

Industry
Bloomberg
BSE CODE

Financial
IIB IN
511196

Steady Performance amid concerns over the whole industry.

RATING	BUY
CMP	417
Price Target	495
Potential Upside	19%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	433/229
Mkt Capital (Rs Cr)	5,551
Free float (%)	70%
Avg. Vol 1M (,000)	327
No. of Shares (Crs)	13
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	530	641	761
PPP	471	573	689
PAT	297	401	498
NIM %	3.1	3.2	3.2
EPS (Rs)	22	30	37
EPS growth (%)	-2	35	24
ROE (%)	18	20	21
ROA (%)	1.7	2.0	2.1
BV	134	162	197
P/B (X)	3.1	2.6	2.1
P/E (x)	19	14	11

RESEARCH ANALYST

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2QFY20 Result Update

- NII increased by 19%/5% YoY/QoQ. PAT grew at 27%/20% YoY/QoQ. NIM increased by 3 bps from 3.18% to 3.21% QoQ.
- C/I ratio increased to 15.44% QoQ from 15% due to increase in OPEX. Management targets to open 20 branches by the year end.
- AUM grew by 15.7%/3.2% YoY/QoQ, while disbursement de-grew by 8% on YoY basis and sanctions also de-grew by 6% YoY.
- GNPA increased from 0.73% to 0.79% sequentially while Net NPA increased from 0.52% to 0.58%.

Healthy NII growth along with NIM improvement

NII increased by 19%/5% YoY/QoQ mainly driven by growth in AUM. NIM reported improvement of 3 bps from 3.18% to 3.21% QoQ in 2QFY20. Yield increased by 24/1 bps YoY/QoQ to 10.23% in 2QFY20. Cost also increased by 12/2bps to 7.95% in 2QFY20. NIM and other income increase will be major area of focus along with liability position and ALM management. Margins and Spread are expected to be improving going ahead.

Slow growth

AUM grew by 16% YoY. Individual loan portfolio grew by 16%. Loan book comprises of 90.2% housing and 10% Non- housing loans. Share of salaried customer to overall loan book remains at 73% while rest is towards self-employed segment. In Q2FY20 loan approval for salaried and professional stood at 71% while 29% for SEMP segment. Disbursement degrew by 7% YoY and sanctions also de grew at 6% YoY. Management expects loan book to cross Rs 23000 Cr by end of FY2020.

Asset Quality Deteriorate

Asset quality deteriorated in 2QFY20 as GNPA increased from 0.73% to 0.79% sequentially while Net NPA increased from 0.52% to 0.58%. PCR declined from 30% to 27% QoQ. Net slippage during the quarter: Rs.25.80 Cr (Rs 39.80 during Q1 FY 18-19). Action has been initiated under SARFAESI in 746 accounts amounting to Rs.114.84 Cr. Possession of securities taken (Symbolic/Physical) in respect of 469 accounts amounting to Rs.75.35Crore. The NPA trend going ahead is expected to be declining.

View and Valuation

Growth continued to remain moderated amid the concerns over HFCs. However CANFIN is well placed given the demand in lower ticket size segment. Improvement in demand and easiness in credit squeeze in HFCs will improve the AUM take off. Improvement in KARNATAKA region will further aid the growth. Decline in cost will support the margin to expand. Due to pressure in economy and slowdown in SME segment, assets quality continues to saw some blip in the self-employed segment. However we don't see any major impact on assets quality due to pressure in real estate segment as CANFIN's book is mainly towards retail segment. Promoter CANARA Bank is in talks to sale its stake which can have bearing on its share price. We maintain our estimates and earlier target price of Rs 495 at 2.5x BV FY21e and maintain BUY.

