

July 20, 2023

## Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>950</b>		<b>770</b>	
NII (Rs.)	12,424	14,423	12,125	14,371
% Chng.	2.5	0.4		
PPoP (Rs.)	10,490	12,134	10,245	12,077
% Chng.	2.4	0.5		
EPS (Rs.)	56.4	65.5	52.6	61.9
% Chng.	7.2	5.8		

### Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	8,162	10,146	12,424	14,423
Growth (%)	2.3	24.3	22.5	16.1
Op. Profit (Rs m)	6,820	8,658	10,490	12,134
PAT (Rs m)	4,711	6,212	7,505	8,727
EPS (Rs.)	35.4	46.6	56.4	65.5
Gr. (%)	3.3	31.9	20.8	16.3
DPS (Rs.)	3.5	3.0	3.4	3.9
Yield (%)	0.4	0.4	0.4	0.5
Margin (%)	3.2	3.3	3.4	3.4
RoAE (%)	16.6	18.5	18.8	18.3
RoAA (%)	1.9	2.0	2.1	2.1
PE (x)	23.5	17.8	14.7	12.7
P/BV (x)	3.6	3.0	2.5	2.1
P/ABV (x)	3.7	3.1	2.6	2.2

### Key Data

**CNFI.BO | CANF IN**

52-W High / Low	Rs.843 / Rs.451
Sensex / Nifty	67,572 / 19,979
Market Cap	Rs.111bn/ \$ 1,350m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.545.69m

### Shareholding Pattern (%)

Promoter's	29.99
Foreign	10.72
Domestic Institution	27.97
Public & Others	31.32
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	10.6	59.5	59.6
Relative	3.7	43.1	30.8

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## Healthy earnings CAGR expected

### Quick Pointers:

- Earnings beat of ~15% driven by better NII/NIM and lower provisions.
- Further scope for earnings upgrade; see PAT CAGR of 18% over FY23-26E.

**We increase multiple from 2.1x to 2.3x as we raise FY24/25E PAT by average ~6.5% due to increase NIM and reduction in provisions. With RoA of 2.1% for FY24/25E, likely RoE trajectory has moved up from 16.5-17.0% to 18.0-18.5%. CANF reported yet another strong quarter with better PPoP and PAT led by NIM beat and lower provisions. Asset quality blip was due to slippage from OTR that was guided earlier. We have consistently upgraded earnings since the last 4 quarters and with likely PAT CAGR of 18% over FY23-26E, there are levers for further earnings upgrade given (1) 38% of loans are to be repriced upwards in FY24 (2) interest rates have peaked, high proportion of floating rate borrowings could benefit and (3) provisions could be lower as overlay is Rs170mn despite 70% reduction in OTR pool. Valuation at 2.2x on Mar'25 ABV suggests limited upside although earnings quality remains strong. Rolling forward to Sep'25 ABV, we raise TP to Rs950 from Rs770. Retain BUY.**

