Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Can Fin Homes Ltd

In line performance, re- rating will be driven by new management

NBFC	Sharekhan code: CANFINHOME		
Reco/View: Buy ↔	CMP: Rs. 521	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 31.05

Updated Dec 08, 2022

High Risk

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

Source: Morningstar

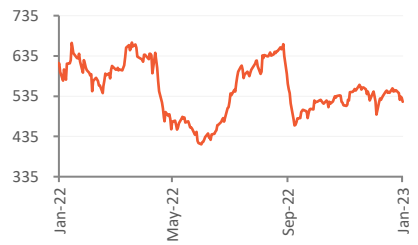
Company details

Market cap:	Rs. 6,932 cr
52-week high/low:	Rs. 685 / 408
NSE volume: (No of shares)	12.6 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	10.0
DII	23.5
Others	36.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	-0.6	3.0	-17.0
Relative to Sensex	-3.1	-2.8	-5.9	-19.7

Sharekhan Research, Bloomberg

Summary

- Can Fin Homes reported strong earnings growth with a PAT at Rs. 152 crore (up 31% y-o-y/ 7% q-o-q) driven by 24% yoy growth in operating profits and 49% yoy decline in provisions.
- Loan growth remained strong, advances grew by ~20% y-o-y and 4% q-o-q. Disbursements grew by 9% q-o-q and degrew by 1% y-o-y. NII grew by 22.0% 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 15 bps to 3.42%.
- GNPA ratio/ NNPA ratio improved sequentially to 0.60%/ 0.30% and PCR improved to ~50% vs 43% q-o-q. Credit cost stood at 11 bps annualised vs 19 bps q-o-q.
- At the CMP, the stock trades at 1.9x/1.6x/ 1.4x of FY2023E/ FY2024E/ FY20215 ABV estimates. We maintain Buy rating on the stock with an unchanged PT of Rs. 670. We expect healthy trajectory in loan growth and stable asset quality trends to sustain while margins remain a key monitorable. We also believe re rating will be driven by new management.

Can Fin Homes Limited (CHFL) reported in line performance in Q3FY23. Net interest income (NII) grew by 22% y-o-y / flat q-o-q. NIMs (calculated as a percentage of avg. loans) declined by 15 bps q-o-q to 3.42% in this quarter. Spreads declined by 21 bps q-o-qq-o-q due to a rise in cost of funds by 44 bps partly offsetting increase in yields by 24 bps q-o-qq-o-q. Operating expenses rose by ~9% y-o-y / 8% q-o-q. Pre-provisioning operating profits (PPoP) grew by 24% y-o-y/ down 1% q-o-q. Total provisions were down by 49% yoy/ 36% q-o- q. Credit cost stood at 11 bps annualized vs 19 bps q-o-q. PAT grew by 31% y-o-y /7% q-o-q. Loan growth remained strong, loan book grew by ~20% y-o-y and 4% q-o-q. Disbursements grew by 9% q-o-q / down 1% y-o-y. GNPA/NNPA ratios improved sequentially to 0.60%/ 0.30% respectively and PCR improved to ~50% vs 43% in last quarter. Bank borrowings & CPs decreased to 51%/9% (from 53%/15% a year ago respectively) in overall borrowing mix, while the share of NCDs increased to 15% from 7% year ago. The next leg of the re-rating will be driven by new management and its ability to inspire investor confidence in loan growth and asset quality. Can fin homes guided that its new MD & CEO announcement would be likely join before FY23E ends, and is the veteran in industry.

Key positives

- Credit costs remained lower.
- PCR improved to 50% vs 43% in the last quarter, along with better asset quality trends.

Key negatives

- NIMs (cal.) declined by 15 bps q-o-q.
- Disbursements growth moderated.

Management Commentary

- Can Fin Homes guided that at the current levels, NIMs have probably peak out as 72% of book would be repriced over the next 3-9 months. The company has also guided for ~2.4% spreads and ~3.5% NIMs in FY24E.
- Company expects to sustain 18-20% growth in Loan book and disbursements along with superior asset quality going ahead with credit cost guidance maintained at 12-14 bps.

Our Call

Valuation – We maintain Buy with an unchanged PT of Rs. 670: At 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 a competitive cost. We expect Can Fin Homes to deliver ROA/RoE of ~1.9/~17% over FY2022-FY2025E. We expect a healthy trajectory in loan growth and stable asset quality trends to sustain while margins remain a key monitorable. We also believe re-rating will be driven by new management.

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 and increase in repo rate hike which the company may not be able to pass on.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	816	1,020	1,197	1,409
Net profit	471	607	670	804
EPS (Rs)	35.4	45.6	50.3	60.4
P/E (x)	14.7	11.4	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	18.0	16.8	17.1

Source: Company; Sharekhan estimates

Key result highlights

- **Healthy loan growth witnessed:** Loan book grew by ~20% y-o-y and 4% q-o-q. Disbursements grew by 9% q-o-q and degrew by 1% y-o-y. Salaried & professionals (SAP) form 74% of the AUM mix in Q3FY23. Housing loans contribute 90% to AUM in Q3FY2023. 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. Bank guided that demand environment continues to remain strong despite rate hikes. Bank believes 18-20% loan book growth and disbursements growth is achievable in the near to medium term.
- **Pristine asset quality:** GNPA/NNPA ratios improved sequentially to 0.60%/ 0.30%, respectively and PCR improved to ~50% vs 43% in the last quarter. Gross stage 2 assets stood at Rs. 1,050 crore flat q-o-qq-o-q. The restructured book stood at Rs. 700 crore flat q-o-qq-o-q. Provisions maintained on GS2 assets were Rs.48 crore & on restructured book Rs. 67 crore. 30% of the restructured book has started repayment. Credit cost stood at 11 bps annualized vs 19 bps q-o-qq-o-q. Company expects to sustain superior asset quality going ahead with credit cost guidance maintained at 12-14 bps.
- **Guidance:** Can Fin Homes guided that at the current levels, NIMs have probably peak out as 72% of book would be repriced in next 3-9 months. Company also guided for ~2.4% spreads and ~3.5% NIMs in FY24E.

