Sharekhan by BNP PARIBAS

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Can Fin Homes Ltd

Strong quarter with stable asset quality

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: Rs. 538	Price Target: Rs. 670 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.69

Updated July 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

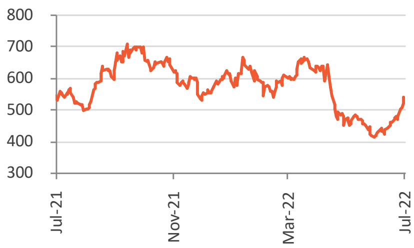
Company details

Market cap:	Rs. 7,605 cr
52-week high/low:	Rs. 721/408
NSE volume: (No of shares)	8.4 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	9.3 cr

Shareholding (%)

Promoters	30.0
FII	-
DII	24.8
Others	45.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	27.0	-14.6	-6.7	-1.6
Relative to Sensex	19.3	-13.2	-3.7	-7.2

Sharekhan Research, Bloomberg

Summary

- Can Fin Homes reported PAT of Rs. 162 crore, up by ~49% y-o-y and 32% q-o-q in Q1FY2023. PAT was expected at Rs. 136 crore.
- Disbursements declined sequentially, down 36% q-o-q (up ~93% y-o-y on a lower base). AUM grew by ~24% y-o-y and 3% q-o-q.
- Asset quality remained stable sequentially with GNPA ratio at 0.65%, down 25 bps y-o-y, up 1 bps q-o-q. Management said that audit was conducted for all branches and the impact of irregularities was worth Rs.2.43 crore.
- At the CMP, it trades at 2.0x/1.7x of FY2023E and FY2024E P/BV. We maintain Buy on Can Fin Homes with a revised PT of Rs. 670.

Can Fin Homes Limited (CHFL) reported PAT of Rs. 162 crore, up ~49% y-o-y and 32% q-o-q in Q1FY2023 versus our expectation of Rs. 136 crore. This was primarily on account of write back of provisions. Provisions write back was Rs. 4 crore in Q1FY2023 versus Rs. 30 crore provisions in Q4FY2022 versus Rs. 7 crore in Q1FY2022. Net interest income (NII) grew by ~38% y-o-y and ~6% q-o-q, owing to strong AUM growth (up ~24% y-o-y and 3% q-o-q). However, disbursements declined sequentially, down 36% q-o-q (up ~93% y-o-y on a lower base). First quarter is seasonally lower on disbursements. Net interest margin (NIM) declined by 47 bps q-o-q at 3.6% in Q1FY2023.It had an impact of investment income and disbursements. Operating expenses rose by ~34% y-o-y and down 16% q-o-q. Spread on loans continued to witness improvement and increased by 11 bps q-o-q to 2.7%. Cost of funds (CoF) was up 24 bps q-o-q. Asset quality remained stable sequentially with GNPA ratio at 0.65%, down 25 bps y-o-y, up 1 bps q-o-q.

Key positives

- Headline asset quality improved by 25 bps y-o-y to 0.64%.
- Strong AUM growth of ~24% y-o-y and 3% q-o-q.

Key negatives

- Disbursements declined sequentially (down 36% q-o-q) in Q1FY2023.
- NIM declined by 47 bps q-o-q.

Management Commentary

- With respect to irregularities, management clarified that all branches were audited and the amount of fraud identified was worth Rs. 2.43 crore. As per management, the entire amount of Rs. 2.43 crore is fully provided.
- In the previous quarter, the company had identified the irregularity in one of its branches in Bhilwara and the amount was Rs. 3.93 crore.
- The company expects NIM to be 3.5% to 3.7% going ahead. It foresees AUM growth of ~18% in FY2023.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 670: Currently, at the CMP, it trades at 2.0x/1.7x its FY2023E and FY2024E P/BV. The company is one of the favorite plays in the housing segment with better asset quality and superior underwriting practices. It continues to maintain best-in-class asset quality with GNPA ratio at 0.6% as of June 2022 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating, which enables it to raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver RoE of 15-16% over FY2022 to FY2024E and its book value is likely to register a 17% CAGR over FY2022 to FY2024E. Hence, we maintain our Buy recommendation on CFHL with a revised price target (PT) of Rs. 670.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted given its competition from large HFCs and banks.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
NII	798	816	976	1,148
PAT	456	471	560	679
EPS (Rs)	34.2	35.4	42.0	51.0
P/E (x)	15.6	15.1	12.7	10.5
P/BV (x)	2.7	2.3	2.0	1.7
RoA (%)	2.1	1.9	1.9	1.9
RoE (%)	19.2	16.6	16.8	17.3

