Can Fin Homes Ltd.

No. of shares (m)	133.1
Mkt cap (Rs crs/$m)	7313/1129.2
Current price (Rs/$)	549/8.5
Price target (Rs/$)	644/9.9
52 W H/L (Rs.)	666/252
Book Value (Rs/$)	84/1.3
Beta	1.6
Daily volume NSE (avg. monthly)	232320
P/BV (FY18e/19e)	5.5/4.3
P/E (FY18e/19e)	22.5/17.2
Cost to Income (FY17/FY18e/19e)	17.2/15.3/14.0
EPS growth (FY17/18e/19e)	49.7/38.5/30.5
NIM (FY17/18e/19e)	3.5/3.8/4.0
ROE (FY17/18e/19e)	24.4/27.4/27.9
ROA(FY17/18e/19e)	1.9/2.2/2.3
D/E ratio (FY17/18e/19e)	11.4/11.0/10.4
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF IN
Reuters	CNFH.BO

Shareholding pattern	%
Promoters	30.7
MFs / Banks / FIs/ Others	2.4
Foreign Portfolio Investors	-
Govt. Holding	-
Public & Others	66.9
Total	**100.0**

As on September 30, 2017

Recommendation

ACCUMULATE

Phone: + 91 (33) 4488 0055

E- mail: research@cdequi.com

Quarterly Highlights

- Spurt in housing loans to non-salaried class – growth of 80.2% (y-o-y) in Q1FY18, galvanized 23.5% growth in Can Fin's loan book from Rs 11183 crs ($1653.9m) to Rs 13808 crs ($2132.9m) in the last quarter. Massive rise of 51.7% in overall non-salaried book increased its share to 25.1% of the total loan book as against 20.5% in Q1FY17. However, disbursements grew by only 9.6% to Rs 1153 crs ($178.9m) in Q1FY18 compared to a growth of 30.4% in the same period last year, mainly because of people deferring their decisions due to lack of clarity of the RERA Act.
- Can Fin's NII grew by 34.2% to Rs 123.30 crs ($19.1m) in the last quarter vs Rs 91.88 crs ($13.7m) in Q1FY17, thanks to its ability of procuring funds at lower cost and rise in its loan book, expanding its NIM. Operating expenses, which witnessed a growth of only 11.1% further aided in improving the company's cost to income ratio to 14.9% as against 17.8% in the corresponding quarter of FY17. Reduction in provision to Rs 4.15 crs ($0.6m) from Rs 5.50 crs ($0.8m) and rise in total income by 32.6% helped PAT to jump by 43.2% to Rs 71.21 crs ($11.0m) in the last quarter.
- Can Fin's asset quality deteriorated in Q1FY18 - gross NPA and net NPA increased to 0.4% and 0.17% in the last quarter as against 0.2% and 0.04% in Q1FY17. The reason for rise in gross NPA by 87.4% (q-o-q) to Rs 52.3 crs ($8.1m) in Q1FY18 is attributed to 188 accounts amounting to Rs 29.5 crs ($4.6m) which were not recovered in the quarter and were eventually classified as NPA because the cost of carrying these accounts was very high. However, the company is hopeful of recovering most of these accounts in this fiscal.
- The stock currently trades at 5.5x FY18e BV (22.5x FY18e EPS of Rs 24.45) and 4.3x FY19e BV (17.2x FY19e EPS of Rs 31.89). The positive outlook of the Indian housing sector stems from falling inflation, declining interest rates, and recent drive of GOI's well articulated vision under 'Housing for All by 2022' which will help creating an enabling and supportive environment for expanding credit flow and increasing home ownership. With plans of setting up nearly a dozen new branches in the current fiscal (10 last fiscal) and salaried and professional class continuing to be its niche segment (75.3% of its total loan book in FY17), we expect its earnings to grow at 38.5% and 30.5% in FY18 and FY19 respectively. Considering past valuation record, we assign 'accumulate' rating on the stock with target price of Rs 644 (previous target Rs 384) based on 5x FY19e BV for a period of 9-12 months.

