Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Mar 08, 2023

High Risk

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

Source: Morningstar

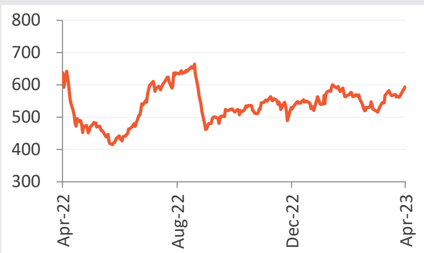
Company details

Market cap:	Rs. 8,213 cr
52-week high/low:	Rs. 678 / 408
NSE volume: (No of shares)	7.1 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	10.4
DII	25.0
Others	34.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	18.7	14.3	18.9	-3.6
Relative to Sensex	13.2	14.8	17.5	-9.6

Sharekhan Research, Bloomberg

Can Fin Homes

In line performance, outlook positive

NBFC	Sharekhan code: CANFINHOME

Reco/View: Buy	↔	CMP: **Rs. 617**	Price Target: **Rs. 720**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Can Fin Homes reported beat in earnings mainly due to lower tax rate with PAT at Rs. 166 crore up 35% y-o-y /9% q-o-q. NIMs (cal. as % of Avg. loans) remained stable q-o-q at 3.4% which was a key positive.
- Management guided that NIMs for FY24 is expected to around 3.5% led by further repricing of the asset book along with higher disbursement yields offsetting limited increase in cost of funds as interest rate cycle is close to its peak.
- Loan growth remained healthy at 18% y-o-y while disbursements grew by 8% in FY23. Company guided that there has been moderation in demand in mortgage segment. It believes that as interest rates stabilises in H1FY24, demand is expected to pick up in H2FY24.
- At the CMP, the stock trades at 1.9x/ 1.6x of FY2024E/ FY20215 ABV estimates. We maintain Buy rating on the stock with a revised PT of Rs. 720. Interest rate cycle close to its peak, is a tailwind for the company.

Can Fin Homes Limited (CHFL) reported in line performance in Q4FY23 adjusting for lower tax rate. Net interest income (NII) grew by 10% y-o-y / 4% q-o-q. NIMs (calculated as a percentage of avg. loans) remained stable q-o-q at 3.4%. Spreads increased by 12 bps q-o-q led by increase in yield despite rise in cost of funds. Strong traction was seen in fee income which led to overall revenue growth of 13% y-o-y/ 7% q-o-q. Operating expenses rose by ~7% y-o-y / 18% q-o-q. Pre-provisioning operating profits (PPoP) grew by 14% y-o-y/ 4% q-o-q. Credit cost stood at 31 bps annualised vs 11 bps q-o-q. Higher credit cost was attributable to higher standard asset provisioning there by shoring up the PCR. PBT grew by 20% y-o-y /down 3% q-o-q. Due to lower tax rate, PAT grew by 35% y-o-y/ 9% q-o-q. Loan book grew by ~18% y-o-y and 5% q-o-q. Disbursements degrew by 6% q-o-q but were up by 4% y-o-y. GNPA/NNPA ratios improved sequentially to 0.55%/ 0.26% respectively and PCR improved to ~52% vs 51% in last quarter. The outstanding restructured book stood at Rs. 695 crore (2.2% of AUM). 75% of restructured accounts are yet to come out of the moratorium and the entire restructured book will exit the moratorium by Nov 2023.

Key positives

- NIMs (cal.) were stable sequentially.
- PCR improved to 52% vs 51% in the last quarter, along with better asset quality trends.

Key negatives

- Disbursements growth declined by 6% y-o-y in Q4FY23.

