

October 19, 2023

Q2FY24 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	900		900	
NII (Rs.)	12,581	13,963	12,387	13,994
% Chng.	1.6	(0.2)		
PPoP (Rs.)	10,646	11,764	10,441	11,672
% Chng.	2.0	0.8		
EPS (Rs.)	54.7	63.5	53.8	62.9
% Chng.	1.5	0.9		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Int.Inc. (Rs m)	10,146	12,581	13,963	16,203
Growth (%)	24.3	24.0	11.0	16.0
Op. Profit (Rs m)	8,658	10,646	11,764	13,616
PAT (Rs m)	6,212	7,280	8,457	9,796
EPS (Rs.)	46.6	54.7	63.5	73.6
Gr. (%)	31.9	17.2	16.2	15.8
DPS (Rs.)	3.0	3.3	3.8	4.4
Yield (%)	0.4	0.4	0.5	0.6
Margin (%)	3.3	3.5	3.4	3.4
RoAE (%)	18.5	18.2	17.9	17.5
RoAA (%)	2.0	2.0	2.0	2.0
PE (x)	16.3	14.0	12.0	10.4
P/BV (x)	2.8	2.3	2.0	1.7
P/ABV (x)	2.8	2.4	2.0	1.7

Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.910 / Rs.486
Sensex / Nifty	65,877 / 19,671
Market Cap	Rs.102bn/ \$ 1,220m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.895.34m

Shareholding Pattern (%)

Promoter's	29.99
Foreign	11.36
Domestic Institution	27.42
Public & Others	31.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.9)	35.6	45.5
Relative	1.7	22.9	30.2

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Disbursal momentum a key driver of earnings

Quick Pointers:

- Better NII/NIM but miss on loan growth and asset quality.
- Management reiterated disbursal guidance of Rs100bn for FY24E.

Canfin saw a mixed quarter; while NIM was 26bps higher to PLe, loan growth and asset quality disappointed. NIM could further enhance from Q2'24 levels as 20% of portfolio is yet to be repriced upwards for a rate hike 35-40bps. Disbursals at Rs20bn were softer and missed PLe by 13% due to focus on fortifying internal processes. With most of the process refinement being over, company sounded confident of achieving Rs100bn disbursals for FY24E (Rs40bn in H1FY24); we are conservative and factoring disbursals of Rs53bn in H2FY24. GNPA spiked to 0.76% (0.63% in Q2'24) of which 0.19% was due to OTR. Slippage from OTR has been higher at 14% (guidance 10%) and 30% of OTR will be tested for GNPA in Q3'24. Hence additional mgmt. overlay of Rs173mn was created leading to buffer of Rs343mn (50% of GNPA from OTR). We maintain multiple at 2.2x on Sep'25E ABV and TP at Rs900. Retain BUY.

- **Mixed quarter; PAT beat led by higher NIM, miss on growth/asset quality:** NII was a beat at Rs3.17bn (PLe Rs2.98bn) as NIM (calc.) surprised positively at 4.1% (PLe 3.8%). Better NIM was a function of lower CoF at 7.73% (PLe 7.95%) as yields at 11.1% were in-line. Loan growth came in lower at 15.7% YoY (PLe 16.8%) to Rs333.6bn. Disbursals were a miss at Rs20.2bn (PLe Rs23.2bn) while repayments at Rs11.65bn came in largely as expected. Other income was a slight miss at Rs58mn (PLe Rs63mn) which was offset by lesser opex at Rs524mn (PLe Rs545mn). PPoP at Rs2.7bn was 8.2% higher to PLe led by higher NII. Asset quality deteriorated as GNPA/NNPA rose by 13/11bps each QoQ to 0.76%/0.43%, while PCR dipped QoQ from 46.6% from 43.4%. Provisions were higher Rs722mn (PLe Rs585mn) which included impact of Ambala branch fraud. PAT was ahead at Rs1.58bn (PLe Rs1.47bn).
- **Disbursal guidance for FY24 maintained:** Disbursals were muted due to strengthening of processes and internal controls along with transition towards more secure IT infrastructure. However, operations have normalized as most of these fortification measures like centralized disbursal/reconciliation, cluster level risk management etc. were implemented by Sep'23. Company expects disbursals to pick-up and guidance of Rs100bn was reiterated for FY24. Market demand is robust especially in Rs2.5-5.0mn bucket, which would be the focus segment for company. Over next 2-3 years, DSA sourcing should reduce from 80% to 60% while builder tie-up channel (via APF) should enhance to 20%; balance 20% would be sourced from direct (10%) and digital (10%).
- **NIM further improved, GNPA blip due to OTR:** NIM improved by 28bps QoQ, mainly due to catch up in loan yields. As at FY23 end portfolio of Rs180bn was to be repriced in FY24 for rate hike of 35-40bps. In Q1'24, Rs55bn saw an upward hike while in Q2'24 Rs57bn was repriced. Balance Rs68bn would be reset higher in H2'24. Spike in GNPA to 0.76% was attributable to OTR (19bps). From total OTR of Rs6.8bn, Rs6.13bn has moved out, of which Rs2.16bn will be tested for NPA in Q3'24. Slippage from OTR has been 14% (guidance 10%), however, adequate provision has been made. Mgmt. overlay of Rs173mn was created in Q2'24 taking the total reserve to Rs343mn.