- **PPoP beat led by lower opex; core income beat due to lower tax rate:** NII was a beat at Rs2.85bn (PLe Rs2.67bn) as NIM surprised positively at 3.80% (PLe 3.56%). Yield improvement outpaced funding cost rise leading to increase in NIM of 21bps QoQ. Loan growth came in exactly in-line at 18% YoY to Rs325bn. Disbursals were a bit softer Rs19.7bn (PLe Rs20.3bn) that was offset by lower repayments at Rs10.24bn (PLe Rs11.05bn). Opex was largely in-line at Rs435mn (PLe Rs429mn). PPoP at Rs2.48bn was 6.3% higher to PLe. GNPA/NNPA deteriorated by 8bps each QoQ to 0.63%/0.34% while PCR dipped QoQ to 46.6% (52.3% in Q4'23). However, provisions were lower at Rs137mn (PLe Rs200mn). PAT was Rs1.84bn (PLe Rs1.6bn).
- **Growth guidance maintained; opex could rise:** ATS (Rs2.2mn) is expected to increase with focus on APF (Approved Project Files) initiatives which will open-up the Rs2.5-10.0mn segment. Loan growth guidance for FY24E has been maintained at 18-20% that will be driven by 1) ticket size rise of 3-4% due to inflation 2) high ticket loans under APF (4-5%) and 3) growth from existing branches (10%). Over next 2-3 years, company wants to reduce DSA sourcing from 80% to 60% while increase builder tie-up channel to 20%; balance 20% would be sourced from direct (10%) and digital (10%). Cost to income may inch to 18% over medium terms as 1) company plans to add ~15 branches per annum and 2) IT spends of Rs2.4bn would be incurred—Rs600mn capex (over 2 years) and Rs1.8bn of opex (over 7 years).
- **NIM to further improve, GNPA blip due to OTR slippage:** NIM improved by 21bps QoQ mainly due to catch up in loan yields. Out of Rs180bn, Rs55bn was repriced higher by 85bps in Q1FY24 while Rs125bn would be reset upwards in remaining FY24 with rate hike of 35-40bps. Hence, we raise NIM for FY24 by 8bps to 3.43%. GNPA rose by 8bps QoQ due to slippages of Rs300mn of which Rs195mn was attributable to OTR pool and balance was seasonal. As of Q1FY24, loans worth Rs4.75bn moved out of OTR with O/S restructured amount being Rs2.16bn, which will come up for repayment in Q3FY24. Buffer provisions of Rs170mn have not been utilized.

NII growth was 34.9% YoY/8.8% QoQ, as yields growth was higher than CoF.

PPoP increased by 11.6% QoQ led by higher NII.

Provisions were lower at Rs137mn.

Disbursements came down 22.5% QoQ, however lower repayments led to AuM growth at 18% YoY

NIMs increased sequentially by 21bps at 3.8%.

Asset Quality deteriorated sequentially, GNPA/NNPA increased to 0.63%/0.34% respectively.

#### Exhibit 1: Earnings beat led by higher NII and lower provisions

Financial Statement (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
Interest Income	8,181	6,065	34.9	7,521	8.8
Interest Expense	5,330	3,561	49.7	4,908	8.6
<b>Net interest income (NII)</b>	<b>2,851</b>	<b>2,504</b>	<b>13.9</b>	<b>2,613</b>	<b>9.1</b>
Other income	60	51	18.2	122	(50.7)
<b>Total income</b>	<b>2,911</b>	<b>2,555</b>	<b>13.9</b>	<b>2,735</b>	<b>6.4</b>
Operating expenses	435	405	7.4	517	(15.8)
<b>Operating profit</b>	<b>2,476</b>	<b>2,150</b>	<b>15.2</b>	<b>2,218</b>	<b>11.6</b>
Total provisions	137	(37)	N.A.	238	(42.4)
<b>Profit before tax</b>	<b>2,339</b>	<b>2,187</b>	<b>7.0</b>	<b>1,980</b>	<b>18.1</b>
Tax	504	565	(10.7)	322	56.7
<b>Profit after tax</b>	<b>1,835</b>	<b>1,622</b>	<b>13.1</b>	<b>1,658</b>	<b>10.7</b>
AUM (Rs mn)	325,050	275,380	18.0	315,630	3.0
Disbursements (Rs mn)	19,660	17,220	14.2	25,380	(22.5)
<b>Profitability ratios</b>					
<b>NIM (calc.)</b>	<b>3.8</b>	<b>4.0</b>	<b>(23)</b>	<b>3.6</b>	<b>21</b>
RoAA	2.2	2.4	(22)	2.3	(13)
RoAE	19.2	20.0	(87)	18.2	98
<b>Asset Quality ratios</b>					
Gross NPL (Rs m)	2,052	1,798	14.1	1,738	18.0
Net NPL (Rs m)	1,096	819	33.8	829	32.2
<b>Gross NPL ratio</b>	<b>0.6</b>	<b>0.7</b>	<b>(2)</b>	<b>0.6</b>	<b>8</b>
<b>Net NPL ratio</b>	<b>0.3</b>	<b>0.3</b>	<b>4</b>	<b>0.3</b>	<b>8</b>
Coverage ratio	46.6	54.4	N.A.	52.3	N.A.
<b>Business &amp; Other Ratios</b>					
Yield on Loans (%)	9.8	8.5	138	9.9	(3)
Cost of Borrowings (%)	7.3	5.8	152	7.5	(19)
Spread (%)	2.5	2.7	(14)	2.4	16
Cost/Income Ratio	14.9	15.8	(90)	18.9	(396)

