

CAN FIN HOMES LIMITED

Industry **BANKING**
 Bloomberg **CANF IN**
 BSE Code **511196**
 NSE Code **CANFINHOME**

Tuesday, August 21, 2018

RATING	NEUTRAL
CMP	327
Price Target	348
Previous Target	375
Potential Upside	6%

52wk Range H/L	603/306
Mkt Capital (Rs Cr)	4,352
Free float (%)	70%
Avg. Vol 1M (000)	800
No. of Shares (Crore)	13
Promoters Pledged %	0%

Muted performance continues

Key Highlights

- ☑ Concerns of slower growth, higher NPAs and delays in implementation of RERA in the company's key market i.e. in Karnataka, will be the reason for growth to remain under pressure going forward. However, the management expects growth to pick up gradually after 1-2 quarters, as and when the supply side issues resolve with more properties coming up in the affordable housing segment.
- ☑ Assets quality remains healthy among its peers but during the quarter it has weakened and increased by 23 bps to 0.66%. NNPA numbers has also risen by 24 bps to 0.44%. However management hopes for a significant recovery in the portfolio going ahead.
- ☑ Management has targeted the loan book at Rs 19500 Cr and Rs 40000 Cr in FY19 and FY22 respectively at 26% CAGR over FY18-22. However, the loan recoveries and growth in key markets will remain a key monitor able going ahead.
- ☑ NIM has come under immense pressure due to rise in bond yield which has increased the borrowing cost and intensive competition has also pressurized the yield.

1Q FY19 Result:

CANFINHOME growth remained muted in Q1FY19 with PAT growth of 11% yoy. NII grew by 3.7% yoy which is lowest in last 23 quarters backed by slower pace of 17% yoy growth in AUM (against historically in the range of 25%-50%). NIM declined by 43bps yoy to 3.26%. Cost to income (C/I) ratio has decline to 14.53% vs 15.38% in the corresponding quarter a year back. Operating expenses declined by 3% yoy, while operating profit grew at 4% yoy. Asset quality weakened with gross and net NPAs increasing 23bps qoq to 0.66% and 24bps to 0.44%, respectively. Overall CAR ratio stood at 18.70% as against 19.07% in Q4FY18.

View and Valuation

CANFINHOME loan book has got impacted due to uncertainty over RERA in Karnataka and Kerala which constitute 50% of the business. Loan book is expected to continue muted growth in near terms due lackluster real estate industry in south region. Management is also not confident of achieving its earlier growth guidance. Assets quality remains healthy among its peers but it has shown some deterioration in recent results. Spike in bond yield has added the pain over margin front. Slow loan growth, intensive competition, and margin pressure will continue to impact the profitability growth with RoE declining to below 20% in FY20. Hence considering decline in RoE, we reduce our valuation multiple to 2.4x on FY20 BV to arrive at target price of Rs 348 and remain NEUTRAL on the stock.

Key Risks to our rating and target

- ◆ Continuous increase in bond yield will further pressurize the NIM.
- ◆ Further delay in implementation of RERA in Karnataka will impact the loan growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	301	422	507	537	603
PPP	273	389	480	485	544
PAT	157	235	302	312	338
NIM %	3.2	3.5	3.5	3.1	2.9
EPS (Rs)	12	18	23	23	25
EPS growth (%)	82.5	49.8	28.2	3.2	8.6
ROE (%)	19.0	24.1	24.9	21.0	19.0
ROA (%)	1.6	1.9	2.1	1.8	1.6
BV	66	81	101	122	145
P/B (X)	3.5	5.2	4.8	2.7	2.3
P/E (x)	19.6	23.9	21.4	14.0	12.9