Key Risks to our rating and target

- Change in Promoter will impact the credit rating depending on integrity
- Pressure on real estate and HFC will impact the growth and assets quality

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2QFY20 Results

In-line with expectation

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	414	438	451	477	494	19.3%	3.5%	1,491	1,700	14.0%
Interest Exp.	284	302	314	329	338	19.3%	2.8%	981	1,169	19.2%
NII	130	136	138	148	156	19.3%	5.2%	510	530	4.1%
Other Income	9	12	12	7	7	-25.0%	-3.6%	31	32	1.3%
Total Income	139	148	150	155	162	16.5%	4.8%	545	567	4.0%
Ope Exp.	18	22	33	23	25	41.9%	7.9%	88	92	4.4%
PPP	122	126	118	132	137	12.8%	4.2%	453	471	3.8%
Provisions	-	-	1	9	6		-27.5%	22	1	-95.1%
PBT	122	126	116	123	131	7.6%	6.5%	431	470	8.9%
Tax	45	46	49	42	33	-26%	-20.6%	145	173	19.2%
Net Profit	77	80	67	81	98	27.0%	20.5%	286	297	4%

Concall Highlights

- NIM and other income increase will be major area of focus along with liability position and ALM management. Margins and Spread are expected to be improving going ahead.
- OPEX increased by 42%/8% YoY/QoQ due to increase in CSR spends as the company does CSR spends in H2 but this time they did in H1 itself and manpower spends, the reason being addition of manpower and increase in salaries.
- Lowest lending rate stood at 8.5-8.6% for the company.
- There are some challenges from supply side in developer segment in the industry in recent time but company does not see any major impact.
- Tier II, Tier III and Tier IV cities will continue to be focus area for the company due to less competition faced and pricing power.
- GNPA has been higher in 2QFY20 QoQ, the reason being Semp group. Has been initiated under SARFAESI in 800 cases, the company repossessed Rs 26 Cr of properties in 2QFY20 60-70% of which are likely to be materialised in 3QFY20. The NPA trend going ahead is expected to be declining.
- Capital adequacy Ratio declined from 19.59% to 18.52% QoQ in 2QFY20, the reason being the loans sanctioned but yet to be disbursed on which the company needs to give 50% risk coverage.
- Major area of focus for the company going ahead: The anticipated growth for the company stands at 11-12% whereas the company aspires to grow much more than industry growth.
- Asset quality will be another area of focus driven by Rs 17-18 Lakhs Ticket size, verified income segment and self occupied and partly let out properties as collateral.
- The company had not been focusing on deposits earlier but now it does.
- GNPL for Salaried group stood at 0.47% and for Semp: 1.57%. Stage II assets % stood at 2.67%. Size of assets here is Rs 17 Lakhs. PCR stands at 35% currently.
- The demand is expected to pick up in Karnataka with Hyderabad and AP market also growing. Will try to expand in Kerala as well over a period of time.
- Going ahead BT in will increase and BT out will go down.
- The company raised Rs 3260 Cr in 1HFY20 from bank and market. The company has Rs 2200 Cr of unutilised limits from Bank. Post September Company is holding sanctions of Rs 1400 Cr.
- Expects Raising of fresh equity up to Rs. 1000 Cr through Rights Issue/QIP / Pref Share going ahead.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	17.2	14.9	12.7	14.6	21.7	15.0	15.4	2.77	0.44
Empl. Cost/ Tot. Exp. %	51.8	53.0	34.2	39.3	50.2	54.3	49.0	14.81	-5.34
Other Exp/Tot. Exp.%	44.7	34.4	47.0	44.9	35.7	24.2	31.7	-15.37	7.48
Provision/PPP %	0.6	-	-	-	0.9	6.6	4.6	4.58	-2.00
Tax Rate %	36.2	34.1	36.8	36.4	34.0	34.1	25.4	-11.39	-8.67
Int Exp./Int Inc. (%)	66.2	68.1	68.5	68.9	69.5	69.0	68.5	0.00	-0.49
Other Inc./NII %	10.2	6.2	6.8	8.6	9.0	4.7	4.3	-2.52	-0.39
PPP/ Net Income %	82.8	85.1	87.3	85.4	78.3	85.0	84.6	-2.77	-0.44
PAT/ Net Income %	52.5	56.1	55.2	54.3	44.7	52.3	60.2	4.99	7.84
NII Growth % (YoY)	9.7	1.2	2.0	6.9	4.9	17.0	19.3	17.29	2.29
PPP Growth YoY %	7.1	1.1	4.3	6.8	4.5	16.8	12.8	8.48	-4.03
PAT Growth %	6.5	8.1	7.6	21.4	(9.4)	10.6	27.0	34.56	16.40

Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield Cal.	10.5	10.3	10.4	10.9	10.5	10.6	10.6	0.24	-0.02
Cost Of Funds Cal.	7.8	8.0	8.0	8.6	8.2	8.2	8.2	0.13	-0.06
NIM Reported.	3.4	3.3	3.2	3.2	3.1	3.2	3.2	0.04	0.03

Exhibit: Yield and Cost

Increase in yield

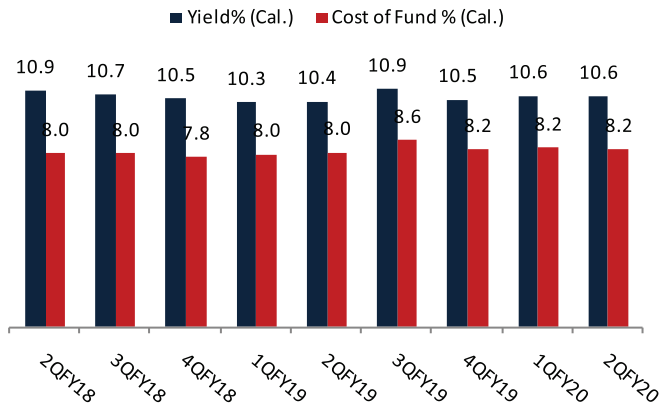
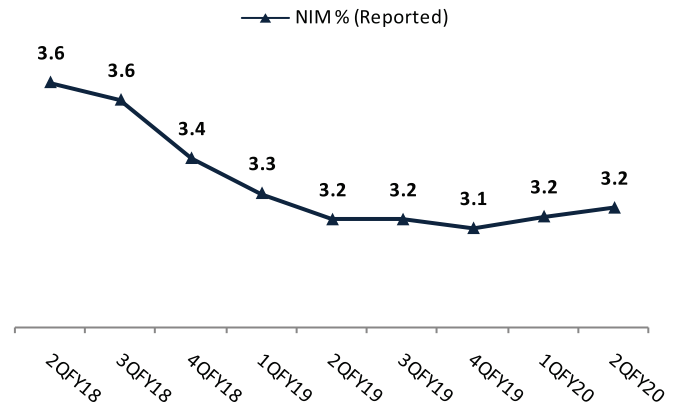


Exhibit: Net Interest Margin

NIM increased Sequentially



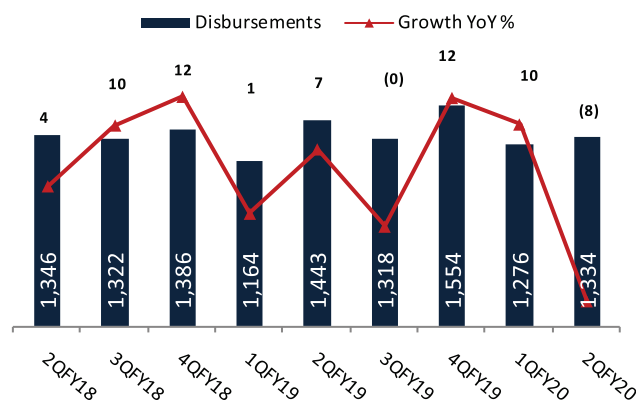
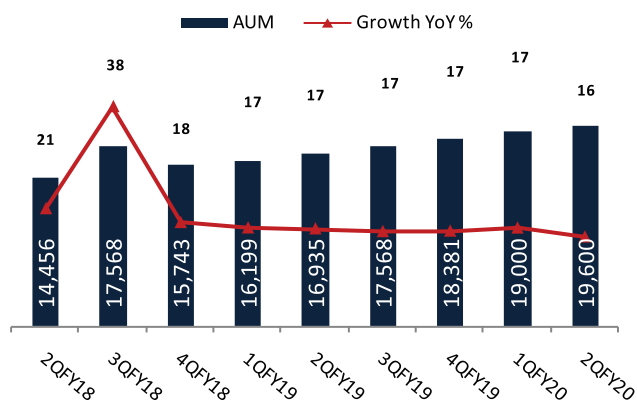
Asset Growth Trend

