Can Fin Homes Ltd.	
No. of shares (crore)	2.66
Mkt cap (Rs crs)	1605
Current price (FV. 10)	603
Price target (Rs)	747
52 week H/L (Rs.)	664/157
Book value/share (Rs.)	297
P/BV (FY15e/16e)	1.9/1.7
P/E (FY15e /16e)	15.7/11.5
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF IN
Daily volume (avg. weekly)	55724

Shareholding pattern	%
Promoters	42.38
MFs / Banks / FIs	0.53
Foreign	1.62
Govt. Holding	0.00
Non-Promoter Corp.	26.89
Total Public	28.58
Total	**100**

As on Dec 31, 2014

Recommendation

Buy

Analyst

Priyanka Somani
Phone: + 91 (33) 4488 0043
E- mail: priyanka.somani@cdequi.com

Company Background

Can Fin Homes Limited was the first bank sponsored housing finance company in India, set up under the sponsorship of Canara Bank in 1987. Today, Can Fin Homes Ltd. (CFHL) is among the top players in the country's housing finance sector.

Highlights

- Housing demand continues to increase due to rapid urbanization, growing trend of nuclear families and rising income. "Housing for all" by 2022 is a major policy goal for the new government which aims to build 65 million new housing units and focus on making organized housing finance available to all.
- National Housing Bank (NHB) was set up with the aim to operate as a principal agency to promote housing finance institutions both at local and regional level and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto. CFHL is backed strongly by NHB as it refinances most of the loans deployed.
- The asset under management growth in the current year (FY15) is expected to be around 40% and the asset base is expected to cross 11000 crore by FY16. This along with stabilizing cost of funds and net interest margins will contribute to the already steady profits of the company.
- The stock currently trades at 1.9x FY15e BV (15.7x FY15e EPS) and 1.7x FY16e BV (11.5x FY16e EPS) and seems undervalued at these levels. In the light of excellent credit growth in last few quarters and brighter prospects for the housing finance industry , we recommend 'Buy' with a target of Rs 747 based on 2x FY16e BV (14x FY16e EPS) with a time horizon of 9-12 months.

Figures in Rs crs	FY12	FY13	FY14	FY15e	FY16e
Net Interest Income	84.00	96.00	134.00	173.37	260.71
Non Interest Income	7.00	14.00	21.00	28.92	32.00
Pre-Provision Profits	68.00	74.00	111.00	147.16	199.63
Net Profit	43.76	54.12	75.71	102.36	139.78
EPS (FV.10)	21.36	26.42	36.96	38.43	52.48
EPS (growth %)	4.1	23.7	39.9	4.0	36.6
Equity	20.49	20.49	20.49	26.63*	26.63

*Equity infused through rights issue of Rs 280 crore ; Price: Rs 450/share

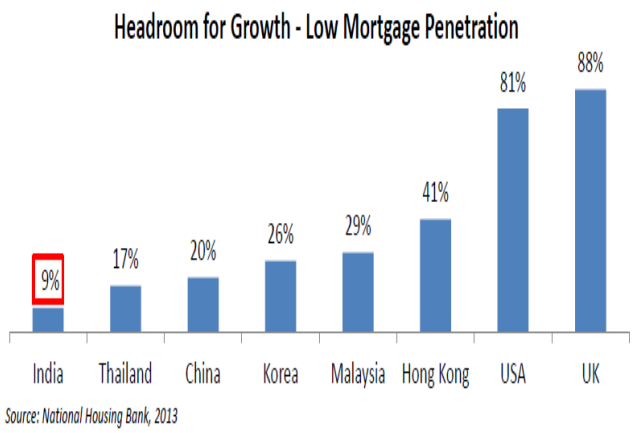
Housing Finance Industry

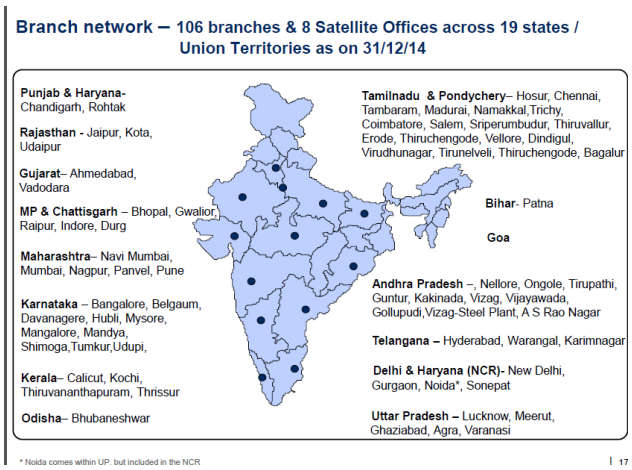
The housing market in India constitutes around 9% of the GDP. This is one of the lowest when compared to some other emerging Asian economies like Malaysia, Thailand and China. In developed economies like Switzerland, Netherlands and Denmark, this percentage is still higher.

As on date, shortage of houses in India stands at 19 million units and a major portion of this housing shortage is in the economically weaker sections and low income group categories. This demand is continuing to increase, clearly indicating that there is a vast scope for development of affordable housing in the country. Deeper penetration of banks and financial institutions into more urban and rural areas by way of opening branches and introduction of innovative affordable housing loan products would help to develop the loan/mortgage market in the country.

