

Industry  
Bloomberg  
BSE CODE

Financial  
CANF IN  
511196

RATING	ACCUMULATE
CMP	464
Price Target	516
Potential Upside	11%
Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	465/235
Mkt Capital (Rs Cr)	6,221
Free float (%)	70%
Avg. Vol 1M (,000)	268
No. of Shares (Crs)	13
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	530	645	766
PPP	471	578	702
PAT	297	400	508
NIM %	3.1	3.3	3.3
EPS (Rs)	22	30	38
EPS growth (%)	-2	35	27
ROE (%)	18	20	21
ROA (%)	1.7	2.0	2.2
BV	134	162	197
P/B (X)	3.1	2.8	2.3
P/E (x)	19	15	12

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## Margins Expansion Along With Stable Asset Quality Drove The Profitability

### 3QFY20 Result Update

- CANFINHOME reported strong results better than our expectations with NII growth of 24%/8% YoY/QoQ driven by strong AUM growth and strong margins. NIM grew by 24/21 bps YoY/QoQ to 3.42% in 3QFY20.
- PAT growth has been strong at 41%/9% YoY/QoQ.
- OPEX grew by 25%/7% YoY/QoQ leading to a C/I ratio of 15% improved one as against last quarter.
- AUM reported growth of 15%/3% YoY/QoQ in 3QFY20. Disbursements increased by 11% QoQ. Disbursement growth is expected to be at 20% in next 4-5 quarters.
- Asset quality remained stable as GNPA/NNPA both increased by 1 bps QoQ to 0.80/0.59% in 3QFY20.
- Capital Adequacy ratio improved by 325 bps QoQ to 22.07% in 3QFY20.

### Decline in cost, cushion for Margins

NII grew by 24%/8% YoY/QoQ backed by strong AUM growth of 15%/3% YoY/QoQ and margins expansion in 3QFY20. Margins improved by 24/21 bps YoY/QoQ to 3.42% in 3QFY20 due to lower cost of funds and stable yield reported. Yield increased by 15 bps YoY to 10.20% whereas Cost of funds declined by 1 bps YoY to 7.88% giving cushion to margin expansion in 3QFY20. The management expect margins to be maintained going ahead. The blended incremental cost of borrowing stood at 7.75%. Cost of borrowings from NHB stood at less than 7%.

### Moderate AUM growth

AUM grew by 15%/3% YoY/QoQ in line with our expectations in 3QFY20. Individual loan portfolio which forms the biggest chunk of the loan book (i.e. 90% of total book) grew by 15% YoY. Disbursements during the quarter grew by 11%. Share of salaried customer to overall loan book remains at 71% while rest is towards self-employed segment. The management guided moderated 20% AUM growth for next 2 years. On borrowing mix going ahead, bank borrowings are expected to go down, NHB expected to increase, NCD are expected to be replaced and CPs are expected to go down.

### Stable Asset Quality

Asset quality remained stable as GNPA/NNPA both increased marginally by 1 bps QoQ to 0.80/0.59% in 3QFY20. GNPA's in SEMP segment has been double of the GNPA's in Salaries class. Asset quality is expected to improve going ahead.

### View and Valuation

Moderate loan book growth in last few quarters has been reflection of economic stress in housing finance space however the company has been able to dive through this stress and deliver strong performance but management still remained cautious on the industry growth front but hopes disbursement for the CANF to grow around 20% going ahead. Margins expanded due to declining cost; asset quality remained intact. Due to minimal exposures towards riskier LAP and developer segment, CANF is well placed amid concerns over the HFC exposures towards the stress accounts. Margins are likely to remain stable going ahead. Management expects Rs 1000 Cr of equity infusion in next 3-6 months. We raise our target price based on expected dilution and better performance going ahead. We value the stock at 2.6x BVFY21e (2.2x adjusted net-worth on FY21e) to arrive at the target price of Rs 516. Recommend to ACCUMULATE.

### Key Risks to our rating and target

- Capital raising plan
- Pressure on real estate and HFC will impact the growth and assets quality

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## 3QFY20 Results

### Above expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	438	451	477	494	508	16.0%	2.8%	1,491	1,700	14.0%
Interest Exp.	302	314	329	338	340	12.7%	0.4%	981	1,169	19.2%
NII	136	138	148	156	168	23.5%	8.0%	510	530	4.1%
Other Income	12	12	7	7	9	42.0%	34.7%	31	32	1.3%
Total Income	148	150	155	162	177	24.3%	9.1%	545	567	4.0%
Ope Exp.	22	33	23	25	27	25.1%	7.4%	88	92	4.4%
PPP	126	118	132	137	150	24.2%	9.4%	453	471	3.8%
Provisions	-	1	9	6	5	NA	-27.5%	22	1	-95.1%
PBT	126	116	123	131	146	20.4%	11.2%	431	470	8.9%
Tax	46	49	42	33	39	-14%	17.1%	145	173	19.2%
Net Profit	80	67	81	98	107	40.6%	9.2%	286	297	4%