Source: Company; Sharekhan estimates

Key result highlights

Strong AUM growth: AUM grew by ~24% y-o-y and 3% q-o-q. However, disbursements declined sequentially, down 36% q-o-q (up ~93% y-o-y on a lower base).Salaried and professionals (SAP) form 74% of the AUM mix in Q1FY23 and management plans to bring it down to 70% going ahead with self-employed and non-professionals (SENP)to 30%. The mix has changed on account of the pandemic with the company focusing on salaried class. Housing loans contribute 89.6% to AUM in Q1FY2023 versus 90.5% in Q1FY2022. Sanctions recorded 111% y-o-y and down by 42% q-o-q growth. Prepayment as a percentage of AUM stood at 13.4% versus 17.3% in Q4FY2022 versus 14.1% in Q1FY2022.

Stable asset quality: Asset quality remained stable sequentially with GNPA ratio at 0.65%, down 25 bps y-o-y, up 1 bps q-o-q. Coverage ratio improved by 3% q-o-q to 54.4% in Q1FY2023. Since the company wrote back the provisions during the quarter, its credit cost was nil. The company expects Rs. 35 crore to fall into non-performing assets from the restructured book.

Audit was done for all branches: The company conducted internal and statutory audit of all its 200 branches during the quarter through internal and statutory audit. The amount identified as fraud was Rs. 2.43 crore, which is fully provided. In Q4FY2022, the fraud was identified in one branch and the amount was Rs. 3.93 crore.

Guidance: The company has guided for AUM growth of ~18% in FY2023. NIM to be in the range of 3.5% to 3.7% going ahead. Credit cost to be 0.2% to 0.24% going forward. Cost-to-income ratio is likely to be 18% to 19% in FY2023.

Results Rs cr

Particulars	Q1FY23	Q1FY22	Q4FY22	y-o-y (%)	q-o-q (%)
Interest income	606	449	556	35.0	9.1
Interest expenses	356	268	319	32.9	11.8
Net interest income	**250**	**181**	**237**	**38.2**	**5.5**
Non-interest Income	5	2	5	209.0	(7.0)
Total Income	**255**	**183**	**243**	**39.8**	**5.2**
Employee expenses	22	18	18	21.1	20.5
Depreciation and amortization	2	2	2	(8.6)	(2.9)
Fees and Commission expenses	6	3	8	115.5	(33.7)
Other operating expenses	11	7	19	51.0	(44.4)
Total Operating Expense	**40**	**30**	**48**	**33.8**	**(16.0)**
Pre-provisioning profit (PPoP)	**215**	**153**	**195**	**40.9**	**10.5**
Provisions and write offs	-4	7	30	(156.4)	(112.2)
PBT	**219**	**146**	**164**	**49.8**	**33.1**
Tax expenses	56	37	41	52.0	36.4
PAT	**162**	**109**	**123**	**49.0**	**32.0**
EPS (Rs)	**12.2**	**8.2**	**9.2**		

Source: Company, Sharekhan Research

Key ratios Rs cr

Particulars	Q1FY23	Q1FY22	Q4FY22	y-o-y (%)	q-o-q (%)
AUM	**27,538**	**22,221**	**26,711**	**23.9**	**3.1**
-Salaried & Professionals	20,449	16,275	19,851	25.6	3.0
-Non-Salaried - SENP	7,068	5,924	6,860	19.3	3.0
-Housing Loans	24,684	20,103	23,937	22.8	3.1
-Top-up personal loans	1,101	799	1,068	37.8	3.1
-Mortgage Loans/Flexi LAP	1,409	1,005	1,368	40.2	3.0
Disbursements (Rs mn)	**1,722**	**894**	**2,705**	**92.6**	**(36.3)**
AUM/branch [Reported] (Rs mn)	1,134	1,134	1,134	0.0	0.0
Yields on loans (%) [Quarterly-calculated]	8.9	8.1	8.6	83 bps	35 bps
Borrowing costs (%) [Quarterly-calculated]	5.7	5.7	5.6	1 bps	11 bps
Spreads (%) [Quarterly-calculated]	3.2	2.4	3.0	81 bps	24 bps
NIM (%) [Quarterly-reported]	**3.3**	**4.1**	**3.6**	**29 bps**	**-47 bps**
Op cost as % of avg loan-book	**0.6**	**0.5**	**0.7**	**5 bps**	**-15 bps**
Cost to income (%)	15.8	16.5	19.8	-71 bps	-400 bps
GNPA (%)	**0.65**	**0.90**	**0.64**	**-25 bps**	**1 bps**
NNPA (%)	**0.30**	**0.57**	**0.30**	**-28 bps**	**-1 bps**
Provision coverage ratio (%)	**54.4**	**36.8**	**52.7**		

