

CMP: INR 550

Rating: BUY

Target Price: INR 710

Stock Info

BSE	511196
NSE	CANFINHOME
Bloomberg	CANF IN
Reuters	CNFH.NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR mn)	267
Mkt Cap (INR bn)	73.2
52w H/L (INR)	685 / 408
Avg Yearly Vol (in 000')	695

Shareholding Pattern %

(As on Dec, 2023)

Promoters	29.99
Public & Others	70.01

Stock Performance (%)	1m	3m	12m
CANFINHOME	-5.18	-0.03	-15.4
Nifty	4.4	2.6	-0.1

Can Fin Homes posted good set of numbers – PAT came in at INR 151.5 cr, up by 31% yoy and 7% qoq led by healthy asset growth.

Outlook positive on credit growth going forward – Management reiterated that credit demand for housing loans continued to be strong; also, Q4 growth will be good. Credit is expected to grow by of 18-20% in FY24. In Q3, outstanding AUMs grew by 20% yoy and 4.5% qoq to INR 301.2 bn. Within this, housing loans for the salaried class (74% share) grew by 18.2% and 3.5% qoq to INR 202.6 bn. While housing loan growth for non-salaried class (26% share) grew at higher pace of 22.1% yoy and 6.2% qoq.

Borrowings profile – During the quarter, the company borrowed more from CD, CPs, NCDs during the quarter – frontloaded borrowings in anticipation of higher demand coming in Q4. Borrowings from NHB stood at 900 cr vs. limit of 1500 cr. Average duration of borrowings is 78 months.

Margin outlook bullish – There has been sharp rise in the cost of funds during the quarter from 6.04% in Q2 to 6.63% in Q3 resulting in fall in the margins to 2.24% (2.51% qoq). Although the yields also had spiked (+32 bps to 8.87% qoq) but funding cost increased at higher pace. Management highlighted that going forward 72% of book is likely to get repriced at higher rates over the next 3-6 months. The company is having annual reset on loan book; while the lending rates have been increased by 145 bps in current fiscal which has not resulted in commensurate rise in loan yields. There will be lending rate hike of 2% incrementally on 72% of book. And largely this increase will be in the form of increase in tenure rather than increase in the EMI. Spreads have bottomed out. On the liability side, borrowings cost could increase by 20 bps in coming quarters. Current card rate on loans – 9.6%. **FY24 outlook – margins of 3.5% and spreads of 2.4%**

Outlook & Valuations – It is trading at 1.7x FY24e ABV. Can Fin Homes is good franchise to own in lower ticket size affordable housing loan segment which can deliver 18-20% ROE and 2% ROA on sustainable basis. With the hiring of CEO, in our view, one of the major hangovers is also over. Margins and credit outlooks is also very bullish for the company. Retain BUY with TP of 710, upside of 29% from current levels. Can Fin Homes is one of our best bet in NBFC space

Exhibit 1: Q3FY23 – Financial Performance

Y/E Mar (Rs Mn)	FY21	FY22	FY23E	FY24E
NII	7.98	8.16	10.81	13.74
PAT	4.56	4.71	6.41	8.19
Networth	26.10	30.67	36.66	44.41
EPS (Rs)	34	35	48	62
P/E (x)	16.1	15.5	11.4	8.9
P/Adj BV (x)	3.0	2.5	2.1	1.7
RoA (%)	2.1	1.9	2.1	2.3
RoE (%)	19.2	16.6	19.0	20.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Asset quality satisfactory – In absolute terms, GNPA/NNPA were at INR 181 cr/89 cr vs. INR 179 cr/101 cr qoq (in % terms numbers were stable at 0.6%/0.3%). From the last quarter onwards, the NBFC has made provisions based on ECL model (provisioning norms are required to be done as per IRAC norms or ECL norms whichever is higher). Credit cost for the quarter was at 11 bps vs. 18 bps in Q2 (management guidance for the full year being at 0.12-14% for the full year FY24).