## Concall Highlights

- The company reported high margins at 3.42% as against 3.21% last quarter due to low incremental cost of funds in 3QFY20 and management expect margins to be maintained going ahead.
- The blended incremental cost of borrowing stood at 7.75%. Cost of borrowings from NHB stood at less than 7%.
- Employee expenses increased in 3QFY20 due to increase in staff and going ahead they are expected to be maintained.
- The management guided moderated 20% AUM growth for next 2 years.
- Disbursement growth is expected to be at 20% in next 4-5 quarters.
- On borrowing mix going ahead, bank borrowings are expected to go down, NHB expected to increase, NCD are expected to be replaced and CPs are expected to go down.
- As per management there is no challenge on Karnataka book growth side. Growth in disbursement in Karnataka in 3QFY20 stood at 10%.
- The composition mix is expected to remain same at 70:30 salaried vs. Non salaried going ahead.
- Asset quality is expected to improve going ahead.
- Plan of raising of fresh equity up to Rs.1000 Cr through Rights Issue/QIP / Pref Share in next 3-6 months.
- GNPA's in SEMP segment has been double the GNPA's in Salaries class.
- Capital Adequacy Ratio went up to 22% from 19% last quarter the reason being as there are three parts to it one is sanctioned but agreement not signed, one is sanctioned and agreement signed and last one is sanctioned, agreement signed and part disbursed. So the company needs to provide for later two not the first one. So there was some rectification in classification done last quarter.
- The company expects to raise capital have its leverage ratio to go down which is at 8.75 currently.
- Repayment rates were high in 3QFY20 on the account of subsidy of Rs 145-150 Cr in CLSS credit scheme.
- The company has plans to take the branch count to 200 by the end of March 2020.

## Profitability Matrix

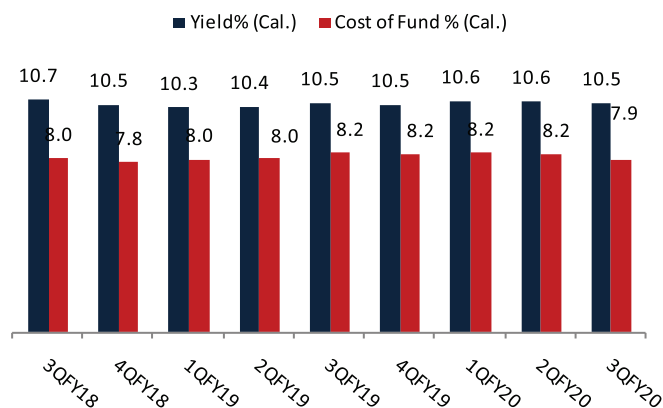
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	14.9	12.7	15.1	21.7	15.0	15.4	15.2	0.10	-0.25
Empl. Cost/ Tot. Exp. %	53.0	34.2	39.4	50.2	54.3	49.0	51.5	12.04	2.48
Other Exp/Tot. Exp.%	34.4	47.0	44.1	35.7	24.2	31.7	26.3	-17.78	-5.31
Provision/PPP %	-	-	-	0.9	6.6	4.6	3.0	3.03	-1.54
Tax Rate %	34.1	36.8	37.3	34.0	34.1	25.4	26.8	-10.51	1.34
Int Exp./Int Inc. (%)	68.1	68.5	68.9	69.5	69.0	68.5	66.9	-2.00	-1.60
Other Inc./NII %	6.2	6.8	4.7	9.0	4.7	4.3	5.4	0.70	1.06
PPP/ Net Income %	85.1	87.3	84.9	78.3	85.0	84.6	84.8	-0.10	0.25
PAT/ Net Income %	56.1	55.2	53.3	44.7	52.3	60.2	60.2	6.97	0.05
NII Growth % (YoY)	1.2	2.0	6.8	4.9	17.0	19.3	23.5	16.66	4.23
PPP Growth YoY %	1.1	4.3	2.2	4.5	16.8	12.8	24.2	21.99	11.38
PAT Growth %	8.1	7.6	14.6	(9.4)	10.6	27.0	40.6	55.16	13.54

