

Can Fin Homes

Estimate change 

TP change 

Rating change 

CMP: INR763

TP: INR840 (+10%)

Neutral

NIM expansion offset by higher opex and a one-off in credit costs

Disbursement growth muted in 2QFY24

Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USD\$)	101.6 / 1.2
52-Week Range (INR)	910 / 486
1, 6, 12 Rel. Per (%)	1/24/33
12M Avg Val (INR M)	580

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	12.5	13.8	15.9
PPP	10.7	11.9	13.9
PAT	7.4	8.4	9.9
EPS (INR)	55.6	63.2	74.5
EPS Growth (%)	19	14	18
BVPS (INR)	325	384	454

Ratios (%)

NIM	3.7	3.5	3.6
C/I ratio	16.6	16.0	14.9
RoAA	2.1	2.1	2.1
RoE	18.6	17.8	17.8
Payout	7.2	7.1	6.7

Valuation

P/E (x)	13.7	12.1	10.2
P/BV (x)	2.3	2.0	1.7
Div. Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	30.0	30.0	30.0
DII	28.0	25.0	24.8
FII	10.7	10.4	0.0
Others	31.3	34.7	45.2

FII Includes depository receipts

- Can Fin Homes (CANF)'s 2QFY24 PAT declined ~14% QoQ to ~INR1.6b (in line), due to higher opex and a one-off in credit costs. CANF's credit costs stood at ~90bp and included a one-off of ~50bp in provisions towards employee fraud at the Ambala branch, which was identified and reported in Jul'23.
- Repricing existing loans led to a QoQ improvement of ~30bp in yields. Higher yields and stable CoF led to a ~30bp QoQ improvement in (calc.) NIM to ~3.85%. Further, the repricing of ~INR60b of loans over the next quarter would help CANF sustain (or even improve) the yields from hereon. We expect CANF to take actions, which will spur loan growth but lead to a NIM compression from 3QFY24. We estimate NIM of ~3.7%/3.5% in FY24/FY25.
- We model an AUM/PAT CAGR of 15%/17% over FY23-26E with an RoA/RoE of 2.1%/~18% in FY26E. CANF, in our view, is a robust franchise with strong moats on the liability side. At 1.8x Sep'25 P/BV, we believe its valuations are rich and largely price in the positive factors. **Reiterate Neutral with a TP of INR840 (based on 2.0x Sep'25E BV).** Slippages from the restructured book, which could lead to deterioration in asset quality, will be a key monitorable.

Disbursement growth tepid; run-off in loan book moderates

- Disbursements declined 10% YoY to ~INR20.1b (MOSLe: ~INR21.4b) in 2QFY24. Absolute disbursements rose ~INR530m sequentially.
- Advances grew 16% YoY and 3% QoQ to INR333.5b. Run-off in the loan book stood at ~14% (largely flat YoY) during the quarter.
- Management guided for disbursements of ~INR100b in FY24 suggesting that it would need to deliver strong disbursement growth in 2HFY24 (v/s INR40b in 1HFY24). It continued to guide for a loan growth of ~18% YoY in FY24.

Margin improvement driven by residual repricing of loan book

- NIM (calc.) expanded sequentially by ~30bp to 3.85%, due to the full impact of interest rate hikes transmitted on ~INR55b of loans in 1QFY24 and the partial impact of rate hikes from ~INR65b of the loans repriced in 2QFY24.
- The share of CPs in the borrowing mix was stable QoQ at ~7.0% as of Sep'23 (PY: 8.0%). Overall proportion of bank term loans rose ~3pp QoQ.

Asset quality deteriorates due to slippages from restructured pool

- Asset quality deteriorated with GS3/NS3 rising 13bp/10bp to ~0.76%/0.43% and PCR on S3 loans declining ~250bp QoQ to ~44%.
- Asset quality deteriorated primarily due to slippages from the restructured pool of advances. CANF created a management overlay of ~INR170m in 2QFY24 and the total management overlay stood at ~INR340m (~13% of the Gross Stage 3 loans).

Highlights from the management commentary

- Management shared that it was open to compromising on NIM (as long as it stayed above 3.5%) to spur disbursement/loan growth. It guided for some spread and NIM compression, since CANF will also be operating in the higher ticket segments.
- Opex will be higher in 2HFY24 because of the additional staffing and IT transformation. Management guided for a cost-to-income ratio of ~17-18% in FY24 and FY25.