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Housing demand to grow exponentially on favourable macros with improved affordability**

With rapid urbanisation and improved affordability coupled with supportive government initiatives for the sector and record low interest rates and discounts from real estate companies, we expect housing finance companies to grow exponentially going ahead, especially the affordable housing segment. About 66% of the India's population is below 35 years of age and ~32% of the population resides in cities currently, which is estimated to be 50% by 2030. We believe HFCs stand to benefit from this housing sector's growth as they are well equipped with competitive product offerings and product pricing, superior customer service, and last-mile connect with potential customers where large banks are unable to service. The COVID-19 pandemic has bought in a blessing as there is demand potential through shift in preferences by end-consumers to own a home. Furthermore, the government's push towards affordable and mid-segment housing is likely to propel demand in the segment due to continuation of credit-linked subsidy for affordable housing till March 2022.

■ **Company outlook - Favoured play in the affordable space with strong balance sheet and best-in-class asset quality**

CFHL commands a premium valuation vis-à-vis its peers due to: 1) its ability to deliver superior growth in AUM; 2) the company's focus to strategically charge differential pricing for customer segments/geographies and recover its market share; 3) its asset quality continues to be best in class among its peers with Stage-3 assets at 0.65% and NNPA ratio at 0.30% in Q4FY2022; and 4) additionally, with the strong parentage, CFHL enjoys strong financial flexibility and enables it to raise funds through diversified sources at competitive rates.

■ **Valuation - We maintain Buy with a revised PT of Rs. 670**

Currently, at the CMP, it trades at 2.0x/1.7x its FY2023E and FY2024E P/BV. The company is one of the favorite plays in the housing segment with better asset quality and superior underwriting practices. It continues to maintain best-in-class asset quality with GNPA ratio at 0.6% as of June 2022 and has demonstrated its resilience in turbulent times. CFHL enjoys strong parentage and superior credit rating, which enables it to raise funds at lower costs. With its ability to leverage its balance sheet, we expect it to deliver RoE of 15-16% over FY2022 to FY2024E and its book value is likely to register a 17% CAGR over FY2022 to FY2024E. Hence, we maintain our Buy recommendation on CFHL with a revised PT of Rs. 670.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Can Fin Homes	538	7,166	11.8	11.3	2.0	1.7	18.0	15.9	2.0	1.7
LIC Housing Finance	376	20,713	6.0	5.2	0.7	0.7	13.3	13.6	1.3	1.3
Repco Home Finance	159	993	3.8	4.0	0.4	0.4	11.6	10.6	2.1	1.9

Source: Company; Sharekhan Research

About company

CFHL operates in the housing finance segment providing loans to individuals and non-housing loans, including mortgage loans, site loans, loans for commercial properties, loan against rent receivables, top-up loans, and personal loans. The company has 200 branches across 21 states and Union Territories. The company offers housing loans and mortgage loans at competitive interest rates both to salaried and self-employed borrowers. The company focuses on housing loans to individuals with 90% of the book constituting to home loans while the rest comes from the non-housing segment.

Investment theme

The housing finance market is expected to be driven by multiple triggers going ahead. Favourable operating environment marked by benign cost of funds and liquidity measures by the Reserve Bank of India (RBI) and government is likely to provide impetus to the sector's growth. Additionally, the transmission of lower interest rates to end-consumers have further improved affordability, thereby driving sale of housing units, particularly in the affordable and mid-income segment.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality. Its spread may be impacted given its competition from large HFCs and banks.

Additional Data

Key management personnel

Mr. Girish Kousgi	MD & CEO
Mr. Amitabh Chatterjee	Depty Managing Director
Mr. Prashanth Joishy	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chhattisgarh Investments Ltd	6.5
2	Axis Asset Management Co Ltd	2.7
3	PGIM India Asset Management Pvt Ltd	2.6
4	UTI Asset Management Co Ltd	2.5
5	DSP Investment Managers Pvt Ltd	2.3
6	Canara Reecco Asset Management Co Ltd	2.2
7	L&T Mutual Fund Trustee Ltd	2.1
8	Invesco Asset Management India Pvt Ltd	1.9
9	Sarda Energy & Minerals Ltd	1.7
10	Edelweiss Asset Management India Pvt Ltd	1.5

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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