

# Can Fin Homes

Estimate changes

TP change

Rating change



Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	96.6 / 1.2
52-Week Range (INR)	910 / 509
1, 6, 12 Rel. Per (%)	-5/-21/14
12M Avg Val (INR M)	635

## Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
NII	12.7	13.9	15.7
PPP	11.0	11.8	13.6
PAT	7.6	8.5	9.8
EPS (INR)	57.3	64.1	73.3
EPS Gr (%)	23	12	14
BVPS (INR)	327	386	453

## Ratios (%)

NIM	3.8	3.7	3.6
C/I ratio	15.3	16.8	15.4
RoAA	2.2	2.1	2.1
RoE	19.1	18.0	17.5
Payout	7.9	7.8	7.5

## Valuation

P/E (x)	12.7	11.3	9.9
P/BV (x)	2.2	1.9	1.6
Div. Yield (%)	0.6	0.7	0.8

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	30.0	30.0	30.0
DII	28.5	27.4	23.5
FII	11.1	11.4	10.0
Others	30.5	31.3	36.5

FII Includes depository receipts

**CMP: INR725**
**TP: INR815 (+12%)**
**Neutral**

## Strong guidance on loan growth but execution is vital

### Earnings in line; Sequential expansion in NIM but GS3 up ~15bp QoQ

- CANF's 3QFY24 PAT grew ~32% YoY to ~INR2b (in line). NII grew 31% YoY to ~INR3.3b (in line). 9MFY24 PAT rose 19% YoY to ~INR5.4b.
- Opex grew ~13% YoY and declined ~6% QoQ to INR494m because of the absence of annual incentives and one-off process enhancement expenses during the quarter. PPOP grew 35% YoY to INR2.9b (in line).
- Repricing of the last tranche of loans resulted in a ~10bp QoQ improvement in yields. With CoF broadly stable QoQ, NIM expanded ~5bp to ~3.7%. We model NIM of 3.8%/3.7%/3.6% in FY24/FY25/FY26.
- The management expects an ambitious CAGR of ~20% in loans over the next four years, aided by a) lead originations from digital channels, b) branch expansions and corresponding improvements in productivity, and c) transition to higher ticket-size home loans.
- We model an AUM/PAT CAGR of 15%/16% over FY23-26E with RoA/RoE of 2.1%/~18% in FY26. CANF, in our view, is a robust franchise with strong moats on the liability side. However, we await a recovery in loan growth and early signs of execution on loan growth guidance before turning constructive on the stock. At 1.6x Mar'26E P/BV, we believe valuations largely price in the positive factors. Maintain Neutral with a TP of INR815 (1.8x Mar'26E BV).

### Disbursements impacted by process changes; book run-off stable QoQ

- 3QFY24 disbursements declined 23% YoY to ~INR18.8b. Process changes (including centralization of disbursements and reconciliations) impacted Oct'23 disbursements. Dec'23 disbursements reached a run rate of ~INR7b.
- Advances grew ~13% YoY and ~2% QoQ to ~INR341b. Annualized run-off in advances stood at ~14% (flat QoQ), which was lower than ~16% YoY.

### Margin improved QoQ; share of CP declined

- NIM (reported) improved ~5bp QoQ to 3.7%. Reported spreads also rose ~5bp QoQ to 2.7%, due to a ~10bp QoQ rise in yields. The last tranche of CANF's back-book was repriced in 3QFY24.
- Bank borrowings in the mix rose to 60% (vs. ~57% in 2Q), while NHB borrowings remained stable at ~19%. The proportion of CPs declined to 5% (vs. ~7% in 2Q).

