

# Can Fin Homes

Estimate change

TP change

Rating change



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Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USD\$)	71.7 / 0.9
52-Week Range (INR)	721 / 408
1, 6, 12 Rel. Per (%)	19/-4/-7
12M Avg Val (INR M)	666

## Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	8.2	9.9	11.2
PPP	6.8	8.4	9.5
PAT	4.7	5.8	6.5
EPS (INR)	35.4	43.4	48.9
EPS Growth (%)	3.3	22.8	12.7
BVPS (INR)	230	272	318
<b>Ratios (%)</b>			
NIM	3.4	3.5	3.3
C/I ratio	18.3	17.3	17.5
RoAA	1.9	1.9	1.8
RoE	16.6	17.3	16.6
Payout	5.7	5.1	4.5
<b>Valuation</b>			
P/E (x)	15.2	12.4	11.0
P/BV (x)	2.3	2.0	1.7
Div. Yield (%)	0.4	0.4	0.4

## Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	30.0	30.0	30.0
DII	24.8	24.7	17.3
FII	0.0	0.0	0.0
Others	45.2	45.3	52.7

FII Includes depository receipts

**CMP: INR538**
**TP: INR640 (+19%)**
**Buy**

## Outcome of branch audits benign; provision write-backs drive earnings

CANF said the audit of all its branches has been completed. The same was initiated after a few fraudulent accounts came to light. The outcome of the investigation has been covered in greater detail inside. While disbursements in 1QFY23 were arguably below our expectations, the same will gather pace in subsequent quarters. We model in an AUM/disbursement CAGR of 16%/9% over FY22-24. Based on the above development, we expect a credit costs of ~22bp and upgrade our FY23 EPS estimate by ~7%. Valuations can get re-rated to 2x P/BV, if the management can continue to deliver the same pristine asset quality over the next few quarters. We maintain our Buy rating.

## Audit of branches did not identify any outsized fraudulent accounts

- An audit of all of CANF's 200 branches has been completed. Around 25% of branches were audited by the internal team and the balance by the statutory auditors of respective branches. Irregularities were identified across four branches.
- In 1QFY23, the company identified ~INR24m of fraudulent accounts, which have been fully provided for. It identified fraudulent accounts of ~INR39m in 4QFY22, and the same has declined to INR25m.

## Asset quality pristine, with significant provision write-backs

- Asset quality remains pristine and was largely stable, with GS3/NS3 at 0.65%/0.3% and PCR on Stage 3 loans improving by ~170bp QoQ to ~54%.
- Provisions write-backs of INR37m came across as a positive surprise.** This was driven by provision write-backs of ~INR117m and a decline in PCR (including OTR provisions) on standard loans to 0.63 (v/s 0.7% QoQ).

## Strong YoY growth in disbursements, albeit on a lower base

- Disbursements rose 93% YoY (on a low COVID-impacted base) to INR17.2b. There was a QoQ decline of ~INR10b in absolute disbursements.
- Advances grew 24% YoY and 3% QoQ to INR275b. The run-off in the loan book was meaningfully lower than our estimate, suggesting that CANF was very successful in stemming balance transfers in 1QFY23.

## Highlights from the management commentary

- The management guided at a loan growth of 18%, GS3 stable at 0.6-0.75%, credit cost at 0.2-0.24%, and a cost-to-income ratio of 18-19% in FY23.
- CANF expects ~5% of the restructured pool to slip into NPA. There could be provision write-backs of INR350m from the OTR pool.

## Valuation and view

- We model in a NII/PPOP/PAT CAGR of 12%/11%/18% over FY22-24 for a RoA/RoE of 1.9%/17% over FY23-24.
- Its ability to maintain stable margin is a key monitorable as CANF continues its healthy loan growth trajectory.
- CANF is a franchise with moats on the liability side and strong asset quality. We maintain our Buy rating with a TP of INR640 per share (premised on 2x FY24E BVPS).

