Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Can Fin Homes

Appointment of New MD/CEO in advanced stage

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: Rs. 530 / Price Target: Rs. 670 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We believe Can Fin Homes could outperform in the near term as and when the announcement of its new MD/CEO happens.
- The company has shared that identification of the new MD/CEO is in an advanced stage. The new MD/CEO is likely from the housing finance sector and the announcement would be made before FY2023 ends.
- Business momentum continues to remain healthy amid a strong demand environment; however, compression in NIM is expected in H2FY2023. Thus, we expect the company to report margin of 3.4-3.5% in H2FY2023 vs. ~3.6% in H1FY2023.
- We expect Can Fin Homes to deliver ROA/RoE of 1.9%/17% over FY2022-FY2025E. At the CMP, the stock trades at 1.9x/1.6x/1.4x its FY2023E/FY2024E/FY2025E ABV, respectively. We reiterate Buy with an unchanged PT of Rs. 670.

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 Oct 08, 2022

High Risk

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

Source: Morningstar

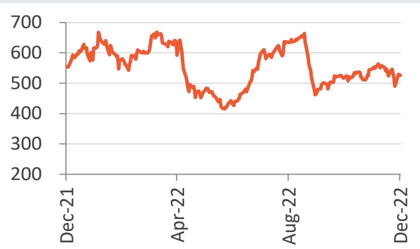
Company details

Market cap:	Rs. 7,058 cr
52-week high/low:	Rs. 685 / 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	9.3
DII	23.3
Others	37.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.9	14.2	22.7	-6.2
Relative to Sensex	-0.7	6.2	7.7	-11.8

Sharekhan Research, Bloomberg

Business momentum continues to remain healthy led by strong tailwinds. The company is guiding for AUM growth of 18-20% in the near to medium term, with spreads and NIM of 2.5% and 3.4-3.5%, respectively, for H2FY2023. Credit cost guidance stands at 0.12-0.14% for FY2023E. Asset-quality outlook continues to remain stable. Management has guided that identification of the new MD/CEO is in an advanced stage. The new MD/CEO is likely from the housing finance sector and the announcement would be made before FY2023 ends. We believe Can Fin Homes could outperform in the near term as and when the announcement of its new MD/ CEO happens.

Announcement of the new MD/CEO is the key trigger for re-rating: The company has shared that identification of the new MD/CEO is in an advanced stage. The new MD/ CEO is likely from the housing finance sector and the announcement would be made before FY2023 ends. It could potentially be from the private sector. We believe the announcement of the new MD/CEO remains a key trigger for re-rating of the stock in the near term.

Healthy business growth likely to sustain: Management is guiding for AUM growth of 18-20% in the near to medium term, with spreads and NIM of 2.5% and 3.4-3.5%, respectively, in H2FY2023. Credit cost guidance stands at 0.12-0.14% for FY2023E. Asset-quality outlook continues to remain stable. However, there would be compression in NIM from H1FY2023 by 10-15 bps. The company 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. The company does not foresee any major change in borrowing mix in the next couple of quarters.

Our Call

Valuation: We maintain our Buy rating with an unchanged PT of Rs. 670. At the CMP, the stock trades at 1.9x/1.6x/1.4x its FY2023E/FY2024E/FY2025E ABV. The company is one of the best plays in the affordable housing finance segment with pristine asset quality and superior underwriting practices. The company navigated the stiff competition from banks and is moving towards a 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 ROA/RoE of ~1.9/~17% over FY2022-FY2025E. In addition, we believe management is cognisant of hiring a professional from the private sector as its MD and CEO, which could lead to re-rating of the stock.

Key Risks

Economic slowdown may impact its growth trajectory and may result in asset quality deterioration. The spread may further contract given competition from banks in the home loans segment.

