Stock Update

Can Fin Homes Ltd.

05-August-2021

RETAIL RESEARCH

Can Fin Homes Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
NBFC-Housing Finance	Rs.565.4	Buy at LTP and add more at Rs.517	Rs.622	Rs.661	2 quarters

HDFC Scrip Code	CANFINEQNR
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF IN
CMP Aug 04, 2021	565.4
Equity Capital (Rs Cr)	26.6
Face Value (Rs)	2
Equity Share O/S (Cr)	13.3
Market Cap (Rs Cr)	7,527.87
Adj. Book Value (Rs)	186
Avg. 52 Wk Volumes	677073
52 Week High	619
52 Week Low	363

Share holding Pattern % (Jun, 2021)	
Promoters	29.99
Institutions	17.31
Non Institutions	52.70
Total	100.0

Retail Research Risk Rating:

Blue*		

*** Refer at the end for explanation on Risk Ratings**

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Our take

CanFin Homes Ltd. (CFHL) is a well-established player with solid track record in the affordable housing finance segment. The company has been able to deliver constant and strong growth numbers while maintaining best-in-class asset quality. The company has quality loan portfolio with salaried customers and low ticket size loans. The sovereign holding (Canara Bank as promoter) provides access to low cost funding opportunities. With the strong balance sheet position the company has opportunity to increase its market share as well as scale up its presence in existing and newer geographies. To remain relevant in the current highly competitive environment, the management has changed its pricing strategy which can help them retain as well as attract good customers. We expect, going forward, India to have a favorable growth environment for mortgage lenders.

Prolong economic slowdown poses risk to the pace of collections and business growth. Any news on promoter's exit or invitation to PE players for small stake buy could bring volatility in the stock. High competition from large banks who have access to low cost funds is not healthy and could hurt the company in long term.

We had issued Initiating Report on CFHL on 12th February, 2021 and recommended Buy on dips to Rs.460-464 band and add more in the Rs.409-413 band, for base case target of Rs.513 and bull case target of Rs.563 over the next two quarters. Below is the link for the report:
https://www.hdfcsec.com/hsl.research.pdf/Can%20Fin%20Homes%20Ltd.-%20Initiating%20Coverage-%2012022021.pdf

Valuation and recommendation:

The company had reported decent numbers in Q1FY22. Profit was up 17% YoY and asset quality remained stable. Disbursements were down drastically due to lock down in April-May 2021. We have envisaged 9% CAGR growth for top line and 11% for bottom line, while loan book is estimated to grow at 11% CAGR over FY21-23E. Management has guided for better spread and NIM from Q2FY22 onwards. Further they expect the growth to improve moving forward and expect to achieve superior growth than the overall industry growth. On the asset quality front, management has stated that they are pretty comfortable and holding some additional provisions. RoAA is estimated at 2.2% for FY23. In the medium term, credit cost normalisation and cost control remains the key drivers for stable RoA and RoE.

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CFHL has proposed in the forthcoming AGM to raise Rs.4000 cr via borrowings and Rs.1000 cr via QIP offering of shares. Though the QIP offering resolution is only an enabling one for the time being, it signifies an intention of the management to tap the institutional shareholders for raising capital at appropriate valuations.

The company has been able to deliver constant and strong growth numbers and maintain best-in-class asset quality. Also the quality of portfolio and management's new business strategy gives us confidence in the company's ability to grow at faster than industry growth rate. The stock is trading at 2x FY23E ABV. We believe that investors can buy CanFin Homes Ltd at LTP (2.19xFY23E ABV) and add more at Rs.517 (2.0xFY23E ABV) for the base case fair value of Rs.622 (2.4xFY23E ABV) and for the bull case fair value of Rs.661 (2.55xFY23E ABV) over the next two quarters.

Financial Summary

Particulars (Rs.Cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY20	FY21	FY22E	FY23E
NII	181	191	-5.2	186	-2.7	674.7	798.0	831.7	945.2
PPOP	153	170	-10.0	150	2.0	578.6	686.5	701.7	796.2
PAT	109	93	17.2	103	5.8	376.1	455.5	484.2	562.6
EPS (Rs)						28.1	34.2	36.4	42.2
ABV (Rs)						153.1	185.9	219.4	258.8
P/E (x)						20.0	16.5	15.5	13.4
P/ABV (x)						3.7	3.0	2.6	2.2
RoAA (%)						1.9	2.1	2.1	2.2

(Source: Company, HDFC sec)

