

Can Fin Homes

Estimate change 

TP change 

Rating change 

CMP: INR521

TP: INR630 (+21%)

Buy

Margins managed well, despite annual reset on loans

Loan growth healthy; expect NIM to start improving after two more quarters

- Can Fin Homes (CANF) reported a decent quarter with 3QFY23 PAT growing 31% YoY to INR1.5b (in line). Despite NIM (calc.) compression of ~15bp QoQ, benign credit costs of 11bp (annualized) aided an in line performance.
- 9MFY23 PAT grew ~31% YoY to INR4.5b, while RoA/RoE stood at 2.2%/17%.
- Interestingly, despite the vacant position of MD/CEO, CANF managed to deliver stable YoY disbursements and loan growth of 20% YoY/4.5% QoQ, respectively.
- Margin compression was primarily driven by the lag in transmission of higher borrowing costs due to the annual reset on customer loans. We expect this NIM compression to sustain for two more quarters and to start improving from thereon. We model NIM of 3.4%/3.5% in FY24/FY25E.
- We model an AUM/PAT CAGR of 16%/20% over FY22-25E for an RoA/RoE of 2.0/17%, respectively, in FY25. Valuations can get re-rated to 2.0x P/BV, if the new CEO gains the investor confidence that CANF can continue delivering the same strong loan growth and pristine asset quality as it has exhibited in the past. We reiterate our Buy rating with a TP of INR630 (based on 1.8x Sep'24 PV).

Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	69.3 / 0.9
52-Week Range (INR)	685 / 408
1, 6, 12 Rel. Per (%)	-3/-9/-17
12M Avg Val (INR M)	609

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
NII	10.1	11.5	13.6
PPP	8.6	9.8	11.7
PAT	6.0	6.8	8.1
EPS (INR)	45.3	51.2	61.0
EPS Growth (%)	28	13	19
BVPS (INR)	273	321	378
Ratios (%)			
NIM	3.5	3.4	3.5
C/I ratio	16.7	16.6	15.7
RoAA	2.0	1.9	2.0
RoE	18.0	17.2	17.4
Payout	6.6	5.9	5.7
Valuation			
P/E (x)	11.5	10.2	8.5
P/BV (x)	1.9	1.6	1.4
Div. Yield (%)	0.6	0.6	0.7

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	30.0	30.0	30.0
DII	23.5	23.3	22.4
FII	10.0	9.3	0.0
Others	36.5	37.4	47.6

FII Includes depository receipts

Disbursements sluggish; loan growth healthy at 20% YoY

- Disbursements were flat YoY and grew 9% QoQ to INR24.4b. 9MFY23 disbursements grew 15% YoY to INR64b.
- Advances grew 20% YoY, aided by a steady run-off in the loan book, which was stable at ~16%. With concerted efforts, the company has been able to bring down the BT-OUT quarterly run-rate to INR1b (from INR3b two years back).

Sequential compression in margins; share of NHB and NCDs up QoQ

- Reported spreads declined ~30bp QoQ to 2.24% due to higher CoF (up ~60bp QoQ), offset by a ~30bp QoQ increase in yields. NIM (calc.) declined ~15bp sequentially to 3.4%. Compression of margins was broadly along expected lines because of the annual reset of customer loans.
- Proportion of NHB borrowings grew 1pp QoQ and debt market borrowings grew 2pp QoQ. Proportion of CPs in the borrowing mix increased to 9% as of Dec'22 (PQ: 8%).

Asset quality stable; Increase in PCR on S3 driven by Ind-AS transition

- Asset quality remained pristine and was largely stable, with GS3/NS3 at 0.6%/0.3%, respectively. PCR on S3 loans improved ~7pp QoQ to ~51%.
- Stage 2 loans stood at ~3.3% with PCR on Stage 2 loans at ~4.8%. Additionally, restructured loan pool of ~INR7b has been classified under Stage 2 loans and the company carries a provision of ~INR670m on these loans.