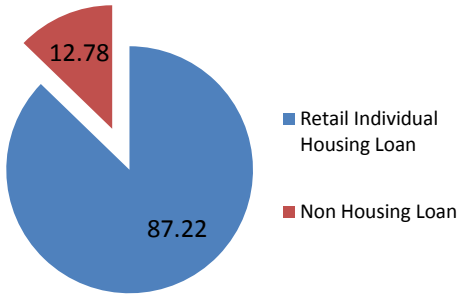
Considering the importance of the housing sector as a major player towards generation of employment & income and its contribution towards the GDP, policy based efforts are also being initiated to encourage and make the sector more transparent. With the ever increasing demand for housing in the urban as well as in rural areas, almost all banks and financial institutions have been vigorously active in the arena to grab a bigger share of the market.

It is needless to say that the housing finance sector definitely shows signs of having a brilliant future in the years to come due to reasons like increase in double income earning families, availability of more disposable income in the hands of the individual and improved living standards, increase in population, urbanization, fiscal incentives provided by the government, younger generation's wish for acquiring homes very early in life, the emergence and continuation of nuclear family set up, shortage in supply of houses to meet the ever growing demand, easy availability of finance/loans for acquiring houses, increase in rental income for residential units etc.

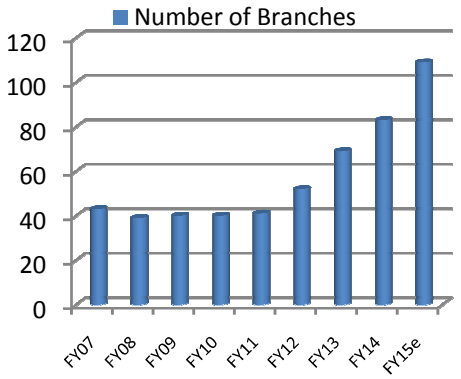




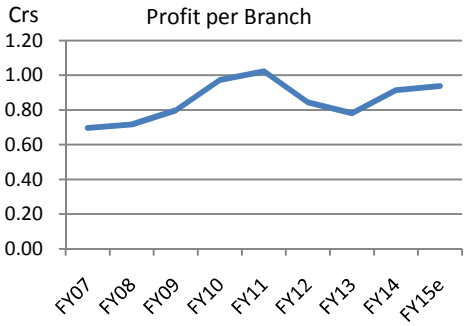
Share of Housing Loan



Source : CanFin ,CD Research



Source : CanFin ,CD Research



Source : CanFin ,CD Research

Company Overview

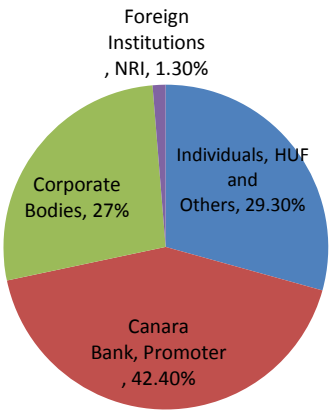
Can Fin Homes Limited is the first bank sponsored housing finance company (HFC) in India, set up under the sponsorship of Canara Bank in 1987. Can Fin Homes Ltd. (CFHL) is among the top players in the country's housing finance sector. The company has a standing of over 27 years. CFHL is one if the four HFCs selected by National Housing Bank (NHB) in its first phase of securitization programme. CFHL's deposit programme enjoys "MAA+" rating, which is the highest possible under high safety rating.

CFHL is headquartered in Bangalore and has an all India presence with a network of 106 branches, though it is focused mainly in southern India which contributes about 74 % of the loan book as on date. About 84 % loans are given to the salaried class with an average housing loan ticket size of Rs.13.39 lakhs. The average age of the borrower is 39 years.

The company primarily lends in the housing sector (87.22%) and only 12.78 % to other sectors. The focus of the company remains towards promoting ownership and increasing housing stock across India with a motto of friendship finance and good service. It is committed towards strong fundamentals with ethical and transparent practices.

Canara Bank holds 42.4% stake in the company, followed by Corporate bodies (27%), Individuals, HUF and Other (29.30%) and Foreign Institutions (1.3%) as on 31st December 2014.

Shareholding Pattern



Source : CanFin ,CD Research

Investment Rationale

Affordable housing opportunity is vast

Shortage of urban housing

According to CRISIL, housing demand continues to increase due to rapid urbanization, growing trend of nuclear families and rising income. The following are the growth drivers:

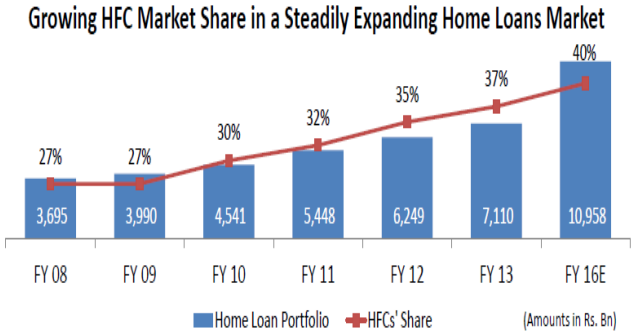
- Increasing affordability: rising disposable incomes coupled with low effective interest rate of only 4.22% after tax benefits.
- Average age of house owner has reduced to 35 years from 43 years in FY 2000*
- According to NHB, urbanization is expected to rise to 40% of population by 2025 from the current 31%.
- Urban housing shortage is estimated at 31.9 million units by 2016.*
- Favorable demographics: 60% of the population is below the age of 30 years.

