

Can Fin Homes Ltd.

BUY

CMP Rs516

Target Rs650

Upside 26.0%

Return of growth

Loan growth can positively surprise with supportive pricing and demand

Loan originations have picked-up substantially, catalyzed by the competitive pricing strategy adopted from November (HL rates from 6.95%, at par with Banks & Large HFCs v/s 100-150 bps higher earlier) which has expanded addressable opportunity significantly across markets (from Metros to Tier-4 locations). The resolution of registration issue (completion of overhaul by the State Govt.) in Telangana (15-20% of disbursements pre-Covid) and sustained demand recovery in most other markets is aiding disbursement momentum. December disbursements were 10-15% higher yoy (preceding months significantly lower yoy), and we understand that loan originations have strengthened further in January and February.

Besides invigorating new loan activity, the pricing strategy has substantially curbed BT Out (a major growth impediment in past couple of years) and increased BT IN (use to be negligible before). Thus, the net BT activity (incl. BT Outs for Top-ups) has become a neutral factor for growth. Post the pricing changes, Can Fin's disbursement ticket size is witnessing some increase (due to broad-basing of growth opportunities) which adds the dynamic of value-led growth. Though there is significant headroom for business in many existing branches, the co. plans to augment distribution network (2 branches in Q4 FY21 and 10-15 every year thereafter) to deliver consistent growth in longer run.

Portfolio accretion could positively surprise in Q4 FY21 itself, with disbursements being significantly higher yoy and BT impact being negligible. In our view, Can Fin would revert to 16-18% loan growth earlier than management's expectations of 6-8 quarters.

NIM/Spread will revert to trend levels in few quarters

As new loans are largely priced at 7-7.5% and even as existing accounts are re-priced much lower on anniversary dates (annual basis) or on BT requests, the overall portfolio yield (at 9.7-9.8% in Q3 FY21) is expected to come down sharply in ensuing quarters. The impact of this on NIM/Spread will be partially cushioned by expected further decline in funding cost; incremental funding cost at 5.5-6% versus cost of current borrowings at 6.9%. The company first ensured sufficient availability of funds at lower cost (Rs40bn liquidity lines) to suffice the anticipated growth resurgence. It has also started exploring the bond markets (capital market contribution has fallen to 20% from 50%+ in past 3 years) for tapping fixed-rate funds at a reasonable price. Notwithstanding these initiatives on funding side, robust balance sheet and history of competitive borrowing rates, the existing high NIM/Spread (4.0%/2.9%) will normalize to trend levels (3.4%/2.3%) over next few quarters. Thereafter, the co. would review its pricing strategy basis competition (intensity expected to recede) and cost/tenor of funds. In the longer run, Can Fin wants to protect and maintain NIM/Spread around the trend levels (annual reset for loans could pose an intermittent challenge).

Portfolio resilience, quality of growth and provision buffer to aid RoA/RoE

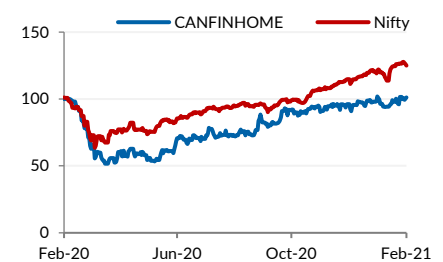
Collections are back to normal (93% on billing) and the co. holds significant additional provisions (40 bps of loans) in comparison to SC stand-still (<30 bps) and invoked restructuring (40-45 bps). Incremental NPL flow from the overdue pool is likely to be small in coming quarters and the co. remains confident of reverting to trend NPL levels (0.6-0.7%) in 4-5 quarters. We believe that a strong provisioning buffer and high-quality portfolio accretion (outcome of pricing strategy) would cushion credit cost in coming years. Estimate sustainable RoA/RoE of around 2%/18%.

