Improving Growth Outlook; Retain BUY

Can Fin Homes (CANF) management indicates optimism on the growth front and expects loan growth to be in the range of ~18%-20% in FY22, fuelled by the demand in the affordable real estate segments. The management has stated that the industry outlook over the next 2-3 years is very promising. Strong demand revival along with significant pent-up demand due to the Covid-19 pandemic is expected to support the company's growth rate moving forward. While the loan growth over the past five quarters has been in the single digits due to the Covid-19 impact, the management is aiming to double its loan book in the next 3-4 years. On the competition front, banks continue to pose severe competition in housing finance, mostly in the high-ticket segment.

Our channel checks indicate that the overall sales and home loan activity have improved in the affordable housing space. Furthermore, the recent cut in stamp duty to 3% from 5% (below Rs 45 Lc) by the Karnataka government will have a positive impact on the demand in the segment. Karnataka forms ~26% of the company's loan book.

The company's asset quality has been benign with GNPAs of less than 1% and the Balance sheet remains strongly capitalized with tier-1 of 24.3%. CANF remains comfortably placed on the liquidity front. We expect margins and outlook on loan growth to improve going forward. The third wave of the Covid-19 will be a key risk to our estimates. The affordable housing space is still relatively *'a specialist housing finance arena'* and companies catering to this segment have traded at P/B valuations upwards of +3x. We believe CANF's valuation multiple has notable room for expansion and we re-iterate a BUY with a revised target price of Rs 800 (3x FY23E ABV)

Key Highlights

- The company is witnessing robust demand across its geographical spread. Metro cities like Bangalore, Hyderabad, Chennai, Delhi, and Mumbai are contributing to the higher demand.
- Small towns (irrespective of their geography) continue to do well.
- The Karnataka State Government passed an amendment to Stamp Act wherein it reduced stamp duty to 3% from 5% on properties below Rs 45 Lc. Karnataka forms ~26% of the loan book w/w Bengalaru is 80-82%.
- In terms of the lending basket, the company continues to focus on a salaried class by maintaining a lending mix of 70:30 between salaried and non-salaried.
- Demand from the non-salaried class was impacted during the second wave but was not as severe as the first wave. The company expects the pent-up demand to come back.
- CANF has been able to maintain a very good asset quality outlook with GNPA of less than 1%, leading to low credit costs. Given the portfolio mix, we expect credit costs to remain manageable with a low impact on the bottom line.
- Potential restructuring has been low at >2%.
- Spread and NIM are expected to improve, driven by lower CoF, higher business, and increased yields. Lower CoF is led by CPs, loans from NHB, and lower rates from the banks (<5%).

Key Financials (Standalone)

(Rs Cr)	FY20	FY21	FY22E	FY23E
NII	675	798	846	973
PPOP	579	686	715	825
Net Profit	376	456	494	586
EPS (Rs)	28.3	34.3	37.1	44.0
ABV	153.1	186.2	223.5	266.6
P/ABV	4.0	3.3	2.8	2.4
ROAA	1.9	2.1	2.1	2.1
NNPA (%)	0.5	0.61	0.7	0.5

Source: Company, Axis Research9

	(CMP as of Sep 22, 2021)
CMP (Rs)	653
Upside /Downside (%)	23%
High/Low (Rs)	691/358
Market cap (Cr)	8,685
Avg. daily vol. (6m) Shrs.	388,163
No. of shares (Cr)	13.3

Shareholding (%)

	Jun-21	Mar-21	Dec-20
Promoter	30.0	30.0	30.0
FIIs	0.0	0.0	0.0
MFs / UTI	14.1	13.9	12.8
Banks / FIs	3.2	3.5	1.4
Others	57.2	52.6	57.2

Financial & Valuations

Y/E Mar (Rs. cr)	2021	2022E	2023E
NII	798	846	973
PPOP	686	715	825
Net Profit	456	494	586
EPS (Rs.)	34.3	37.1	44.0
ABV	186.2	223.5	266.6
P/ABV	3.3	2.8	2.4
ROAA	2.1	2.1	2.1
NNPA (%)	0.6	0.7	0.5

Change in Estimates (%)

