



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade 022 67141442

Stock Idea @ Dalal & Broacha

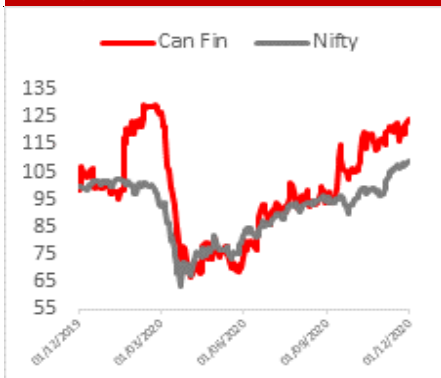
BUY

Current Price	479
52 Week Range	254/519
Target Price	575
Upside	20

Key Share Data

Market Cap (Rs.bn)	64
Market Cap (US\$ mn)	865
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
Total	100.0	100.0

Can Fin Homes has reported strong profitability over the years (5yrs Avg ROE of 20% and ROA of 1.9%), supported by a stable margin, better operating efficiency and lower credit cost. During Q2FY21, loan growth moderated to 6% YoY, though fresh disbursements picked up to Rs 825 cr vs Rs 401 cr QoQ. Collection efficiency stands at ~93% (excluding prepayments/foreclosures). Costs control was maintained with C-I at 11.9% vs 15.4/11.2% YoY/QoQ. Total covid provisions on the balance sheet currently stand at Rs 86 Cr (0.41% of loan book), which the management believes are adequate to absorb the expected slippages over the next 2-3 quarters.

We believe a high proportion of salaried and low builder loan exposure (0.03% of book) will support asset quality with lower loan losses. In the near-term, the company's focus will remain on collections rather than growth. AUM growth for FY21 is expected to be ~8-10% in FY21 with normalcy returning by H1FY22. We continue to believe that Can Fin is one of the better positioned players in the housing finance sector with a strong balance sheet, granular loan book (Avg ticket size Rs 18 lakh) and sound underwriting standards.

Best in class asset quality among all major peers; CFH's GNPA ratio in Q2FY21 stood at 0.78% (Excluding standstill), as compared to 1.8-4% range for the other major HFC players. Company's robust asset quality has been supported by its prudent underwriting standards, strong recovery practices, better appraisal norms & stringent risk monitoring mechanisms. Increasing focus on lower-risk salaried clientele (71% of loan book) and avoidance of higher-risk large-ticket non-housing businesses (11% of loan book) also helps maintain superior asset quality. 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.

Improving demand traction in affordable housing: Of late, the real estate sector has seen some green shoots of demand revival with some state governments cutting stamp duty charges and developers offering discounts and freebies during the festive season. The improvement in demand has been also due to pent-up demand in the wake of the nationwide lockdown in India from late March to June. The other reason for the demand spike has been increasing affordability due to lower interest rates. Increasing urbanization, continued fiscal incentives and low penetration of mortgages are key reasons on which we believe demand for housing finance will continue to grow.

Valuation & Outlook

We remain positive on the stock given its favorable loan mix, sustained margins, comfortable liquidity position and robust CAR (25%). Pick up in fresh disbursements QoQ is also comforting. Once the 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. While NPA recognition will kick in from upcoming quarter, we believe that Can Fin Homes would be in a relatively better position from an asset quality standpoint, given its historical track record and other qualitative aspects, including stringent loan underwriting criteria and negligible developer exposure.

At CMP, the stock trades at 2.7x its FY21E Adj BV & 2.2x its FY22E Adj Bv, which lower than its 5-yrs historical avg of 2.8 times & peak valuation of 5.7 times book value. Thus, we recommend investors to buy this stock, with a price target of Rs 575, valuing the stock at 2.7x FY22E Adj BV.

Financials (Rs. Mn)

Years	NII	PPOP	PAT	EPS	Adj. BVPS	P/ABV	RoA
FY20	6549	5786	3744	28	153	3.1	1.9
FY21	7327	6415	4089	31	175	2.7	1.9
FY22	8314	7287	5081	38	213	2.2	2.0



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P&L (Rs Mn)	FY19	FY20	FY21	FY22
Interest income	16996	19991	21635	24295
Interest expense	11693	13442	14308	15981
NII	5303	6549	7327	8314
Non-interest income	318	314	260	332
Net revenues	5621	6862	7587	8646
Operating expenses	915	1,076	1,171	1,359
PPOP	4706	5786	6415	7287
Provisions	11	603	949	494
PBT	4695	5183	5466	6793
Tax	1,728	1,439	1,378	1,712
PAT	2967	3744	4089	5081

Balance sheet	FY19	FY20	FY21	FY22
Share capital	266	266	266.308	266.308
Reserves & surplus	17556	21234	24963	29623
Net worth	17822	21501	25229	29889
Borrowings	166448	185063	204154	240381
Other liability	3025	3872	1492	1535
Total liabilities	187295	210436	230875	271805
Fixed assets	99	379	398	418
Investments	163	243	265	291
Loans	182342	205257	224083	264783
Cash	4203	3924	5419	5537
Other assets	489	633	707	773
Total assets	187295	210436	230875	271805

Ratios	FY19	FY20	FY21	FY22
Growth (%)				
NII	4	23	12	13
PPOP	4	23	11	14
PAT	4	26	9	24
Advances	17	13	9	18
Spread (%)				
Yield on Funds	10.0	10.3	10.1	9.9
Cost of Funds	7.7	7.6	7.4	7.2
Spread	2.4	2.7	2.7	2.7
NIM	3.1	3.3	3.3	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	19.0	17.5	18.4
RoA	1.7	1.9	1.9	2.0
Per share (Rs)				
EPS	22	28	31	38
BV	134	161	189	224
ABV	128	153	175	213
Valuation (x)				
P/E	21.5	17.0	15.6	12.6
P/BV	3.6	3.0	2.5	2.1
P/ABV	3.7	3.1	2.7	2.2



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