Highlights from the management commentary

- NIM has bottomed out and NIM/spreads should increase from hereon, given the expected re-pricing on the asset side. The full impact of the repricing is expected to reflect over the next nine months.
- The company has transitioned to Ind-AS and it is expected to increase the PCR on its standard as well as NPA loans under the ECL model.
- The company expects the disbursements to remain buoyant and guided for a loan growth of 18-20%. It guided for NIM of 3.5% and spreads of 2.4% in FY24.

Valuation and view

- CoF (calc.) has increased ~140bp since Mar'22. While the cost of borrowings will depend on the trajectory of repo rates, we believe the company will be able to absorb rate hikes to offset any significant impact on margins.
- CANF has successfully demonstrated its ability to maintain its pristine asset quality over many years now and we expect credit costs to remain benign at ~20bp over FY24-FY25. We estimate NII/PPOP/PAT CAGR of 19%/20%/20%, respectively, over FY22-25 and an RoA of 2% and RoE of 17.4% in FY25.
- We reiterate our Buy rating with a TP of INR630 (premised on 1.8x Sep'24E BVPS).

Quarterly performance												INR m
Y/E March	FY22				FY23E				FY22	FY23E	3QFY23E	Act vs est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23E				
Interest Income	4,492	4,626	5,020	5,558	6,065	6,522	7,046	7,673	19,697	27,306	7,076	0
Interest Expenses	2,680	2,708	2,961	3,185	3,561	4,010	4,529	5,139	11,535	17,240	4,491	1
Net Interest Income	1,812	1,918	2,059	2,373	2,504	2,512	2,517	2,534	8,162	10,067	2,585	-3
YoY Growth (%)	-5.3	-8.9	-2.1	27.7	38.2	31.0	22.2	6.8	2.3	23.3	25.5	
Other income	16	53	64	55	51	54	51	55	188	210	57	-11
Total Income	1,828	1,971	2,124	2,428	2,555	2,566	2,568	2,589	8,350	10,277	2,642	-3
YoY Growth (%)	-4.6	-7.2	-0.6	26.1	39.8	30.2	20.9	6.6	3.1	23.1	24.4	
Operating Expenses	303	342	403	482	405	405	438	468	1,530	1,716	433	1
YoY Growth (%)	40.8	35.8	17.1	12.4	33.8	18.3	8.7	-2.9	23.4	12.1	7.3	
Operating Profits	1,526	1,628	1,720	1,946	2,150	2,161	2,129	2,121	6,820	8,561	2,209	-4
YoY Growth (%)	-10.4	-13.0	-4.0	30.0	40.9	32.7	23.8	9.0	-0.6	25.5	28.4	
Provisions	65	-62	164	302	-37	132	84	124	469	304	139	-40
Profit before Tax	1,460	1,690	1,557	1,643	2,187	2,028	2,045	1,997	6,351	8,257	2,069	-1
Tax Provisions	372	454	400	414	565	611	530	523	1,640	2,230	538	-1
Profit after tax	1,088	1,236	1,157	1,229	1,622	1,417	1,515	1,474	4,711	6,028	1,531	-1
YoY Growth (%)	16.8	-3.7	-12.3	19.8	49.0	14.6	30.9	19.9	3.3	28.0	32.4	
Key Parameters (%)												
Yield on loans	8.1	8.1	8.3	8.6	8.9	9.3	9.6	9.9				
Cost of funds	5.6	5.4	5.4	5.3	5.7	6.2	6.6	7.2				
Spread	2.5	2.7	2.9	3.3	3.3	3.1	2.9	2.7				
NIM	3.3	3.3	3.4	3.7	3.7	3.6	3.4	3.3				
Credit cost	0.1	-0.1	0.3	0.5	-0.1	0.2	0.1	0.2				
Cost to Income Ratio (%)	16.5	17.4	19.0	19.8	15.8	15.8	17.1	18.1				
Tax Rate (%)	25.4	26.9	25.7	25.2	25.8	30.1	25.9	26.2				
Balance Sheet Parameters												
Loans (INR B)	222.2	235.8	250.9	267.1	275.4	288.2	301.2	315.9				
Growth (%)	6.6	13.2	19.5	20.8	23.9	22.2	20.0	18.2				
AUM mix (%)												
Home loans	90.5	90.3	89.9	89.6	89.6	89.5	89.2					
Non-housing loans	9.5	9.7	10.1	10.4	10.4	10.5	10.8					
Salaried customers	73.3	74.0	74.2	74.3	74.3	74.1	73.6					
Self-employed customers	26.7	25.9	25.7	25.7	25.7	25.9	26.3					
Disbursements (INR B)	8.9	22.1	24.7	27.1	17.2	22.5	24.4					
Change YoY (%)	122.9	167.6	123.5	35.2	92.6	1.7	-1.1					
Borrowing mix (%)												
Banks	47.0	50.0	53.0	51.0	54.0	54.0	51.0					
NHB	25.0	24.0	23.0	22.0	22.0	22.0	23.0					
Market borrowings	26.0	24.0	22.0	25.0	22.0	22.0	24.0					
Deposits	2.0	2.0	2.0	2.0	2.0	2.0	2.0					
Asset Quality												
GNPL (INR m)	2,000	1,851	1,772	1,706	1,798	1,787	1,811					
NNPL (INR m)	1,265	1,103	970	807	819	1,012	893					
GNPL ratio %	0.90	0.78	0.71	0.64	0.65	0.62	0.60					
GNPL ratio %	0.57	0.47	0.39	0.30	0.30	0.35	0.30					
PCR %	37	40	45	53	54	43	51					
Return Ratios (%)												
ROA (Rep)	2.0	2.1	2.0	2.1	2.4	2.1	2.2					
ROE (Rep)	16.0	16.4	15.8	16.0	20.0	16.8	17.3					