Valuation and view

- CANF has successfully demonstrated its ability to maintain its pristine asset quality for many years; however, we remain wary of the potential slippages in the restructured book now and conservatively estimate a credit cost of ~22bp in FY25. We estimate a 16%/17%/17% CAGR in each of NII/PPOP/PAT over FY23-26 with an RoA of 2.1% and RoE of ~18% in FY26.
- **Reiterate Neutral with a TP of INR840 (based on 2.0x Sep'25E BV).**

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E	2QFY24E	INR m Act vs est. (%)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24				
Interest Income	6,065	6,522	7,046	7,521	8,181	8,652	8,998	9,355	27,154	35,187	8,508	2
Interest Expenses	3,561	4,010	4,529	4,908	5,330	5,484	5,748	6,162	17,009	22,725	5,559	-1
Net Interest Income	2,504	2,512	2,517	2,613	2,851	3,168	3,251	3,193	10,146	12,462	2,949	7
YoY Growth (%)	38.2	31.0	22.2	10.1	13.9	26.1	29.1	22.2	24.3	22.8	17.4	
Other income	51	54	51	122	60	58	76	136	277	330	67	-14
Total Income	2,555	2,566	2,568	2,735	2,911	3,226	3,326	3,329	10,423	12,792	3,016	7
YoY Growth (%)	39.8	30.2	20.9	12.7	13.9	25.7	29.5	21.7	24.8	22.7	17.6	
Operating Expenses	405	405	438	517	435	524	572	595	1,765	2,126	469	12
YoY Growth (%)	33.8	18.3	8.7	7.3	7.4	29.5	30.6	15.1	15.3	20.5	16.0	
Operating Profits	2,150	2,161	2,129	2,218	2,476	2,702	2,754	2,734	8,658	10,666	2,547	6
YoY Growth (%)	40.9	32.7	23.8	14.0	15.2	25.0	29.3	23.3	26.9	23.2	17.9	
Provisions	-37	132	84	238	137	722	210	45	418	1,113	473	53
Profit before Tax	2,187	2,028	2,045	1,980	2,339	1,980	2,544	2,690	8,240	9,553	2,074	-5
Tax Provisions	565	611	530	322	504	399	611	635	2,028	2,149	498	-20
Profit after tax	1,622	1,417	1,515	1,658	1,835	1,581	1,933	2,055	6,212	7,403	1,576	0
YoY Growth (%)	49.0	14.6	30.9	34.9	13.1	11.5	27.6	23.9	31.9	19.2	11.2	

Key Parameters (%)	FY23				FY24E				FY23	FY24E	2QFY24E	Act vs est. (%)
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24				
Yield on loans	8.9	9.3	9.6	9.8	10.2	10.5						
Cost of funds	5.7	6.2	6.6	6.9	7.3	7.3						
Spread	3.3	3.1	2.9	2.9	3.0	3.2						
NIM	3.7	3.6	3.4	3.4	3.6	3.8						
Credit cost	-0.1	0.2	0.1	0.3	0.2	0.9						
Cost to Income Ratio (%)	15.8	15.8	17.1	18.9	14.9	16.2						
Tax Rate (%)	25.8	30.1	25.9	16.3	21.6	20.2						
Balance Sheet Parameters												
Loans (INR B)	275.4	288.2	301.2	315.6	325.1	333.6	347.8	365.6				
Growth (%)	23.9	22.2	20.0	18.2	18.0	15.7	15.5	15.8				
AUM mix (%)												
Home loans	89.6	89.5	89.2	89.1	89.1	89.1						
Non-housing loans	10.4	10.5	10.8	10.9	10.9	10.9						
Salaried customers	74.3	74.1	73.6	73.1	72.7	72.4						
Self-employed customers	25.7	25.9	26.3	26.9	27.2	27.5						
Disbursements (INR B)												
Change YoY (%)	92.6	1.7	-1.1	-6.2	14.2	-10.1	9.9	18.0				
Borrowing mix (%)												
Banks	54.0	54.0	51.0	53.9	54.0	57.0						
NHB	22.0	22.0	23.0	22.5	22.0	19.0						
Market borrowings	22.0	22.0	24.0	22.1	23.0	23.0						
Deposits	2.0	2.0	2.0	1.5	1.0	1.0						
Asset Quality												
GNPL (INR m)	1,798	1,787	1,811	1,738	2,052	2,540						
NNPL (INR m)	819	1,012	893	829	1,096	1,420						
GNPL ratio %	0.65	0.62	0.60	0.55	0.63	0.76						
GNPL ratio %	0.30	0.35	0.30	0.26	0.34	0.43						
PCR %	54	43	51	52	47	44						
Return Ratios (%)												
ROA (Rep)	2.4	2.1	2.2	2.3	2.2	1.9						
ROE (Rep)	20.0	16.8	17.3	18.2	19.2	16.0						

