

**Improvement in NIMS**

**CMP: INR 726**

**Rating: Accumulate**

**Target Price: INR 874**

**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)	9,790
52w H/L (INR)	905 / 509
Avg Yearly Vol (in 000')	842

**Shareholding Pattern %**

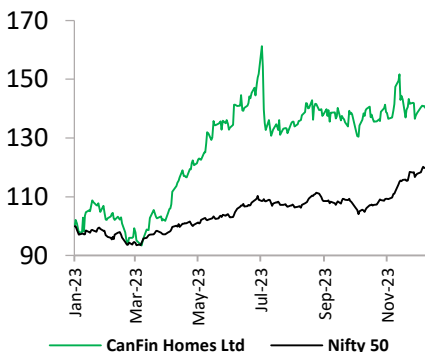
(As on December, 2023)

Promoters	29.9
Public & Others	70.1

**Stock Performance (%)**

	1m	6m	12m
CanFin Homes Ltd	-5.48	-17.7	32.7
Nifty 50	-0.44	8.51	17.8

**CanFin Homes Ltd Vs Nifty 50**



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CanFin Homes Ltd has posted a healthy 32.11% YoY jump in net profit at INR 2 bn against INR 1.51 bn in Q2FY24 (up 26.61% QoQ). Provision for the quarter was at INR 0.31 bn vs. INR 0.08 bn in Q2FY24 (down 57.33% QoQ). NII growth of the company was strong at 30.64% YoY at INR 3.29 bn. GNPA ratio degraded by 15bps QoQ at 0.91% and NNPA increased by 6bps QoQ at 0.49%. NIM improved by 12bps QoQ at 3.92%.

**Improvement in NIMs led by re-pricing of loans at a faster pace than cost of funds.** : NII growth for the quarter was at 30.64% YoY/ 3.81% QoQ to INR 3.29 bn. Further, the NIMs of the bank improved by 12bps QoQ/ 45bps YoY at 3.91% due to the improvement in yield on total loan portfolio. The yield on loan portfolio came at 9.91% v/s 8.87% in Q3FY23. Cost of funds of the bank remained stable QoQ at 7.35% but increased by 72bps YoY. This helped them to improve their spread by 32bps YoY at 2.56%, and increase their NII. The increase in yields was due to the rate hike passed on to the customers. NIMs expanded primarily due to re-pricing of loans at a faster pace than cost of funds.

**Asset Quality deterioration led by higher movement to NPA from restructured book:** Overall, loan book of the bank increased marginally by 2% QoQ to INR 340.53 bn, whereas the GNPA during the quarter increased by 22% QoQ at INR 3.10 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 15 bps QoQ at 0.91% and Net NPA ratio by 6bps QoQ. Further, the movement in NPA from restructured book was higher than the expected, at INR 0.96 bn v/s 0.64 bn in Q2FY24.

**Pace of disbursement growth was sluggish:** Disbursement saw a dip of 7% QoQ and 23% YoY. The dip is primarily attributable to the process changes that occurred during the quarter. The company recognized that process changes and tightening of processes have impacted disbursement and recovery performance. Management has given a disbursement guidance of INR 25 bn for the Q4FY24. Management is confident that their disbursement will pickup during the coming quarter, which will help them achieve their target. A tie-up with a CRM and lead sourcing from digital channels is in progress to boost the number.

**Valuation and View:** The company has set a target of INR 25 bn disbursement for the upcoming quarter. 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 874. We maintain our rating to ACCUMULATE on the stock.

**Exhibit 1: Financial Performance**

Y/E Mar (Rs Bn)	FY22	FY23	FY24E	FY25E	FY26E
NII	8.16	10.15	11.89	14.04	16.60
PAT	4.71	6.21	7.28	8.69	10.39
Networth	30.67	36.47	43.44	51.81	61.88
EPS (Rs)	35	47	55	65	78
P/E (x)	20.5	15.6	13.3	11.1	9.3
P/Adj BV (x)	3.2	2.7	2.3	1.9	1.6
RoA (%)	1.9	2.0	2.0	2.0	2.0
RoE (%)	16.6	18.5	18.2	18.3	18.3