E: MOFSL Estimates



Highlights from the management commentary

Demand Outlook

- Despite rising interest rates, demand continues to remain stable and the desire to own a house is high among customers in the affordable housing segment.

Spreads/ Margins

- The company will ensure that the NIM and spreads will not be compromised in the next quarter and the coming year.
- 72% of the loan book is yet to be re-priced. CANF follows an annual reset process and it will take three to six months for a large part of the book to be re-priced.
- The company has increased the lending rates by ~145bp since May'22. It has taken a 50bp increase in lending rates in 3QFY23 and 35bp increase in Jan'23.
- Card rate is 9.6% and ~25bp concession is offered to the new prime customers.
- The management expects the cost of borrowings to increase ~20bp; the ALCO committee meets every 15 days and decides on the rate increases.

Liabilities

- NCDs are expensive because of higher demand at the end of the fiscal year. The company has borrowed through NCDs in a staggered manner throughout the fiscal year.
- The company had sanctions of INR15b from NHB and ~INR9b was drawn down from NHB in 3QFY23.

Expectations around new MD/CEO

- The new MD/CEO is expected to join CANF this financial year. He is from the mortgage industry and is an experienced leader.

Asset Quality

- Restructured book repayments have not yet started and it will start in a staggered manner. In 30% of the accounts, it has started receiving repayments
- Stage 2 loans stood at INR10b (+INR7b of restructured loans); Stage 2 Provisions at INR480m (+INR670m on restructured loans)
- The company has transitioned to Ind-AS provisions and it will be increasing the PCR on its standard loans and NPA under the ECL model.

Guidance

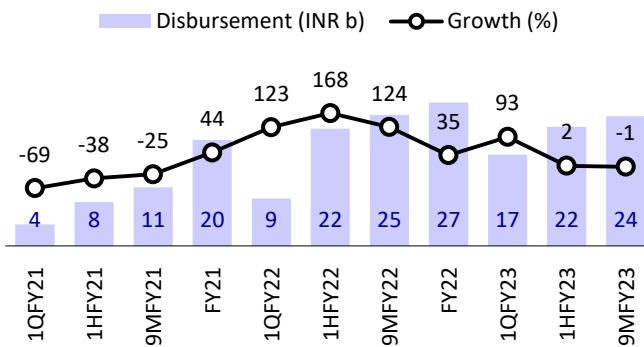
- The company expects the disbursements to remain buoyant and guided for loan growth of 18-20%
- NIM has bottomed out and NIM/spreads should increase from hereon, given the expected repricing on the asset side. The full impact of the repricing on the asset side will reflect over the next nine months.
- The management guided for NIM of 3.5% and spreads of 2.4% in FY24
- The company has opened five branches this financial year. It expects to add 5-7 branches every year.