Valuation at 2x FY23 P/ABV is amenable to re-rating with improving growth prospects (estimated 16-17% ABV CAGR over FY21-23). Increasing probability of capital raise in FY22 could stoke a virtuous re-rating cycle (significant stock underperformance in past 4-5 months).

Stock data (as on Feb 19, 2021)

Nifty	14,982
52 Week h/l (Rs)	534 / 253
Market cap (Rs/USD mn)	68641 / 945
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	249
Div yield (%):	0.4
Bloomberg code:	CANFIN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	-0.8%	12.0%	1.7%

Shareholding pattern (As of Dec'21 end)

Promoter	30.0%
FII+DII	15.3%
Others	54.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	650	615

Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	36.8	36.5	41.2
EPS (Old)	36.3	35.4	39.6
% change	1.4%	3.2%	4.0%

Financial Summary

	FY21E	FY22E	FY23E
Op. Income	8,367	8,124	9,237
PPOP	7,216	6,800	7,747
PAT	4,902	4,864	5,485
EPS (Rs)	36.8	36.5	41.2
ABVPS (Rs)	185.4	220.5	258.8
P/E (x)	14.0	14.1	12.5
P/ABV (x)	2.8	2.3	2.0
ROE (%)	20.6	17.2	16.6
ROA (%)	2.3	2.0	2.0

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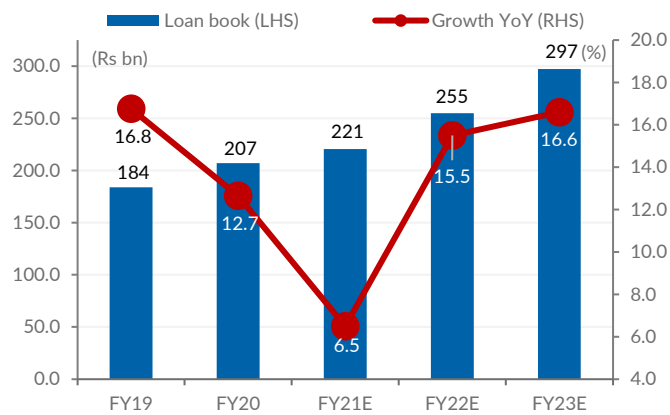


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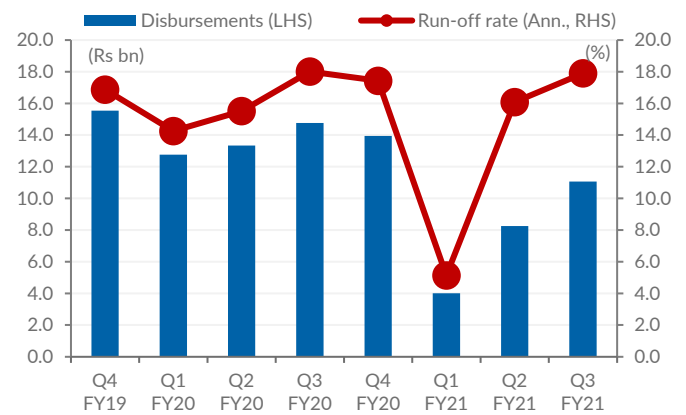
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Exhibit 1: Loan book growth to revert