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Sanctions	1575	1547	1454	1209	1521	1483	1738	1289	1424
Growth YoY %	3.8	14.5	8.6	2.0	-3.4	-4.1	19.6	6.6	-6.4
Disbursements	1346	1322	1386	1164	1443	1318	1554	1276	1334
Growth YoY %	3.6	9.5	12.3	1.0	7.2	-0.3	12.2	9.6	-7.6
AUM	14456	17568	15743	16199	16935	17568	18381	19000	19600
Growth YoY %	20.7	38.5	18.3	17.3	17.1	16.7	16.8	17.3	15.7
Borrowings	12827	13303	13925	14272	15000	15000	16694	16823	17256
Growth YoY %	19.0	16.9	17.3	16.3	16.9	12.8	19.9	37.0	34.5

Fig in Rs Cr

Exhibit: AUM Growth %

Exhibit: Disbursement Growth %



Borrowing Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Market Borrowings	59	58	50	52	46	38	34	34	33
Bank Loans	20	22	33	38	45	48	52	50	52
Refinance from NHB	19	18	15	8	7	13	12	14	13
Deposits from public	2	2	2	2	2	1	2	2	2

Loan Portfolio Break up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Salaried & Professionals	73.9	73.5	73.2	72.7	72.0	71.5	71.1	71.1	70.9
Non Salaried Class- Self Employed & Non Professionals	25.9	26.3	26.7	27.1	27.8	28.3	28.8	28.7	29.0
Builder Loans	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Staff Loans	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total	100	100	100	100	100	100	100	100	100

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	67	107	107	125	114	139	155	47.48	15.45
GNPA %	0.43	0.66	0.63	0.71	0.62	0.73	0.79	0.16	0.06
NNPA (Rs in Cr)	32	71	71	89	79	99	113	41.76	14.62
NNPA %	0.20	0.44	0.42	0.42	0.43	0.52	0.58	0.16	0.06
Specific PCR %	53	33	33	29	30	29	27	-6.56	-2.38

Exhibit: Asset Quality

GNPA and NNPA Increased

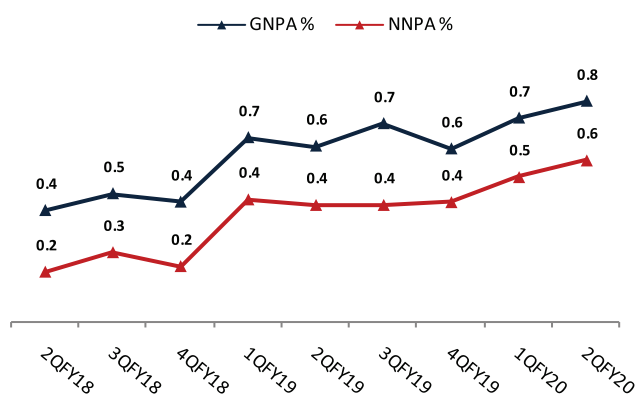
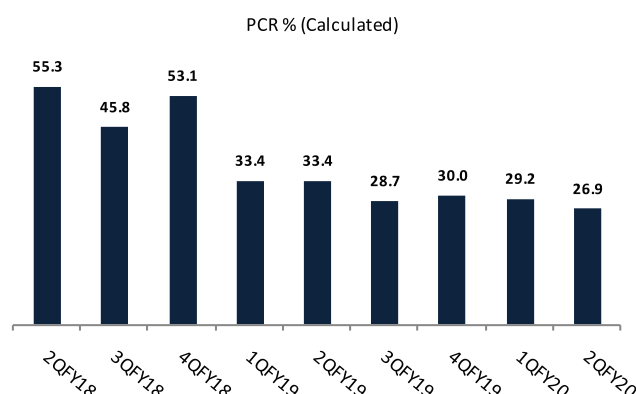