Management Commentary

- The company is guiding for ~2.5% spreads and ~3.5% NIMs in FY24.
- Company expects to sustain 18-20% growth in Loan book and disbursements along with superior asset quality going ahead with credit cost guidance lowered to 5-10 bps vs earlier of 12-14 bps.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 720: At CMP, the stock trades at 1.9x/1.6x its FY2024E/FY2025E ABV. The company is one of the finest player on the affordable housing finance segment, with pristine asset quality and superior underwriting practices. The company navigated the stiff competition from banks and is back on 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 ~2.0/~18% over FY2023-FY2025E. Interest rate cycle close to its peak, is a tailwind for the company.

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	FY23	FY24E	FY25E
Net Interest Income	816	1,015	1,205	1,535
Net profit	471	621	715	870
EPS (Rs)	35.4	46.6	53.7	65.3
P/E (x)	17.5	13.2	11.5	9.5
P/BV (x)	2.7	2.3	1.9	1.6
RoA	1.9	2.0	2.0	2.0
RoE	16.6	18.5	17.8	18.2

Source: Company; Sharekhan estimates

Stock Update

Result Update

Key result highlights

- **Loan growth outlook steady:** Loan book grew by ~18% y-o-y and 5% q-o-q in Q4FY23.However, disbursements declined by 6% y-o-y but were up by 4% q-o-q. Salaried & professionals (SAP) form 73% of the AUM mix in Q4FY23 vs 74% in last quarter. Housing loans contribute 89% to AUM in Q4FY2023. Company guided that there has been moderation in demand in mortgage segment. It believes that as interest rates stabilises in H1FY24, demand is expected to pick up in H2FY24. Asset mix is expected to remain broadly stable at – 70% -salaried and rest non salaried however focus would be on retail mortgage loans. DSA would constitute major portion in sourcing. Bank believes 18-20% loan book growth and disbursements growth is achievable in FY24. LCR was maintained at 100% vs regulatory limit of 60%.
- **Pristine asset quality:** GNPA/NNPA ratios improved sequentially to 0.55%/ 0.26% respectively and PCR improved to ~52% vs 51% in last quarter. The outstanding restructured book stood at Rs. 695 crore (2.2% of AUM). 75% of restructured accounts are yet to come out of the moratorium and the entire restructured book will exit the moratorium by Nov 2023. Credit cost stood at 31 bps annualized vs 11 bps q-o-q which resulted in higher standard asset provisioning and in turn higher PCR. Net slippages for FY23 stood at Rs. 2 crore negative. Company expects to sustain superior asset quality in FY24 with credit cost guidance maintained at 5-10 bps vs earlier of 12-14 bps.
- **Guidance:** Company has guided for ~2.5% spreads and ~3.5% NIMs in FY24. Cost to income ratio is expected to be in the range of 16-17%. It is comfortable with Current RoA & RoE trajectory levels. Branch expansion would be gradual, 10-15 branches every year in near to medium term and would be balance across geographies with medium term target of 60% branches in south vs currently 65%.
- **Capital raise:** Company currently has gearing ratio at 8x, which is at comfortable level. It is not looking for equity raise capital in near term. As per the regulatory requirement it should not exceed 12x. Ideally company will raise capital at 9-10x. However, the company has enabling resolution to raise capital in FY24.
- **Others:** The company is expected to hire its CRO sooner.

Results (standalone) Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y %	q-o-q %
Net interest income	261.3	237.3	251.7	10.1	3.8
Fee and other income	12.2	5.5	5.1	123.1	140.7
Net Income	273.5	242.8	256.8	12.7	6.5
Opex	51.7	48.2	43.8	7.3	17.9
Pre-provisioning profit (PPoP)	221.8	194.6	212.9	14.0	4.2
Provisions	23.8	30.2	8.4	-21.3	182.7
PBT	198.0	164.3	204.5	20.5	-3.2
Tax expense	32.2	41.4	53.0	-22.3	-39.3
PAT	165.8	122.9	151.5	34.9	9.4