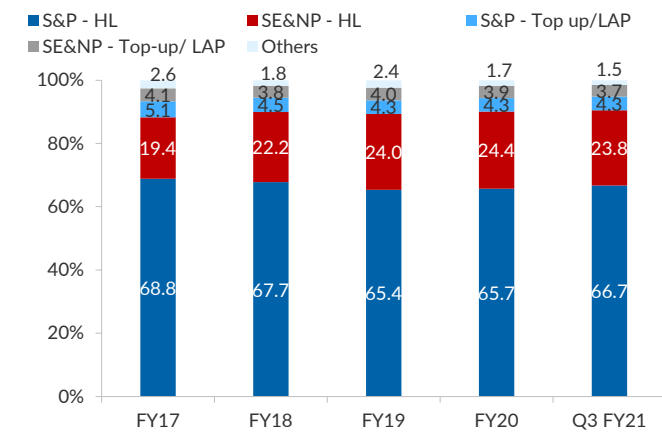
Source: Company, YES Sec - Research

Exhibit 2: Disbursements to revert to normalcy



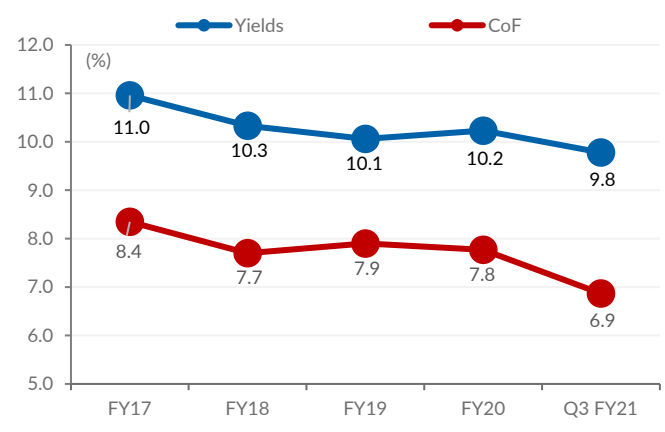
Source: Company, YES Sec - Research

Exhibit 3: Portfolio mix favoring salaried & professionals



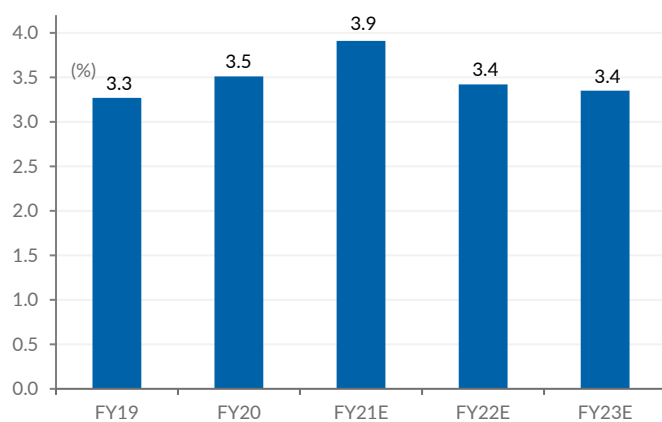
Source: Company, YES Sec - Research

Exhibit 4: Yields and costs moving in tandem



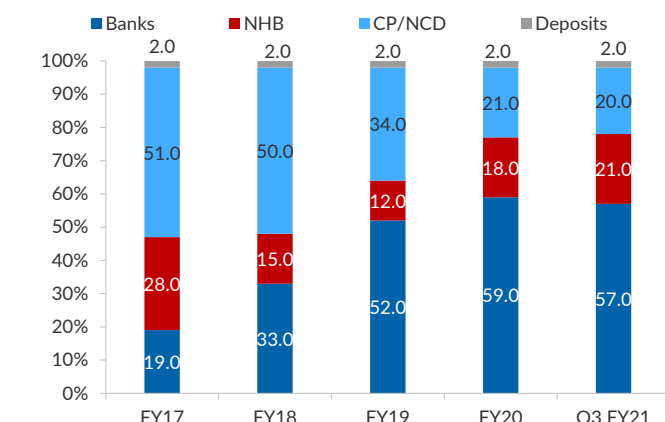
Source: Company, YES Sec - Research

Exhibit 5: NIMs to trend in a narrow range



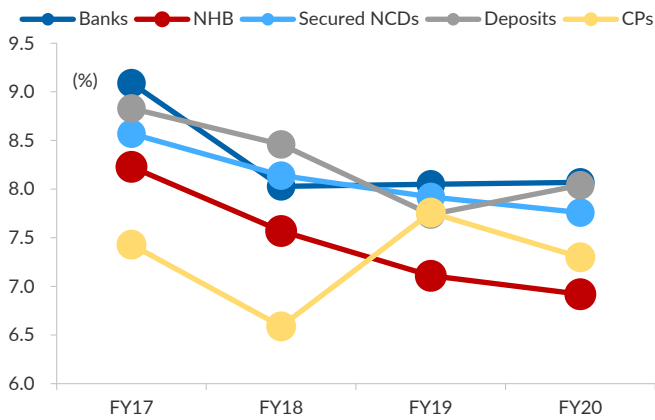
Source: Company, YES Sec - Research

Exhibit 6: Bank borrowings – major funding source



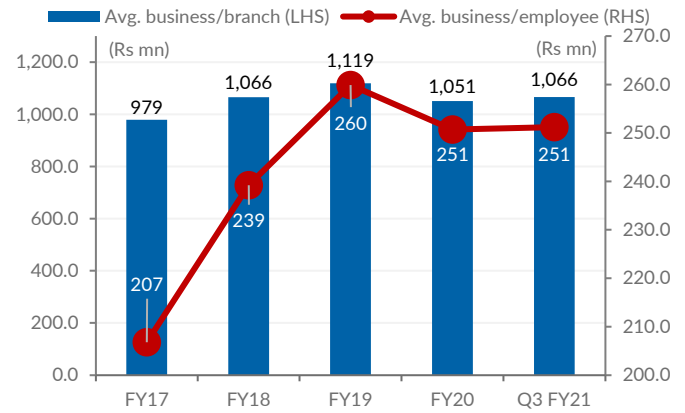
Source: Company, YES Sec - Research

Exhibit 7: Average funding cost trends



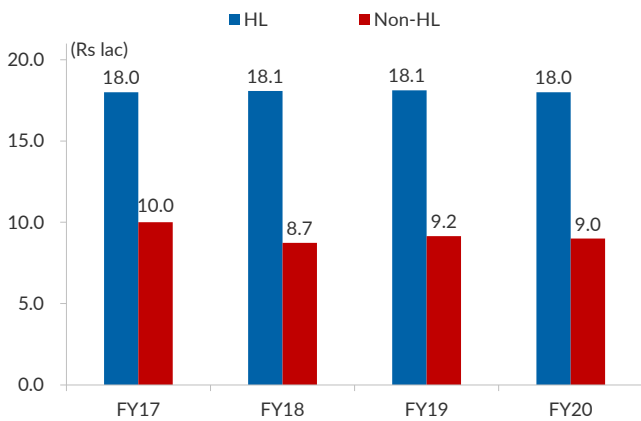
