

**Can Fin Homes' Q4FY21 performance was a mixed bag with profitability below our estimates, while asset quality remains healthy with GNPA sub one percent level. The company's margin (NIM) was adversely impacted by steeper reduction in yields (down by 29 bps QoQ) than cost of funds (down by 16 bps QoQ). Focus has shifted back to growth and retaining customers, the company reduced its home loan rate to compete with larger players.**

- NII came in at INR 1.86 Bn, vs -12% QoQ / -1% YoY.
- Net Income came in at INR 1.93 Bn, vs -10% QoQ / 0.1% YoY
- PPOP came in at INR 1.50 Bn, -16% QoQ / -6% YoY
- Provisions came in at INR 0.08 Bn, 371% QoQ / -81% YoY
- PAT came in at INR 1.03 Bn, -22% QoQ / 13% YoY
- EPS stood at INR 7.7 vs INR 9.9 QoQ / INR 6.83 in YoY.

#### Financial Highlights

- The company's loan growth recovers to 7% YoY/5% QoQ, supported by 44% YoY and 81% QoQ growth in disbursements, while sanctions grew by 44% YoY and 81% QoQ. We believe there is a good chance loan growth can surprise on the upside, especially in FY22/23E, on multiple tailwinds such as better affordability, lower interest rates and government incentives for home buyers.
- The company's loan book quality remains uncompromised and best-in-class. 90% of its total loans are housing loans and salaried employees contribute to 73% of total loans.
- Despite disruptions from Covid, asset quality performance is commendable with GNPA stood at 0.91% (up by 23 bps QoQ/reported), while Net NPA stood at 0.61% (up by 20 bps QoQ/reported). Company carries Rs 698 Mn Co-VID related provisions i.e. 0.32% of loan book.
- 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 73%/27%.
- Cost to income ratio for the company increased by 535 bps YoY to 22% led by higher operating expenses, while net income growth remains flat YoY on account of lower margin.

#### Financial Summary

Y/E Mar (Rs Mn)	FY20	FY21	FY22E	FY23E
NII	6747	7980	7619	9231
Adjusted net profit	3744	4561	4594	5456
Net worth	21501	26098	30271	35306
EPS (Rs)	28	34	34	41
P/E (x)	19.5	16.0	15.9	13.4
P/Adj BV (x)	3.6	2.9	2.5	2.2
RoA (%)	1.9	2.1	1.9	1.9
RoE (%)	19.0	19.2	16.3	16.6

Source: Dalal & Broacha Research, Company

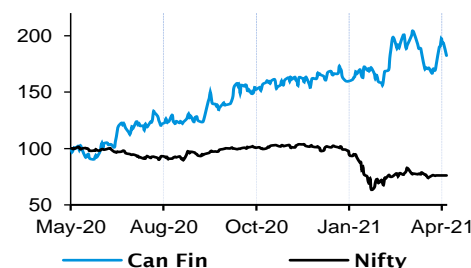
Rating	TP (Rs)	Up/Dn (%)
<b>BUY ON DIPS</b>	<b>604</b>	<b>10</b>

#### Market data

Current price	Rs	547
Market Cap (Rs.Bn)	(Rs Bn)	73
Market Cap (US\$ Mn)	(US\$ Mn)	988
Face Value	Rs	2
52 Weeks High/Low	Rs	619/268
Average Daily Volume	('000)	352
BSE Code		511196
Bloomberg		CANF:IN

Source: Bloomberg

#### One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	29.99	29.99
FII	0.00	0.00
DII	17.38	15.32
Others	52.63	54.69
<b>Total</b>	<b>100</b>	<b>100</b>

Source: BSE

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## Quarterly Financial

DESCRIPTION	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Earned	525	522	524	500	461	-12	-8
Interest Expended	337	331	313	289	275	-18	-5
<b>NII</b>	<b>188</b>	<b>191</b>	<b>211</b>	<b>210</b>	<b>186</b>	<b>-1</b>	<b>-12</b>
Other Income	4	0	2	3	7	78	115
<b>Net Income</b>	<b>192</b>	<b>192</b>	<b>212</b>	<b>214</b>	<b>193</b>	<b>0.1</b>	<b>-10</b>
Operating Expenses	33	21	25	34	43	32	24
<b>PPOP</b>	<b>160</b>	<b>170</b>	<b>187</b>	<b>179</b>	<b>150</b>	<b>-6</b>	<b>-16</b>
Provisions	41	44	15	2	8	-81	371
<b>PBT</b>	<b>119</b>	<b>126</b>	<b>172</b>	<b>177</b>	<b>142</b>	<b>19</b>	<b>-20</b>
Tax	28	33	44	46	39	41	-13
<b>PAT</b>	<b>91</b>	<b>93</b>	<b>128</b>	<b>132</b>	<b>103</b>	<b>13</b>	<b>-22</b>
<b>BALANCE SHEET</b>							
Advances	20708	20844	20830	21004	22105	7	5
Disbursements	1394	401	825	1106	2001	44	81
<b>IMPORTANT RATIOS</b>							
GNPA (%)	0.76	0.75	0.72	0.68	0.91	15 bps	24 bps
NNPA (%)	0.54	0.50	0.46	0.41	0.61	7 bps	20 bps
PCR (%)	28.8	33.7	36.4	39.2	33.5	464 bps	-573 bps
NIM (%)	3.52	3.70	3.89	3.97	3.88	36 bps	-9 bps
C/I Ratio	16.9	11.2	11.9	16.1	22.3	535 bps	612 bps
Tier I Ratio	20.5	20.5	22.5	22.4	23.8	336 bps	142 bps
<b>Loan Mix</b>							
Salaried	71	71	71	72	73	197 bps	104 bps
SENP	29	29	29	28	27	-196 bps	-104 bps

Source: Dalal & Broacha Research, Company

## Valuation and outlook

The company's performance on asset quality has been commendable, but the margin is likely to moderate further in the coming quarters as management makes the yield more competitive. 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 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 & 2.2x 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 follow buy on dips strategy, with a price target of Rs 604, valuing the stock at 2.4x FY23E Adj BV.