### Asset quality deterioration driven by slippages from restructured pool

- Asset quality deteriorated as GS3/NS3 rose ~15bp/5bp QoQ to ~0.9%/0.5%. PCR on S3 loans rose ~170bp QoQ to ~46%. Entire restructured pool exited restructuring in Nov'23 and there were even closures of restructured loans, which led to a decline in provisions on the restructured pool.
- The management expects GS3 to decline by INR200-300m in 4QFY24, resulting in GS3 of 0.75-0.8% by Mar'24.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Sourcing higher-ticket home loans; reduction in loans sourced from DSA**

- The average ticket size (ATS) of incremental housing loans rose to INR2.5m (from INR2.2m in 2Q and 1Q).
- DSA channel in the sourcing mix declined to 79% (2Q: ~82% and 1Q: ~85%).

**Highlights from the management commentary**

- CANF has received board approval to transition from an annual interest rate reset to a quarterly reset policy, effective Jan'24 for all new loans disbursed. Existing customers have also been given a choice to transition to quarterly resets.
- FY24 guidance for the cost-to-income ratio (CIR) is revised to ~16% (from 18% earlier) due to the postponement of IT transformation costs. However, it continues to guide for CIR of 18.0-18.5% in FY25.

**Valuation and view**

- CANF has successfully demonstrated its ability to maintain its pristine asset quality for many years. Credit costs (including management overlay) could be elevated in FY24E at ~35bp, we expect it moderate to ~20bp in FY25/FY26. We estimate a 16% CAGR in each of NII/PPOP/PAT over FY23-26 and RoA of 2.1% and RoE of ~18% in FY26.
- Maintain Neutral with a TP of INR815 (based on 1.8x Mar'26E BVPS).