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield Cal.	10.3	10.4	10.5	10.5	10.6	10.6	10.5	-0.01	-0.07
Cost Of Funds Cal.	8.0	8.0	8.2	8.2	8.2	8.2	10.7	2.49	2.54
NIM Reported.	3.3	3.2	3.2	3.1	3.2	3.2	3.4	0.24	0.21

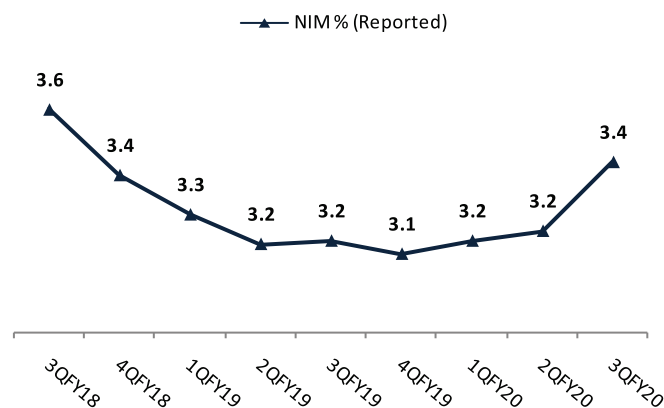
## Exhibit: Yield and Cost

Yield stable, Cost declined



## Exhibit: Net Interest Margin

NIM increased Sequentially



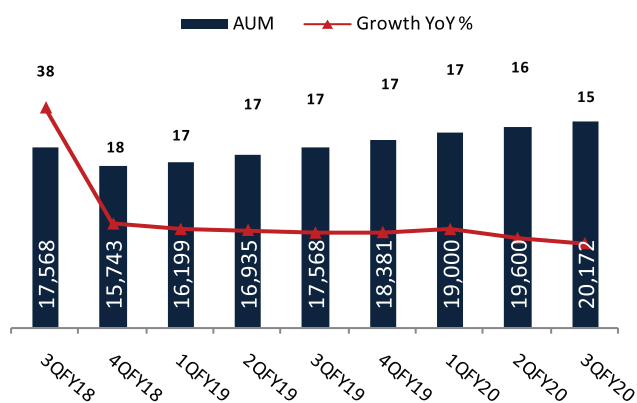
## Asset Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Sanctions	1547	1454	1209	1521	1483	1738	1289	1424	1617
Growth YoY %	14.5	8.6	2.0	-3.4	-4.1	19.6	6.6	-6.4	9.1
Disbursements	1322	1386	1164	1443	1318	1554	1276	1334	1477
Growth YoY %	9.5	12.3	1.0	7.2	-0.3	12.2	9.6	-7.6	12.0
AUM	17568	15743	16199	16935	17568	18381	19000	19600	20172
Growth YoY %	38.5	18.3	17.3	17.1	16.7	16.8	17.3	15.7	14.8
Borrowings	13303	13925	14272	15000	15000	16694	16823	17256	17800
Growth YoY %	16.9	17.3	16.3	16.9	12.8	19.9	37.0	34.5	14.8

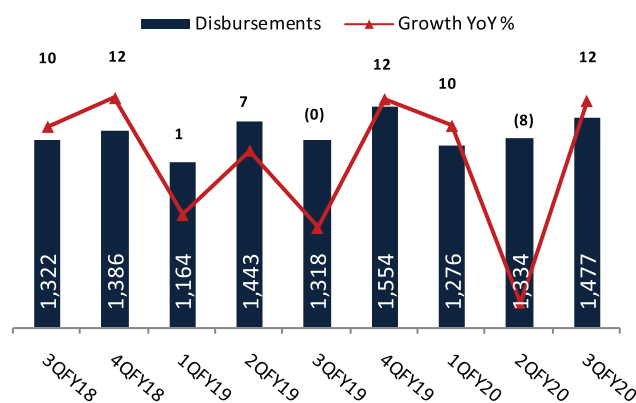
## Exhibit: AUM Growth %

AUM growth inline



## Exhibit: Disbursement Growth %

Better Disbursements



## Borrowing Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Market Borrowings	58	50	52	46	38	34	34	33	26
Bank Loans	22	33	38	45	48	52	50	52	57
Refinance from NHB	18	15	8	7	13	12	14	13	15
Deposits from public	2	2	2	2	1	2	2	2	2

