

Oct 19, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

# CAN FIN Homes Limited

## Poised for sustained strong performance

### Stronger core earnings performance aided by NIM expansion; NPLs rose sharply though

Can Fin's core earnings performance, adjusted for Ambala fraud write-off (Rs400mn) and management overlay provisions (Rs170mn), was better than expectations even with elevated NPA provisions (Rs160mn v/s Rs50mn in Q1) manifested in solid RoA/RoE delivery of 2.2%/18.8%. The core earnings beat came from a stronger-than-anticipated NIM performance (improved from 3.48% to 3.63%) even as loan growth was in-line (2.6% qoq/15.7% yoy). Credit cost was higher with significant slippages (more than management guidance) from the restructured pool where billing had resumed by June, which also drove a GNPL increase of 24% qoq (level rising to 76 bps). Additional management overlay provisions were made to cushion future P&L against anticipated slippages from restructured pool (~Rs2.3bn) coming out of moratorium after July. Loan disbursements in Q2 FY24 were modest (in-line with management indications), being impacted by strengthening of processes/systems (additional layers of controls). The significant expansion in Spread/Margin was solely driven by improvement in portfolio yield which was caused by the lagged repricing benefits.

### Disbursement activity to improve and credit cost to normalize

With main operational changes implemented including centralized reconciliation, centralized disbursements and credit risk monitoring mechanism, the loan originations trajectory is expected to improve from Oct-Nov. As per management, the traction has been encouraging in APF channel (developer tie-ups for approved projects) and in enquiries/logins in general (suggesting no softening of demand). The above-mentioned critical changes have not impacted operational rigor/TAT as sanctioning authority remains with branches and scheduling of centralized disbursements is being done effectively. Can Fin expects to disburse Rs60bn in H2 FY24 v/s Rs40bn in H1 and grow disbursements by 20% pa in coming years. Some of the drivers of growth would be 1) more-than-usual growth in incremental loan ATS due to increasing contribution of APF channel, 2) opening of meaningful branches particularly in non-South regions and 3) competitive pricing of loans for both new customers and existing customers (to manage BT Out) with Margin/Spread currently above the guided range.

The margins have some cushion in the near term from further repricing benefits (on smaller part of the book) and availment of NHB funding. In longer term, margins would benefit from the decline in repo rate. Besides the flow from restructured book, Can Fin's asset quality have been stable both in terms of GNPLs (0.57%) and credit cost. Though some more slippages are expected from the restructured portfolio in H2 FY24, the credit cost is estimated to normalize (10-20 bps) underpinned by the additional provisions (std. restructured + management overlay) aggregating Rs1bn being carried.

### Upgrade to BUY; performance to get better in coming quarters

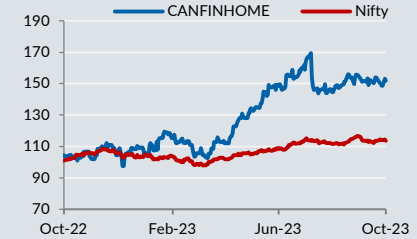
We see Can Fin's core operating performance getting stronger in coming quarters on the back of rekindled business activity, range-bound margins, and lower credit cost. The co. has strengthened its operations with additional control, monitoring and risk management mechanisms and would be upgrading its tech platform. The growth impetus has improved with the development of APF and Digital channels besides the usual DSA and Branch channels. Credit cost is expected to stabilize and GNPLs trend in the non-restructured portfolio indicate this. Over FY23-26, we estimate loan CAGR of 16-17% and avg. RoA/RoE delivery of 2.1%/18%. Can Fin would likely raise equity capital when it sees growth sustaining above 18% (prefers to cap balance sheet gearing at 8x). Our PAT and ABV estimates have undergone mild upgrades. Upgrade rating to BUY and 12m PT to Rs916.