Others

- BT-OUTs are controlled and customers have taken the rise in interest rates in their stride. It does not foresee any significant increase in BT-OUTs. BT-OUTs are stable at INR1b per quarter (v/s INR3b per quarter from two years back)
- Loan Mix: Karnataka: 20-22%; Bangalore: 17%; it will be looking to deepen its presence in Maharashtra, Rajasthan, and Gujarat
- Rejection Rate: 11% [At the point of sourcing]
- Number of loan accounts disbursed stood at 12,000 in 3QFY23 (2QFY23: 10,500 accounts).
- ATS has increased to INR2.4m (from INR2.1m in 1QFY23), driven by higher ATS of disbursements from well-established branches in Tier I and II cities. The company is encouraging vintage branches to disburse high-ticket loans, while it is still doing affordable loans in the smaller branches.
- There are no discussions of stake sale from the parent Canara Bank.
- Top 50 branches contribute 40% to the total loan book and 35% to the disbursements.

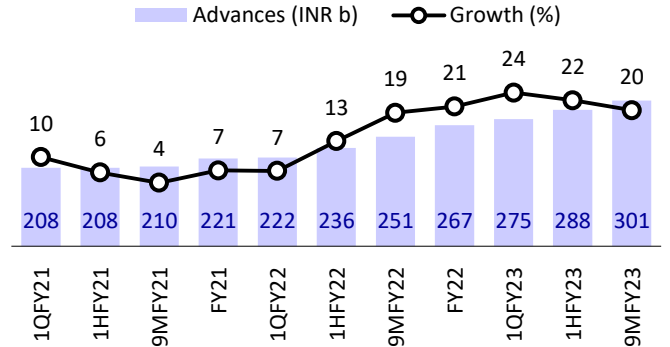
Key exhibits

Exhibit 1: Disbursements were largely flat YoY



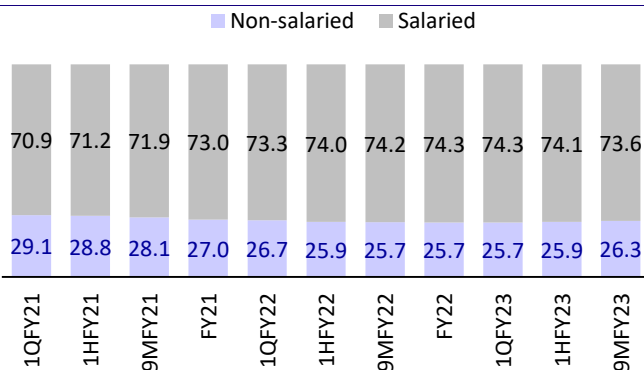
Sources: MOFSL, Company reports

Exhibit 2: Advances grew 20% YoY



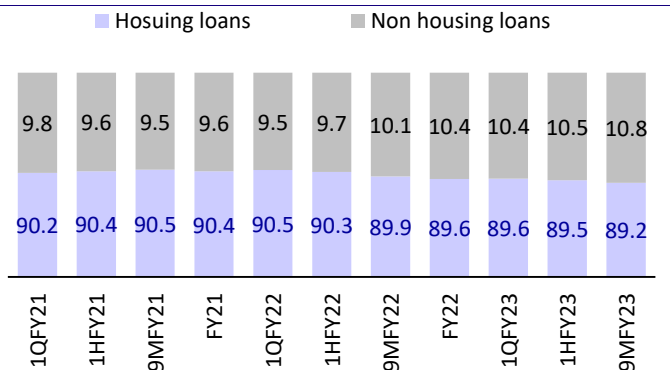
Sources: MOFSL, Company reports

Exhibit 3: Share of salaried customers stable at ~74%



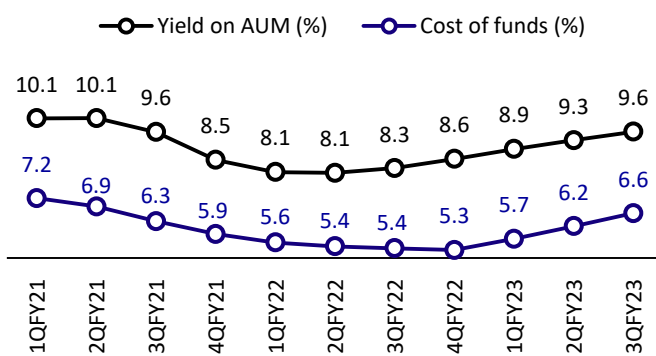
Sources: MOFSL, company reports

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



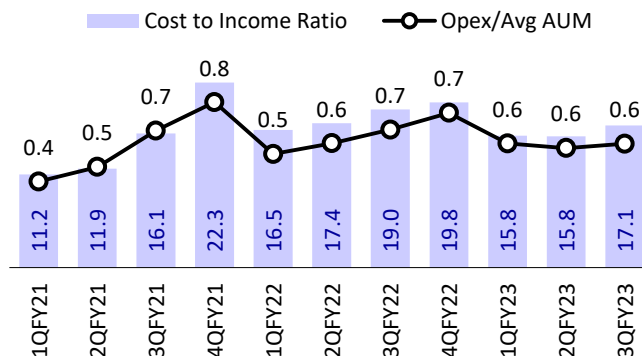
Sources: MOFSL, company reports

Exhibit 5: Calculated spreads decline ~20bp QoQ



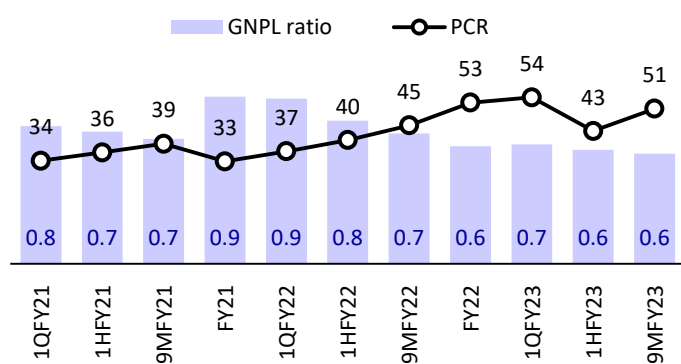