## Quarterly performance

INR m

Y/E March	FY22				FY23				FY22	FY23E	FY23E 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Interest Income	4,492	4,626	5,020	5,558	6,065	6,368	6,623	6,815	19,697	25,871	5,825	4
Interest Expenses	2,680	2,708	2,961	3,185	3,561	3,846	4,115	4,416	11,535	15,938	3,408	4
<b>Net Interest Income</b>	<b>1,812</b>	<b>1,918</b>	<b>2,059</b>	<b>2,373</b>	<b>2,504</b>	<b>2,522</b>	<b>2,508</b>	<b>2,399</b>	<b>8,162</b>	<b>9,933</b>	<b>2,417</b>	4
YoY Growth (%)	-5.3	-8.9	-2.1	27.7	38.2	31.5	21.8	1.1	2.3	21.7	33.4	
Other income	16	53	64	55	51	61	66	56	188	234	51	0
<b>Total Income</b>	<b>1,828</b>	<b>1,971</b>	<b>2,124</b>	<b>2,428</b>	<b>2,555</b>	<b>2,583</b>	<b>2,574</b>	<b>2,455</b>	<b>8,350</b>	<b>10,167</b>	<b>2,468</b>	4
YoY Growth (%)	-4.6	-7.2	-0.6	26.1	39.8	31.1	21.2	1.1	3.1	21.8	35	
Operating Expenses	303	342	403	482	405	420	436	497	1,530	1,758	400	1
YoY Growth (%)	40.8	35.8	17.1	12.4	33.8	22.7	8.1	3.1	23.4	14.9	32.1	
<b>Operating Profits</b>	<b>1,526</b>	<b>1,628</b>	<b>1,720</b>	<b>1,946</b>	<b>2,150</b>	<b>2,163</b>	<b>2,138</b>	<b>1,958</b>	<b>6,820</b>	<b>8,409</b>	<b>2,068</b>	4
YoY Growth (%)	-10.4	-13	-4	30	40.9	32.8	24.3	0.7	-0.6	23.3	35.6	
Provisions	65	-62	164	302	-37	200	250	233	469	646	181	-120
<b>Profit before Tax</b>	<b>1,460</b>	<b>1,690</b>	<b>1,557</b>	<b>1,643</b>	<b>2,187</b>	<b>1,963</b>	<b>1,888</b>	<b>1,726</b>	<b>6,351</b>	<b>7,763</b>	<b>1,886</b>	16
Tax Provisions	372	454	400	414	565	499	479	437	1,640	1,980	479	18
<b>Profit after tax</b>	<b>1,088</b>	<b>1,236</b>	<b>1,157</b>	<b>1,229</b>	<b>1,622</b>	<b>1,464</b>	<b>1,408</b>	<b>1,289</b>	<b>4,711</b>	<b>5,784</b>	<b>1,407</b>	15
YoY Growth (%)	16.8	-3.7	-12.3	19.8	49	18.4	21.7	4.9	3.3	22.8	29.3	
<b>Key Parameters (%)</b>												
Yield on loans	8.1	8.1	8.3	8.6	8.9							
Cost of funds	5.6	5.4	5.4	5.3	5.7							
Spread	2.5	2.7	2.9	3.3	3.3							
NIM	3.3	3.3	3.4	3.7	3.7							
Credit cost	0.1	-0.1	0.3	0.5	-0.1							
Cost to Income Ratio (%)	16.5	17.4	19	19.8	15.8							
Tax Rate (%)	25.4	26.9	25.7	25.2	25.8							
<b>Balance Sheet Parameters</b>												
<b>Loans (INR B)</b>	<b>222.2</b>	<b>235.8</b>	<b>250.9</b>	<b>267.1</b>	<b>275.4</b>							
Growth (%)	6.6	13.2	19.5	20.8	23.9							
<b>AUM mix (%)</b>												
Home loans	90.5	90.3	89.9	89.6	89.6							
Non-housing loans	9.5	9.7	10.1	10.4	10.4							
Salaried customers	73.3	74	74.2	74.3	74.3							
Self-employed customers	26.7	25.9	25.7	25.7	25.7							
<b>Disbursements (INR B)</b>	<b>8.9</b>	<b>22.1</b>	<b>24.7</b>	<b>27.1</b>	<b>17.2</b>							
Change YoY (%)	122.9	167.6	123.5	35.2	92.6							
<b>Borrowing mix (%)</b>												
Banks	47	50	53	51	54							
NHB	25	24	23	22	22							
Market borrowings	26	24	22	25	22							
Deposits	2	2	2	2	2							
<b>Asset Quality</b>												
GNPL (INR m)	2,000	1,851	1,772	1,706	1,798							
NNPL (INR m)	1,265	1,103	970	807	819							
GNPL ratio %	0.9	0.78	0.71	0.64	0.65							
GNPL ratio %	0.57	0.47	0.39	0.3	0.3							
PCR %	37	40	45	53	54							
<b>Return Ratios (%)</b>												
ROA (Rep)	2	2.1	2	2.1	2.4							
ROE (Rep)	16	16.4	15.8	16	20							

