

CAN FIN HOMES LTD.

BUY

25-Oct-17

INDUSTRY - HFC
BLOOMBERG - CANF IN
BSE Code - 511196
NSE Code - CANFINHOME
NIFTY - 10207

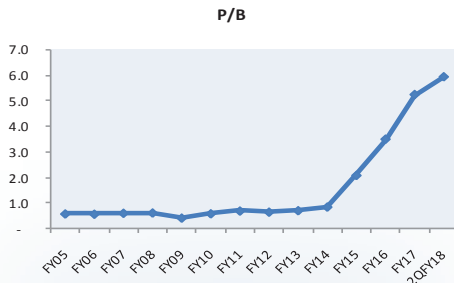
Company Data

CMP	539
Target Price	628
Previous Target Price	628
Upside	17%
Change from Previous	0%
52wk Range H/L	666/250
Mkt Capital (Rs Cr)	7173
Av. Volume (,000)	62

Share Holding Pattern %

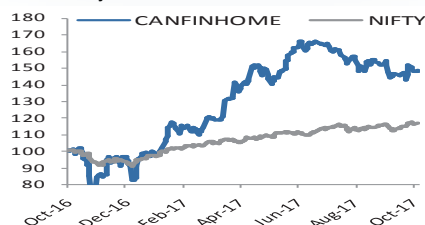
	2QFY18	1QFY18	4QFY17
Promoters	30.7	30.7	30.6
DII	2.3	1.6	0.8
FII	0.1	0.2	0.4
Others	66.9	67.6	68.2

Sharp rise in P/B of CANFINHOME



Stock Performance %

	1Mn	1Yr	YTD
Absolute	4.2	46.0	47.5
Rel.to Nifty	0.9	28.1	29.7


SWETA PADHI

shwetapadhi.ew@narnolia.com

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.
- ✓ **We recommend BUY with our previous target price of Rs 628 (5x BVPS FY19).**

Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
NII	178	301	422	538	680
PPP	152	273	389	508	642
PAT	86	157	235	316	397
NIM %	2.5	3.2	3.5	3.6	3.6
EPS (Rs)	6	12	18	24	30
EPS growth (%)	14.0	82.5	49.8	34.3	25.7
ROE (%)	14	19	24	26	27
ROA (%)	1.2	1.6	1.9	2.1	2.1
BV	290	330	404	99	126
P/B (X)	2.1	3.5	5.2	5.4	4.3
P/E (x)	18.7	19.6	23.9	22.7	18.1

Recent Development : Key Highlights of Result Update

- ✓ Disbursement growth moderated to 9.3% while sanction has increased by 4 bps YoY. Loan book growth declined to 20% YoY against level of 27%-29% pre-demonetization.
- ✓ Despite slowdown in portfolio in 2Q 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 20 bps to 3.64%.
- ✓ NII grew at a healthy rate of 27% YoY and PAT registered growth of 36% YoY on the back of margin expansion and cost control.
- ✓ Board has performed a stock split in 3Q FY1918 ,in the ratio of 10:2.

Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	320	341	346	357	369	15.3%	3.5%	1,044	1,306	25.1%
Interest Exp.	219	230	227	233	241	10.0%	3.4%	743	884	19.0%
NII	101	110	119	123	128	26.8%	3.8%	301	422	40.2%
Other Income	12	9	16	12	15	20.4%	19.6%	39	47	20.7%
Total Income	113	119	135	136	143	26.1%	5.2%	341	470	38.0%
Ope Exp.	20	19	23	20	20	3.2%	1.2%	67	80	19.5%
PPP	93	100	111	115	122	31.0%	5.9%	273	389	42.5%
Provisions	6	6	1	4	8	32.7%	91.8%	19	20	1.2%
PBT	87	94	110	111	114	30.9%	2.7%	254	370	45.6%
Tax	32	34	40	40	39	21.7%	-1.9%	97	134	38.8%
Exceptional Item	-	-	-	-	-					
Net Profit	55	60	71	71	75	36%	5.3%	157	235	49.8%

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

Profitability remained healthy, Margins continue to expand.

