

March 20, 2023

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	700		700	
NII (Rs.)	11,884	13,996	11,884	13,996
% Chng.	-	-	-	-
PPoP (Rs.)	9,981	11,723	9,981	11,723
% Chng.	-	-	-	-
EPS (Rs.)	49.6	58.4	49.6	58.4
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	8,162	10,209	11,884	13,996
Growth (%)	2.3	25.1	16.4	17.8
Op. Profit (Rs m)	6,820	8,609	9,981	11,723
PAT (Rs m)	4,711	6,056	6,603	7,780
EPS (Rs.)	35.4	45.5	49.6	58.4
Gr. (%)	3.3	28.5	9.0	17.8
DPS (Rs.)	3.5	2.3	3.0	3.5
Yield (%)	0.7	0.4	0.6	0.7
Margin (%)	3.2	3.3	3.2	3.2
RoAE (%)	16.6	18.1	16.7	16.8
RoAA (%)	1.9	2.0	1.8	1.8
PE (x)	15.0	11.7	10.7	9.1
P/BV (x)	2.3	1.9	1.7	1.4
P/ABV (x)	2.4	2.0	1.7	1.5

Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.685 / Rs.407
Sensex / Nifty	57,629 / 16,988
Market Cap	Rs.71bn/ \$ 854m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.435.22m

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	(10.1)	(6.2)	(13.0)
Relative	(5.4)	(2.8)	(12.7)

Gaurav Jani

gauravjani@plindia.com | 91-22-66322235

Palak Shah

palakshah@plindia.com | 91-22-66322257

New MD&CEO appointed

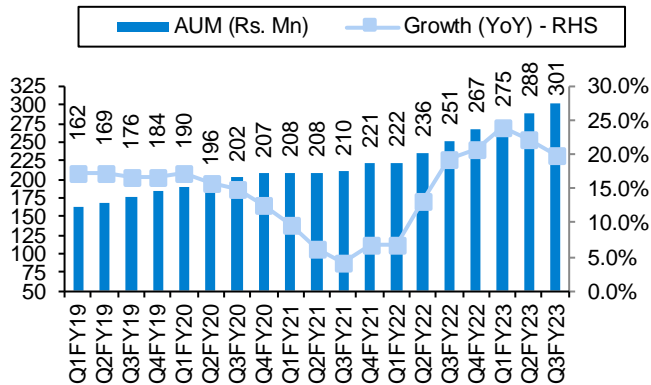
Quick Pointers:

- Mr. Suresh Iyer appointed as MD&CEO for 3 years w.e.f 18th March, 2023.
- MD &CEO's strategy a key to accelerate credit growth.

Can Fin Homes (Canfin) has appointed Mr. Suresh Iyer as MD & CEO w.e.f. 18th March, 2023, for a fixed period of 3 years, further extendable for two years. He has 25 years' experience of working in Gruh Finance across various functions like sales, operations, IT strategy, policy & pricing, risk, recovery, legal etc. MD&CEO appointment is positive as 1) it removes overhang of a key management position lying vacant and 2) increase business focus to aid loan growth. Further credit momentum has been steady with 20% YoY growth. MD&CEO's commentary on medium term strategy is a key. With increased focus, we expect pace of business to enhance without diluting profitability or asset quality and hence our FY23-25E loan CAGR estimate of 17% may see an upgrade. Our FY23/24/25E PAT remains unchanged and Canfin structural story is intact with likely RoE of ~17.0% over FY23-25E, while valuation at 1.5x is attractive. Rolling forward to FY25ABV, we tweak multiple from 2.1x to 2.0x and keep TP unchanged at Rs700. Retain 'BUY'.