E: MOFSL estimates



## Highlights from the management commentary

### Yields and spreads

- NIM declined to 3.6% (v/s 4.07% in 4QFY22). Reported NIM includes interest income, other income, and income on investments. The latter fell in 1QFY23.
- Portfolio WAC stood at 5.8%. Incremental CoF stood at 5.67%. Around 21%/22%/7% of liabilities are linked to repo/T-bill/MCLR. External benchmark linked borrowings are re-priced every quarter.
- Portfolio yields stood at 8.46%. Incremental yields stood at 8.21% in 1QFY23 v/s 8.07% in 4QFY22.

### Outcome of the audit and investigation of CANF branches

- An audit of all of CANF's 200 branches has been completed and all observations have been rectified. Around 25% of branches were audited by the internal team and the balance by the statutory auditors of respective branches.
- Irregularities (forging of financial documents and deficiency in the property) were identified across four branches.
- In 4QFY22, it had identified fraudulent accounts of INR39.3m, of which INR14m has been closed and that book has declined to INR25m. Incrementally, it identified INR24.3m of fraudulent accounts in 1QFY23, which has also been fully provided for.
- Deputations to CAN from CBK still continue in the usual course of business.

### Asset quality

- The total restructured book declined by INR450m to INR6.64b from INR7.09b earlier. No account from the restructured pool has slipped into NPA. Most accounts have not resumed repayments. The same will resume after two quarters. Of the restructured book, 17-18% of customers have started repaying, even though repayments are not due. It expects ~5% of the restructured pool to slip into NPA.
- It expects provision write-backs of ~INR350m from the OTR pool by Mar'23. The company also expects recoveries of INR4-4.5b from the NPA pool.
- Stage 2 loans stood ~INR4.7b.

### Guidance

- The management has guided at a loan growth of 18% and spreads of 2.4%. It aims to protect its NIM threshold of 3%.
- GS3 stable at 0.6-0.75%. It is targeting credit cost at 0.2-0.24% in FY23.
- It expects a cost-to-income ratio of 18-19% in FY23.
- The management guided at a 70:30 mix between salaried and self-employed customers. It is targeting an opening of 210 branches by the end of FY23.

### Equity capital raise

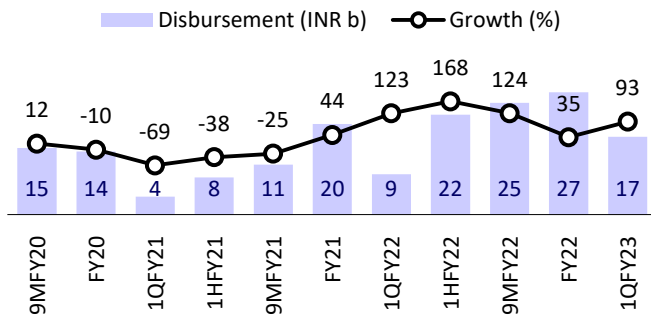
- The company is planning to raise Tier I capital in FY23.

### Others

- The management is focusing on Cat-B customers, and within that it will be equally split between government and public employees. Income/salary is in the range of INR38-40k per month.
- Bengaluru contributes ~20% of the loan book.
- On the asset side, all loans are floating, and the re-pricing happens after every 12 months.
- BT-OUT was ~INR1b in 1QFY23.

