

Can Fin Homes Limited.: Q3FY18 Result Update

CMP INR: 444
 Rating: BUY
 Target Price INR: 542
 Upside: 22%

Low risk, high-growth play on generic opportunity

Can Fin Homes (CFH) reported yet another soft quarter of financial performance as loans and advances, disbursement and net revenue were below from our estimates. However, the net profit growth came in-line with our estimates. Loan and advances came at INR 150.6bn, grew 18.7% YoY (average last 12 quarters growth has been ~29%) and disbursement increased 10% YoY to INR 13.2bn. Net interest income came in at INR 128cr, registering 16% growth YoY, however higher non-interest income drove net revenue with rise of 21% YoY to INR 144.4cr. Operating profit grew at 24% YoY to INR 124cr, significant control at operational levels aided this rise. Net profit grew by 34% YoY to INR 80cr due to lower tax.

Loans & advances grew at softer pace; dragged by primary market

Disbursement came in at INR 13.2bn, registered 10% YoY growth; lower than our estimate. Consequently, loans and advances growth was below the average run-rate of last 12 quarters. CFH reported 19% growth in loan book to INR 151bn as compared to 29% average growth of last 12 quarters. The lower loan growth can be attributable to - a) Slower growth in primary market (i.e. Karnataka and TN); b) the pace of RERA registration was slower than the expected in key markets; c) competition from banks has increased significantly off-late. Management guided to achieve INR 160bn of loan book in FY18 with an average disbursement of INR 500cr per month in Q4FY18.

Moderating cost supported operating profit

Operating profit grew 24% YoY to INR 124cr, driven by lower operating cost. CFH reported 184bps improvement in cost/income ratio to 14.4%. We expect cost to income ratio to remain moderate on account of improving productivity of branches.

Asset quality to remain stable

The gross NPL came in at 0.46% as compared to 0.4% in Q2FY18 and net NPL 0.25% in Q3FY18. Moderate loan growth enhanced the GNPA by 6bps QoQ and 22bps YoY to 0.46%. Management guided that asset quality should improve going forward.

Outlook and Valuation

CFH's loan & advances and NII registered 38% CAGR and PAT registered 40% CAGR over FY12-17 but external factors such as Demonetisation, GST and RERA dented the growth in 9MFY18. Management guided that FY19E should be one of best years for housing finance as well as CFH. At CMP, stock is trading at 3.0x/2.5x of FY19E/20E ABV and 12.0x FY20E earning (we have taken INR 400cr of fund raising in FY18). Based on 3.0x FY20E ABV, we arrive at a target price of 542 per share, implying 22% upside. At CMP, we recommend 'BUY' with a target price of INR 542 per share.

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Bloomberg:	CANFIN
52-week range (INR):	666.00 / 335.00
Share in issue (cr):	14
M cap (INR cr):	6,130
Avg. Daily Vol. BSE/NSE (':000):	502
Promoter Holding (%)	30.44

INR crs	Q3FY18	Q3FY17	%change	Q2FY18	%change	FY17	FY18E	FY19E	FY20E
Net revenue	144.4	119.3	21.0	142.6	1.2	469	575	730	938
Net profit	80.1	59.6	34.4	75.0	6.8	235	307	387	504
Dil. EPS (INR)	6.0	4.5	34.4	5.6	6.8	18	22	27	36
Adj. Book Value						80.9	122.7	147.5	180.6
Price/Adj. book (x)						5.5	3.6	3.0	2.5
Price/Earning (x)						25.1	20.5	16.2	12.5