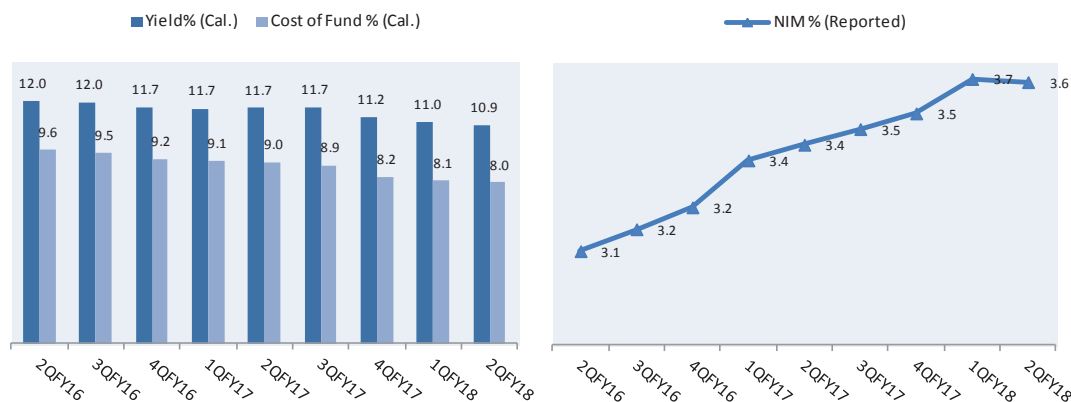
- ✓ NII grew strongly with 26.8% YoY but missed our estimate on the back of decelerated loan growth 20.7% YoY against average growth of 23%.
- ✓ Operating profit growth remained healthy at 31% YoY growth on the back of cost control. Opex grew by 3.2% YoY and cost to income ratio declined to 14.33% against 17.51% a year back. PAT grew by 36.2% YoY.
- ✓ Margins remained healthy and continued on the track of expansion. During the quarter NIM improved by 20 bps to 3.64%.
- ✓ 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.
- ✓ Scope of improvement in cost to income ratio is there will the increasing efficiency of new units.
- ✓ We expect the cost of fund to continue to decline further due to declining interest rate scenario, however CANFINHOME has recently passed the benefit to its customer by 30 to 40 bps in new home loan which will not result in significant margin expansion going forward.

Profitability Metrix	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	17.5	16.3	17.4	14.9	14.3	-3.2	-0.6	19.6	17.0	-2.63
Empl. Cost/ Tot. Exp. %	50.3	53.8	41.1	51.1	49.9	-0.4	-1.2	49.5	48.9	-0.54
Other Exp/Tot. Exp.%	44.7	41.5	54.2	45.7	26.1	-18.6	-19.6	50.5	51.1	0.54
Provision/PPP %	6.4	6.0	0.6	3.6	6.5	0.1	2.9	7.1	5.0	-2.06
Tax Rate %	36.9	36.5	35.9	35.9	34.3	-2.6	-1.6	38.1	36.3	-1.78
Int Exp./Int Inc. (%)	68.5	67.6	65.6	65.4	65.3	-3.1	-0.1	71.2	67.7	-3.48
Other Income/NII %	12.0	8.1	13.2	9.9	11.4	-0.6	1.5	13.0	11.2	-1.81
PPP/ Net Income %	82.5	83.7	82.6	85.1	85.7	3.2	0.6	80.4	83.0	2.63
PAT/ Net Income %	48.7	50.0	52.7	52.5	52.6	3.9	0.0	46.2	50.2	3.97
NII Growth % (YoY)	42.3	39.7	37.1	34.2	26.8	-15.5	-7.4	69.5	40.2	-29.29
PPP Growth YoY %	46.8	33.7	37.5	37.0	31.0	-15.8	-6.0	80.3	42.5	-37.87
PAT Growth % YoY	55.6	41.3	49.4	42.8	36.2	-19.4	-6.5	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 9.3% while sanction has increased by 4 bps YoY. Loan book growth declined to 20% 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 and also on the hope of getting rera certified property.
- ✓ 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. It is also looking for growth in newer segment apart from its key focus areas HIG and MIG-1.
- ✓ 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 22% in 2Q FY17.
- ✓ Despite slowdown in portfolio in 2Q FY18, management is committed towards Rs 17000 Cr loan book in FY18. Expects monumental growth in affordable segment once the RERA and Supply side constraints are addressed.
- ✓ Demand for states where RERA is implemented quickly has seen very good growth, going forward with festive season and RERA implementation a good growth is expected.

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

- ✓ Management has not planned any major expansion during the 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.

