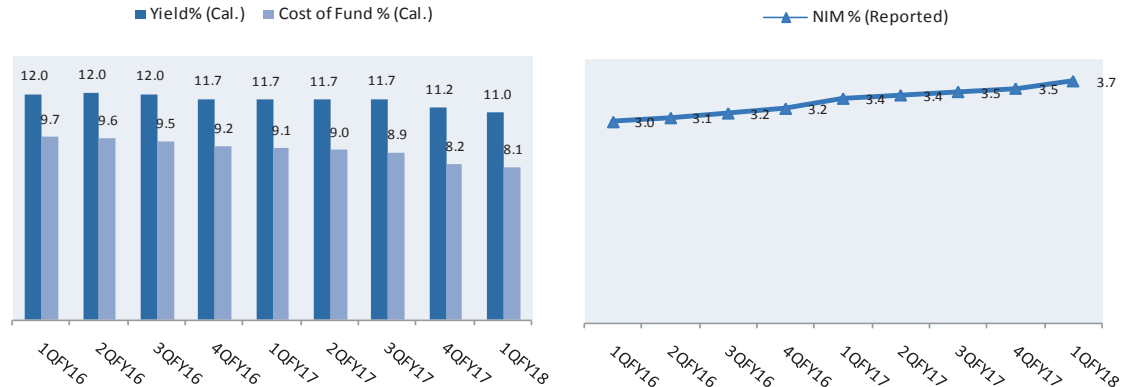
- ✓ NII grew strongly with 34% YoY but missed our estimate on the back of decelerated loan growth 23.5% YoY against average growth of 28%.
- ✓ Operating profit growth remained healthy at 37% YoY growth on the back of cost control. Opex grew by 11% YoY and cost to income ratio declined to 14.9% against 17.7% a year back. PAT grew by 43% YoY.
- ✓ Margins remained healthy and continued on the track of expansion. During the quarter NIM improved by 26 bps to 3.65%.
- ✓ NIM continued to be benefited from declining cost of fund which declined by 100 bps YoY. Shift in portfolio towards self employed segment has also helped the NIM to some extent.
- ✓ Cost of fund was benefited from continuous increase in share of market borrowing. Re-pricing of bank borrowing due to MCLR has also helped to reduce bank cost funding.
- ✓ We expect the cost of fund to continue to decline further due to declining interest rate scenario, however due CANFINHOME has recently passed the benefit to its customer by 30 to 40 bps in new home loan which not result in significant margin expansion going forward.

Profitability Metrix	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	17.8	17.5	16.3	17.4	14.9	-2.9	-2.5	19.6	17.0	-2.63
Empl. Cost/ Tot. Exp. %	51.5	50.3	53.8	41.1	51.1	-0.4	10.0	49.5	48.9	-0.54
Other Exp/Tot. Exp.%	44.4	44.7	41.5	54.2	45.7	1.3	-8.5	50.5	51.1	0.54
Provision/PPP %	6.5	6.4	6.0	0.6	3.6	-2.9	3.0	7.1	5.0	-2.06
Tax Rate %	36.6	36.9	36.5	35.9	35.9	-0.7	0.1	38.1	36.3	-1.78
Int Exp./Int Inc. (%)	69.3	68.5	67.6	65.6	65.4	-3.9	-0.2	71.2	67.7	-3.48
Other Income/NII %	11.4	12.0	8.1	13.2	9.9	-1.5	-3.3	13.0	11.2	-1.81
PPP/ Net Income %	82.2	82.5	83.7	82.6	85.1	2.9	2.5	80.4	83.0	2.63
PAT/ Net Income %	48.7	48.7	50.0	52.7	52.5	3.8	-0.1	46.2	50.2	3.97
NII Growth % (YoY)	43.6	42.3	39.7	37.1	34.2	-9.4	-2.9	69.5	40.2	-29.29
PPP Growth YoY %	55.3	46.8	33.7	37.5	37.0	-18.3	-0.5	80.3	42.5	-37.87
PAT Growth % YoY	55.4	55.6	41.3	49.4	42.8	-12.6	-6.6	82.5	49.8	-32.71

NIM continue to improve on the back of declining cost of funds.

