Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Can Fin Homes Ltd

Mixed Q2: Higher NIMs Boost Earnings, Asset Quality Wavers

NBFC	Sharekhan code: CANFINHOME	
Reco/View: Buy ⇔	CMP: **Rs. 763**	Price Target: **Rs. 960** ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

Summary

- Can Fin Homes Limited (CFHL) reported 11% y-o-y growth in PAT to Rs158 cr, (~9% higher than our estimates) led by higher NIMs (cal.) at ~3.85% vs 3.56% q-o-q (due to repricing of asset book) offsetting higher credit cost.
- NIMs are expected to top out in H2FY24 as the full impact of repricing would come. On the asset quality front, higher slippages came from restructured book which led to a deterioration in asset quality.
- Higher credit cost (88 bps vs 17 bps q-o-q) was on account of - one-off (fraud amount earlier disclosed) and additional provisions made on the restructured book.
- Loan book grew by 16% yoy/ 3% q-o-q while disbursements declined by 10% YoY / but were up by 3%. The company expects to gain momentum in H2FY24. At the CMP, the stock trades at 2.3x/2.0x its FY2024E/FY2025 BV estimates. We maintain our Buy rating with an unchanged PT of Rs. 960.

CFHL reported mixed performance in Q2FY24. NII grew by 26% y-o-y/11% q-o-q on strong margin. NIM (on avg loans) rose to 29 bps sequentially at 3.85%. The yield on loans rose to 10.1% (vs 9.8% q-o-q), while cost of borrowings (CoB) remained flat in line with the company's guidance in the previous quarter. Spread rose by 23 bps sequentially to 2.75% in the quarter under review. Opex grew by 28% y-o-y/20% q-o-q. Cost-to-income ratio remained at 16% (vs 15% q-o-q). PPOP growth remained strong at 25% y-o-y/9% q-o-q, though high provisioning weighs on the bottom line. Provisioning rose to Rs72 cr (vs Rs14 cr in Q1FY2024) led by Rs40 cr provision created against the fraud and Rs17 cr of management overlay. During the month of July, the company unearthed a fraud involving its staff in Ambala. Fund defalcation due to fraud quantified at Rs40 cr, which has been fully provided during the quarter. GNPA/NNPA increased to 0.76%/0.43% in Q2FY24 v/s 0.63%/0.34% in the previous quarter due to higher slippage from the restructured pool (Rs64 cr vs Rs20 cr q-o-q). The company further expects slippages from the restructured book as the book fully runs downs by Q3FY24.

Key positives

- Strong NIM expansion leading to higher NII growth.

Key negatives

- Weak disbursements growth
- Higher slippages from restructured book

Management Commentary

- Management guided for Rs10,000 crore of disbursements for FY24.
- Around Rs6,000 cr of asset portfolio is yet to be repriced.
- Company further expects slippages from restructured book as the book fully run downs by Q3FY24.

Our Call

Valuation – We reiterate a Buy on Can Fin Homes with an unchanged PT of Rs. 960: At the CMP, the stock trades at P/BVx of 2.3/2.0 FY2024E/FY2025E BV estimates. we remain assertive on real estate volumes for HFCs in the salaried/prime markets. We expect steady mid-to-high teen growth in this segment to continue. Smaller HFCs in the affordable space deliver high growth by penetrating newer geographies. Overall, asset-quality trends are stable except for the restructured book, which will likely run down by H2FY24. We expect CHFL to deliver loan growth of 18-20% and RoA/RoE of over ~2.0/~18% over FY2023-FY2025E.

Key Risks

The economic slowdown may impact the company's growth trajectory and lead to a deterioration in asset quality. Higher-than-expected slippage from the restructured book. Risk of slowing down of growth.

Valuation 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)	21.5	16.4	14.2	11.7
P/BV (x)	3.3	2.8	2.3	2.0
RoA	1.9	2.0	2.0	2.0
RoE	16.6	18.5	17.8	18.2

Source: Company; Sharekhan estimates

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 30.48
Updated Aug 08, 2023

High Risk

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

Source: Morningstar

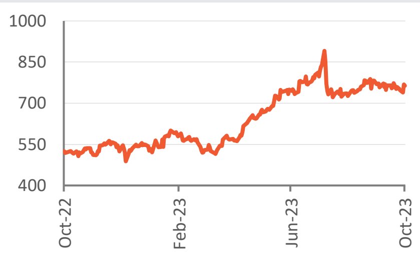
Company details

Market cap:	Rs. 10,160 cr
52-week high/low:	Rs. 905 / 486
NSE volume: (No of shares)	18.6 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	11.4
DII	27.4
Others	31.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	-4.4	35.4	45.4
Relative to Sensex	1.7	-3.0	25.1	33.7

