

22nd February 2018

Initiating Coverage (BUY)

CAN FIN HOMES LTD

CMP

INR 515

Target Price

INR 620

Stock Details

Industry	Housing Finance
Bloomberg Code	CANF:IN
BSE Code	511196
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	45,515.7
52wk. Low/High (Adjusted) (Rs.)	376.00 / 666.60

Shareholding Pattern Dec '17

Promoter (%)	30.44
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	69.56
No. of Share Outstanding (mn)	133.10

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	20.07	29.14	20.00	19.00
EV/EBITDA (x)	7.44	9.86	10.56	10.42
P/BV (x)	0.72	4.23	5.60	4.73

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	10,829	13,521	14,602	15,771
EBITDA	10,202	12,761	13,768	14,870
Net Profit	1,571	2,353	2,574	2,886
EPS (Rs.)*	11.8	17.7	29.1	32.7

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	94.2	94.3	94.2	94.2
EBIT Margin (%)	93.8	94.0	93.9	93.9
Net Pro. Margin (%)	14.5	17.4	17.6	18.3
Debt/Equity (x)	7.93	7.46	8.73	6.93
RoNW (%)	19.0	24.1	25.8	27.8
RoCE (%)	2.2	2.7	2.7	3.0

One Year Price / Volume


Divya Sood (Research Analyst)

(divya@wealthdiscovery.co.in)

We recommend 'BUY' on CAN FIN HOMES for a target of INR 620 - valuing the company at P/E 19x of FY19E Earning.

INVESTMENT RATIONALE:

- **DYNAMIC TEAM:** 626 members team with an average age of 33 years have led the company forward.
- **EXTENSIVE NETWORK:** Pan-India presence in 19 states catering to 88 cities is one of the key growth drivers. It increased its network by four times since 2010.
- **TECHNOLOGICAL EXCELLENCE:** Expansion has been streamlined with business operations, adding technological expertise.
- **SEAMLESS EXPERIENCE:** Loan disbursement to their customers at minimum time is essential to their business.
- **GOVERNANCE:** It aspires to be a company that is trusted and respected by all stakeholders, built around board-centric corporate governance system that ensures transparency and independent decision-making.
- **REACH:** Branch network has steadily extended across India's largest and fastest-growing economic growth zones, thereby augmenting the prospects of its growth in the coming years.

VALUATIONS AND VIEW:

CanFin Homes Ltd is one of the top players in the housing finance sector, in the country today. The Company is offering a range of loan products, housing loans as well as non-housing loans, at competitive interest rates and designed to suit the needs of the customer. It is also one of the few housing finance institutions permitted by National Housing Bank, to accept deposits from public. **We value the business at 19x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 620 per share.**

RISK & CONCERNS:

- **Credit Risk:** Credit risk represents one of the biggest threats towards the sustainability and profitability of a financing company. The Company has in place a set of strategic credit policies, which help manage credit risks.
- **Operational Risk:** Any type of risk arising from any act relating to people, technology, infrastructure (including internal frauds) or some external factors, which can erode away the profit of a company is termed as an operational risk.
- **Segment Risk:** The internal dynamics of a company are in the hands of the company but the external dynamics which are dependent on a number of external factors are to a great extent out of the control of the company which may give rise to risks such as liquidity risk, interest rate risk and funding risks and any one of them can seriously dent the Company's profitability.

COMPANY BACKGROUND:

CanFin Homes Ltd, set up under the sponsorship of Canara Bank, was incorporated in the year 1987, "The International Year of Shelter for the Homeless". The main objective of setting up the company was, promoting home ownership and as well, increasing the housing stock in the country. It is the first housing company to be promoted by a nationalized bank in India.

CanFin Homes Ltd is one of the top players in the housing finance sector, in the country today. The company has completed 29 successful years of operation in the field of home finance and has a renowned history of making profits and paying dividends continuously, since inception in 1987.

The company, as on date, is having 132 Branches, 20 Affordable Housing Loan Centres (AHLCS) & 20 Satellite Offices spread across various locations of the country and all these branches and satellite offices are linked to the Registered Office at Bangalore through a core banking platform. Being a south based company, 70% of its branches are located in southern India and the remaining 30% in Northern India.

The Company is a housing finance institution approved by National Housing Bank (NHB), the apex authority of housing in the country. It is a listed company and its shares are traded in all the major stock exchanges in the country. The Company is offering a range of loan products, housing loans as well as non-housing loans, at competitive interest rates and designed to suit the needs of the customer. It is also one of the few housing finance institutions permitted by National Housing Bank, to accept deposits from public. The deposit schemes of the company are rated "MAAA" by ICRA, which indicates highest credit quality and carries the lowest credit risk.

INDUSTRY OVERVIEW:

During the year 2016-17, the Indian economy continued to consolidate its macroeconomic stability. Fiscal deficit and current account deficit as a percentage of GDP improved. The growth rate of the economy during the first half of the FY16-17 was estimated at 7.2%, making India one of the fastest growing major economies in the world.