Source: Company, PL

#### Exhibit 2: Loan Mix – Growth led by mortgage loans

AUM Book Details (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
<b>Housing Loans</b>	<b>289,590</b>	<b>246,840</b>	<b>17.3</b>	<b>281,210</b>	<b>3.0</b>
Top-up Personal	17,580	14,090	24.8	17,040	3.2
Mortgage Loans/Flexilap	14,050	11,010	27.6	13,570	3.5
Loans for Sites	2,660	2,320	14.7	2,650	0.4
Others	17,580	14,090	24.8	17,040	3.2
Staff Loans	210	210	-	200	5.0
Builder Loans	-	-	NA	-	NA

Source: Company, PL

## Q1FY24 Concall Highlights

### Assets/Liabilities

- **AUM grew by 18% YoY/3% QoQ** despite lower disbursements during the quarter at Rs19.6bn, as repayments were softer at Rs10.24bn. Disbursements were muted due to seasonality. However, management said market demand is robust supported by uptick in supply side stock and stabilization in rates. Company expects disbursements to pick up from now.
- **Total borrowings stood at Rs297bn in Q1FY24.** Net incremental bank borrowings raised during the quarter was Rs7bn whereas CP saw a slight uptick in borrowing mix due to favorable market opportunity. Share of NCD in incremental borrowing will have to maintained at 25%.
- **Average ticket size reduced to Rs2.2mn in Q1FY24** vs Rs2.4mn in Q4FY23. However, management expects ticket size to go up due to focus on APF (Approved Project Files) initiatives which will enable to penetrate the Rs2.5mn to Rs10mn segment.
- **Loan growth guidance of 18-20% maintained for FY24.** Growth would be attributable to 1) increase in ticket size due to inflation (3-4%) 2) high ticket size loans under APF structure (4-5%) and 3) 10% growth from existing branches.
- Capital raise would not be considered in near term as management is comfortable with 8x leverage. **RoA and RoE guidance given at 2.0-2.1% and 17-18% respectively.**
- Pre-payments usually amount to **Rs1.0bn-1.2bn in a month** whereas BT outs amount to **Rs1.0-1.2bn in a quarter.**