## Quarterly performance

INR m

Y/E March	FY23				FY24E				FY23	FY24E	3Q FY24E	Act vs est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	6,065	6,522	7,046	7,521	8,181	8,652	8,948	9,205	27,154	34,987	8,972	0
Interest Expenses	3,561	4,010	4,529	4,908	5,330	5,484	5,660	5,846	17,009	22,320	5,698	-1
<b>Net Interest Income</b>	<b>2,504</b>	<b>2,512</b>	<b>2,517</b>	<b>2,613</b>	<b>2,851</b>	<b>3,168</b>	<b>3,288</b>	<b>3,359</b>	<b>10,146</b>	<b>12,666</b>	<b>3,274</b>	0
YoY Growth (%)	38.2	31.0	22.2	10.1	13.9	26.1	30.6	28.6	24.3	24.8	30.1	
Other income	51	54	51	122	60	58	71	101	277	290	71	0
<b>Total Income</b>	<b>2,555</b>	<b>2,566</b>	<b>2,568</b>	<b>2,735</b>	<b>2,911</b>	<b>3,226</b>	<b>3,359</b>	<b>3,461</b>	<b>10,423</b>	<b>12,957</b>	<b>3,345</b>	0
YoY Growth (%)	39.8	30.2	20.9	12.7	13.9	25.7	30.8	26.6	24.8	24.3	30.3	
Operating Expenses	405	405	438	517	435	524	494	531	1,765	1,984	577	-14
YoY Growth (%)	33.8	18.3	8.7	7.3	7.4	29.5	12.7	2.7	15.3	12.4	31.7	
<b>Operating Profits</b>	<b>2,150</b>	<b>2,161</b>	<b>2,129</b>	<b>2,218</b>	<b>2,476</b>	<b>2,702</b>	<b>2,865</b>	<b>2,930</b>	<b>8,658</b>	<b>10,973</b>	<b>2,767</b>	4
YoY Growth (%)	40.9	32.7	23.8	14.0	15.2	25.0	34.6	32.1	26.9	26.7	30.0	
Provisions	-37	132	84	238	137	722	308	31	418	1,198	155	99
<b>Profit before Tax</b>	<b>2,187</b>	<b>2,028</b>	<b>2,045</b>	<b>1,980</b>	<b>2,339</b>	<b>1,980</b>	<b>2,557</b>	<b>2,899</b>	<b>8,240</b>	<b>9,775</b>	<b>2,612</b>	-2
Tax Provisions	565	611	530	322	504	399	556	691	2,028	2,150	627	-11
<b>Profit after tax</b>	<b>1,622</b>	<b>1,417</b>	<b>1,515</b>	<b>1,658</b>	<b>1,835</b>	<b>1,581</b>	<b>2,001</b>	<b>2,207</b>	<b>6,212</b>	<b>7,624</b>	<b>1,985</b>	1
YoY Growth (%)	49.0	14.6	30.9	34.9	13.1	11.5	32.1	33.1	31.9	22.7	31.1	
<b>Key Parameters (%)</b>												
Yield on loans	8.9	9.3	9.6	9.8	10.2	10.5	10.6	10.6				
Cost of funds	5.7	6.2	6.6	6.9	7.3	7.3	7.3	7.3				
Spread	3.3	3.1	2.9	2.9	3.0	3.2	3.3	3.3				
NIM	3.7	3.6	3.4	3.4	3.6	3.8	3.9	3.9				
Credit cost	-0.1	0.2	0.1	0.3	0.2	0.9	0.4	0.0				
Cost to Income Ratio (%)	15.8	15.8	17.1	18.9	14.9	16.2	14.7	15.3				
Tax Rate (%)	25.8	30.1	25.9	16.3	21.6	20.2	21.7	23.8				
<b>Balance Sheet Parameters</b>												
<b>Loans (INR B)</b>	<b>275.4</b>	<b>288.2</b>	<b>301.2</b>	<b>315.6</b>	<b>325.1</b>	<b>333.6</b>	<b>340.5</b>	<b>355.3</b>				
Growth (%)	23.9	22.2	20.0	18.2	18.0	15.7	13.1	12.6				
<b>AUM mix (%)</b>												
Home loans	89.6	89.5	89.2	89.1	89.1	89.1	89.1					
Non-housing loans	10.4	10.5	10.8	10.9	10.9	10.9	10.9					
Salaried customers	74.3	74.1	73.6	73.1	72.7	72.4	72.1					
Self-employed customers	25.7	25.9	26.3	26.9	27.2	27.5	27.8					
<b>Disbursements (INR B)</b>	<b>17.2</b>	<b>22.5</b>	<b>24.4</b>	<b>25.4</b>	<b>19.7</b>	<b>20.2</b>	<b>18.8</b>	<b>26.7</b>				
Change YoY (%)	92.6	1.7	-1.1	-6.2	14.2	-10.1	-23.1	5.0				
<b>Borrowing mix (%)</b>												
Banks	54.0	54.0	51.0	53.9	54.0	57.0	60.0					
NHB	22.0	22.0	23.0	22.5	22.0	19.0	19.0					
Market borrowings	22.0	22.0	24.0	22.1	23.0	23.0	20.0					
Deposits	2.0	2.0	2.0	1.5	1.0	1.0	1.0					
<b>Asset Quality</b>												
GNPL (INR m)	1,798	1,787	1,811	1,738	2,052	2,540	3,088					
NNPL (INR m)	819	1,012	893	829	1,096	1,420	1,674					
GNPL ratio %	0.65	0.62	0.60	0.55	0.63	0.76	0.91					
GNPL ratio %	0.30	0.35	0.30	0.26	0.34	0.43	0.49					
PCR %	54	43	51	52	47	44	46					
<b>Return Ratios (%)</b>												
ROA (Rep)	2.4	2.1	2.2	2.3	2.2	1.9	2.3					
ROE (Rep)	20.0	16.8	17.3	18.2	19.2	16.0	19.4					

E: MOFSL Estimates



## Highlights from the management commentary

### Business update

- Process changes (including centralization of disbursements and reconciliations) impacted Oct'23 disbursements. Dec'23 disbursements reached a run rate of ~INR7b.
- Received a credit rating upgrade from ICRA to AAA from AA+. This would aid the company's borrowing costs. Moreover, the management also expects to receive sanctions from NHB this year.
- NIMs and spreads expanded QoQ due to the repricing of last tranche of loan book (of ~INR67b), leading to higher yields.