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1Q FY 19 Results In line

Sluggish Quarter

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	358	369	378	386	399	11.5%	3.4%	1,306	1,487	13.9%
Interest Exp.	233	241	250	256	270	15.7%	5.6%	884	981	10.9%
NII	125	128	128	130	129	3.7%	-0.8%	422	507	20.1%
Other Income	9	15	16	13	8	-9.6%	-41.7%	47	60	27.7%
Total Income	133	143	144	144	137	2.9%	-4.6%	469	566	20.7%
Ope Exp.	21	20	21	25	20	-2.8%	-19.2%	80	86	8.0%
PPP	113	122	124	119	117	3.9%	-1.5%	389	480	23.3%
Provisions	4	8	9	1	-	-100.0%	-100.0%	20	22	12.5%
PBT	109	114	114	118	117	7.9%	-0.9%	370	458	23.9%
Tax	39	39	34	43	40	2.2%	-6.7%	134	156	16.4%
Net Profit	70	75	80	75	77	11.0%	2.4%	235	302	28.2%

NIM remained under pressure, C/I ratio improved.

NIM declined by 27bps/43bps on qoq/yoy to 3.26% yoy due to lower yield. Yield on advances decreased by 57bps to 10.07%, while increased by 14 bps qoq. Cost of fund declined by 11bps to 7.73% yoy, but increased by 27 bps on qoq basis.

Operating expenses declined by 2.8%, which led dip in C/I ratio by 85bps to 14.53%. Branches numbers during the quarter declined by 8 to 185.

Asset quality weakened.

Asset Quality was impacted with an increase in the Gross and Net NPAs by 23bps qoq to 0.66% and by 24bps qoq to 0.44%. GNPA during the quarter increased by Rs 40 cr and stood at Rs 107 cr. Fresh slippages during the quarter stood at Rs 47.45 cr, whereas reductions & recovery is only Rs 7.63 cr. On moving to Ind AS the bank carries provision of Rs 100 cr towards expected future credit losses as against the requirement of 78 cr. CANFINHOME expects the economic situations to improve in KTK and Tamil Nadu which would help further in the declining of GNPA level going forward.

Slower loan growth.

Advances grew at the slower run rate of 17.5% yoy to Rs 16199 cr, mainly due to a subdued growth in Karnataka market, while Non-Karnataka market growth stood at 23% yoy. Loan book comprises of 90% housing and 10% Non- housing loans. The bank is increasing its share towards the non-salaried class which stood at 27% of the total loan book as against 21% in the last 2 years, whereas professional book declined to 73% from 79% in the last 2 years. Professional's book grew by 14% yoy, while non-salaried book grew at the run rate of 27% yoy. Builder loans declined by 50% yoy to Rs 7 cr and the staff loans remained stable at Rs 17 cr. Disbursement during the quarter remained stable at only 1% growth to Rs 1164 cr. Delays in the implementation of RERA has resulted in the lower supply of affordable housing projects due to which the bank is facing slower loan book growth. The bank has guided to grow at a CAGR of 26% to loan book size of 40000 Cr by the end of FY22, when the government's "Housing for all" scheme will come to a closure.

Other highlights:

- ◆ Other income declined by 10% yoy to Rs 8 cr, due to hardening of bond yields.
- ◆ CAR ratio during the quarter stood at 18.70 % vs 19.07% a quarter back, whereas Tier 1 ratio stood at 16.72% as against 16.96% in Q4FY18.

Concall Highlights :

- ✓ Guidance of 24% growth in FY19 is risky to achieve due to Karnataka issue, but the management is working on it by expanding branches and increasing its share in builder loan.
- ✓ Yield is not completely passed on due to competition 14 bps has been passed on 1st April & it has taken 12 bps point hit on spreads as well as margins.
- ✓ The bank has started small ticket builder loans which are registered by RERA.
- ✓ 90.4% of fresh loan approvals during Q1 were for Housing & 9.6% for Non-Housing. Proportion of CP book is below 20%, which is mostly long term.
- ✓ Supply in Karnataka side is muted, but the management is optimistic about growth in Karnataka.
- ✓ 20 New Branches to be opened in growth centers of which 15 already opened in July 2018. 67.1% of fresh loan approvals were to Salaried & Professionals while 32.9% were to SENP segment.