## Highlights of the Conference Call

### Margin might squeeze in coming quarters

- In light of increasing competition in mortgage loans, the company has changed its strategy and decided to reduce its lending rates at par with large peers.
- While Incremental yields on the portfolio is 7.32%, the current portfolio yield is 9.49%.
- Incremental cost of funds is ~4.5%, of which incremental cost of bank funding is 5.5%
- The company has reprise close to 22% of loan portfolio as of March 31, 2021.
- Management is confident that margin will not fall below 3% and spread below 2.4%.

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### Business Momentum Improve Further

- The strategy of reducing loan rates is working, with balance transfer coming down to 90 Cr in Q4FY21 from Rs 250 cr during Covid times.
- The company has reported disbursement growth of 81% QoQ, with highest ever disbursement in the month of March 2021 followed by February 2021.
- Going forward, the company is targeting loan growth of ~ 20% in medium term.

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### Operating efficiency

- During the quarter, the company's operating efficiency was adversely impacted by higher operating cost, which led to Cost to income ratio of 22.3% (up by 612 bps QoQ) in Q4FY21.
- Higher operating cost during the quarter was due to salary hike, CSR expense and IT related investment.
- Cost to income ratio for FY21 stood at ~15.5% and will likely to remain at the same level in foreseeable future according to management.
- The company has close to 1000 employees
- The company is looking to open 18 to 20 branches in FY21

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### Operating expenses

- Bank has shown a strong improvement on its asset quality, with GNPA at 0.91% as against 0.99% on a proforma basis in the previous quarter.
- Portfolio quality remained strong, with 83% of incremental portfolio coming from salaried segment, while remaining 17% is coming from self-employed segment. Going forward for next two to three quarters, the company will continue to focus on salaried segment.

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### Other Highlights

- Out of 26% market Borrowings, 19% come from commercial papers (CP). The company uses CPs for arbitrage purposes only and it is backed by sizeable undrawn sanctioned lines.
- Given the lockdown imposed by the state governments, overall collection efficiency and business volume has come down in the month of April 2021.

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## Financials

P&L (Rs Mn)	FY20	FY21	FY22	FY23
Interest income	20189	20064	20749	25692
Interest expense	13442	12083	13130	16461
<b>NII</b>	<b>6747</b>	<b>7980</b>	<b>7619</b>	<b>9231</b>
Non-interest income	115	121	162	198
<b>Net revenues</b>	<b>6862</b>	<b>8101</b>	<b>7781</b>	<b>9429</b>
Operating expenses	1,076	1,240	1,329	1,506
<b>PPOP</b>	<b>5786</b>	<b>6861</b>	<b>6452</b>	<b>7923</b>
Provisions	603	685	311	628
<b>PBT</b>	<b>5183</b>	<b>6176</b>	<b>6141</b>	<b>7295</b>
Tax	1,439	1,615	1,548	1,838
<b>PAT</b>	<b>3744</b>	<b>4561</b>	<b>4594</b>	<b>5456</b>
Balance sheet	FY20	FY21	FY22	FY23
Share capital	266	266	266	266
Reserves & surplus	21234	25832	30004	35039
<b>Net worth</b>	<b>21501</b>	<b>26098</b>	<b>30271</b>	<b>35306</b>
Borrowings	187484	192929	231100	280421
Other liability	1451	1710	1826	1946
<b>Total liabilities</b>	<b>210436</b>	<b>220737</b>	<b>263196</b>	<b>317673</b>
Fixed assets	379	455	477	501
Investments	243	496	293	173
Loans	205257	218915	261408	315613
Cash	3924	215	308	614
Other assets	633	657	710	771
<b>Total assets</b>	<b>210436</b>	<b>220737</b>	<b>263196</b>	<b>317673</b>

Ratios	FY20	FY21	FY22	FY23
<b>Growth (%)</b>				
NII	27	18	-5	21
PPOP	23	19	-6	23
PAT	26	22	1	19
Advances	13	7	19	21
<b>Spread (%)</b>				
Yield on Funds	10.4	9.4	8.6	8.9
Cost of Funds	7.6	6.4	6.2	6.4
Spread	2.8	3.1	2.4	2.5
NIM	3.4	3.7	3.2	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	16.3	16.6
RoA	1.9	2.1	1.9	1.9
<b>Per share (Rs)</b>				
EPS	28	34	34	41
BV	161	196	227	265
ABV	153	186	215	252
<b>Valuation (x)</b>				
P/E	19	16	16	13
P/BV	3.4	2.8	2.4	2.1
P/ABV	3.6	2.9	2.5	2.2

Source: Dalal & Broacha Research, Company

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