### Guidance

- Guides for FY24 spreads of ~2.6% and NIM of ~3.7-3.8%. However, it expects spreads to moderate to ~2.5% and NIM to ~3.5% as it pursues loan growth in higher ticket sizes.
- Targets to bring down the DSA sourcing mix to ~60% over a period of time.
- Guides for GS3 to decline by INR200-300m in 4QFY24, resulting in GS3 of 0.75-0.8% by Mar'24.
- FY24 guidance for CIR is revised to ~16% (from 18% earlier) due to the postponement of IT transformation costs. However, it continues to guide for CIR of 18.0-18.5% in FY25.
- Expects disbursements of ~INR25-28b in 4QFY24 (vs. ~INR25b in 4QFY23), which would lead to AUM growth of 13-14%.
- Guides for disbursements of ~INR120b in FY24. Loan growth will be lower than ~20% in FY25 but targets a CAGR of ~20% in loans over the next four years.
- Salaried mix would remain above 70%.
- The company will not require additional ECL provisioning in 4QFY24, but the PCR coverage will be decided by the Board.

### Yields and Margins

- CANF has received board approval to transition from an annual interest rate reset to a quarterly reset policy effective Jan'24 for all new loans disbursed. Existing customers have also been given a choice to transition to a quarterly reset.
- Even in a declining interest rate environment, it should be able to maintain its spreads since it expects benefits on the borrowing side.

### Opex

- Opex declined QoQ to ~INR490m in 3QFY24 due to annual incentives and one-time process change-related expenses in the prior quarter. Guides for quarterly opex run rate of INR520-530m (excluding IT transformation cost of INR150-200m in FY25).

### AUM & Disbursement

- Disbursements have been centralized wherein scheduled disbursals are verified and documentation is checked. For disbursements scheduled before 2pm, demand drafts are generated and delivered to the branches on the same day by 5pm. However, for cases received after 2pm, DDs are delivered to the branches next day.

- Guidance of strong disbursements/loan growth is predicated on a) the tie-up with CRM and lead-sourcing from digital channels, b) new branches (~15 branches planned in FY24) becoming productive, and c) higher ticket sizes through the developer channel.
- In higher ticket-size loans, affluent customers would have a propensity to pre-pay but this segment also offers opportunities for top-up loans and cross-selling.

#### Asset Quality

- CANF board and management have reversed (or utilized) the management overlay. This led to high credit costs in 3Q; to extend provisions on new slippages from the restructured pool.

#### Branches

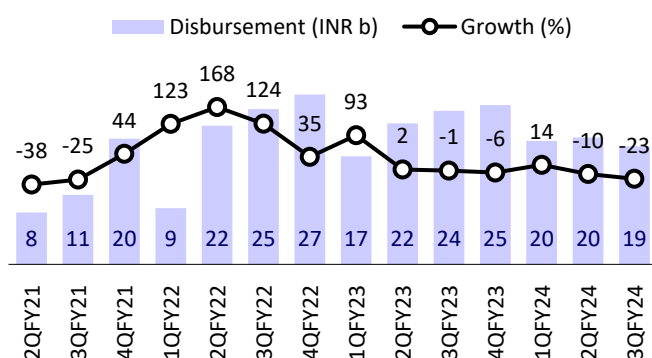
- Opened five branches in north and west India. Looking to expand in north and west India to bring down dependency on the southern region.
- Will target Gujarat, Maharashtra, Punjab, and Haryana to expand footprint in North and South.

#### Other

- CANF acquires ~4.0-4.2k customers every month.
- Its exiting IT system (which is 12 years old) has been beefed up to generate more reports to perform better monitoring. Cluster-level monitoring (focusing on 18 parameters) has been introduced.
- Non-performing DSAs have been de-empaneled. It will continue to churn and remove the DSAs who are not performing.
- Yields will be lower for loans sourced from developers. CANF is offering interest rates of ~8.95% for loans with a ticket size of >INR2m.
- DSA payouts are around 0.3-0.65% (blended of ~0.43%). Developers expect 0.1-0.25% of commission payouts.
- Opex (acquisition costs) - Average quarterly payout to DSAs is INR60-65m.

