

21 JANUARY 2020

RESULTS FLASH

CAN FIN HOMES

CANF IN

INDIA / DIVERSIFIED FINANCIALS

BUY

TARGET PRICE	INR472.00
CLOSE	INR389.30
UP/DOWNSIDE	+21.2%
PRIOR TP	INR472.00
CHANGE IN TP	UNCHANGED

Flying high and solo

Investment thesis remains on track; maintain BUY

We continue to like CANF for its 1) focus on safer segments – housing / salaried segments constitute c90%/71% of its loan book as of 3QFY20, respectively; 2) strong ratios – 3QFY20 ROE 19.74%; ROA 1.98%; and 3) CAR of 22% and tier-1 of 20.4% that enable CANF to capture growth prospects. CANF's strategy of adding incremental non-metro branches supports higher incremental spreads. Reiterate BUY with TP of INR472, implying c21% upside.

3Q: PAT beat on better margins and lower provisions

CANF reported 3QFY20 PAT of INR1,065m, c4% higher than BNPPe. The beat was primarily on account of lower provisions (down c27% q-q) and better-than-expected NIMs. Disbursements stood at INR14.8b, up c12% y-y vs a decline of c8% in 2QFY20. Loan growth was up c15% y-y. Karnataka (26% of AUM) is now showing signs of revival. However, the management indicated that the dependence on Karnataka market will come down, as they are able to grow in other markets. Management guided for an AUM growth of 20%, for the next two years. CANF's annualised prepayments stood at 18%, averaging 16.4%, in the last six quarters. Non-metro book forms 36% of the loan book, as of 3QFY20; management expects it to grow by 28% y-y for FY20. CANF's strategy is to finance the MIG1/LIG1 categories (average ticket size of less than INR0.8m) and focus on non-metros (64% of branches), where spreads are much higher than in metros. These should support loan growth and profitability from FY20 onwards, in our view.

NIMs and cost of funds improve; asset quality stable q-q

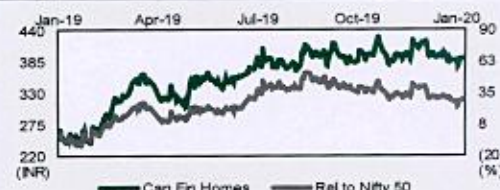
3QFY20 NIMs and spreads expanded by 8bp q-q to 3.42% and by 4bp q-q to 2.32%, respectively. Cost of funds declined by 7bp q-q to 7.88%, which is a comfortable level, according to the management. CANF's peers (HDFC, LIC HF and PNB HF) have an average cost of funds of 8.3%. GNPA were flat q-q at 0.8%.

Surplus liquidity and low-risk portfolio augur well for CANF

We are concerned on the sector given the recent issues in asset-liability mismatches. However, we like CANF due to its strong liquidity position and relatively lower exposure to the developer financing, LAP and LRD segments.

KEY STOCK DATA

YE Mar (INR m)	2019A	2020E	2021E	2022E
Operating Profit	4,695	5,314	6,481	7,859
Rec. net profit	2,967	3,983	4,861	5,894
Recurring EPS (INR)	22.29	29.92	36.51	44.28
Prior rec. EPS (INR)	22.29	29.92	36.51	44.28
Chg. In EPS est. (%)	-	-	-	-
EPS growth (%)	3.7	34.2	22.0	21.3
Recurring P/E (x)	17.5	13.0	10.7	8.8
Dividend yield (%)	0.5	0.5	0.5	0.5
Price/book (x)	2.9	2.4	2.0	1.6
ROE (%)	18.2	20.3	20.5	20.5
ROA (%)	1.7	2.0	2.0	2.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.8)	(3.2)	44.7
Relative to country (%)	(0.4)	(7.6)	29.1
Mkt cap (USD m)			729
3m avg daily turnover (USD m)			1.8
Free float (%)			54
Major shareholder			CANARA BANK (30%)
12m high/low (INR)			426.30/239.60
3m historic vol. (%)			27.7
ADR ticker			-
ADR closing price (USD)			-
Issued shares (m)			133

Sources: FactSet Estimates; BNP Paribas estimates



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Our research is available on Thomson Reuters, Bloomberg, S&P Global, FactSet, RSRCHXchange and ONEaccess.