Sharekhan Research, Bloomberg

Key Result Highlights

- **Strong NII growth led by assets repricing:** NII grew by a stronger pace of 26% y-o-y/11% q-o-q as the last rate hike passed on ~Rs5,700 cr of the portfolio during the quarter, boosting interest income. Spread rose by 23 bps sequentially to 2.75% in the quarter under review as YoA rose to 10.1% (vs 9.8% q-o-q), while the cost of borrowings (CoB) remained flat as the company guided in the previous quarter. The company raised CP at a lower rate, which offset the impact of the increase in MCLR on term loans. NIM surprised positively as NIM (on average loans) rose to 29 bps sequentially at 3.85%. Around Rs6,000 cr of the portfolio remains in the book, where the full benefit of rate hike indicates a boost for YoA.
- **Loan book sustains high double-digit growth:** Loan book grew at 16% YoY/3%Q-o-q in Q2FY2024 as compared to 18% y-o-y/3% q-o-q in Q1FY2024. Disbursements, however continued to remain weak, declining by 10% YoY. It rose bu 3% sequentially on lower base as disbursements were down by 23% q-o-q on a seasonally weak quarter. Subdued demand in disbursements in Q2FY2024 due to the cautious approach adopted by management after the Ambala fraud case. However, management is optimistic about loan disbursement growth as the second half of the fiscal year is generally better for the housing finance industry. The company guided for Rs10,000 cr of disbursements for FY24.
- **Cost guidance:** Opex grew by 28% y-o-y/20% q-o-q. Cost-to-income ratio remained at 16% (vs 15% q-o-q). The management said it targets opening 15-20 branches per year, however, its focus on IT transformation may drive C/I ratio higher. It guides the C/I ratio at 17-18% for the next two fiscals, which subsequently normalize to ~16% level.
- **Higher slippages from restructured book deteriorates asset quality:** GNPA/NNPA increased to 0.76%/0.43% in Q2FY24 v/s 0.63%/0.34% in the previous quarter. The increase in GNPA was mainly driven by higher slippages of Rs64 cr from the restructured book. Slippage rate from the restructure book stood at 14% (vs management's estimate of 10%). Management expects further slippages from ~Rs216 cr of restructure book at a similar rate in the coming quarter. It expects slippages from the restructured book to be over by FY24.

Results — Rs cr

Particulars	Q2FY23	Q1FY24	Q2FY24	Y-o-Y %	Q-o-Q %
Net Interest Income	251	285	317	26.2%	11.2%
Fee & Other income	5	6	6	11.1%	-0.1%
Total Income	257	291	323	25.9%	11.0%
Operating Expenses	41	43	52	28.4%	19.6%
Operating Profits	216	248	270	24.9%	9.0%
Provisions	13	14	72	445.5%	425.3%
PBT	203	234	198	-2.4%	-15.3%
Tax	61	50	40	-34.7%	-20.9%
PAT	142	183	158	11.4%	-13.9%

Source: Company; Sharekhan Research

Outlook and Valuation

- **Sector View –** Housing demand to grow at a steady rate Long-term structural drivers remain strong for mortgages in India. We have not seen any major signs of a slowdown in the real estate sector. With prices being stable, affordability remains strong. Hence, we remain assertive on real estate volumes for HFCs in the salaried/prime markets. We expect steady mid-to-high teen growth in this segment to continue. Smaller HFCs in the affordable space are delivering high growth by penetrating newer geographies. Moreover, the interest rate cycle is closer to its peak, which could act as a tailwind. Overall, asset-quality trends are stable to positive for the sector.

- **Company Outlook –** Attractive Franchise CHFL has shown its ability to deliver superior return ratios metrics, navigated stiff competition from the bank, and its asset quality continues to be the best in class among peers. With a strong parentage, it enjoys low funding cost, enabling it to raise funds through diversified sources at competitive rates. We expect a healthy trajectory in loan growth and stable asset-quality trends to be sustained. Higher opex growth is expected to be offset by margin tailwinds as we advance.

- **Valuation – We reiterate a Buy on Can Fin Homes with an unchanged PT of Rs. 960:** At the CMP, the stock trades at P/BVx of 2.3/2.0 FY2024E/FY2025 BV estimates. Housing loan market is estimated to grow ~15% y-o-y over the coming fiscals, which presents strong growth tailwinds for smaller HFCs focusing on affordable financing. Moreover, the interest rate cycle is closer to its peak, which could act as a tailwind. Overall, asset-quality trends are stable to positive for the sector. We expect CHFL to deliver loan growth of 18-20% and RoA/RoE of over ~2.0/~18% over FY2023-FY2025E. An additional catalyst is equity fundraising.

Peer valuation

Particulars	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	763	10,160	14.2	11.7	2.3	2.0	17.8	18.2	2.0	2.0
LIC HF	470	25,580	7.1	6.4	0.8	0.7	12.5	13.0	1.2	1.2

Source: Company, Sharekhan estimates

About company

CFHL is a leading housing finance company promoted by Canara Bank. The company has 172 branches across 21 states and Union Territories. The company offers housing loans at competitive interest rates for salaried and self-employed borrowers. The company focuses on housing loans to individuals, with 90% of the book constituting to retail home loans.

Investment theme

Housing demand has been rising steadily post the pandemic; however, off lately due to the steep rise in rates in the last 12 months, there has been slight moderation in demand. Once interest rates stabilise, it should provide impetus to demand. We believe HFCs stand to benefit from this housing sector's growth as they are well equipped with superior customer service and last-mile connections with potential informal sector customers that large banks are unable to service.

Key Risks

Economic slowdown may impact its growth trajectory and lead to asset quality deterioration. Higher than expected slippage from the restructured book.

Additional Data

Key management personnel

Mr. Suresh Iyer	MD and CEO
Mr. Apurav Agarwal	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chhattisgarh Investments Ltd.	6.17
2	Axis Asset Management Co. Ltd./India	4.73
3	DSP Investment Managers Pvt. Ltd.	4.24
4	L&T Mutual Fund Trustee Ltd./India	3.26
5	The Vanguard Group Inc.	2.74
6	UTI Asset Management Co. Ltd.	2.16
7	Sundaram Asset Management Co. Ltd.	1.76
8	Sarda Energy & Minerals Ltd.	1.49
9	Canara Robeco Asset Management Co	1.39
10	Invesco Asset Management India Pvt	1.19

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.