

Stock Update

Can Fin Homes Ltd.

April 04, 2022





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
NBFC-Housing Finance	Rs.655.8	Buy on dips of Rs.634-630 & add further on dips of Rs.574-570	Rs.692	Rs.754	2 quarters

HDFC Scrip Code	CANFINEQNR
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF IN
CMP Apr 1, 2022	655.8
Equity Capital (Rs Cr)	26.6
Face Value (Rs)	2
Equity Share O/S (Cr)	13.3
Market Cap (Rs Cr)	8,732
ABook Value (Rs)	219
Avg. 52 Wk Volumes	877073
52 Week High	721.3
52 Week Low	490

Share holding Pattern % (Dec, 2021)	
Promoters	29.99
Institutions	22.41
Non Institutions	47.60
Total	100.0



**HDFCsec Retail research
stock rating meter**

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

CanFin Homes Ltd. (CFHL) is a south based well-established player in the affordable housing finance segment. The company has quality loan portfolio with salaried customers and low ticket size loans. CFHL has impeccable track record of delivering constant and strong growth numbers while maintaining best-in-class asset quality. The sovereign holding (Canara Bank as promoter) provides access to low cost funding opportunities. With a 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. There has been a strong revival in the real estate sector visible from improved sales momentum and new offerings. CFHL remains well placed to capture rising opportunities in the IT hub-Bangalore real estate (~20% of AUM). Favourable Indian demographics, low mortgage penetration rate and constant Government support are the key long term positives for the sector. Any slowdown in the real estate sector, promoters' exit and rising interest rates are the key risks for the company.

We had issued Initiating Coverage report and stock update on CFHL with Buy ratings and the targets for both the reports were achieved within the time horizon given. We feel that the recent price correction in the equity market provides good opportunity to enter the quality stocks. We have revised the earnings and add FY24E estimates.

Link for the reports:

<https://www.hdfcsec.com/hsl.research.pdf/Can%20Fin%20Homes%20Ltd.-%20Initiating%20Coverage-%2012022021.pdf>

<https://www.hdfcsec.com/hsl.research.pdf/Canfin%20homes%20Ltd.-Stock%20Update-%2005082021.pdf>

Valuation & Recommendation:

The company has reported encouraging earnings during Q3FY22 supported by record disbursements. Going forward, we expect CFHL to grow its loan book at 19.2% CAGR while NII and Net profit are expected to grow at 10.7% and 12.3% CAGR respectively over FY21-24E. ROAA is estimated to remain stable around 1.9% in FY24E and RoAE could rise to 17% in FY24 from 16.1% in FY22E. In the Q3FY22 result commentary, the management informed that they are anticipating that Cof will rise from here onwards but they are confident in maintaining NIM/spread. The management expects loan book and disbursements both to grow 18–20% in FY22 and they plan to open 12–15 branches on a yearly basis. Further, they have guided that restructured book should reduce going forward. Asset quality trend of non-housing book will be key monitorable. High expected loan book growth and high RoE could result in better valuations for the company going ahead.



We feel investors can buy CanFin Homes Ltd on dips of Rs.634-630 (2.1x FY24 ABV) & add more on dips of Rs.574-570 (1.9x FY24 ABV) for the base case fair value of Rs.692 (2.3x FY24 ABV) and for the bull case fair value of Rs.754 (2.5x FY24 ABV) over the next two quarters.