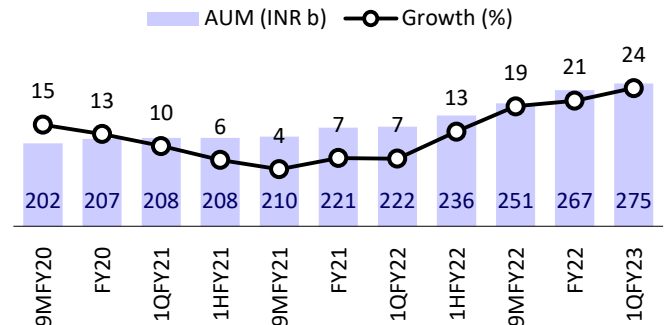
## Key exhibits

**Exhibit 1: Disbursements grew 93% YoY (though on a lower COVID-impacted base)**



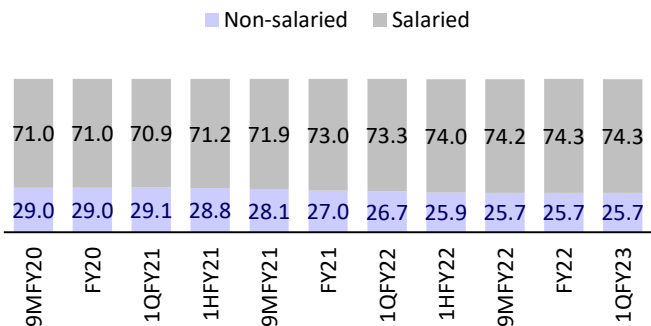
Source: MOFSL, Company

**Exhibit 2: AUM grew 24% YoY**



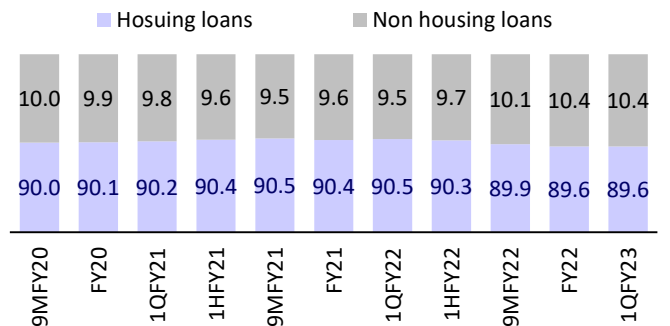
Source: MOFSL, Company

**Exhibit 3: Share of Salaried customers stable ~74%**



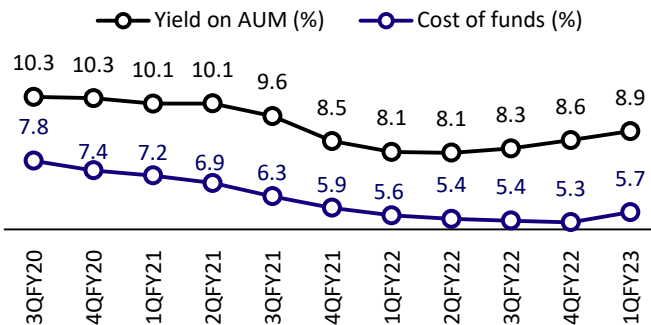
Source: MOFSL, Company

**Exhibit 4: Share of Housing loans stable ~90%**



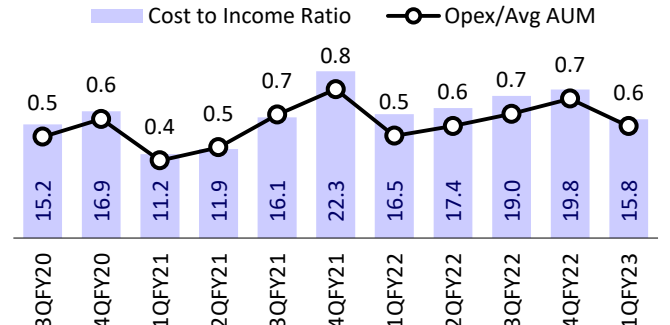
Source: MOFSL, Company

**Exhibit 5: Calculated spreads decline by ~5bp QoQ**



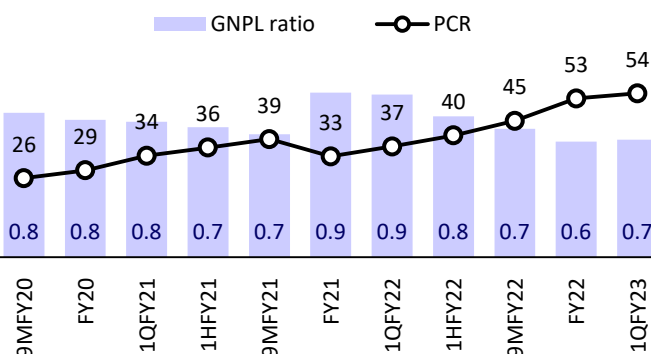
Source: MOFSL, Company

**Exhibit 6: C/I ratio falls 70bp YoY**



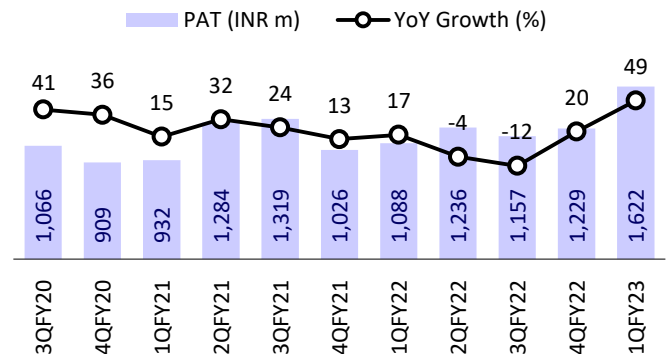