Exhibit 1: Earnings beat at Rs1.58bn led by higher NII and NIM

Financial Statement (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)
Interest Income	8,652	6,522	32.7	8,181	5.8
Interest Expense	5,484	4,010	36.8	5,330	2.9
Net interest income (NII)	3,168	2,512	26.1	2,851	11.1
Other income	58	54	8.0	60	(3.1)
Total income	3,226	2,566	25.7	2,911	10.8
Operating expenses	524	405	29.5	435	20.5
Operating profit	2,702	2,161	25.0	2,476	9.1
Total provisions	722	132	N.A.	137	N.A.
Profit before tax	1,980	2,028	(2.4)	2,339	(15.3)
Tax	399	611	(34.7)	504	(20.9)
Profit after tax	1,581	1,417	11.5	1,835	(13.8)
AUM (Rs mn)	333,590	288,229	15.7	325,050	2.6
Disbursements (Rs mn)	20,190	22,450	(10.1)	19,660	2.7
Profitability ratios					
NIM (calc.)	4.1	3.8	24	3.8	28
RoAA	1.9	2.1	(21)	2.2	(33)
RoAE	16.0	16.8	(86)	19.2	(320)
Asset Quality ratios					
Gross NPL (Rs m)	2,535	1,787	41.9	2,052	23.6
Net NPL (Rs m)	1,434	1,012	41.8	1,096	30.9
Gross NPL ratio	0.8	0.6	14	0.6	13
Net NPL ratio	0.4	0.4	8	0.3	9
Coverage ratio	43.4	43.4	3	46.6	N.A.
Business & Other Ratios					
Yield on Loans (%)	10.1	8.6	152	9.8	23
Cost of Borrowings (%)	7.3	6.0	128	7.3	-
Spread (%)	2.8	2.5	24	2.5	23
Cost/Income Ratio	16.3	15.8	47	14.9	131

Source: Company, PL

Exhibit 2: Loan Mix – Growth led by mortgage loans

AUM Book Details (Rs mn)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
Housing Loans	289,590	246,840	17.3	281,210	3.0
Top-up Personal	17,930	14,920	20.2	17,580	2.0
Mortgage Loans/Flexilap	14,570	11,880	22.6	14,050	3.7
Loans for Sites	2,710	2,420	12.0	2,660	1.9
Others	930	900	3.3	960	(3.1)
Staff Loans	220	210	4.8	210	4.8
Builder Loans	-	-	NA	-	NA

Source: Company, PL

NII growth was 32.7% YoY/5.8% QoQ.as yields growth was higher than CoF.

PPoP increased by 9.1% QoQ led by higher NII.

Provisions were higher at Rs722mn.

Disbursements were a miss growing 2.7% QoQ, however lower repayments led to AuM growth at 15.7% YoY.

NIMs increased sequentially by 28bps at 4.1%.

Asset Quality deteriorated sequentially, GNPA/NNPA increased to 0.76%/0.43% respectively.