Source: Company, Sharekhan Research

Key ratios Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y %	q-o-q %
AUM (Rs. Cr)	**31,563**	**26,711**	**30,115**	**18.2**	**4.8**
-Salaried & Professionals	23,066	19,851	22,159	16.2	4.1
-Non-Salaried	8,477	6,860	7,935	23.6	6.8
-Housing Loans	28,121	23,937	26,869	17.5	4.7
-Top-up personal loans	1,357	1,068	1,282	27.1	5.9
-Mortgage Loans/Flexi LAP	1,704	1,368	1,599	24.6	6.6
Disbursements (Rs. Cr)	**2,538**	**2,705**	**2,444**	**(6.2)**	**3.8**
AUM/branch [Reported] (Rs mn)	1,540	1,134	1,469	35.8	4.8
Yields on loans (%) [Quarterly-calculated]	9.9	8.6	8.9	128 bps	100 bps
Borrowing costs (%) [Quarterly-calculated]	7.5	5.6	6.6	192 bps	88 bps
Spreads (%) [Quarterly-calculated]	2.4	3.0	2.2	-64 bps	12 bps
NIM (%) [Quarterly-reported]	**3.5**	**4.1**	**3.6**	**-62 bps**	**-10 bps**
Op cost as % of avg loan-book	**0.7**	**0.7**	**0.6**	**-8 bps**	**7 bps**
Cost to income (%)	18.9	19.8	17.1	-95 bps	182 bps
GNPA (%)	**0.55**	**0.64**	**0.60**	**-9 bps**	**-5 bps**
NNPA (%)	**0.26**	**0.30**	**0.30**	**-5 bps**	**-4 bps**
Provision coverage ratio (%)	**52.3**	**52.7**	**50.7**	**-40 bps**	**158 bps**
Credit cost as a % of avg loan-book [annualized]	0.31	0.47	0.11	-16 bps	19 bps
RoA (%)	2.3	2.0	2.2	31 bps	16 bps
RoE (%)	**18.2**	**16.0**	**17.3**	**215 bps**	**87 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 0.55% and NNPA ratio at 0.26% in FY2023; 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 a revised PT of Rs. 720.

At CMP, the stock trades at 1.9x/1.6x its FY2024E/FY2025E ABV. The company is one of the finest player on the affordable housing finance segment, with pristine asset quality and superior underwriting practices. The company navigated the stiff competition from banks and is back on 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 ~2.0/~18% over FY2023-FY2025E. Interest rate cycle close to its peak, is a tailwind for the company.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Can Fin Homes	617	8,213	11.5	9.5	1.9	1.6	17.8	18.2	2.0	2.0
LIC HF	344	18,933	6.0	5.0	0.6	0.5	11.4	11.0	1.0	1.0

Source: Company; Sharekhan Research

About company

Can Fin Homes is a leading housing finance company promoted by Canara Bank. It provides affordable financial solutions to help the general public meet their 'own home' aspirations. The company has 172 branches across 21 states and Union Territories. The company offers housing 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.

Investment theme

The housing finance market is going through strong demand environment however off lately due to steep rise in rates in last 12, has led to slight moderation in demand. Favorable government policies and a strong operating environment should provide impetus to the sector's growth once interest rates stabilize. 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. Suresh Iyer	MD & CEO
Mr. Amitabh Chatterjee	Deputy MD
Mr. Apurav Agarwal	CFO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	CANARA BANK	29.99
2	CHATTISGARH INVESTMENT	6.56
3	DSP INVESTMENT MANAGERS PVT LTD	4.24
4	AXIS ASSET MANAGEMENT CO LTD	4.21
5	VANGUARD CO LTD	2.64
6	UTI ASSET MANAGEMENT CO LTD	2.47
7	L&T MUTUAL FUND TRUSTEE LTD	2.08
8	SARDA ENERGY & MINERALS LTD	1.49
9	SUNDARAM ASSET MANAGEMENT CO LTD	1.48
10	INVESCO ASSET MANGEMENT CO LTD	1.25

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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