Sources: MOFSL, company reports

Exhibit 6: C/I ratio improved ~190bp YoY



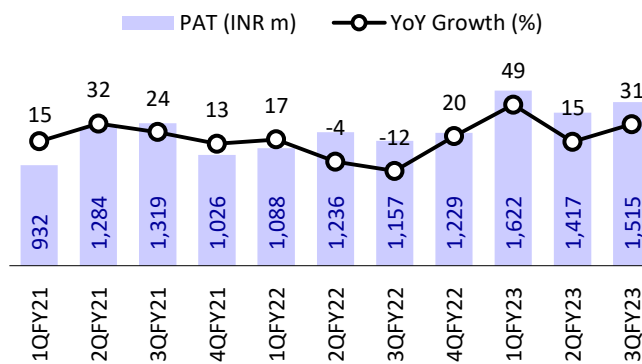
Sources: MOFSL, company reports

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



Sources: MOFSL, company reports

Exhibit 8: PAT grew ~31% YoY



Sources: MOFSL, company reports

Valuation and view

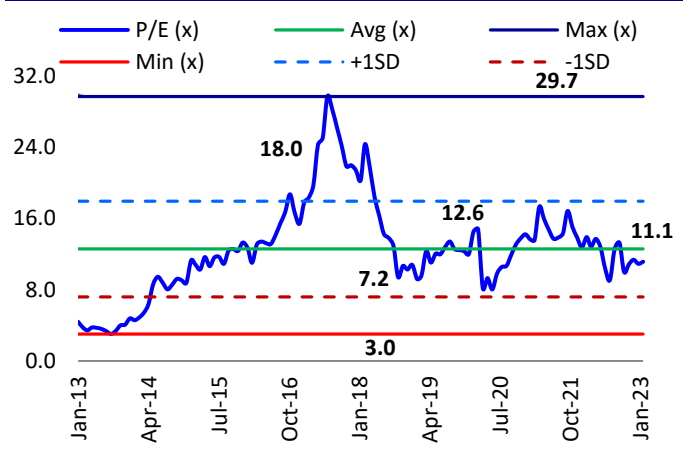
- CoF (calc.) has increased ~140bp since Mar'22. While cost of borrowings will depend on the trajectory of repo rates, we believe that the company will be able to absorb rate hikes to offset any significant impact on margins.
- CANF has successfully demonstrated its ability to maintain pristine asset quality over many years now and we expect credit costs to remain benign at ~20bp over FY24-FY25. We estimate NII/PPOP/PAT CAGR of 19%/20%/20% over FY22-25 and an RoA of 2% and RoE of 17.4% in FY25.
- We reiterate our Buy rating with a TP of INR630 (premised on 1.8x Sep'24E BVPS).

Exhibit 9: Cut our FY23 estimates by ~2% to factor in the margin compression

INR b	Old Est.		New Est.		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII	10.3	11.4	10.1	11.5	-2.1	0.8
Other Income	0.2	0.3	0.2	0.2	-6.5	-6.5
Total Income	10.5	11.7	10.3	11.8	-2.2	0.6
Operating Expenses	1.8	2.0	1.7	1.9	-2.0	-2.1
Operating Profits	8.8	9.7	8.6	9.8	-2.2	1.2
Provisions	0.4	0.7	0.3	0.6	-15.0	-13.9
PBT	8.4	9.0	8.3	9.2	-1.7	2.3
Tax	2.3	2.3	2.2	2.4	-1.7	2.3
PAT	6.1	6.7	6.0	6.8	-1.7	2.3
AUM	316	365	316	367	0.0	0.4
Borrowings	293	335	293	336	0.0	0.3
NIM (%)	3.6	3.4	3.5	3.4		
ROA (%)	2.0	1.9	2.0	1.9		
RoE (%)	18.3	16.8	18.0	17.2		