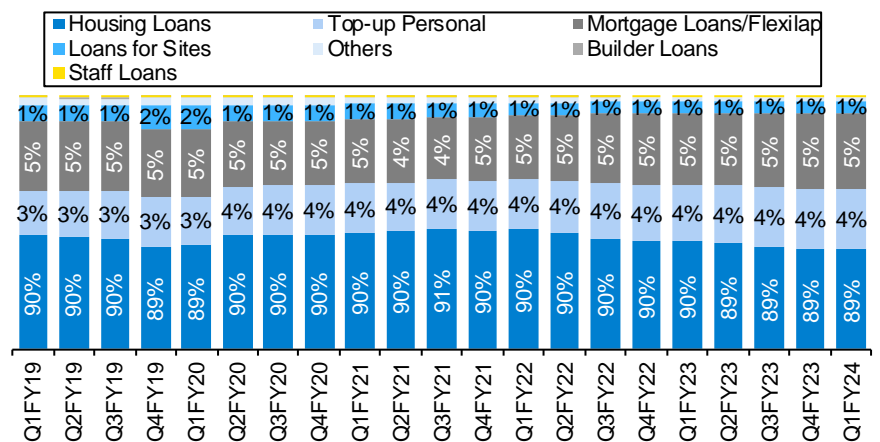
### NIMs/Opex/Branches

- **NIM increased by 21bps QoQ to 3.8% mainly due to lag effect of repricing of advances.** Out of Rs180bn loan book which was to be repriced in FY24, Rs55bn got repriced in Q1FY24 with average rate hike of 85bps. Balance Rs125bn would get repriced further with average rate hike of 35-40bps. Hence, company envisages NIM improvement of 3-5bps in next quarter while steady state spread/NIM was guided at 2.5%/3.5%.
- **Management plans to add 15 branches in FY24** – 4 branches in Q2, 8 in Q3 and balance 3 in Q4. Regional split would be 4 in south, 9 in north and west and 2 in east.
- **Distribution mix:** Company would like to reduce DSA share to 60% from current 80% over next 2-3 years. It has initiated builder tie-ups for sourcing and plans are to increase share of this channel to 20%. Another 10% each could come from direct sourcing and digital. DSA payout is at 0.43% of loans.
- **Cost to income ratio** may inch higher to ~18% in FY24 on account of branch expansion and IT infrastructure. IT spends are budgeted at Rs2.5bn which includes Rs600mn capex (spread over 2 years) and Rs1,800mn of opex (spread over 7 years)

## Asset Quality

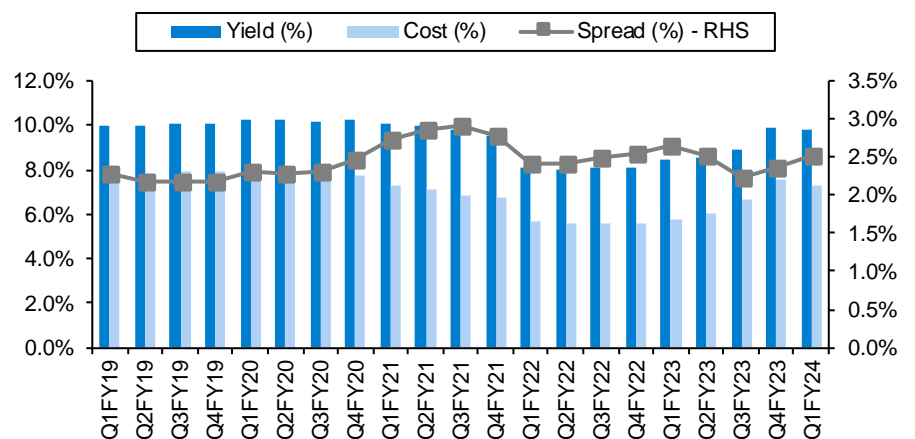
- **GNPA/NNPA increased by 8bps QoQ to 0.63%/0.34%.** Slippages were Rs300mn of which Rs195mn were attributable to OTR pool and balance due to seasonality. Management expects NPAs to be <0.7% for FY24. Asset quality split: Stage 1 – Rs303bn; Stage 2- Rs12.6bn and Stage 3- Rs2.05bn.
- **As on Q1FY24,** loans worth Rs4.75bn came out of OTR book with outstanding amount at Rs2.16bn. Slippages from OTR book amounted to Rs195mn. Management expects ~10% NPAs from this book.
- **PCR declined to 46.6% in Q1FY24** vs 52.3% in Q4FY23. Company continues to carry management overlay of Rs170mn.