Source: Company, YES Sec - Research

Exhibit 8: Productivity matrix remains stable



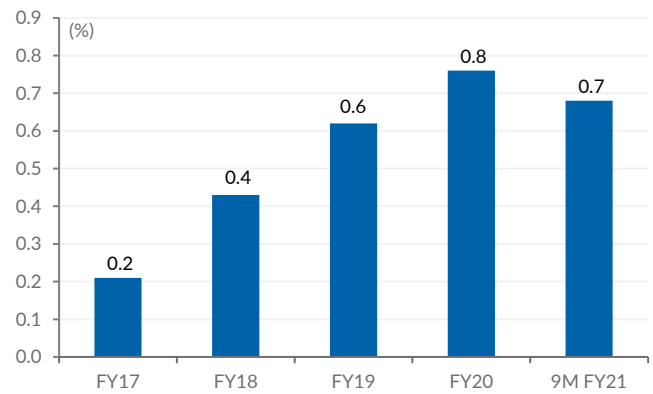
Source: Company, YES Sec - Research

Exhibit 9: Average ticket size for HL at Rs18lacs



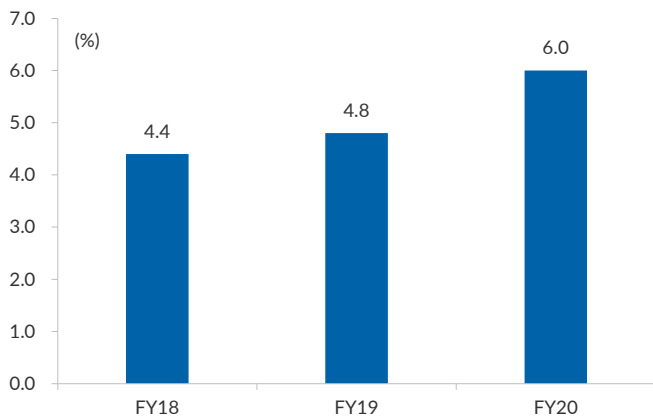
Source: Company, YES Sec - Research

Exhibit 10: GNPLs steady



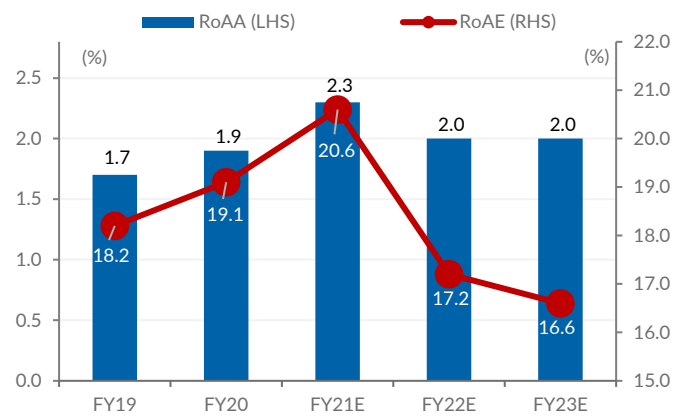
Source: Company, YES Sec - Research

Exhibit 11: Stage 2 assets witnessing a surge



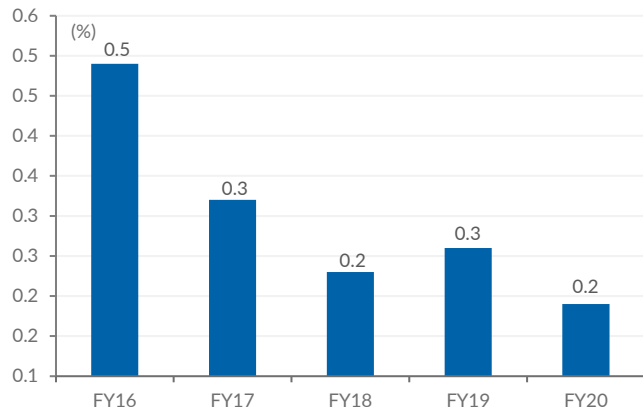
Source: Company, YES Sec - Research

Exhibit 12: Return ratios to revert as stress eases



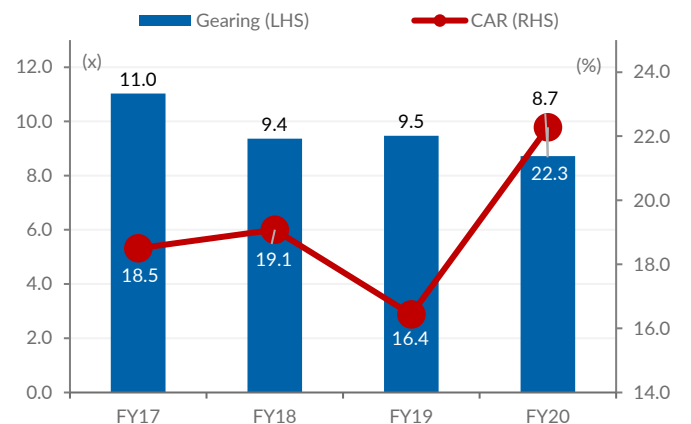
Source: Company, YES Sec - Research

Exhibit 13: Loans concentration – 20 largest Borrowers



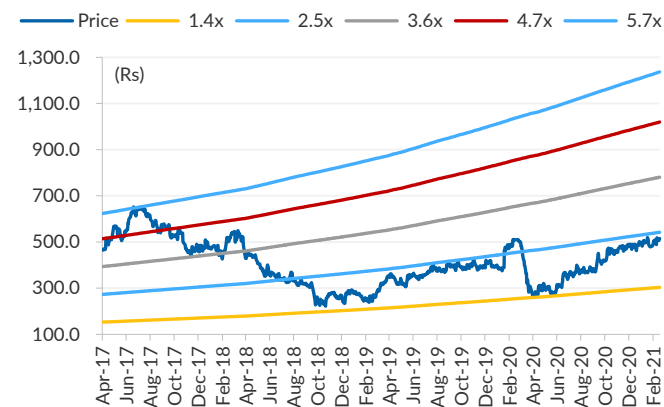
Source: Company, YES Sec – Research