Recent Developments

Q1FY22 Result Update

Net Interest Income (NII) was down by 5.3/2.5% YoY/QoQ to Rs.181 cr, mainly because of the low-rate strategy. NIM came down to 3.3% from ~3.9% QoQ. Incremental yield in Q1FY22 stood at 7.23% and incremental Cost of Fund (CoF) stood at 4.87%. The management feels that bottoming out of interest rates and NIM has already happened and from Q2 onwards one will see improvement in both NIM and spread. Management has guided for better spread and NIM from Q2FY22 onwards on the back of low CoF and higher business. The company has already re-priced 70% of the book. (Ticket size has increased from Rs.18 Lakh to Rs.20 Lakh on account of the pricing strategy). Pre Provisioning operating profit was also down 10% YoY. CFHL reported net profit of Rs.108.8 Cr, which grew by 17% YoY and 6% QoQ.

Advances were up by 6.6% YoY. Advances for the salaried segment grew by 10.3% YoY, while loans to the self-employed segment declined by 2.3% YoY. As a result, the share of the salaried segment increased to 73% (+244/34bps YoY/QoQ). The disbursements were down by drastic 55% QoQ as the company could conduct its business only for 45 days due to lockdown in April-May. On a YoY basis, it was up 123%. Going ahead the management expects the growth to improve going forward and achieve superior growth than the overall industry growth. The disbursements run-rate is estimated at ~ Rs 2,000 Cr on a quarterly basis.

Asset Quality

The company reported stable asset quality during the quarter. It has reported GNPA and NNPA at 0.9% and 0.57% respectively. The restructured pool is expected at around 2% out of which 12-15% is expected to slip into NPAs. The stage 2 assets were Rs.1184 Crores as on March 31, 2021, and June it is Rs.1200 Cr. Management has stated that they are pretty comfortable on asset quality (assuming that there is no third wave) and they are holding about Rs.33 Cr as additional provisions. If there is a third wave and if it is not severe, they will be able to very easily manage. Collection efficiency dropped in April-21 (it was the lowest in the last six to seven quarters). However, it started improving from then onwards and had picked up very well in Jun '21. Historically, the rejection rate has been 10-11% and stands at similar levels currently. Additional filters put in place due to Covid-19 led to the rejection rate of 15% in FY21, but it has now normalized.

Strong capitalization

The capital adequacy continues to remain one of the best in the industry at 26.12% and Tier-I at 24.33%. The liquidity position is also strong. This places it in a comfortable position to achieve growth targets of FY22. Funding as on Q1FY22 was fairly diversified with banks contributed 47%, deposits ~2% while market borrowings and NHB contributed around 26% and 25% respectively. Strong parentage – Canara Bank provides access to low cost funding opportunities. This gives additional cushion to absorb risks. With the strong balance sheet position, the company has opportunity to increase its market share as well as scale up its presence in existing and newer geographies.

Established player with solid track record

With presence of over three decades, strong brand name and solid financial track record, CFHL has become an attractive yet established player in the housing finance segment. The company has been able to deliver constant and strong growth numbers while maintaining best-in-class asset quality. The main reasons for this are company's focus has mainly been on Housing Loans to individuals with 90% of loan book comprising Housing Loans. Even the non-housing loans segment is also primarily comprises loan against properties (LAP) and has limited advances towards developer loans/commercial loans. It caters largely to the affordable housing segment which has a lower ticket size. This takes away concentration risk; in case the asset has to be liquidated, a loss would not be incurred, at least on the principal amount. The Salaried and Professional segment constitutes 73% of the outstanding loan book as on June-21. Moreover, the company has focus on rural and semi-urban areas where the competition is low.

Favourable environment

India's low mortgage penetration, favourable demographics and constant government push have already created structural upswing for the affordable housing segment. Moreover since last few months there has been a revival in demand for housing due to attractive prices, lower interest rates, lower stamp duties, and other benefits. Home sales volume across eight major cities in India jumped significantly. The improved sales momentum has lifted confidence among realty developers who have new offerings. The housing inventory is around seven year low. CFHL being an established player remains in a sweet spot to ride the expected growth.

Pricing strategy

In the Covid-19 era of challenging time the banks and several other financial institutions have refrained from lending to the more risky segments such as unsecured consumer loans, SMEs, and vehicle finance. Banks have started focusing on mortgage business due to lack of other opportunities. This has created high competition for CFHL.