BNP PARIBAS

The bank for a changing world

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Exhibit 1: 3QFY20 earnings summary

Income statement	3QFY20	3QFY19	2QFY20	Change		3QFY20E	Variance
	(INR m)	(INR m)	(INR m)	(y-y %)	(q-q %)	(INR m)	(%)
Interest Income	5,078	4,376	4,940	16.0	2.8	5,113	(0.7)
Interest Expense	3,391	3,015	3,379	12.5	0.4	3,480	(2.6)
Net Interest Income	1,686	1,361	1,561	23.9	8.0	1,633	3.3
Non-Interest Income	90	55	67	65.5	35.0	70	28.9
Total Income	1,777	1,415	1,628	25.5	9.1	1,703	4.3
Total Expenses	269	216	256	24.7	4.8	267	0.7
Pre Provision Operating Profit	1,508	1,200	1,372	25.7	9.9	1,436	5.0
Provisions	46	-	63			70	(34.9)
Exceptional	-	-	-			-	
Profit Before Tax	1,462	1,200	1,309	21.9	11.7	1,366	7.1
Tax	390	451	333	(13.6)	17.1	341	14.1
Profit after Tax	1,065	749	976	42.2	9.1	1,024	3.9

Key ratios

Cost to income ratio (%) - calc	15.1	15.2	15.7
Advance yield (%)	10.20	10.06	10.23
Cost of borrowings (%)	7.88	7.89	7.95
NIM (%)	3.42	3.31	3.34
Interest spread (%)	2.32	2.17	2.28

Balance sheet data

Loans O/S (INR m)	201,940	175,890	196,000	14.9	3.0
— Salaried	143,200	125,590	138,890	14.0	3.1
— Self Employed	58,500	49,810	56,880	17.4	2.8
— Others	240	290	230		

Capital adequacy

Tier 1 (%)	20.37	17.53	17.29
Tier 2 (%)	1.70	1.86	1.53
CAR (%)	22.07	19.39	18.82

Asset quality

GNPA ratio (%)	0.80	0.71	0.79
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Sources: Can Fin Homes; BNP Paribas estimates

Financial statements

Can Fin Homes

Profit and Loss (INR m) Year Ending Mar	2018A	2019A	2020E	2021E	2022E
Interest income	14,906	16,996	20,487	24,548	29,699
Interest expense	(9,810)	(11,691)	(14,159)	(16,895)	(20,440)
Net interest income	5,096	5,305	6,328	7,653	9,259
Net fees & commission	273	274	307	368	445
Foreign exchange trading income	0	0	0	0	0
Securities trading income	0	0	0	0	0
Dividend income	0	0	0	0	0
Other income	41	44	221	267	324
Non interest income	314	318	528	636	769
Total income	5,410	5,622	6,857	8,289	10,028
Staff costs	(448)	(414)	(497)	(596)	(715)
Other operating costs	(430)	(503)	(684)	(851)	(1,017)
Operating costs	(878)	(917)	(1,181)	(1,447)	(1,733)
Pre provision operating profit	4,532	4,706	5,675	6,842	8,296
Provisions for bad and doubtful debts	(221)	(11)	(362)	(361)	(437)
Other provisions	0	0	0	0	0
Operating profit	4,311	4,695	5,314	6,481	7,859
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	0	0	0	0	0
Non recurring items	0	0	0	0	0
Profit before tax	4,311	4,695	5,314	6,481	7,859
Tax	(1,449)	(1,728)	(1,330)	(1,620)	(1,965)
Profit after tax	2,862	2,967	3,983	4,861	5,894
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	0	0	0	0	0
Reported net profit	2,862	2,967	3,983	4,861	5,894
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	2,862	2,967	3,983	4,861	5,894
Per share (INR)					
Recurring EPS *	21.49	22.29	29.92	36.51	44.28
Reported EPS	21.49	22.29	29.92	36.51	44.28
DPS	2.00	2.00	2.00	2.00	2.00
Growth					
Net interest income (%)	20.7	4.1	19.3	20.9	21.0
Non interest income (%)	(33.3)	1.3	66.2	20.3	21.0
Pre provision operating profit (%)	16.7	3.8	20.6	20.6	21.3
Operating profit (%)	16.5	8.9	13.2	22.0	21.3
Reported net profit (%)	21.6	3.7	34.2	22.0	21.3
Recurring EPS (%)	21.6	3.7	34.2	22.0	21.3
Reported EPS (%)	21.6	3.7	34.2	22.0	21.3
Income Breakdown					
Net interest income (%)	94.2	94.3	92.3	92.3	92.3
Net fees & commission (%)	5.0	4.9	4.5	4.4	4.4
Foreign exchange trading income (%)	0.0	0.0	0.0	0.0	0.0
Securities trading income (%)	0.0	0.0	0.0	0.0	0.0
Dividend income (%)	0.0	0.0	0.0	0.0	0.0
Other income (%)	0.8	0.8	3.2	3.2	3.2
Operating performance					
Gross interest yield (%)	10.36	10.07	10.28	10.25	10.25
Cost of funds (%)	7.48	7.53	7.70	7.70	7.70
Net interest spread (%)	2.88	2.54	2.57	2.55	2.55
Net interest margin (%)	3.54	3.14	3.17	3.20	3.20
Cost/income (%)	16.2	16.3	17.2	17.5	17.3
Cost/assets (%)	0.61	0.53	0.58	0.60	0.59
Effective tax rate (%)	33.6	36.8	25.0	25.0	25.0
Dividend payout on recurring profit (%)	9.3	9.0	6.7	5.5	4.5
ROE (%)	22.3	18.2	20.3	20.5	20.5
ROE - COE (%)	9.0	4.8	6.9	7.1	7.1
ROA (%)	1.98	1.73	1.96	2.00	2.00
RORWA (%)	4.01	3.51	3.98	4.07	4.08