Q2FY24 Concall Highlights

Assets/Liabilities

- **AUM grew by 15.7% YoY/2.6% QoQ**, disbursements during the quarter stood at Rs20.2bn, while repayments were higher at Rs11.65bn. Disbursements were muted due to seasonality and transitions towards more secure IT infrastructure. However, management said market demand is robust especially in the RS2.5mn – Rs5mn buckets which would be focus segment for company. Management expects disbursements to pick up in H2FY24 and reiterated guidance of Rs100bn in FY24.
- **Average ticket size stood Rs2.2mn in Q2FY24**. However, ticket size is expected to reach the range of Rs3.5mn-4mn by FY27 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) high ticket size loans under APF structure 2) pickup in the demand, led by festive season and attractive prices offered by the company 3) 10% growth from existing branches.
- **Total borrowings stood at Rs306bn in Q2FY24**. Cost of borrowing remained flat at 7.32% QoQ, as increase in rates from bank loans was offset by lower interest rates from CP. There was no incremental borrowing from NCDs in Q2FY24. Borrowing from NHB witnessed a decline as the sanction limit was already exhausted.
- 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**, although prepayments were higher by 1bn in Q2FY24 led by competitive pressure and festive season. Management would also offer attractive rates to tackle competition. BT-out amount to Rs1.0-1.2bn in a quarter.
- Ambala fraud amount in the month of Jun'23 was crystalized at Rs396.7mn, the entire amount has been provided for.

NIMs/Opex/Branches

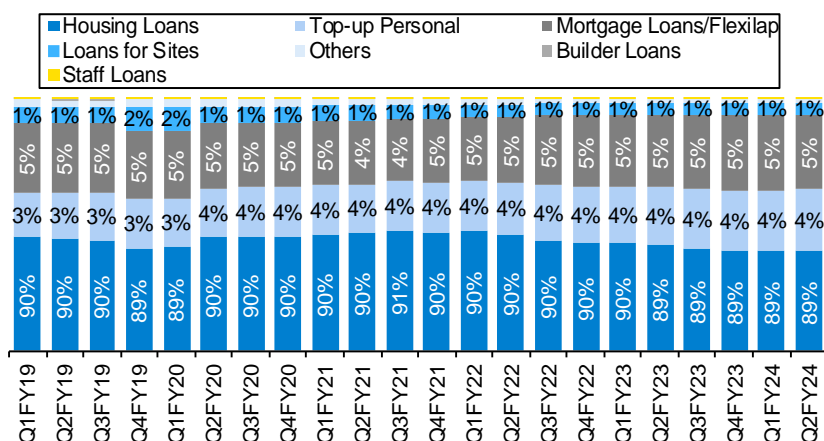
- **NIM increased by 28bps QoQ to 4.1%** mainly due to lag effect of repricing of advances. Out of Rs125bn loan book Rs57bn got repriced in Q2FY24 with average rate hike of 35bps. Balance Rs60bn would get repriced further with average rate hike of 35-40bps. Spread/NIM was guided at 2.5%/3.5% in FY24.
- **Management plans to add 15 branches in FY24** – 2 branches were added in Q2FY24, further 9 branches would get added in H2FY24.
- **Distribution mix:** Company would like to reduce DSA share to 60% from current 80% over next 2-3 years. Aim is to increase share of builder tie-ups to 20%. Another 10% each could come from direct sourcing and digital.

- **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

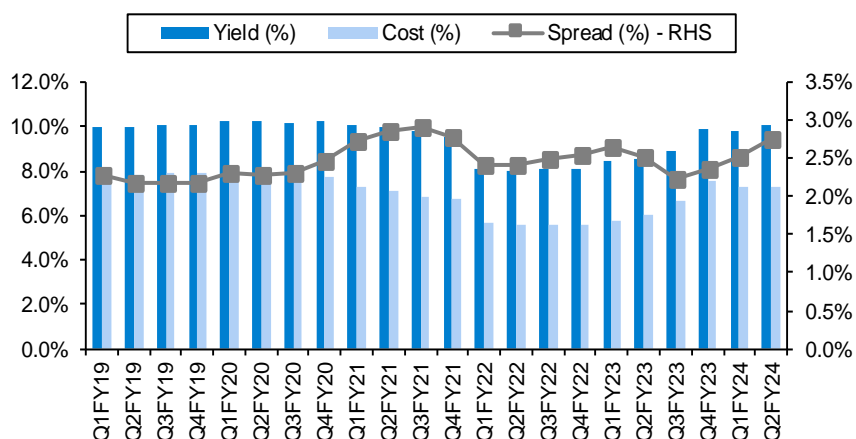
- **GNPA/NNPA increased by 13bps/9bps QoQ to 0.76%/0.43%** majorly led by seasonality impact and slippages from restructured book. As on Q2FY24, loans worth Rs4.5bn came out of OTR book. Slippages from OTR book amounted to Rs640mn. Management expects ~10% NPAs from this book.
- **PCR declined to 43.4% in Q2FY24** vs 46.6% in Q1FY24. Total provisions in Q2FY24 stood at Rs720mn. Company continues to carry management overlay of Rs172mn in addition to the existing overlay of 170mn from Q1FY24.