To tackle the situation, the management has changed its pricing strategy which can help them retain as well as attract good customers. They have moderated company's pricing to be at par with best banks in India. This would definitely create pressure on the margin but it will also bring ability for the company to focus on slightly better profile and slightly higher ticket size. This will allow them to grow at faster rate and as these salaried class customers are less risker, this high growth would not hurt the asset quality. Almost 70% of portfolio is re-priced. The ticket price went up from Rs.18 lakhs to 20 lakhs. Management has also reorganized some of the strategies to ensure that they start choosing more from CAT-A and CAT-B developers who operate in some of the metros and major cities.

However, management has also indicated that this strategy would be for short to medium term and as the economy will start improving or slowly other segments will start picking up, the focus on mortgage business by large banks would come down gradually and then they can start focusing on improvement in margins. Pricing is the key determinant in the highly competitive housing loan market, given that the starting rates have now been increased to 7.5% (+55bps) for home loans since June'21, disbursements run-rate over the coming quarters would be a key monitorable.

Risks and concerns

Competition

As discussed in above point of new pricing strategy, there has been heightened competitive environment in the housing finance business, for which the company had to take price action, which is already putting pressure on NIMs. If this level of severity in competition continues, there could be impact on profitability of the company and fear of losing market share also remains high. Fighting against the big banks could hurt them in long term. Moreover, if the company fails in this new "Pricing strategy", it could be double whammy of lower spreads and lower growth.

There are a lot of fintechs which are emerging, and in next few years they would probably enable themselves in delivering faster disbursement, automated sanction or automated disbursement. This risk factor is also emerging in the NBFC segment.
Two years back the differential between the best bank and CFHL was about 150 to 200 bps. Going forward, this will be about 75 to 80 bps.

Prolonged economic slowdown

The possibility of third wave and fresh lock downs could hurt the business on multiple fronts i.e. liquidity, asset quality, loan growth, collections etc. Further, the self-employed segment has been one of the hardest hit due to lock downs; the company has 27% of the outstanding loan book coming from this segment. It could see further deterioration in asset quality in case the prolonged economic slowdown.

Geographic concentration

CFHL's business is highly concentrated in the southern part of the country, and now spreading its presence in the rest part of the country. Any political and economy uncertainty in that region could impact the business of CFHL. Karnataka contributes ~26% to the overall book. Of this, Bengaluru contributes 80-82%.

Promoter Exit

Earlier the promoters - Canara Bank (holds 30% stake) was looking to divest its stake in the company. If the strong parent exits, there could be a credit impact on CFHL. Being a Public Sector Bank (PSB) Canara has a sovereign support and due to that reason CFHL also has benefit of getting funding at lower cost.

Company Background:

CFHL is a 33 year old institution registered as a deposit taking HFC with NHB. It was promoted by Canara Bank in the year 1987 with the shareholding of 30%. It focusses on Housing loan to Individuals (June 2021: 90% of loan book for Housing; 10% Non-Housing). It has Pan-India presence with 165 branches, 21 Affordable Housing Loan Centers & 14 Satellite Offices as on 30/06/2021; spread across 21 States / Union Territories

Loan book mix (%)

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Salaried								
Housing	65.6%	65.6%	65.7%	65.6%	66.0%	66.7%	67.5%	67.9%
Top up personal	2.3%	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%	2.5%
Mortgage/Flexi	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.1%	2.1%
Loans for Sites	0.8%	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%
Others	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%
Non Salaried Class- Self Employed & Non Professional								
Housing	24.4%	24.4%	24.4%	24.6%	24.4%	23.8%	22.9%	22.6%
Top up personal	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%
Mortgage/Flexi	2.7%	2.7%	2.7%	2.7%	2.6%	2.5%	2.5%	2.4%
Loans for Sites	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Others	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%
Builder loans	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Staff loans	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

(Source: Company, HDFC sec Research)

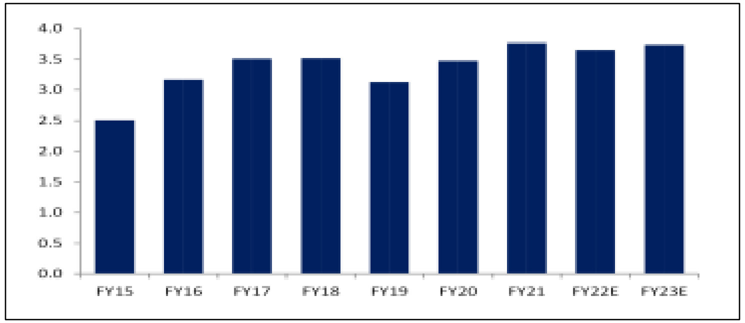
Can Fin Homes Ltd.

