

Can Fin Home Ltd.

30-Jan-17

Result Update

| | |
|-----------------------|------|
| CMP | 1763 |
| Target Price | 2175 |
| Previous Target Price | 2175 |
| Upside | 23% |
| Change from Previous | |

Market Data

| | |
|---------------------|------------|
| BSE Code | 511196 |
| NSE Symbol | CANFINHOME |
| 52wk Range H/L | 1887/841 |
| Mkt Capital (Rs Cr) | 4693 |
| Av. Volume (,000) | 11 |
| Nifty | 8641 |

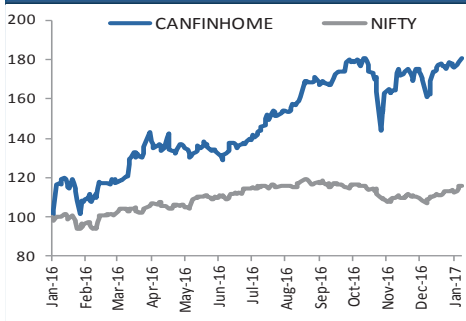
Stock Performance

| | 1Month | 1Year | YTD |
|--------------|--------|-------|-----|
| Absolute | 11.5 | 70.7 | 6.9 |
| Rel.to Nifty | 5.9 | 54.5 | 1.2 |

Share Holding Pattern-%

| | 3QFY17 | 2QFY17 | 1QFY17 |
|-----------|--------|--------|--------|
| Promoters | 44.1 | 43.5 | 43.5 |
| Public | 55.9 | 56.6 | 56.6 |
| Others | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 |

Company Vs NIFTY



DEEPAK KUMAR

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Strong growth momentum continues.

CANFINHOME once again posted a very strong set of result in 3Q FY17 as per our expectation, reflecting the very marginal impact of demonetization on demand side. NII grew by 40% YoY backed by healthy loan growth. Operating expenses grew by 15% reflecting the strong control on C/I ratio which improved to 16.25% as against 18.44% of corresponding quarter previous year. Supported by strong NII growth and stringent control on C/I ratio helped the operating profit to grow by 34% YoY. Provisions on NPA and standard assets declined by 14% YoY. Overall PAT grew by a healthy rate of 41% YoY.

Loan book growth momentum continued with the healthy rate of 28% YoY. Assets quality remains intact.

Commenting on demonetization management said that the impact was low despite the slowdown in the month of November in terms of sanctions and disbursement.

Healthy Loan Book Growth

The loan portfolio of CANFINHOME grew by 28% YoY to Rs 12688 Cr backed by healthy growth in both core and non-core housing loan portfolio. The disbursement grew by 25% and sanction grew by 24% YoY. However disbursement declined by 7% QoQ, as management highlighted it was the impact of demonetization.

The share of core housing loan portfolio is stable with 88% YoY and non-core portfolio at 12%. LAP is 6% of the portfolio. In the overall portfolio the share of non salaried customer has increased to 23% as on 3Q FY17 from 18% in 3Q FY16. Management is confident of achieving 27% YoY loan growth to achieve Rs 13500 Cr mark.

Assets Quality Remains Intact

The assets quality of CANFINHOME remains the best in the industry with GNPA at 24 bps, flat QoQ and improvement of 3 bps YoY. With the strong provision coverage NNPA stands at only 1bps against 4 bps QoQ. Sequentially PCR increased to 94% against 88%. Management highlighted that the slippage for the 9 months were lower as compared it with 9 months of FY16. Going forward we expect the assets quality of CANFINHOME to remain stable due to low exposure in LAP profile (6% LAP with lower ticket size and low LTV). However shift in customer profile from salaried to self employed remains under our key watch.

CANFINHOME

NIM Improves

NIM of CANFINHOME increased by 32 bps to 3.49% backed by declining cost of fund. Calculated cost of fund declined by 58 bps YoY whereas yield on loan portfolio declined by 19 bps YoY. The change in both borrowing profile as well as lending profile has helped the CANFINHOME to continuously report the improvement in NIM.

