Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Can Fin Homes Ltd

Robust earnings growth to keep return ratios at healthy level

NBFC	Sharekhan code: CANFINHOME
Reco/View: Buy ↔	CMP: **Rs. 782**	Price Target: **Rs. 960** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Updated Aug 08, 2023				30.48
xx Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Summary

- AUM growth is expected to pick-up in H2FY24 on likely improvement in disbursements driven by strong underlying demand for affordable housing credit and reinstated management's focus to boost growth.
- Management retained its guidance of 18% AUM growth and Rs. 10,000 crore disbursements for FY24. As per our estimates, AUM to grow at a CAGR of 16.2% over FY23-26E.
- NIM is expected to expand further in H2FY24 as re-pricing of Rs. 60 bn of loans over the next quarters would help CFHL sustaining yield at a healthy level. NIM (on avg. loans) is expected to peak out at 3.8% level in FY24 before normalizing to ~3.6% over the next two fiscals on likely increase in ticket size and focus on growth.
- On the back of strong earnings growth, RoA/RoE is expected to sustain at the healthy level of ~2.0%/18.0% over FY24-26E. At the CMP, the stock trades at P/BV of 2.1x/1.7x FY2025E/FY2026E BV estimates. We re-iterate our Buy rating and maintain PT of Rs. 960.

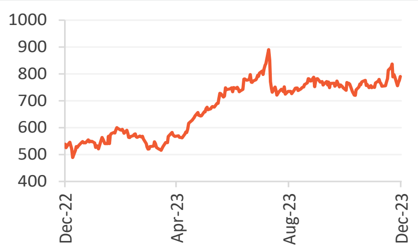
Company details

Market cap:	Rs. 10,409 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	4.1	0.1	4.1	48.8
Relative to Sensex	-4.2	-5.3	-8.7	32.2

Sharekhan Research, Bloomberg

Can Fin Homes Limited (CFHL) is expected to record healthy AUM growth as it is well-placed to capitalize on growth in the housing markets in Tier II, III and IV cities witnessing strong credit demand for affordable housing. While margin is expected to peak at ~3.8% in FY24 on factoring full benefit of re-pricing, it may normalise to ~3.6% over the next two fiscals amidst increase in ticket size and focus on growth. With the likely stable growth, healthy NIM along with contained credit cost, we expect CFHL to deliver 16% CAGR in earnings over FY23-26E.

- **Disbursements to pick-up on strong demand and focus on growth:** CFHL is expected to deliver strong growth in disbursements in coming quarters as it reinstated focus on growth after turning cautious due to Ambala fraud case. Management retained FY24 disbursements target of Rs10,000 crore (vs Rs. 4,090 crore in H1FY24). CFHL caters mainly to the medium ticket-size customers and focusing in Tier II,III and IV cities where affordable housing demand remain strong. Avg. ticket size is expected pick-up as CFHL started focusing on sub-Rs50 lakh ticket size by opening up newer sourcing channels such as APF and digital channels. It has introduced a new festival schemes at low interest rate to acquire new customers. The company is looking to gradually expand in north India as well in a move to diversify AUM which is skewed more towards south India (~71%). We estimated AUM to grow at a CAGR of 16.2% over FY23-26E.
- **Healthy growth & NIM to boost PPOP despite higher opex:** NIM may expand further to reach at peak level of 3.8% by FY23 as Rs. 60 bn of book to re-price in coming quarters which to keep yield at healthy level over 10%. As the company is focusing on higher ticket size and growth, NIM may moderate but expected to stay at healthy level of 3.6% over FY24-26E. C/I is expected to remain elevated at 17-18% over FY24-25E due to IT related transformation which was long overdue and additional staffing. PPOP is estimated to grow at a CAGR of 17.7% over FY23-26E (vs 12.3% CAGR over FY21-23).
- **Credit cost to remain contained on stable assets quality:** GNPA/NNPA at 0.76%/0.43% as of Sep'30 2023 stood at one of the best in the industry. Though higher slippages from the restructured book (RA) is a concern but contracting size of RA book and higher provision at Rs68 cr for RA book provides comfort for credit cost trajectory. Credit cost increased in Q2FY24 due to Rs. 40 crore of provisions against a fraud reported in Ambala branch. As per management, it was a one-off incident which has been fully provided. Credit cost is estimated to remain contained at ~0.2% over FY24-26E.