(Rs crs)	FY15	FY16	FY17	FY18e	FY19e
Net Interest Income	177.60	300.93	422.05	566.37	724.42
Non Interest Income	29.14	39.13	47.63	60.63	74.19
Pre-Provision Profits	151.70	273.27	388.97	531.25	687.15
Net profit	86.01	156.95	234.91	325.45	424.55
EPS(Rs)*	8.27	11.79	17.65	24.45	31.89
EPS growth (%)	11.6	42.6	49.7	38.5	30.5

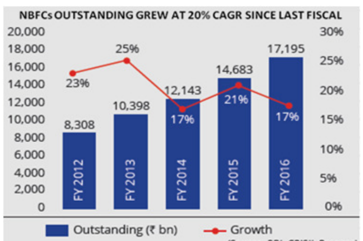
*adjusted for stock split; EPS on weighted average equity wherever applicable.

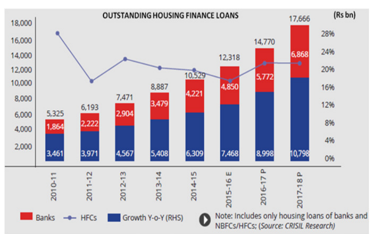
Outlook & Recommendation

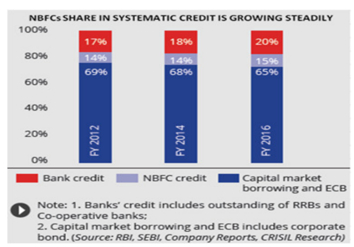
Industry Overview

The government has been maintaining a favorable stance towards the affordable housing sector, starting with the announcement of a breakthrough reform in the form of Real Estate Regulation Act (RERA) which aims to empower customers by ridding them of asymmetric information and bringing in transparency in the real estate transactions. The Union Budget 2017 has meaningfully enhanced the scope of affordable housing and PMAY for buyers, lenders and developers to include mass-market mid-income affordable housing. With a view to boost investments in affordable housing that will eventually take the government even closer to fulfilling its Housing for All by 2022 vision, affordable housing was given infrastructure status in the last budget. This will benefit the developers in getting access to funds at reasonable rates and increase the supply of affordable housing units, addressing the deficient supply and affordability related issues.

ICRA projects that NBFCs are likely to witness an increase in the 90+ day delinquencies, by ~20-50 bps, from the levels of ~4.9% as on June 30, 2017. Delinquency numbers have been rising for the last couple of quarters and in certain key asset classes like microfinance and loan against property, these numbers are likely to increase further. ICRA reckons that GST implementation is likely to have a transitional impact on the key target segments of NBFCs - small businesses and self-employed borrowers. Lagged impact of demonetization coupled with the slowdown in business on account of GST implementation in Q1 FY18 weighed on the growth prospects. Credit growth is expected to remain moderate in Q2 FY18 too but is expected to pick up in H2 FY18 with stabilization of the tax regime. Overall credit growth is expected to be ~16-18% for the current fiscal for retail NBFCs. (Source ICRA)



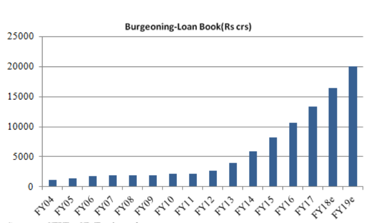


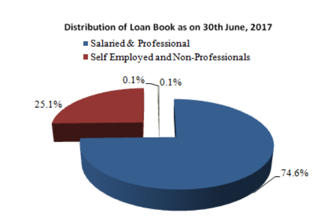


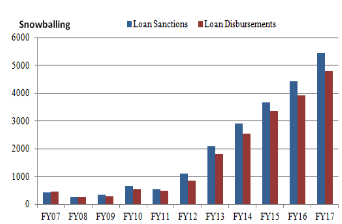
ICRA posits that the benefits of lower cost of funds - 12-month average cost of funds decreasing to ~9.4% in June 2017 from ~9.7% in March 2017 and ~10.3% in March 2016 - would be offset by higher credit cost due to increase in delinquencies and transition to the 90+day NPA recognition norm and moderation in operating efficiencies; exerting pressure on net profitability of the entities, constraining NPA to ~1.6-1.8% in FY18.