The change in borrowing mix with more inclined towards NCD/CP and reducing bank borrowing has helped cost of fund to decline. The bank borrowing now constitutes 20% of the borrowing against 44% in FY14. Contribution from NCD/CP has increased to 48% on 3Q FY17 from 5% in FY14.

On lending side gradual shift of customer profile towards self employed segment (14% in FY14 to 23% in 3Q FY17) from salaried segment and increase in LAP portfolio to 6% from 4% in FY14 has helped the Yield to stabilize.

Stringent control on C/I Ratio.

The operating expenses grew by 15% YoY signifying the strong control on Cost to income ratio which improves to 16.3% against 18.4% a year back and 17.5% a quarter back. Employee expenses grew by 24% YoY whereas other expenses grew by 7% YoY. The total network (branch+statellite offices) remained flat at 170 QoQ. Going forward we expect the C/I ratio in the range of 15.6% in FY19.

Quarterly Performance

(Rs in Crore)

| Financials | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY % | QoQ% |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|------|
| Interest Inc. | 208 | 220 | 237 | 254 | 270 | 283 | 299 | 320 | 341 | 26% | 6% |
| Interest Exp. | 160 | 168 | 173 | 183 | 191 | 197 | 207 | 219 | 230 | 21% | 5% |
| NII | 48 | 52 | 64 | 71 | 79 | 87 | 92 | 101 | 110 | 40% | 9% |
| Other Income | 8 | 7 | 6 | 9 | 13 | 12 | 10 | 12 | 9 | -29% | -26% |
| Total Income | 55 | 59 | 70 | 80 | 92 | 99 | 102 | 113 | 119 | 30% | 5% |
| Ope Exp. | 13 | 14 | 16 | 17 | 17 | 18 | 18 | 20 | 19 | 15% | -2% |
| PPP | 42 | 46 | 54 | 64 | 75 | 81 | 84 | 93 | 100 | 34% | 7% |
| Provisions | 3 | 6 | 4 | 8 | 7 | 1 | 6 | 6 | 6 | -14% | 0% |
| PBT | 40 | 39 | 51 | 56 | 68 | 79 | 79 | 87 | 94 | 39% | 8% |
| Tax | 14 | 16 | 19 | 21 | 26 | 32 | 29 | 32 | 34 | 34% | 6% |
| Net Profit | 26 | 23 | 32 | 35 | 42 | 47 | 50 | 55 | 60 | 41% | 8% |

Outlook & Valuation

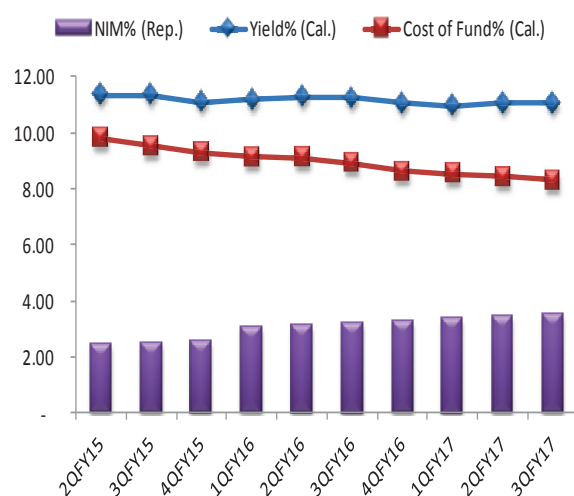
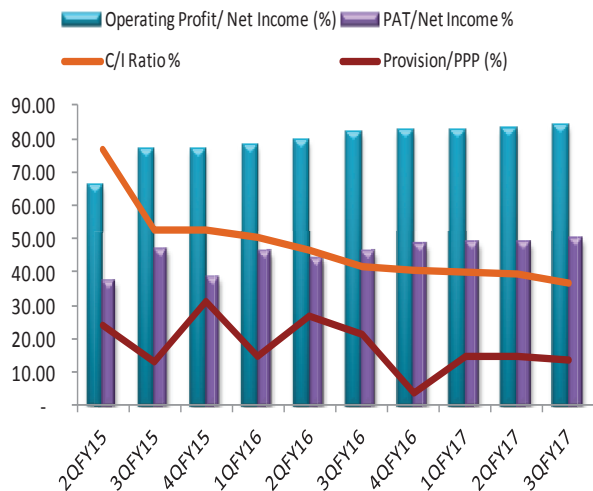
CANFINHOME is one of the fastest growing HFCs in the industry. The loan book has registered the growth of 39% CAGR over the last 5 years. Despite this robust growth, the company has the best assets quality in the industry. We remain bullish on CANFINHOME as it has the ability to sustain the momentum of strong loan growth as the company has main focus on lower ticket size loan. Strong presence in south and strategically expanding the network with efficient management will help the company to grow rapidly. Various initiatives taken by the Government towards affordable housing will further boost the demand. With the strong CRAR of 18.8% we expect the loan book to grow at 27% CAGR till FY19 from FY16. Tight control on operating expenses and lower credit cost with stability in NIM we expect the PAT to grow at a CAGR of 33% in FY19 over FY16 value. We expect RoE (Avg.) of 26% in FY19 and maintain 'BUY' with the target price of Rs 2175.

