

# CAN FIN HOMES LTD

## HOUSING FINANCE

### Q1FY18

Can Fin Homes Ltd (CFHL) report earnings growth of 43.2% YoY at Rs 71.2 cr which was led by NII growth backed by strong advance growth and improvement in NIMs. CFHL, advance growth for Q1FY18 was at 23% (as against 25% in Q4FY17) at Rs 13,808 cr and management guided for 28% loan book growth in FY18 to reach Rs.17,000 cr. CFHL's NII during the quarter was up by 34% at Rs 123 cr. With operating leverage led by lower increase in operating costs CFHL's cost to income ratio has declined to 14.90% as against 17.78% YoY. CFHL's borrowing has strong AAA ratings which have reduced its cost of borrowing. CFHL has reduced its dependence on Bank Loans from 27% in FY16 to 19% in FY17 which has resulted in reducing its cost of borrowing and in turn led to margin expansion.

# HOLD

Target Price: Rs 2,900

CMP : Rs 2,791  
Potential Upside : 4%

#### MARKET DATA

No. of Shares : 2.66 cr  
FV (Rs) : 10  
Market Cap : Rs 6,774 cr  
52-week High / Low : Rs 3333/ Rs 1252  
Avg. Daily vol. (6mth) : 138,658 shares  
Bloomberg Code : CANF.IN  
Reuters Code : CANF.BO  
BSE Code : 511196  
NSE Code : CANFINHOME

### Outlook & Valuations

CFHL reported the loan book of Rs.13,808 cr as against target of Rs.13,800 cr along with improvement in margins while asset quality moderated. Management guided to maintain growth (28% growth) momentum with target of Rs.17,000 cr loan book by FY18 which would be led by affordable housing scheme as well as high growth in non housing portfolio.

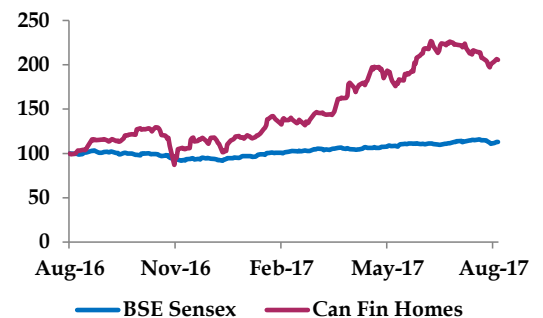
We believe valuation multiple expansion will be contingent upon sustainability of high loan book growth, further improvement in profitability and stable asset quality. At CMP the stock trades at 5.6 x its FY18E ABV and 4.3 x FY19E P/ABV. We value CFHL at FY19E P/ABV multiple of 4.5x to arrive at target price of Rs.2900.

### FINANCIAL SUMMARY

Y/E	PAT	EPS	Change	P/E	BV	P/BV	GNPA	Adj BV	P/Adj.BV	RoE	RoA
Mar	(Rs. Cr)	(Rs.)	YoY (%)	(x)	(Rs.)	(x)	(%)	(Rs.)	(x)	(%)	(%)
FY16	157	59	82	19	330	3.5	0.2	330	3.5	18	1.7
FY17	235	88	50	19	404	3.5	0.2	404	3.5	22	2.0
FY18E	341	128	45	20	500	4.6	0.2	500	4.6	25	2.1
FY19E	451	169	32	14	645	3.6	0.2	645	3.6	26	2.2

