

**PAT growth supported by reducing opex;
NIMs declined due to increase in cost**

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CMP: INR 830

Rating: Hold

Target Price: INR 872

Stock Info

BSE	511196
NSE	CANFINHOME
Bloomberg	CANF IN
Reuters	CNFH.NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	267
Mkt Cap (INR Cr)	11,047
52w H/L (INR)	843 / 451
Avg Yearly Vol (in 000')	1000

Shareholding Pattern %

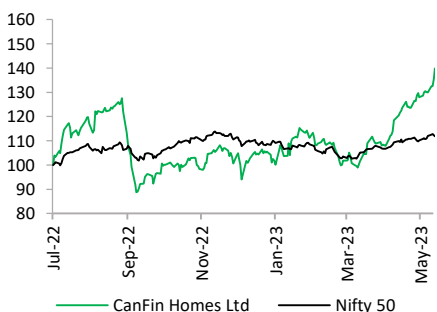
(As on June, 2023)

Promoters	29.9
Public & Others	70.1

Stock Performance (%)

	1m	6m	12m
CanFin Homes Ltd	11.5	50.3	53.2
Nifty 50	5.95	10.3	20.3

CanFin Homes Ltd Vs Nifty 50



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CanFin Homes Ltd has posted 13% YoY jump in net profit at INR 1.83 bn against INR 1.66 bn in Q4FY23 (up 10.6% QoQ). Provision for the quarter was at INR 1.4 bn vs. INR 2.4 bn in Q4FY23. NII growth of the bank was strong at 14% YoY at INR 2.85 bn. GNPA ratio increased marginally by 8bps QoQ at 0.63% and NNPA increased by 8bps QoQ at 0.34%. NIM declined by 10bps QoQ at 3.48%.

Decline in NIMs led by increase in NPA and incremental cost of deposits: NII growth for the quarter was at 14% YoY/9% QoQ to INR 2.85 bn. But, the NIMs of the bank declined by 10bps QoQ at 3.48% due to incremental cost of borrowing during the quarter. Cost of deposits of the bank increased by 98bps QoQ at 7.32%, whereas the yield improved by only 85 bps QoQ at 9.84%. Secondly, the increase in NPAs pulled down some of the interest income during the quarter, which would otherwise be recognized as income if the NPA had remained stable. Other income for the quarter declined by 50% QoQ to INR 0.6 bn. Cost to income ratio of the bank declined by 396bps QoQ at 14.94%.

Asset Quality deterioration led by increasing slippages: Overall, loan book of the bank increased marginally by 3% QoQ to INR 325.05 bn, whereas the GNPA during the quarter increased by 14% QoQ at INR 2.05 bn. The GNPA increased at a higher rate as compared to the loan book growth. This has led to the increase in the gross NPA ratio by 8 bps QoQ at 0.63% and Net NPA ratio by 8 bps QoQ, which in turn affected their NII growth and their NIMs.

Decline in OPEX: The Opex during the quarter declined by 15% QoQ to INR 0.43 bn led by decrease in the employee cost, provisions for ECL, commission expense and other expense. EE cost reduced by 7.63% QoQ to INR 20.71 bn, provisions by 42% QoQ to INR 13.70 bn, commission expense by 39% QoQ to INR 6.73 bn and other expenses by 8% QoQ to INR 13.34 bn. This reduction in Opex has contributed to the overall increase in the profitability. Q1 is generally, seasonally weak for the industry but this reduction in opex has helped them to improve their performance. The company's opex is expected to increase in the second half of the quarter as it plans to open new branches going forward.

Valuation and View: Demand in housing is expected to remain strong, as interest rates remain constant, more affordable housing projects are launched, and some states might reduce stamp duty. Company's margins are expected to increase by 3-5 bps. Management anticipates that the cost of borrowing will remain stagnant, and that such cost can be passed on to consumers in the coming quarters. Management intends to maintain the current loan mix in the future, with loans extended to salaried and professional borrowers as well as self-employed and non-professional borrowers in same proportions as previous years. Expectations of AUM growth of 18-20%. The company's recent progress with category B and C developers could result in partnerships in the coming quarters. We maintain our positive outlook on the bank as expect the NIMs to improve going forward. We have a target price of INR 872. We maintain our Hold rating on the stock.