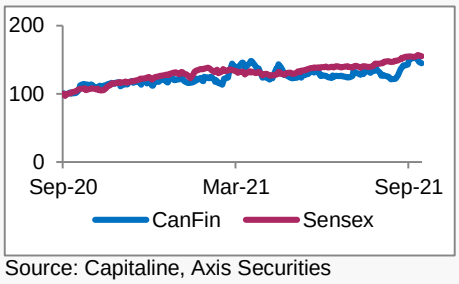
Y/E Mar	FY22E	FY23E
NII	0.0	6.4
PPOP	0.1	7.7
PAT	0.0	9.5

ESG disclosure Score**

Environmental Disclosure Score	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Change in Estimates (Rs Cr)

	Revised		Old		%Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NII	846	973	846	914	0.0	6.4
PPOP	715	825	715	766	0.1	7.7
PAT	494	586	494	535	0.0	9.5
EPS	37.1	44.0	37.1	40.2	0.1	9.6

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss (Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
Net Interest Income	675	798	846	973
Other Income	12	12	12	12
Total Income	686	810	858	985
Total Operating Exp	108	124	143	160
PPOP	579	686	715	825
Provisions & Contingencies	60	69	48	34
PBT	518	618	667	792
Provision for Tax	142	162	174	206
PAT	376	456	494	586

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY20	FY21P	FY22E	FY23E
SOURCES OF FUNDS				
Share Capital	27	27	27	27
Reserves	2,123	2,583	3,052	3,613
Shareholder's Funds	2,150	2,610	3,079	3,639
Borrowings	18,748	19,293	21,222	23,344
Other Liabilities & Provisions	145	171	150	150
Total Liabilities	21,044	22,074	26,421	31,587
APPLICATION OF FUNDS				
Cash & Bank Balance	392	22	442	442
Investments	24	50	24	24
Advances	20,526	21,891	25,832	30,998
Fixed Assets & Other Assets	101	111	122	122
Total Assets	21,044	22,074	26,421	31,587

Source: Company, Axis Securities

Ratio Analysis **(%)**

Y/E March	FY20	FY21	FY22E	FY23E
VALUATION RATIOS				
EPS	28.3	34.3	37.1	44.0
Earnings Growth (%)	26.8	21.3	8.3	18.6
BVPS	161.7	196.2	231.5	273.6
Adj. BVPS	153.1	186.2	223.5	266.6
ROAA (%)	1.9	2.1	2.1	2.1
ROAE (%)	19.1	19.2	18.1	17.3
P/E (x)	23.1	19.0	17.6	14.8
P/ABV (x)	4.0	3.3	2.8	2.4
PROFITABILITY				
Yield on Advances	10.4	9.4	8.8	8.7
Cost of Borrowings	7.6	6.4	5.7	5.8
NIM (%)	3.5	3.7	3.3	3.2
Cost-Income Ratio	15.7	15.3	16.6	16.2
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	12.3	6.7	18.0	20.0
CAR	22.3	24.3	23.1	22.1
Tier 1	20.5	23.8	21.5	20.8
ASSET QUALITY				
Gross NPLs (%)	0.8	0.9	1.0	1.0
Net NPLs (%)	0.5	0.6	0.7	0.5
PCR	28.8	35.0	37.0	37.0
Credit costs	0.3	0.3	0.2	0.1

Source: Company, Axis Securities

Can Fin Homes Price Chart and Recommendation History

Date	Reco	TP	Research
14-Feb-20	HOLD	531	Result Update
18-Jun-20	BUY	405	Result Update
28-Aug-20	BUY	430	Result Update
30-Oct-20	BUY	515	Result Update
02-Nov-20	BUY	515	Top Picks
06-Nov-20	BUY	515	Diwali Picks
01-Dec-20	BUY	515	Top Picks
01-Jan-21	BUY	559	Top Picks
28-Jan-21	BUY	573	Result Update
03-Feb-21	BUY	573	Top Picks
01-Mar-21	BUY	573	Top Picks
04-May-21	HOLD	560	Result Update
23-Jul-21	BUY	605	Result Update
23-Sep-21	BUY	800	Company Update

Source: Axis Securities

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