Source: Company and Axis Securities. CMP as on 21<sup>st</sup> Aug 2017

### PRICE PERFORMANCE



## Key Highlights

- **Loan book target achieved; FY18 target at 28%:** CFHL managed to grow loan book by 23% y-o-y despite Q1 despite being a seasonally weak quarter. Moreover, 95% of fresh approvals are under Housing Loans to Individuals with income below Rs.18 lakh which comprises of 53% with annual income uptoRs.6 lakh (LIG) and 42% with income above Rs.6 & uptoRs.18 lakh (MIG). Thus, Affordable housing scheme under PMAY should support the strong growth as targeted by management at 28% in FY18.
- **Margin expansion with changing borrowing mix and product mix:** The NIMS improved to 3.65% up ( 26 bps y-o-y). NIM expansion was aided by lower cost of borrowings, changing borrowing mix and product mix. Earlier, CFHL was heavily relying on banks borrowing (44% in FY14) and NHB refinance (48% FY14) to meet its borrowing need. However, CFHL has recently changed its borrowing mix by borrowing from money market (CP/NCD) where rates have come down recently. CFHL borrowing mix now (Q1FY18) contains bank loan 19%, NHB refinance 27%, Public deposit 2% and CP/NCD 52%. This cheaper source of borrowing has resulted in lowering cost of funds which in turn led to NIMs expansion.
- **Gross NPAs increase marginally:** CHFL GNPA's in Q1FY18 stood at 0.38% vs. 0.24% in Q1FY17. The marginal increase in GNPA is due to non recovery in some accounts. The management is confident of recovery and expects GNPA to reduce going forward. Despite increase in share of self employed in the book we feel CHFL is better place in terms asset quality vs. its peers.
- **Rights Issue:** CHFL board has approved raising of Rs 1000 cr via rights issue which is expected to take place around Q3FY18. (We have not factored rights issue in our estimates).

## Results Update

Can Fin Homes Ltd	Quarterly					Yearly			
Fig in Rs.Cr	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	FY17	FY18E	FY19E	2 Yr CAGR (%)
Interest earned	360.8	295.0	22.3	349.5	3.2	1,352	1,758	2,250	29.0
Interest expenses	226.9	196.7	15.4	230.4	(1.5)	884	1,123	1,426	27.0
<b>NII</b>	<b>133.8</b>	<b>98.3</b>	<b>36.1</b>	<b>119.1</b>	<b>12.4</b>	<b>468</b>	<b>635</b>	<b>824</b>	<b>32.7</b>
Other Income	0.7	0.2	-	0.2	-	1	1	1	-
<b>Total Income</b>	<b>361.5</b>	<b>295.3</b>	<b>22.4</b>	<b>349.6</b>	<b>3.4</b>	<b>469</b>	<b>636</b>	<b>825</b>	<b>32.6</b>
Operating expenses	23.0	18.2	26.4	24.5	(6.2)	77	90	106	17.5
- Staff expenses	9.6	8.2	16.4	10.4	(8.0)	39	46	55	18.0
- Other expenses	13.4	9.9	34.7	14.0	(4.8)	38	44	52	17.0
<b>Operating Profit (PPoP)</b>	<b>111.6</b>	<b>80.4</b>	<b>38.8</b>	<b>94.8</b>	<b>17.7</b>	<b>392</b>	<b>545</b>	<b>718</b>	<b>35.3</b>
Provisioning & Cont.	0.0	0.0	-	0.0	-	18	33	42	52.1
Depreciation	1.1	1.0	14.6	0.9	21.1	4	3	3	-
<b>PBT</b>	<b>110.5</b>	<b>79.4</b>	<b>39.1</b>	<b>93.9</b>	<b>17.7</b>	<b>370</b>	<b>509</b>	<b>673</b>	<b>34.8</b>
Tax	39.6	32.0	23.8	34.3	15.5	135	168	222	28.3
<b>PAT</b>	<b>70.9</b>	<b>47.4</b>	<b>49.4</b>	<b>59.6</b>	<b>18.9</b>	<b>235</b>	<b>341</b>	<b>451</b>	<b>38.4</b>
EPS (Rs)	26.6	17.8	49.4	22.4	18.9	88	128	169	38.4
BVPS (Rs)	404.0	330.0	22.4	381.3	6.0	397	500	645	27.4
Gross NPA (%)	0.21	0.19	-	0.24	-	0.2	0.2	0.2	-
Advance growth (%)	25.1	39.4	-	28.2	-	30	30	30	-
NIMs (%)	3.54	3.24	-	3.49	-	3	3	3	-
CAR (%)	18.5	20.69	-	18.76	-	18	17	16	-

Source: Company and Axis Securities

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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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