### Exhibit 3: Loan Book continues to remain dominated by Housing (89% share)

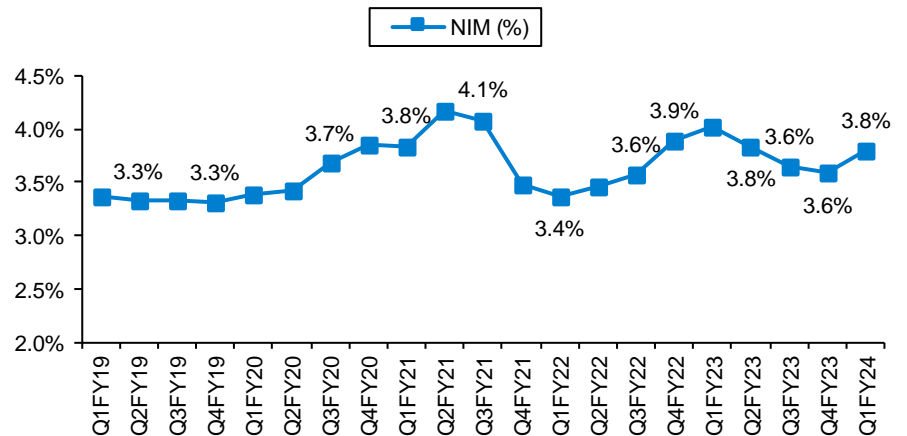


Source: Company, PL

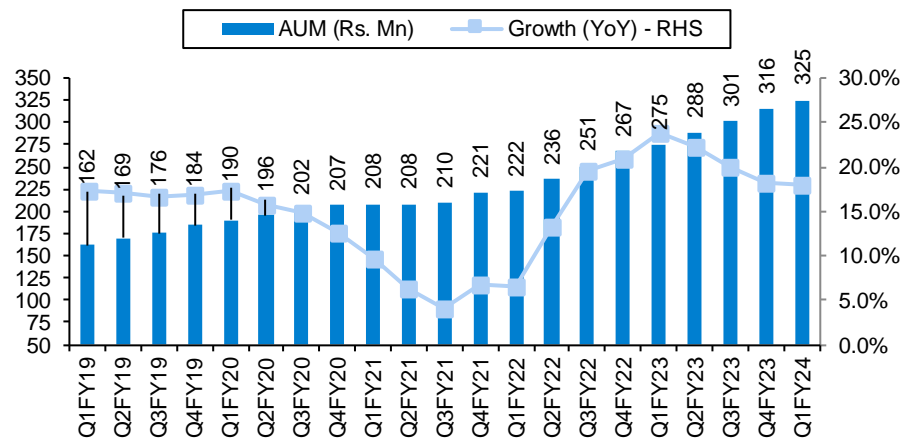
### Exhibit 4: Spreads grew by 16bps QoQ as yields outpaced CoFs