Margin Performance

Margin %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
Avg Yield (Cal.)	11.7	11.7	11.7	11.2	11.0	-0.69	-0.25	11.1	10.9	-0.16
Avg Cost of Fund (Cal)	9.1	9.0	8.9	8.2	8.1	-1.00	-0.19	8.8	8.3	-0.54
Spread (Cal)	2.6	2.7	2.9	3.0	2.9	0.32	-0.06	2.2	2.6	0.38
NIM (Reported)	3.4	3.4	3.5	3.5	3.7	0.26	0.11	3.2	3.5	0.33



Demonetization and RERA impacted the growth.

- ✓ Disbursement growth moderated to 10% while sanction was flat YoY. Loan book growth declined to 24% YoY against level of 27%-29% pre-demonetization.
- ✓ Growth was mainly impacted after demonetization period and during the quarter implementation of RERA act slowed down the growth. Due to both events, customer has deferred their purchase on the hope of price correction in real estate prices.
- ✓ However most of the banks focusing on mortgage loan have intensified the competitions given in salaried segment, we believe CANFIN will also be impacted from this heightened competition in salaried segment and management will continue to resort to self employed segment for support the growth backed by affordable housing segment.
- ✓ However supply of affordable housing will be key area for such growth.
- ✓ The share of core housing loan portfolio is stable with 89% YoY and non-core portfolio at 11%. LAP is 6% of the portfolio. In the overall portfolio the share of non salaried customer has increased to 24% as on 1Q FY18 from 21% in 1Q FY17.
- ✓ Despite slowdown in portfolio in 1Q FY18, management is committed towards Rs 17000 Cr loan book in FY18.

Strategically expanding the network has helped the C/I to improve.

- ✓ During the quarter three new branches were opened and three satellite offices were converted into branches. Apart from these two more affordable housing loan centers were opened.
- ✓ Management plans to open six satellite office and five more branches during the remaining year.
- ✓ However even continuous expanding the network, C/I ratio has improved significantly as older branches have started to generate good business.

Spike in Non-Performing Assets.

GNPA ratio spiked during the quarter due to termination of dispensation benefit provided by RBI during the demonetization period.

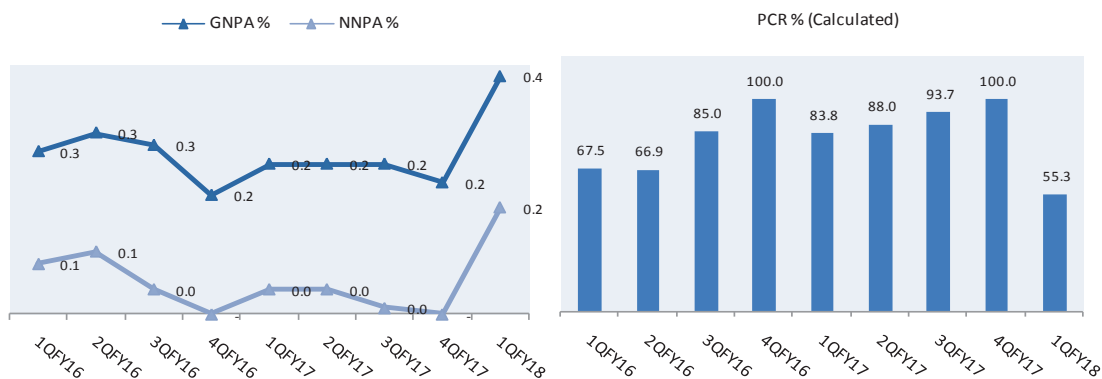
GNPA and NNPA ratio stood at 38 bps and 17 bps against 21 bps and nil in 4Q FY17 respectively.

PCR declined to 55% against 100% as management marginally provided on these spiked stressed assets because of being confident of recovery in these assets.

CANFIN still remains one of the best in industry in terms of assets quality.

