



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade 022 67141442

## Q2FY21 Result Update @ Dalal & Broacha

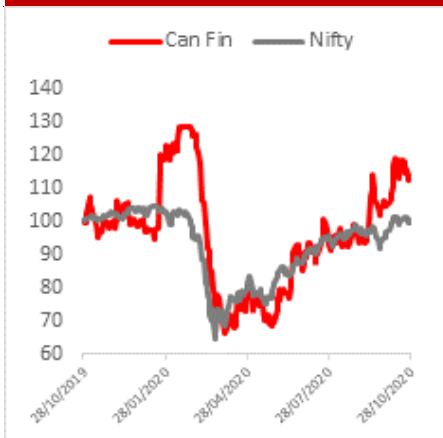
### Buy on Dips

Current Price	463
52 Week Range	254/519
Target Price	509
Upside (%)	10

### Key Share Data

Market Cap (Rs.bn)	62
Market Cap (US\$ mn)	828
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
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Can Fin Homes reported its Q2FY21 performance which beat our estimates on all front.

- NII came in at INR 211 Cr, vs +10% QoQ / +35% YoY
- Net Income came in at INR 212 Cr, vs 11% QoQ / +30% YoY
- PPOP came in at INR 170 Cr, +7% QoQ / +29% YoY
- Provisions came in at INR 15 Cr, vs Rs 44 Cr QoQ / Rs 6 Cr YoY
- PAT came in at INR 128 Cr, 38% QoQ / 32% YoY
- EPS stood at INR 9.64 vs INR 7.0/ INR 7.33 in Q1FY21 / Q2FY20 respectively.

### Other Financial Highlights

- The company's loan growth slows down to 6.3% YoY (-0.1% QoQ) at Rs 208.30 Bn, adversely impacted by selective local lockdowns imposed for containing the spread of the coronavirus. Disbursement de-grew by 38% YoY (+106% QoQ) stood at Rs 8.5 Bn, while sanctions de-grew by 40% YoY (+222% QoQ) at Rs 8.5 Bn. We believe disbursements may improve from here on, but the road to normalcy is long.
- During the quarter, NIMs expanded by 39 bps QoQ to 4.1% (highest in several quarters), largely due to declined cost of funds. Loan spread improved to 2.9% from 2.7% QoQ, with yield on advances declined by 8 bps QoQ to 9.96%, and the cost of funds contained at 7.1% (vs 7.3% in Q1FY21 & 8.0% in Q2FY20).
- The company's asset quality improved during the quarter, with GNPA's sequentially down by 3 bps at 0.72% and NNPA's down by 4 bps to 0.46% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 0.78% as per the proforma. Company carries Rs 86 Cr Co-VID related provisions i.e. 0.41% 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.

### Valuation & Outlook

While the company's asset quality will come under pressure in the coming quarters, its actual loan loss will be lower due to higher proportion of salaried customers, with a 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 the total outstanding loan book as of Q2FY21. Once coronavirus scare comes down, with interest rates going down, there is a good chance that demand will start reviving from Q4FY21 onwards since we believe that deferred demand would come back.

At CMP the stock trades at 2.7x its FY21E Adj BV & 2.2x 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 509, valuing the stock at 2.3x FY22E Adj BV.

### Financials (Rs. Mn)

Years	NII	PPOP	PAT	EPS	Adj. BVPS	P/ABV	RoA
FY20	6549	5786	3761	28	153	3.0	1.9
FY21	7019	6108	3965	30	174	2.7	1.8
FY22	8163	7137	4969	37	211	2.2	2.0



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### Concall Highlights

#### Recovery Underway

- The business for Sep stood at 70% of pre COVID levels and improving every month, and management expect it to reach pre COVID levels by Q1FY22. 85% of normalize level by Q4FY21.
- AUM growth is likely to be somewhere ~8-10% in FY21 and is likely to return to normal level from next year onwards.

#### Asset Quality

- The company's collection efficiency has improved to 93% in Sep 2020, which was even better than pre covid levels.
- According to management, delinquency pool for the company is significantly lower compared to the industry in both HL and LAP portfolio. 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.
- The company has provided Rs 86 Cr towards COVID related stress. Going forward, Q3 and 4Q NPAs may surge a little and in the next 4 quarters, it is likely to come back to the current levels.
- Pay cut and Job loss will not have a severe impact on the company's business, as only 0.5% of the book has lost their Jobs and 5% of customers saw salary cuts.

#### Margins & spreads

- Cost of funds has been coming down and is expected to come down further as incremental cost of funds is at 6.54% in Q2FY21. 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%.

#### Operating efficiency

- Drop in cost to income ratio was majorly due to covid and is expected to return to normal levels in coming quarters.
- The company is planning to open 10 branches in Tier II, Tier-III cities which is likely to start from December onwards.