E: MOFSL Estimates



Highlights from the management commentary

Outlook on mortgage demand

- Affordable housing demand is a little slow after the withdrawal of the CLSS scheme. Post-CLSS withdrawal, there is some supply constraints in the lower ticket sizes. However, demand in the INR2.5m-5.0m and >INR5m ticket sizes remains buoyant.

Guidance

- Management continues to guide for long-term sustainable spreads of 2.5%, NIM of 3.5% and RoA of >2%
- Guided for 18% loan growth and 20% disbursement growth in FY24.
- Gearing beyond ~8x will not be prudent, and if the loan growth is >18%, then CANF will evaluate a capital raise.
- Guided for credit costs of ~10bp for write-offs and bad debts. In addition, there will be ECL provisions.
- Opex will be higher in 2H because of the additional staffing and IT transformation. CANF guided for cost-to-income ratio of ~18% in FY24 and FY25.
- CANF is targeting disbursements of ~INR30b in 3QFY24.

Asset quality and restructured book

- GNPA has increased from 0.55% to 0.57% in the non-restructured book. In addition, ~14% of the restructured book (which exited the moratorium until Jun'23) has slipped into the NPA pool. A management overlay of ~INR178m was made during the quarter and total management overlay stood at ~INR343m.
- Part of the management overlay will be retained and will not be written back to maintain a higher PCR.
- A fraud was reported at the Ambala branch – it was a one-off incident. The final amount that has been crystallized is INR397m and the management has fully provided for it in 2QFY24 itself.
- Total restructured pool of ~INR6.85b – out of which ~INR4.5b had come out of restructuring until Jun'23; INR632m is yet to come out of restructuring and will exit moratorium in the months of Oct/Nov'23.
- Existing provisions in the restructured pool is more than sufficient. Total management overlay stood at INR343m (created in 4QFY23 and 2QFY24).

Yields and Margins

- NIM as of 2QFY24 stood at 3.62%.
- Management shared that it was open to compromising on NIM (as long as it stayed above 3.5%) to spur disbursement/loan growth. It will use the buffer in NIM to push for loan growth; target of ~20% disbursement CAGR over the next three years.
- CANF is open to some spread and NIM compression since it will also be operating in the higher ticket sizes.

Transmission of Interest Rates

- Interest rate hikes, which were passed on ~INR55b of loan book in 1QFY24. Loan portfolio of ~INR125b which was yet to get re-priced as on Jun'23. About INR65b of loan portfolio got repriced in 2QFY24 and another ~INR60b of the loan portfolio will get re-priced in 3QFY24.
- CANF lowered the card rate to below 9% for the festive season for new customers while for the existing customers it starts at 9.6%

Disbursements

- Disbursements were weak because of the frauds, which were reported in Jul'23. The company has tightened processes and done extensive training for all the branches.
- Disbursements should improve in 2HFY24, and it should be able to cover up the shortfall in disbursements in 2QFY24.
- CANF is hopeful that sanctions and disbursements should pick up momentum in 2H. The company has announced a new festive scheme for the customers at a slightly lower interest rate (of <9%) while the existing customers are at interest rates of >9.6%.

APF - Developer Tie-ups

- CANF has started increasing the ticket sizes by opening up newer sourcing channels such as APF and Digital channels

- Spread the sourcing channels through builder tie-ups, and APF and even digital channels – this will be an addition to the DSA channels. APF started in Jul'23 has begun contributing to sourcing in the INR2.5-5.0m and >INR5.0m ticket sizes.
- CANF is expecting 350-400 projects to be approved under APF.
- Guided for an average ticket size (ATS) of INR3.5-4.0m in the APF segment. Working with CAT A and CATB developers in the APF segment where the project sizes are smaller (100-150 units) and the company will not be catering into 4BHK and luxury housing.

Liabilities

- MCLR-lined bank term loans where there has been a small increase but CPs have come in at lower interest rates; Repo-rate linked bank term loans have remained unchanged. It has not raised anything through the NCD route in 1HFY24.
- NHB borrowings have come down since it exhausted its sanctioned limit in Dec'22. Newer sanctions will come again in Oct/Nov'23.

