

October 19, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	700		675	
NII (Rs.)	11,480	13,699	11,306	13,205
% Chng.	1.5	3.7		
PPoP (Rs.)	9,654	11,518	9,401	10,933
% Chng.	2.7	5.4		
EPS (Rs.)	48.4	58.0	47.1	54.7
% Chng.	2.9	6.1		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	8,162	9,655	11,480	13,699
Growth (%)	2.3	18.3	18.9	19.3
Op. Profit (Rs m)	6,820	8,122	9,654	11,518
PAT (Rs m)	4,711	5,653	6,448	7,728
EPS (Rs.)	35.4	42.4	48.4	58.0
Gr. (%)	3.3	20.0	14.1	19.8
DPS (Rs.)	3.5	2.1	2.9	3.5
Yield (%)	0.7	0.4	0.6	0.7
Margin (%)	3.2	3.1	3.1	3.2
RoAE (%)	16.6	16.9	16.5	16.9
RoAA (%)	1.9	1.8	1.8	1.8
PE (x)	14.8	12.4	10.8	9.0
P/BV (x)	2.3	1.9	1.7	1.4
P/ABV (x)	2.3	2.0	1.7	1.5

Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.722 / Rs.407
Sensex / Nifty	58,961 / 17,487
Market Cap	Rs.70bn / \$ 848m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.1013.45m

Shareholding Pattern (%)

Promoter's	29.99
Foreign	-
Domestic Institution	24.69
Public & Others	45.32
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.4)	(16.3)	(25.3)
Relative	(17.6)	(18.8)	(21.7)

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Medium term story intact

Quick Pointers:

- Earnings miss owing higher CoF but disbursal/AuM trend was healthy.
- Asset quality remains best-in-class; hiring of senior management a key.

Canfin reported a mixed quarter as AuM growth was a beat although earnings were a miss driven by lower NIM and higher tax rate. Stronger disbursements and controlled repayments were positives. Company guided to disbursal and AuM growth of 18-20% while salaried share could reduce to 70% in medium term. Builder portfolio may reach only 0.5% over 3 years. On liabilities, CP share reduced and target is to focus on deposits over long term. Current MD's tenure would end on 20th Oct and DMD would take charge in the interim. New MD may be appointed by CY22 end. Hiring for CFO/CRO is also in process. While recruiting senior management would be a key, Canfin's medium term story is intact and we do not foresee operational challenges. We upgrade earnings for FY23/24E by 5%/3% and with likely RoE of 16.5-17.0% over FY22-25E, valuation at 1.6x is attractive. Rolling forward to Sep'24 ABV, we trim our multiple from 2.3x to 2.1x but raise TP from Rs675 to Rs700. Retain BUY.

- PAT miss led by lower NII and higher tax:** NII was a miss at Rs2.5bn (PLe Rs2.6bn) due to lower NIM as AuM growth was higher. NIM was a miss at 3.83% (PLe 4.0%). Disbursements improved QoQ to Rs22.5bn (PLe Rs18bn) while repayments were steady at Rs9.6bn leading to stronger AuM growth of 22.2% YoY (PLe 20%). Opex was a tad lower and flat at Rs405mn owing to softer staff cost. PPoP was a slight miss at Rs2.16bn (PLe Rs2.24bn). Provisions were Rs132mn (PLe Rs150mn) although PCR declined QoQ from 54.4% to 43.4%. GNPA/NNPA at 0.62%/0.35% was largely stable sequentially. PAT was lower at Rs1.4bn (PLe Rs1.5bn) mainly led by higher tax rate.
- Credit offtake better:** Credit flow was largely led by salaried housing (+21.3% YoY, 68% share). Balance transfers have normalized as indicated by controlled repayments. Management guided to disbursal and AuM growth of 18-20% due to strong demand, despite of rise in construction costs. We envisage a loan CAGR of ~17% over FY22-25E. Salaried to non-salaried mix in medium term could be 70:30 from 74:26 now. Strategy would be to grow builder book only to 0.5% over a period of 3 years. On liabilities, CP borrowing reduced on account of higher CP rates and borrowing mix may not change materially. Over longer term, company is keen on increasing its deposit base, however the same is not feasible in near term due to higher than average borrowing cost.
- NIM decline priced in; asset quality stable. MD's term to end by 20th Oct.:** Company expects CoF to rise by another 35-40bps while NIM/spread in near term could be close to 3.5%/2.5%. Asset quality was stable with a reduction of Rs0.65bn in OTR pool to Rs6.3bn (coverage of 10%) and management expects 5% slippage from OTR to NPA. PCR reduced QoQ due to transition to ECL based provisions that saw transfer of Rs0.2bn NPA provision to standard assets. On succession the tenure of Mr. Kousgi would end on 20th Oct'22 and new CEO might join by CY22 end. In the interim, operations would be handled by DMD. Hiring for CFO & CRO is also in process.