Exhibit 14: Capital positioning remains healthy



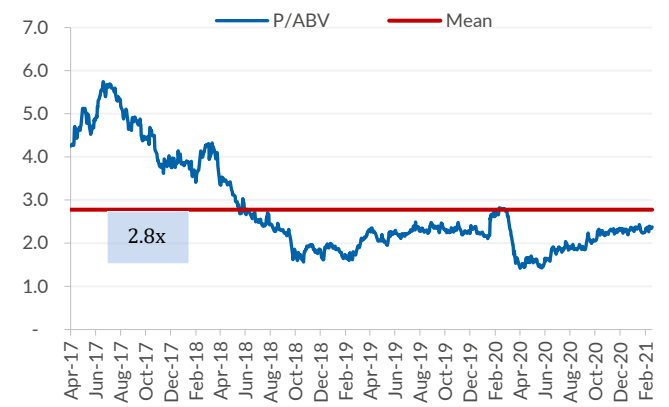
Source: Company, YES Sec – Research

Exhibit 15: 1 year rolling P/ABV band



Source: Company, YES Sec – Research

Exhibit 16: 1 year rolling P/ABV vis-à-vis the mean



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 17: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity Capital	266	266	266	266	266
Other Equity	17,556	21,234	25,746	30,221	35,316
Shareholder's funds	17,822	21,501	26,013	30,487	35,583
Financial Liabilities	169,059	188,114	197,518	227,139	264,840
Trade payables	35	42	42	42	42
Debt Securities	56,347	38,096	40,000	46,000	53,820
Borrowings (Other than Debt Securities)	108,814	145,309	152,574	175,461	204,412
Deposits	2,611	3,051	3,203	3,684	4,292
Other Financial Liabilities	1,252	1,616	1,697	1,952	2,274
Non-Financial Liabilities	414	821	1,035	1,139	1,253
Provisions	266	662	861	947	1,042
Other non-financial liabilities	148	159	174	192	211
Total Liabilities + Equity	187,295	210,436	224,566	258,765	301,675
Financial Assets	186,735	209,457	223,515	257,635	300,458
Cash and Cash Equivalents	4,015	3,723	4,353	4,497	5,217
Bank balances	187	201	221	243	268
Receivables	1	3	3	3	3
Loans	182,342	205,257	218,638	252,562	294,578
Investments	163	243	267	294	353
Other Financial Assets	27	30	33	37	40
Non- Financial Assets	560	979	1,051	1,130	1,217
Current tax assets (Net)	206	240	276	318	366
Deferred tax assets (Net)	240	339	356	374	392
Property, Plant and Equipment	99	379	398	418	439
Other Non-Financial Assets	15	20	20	20	20
Total Assets	187,295	210,436	224,566	258,765	301,675