Profitability Matrix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	16.3	17.4	15.4	14.3	14.4	17.2	14.5	-0.85	-2.64
Empl. Cost/ Tot. Exp. %	53.8	41.1	51.1	49.9	52.1	51.8	53.0	1.89	1.19
Other Exp/Tot. Exp.%	41.5	54.2	45.7	26.1	44.0	44.7	44.1	-1.64	-0.59
Provision/PPP %	6.0	0.6	3.7	6.5	7.5	0.6	-	-3.68	-0.64
Tax Rate %	36.5	35.9	36.0	34.3	29.9	36.2	34.1	-1.88	-2.14
Int Exp./Int Inc. (%)	67.6	65.6	65.2	65.3	66.2	66.2	67.6	2.43	1.38
Other Income/NII %	8.1	13.2	6.9	11.4	12.8	10.2	6.0	-0.89	-4.22
PPP/ Net Income %	83.7	82.6	84.6	85.7	85.6	82.8	85.5	0.85	2.64
PAT/ Net Income %	50.0	52.7	52.2	52.6	55.5	52.5	56.3	4.14	3.85
NII Growth % (YoY)	39.7	37.1	35.8	26.8	16.0	9.7	3.7	-32.04	-5.99
Operating Profit Growth	33.7	37.5	34.1	31.0	23.7	7.1	3.9	-30.16	-3.21
PAT Growth %	41.3	49.4	39.5	36.2	34.4	6.5	11.0	-28.50	4.55

Margin Performance

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Overall Yield Reported	-	-	10.6	10.5	10.4	9.9	10.1	-0.57	0.14
Cost Of Funds	8.5	8.4	7.8	7.8	7.7	7.5	7.7	-0.11	0.27
NIM	3.5	3.5	3.7	3.6	3.6	3.4	3.3	-0.43	-0.12

Exhibit: Yield and Cost

Both yield and cost of fund remained stable.

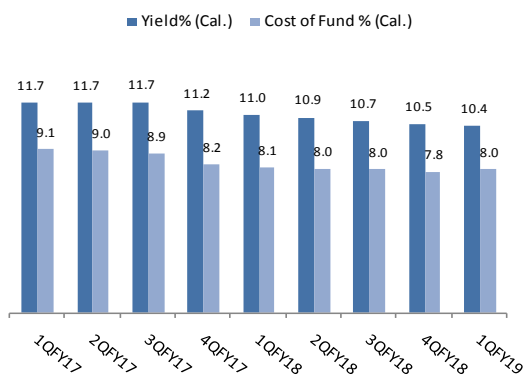
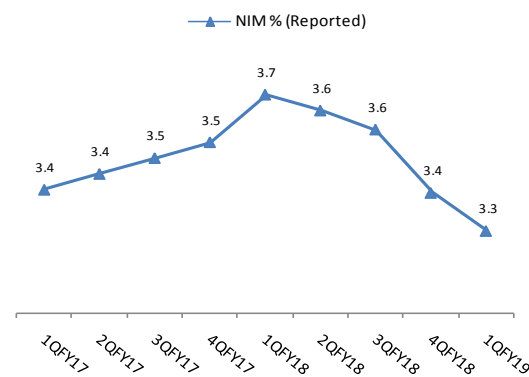


Exhibit: Net Interest Margin

NIM declines



Asset Growth Trend

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Sanctions	1191	1517	1351	1339	1186	1575	1546	1454	1209
Growth YoY %	36	38	24	-2	-1	4	14	9	2
Disbursements	1052	1299	1207	1234	1153	1346	1322	1386	1164
Growth YoY %	30	37	25	3	10	4	10	12	1
AUM	11183	11980	12688	13313	13808	14456	15058	15743	16199
Growth YoY %	28	29	28	25	23	21	19	18	17

