



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade 022 67141442

Result Update @ Dalal & Broacha

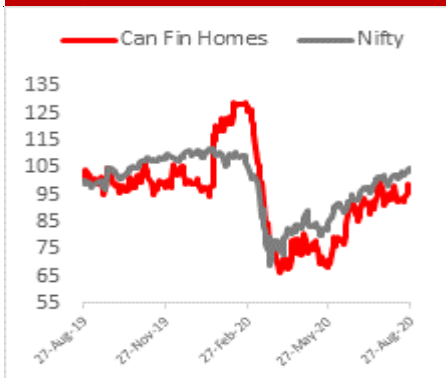
Buy on Dips

Current Price	381
52 Week Range	254/519
Target Price	444
Upside	16

Key Share Data

Market Cap (Rs.bn)	51
Market Cap (US\$ mn)	687
No of o/s shares (mn)	133
Face Value	2
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF:IN

Price performance



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

Financials (Rs. Mn)

Years	NII	PPOP	PAT	EPS	Adj. BVPS	P/ABV	RoA
FY20	6549	5786	3761	28	153	2.5	1.9
FY21	7019	6108	3965	30	174	2.2	1.8
FY22	8163	7137	4969	37	211	1.8	2.0

Can Fin Homes has reported a stable set of numbers for the quarter ended June 30, 2020. The company's numbers were below our estimates on the profitability front due to higher provisions, though operating performance was better than expectations, mainly due to lower operating cost.

- NII came in at INR 191 Cr, vs +1.5% QoQ / +28.7% YoY and 0.1% below our est.
- Net Income came in at INR 192 Cr, vs -0.3% QoQ / +23% YoY and 1% below our est.
- PPOP came in at INR 170 Cr, +7% QoQ / +29% YoY and 5.4% above our est.
- Provisions came in at INR 44 Cr, vs Rs 41 Cr QoQ / Rs 9 Cr YoY and Rs 22 Cr our est.
- PAT came in at INR 93 Cr, 2% QoQ / 15% YoY and 10% below our est.
- EPS stood at INR 7.0 vs INR 6.83/ INR 6.08 in Q4FY20 / Q1FY20 respectively.

Financial Highlights

- **The company's loan growth slows down to 9.7% YoY/ 0.7% QoQ at Rs 20,844 Cr, adversely impacted by lockdowns imposed for containing the spread of the coronavirus.** Disbursement de-grew by 69% YoY/71% QoQ stood at Rs 401 Cr, while sanctions de-grew by 80% YoY/83% QoQ at Rs 264 Cr. We believe disbursements may improve from here on, but the road to normalcy is long. **Restrictions are now more localized after the national lockdown was lifted.**
- During the quarter, **NIMs expanded by 18 bps QoQ to 3.70% (highest in several quarters), largely due to declined cost of funds.** Loan spread improved to 2.72% from 2.46% QoQ, with yield on advances declined by 19 bps QoQ to 10.04%, and the cost of funds contained at 7.31% (vs 7.77% in Q4FY20 & 7.93% in Q1FY20).
- **The company's asset quality remains stable, with GNPA's sequentially down by 1 bps at 0.75% and NNPA's down by 4 bps to 0.50% in Q1FY21.** Loan book under moratorium remained stagnant QoQ at ~28%. Company carries Rs 72.9 Cr Co-VID related provisions i.e. 0.35% of loan book.
- **The management reiterated its strategy is to maintain focus on low ticket size home loans (affordable) and penetrate in Tier 3 & 4 cities while remaining cautious on builder loans which currently stands at only INR 6 cr.**
- Meanwhile, the company is planning to raise capital in the near future, which should provide comfort from a funding standpoint besides strengthening the balance sheet.

Valuation & Outlook

We believe in near term the asset quality will remain under pressure, with higher delinquency and increased credit cost. However, we expect the company's actual loan loss will be lower due to higher proportion of salaried customers, with reasonable presence in non-metro. Besides, the company has a seasoned book and does not have any major exposure to builder loans, and is thus not exposed to risky developer financing. Builder loan constitutes only 0.03% of total outstanding loan book as on Q1FY21.

