

Retail Equity Research

Can Fin Homes Ltd.

NBFC

BSE CODE : 511196

NSE CODE: CANFINHOME

BLOOMBERG CODE: CANF:IN

SENSEX : 72,790

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 798 TARGET Rs. 900 RETURN 13% ↑

(Closing: 26-02-24)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Reviving growth with fresh avenues..

Can Fin Homes Ltd. (CANF) is the housing finance arm of Canara Bank. The company, headquartered in Bangalore, has a predominant presence in South India, with a focus on Tier 1 and Tier 2 cities.

- The loan book grew by 13% YoY and 2% sequentially to Rs. 34,053 cr. Operational changes during the transition to a central disbursement system caused a slowdown. The client base is now at Rs. 2.53 lakh.
- Quarterly disbursements fell 9% YoY due to a fraud incident at the Ambala branch, leading to extensive audits across all branches and a slowdown in overall branch activities.
- The management anticipates a revival in demand by the end of the year, driven by the addition of customers from new channels, including developer tie-ups.
- The Net Interest Margin (NIM) is expected to remain between 3.6% - 3.7%, supported by completed repricing activities and a favourable credit rating adjustment by ICRA, which should ease pressure on the cost of funds.
- We maintain an Accumulate rating on the stock with a target price of Rs. 900 based on 2x FY26E BVPS.

Advances and deposits experienced a tepid growth

The outstanding loan book of the company increased by 13%YoY and 2% sequentially during the quarter to Rs.34,053 cr. with a clientele base of 2.5 lakh. Disbursements witnessed a YoY decline of 9% to Rs. 1,879.46cr. Salaried and professional segments, which hold 72% of the total loan book, grew by 10.8%, while the self-employed & non-professional segments, constituting 28% of the loan book, grew by 19.3%YoY. Management anticipates maintaining the current composition for the near future. Management expects demand to pick up by the end of FY24, keeping the AUM growth target at 14-15%. On the liability side, out of the total borrowing, 60% is from banks, 19% from the NHB (National Housing Bank), and 15% through NCDs.

Margins to stabilise at current levels

Net interest income rose 30.6%YoY with interest income growing at 27%YoY and interest expense at 25%YoY. There has been a rating upgrade from ICRA, now rated AAA compared to the previous AA+, which will benefit the bank by reducing the cost of borrowing through NCDs. We project the margins to stay steady within the existing range of 3.6% - 3.7%. The cost of funds for the quarter has increased by 3 bps to 7.35%. Pre-provision profit grew 34.6%YoY, while CANF has conservatively made a higher provision, taking PCR up by 178bps to 45.8%. PAT registered a growth of 32.1% YoY to Rs.288 cr.

Minor pressure on asset quality

During the quarter, GNPA increased to 0.91% from the previous quarter's 0.76%, while NNPA rose to 0.49% from 0.35%. The uptick in NPA is primarily linked to loan books emerging from moratorium. Management is confident that provisions adequately address potential losses from NPAs. The majority of restructured books have come out of the moratorium.

Outlook and valuation

The key strengths of CANF are its ability to keep asset quality under control and its strong balance sheet. Disbursal is expected to pick up due to the addition of customers from new sources, such as developer tie-up channels. Management expects demand to start picking up by year-end. Margins are expected to be sustained within the range of 3.6% - 3.7%. We therefore maintain Accumulate rating with an upward target price of Rs. 900 based on 2x FY26E BVPS.

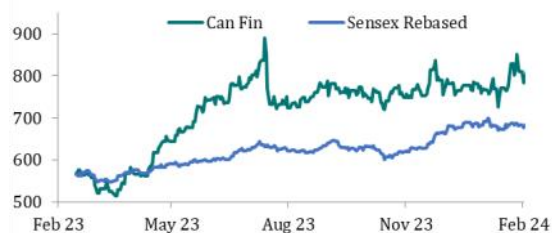
Company Data

Market Cap (Rs cr)	10,611.7
Outstanding Shares (cr)	13.3
Free Float(%)	63
Dividend Yield(%)	0.5
52 week high (Rs)	905
52 week low (Rs)	509
6m average volume (cr)	0.1
Beta	1.3
Face value (Rs)	2.0

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	30.0	30.0	30.0
FII's	10.7	11.4	11.0
MFs/Institutions	28.0	27.4	28.5
Public	31.3	31.2	30.5
Total	100.0	100.0	100.0
Promoter pledge	-	-	-

Price Performance	3 Month	6 Month	1 Year
Absolute Return	5.7%	6.6%	41.1%
Absolute Sensex	10.0%	11.8%	22.4%
Relative Return*	-4.3%	-5.2%	18.7%

*over or under performance to benchmark index



Standalone (Rs cr.)	FY24E	FY25E	FY26E
NII	1,267	1,439	1,635
Growth(%)	24.9	13.6	13.6
NIM(%)	3.6	3.7	3.7
Provisions	139	92	76
Adj. PAT	745	855	1,003
Growth(%)	19.9	14.8	17.3
Adj. EPS	55.9	64.2	75.3
Growth(%)	19.9	14.8	17.3
BVPS	327	387	459
Adj BVPS	318	376	444
P/E	14.3	12.5	10.6
P/B	2.4	2.1	1.7
ROA (%)	2.1	2.2	2.2
ROE (%)	18.6	18.0	17.8