Exhibit 1: Higher interest expense, lead to earnings miss

NII growth was 31% YoY was flat QoQ led by higher interest expense.

Other income remained flat YoY

Opex has been relatively elevated due to higher other expenses.

Provision creation as per ECL Method.

Disbursements improved, leading to higher AUM growth

NIMs decline QoQ, led by higher CoF.

Asset Quality steady; PCR declined to 43%

Financial Statement (Rs mn)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Interest Income	6,522	4,626	41.0	6,065	7.5
Interest Expense	4,010	2,708	48.1	3,561	12.6
Net interest income (NII)	2,512	1,918	31.0	2,504	0.3
Other income	54	53	1.9	51	6.0
Total income	2,566	1,971	30.2	2,555	0.4
Operating expenses	405	342	18.3	405	0.0
Operating profit	2,161	1,628	32.7	2,150	0.5
Total provisions	132	(62)	NA	(37)	NA
Profit before tax	2,028	1,690	20.0	2,187	(7.2)
Tax	611	454	34.6	565	8.3
Profit after tax	1,417	1,236	14.6	1,622	(12.6)
AUM (Rs mn)	288,229	235,840	22.2	275,380	4.7
Disbursements (Rs mn)	22,450	22,080	1.7	17,220	30.4
Profitability ratios					
NIM	3.6	3.4	15	4.0	(48)
RoAA	2.1	2.1	(1)	2.4	(34)
RoAE	16.8	16.4	39	20.0	(321)
Asset Quality ratios					
Gross NPL (Rs m)	1,787	1,851	(3.5)	1,798	(0.6)
Net NPL (Rs m)	1,012	1,103	(8.3)	819	23.5
Gross NPL ratio	0.6	0.8	(16)	0.7	(3)
Net NPL ratio	0.4	0.5	(12)	0.3	5
Coverage ratio	43.4	40.4	299	54.4	NA
Business & Other Ratios					
Yield on Loans (%)	8.6	8.0	56	8.5	9
Cost of Borrowings (%)	6.0	5.6	47	5.8	24
Spread (%)	2.5	2.4	9	2.7	(15)
Cost/Income Ratio	15.8	17.0	(119)	15.8	(6)

Source: Company, PL

Exhibit 2: Loan Mix – Demand continues to be strong

AUM Book Details (Rs mn)	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)
Housing Loans	257,900	212,950	21.1	246,840	4.5
Top-up Personal	14,920	10,810	38.0	14,090	5.9
Mortgage Loans/Flexilap	11,880	8,830	34.5	11,010	7.9
Loans for Sites	2,420	2,190	10.5	2,320	4.3
Others	900	900	-	910	(1.1)
Staff Loans	210	180	16.7	210	-
Builder Loans	-	60	NA	-	-