Loan Portfolio

Can Fin notched a 25.1% growth in its loan book last fiscal, outpacing most of the industry players, from Rs 10643.13 crs ($1604.5m) to Rs 13313 crs ($2053.3m). The robust growth has been led by housing loans which comprised of 88.4% of the total loan book in FY17 (87.9% in FY16). 75.3% of the loan book came from salaried and professional segment. In terms of portfolio riskiness, it has increased a tad bit – LAP from 5.9% to 6.1% while builder loans declined further to account for only 0.1% of the total loan book. Can Fin continues to focus on increasing the share of housing loans to drive its loan book growth. We expect its loan book to grow at a CAGR of 22.8% over the next two years with increase in LAP (6.3% and 6.5% in FY18 and FY19 respectively).

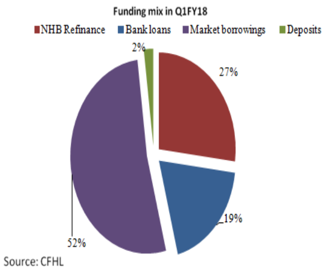


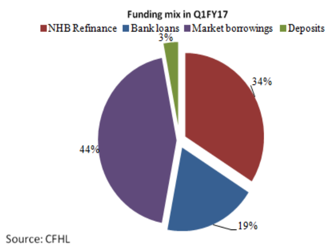


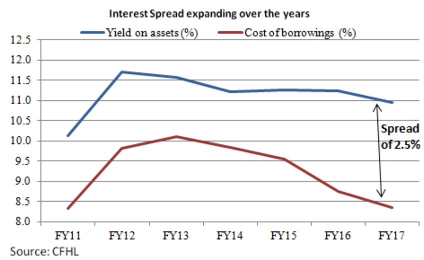


Optimizing cost of funds

Strong AAA rating by ICRA and CARE for its NCDs enabled Can Fin to procure funds at a lower cost. Continuous diversification of its funding basket with larger dependence on market borrowings (52% in Q1FY18 vs 44% in Q1FY17) reduced its average cost of funds by 76 bps (y-o-y) to 7.8% in the last quarter, benefits of which was passed on to its customers - average yield declined to 10.6% as against 11.1% in the same period last year, increasing the interest spread by 29 bps to 2.8% - the maximum witnessed in recent years.

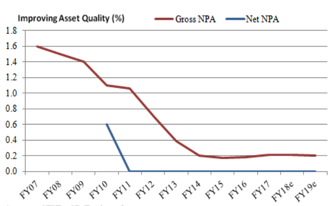


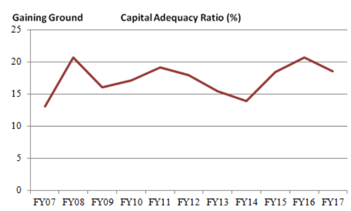


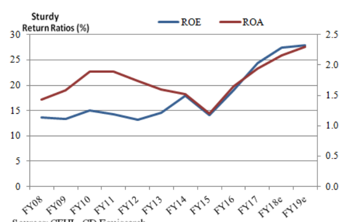


Asset Quality

Can Fin reported stable asset quality- all thanks to its lower LAP exposure and large dependence on less riskier salaried class. Gross NPA remained muted at 0.2% and net NPA contained at 0% for eighth consecutive year. But gradual shift to non-salaried class over the years- from 12.8% of the total loan book in FY13 to 24.4% in FY17 has made the portfolio little vulnerable. With Can Fin's relentless focus on asset quality, we expect its GNPA to remain stable at 0.2%, with higher provisions containing accretion in NPAs.



