

## First Flash: Can Fin Homes Ltd

CMP INR: 1,433, Mcap INR: 3,815 Cr

Date: 23<sup>rd</sup> August 2016

### Company structure

- Can Fin Homes Ltd. (CANFIN) is a South India-based home financier focused on Tier 1 and Tier 2 cities. The company was set up by Canara Bank in 1987, which owns 42.4% shareholding of Can Fin Homes. CANFIN's customer profile comprises of low-risk loans for salaried individuals (80% of loans), self employed and non professionals (19% of loans). The company primarily caters to the medium ticket size segment (average ticket size INR 17.36 lakh for housing loans and INR 13 lakh for non housing loans). CANFIN's fundamentals have improved considerably with gross NPAs declining to 0.19% in FY16 from 1.06% in FY11 and loan book expanding at 41% CAGR in last 4 years. CANFIN now aims to increase branches/satellite offices to 175 from 140 end FY16 and expects book size to reach INR 13,500 crore by end FY17. 76% of branch network is present in South, while the remaining are distributed across the country. The company would continue to open new branches and would equally focus in south and non-south
- Capital adequacy remains comfortable at 20.69%, well above the industry benchmark and regulatory requirement.
- Best in class asset quality: Gross NPA end FY16 were INR 19.76 crore (0.19%) well below the average 0.70% for the housing finance industry. Gross NPA ratio has come down 87bps from 1.06% in FY11 to 0.19% in FY16. Net NPA is nil from the last six years implying 100% coverage ratio. Focus on salaried class (80% of the total loan book) with average ticket size of INR 17.36 lakh, in-house credit & legal teams have enabled the company to maintain respectable asset quality over the years.

### Peer Comparison

CANFIN has been growing at above industry average and is expected to grow at higher pace driven by aggressive branch expansion in southern and north-western zone. Since FY12, CANFIN has registered 41% CAGR growth in advances against industry growth of 17-18%. We expect industry to grow at 18-20% and CANFIN to grow at 31% over FY16-18E. CANFIN trades at a premium vs. peers due to robust asset quality and healthy loan growth

### Triggers

- **Changing borrowing mix towards cheaper source of funds CPs/NCDs:** CANFIN's bank borrowing proportion has declined considerably from 68% in FY12 to 27% in FY16 whilst CP and NCDs now comprises 34% of total borrowings. As a result, cost of funds has declined substantially from 9.81% in FY12 to 8.75% in FY16. Given the top ratings by the rating agencies, we believe CANFIN is capable of availing more funds from money market, which will further help in reducing its cost of funds and increasing NIMs. As at end FY16, CANFIN's total borrowing comprises of i) CPs of INR 1,000 crore with cost of funds at 7.30% p.a. ii) NHB borrowings INR 3,535.05 crore with overall cost at 8.74% p.a. iii) Secured NCDs of INR 2,090 crore and unsecured NCDs of INR 100 crore at 8.94% iv) outstanding deposits of INR 220.97 crore with overall cost at 9.47% p.a. and lastly v) aggregate bank borrowings of INR 2,531.65 crore with overall cost at 9.81% p.a. In terms of borrowing mix, bank borrowing is likely to be between 20-25%, money market borrowing 40-45% and borrowing from NHB would remain in the range of 30-35%.
- **Robust loan growth to continue:** CANFIN has aggressively expanded its loan book over the last few years, recording a 41% CAGR in advances over FY12-16. Sanctions have grown at 41% CAGR during FY12-16 while disbursements have grown by 46% CAGR. To tap the robust demand in the housing industry, CANFIN has added 88 branches/satellite offices to its network since FY12. Further, it plans to open 30 new branches and expects book size to reach INR 13,500 crore by end FY17. We expect CANFIN's loan book to grow at a CAGR of 30% over FY16-18E. The company remains focused on lending to individual segments and increasing higher yielding non housing loan segment to improve profitability. The share of non-housing loan has increased from c.3% (INR 65 crore) to 11.9% (INR 1,261 crore) end FY16.
- **Return ratios to improve further driven by increasing NIMs and loan growth:** We estimate RoE to improve from 19% in FY16 to 26% in FY18E driven by 19bps improvement in NIMs from FY16-18 and CAGR loan growth of 31% over FY16 to FY18. We estimate 19bps expansion NIM to 3.34 % in FY18 driven by lower cost of funds and increasing share of high yield loans.