Concall Highlights:

- >> Impact of demonetization on whole quarter was low despite the slowdown in the month of November in terms of sanctions and disbursement.
- >> Salaried class segment remains the priority area.
- >> 3/4th of the business comes from south region, 20% from NCR and rest from other parts of the country.
- >> Loan growth momentum will continue.
- >> Company reduced the home loan rate from 9.7% to 8.95% and in rural segment it reduced from 9.25% to 8.85%.
- >> To mark the 30th Anniversary of the company on Oct 2017, management has planned to convert the Satellite offices into full fledged branches going forward.
- >> LTV in housing segment is 70% and Average ticket size is Rs 18-20 Lakh.
- >> More than 50% of the portfolio is in affordable segment.
- >> Tier capital is 16.25%.
- >> 60% of the business is sourced through DSA.

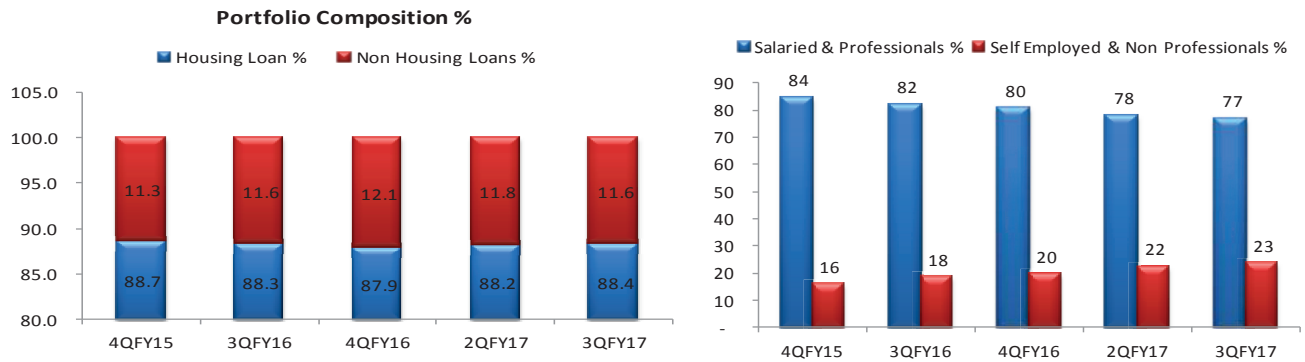
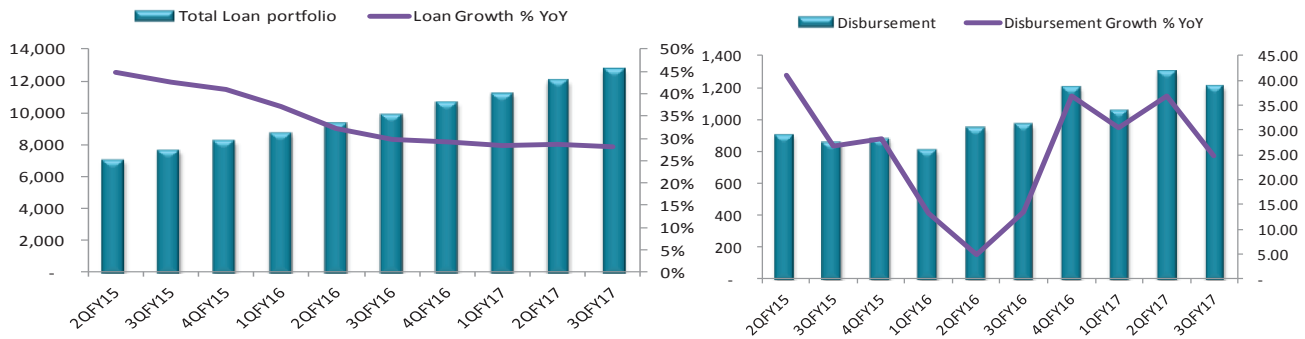
| Efficiency Ratio | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY(+/-) | QoQ(+/-) |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| C/I Ratio (%) | 23.4 | 23.4 | 22.4 | 20.7 | 18.4 | 18.0 | 17.8 | 17.5 | 16.3 | -2.18 | -1.26 |
| Empl. Exp/Oper Exp.(%) | 47.8 | 46.8 | 45.4 | 56.2 | 49.8 | 46.5 | 51.5 | 50.3 | 53.8 | 3.99 | 3.47 |
| Provision/PPP (%) | 5.9 | 13.7 | 6.5 | 11.8 | 9.4 | 1.7 | 6.5 | 6.4 | 6.0 | -3.37 | -0.43 |
| Tax Rate (%) | 35.1 | 41.8 | 36.7 | 36.9 | 37.7 | 40.3 | 36.6 | 36.9 | 36.5 | -1.16 | -0.40 |
| Op. Profit/ Net Income (%) | 76.6 | 76.6 | 77.6 | 79.3 | 81.6 | 82.0 | 82.2 | 82.5 | 83.7 | 2.18 | 1.26 |
| PAT/Net Income (%) | 46.8 | 38.5 | 46.0 | 44.2 | 46.1 | 48.1 | 48.7 | 48.7 | 50.0 | 3.91 | 1.28 |