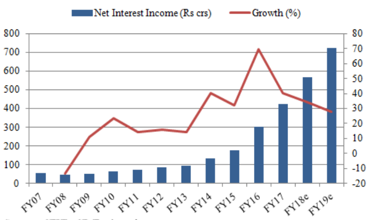




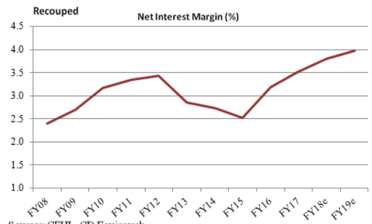
Financials & Valuation

Can Fin's ability to diversify its loan book and access to more efficient source of funds has buttressed the decline in its overall cost of borrowing last fiscal to 8.4% from 8.8% a year before and has fueled net interest income growth by an impressive 40.2% to Rs 422.05 crs ($62.9m) from Rs 300.93 crs ($46.0m) in FY16. NIM improved by 33.5 bps (y-o-y) to 3.5% and with possibility of the company procuring funds at prudent cost, we expect margins to improve further to 3.8% and 4.0% in FY18 and FY19 respectively.

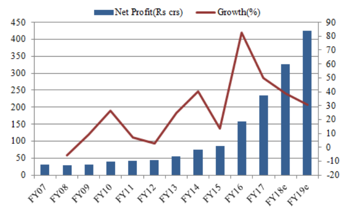
Capital adequacy ratio stood at 19.2% at the end of Q1FY18 – improvement of 36 bps (y-o-y) and 67 bps (q-o-q). Stringent control in operating expenses has relentlessly improved cost to income ratio over the years – from 28.3% in FY14 to 17.2% in FY17. Sturdy margins on high asset base helped ROE and ROA to improve to 24.4% and 1.9% last fiscal. Expeditious growth in the asset book should bolster its profits and enhance its return ratios.



Sources: CFHL, CD Equisearch



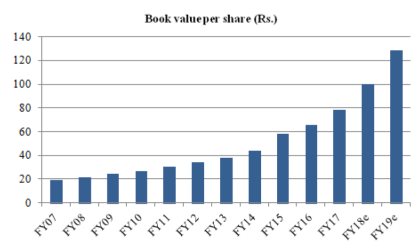
Sources: CFHL, CD Equisearch



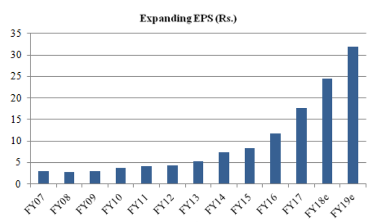
Sources: CFHL, CD Equisearch

To compete with other players in the NBFC sector, Can Fin introduced two new products last fiscal – 'New Gruhalakshmi Rural Housing Scheme' and 'New Loan For Urban Housing' with low interest rates – 8.25% fixed for three years. It also provides home loans under credit link subsidy scheme (CLSS) for the low income group (LIG) with interest subsidy of 6.5% for the initial amount of Rs 6 lacs and middle income group (MIG) segment with interest subsidy at 4%/3% for the initial amount of Rs 9 lacs/Rs 12 lacs respectively.

The stock currently trades at 5.5x FY18e BV (22.5x FY18e EPS of Rs 24.45) and 4.3x FY19e BV (17.2x FY19e EPS of Rs 31.89). Housing sector that Can Fin caters to is not only large, but growing and is underpenetrated from the financing outlook, thus providing good growth opportunities for it in future. PMAY is likely to usher the supply of affordable houses in the country and implementation of the RERA Act has boosted consumer confidence. But the company has dominance in South India – 74% of its business – whereas its competitor like LICHFL has a strong pan-India network. Weakened asset quality in the last quarter cannot be overlooked either. On balance, we assign 'accumulate' rating on the stock with target price of Rs 644 (previous target Rs 384) based on 5x FY19e BV for a period of 9-12 months; earnings projected at CAGR of 34.4% in two years ending FY19. For more information, refer to our January report.