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



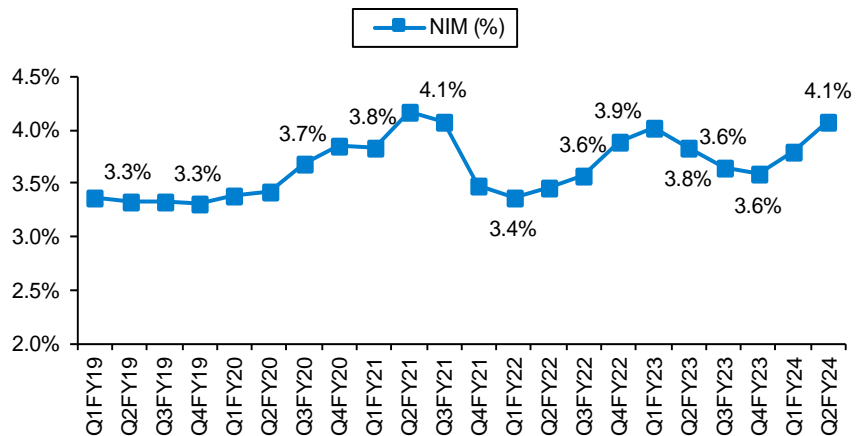
Source: Company, PL

Exhibit 4: Spreads grew by 23bps QoQ as yields outpaced CoFs



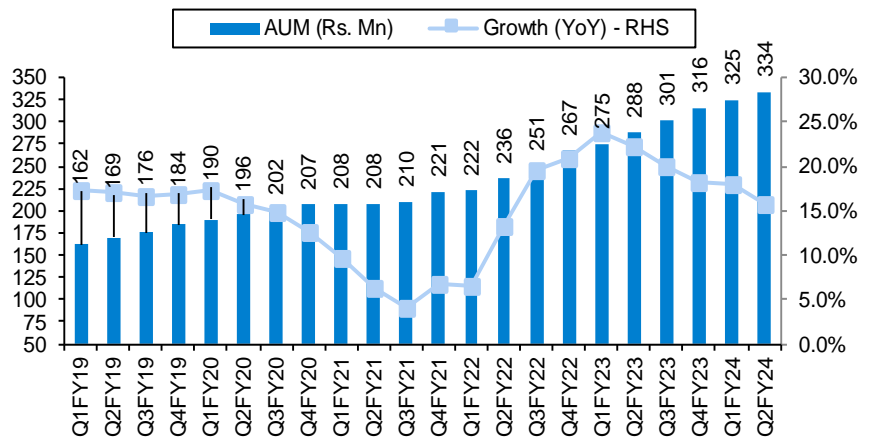
Source: Company, PL

Exhibit 5: NIMs improve to 4.1% led by improvement in yields



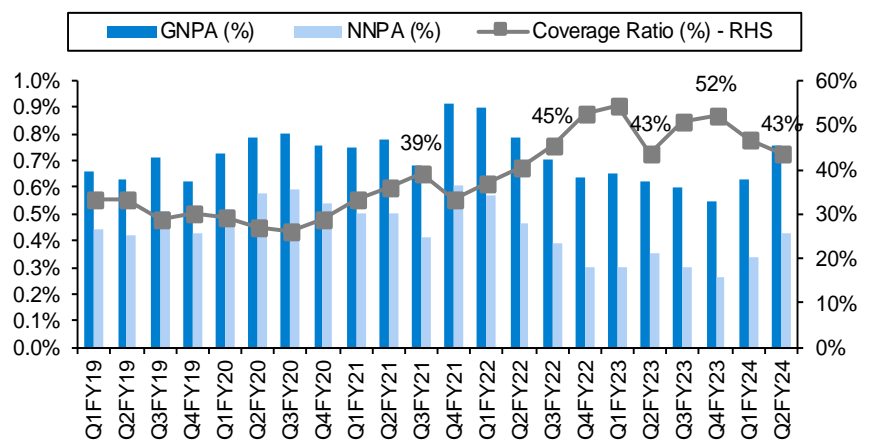
Source: Company, PL

Exhibit 6: AUM growth was 15.7% YoY supported by lower repayment rate



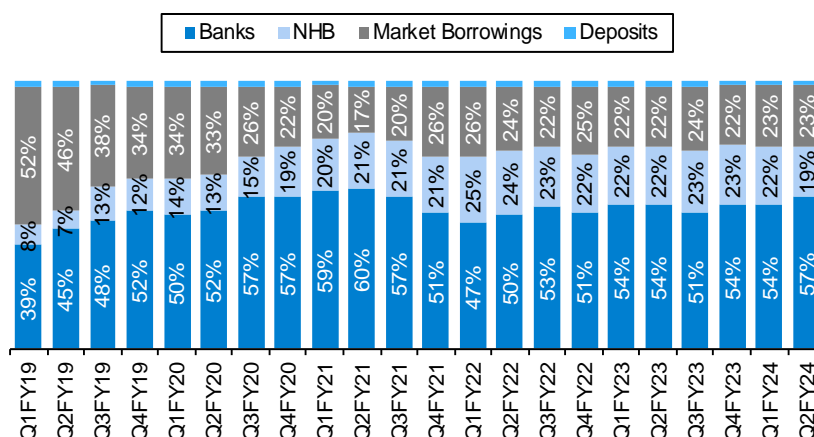
Source: Company, PL

Exhibit 7: GNPA/NNPA increased to 0.76%/0.43%, PCR declined to 43.4%



Source: Company, PL

Exhibit 8: Borrowing mix largely stable; banks share increased to 57%



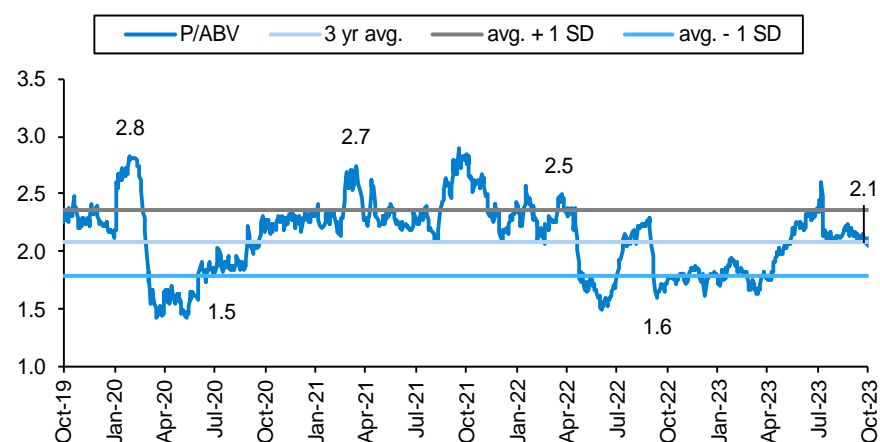
Source: Company, PL Research

Exhibit 9: Healthy NIM profile to keep RoA/RoE at 2.0%/18.0%

RoE decomposition (%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.9	10.1	9.3	7.9	8.9	10.0	9.1	8.7
Interest expenses	6.8	6.7	5.6	4.6	5.6	6.4	5.7	5.3
Net interest income	3.2	3.4	3.7	3.3	3.3	3.5	3.4	3.4
Other Inc. from operations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total income	3.3	3.4	3.7	3.3	3.4	3.6	3.5	3.5
Employee expenses	0.2	0.3	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
Operating profit	2.7	2.9	3.2	2.7	2.8	3.0	2.8	2.8
Loan loss provisions	0.0	0.3	0.3	0.2	0.14	0.4	0.2	0.2
Tax	1.0	0.7	0.7	0.7	0.7	0.6	0.6	0.6
RoAA	1.7	1.9	2.1	1.9	2.0	2.0	2.0	2.0
RoAE	18.2	19.1	19.2	16.6	18.5	18.2	17.9	17.5

