



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	■	↔	■

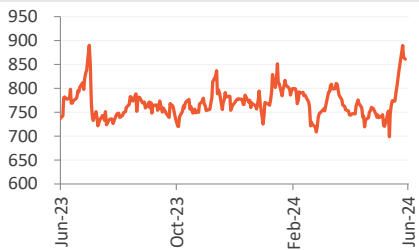
Company details

Market cap:	Rs. 11,744 cr
52-week high/low:	Rs. 905/680
NSE volume: (No of shares)	7.3 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	11.5
DII	27.9
Others	30.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.9	18.6	15.8	20.2
Relative to Sensex	17.4	12.4	7.6	-2.1

Sharekhan Research, Bloomberg

Can Fin Homes Ltd

Strong RoE to sustain, Growth to pick up

NBFC	Sharekhan code: CANFINHOME		
Reco/View: Buy	↔	CMP: Rs. 882	Price Target: Rs. 1,050 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We believe the company is likely to sustain an ~18% RoE in the near to medium term with growth gradually picking up from here on.
- Most internal systems and processes have been streamlined thus focus now is on accelerating the growth. Moreover, an additional three crore houses construction under PMAY scheme is potentially positive.
- The company is guiding for loan growth of ~15% in FY25 and ~18-20% from FY26 onward. Asset quality trends are expected to remain stable and credit cost to moderate going forward.
- Stock trades at 2.3x/2.0x its FY2025E/FY2026E ABV estimates. We maintain Buy rating with a revised PT of Rs. 1,050.

Earnings growth is expected to improve as growth picks up given that most internal systems and processes have been streamlined thus focus now is on accelerating the growth. Moreover, an additional three crore houses construction under PMAY scheme is potentially positive. The company has successfully demonstrated its ability to maintain its pristine asset quality in the past cycles. Outlook on asset quality remains stable. Credit cost was higher in FY24 at ~36 bps versus the average credit cost trajectory of 10-20bps on account of higher management overlay and provisions for Ambala fraud. Thus, credit cost could also moderate going forward by 15-20 bps. The company is guiding for loan growth of ~15% in FY25 and ~18-20% from FY26 onward. Gradual pickup in growth and lower credit cost partly offsetting marginally lower NIMs would drive earnings growth in FY25.

- **Growth Outlook:** The company is confident of recouping growth as most of the internal systems and processes have been streamlined. It is guiding for loan growth of ~15% in FY25 and ~18-20% from FY26 onward driven by pick up in disbursements growth led by branch expansion and productivity underwriting higher ticket-size home loans as demand is tepid in ticket size lower than Rs. 20 lakh and c) Partnering with builders where projects are approved project financial (APF) by other large lenders so that it can source small-project loans. However, focus is mainly on retail home loans and not aggressively looking at other segment - LAP, construction finance etc.
- **Asset quality outlook stable, credit costs to moderate:** GNPA/NNPA ratios stands at 0.82%/0.42%. PCR is at ~49%. GNPA excluding NPA from restructured book stands at 0.55%. NPAs in restructured book are Rs 93 crore. The company guided that there would not be further slippages other than from the core book in the normal course. Management overlay are currently at Rs. 34 crore and provisions on the restructured book stands at Rs. 56 crore over and above the PCR (cumulatively 0.3% of loans). Additionally recovery from Ambala fraud is pending and a windfall gain could materialise, but no timeline can be assured. Outlook on asset quality remains stable. Credit cost was higher in FY24 at ~36 bps vs avg. credit cost trajectory of 10-20 bps on account of a higher management overlay and provisions for Ambala fraud. Thus credit cost could also moderate going forward, by 15-20 bps.
- **Margin & cost outlook:** The company is guiding to sustain spreads/ NIMs above 2.5%/3.5%. NIMs (Cal.) in FY24 were reported at 3.8%. We believe NIMs are expected to be marginally lower than FY24. Cost of borrowings (~7.4% in FY2024) is very close to the incremental cost of borrowings (~7.5%) but yields may gradually fall due to rate cuts if happens and strong competition from banks. Cost to income ratio is expected at 17-18% in FY25 led by higher IT spends.