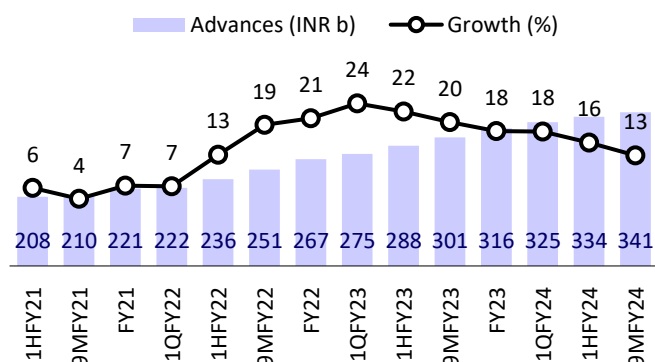
## Key exhibits

Exhibit 1: Disbursements declined 23% YoY

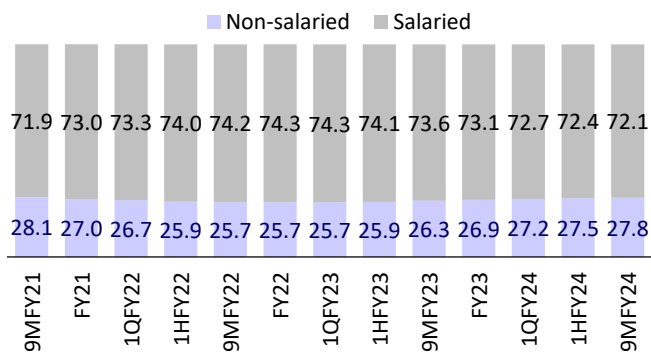


Sources: MOFSL, Company reports

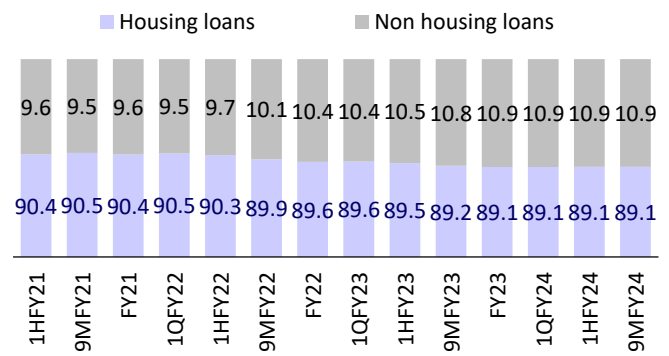
Exhibit 2: Advances grew 13% YoY



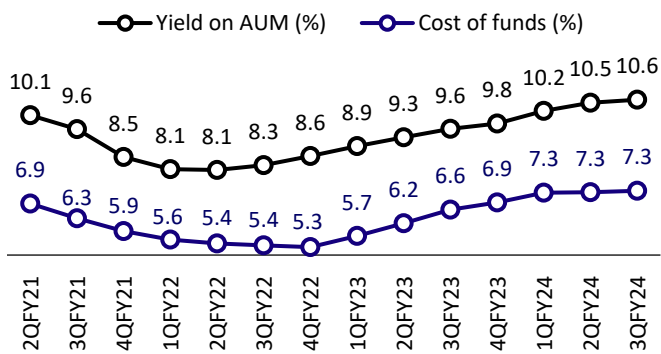
Sources: MOFSL, Company reports

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

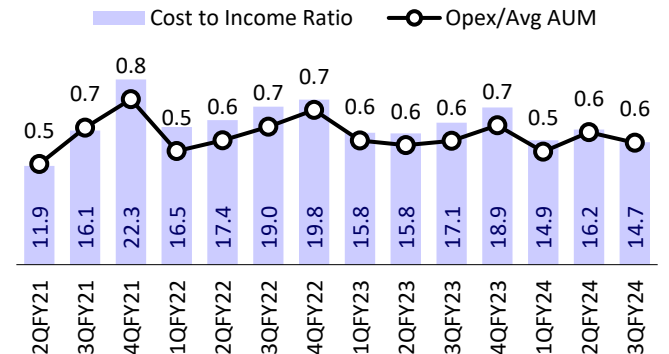
Sources: MOFSL, company reports

**Exhibit 4: Share of Housing loans stable at ~89%**

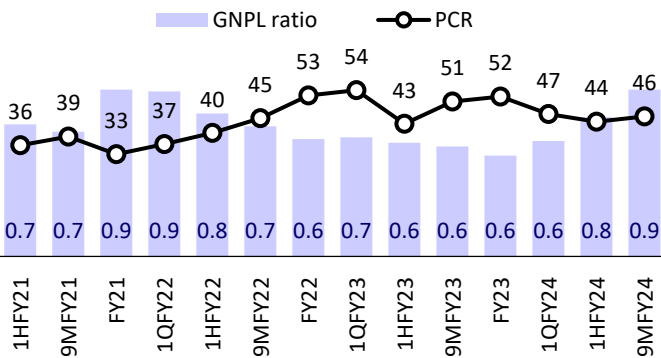