## Loan Portfolio Break up

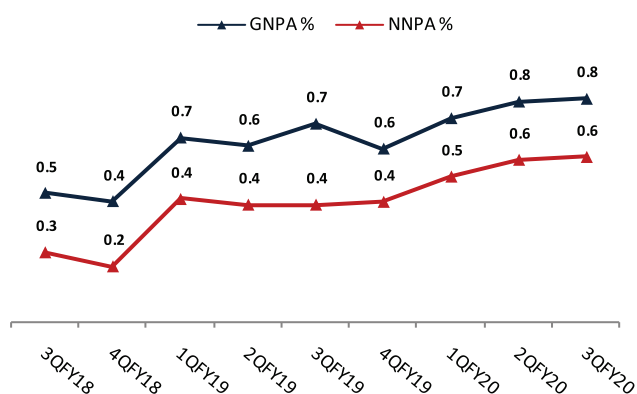
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Salaried & Professionals	73.5	73.2	72.7	72.0	71.5	71.1	71.1	70.9	70.9
Non Salaried Class- Self Employed & Non Professionals	26.3	26.7	27.1	27.8	28.3	28.8	28.7	29.0	29.0
Builder Loans	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0
Staff Loans	0.1	0.1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

## Asset Quality

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	107	107	125	114	139	155	161	36.01	6.19
GNPA %	0.66	0.63	0.71	0.62	0.73	0.79	0.80	0.09	0.01
NNPA (Rs in Cr)	71	71	89	79	99	113	119	29.63	5.53
NNPA %	0.44	0.42	0.42	0.43	0.52	0.58	0.59	0.17	0.01
Specific PCR %	33	33	29	30	29	27	26	-2.46	-0.62

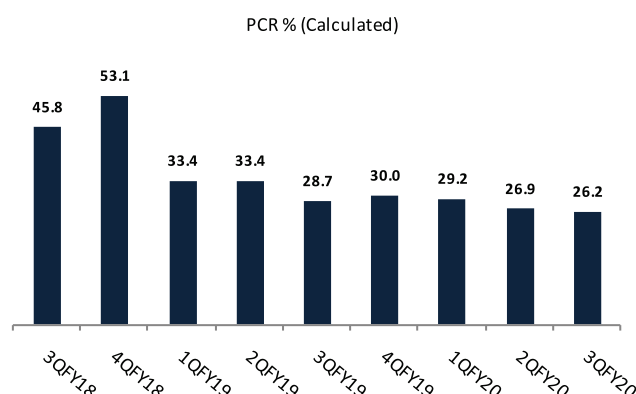
## Exhibit: Asset Quality

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
<b>Share Capital</b>	<b>20</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>	<b>27</b>
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	2600
<b>Networth</b>	<b>452</b>	<b>771</b>	<b>878</b>	<b>1204</b>	<b>1487</b>	<b>1782</b>	<b>2151</b>	<b>2627</b>
Change (%)	15	71	14	37	24	20	21	22
Total Borrowings	5269	7375	9478	11872	13925	16694	19043	22073
Change (%)	49	40	29	25	17	20	14	16
Provisions	92	124	189	27	34	27	29	32
Other Liabilities	99	64	249	185	284	277	318	350
<b>Total Liabilities</b>	<b>5912</b>	<b>8334</b>	<b>10795</b>	<b>13288</b>	<b>15730</b>	<b>18780</b>	<b>21541</b>	<b>25083</b>
Investments	15	15	15	16	16	16	16	16
Loans	5844	8232	10643	13224	15644	18285	21138	24943
Change (%)	46	41	29	24	18	17	16	18
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	322	54
<b>Total Assets</b>	<b>5912</b>	<b>8334</b>	<b>10795</b>	<b>13288</b>	<b>15730</b>	<b>18780</b>	<b>21541</b>	<b>25083</b>

### 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	2,002	2,329
Interest expended	423	610	743	884	981	1,169	1,357	1,563
<b>Net Interest Income</b>	<b>134</b>	<b>178</b>	<b>301</b>	<b>422</b>	<b>510</b>	<b>530</b>	<b>645</b>	<b>766</b>
Change (%)	40	32	69	40	21	4	22	19
Other Income	21	29	39	47	31	32	36	53
Change (%)	50	40	33	21	(33)	1	13	47
Total Net Income	155	207	340	469	541	562	681	819
Change (%)	42	33	64	38	15	4	21	20
Operating Expenses	44	55	67	80	88	92	103	116
Change (%)	22	26	21	19	10	4	12	13
Employee Expenses	18	25	33	39	45	41	50	51
Change (%)	14	38	33	18	15	(8)	22	1
Other Expenses	26	31	34	41	43	50	52	65
<b>Pre-provisioning Profit</b>	<b>111</b>	<b>152</b>	<b>273</b>	<b>389</b>	<b>453</b>	<b>471</b>	<b>578</b>	<b>702</b>
Change (%)	51	36	80	42	16	4	23	21
Provisions	4	14	19	20	22	1	25	23
Change (%)	(420)	221	36	1	12	(95)	2,156	(6)
PBT	107	137	254	370	431	470	554	679
Tax	31	51	97	134	145	173	153	171
<b>Profit After Tax</b>	<b>76</b>	<b>86</b>	<b>157</b>	<b>235</b>	<b>286</b>	<b>297</b>	<b>400</b>	<b>508</b>
Change (%)	40	14	83	50	22	4	35	27
<b>Adjusted Profit After Tax</b>	<b>76</b>	<b>86</b>	<b>157</b>	<b>235</b>	<b>286</b>	<b>297</b>	<b>400</b>	<b>508</b>
Change (%)	40	14	83	50	22	4	35	27