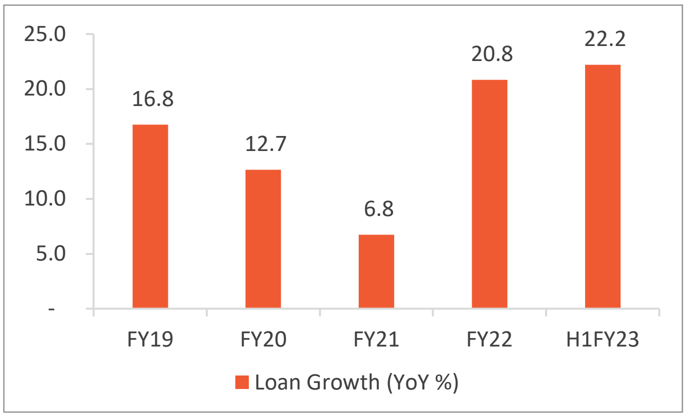
Valuation Rs cr

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)	14.9	11.5	10.3	8.6
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

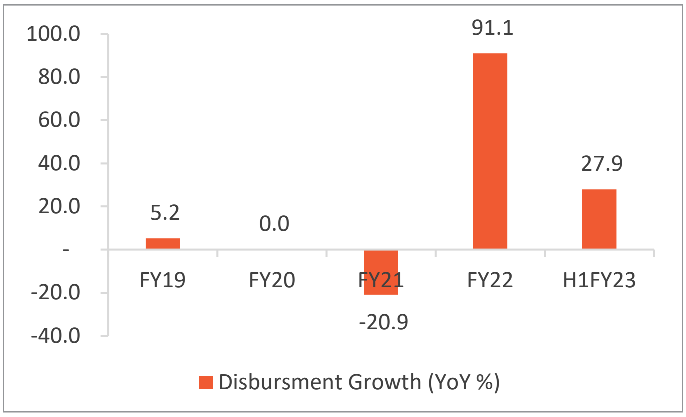
Financials in charts

Trend in Loan Growth



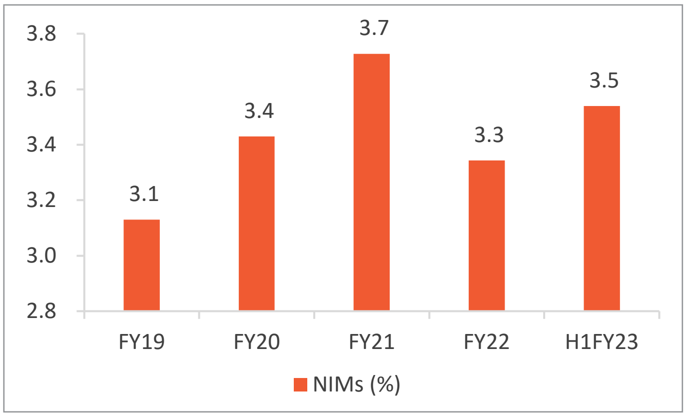
Source: Company, Sharekhan Research

Trend in Disbursements



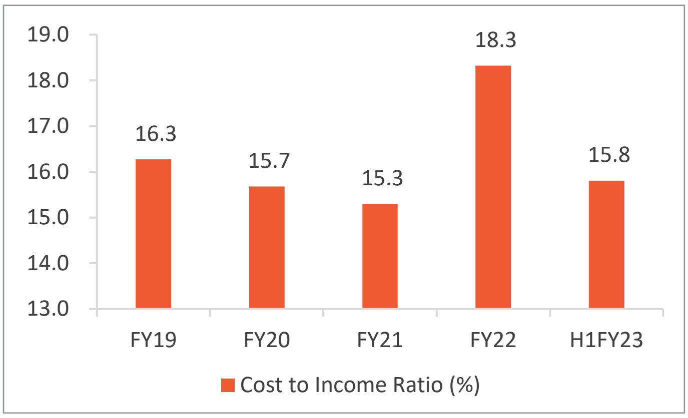
Source: Company, Sharekhan Research

Trend in NIMs



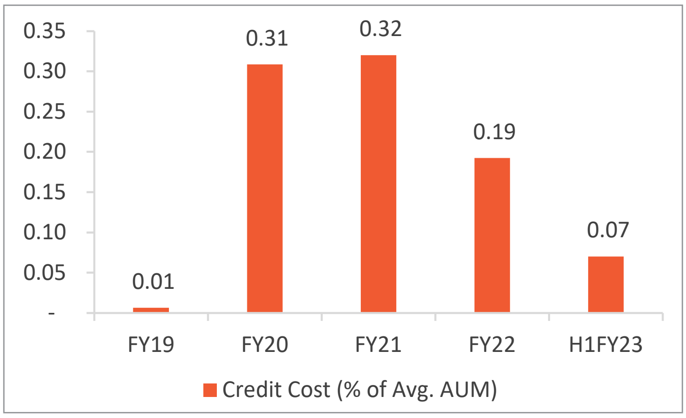
Source: Company, Sharekhan Research

Trend in Cost to Income Ratio



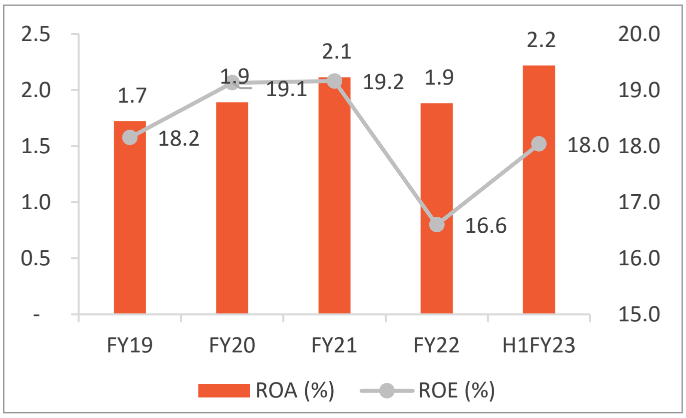
Source: Company, Sharekhan Research

Trend in Credit Cost



Source: Company, Sharekhan Research

Trend in Return Ratio



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 (HFCs) 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 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. COVID-19 pandemic has led to surge in demand 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 - Attractive Franchise

Can Fin Homes commands a premium valuation vis-à-vis its peers due to: 1) its ability to deliver superior return ratios metrics; 2) superior growth; 3) its asset quality continues to be the best in class among its peers with stage-3 assets at 0.62% and NNPA ratio at 0.35% in H1FY2023; and 4) additionally, with the strong parentage, Can Fin Homes enjoys low funding cost that enables it to raise funds through diversified sources at competitive rates.

■ Valuation - We maintain our Buy rating with an unchanged PT of Rs. 670

At the CMP, the stock trades at 1.9x/1.6x/1.4x its FY2023E/FY2024E/FY2025E ABV. The company is one of the best plays in the affordable housing finance segment with pristine asset quality and superior underwriting practices. The company navigated the stiff competition from banks and is moving towards a 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 ROA/RoE of ~1.9/~17% over FY2022-FY2025E. In addition, we believe management is cognisant of hiring a professional from the private sector as its MD and CEO, which could lead to re-rating of the stock.

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	530	7,058	11.5	10.3	1.9	1.6	18.1	17.1	2.0	1.8
LIC Housing Finance	418	22,993	6.0	4.8	0.8	0.7	14.6	15.8	1.4	1.5

Source: Company; Sharekhan Research

About company

Can Fin Homes 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 going through robust demand. Favourable government policies and a strong operating environment should 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 asset-quality deterioration. The spread may further contract, given competition from banks in the home loans segment.

Additional Data

Key management personnel

Mr. Amitabh Chatterjee	Deputy MD
Mr. Prashanth Joishy	CFO

Source: Company

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

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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