Reco	: BUY
CMP	: Rs 763
Target Price	: Rs 916
Potential Return	: 20.1%

#### Stock data (as on Oct 18, 2023)

Nifty	19,671
52 Week h/l (Rs)	910 / 486
Market cap (Rs/USD mn)	102296 / 1229
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn)	596
Div. yield (%)	0.5
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

#### Stock performance



	1M	3M	1Y
Absolute return	-0.9%	-4.4%	45.5%

#### Shareholding pattern

Promoter	30.0%
FII+DII	38.7%
Others	31.3%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	REDUCE
Target Price	916	756

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	55.4	65.7	76.4
EPS (Old)	53.2	64.4	-
% Change	4.0%	2.1%	-

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	12,725	14,583	16,872
PPOP	10,554	11,935	13,879
Net profit	7,371	8,755	10,179
Growth (%)	18.7	18.8	16.3
EPS (Rs)	55.4	65.7	76.4
ABVPS (Rs)	319.4	381.7	454.5
P/E (x)	13.8	11.6	10.0
P/ABV (x)	2.4	2.0	1.7
ROE (%)	18.4	18.3	17.9
ROA (%)	2.1	2.1	2.1

#### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 22 6885 0521



MANUJ OBEROI, Associate

## Exhibit 1: Result table

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	8,710	8,240	5.7	6,575	32.5
Interest expended	(5,484)	(5,330)	2.9	(4,010)	36.8
Net Interest Income	3,226	2,910	10.9	2,565	25.8
Other Income	0.1	1.3	(89.2)	0.7	(81.2)
Total Income	3,226	2,911	10.8	2,566	25.7
Operating expenses	(524)	(435)	20.5	(405)	29.5
PPOP	2,702	2,476	9.1	2,161	25.0
Provisions	(722)	(137)	426.7	(132)	445.6
PBT	1,980	2,339	(15.3)	2,028	(2.4)
Tax	(399)	(504)	(20.9)	(611)	(34.7)
Reported PAT	1,581	1,835	(13.8)	1,417	11.5

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Loan Book	333,590	325,050	2.6	288,230	15.7
Salaried	241,550	236,440	2.2	213,480	13.1
Housing	220,670	216,020	2.2	195,620	12.8
Top-up Personal	10,200	9,900	3.0	8,520	19.7
Mortgage/Flex LAP	8,430	8,290	1.7	7,290	15.6
Loans for sites	1,840	1,820	1.1	1,710	7.6
Others	410	410	-	340	20.6
Non-Salaried	91,820	88,400	3.9	74,540	23.2
Housing	76,560	73,570	4.1	62,280	22.9
Top-up Personal	4,370	4,150	5.3	3,360	30.1
Mortgage/Flex LAP	9,500	9,290	2.3	7,630	24.5
Loans for sites	870	840	3.6	710	22.5
Others	520	550	(5.5)	560	(7.1)
Staff Loans	220	210	4.8	210	4.8

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	3.8	3.5	0.3	3.6	0.3
Yield	10.1	9.8	0.2	8.6	1.4
Cost of Funds	7.3	7.3	-	6.2	1.1
Spread	2.8	2.5	0.2	2.5	0.3
Cost to Income*	16.2	14.9	1.3	15.8	0.5
Gross NPA	0.8	0.6	0.1	0.6	0.1
Net NPA	0.4	0.3	0.1	0.4	0.1
PCR*	44.0	46.6	(2.6)	43.4	0.6
RoA	1.9	2.2	(0.3)	2.1	(0.2)
RoE	16.0	19.2	(3.2)	16.8	(0.9)

Source: Company, YES Sec; \*Calculated.