With forward and backward linkages to several sectors and ancillary industries, the real estate sector is the second largest employer after agriculture sector and is slated to grow at 30% over the next decade. The real estate sector comprises of four sub-sectors –housing, retail, hospitality, and commercial. The growth of this sector is complemented by growing increase in demand for office space and leading to rise in urban and suburban accommodation. The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr. (Rs Cr)	Qtr. Profit Var (%)	Sales Qtr. (Rs Cr)	Qtr. Sales Var (%)	CMP/BV
H D F C	1,812	23.2	2,89,497.3	0.99	6,677.1	39.00	16,840.5	12.41	4.00
Indiabulls Hous.	166	20.3	52,781.7	2.17	1,084.1	43.95	3,115.9	23.91	5.24
LIC Housing Fin.	513	13.1	25,881.0	1.21	491.1	(1.64)	3,738.1	5.96	2.07
Dewan Hsg. Fin.	545	14.1	17,097.5	0.73	306.0	24.99	2,631.6	11.43	1.93
H U D C O	80	18.0	16,065.3	0.69	163.6	(10.20)	1,064.5	16.61	1.65
PNB Housing	1,203	26.3	20,037.9	0.50	217.5	57.83	1,438.5	44.03	3.24
GRUH Finance	507	54.1	18,535.1	0.55	82.2	28.29	428.5	12.45	13.78
Can Fin Homes	515.0	20.0	4,551.6	0.39	80.1	34.40	392.1	12.14	4.23

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	3,496.42	3,614.81	3,688.22	3,838.53	3,920.96	12.14%	2.15%
Other Income	--	--	--	0.07	27.34		
Total Income	3,496.42	3,614.81	3,688.22	3,838.60	3,948.31	12.92%	2.86%
Expenditure	-244.73	-2,499.07	-2,569.84	-2,689.03	-2,796.83		
As a % of Sales	7.00%	69.13%	69.68%	70.05%	71.33%		
Interest	-2303.73	-2269.4	-2332.92	-2412.59	-2504.65	8.72%	3.82%
PBDT	947.96	1115.74	1118.38	1149.57	1151.48		
As a % of Sales	27.11%	30.87%	30.32%	29.95%	29.37%		
Depreciation	-9.11	-11.03	-6.53	-7.63	-8.04		
PBT	938.85	1104.71	1111.85	1141.94	1143.44	21.79%	0.13%
As a % of Sales	26.85%	30.56%	30.15%	29.75%	29.16%		
Tax	-342.82	-396.05	-399.66	-392.03	-342.44	-0.11%	-12.65%
Net Profit	596.04	708.66	712.19	749.91	801	34.39%	6.81%
As a % of Sales	17.05%	19.60%	19.31%	19.54%	20.43%		
Equity	266.2	266.2	266.2	266.2	266.2	0.00%	0.00%
EPS (Rs)	--	26.62	26.75	28.17	6.02	#VALUE!	-78.63%
CEPS (Rs)	22.73	27.04	27	28.46	6.08		
OPM %	93	30.87	30.32	29.95	29.37		
NPM %	17.05	19.6	19.31	19.54	20.43		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	5,777	8,163	10,829	13,521	14,602	15,771	17,348
Other Operating Income	3	7	6	11	10	11	12
Expenditure	419	513	633	770	844	912	1,003
EBITDA	5,361	7,657	10,202	12,761	13,768	14,870	16,356
Depreciation	20	37	35	37	42	47	52
EBIT	5,341	7,620	10,167	12,724	13,726	14,823	16,305
Interest Expenses	4,228	6,103	7,435	8,840	9,786	10,440	11,555
PBT	1,113	1,517	2,733	3,884	3,939	4,383	4,750
Tax	309	512	968	1,349	1,365	1,497	1,606
Other Income	-	-	-	-	-	-	-
Extraordinary Items	(47)	(142)	(194)	(182)	-	-	-
Net Income Before Adjustment	757	862	1,571	2,353	2,574	2,886	3,144
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	757	862	1,571	2,353	2,574	2,886	3,144

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	205	266	266	266	266	266	266
Reserves & surplus	4,318	7,449	8,514	10,497	8,922	11,319	13,930
Share Warrants	-	5	5	5	5	5	5
Net worth	4,523	7,720	8,785	10,768	9,193	11,590	14,201
Minority Interest	-	-	-	-	-	-	-
Loan Funds	43,288	54,573	69,654	80,282	80,285	80,283	80,281
Net deferred tax liability	-	216	569	1,136	1,136	1,136	1,136
Other Long-term Liabilities	-	-	-	-	-	-	-
Long-term Provisions	408	539	697	816	881	952	1,047
Total Liabilities	48,219	63,049	79,706	93,005	91,496	93,962	96,666
Net block	78	93	89	102	80	63	41
Investment, Loan & Adv.	58,504	82,219	106,316	132,955	143,589	155,075	170,577
Total Current Assets	534	1,032	1,541	1,520	(12,204)	(18,322)	(27,244)
Current Liabilities & Provisions	10,898	20,296	28,241	41,574	39,970	42,855	46,709
Net Current Assets	(10,364)	(19,264)	(26,700)	(40,054)	(52,174)	(61,177)	(73,953)
Total Assets	48,219	63,049	79,706	93,005	91,496	93,962	96,666

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	3,187	4,184	13,389	14,760
Cash Flow from Investments	(60)	(10,665)	(11,515)	(15,532)
Cash Flow from Financing	(3,126)	(7,220)	(8,109)	(8,308)
Net Changes in Cash	1	(13,700)	(6,236)	(9,080)
Opening Cash	33	34	(13,666)	(19,902)
Closing Cash Balance	34	(13,666)	(19,902)	(28,982)

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Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>