

# Can Fin Homes

CMP : ₹2020

Target price: ₹3800

HP\* : Upto 3 years

Our Vriddhi for the month of February 2017 is Can Fin Homes. Can Fin Homes Ltd. (CFH) is South-based (74% business from South India) housing finance company. CFH has positioned itself very well owing to focus on the first home buyers from salaried class on near completion projects. The company's loan book has grown at 41.6% CAGR over the last four years and we believe that the company would record growth rate of 26% in the loan book during FY16-19E. The government's push for affordable housing and lower interest rate augurs well for the company's future growth.

## Key Drivers of the Can Fin Homes

### Focused loan book of salaried class

We see that the company has major share from housing finance and more than 50% AUMs are from salaried class. The company is focused on first time home buyers from less risky salaried class which keeps CFH in comfort zone in terms of asset quality.

### Robust asset quality

We see continuous improvement in GNPA's. Also, the company is maintaining nil NNPA's since last six years which implies ~100% coverage ratio. We believe that CFH will maintain impressive asset quality owing to proper mix of lending portfolio, lower exposure to LAP and less risky salaried class.

### Robust loan growth

The company's loan book has grown at a CAGR of 31% over FY12-Q3FY17 led by smaller ticket size, rise in demand for housing loan led by various government's schemes and initiative under vision "Housing for All by 2022". We believe the company can grow its loan book at 26% CAGR over FY16-19E continuing the same momentum.

The NDA government has launched many new schemes and brought up many policy reforms to promote its vision of "Housing for All by 2022". This will result in uptick in demand for housing segment coupled with lower interest rate. We see CFH with 88% housing finance portfolio, smaller ticket size and less riskier salaried class is placed well in housing finance segment.

## Valuation and Outlook

The company delivered ROE above 20% to 21.6% in Q3FY17 and ROA of 1.89%. The company is trading at FY19E P/B of 2.8x and FY19E EPS of Rs 141, which are appealing as compared to its peers. We expect CFH to deliver ROE of more than 20% on a sustained basis to reach ~25% in FY19E on the back of higher growth rate, NIM expansion and rise in demand for housing. We recommend BUY for this scrip with target price of Rs 3,800 with a long term perspective. We suggest to reduce your 20% exposure in scrip at 15% upside and recommend to invest in piecemeal on dips.

## Company Details

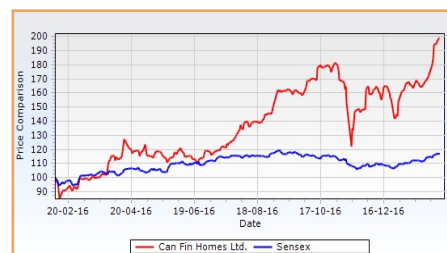
Industry	Finance - Housing
Chairman	KN Prithviraj
Managing Director	Sarada Kumar Hota
Company Secretary	Veena G Kamath
BSE Code	511196

## Key Market Indicators (Standalone)

Latest Date	07-Feb-2017
Previous Close (Rs)	2041.55
1 Day Price Var%	-0.07
1 Year Price Var%	98.78
52 Week High (Rs)	2079.00
52 Week Low (Rs)	841.20
Beta	1.25
Face Value (Rs)	10.00
Industry PE	23.21
TTM Period	201612
TTM EPS(Rs)	79.58
TTM PE (x)	25.64
Price/BV(x)	5.30
EV/TTM EBIDTA(x)	12.45
EV/TTM Sales(x)	11.58
Dividend Yield%	0.49
MCap/TTM Sales(x)	4.22
Latest Book Value (Rs)	384.64
Market Cap (Rs. In Crores)	5430.80
EV (Rs. In Crores)	14891.11
Latest no. of shares (In Crores)	2.66

## Share Holding Pattern as on 201612

Promoter No of shares (In Crores)	1.17
Promoter %	44.10
FII No of Shares (In Crores)	0.01
FII %	0.23
Total No of Shares (In Crores)	2.66
Free Float %	55.90