Sources: MOFSL, company reports

**Exhibit 5: Calculated spreads improved ~5bp QoQ (%)**

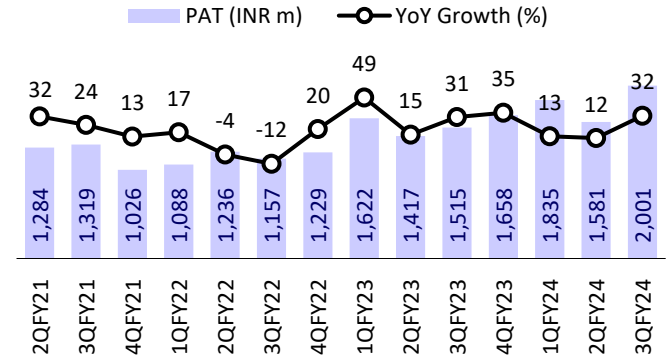
Sources: MOFSL, company reports

**Exhibit 6: C/I ratio declined by 150bp QoQ to ~14.7%**

Sources: MOFSL, company reports

**Exhibit 7: GNPA witnessed sequential deterioration driven by slippages from the restructured pool (%)**

Sources: MOFSL, company reports

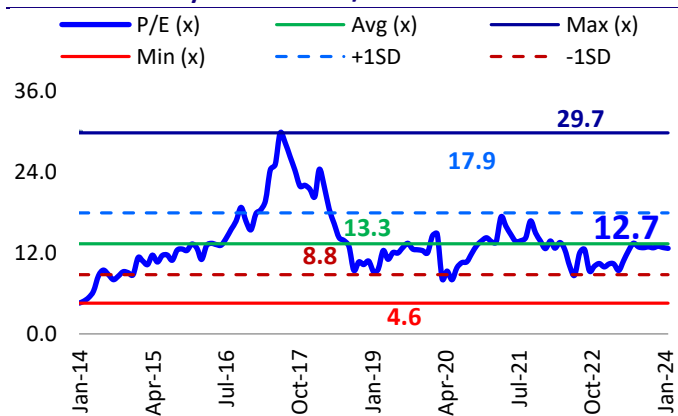
**Exhibit 8: PAT grew ~32% YoY to INR2b**