Source: Company, PL

Q2FY23 Concall Highlights

Assets/Liabilities

- Disbursements were strong during the quarter at Rs.22.4bn, however repayments were steady at Rs9.6bn leading to an AUM growth of 22.2% YoY/4.7% QoQ. For FY23, the management guides for AUM growth of 18% aided by strong demand in the sector despite headwinds of cost inflation. Strategy would be to grow builder book to 0.5% over a period of 3 years.
- AUM growth has been driven from the salaried housing segment, strong demand continues while for self-employed housing would take about 2-3 quarters for incremental share of salaried: self-employed to be 70:30. Premium segment demand is slower as compared to affordable housing. Karnataka & Telangana contribute 40-42% to the total AUM.
- On the borrowing side, CP borrowing reduced on account of higher CP rates. Going forward, there would not be any material change in the borrowing mix
- Over the longer term, management is keen on increasing the deposit base, however in the near term the same is not feasible as the cost is higher than average borrowing cost. Market borrowings are currently available <5%.

Fees/NIMs/Branches

- NIM came to 3.55% declining by 20bps sequentially. Spreads/NIM in the near term would be in the range of 3.5%/2.5%, however the same would stabilize at 3%/2.4%. Incremental yields were 9.02% while CoF was 6.48%, management expects the cost to go up further by 35-40bps. The company raised rates in Q1, there would be marginal hike in rates in Q3 as well.
- 12-15 branches would be opened during the year; new branches would take 8-9 months to breakup.

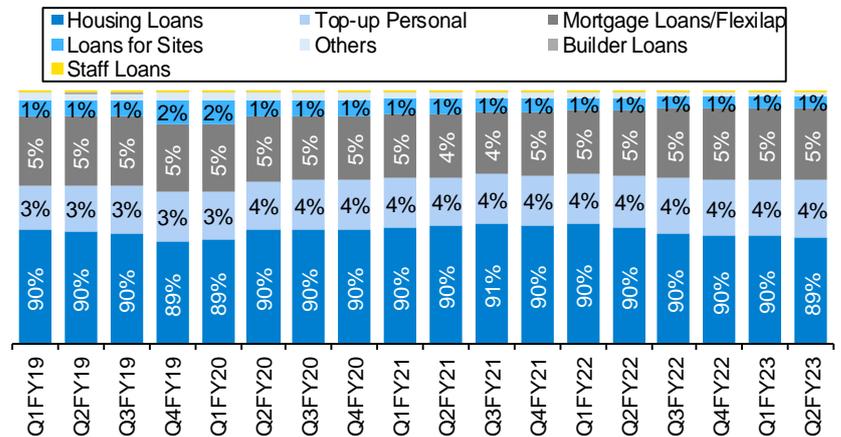
Asset Quality

- GNPA's would be maintained at similar levels of 0.62-0.65%. For the year, management has planned recovery of Rs. 0.5bn from the existing pool. Credit Cost guidance for FY23 would 0.1-0.14%. Gross Stage 2 assets are Rs10.5bn against which provisions of Rs0.6bn exist.
- **Restructuring:** Restructuring book stood at Rs.7bn (incl. of interest accrual) (Rs.6.5bn excl. interest accrual) vs Rs.6.9bn in Q1FY23. Out of this book, Rs0.6bn has been closed so far. Provisions of Rs. 0.67bn are O/s on the OTR pool. Management expects slippages of 5% from the book. Slippages are Rs0.01bn, by the end of the year entire book would be moratorium.
- The company has provided as per ECL method as it was higher compared to IRAC norms. There was withdrawal of provision on NPA of Rs0.2bn and creation of standard asset provision of Rs.0.3bn. Going forward, provisioning would be done as ECL model.