Sources: CFHL, CD Equisearch ;adjusted for stock split



Sources: CFHL, CD Equisearch;adjusted for stock split

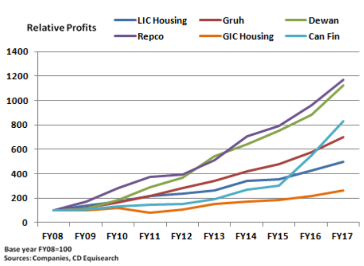
Cross Sectional Analysis

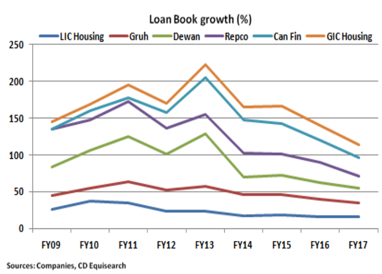
Company	Equity*	CMP	Mcap*	NII*	Profit*	NIMs (%)	Loan Book growth(%)	ROE (%)	ROA (%)	P/E	P/BV
LICHF	100.9	660	33285	3764	1993	2.7	15.4	19.2	1.4	16.7	3.0
Gruh	73.1	517	18906	647	325	4.9	18.3	30.6	2.4	58.3	16.3
Dewan	313.6	558	17504	2110	986	2.6	22.5	17.3	1.2	17.8	2.1
Repco	62.6	638	3994	380	188	4.5	13.1	17.4	2.2	21.3	3.4
GICHF	53.9	508	2734	342	156	3.8	18.3	19.4	1.7	17.5	3.2
Can Fin	26.6	549	7313	453	256	3.6	23.5	25.1	1.9	28.5	6.6

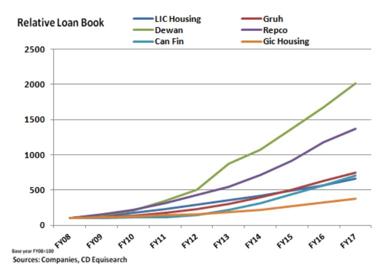
*figures in crores; calculations on ttm basis

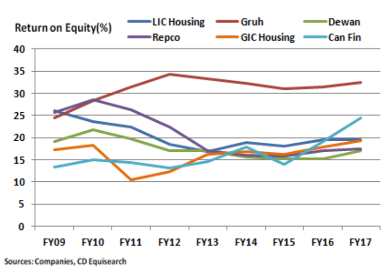
Bespoke products to suit customer needs and strong market in south helped Can Fin to report an industry beating loan book growth of 23.5% (y-o-y) at the end of last quarter. GIC witnessed the highest loan disbursements growth of 33.5% (y-o-y) in Q1FY18 (for companies considered in the exhibit), followed by Dewan because of its relentless focus on under-penetrated markets and segments. Diversified borrowing basket of lenders helped Can Fin acquire funds at the lowest cost. Even though LAP accounted for 14.4% of GIC's total loan book at the end of last quarter, it failed to report NIMs higher than Gruh and Repco, whose LAP concentration was 11.1% and 6.4% respectively at the end of last quarter.

60% of loan book exposure to non-salaried segment exerted pressure on Repco's asset quality in Q1FY18 with highest gross and net NPA of 4.0% and 2.6%. On the other hand, ability to uphold high asset quality due to strong credit mechanism assisted Can Fin to maintain one of the lowest GNPA levels among its peers with net NPA level 0.2%. It also booked highest net profit growth of 49.7% last fiscal. Taking a cue from the upbeat trends in India's housing finance sector, growth outlook of these companies remain unfaltering, though not without near term headwinds in the form of banks shifting to marginal cost of funds based lending rate (MCLR), lowering their home loan rates and giving stiff competition to NBFCs.









Financials

Quarterly Results

Figures in Rs crs

	Q1FY18	Q1FY17	% chg.	FY17	FY16	% chg.
Net Interest Income	123.30	91.88	34.2	422.05	300.93	40.2
Non Interest Income	12.23	10.34	18.3	47.63	39.13	21.7
Total Operating Income	**135.53**	**102.22**	**32.6**	**469.68**	**340.06**	**38.1**
Operating Expenses	20.20	18.18	11.1	80.71	66.80	20.8
Pre-Provision Profits	**115.33**	**84.04**	**37.2**	**388.97**	**273.27**	**42.3**
Provision	4.15	5.50	-24.5	18.80	19.41	-3.1
PBT	**111.18**	**78.54**	**41.6**	**370.17**	**253.86**	**45.8**
Tax	39.97	28.80	38.8	134.91	96.76	39.4
PAT	**71.21**	**49.74**	**43.2**	**235.26**	**157.11**	**49.7**
Extraordinary items	-	-	-	0.35	0.16	124.4
Adjusted Net Profit	**71.21**	**49.74**	**43.2**	**234.91**	**156.95**	**49.7**
Basic EPS (F.V.2)*	5.35	3.74	43.2	17.65	11.79	49.7
Equity	26.62	26.62	-	26.62	26.62	-

