

October 18, 2022

**RESULT REPORT Q2 FY23** | Sector: Financials

# CAN FIN Homes Limited

## An all-round healthy show

Can Fin delivered a 3%/5%/6% NII/PPOP/PBT beat aided by 1) healthy originations (up 30% qoq), 2) stabilized loan transfers (BT Out at ~Rs1.1bn; ann. portfolio run-off rate at 14%), 3) sustained back-book repricing (calculated PY improvement of 30bps qoq; reinstatement of discounts on 1st anniversary), 4) benign NPL trends (negligible net slippages) and 5) marginal credit cost (adjusted for migration to ECL provisioning).

### Strong growth outlook reiterated

Management retained 18% disbursement growth target for the year. In our view, the growth momentum should largely continue even amidst the MD & CEO transition given a) the organization has developed an inherent rigor for growth, b) the property markets remain buoyant both in terms of transactions and price trends (KTK & TL are two largest markets for Can Fin contributing 43-44% of portfolio), and c) Can Fin's relative pricing has become more competitive v/s larger banks and HFCs (rack rate and incr. yield difference has come down to 50-100 bps from >100 bps some months ago).

### Credit cost estimate lowered to 12-14 bps (from 20-24 bps)

Can Fin moved to ECL provisioning from IRAC provisioning in the current quarter, since ECL requirement was higher at Rs2.1bn v/s Rs2.05bn under IRAC. This shift led to provision release of Rs210mn on NPLs and higher provisions of Rs330mn on Std. Assets (incl. undisbursed line of credit). Adjusted for this one-time migration impact, the credit cost was marginal since net NPL addition was negligible. Restructured book stood at Rs6.5bn (Rs7.05bn with accrued interest), and the co. is carrying provisions of Rs670mn on it. The billing will start from December and management has lowered its expectation of slippages to 5% from 7% earlier. NPL recoveries of Rs490mn are expected in ensuing quarters, and thus GNPL is estimated to remain around 0.6%. Stage-2 assets excl. restructured loans stood at ~Rs11bn (3.5% of loans).

### NIM to stabilize after witnessing a significant decline in recent quarters

Incremental portfolio yield for the quarter was 9.02% (rack rate at 8.75%) and incremental CoF was 6.5%. No rate increase was taken in Q2 FY23 (rack rate was raised by 25 bps in June), but co. plans to hike rates in coming months to mitigate likely further increase in funding cost (CP & Bank Loans re-pricing). Can Fin had disbursed Rs52bn in H2 FY22 wherein discounts will get reinstated in H2 FY23. Management expects to sustain current Spread/NIM of 2.5%/3.5% in the near term.

### Estimate avg 1.9% RoA/17% RoE over FY22-24

We reinstate BUY rating on Can Fin (had put the stock under review post the development of MD & CEO's resignation) with a 12m PT of Rs640. We model a conservative disbursement/loan CAGR of 12%/16% over FY22-24 keeping a buffer for execution slippage/macro slowdown. Margins over longer run are expected to correct for continuously delivering above-industry growth. However, we still see Can Fin delivering avg 1.9% RoA/17% RoE over FY22-24 with an earnings CAGR of 18%. Investment risk-reward is attractive at current valuation of 1.7x FY24 P/ABV.

### Exhibit 1: Result table

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Operating Income	6,575	6,112	7.6	4,678	40.6
Interest expended	(4,010)	(3,561)	12.6	(2,708)	48.1
Net Interest Income	2,565	2,551	0.5	1,970	30.2
Operating expenses	(405)	(405)	0.0	(342)	18.3
PPOP	2,161	2,150	0.5	1,628	32.7
Provisions	(132)	37	(458.5)	62	(313.2)
PBT	2,028	2,187	(7.2)	1,690	20.0
Reported PAT	1,417	1,622	(12.6)	1,236	14.6