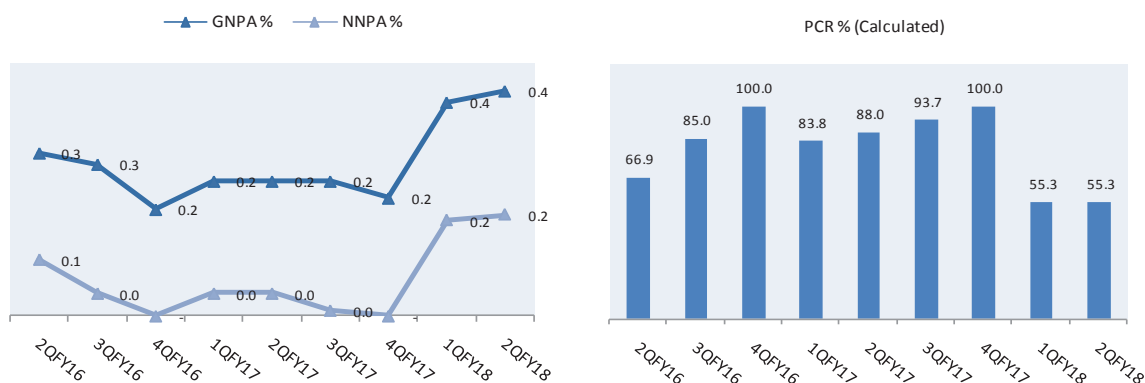
GNPA ratio spiked during the quarter due to termination of dispensation benefit provided by RBI during the demonetization period.

GNPA and NNPA ratio stood at 40 bps and 18 bps against 38 bps and 17 bps in 1Q FY18. PCR is stable at 55 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

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs in Cr)	29.8	30.2	28.0	52.3	58.0	94.3%	10.9%	19.8	28.0	41.7%
GNPA %	0.2	0.2	0.2	0.4	0.4	0.16	0.02	0.2	0.2	0.02
NNPA (Rs in Cr)	3.6	1.9	0.0	23.4	25.9	624.0%	N/A	0.0	0.0	N/A
NNPA %	0.0	0.0	0.0	0.2	0.2	0.14	0.01	0.0	0.0	0.00
PCR % (reported)	88.0	93.7	100.0	55.3	55.3	-32.71	0.02	100.0	100.0	0.00



Concall Highlights :

- ✓ NPA spiked due to end of moratorium period of accounts which deferred during demonetization period. Salaried segment is postponing buying because of the confusion relating to RERA, looking ahead the management is positive for loan growth pushed by affordable segment.
- ✓ Under individual housing ticket size is Rs 20-22 Lakh and average age is 40 years old.
- ✓ 80-85% customer are in S1 category ,10-15% are of S2 category and S3 category is very negligible, every year the borrower are reprofiled.
- ✓ 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.
- ✓ Tamil nadu primary sales were affected due to court cases ,now it has revived.
- ✓ 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.

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 has maintained its VISION 2020 of loan book at Rs 35000 Cr.

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 and expect earnings to grow by 19% CAGR during the same period.

Capital raise will boost the margins and book value significantly. However we have not factored capital raise plan in our estimates as we wait for confirmation.

We expect RoE of 27% and RoA of 2.1% in FY19. We maintain our previous target price of Rs 628 (5x BV FY19E) and recommend BUY.

Performance in Charts and Graphs

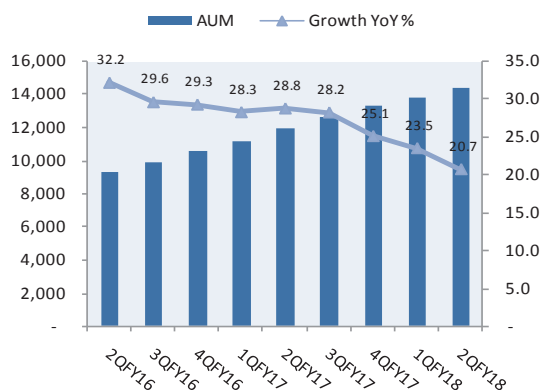
Business Analysis (Rs in Cr)

	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Sanctions	1,099	1,086	1,360	1,191	1,517	1,351	1,339	1,186	1,575
Growth YoY %	5	19	50	36	38	24	(2)	(0)	4
Disbursements	949	968	1,199	1,052	1,299	1,207	1,234	1,153	1,346
>> Growth YoY %	5	14	37	30	37	25	3	10	4
AUM	9,303	9,894	10,643	11,183	11,980	12,688	13,313	13,808	14,456
>> Growth YoY %	32	30	29	28	29	28	25	23	21
Borrowings	8,357	8,797	9,478	9,987	10,779	11,380	11,872	12,276	12,827
>> Growth YoY %	30	25	29	29	29	29	25	23	19