| Margins | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY(+/-) | QoQ(+/-) |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Yield% (Cal.) | 11.33 | 11.09 | 11.17 | 11.29 | 11.24 | 11.04 | 10.97 | 11.06 | 11.05 | -0.19 | -0.01 |
| Cost of Fund% (Cal.) | 9.52 | 9.31 | 9.14 | 9.11 | 8.90 | 8.61 | 8.52 | 8.45 | 8.32 | -0.58 | -0.13 |
| Spread% (Cal.) | 1.81 | 1.78 | 2.03 | 2.18 | 2.34 | 2.43 | 2.45 | 2.61 | 2.73 | 0.39 | 0.12 |
| NIM% (Rep.) | 2.50 | 2.55 | 3.04 | 3.10 | 3.17 | 3.24 | 3.39 | 3.44 | 3.49 | 0.32 | 0.05 |

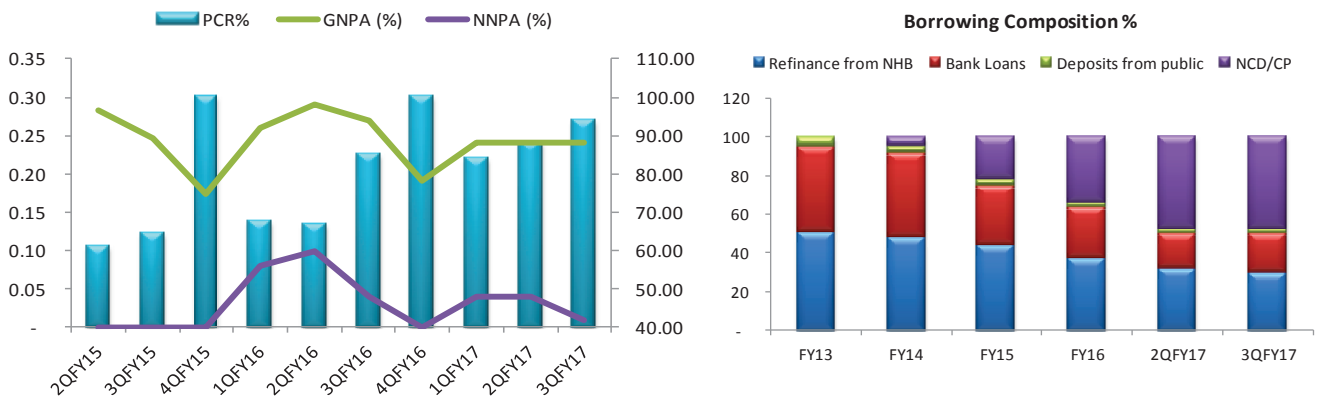


CANFINHOME

| Lending Book | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY(+/-) | QoQ(+/-) |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Loan Book | 7,634 | 8,231 | 8,717 | 9,303 | 9,895 | 10,643 | 11,183 | 11,980 | 12,688 | 28.2% | 5.9% |
| Disbursement | 853 | 876 | 807 | 949 | 968 | 1,199 | 1,052 | 1,299 | 1,207 | 24.7% | -7.1% |
| Sanction | 916 | 906 | 873 | 1,099 | 1,086 | 1,360 | 1,191 | 1,517 | 1,351 | 24.4% | -10.9% |



| Assets Quality | 3QFY15 | 4QFY15 | 1QFY16 | 2QFY16 | 3QFY16 | 4QFY16 | 1QFY17 | 2QFY17 | 3QFY17 | YoY % | QoQ% |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA (Rs) | 19 | 14 | 23 | 27 | 26 | 20 | 27 | 30 | 30 | 14.7% | 1.0% |