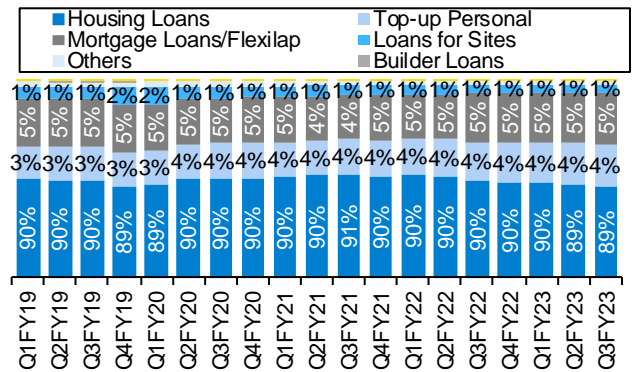
- New MD & CEO appointed:** Company has appointed Mr. Suresh Iyer as MD & CEO w.e.f. 18th March, 2023, for a fixed period of 3 years, which is further extendable for 2 years. He has a work experience of 25 years across sales, operations, IT strategy, policy and pricing, risk, recovery, legal etc. Having worked in Gruh Finance since 1997 in multiple positions, he went on to become part of core management team early in his career. In his previous role he was the housing finance head at Bandhan Bank. MD&CEO appointment is positive as 1) it removes the overhang of a key position lying vacant and 2) it could increase business focus which would aid loan growth. It is interesting to note previous MD&CEO, Mr. Girish Kousgi was appointed for a fixed term of 5 years.
- Credit momentum intact with 20% YoY growth:** Credit growth for has been fairly stable at +20% YoY each quarter and credit flow has been mainly led by salaried housing (67% share). However, as pandemic related asset quality risks have been abating, share of self-employed housing in incremental credit is rising with current share at ~22% (vs 16% in Q3FY22). Salaried to non-salaried mix in medium term could be 70:30 from 74:26 now. While we await MD&CEO commentary on strategy, current disbursal run rate should continue. We expect 17% YoY AuM growth in FY24E/FY25E.
- NIM bottomed out, asset quality pristine:** As per the company, NIM has bottomed out in Q3FY23 and would improve from hereon. NIM improvement would be led by assets repricing (28% repriced till Q3FY23) to RBI rate hikes compared to 65-70% of liabilities. This suggests that overall NIM for FY24 could be higher vs FY23 and NII growth could surpass loan growth. We see FY24 NIM at 3.3% (vs 3.24% in FY23). On asset quality, GNPA/NNPA are well managed at 0.6%/0.3%, with PCR at ~50%. Credit cost has been <0.1% and is expected to remain range bound. OTR pool is at Rs7bn or 2.3% (PCR of 10%); while repayment has not started, 30% customers have started repaying.

Exhibit 1: AUM growth was 20% YoY led steady disburseals



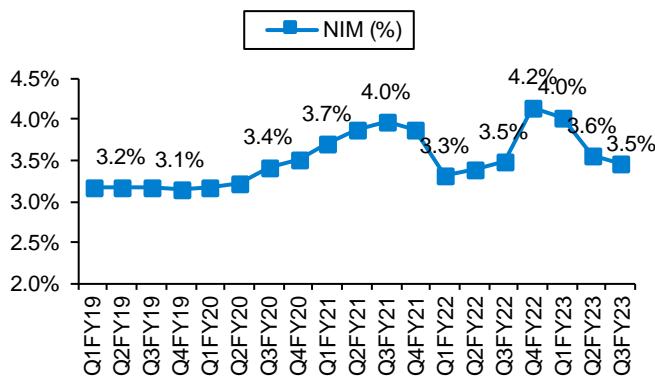
Source: Company, PL

Exhibit 2: Loan book dominated by housing (89% share)