Our Call

Valuation: We re-iterate our Buy rating and maintain PT of Rs. 960: At the CMP, the stock trades at P/BV of 2.1x/1.7x FY2025E/FY2026E BV estimates. We remain assertive on real estate volumes for HFCs in the salaried/prime markets which are the key focused customers/segments of the company. Smaller HFCs in the affordable space deliver high growth by penetrating newer geographies. We expect high teen double digit AUM growth with healthy NIM level over the next coming fiscals. Asset-quality trend is likely to remain stable except for the restructured book, which may continue experiencing higher slippages but the book is likely to run down in the coming quarters. We are optimistic about company's outlook and its ability to deliver strong earnings growth and return ratios.

Key Risks

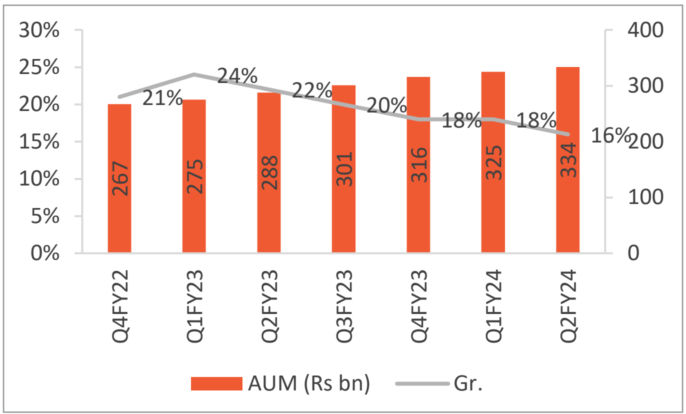
Higher slippages from restructured book, risk of slowing down of growth, geographical risks due to higher exposure to southern region.

Valuation (standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII	816	1,015	1,271	1,420	1,654
Gr.	-1.8%	37.9%	30.3%	15.4%	16.1%
NIM	3.4%	3.5%	3.8%	3.6%	3.6%
C/I	18.4%	16.9%	18.3%	17.4%	17.1%
PPOP	681	866	1,069	1,210	1,413
A.PAT	471	621	724	836	977
RoE	16.6%	18.5%	18.3%	17.9%	17.7%
RoA	1.9%	2.0%	2.0%	2.0%	2.0%
Leverage (x)	8.8	9.1	9.0	8.8	8.7
AUM	26,711	31,563	36,757	42,758	49,576
P/E (x)	22.2	16.7	14.3	12.4	10.6
P/BV (x)	3.4	2.9	2.4	2.1	1.7