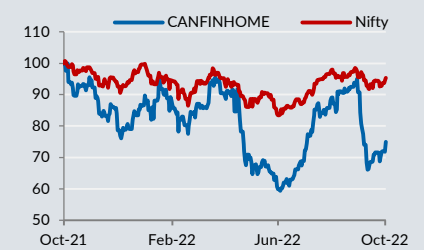
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 524
Target Price	: Rs 640
Potential Return	: 22.1%

### Stock data (as on Oct 18, 2022)

Nifty	17,487
52 Week h/l (Rs)	722 / 407
Market cap (Rs/USD mn)	69813 / 848
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	706
Div yield (%):	0.3
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

### Stock performance



	1M	3M	1Y
Absolute return	-17.4%	3.9%	-24.9%

### Shareholding pattern

Promoter	30.0%
FII+DII	24.8%
Others	45.2%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	UR
Target Price	640	-

### Δ in earnings estimates

	FY22	FY23e	FY24e
EPS (New)	35.4	41.7	49.1
EPS (Old)	35.4	37.3	43.6
% Change	-	11.8%	12.6%

### Financial Summary

(Rs mn)	FY22	FY23e	FY24e
Op. income	8,350	9,766	11,387
PPOP	6,820	8,045	9,425
Net profit	4,711	5,555	6,540
Growth (%)	3.3	17.9	17.7
EPS (Rs)	35.4	41.7	49.1
ABVPS (Rs)	224.2	257.8	303.2
P/E (x)	14.8	12.6	10.7
P/ABV (x)	2.3	2.0	1.7
ROE (%)	16.6	16.7	16.7
ROA (%)	1.9	1.8	1.9

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## KEY CON-CALL HIGHLIGHTS

### Disbursements & Loan Growth

- Overall good business momentum despite increased rates, inflation, and higher property prices - Salaried segment witnessing better growth than SENP.
- On an average 10-12% increase in property prices seen in some locations.
- Along with KTK (21-22% share), TL (21-22%) has been growing strongly - thus company has added branches in these states in recent months.
- Demand traction strong in both affordable and non-affordable segments and across locations (slower in Kerala and NCR).
- Plan to grow at 18-20% for next 3-4 years while keeping the risk fabric/parameters unaltered - not targeting any particular market share.
- While company would be start small-ticket developer finance, the overall share of this business would not cross 0.5% in next 2 years.
- Would be adding 10-15 branches per annum - new branches take 8-9 months to achieve break-even.
- Planning to raise equity capital before March, but not the full amount of Rs10bn.
- DSA share in originations at 79% (rest by own Branches) - no sourcing from Canara Bank.
- Head hunting agency has been appointed for hiring an external MD & CEO - appointment will likely happen before December (Deputy MD would oversee the company in the interim).
- Company also in the process of hiring (replacement) CRO and CFO, as the Board has decided to professionalize the senior management (hire from the market).

### NIM, Yield/CoF & Opex

- Will maintain Spread/NM of 2.5%/3.5% in the coming quarters - however, the Spread/NM would be 2.4%/3% in longer run while maintaining the current growth momentum.
- Incremental portfolio yield at 9.02% (rack rate starting from 8.75%) and Incremental CoF at 6.48% - no rate increase was taken in Q2, but there is a plan to hike in coming months.
- Borrowing mix will not change significantly in coming quarters - CP and Bank Funding share will not decline much from current levels - co would remain agnostic to the funding sources and would dynamically pursue the right mix at the right cost.
- Market borrowings cost is below 5% - deposits cost is higher than average CoF for the company.
- Unutilized bank lines at Rs39bn and another Rs10-15bn under finalization.
- Lower emp cost qoq due to lower AS 15 provisions (yield curve movement was sharp in previous quarter).