Source: Company, YES Sec - Research

Exhibit 18: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Income from Operations	17,270	20,304	20,576	21,253	24,692
Interest expense	(11,693)	(13,442)	(12,211)	(13,132)	(15,458)
Net interest income	5,577	6,862	8,364	8,121	9,234
Non-interest income	44	0	3	3	3
Total operating income	5,621	6,862	8,367	8,124	9,237
Total operating expenses	(915)	(1,076)	(1,152)	(1,324)	(1,490)
PPoP	4,706	5,786	7,216	6,800	7,747
Provisions	(11)	(603)	(663)	(297)	(414)
Profit before tax	4,695	5,183	6,553	6,503	7,333
Taxes	(1,728)	(1,422)	(1,651)	(1,639)	(1,848)
Net profit	2,967	3,761	4,902	4,864	5,485

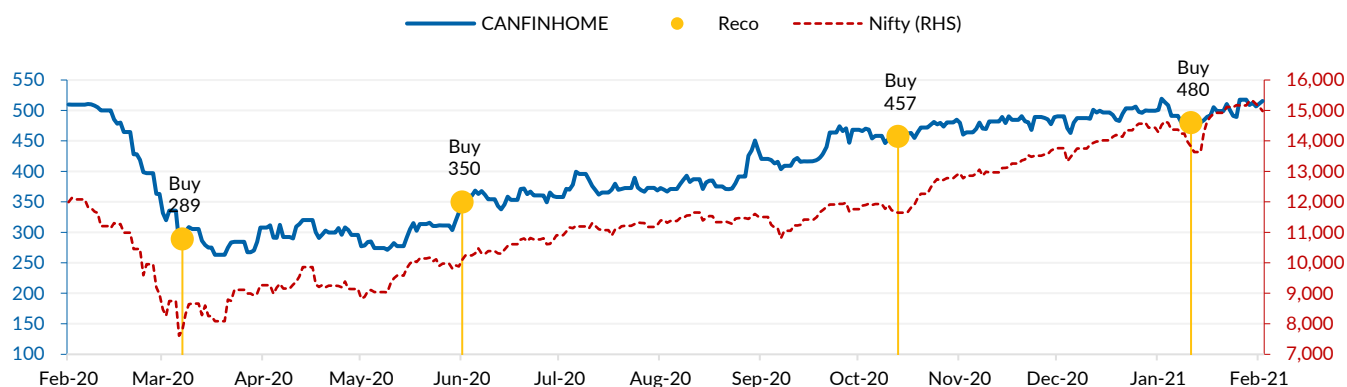
Source: Company, YES Sec - Research

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21E	FY22E	FY23E
Growth matrix (%)					
Net interest income	3.9	23.0	21.9	(2.9)	13.7
Total operating income	3.9	22.1	21.9	(2.9)	13.7
PPoP	3.8	23.0	24.7	(5.8)	13.9
Net profit	3.7	26.8	30.3	(0.8)	12.8
Loans	16.6	12.6	6.5	15.5	16.6
Borrowings	23.7	33.5	5.0	15.0	16.5
Total assets	19.1	12.4	6.7	15.2	16.6
Profitability Ratios (%)					
NIM	3.3	3.5	3.9	3.4	3.3
Return on Average Equity	18.2	19.1	20.6	17.2	16.6
Return on Average Assets	1.7	1.9	2.3	2.0	2.0
Per share ratios (Rs)					
EPS	22.3	28.2	36.8	36.5	41.2
Adj. BVPS	127.9	153.1	185.4	220.5	258.8
Other key ratios (%)					
Loans/Borrowings	108.7	110.1	111.7	112.2	112.2
Cost/Income	16.3	15.7	13.8	16.3	16.1
CAR	16.4	22.3	24.7	25.1	25.1
Tier-I capital	14.6	20.5	23.2	23.6	23.6
Gross NPLs/Loans	0.6	0.8	1.0	0.7	0.6
Credit Cost	0.0	0.3	0.3	0.1	0.2
Tax rate	36.8	27.4	25.2	25.2	25.2

Source: Company, YES Sec - Research

Recommendation Tracker



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10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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