

JMFS Value Picks

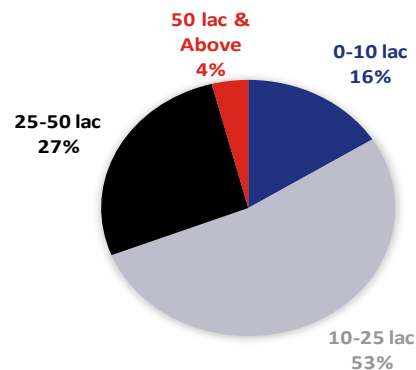
14th January 2020

Can Fin Homes (Reco Price: INR 386, Market Cap: INR 5,140 crore)

Financial Summary		(INR Crore)			
Y/E March	FY18	FY19	FY20E	FY21E	
Net Profit	286.2	296.8	391.6	480.1	
Net Profit (YoY) (%)	22.0%	3.7%	31.9%	22.6%	
Assets (YoY) (%)	17.6%	19.4%	16.8%	16.8%	
ROA (%)	1.97%	1.72%	1.92%	2.02%	
ROE (%)	22.33%	18.16%	20.00%	20.42%	
EPS (INR)	21.5	22.3	29.4	36.1	
EPS (YoY) (%)	21.95%	3.70%	31.95%	22.61%	
P/E (x)	17.9	17.3	13.1	10.7	
BV (INR)	111.7	133.8	160.3	192.9	
BV (YoY) (%)	38.1%	19.8%	19.8%	20.3%	
P/BV (x)	3.4	2.9	2.4	2.0	

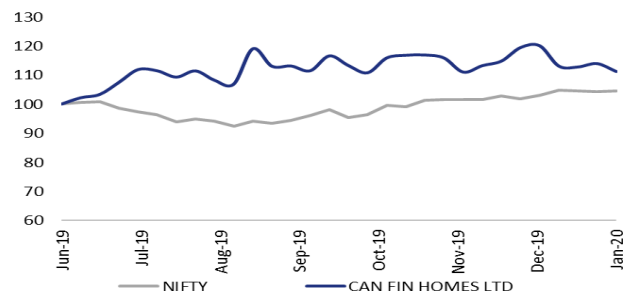
Source: Company, JMFS Research

Average ticket size



Source: Company, JMFS Research

Relative Price Performance



Source: Company, JMFS Research

Can Fin Homes is a 32-year-old deposit-taking Housing Finance company; it is promoted by Canara Bank, which has a 30% shareholding. Over 70% of its loan book is concentrated in South India and it focuses on disbursing housing loans to salaried people. Its loan book size as of Sep'19 is INR 19,600 crore. Can Fin Homes is comfortably placed both on the liability side as well as asset side, its high credit rating, low-risk-granular loan book and Canara Bank parentage makes it easier for it to fulfill its liabilities and raise funds to meet growth requirements. Additionally, given its negligible exposure to risky developer loans and LAP, its credit quality remains unscathed. We like its conservative business model and believe it has the right ingredients to prevail, with lot of competitors vacating space from the market. We forecast a PAT CAGR of 27% during FY19-21E with our FY21 ROE forecast being 20%, we maintain Buy.

Superior Loan book quality compared with peers- Can Fin Homes' loan book has 90% exposure to housing loans, with an average ticket size of INR 1.8mn; its housing loan contribution is the highest among peers. Moreover, the contribution of salaried employees to its loan book stands at 71%, which highlights its low-risk nature. It does not have any exposure to builder loans, and is thus not exposed to risky developer financing.

New CEO of Can Fin homes Mr Girish Kousgi took charge of his position in Sep' 19. In his first interaction with investors, he sounded optimistic on the prospects for Can Fin Homes. His strategy broadly remains to keep focussing on Can Fin's strengths i.e. grow in the lower ticket size segments, expand in tier 2/3/4 cities, keep self-occupied property as collateral, increase salaried loans mix, maintain low NPA ratios and improve profitability by expanding spreads. The new CEO clarified that they are not as affected by the renewed price aggression by larger banks as their presence is minimal in the customer segment that Can Fin operates in. There is only a 10-15% overlap between Can Fin's customer segment with that of the larger banks. He also mentioned that the ticket size in which it operates i.e. INR1.7-1.8mn, customers are not as price sensitive. Sounding confident of Can Fin's service, value and product positioning, he guided for growth well above the industry growth rate of 11-12%. For the next few quarters Can Fin would see some acceleration in growth led by increase in its market share (as lot of NBFCs are not lending) and continuation of revival in its home state of Karnataka where the supply-side situation continues to ease. Management also expects it to continue having NIM expansion in the next few quarters. However we do not build this optimism in our estimates. Management was unsure of when the stake sale by its parent Canara bank would be completed, however it clarified that the impact post the stake sale to its cost of funds would be minimal. Management stated that the high credit rating and better perception of lenders for Can Fin Homes is driven by its best-in-class loan book quality and consistently low NPAs, and not as much by its parentage.

APPENDIX I

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Definition of ratings

Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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Rating	Meaning
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