Others

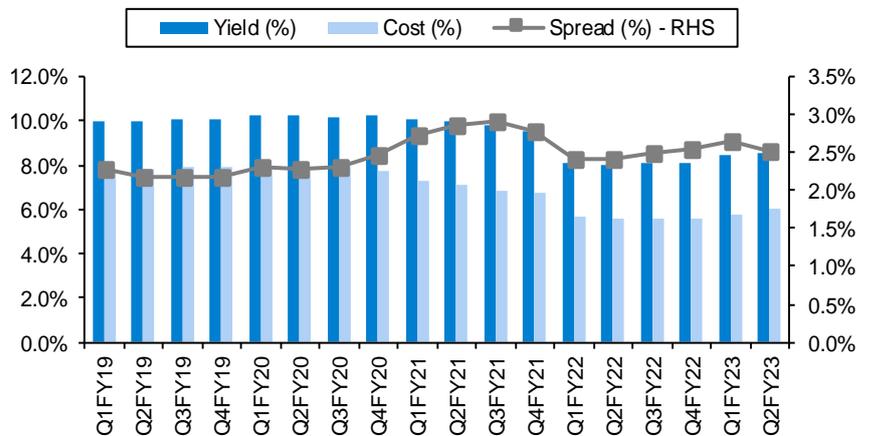
- Hiring of Top management** – CEO is expected to join by end of Q3. Hiring for CFO & CRO is in the process. In the interim, operations would be maintained by DMD. The existing CFO & CRO would remain in the organization.