Assets Quality

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs in Cr)	27.2	29.8	30.2	28.0	52.3	92.5%	86.8%	19.8	28.0	41.7%
GNPA %	0.2	0.2	0.2	0.2	0.4	0.14	0.17	0.2	0.2	0.02
NNPA (Rs in Cr)	4.4	3.6	1.9	0.0	23.4	430.4%	N/A	0.0	0.0	N/A
NNPA %	0.0	0.0	0.0	0.0	0.2	0.13	0.17	0.0	0.0	0.00
PCR % (reported)	83.8	88.0	93.7	100.0	55.3	-28.49	-44.72	100.0	100.0	0.00



Concall Highlights :

- ✓ NPA spiked due to end of moratorium period of accounts which deferred during demonetization period. However management is confident of recovery from 188 accounts amounting to Rs 30 Cr over the next 9 months.
- ✓ Under individual housing ticket size is Rs 18 Lakh and under non-housing it is Rs 9 Lakh.
- ✓ 95% of the sanctions are under the defined income range of affordable housing. In that up to INR 6 lakhs in the LIG segment constitutes around 53% and around 42% in the MIG segment.
- ✓ Demand is going to come from affordable housing segment but there are issues regarding the supply
- ✓ Disbursement was lower due to deferment of buying by the customer on the hope of drop in price of real estate.
- ✓ There are six more satellite offices and five more branches to be opened this year.
- ✓ Have approval to raise Rs 1000 Cr capital. Will raise through right issue somewhere during 3Q FY18.
- ✓ Management has reiterated the loan book of Rs 17000 Cr in FY18.

View and Valuation

CANFINHOME is one of the fastest growing HFCs in the industry. Loan book has registered growth of 39% CAGR over the last 5 years. Despite this robust growth, company has the best assets quality in industry.

However after demonetization and RERA implementation, growth has decelerated mainly on account of purchase deferment by customer on the hope of price correction in real estate. However this is temporary issue and we expect that with the focus on affordable housing segment, CANFIN will be able to achieve its historical growth trend.

Strong presence in south and strategically expanding the network with efficient management will help company to grow rapidly. We factor 27% CAGR loan book growth over FY17 to FY19.

On the capital front, CANFIN is adequately capitalized with CRAR at 19.17%, however Board has approved to raise capital to the extent of Rs 1000 Cr and management plans to raise it through right issue somewhere around 3rd quarter of FY18. Management is optimistic about the growth outlook going forward and hence planned to raise capital despite of adequate capital currently. Capital raise will boost the margins and book value significantly but it will depress the return ratios. However we have not factored capital raise plan in our estimates as we wait for confirmation.

We expect RoE and RoA of 27% and 2.1% in FY19. Due to rich valuation, we rate ACCUMULATE on the stock with target price of Rs 3145.

Performance in Charts and Graphs

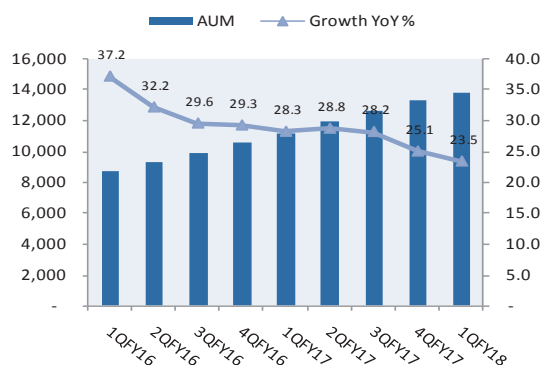
Business Analysis (Rs in Cr)

	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Sanctions	873	1,099	1,086	1,360	1,191	1,517	1,351	1,339	1,186
Growth YoY %	9.1	4.9	18.5	50.0	36.4	38.0	24.4	(1.5)	(0.4)
Disbursements	807	949	968	1,199	1,052	1,299	1,207	1,234	1,153
>> Growth YoY %	13.3	4.9	13.5	36.8	30.4	36.9	24.7	2.9	9.6
AUM	8,718	9,303	9,894	10,643	11,183	11,980	12,688	13,313	13,808
>> Growth YoY %	37.2	32.2	29.6	29.3	28.3	28.8	28.2	25.1	23.5
Borrowings	7,737	8,357	8,797	9,478	9,987	10,779	11,380	11,872	12,276
>> Growth YoY %	34.5	30.3	25.1	28.5	29.1	29.0	29.4	25.3	22.9