*Pre exceptional, pre goodwill and fully diluted

Sources: Can Fin Homes; BNP Paribas estimates

Financial statements

Can Fin Homes

Balance Sheet (INR m) Year Ending Mar	2018A	2019A	2020E	2021E	2022E
Gross customer loans	156,440	182,845	217,903	263,422	318,912
Total provisions	(738)	(931)	(1,090)	(1,317)	(1,595)
Interest in suspense	0	0	0	0	0
Net customer loans	155,702	181,914	216,814	262,105	317,317
Bank loans	0	0	0	0	0
Government securities	0	0	0	0	0
Trading securities	0	0	0	0	0
Investment securities	160	161	169	177	186
Cash & equivalents	190	4,203	2,476	3,181	4,083
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	96	99	103	109	114
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	90	251	264	277	291
Total assets	156,471	186,868	220,066	266,089	322,232
Customer deposits	0	0	0	0	0
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	141,601	169,046	198,581	240,064	290,633
Non interest bearing liabilities	0	0	0	0	0
Hybrid Capital	0	0	0	0	0
Total liabilities	141,601	169,046	198,581	240,064	290,633
Share capital	266	266	266	266	266
Reserves	14,604	17,556	21,218	25,758	31,332
Total equity	14,870	17,822	21,485	26,025	31,599
Minority interests	0	0	0	0	0
Total liabilities & equity	156,471	186,868	220,066	266,089	322,232
Supplementary Items					
Risk weighted assets (RWA)	77,513	91,804	108,145	130,761	158,351
Average interest earning assets	143,870	168,808	199,364	239,459	289,711
Average interest bearing liabilities	131,098	155,323	183,813	219,323	265,349
Tier 1 capital	13,146	13,440	17,103	21,643	27,217
Total capital	14,789	15,093	18,755	23,295	28,869
Gross non performing loans (NPL)	675	1,135	763	922	1,116
Per Share(INR)					
Book value per share	111.66	133.87	161.39	195.49	237.36
Tangible book value per share	111.66	133.87	161.39	195.49	237.36
Growth					
Gross customer loans (%)	16.6	16.9	19.2	20.9	21.1
Average interest earning assets (%)	21.1	17.3	18.1	20.1	21.0
Total assets (%)	18.1	19.4	17.8	20.9	21.1
Risk weighted assets (%)	18.9	18.4	17.8	20.9	21.1
Customer deposits (%)	-	-	-	-	-
Leverage & capital measures					
Customer loans/deposits (%)	n/a	n/a	n/a	n/a	n/a
Equity/assets (%)	9.5	9.5	9.8	9.8	9.8
Tangible equity/assets (%)	-	-	-	-	-
RWA/assets (%)	49.5	49.1	49.1	49.1	49.1
Tier 1 CAR (%)	17.0	14.6	15.8	16.6	17.2
Total CAR (%)	18.1	16.4	17.3	17.8	18.2
Asset Quality					
Change in NPL (%)	141.8	68.2	(32.8)	20.9	21.1
NPL/gross loans (%)	0.4	0.6	0.4	0.4	0.4
Total provisions/gross loans (%)	0.5	0.5	0.5	0.5	0.5
Total provisions/NPL (%)	109.3	82.0	142.9	142.9	142.9
Valuation					
Recurring P/E (x) *	18.1	17.5	13.0	10.7	8.8
Recurring P/E @ target price (x) *	22.0	21.2	15.8	12.9	10.7
Reported P/E (x)	18.1	17.5	13.0	10.7	8.8
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
Price/book (x)	3.5	2.9	2.4	2.0	1.6
Price/tangible book (x)	3.5	2.9	2.4	2.0	1.6
Price/tangible book @ target price (x)	4.2	3.5	2.9	2.4	2.0

*Pre exceptional pre - goodwill and fully diluted

Sources: Can Fin Homes; BNP Paribas estimates