*CRISIL report

Backing from National Housing Bank (NHB)

The sub-group on housing finance for the Seventh Five Year Plan (1985-90) identified the non-availability of long-term finance to individual households on any significant scale as a major lacuna impeding progress of the housing sector and recommended the setting up of a national level institution. The National Housing Policy, 1988 envisaged the setting up of NHB as the apex level institution for housing. In pursuance of the above, NHB was set up on July 9, 1988 under the National Housing Bank Act, 1987. Preamble of the National Housing Bank Act, 1987 describes the basic functions of the NHB as –

"... to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto ..."



Source: RBI Database, NHB Reports, CRISIL, & ICRA Estimates

Tax Incentives – Low Effective Interest Rates

Particular	2015	2010	2000
Loan amt	2,000,000	2,000,000	2,000,000
Nominal Interest Rate(%)	**10.15%**	**9.25%**	**13.25%**
Max deduction for interest allowed	200,000	150,000	75,000
Deduction Principal	150,000	100,000	20,000
Tax Rate applicable	**33.99%**	**30.90%**	**34.50%**
Tenor (Yrs)	15	15	15
Total amount paid per year	350,267	282,302	307,617
Interest component	200,267	182,302	262,314
Principal component	150,000	100,000	45,303
Tax amount saved	118,965	77,250	32,775
Effective interest paid on home loan	81,302	105,052	229,539
Effective interest rate on home loan	**4.22%**	**5.39%**	**11.61%**

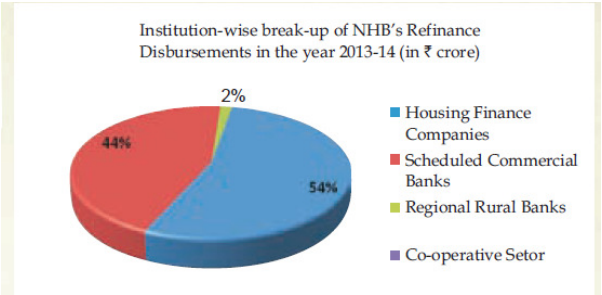
Amount in Rs.

16

Institution-wise break-up of NHB's refinance disbursements in the year 2013-14

Primary Lending Institution	2012 - 2013 Disbursements	Percentage of total	2013 - 2014 Disbursements	Percentage of total
Housing Finance Companies	7,693.51	43.86%	9,632.99	53.95%
Scheduled Commercial Banks	9,459.33	53.93%	7,942.72	44.48%
Regional Rural Banks	388.8	2.22%	280.47	1.57%
Co-operative Sector	0	0.00%	0	0.00%
Total	17,541.64	100.00%	17,856.18	100.00%

Source: NHB



Source: NHB

The following are the objectives of National Housing Bank:

- Promoting a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- Promoting a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- Augmenting resources for the sector and channelize them for housing.
- Making housing credit more affordable.
- Regulating the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- Encouraging augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- Encouraging public agencies to emerge as facilitators and suppliers of serviced land, for housing.

The total refinance disbursements to housing finance companies by NHB as on 31 March 2014 stood at 9633 crores (which is 54% of the total refinance disbursements) and it is a 25% increase from the year 2013-14 (the refinance disbursements stood at Rs 7695 crores).

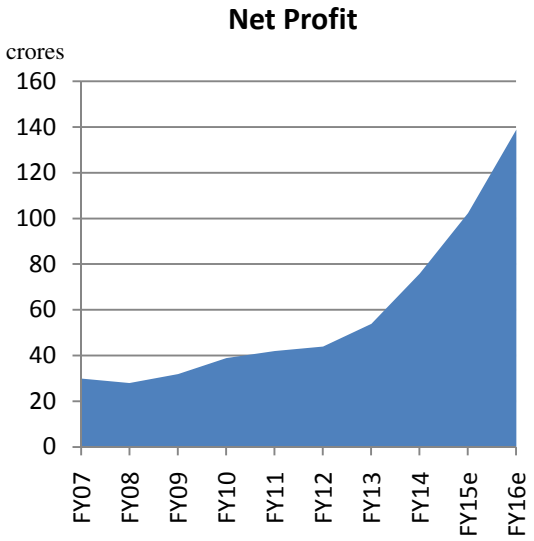
CHFL has availed refinance amounting to Rs 1133.80 crore (previous year Rs 1326.90 crore) under the NHB refinance scheme to housing finance companies, keeping in view the funds requirement due to substantial increase in business during the year. The cumulative borrowings from NHB as on March 31, 2014 were Rs 2323.99 crore (previous year Rs 1795.74 crore).