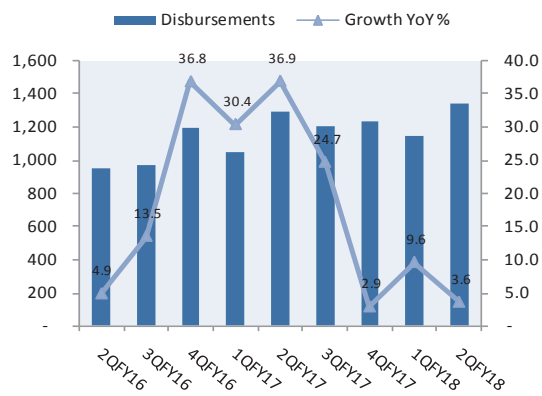
AUM Composition %

Individual Loan Port.	88.53	88.36	87.87	88.19	88.24	88.37	88.39	88.88	89.11
LAP	5.57	5.69	5.92	6.01	6.06	6.07	6.06	5.89	5.69
Project loan port.	0.28	0.29	0.27	0.24	0.19	0.16	0.13	0.10	0.05
Others	5.62	5.66	5.94	5.56	5.51	5.40	5.42	5.13	5.15

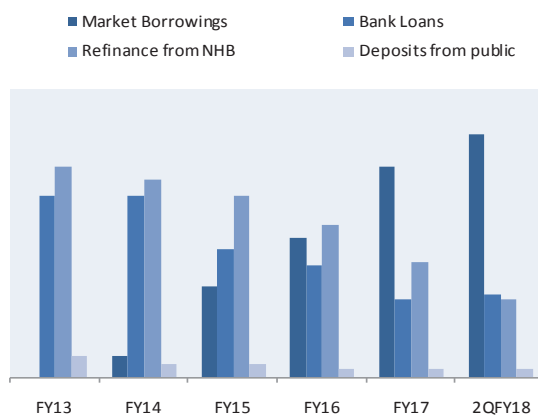
Healthy AUM growth trend



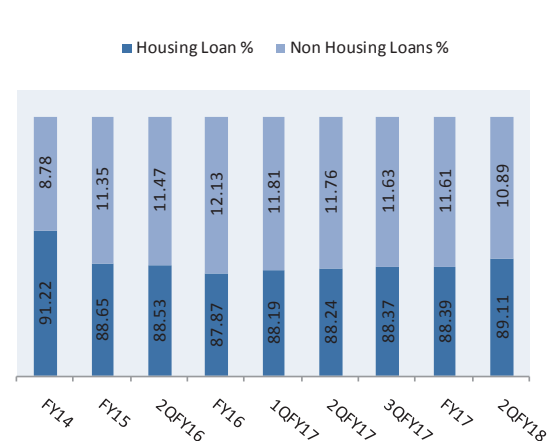
Disbursement impacted after Demon.



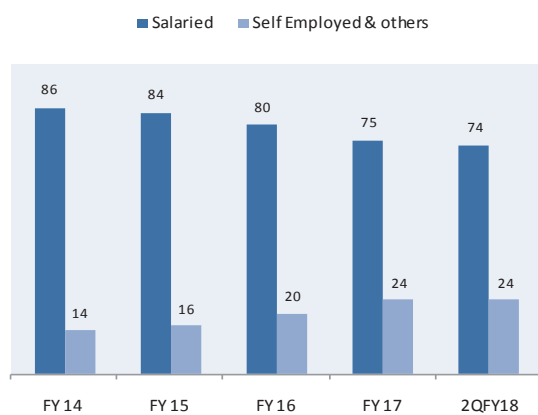
Borrowing shifted towards NCDs



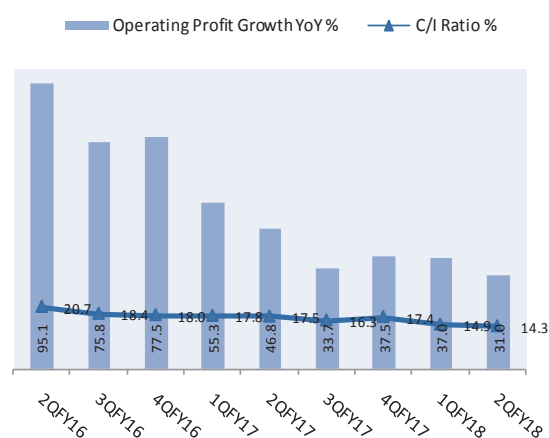
Stable Assets profile



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	1,296	1,645
Networth	878	1,076	1,322	1,672
<i>Change (%)</i>	13.8	22.6	22.8	26.4
Total Borrowing	9,478	11,872	14,858	19,027
<i>Change (%)</i>	28.5	25.3	25.2	28.1
Provisions	189	208	248	337
Other Liability	249	302	396	492
Total Liabilities	10,795	13,458	16,825	21,527
Assets Side				
Investments	15	16	25	32
Loans	10,643	13,313	16,641	21,301
<i>Change (%)</i>	29.3	25.1	25.0	28.0
Fixed Assets	9	10	12	15
Other Assets	110	99	123	158
Cash Balance	17	20	24	22
Total Assets	10,795	13,458	16,825	21,527