Process changes

- Centralized disbursements from 3rd Oct onwards and centralized reconciliation have also been implemented.
- Maker/Checker concept has been incorporated at the Head Office – additional checks that happen in the HO before the final disbursement.

Others

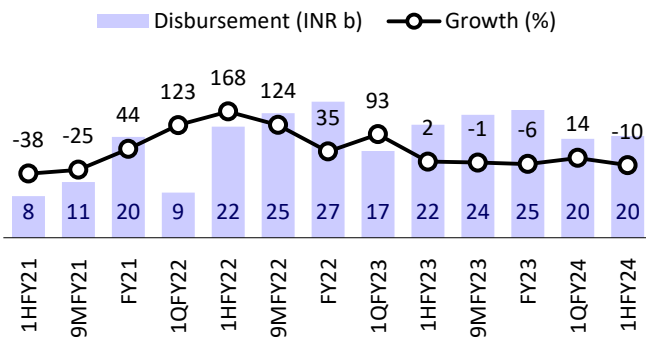
- Opened three branches in 2QFY24 and another nine branches are in the pipeline - which will aid growth
- CANF has embarked on the IT transformation that was long overdue – State of the art technology platform will help it with better analytics. Vendor for the IT integration is expected to be finalized by mid-Nov. Once the System Integrator (SI) is finalized it will start incurring opex on the IT transformation.
- Additional repayments of ~INR1b in 2Q (relative to 1Q)
- Lower effective Tax Rate because of the provisions taken on the Ambala branch frauds that led to a deferred tax asset of ~INR130m.
- CANF does not offer fixed rate loans but it might have to start offering because of the RBI guidelines. Penal charges cannot be compounded and cannot be in the form of percentage but rather should be an absolute value.
- Slight increase in the INR2.5-5.0m and >INR5m segments will result in higher average ticket sizes. Disbursement ticket size in 1HFY24: Home Loans: INR2.2m and Non-HL: INR0.8m

Valuation and view

- CANF has successfully demonstrated its ability to maintain its pristine asset quality for many years; however, we remain wary of the potential slippages in the restructured book now and conservatively estimate a credit cost of ~22bp in FY25. We estimate a 16%/17%/17% CAGR in each of NII/PPOP/PAT over FY23-26 with an RoA of 2.1% and RoE of ~18% in FY26.
- **Reiterate Neutral with a TP of INR840 (based on 2.0x Sep'25E BV).**