Indian mortgage market and government policies

India has lower mortgage penetration compared to advanced and emerging economies which implies huge opportunity for growth. In countries like UK and USA the mortgage penetration is 88% and 81% respectively, and among emerging countries like China (20%) , Thailand (17%) , Malaysia (29%) , India has only about 10 % penetration in the mortgage market . Moreover, Indian mortgage industry is at an inflexion point and is expected to grow five fold in next 10 years.

The government has recently undertaken proactive measures to boost the housing finance industry:

- Housing for all by 2022. A major policy goal for the new government which aims to build 65 million new housing units and focus on making organized housing finance available to all.
- Plan to build 100 smart cities which are technologically integrated and planned townships. In order to improve operating margins the government wants to focus on reducing delivery expenses.
- The Jan Dhan Yojana which allows access to organized banking for all which will enable vast increase in organized banking infrastructure and reach which will ultimately lead to higher credit off-take and growth.
- The government has relaxed FDI and REIT norms. As per RBI Deputy Governor's speech in 2014, Rs 4000 crore is allocated for low-cost housing and Rs 50,000 crores for urban housing. Further, Rs 8,000 crore is allocated to the Rural Housing Fund run by NHB.
- Policy makers' focus on home loans upto Rs 50 lakhs (from sub 25 lakhs classified as priority sector lending). Housing finance companies are permitted to borrow through ECBs for lending towards affordable housing.



Source : CanFin ,CD Research

Stable Financials

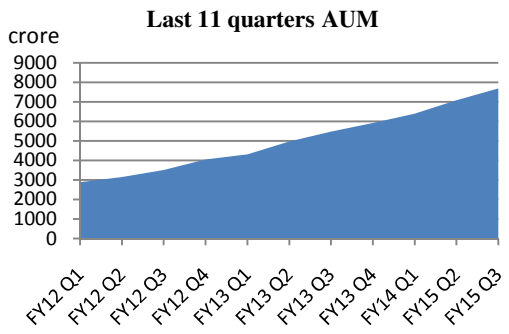
Asset under management

The Assets Under Management has grown at CAGR of 16.8% between FY07-14. We have noted that the assets under management in FY07 stood at Rs 1994 crore and till FY10 only grew to Rs 2192 crore , which is a CAGR of just 3.2% . However most of the growth has come since FY11, as the management changed (Mr C llango became the managing director of the company in 2011) and housing demand in southern India especially in Bangalore started to rise. Hence, between FY11 and FY14 the AUM grew at CAGR of 37%

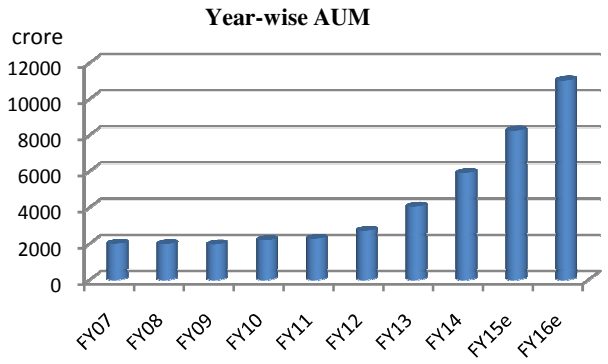
The last 11 quarters have shown a consistent growth and as on Q3 FY15 AUM stood at 7695 crore. For FY15 the company is well poised to achieve its target of AUM of Rs 8255 crore which will imply a growth of 40% from FY14. For the year FY16, the AUM is expected to grow by 33% (y-o-y) to Rs 11020 crore.

Spread Analysis and Valuations

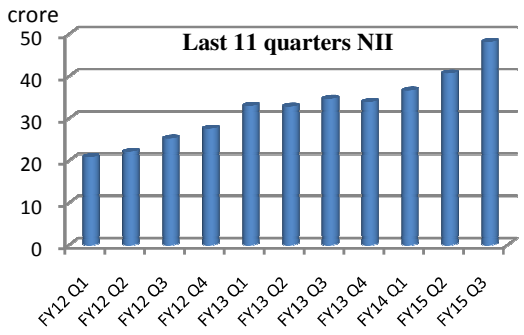
Net interest income grew by 40% from Rs 95.69 crore to Rs 134.29 crore during FY14. The company reported a profit before tax (PBT) of Rs 106.65 crore (previous year Rs 75.10 crore) and profit after tax (PAT) of Rs 75.71 crore (previous year 54.12 crore) after making provision for standard assets amounting to Rs 8.00 crore (previous year Rs 6.85 crore). The year-on-year (yoy) growth rates of 51.02% under PBT and 39.89% under PAT are significantly higher than industry averages.