Financial Summary (Rs.Cr)

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	212	214	-0.6	197	7.7	674.7	798.0	761.6	909.8	1082.0
PPOP	172	179	-4.0	163	5.6	578.6	686.5	633.3	764.9	920.7
PAT	116	132	-12.3	124	-6.4	376.1	455.5	451.4	535.7	645.3
EPS (Rs)						28.1	34.2	33.9	40.2	48.5
ABV (Rs)						153.1	185.9	219.0	256.3	301.2
P/E (x)						23.2	19.2	19.3	16.3	13.5
P/ABV (x)						4.3	3.5	3.0	2.6	2.2
RoAA (%)						1.9	2.1	1.9	1.9	1.9
RoAE (%)						19.1	19.1	16.0	16.4	16.9

(Source: Company, HDFC sec)

Change in Estimates

	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	
Advances	23642.8	26160.3	10.6	26952.8	31130.8	15.5	37045.6
NII	831.7	761.6	-8.4	945.2	909.8	-3.7	1082.0
PPOP	701.7	633.3	-9.8	796.2	764.9	-3.9	920.7
PAT	484.2	451.4	-6.8	562.6	535.7	-4.8	645.3

Recent Developments

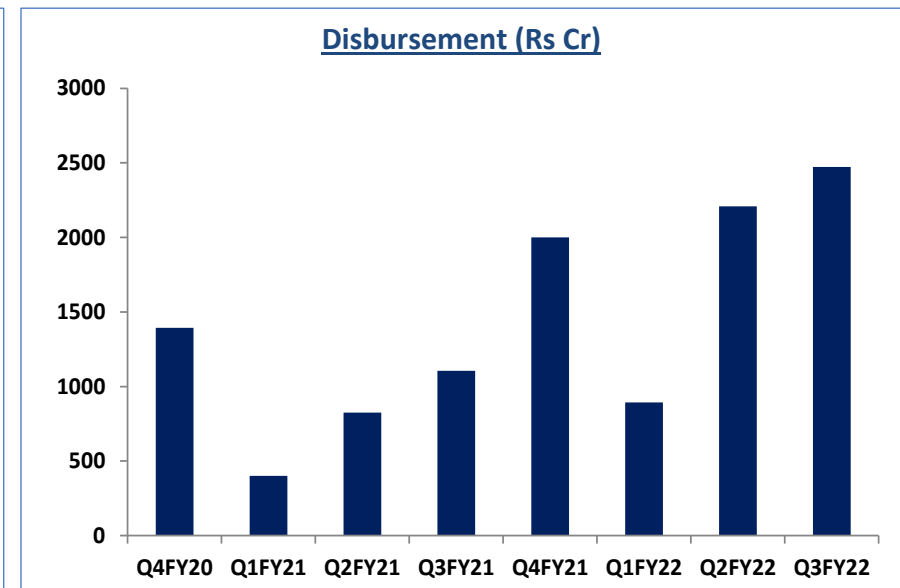
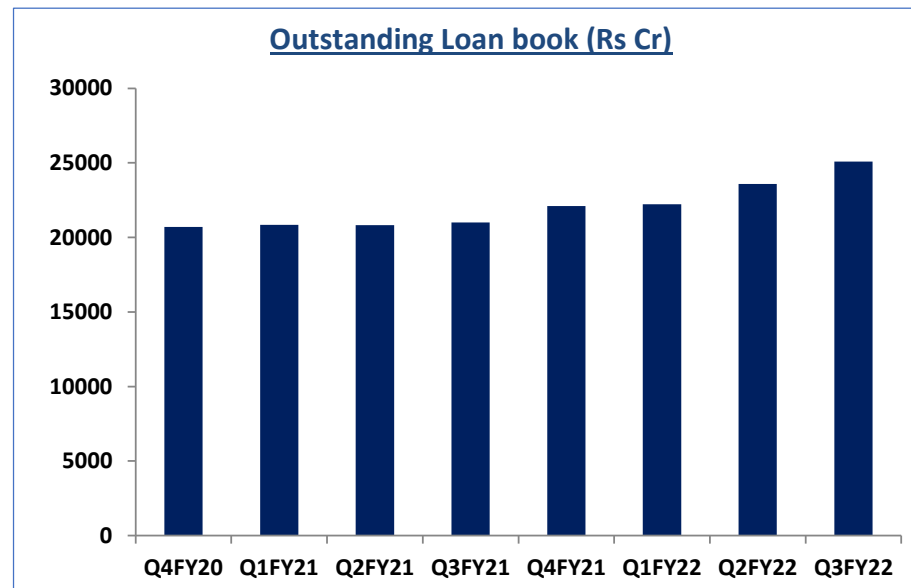
Q3FY22 Result Update