### Valuation Argument

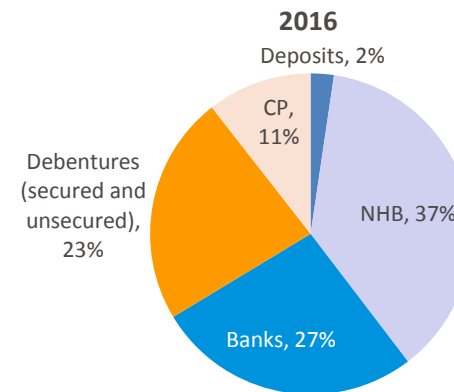
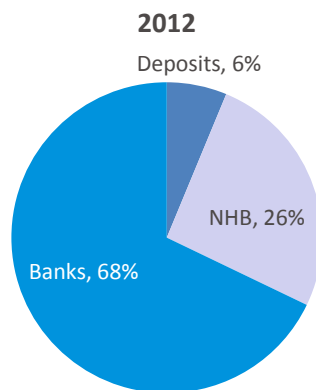
CANFIN has consistently outperformed the peers. Loan book grew at CAGR of 41% over FY12 to FY16 while net interest income (NII) and net profit each grew at CAGR of 38% over the same period. We have projected 31% AUM growth, slightly lower than management's guidance of 34% over FY16 to FY20. We have assumed marginal improvement in net interest margin driven by change in borrowing mix, resulting 34% growth in NII over FY16-18E. We expect 42% growth in net profit aided by declining cost-to-income ratio and stable asset quality.

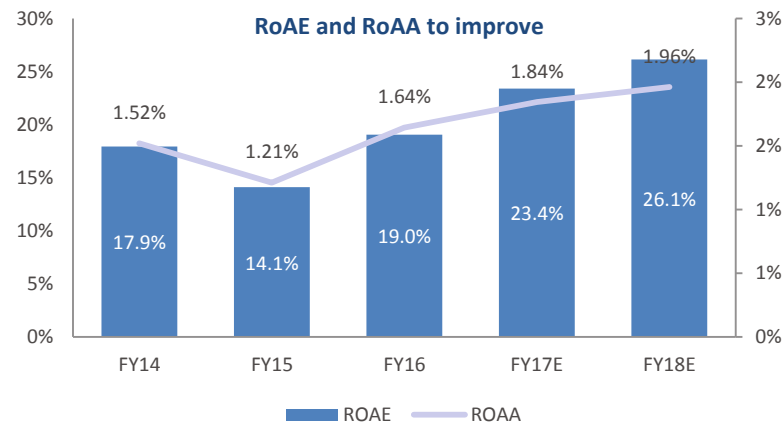
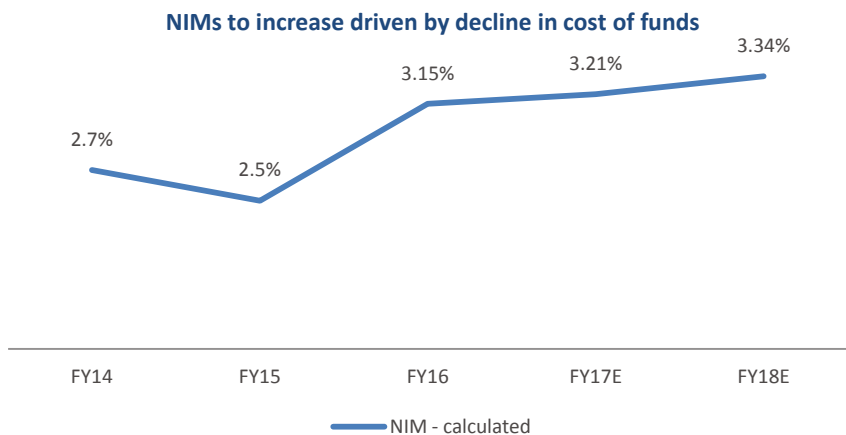
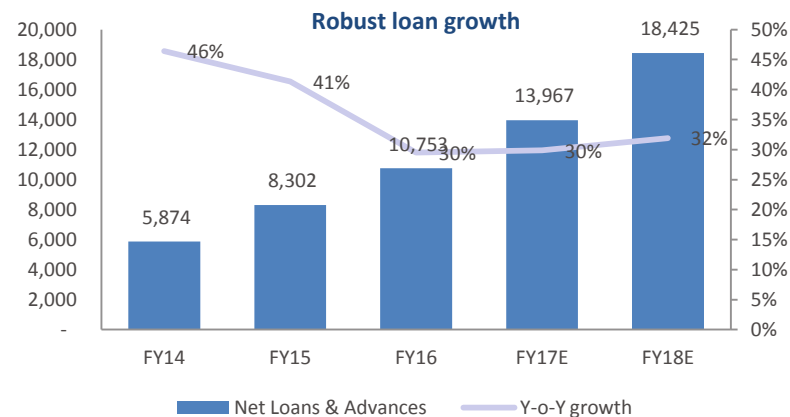
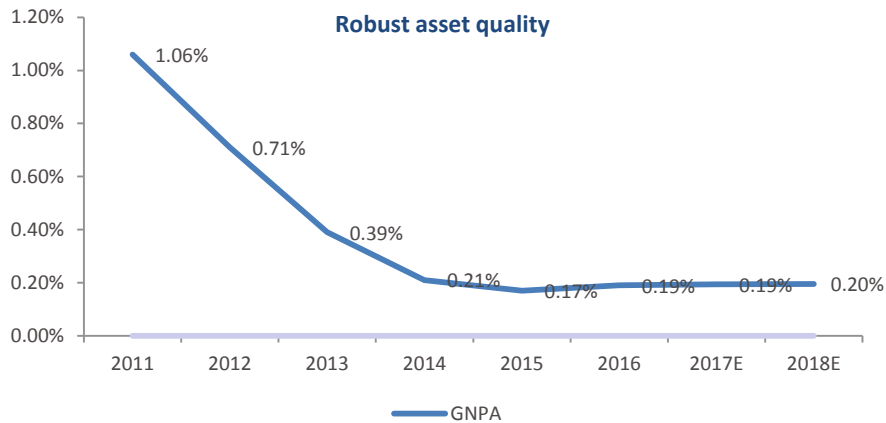
At CMP of Rs 1,433, we recommend **"Buy"** on CANFIN. At CMP, the stock is trading at 3.5x FY17E ABV of Rs 404 per share and 2.8x FY18E ABV of Rs 512 per share. Based on 3.5x FY18E ABV, we arrive at a target price of Rs 1,793 per share, implying 25% upside.