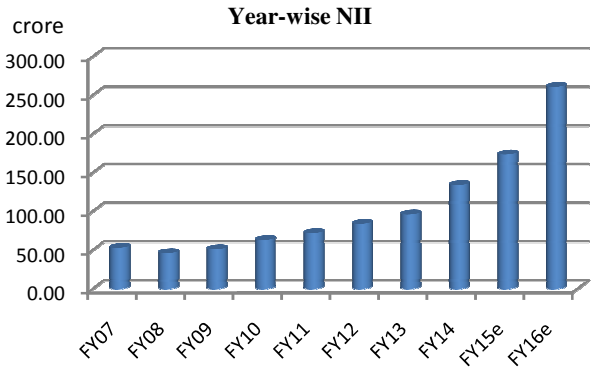
Source : CanFin , CD Research



Source : CanFin ,CD Research



Source : CanFin , CD Research



Source : CanFin ,CD Research

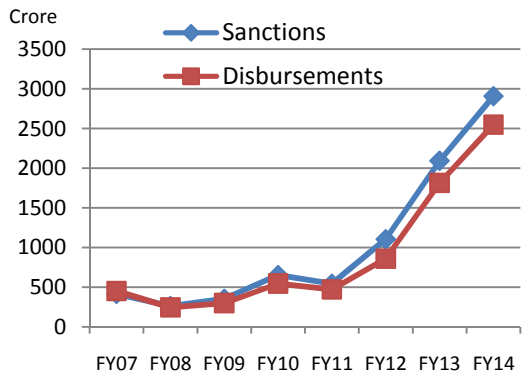
The average yield on loan assets during FY14 was 11.22% per annum as compared to 11.58% per annum FY13. The average all-inclusive cost of funds was 9.79% per annum as compared to 9.95%. The spread on loans over the cost of borrowings for FY14 was 1.43% per annum as against 1.63% per annum in FY13. The Net Interest Margin was at 2.7% in FY14, and over last 6 quarters has maintained an average of 2.7% .Going forward we expect the trends of spreads to remain the same and consistency in increasing net interest income on the back of growth in the loan book.

Currently Can Fin homes trades at just 1.9 times its FY15e book value and 15.7 times its FY15e earnings. The housing finance companies have not yet received valuations at par with other sector contributing to infrastructure , so there is a scope for expansion in the same going forward and it will be well supported by the growth in credit and net interest income for Can Fin Homes Ltd.

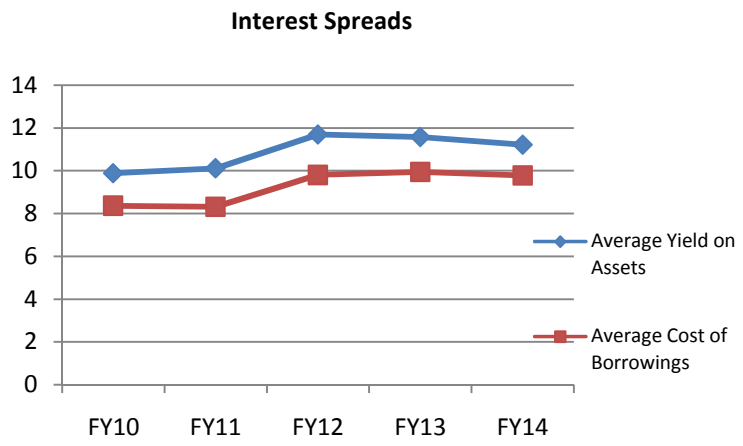
Fund Mix

Deposits

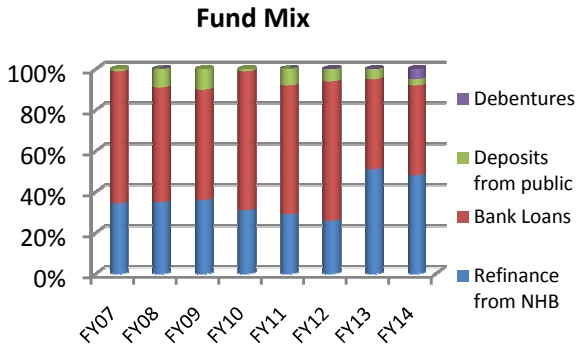
The deposit schemes of the company continues to be rated as “MAA+” (pronounced M double A plus) by the credit rating agency viz., ICRA Ltd., indicating high-credit-quality and the rated deposit programme carries low credit risk. The high credit quality rating takes into account the strong ownership, low operating cost structure, superior capital adequacy, favorable liquidity position and comfortable asset quality indicators. The outlook on the rating has also been re-affirmed as “Stable”. Deposits contribute about 3%-5% of the total loan mix.



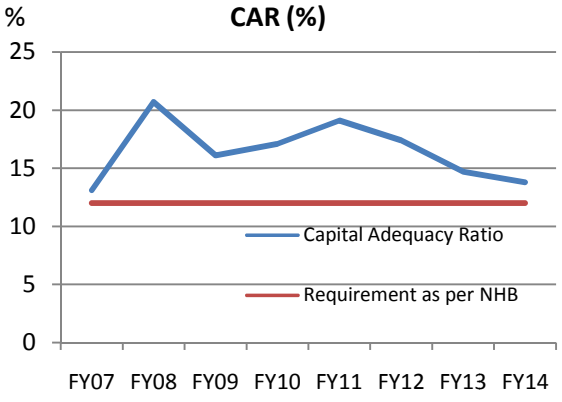
Source : CanFin ,CD Research



Source : CanFin , CD Research



Source : CanFin , CD Research



Source : CanFin , CD Research

Refinance from National Housing Bank (NHB)