Capital raising plans – Capital position is reviewed by board. The company is likely to raise capital in coming 2-3 quarters time.

Update on hiring of CEO – The company said respective CEO has been appointed which is likely to join in the current fiscal – this was one of the major hangover on the stock. With the hiring of the top key position, stock is likely to re-rate at higher valuation multiple.

No talks of parent selling the stake in the Can Fin Homes currently

Balance Transfers are to the tune of INR 100 cr per quarter vs. INR 300 cr 2 years back.

Distribution of loan book geography-wise - % of book coming from Karnataka is 20-22% and Bangalore is 17%. Going ahead, it is likely to venture out to newer geographies like Maharashtra & Rajasthan in future.

Branch expansion plans ahead - In current fiscal, it has added 5 branches to its total network of 187 branches. Going ahead also, current run-rate of opening 5-6 branches will continue.

Productivity of branches - Business per branch is 147 cr which is expected to taken to 160 cr in near future (INR 200 cr in long term) as currently branches are still under-utilized.

Rejection rate is at 11% at the point of sourcing.

The company is likely to make **IT spending** of INR 200 cr over next 7 years time period which can handle 1 lac crore of business which can be taken further to 2 lac crore.

Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)

Particulars (INR cr)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY	QoQ
Interest Earned	460.6	449.2	462.6	502.0	555.8	606.5	652.2	704.6	40.4	8.0
Interest Expended	274.8	268.0	270.8	296.1	318.5	356.1	401.0	452.9	53.0	13.0
NII	185.8	181.2	191.8	205.9	237.3	250.4	251.2	251.7	22.2	0.2
Other Income	6.8	1.6	5.3	6.4	5.5	5.1	5.4	5.1	-21.6	-6.1
Net Income	192.5	182.8	197.1	212.4	242.8	255.5	256.6	256.8	20.9	0.1
Opex	42.8	30.3	34.2	40.3	48.2	40.5	40.5	43.8	8.6	8.3
PPOP	149.7	152.6	162.8	172.0	194.6	215.0	216.1	212.9	23.8	-1.5
Provisions	7.7	6.5	-6.2	16.4	30.2	-3.7	13.2	8.4	-48.6	-36.4
PBT	142.0	146.0	169.0	155.7	164.3	218.7	202.9	204.5	31.4	0.8
Tax	39.4	37.2	45.4	40.0	41.4	56.5	61.1	53.0	32.6	-13.3
PAT	102.6	108.8	123.6	115.7	122.9	162.2	141.7	151.5	31.0	6.9
Balance sheet (INR Cr)										
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY	QoQ
New Approvals	2260	829	2288	2762	3018	1751	2348	2585	-6.4	10.1
Disbursements	2001	894	2208	2472	2705	1722	2245	2444	-1.1	8.9
Outstanding loan book	22105	22221	23584	25091	26711	27538	28823	30115	20.0	4.5
Key Ratios (%)										
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY	QoQ
Gross NPAs (Rs)	202	200	185	177	171	180	179	181	2.2	1.4
Net NPAs (Rs)	134	126	110	97	81	82	101	89	-8.0	-11.7
GNPA (%)	0.9	0.9	0.8	0.7	0.6	0.7	0.6	0.6	-0.1	-0.7
NNPA (%)	0.6	0.6	0.5	0.4	0.3	0.3	0.3	0.3	-0.1	-0.4
PCR (%)	33.5	36.8	40.4	45.2	52.7	54.4	43.4	50.7	5.5	-47.2
C/I Ratio (%)	22.4	16.5	17.4	19.0	19.8	15.8	15.8	17.1	-1.9	-21.8
ROA (%) (Reported)	2.2	2.0	2.1	2.0	2.0	2.4	2.1	2.2	0.1	-1.9
ROE (%) (Reported)	17.5	16.0	16.4	15.8	16.0	20.0	16.8	17.3	1.5	-14.6
EPS (Rs)	34.3	8.2	17.5	8.7	9.2	12.2	10.6	11.4	2.7	-6.5
NIM (%) (Reported)	3.9	3.3	3.4	3.7	4.2	3.6	3.6	3.5	-0.3	-4.4
Yield (%) (Reported)	9.5	8.1	8.0	8.1	8.1	8.5	8.6	8.9	0.8	-7.3
Cost (%) (Reported)	6.7	5.7	5.6	5.6	5.6	5.8	6.0	6.6	1.1	-4.5
Spread (%) (Reported)	2.8	2.4	2.4	2.5	2.6	2.7	2.5	2.2	-0.3	-2.8
Avg. Business Per Branch	112.8	113.4	120.3	127.9	136.1	146.5	143.8	146.9	19.0	-117.1
Avg. Business per Employee	26.1	25.9	26.8	27.6	30.0	30.8	31.5	32.7	5.1	-24.9
Cost Income Ratio (%)	22.4	16.5	17.4	19.0	19.8	15.8	15.8	17.1	-1.9	-21.8