CFHL has reported strong Q3FY22 numbers. The Net Interest Income rose 8% QoQ. The NIM for the quarter was at 3.74%, +21bps QoQ. The CoF has gone down further and yield has also improved. Operating profit was up 6% QoQ. Due to rise in opex and higher provisioning the net profit was down by 12% YoY and 6% QoQ. Record high disbursements have helped the company fetch healthy loan book growth. The capital adequacy continues to remain healthy at 24.18% and the liquidity position is also strong. The company declared an interim dividend of Rs.1.50 per share for equity share of face value of Rs.2 each at meeting held on December 14, 2021.



Record high disbursements

The outstanding loan book growth during the quarter was at 19% YoY and 6% QoQ on the back of record high disbursements. The loan book growth was seen across the category. At Rs. 2,472 cr, the disbursement grew by 124% YoY and 12% QoQ. YoY growth is more of an optical growth as in Q3FY21 disbursements were affected because of land registration issues in Telangana. The incremental ticket size increased to Rs.23.5 lakh from Rs.21 lakh in last quarter. Management has informed that there will be further increase up to Rs.24 lakh in near term. The management expects loan book and disbursements both to grow 18–20% in FY22. Further, they plan to open 12–15 branches on a yearly basis.



Best in Class asset quality

GNPA improved by 7bps QoQ at 0.71% and NNPA improved by 8bps QoQ at 0.39%. There wasn't any negative impact of new IRAC norms on the company. In the absolute terms they have increased. Provision Coverage Ratio stood at 45% in Q3FY22 vs 40% in last quarter. The overall restructured book remained stable at ~2.7% of AUM. The collection efficiencies improved further and the company has now reached at a better than pre-covid level. Further, there was 100% collection efficiency in the restructured book. Over 700 customers out of 4400 customers have started paying; so restructured book should reduce going forward.



