Can Fin Homes

Q3FY21 Result Update | BFSI

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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Better collection efficiency; pro-forma GNPA <1%

Can Fin Homes has reported a stable set of numbers for Q3FY21, supported by sharp increase in NIMs (led by lower borrowing costs). While the company's profitability was little higher than our estimates due to lower provisions, its operating profit was weaker than expectations, due to higher operating cost.

- NII came in at INR 2.10 Bn, vs -0.1% QoQ /+21% YoY and 1% below our est.
- Net Income came in at INR 2.14 Bn, vs 1% QoQ /+21% YoY and 1% below our est.
- PPOP came in at INR 1.8 Bn, -4% QoQ/+19% YoY and 6% below our est.
- Provisions came in at INR 20 Mn, vs -89% QoQ/-64% YoY and 90% below our est.
- PAT came in at INR 1.32 Bn, 3% QoQ /24% YoY and 2% above our est.
- EPS stood at INR 9.9 vs INR 9.6/INR 8.0 in Q2FY21 / Q3FY20 respectively.

Financial Highlights

- The company's loan growth slows down to 4% YoY/ 1% QoQ at Rs 21,004 Cr, impacted by 25% YoY dip in disbursements to INR 1106 cr (up 34% QoQ), while sanctions de-grew by 22% YoY at Rs 1256 Cr (up 48% QoQ). We believe disbursements may further improve and the road to normalcy is not far off.
- 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.
- During the quarter, NIMs expanded by 8 bps QoQ/ 54 bps YoY to 3.97%, largely due to declined cost of funds. Loan spread improved to 2.91% from 2.86% QoQ, with yield on advances declined by 18 bps QoQ to 9.78%, and the CoF contained at 6.9% (vs 7.1% QoQ).
- Cost to income ratio for the company increased by 426 bps QoQ to 16.1% led by higher operating expenses, which was up 37% QoQ/28% YoY at Rs 34 Cr in Q3FY21.Opex was higher as the company made provisions of Rs60mn on account of salary revisions, which was due.
- While the H1FY21 could see an increase in NPAs, it is likely to come to normal levels over FY22. Delinquency pool for the company is significantly lower compared to the industry in both HL and LAP.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	6549	8263	8914	10379
Adjusted net profit	3744	4989	5611	6576
Networth	21501	26129	31319	37474
EPS (Rs)	28	37	42	49
Growth (%)	26	33	12	17
P/E (x)	17	13	11	10
P/Adj BV (x)	3	3	2	2
RoA (%)	2	2	2	2
RoE (%)	19	21	20	19

Source: Company

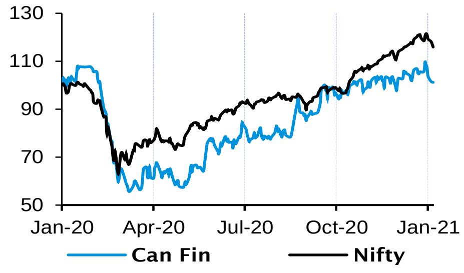
Rating	TP (Rs)	Up/Dn (%)
BUY	565	18

Market data

Current price	**Rs**	**478**
Market Cap (Rs.Bn)	(Rs Bn)	64
Market Cap (US$ Mn)	(US$ Mn)	876
Face Value	Rs	2
52 Weeks High/Low	Rs	529/254
Average Daily Volume	('000)	377
BSE Code		511196
Bloomberg		CANF:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	29.99	29.99
Public	70.01	70.01
Others	0.00	0.00
Total	**100**	**100**

Source: BSE

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- The company's GNPA would have been higher by 6bps YoY at 0.78% (3bps higher QoQ), while Net NPA stood at 0.24% (up by 2 bps QoQ/10 bps YoY). The management would continue to remain cautious on the self-employed segment for the time being and growth would be more oriented towards salaried customers. Its loan mix has improved by 1% QoQ in favour of salaried & Professionals and it stood at 72%/28%.
- 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 72.89 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

We believe in the 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. We remain positive on the stock given its favorable loan mix, sustained margins, comfortable liquidity position & robust CAR (24%). At CMP the stock trades at 2.1x its FY22E Adj BV & 1.8x its FY23E 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 buy this stock, with a price target of Rs 565, valuing the stock at 2.1x FY23E Adj BV.

