



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade 022 67141442

Takeaways from Management Interaction

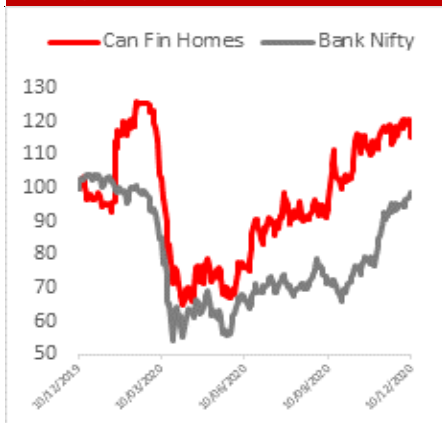
BUY

Current Price	489
52 Week Range	254/519
Target Price	575
Upside	18

Key Share Data

Market Cap (Rs.bn)	65.10
Market Cap (US\$ mn)	883
No of o/s shares (mn)	133
Face Value	2
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	30.0	30.0
DII's	12.74	11.12
Others	56.80	57.78
Total	100.0	100.0

Post our recent interaction with the management of Can Fin Homes, we believe that the company is one of the safest bet in HFC space due to its strong balance sheet (negligible builder loan exposure), robust liquidity position (see banks offering funding at even finer rates) and better growth prospects when demand recovers (supported by lower base and strong presence in Tier 2-4 markets).

Takeaways from management interaction

- Pick-up in demand was faster than anticipated earlier, supported by reduction in state government levies and price discounts offered by many developers. Management is confident in the long term prospects of the housing finance business in India. The company has always been growing faster than the overall industry and looking to do the same in upcoming years, given its strong presence in Tier 2-4 markets.
- 3QFY20 disbursements growth was good and was expected to continue in 4QFY20 as well but got impacted due to the lockdown. The company resumed its operations from April 20, but disbursement started from 4th week of May as earlier it was focusing on collections & recovery.
- Disbursement has picked up in June, but largely due to the stock of sanctions (pent-up demand). The business for Sep stood at 70% of pre COVID levels and improving month on month, and management expect it to reach pre COVID levels by the end of Q4FY21
- The company has reduced its lending rates substantially in the last few months and now it can be comparable with many banks & leading HFCs. With this, there is a good chance that the company could reduce balance transfer from its portfolio. As per their website, the company is offering interest rates starting from 6.95% vs HDFC's 6.9%.

Asset Quality

- The company's collection efficiency has improved to 93% in Sep 2020, which was even better than pre covid levels. For the month of Oct & Nov collection efficiency remained at pre covid levels.
- According to management, delinquencies will likely to spike in Q3 & Q4FY21, though it will be much lesser than the industry. The company's delinquent pool would be the lowest in the industry.
- Gross NPLs are estimated to revert back to the current level in 4-5 quarters after the initial spike.
- Inherent health of the portfolio is very good because of the underwriting criteria which include focus on salaried segment and not taking into account surrogate income, among other things.
- Management expects current Covid provisions of Rs 86 cr to be enough for the expected slippages. Also expects some write-back eventually.

Yields & CoF

- Yields are coming down (due to reduction in interest rates) in line with decline in cost of funds as the company renegotiating with lenders to reduce the interest rate. Overall funding mix will depend on the respective rates for each funding source. Incremental cost of funds stands at sub 6%, while incremental yields are stood 8.6% and spread is ~2.7%.
- Management has indicated that the current levels of NIMs and spread are not sustainable and expect these to stabilize at ~3.3-3.5% and 2.4-2.6% respectively.

Other Highlights

- CAR is adequate at 24.7% (Tier I - 22.5%). There are no urgent plans to raise capital.
- Company holds liquidity cover equivalent to next one year of business requirements.

Valuation & Outlook

We remain positive on the stock given its favorable loan mix, sustained margins, comfortable liquidity position & robust CAR (25%). While NPA recognition will kick in from the upcoming quarter, we believe that Can Fin Homes would be in a relatively better position from an asset quality standpoint, given its historical track record and other qualitative aspects, including stringent loan underwriting criteria and negligible developer exposure. At CMP, the stock trades at 2.8x its FY21E Adj BV & 2.3x its FY22E Adj BV, which lower than its peak valuation of 5.7 times book value. Thus, we recommend investors to buy this stock, with a price target of Rs 575, valuing the stock at 2.7x FY22E Adj BV.

Financials (Rs. Mn)

Years	NII	PPOP	PAT	EPS	Adj. BVPS	P/ABV	RoA
FY20	6549	5786	3744	28	153	3.2	1.9
FY21	7327	6415	4089	31	175	2.8	1.9
FY22	8314	7287	5081	38	213	2.3	2.0



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P&L (Rs Mn)	FY19	FY20	FY21	FY22
Interest income	16996	19991	21635	24295
Interest expense	11693	13442	14308	15981
NII	5303	6549	7327	8314
Non-interest income	318	314	260	332
Net revenues	5621	6862	7587	8646
Operating expenses	915	1,076	1,171	1,359
PPOP	4706	5786	6415	7287
Provisions	11	603	949	494
PBT	4695	5183	5466	6793
Tax	1,728	1,439	1,378	1,712
PAT	2967	3744	4089	5081

Share capital	266	266	266.308	266.308
Reserves & surplus	17556	21234	24963	29623
Net worth	17822	21501	25229	29889
Borrowings	166448	185063	204154	240381
Other liability	3025	3872	1492	1535
Total liabilities	187295	210436	230875	271805
Fixed assets	99	379	398	418
Investments	163	243	265	291
Loans	182342	205257	224083	264783
Cash	4203	3924	5419	5537
Other assets	489	633	707	773
Total assets	187295	210436	230875	271805

Ratios	FY19	FY20	FY21	FY22
Growth (%)				
NII	4	23	12	13
PPOP	4	23	11	14
PAT	4	26	9	24
Advances	17	13	9	18
Spread (%)				
Yield on Funds	10.0	10.3	10.1	9.9
Cost of Funds	7.7	7.6	7.4	7.2
Spread	2.4	2.7	2.7	2.7
NIM	3.1	3.3	3.3	3.3
Asset quality (%)				
Gross NPAs	0.6	0.8	1.4	1.1
Net NPAs	0.4	0.5	0.8	0.6
Provisions	30	29	40	46
Return ratios (%)				
RoE	18.2	19.0	17.5	18.4
RoA	1.7	1.9	1.9	2.0
Per share (Rs)				
EPS	22	28	31	38
BV	134	161	189	224
ABV	128	153	175	213
Valuation (x)				
P/E	21.9	17.4	15.9	12.8
P/BV	3.7	3.0	2.6	2.2
P/ABV	3.8	3.2	2.8	2.3



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