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Interest income	1,044	1,306	1,519	1,862
Interest expended	743	884	981	1,182
Net Interest Income	301	422	538	680
<i>Change (%)</i>	69.5	40.2	27.6	26.2
Other Income	39	47	56	77
<i>Change (%)</i>	33.4	20.7	18.5	37.9
Total Net Income	340	469	594	757
<i>Change (%)</i>	64	38	27	27
Operating Expenses	67	80	86	114
<i>Change (%)</i>	20.7	19.5	7.6	33.3
> Employee Expenses	33	39	44	56
<i>Change (%)</i>	33.3	18.2	13.4	26.9
> Other Expenses	34	41	42	58
Pre-provisioning Profit	273	389	508	642
<i>Change (%)</i>	80.3	42.5	30.6	26.3
Provisions	19	20	28	40
<i>Change (%)</i>	36.2	1.2	41.5	45.0
PBT	254	370	481	602
Tax	97	134	165	205
Profit After Tax	157	235	316	397
<i>Change (%)</i>	82.5	49.8	34.3	25.7
Adjusted PAT	157	235	316	397
<i>Change (%)</i>	82.5	49.8	34.3	25.7

Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Balance Sheet Metrics				
AUM	10,643	13,313	16,641	21,301
> Off-Book AUM	-	-	-	-
AUM Growth (%)	29.3	25.1	25.0	28.0
Borrowing Growth (%)	28.5	25.3	25.2	28.1
Loan/Borrowing Ratio	1.1	1.1	1.1	1.1
Disbursement (Rs Cr)	3,923	4,792	5,753	7,699
<i>Disbursement Growth (%)</i>	19.6	22.2	20.1	33.8
CRAR (%)	20.7	18.5	18.0	17.6
>> Tier 1 (%)	17.6	16.0	15.9	15.7
>> Tier 2 (%)	3.1	2.5	2.1	1.9
Debt/Equity (x)	10.8	11.0	11.2	11.4

Assets Quality Metrics

Gross NPA (Rs)	20	28	58	64
Gross NPA (%)	0.19	0.21	0.35	0.30
Net NPA (Rs)	-	-	12	-
Net NPA (%)	-	-	0.07	-
Specific Prov. Coverage (%)	100.0	100.0	80.0	100.0
Prov. Exp/Average Loan (%)	0.2	0.2	0.2	0.2

Margin Metrics

Yield On Advances (%)	11.1	10.9	10.1	9.8
Cost Of Funds (%)	8.8	8.3	7.3	7.0
Spread (%)	2.2	2.6	2.8	2.8
NIM (%)	3.2	3.5	3.6	3.6

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	71.2	67.7	64.6	63.5
Other Income/NII (%)	13.0	11.2	10.4	11.3
Op. Profit/ Net Income (%)	80.4	83.0	85.6	84.9
Net Profit/Net Income (%)	46.2	50.2	53.2	52.5
Cost to Income (%)	19.6	17.0	14.4	15.1
Employee Exp/ Net Income (%)	9.7	8.3	7.4	7.4
Cost on Average Assets (%)	0.7	0.7	0.6	0.6
Provisions/PPP (%)	7.1	5.0	5.5	6.3
Tax Rate (%)	38.1	36.3	34.2	34.0

Valuation Ratio Metrics

EPS (Rs)	11.8	17.7	23.7	29.8
<i>Change (%)</i>	82.5	49.8	34.3	25.7
ROAE (%)	19.0	24.1	26.4	26.5
ROAA (%)	1.6	1.9	2.1	2.1
Dividend Payout (%)	20.4	13.6	12.1	12.1
Dividend yield (%)	0.2	0.1	0.4	0.6
DPS	2.0	2.0	2.4	3.0
Book Value (Rs)	66	81	99	126
<i>Change (%)</i>	107.3	22.6	22.8	26.4
P/B (X)	3.5	5.2	5.4	4.3
P/E (X)	19.6	23.9	22.7	18.1