Source: MOFSL, Company

**Exhibit 7: PCR up ~1pp QoQ, with a sequentially stable GNPA**



Source: MOFSL, Company

**Exhibit 8: PAT grew by ~32% QoQ and ~50% YoY**



Source: MOFSL, Company

## Valuation and view

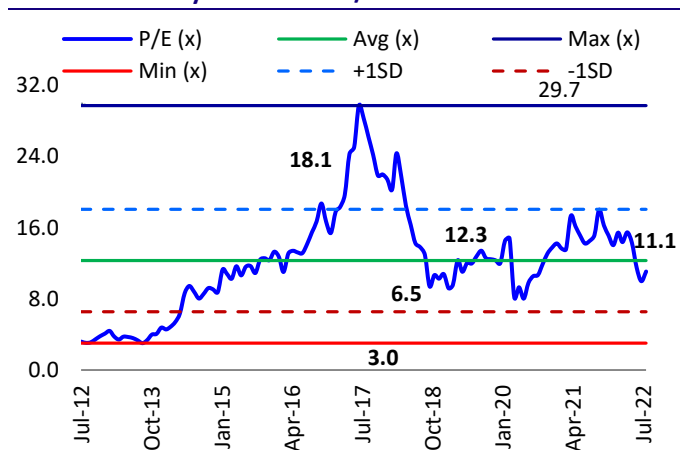
- We model in a NII/PPOP/PAT CAGR of 12%/11%/18% over FY22-24 for a RoA/RoE of 1.9%/17% over FY23-24.
- Its ability to maintain stable margin is a key monitorable as CANF continues its healthy loan growth trajectory.
- CANF is a franchise with moats on the liability side and strong asset quality. We maintain our Buy rating with a TP of INR640 per share (premised on 2x FY24E BVPS).

Exhibit 9: Raise our FY23 EPS estimate by ~7% to factor in lower credit costs and higher NII

INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	9.6	11.0	9.9	11.2	3.0	2.4
Other Income	0.2	0.2	0.2	0.3		
<b>Total Income</b>	<b>9.9</b>	<b>11.2</b>	<b>10.2</b>	<b>11.5</b>	<b>3.1</b>	<b>2.6</b>
Operating Expenses	1.7	1.9	1.8	2.0	3.2	8.0
<b>Operating Profit</b>	<b>8.2</b>	<b>9.3</b>	<b>8.4</b>	<b>9.5</b>	<b>3.1</b>	<b>1.5</b>
Provisions	0.9	0.7	0.6	0.7	-25.5	8.5
<b>PBT</b>	<b>7.3</b>	<b>8.7</b>	<b>7.8</b>	<b>8.7</b>	<b>6.5</b>	<b>0.9</b>
Tax	1.9	2.2	2.0	2.2	6.5	0.9
<b>PAT</b>	<b>5.4</b>	<b>6.5</b>	<b>5.8</b>	<b>6.5</b>	<b>6.5</b>	<b>0.9</b>
AUM	314	363	314	362	-0.1	-0.1
Borrowings	286	327	289	330	1.0	1.0
NIM (%)	3.4	3.3	3.5	3.3		
RoA (%)	1.8	1.9	1.9	1.8		
RoE (%)	16.3	16.6	17.3	16.6		

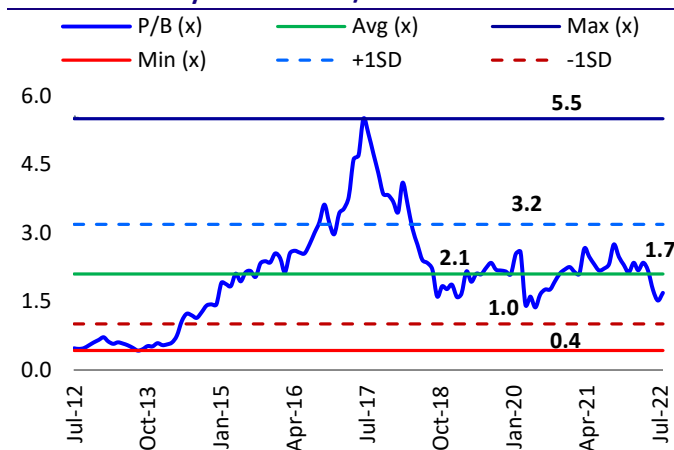
Source: MOFSL, Company

Exhibit 10: One-year forward P/E ratio



Source: MOFSL, Company

Exhibit 11: One-year forward P/B ratio



Source: MOFSL, Company

## Financials and valuations

### Income statement

Income statement								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	10,444	13,060	14,906	17,134	20,189	20,064	19,697	25,871	30,887
Interest Expended	7,435	8,840	9,810	11,693	13,442	12,083	11,535	15,938	19,669
Net Interest Income	3,009	4,220	5,096	5,441	6,747	7,980	8,162	9,933	11,219
Change (%)	69.4	40.2	20.8	6.8	24.0	18.3	2.3	21.7	12.9
Other Income	391	471	314	179	115	121	188	234	268
Net Income	3,401	4,691	5,410	5,621	6,862	8,101	8,350	10,167	11,486
Change (%)	64.5	37.9	15.3	3.9	22.1	18.0	3.1	21.8	13.0
Operating Expenses	668	807	878	915	1,076	1,240	1,530	1,758	2,014
Operating Income	2,733	3,884	4,532	4,706	5,786	6,861	6,820	8,409	9,472
Change (%)	80.1	42.1	16.7	3.8	23.0	18.6	-0.6	23.3	12.6
Provisions/write-offs	194	188	221	11	603	685	469	646	726
PBT	2,539	3,696	4,311	4,695	5,183	6,176	6,351	7,763	8,746
Tax	968	1,349	1,449	1,728	1,422	1,615	1,640	1,980	2,230
Tax Rate (%)	38.1	36.5	33.6	36.8	27.4	26.2	25.8	25.5	25.5
Reported PAT	1,571	2,347	2,862	2,967	3,761	4,561	4,711	5,784	6,516
Change (%)	82.2	49.4	22.0	3.7	26.8	21.3	3.3	22.8	12.7
Proposed Dividend (incl. tax)	321	321	321	321	321	266	266	293	293