| NNPA (Rs) | 7 | - | 7 | 9 | 4 | - | 4 | 4 | 2 | -52.0% | -47.2% |
| GNPA (%) | 0.25 | 0.17 | 0.26 | 0.29 | 0.27 | 0.19 | 0.24 | 0.24 | 0.24 | -0.03 | 0.00 |
| NNPA (%) | - | - | 0.08 | 0.10 | 0.04 | - | 0.04 | 0.04 | 0.01 | -0.03 | -0.03 |
| PCR (%) | 64 | 100 | 67 | 67 | 85 | 100 | 84 | 88 | 94 | 8.72 | 5.73 |



Financials Snap Shot

INCOME STATEMENT

(Rs in Crore)

| | FY15 | FY16 | FY17E | FY18E | FY19E |
|--------------------------------|------------|------------|------------|------------|------------|
| Interest Income | 788 | 1,044 | 1,317 | 1,643 | 2,043 |
| Interest Expenses | 610 | 743 | 898 | 1,103 | 1,368 |
| Net Interest Income | 178 | 301 | 420 | 540 | 675 |
| Fee Income | 29 | 38 | 42 | 52 | 65 |
| Income from Invest. | 1 | 1 | 1 | 1 | 1 |
| Net Income | 207 | 340 | 463 | 593 | 741 |
| Empl. Benefits Expense | 25 | 33 | 41 | 49 | 60 |
| Commission&Brokerage | 8 | 8 | 9 | 10 | 11 |
| Depreciation | 4 | 3 | 4 | 4 | 4 |
| Other Expenses | 18 | 22 | 25 | 31 | 41 |
| Operating Expenses | 55 | 67 | 78 | 94 | 116 |
| Pre Provisioning Profit | 152 | 273 | 385 | 498 | 626 |
| Net Provisions | 14 | 19 | 24 | 30 | 37 |
| PROFIT BEFORE TAX | 137 | 254 | 361 | 469 | 588 |
| TOTAL TAX | 51 | 97 | 132 | 171 | 215 |
| PROFIT AFTER TAX | 86 | 157 | 229 | 298 | 373 |