Result Table (Standalone) **Rs cr**

Particulars	Q3FY23	Q2FY22	Q2FY23	Y-o-Y %	Q-o-Q %
Net interest income	**251.7**	**205.9**	**251.2**	**22.2**	**0.2**
Fee and other income	5.1	6.4	5.4	(21.5)	(6.0)
Net Income	**256.8**	**212.4**	**256.6**	**20.9**	**0.1**
Opex	43.8	40.3	40.5	8.7	8.3
Pre-provisioning profit (PPoP)	**212.9**	**172.0**	**216.1**	**23.8**	**(1.5)**
Provisions	8.4	16.4	13.2	(48.5)	(36.4)
PBT	**204.5**	**155.7**	**202.8**	**31.4**	**0.8**
Tax expense	53.0	40.0	61.1	32.6	(13.3)
PAT	**151.5**	**115.7**	**141.7**	**30.9**	**6.9**

Source: Company; Sharekhan Research

Particulars	Q3FY23	Q2FY22	Q2FY23	Y-o-Y %	Q-o-Q %
AUM	**30,115**	**25,091**	**28,823**	**20.0**	**4.5**
-Salaried & Professionals	22,159	18,616	21,348	19.0	3.8
-Non-Salaried	7,935	6,454	7,454	22.9	6.5
-Housing Loans	26,869	22,547	25,790	19.2	4.2
-Top-up personal loans	1,282	978	1,188	31.1	7.9
-Mortgage Loans/Flexi LAP	1,599	1,242	1,492	28.7	7.2
Disbursements	**2,444**	**2,472**	**2,245**	**(1.1)**	**8.9**
AUM/branch [Reported] (Rs mn)	1,438	1,134	1,438	26.8	0.0
Yields on loans (%) [Quarterly-calculated]	8.9	8.3	9.3	61 bps	-39 bps
Borrowing costs (%) [Quarterly-calculated]	6.6	5.7	6.2	94 bps	46 bps
Spreads (%) [Quarterly-calculated]	2.2	2.6	3.1	-33 bps	-86 bps
NIM (%) [Quarterly-reported]	**3.6**	**3.5**	**3.6**	**6 bps**	**0 bps**
Op cost as % of avg loan-book	**0.6**	**0.7**	**0.6**	**-7 bps**	**2 bps**
Cost to income (%)	17.1	19.0	15.8	-193 bps	129 bps
GNPA (%)	**0.60**	**0.71**	**0.62**	**-11 bps**	**-2 bps**
NNPA (%)	**0.30**	**0.39**	**0.35**	**-9 bps**	**-5 bps**
Provision coverage ratio (%)	**50.7**	**45.2**	**43.4**	**546 bps**	**731 bps**
Credit cost as a % of avg loan-book [annualized]	0.11	0.27	0.19	-16 bps	-8 bps
RoA (%)	**2.2**	**2.0**	**2.1**	**12 bps**	**9 bps**
RoE (%)	**17.3**	**15.8**	**16.8**	**147 bps**	**48 bps**

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Housing demand continues to remain strong

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 is 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 superior customer service and last-mile connections with potential customers that large banks are unable to service. The COVID-19 pandemic has led to a surge in demand through a shift in preferences by end-consumers to own a home. Furthermore, the government's push towards affordable and mid-segment housing will likely propel demand in the segment.

Company Outlook – Attractive Franchise

Can Fin Homes has shown its ability to deliver superior return ratios metrics; superior growth; its asset quality continues to be the best in class among its peers with stage-3 assets at 0.60% and NNPA ratio at 0.30% in 9MFY2023; and additionally, with the strong parentage, it enjoys low funding cost that enables it to raise funds through diversified sources at competitive rates. We expect a healthy trajectory in loan growth and stable asset quality trends to sustain while margins remain a key monitorable.

Valuation – We maintain Buy 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 has 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 a competitive cost. We expect Can Fin Homes to deliver ROA/RoE of ~1.9/~17% over FY2022-FY2025E. We expect healthy trajectory in loan growth and stable asset quality trends to sustain while margins remain a key monitorable. We also believe re-rating will be driven by new management.

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	521	6,932	11.4	10.3	1.9	1.6	18.0	16.8	2.0	1.8
LIC HF	389	21,419	5.6	4.5	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, loans against rent receivables, top-up loans, and personal loans. The company has 172 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 superior customer service and last-mile connect with potential customers that large banks are unable to service.

Key Risks

The economic slowdown may impact its growth trajectory and may lead to a deterioration in asset quality. Spread may further contract given competition from banks in home loans segment and an increase in repo rate hike which the company may not be able to pass on.

Additional Data

Key management personnel

Mr. Amitabh Chatterjee	Deputy MD
Mr. Apurav Agarwal	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	CANARA BANK	29.99
2	CHATTISGARH INVESTMENT	6.56
3	DSP INVESTMENT MANAGERS PVT LTD	3.39
4	AXIS ASSET MANAGEMENT CO LTD	3.25
5	SUNDARAM ASSET MANAGEMENT CO LTD	2.35
6	UTI ASSET MANAGEMENT CO LTD	2.33
7	VANGUARD CO LTD	2.28
8	L&T MUTUAL FUND TRUSTEE LTD	2.07
9	INVESCO ASSET MANGEMENT CO LTD	1.93
10	SARDA ENERGY & MINERALS LTD	1.49

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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