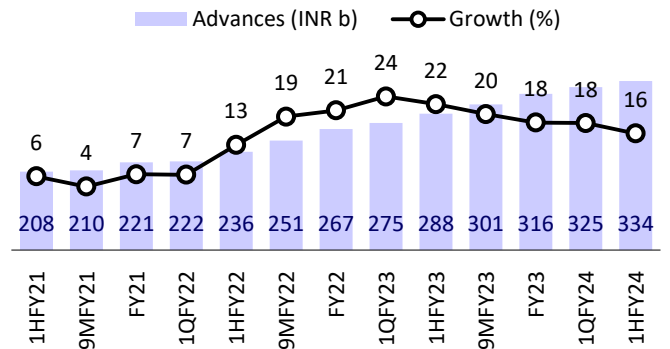
Key exhibits

Exhibit 1: Disbursements declined 10% YoY



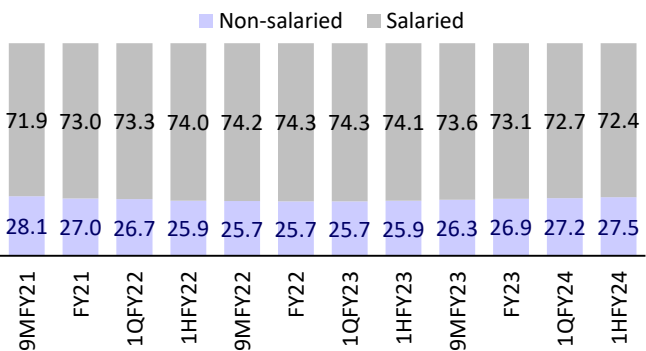
Sources: MOFSL, Company reports

Exhibit 2: Advances grew 16% YoY



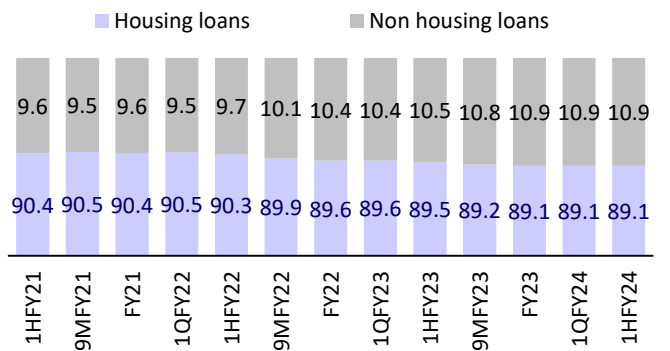
Sources: MOFSL, Company reports

Exhibit 3: Share of salaried customers largely stable at ~72%



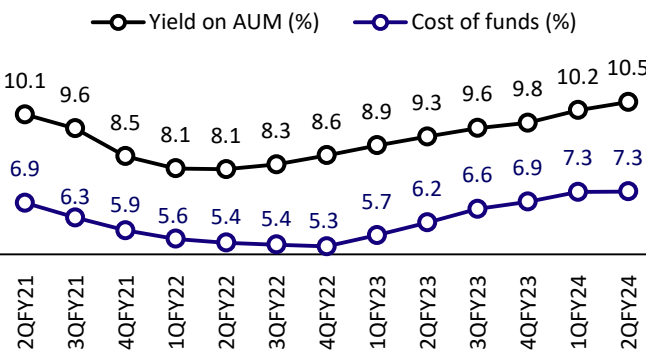
Sources: MOFSL, company reports

Exhibit 4: Share of housing loans stable at ~89%



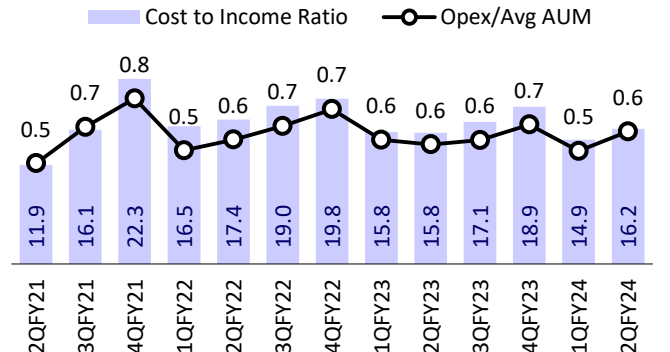
Sources: MOFSL, company reports

Exhibit 5: Calculated spreads improved ~30bp QoQ



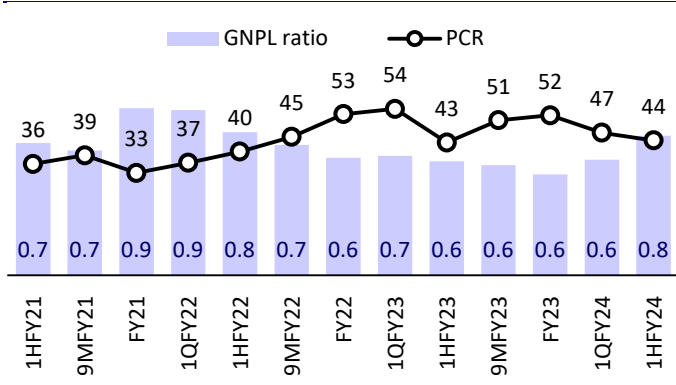
Sources: MOFSL, company reports

Exhibit 6: C/I ratio increased 130bp QoQ to ~16%



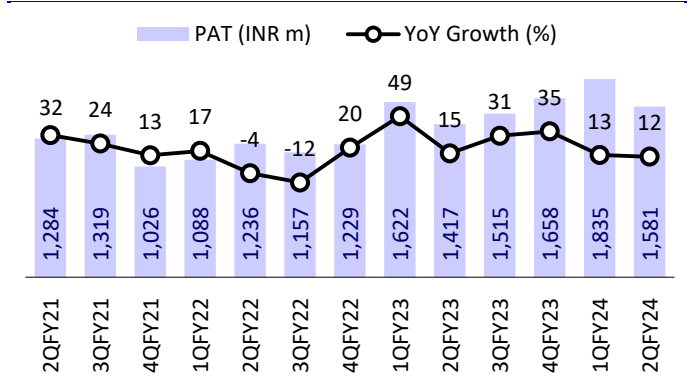
Sources: MOFSL, company reports

Exhibit 7: GNPA witnessed sequential deterioration led by slippages from the restructured pool