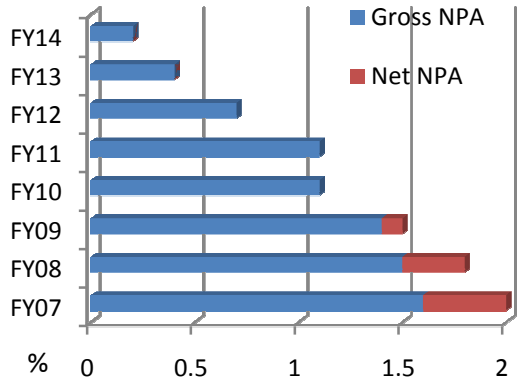
NHB continues its support through refinance and the company has availed refinance amounting to Rs 1133.80 crore (previous year Rs 1326.90 crore) under the NHB refinance scheme to Housing Finance Companies, keeping in view the funds requirement due to substantial increase in business during the year. The cumulative borrowings from NHB as on March 31, 2014 were Rs 2323.99 crore (previous year Rs 1795.74 crore).

This instrument for refinancing has increased in share from 30% to 50% over last two years and the trend is expected to continue. The company has successfully maintained its capital adequacy ratio above 12%.

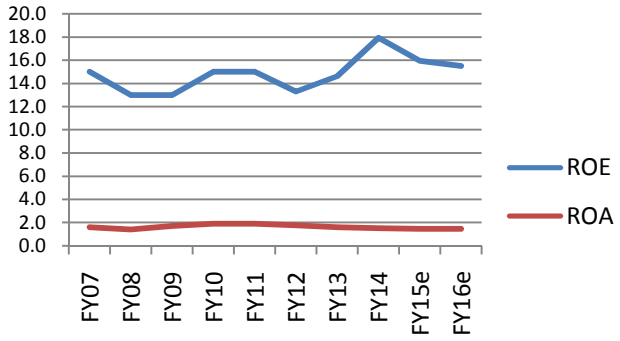
Borrowings from Banks

The company borrowed Rs 1,227 crore from banks compared to Rs 639 crore during FY14. CFHL has diversified its borrowings to derive the maximum benefit of competitive interest rates and a combination of short term and long term loans considering the asset liability management.

The lenders include Bank of Baroda, HDFC Bank, Kotak Mahindra Bank apart from Canara Bank, which is the principal banker of the Company.



Source : CanFin ,CD Research



Source : CanFin ,CD Research

Ratings As on 31/12/14

Sl. No.	Nature of Borrowing	Rating Agency		
		ICRA Ltd.	FITCH	CARE
1	Deposits	MAAA	-	-
2	Term Loans (Long)	[ICRA] AAA	-	-
3	Term Loans (short)	[ICRA] A1+	-	-
4	Secured NCDs (SRNCD)	[ICRA] AAA	IND AAA	CARE AAA
5	Unsecured NCDs (Tier II Subordinated Bonds)	[ICRA] AAA	IND AAA	CARE AAA
6	Commercial Paper	[ICRA] A1+	-	-

This instrument of financing contributes to about 44% of the loan mix, the share has reduced over last two years and refinance from NHB is preferred in the light of lower cost of borrowings.

Asset Quality and Returns

The company has been able to reduce its net non performing assets to nil and the gross NPA to 0.21 % in FY14. Going forward, we expect the NPAs to remain under strict control as well.

The return on capital employed and return on equity are expected to remain within the range of 12%-13% and 15%-16% respectively and infusion of fresh share capital of Rs 280 crore in FY15 (through rights issue) will take care of funding needs till FY17.

Marketing, Distribution and Technological Initiatives

CFHL continues to have a strong marketing and distribution network with a pan India presence. The total number of branches at the end of FY14 was 83 and has plans to increase the number of branches to 109 by 31st March 2015.

The above network coverage will not only provide improved and better access to the market but also enable the company to cater to the growing needs of Indian population to own homes of their own.

As a step towards garnering more business, to facilitate deeper penetration into the market, the services of Direct Selling Agents (DSA) are also utilized for marketing the loans and sourcing retail proposals. The Direct Selling Agents are permitted only to source the proposals/provide leads, while CFHL continues to exercise control over the credit, legal and technical aspects.

Business sourced through these DSA constitutes 57% of sanctions for the financial year 2013-14. The Company has also conducted DSA workshops in potential centers, to educate them regarding the code of conduct and the ethical principles followed by the company which they have to follow as effective business ambassadors of the company.

The company continuously conducts studies for evaluating systems/procedures/processes/products of peer group players on many areas to understand their best practices and implement the suitable ones to ensure simpler and customer friendly processes. Earnest efforts are made to reduce the Turn Around Time (TAT) in sanctioning and disbursing the loans and improving the functional efficiency at all branch offices and the registered office.

Keeping in view the needs of its customers, during the year 2013-14 the Company introduced 3 new loan products viz., Loans under Urban Housing (LUH), Flexi LAP (Flexible Loan Against Property) and Gruhalakshmi Rural Housing Loan Scheme (GRHLS) which have been well received by the borrowers.

Risks and Concerns

Spread Risk

Inflationary trends, high cost of borrowings, thin margins, and uneven competition continue to pose a huge challenge for the company, towards retaining and increasing the profitability. In order to meet these challenges, the management has initiated several measures to emerge economically stronger. The volatile economic environment, more precisely the fluctuations in interest rates makes housing finance institutions more vulnerable to certain risks such as credit risk, liquidity risk, and interest rate risk.