## KEY CON-CALL HIGHLIGHTS

### Disbursements & Loan Growth

- Modest disbursements in Q2 FY24 were in-line with management indications, being impacted by strengthening of processes/systems (additional layers of controls).
- Key operational changes of centralized disbursements and centralized reconciliation were complete by early October.
- Can Fin expects to disburse Rs100bn+ in the year after having disbursed ~Rs40bn in H1. The shortfall of Q2 would be significantly made good in H2.
- Centralization of disbursements not impacting operational rigor/TAT as sanctioning authority remains with the branches and scheduling of disbursements is being done effectively.
- Avg incremental loan tickets would see more than usual growth going ahead due to increasing contribution of APF channel where traction has been building encouragingly. Under APF channel, Can Fin is looking to approve 350+ projects by the end of the year.
- DSA sourcing share near 80% currently, but likely to come down to 60% in three years – remaining 40% would come from branch walk-in (10%), digital sourcing (post tech upgradation) and builder tie-ups (20%).
- Co. would be offering competitive rates in higher ticket sizes to new customers (<9% for higher CB scores) and existing customers (controlling BT Out) due to comfortable margin/spread position (trending above the guided range).
- Growth would also get support from opening of 9 branches in remainder of the year.
- Traction in loan enquiries and logins has been encouraging. Can Fin has not seen any slowdown in demand in any market.
- Management aspires to deliver 20% pa disbursement growth over the next three years, which would translate into 18% pa AUM growth.
- Current gearing <8x and would not prefer to exceed 8x.
- 18% growth would be met from internal accruals – capital raise would be required only for much stronger growth.

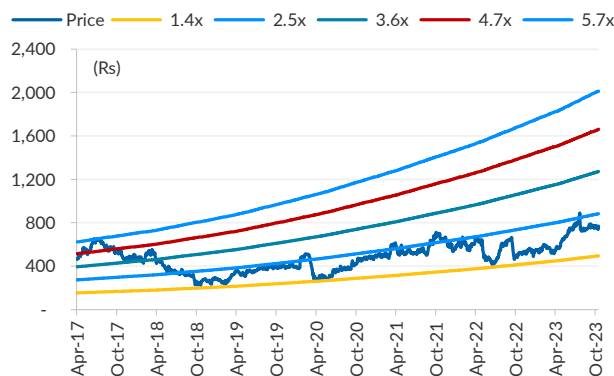
### NIM, Funding & Opex

- Reasons for portfolio yield improvement were a) full benefit of the ~Rs55bn loans re-pricing (by 85 bps) in Q1 and 2) partial benefit of another Rs57bn portfolio re-pricing (by 25 bps) in Q2. Another Rs60bn of loan portfolio to witness re-pricing (by 25 bps) in Q3.
- While CoF was flat qoq, it included 1) some increase in rates of MCLR-linked bank loans and 2) decline in CP rates. There was no change in borrowing cost of Repo-linked bank loans.
- Though NCD rates are lower than preceding quarters, Can Fin has not done any issuance in current fiscal.
- Share of NHB borrowings has come down, but could increase in H2 as sanction is awaited in Oct-Nov.
- Management maintaining Spread/NIM guidance of 2.5%/3.5%, as higher levels would be utilized for delivering better growth.
- Looking at 18% C/I ratio for the year due to planned tech investment and branch addition.
- Confident of maintaining RoA of 2% in the future.

## Asset Quality & Credit Cost

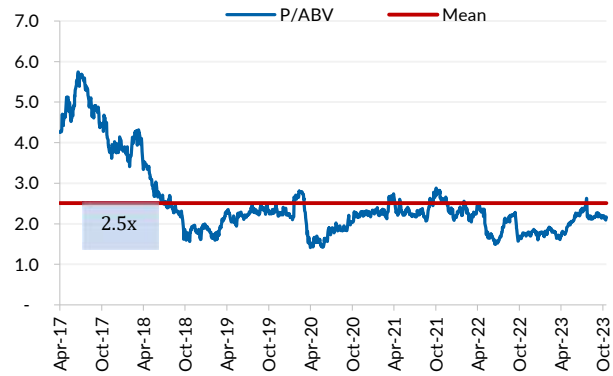
- NPL addition from the restructured book (RB) has been higher than expectation. So far ~14% of the restructured pool where billing has started till June (Rs4.6bn) has slipped v/s earlier expectation of 10%.
- Of the overall restructured portfolio Rs6.8bn, remaining ~Rs2.2bn would come out of moratorium during July-Nov and 13-14% slippages (~Rs300mn) can be expected in H2.
- Gross NPA increase in non-restructured portfolio has been in line with seasonal patterns.
- Though GNPLs would increase in H2 due to flow from recently billed restructured portfolio, the impact would be mitigated by some recoveries.
- By topping-up Management Overlay by Rs170mn in Q2, the co. has largely addressed the future need for provisioning on the incremental restructured flow.
- Can Fin also holds Rs680mn of provisions on the std. restructured assets (being classified as Stage-2) which buffers its overall ECL coverage. Thus, the co. may not make additional Management Overlay.
- Stage-3 PCR including Management Overlay stands at 57%.
- Credit cost expected to be 10 bps on steady-state basis.