Source: Company, PL

Exhibit 10: One year forward P/ABV of Can Fin trades at 2.1x

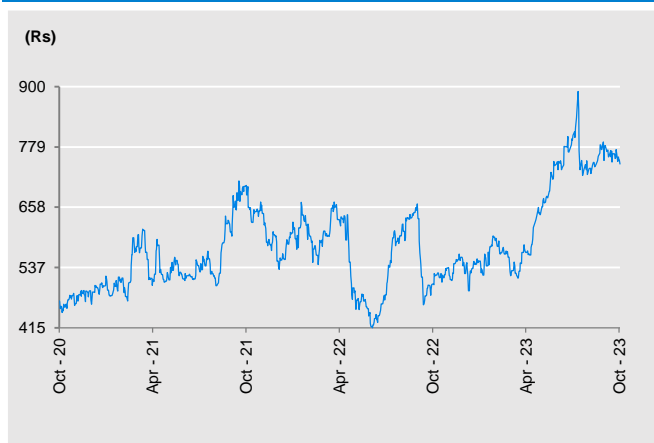


Source: Company, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY23	FY24E	FY25E	FY26E	Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Int. Inc. / Opt. Inc.	27,154	35,600	37,539	41,691	Int. Inc. / Operating Inc.	7,046	7,521	8,181	8,652
Interest Expenses	17,009	23,019	23,576	25,488	Income from securitization	-	-	-	-
Net interest income	10,146	12,581	13,963	16,203	Interest Expenses	4,529	4,908	5,330	5,484
Growth(%)	24.3	24.0	11.0	16.0	Net Interest Income	2,517	2,613	2,851	3,168
Non-interest income	277	293	330	369	Growth (%)	22.2	10.1	13.9	26.1
Growth(%)	47.1	5.7	12.7	11.7	Non-Interest Income	51	122	60	58
Net operating income	10,423	12,874	14,293	16,571	Net Operating Income	2,568	2,735	2,911	3,226
Expenditures					Growth (%)	20.9	12.7	13.9	25.7
Employees	837	1,074	1,159	1,358	Operating expenditure	438	517	435	524
Other Expenses	803	1,021	1,212	1,413	PPP	2,129	2,218	2,476	2,702
Depreciation	125	133	157	184	Growth (%)	-	-	-	-
Operating Expenses	1,765	2,228	2,529	2,956	Provision	84	238	137	722
PPP	8,658	10,646	11,764	13,616	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	26.9	23.0	10.5	15.7	Profit before tax	2,045	1,980	2,339	1,980
Provisions	418	1,309	781	893	Tax	530	322	504	399
Profit Before Tax	8,240	9,337	10,983	12,722	Prov. for deferred tax liability	-	-	-	-
Tax	2,028	2,058	2,526	2,926	Effective Tax Rate	25.9	16.3	21.6	20.2
Effective Tax rate(%)	24.6	22.0	23.0	23.0	PAT	1,515	1,658	1,835	1,581
PAT	6,212	7,280	8,457	9,796	Growth	31	35	13	12
Growth(%)	31.9	17.2	16.2	15.8	AUM	3,01,150	3,15,630	3,25,050	3,33,590
					YoY growth (%)	20.0	18.2	18.0	15.7
					Borrowing	2,78,000	2,91,367	2,97,000	3,06,280
					YoY growth (%)	18.0	18.2	16.9	17.2
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY23	FY24E	FY25E	FY26E	Y/e Mar	FY23	FY24E	FY25E	FY26E
Source of funds					CMP (Rs)	763	763	763	763
Equity	266	266	266	266	EPS (Rs)	46.6	54.7	63.5	73.6
Reserves and Surplus	36,206	43,049	50,998	60,207	Book value (Rs)	273.9	325.3	385.0	454.1
Networth	36,473	43,316	51,265	60,473	Adj. BV(Rs)	267.7	316.2	373.6	440.8
Growth (%)	18.9	18.8	18.4	18.0	P/E(x)	16.3	14.0	12.0	10.4
Loan funds	2,90,681	3,36,006	3,88,845	4,50,198	P/BV(x)	2.8	2.3	2.0	1.7
Growth (%)	17.9	15.6	15.7	15.8	P/ABV(x)	2.8	2.4	2.0	1.7
Deferred Tax Liability	-	-	-	-	DPS (Rs)	3.0	3.3	3.8	4.4
Other Current Liabilities	3,156	2,059	2,370	2,730	Dividend Payout Ratio(%)	6.4	6.0	6.0	6.0