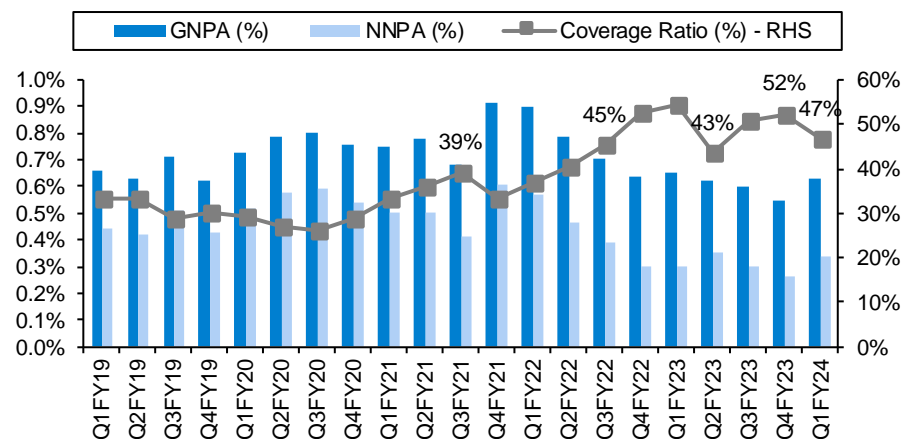
Source: Company, PL

**Exhibit 5: NIMs improve to 3.8% led by improvement in yields**


Source: Company, PL

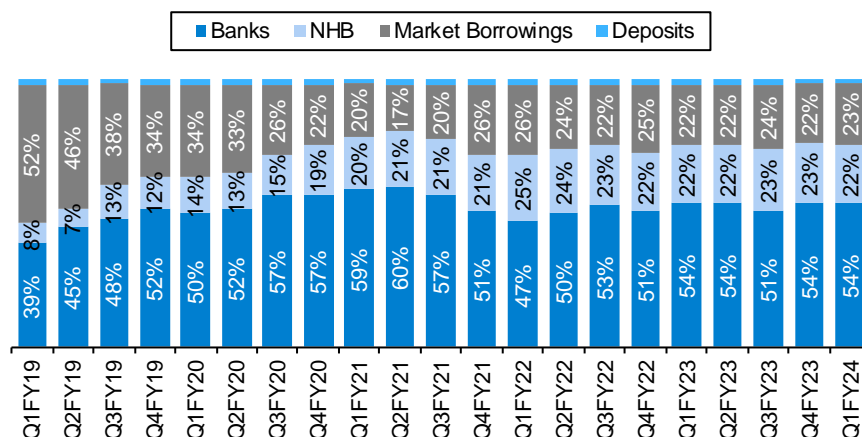
**Exhibit 6: AUM growth was 18% YoY supported by lower repayment rate**


Source: Company, PL

**Exhibit 7: GNPA/NNPA increased to 0.63%0.34%, PCR declined to 47%**


Source: Company, PL

Exhibit 8: Borrowing mix largely stable; banks share at 54%



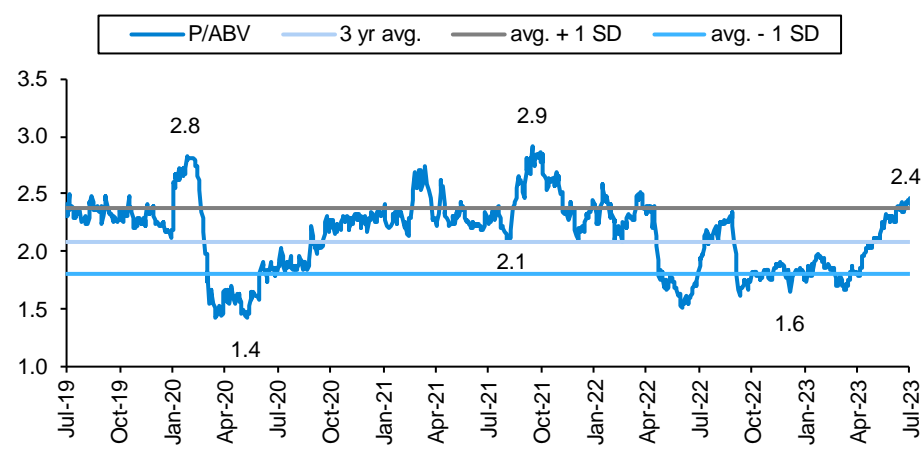
Source: Company, PL Research

Exhibit 9: ROEs to improve on lower provision and better NIMs

RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	10.3	9.9	10.1	9.3	7.9	8.9	10.0	9.1
Interest expenses	6.8	6.8	6.7	5.6	4.6	5.6	6.5	5.7
<b>Net interest income</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>	<b>3.4</b>
Other Inc. from operations	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total income</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.5</b>
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
<b>Operating profit</b>	<b>3.1</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>2.7</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>
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	0.14	0.2	0.2
<b>RoAA</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>
<b>RoAE</b>	<b>21.3</b>	<b>18.2</b>	<b>19.1</b>	<b>19.2</b>	<b>16.6</b>	<b>18.5</b>	<b>18.8</b>	<b>18.3</b>

