



**Can Fin Homes has reported a stable set of numbers for Q1 FY22. The company's profitability was better than our estimates due to lower provisions and better operating efficiency.**

- NII came in at INR 1.81 Bn, vs -2.5% QoQ /-5.3% YoY and 0.1% below our est.
- Net Income came in at INR 1.83 Bn, vs -5.0% QoQ /-4.6% YoY and 1.4% below our est.
- PPOP came in at INR 1.53 Bn, +1.9% QoQ/-10.4% YoY and 7% above our est.
- Provisions came in at INR 65 Mn, vs -14.5% QoQ/-85.2% YoY and 17% below our est.
- PAT came in at INR 1.09 Bn, 6.1% QoQ /16.8% YoY and 8% above our est.
- EPS stood at INR 8.2 vs INR 7.7/INR 7.0 in Q4FY21 / Q1FY21 respectively

### Financial Highlights

- The company's loan growth stood 6.6% YoY/ 0.5% QoQ at Rs 222.21 Bn, impacted by 55% QoQ dip in disbursements to INR 8.94 Bn (up 123% YoY), while sanctions de-grew by 63% QoQ at Rs 8.29 Bn (up 214% YoY). We believe disbursements will improve in coming quarters and the road to normalcy is not far off. Management reiterated its strategy to maintain focus on home loans (affordable) and penetrate in Tier 3 & 4 cities while remaining cautious on builder loans.
- Lockdowns have impacted disbursements / collections in April & May but the management expects to recover pent-up demand in H2FY22. The company is now focusing on customers with higher salary bracket, which leads to an increase in average ticket size to INR 20 lacs from INR 18 lacs.
- During the quarter, NIMs drop by 57 bps QoQ/ 39 bps YoY to 3.31%, largely due to declined yield on advances. Loan spread deteriorated to 2.4% from 2.8% QoQ, with yield on advances declined by 143 bps QoQ to 8.06%, and the CoF contained at 5.66% (vs 6.7% QoQ).
- Going forward, both NIMs and spread would inch up because the company has increased its base rate from 6.95% to 7.5%. Besides, the company has already repriced 70% of the book; and from this quarter onwards, it will see good growth in disbursement numbers.

### Financial Summary

Y/E Mar (Rs Mn)	FY20	FY21	FY22E	FY23E
NII	6747	7980	7332	9258
Adjusted net profit	3744	4561	4379	5587
Net worth	21501	26098	30056	35221
EPS (Rs)	28	34	33	42
P/E (x)	18.9	15.5	16.2	12.7
P/Adj BV (x)	3.5	2.9	2.5	2.1
RoA (%)	1.9	2.1	1.8	1.9
RoE (%)	19.0	19.2	15.6	17.1

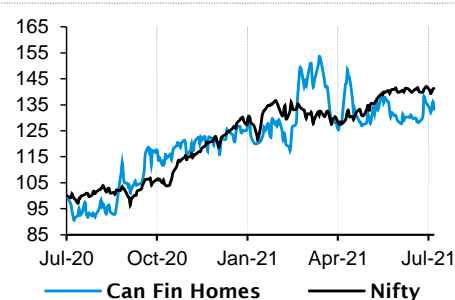
Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
BUY	627	18

### Market data

Current price	Rs	531
Market Cap (Rs.Bn)	(Rs Bn)	71
Market Cap (US\$ Mn)	(US\$ Mn)	954
Face Value	Rs	2
52 Weeks High/Low	Rs	619/358
Average Daily Volume	('000)	720
BSE Code		511196
Bloomberg		CANF:IN
Source: Bloomberg		

### One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	30.0	30.0
FII	0.0	0.0
DII	17.3	17.4
Others	52.7	52.6
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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- Cost to income ratio for the company improved by 571 bps QoQ to 16.5% supported by lower operating expenses, which was down 29% QoQ at Rs 0.30 Bn in Q1FY22.
- The company's asset quality remains stable, with GNPA's sequentially down by 1 bps at 0.90% and NNPA's down by 4 bps to 0.57% in Q1FY22. Its loan mix has improved by 34 bps QoQ in favour of salaried & Professionals and it stood at 73%/27%. Delinquency pool for the company is significantly lower compared to the industry in both HL and LAP.
- Given the company's historical track record and other qualitative aspects, including stringent loan underwriting criteria, we believe that Can Fin Homes would be in a relatively better position from a loan loss standpoint. The company has held Rs 70 Cr worth of provision, which is more than required, in accordance with RBI guidelines relating to COVID-19 regulatory package.