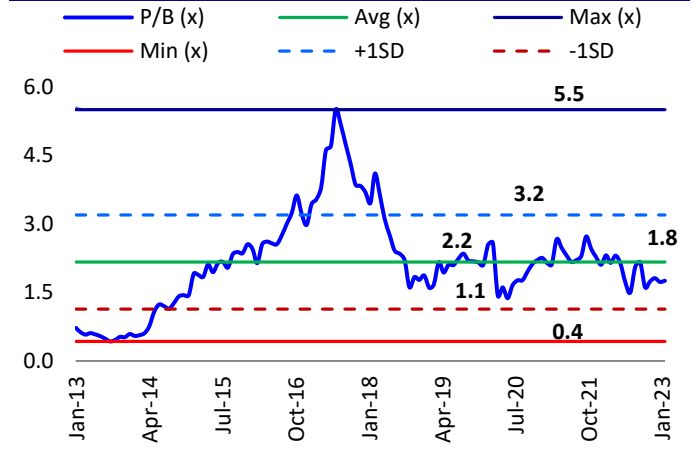
Sources: MOFSL, company reports

Exhibit 10: One-year forward P/E ratio



Sources: MOFSL, company reports

Exhibit 11: One-year forward P/B ratio



Sources: MOFSL, company reports

Financials and valuations

Income statement									INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	13,060	14,906	17,134	20,189	20,064	19,697	27,306	33,687	39,202
Interest Expended	8,840	9,810	11,693	13,442	12,083	11,535	17,240	22,166	25,600
Net Interest Income	4,220	5,096	5,441	6,747	7,980	8,162	10,067	11,521	13,602
Change (%)	40.2	20.8	6.8	24.0	18.3	2.3	23.3	14.4	18.1
Other Income	471	314	179	115	121	188	210	241	276
Net Income	4,691	5,410	5,621	6,862	8,101	8,350	10,277	11,762	13,878
Change (%)	37.9	15.3	3.9	22.1	18.0	3.1	23.1	14.4	18.0
Operating Expenses	807	878	915	1,076	1,240	1,530	1,716	1,947	2,176
Operating Income	3,884	4,532	4,706	5,786	6,861	6,820	8,561	9,815	11,702
Change (%)	42.1	16.7	3.8	23.0	18.6	-0.6	25.5	14.6	19.2
Provisions/write offs	188	221	11	603	685	469	304	607	732
PBT	3,696	4,311	4,695	5,183	6,176	6,351	8,257	9,208	10,970
Tax	1,349	1,449	1,728	1,422	1,615	1,640	2,230	2,394	2,852
Tax Rate (%)	36.5	33.6	36.8	27.4	26.2	25.8	27.0	26.0	26.0
Reported PAT	2,347	2,862	2,967	3,761	4,561	4,711	6,028	6,814	8,118
Change (%)	49.4	22.0	3.7	26.8	21.3	3.3	28.0	13.0	19.1
Proposed Dividend (incl. tax)	321	321	321	321	266	399	399	399	466

Balance sheet									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capital	266	266	266	266	266	266	266	266	266
Reserves & Surplus	11,771	14,604	17,556	21,234	25,832	30,400	36,028	42,442	50,094
Net Worth	12,037	14,870	17,822	21,501	26,098	30,666	36,295	42,709	50,361
Borrowings	1,18,675	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,93,110	3,35,716	3,80,377
Change (%)	30.8	17.3	20.7	11.6	2.9	27.8	18.9	14.5	13.3
Other liabilities	2,168	3,215	1,500	1,451	1,710	2,300	2,761	3,313	3,975