Source: Company, PL

Exhibit 10: One year forward P/ABV of Can Fin trades at 2.4x



Source: Company, PL

### Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Inc. / Opt. Inc.	19,697	27,154	35,826	38,564
Interest Expenses	11,535	17,009	23,402	24,140
<b>Net interest income</b>	<b>8,162</b>	<b>10,146</b>	<b>12,424</b>	<b>14,423</b>
Growth(%)	2.3	24.3	22.5	16.1
Non-interest income	188	277	300	337
Growth(%)	56.2	47.1	8.3	12.4
Net operating income	8,350	10,423	12,724	14,761
<b>Expenditures</b>				
Employees	768	837	998	1,159
Other Expenses	664	803	1,096	1,301
Depreciation	98	125	140	166
Operating Expenses	1,530	1,765	2,234	2,627
<b>PPP</b>	<b>6,820</b>	<b>8,658</b>	<b>10,490</b>	<b>12,134</b>
Growth(%)	(0.6)	26.9	21.2	15.7
Provisions	469	418	787	800
<b>Profit Before Tax</b>	<b>6,351</b>	<b>8,240</b>	<b>9,703</b>	<b>11,334</b>
Tax	1,640	2,028	2,198	2,607
Effective Tax rate(%)	25.8	24.6	22.7	23.0
<b>PAT</b>	<b>4,711</b>	<b>6,212</b>	<b>7,505</b>	<b>8,727</b>
Growth(%)	3.3	31.9	20.8	16.3

### Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Source of funds</b>				
Equity	266	266	266	266
Reserves and Surplus	30,400	36,206	43,261	51,465
Networth	30,666	36,473	43,527	51,731
Growth (%)	17.5	18.9	19.3	18.8
Loan funds	2,46,477	2,90,681	3,42,364	3,99,832
Growth (%)	27.8	17.9	17.8	16.8
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,046	3,156	2,096	2,434
Other Liabilities	255	395	713	832
<b>Total Liabilities</b>	<b>2,79,443</b>	<b>3,30,705</b>	<b>3,88,701</b>	<b>4,54,830</b>
<b>Application of funds</b>				
Net fixed assets	346	454	499	549
Advances	2,63,781	3,11,933	3,66,251	4,28,397
Growth (%)	20.5	18.3	17.4	17.0
Investments	11,260	14,590	17,210	20,303
Current Assets	3,252	3,096	4,066	4,756
<b>Net current assets</b>	<b>1,206</b>	<b>(60)</b>	<b>1,970</b>	<b>2,322</b>
Other Assets	805	631	675	824
<b>Total Assets</b>	<b>2,79,443</b>	<b>3,30,705</b>	<b>3,88,701</b>	<b>4,54,830</b>
Growth (%)	26.6	18.3	17.5	17.0
<b>Business Mix</b>				
AUM	2,67,110	3,15,630	3,69,304	4,31,969
Growth (%)	20.8	18.2	17.0	17.0
On Balance Sheet	2,67,110	3,15,630	3,69,304	4,31,969
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

### Profitability & Capital (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	3.2	3.3	3.4	3.4
ROAA	1.9	2.0	2.1	2.1
ROAE	16.6	18.5	18.8	18.3

Source: Company Data, PL Research

### Quarterly Financials (Rs. m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Int. Inc. / Operating Inc.	6,522	7,046	7,521	8,181
Income from securitization	-	-	-	-
Interest Expenses	4,010	4,529	4,908	5,330
<b>Net Interest Income</b>	<b>2,512</b>	<b>2,517</b>	<b>2,613</b>	<b>2,851</b>
Growth (%)	31.0	22.2	10.1	13.9
Non-Interest Income	54	51	122	60
<b>Net Operating Income</b>	<b>2,566</b>	<b>2,568</b>	<b>2,735</b>	<b>2,911</b>
Growth (%)	30.2	20.9	12.7	13.9
Operating expenditure	405	438	517	435
<b>PPP</b>	<b>2,161</b>	<b>2,129</b>	<b>2,218</b>	<b>2,476</b>
Growth (%)	-	-	-	-
Provision	132	84	238	137
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	2,028	2,045	1,980	2,339
Tax	611	530	322	504
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	30.1	25.9	16.3	21.6
<b>PAT</b>	<b>1,417</b>	<b>1,515</b>	<b>1,658</b>	<b>1,835</b>
Growth	15	31	35	13
AUM	2,88,229	3,01,150	3,15,630	3,25,050
YoY growth (%)	22.2	20.0	18.2	18.0
Borrowing	2,61,313	2,78,000	2,91,367	2,97,000
YoY growth (%)	26.2	18.0	18.2	16.9

### Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	831	831	831	831
EPS (Rs)	35.4	46.6	56.4	65.5
Book value (Rs)	230.3	273.9	326.9	388.5
Adj. BV(Rs)	224.2	267.7	318.2	377.0
P/E(x)	23.5	17.8	14.7	12.7
P/BV(x)	3.6	3.0	2.5	2.1
P/ABV(x)	3.7	3.1	2.6	2.2
DPS (Rs)	3.5	3.0	3.4	3.9
Dividend Payout Ratio(%)	9.9	6.4	6.0	6.0
Dividend Yield(%)	0.4	0.4	0.4	0.5

### Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs(Rs m)	1,706	1,738	2,314	3,050
Net NPA(Rs m)	807	829	1,156	1,526
Gross NPAs to Gross Adv.(%)	0.6	0.6	0.6	0.7
Net NPAs to net Adv.(%)	0.3	0.3	0.3	0.4
NPA coverage(%)	52.7	52.3	50.0	50.0

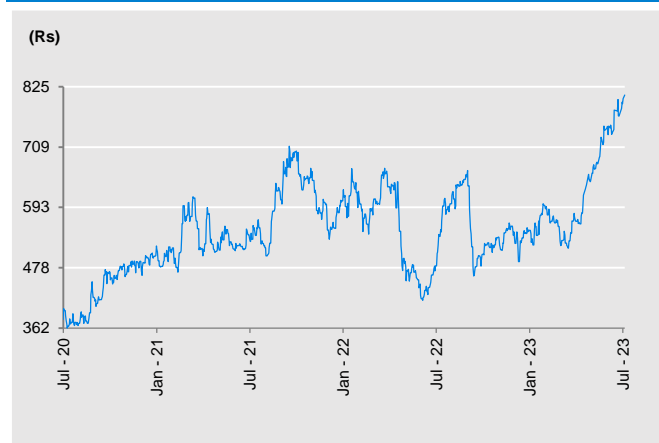
### Du-Pont as a % of AUM

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	3.3	3.3	3.4	3.4
NII INCI. Securitization	3.3	3.3	3.4	3.4
Total income	3.3	3.4	3.5	3.5
Operating Expenses	0.6	0.6	0.6	0.6
PPOP	2.7	2.8	2.9	2.9
Total Provisions	0.2	0.1	0.2	0.2
RoAA	1.9	2.0	2.1	2.1
Avg. Assets/Avg. net worth	8.8	9.1	9.0	8.9
RoAE	16.6	18.5	18.8	18.3

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	770	769
2	28-Apr-23	BUY	770	617
3	11-Apr-23	BUY	700	581
4	20-Mar-23	BUY	700	530
5	20-Jan-23	BUY	700	521
6	05-Jan-23	BUY	700	545
7	19-Oct-22	BUY	700	524
8	05-Oct-22	BUY	675	497
9	23-Jul-22	BUY	675	538

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,538
2	Axis Bank	BUY	1,140	981
3	Bank of Baroda	BUY	235	205
4	Can Fin Homes	BUY	770	769
5	City Union Bank	Accumulate	160	131
6	DCB Bank	BUY	150	129
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,100	2,260
10	HDFC Bank	BUY	2,025	1,679
11	ICICI Bank	BUY	1,130	959
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,390
14	Kotak Mahindra Bank	BUY	2,220	1,877
15	LIC Housing Finance	Hold	410	398
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	593
18	UTI Asset Management Company	BUY	830	811

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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