RATIOS

| Profitability Metrix (%) | FY15 | FY16 | FY17E | FY18E | FY19E |
|------------------------------|-------------|-------------|-------------|--------------|--------------|
| Int. Exp/Int.Earned (%) | 77.5 | 71.2 | 68.1 | 67.1 | 67.0 |
| Op. Profit/ Net Inc. (%) | 73.3 | 80.4 | 83.1 | 84.1 | 84.4 |
| PAT/Net Income (%) | 41.6 | 46.2 | 49.4 | 50.2 | 50.4 |
| ROAA % | 1.2 | 1.7 | 1.9 | 1.9 | 1.9 |
| ROAE % | 14.1 | 19.0 | 23.6 | 25.2 | 25.8 |
| EPS (Rs) | 32.3 | 59.0 | 85.9 | 111.8 | 140.3 |
| Op. Cost Metrix (%) | | | | | |
| Cost to Inc. (%) | 26.7 | 19.6 | 16.9 | 15.9 | 15.6 |
| Empl./Ope. Expense % | 44.8 | 49.5 | 52.0 | 52.1 | 51.9 |
| Comm./Ope. Exp % | 13.7 | 12.0 | 11.5 | 10.6 | 9.5 |
| Other Exp./Ope. Exp % | 32.5 | 33.4 | 32.0 | 33.4 | 35.4 |
| Tax % | 37.3 | 38.1 | 36.6 | 36.5 | 36.5 |
| Growth Ratio YOY (%) | | | | | |
| NII Gr. YoY % | 32.2 | 69.5 | 39.4 | 28.7 | 25.0 |
| Net Income Gr. YoY % | 33.2 | 64.4 | 36.1 | 28.0 | 25.1 |
| Op. Expense Gr. YoY% | 25.9 | 20.7 | 16.9 | 20.9 | 22.5 |
| Op. Profit Gr. YoY % | 36.1 | 80.3 | 40.8 | 29.5 | 25.6 |
| PAT Gt. YoY % | 13.7 | 82.5 | 45.6 | 30.1 | 25.5 |
| Spread Analysis (%) | | | | | |
| Yield on Avg. Loan % | 11.2 | 11.2 | 11.0 | 10.8 | 10.6 |
| Cost Of Borrowing % | 9.9 | 8.9 | 8.4 | 8.1 | 7.9 |
| Spread % | 1.4 | 2.2 | 2.6 | 2.7 | 2.7 |
| NIM % | 2.5 | 3.2 | 3.5 | 3.6 | 3.5 |
| Asset-Quality Profile | | | | | |
| Gross NPAs (Rs cr) | 14 | 20 | 25 | 30 | 35 |
| Net NPAs (Rs cr) | - | - | - | - | - |
| Gross NPAs % | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Net NPAs % | - | - | - | - | - |
| PCR %(Incl. Others) | 100 | 100 | 100 | 100 | 100 |
| BS Ratio % | | | | | |
| Loans/Borrowings (X) | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Debt/Equity (x) | 9.6 | 10.8 | 11.4 | 11.8 | 12.1 |
| CRAR | 18.4 | 20.7 | 18.8 | 18.4 | 18.0 |
| <i>Tier I</i> | 15.6 | 17.6 | 16.2 | 15.6 | 15.0 |
| <i>Tier II</i> | 2.8 | 3.1 | 2.6 | 2.8 | 3.0 |

BALANCE SHEET

(Rs in Crore)

| | FY15 | FY16 | FY17E | FY18E | FY19E |
|---------------------------|--------------|---------------|---------------|---------------|---------------|
| LIABILITY | | | | | |
| Share Capital | 27 | 27 | 27 | 27 | 27 |
| Reserves and surplus | 745 | 851 | 1,034 | 1,272 | 1,571 |
| Shareholders' Fund | 771 | 878 | 1,061 | 1,299 | 1,598 |
| Total Borrowing | 7,375 | 9,478 | 12,079 | 15,382 | 19,407 |
| Provisions | 124 | 189 | 241 | 307 | 388 |
| Other Liability | 64 | 249 | 318 | 404 | 510 |
| Total LIABILITY | 8,334 | 10,795 | 13,699 | 17,393 | 21,903 |
| ASSETS | | | | | |
| Investments | 15 | 15 | 16 | 16 | 17 |
| Advances | 8,231 | 10,643 | 13,517 | 17,166 | 21,629 |
| Fixed Assets | 9 | 9 | 10 | 11 | 12 |
| Other Assets | 71 | 110 | 140 | 178 | 224 |
| Cash Balance | 8 | 17 | 17 | 21 | 20 |
| Total ASSETS | 8,334 | 10,795 | 13,699 | 17,393 | 21,903 |