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY21	FY22	FY23	FY24E	FY25E
NII	7.98	8.16	10.15	11.89	14.04
PAT	4.57	4.71	6.21	7.28	8.69
Networth	26.10	30.67	36.47	43.44	51.81
EPS (Rs)	34	35	47	55	65
P/E (x)	24.2	23.5	17.8	15.2	12.7
P/Adj BV (x)	4.5	3.7	3.1	2.6	2.2
RoA (%)	2.1	1.9	2.0	2.0	2.0
RoE (%)	19.2	16.6	18.5	18.2	18.3

Q1FY24 - Quarterly Performance

(in INR Bn)

Particulars (INR in Bn)	Q1FY24	Q4FY23	Q1FY23	YoY	QoQ
Interest Income	8.2	7.5	6.1	34.89%	8.77%
Interest Expenditure	5.3	4.9	3.6	49.68%	8.59%
Net Interest Income	2.9	2.6	2.5	13.85%	9.11%
Fees & Other Income	0.1	0.1	0.1	18.18%	-50.72%
Net Income	2.9	2.7	2.6	13.94%	6.45%
Other Expenditure	0.4	0.5	0.4	7.45%	-15.84%
Pre-Provision Operating Profit (PPOP)	2.5	2.2	2.1	15.16%	11.64%
Provision for SA & NPA	0.1	0.2	-0.0	-471.42%	-42.41%
Profit Before Tax	2.3	2.0	2.2	6.95%	18.14%
Provision for Taxation & DTL	0.5	0.3	0.6	-10.69%	56.69%
Tax / PBT (%)	0.2	0.2	0.3	-16.49%	32.63%
Profit After Tax	1.8	1.7	1.6	13.10%	10.65%

Source: Arianth Research, Company Filings

Concall Highlights:

Financial Performance

- Total Revenue for Q1FY24 stood at INR 8,241 Mn as compared to previous quarter INR 7,643 Mn (up by 10% QoQ, up by 14% YoY).
- NII Q1FY24 at INR 2,851 Mn as compared to previous quarter INR 2,613 Mn (up by 9% QoQ, up by 14% YoY).
- Operating Profits Q1FY24 came at INR 2,476 Mn (up 15% YoY, up 11% QoQ).
- PAT Q1FY24 stood at INR 1,834 Mn (up by 13% YoY, up 11% QoQ).

Disbursements and Loan Book

- Disbursements during the quarter stood at INR 19,660 Mn as compared to previous quarter of INR 25,380 Mn (down by 23% QoQ, up by 14% YoY).
- Loan Book as on Q1FY24 stood at INR 325 Bn as compared to figure of INR 316 Bn for the Q4FY23 (up by 3% QoQ, up 18% YoY).

Loan Mix

- As of Q1FY24 Housing Loan-89% (Q1FY23- 90%) & Others-11% (Q1FY23-10%).
- As of Q1FY24 Loan to salaried and professionals- 73% (Q1FY23- 74%) & Self employed & non professionals-27% (Q1FY23-26%).

Provisions and NPA

- Provisions for NPA made during the quarter were INR 47 Mn as compared to last quarter of INR -9.7 Mn (down by 42% YoY).
- Gross NPA for Q1FY24 is INR 2052 Mn as compared to Q4FY23 of INR 1738 Mn (up by 18% QoQ, up 14% YoY).
- Net NPA during the quarter is INR 1096 Mn as compared to previous quarter figure of INR 829 Mn (up by 32% QoQ, up by 34% YoY).

Funding Mix Q1FY24

- Banks-54% (Q1FY23-54%), NHB-22% (Q1FY23-22%), NCD-16% (Q1FY23-11%), CP-7% (Q1FY23-11%), DEP-1% (Q1FY23-2%).

Concall Highlights:**Borrowing**

- Bank Borrowing - Two major banks from whom funds are borrowed are HDFC & SBI.
- CP - Used as cost control mechanism, only used when the opportunity is right.
- NCD - Increase in borrowing due to regulatory requirement.

