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Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Can Fin Homes Ltd

Mixed bag Q2

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: **Rs. 525**	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 Aug 08, 2022

High Risk

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

Source: Morningstar

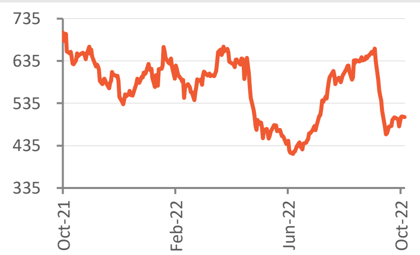
Company details

Market cap:	Rs. 6,987 cr
52-week high/low:	Rs. 721 / 408
NSE volume: (No of shares)	13.4 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	-
DII	24.8
Others	45.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.3	3.8	-16.1	-25.2
Relative to Sensex	-15.0	-6.6	-17.2	-21.4

Sharekhan Research, Bloomberg

Summary

- Can Fin Homes reported a PAT of Rs. 142 crore (up 14.6% y-o-y/ down 12.6% q-o-q) 9% below our estimates mainly due to lower margins, higher standard assets provisioning and a higher tax rate (30% versus our estimates of 26%).
- Loan growth was strong, and it grew by ~22.2% y-o-y and 4.7% q-o-q. Disbursements grew by 1.7% y-o-y / 30.4% q-o-q. NII grew by 31.0% y-o-y but sequentially it remained flat q-o-q mainly due to a q-o-q decline in NIMs (cal. as % of Avg. loans) by 12 bps reported at 3.57% in Q2FY23. Operating Profits (PPoP) grew by 32.6% y-o-y/ 0.5% q-o-q.
- GNPA ratio improved sequentially to 0.62% versus 0.65% in Q1FY23 while NNPA ratio increased to 0.35% vs 0.30% in Q1FY23 and PCR declined to ~43% vs 54% in Q1FY23 as there was a plough back of excess provisions from the NPA bucket to standard assets provision bucket.
- At the CMP, the stock trades at 1.9x/1.6x of FY2023E and FY2024E BV. We maintain Buy rating on the stock with a an unchanged PT of Rs. 670.

Can Fin Homes Limited (CHFL) reported mixed performance in Q2FY23. Despite strong loan growth & disbursements sequentially, Operational performance remained muted sequentially. Net interest income (NII) grew by 31% y-o-y / flat q-o-q. NIMs (calculated as a percentage of avg. loans) declined by 12 bps q-o-q reported at 3.57% in Q2FY23. The yield on average loans (cal.) increased by 31 bps q-o-q while Cost of Funds (cal.) increased by 46 bps q-o-q. Operating expenses rose by ~18% y-o-y / flat q-o-q. Pre-provisioning operating profits (PPoP) grew by 32.6% y-o-y/ 0.5% q-o-q. Total provisions reported at Rs. 13.2 crore, which included provisions on standard assets of ~ Rs. 33.6 crore and there were write back of NPA provisions of ~Rs. 20.3 crore. As per the ECL model, provisioning on standard assets was lower as compared to the requirement, so there were additional provisions made on standard assets and some plough-back of excess provisions from NPA bucket to standard assets provision bucket was done to meet the ECL model requirement. PBT grew by 20% y-o-y however was down by 7% q-o-q due to higher provisions and muted growth in PPoP sequentially. Tax expenses were higher as excess provisions created on account of NPA were reversed. Thus PAT grew by 14.6% y-o-y but was down 12.6% q-o-q. Loan growth was strong, its loan book grew by ~22.2% y-o-y and 4.7% q-o-q. Disbursements grew by 1.7% y-o-y / 30.4% q-o-q. GNPA improved sequentially to 0.62% vs 0.65% in Q1FY23 while NNPA increased to 0.35% vs 0.30% in Q1FY23 and PCR declined to ~43% vs 54% in Q1FY23 as there was a plough-back of excess provisions from NPA bucket to standard assets provision bucket.

Key positives

- Loan growth was strong at ~22% y-o-y / 5% q-o-q along with a healthy momentum in disbursements.
- Core credit costs remained benign at 0.04% in Q2FY23.

Key negatives

- NIMs (cal.) declined by 12 bps q-o-q.
- PCR on NPA declined to ~43% vs 54% in Q1FY23 as there was a plough-back of excess provisions from NPA bucket to standard assets provision bucket.

Management Commentary

- Can Fin Homes guided for ~2.5% spreads and ~3.5% NIMs over the next few quarters.
- Can Fin Homes expect to sustain superior asset quality going ahead with credit cost guidance at 12-14 bps on higher end for full year.
- New MD & CEO expected to join by Q3FY23-end. Company also in process of hiring CRO and CFO.

Our Call

Valuation – We maintain Buy with an unchanged PT of Rs. 670.