Asset Liability Management Risk

The Asset Liability Management risk is effectively resolved by preparing cash flow statements and forecasting of the cash flow position across various time periods and taking timely curative measures. CFHL continues to enjoy sufficient lines of credit (with good level of undrawn limits) from various other banks and financial institutions on a continuous basis to ensure that there is no interruption of business on account of liquidity problems. The ALM Committee at the registered office reviews the liquidity position at regular intervals and counteractive measures are suggested and implemented depending upon the requirement to alleviate the risk.

Cross Sectional Analysis

Company	Equity*	CMP	MCap*	Income from Operations*	Profit*	NPM (%)	ROE (%)	ROA (%)	MCap/ IO	P/BV
LIC Housing Fin	100.9	461	23265	10416	1378	13.2	17.8	1.4	2.2	3.0
Indiabulls Hsg.	71.1	635	22578	6748	1802	26.7	27.8	3.7	3.3	3.5
GRUH Finance	72.7	278	10102	1025	203	19.8	27.3	2.5	9.9	13.7
Dewan Housing	128.8	498	6412	5821	600	10.3	15.2	1.2	1.1	1.7
Repco Home	62.4	684	4265	651	120	18.4	15.3	2.3	6.5	5.1
GIC Housing Fin	53.9	238	1281	698	106	15.2	16.7	1.9	1.8	1.9
Can Fin Homes	**26.6**	**603**	**1605**	**752**	**84**	**11.1**	**16.1**	**1.2**	**2.2**	**2.0**

*Figures in crs , Ratios are TTM

Financials

Quarterly Results

Figures in Rs crs

	Q3FY15	Q3FY14	% chg.	9MFY15	9MFY14	% chg.
Net Interest Income	48.12	34.64	38.9	125.37	100.38	24.9
Non Interest Income	7.37	5.66	30.2	21.92	15.30	43.3
Total Operating Income	**55.49**	**40.30**	**37.7**	**147.29**	**115.68**	**27.3**
Operating Expenses	13.01	10.41	24.9	41.13	31.93	28.8
Pre-Provision Profits	**42.48**	**29.89**	**42.1**	**106.16**	**83.75**	**26.8**
Provision	2.50	1.00	150.0	8.00	5.00	60.0
PBT (incl. extra ordinary items)	**39.98**	**28.89**	**38.4**	**98.16**	**78.75**	**24.7**
Extraordinary items	0.00	0.00	0.00	0.00	0.00	0.00
PBT	**39.98**	**28.89**	**38.4**	**98.16**	**78.75**	**24.7**
Tax	14.03	8.54	64.3	34.80	23.14	50.4
PAT	**25.95**	**20.35**	**27.3**	**63.36**	**55.61**	**13.9**
EPS (F.V.10)	**12.66**	**9.93**	**27.3**	**30.93**	**27.14**	**13.9**

Income Statement

Figures in Rs crs

	FY12	FY13	FY14	FY15e	FY16e
Net Interest Income	84.00	96.00	134.00	173.37	260.71
Non Interest Income	7.00	14.00	21.00	28.92	32.00
Total Operating Income	**91.00**	**110.00**	**155.00**	**202.29**	**292.71**
Operating Expenses	23.00	36.00	44.00	55.13	93.08
Pre-Provision Profits	**68.00**	**74.00**	**111.00**	**147.16**	**199.63**
Provision	7.00	-1.00	4.00	5.00	5.50
PBT (incl. extra ordinary items)	**61.00**	**75.00**	**107.00**	**142.16**	**194.13**
Extraordinary items	0.00	0.00	0.00	0.00	0.00
PBT	**61.00**	**75.00**	**107.00**	**142.16**	**194.13**
Tax	17.00	21.00	31.00	39.80	54.36
PAT	**43.76**	**54.12**	**75.71**	**102.36**	**139.78**
EPS (F.V.10)	**21.36**	**26.42**	**36.96**	**38.44***	**52.48**

*Equity infused through rights issue of Rs 280 crore ; Price: Rs 450/share

Balance Sheet

Figures in Rs crs

	FY12	FY13	FY14	FY15e	FY16e
Sources of Funds					
Share Capital	20.49	20.49	20.49	26.63	26.63
Reserves	327.09	371.68	431.82	804.55	944.33
Total Shareholder's Funds	**347.57**	**392.17**	**452.30**	**831.19**	**970.96**
Total Borrowings	1982.29	3072.93	4694.69	6608.77	8796.54
Total Liabilities	**2329.86**	**3465.10**	**5146.99**	**7439.95**	**9767.50**
Application of Funds					
Net Block	3.24	6.50	7.82	9.00	10.00
Capital Work in Progress	0.00	2.94	0.00	0.00	0.00
Long Term Loans and Advances	2635.86	3977.51	5830.61	8116.49	10835.51
Investments	16.94	15.94	14.94	16.00	16.00
Current Assets, Loans and Advances					
Short term loans and advances	36.78	34.94	43.80	61.17	81.66
Cash and Bank	16.16	8.54	9.15	46.96	71.54
Total CA and LA	**52.94**	**43.49**	**52.96**	**108.13**	**153.20**
Current Liabilities	345.83	536.63	673.11	725.04	1157.93
Provisions	25.83	33.28	50.79	49.00	52.00
Total Current Liabilities	**371.66**	**569.91**	**723.89**	**774.04**	**1209.93**
Net Current Assets	-318.72	-526.42	-670.94	-665.91	-1056.73
Net Defferred Tax (net of liability)	5.65	4.87	4.86	4.88	5.12
Other Assets(net of liabilities)	-13.11	-13.60	-40.30	-40.50	-42.40
Total Assets	**2329.86**	**3465.10**	**5146.99**	**7439.95**	**9767.50**