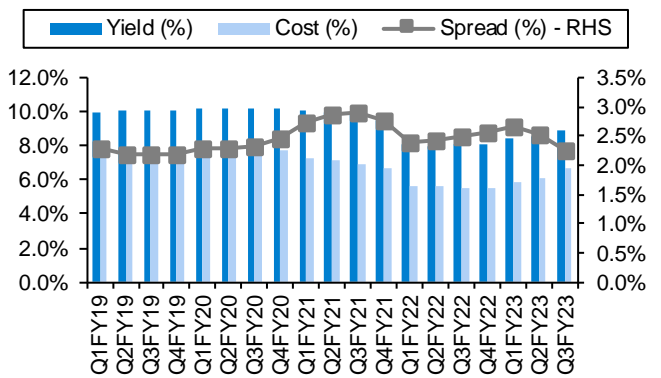
Source: Company, PL

Exhibit 3: NIM impacted on higher cost of funds



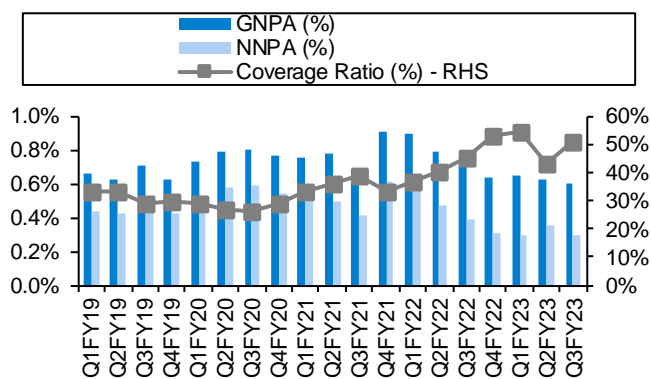
Source: Company, PL

Exhibit 4: Spreads decline further as cost goes up faster



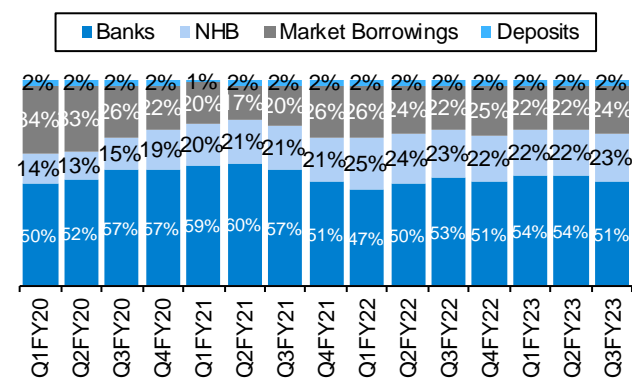
Source: Company, PL

Exhibit 5: GNPA/NNPA steady at 0.6%/0.3%, PCR at 50%



Source: Company, PL

Exhibit 6: Borrowing mix mainly from Banks/NHB refinance



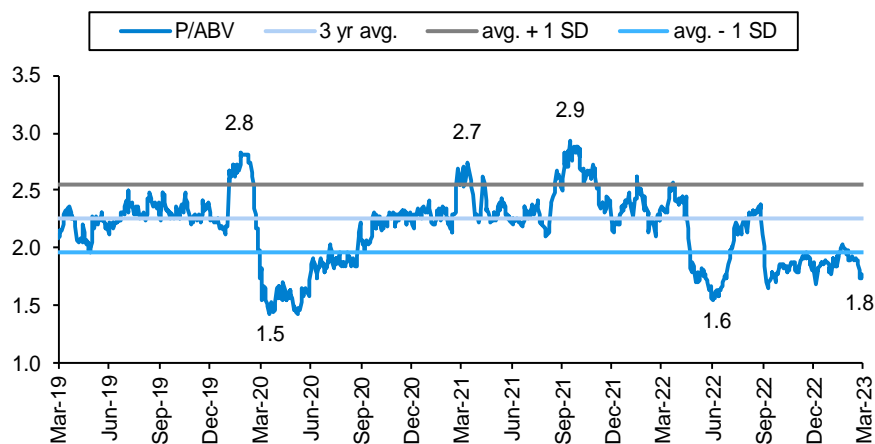
Source: Company, PL

Exhibit 7: ROEs to improve on lower provision to 16-17%

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest income	10.3	9.9	10.1	9.3	7.9	8.9	9.9	10.3
Interest expenses	6.8	6.8	6.7	5.6	4.6	5.6	6.6	7.1
Net interest income	3.5	3.2	3.4	3.7	3.3	3.3	3.2	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	3.4	3.3	3.3
Employee expenses	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other operating expenses	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Operating profit	3.1	2.7	2.9	3.2	2.7	2.8	2.7	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	0.10	0.3	0.3
RoAA	2.0	1.7	1.9	2.1	1.9	2.0	1.8	1.8
RoAE	21.3	18.2	19.1	19.2	16.6	18.1	16.7	16.8