Currently, at the CMP, the stock trades at 1.9x/1.6x its FY2023E and FY2024E BV. The company is one of the best plays in affordable housing finance segment with pristine asset quality and superior underwriting practices. It navigated the stiff competition from banks and is moving towards strong growth trajectory. Can Fin Homes also enjoys strong parentage and superior credit ratings, which enables it to raise funds at lower costs. We expect Can Fin Homes to deliver RoE of ~ 17% over FY22-24E. In addition, we believe that the management is cognisant of hiring a professional from private sector as its MD & CEO, which can remove a big overhang on the stock.

Key Risks

Economic slowdown may impact its growth trajectory and may lead to deterioration in asset quality. Spread may further contract given competition from banks in home loans segment.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	816	1,033	1,210	1,428
Net profit	471	609	682	820
EPS (Rs)	35.4	45.7	51.2	61.6
P/E (x)	14.8	11.5	10.3	8.5
P/BV (x)	2.3	1.9	1.6	1.4
RoA	1.9	2.0	1.8	1.9
RoE	16.6	18.1	17.1	17.4

Source: Company; Sharekhan estimates

Key result highlights

- **Strong loan growth witnessed:** Loan book grew by ~22% y-o-y and 4.7% q-o-q. Disbursements were up 1.7% y-o-y/ 30.4% q-o-q. Repayment/ prepayment rate remained stable at ~13.9% of the opening loan book versus 13.4% in the past quarter. Salaried & professionals (SAP) form 74% of the AUM mix in Q2FY23. Housing loans contribute 89.5% to AUM in Q2FY2023. Can Fin Homes has again embarked on a strong loan growth trajectory which is likely to sustain given strong sector tailwinds and improved demand environment despite competition from banks.
- **Asset Quality Pristine:** Asset quality remained stable with a GNPA ratio of 0.62% vs 0.65% in Q1FY23. However, while NNPA ratio increased to 0.35% vs 0.30% in Q1FY23, and PCR declined to ~43% vs 54% in Q1FY23 as there was a plough back of excess provisions from NPA bucket to standard assets provision bucket. As per the ECL model, provisioning on standard assets was lower as compared to the requirement so there were additional provisions made on standard assets, thus total provisions were higher coupled with some plough-back of excess provisions from NPA buckets to standard assets provision bucket was done to meet the ECL model requirement. Core credit cost was reported at 0.04% in Q2FY23. Gross stage 2 assets stood at Rs. 1,050 crore. Net slippages were negative at Rs. 1 crore during the quarter. There were write offs also. Its restructured book stood at Rs. 647 crore vs Rs. 709 crore in last quarter however including interest component restructured book stood at Rs. 705 crore. It expects that 5% of restructured book could fall into NPA around ~Rs.32 crore.
- **Guidance:** Can Fin Homes has guided for 2.4% spreads and 3.0% NIMs over the long term however in near to medium-term NIMs to be around ~ 3.5% & spreads at ~2.5%. Credit cost expected to be 0.12% to 0.14% on higher end for the full year. In addition, it do not foresee any major change in borrowing mix in next couple of quarters.
- **Others:** New MD & CEO expected to join by Q3FY23 end. Company is also in the process of hiring a CRO & CFO.

Results (Standalone) Rs cr

Particulars	Q2FY22	Q1FY23	Q2FY23	Y-o-Y %	Q-o-Q %
Income statement	**Sep-21**	**Jun-22**	**Sep-22**		
Interest income	462.6	606.5	652.2	41.0	7.5
Interest expenses	270.8	356.1	401.0	48.1	12.6
Net interest income	**191.8**	**250.4**	**251.2**	**31.0**	**0.3**
Fee and other income	5.3	5.1	5.4	1.9	6.0
Net Income	**197.1**	**255.5**	**256.6**	**30.2**	**0.4**
Employee expenses	18.9	22.0	17.9	(5.3)	(18.9)
Depreciation and amortization	2.5	2.2	3.4	35.1	57.3
Fees and Commission expenses	6.5	5.5	7.3	11.6	31.9
Other operating expenses	6.3	10.8	11.9	88.9	10.8
Total Operating Expense	**34.2**	**40.5**	**40.5**	**18.3**	**0.0**
Pre-provisioning profit (PPoP)	**162.8**	**215.0**	**216.1**	**32.7**	**0.5**
Provisions	-6.2	-3.7	13.2	(313.2)	(458.5)
PBT	**169.0**	**218.7**	**202.8**	**20.0**	**(7.2)**
Tax expense	45.4	56.5	61.1	34.6	8.3
PAT	**123.6**	**162.2**	**141.7**	**14.6**	**(12.6)**
EPS (Rs)	**9.3**	**12.2**	**10.6**	**14.6**	**(12.7)**