## Q3FY24 - Quarterly Performance

(in INR Bn)

Particulars	Q3FY24	Q3FY23	Q2FY24	YoY	QoQ
Interest Income	8.95	7.05	8.65	26.99%	3.42%
Interest Expenditure	5.66	4.53	5.48	24.96%	3.20%
<b>Net Interest Income</b>	<b>3.29</b>	<b>2.52</b>	<b>3.17</b>	<b>30.64%</b>	<b>3.81%</b>
Fees & Other Income	0.07	0.05	0.06	39.90%	21.69%
<b>Net Income</b>	<b>3.36</b>	<b>2.57</b>	<b>3.23</b>	<b>30.82%</b>	<b>4.13%</b>
Other Expenditure	0.49	0.44	0.52	12.71%	-5.71%
<b>Pre-Provision Operating Profit (PPOP)</b>	<b>2.86</b>	<b>2.13</b>	<b>2.70</b>	<b>34.55%</b>	<b>6.04%</b>
Provision for SA & NPA	0.31	0.08	0.72	265.89%	-57.33%
<b>Profit Before Tax</b>	<b>2.56</b>	<b>2.05</b>	<b>1.98</b>	<b>25.03%</b>	<b>29.14%</b>
Provision for Taxation & DTL	0.56	0.53	0.40	4.79%	39.16%
Tax / PBT (%)	0.24	0.26	0.18	-9.06%	29.14%
<b>Profit After Tax</b>	<b>2.00</b>	<b>1.51</b>	<b>1.58</b>	<b>32.11%</b>	<b>26.61%</b>

## Balance Sheet

Particulars	Q3FY24	Q3FY23	Q2FY24	YoY	QoQ
New Approvals	20.53	25.85	21.23	-21%	-3%
Disbursements	18.79	24.44	20.19	-23%	-7%
Outstanding Loan Book	340.53	301.15	333.59	13%	2%

## Key Ratios

Particulars	Q3FY24	Q3FY23	Q2FY24	YoY	QoQ
Return on Avg Assets (Annualised)	2.33	2.16	1.86	17bps	47bps
Return on Avg Equity (Annualised)	19.36	17.30	15.96	206bps	340bps
Earning Per Share (INR)	15.03	11.38	11.87	32%	27%
Net Interest Margin (%)	3.92	3.47	3.80	45bps	12bps
Yield (%)	9.91	8.87	10.07	104bps	-16bps
Cost (%)	7.35	6.63	7.32	72bps	3bps
Spread (%)	2.56	2.24	2.75	32bps	-19bps
Avg. Business Per Branch (INR in Bn)	1.65	1.47	1.62	12%	2%
Avg. Business per Employee (INR in Bn)	0.33	0.33	0.34	1%	-3%
Cost Income Ratio (%)	14.71	17.07	16.25	-236bps	-154bps
DER	7.55	7.92	7.73	-37bps	-18bps

Source: Arianth Research, Company Filings

## Concall Highlights:

### Guidance

- The management has guided for loan growth to be 15% to 18% in FY25.
- Disbursements to be around INR 25 bn in Q4 FY24 while post that quarterly run-rate for disbursements would be at INR 30 bn.
- NIMs are expected to be around 3.5% mark while spreads to be above 2.5% mark.
- Management expects GNPA to decline by INR 20 – INR 30 crore on absolute basis in next quarter.

### \*Highlights\*

- Net interest income growth stood at 30.6% YoY/ 3.8% QoQ and was largely driven by net interest margin expansion.
- NIM expanded by 12 bps QoQ/ 45 bps YoY to 3.92% owing to re-pricing of loans at a faster pace than cost of funds.
- Spreads for the company were up by 32 bps YoY but down 19 bps QoQ to 2.56%.
- Provisions were down 57.3% QoQ and were up 266% YoY to INR 0.31 bn.
- Net profit for the quarter showed healthy growth owing to healthy top-line and control over opex.
- The company has sourced 79% of total business via DSA v/s 82% in the Q2FY24. Loan sourcing from DSA is expected to come down to 60% in next few years.
- The company opened 5 new branches during the quarter.
- Can fin homes has moved to quarterly reset of interest rates on its loans.
- During the quarter, asset quality saw some deterioration as GNPA/ NNPA ratios increased by 15 bps/ 6 bps on a sequential basis to 0.91%/ 0.49%, respectively.
- Entire restructured pool has come out of restructuring in November 2023.
- The company looks to open more branches in north and western part of India.
- Further, IT transformation cost is projected at INR 0.15 bn in FY25.