Quarterly Financials

(Rs Cr)	Q3FY24	Q3FY23	YoY Growth (%)	Q2FY24	QoQ Growth (%)	9MFY24	9MFY23	YoY Growth (%)
Interest Income	895	705	27.0	865	3.4	2,578	1,963	31.3
Interest Expense	566	453	25.0	548	3.2	1,647	1,210	36.1
Net Interest Income (NII)	329	252	30.6	317	3.8	931	753	23.6
Fee and Other Income	7	5	39.9	6	21.7	19	16	21.7
Total Income	336	257	30.8	323	4.1	950	769	23.5
Expenditure	49	44	12.7	52	-5.7	145	125	16.4
Pre-Provision Profit	286	213	34.6	270	6.0	804	644	24.9
Provision	31	8	265.9	72	-57.3	117	18	549.8
PBT	256	205	25.0	198	29.1	688	626	9.8
Tax	56	53	4.8	40	39.2	146	171	-14.5
Reported PAT	200	151	32.1	158	26.6	542	455	18.9
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	200	151	32.1	158	26.6	542	455	18.9
Diluted EPS (Rs)	15.03	11.38	32.1	11.87	26.6	46.65	34	18.9

Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Net Interest Income (NII)	1,204	1,399	1,267	1,439	1,635	5.3	2.9
Net Interest Margin (%)	3.4	3.4	3.6	3.7	3.7	22bps	25bps
Pre-Provision Profit	1013	1179	1,094	1,217	1,395	8.0	3.2
Adj. PAT	720	838	745	855	1003	3.4	2.0
Diluted EPS (Rs)	54.1	62.9	55.9	64.2	75.3	3.4	2.0

PROFIT & LOSS

Y.E March (Rs cr.)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest Income	1,970	2,715	3,499	3,975	4,430
Interest Expense	1,154	1,701	2,232	2,536	2,795
Net Int. Income	816	1,015	1,267	1,439	1,635
Change (%)	2.3	24.3	24.9	13.6	13.6
Non Int. Income	19	28	24	33	42
Total Income	835	1,042	1,292	1,472	1,677
Operating Expenses	153	176	198	255	281
Pre Prov. Profit	682	866	1,094	1,217	1,395
Change (%)	-0.6	26.9	26.4	11.2	14.7
Prov. & Conting.	47	42	139	92	76
PBT	635	824	955	1,125	1,319
Change (%)	2.8	29.8	15.9	17.8	17.3
Tax	164	203	210	270	317
Tax Rate (%)	25.8	24.6	22.0	24.0	24.0
Reported PAT	471	621	745	855	1,003
Adj*	0	0	0	0	0
Adj. PAT	471	621	745	855	1,003
Change (%)	3.3	31.9	19.9	14.8	17.3
No. of shares (Cr)	13.3	13.3	13.3	13.3	13.3
EPS (Rs)	35.4	46.7	55.9	64.2	75.3
Change (%)	3.3	31.9	19.9	14.8	17.3
DPS (Rs)	3.5	3.0	3.0	3.5	4.0

BALANCE SHEET

Y.E March (Rs cr.)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	3	2	2	2	3
Loans & Advances	26,378	31,193	34,736	39,623	44,913
Investments	1,126	1,459	1,733	1,819	1,807
Net Fixed Assets	35	45	57	70	82
CWIP	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	48	48	50	65	76
Other Assets	355	322	352	401	455
Total Assets	27,944	33,070	36,931	41,980	47,335
Deposits	491	435	387	481	545
Debt Funds	24,157	28,633	31,674	35,809	40,089
Other Liabilities	205	321	436	441	500
Provisions	25	34	81	88	91
Equity Capital	27	27	27	27	27
Reserves & Surplus	3,040	3,621	4,325	5,133	6,083
Shareholder's Funds	3,067	3,647	4,352	5,160	6,110
Total Liabilities	27,944	33,070	36,931	41,980	47,335
BVPS (Rs)	230.3	273.9	326.8	387.5	458.8
Change (%)	17.5	18.9	19.3	18.6	18.4
Adj. BVPS (Rs)	223.6	266.3	317.6	375.5	443.8
Change (%)	17.1	19.1	19.3	18.3	18.2

RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return					
Interest yield (%)	7.9	8.9	10.0	10.1	9.9
Cost of funds (%)	5.3	6.3	7.3	7.4	7.3
Spread(%)	2.6	2.6	2.7	2.7	2.7
NIM (%)	3.3	3.3	3.6	3.7	3.7
ROE (%)	16.6	18.5	18.6	18.0	17.8
ROA(%)	1.9	2.0	2.1	2.2	2.2
Business Growth					
Loans & Advances (%)	20.9	18.1	11.5	14.0	13.3
Borrowings (%)	28.1	18.5	10.6	13.1	12.0
Operating Ratios					
Cost to Income (%)	18.3	16.9	15.3	17.3	16.8
Capital Adequacy					
CAR (%)	22.3	22.3	23.5	24.2	25.1
Asset Quality					
GNPA (%)	0.6	0.6	0.7	0.8	0.8
NNPA (%)	0.3	0.3	0.3	0.4	0.4
Valuation					
P/E (x)	22.6	17.1	14.3	12.5	10.6
P/B (x)	3.5	2.9	2.4	2.1	1.7
Adj. P/B (x)	3.6	3.0	2.5	2.1	1.8

Recommendation Summary (last 3 years)



Dates	Rating	Target
02 February 21	Buy	596
02 August 21	Accumulate	626
04 February 22	Accumulate	729
27 July 22	Accumulate	619
25 October 22	Accumulate	611
28 April 23	Accumulate	714
27 February 24	Accumulate	900

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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