Can Fin Homes Ltd.

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Can Fin Homes Ltd. (CFHL) is a housing finance company (HFC) sponsored by Canara Bank. It was set up in 1987. The company offers a range of products on housing finance, such as loans for home purchase, home construction, home improvement/extension and site purchase as well as non-housing finance.

Key Events

Extensive product portfolio:

CFHL offers ~24 loan products, under housing and non-housing, tailor-made for its niche customer segment. The products basket covers individual housing loans for construction, purchase, extension, repairs & renovation, site purchase, composite loan, loans for rural housing, loans for urban housing etc and non-housing loans like mortgage loans, personal loans to existing customers, loans for commercial property, loans for rent receivables etc.

Aggressive branch expansion supported strong business growth:

CFHL has a strong marketing and distribution network of 170 outlets spread across 19 states comprising of 124 branches, 10 affordable housing loan centres (AHLCs) and 36 satellite offices. Notably, the company started branch expansion aggressively since FY12 under the leadership of Mr C. Ilango as compared to no branch addition in the preceding decade. Notably, the company's branches are strategically located outside cities to focus on small ticket customers (of below Rs2mn). As a result, the company's sanctions and disbursements grew at a strong CAGR of 37.6% and 41.0%, respectively over FY12-17.

Niche presence in metro and non-metro markets:

CFHL is a play on the high-growth Indian housing finance industry which is driven by growing urbanization, rising income levels, low penetration of housing finance and shortage of houses. The company has created a niche for itself by focusing on low-ticket loans in Tier 1 & Tier 2 cities as operating hassles and cost compulsions prevent banks from entering this segment. Further, the company has strategically opened most of its branches outside cities to cater small ticket customers.

Faster turnaround time is a key competitive advantage:

CFHL has been able to achieve faster turnaround times owing to its robust loan origination system, which allows real-time transmission & review of loan applications with a personalized focus at any point in time. Faster turnaround time right from loan origination (as fast as 2-3 weeks) to the release of deed has provided the company with a competitive edge, which it leveraged to increase its customer base.

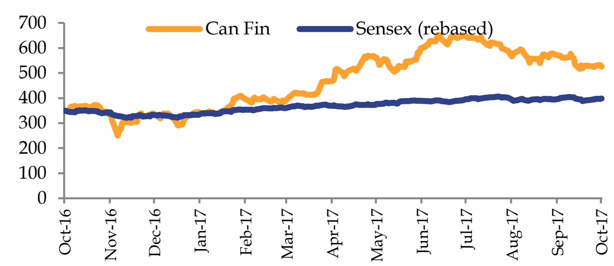
Market Data

CMP (Rs.)	**526**
Face Value (Rs.)	10
52 week H/L (Rs.)	667/250
Adj. all time High (Rs.)	667
Decline from 52WH (%)	21.1
Rise from 52WL (%)	110.4
Beta	1.1
Mkt. Cap (Rs.Cr)	6,999
Enterprise Value (Rs.Cr)	-

Fiscal Year Ended

	FY15	FY16	FY17
NII (Rs.cr)	178	301	422
PPP (Rs.cr)	152	273	388
PAT (Rs.Cr)	86	157	235
EPS (Rs.)	32.4	59.0	88.4
P/E (x)	81.2	44.6	29.8
P/ABV (x)	9.1	8.0	6.5
ROA (%)	1.2	1.6	1.9

One year Price Chart



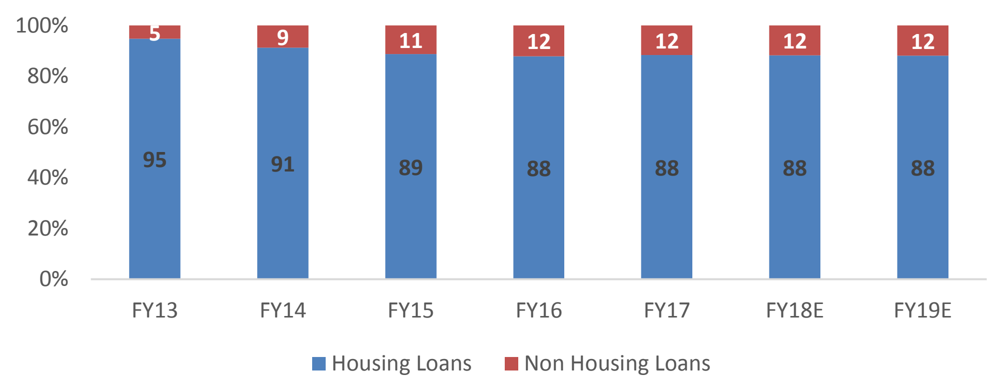
Shareholding	Jun-17	Mar-17	Diff.
Promoters (%)	30.7	30.6	0.1
Public (%)	69.3	69.4	(0.1)
Others (%)	-	-	-

Can Fin Homes Ltd.: Business overview

Can Fin Homes Ltd. (CFHL) is a housing finance company (HFC) sponsored by Canara Bank. It was set up in 1987. The company offers a range of products on housing finance, such as loans for home purchase, home construction, home improvement/extension and site purchase as well as non-housing finance. Canara Bank is the promoter with a 30% stake, followed by Caladium investment at 13% and Chhattisgarh Investments at 10%.