## Key Financials

P&L (Rs Bn)	FY22	FY23	FY24e	FY25e	FY26E
Interest income	19.70	27.15	33.50	40.03	48.46
Interest expense	11.54	17.01	21.61	25.99	31.87
<b>NII</b>	<b>8.16</b>	<b>10.15</b>	<b>11.89</b>	<b>14.04</b>	<b>16.60</b>
Non-interest income	0.19	0.28	0.55	0.65	0.77
<b>Net revenues</b>	<b>8.35</b>	<b>10.42</b>	<b>12.45</b>	<b>14.69</b>	<b>17.37</b>
Operating expenses	1.53	1.76	1.94	2.14	2.37
<b>PPOP</b>	<b>6.82</b>	<b>8.66</b>	<b>10.50</b>	<b>12.55</b>	<b>15.00</b>
Provisions	0.47	0.42	0.77	0.92	1.11
<b>PBT</b>	<b>6.35</b>	<b>8.24</b>	<b>9.73</b>	<b>11.62</b>	<b>13.89</b>
Tax	1.64	2.03	2.45	2.93	3.50
<b>PAT</b>	<b>4.71</b>	<b>6.21</b>	<b>7.28</b>	<b>8.69</b>	<b>10.39</b>

Source: Arianth Research, Company Filings

Balance sheet	FY22	FY23	FY24e	FY25e	FY26E
Share capital	0.3	0.3	0.3	0.3	0.3
Reserves & surplus	30.4	36.2	43.2	51.5	61.6
<b>Net worth</b>	<b>30.7</b>	<b>36.5</b>	<b>43.4</b>	<b>51.8</b>	<b>61.9</b>
Borrowings	246.5	290.7	343.5	413.1	506.5
Other liability	2.3	3.5	3.8	4.2	4.6
<b>Total liabilities</b>	<b>279.4</b>	<b>330.7</b>	<b>390.8</b>	<b>469.1</b>	<b>573.0</b>
Fixed assets	0.5	0.5	0.5	0.5	0.6
Investments	11.3	14.6	14.9	15.6	16.4
Loans	263.8	311.9	374.6	450.3	541.2
Cash	3.2	3.1	0.2	2.0	14.1
Other assets	0.7	0.6	0.6	0.7	0.7
<b>Total assets</b>	<b>279.4</b>	<b>330.7</b>	<b>390.8</b>	<b>469.1</b>	<b>573.0</b>

Source: Arianth Research, Company Filings

## Key Ratios

Ratios	FY22	FY23	FY24e	FY25e	FY26E
<b>Growth (%)</b>					
NII	2	24	17	18	18
PPOP	-1	27	21	19	20
PAT	3	32	17	19	19
Advances	20	18	20	20	20
<b>Spread (%)</b>					
Yield on Funds	8.0	9.0	9.4	9.4	9.5
Cost of Funds	5.3	6.4	6.8	6.9	6.9
Spread	2.7	2.7	2.5	2.5	2.5
NIM	3.3	3.3	3.3	3.3	3.2
<b>Asset quality (%)</b>					
Gross NPAs	0.6	0.6	0.4	0.4	0.3
Net NPAs	0.3	0.3	0.2	0.1	0.1
Provisions	53	62	62	62	62
<b>Return ratios (%)</b>					
RoE	16.6	18.5	18.2	18.3	18.3
RoA	1.9	2.0	2.0	2.0	2.0
<b>Per share (Rs)</b>					
EPS	35	47	55	65	78
BV	230	274	326	389	465
ABV	224	268	322	385	460
<b>Valuation (x)</b>					
P/E	21	16	13	11	9
P/BV	3.2	2.7	2.2	1.9	1.6
P/ABV	3.2	2.7	2.3	1.9	1.6

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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