Sources: MOFSL, company reports

Exhibit 8: PAT grew ~12% YoY



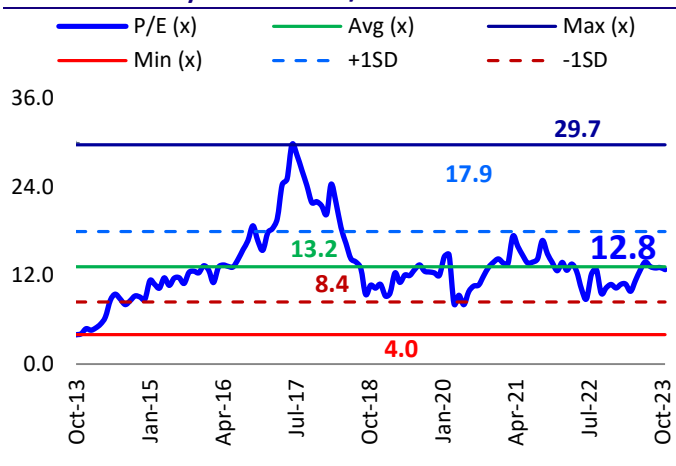
Sources: MOFSL, company reports

Exhibit 9: We raise our FY24 EPS estimates by ~3% to factor in higher NIM

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	12.0	13.7	12.5	13.8	4.3	0.7
Other Income	0.3	0.4	0.3	0.4	0.0	0.0
Total Income	12.3	14.0	12.8	14.1	4.2	0.7
Operating Expenses	2.1	2.2	2.1	2.3	1.3	1.2
Operating Profits	10.2	11.8	10.7	11.9	4.8	0.6
Provisions	0.8	0.8	1.1	0.9	35.5	10.1
PBT	9.4	11.0	9.6	11.0	2.1	-0.1
Tax	2.2	2.6	2.1	2.6	-2.3	-0.1
PAT	7.2	8.4	7.4	8.4	3.4	-0.1
AUM	365	414	366	419	0.2	1.1
Borrowings	335	377	335	381	0.2	1.1
NIM (%)	3.5	3.5	3.7	3.5		
ROA (%)	2.0	2.1	2.1	2.1		
RoE (%)	18.0	17.9	18.6	17.8		