** : we have estimated ~7% dilution to raise INR 400cr in FY18.

Date: 24th January 2018

Q3FY18 Result Highlights

INR crs	Q3FY18	Q3FY17	%change	Q2FY18	%change	YTD18	FY18E**	FY19E
Net interest income	127.9	110.33	16	127.98	0.0	379.2	512.1	644.7
Non-interest income	16.4	8.9	83.7	14.6	12.3	43.3	63.2	85.0
Net revenue	144.4	119.3	21.0	142.6	1.2	422.5	575.3	729.7
Operating expenses	20.8	19.4	7.3	20.4	1.8	61.4	91.2	115.0
Operating Profit	123.6	99.9	23.7	122.2	1.2	361.1	484.1	614.7
Provisions & Contingencies	9.2	6.0	53.7	8.0	15.8	21.3	27.2	34.0
PBT	114.3	93.9	21.8	114.2	0.1	339.7	456.9	580.7
Tax	34.2	34.3	-0.1	39.2	-12.6	113.4	150.1	193.6
PAT	80.10	59.60	34.4	75.0	6.8	226.3	306.8	387.2
Adjustment	0.0	0.0	na	0.0	na	0.0	0.0	0.0
Adjusted PAT	80.1	59.6	34.4	75.0	6.8	226.3	306.8	387.2
Paid-up Capital	26.6	26.6	0.0	26.6	0.0	26.6	28.4	28.4
Adj. EPS (INR)	6.0	4.5	34.4	5.6	6.8	17.0	21.6	27.3
Ratio								
C/I Ratio	14.41	16.25	-184bps	14.33	7bps	14.5	15.9	130.8
Yielded	10.4	11.0	-61bps	10.5	-12bps	6.8	10.3	10.3
cost of funds	7.7	8.5	-76bps	7.8	-4bps	12.06	7.8	7.8
Spread	2.67	2.52	15bps	2.75	-8bps	3.51	2.50	2.50
NIM	3.6	3.5	9bps	3.6	-6bps	5.3	3.4	3.5
RoAA	2.1	1.9	25bps	2.1	2bps	2.1	2.1	2.1
RoE	23.8	21.0	275bps	24.6	-80bps	23.7	21.8	20.2
Balance Sheet								
Loan & Advances	15058	12688	18.7	14456	4.2	15058	15976	20449
Borrowings	13303	12827	3.7	12827	3.7	13303	14221	18109
Disbursement	1322	1207	9.5	1346	-1.8	3821	6012	7812
Sanctioned	1547	1359	13.8	1574	-1.7	4307	6668	8664
Asset Quality								
GNPA (%)	0.46	0.2	22bps	0.40	6bps	0.5	0.4	0.4
NNPA (%)	0.25	0.0	24bps	0.2	7bps	0.3	0.1	0.1
Adjusted Book Value per share (ABV)							122.7	147.5
P/ABV							3.6	3.0
P/E (x)							20.5	16.2

	New estimates			Old estimates			Change estimates		
(INR cr)	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Loan & advances	15,976	20,449	26,174	16,508	20,965	27,255	-3	-2	-4
Net revenue	575	730	938	594	753	973	-3	-3	-4
Operating profit	484	615	796	503	638	830	-4	-4	-4
PAT	307	387	504	324	403	525	-5	-4	-4
EPS (INR)	22	27	36	23	28	37	-5	-4	-4

Financials

Income statement (INR cr)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Interest income	1,044	1,306	1,529	1,905	2,438
Interest charges	743	884	1,017	1,260	1,614
Net interest income	301	422	512	645	824
Fee & other income	39	47	63	85	114
Net revenues	340	469	575	730	938
Operating expense	67	81	91	115	143
- Employee exp	33	39	49	62	80
- Other opex	34	41	42	53	63
Preprovision profit	273	388	484	615	796
Provisions	19	19	27	34	39
PBT	254	370	457	581	756
Taxes	97	135	150	194	252
PAT	157	235	307	387	504
Extraordinaries	0	0	0	0	0
Reported PAT	157	235	307	387	504
Basic number of shares (mn)	13	13	14	14	14
Basic EPS (INR)	12	18	22	27	36
Diluted number of shares (mn)	13	13	14	14	14
Diluted EPS (INR)	12	18	22	27	36
DPS (INR)	2	2	12	15	18
Payout ratio (%)	17	11	56	55	49

Growth ratios (%)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Nil growth	69.4	40.2	21.3	25.9	27.8
Net revenues growth	64.5	37.9	22.6	26.8	28.6
Opex growth	26.2	20.8	13.0	26.1	24.3
PPP growth	77.7	42.1	24.7	27.0	29.4
Provisions growth	18.7	(3.1)	44.7	24.9	15.3
PAT growth	82.2	49.7	30.4	26.2	30.2