Exhibit: AUM Growth %

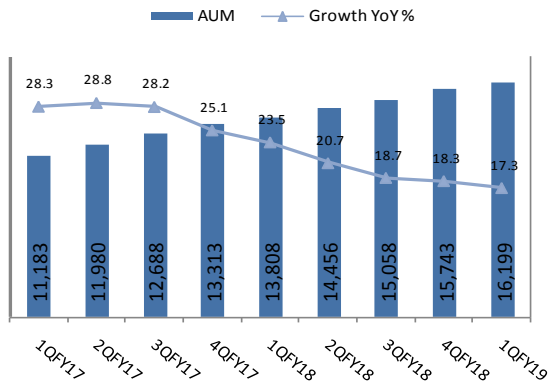
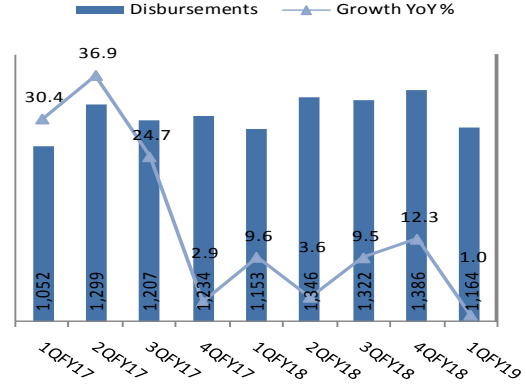


Exhibit: Disbursement Growth %



Borrowing Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Market Borrowings	44	48	48	51	52	59	58	50	52
Bank Loans	19	18	20	19	19	20	22	33	38
Others	37	34	32	30	29	21	20	17	10

Loan Portfolio Break up

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Salaried & Professionals	8,852	9,321	9,730	10,030	10,306	10,685	11,073	11,527	11,783
Non Salaried Class- Self	2,288	2,618	2,921	3,248	3,471	3,746	3,964	4,198	4,392
Builder Loans	27	23	20	17	14	7	2	0	7
Staff Loans	16	18	17	18	17	18	19	18	17
Total	11,183	11,980	12,688	13,313	13,808	14,456	15,058	15,743	16,199

Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	30	28	52	58	69	67	107	105%	59%
GNPA %	0.2	0.2	0.4	0.4	0.5	0.4	0.7	0.28	0.23
NNPA (Rs in Cr)	2	-	23	26	38	32	71	0%	126%
NNPA %	0.0	-	0.2	0.2	0.3	0.2	0.4	0.27	0.24
Specific PCR %	93.7	100.0	55.3	55.3	45.8	53.1	33.4	-21.85	-19.72

Exhibit: Asset Quality

Stable assets quality

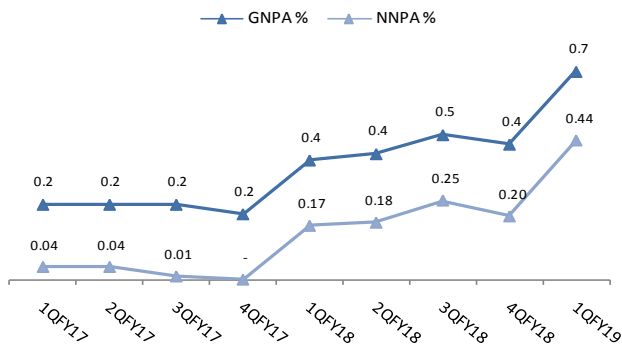
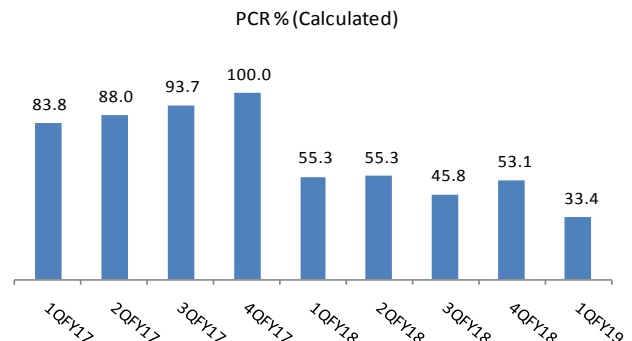