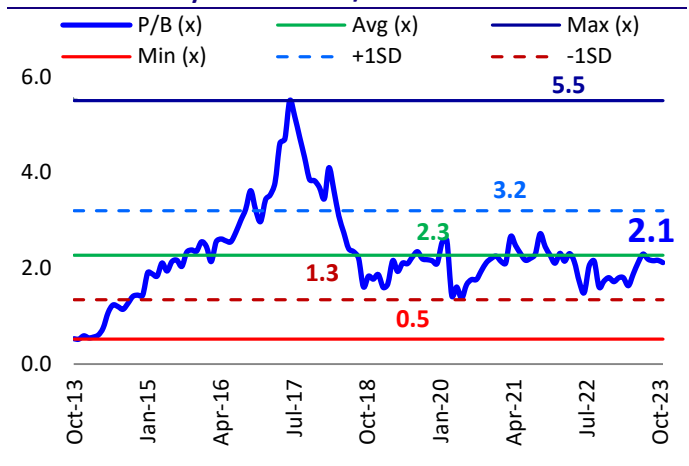
Sources: MOFSL, company reports

Exhibit 10: One-year forward P/E ratio



Sources: MOFSL, company reports

Exhibit 11: One-year forward P/B ratio



Sources: MOFSL, company reports

Financials and valuations

Income statement

	INR m								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	14,906	17,134	20,189	20,064	19,697	27,154	35,187	39,917	45,726
Interest Expended	9,810	11,693	13,442	12,083	11,535	17,009	22,725	26,158	29,873
Net Interest Income	5,096	5,441	6,747	7,980	8,162	10,146	12,462	13,760	15,853
Change (%)	20.8	6.8	24.0	18.3	2.3	24.3	22.8	10.4	15.2
Other Income	314	179	115	121	188	277	330	378	433
Net Income	5,410	5,621	6,862	8,101	8,350	10,423	12,792	14,138	16,286
Change (%)	15.3	3.9	22.1	18.0	3.1	24.8	22.7	10.5	15.2
Operating Expenses	878	915	1,076	1,240	1,530	1,765	2,126	2,265	2,428
Operating Income	4,532	4,706	5,786	6,861	6,820	8,658	10,666	11,872	13,858
Change (%)	16.7	3.8	23.0	18.6	-0.6	26.9	23.2	11.3	16.7
Provisions/write offs	221	11	603	685	469	418	1,113	869	894
PBT	4,311	4,695	5,183	6,176	6,351	8,240	9,553	11,004	12,964
Tax	1,449	1,728	1,422	1,615	1,640	2,028	2,149	2,586	3,046
Tax Rate (%)	33.6	36.8	27.4	26.2	25.8	24.6	22.5	23.5	23.5
Reported PAT	2,862	2,967	3,761	4,561	4,711	6,212	7,403	8,418	9,917
Change (%)	22.0	3.7	26.8	21.3	3.3	31.9	19.2	13.7	17.8
Proposed Dividend (incl. tax)	321	321	321	266	399	466	533	599	666

Balance sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	266	266	266	266	266	266	266	266	266
Reserves & Surplus	14,604	17,556	21,234	25,832	30,400	36,206	43,077	50,896	60,147
Net Worth	14,870	17,822	21,501	26,098	30,666	36,473	43,343	51,162	60,414
Borrowings	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,90,681	3,35,342	3,81,305	4,37,142
Change (%)	17.3	20.7	11.6	2.9	27.8	17.9	15.4	13.7	14.6
Other liabilities	3,215	1,500	1,451	1,710	2,300	3,551	4,262	5,114	6,137
Total Liabilities	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,82,947	4,37,582	5,03,693
Loans	1,56,440	1,82,342	2,05,257	2,18,915	2,63,781	3,11,933	3,62,140	4,14,462	4,75,155
Change (%)	18.3	16.6	12.6	6.7	20.5	18.3	16.1	14.4	14.6
Investments	160	163	243	496	11,260	14,590	16,779	19,296	22,190
Change (%)	0.0	1.9	49.1	104.1	2,169.9	29.6	15.0	15.0	15.0
Net Fixed Assets	96	99	379	378	346	454	595	781	1,024
Other assets	600	4,692	4,557	948	4,057	3,727	3,432	3,043	5,324
Total Assets	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,82,947	4,37,582	5,03,693

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on loans	10.3	10.1	10.4	9.44	8.14	9.4	10.4	10.3	10.3
Cost of funds	7.6	7.6	7.6	6.35	5.25	6.3	7.3	7.3	7.3
Spread	2.7	2.5	2.8	3.1	2.9	3.1	3.2	3.0	3.0
Net Interest Margin	3.5	3.2	3.5	3.8	3.4	3.5	3.7	3.5	3.6
Profitability Ratios (%)									
RoE	21.3	18.2	19.1	19.2	16.6	18.5	18.6	17.8	17.8
RoA	2.0	1.7	1.9	2.1	1.9	2.0	2.1	2.1	2.1
C/I ratio	16.2	16.3	15.7	15.3	18.3	16.9	16.6	16.0	14.9
Asset Quality (%)									
Gross NPAs	675	1,135	1,571	2,019	1,706	1,738	2,465	2,789	3,169
Gross NPAs to Adv.	0.4	0.6	0.8	0.9	0.6	0.6	0.7	0.7	0.7
Net NPAs	316	795	1,118	1,343	807	829	1,233	1,255	1,426
Net NPAs to Adv.	0.2	0.4	0.5	0.6	0.3	0.3	0.3	0.3	0.3
PCR	53.2	30.0	28.8	33.5	52.7	52.3	50.0	55.0	55.0
VALUATION									
Book Value (INR)	112	134	161	196	230	274	325	384	454
Price-BV (x)	6.8	5.7	4.7	3.9	3.3	2.8	2.3	2.0	1.7
EPS (INR)	21.5	22.3	28.2	34.2	35.4	46.7	55.6	63.2	74.5
EPS Growth YoY	21.9	3.7	26.8	21.3	3.3	31.9	19.2	13.7	17.8
Price-Earnings (x)	35.5	34.2	27.0	22.3	21.6	16.4	13.7	12.1	10.2
Dividend per share (INR)	2.0	2.0	2.0	2.0	3.0	3.5	4.0	4.5	5.0
Dividend yield (%)	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.6	0.7

E: MOFSL Estimates

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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