Source: Company, PL

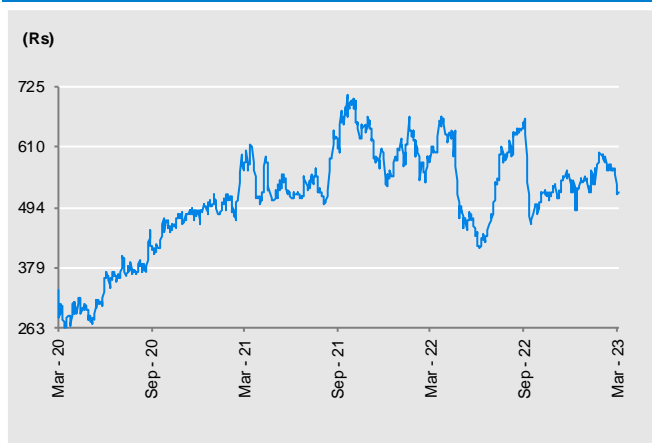
Exhibit 8: Stock trades at 1.8x on one year forward P/ABV



Source: Company, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Opt. Inc.	19,697	27,347	36,206	44,675	Int. Inc. / Operating Inc.	5,558	6,065	6,522	7,046
Interest Expenses	11,535	17,139	24,321	30,679	Income from securitization	-	-	-	-
Net interest income	8,162	10,209	11,884	13,996	Interest Expenses	3,185	3,561	4,010	4,529
Growth(%)	2.3	25.1	16.4	17.8	Net Interest Income	2,373	2,504	2,512	2,517
Non-interest income	188	207	249	293	Growth (%)	27.7	38.2	31.0	22.2
Growth(%)	56.2	10.0	20.3	17.6	Non-Interest Income	55	51	54	51
Net operating income	8,350	10,416	12,133	14,289	Net Operating Income	2,428	2,555	2,566	2,568
Expenditures					Growth (%)	26.1	39.8	30.2	20.9
Employees	768	833	1,017	1,242	Operating expenditure	482	405	405	438
Other Expenses	664	850	991	1,156	PPP	1,946	2,150	2,161	2,129
Depreciation	98	124	145	169	Growth (%)	-	-	-	-
Operating Expenses	1,530	1,807	2,153	2,566	Provision	302	(37)	132	84
PPP	6,820	8,609	9,981	11,723	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	(0.6)	26.2	15.9	17.5	Profit before tax	1,643	2,187	2,028	2,045
Provisions	469	320	1,046	1,196	Tax	414	565	611	530
Profit Before Tax	6,351	8,289	8,935	10,528	Prov. for deferred tax liability	-	-	-	-
Tax	1,640	2,234	2,332	2,748	Effective Tax Rate	25.2	25.8	30.1	25.9
Effective Tax rate(%)	25.8	26.9	26.1	26.1	PAT	1,229	1,622	1,417	1,515
PAT	4,711	6,056	6,603	7,780	Growth	20	49	15	31
Growth(%)	3.3	28.5	9.0	17.8	AUM	2,67,110	2,75,380	2,88,229	3,01,150
					YoY growth (%)	20.8	23.9	22.2	20.0
					Borrowing	2,46,556	2,54,080	2,61,313	2,78,000
					YoY growth (%)	35.1	31.8	26.2	18.0
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds					CMP (Rs)	530	530	530	530
Equity	266	266	266	266	EPS (Rs)	35.4	45.5	49.6	58.4
Reserves and Surplus	30,400	36,153	42,359	49,673	Book value (Rs)	230.3	273.5	320.1	375.0
Networth	30,666	36,419	42,626	49,939	Adj. BV(Rs)	224.2	263.9	307.8	359.4
Growth (%)	17.5	18.8	17.0	17.2	P/E(x)	15.0	11.7	10.7	9.1
Loan funds	2,46,477	2,97,579	3,51,317	4,12,431	P/BV(x)	2.3	1.9	1.7	1.4
Growth (%)	27.8	20.7	18.1	17.4	P/ABV(x)	2.4	2.0	1.7	1.5
Deferred Tax Liability	-	-	-	-	DPS (Rs)	3.5	2.3	3.0	3.5
Other Current Liabilities	2,046	1,941	2,281	2,668	Dividend Payout Ratio(%)	9.9	5.0	6.0	6.0
Other Liabilities	255	485	573	672	Dividend Yield(%)	0.7	0.4	0.6	0.7
Total Liabilities	2,79,443	3,36,424	3,96,796	4,65,710					
Application of funds					Asset Quality				
Net fixed assets	346	395	434	478	Y/e Mar	FY22	FY23E	FY24E	FY25E
Advances	2,63,781	3,12,385	3,66,760	4,29,655	Gross NPAs(Rs m)	1,706	2,236	2,882	3,668
Growth (%)	20.5	18.4	17.4	17.1	Net NPA(Rs m)	807	1,280	1,641	2,074
Investments	11,260	18,307	23,307	28,171	Gross NPAs to Gross Adv.(%)	0.6	0.7	0.8	0.8
Current Assets	3,252	4,415	5,183	6,072	Net NPAs to net Adv.(%)	0.3	0.4	0.4	0.5
Net current assets	1,206	2,474	2,902	3,404	NPA coverage(%)	52.7	42.7	43.1	43.5
Other Assets	805	922	1,112	1,334					
Total Assets	2,79,443	3,36,424	3,96,796	4,65,710	Du-Pont as a % of AUM				
Growth (%)	26.6	20.4	17.9	17.4	Y/e Mar	FY22	FY23E	FY24E	FY25E
Business Mix					NII	3.3	3.3	3.2	3.2
AUM	2,67,110	3,15,102	3,69,955	4,33,401	NII INCL. Securitization	3.3	3.3	3.2	3.2
Growth (%)	20.8	18.0	17.4	17.1	Total income	3.3	3.4	3.3	3.3
On Balance Sheet	2,67,110	3,15,102	3,69,955	4,33,401	Operating Expenses	0.6	0.6	0.6	0.6
% of AUM	100.00	100.00	100.00	100.00	PPOP	2.7	2.8	2.7	2.7
Off Balance Sheet	-	-	-	-	Total Provisions	0.2	0.1	0.3	0.3
% of AUM	-	-	-	-	RoAA	1.9	2.0	1.8	1.8
					Avg. Assets/Avg. net worth	8.8	9.2	9.3	9.3
					RoAE	16.6	18.1	16.7	16.8
Profitability & Capital (%)					Source: Company Data, PL Research				
Y/e Mar	FY22	FY23E	FY24E	FY25E					
NIM	3.2	3.3	3.2	3.2					
ROAA	1.9	2.0	1.8	1.8					
ROAE	16.6	18.1	16.7	16.8					