A small breather from new IRAC norms

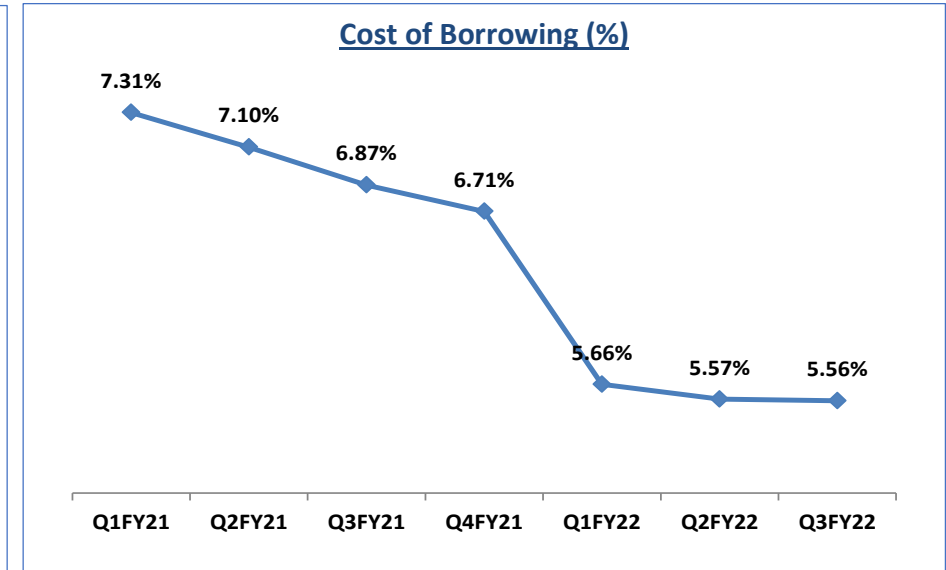
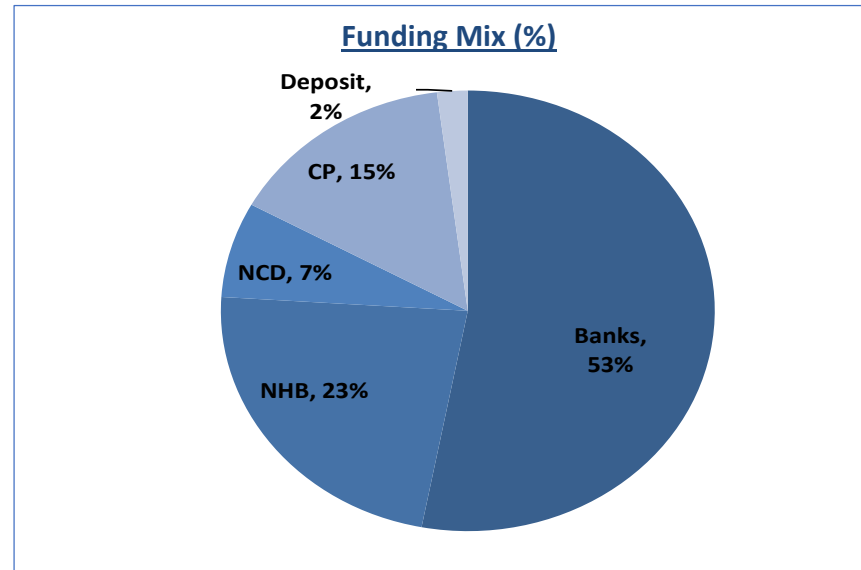
RBI announced tighter norms for NAL recognition in Nov 2022. As per the tightened Income Recognition, Asset Classification and Provisioning (IRAC) norms, the NPA classification will be on daily stamping basis and upgrading an account from NPA will be only after entire dues are cleared. Due to this NPA across the Auto and home financiers was higher in Q3FY22. Recently, there was announcement on deferral of these norms to Sept-22 (March-22 earlier). This offers relief to these NBFCs as need for further provision in Q4FY22 will be limited and it gives longer time frame to the companies to change collection process.

Borrowings and Cost of funds

The company has a well-diversified borrowing mix. The NHB refinance, which is generally the cheapest source of funding in any of the HFC's liability mix, barring for Commercial Paper (CP) contributes 23% in the total borrowings, banks contribute 53%, NCD at 7% and deposit at 2%. CP which is the lowest cost funding contributes 15% in total borrowing as of Q3FY22. The company has one of the lowest cost of funds in the industry due to decent share of NHB (note that not all HFCs have meaningful access to the same), banks' lending to the company at a similar rate they lend to an AAA rated firm (strong parent credit) and relatively higher share of CPs in the total borrowing mix (CFHL has lower tenure of book compared to other peers, which gives flexibility to increase dependence on short term borrowing). Having cost leadership is the biggest advantage for an HFC to pursue higher growth without compromising on asset quality. Cost of borrowings as of Q3FY22 stood at 5.56% vs 5.57% in Sep-21 & 6.87% in Dec-20.

In the rising competitive environment, where the large banks have gone aggressive on lending for mortgage business, CFHL had to change its pricing strategy which can help them retain as well as attract good customers. They have moderated the company's pricing to be at par with the best banks in India. To maintain the margins the company has increased the CP exposure, leading to further easing of CoF. Incremental CoF for Q3FY22 was 4.98% and for full year was 5.56%. Spread improved from 2.42% in Q2FY22 to 2.49% in Q3FY22 and it was 2.4% in Q1FY22. The NIM for the quarter was at 3.74%, +21bps QoQ. One can argue that the reliance on short term borrowing is not a good practice when you are in the business of giving loan term loans; this practice could impact the ALM. However, the management has informed that CP is raised only as cost leverage and not a source of funds. It was backed up by the undrawn bank limits which are already there.