Operating ratios (%)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Yield on advances	11.0	10.8	10.3	10.3	10.3
Cost of funds	8.8	8.3	7.8	7.8	7.8
Spread	2.1	2.5	2.5	2.5	2.5
Net interest margins	3.2	3.5	3.4	3.5	3.5
Cost-to-income	19.6	17.2	15.9	15.8	15.2
Tax rate	38.1	36.5	32.9	33.3	33.3

Balance Sheet					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Paid Capital	27	27	28	28	28
Application Money pending Allc	0.5	0.5	0.5	0.5	0.5
Reserve & Surplus	851	1,050	1,713	2,066	2,536
Shareholder's Fund	879	1,077	1,742	2,095	2,565
Total Borrowings	9,444	11,872	14,221	18,109	23,298
Other Liabilities	433	509	577	702	879
Total Liabilities	10,756	13,458	16,541	20,907	26,742
Cash & Bank Balance	17	20	22	24	27
Investment	15	16	16	16	16
Loan & Advances	10,617	13,280	15,976	20,449	26,174
Net Fixed Assets	9	10	10	10	10
Other assets	98	132	517	408	515
Total Assets	10,756	13,458	16,541	20,907	26,742

Balance sheet ratios (%)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Loan growth	29.4	25.1	20.3	28.0	28.0
EA growth	29.1	25.1	20.9	27.7	28.0
Disbursement growth	17.2	22.2	25.5	29.9	7.2
Gross NPA ratio	0.2	0.2	0.4	0.4	0.4
Net NPA ratio	0.0	0.0	0.1	0.1	0.1
Provision coverage	100	100	76	76	76

RoE decomposition (%)					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net interest income/Assets	3.2	3.5	3.4	3.5	3.5
Other Income/Assets	0.4	0.4	0.4	0.5	0.5
Net revenues/Assets	3.6	3.9	3.9	3.9	4.0
Operating expense/Assets	0.7	0.7	0.6	0.6	0.6
Provisions/Assets	0.2	0.2	0.2	0.2	0.2
Taxes/Assets	1.0	1.1	1.0	1.0	1.1
Total costs/Assets	1.9	1.9	1.8	1.9	1.8
ROA	1.6	1.9	2.1	2.1	2.1
Equity/Assets	9.2	8.9	11.7	11.3	10.8
ROAE	19.0	24.1	21.8	20.2	21.6

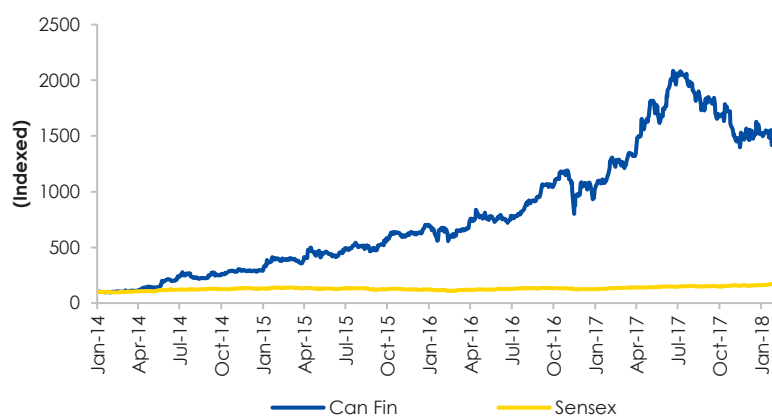
Valuation metrics					
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	11.8	17.6	21.6	27.3	35.5
EPS growth (%)	82.0	49.7	22.3	26.2	30.2
Adjusted BV per share	66.0	80.9	122.7	147.5	180.6
Diluted P/E (x)	37.5	25.1	20.5	16.2	12.5
Price/Adj. Book Value(x)	6.7	5.5	3.6	3.0	2.5
Price/ Earning (x)	37.5	25.1	20.5	16.2	12

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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