Highlights of the Conference Call

Asset quality remains stable

- Overall, the company remains comfortable on the asset quality front, with Pro-forma GNPA stood at less than 1% and total restructuring (so far) stood at Rs 870 mn. Furthermore, collections efficiency has fully normalized and it stood at 93% in Dec 2020, which is now at par with Pre-Covid levels.
- The company's priority was asset quality for last few quarters and because of which outstanding of Rs 6.6 bn as of Sept 30 from customers who had availed moratorium, has come down to Rs 4.1 bn as of Dec 31 with them having served EMIs and some even becoming current (clearing over dues).
- FOIR Salaried & Professionals segment stood at 50-65%, while FOIR self-employed segment 60-70%.

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Business Momentum may Improve Further

- Management saw strong recovery in affordable housing segment and business is now at par with Pre-Covid levels.
- Disbursements has been adversely impacted by closure of registration in Telangana (contribute ~20% of incremental business) for 2.5 months of Q3FY21. The issue in Telangana has been resolved and total disbursements is likely to be better in Q4FY21 (~1500-1600 Cr).
- In light of increasing competition in mortgage loans, the company has changed its strategy and decided to reduce its lending rates at par with banks.
- With this large reduction in lending rate (starting at 6.95% vs 8.25% YoY), the company will also focus on business within large cities (metros). Because of which, the company's average ticket size may increase slightly (from Rs18 lakh to Rs19 Lakh). The earlier strategy to expand into tier-3/4 cities remains intact.

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NIM & Spreads may come down

- As a result of the repricing strategy, the company's current margins/spreads will come down in coming quarters. Management is confident that NIM will not fall below 3%, while Spread will not fall below 2.4%.
- The company's overall funding mix will depend on the respective rates for each funding source. Its incremental cost of funds is at 5.5% in Q3FY21. Out of which, the bank is offering loans at 6%.
- Unavailed banking lines are Rs 40bn, which should be comfortable for the next 8-9 months

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Operating expenses

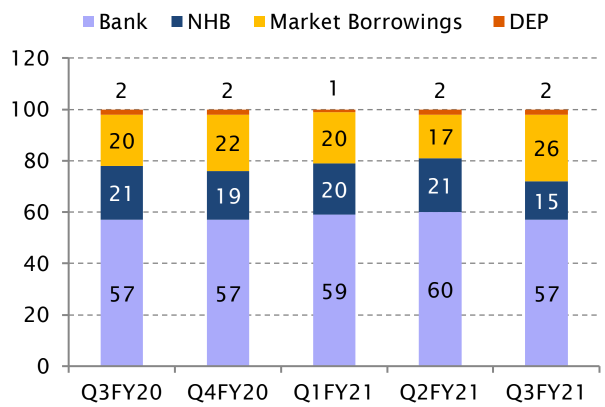
- Opex had one-off provisions of Rs 60mn on account of salary revisions, which was due on March 2020. Besides, CSR spends and gratuity provisions also contributed to opex growth in Q3FY21.
- The company has planned some IT investments, which may result in cost/income ratio deteriorating by 150-200bps periodically.