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## Valuation and outlook

The company's performance on asset quality has been commendable. We remain positive on the stock given its sovereign backing, comfortable liquidity position and robust CAR (26%). We believe Can Fin will continue to quote at premium valuations as its loan book quality of 90% retail housing with negligible exposure to developer finance remains best-in-class and its competitive cost of funds is on par with some banks and it is well ahead of many HFC peers. At CMP the stock trades at 2.5x its FY22E Adj BV & 2.1x its FY23E Adj Bv, which is lower than its six-year historical average of 2.8 times and peak valuation of 5.7 times book value. Thus, we recommend investors to buy this stock, with a price target of Rs 627, valuing the stock at 2.5x FY23E Adj BV.

## Highlights of the Conference Call

### Rate hike signals margin bottom out

- According to management, the company's spread and margin are bottom out and will see a gradual recovery from the current quarter.
- The company has increased its base rate from 6.95% to 7.5%. With 70% of its portfolio already repriced at a lower rate, the remaining 30% portfolio will be repriced at a higher rate.
- For Q1FY22, the incremental cost of funds was 4.87%, while the incremental yield was 7.23%. The incremental cost for bank borrowings is ~ 5%
- The current spread of 2.36% will see improvement from the current quarter onwards, driven by stable cost of funds, comparatively higher yields, and higher business growth.
- The company will have its base rate differentiation of ~75-80 bps compared to big banks (Historically it was 130-150 bps).

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### Asset quality

- The company is carrying overall provisions of Rs 70 Cr, out of which Rs 37 Cr is marked towards restructuring pool while remaining Rs 33 Cr is marked as additional provisioning buffer, which will be utilized in case of a sudden spike in delinquency.
- 12-15% of restructuring pool could slip into NPA
- Stage 2 assets stood at ~Rs 1200 Cr (5.4% of advances) vs 1184 Cr in Q4FY21.
- The restructuring pool will be less than 2% of advances

**Stage 2 assets stood at ~Rs 1200 Cr (5.4% of advances) vs 1184 Cr in Q4FY21.**

### Disbursement growth to bounce back sharply

- Management is positive on demand recovery and expecting quarterly disbursement run rate to be upwards of Rs 2000 Cr per quarter for the next few quarters.
- The company saw an increase in ticket size from 18 lakh to 20 lakh.
- The normalized run rate in terms of number of loans is ~12500 to 13000 loans per quarter.
- Bank normally received repayment worth ~ Rs 370 Cr per month
- The rejection ratio stood at 11% in Q1FY22 vs 15% in FY21. (Historically it was 10-11%)
- BT out during the quarter was Rs 57 Cr, which was much higher in FY21.

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### Borrowing

- Borrowing stood at Rs 19200 Cr in Q1FY22. Out of which, bank borrowing accounts for 47%, NHB for ~25%, Market Borrowings consist CP & NCD for 26% and Deposits accounts for 2%.
- CPs have been borrowed against undrawn bank lines. CPs are being tapped into only to capitalize on the cost arbitrage and not for primarily funding growth.
- The company has 7-8 months of liquidity
- The company will have its base rate differentiation of ~75-80 bps compared to big banks (Historically it was 130-150 bps).