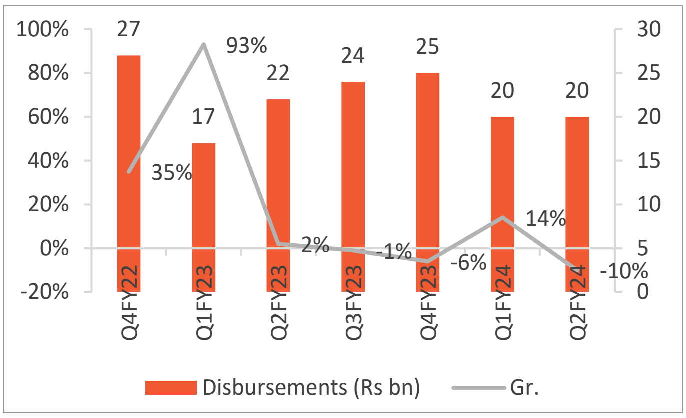
Source: Company; Sharekhan estimates

Trend in AUM



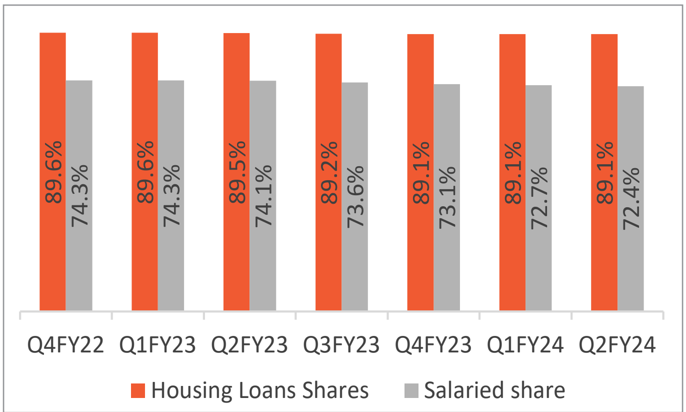
Source: Company, Sharekhan Research

Trend in Disbursements



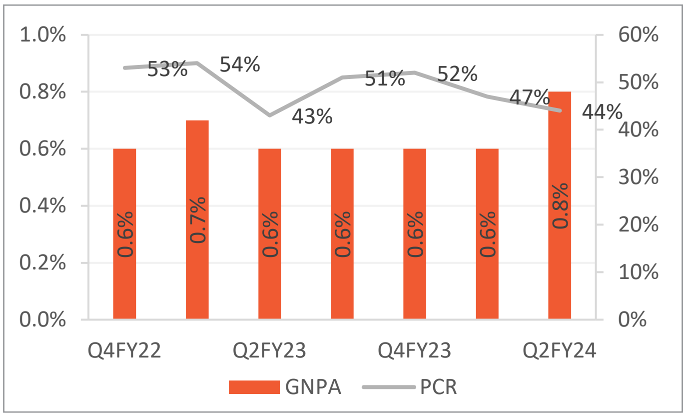
Source: Company, Sharekhan Research

Trend in segment share in AUM



Source: Company, Sharekhan Research

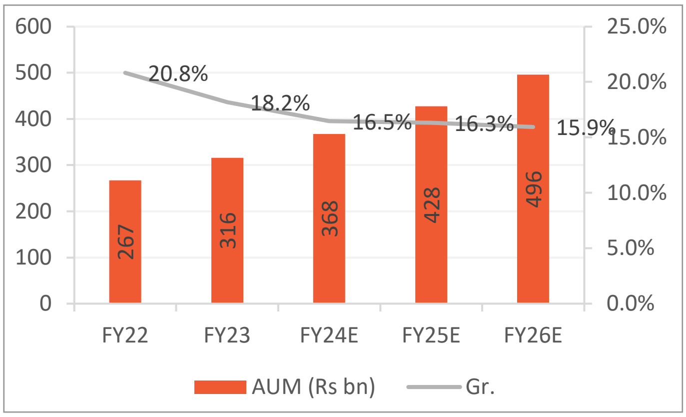
Trend in Assets Quality



Source: Company, Sharekhan Research

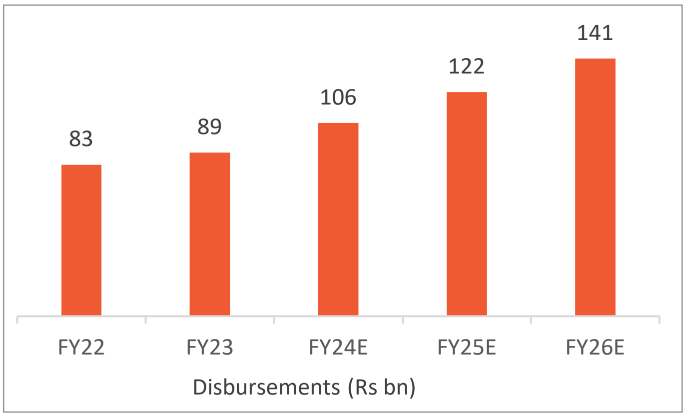
Financials in charts

Trend in AUM



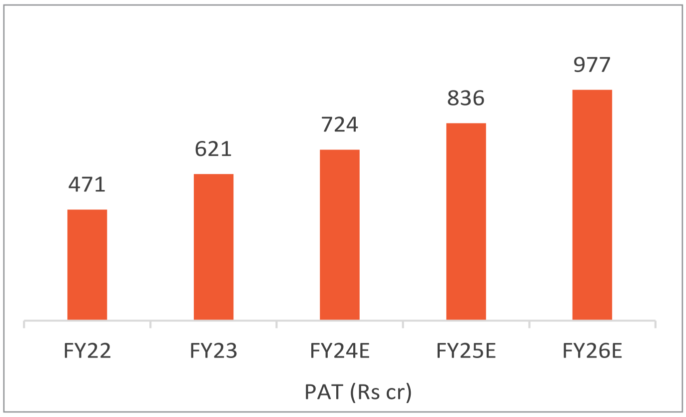