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	5844	8232	10643	13313	15743	18381	21138	24943
Off-Book AUM	0	0	0	89			0	0
AUM Growth (%)	45.5	40.9	29.3	25.1	18.3	16.8	15.0	18.0
Borrowing Growth (%)	48.9	40.0	28.5	25.3	17.3	19.9	14.1	15.9
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	5778	7543
Disbursement Growth (%)	20	20	20	22	9	5	5	31
CRAR (%)	14	18	21	19	19	20	21	21
Tier 1 (%)	13.1	15.6	17.6	16.0	17.0	17.8	18.5	19.1
Tier 2 (%)	0.8	2.8	3.1	2.5	2.1	1.8	2.2	1.8
Debt/Equity (x)	11.6	9.6	10.8	9.9	9.4	9.4	8.9	8.4
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	12	14	20	28	67	114	169	162
Gross NPA (%)	0.2	0.2	0.2	0.2	0.4	0.6	0.8	0.7
Net NPA (Rs)	-	-	-	-	32	79	110	105
Net NPA (%)	-	-	-	-	0.2	0.4	0.5	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
<b>Margin Metrics</b>								
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	7.6	7.6
Spread (%)	1.7	1.5	2.2	2.6	2.7	2.3	2.5	2.5
NIM on AUM (%)	2.7	2.5	3.2	3.5	3.5	3.1	3.3	3.3
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expended/Int.Earned (%)	75.9	77.5	71.2	67.7	65.8	68.8	67.8	67.1
Other Income/NII (%)	15.6	16.5	13.0	11.2	6.2	6.0	5.6	6.9
Operating Profit/ Net Income (%)	71.7	73.3	80.4	83.0	83.8	83.7	84.9	85.8
Net Profit/Net Income (%)	48.8	41.6	46.2	50.2	52.9	52.8	58.8	62.1
Cost to Income (%)	28.3	26.7	19.6	17.0	16.2	16.3	15.1	14.2
Employee Exp/ Net Income (%)	11.5	12.0	9.7	8.3	8.3	7.4	7.4	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	4.3	3.3
Tax Rate (%)	28.9	37.3	38.1	36.3	33.6	36.8	27.7	25.2
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	7	6	12	18	23	22	30	38
Change (%)	39.9	(12.5)	82.5	49.8	28.2	(1.6)	35.0	26.9
ROAE (%)	17.9	14.1	19.0	22.6	24.9	18.2	20.4	21.3
ROAA (%)	1.5	1.2	1.6	2.0	2.1	1.7	2.0	2.2
Dividend Payout (%)	20.6	25.4	20.4	13.6	53.0	10.8	8.0	7.9
Dividend yield (%)	0.9	0.3	0.2	0.1	0.6	0.5	0.4	0.5
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	22.1
P/B (X)	0.9	2.1	3.5	4.7	4.8	3.1	2.8	2.3
P/E (X)	5.1	18.7	19.6	23.9	21.4	18.6	15.2	12.0

## 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	10.0
Interest expended	8.5	8.6	7.8	7.3	6.8	6.8	6.7	6.7
<b>Net Interest Income</b>	<b>2.7</b>	<b>2.5</b>	<b>3.1</b>	<b>3.5</b>	<b>3.5</b>	<b>3.1</b>	<b>3.2</b>	<b>3.3</b>
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	3.4	3.5
<b>Total Operating Expenses</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
Employee Expenses	0.4	0.3	0.3	0.3	0.3	0.2	0.3	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	2.9	3.0
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	2.9
Tax	0.6	0.7	1.0	1.1	1.0	1.0	0.8	0.7
PAT/RoAA	1.5	1.2	1.6	2.0	2.0	1.7	2.0	2.2
Equity Multiplier (x)	11.8	11.6	11.6	11.6	10.8	10.6	10.3	9.8
ROAE	18.0	14.1	19.0	22.6	21.3	18.2	20.4	21.3

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Analyst's ownership of the stocks mentioned in the Report	NIL
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