As we enter into the rising interest rate scenario, we believe that the cost benefit for the company will reduce. The management expects that in the next six quarters, cost of fund could inch up by 100–150 bps. However, they are confident that NIMs/spread will not be impacted as most of the repricing is now being done at higher rates.



Impeccable track record

The key differentiator for the company is its consistent financial performance while maintaining best in class asset quality. The company has raised equity funds only one times in past two decades; which has brought limited dilution for existing shares holders. One can find very few companies in the NBFC space which has this kind of track record of high growth rate and low dilution of equity. Since 2008, it has been constantly paying dividends to its shares holders.

In past ten years the loan book has grown at the CAGR of 26% while the earning has risen at 27% CAGR. The customers count has increased from 1 lakh in FY11 to 4.8 lakh in FY21. Healthy margins, low expense ratio and benign credit costs, helped the company generate healthy return ratios. All this growth was not at a cost of asset quality. In fact, CFHL has best in class asset quality because of its quality portfolio and high grade credit underwriting policies. Across the credit cycles, the GNPA level has remained below 1%. This includes times of Covid and recently announced new IRAC norms. CFHL's focus has mainly been on (affordable) Housing Loans to individuals with 90% of loan book comprising Housing Loans and 10% for Non-Housing. The non-housing loans segment primarily comprises loan against properties (LAP) and limited advances towards developer loans/commercial loans and staff loans. The customers in the housing loan segment are skewed towards salaried class largely in tier 2/3 cities.

Established payer with the history of over three decades, CFHL has become an established player in the southern region of the country. To reduce this dependence, the company has been focusing on newer geographies and launching of new products under non housing segment.



Potent Industry tailwinds continue to drive loan growth for CFHL

After almost a decade of dull growth, Indian real estate industry has started feeling favourable environment for the growth. Revival was on the back of decadal low interest rates, stable home prices, lower stamp duties, work from home culture, rising trend of dual-income etc. 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.

India has favourable demographics, which will keep on bringing sustainable demand for the housing sector. India has a big housing shortage; 95% of which is in LIG and EWS segments. Even if we compare mortgage penetration compared to other developing nations, there is huge gap to fill. Housing shortage estimated at 100mn units by 2022. The incremental housing credit opportunity if the entire housing shortage is addressed is estimated at Rs.50-60tn (~3 times the existing housing finance market). So there is room for growth for every existing player in the segment. The Government is helping the sector in every possible way i.e. implementation of RERA, reduction in stamp duty, a dedicated institutional framework to promote affordable housing and many initiatives like 'Housing for all' by 2022 under the Pradhan Mantri Awas Yojana (PMAY).

The company has strong presence in India's IT hub- Bangalore (~20% of AUM). The sector is booming and the improved future growth scenarios have resulted into the salary hikes largely across the sector. There has also been announcement on the launch of new scheme by the reputed developers operating out of Bangalore/adjacent markets; monthly sales numbers are also strong there. This bodes well for the company.

Risks & Concerns

- As explained in detail in our earlier stock note, regarding the continued intense competition from the banks; the company had to cut rates to match the big banks. This puts pressure on margins and 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. Emergence of new fintechs could also bring fresh competition for the HFCs like CFHL.
- Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the company.
- Lower than expected business growth or sharp rise in slippages due to COVID-19 or other recent disruptions could result in deterioration in profitability and capital. Continuity in the growth of disbursements will be important point to watch out in coming quarters.
- CFHL's business is highly concentrated in the southern part of the country. Any political and economy uncertainty in that region could impact the business of CFHL.
- 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 has



benefit of getting funding at lower cost. However if this stake is acquired by an established P/E or large HFC, it may result in rerating of the company.

- In the borrowing mix there is high share of short term borrowing (Commercial Papers). This practice could impact the ALM for the lender who lends money for long term.