Exhibit: Provisions

Healthy PCR



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	20	20	27	27	27	27	27	27
>> Equity Capital	20	20	27	27	27	27	27	27
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	372	432	745	851	1,050	1,320	1,599	1,906
Networth	392	452	771	878	1,076	1,346	1,626	1,932
Change (%)	13	15	71	14	23	25	21	19
Total Borrowing	3,538	5,269	7,375	9,478	11,872	13,925	16,653	20,409
Change (%)	54	49	40	29	25	17	20	23
Provisions	65.3	91.5	124.3	189.3	207.7	134.2	149.9	183.7
Other Liability	72	99	64	249	302	402	422	487
Total Liabilities	4,067	5,912	8,334	10,795	13,458	15,807	18,850	23,012
Assets Side								
Investments	16	15	15	15	16	16	18	22
Loans	4,016	5,844	8,232	10,643	13,313	15,743	18,734	22,856
Change (%)	50.2	45.5	40.9	29.3	25.1	18.3	19.0	22.0
Fixed Assets	7	8	9	9	10	10	13	15
Other Assets	20	36	70	110	99	29	74	107
Cash Balance	9	9	8	17	20	10	11	12
Total Assets	4,067	5,912	8,334	10,795	13,458	15,807	18,850	23,012

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	379	557	788	1,044	1,306	1,487	1,704	2,048
Interest expended	283	423	610	743	884	981	1,166	1,445
Net Interest Income	96	134	178	301	422	507	537	603
Change (%)	14.3	40.3	32.2	69.5	40.2	20.1	6.1	12.1
Other Income	14	21	29	39	47	60	32	36
Change (%)	84.5	49.7	39.5	33.4	20.7	26.8	(45.9)	12.1
Total Net Income	110	155	207	340	469	566	570	639
Change (%)	20	42	33	64	38	21	1	12
Operating Expenses	36	44	55	67	80	86	84	95
Change (%)	57	22	26	21	19	8	(2)	13
>> Employee Expenses	16	18	25	33	39	44	43	47
Change (%)	42.8	13.8	38.3	33.3	18.2	13.2	(2.0)	7.7
>> Other Expenses	20	26	31	34	41	42	41	48
Pre-provisioning Profit	74	111	152	273	389	480	485	544
Change (%)	7.9	51.0	36.1	80.3	42.5	23.3	1.1	12.0
Provisions	(1)	4	14	19	20	22	13	31
Change (%)	(118.8)	(420.1)	220.7	36.2	1.2	12.5	(41.0)	138.4
PBT	75	107	137	254	370	458	472	513
Tax	21	31	51	97	134	156	161	174
Profit After Tax	54	76	86	157	235	302	312	338
Change (%)	23.7	39.9	13.7	82.5	49.8	28.2	3.2	8.6
Adjusted PAT	54	76	86	157	235	302	312	338
Change (%)	23.7	39.9	13.7	82.5	49.8	28.2	3.2	8.6

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	4,016	5,844	8,232	10,643	13,313	15,743	18,734	22,856
>> Off-Book AUM	-	-	-	-	-	-	-	-
AUM Growth (%)	50.2	45.5	40.9	29.3	25.1	18.3	19.0	22.0
Borrowing Growth (%)	53.8	48.9	40.0	28.5	25.3	17.3	19.6	22.6
Loan/Borrowing Ratio	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Disbursement (Rs Cr)	1,814	2,548	3,346	3,923	4,792	5,207	6,154	8,068
Disbursement Growth (%)	19.6	19.6	19.6	19.6	22.2	8.7	18.2	31.1
CRAR (%)	15.4	13.8	18.4	20.7	18.5	19.1	18.7	17.4
>> Tier 1 (%)	14.7	13.1	15.6	17.6	16.0	17.0	16.7	15.4
>> Tier 2 (%)	0.7	0.8	2.8	3.1	2.5	2.1	2.1	2.0
Debt/Equity (x)	9.0	11.6	9.6	10.8	11.0	10.3	10.2	10.6

Assets Quality Metrics

Gross NPA	16	12	14	20	28	67	94	69
Gross NAP (%)	0.4	0.2	0.2	0.2	0.2	0.4	0.5	0.3
Net NPA	-	-	-	-	-	32	56	34
Net NPA (%)	-	-	-	-	-	0.2	0.3	0.2
Provision Coverage (%)	100.0	100.0	100.0	100.0	100.0	53.1	40.0	50.0
Provision/Average Advances (%)	(0.0)	0.1	0.2	0.2	0.2	0.2	0.1	0.1