## Peer Comparison

Company	CMP	AUM	P/ABV		FY16					
			FY17E	FY18E	NIM	C/I (x)	GNPA	NNPA	RoA	RoE
Indiabulls Housing Finance	793	68,683	2.78	2.5	5.5%	20.9%	0.8%	0.4%	3.5%	27.2%
GIC Housing Finance	294	7,912	1.86	1.6	3.5%	25.0%	1.8%	0.0%	1.6%	17.3%
HDFC	1378	2,59,224	3.43	3.1	3.9%	6.6%	0.7%	0.0%	2.5%	20.8%
Gruh	318	11,115	11.33	9.4	4.1%	18.0%	0.3%	0.1%	2.4%	29.2%
Can Fin	1431	10,643	3.54	2.8	3.2%	19.6%	0.2%	0.0%	1.7%	17.9%
LIC	551	1,25,173	2.55	2.1	2.7%	19.2%	0.5%	0.2%	1.4%	19.6%
DHFL	270	61,775	1.57	1.4	3.0%	26.8%	0.9%	0.6%	1.5%	17.8%
Repco	832	7,691	4.78	4.1	4.4%	19.3%	1.3%	0.5%	2.2%	17.7%

## Changing borrowing mix





Source: Edel Invest Research

Income Statement (INR Cr)	FY14	FY15	FY16	FY17E	FY18E
Net interest income	134	178	301	398	541
Y-o-Y Growth	40%	32%	69%	32%	36%
Non-interest income	21	29	39	51	68
Total operating income	155	207	340	449	610
Y-o-Y Growth	42%	33%	64%	32%	36%
Operating Expenses	41	53	67	84	107
Cost-to-Income ratio	26%	26%	20%	19%	17%
Operating Profit	115	154	273	365	503
Y-o-Y Growth	55%	34%	78%	34%	38%
Provisions & Contingencies	8	16	19	22	25
PBT	107	137	254	343	478
Exceptional	0	0	0	0	0
Tax	31	51	97	114	159
Net Profit	76	86	157	229	319
Y-o-Y Growth	40%	14%	82%	45%	39%
Adj. EPS (Rs )	36.96	32.4	59.0	85.9	119.8
P/E (x)	38.7	44.1	24.2	16.7	11.9
Adj. Book Value	220.8	289.8	329.8	404.1	512.2
P/ABV (x)	6.5	4.9	4.3	3.5	2.8