### Asset Quality & Credit Cost

- Net NPLs on like-to-like basis (under IRAC) declined qoq from 0.3% to 0.28%.
- Net slippages were Rs10mn in Q2 FY23 - Gross slippages were Rs120mn and Upgraded + Recoveries were Rs130mn.
- Full-year credit cost guidance lowered to 12-14 bps for FY23 (earlier 20-24 bps) - credit cost at 4 bps (annualized 16 bps) for the quarter - no write-off in past 2 years.
- Moved to ECL model provisioning from IRAC in the current quarter since ECL requirement was higher at Rs2.1bn v/s Rs2.05bn under IRAC - this shift led to provision release of Rs210mn on NPLs and higher provisions of Rs330mn on Std. Assets (incl. undisbursed line of credit) - going forward provisioning will be as per ECL model.
- O/s POS of restructured book at Rs6.5bn (Rs7.05bn with accrued interest) - Rs620mn closed/recovered from the original POS amount.

# CAN FIN Homes Limited

- Company is carrying Rs670mn provision on the restructured pool.
- Only Rs10mn NPL in the restructured portfolio - latest expectation is of about 5% slipping (Rs300-320mn) over time (earlier estimate was 7%) – billing will start from December onwards.
- Recoveries from Rs490mn worth of NPLs being pursued, and thus GNPLs would remain around 0.6% despite some slippages from restructured book.
- Stage-2 assets at Rs17.5bn (incl. the restructured pool).

## Exhibit 2: Business Data

(Rs mn)	Q2 FY23	Q1 FY23	% qoq	Q2 FY22	% yoy
Loan Book	288,230	275,380	4.7	235,850	22.2
Salaried	213,480	204,490	4.4	174,540	22.3
Housing	195,620	187,670	4.2	161,240	21.3
Top-up Personal	8,520	7,950	7.2	6,250	36.3
Mortgage/Flex LAP	7,290	6,870	6.1	5,250	38.9
Loans for sites	1,710	1,660	3.0	1,500	14.0
Others	340	340	-	300	13.3
Non-Salaried	74,540	70,680	5.5	61,120	22.0
Housing	62,280	59,170	5.3	51,710	20.4
Top-up Personal	3,360	3,060	9.8	2,580	30.2
Mortgage/Flex LAP	7,630	7,220	5.7	5,680	34.3
Loans for sites	710	660	7.6	610	16.4
Others	560	570	(1.8)	540	3.7
Staff Loans	210	210	-	180	16.7

Source: Company, YES Sec

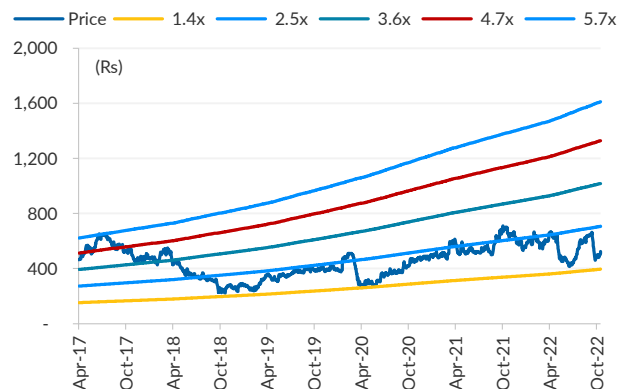
## Exhibit 3: Key Ratios

(%)	Q2 FY23	Q1 FY23	chg qoq	Q2 FY22	chg yoy
NIM	3.6	3.6	(0.1)	3.5	0.0
Yield	8.6	8.5	0.1	8.0	7.0
Cost of Funds	6.0	5.8	0.2	5.6	0.5
Spread	2.5	2.7	(0.2)	2.4	0.1
Cost to Income*	15.8	15.8	(0.1)	17.4	(1.6)
Gross NPA	0.6	0.7	(0.0)	0.8	(0.2)
Net NPA	0.4	0.3	0.1	0.5	(0.1)
PCR*	43.4	54.4	(11.0)	40.4	3.0
RoA	2.1	2.4	(0.3)	2.1	(0.0)
RoE	16.8	20.0	(3.2)	16.4	0.4

Source: Company, YES Sec; \*Calculated.