Sources: MOFSL, company reports

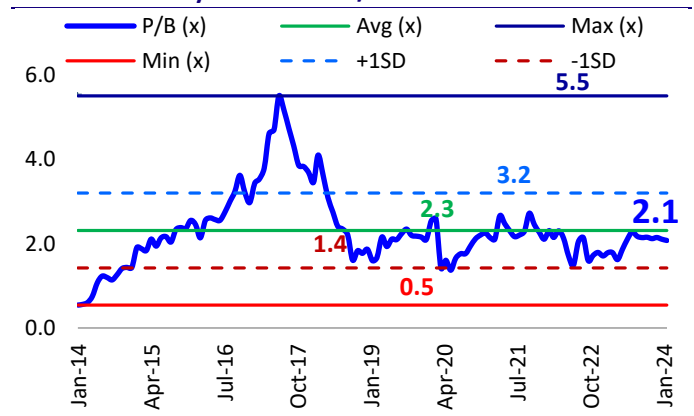
**Exhibit 9: Increase FY25 EPS estimates by ~3% to factor in slightly higher loan growth and lower credit costs**

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	12.6	13.5	15.7	12.7	13.9	15.7	0.5	2.2	0.0
Other Income	0.3	0.4	0.4	0.3	0.3	0.3	-12.1	-15.8	-19.4
<b>Total Income</b>	<b>12.9</b>	<b>13.9</b>	<b>16.1</b>	<b>13.0</b>	<b>14.2</b>	<b>16.1</b>	<b>0.2</b>	<b>1.8</b>	<b>-0.5</b>
Operating Expenses	2.1	2.3	2.4	2.0	2.4	2.5	-7.5	4.4	1.2
<b>Operating Profits</b>	<b>10.8</b>	<b>11.6</b>	<b>13.7</b>	<b>11.0</b>	<b>11.8</b>	<b>13.6</b>	<b>1.7</b>	<b>1.2</b>	<b>-0.8</b>
Provisions	1.1	0.8	0.8	1.2	0.7	0.9	7.6	-10.5	9.3
<b>PBT</b>	<b>9.7</b>	<b>10.9</b>	<b>12.9</b>	<b>9.8</b>	<b>11.1</b>	<b>12.7</b>	<b>1.0</b>	<b>2.1</b>	<b>-1.5</b>
Tax	2.2	2.6	3.0	2.2	2.5	2.9	-1.2	-0.1	-3.6
<b>PAT</b>	<b>7.5</b>	<b>8.3</b>	<b>9.8</b>	<b>7.6</b>	<b>8.5</b>	<b>9.8</b>	<b>1.7</b>	<b>2.8</b>	<b>-0.8</b>
AUM	355	409	473	355	410	478	0.0	0.3	1.0
Borrowings	326	372	430	326	374	435	0.1	0.6	1.1
NIM (%)	3.8	3.6	3.6	3.8	3.7	3.6			
ROA (%)	2.1	2.1	2.1	2.2	2.1	2.1			
RoE (%)	18.8	17.6	17.7	19.1	18.0	17.5			