## Focused Loan Book Of Salaried Class

Can Fin Homes' products portfolio comprises of 88% of housing finance, 6% of LAP and remaining consists of top up personal loans, loans for sitters and others. CFH's total loan book has 77% AUM from salaried class as of now. We see that the company recorded growth of 5.74% QoQ in loan book in its Q3FY17 results, which shows that the company was not affected by demonetisation. The company is immune to any impact on asset quality as CFH's focus is on first time home buyers from the less risky salaried class and for the near completion projects. On top of that, the company has just 0.2% builder portfolio and focuses on near completion projects which enhances its asset quality.

## Robust Asset Quality

CFH has shown continuous improvement in its GNPA, resulting in a GNPA ratio of 0.24% in Q3FY17, down from 1.06% in FY11. It has also maintained its NNPA's at 0% since FY10 till date. Over the last six years, CFH has maintained nil NNPA's, which shows impressive lending profile with 100% coverage ratio. Meanwhile, CFH has only 6% LAP and 0.2% builder portfolio which gives comfort in maintaining asset quality.

## Robust Loan Growth

Since FY11, the company has been growing aggressively by adding 79 branches and 50 satellite offices (currently it has 120 branches and 50 satellite offices). CFH has recorded growth of loan book at CAGR of 31% since FY12 till the current quarter, attributing this growth to the fast-paced expansion of branches. The company recorded increase in fresh loan approvals by 33% YoY in Q3FY17, notwithstanding the demonetisation glitch.

We expect CFH to continue growth momentum in loan book owing to drop in marginal cost of funds based lending rate (MCLR) and various government's schemes like Pradhan Mantri Awas Yojana (PMAY) and affordable housing will fuel demand for housing segment which will eventually result in demand for home loans. On this note, we expect CFH's loan book to expand at CAGR of 26% over FY16-19E. The management of the company also has vision to reach loan book of Rs 35,000 crore by FY20E. This could give loan book growth rate of ~35% CAGR till FY20E.

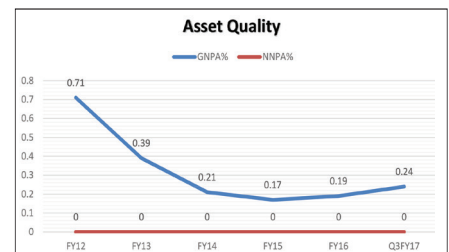
## Government's new schemes and push on affordable housing fuels CFH growth

Government mission of "Housing for All by 2022" gave birth to many schemes such as affordable housing through credit linked subsidy, affordable housing in partnership, slum redevelopment and Pradhan Mantri Awas Yojana (for annual income group of Rs 3-6 lakh).

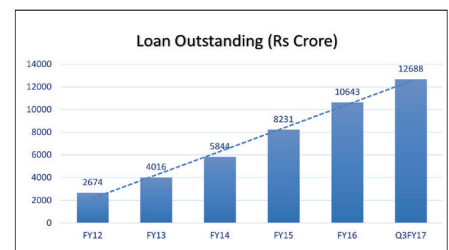
As per the vision of "Housing for All by 2022", the government aims to supply affordable homes to a majority of the population. Also, the Real Estate Regulatory Act has been passed by both the houses which will aid development of the sector. This was also supported by the lower lending rate to raise demand for housing segment and eventually housing loans. Under PM Modi's subsidised home loan scheme, home loans upto Rs 4 lakh and Rs 12 lakh will receive interest subvention of 4% and 3 % respectively.