Income Statement

Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Net Interest Income	177.60	300.93	422.05	566.37	724.42
Non Interest Income	29.14	39.13	47.63	60.63	74.19
Total Operating Income	**206.74**	**340.06**	**469.68**	**627.00**	**798.60**
Operating Expenses	55.04	66.80	80.71	95.75	111.45
Pre-Provision Profits	**151.70**	**273.27**	**388.97**	**531.25**	**687.15**
Provision	14.25	19.41	18.80	22.74	23.79
PBT	**137.45**	**253.86**	**370.17**	**508.51**	**663.36**
Tax	51.21	96.76	134.91	183.06	238.81
PAT	**86.24**	**157.11**	**235.26**	**325.45**	**424.55**
Extraordinary items	0.23	0.16	0.35	-	-
Adjusted Net Profit	**86.01**	**156.95**	**234.91**	**325.45**	**424.55**
Basic EPS (F.V.2)*	8.27	11.79	17.65	24.45	31.89
Equity	26.62	26.62	26.62	26.62	26.62

*adjusted for stock split

Balance Sheet Figures in Rs crs

	FY15	FY16	FY17	FY18e	FY19e
Sources Of Funds	**8334.35**	**10755.96**	**13457.63**	**16625.65**	**20336.54**
Shareholders Funds	**771.96**	**878.52**	**1076.78**	**1370.18**	**1756.28**
Share Capital	26.62	26.62	26.62	26.62	26.62
Reserves and Surplus	745.34	851.89	1050.15	1343.56	1729.66
Non Current Liabilities	**5532.82**	**7091.98**	**8223.48**	**9893.99**	**12042.04**
Long Term Borrowings	5457.26	6965.45	8028.25	9683.97	11814.45
Long Term Provisions	53.94	69.66	81.59	98.20	117.77
Deferred Tax Liabilities(net)	21.61	56.87	113.65	111.82	109.82
Current Liabilities	**2029.57**	**2785.46**	**4157.38**	**5361.48**	**6538.22**
Short Term Borrowings	1483.66	1625.91	3205.27	4255.08	5191.20
Other Current Liabilities	475.56	1039.88	826.03	906.73	1087.02
Short Term Provisions	70.35	119.67	126.08	199.67	260.00
Application of Funds	**8334.35**	**10755.96**	**13457.63**	**16625.65**	**20336.54**
Non- Current Assets	**8231.19**	**10640.52**	**13305.64**	**16435.06**	**20050.85**
Tangible Assets	9.28	8.89	10.17	10.74	10.99
Non-Current Investments	14.94	14.94	15.94	15.94	15.94
Long Term Loans and Advances	8206.98	10616.70	13279.53	16408.39	20023.93
Current Assets	**103.17**	**115.44**	**151.99**	**190.59**	**285.69**
Cash and Cash Equivalents	8.00	17.35	19.95	14.54	36.41
Short term loans and advances	94.84	97.91	131.83	175.83	249.07
Other Current Assets	0.33	0.18	0.22	0.22	0.22