**Exhibit 4: 1-yr rolling P/ABV band**



Source: Company, YES Sec

**Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
<b>Equity and Liabilities</b>					
Equity Capital	266	266	266	266	266
Other Equity	30,400	36,206	43,266	51,710	61,577
<b>Shareholder's funds</b>	<b>30,666</b>	<b>36,473</b>	<b>43,532</b>	<b>51,976</b>	<b>61,844</b>
<b>Financial Liabilities</b>	<b>248,311</b>	<b>293,665</b>	<b>334,033</b>	<b>388,300</b>	<b>453,327</b>
Trade payables	56	80	80	80	80
Debt Securities	60,720	63,110	71,788	83,453	97,431
Borrowings (excl. debt securities)	179,818	222,191	252,742	293,812	343,026
Deposits	4,911	4,352	4,950	5,754	6,718
Other Financial Liabilities	2,806	3,932	4,473	5,200	6,071
<b>Non-Financial Liabilities</b>	<b>467</b>	<b>567</b>	<b>624</b>	<b>686</b>	<b>755</b>
Provisions	255	339	373	410	451
Other non-financial liabilities	212	228	251	276	304
<b>Total Liabilities + Equity</b>	<b>279,443</b>	<b>330,705</b>	<b>378,189</b>	<b>440,963</b>	<b>515,925</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>278,352</b>	<b>329,729</b>	<b>377,167</b>	<b>439,891</b>	<b>514,802</b>
Cash and Cash Equivalents	27	19	724	426	954
Bank balances	3,214	3,066	766	766	766
Receivables	11	11	11	11	11
Loans	263,781	311,933	359,495	419,777	490,954
Investments	11,260	14,590	16,049	18,778	21,970
Other Financial Assets	59	110	121	133	146
<b>Non- Financial Assets</b>	<b>1,092</b>	<b>976</b>	<b>1,022</b>	<b>1,072</b>	<b>1,123</b>
Current tax assets (Net)	230	0	0	0	0
Deferred tax assets (Net)	477	484	509	534	561
Property, Plant and Equipment	346	454	477	501	526
Other Non-Financial Assets	38	37	37	37	37
<b>Total Assets</b>	<b>279,443</b>	<b>330,705</b>	<b>378,189</b>	<b>440,963</b>	<b>515,925</b>

Source: Company, YES Sec

## Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	19,878	27,420	35,177	39,351	44,486
Interest expense	(11,535)	(17,009)	(22,466)	(24,785)	(27,634)
<b>Net interest income</b>	<b>8,343</b>	<b>10,411</b>	<b>12,711</b>	<b>14,567</b>	<b>16,852</b>
Non-interest income	7	11	14	16	20
Total op income	8,350	10,423	12,725	14,583	16,872
Total op expenses	(1,530)	(1,765)	(2,171)	(2,648)	(2,993)
<b>PPoP</b>	<b>6,820</b>	<b>8,658</b>	<b>10,554</b>	<b>11,935</b>	<b>13,879</b>
Provisions	(469)	(418)	(1,104)	(710)	(829)
Profit before tax	6,351	8,240	9,450	11,225	13,050
Taxes	(1,640)	(2,028)	(2,079)	(2,469)	(2,871)
<b>Net profit</b>	<b>4,711</b>	<b>6,212</b>	<b>7,371</b>	<b>8,755</b>	<b>10,179</b>