Other Liabilities	395	700	809	937	Dividend Yield(%)	0.4	0.4	0.5	0.6
Total Liabilities	3,30,705	3,82,081	4,43,289	5,14,339					
Application of funds					Asset Quality				
Net fixed assets	454	499	549	604	Y/e Mar	FY23	FY24E	FY25E	FY26E
Advances	3,11,933	3,60,012	4,17,527	4,84,356	Gross NPAs(Rs m)	1,738	2,407	3,021	3,551
Growth (%)	18.3	15.4	16.0	16.0	Net NPA(Rs m)	829	1,203	1,511	1,775
Investments	14,590	16,917	19,788	23,150	Gross NPAs to Gross Adv.(%)	0.6	0.7	0.7	0.7
Current Assets	3,096	3,997	4,635	5,377	Net NPAs to net Adv.(%)	0.3	0.3	0.4	0.4
Net current assets	(60)	1,938	2,266	2,647	NPA coverage(%)	52.3	50.0	50.0	50.0
Other Assets	631	655	789	851					
Total Assets	3,30,705	3,82,081	4,43,289	5,14,339	Du-Pont as a % of AUM				
Growth (%)	18.3	15.5	16.0	16.0	Y/e Mar	FY23	FY24E	FY25E	FY26E
Business Mix					NII	3.3	3.5	3.4	3.4
AUM	3,15,630	3,63,032	4,21,019	4,88,406	NII INCL. Securitization	3.3	3.5	3.4	3.4
Growth (%)	18.2	15.0	16.0	16.0	Total income	3.4	3.6	3.5	3.5
On Balance Sheet	3,15,630	3,63,032	4,21,019	4,88,406	Operating Expenses	0.6	0.6	0.6	0.6
% of AUM	100.00	100.00	100.00	100.00	PPOP	2.8	3.0	2.8	2.8
Off Balance Sheet	-	-	-	-	Total Provisions	0.1	0.4	0.2	0.2
% of AUM	-	-	-	-	RoAA	2.0	2.0	2.0	2.0
					Avg. Assets/Avg. net worth	9.1	9.0	8.7	8.6
					RoAE	18.5	18.2	17.9	17.5
Profitability & Capital (%)									
Y/e Mar	FY23	FY24E	FY25E	FY26E					
NIM	3.3	3.5	3.4	3.4					
ROAA	2.0	2.0	2.0	2.0					
ROAE	18.5	18.2	17.9	17.5					

Source: Company Data, PL Research

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Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	900	774
2	09-Aug-23	BUY	900	738
3	21-Jul-23	BUY	950	831
4	06-Jul-23	BUY	770	769
5	28-Apr-23	BUY	770	617
6	11-Apr-23	BUY	700	581
7	20-Mar-23	BUY	700	530
8	20-Jan-23	BUY	700	521
9	05-Jan-23	BUY	700	545

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,726
2	Axis Bank	BUY	1,170	1,001
3	Bank of Baroda	BUY	235	215
4	Can Fin Homes	BUY	900	774
5	City Union Bank	Accumulate	160	129
6	DCB Bank	BUY	150	123
7	Federal Bank	BUY	180	149
8	HDFC Asset Management Company	BUY	3,000	2,757
9	HDFC Bank	BUY	2,025	1,530
10	ICICI Bank	BUY	1,180	945
11	IndusInd Bank	BUY	1,620	1,420
12	Kotak Mahindra Bank	BUY	2,250	1,744
13	LIC Housing Finance	Hold	430	468
14	State Bank of India	BUY	770	594
15	UTI Asset Management Company	BUY	900	787

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, CFA Level 2, Mr. Anant Dumbhare- PGDM - Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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