Peer Comparison:

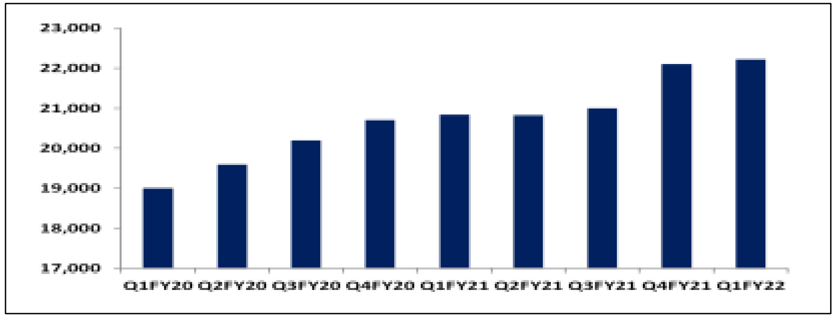
	CMP	Mcap (in Rs Cr)	Avg Ticket Size (Rs. Lk)	GNPA%	NNPA%	NIM%	ROA%	P/ABV		
								FY21	FY22E	FY23E
LIC Housing Fin.	410	20,676	25	4.1	2.6	2.4	1.2	1.4	1.3	1.1
Can Fin Homes	565	7,527	20	0.9	0.6	3.8	2.1	3.0	2.6	2.2

(Source: Company, HDFC sec Research)

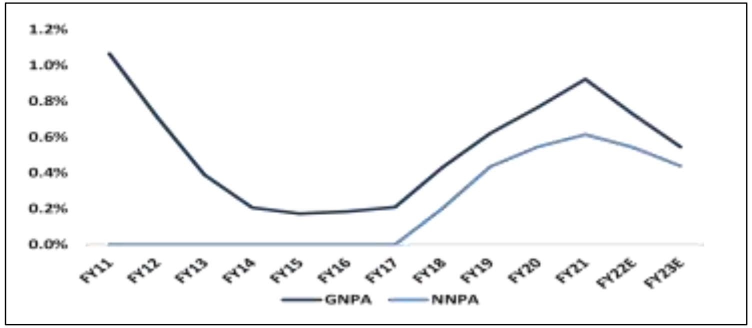
NIM (%)



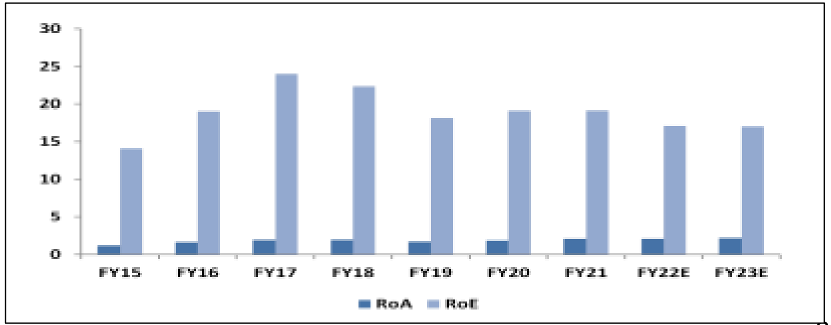
Gradual Improvement in AUM(in Rs. Cr)



Asset Quality Trend



Return Ratio%



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Can Fin Homes Ltd.

Financials

Income Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Interest Income	1699.5	2018.9	2006.0	2060.4	2276.8
Interest Expenses	1169.1	1344.2	1208.0	1228.7	1331.6
Net Interest Income	**530.4**	**674.7**	**798.0**	**831.7**	**945.2**
Non-interest income	31.8	11.6	12.0	13.7	15.2
Operating Income	**562.2**	**686.3**	**810.0**	**845.4**	**960.4**
Operating Expenses	91.5	107.7	123.5	143.7	164.2
PPP	470.8	578.6	686.5	701.7	796.2
Prov & Cont	1.1	60.3	69.0	45.5	37.9
Profit Before Tax	469.7	518.3	617.5	656.2	758.2
Tax	172.8	142.2	162.0	171.9	195.6
PAT	**296.9**	**376.1**	**455.5**	**484.2**	**562.6**