#### Other Highlights

- In terms of exposures, south is the biggest region, contributing around 70% of the business.
- Salaried/self-employed mix is expected to remain in the range of 71:29. Within the salaried customers, ~50% are government employees.
- In the SENP segment, the company's focus is on growing in SENP-oriented states like Gujarat and Rajasthan, where the repayment culture is good.
- Shareholders' approval has been received for raising equity capital of up to Rs10bn. Quantum, timing, and means of the capital raise are yet to be decided.


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P&L (Rs Mn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Interest Income	4376	4552	4772	4940	5135	5251	5221	6	0	5240
Interest Expenditure	3015	3140	3286	3379	3398	3366	3308	-7	-5	3135
<b>Net Interest Income</b>	<b>1361</b>	<b>1411</b>	<b>1486</b>	<b>1561</b>	<b>1737</b>	<b>1885</b>	<b>1913</b>	<b>35</b>	<b>10</b>	<b>2106</b>
Fees & Other Income	63	77	69	67	33	38	4	-74	344	18
<b>Net Income</b>	<b>1425</b>	<b>1489</b>	<b>1555</b>	<b>1628</b>	<b>1770</b>	<b>1923</b>	<b>1917</b>	<b>30</b>	<b>11</b>	<b>2124</b>
Other Expenditure	216	322	239	256	269	325	215	-2	17	252
<b>PPOP</b>	<b>1209</b>	<b>1167</b>	<b>1316</b>	<b>1372</b>	<b>1501</b>	<b>1598</b>	<b>1702</b>	<b>36</b>	<b>10</b>	<b>1872</b>
Provision	0	11	87	63	45	408	441	141	-66	151
<b>Profit Before Tax</b>	<b>1209</b>	<b>1156</b>	<b>1229</b>	<b>1309</b>	<b>1456</b>	<b>1189</b>	<b>1260</b>	<b>31</b>	<b>36</b>	<b>1720</b>
Tax & DTL	451	495	419	333	390	280	329	31	33	436
<b>Profit After Tax</b>	<b>758</b>	<b>661</b>	<b>810</b>	<b>976</b>	<b>1066</b>	<b>909</b>	<b>932</b>	<b>32</b>	<b>38</b>	<b>1284</b>
<b>Yield &amp; Spread (%)</b>										
Yields	10.1	10.1	10.2	10.2	10.2	10.2	10.0	-27 bps	-8 bps	10.0
Cost of fund	7.9	7.9	7.9	8.0	7.9	7.8	7.3	-85 bps	-21 bps	7.1
Spread	2.2	2.2	2.3	2.3	2.3	2.5	2.7	58 bps	14 bps	2.9
NIM	3.2	3.1	3.2	3.2	3.4	3.5	3.7	88 bps	39 bps	4.1
<b>Returns</b>										
ROA	1.9	1.8	1.7	1.9	2.0	1.9	1.8	25 bps	37 bps	2.1
ROE	21.4	18.2	17.6	19.1	19.7	17.4	16.6	-32 bps	223 bps	18.8
<b>Loan movement</b>										
New Approvals	14830	17380	12890	14240	16173	15660	2640	-40	222	8510
Disbursements	13180	15540	12760	13340	14767	13940	4010	-38	106	8250
Loan Book	175680	183810	190030	196000	201940	207079	208440	6	0	208300

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

Balance sheet	FY19	FY20	FY21	FY22
Share capital	266	266	266	266
Reserves & surplus	17556	21234	24838	29386
<b>Net worth</b>	<b>17822</b>	<b>21501</b>	<b>25105</b>	<b>29652</b>
Borrowings	166448	185063	204154	240381
Other liability	3025	3872	1492	1535
<b>Total liabilities</b>	<b>187295</b>	<b>210436</b>	<b>230751</b>	<b>271568</b>
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
<b>Total assets</b>	<b>187295</b>	<b>210436</b>	<b>230751</b>	<b>271568</b>

Ratios	FY19	FY20	FY21	FY22
<b>Growth (%)</b>				
NII	4	23	7	16
PPOP	4	23	6	17
PAT	4	27	5	25
Advances	17	13	9	18
<b>Spread (%)</b>				
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
<b>Asset quality (%)</b>				
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
<b>Return ratios (%)</b>				
RoE	18.2	19.1	17.0	18.1
RoA	1.7	1.9	1.8	2.0
<b>Per share (Rs)</b>				
EPS	22	28	30	37
BV	134	161	189	223
ABV	128	153	174	211
<b>Valuation (x)</b>				
P/E	20.8	16.4	15.5	12.4
P/BV	3.5	2.9	2.5	2.1
P/ABV	3.6	3.0	2.7	2.2



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