New Branches

- Company planning to open 15 branches in FY24, out of which 12 are already surveyed (Q2FY24-4, Q3FY24-8, Q4FY24- 3).
- Geographical distribution- South- 4, North & West- 9 and East- 2.

Direct Selling Agents (DSA)

- Company's 80% business through DSA.
- With new builders tie ups and technological advancements, company expects it to bring down to 60%.

Key Matrices

- NIM for Q1FY24 stood at 3.48% (up by 11 bps QoQ, decline by 12 bps YoY).
- PCR for Q1FY24 stood at 46.58% (decline by 571 bps QoQ, decline 742 bps YoY).
- Yield on loan portfolio for the quarter stood at 9.84%(down by 3 bps QoQ, up by 138 bps YoY).
- Cost to Income Ratio for the quarter is 14.94% (decline of 396 bps QoQ, decline of 90 bps YoY).
- ROA p.a. for Q1FY24 is 2.19 (down by 13 bps QoQ, down by 22 bps YoY).
- ROE p.a. for Q1FY24 is 19.16% (up by 98 bps QoQ, down by 87 bps YoY).
- Avg. business per branch for Q1FY24 arrived at INR 1604 Mn (up 4% QoQ, up 10% YoY).

Key Financials

P&L (INR in Bn)	FY21	FY22	FY23	FY24e	FY25e
Interest income	20.06	19.70	27.15	33.50	40.03
Interest expense	12.08	11.54	17.01	21.61	25.99
NII	7.98	8.16	10.15	11.89	14.04
Non-interest income	0.12	0.19	0.28	0.55	0.65
Net revenues	8.10	8.35	10.42	12.45	14.69
Operating expenses	1.24	1.53	1.76	1.94	2.14
PPOP	6.87	6.82	8.66	10.50	12.55
Provisions	0.69	0.47	0.42	0.77	0.92
PBT	6.18	6.35	8.24	9.73	11.62
Tax	1.62	1.64	2.03	2.45	2.93
PAT	4.57	4.71	6.21	7.28	8.69

Source: Arian Research, Company Filings

Balance sheet (INR in Bn)	FY21	FY22	FY23	FY24e	FY25e
Share capital	0.3	0.3	0.3	0.3	0.3
Reserves & surplus	25.8	30.4	36.2	43.2	51.5
Net worth	26.1	30.7	36.5	43.4	51.8
Borrowings	192.9	246.5	290.7	343.5	413.1
Other liability	1.7	2.3	3.5	3.8	4.2
Total liabilities	220.7	279.4	330.7	390.8	469.1
Fixed assets	0.5	0.5	0.5	0.5	0.5
Investments	0.5	11.3	14.6	14.9	15.6
Loans	218.9	263.8	311.9	374.6	450.3
Cash	0.2	3.2	3.1	0.2	2.0
Other assets	0.7	0.7	0.6	0.6	0.7
Total assets	220.7	279.4	330.7	390.8	469.1

Source: Arian Research, Company Filings

Key Ratios

Ratios	FY21	FY22	FY23	FY24e	FY25e
Growth (%)					
NII	18	2	24	17	18
PPOP	19	-1	27	21	19
PAT	22	3	32	17	19
Advances	7	20	18	20	20
Spread (%)					
Yield on Funds	9.4	8.0	9.0	9.4	9.4
Cost of Funds	6.4	5.3	6.4	6.8	6.9
Spread	3.1	2.7	2.7	2.5	2.5
NIM	3.7	3.3	3.3	3.3	3.3
Asset quality (%)					
Gross NPAs	0.9	0.6	0.6	0.4	0.4
Net NPAs	0.6	0.3	0.3	0.2	0.1
Provisions	33	53	62	62	62
Return ratios (%)					
RoE	19.2	16.6	18.5	18.2	18.3
RoA	2.1	1.9	2.0	2.0	2.0
Per share (Rs)					
EPS	34	35	47	55	65
BV	196	230	274	326	389
ABV	186	224	268	322	385
Valuation (x)					
P/E	24	23	18	15	13
P/BV	4.2	3.6	3.0	2.5	2.1
P/ABV	4.5	3.7	3.1	2.6	2.2

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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