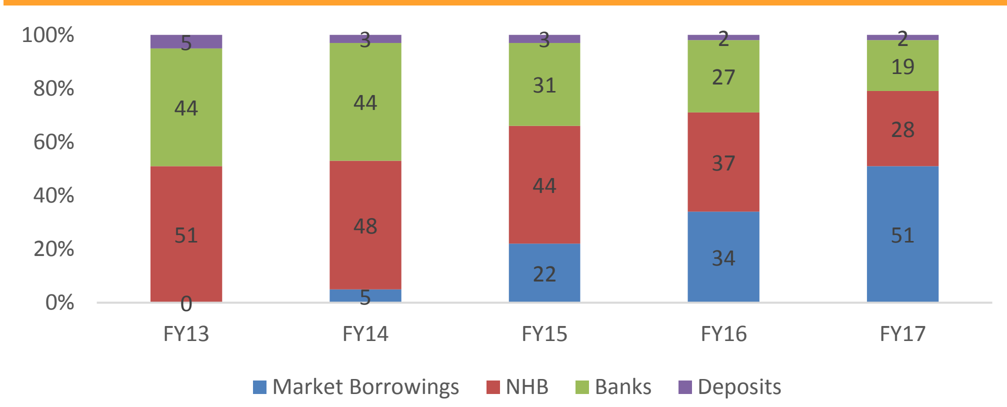
CFHL has grown its housing loan book by 35% CAGR over FY12-17 while its non-housing loan book, on a low base, grew by 83% CAGR during this period. As a result, the share of non-housing segment has increased to 12% as of FY17 from just 3% as of FY12. The customer profile continues to be dominated by the salaried and professional category, accounting for 75% of the total portfolio. CFHL's average ticket size for housing loan and mortgage loan stand at Rs2.0mn and Rs1.0mn, respectively. The company's loan to value (LTV) ratios are also conservative with housing loan at 62% and mortgage loan at 33%. CFHL also has a well-diversified borrowing mix across banks, non-convertible debentures (NCDs), commercial papers (CPs), National Housing Bank (NHB) and deposits (FDs). Due to its strong parentage, the company enjoys easy access of bank borrowings. However, to reduce the borrowing cost further and improve the margins and profitability, the company has increased the proportion of market borrowings (includes money market instruments like NCDs and CPs) to 51% as of FY17 from nil in FY13. Notably, the company enjoys strong AAA ratings for long term borrowings and A1+ for short term borrowings.

Loan Mix



Source: Company, In-house research

Borrowing Mix



Source: Company, In-house research

Extensive product portfolio

CFHL offers 24 loan products, under housing and non-housing, tailor-made for its niche customer segment. The products basket covers individual housing loans for construction, purchase, extension, repairs and renovation, site purchase, composite loan, loans for rural housing, loans for urban housing etc and non-housing loans like mortgage loans, personal loans to existing customers, loans for commercial property, loans for rent receivables etc. CFHL introduced a fixed loan product called IHL Super and various products under credit linked subsidy scheme (CLSS) under Pradhan Mantri Awas Yojana (PMAY) for economically weaker sections (EWS), lower income group (LIG) and MIG (middle income groups) in FY17. Notably, being a housing finance company (HFC), home loans dominate with a share of 88%, followed by non-housing loans at 12%. Share of the salaried segment at 75% dominates the customer mix.

Aggressive branch expansion supported strong business growth

CFHL has a strong marketing and distribution network of 170 outlets spread across 19 states comprising 124 branches, 10 AHLCs and 36 satellite offices. Notably, the company started aggressive branch expansion since FY12 under the leadership of Mr C. Ilango, compared with no branch addition in the preceding decade. Moreover, CFHL introduced the concept of ‘Affordable Housing Loan Centres’ (AHLCs) to exclusively provide smaller ticket size loans under CLSS, PMAY Urban Housing and PMAY Rural Housing schemes. Under this initiative, the first tranche of 10 AHLCs were opened in Q4FY17 by upgrading existing satellite offices. Remarkably, CFHL was the first HFC to have exclusive AHLCs under ‘Housing for all’ initiative by the Government. Apart from the above branch network, the company utilizes the services of direct selling agents (DSA) to source business. There are 685 active DSAs and the business secured through them amounts to 54% of the total sanctions in FY17.

Niche presence in metro and non-metro markets

CFHL is a play on the high-growth Indian housing finance industry which is driven by growing urbanization, rising income levels, low penetration of housing finance and shortage of houses. The company has created a niche for itself by focusing on low-ticket loans in Tier 1 & Tier 2 cities as operating hassles and cost compulsions prevent banks from entering this segment. Further, the company has strategically opened most of its branches outside cities to cater small ticket customers.

Low ticket sizes offer huge growth potential

CFHL has strategically targeted the low-ticket-size housing finance segment to benefit from high growth and low competition from banks. The average ticket size (ATS) of incremental housing and non-housing loans are Rs1.8mn and Rs1.0mn, respectively. The lower ticket size also mitigates high concentration risk to a single borrower. Loan to value (LTV) ratios are also conservative with housing loan at 62% and mortgage loan at 33%.