Balance Sheet	FY14	FY15	FY16	FY17E	FY18E
Share Capital	20	27	27	27	27
Reserve & Surplus	432	745	851	1,049	1,337
<b>Shareholder's Fund</b>	<b>452</b>	<b>771</b>	<b>878</b>	<b>1,076</b>	<b>1,364</b>
<b>Borrowings</b>	<b>5,273</b>	<b>7,375</b>	<b>9,478</b>	<b>12,362</b>	<b>16,367</b>
Other Liabilities & Provisions	186	188	439	573	742
Total Liabilities	5,459	7,563	9,917	12,935	17,109
<b>Total Liabilities &amp; equity</b>	<b>5,912</b>	<b>8,334</b>	<b>10,795</b>	<b>14,011</b>	<b>18,473</b>
Cash and cash equivalent	9	8	17	19	21
<b>Net Loans &amp; Advances</b>	<b>5,874</b>	<b>8,302</b>	<b>10,753</b>	<b>13,967</b>	<b>18,425</b>
Y-o-Y growth	46%	41%	30%	30%	32%
Fixed Assets	8	9	9	9	9
Investments & Other Assets	20	15	15	15	18
<b>Total Assets</b>	<b>5,912</b>	<b>8,334</b>	<b>10,795</b>	<b>14,011</b>	<b>18,473</b>

Spread Analysis	FY14	FY15	FY16	FY17E	FY18E
Avg. yield on interest earning assets - calculated	11.2%	11.1%	10.9%	10.7%	10.5%
Avg. cost of funds - calculated	9.6%	9.7%	8.8%	8.5%	8.1%
NIM - calculated	2.7%	2.5%	3.15%	3.21%	3.34%
<b>Profitability</b>					
ROAA	1.52%	1.21%	1.64%	1.84%	1.96%
ROAE	17.9%	14.1%	19.0%	23.4%	26.1%
<b>Efficiency Ratio</b>					
Cost-to-income ratio	26%	26%	20%	19%	17%
Emp. Cost/Operating Expenses	44%	47%	49%	51%	52%
Cost-to-total assets	0.8%	0.7%	0.7%	0.7%	0.7%
<b>Valuation ratio</b>					
Book Value	220.8	289.8	329.8	404.1	512.2
P/BV (x)	6.5	4.9	4.3	3.5	2.8
Adjusted Book Value	220.8	289.8	329.8	404.1	512.2
P/ABV (x)	6.5	4.9	4.3	3.5	2.8
EPS (Rs )	36.96	32.42	59.02	85.86	119.75
P/E (x)	38.7	44.1	24.2	16.7	11.9
Dividend per share	6.5	7.0	10.0	10.0	10.0
Dividend Yield	0.5%	0.5%	0.7%	0.7%	0.7%
<b>Asset Quality</b>					
Gross NPA	0.21%	0.17%	0.19%	0.19%	0.20%
Net NPA	0.00%	0.00%	0.00%	0.00%	0.00%
PCR	100%	100%	100%	100%	100%

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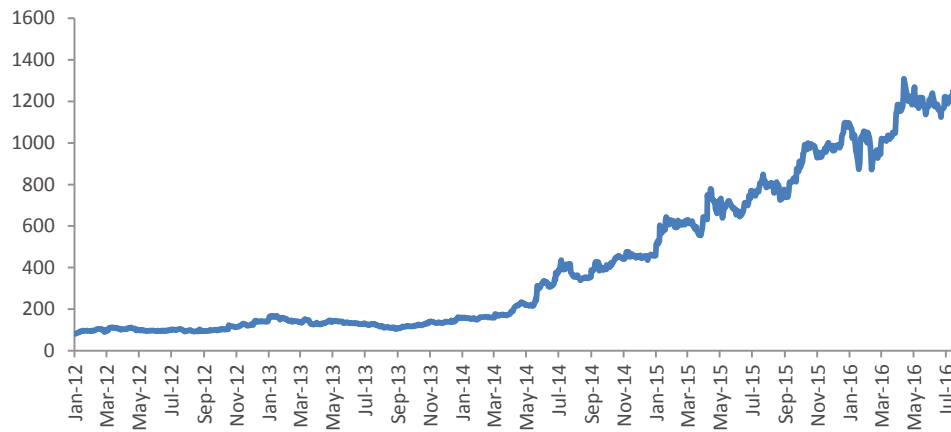
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Rating	Expected to
<b>Buy</b>	appreciate more than 25% over a 12-month period
<b>Hold</b>	appreciate up to 10% over a 12-month period
<b>Reduce</b>	depreciate more than 10% over a 12-month period

**Can Fin Homes Ltd 5 years price chart**



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