Source: Company, Sharekhan Research

Trend in disbursements



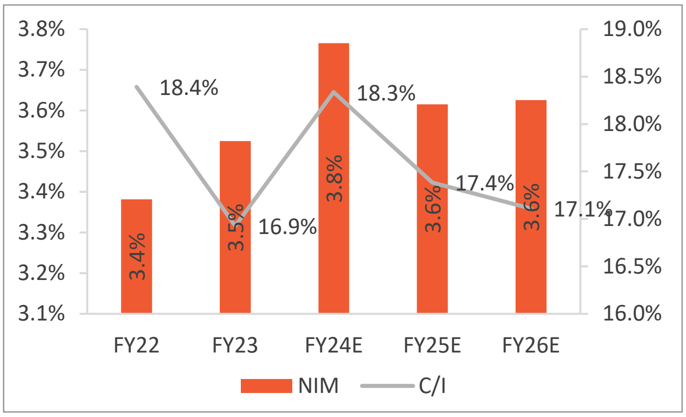
Source: Company, Sharekhan Research

Trend in profitability



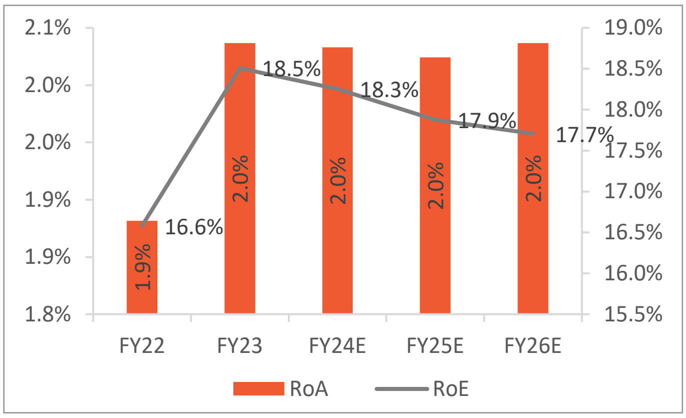
Source: Company, Sharekhan Research

Trend in NIM, C/I ratio



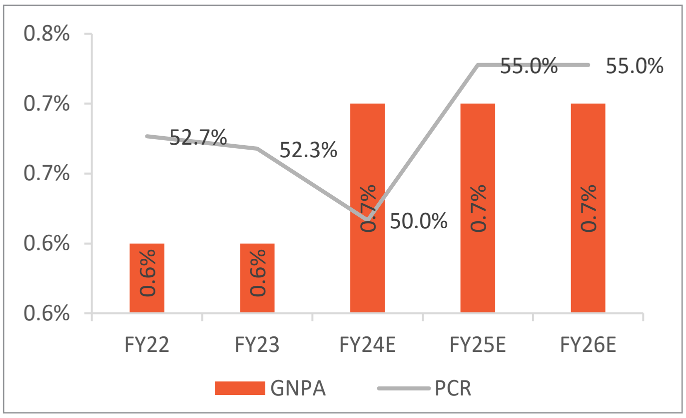
Source: Company, Sharekhan Research

Trend in Return Ratios



Source: Company, Sharekhan Research

Trend in Assets Quality



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 into 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.