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-Jan-23	BUY	700	521
2	05-Jan-23	BUY	700	545
3	19-Oct-22	BUY	700	524
4	05-Oct-22	BUY	675	497
5	23-Jul-22	BUY	675	538
6	08-Jul-22	BUY	800	463
7	03-May-22	BUY	800	642
8	09-Apr-22	BUY	800	661

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,999
2	Axis Bank	BUY	1,100	865
3	Bank of Baroda	BUY	220	164
4	Can Fin Homes	BUY	700	521
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	129
8	HDFC	BUY	3,000	2,613
9	HDFC Asset Management Company	BUY	2,100	1,797
10	HDFC Bank	BUY	1,850	1,601
11	ICICI Bank	BUY	1,090	870
12	IDFC First Bank	UR	-	60
13	IndusInd Bank	BUY	1,500	1,223
14	Kotak Mahindra Bank	BUY	2,100	1,763
15	LIC Housing Finance	Accumulate	410	376
16	Punjab National Bank	UR	-	57
17	State Bank of India	BUY	730	544
18	UTI Asset Management Company	BUY	830	668

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
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, CFA Level 2, Ms. Palak Shah- CA, B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is a registered with SEBI under the SEBI (Research Analysts) Regulation, 2014 and having registration number INH000000271.

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Gaurav Jani- CA, CFA Level 2, Ms. Palak Shah- CA, B.Com Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com