Exhibit: Provisions

PCR declined



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	20	27	27	27	27	27	27	27
Equity Capital	20	27	27	27	27	27	27	27
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	432	745	851	1177	1460	1756	2124	2591
Networth	452	771	878	1204	1487	1782	2151	2617
Change (%)	15	71	14	37	24	20	21	22
Total Borrowings	5269	7375	9478	11872	13925	16694	19540	23336
Change (%)	49	40	29	25	17	20	17	19
Provisions	92	124	189	27	34	27	29	32
Other Liabilities	99	64	249	185	284	277	318	350
Total Liabilities	5912	8334	10795	13288	15730	18780	22039	26335
Investments	15	15	15	16	16	16	16	16
Loans	5844	8232	10643	13224	15644	18285	21690	26136
Change (%)	46	41	29	24	18	17	19	21
Fixed Assets	8	9	9	10	10	10	10	10
Other Assets	36	70	110	18	41	49	55	60
Cash Balances	9	8	17	20	19	420	294	331
Total Assets	5912	8334	10795	13288	15730	18780	22064	26553

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	557	788	1,044	1,306	1,491	1,700	2,029	2,413
Interest expended	423	610	743	884	981	1,169	1,388	1,653
Net Interest Income	134	178	301	422	510	530	641	761
Change (%)	40	32	69	40	21	4	21	19
Other Income	21	29	39	47	31	32	38	53
Change (%)	50	40	33	21	(33)	1	19	39
Total Net Income	155	207	340	469	541	562	679	813
Change (%)	42	33	64	38	15	4	21	20
Operating Expenses	44	55	67	80	88	92	106	124
Change (%)	22	26	21	19	10	4	15	17
Employee Expenses	18	25	33	39	45	41	48	51
Change (%)	14	38	33	18	15	(8)	16	6
Other Expenses	26	31	34	41	43	50	58	73
Pre-provisioning Profit	111	152	273	389	453	471	573	689
Change (%)	51	36	80	42	16	4	22	20
Provisions	4	14	19	20	22	1	22	24
Change (%)	(420)	221	36	1	12	(95)	1,929	8
PBT	107	137	254	370	431	470	551	666
Tax	31	51	97	134	145	173	150	168
Profit After Tax	76	86	157	235	286	297	401	498
Change (%)	40	14	83	50	22	4	35	24
Adjusted Profit After Tax	76	86	157	235	286	297	401	498
Change (%)	40	14	83	50	22	4	35	24