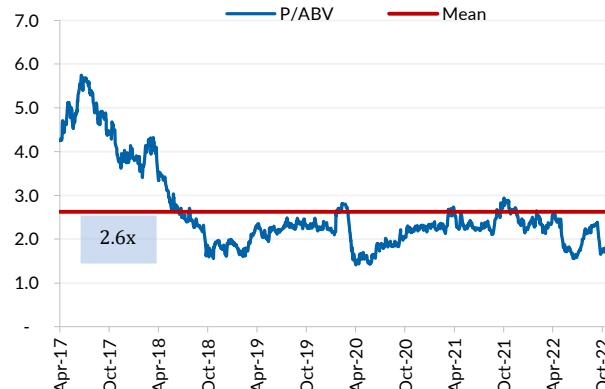
# CAN FIN Homes Limited

**Exhibit 4: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 6: Balance Sheet**

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
<b>Equity and Liabilities</b>					
Equity Capital	266	266	266	266	266
Other Equity	21,234	25,832	30,400	35,722	42,027
<b>Shareholder's funds</b>	<b>21,501</b>	<b>26,098</b>	<b>30,666</b>	<b>35,988</b>	<b>42,294</b>
<b>Financial Liabilities</b>	<b>188,114</b>	<b>193,480</b>	<b>248,311</b>	<b>288,031</b>	<b>335,547</b>
Trade payables	42	43	56	56	56
Debt Securities	38,096	48,915	60,720	70,435	82,057
Borrowings (excl. debt securities)	145,309	138,562	179,818	208,589	243,007
Deposits	3,051	4,425	4,911	5,697	6,636
Other Financial Liabilities	1,616	1,535	2,806	3,255	3,792
<b>Non-Financial Liabilities</b>	<b>821</b>	<b>1,159</b>	<b>467</b>	<b>513</b>	<b>565</b>
Provisions	662	1,023	255	280	308
Other non-financial liabilities	159	137	212	233	257
<b>Total Liabilities + Equity</b>	<b>210,436</b>	<b>220,737</b>	<b>279,443</b>	<b>324,533</b>	<b>378,406</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>209,457</b>	<b>219,670</b>	<b>278,352</b>	<b>323,365</b>	<b>377,156</b>
Cash and Cash Equivalents	3,723	8	27	661	2,051
Bank balances	201	208	3,214	2,250	1,000
Receivables	3	7	11	11	11
Loans	205,257	218,915	263,781	308,556	360,070
Investments	243	496	11,260	11,823	13,951
Other Financial Assets	30	37	59	65	72
<b>Non- Financial Assets</b>	<b>979</b>	<b>1,067</b>	<b>1,092</b>	<b>1,167</b>	<b>1,250</b>
Current tax assets (Net)	240	183	230	264	304
Deferred tax assets (Net)	339	455	477	501	526
Property, Plant and Equipment	379	378	346	364	382
Other Non-Financial Assets	20	51	38	38	38
<b>Total Assets</b>	<b>210,436</b>	<b>220,737</b>	<b>279,443</b>	<b>324,533</b>	<b>378,406</b>

Source: Company, YES Sec

## Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Income from Operations	20,304	20,181	19,878	25,263	30,868
Interest expense	(13,442)	(12,083)	(11,535)	(15,507)	(19,494)
<b>Net interest income</b>	<b>6,862</b>	<b>8,098</b>	<b>8,343</b>	<b>9,756</b>	<b>11,374</b>
Non-interest income	0	3	7	10	13
Total operating income	6,862	8,101	8,350	9,766	11,387
Total operating expenses	(1,076)	(1,240)	(1,530)	(1,721)	(1,962)
<b>PPoP</b>	<b>5,786</b>	<b>6,861</b>	<b>6,820</b>	<b>8,045</b>	<b>9,425</b>
Provisions	(603)	(685)	(469)	(435)	(609)
<b>Profit before tax</b>	<b>5,183</b>	<b>6,176</b>	<b>6,351</b>	<b>7,610</b>	<b>8,815</b>
Taxes	(1,422)	(1,615)	(1,640)	(2,055)	(2,276)
<b>Net profit</b>	<b>3,761</b>	<b>4,561</b>	<b>4,711</b>	<b>5,555</b>	<b>6,540</b>