Faster turnaround time is a key competitive advantage

CFHL has been able to achieve faster turnaround times owing to its robust loan origination system, which allows real-time transmission & review of loan applications with a personalized focus at any point in time. The company’s turnaround time (TAT) is among the lowest in the industry. We believe that faster turnaround time right from loan origination (as fast as 2-3 weeks) to the release of deed has provided the company with a competitive edge, which it leveraged to increase its customer base.

Loan book grew at a strong CAGR of 38% over FY12-17

CFHL has seen significant turnaround in its performance post management change in FY12 as its loan book grew at a strong CAGR of 38% over FY12-17 as compared to just 7% over FY07-12. This was mainly driven by 41% CAGR in disbursements during the same period. Notably, despite recent slowdown in real estate market in some parts of the country, stiff competition from Banks & HFCs, the loan book continued to grow at an impressive pace of 16% YoY during FY17.

Remarkeble improvement in NIM

The company has successfully improved its net interest margin (NIM) trajectory to 3.5% in FY17 from 2.5% in FY15 by changing asset mix and diversifying borrowing mix.

Productivity improved despite heavy investment in branches

Even though the company has almost doubled the number of branches in last four years (134 as of FY17 as compared to 69 as of FY13), the cost to income (C/I) ratio has improved considerably to 17.2% in FY17 from 32.8% in FY13. This was led by improving efficiency of branches on the back of various cost reduction programs. As a part of this program, CFHL also introduced the cluster concept during FY17 wherein five clusters have been formed with a senior executive heading each cluster.

Consistent increase in net profit

CFHL has delivered strong net profit CAGR of 40.0% over the last five years backed by healthy growth in loan book and consistent improvement in operating efficiency along with stable asset quality.

Superior return profile

The company has reported 35 bps expansion in Return on Assets (RoA) to 1.9% and 943 bps expansion in Return on Equity (RoE) to 24% over FY13-17. This improvement in return ratios was fueled by 35% loan book CAGR over the same period, margin expansion by 66 bps, reduction in the C/I ratio by 797 bps along with low credit costs (10-20bps) on the back of stable asset quality.

Best in class asset quality

In addition to healthy profitability, CFHL has maintained an impressive asset quality matrix. With CFHL's relentless focus on asset quality, the company has been able to maintain one of the lowest Gross non-performing assets (NPA) levels among its peers with zero Net NPA level. Notably, the company has maintained a provisioning coverage ratio (PCR) of 100% since FY10 led by improving asset quality matrix. The company's Gross/Net NPA stood at 0.2%/0.0% as of FY17. The robust asset quality matrix is the result of 1) clear focus on retail salaried borrowers, 2) negligible exposure to builder loans, 3) robust assessment and follow-up of the Special Mention Accounts (SMA) at the incipient stage and 4) centralised processing of loan applications above Rs3.0mn ticket size. Importantly, the company has in-house lawyers and asset valuation personnel who aid better assessment of borrowers and help contain asset quality stress.

Financial performance snapshot

Can Fin Homes Ltd (CFHL) has continued to report robust quarterly numbers in Q1FY18 as net interest income increased 34% YoY on the back of 26 bps YoY margin expansion to 3.65%. Pre-provisioning profit and net profit grew by 37% YoY and 43% YoY, respectively. The loan book also grew at a healthy pace of 23% YoY. Asset quality weakened (seasonal) marginally as Gross and Net NPA increased by 17bps QoQ each to 0.38% and 0.17%.

Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Capital	27	27	27
Reserves and Surplus	745	852	1,050
Minority Interest	-	-	-
Borrowings	7,375	9,444	11,872
Provisions	124	189	208
Other Liabilities	64	244	301
Total Liabilities	**8,334**	**10,756**	**13,458**
Cash And Balances	8	17	20
Investments	15	15	16
Advances	8,302	10,715	13,411
Fixed Assets	9	9	10
Other Assets	0	0	0
Total Assets	**8,334**	**10,756**	**13,458**

Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	788	1,044	1,306
Interest Expense	610	743	884
Net Interest Income	**178**	**301**	**422**
Non Interest Income	29	39	47
Net Income	207	340	469
Operating Expenses	55	67	81
Total Income	817	1,084	1,353
Total Expenditure	665	810	965
Pre Provisioning Profit	**152**	**273**	**388**
Provisions	14	19	19
Profit Before Tax	137	254	370
Tax	51	97	135
Net Profit	**86**	**157**	**235**

Key Ratios (Standalone)

	FY15	FY16	FY17
P/E	81.2	44.6	29.8
P/BV	9.1	8.0	6.5
P/ABV	9.1	8.0	6.5
Dividend Yield (%)	0.3	0.4	0.0
CAR (%)	18.4	20.7	18.5
Gross NPA (%)	0.2	0.2	0.2
Net NPA (%)	0.0	0.0	0.0
NIM (%)	2.5	3.2	3.5
RoE (%)	14.1	19.0	24.1
RoA (%)	1.2	1.6	1.9

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