Exhibit 3: Loan Book continues to remain dominated by Housing



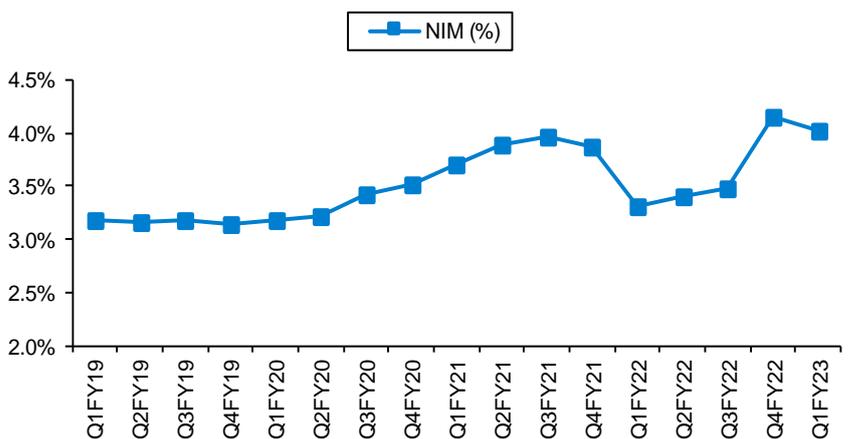
Source: Company, PL Research

Exhibit 4: Spreads see marginal decline as cost goes up faster



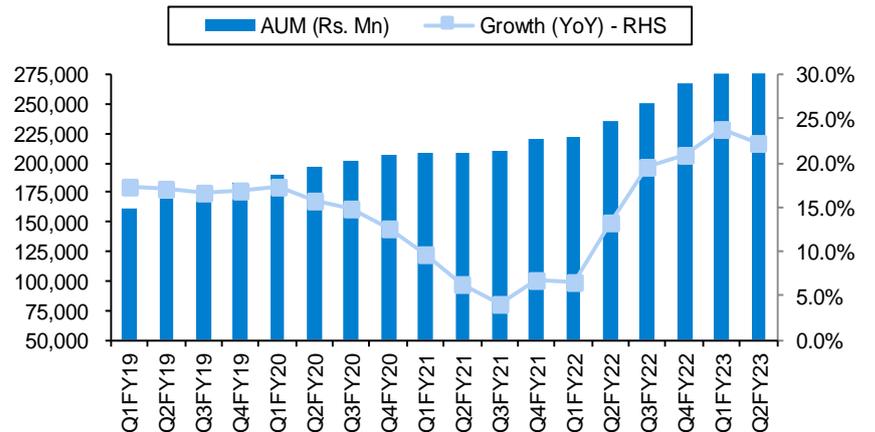
Source: Company, PL Research

Exhibit 5: NIM impacted on higher cost of funds



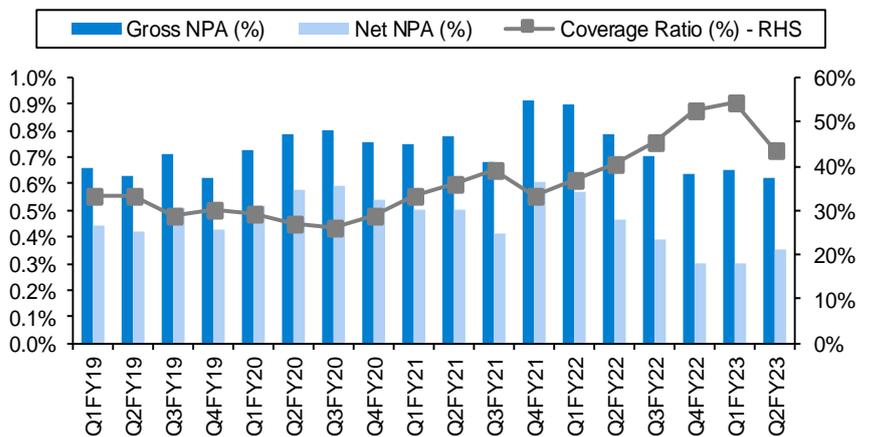
Source: Company, PL

Exhibit 6: AUM growth was higher led by better disbursals



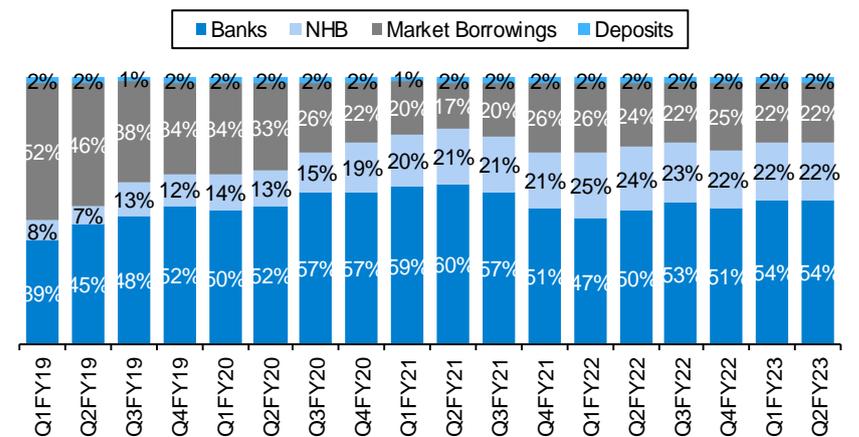
Source: Company, PL

Exhibit 7: Asset Quality sees marginal blip, PCR down sequentially



Source: Company, PL

Exhibit 8: Borrowing mix mainly from Banks and NHB refinance



Source: Company, PL Research

Exhibit 9: ROEs to improve on lower provision

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	10.3	9.9	10.1	9.3	7.8	8.8	9.8	10.3
Interest expenses	6.8	6.8	6.7	5.6	4.6	5.7	6.7	7.1
Net interest income	3.5	3.2	3.4	3.7	3.2	3.1	3.1	3.2
Other Inc. from operations	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total income	3.7	3.3	3.4	3.7	3.3	3.2	3.2	3.2
Employee expenses	0.6	0.5	0.5	0.6	0.6	0.3	0.3	0.3
Other operating expenses	0.3	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Operating profit	0.2	0.2	0.2	0.2	0.2	2.6	2.6	2.7
Tax	1.0	1.0	0.7	0.7	0.7	0.7	0.6	0.6
Loan loss provisions	0.2	0.0	0.3	0.3	0.2	0.12	0.3	0.2
RoAA	2.0	1.7	1.9	2.1	1.9	1.8	1.8	1.8
RoAE	21.3	18.2	19.1	19.2	16.6	16.9	16.5	16.9