Margin Metrics

Yield On Advances (%)	11.3	11.3	11.2	11.1	10.9	10.2	9.9	9.8
Cost Of Funds (%)	9.7	9.6	9.7	8.8	8.3	7.6	7.6	7.8
Spread (%)	1.6	1.7	1.5	2.2	2.6	2.6	2.3	2.0
NIM (%)	2.9	2.7	2.5	3.2	3.5	3.5	3.1	2.9

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	74.7	75.9	77.5	71.2	67.7	65.9	68.5	70.6
Other Income/NII (%)	14.6	15.6	16.5	13.0	11.2	11.8	6.0	6.0
Operating Profit/ Net Income (%)	67.2	71.7	73.3	80.4	83.0	84.8	85.2	85.1
Net Profit/Net Income (%)	49.3	48.8	41.6	46.2	50.2	53.3	54.7	53.0
Cost to Income (%)	32.8	28.3	26.7	19.6	17.0	15.2	14.8	14.9
Employee Exp/ Net Income (%)	14.3	11.5	12.0	9.7	8.3	7.8	7.6	7.3
Cost on Average Assets (%)	1.1	0.9	0.8	0.7	0.7	0.6	0.5	0.5
Provisions/PPP (%)	(1.9)	4.0	9.4	7.1	5.0	4.6	2.7	5.7
Tax Rate (%)	27.9	28.9	37.3	38.1	36.3	34.1	34.0	34.0

Valuation Ratio Metrics

EPS (Rs)	5	7	6	12	18	23	23	25
Change (%)	23.7	39.9	(12.5)	82.5	49.8	28.2	3.2	8.6
ROAE (%)	14.6	17.9	14.1	19.0	24.1	24.9	21.0	19.0
ROAA (%)	1.6	1.5	1.2	1.6	1.9	2.1	1.8	1.6
Dividend Payout (%)	17.6	20.6	25.4	20.4	13.6	53.0	10.3	9.4
Dividend yield (%)	0.6	0.9	0.3	0.2	0.1	0.6	0.4	0.4
DPS	0.8	1.3	1.4	2.0	2.0	2.0	2.0	2.0
Book Value (Rs)	38	44	58	66	81	101	122	145
Change (%)	12.8	15.3	31.3	13.8	22.6	25.1	20.8	18.8
P/B (X)	0.7	0.9	2.1	3.5	5.2	4.8	2.7	2.3
P/E (X)	5.2	5.1	18.7	19.6	23.9	21.4	14.0	12.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	11.2	11.1	10.9	10.8	10.2	9.8	9.8
Interest expensed	8.5	8.6	7.8	7.3	6.7	6.7	6.9
Net Interest Income	2.7	2.5	3.1	3.5	3.5	3.1	2.9
Other Income	0.4	0.4	0.4	0.4	0.4	0.2	0.2
Total Income	3.1	2.9	3.6	3.9	3.9	3.3	3.1
Total Operating Expenses	0.9	0.8	0.7	0.7	0.6	0.5	0.5
>> Employee Expenses	0.4	0.3	0.3	0.3	0.3	0.2	0.2
>> Other Expenses	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Operating Profit	2.2	2.1	2.9	3.2	3.3	2.8	2.6
Provisions	0.1	0.2	0.2	0.2	0.2	0.1	0.1
Others	0.0	-	-	-	-	-	-
PBT	2.1	1.9	2.7	3.0	3.1	2.7	2.4
Tax	0.6	0.7	1.0	1.1	1.1	0.9	0.8
PAT/ROAA	1.5	1.2	1.6	1.9	2.1	1.8	1.6
Equity Multiplier (x)	11.8	11.6	11.6	12.4	12.1	11.7	11.8
ROAE	18.0	14.1	19.0	24.1	24.9	21.0	19.0

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