

Improvement in NIMS

CMP: INR 763

Rating: Accumulate

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)	10,102
52w H/L (INR)	910 / 486
Avg Yearly Vol (in 000')	836

Shareholding Pattern %

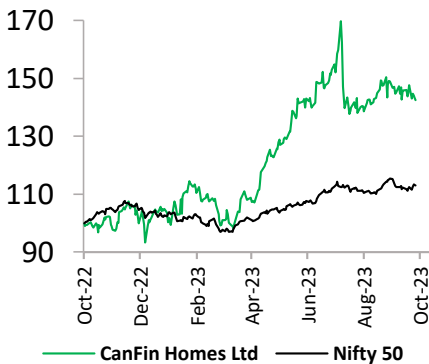
(As on September, 2023)

Promoters	29.9
Public & Others	70.1

Stock Performance (%)

	1m	6m	12m
CanFin Homes Ltd	-1.4	34.9	44.7
Nifty 50	-2.2	11.5	12.6

CanFin Homes Ltd Vs Nifty 50



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CanFin Homes Ltd has posted 11% YoY jump in net profit at INR 1.58 bn against INR 1.83 bn in Q1FY24 (down 13.8% QoQ). Provision for the quarter was at INR 0.72 bn vs. INR 0.13 bn in Q1FY24. NII growth of the bank was strong at 26% YoY at INR 3.17 bn. GNPA ratio degraded by 13bps QoQ at 0.76% and NNPA increased by 9bps QoQ at 0.43%. NIM improved by 32bps QoQ at 3.8%.

Improvement in NIMs led by increase in yield on loan portfolio: NII growth for the quarter was at 26% YoY/11% QoQ to INR 3.17 bn. Further, the NIMs of the bank improved by 32bps QoQ/ 25bps YoY at 3.8% due to the increase in yield on total loan portfolio. The yield on loan portfolio came at 10.07% v/s 9.84% in Q1FY24. Cost of funds of the bank remained stable QoQ at 7.32%. This helped them to improve their spread by 23bps QoQ at 2.75%, and increase their NII. The increase in yields was primarily due to the rate hike passed on to the customers. At the beginning of the quarter there was INR 125bn approximate portfolio where one rate hike was yet to be passed on during Q2FY24. Around INR 57bn of book has gone through this or experienced this rate hike which leaves another INR 60bn wherein this rate hike is yet to be passed on. Going forward, the NIMs are expected to remain under pressure and might see a decline at 3.5% levels, led by increasing cost of funds, and the spread is expected to be at 2.5% levels.

Asset Quality deterioration led by higher movement to NPA from restructured book: Overall, loan book of the bank increased marginally by 2.6% QoQ to INR 333. 59 bn, whereas the GNPA during the quarter increased by 24% QoQ at INR 2.54 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 13 bps QoQ at 0.76% and Net NPA ratio by 9bps QoQ. Further, the movement in NPA from restructured book was higher than the expected, at 14% of loan book.

Pace of disbursement growth was sluggish: Although the disbursement grew marginally by 2.7% QoQ at INR 20.2 bn, we saw a 10% YoY dip in disbursement during the quarter. The dip is primarily attributable to the fraud incident that occurred at Ambala. Management has given a disbursement guidance of INR 100 bn for the FY24, out of which approximately 40 bn is achieved. Management is confident that their disbursement will pickup during the H2FY24, which will help them achieve their target.

Valuation and View: The company has set an ambitious target of INR 60 bn disbursement for the upcoming two quarters. The company aims for 20% of its business to come from APF within the next 2-3 years. The focus on technological advancements and diversifying sourcing channels signals a progressive strategy, setting the stage for consistent growth and enhanced customer relations. The management's focus on maintaining a healthy spread and commitment to strategic expansion signals a positive outlook. We maintain our positive outlook on the company. We have a target price of INR 872. We upgrade our rating to ACCUMULATE 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

Q2FY24 - Quarterly Performance

(in INR Bn)

Particulars (INR in Bn)	Q2FY24	Q2FY23	Q1FY24	YoY	QoQ
Interest Income	8.7	6.5	8.2	32.67%	5.76%
Interest Expenditure	5.5	4.0	5.3	36.77%	2.90%
Net Interest Income	3.2	2.5	2.9	26.12%	11.11%
Fees & Other Income	0.1	0.1	0.1	8.02%	-3.08%
Net Income	3.2	2.6	2.9	25.74%	10.82%
Other Expenditure	0.5	0.4	0.4	29.47%	20.50%
Pre-Provision Operating Profit (PPOP)	2.7	2.2	2.5	25.04%	9.12%
Provision for SA & NPA	0.7	0.1	0.1	445.62%	426.71%
Profit Before Tax	2.0	2.0	2.3	-2.39%	-15.35%
Provision for Taxation & DTL	0.4	0.6	0.5	-34.71%	-20.86%
Tax / PBT (%)	0.2	0.3	0.2	-39.43%	-15.35%
Profit After Tax	1.6	1.4	1.8	11.55%	-13.83%

Source: Arianth Research, Company Filings

Concall Highlights:

Financial Performance:

- PAT stands at INR 1,580 Mn, with an ROE of 15.96%, and an EPS of INR 11.87.
- Disbursements stood at INR 20,200 Mn. There was sequential growth, though a slight dip was observed compared to Q2FY23. This dip was primarily due to an INR 396.7 million fraud incident in Ambala resulted in heightened internal controls.
- Both Q2 and Q1 witnessed an investment income of INR 310 million.
- Total provision for the quarter was INR 720 million.
- In Q1, it stood at 22% and decreased to 20% in Q2, influenced by a one-time impact.

Loan Portfolio and Customer Base:

- Current clientele base stands at 2.53 lakh.
- Housing loans make up 89% of the Loan Book with Commercial Real Estate (CRE) and Non-Housing Loans (NHL) accounting for the remaining 11%.
- The average ticket size for incremental housing loans is INR 2.2 Lakh and INR 0.8 Lakh for non-housing loans.

Business Aspects:

- GNPA showed an increase of 42% YoY/24% QoQ to INR 2,545 Mn, Rise in GNPA was primarily due to a INR 640 Mn portfolio from the restructured book turning into NPA.
- A slowdown was reported to 16%, attributed to a shortfall in Q2 disbursements.
- NIM was at 3.8% at the end of Q2. The company intends to keep the spread at 2.5% for the year and NIM at 3.5%.

Strategic Initiatives:

- The company is emphasizing residential projects, anticipating an average ticket size in the range of INR 3.5-4.0 mn. The focus is on category B and category C developers.
- The opening of 3 new branches in Q2FY24 and 9 more are in the pipeline.
- Implementation of a state-of-the-art technology platform to enhance analytics and CRM is underway.
- Introduction of channels like Advanced Processing Facility (APF) and digital onboarding to broaden the customer base.

Concerns & Challenges:

- An INR 396.7 million fraud incident was reported, which the management reassured was a one-time situation.
- Moving to larger loans might result in potential compromise on spread and NIMs.
- Concerns surrounding a significant portion of restructured loans in the portfolio.

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: Arian 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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