These government's schemes are likely to boost demand for affordable housing mostly in tier-II cities. It has narrowed down the gap between EMI

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“*The company has vision to reach loan book of Rs 35,000 crore by FY20E.*”



“*“Housing for All by 2022”, will be result-uptick in demand for housing segment.*”

and rent which is a major trigger for housing loan demand. The cost of affordable housing ranges between Rs 15-30 lakh. Demonetisation may have slowed down the credit growth of housing finance companies, but in the near future, downward pressure on interest rates, fall in property prices and affordable housing will drive the growth and shift it from the unorganised to the organised sector. We see Can Fin Homes is going to benefit from these changes as its average ticket size is Rs 17.4 lakh as on FY16 and has a focused lending model.

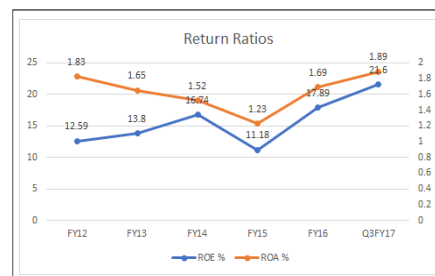
## Financial Performance

The net interest income (NII) of the company grew 39% YoY in Q3FY17 to Rs 110 crore on the back of 28% growth in loan book and expansion in NIM by 32 bps to 3.5%. The company's NIM also expanded by 5 bps QoQ in Q3FY17. Its disbursement rose by 25% YoY while fresh approvals grew by 24% YoY in Q3FY17. Its overall loan book growth rate slightly dipped from 37% in Q2FY17 to 28% in Q3FY17 owing to demonetisation. However, we believe that it will regain over 30% growth level in the next quarters as 77% of its AUMs are from salaried class who are immune to demonetisation impact.

The company's PAT grew 41% to Rs 60 crore owing to improvement in opex and provisions. CFH has been shifting its borrowing profile to NCDs/CPs/public deposits, which resulted in increase of 48% in Q3FY17, up from 43% in Q3FY16. This reflects in expansion of its spread by 30 bps to 2.52% in Q3FY17. Owing to borrowing profile, we expect the same trend to continue in FY18E as well.

## About The Company

Can Fin Homes Ltd is a South-based fastest growing housing finance company with 43.53% shareholding owned by Canara Bank. Since inception, Can Fin Homes focus has been on small ticket size and low risk profile loan book. CFH's housing finance share is 88% of the total loan book, while non-housing finance constitutes the remaining 12% share. Can Fin Homes' more than 50% focus is on salaried class and primarily to first home buyers and near completion projects. It has grown to 120 branches and 50 satellite offices till date and is eyeing to grow more.



Yearly Financial Performance (Rs in Cr)					
	FY12	FY13	FY14	FY15	FY16
Loan Outstanding	2674	4016	5844	8231	10643
Interest Earned	279	378	557	788	1044
Interest Expended	195	283	422	610	743
Net Interest Income	84	96	134	178	301
Total Income	286	392	578	817	1083
Net Profit	44	54	76	86	157
EPS	21.36	26.42	36.93	32.42	59.02
P/B	0.66	0.71	0.86	2.09	3.5
GNPA%	0.71	0.39	0.21	0.17	0.19
NNPA%	NIL	NIL	NIL	NIL	NIL
NIM%	3.51	2.93	2.71	2.54	3.24
ROE %	12.59	13.8	16.74	11.18	17.89
ROA %	1.83	1.65	1.52	1.23	1.69

Quarterly Financial Performance (Rs in Cr)					
	Q3FY17	Q2FY17	QoQ %	Q3FY16	YoY %
Loan Outstanding	12688	11980	5.91	9895	28.23
Net Interest Income	110.33	101	9.24	79.3	39.13
Other Income	8.95	12.09	-25.97	12.26	-27.00
Total Income	349.64	332.37	5.20	282.36	23.83
PAT	59.6	55.06	8.25	42.18	41.30
EPS	22.39	20.68	8.27	15.84	41.35
GNPA%	0.24	0.25	-4.00	0.27	-11.11
NNPA%	0.01	0.03	-66.67	0.04	-75.00
NIM%	3.49	3.44	1.45	3.17	10.09