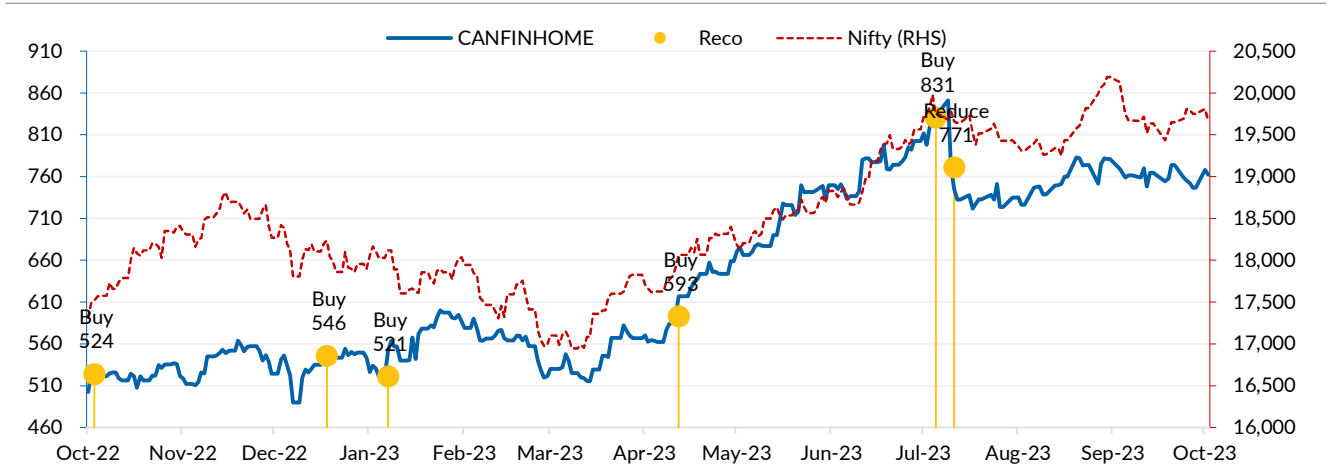
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	3.0	24.8	22.1	14.6	15.7
Total op income	3.1	24.8	22.1	14.6	15.7
Op profit (pre-provision)	(0.6)	26.9	21.9	13.1	16.3
Net profit	3.3	31.9	18.7	18.8	16.3
Loans	20.5	18.3	15.2	16.8	17.0
Borrowings + Debt	29.8	23.6	13.8	16.3	16.8
Total assets	26.6	18.3	14.4	16.6	17.0
<b>Profitability Ratios (%)</b>					
NIM	3.4	3.6	3.7	3.7	3.7
Return on Avg. Equity	16.6	18.5	18.4	18.3	17.9
Return on Avg. Assets	1.9	2.0	2.1	2.1	2.1
<b>Per share ratios (Rs)</b>					
EPS	35.4	46.6	55.4	65.7	76.4
Adj. BVPS	224.2	267.7	319.4	381.7	454.5
DPS	1.5	2.0	2.0	2.0	2.0
<b>Other key ratios (%)</b>					
Loans/Borrowings	107.5	107.7	109.1	109.6	109.8
Cost/Income	18.3	16.9	17.1	18.2	17.7
Gross NPLs/Loans	0.6	0.6	0.5	0.5	0.5
Credit Cost	0.2	0.1	0.3	0.2	0.2
Net NPLs/Net loans	0.3	0.3	0.3	0.3	0.3
Tax rate	25.8	24.6	22.0	22.0	22.0
Dividend yield	0.2	0.3	0.3	0.3	0.3

Source: Company, YES Sec

## Recommendation Tracker



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**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.