Quarterly Financial

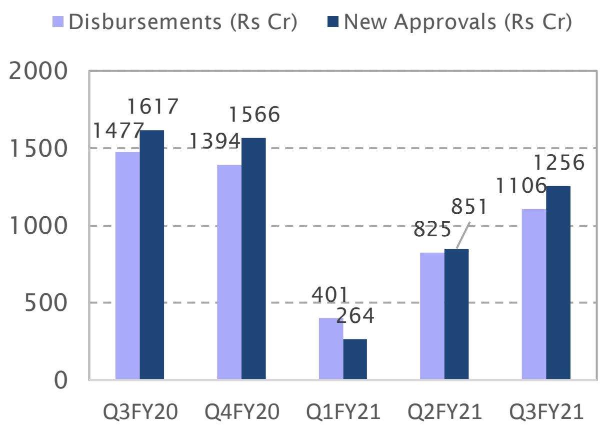
DESCRIPTION (Rs Mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Interest Earned	5135	5251	5221	5240	4996	-3	-5
Interest Expended	3398	3366	3308	3135	2892	-15	-8
NII	**1737**	**1885**	**1913**	**2106**	**2104**	**21**	**0**
Other Income	33	38	4	18	31	-4	78
Net Income	**1770**	**1923**	**1917**	**2124**	**2135**	**21**	**1**
Operating Expenses	269	325	215	252	344	28	37
PPOP	**1501**	**1598**	**1702**	**1872**	**1791**	**19**	**-4**
Provisions	45	408	441	151	16	-64	-89
PBT	**1456**	**1189**	**1260**	**1720**	**1775**	**22**	**3**
Tax	390	280	329	436	456	17	4
PAT	**1066**	**909**	**932**	**1284**	**1319**	**24**	**3**
BALANCE SHEET							
Advances	201940	207079	208440	208300	210040	4.0	0.8
Disbursements	14767	13940	4010	8250	11060	-25	34
IMPORTANT RATIOS							
GNPA (%)	0.8	0.8	0.7	0.7	0.7	-12 bps	-4 bps
NNPA (%)	0.6	0.5	0.5	0.5	0.4	-18 bps	-5 bps
PCR (%)	26	29	34	36	39	1296 bps	281 bps
NIM (%)	3.4	3.5	3.7	3.9	4.0	54 bps	8 bps
C/I Ratio	15	17	11	12	16	94 bps	426 bps
Tier I Ratio	20	20	20	22	22	204 bps	-8 bps

Source: the company

Borrowing Mix



Strong recovery in loan Disbursements



Source: the company

Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	19991	20979	22253	26680
Interest expense	13442	12715	13339	16301
NII	**6549**	**8263**	**8914**	**10379**
Non-interest income	314	285	366	444
Net revenues	**6862**	**8548**	**9280**	**10823**
Operating expenses	1,076	1,171	1,319	1,511
PPOP	**5786**	**7378**	**7961**	**9312**
Provisions	603	707	460	520
PBT	**5183**	**6670**	**7501**	**8792**
Tax	1,439	1,681	1,890	2,215
PAT	**3744**	**4989**	**5611**	**6576**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	266	266.308	266.308	266.308
Reserves & surplus	21234	25863	31052	37207
Net worth	**21501**	**26129**	**31319**	**37474**
Borrowings	185063	204154	240295	284480
Other liability	3872	1492	1535	1579
Total liabilities	**210436**	**231775**	**273148**	**323533**
Fixed assets	379	398	418	439
Investments	243	265	291	319
Loans	205257	220542	262719	311566
Cash	3924	9864	8948	10356
Other assets	633	707	773	849
Total assets	**210436**	**231775**	**273148**	**323529**

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	23	26	8	16
PPOP	23	28	8	17
PAT	26	33	12	17
Advances	13	7	19	19
Spread (%)				
Yield on Funds	10	10	9	9
Cost of Funds	8	7	6	6
Spread	3	3	3	3
NIM	3	4	4	3
Asset quality (%)				
Gross NPAs	0.8	1.2	1.0	0.9
Net NPAs	0.5	0.7	0.6	0.5
Provisions	29	41	40	38
Return ratios (%)				
RoE	19.0	21.0	19.5	19.1
RoA	1.9	2.3	2.2	2.2
Per share (Rs)				
EPS	28	37	42	49
BV	161	196	235	281
ABV	153	184	224	269
Valuation (x)				
P/E	17	13	11	10
P/BV	3.0	2.4	2.0	1.7
P/ABV	3.1	2.6	2.1	1.8

Source: Dalal & Broacha Research, Company

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