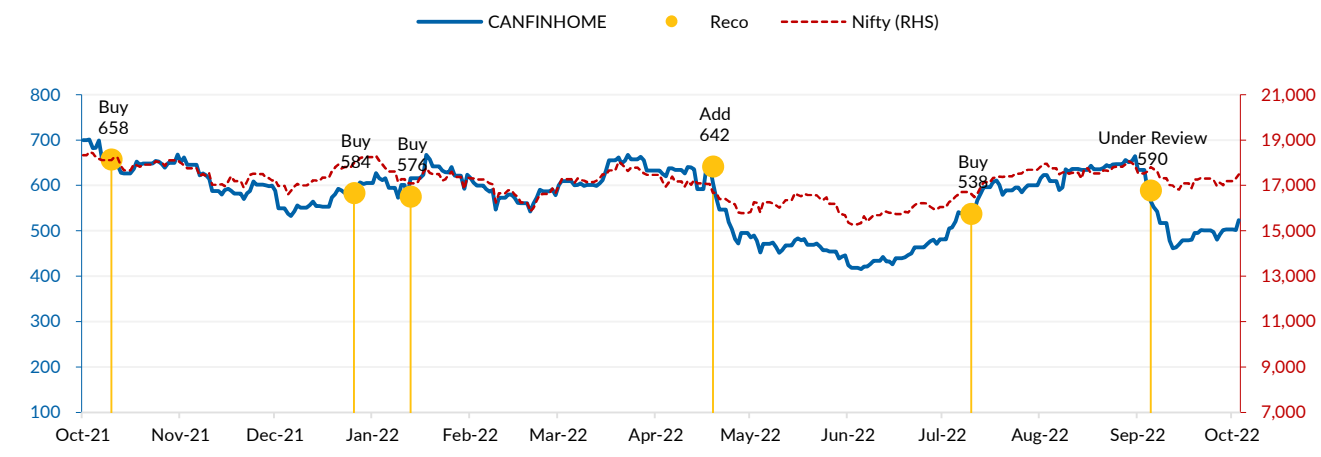
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	23.0	18.0	3.0	16.9	16.6
Total op income	22.1	18.0	3.1	17.0	16.6
Op profit (pre-provision)	23.0	18.6	(0.6)	18.0	17.2
Net profit	26.8	21.3	3.3	17.9	17.7
Advances	12.6	6.7	20.5	17.0	16.7
Total Borrowings	33.5	(4.6)	29.8	16.0	16.5
Total assets	12.4	4.9	26.6	16.1	16.6
<b>Profitability Ratios (%)</b>					
NIM	3.5	3.8	3.4	3.4	3.4
Return on Avg. Equity	19.1	19.2	16.6	16.7	16.7
Return on Avg. Assets	1.9	2.1	1.9	1.8	1.9
<b>Per share ratios (Rs)</b>					
EPS	28.2	34.2	35.4	41.7	49.1
Adj. BVPS	153.1	185.9	224.2	257.8	303.2
DPS	2.0	2.0	1.5	1.5	1.5
<b>Other key ratios (%)</b>					
Loans/ (Borr. + Dep.+Debt)	110.1	114.1	107.5	108.4	108.6
Cost/Income	15.7	15.3	18.3	17.6	17.2
Gross NPLs/Loans	0.8	0.9	0.6	0.8	0.8
Credit Cost	0.3	0.3	0.2	0.2	0.2
Net NPLs/Net loans	0.5	0.6	0.3	0.5	0.5
Tax rate	27.4	26.2	25.8	27.0	25.8
Dividend yield	0.4	0.4	0.3	0.3	0.3

Source: Company, YES Sec

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

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