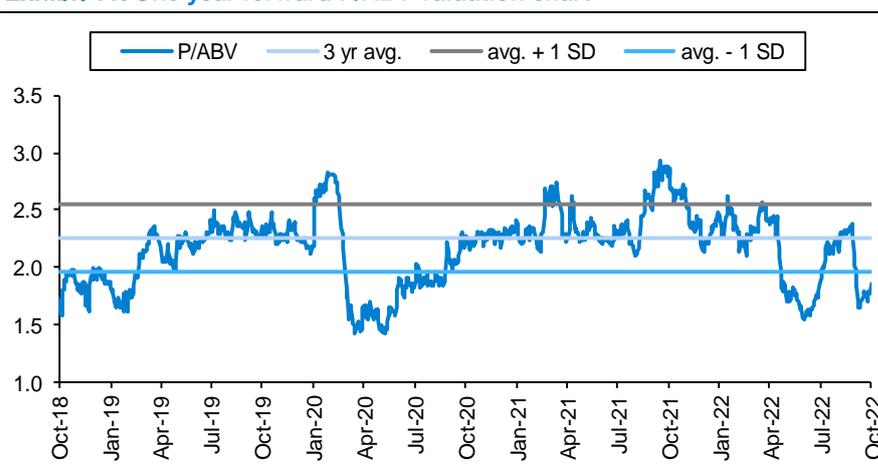
Source: Company, PL Research

Exhibit 10: We slightly tweak estimates and credit cost assumptions

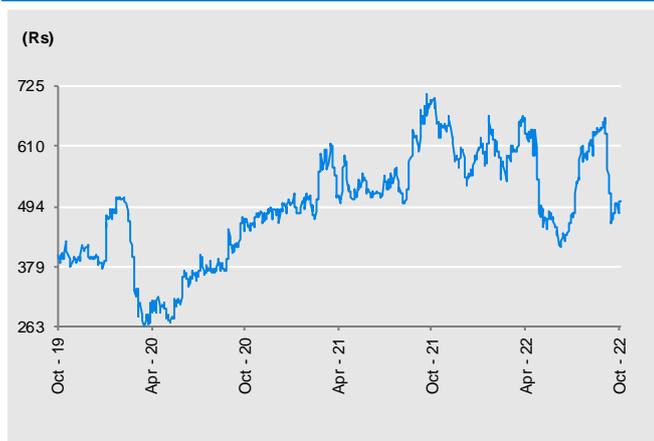
Estimates Change Table Rs (mn)	Old		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	9,505	11,306	9,655	11,480	1.6	1.5
Operating profit	7,910	9,401	8,122	9,654	2.7	2.7
Net profit	5,365	6,268	5,653	6,448		2.9
Loan Growth (%)	17.1	16.8	18.0	17.3	0.9	0.5
Credit Cost (bps)	22.4	27.1	12.9	27.1	(9.5)	0.0
EPS, Rs.	40.3	47.1	42.4	48.4	5.4	2.9
ABV per share, Rs.	258.5	299.7	261.4	304.2	1.1	1.5
Price target, Rs.	675		700		3.7	
Recommendation	BUY		BUY			

Source: Company, PL

Exhibit 11: One year forward P/ABV valuation chart



Source: Company, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-22	BUY	675	497
2	23-Jul-22	BUY	675	538
3	08-Jul-22	BUY	800	463
4	03-May-22	BUY	800	642
5	09-Apr-22	BUY	800	661

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	2,300	2,197
2	Axis Bank	BUY	940	743
3	Bank of Baroda	Accumulate	130	133
4	Can Fin Homes	BUY	675	497
5	City Union Bank	BUY	190	173
6	DCB Bank	BUY	120	103
7	Federal Bank	BUY	165	130
8	HDFC	BUY	2,900	2,349
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	950	868
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,300	1,217
13	Kotak Mahindra Bank	Accumulate	1,950	1,823
14	LIC Housing Finance	BUY	450	418
15	Punjab National Bank	BUY	50	36
16	State Bank of India	BUY	650	533

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
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