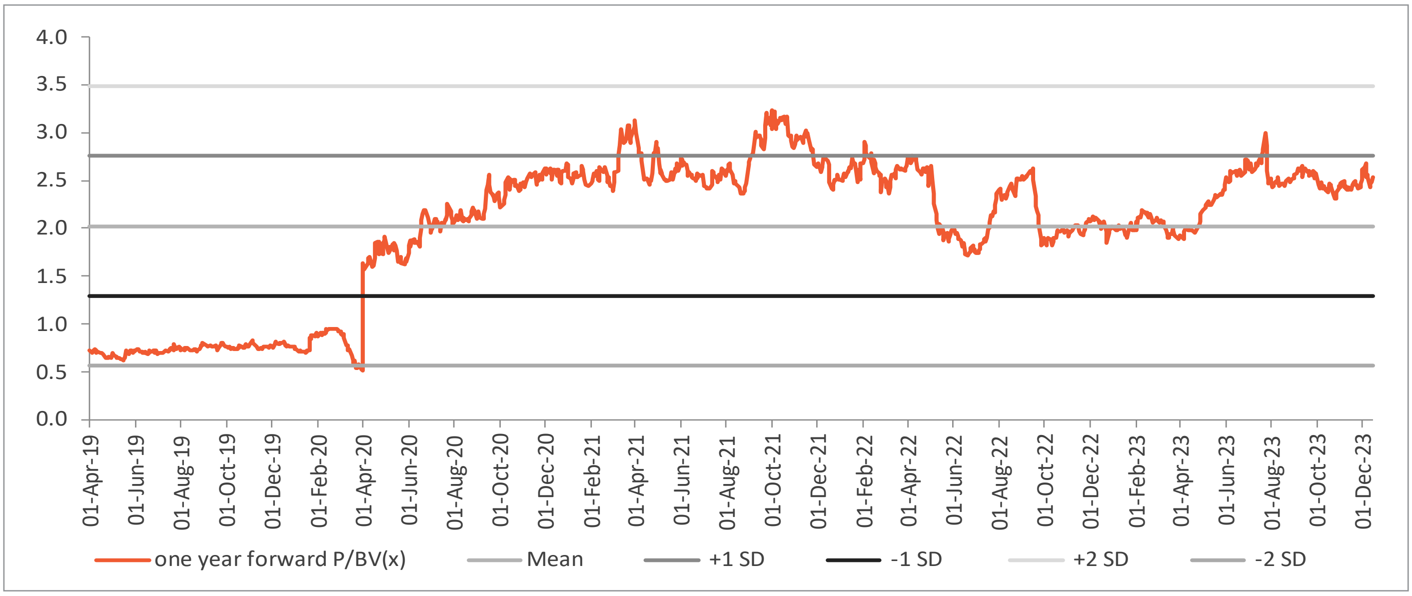
Company outlook

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 that enables, 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 sustain.be sustained. Higher opex growth is expected to getbe offset by margin tailwinds going forwardas we advance.

Valuation

We re-iterate our Buy rating and maintain PT of Rs. 960: At the CMP, the stock trades at P/BV of 2.1x/1.7x FY2025E/FY2026E BV estimates. We remain assertive on real estate volumes for HFCs in the salaried/prime markets which are the key focused customers/segments of the company. Smaller HFCs in the affordable space deliver high growth by penetrating newer geographies. We expect high teen double digit AUM growth with healthy NIM level over the next coming fiscals. Asset-quality trend is likely to remain stable except for the restructured book, which may continue experiencing higher slippages but the book is likely to run down in the coming quarters. We are optimistic about company's outlook and its ability to deliver strong earnings growth and return ratios.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Companies	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	782	10,409	14.3	12.4	2.4	2.1	18.3	17.9	2.0	2.0
LIC HF	540	29,722	6.8	6.2	0.9	0.8	15.2	14.9	1.5	1.5

Source: Company; Sharekhan Research

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, both to 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 connectconnections with potential informal sector customers that large banks are unable to service.

Key Risks

Higher slippages from restructured book, risk of slowing down of growth, geographical risks due to higher exposure to southern region.

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Chhattisgarh Investments Ltd.	6.17
2	Axis Asset Management Co. Ltd./India	4.71
3	DSP Investment Managers Pvt. Ltd.	4.47
4	L&T Mutual Fund Trustee Ltd./India	3.25
5	The Vanguard Group Inc.	2.75
6	UTI Asset Management Co. Ltd.	2.11
7	Sundaram Asset Management Co. Ltd.	2.07
8	Sarda Energy & Minerals Ltd.	1.49
9	Edelweiss Assets Management	1.40
10	Canara Robeco Asset Management Co	1.39

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

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