### Balance sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	266	266	266	266	266	266	266	266	266
Reserves and Surplus	8,514	11,771	14,604	17,556	21,234	25,832	30,400	35,891	42,114
<b>Net Worth</b>	<b>8,780</b>	<b>12,037</b>	<b>14,870</b>	<b>17,822</b>	<b>21,501</b>	<b>26,098</b>	<b>30,666</b>	<b>36,157</b>	<b>42,380</b>
Borrowings	90,740	1,18,675	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,89,257	3,30,231
Change (%)	23.0	30.8	17.3	20.7	11.6	2.9	27.8	17.4	14.2
Other liabilities	8,040	2,168	3,215	1,500	1,451	1,710	2,300	2,876	3,594
<b>Total Liabilities</b>	<b>1,07,560</b>	<b>1,32,880</b>	<b>1,57,295</b>	<b>1,87,295</b>	<b>2,10,436</b>	<b>2,20,737</b>	<b>2,79,443</b>	<b>3,28,290</b>	<b>3,76,205</b>
<b>Loans</b>	<b>1,07,146</b>	<b>1,32,241</b>	<b>1,56,440</b>	<b>1,82,342</b>	<b>2,05,257</b>	<b>2,18,915</b>	<b>2,63,781</b>	<b>3,11,029</b>	<b>3,58,947</b>
Change (%)	29.1	23.4	18.3	16.6	12.6	6.7	20.5	17.9	15.4
Investments	149	160	160	163	243	496	11,260	12,949	14,891
Change (%)	0.0	7.1	0.0	1.9	49.1	104.1	2,169.9	15.0	15.0
Net Fixed Assets	89	102	96	99	379	378	346	317	290
Other assets	175	377	600	4,692	4,557	948	4,057	3,995	2,078
<b>Total Assets</b>	<b>1,07,560</b>	<b>1,32,880</b>	<b>1,57,295</b>	<b>1,87,295</b>	<b>2,10,436</b>	<b>2,20,737</b>	<b>2,79,443</b>	<b>3,28,290</b>	<b>3,76,205</b>

E: MOFSL estimates

## Financials and valuations

<b>Ratios</b>	<b>(%)</b>								
<b>Y/E March</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Yield on loans	11.0	10.9	10.3	10.1	10.4	9.44	8.14	9.0	9.2
Cost of funds	9.0	8.4	7.6	7.6	7.6	6.35	5.25	6.0	6.4
Spread	1.9	2.5	2.7	2.5	2.8	3.1	2.9	3.0	2.9
Net Interest Margin	3.2	3.5	3.5	3.2	3.5	3.8	3.4	3.5	3.3
<b>Profitability Ratios (%)</b>									
RoE	19.0	22.5	21.3	18.2	19.1	19.2	16.6	17.3	16.6
RoA	1.6	2.0	2.0	1.7	1.9	2.1	1.9	1.9	1.8
C/I ratio	19.6	17.2	16.2	16.3	15.7	15.3	18.3	17.3	17.5
<b>Asset Quality (%)</b>									
Gross NPAs	198	279	675	1,135	1,571	2,019	1,706	2,318	2,916
Gross NPAs to Adv.	0.2	0.2	0.4	0.6	0.8	0.9	0.6	0.7	0.8
Net NPAs	0	0	316	795	1,118	1,343	807	1,089	1,429
Net NPAs to Adv.	0.0	0.0	0.2	0.4	0.5	0.6	0.3	0.4	0.4
PCR	100.0	100.0	53.2	30.0	28.8	33.5	52.7	53.0	51.0
<b>Valuation</b>									
Book Value (INR)	66	90	112	134	161	196	230	272	318
<b>Price-to-BV (x)</b>	<b>8.2</b>	<b>5.9</b>	<b>4.8</b>	<b>4.0</b>	<b>3.3</b>	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>1.7</b>
EPS (INR)	11.8	17.6	21.5	22.3	28.2	34.2	35.4	43.4	48.9
EPS Growth YoY	82.2	49.4	21.9	3.7	26.8	21.3	3.3	22.8	12.7
<b>Price-to-Earnings (x)</b>	<b>45.6</b>	<b>30.5</b>	<b>25.0</b>	<b>24.1</b>	<b>19.0</b>	<b>15.7</b>	<b>15.2</b>	<b>12.4</b>	<b>11.0</b>
Dividend per share (INR)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.2
<b>Dividend yield (%)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

E: MOFSL estimates

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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