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	5844	8232	10643	13313	15743	18381	21690	26136
Off-Book AUM	0	0	0	89			0	0
AUM Growth (%)	45.5	40.9	29.3	25.1	18.3	16.8	18.0	20.5
Borrowing Growth (%)	48.9	40.0	28.5	25.3	17.3	19.9	17.0	19.4
Loan/Borrowing Ratio	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Disbursement (Rs Cr)	2548	3346	3923	4792	5207	5479	6004	7810
Disbursement Growth (%)	20	20	20	22	9	5	10	30
CRAR (%)	14	18	21	19	19	20	20	20
Tier 1 (%)	13.1	15.6	17.6	16.0	17.0	17.8	18.0	18.2
Tier 2 (%)	0.8	2.8	3.1	2.5	2.1	1.8	2.1	1.7
Debt/Equity (x)	11.6	9.6	10.8	9.9	9.4	9.4	9.1	8.9
Assets Quality Metrics								
Gross NPA (Rs)	12	14	20	28	67	114	130	157
Gross NPA (%)	0.2	0.2	0.2	0.2	0.4	0.6	0.6	0.6
Net NPA (Rs)	-	-	-	-	32	79	85	102
Net NPA (%)	-	-	-	-	0.2	0.4	0.4	0.4
Provision Coverage (%)	100	100	100	100	53	30	35	35
Provision/Average Advances (%)	0.1	0.2	0.2	0.2	0.2	0.0	0.1	0.1
Margin Metrics								
Yield On Advances (%)	11.3	11.2	11.1	10.9	10.3	10.0	10.1	10.1
Cost Of Funds (%)	9.6	9.7	8.8	8.3	7.6	7.6	7.7	7.7
Spread (%)	1.7	1.5	2.2	2.6	2.7	2.3	2.5	2.4
NIM on AUM (%)	2.7	2.5	3.2	3.5	3.5	3.1	3.2	3.2
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	75.9	77.5	71.2	67.7	65.8	68.8	68.4	68.5
Other Income/NII (%)	15.6	16.5	13.0	11.2	6.2	6.0	5.9	6.9
Operating Profit/ Net Income (%)	71.7	73.3	80.4	83.0	83.8	83.7	84.4	84.8
Net Profit/Net Income (%)	48.8	41.6	46.2	50.2	52.9	52.8	59.1	61.3
Cost to Income (%)	28.3	26.7	19.6	17.0	16.2	16.3	15.6	15.2
Employee Exp/ Net Income (%)	11.5	12.0	9.7	8.3	8.3	7.4	7.1	6.3
Cost on Average Assets (%)	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5
Provisions/PPP (%)	4.0	9.4	7.1	5.0	4.9	0.2	3.9	3.5
Tax Rate (%)	28.9	37.3	38.1	36.3	33.6	36.8	27.2	25.2
Valuation Ratio Metrics								
EPS (Rs)	7	6	12	18	23	22	30	37
Change (%)	39.9	(12.5)	82.5	49.8	28.2	(1.6)	35.1	24.2
ROAE (%)	17.9	14.1	19.0	22.6	24.9	18.2	20.4	20.9
ROAA (%)	1.5	1.2	1.6	2.0	2.1	1.7	2.0	2.1
Dividend Payout (%)	20.6	25.4	20.4	13.6	53.0	10.8	8.0	8.0
Dividend yield (%)	0.9	0.3	0.2	0.1	0.6	0.5	0.5	0.6
Dividend Per Share	1.3	1.4	2.0	2.0	2.0	2.0	2.0	2.5
Book Value (Rs)	44	58	66	90	101	134	162	197
Change (%)	15.3	31.3	13.8	37.1	11.8	32.4	20.7	21.7
P/B (X)	0.9	2.1	3.5	4.7	4.8	3.1	2.6	2.1
P/E (X)	5.1	18.7	19.6	23.9	21.4	18.6	13.7	11.1

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	11.2	11.1	10.9	10.8	10.3	9.8	9.9	9.9
Interest expensed	8.5	8.6	7.8	7.3	6.8	6.8	6.8	6.8
Net Interest Income	2.7	2.5	3.1	3.5	3.5	3.1	3.1	3.1
Non-Fund Based Income	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2
Total Income	3.1	2.9	3.6	3.9	3.7	3.3	3.3	3.3
Total Operating Expenses	0.9	0.8	0.7	0.7	0.6	0.5	0.5	0.5
Employee Expenses	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Other Expenses	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Operating Profit	2.2	2.1	2.9	3.2	3.1	2.7	2.8	2.8
Provisions	0.1	0.2	0.2	0.2	0.2	0.0	0.1	0.1
Others	0.0	-	-	-	-	-	-	-
PBT	2.1	1.9	2.7	3.1	3.0	2.7	2.7	2.7
Tax	0.6	0.7	1.0	1.1	1.0	1.0	0.7	0.7
PAT/RoAA	1.5	1.2	1.6	2.0	2.0	1.7	2.0	2.0
Equity Multiplier (x)	11.8	11.6	11.6	11.6	10.8	10.6	10.4	10.2
ROAE	18.0	14.1	19.0	22.6	21.3	18.2	20.4	20.9

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