Total Liabilities	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,32,165	3,81,738	4,34,713
Loans	1,32,241	1,56,440	1,82,342	2,05,257	2,18,915	2,63,781	3,12,818	3,62,937	4,15,713
Change (%)	23.4	18.3	16.6	12.6	6.7	20.5	18.6	16.0	14.5
Investments	160	160	163	243	496	11,260	12,949	14,891	17,125
Change (%)	7.1	0.0	1.9	49.1	104.1	2,169.9	15.0	15.0	15.0
Net Fixed Assets	102	96	99	379	378	346	317	290	265
Other assets	377	600	4,692	4,557	948	4,057	6,082	3,620	1,610
Total Assets	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,32,165	3,81,738	4,34,713

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Yield on loans	10.9	10.3	10.1	10.4	9.44	8.14	9.5	10.0	10.1
Cost of funds	8.4	7.6	7.6	7.6	6.35	5.25	6.4	7.1	7.2
Spread	2.5	2.7	2.5	2.8	3.1	2.9	3.1	2.9	2.9
Net Interest Margin	3.5	3.5	3.2	3.5	3.8	3.4	3.5	3.4	3.5
Profitability Ratios (%)									
RoE	22.5	21.3	18.2	19.1	19.2	16.6	18.0	17.2	17.4
RoA	2.0	2.0	1.7	1.9	2.1	1.9	2.0	1.9	2.0
C/I ratio	17.2	16.2	16.3	15.7	15.3	18.3	16.7	16.6	15.7
Asset Quality (%)									
Gross NPAs	279	675	1,135	1,571	2,019	1,706	1,858	2,361	2,888
Gross NPAs to Adv.	0.2	0.4	0.6	0.8	0.9	0.6	0.6	0.6	0.7
Net NPAs	0	316	795	1,118	1,343	807	873	1,062	1,242
Net NPAs to Adv.	0.0	0.2	0.4	0.5	0.6	0.3	0.3	0.3	0.3
PCR	100.0	53.2	30.0	28.8	33.5	52.7	53.0	55.0	57.0
VALUATION									
Book Value (INR)	90	112	134	161	196	230	273	321	378
Price-BV (x)	5.8	4.7	3.9	3.2	2.7	2.3	1.9	1.6	1.4
EPS (INR)	17.6	21.5	22.3	28.2	34.2	35.4	45.3	51.2	61.0
EPS Growth YoY	49.4	21.9	3.7	26.8	21.3	3.3	28.0	13.0	19.1
Price-Earnings (x)	29.5	24.2	23.4	18.4	15.2	14.7	11.5	10.2	8.5
Dividend per share (INR)	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	3.5
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.7

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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