Key Financial Ratios

	FY15	FY16	FY17	FY18e	FY19e
Growth Ratios (%)					
Net Interest Income	32.3	69.4	40.2	34.2	27.9
Total Operating Income	32.9	64.7	38.0	33.7	27.4
Pre Provision Profits	35.9	80.4	42.3	36.8	29.3
Net Profit	13.4	82.5	49.7	38.5	30.5
EPS	11.6	42.6	49.7	38.5	30.5
Loan Book	40.9	29.3	25.1	23.6	22.0
Return Ratios (%)					
ROE	14.1	19.0	24.4	27.4	27.9
ROA	1.2	1.6	1.9	2.2	2.3
Margins (%)					
Cost To Income Ratio	26.7	19.7	17.2	15.3	14.0
Net Interest Margin (% of Loan Book)	2.5	3.2	3.5	3.8	4.0
Asset Quality (%)					
Gross NPA	0.2	0.2	0.2	0.2	0.2
Net NPA	-	-	-	-	-
Valuation Ratios					
P/BV	2.1	3.5	5.4	5.5	4.3
P/E	14.7	19.6	24.0	22.5	17.2
Other Ratios					
Debt / Equity	9.6	10.7	11.4	11.0	10.4
Current Ratio	0.1	0.0	0.0	0.0	0.0

Cumulative Financial Data

	FY08-10	FY11-13	FY14-16	FY17-19
NII	160	252	613	1713
Pre-provision profits	137	201	536	1607
PBT	136	194	498	1541
PAT	99	139	319	985
Dividends	16	23	69	112
Loan Book	2107	4016	10643	20068
Total Debt	1865	3539	9444	17901
NII growth (%)	-	57.2	143.6	179.5
PAT growth (%)	-	41.4	128.8	208.9
Loan Book growth (%)	8.5	90.6	165.0	88.6
Cost to Income (%)	22.7	27.5	23.6	15.2
NIM (%)	2.6	2.7	2.8	3.7
ROE (%)	13.9	13.9	16.7	25.3
ROA (%)	1.6	1.5	1.4	2.1
GNPA (%)	1.1	0.4	0.2	0.2
Dividend payout ratio (%)	15.8	16.2	21.8	11.4

FY08-10 implies three year period ending FY10;*as on terminal year.

Can Fin has demonstrated a remarkable performance over the years with its loan book rising 5x in six years ending FY16. Endeavors at Can Fin to maintain a prudent mix of borrowings with a view to minimize its weighted average cost of funds and maintain a healthy spread on its lending activities was hard hit in FY13, when its average cost grew by 30 bps (y-o-y) to 10.11%, bringing down its interest spread to 1.5% from 1.9% in FY12. This partially justifies NII growing by only 57.2% in FY11-13 period, despite loan book growth of 90.6% during that period. Operating costs witnessed a rise of 56.5% in FY13 which led to an elevated cost to income ratio in FY11-13 period (see table above).

Favorable outlook and fast growing industry should allow Can Fin to grow its loan book 1.9x in FY19 from FY16 period. Moderation in interest expense growth due to cost effective borrowing portfolio through increase in market borrowings should further augment expansion in its NII and margins. Wielding strict control on operating costs will further reduce the cost to income ratio to 15.2%. Return ratios should also see marked improvement in the coming years – ROE and ROA projected at 25.3% and 2.1% during FY17-19 period (see table).

Financial Summary- US$ denominated

million $	FY15	FY16	FY17	FY18e	FY19e
Equity capital	4.3	4.0	4.1	4.1	4.1
Shareholders funds	123.3	132.4	161.1	205.6	264.8
Total debt	1178.2	1423.7	1831.0	2265.7	2764.1
Total loans and advances	1326.4	1615.3	2068.4	2560.9	3130.5
Investments	2.4	2.3	2.5	2.5	2.5
Net current assets	-307.8	-402.5	-622.7	-804.4	-971.9
Total assets	1331.6	1621.5	2075.6	2567.3	3140.3
Net Interest Income	29.0	46.0	62.9	87.5	111.9
Pre-provision Profits	24.7	41.7	57.9	82.0	106.1
PBT	22.4	38.7	55.1	78.5	102.4
PAT	14.1	24.0	35.0	50.3	65.6
EPS($)	0.14	0.18	0.26	0.38	0.49
Book value ($)	0.93	0.99	1.21	1.54	1.99

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 64.8/$).
All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY14	FY15	FY16	FY17
Average	60.5	61.15	65.46	67.09
Year end	60.1	62.59	66.33	64.84

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.