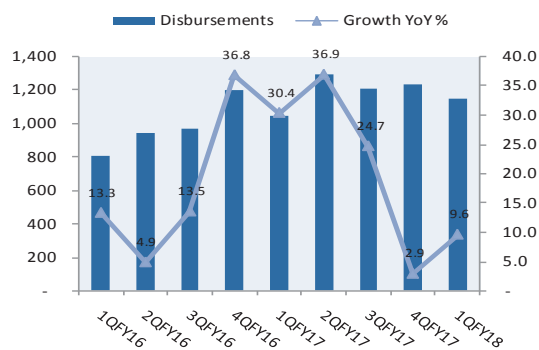
AUM Composition %

Individual Loan Port.	88.8	88.5	88.4	87.9	88.2	88.2	88.4	88.4	88.9
LAP	5.4	5.6	5.7	5.9	6.0	6.1	6.1	6.1	5.9
Project loan port.	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Others	5.4	5.6	5.7	5.9	5.6	5.5	5.4	5.4	5.1

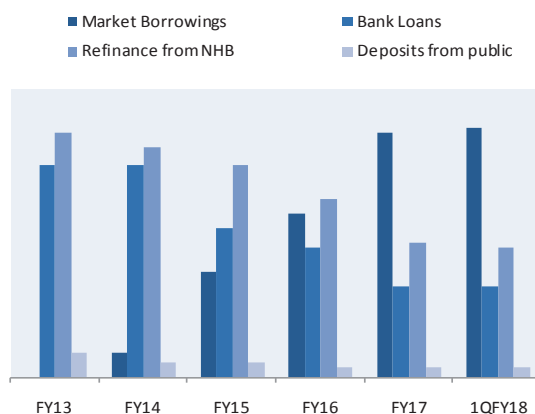
Healthy AUM growth trend



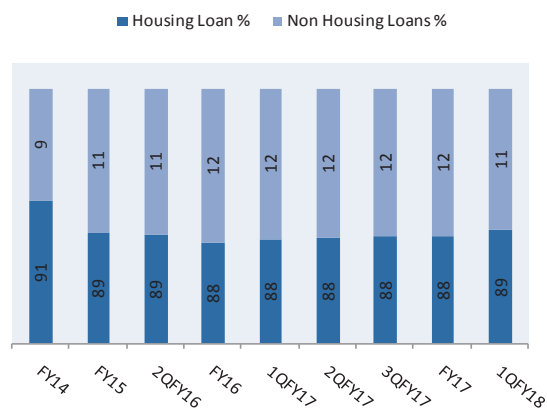
Disbursement impacted after Demon.



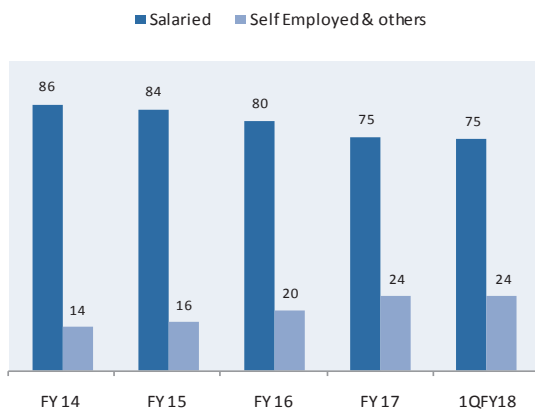
Borrowing shifted towards NCDs



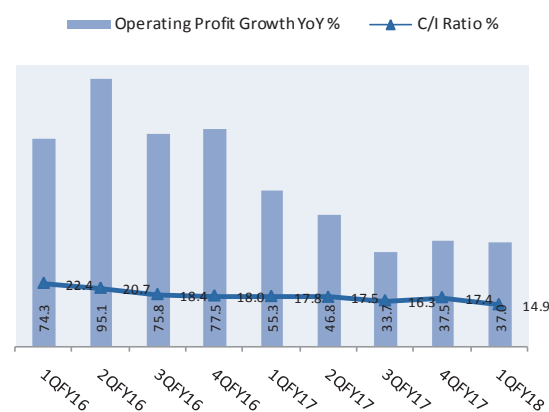
Stable Assets profile



Change in Customer Profile



Continuous improvement in C/I ratio.