Company Background:

Can Fin Homes Ltd. (CFHL) is a public deposit-taking housing finance company started in 1987 by Canara Bank in association with Housing Development and Finance Corporation and Unit Trust of India. The company caters primarily to salaried borrowers (low & middle group individuals & first-time homebuyers) in urban areas and majority of its advances are sourced from southern states. It has Pan-India presence with 166 branches, 21 Affordable Housing Loan Centers & 13 Satellite Offices; spread across 21 States / Union Territories.

Loan Book Mix (%)

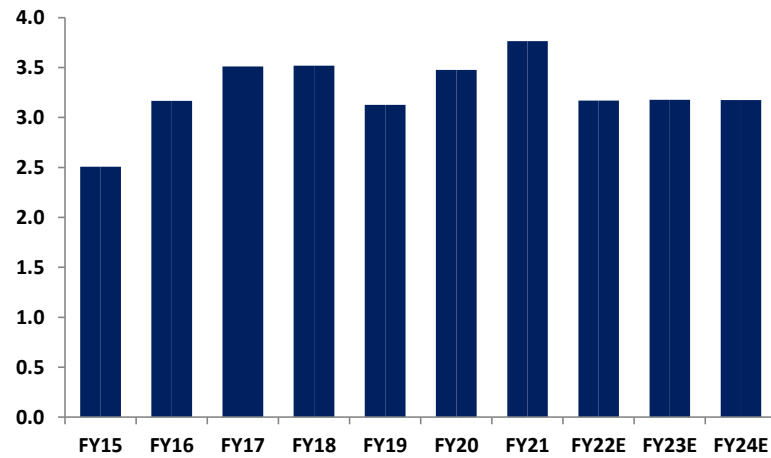
	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Salaried									
Housing	65.60%	65.70%	65.60%	66.00%	66.70%	67.50%	67.50%	68.37%	68.28%
Top up personal	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.50%	2.65%	2.79%
Mortgage/Flexi	1.90%	1.90%	1.90%	1.90%	1.90%	2.10%	2.08%	2.23%	2.39%
Loans for Sites	0.80%	0.80%	0.80%	0.80%	0.70%	0.70%	0.69%	0.64%	0.62%
Others	0.20%	0.20%	0.20%	0.20%	0.20%	0.10%	0.14%	0.13%	0.12%
Non Salaried Class- Self Employed & Non Professional									
Housing	24.40%	24.40%	24.60%	24.40%	23.80%	22.90%	22.85%	21.92%	21.58%
Top up personal	1.20%	1.20%	1.20%	1.20%	1.20%	1.10%	1.13%	1.09%	1.11%
Mortgage/Flexi	2.70%	2.70%	2.70%	2.60%	2.50%	2.50%	2.48%	2.41%	2.56%
Loans for Sites	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.28%	0.26%	0.25%
Others	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.26%	0.23%	0.22%
Builder loans	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.00%	0.00%
Staff loans	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.08%	0.08%	0.08%



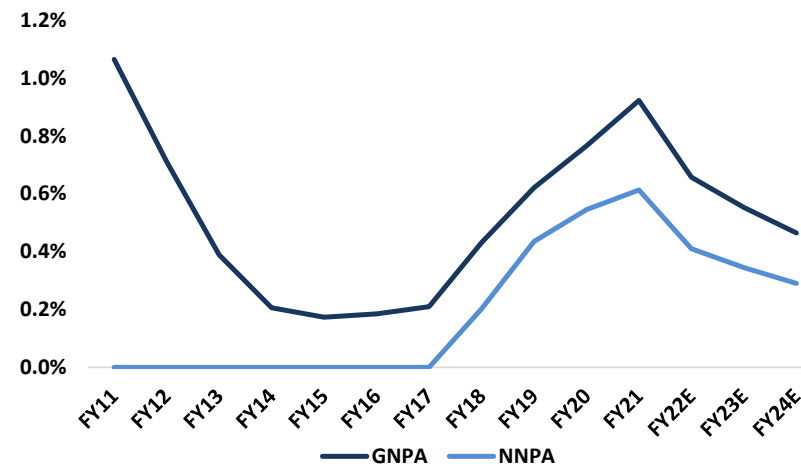
Peer Comparison:

	CMP	Mcap	Q3FY22						P/ABV			
			Loan Book (Rs. Cr)	GNPA	NNPA	NIM	ROAE	ROAA	FY21	FY22E	FY23E	FY24E
LIC Housing Fin.	372	20,476	243412	5.1	3.2	2.4	14.0	1.3	1.3	1.1	1.0	0.8
Can Fin Homes	656	8,732	25091	0.7	0.4	3.7	15.8	2.0	3.5	3.0	2.6	2.2
AAVAS	2515	19,849	8,477	1.7	1.3	8.1	12.7	3.4	8.2	7.2	6.2	5.3
APTUS	342	16,997	4698	1.5	1.1	8.9	14.1	7.8	8.3	6.1	5.3	4.5
HOMEFIRST	786	6,885	3954	2.6	2.1	5.6	12.4	4.0	2.4	2.2	2.0	1.7

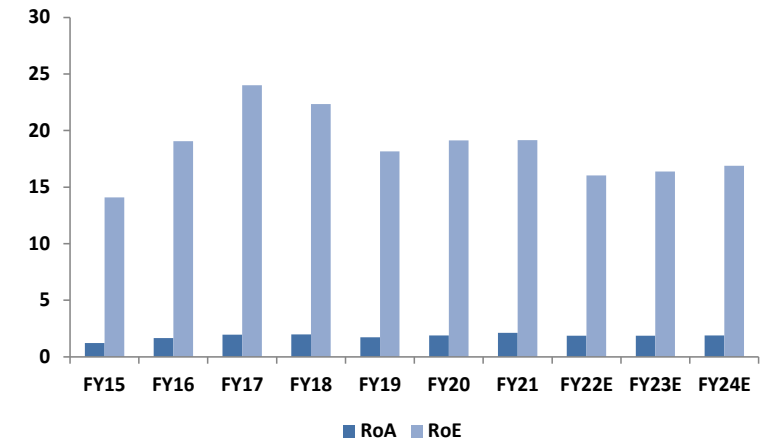
NIM(%)



NPA trend (%)



Return Ratios(%)





Financials

Income Statement

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	2018.9	2006.0	1934.1	2334.6	2812.3
Interest Expenses	1344.2	1208.0	1172.5	1424.8	1730.2
Net Interest Income	674.7	798.0	761.6	909.8	1082.0
Non-interest income	11.6	12.0	14.4	17.2	20.5
Total Income	686.3	810.0	776.0	927.0	1102.5
Operating Expenses	107.7	123.5	142.8	162.1	181.8
PPoP	578.6	686.5	633.3	764.9	920.7
Prov & Cont	60.3	69.0	21.6	43.0	51.1
Profit Before Tax	518.3	617.5	611.6	722.0	869.6
Tax	142.2	162.0	160.3	186.3	224.4
PAT	376.1	455.5	451.4	535.7	645.3

Balance Sheet

(Rs Cr)	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	26.6	26.6	26.6	26.6	26.6
Reserves & Surplus	2123.4	2583.2	2997.3	3493.1	4091.7
Shareholder funds	2150.1	2609.8	3023.9	3519.7	4118.3
Borrowings	18643.6	19190.0	22985.3	27450.1	32732.0
Other Liab & Prov.	248.0	274.0	306.9	352.9	405.8
SOURCES OF FUNDS	21042	22074	26316	31323	37256
Fixed Assets	37.9	37.8	38.0	38.0	38.0
Investment	24.3	49.6	26.2	31.1	37.0
Cash & Bank Balance	392.4	21.6	26.2	60.5	43.0
Advances	20525.7	21891.5	26160.3	31130.8	37045.6
Other Assets	61.4	73.4	65.4	62.3	92.6
TOTAL ASSETS	21042	22074	26316	31323	37256