Source: Arianth Research, Company Filings

Key Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23e	FY24e
Interest income	20.0	20.1	19.7	26.4	33.1
Interest expense	13.4	12.1	11.5	15.5	19.5
NII	6.5	8.0	8.2	10.8	13.6
Non-interest income	0.3	0.1	0.2	0.3	0.5
Net revenues	6.9	8.1	8.4	11.1	14.1
Operating expenses	1.1	1.2	1.5	1.8	2.0
PPOP	5.8	6.9	6.8	9.4	12.1
Provisions	0.6	0.7	0.5	0.8	1.3
PBT	5.2	6.2	6.4	8.6	10.8
Tax	1.4	1.6	1.6	2.2	2.7
PAT	3.8	4.6	4.7	6.4	8.1

Balance sheet (Rs.bn)	FY20	FY21	FY22	FY23e	FY24e
Share capital	0.3	0.3	0.3	0.3	0.3
Reserves & surplus	21.2	25.8	30.4	36.4	44.1
Net worth	21.5	26.1	30.7	36.7	44.3
Borrowings	187.5	192.9	248.3	295.1	353.0
Other liability	1.5	1.7	0.5	0.5	0.5
Total liabilities	210.4	220.7	279.4	332.3	397.8
Fixed assets	0.4	0.5	0.5	0.5	0.5
Investments	0.2	0.5	11.3	6.7	3.9
Loans	205.3	218.9	263.8	322.6	391.1
Cash	3.9	0.2	3.2	1.7	1.5
Other assets	0.6	0.7	0.7	0.7	0.8
Total assets	210.4	220.7	279.4	332.3	397.8

Ratios	FY20	FY21	FY22	FY23e	FY24e
Growth (%)					
NII	23.5	21.9	2.3	32.4	26.2
PPOP	23.2	18.4	-0.6	37.2	29.3
PAT	26.5	21.5	3.3	36.1	26.6
Advances	12.6	6.7	20.5	22.3	21.2
Spread (%)					
Yield on Funds	10.3	9.4	8.0	8.7	9.1
Cost of Funds	7.6	6.4	5.2	5.7	6.0
Spread	2.7	3.1	2.7	3.0	3.1
NIM	3.3	3.7	3.3	3.5	3.8
Asset quality (%)					
Gross NPAs	0.8	0.9	0.6	0.6	0.7
Net NPAs	0.5	0.6	0.3	0.3	0.4
Provisions	29	34	53	50	49
Return ratios (%)					
RoE	19.1	19.2	16.6	19.0	20.0
RoA	1.9	2.1	1.9	2.1	2.2
Per share (Rs)					
EPS	28	34	35	48	61
BV	161	196	230	275	333
ABV	153	186	224	268	322
Valuation (x)					
P/E	20	16	16	11	9
P/BV	3.4	2.8	2.4	2.0	1.7
P/ABV	3.6	3.0	2.5	2.1	1.7

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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