Ratios

	FY12	FY13	FY14	FY15e	FY16e
Growth Ratios (%)					
Income From Operations	24.0	37.2	47.2	30.0	51.0
Net Interest Income	16.7	14.3	39.6	29.4	50.4
Total Operating Income	18.2	20.9	40.9	30.5	44.7
Pre Provision Profits	13.3	8.8	50.0	32.6	35.7
Net Profit	4.2	23.7	39.9	35.2	36.6
EPS	4.1	23.7	39.9	4.0*	36.5
Assets Under Management	19.4	49.1	46.0	39.6	33.5
Return Ratios (%)					
ROCE	11.5	12.9	13.0	12.0	13.3
ROE	13.3	14.6	17.9	15.9	15.5
ROA	1.8	1.6	1.5	1.4	1.5
Margins (%)					
Net Profit Margin	15.3	13.8	13.1	13.6	12.3
Cost To Income Ratio	25.3	32.7	28.4	27.3	31.8
Net Interest Margin (% of AUM)	3.4	2.8	2.7	2.4	2.7
Pre Provision Profits (% of NII)	81.0	77.1	82.8	84.9	76.6
Asset Quality (%)					
Gross NPA	0.7	0.4	0.2	0.3	0.3
Net NPA	0.0	0.0	0.0	0.0	0.1
Capital Adequacy Ratio	17.4	14.7	13.8	14.0	14.0
Provsions (% of AUM)	0.3	0.0	0.1	0.1	0.1
Average cost of borrowings	9.8	10.0	9.8	9.8	9.8
Valuation Ratios					
EV/EBITDA	9.8	10.8	10.8	12.7	11.1
Market Cap/ IO	0.7	0.7	0.6	2.1	1.4
P/BV	0.6	0.7	0.8	1.9	1.7
P/E	6.3	6.4	6.2	15.7	11.5
Other Ratios					
Debt / Equity	6.7	9.2	11.9	8.8	10.3
Current Ratio	0.4	0.3	0.1	0.2	0.2
Interest Coverage	1.3	1.3	1.3	1.3	1.2

*EPS growth reflects dilution of equity due to rights issue.

Recommendation

The housing finance market in India is an important sector of the country with its linkages and interconnectedness with the other segments of the economy and a range of positive externalities. The market today stands poised for a major paradigm change in terms of institutional depth, product innovation, competition and consumer choice. Investments in housing have the potential to stimulate the economy and refuel economic growth. On the back of the growing institutional depth in the housing finance market, the coming years hold the promise of huge expansion in housing investments, leading to increased home ownership among all segments of the population.

Two factors which have clearly emerged as key drivers of the housing sector are (1) wider base of stake-holders and (2) enhanced confidence in the housing finance industry. Both these factors can be effectively leveraged in today's environment to bring about all-round development in the economy. The government and private industries have recognized this aspect of the housing sector as a potentially critical economic sector and powerful growth driver for the economy. The contribution of the real estate sector to India's gross domestic product (GDP) has been estimated around 9% and the segment is expected to generate 7.6 million jobs during the same period. It is also expected to generate more than 17 million employment opportunities across the country by 2025 according to the Confederation of Real Estate Developers Associations of India.

Today, the mortgage finance market in the country is witnessing a new upsurge riding on the back of a fast maturing support ecosystem amid sectoral dynamics. However, one of the biggest challenges facing the housing finance industry today is the lack of formal credit flow to the lower income segments for their housing needs. This has resulted in a huge shortage of housing for these segments, and a multi-pronged effort is required to address the problem in all its dimensions. This broadening gap between demand and supply of affordable housing units and lack of adequate/appropriate financial solutions needs a prolonged effort and addressing the problems from all dimensions.

CFHL has drawn up a challenging business plan for the upcoming years. The company would continue to focus on lending to individual loan segments, increasing the non housing loan segment, improving the profitability and extending business operations. 26 new branches are expected to be opened during the year 2014-15 in potential centres, contributing to the growth of business. Contributions through the network of Direct Selling Agents (DSAs) are also expected to remain at about 55%. The Reserve Bank of India and the government have a stated policy of managing inflation, promoting investment through generation of employment & income and improving the infrastructural facilities including housing.

The stock currently trades at 1.9x FY15e BV (15.7x FY15e EPS) and 1.7x FY16e BV (11.5x FY16e EPS) and seems undervalued at these levels. In the light of excellent credit growth in last few quarters and brighter prospects for the housing finance industry , we recommend 'Buy' with a target of Rs 747 based on 2x FY16e BV (14x FY16e EPS) with a time horizon of 9-12 months.

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