(Source: Company, HDFC sec)



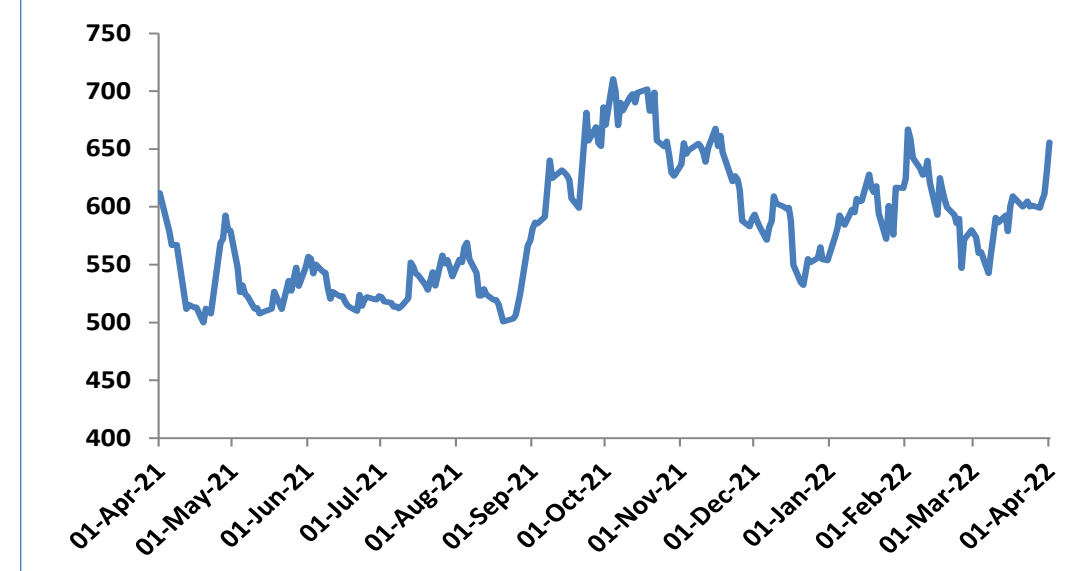
Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Return Ratios					
Calc. Yield on adv	10.4%	9.5%	8.1%	8.2%	8.3%
Calc. Cost of borr	7.6%	6.4%	5.6%	5.7%	5.8%
NIM	3.5%	3.8%	3.2%	3.2%	3.2%
RoAE	19.1%	19.1%	16.0%	16.4%	16.9%
RoAA	1.9%	2.1%	1.9%	1.9%	1.9%
Asset Quality Ratios					
GNPA	0.8%	0.9%	0.7%	0.6%	0.5%
NNPA	0.5%	0.6%	0.4%	0.3%	0.3%
PCR	29%	34%	38%	38%	38%
Growth Ratios					
Advances	12.3%	6.7%	19.5%	19.0%	19.0%
Borrowings	11.7%	2.9%	19.8%	19.4%	19.2%
NII	27.2%	18.3%	-4.6%	19.5%	18.9%
PPP	22.9%	18.7%	-7.8%	20.8%	20.4%
PAT	26.7%	21.1%	-0.9%	18.7%	20.4%

Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
Valuation Ratios					
EPS	28.2	34.2	33.9	40.2	48.5
P/E	23.2	19.2	19.3	16.3	13.5
Adj. BVPS	153.1	185.9	219.0	256.3	301.2
P/ABV	4.3	3.5	3.0	2.6	2.2
Dividend per share	2.0	2.0	2.8	3.0	3.5
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.5
Other Ratios					
Cost-Income	15.7	15.2	18.4	17.5	16.5
Leverage	9.5	8.4	8.7	8.8	9.0

One Year Price Chart





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.

Yellow 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 cyclicalities 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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