Source: Company; Sharekhan Research

Key ratios	Q2FY22	Q1FY23	Q2FY23	Y-o-Y %	Q-o-Q %
	Sep-21	Jun-22	Sep-22		
AUMs	**23,584**	**27,538**	**28,823**	**22.2**	**4.7**
-Salaried & Professionals	17,454	20,449	21,348	22.3	4.4
-Non-Salaried	6,112	7,068	7,454	22.0	5.5
-Housing Loans	21,295	24,684	25,790	21.1	4.5
-Top-up personal loans	883	1,101	1,188	34.5	7.9
-Mortgage Loans/Flexi LAP	1,093	1,409	1,492	36.5	5.9
Disbursements	**2,208**	**1,722**	**2,245**	**1.7**	**30.4**
AUM/branch [Reported] (Rs mn)	1,134	1,134	1,438	26.8	26.8
Yields on loans (%) [Quarterly-calculated]	8.1	8.9	9.3	117 bps	31 bps
Borrowing costs (%) [Quarterly-calculated]	5.4	5.7	6.2	77 bps	46 bps
Spreads (%) [Quarterly-calculated]	2.7	3.2	3.1	40 bps	-16 bps
NIM (%) [Quarterly-reported]	**3.4**	**3.6**	**3.6**	**15 bps**	**-6 bps**
Op cost as % of avg loan-book	**0.6**	**0.6**	**0.6**	**-3 bps**	**-3 bps**
Cost to income (%)	17.4	15.8	15.8	-160 bps	-7 bps
GNPA (%)	**0.78**	**0.65**	**0.62**	**-17 bps**	**-4 bps**
NNPA (%)	**0.47**	**0.30**	**0.35**	**-12 bps**	**5 bps**
Provision coverage ratio (%)	**40.4**	**54.4**	**43.4**	**298 bps**	**-1104 bps**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Housing demand remains robust

With rapid urbanisation, improved affordability and supportive government incentives for the affordable housing segment, we expect housing finance companies to grow exponentially going ahead, especially the affordable housing segment. About 66% of India's population aged below 35 years and ~32% of the population resides in cities currently, which is estimated to grow to 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.

■ Company Outlook – Strong Franchise

Can Fin Homes commands a premium valuation vis-à-vis its peers due to: 1) its ability to deliver superior returns ratios metrics; 2) Superior growth; 3) its asset quality continues to be best in class among its peers with Stage-3 assets at 0.62% and NNPA ratio at 0.35% in Q2FY2023; and 4) additionally, with the strong parentage, CFHL enjoys low funding cost and enables it to raise funds through diversified sources at competitive rates.

■ Valuation – We maintain Buy with an unchanged PT of Rs. 670

Currently, at the CMP, the stock trades at 1.9x/1.6x its FY2023E and FY2024E BV. The company is one of the best plays in affordable housing finance segment with pristine asset quality and superior underwriting practices. It navigated the stiff competition from banks and is moving towards strong growth trajectory. Can Fin Homes also enjoys strong parentage and superior credit rating, which enables it to raise funds at lower costs. We expect Can Fin Homes to deliver RoE of ~ 17% over FY22-24E. In addition,we believe management is cognisant of hiring a professional from private sector as its MD & CEO, which can remove a big overhang on the stock.

Peer Comparison

Particulars	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Can Fin Homes	525	6,987	11.5	10.3	1.9	1.6	18.1	17.1	2.0	1.8
LIC Housing Finance	415	22,844	5.9	4.8	0.8	0.7	14.6	15.8	1.4	1.5

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 171 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 tailwinds going ahead. Favorable government policies and strong operating environment likely to provide impetus to the sector's growth. 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.

Key Risks

Economic slowdown may impact its growth trajectory and may lead to deterioration in asset quality. Spread may further contract given competition from banks in home loans segment.

Additional Data

Key management personnel

Mr. Girish Kousgi	MD & CEO (vacate office from 20th Oct 2022)
Mr. Amitabh Chatterjee	Deputy MD
Mr. Prashanth Joishy	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	CANARA BANK	29.99
2	CHHATTISGARH INVESTMENTS LTD	6.49
3	PGIM INDIA ASSET MANAGEMENT PVT LTD	3.85
4	AXIS ASSET MANAGEMENT CO LTD	3.11
5	VANGUARD GROUP INC	2.63
6	SUNDARAM ASSET MANAGEMENT CO LTD	2.48
7	DSP INVESTMENT MANAGERS PVT LTD	2.42
8	UTI ASSET MANAGEMENT CO LTD	2.31
9	L&T MUTUAL FUND TRUSTEE LTD	2.00
10	INVESCO ASSET MANAGEMENT INDIA PVT LTD	1.92

Source: Bloomberg

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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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