Balance Sheet

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Share Capital	26.6	26.6	26.6	26.6	26.6
Reserves & Surplus	1755.6	2123.4	2583.2	3022.7	3537.4
Shareholder funds	**1782.2**	**2150.1**	**2609.8**	**3049.3**	**3564.0**
Borrowings	16694.4	18643.6	19190.0	20446.5	23212.4
Other Liab & Prov.	303.2	248.0	274.0	295.9	322.6
SOURCES OF FUNDS	**18780**	**21042**	**22074**	**23792**	**27099**
Fixed Assets	9.9	37.9	37.8	38.0	38.0
Investment	16.1	24.3	49.6	23.6	27.0
Cash & Bank Balance	420.3	392.4	21.6	16.4	13.9
Advances	18284.5	20525.7	21891.5	23642.8	26952.8
Other Assets	49.1	61.4	73.4	70.9	67.4
TOTAL ASSETS	**18780**	**21042**	**22074**	**23792**	**27099**

(Source: Company, HDFC sec Research)

Can Fin Homes Ltd.

Key Ratios (%)

	FY19	FY20	FY21	FY22E	FY23E
Return Ratios					
Calc. Yield on adv	10.0%	10.4%	9.5%	9.1%	9.0%
Calc. Cost of borr	7.6%	7.6%	6.4%	6.2%	6.1%
NIM	3.1%	3.5%	3.8%	3.7%	3.7%
RoAE	18.2%	19.1%	19.1%	17.1%	17.0%
RoAA	1.7%	1.9%	2.1%	2.1%	2.2%
Asset Quality Ratios					
GNPA	0.6%	0.8%	0.9%	0.7%	0.5%
NNPA	0.4%	0.5%	0.6%	0.5%	0.4%
PCR	30%	29%	34%	25%	20%
Growth Ratios					
Advances	16.9%	12.3%	6.7%	8.0%	14.0%
Borrowings	19.9%	11.7%	2.9%	6.5%	13.5%
NII	4.1%	27.2%	18.3%	4.2%	13.6%
PPP	3.9%	22.9%	18.7%	2.2%	13.5%
PAT	3.7%	26.7%	21.1%	6.3%	16.2%

(Source: Company, HDFC sec Research)

Key Ratios (%)

	FY19	FY20	FY21	FY22E	FY23E
Valuation Ratios					
EPS	22.3	28.2	34.2	36.4	42.2
P/E	25.4	20.0	16.5	15.5	13.4
Adj. BVPS	127.9	153.1	185.9	219.4	258.8
P/ABV	4.4	3.7	3.0	2.6	2.2
Dividend per share	2.0	2.0	2.0	2.8	3.0
Dividend Yield (%)	0.4	0.4	0.4	0.5	0.5
Other Ratios					
Cost-Income	16.3	15.7	15.2	17.0	17.1
Leverage	10.3	9.5	8.4	7.8	7.6

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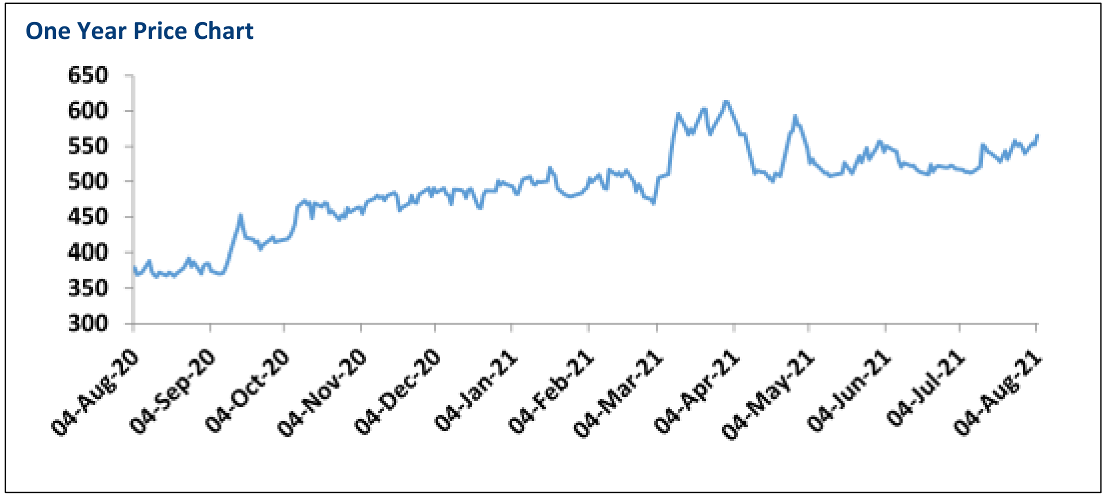

HDFC Sec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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