Financials Snap Shot

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	27	27	27	27
>> <i>Equity Capital</i>	27	27	27	27
>> <i>Preference Capital</i>	-	-	-	-
Reserves & Surplus	851	1,050	1,295	1,648
Networth	878	1,076	1,321	1,675
<i>Change (%)</i>	13.8	22.6	22.8	26.7
Total Borrowing	9,478	11,872	14,977	19,179
<i>Change (%)</i>	28.5	25.3	26.2	28.1
Provisions	189	208	258	339
Other Liability	249	302	398	495
Total Liabilities	10,795	13,458	16,954	21,688
Assets Side				
Investments	15	16	17	17
Loans	10,643	13,313	16,774	21,471
<i>Change (%)</i>	29.3	25.1	26.0	28.0
Fixed Assets	9	10	12	15
Other Assets	110	99	124	159
Cash Balance	17	20	27	25
Total Assets	10,795	13,458	16,954	21,688

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Interest income	1,044	1,306	1,531	1,894
Interest expended	743	884	983	1,197
Net Interest Income	301	422	548	697
<i>Change (%)</i>	69.5	40.2	29.8	27.2
Other Income	39	47	56	73
<i>Change (%)</i>	33.4	20.7	19.5	30.2
Total Net Income	340	469	604	770
<i>Change (%)</i>	64	38	29	28
Operating Expenses	67	80	96	122
<i>Change (%)</i>	20.7	19.5	20.6	26.8
> Employee Expenses	33	39	47	61
<i>Change (%)</i>	33.3	18.2	21.7	28.1
> Other Expenses	34	41	49	61
Pre-provisioning Profit	273	389	508	648
<i>Change (%)</i>	80.3	42.5	30.5	27.7
Provisions	19	20	27	41
<i>Change (%)</i>	36.2	1.2	37.9	49.8
PBT	254	370	481	608
Tax	97	134	166	207
Profit After Tax	157	235	315	401
<i>Change (%)</i>	82.5	49.8	33.9	27.3
Adjusted PAT	157	235	315	401
<i>Change (%)</i>	82.5	49.8	33.9	27.3

Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Balance Sheet Metrics				
AUM	10,643	13,313	16,774	21,471
> Off-Book AUM	-	-	-	-
AUM Growth (%)	29.3	25.1	26.0	28.0
Borrowing Growth (%)	28.5	25.3	26.2	28.1
Loan/Borrowing Ratio	1.1	1.1	1.1	1.1
Disbursement (Rs Cr)	3,923	4,792	5,968	7,754
<i>Disbursement Growth (%)</i>	19.6	22.2	24.5	29.9
CRAR (%)	20.7	18.5	17.9	17.5
>> Tier 1 (%)	17.6	16.0	15.8	15.6
>> Tier 2 (%)	3.1	2.5	2.1	1.9
Debt/Equity (x)	10.8	11.0	11.3	11.5

Assets Quality Metrics

Gross NPA (Rs)	20	28	42	60
Gross NPA (%)	0.19	0.21	0.25	0.28
Net NPA (Rs)	-	-	-	-
Net NPA (%)	-	-	-	-
Specific Prov. Coverage (%)	100.0	100.0	100.0	100.0
Prov. Exp/Average Loan (%)	0.2	0.2	0.2	0.2

Margin Metrics

Yield On Advances (%)	11.1	10.9	10.2	9.9
Cost Of Funds (%)	8.8	8.3	7.3	7.0
Spread (%)	2.2	2.6	2.9	2.9
NIM (%)	3.2	3.5	3.6	3.6

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	71.2	67.7	64.2	63.2
Other Income/NII (%)	13.0	11.2	10.3	10.5
Op. Profit/ Net Income (%)	80.4	83.0	84.1	84.2
Net Profit/Net Income (%)	46.2	50.2	52.2	52.1
Cost to Income (%)	19.6	17.0	15.9	15.8
Employee Exp/ Net Income (%)	9.7	8.3	7.9	7.9
Cost on Average Assets (%)	0.7	0.7	0.6	0.6
Provisions/PPP (%)	7.1	5.0	5.3	6.3
Tax Rate (%)	38.1	36.3	34.5	34.0

Valuation Ratio Metrics

EPS (Rs)	59.0	88.4	118.4	150.7
<i>Change (%)</i>	82.5	49.8	33.9	27.3
ROAE (%)	19.0	24.1	26.3	26.8
ROAA (%)	1.6	1.9	2.1	2.1
Dividend Payout (%)	20.4	13.6	12.2	11.9
Dividend yield (%)	1.2	0.6	0.4	0.5
DPS	10.0	10.0	12.0	15.0
Book Value (Rs)	330	404	496	629
<i>Change (%)</i>	107.3	22.6	22.8	26.7
P/B (X)	3.5	5.2	5.6	4.4
P/E (X)	19.6	23.9	23.5	18.5