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 Valuation

Income statement								INR m
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	17,134	20,189	20,064	19,697	27,154	34,987	39,411	45,250
Interest Expended	11,693	13,442	12,083	11,535	17,009	22,320	25,557	29,534
Net Interest Income	5,441	6,747	7,980	8,162	10,146	12,666	13,854	15,715
Change (%)	6.8	24.0	18.3	2.3	24.3	24.8	9.4	13.4
Other Income	179	115	121	188	277	290	318	349
Net Income	5,621	6,862	8,101	8,350	10,423	12,957	14,172	16,065
Change (%)	3.9	22.1	18.0	3.1	24.8	24.3	9.4	13.4
Operating Expenses	915	1,076	1,240	1,530	1,765	1,984	2,385	2,477
Operating Income	4,706	5,786	6,861	6,820	8,658	10,973	11,787	13,588
Change (%)	3.8	23.0	18.6	-0.6	26.9	26.7	7.4	15.3
Provisions/write offs	11	603	685	469	418	1,198	708	913
PBT	4,695	5,183	6,176	6,351	8,240	9,775	11,079	12,675
Tax	1,728	1,422	1,615	1,640	2,028	2,150	2,548	2,915
Tax Rate (%)	36.8	27.4	26.2	25.8	24.6	22.0	23.0	23.0
Reported PAT	2,967	3,761	4,561	4,711	6,212	7,624	8,531	9,760
Change (%)	4	27	21	3	32	23	12	14
Proposed Dividend (incl. tax)	321	321	266	399	466	599	666	732
Balance sheet								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	266	266	266	266	266	266	266	266
Reserves & Surplus	17,556	21,234	25,832	30,400	36,206	43,231	51,097	60,124
Net Worth	17,822	21,501	26,098	30,666	36,473	43,498	51,363	60,390
Borrowings	1,67,974	1,87,484	1,92,929	2,46,477	2,90,681	3,25,905	3,74,285	4,34,869
Change (%)	20.7	11.6	2.9	27.8	17.9	12.1	14.8	16.2
Other liabilities	1,500	1,451	1,710	2,300	3,551	4,262	5,114	6,137
Total Liabilities	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,73,665	4,30,762	5,01,396
Loans	1,82,342	2,05,257	2,18,915	2,63,781	3,11,933	3,51,949	4,05,949	4,72,684
Change (%)	16.6	12.6	6.7	20.5	18.3	12.8	15.3	16.4
Investments	163	243	496	11,260	14,590	16,779	19,296	22,190
Change (%)	1.9	49.1	104.1	2,169.9	29.6	15.0	15.0	15.0
Net Fixed Assets	99	379	378	346	454	595	781	1,024
Other assets	4,692	4,557	948	4,057	3,727	4,341	4,736	5,498
Total Assets	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,73,665	4,30,762	5,01,396

E: MOFSL Estimates



## Financials and Valuation

Ratios	(%)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on loans	10.1	10.4	9.44	8.14	9.4	10.5	10.4	10.3
Cost of funds	7.6	7.6	6.35	5.25	6.3	7.2	7.3	7.3
Spread	2.5	2.8	3.1	2.9	3.1	3.3	3.1	3.0
Net Interest Margin	3.2	3.5	3.8	3.4	3.5	3.8	3.7	3.6
<b>Profitability Ratios (%)</b>								
RoE	18.2	19.1	19.2	16.6	18.5	19.1	18.0	17.5
RoA	1.7	1.9	2.1	1.9	2.0	2.2	2.1	2.1
C/I ratio	16.3	15.7	15.3	18.3	16.9	15.3	16.8	15.4
<b>Asset Quality (%)</b>								
Gross NPAs	1,135	1,571	2,019	1,706	1,738	2,787	2,992	3,291
Gross NPAs to Adv.	0.6	0.8	0.9	0.6	0.6	0.8	0.7	0.7
Net NPAs	795	1,118	1,343	807	829	1,366	1,406	1,481
Net NPAs to Adv.	0.4	0.5	0.6	0.3	0.3	0.4	0.3	0.3
PCR	30.0	28.8	33.5	52.7	52.3	51.0	53.0	55.0
<b>VALUATION</b>								
Book Value (INR)	134	161	196	230	274	327	386	453
Price-BV (x)	5.4	4.5	3.7	3.1	2.6	2.2	1.9	1.6
EPS (INR)	22.3	28.2	34.2	35.4	46.7	57.3	64.1	73.3
EPS Growth YoY	3.7	26.8	21.3	3.3	31.9	22.7	11.9	14.4
Price-Earnings (x)	32.5	25.7	21.2	20.5	15.5	12.7	11.3	9.9
Dividend per share (INR)	2.0	2.0	2.0	3.0	3.5	4.5	5.0	5.5
Dividend yield (%)	0.3	0.3	0.3	0.4	0.5	0.6	0.7	0.8

E: MOFSL Estimates

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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