Once corona virus scare comes down, with interest rates going down, there is a good chance that demand will start reviving in H2FY21 since we believe that deferred demand would come back. **At CMP the stock trades at 2.2x its FY21E Adj BV & 1.8x its FY22E Adj Bv, which way lower than its five-year historical average of 2.8 times and peak valuation of 5.7 times book value. Thus, we recommend investors to follow buy on dips strategy, with a price target of Rs 444, valuing the stock at 2.1x FY22E Adj BV.**



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Concall Highlights

Asset Quality

- According to management, the company's delinquency pool is one of the lowest in the industry.
- In Q3, NPAs will increase by a marginal extent and Q4 - it will further go up. However, management expects that NPAs should revert to current levels in another 4-5 quarters.
- March collections were normal but April was impacted badly. May, June and July have seen better collections than preceding months.
- While loan book under moratorium stood at ~28%, 14% customers have not paid anything in last six months.
- Pay cut and Job loss will not have severe impact on the company's business, as only 0.5% of the book has lost their Jobs and 5% customers saw salary cut.
- Management believes that 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

Business Operation

- From 20th April to 3rd week of May, focus has been on collections and recovery. New business generation started from the end of May.
- June has been better than May but still not up to the previous levels. Overall demand is likely to take about one-two quarters to come back.
- For FY21, the company expects disbursements to be flat or lower than FY20 but would aim for some bit of AUM growth by reducing balance transfers among other measures.
- The company's disbursement target for FY21 is Rs 5000 cr.

Liquidity remains comfortable

- The management indicated that the majority of the borrowing is long term in nature and liquidity is not an issue for the company and overall ALM is positive.
- The company has close to about Rs 4000 Cr of approved unavailed lines which can take care of all liability repayments till Dec/Jan.

Branch Expansion

- Geographical focus remains tier 2/3/4 cities. Aim is to grow in markets where there is market share gain opportunities, but that is unlikely to come at the cost of lower profitability.
- The company is looking to open ten branches in tier 2/3/4 cities, which is likely to start from next quarter Q3FY21

Operational efficiency

- Cost to income ratio declined substantially in Q1FY21 due to COVID-19 i.e. lesser expenses but it is not sustainable and will be back to the normal number in next one to two quarters.

Cost of Funds & Spread

- Cost of funds has been coming down and is expected to come down further during FY21 as incremental cost of funds is 7% in Q1FY21. Overall funding mix will depend on the respective rates for each funding source.
- Margins will come down in coming quarters, management is confident that will not fall below 3%, while Spread will not fall below 2.4%.
- Out of total loan portfolio, 3-4% portfolio comes for repricing every month.



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P&L (Rs Mn)	FY19	FY20	FY21	FY22
Interest income	16996	19991	21635	24295
Interest expense	11693	13442	14616	16131
NII	5303	6549	7019	8163
Non-interest income	318	314	260	332
Net revenues	5621	6862	7279	8495
Operating expenses	915	1,076	1,171	1,359
PPOP	4706	5786	6108	7137
Provisions	11	603	807	494
PBT	4695	5183	5300	6643
Tax	1,728	1,422	1,336	1,674
PAT	2967	3761	3965	4969

Balance sheet	FY19	FY20	FY21	FY22
Share capital	266	266	266.308	266.308
Reserves & surplus	17556	21234	24838	29386
Net worth	17822	21501	25105	29652
Borrowings	166448	185063	204154	240381
Other liability	3025	3872	1492	1535
Total liabilities	187295	210436	230751	271568
Fixed assets	99	379	398	418
Investments	163	243	265	291
Loans	182342	205257	224083	264783
Cash	4203	3924	5295	5300
Other assets	489	633	707	773
Total assets	187295	210436	230751	271568

Ratios	FY19	FY20	FY21	FY22
Growth (%)				
NII	4	23	7	16
PPOP	4	23	6	17
PAT	4	27	5	25
Advances	17	13	9	18
Spread (%)				
Yield on Funds	10.0	10.3	10.1	9.9
Cost of Funds	7.7	7.6	7.5	7.3
Spread	2.4	2.7	2.6	2.7
NIM	3.1	3.3	3.2	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	19.1	17.0	18.1
RoA	1.7	1.9	1.8	2.0
Per share (Rs)				
EPS	22	28	30	37
BV	134	161	189	223
ABV	128	153	174	211
Valuation (x)				
P/E	17.1	13.5	12.8	10.2
P/BV	2.8	2.4	2.0	1.7
P/ABV	3.0	2.5	2.2	1.8



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