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## Quarterly Financial

DESCRIPTION	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY	QoQ
Interest Earned	525	522	524	500	461	449	-14.0	-2.5
Interest Expended	337	331	313	289	275	268	-19.0	-2.5
<b>NII</b>	<b>188</b>	<b>191</b>	<b>211</b>	<b>210</b>	<b>186</b>	<b>181</b>	<b>-5.3</b>	<b>-2.5</b>
Other Income	4	0	2	3	7	2	313.0	-75.7
<b>Net Income</b>	<b>192</b>	<b>192</b>	<b>212</b>	<b>214</b>	<b>193</b>	<b>183</b>	<b>-4.6</b>	<b>-5.0</b>
Operating Expenses	33	21	25	34	43	30	40.8	-29.4
<b>PPOP</b>	<b>160</b>	<b>170</b>	<b>187</b>	<b>179</b>	<b>150</b>	<b>153</b>	<b>-10.4</b>	<b>1.9</b>
Provisions	41	44	15	2	8	7	-85.2	-14.5
<b>PBT</b>	<b>119</b>	<b>126</b>	<b>172</b>	<b>177</b>	<b>142</b>	<b>146</b>	<b>15.8</b>	<b>2.8</b>
Tax	28	33	44	46	39	37	13.0	-5.8
<b>PAT</b>	<b>91</b>	<b>93</b>	<b>128</b>	<b>132</b>	<b>103</b>	<b>109</b>	<b>16.8</b>	<b>6.1</b>
<b>BALANCE SHEET</b>								
Advances	20708	20844	20830	21004	22105	22221	6.6	0.5
Disbursements	1394	401	825	1106	2001	894	123	-55
<b>IMPORTANT RATIOS</b>								
GNPA (%)	0.76	0.75	0.72	0.68	0.91	0.90	15 bps	-1 bps
NNPA (%)	0.54	0.50	0.46	0.41	0.61	0.57	7 bps	-4 bps
PCR (%)	28.8	33.7	36.4	39.2	33.5	36.8	310 bps	328 bps
NIM (%)	3.52	3.70	3.89	3.97	3.88	3.31	-39 bps	-57 bps
C/I Ratio	16.9	11.2	11.9	16.1	22.3	16.5	534 bps	-571 bps
Tier I Ratio	20.5	20.5	22.5	22.4	23.8	24.3	387 bps	50 bps
<b>Loan Mix</b>								
Salaried	71	71	71	72	73	73	244 bps	34 bps
SENP	29	29	29	28	27	27	-243 bps	-34 bps

Source: the company

## Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	20.19	20.06	19.78	24.91
Interest expense	13.44	12.08	12.45	15.65
<b>NII</b>	<b>6.75</b>	<b>7.98</b>	<b>7.33</b>	<b>9.26</b>
Non-interest income	0.12	0.12	0.16	0.20
<b>Net revenues</b>	<b>6.86</b>	<b>8.10</b>	<b>7.49</b>	<b>9.46</b>
Operating expenses	1.08	1.24	1.33	1.51
<b>PPOP</b>	<b>5.79</b>	<b>6.86</b>	<b>6.16</b>	<b>7.95</b>
Provisions	0.60	0.69	0.31	0.44
<b>PBT</b>	<b>5.18</b>	<b>6.18</b>	<b>5.85</b>	<b>7.51</b>
Tax	1.44	1.62	1.48	1.89
<b>PAT</b>	<b>3.74</b>	<b>4.56</b>	<b>4.38</b>	<b>5.62</b>
<b>Balance sheet</b>				
Balance sheet	FY20	FY21	FY22	FY23
Share capital	0.3	0.3	0.3	0.3
Reserves & surplus	21	26	30	35
<b>Net worth</b>	<b>22</b>	<b>26</b>	<b>30</b>	<b>35</b>
Borrowings	187	193	232	281
Other liability	1.5	1.7	1.8	1.9
<b>Total liabilities</b>	<b>210</b>	<b>221</b>	<b>264</b>	<b>318</b>
<b>Fixed assets</b>				
Fixed assets	0.4	0.5	0.5	0.5
Investments	0.2	0.5	0.3	0.2
Loans	205	219	261	316
Cash	3.9	0.2	1.0	0.9
Other assets	0.6	0.7	0.7	0.8
<b>Total assets</b>	<b>210</b>	<b>221</b>	<b>264</b>	<b>318</b>

Ratios	FY20	FY21	FY22	FY23
<b>Growth (%)</b>				
NII	27	18	-8	26
PPOP	23	19	-10	29
PAT	26	22	-4	28
Advances	13	7	19	21
<b>Spread (%)</b>				
Yield on Funds	10.4	9.4	8.2	8.6
Cost of Funds	7.6	6.4	5.9	6.1
Spread	2.8	3.1	2.4	2.5
NIM	3.4	3.7	3.0	3.2
<b>Asset quality (%)</b>				
Gross NPAs	0.8	0.9	0.9	0.8
Net NPAs	0.5	0.6	0.6	0.6
Provisions	29	34	33	31
<b>Return ratios (%)</b>				
RoE	19.0	19.2	15.6	17.2
RoA	1.9	2.1	1.8	1.9
<b>Per share (Rs)</b>				
EPS	28	34	33	42
BV	161	196	226	265
ABV	153	186	214	251
<b>Valuation (x)</b>				
P/E	19	16	16	13
P/BV	3.3	2.7	2.4	2.0
P/ABV	3.5	2.9	2.5	2.1

Source: Dalal & Broacha Research, Company

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