Our Call

Valuation – We maintain Buy with a revised PT of Rs. 1.050: At CMP, the stock trades at 2.3x/2.0x its FY2025E/FY2026E ABV. We remain assertive on real estate volumes for housing finance companies in the salaried and prime/mid segment. We expect steady mid-to-high teen growth in this segment to continue. Smaller HFCs are clocking high growth by penetrating newer regions. Inadequate internal controls and systems have impacted the business in the recent times but now most IT systems and processes have been streamlined which should help business to grow with all due diligence. Moreover, the interest rate cycle is closer to its peak, which could act as a growth tailwinds.

Key Risks

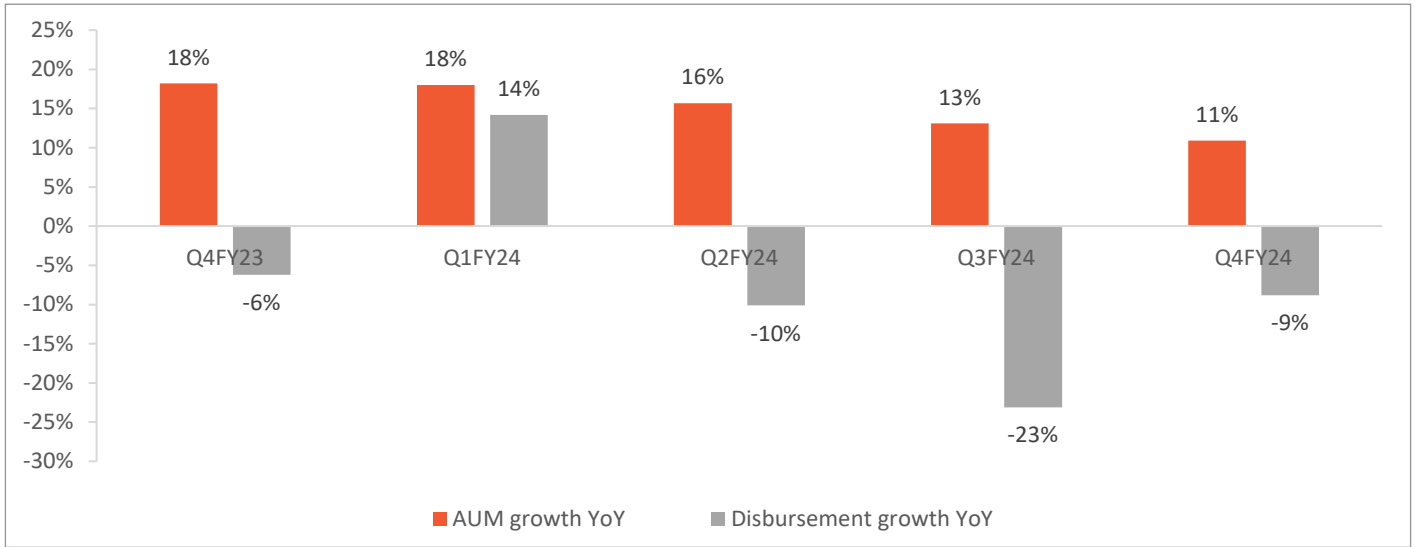
Slower growth and deterioration in asset quality.

Valuation

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	816	1,014	1,258	1,409	1,634
Net profit	471	621	751	830	965
EPS (Rs.)	35.4	46.7	56.4	62.4	72.6
P/E (x)	25.0	18.9	15.6	14.1	12.2
P/BV (x)	3.8	3.2	2.8	2.3	2.0
RoA	1.9	2.2	2.3	2.0	2.0
RoE	16.6	17.0	17.3	17.7	17.5

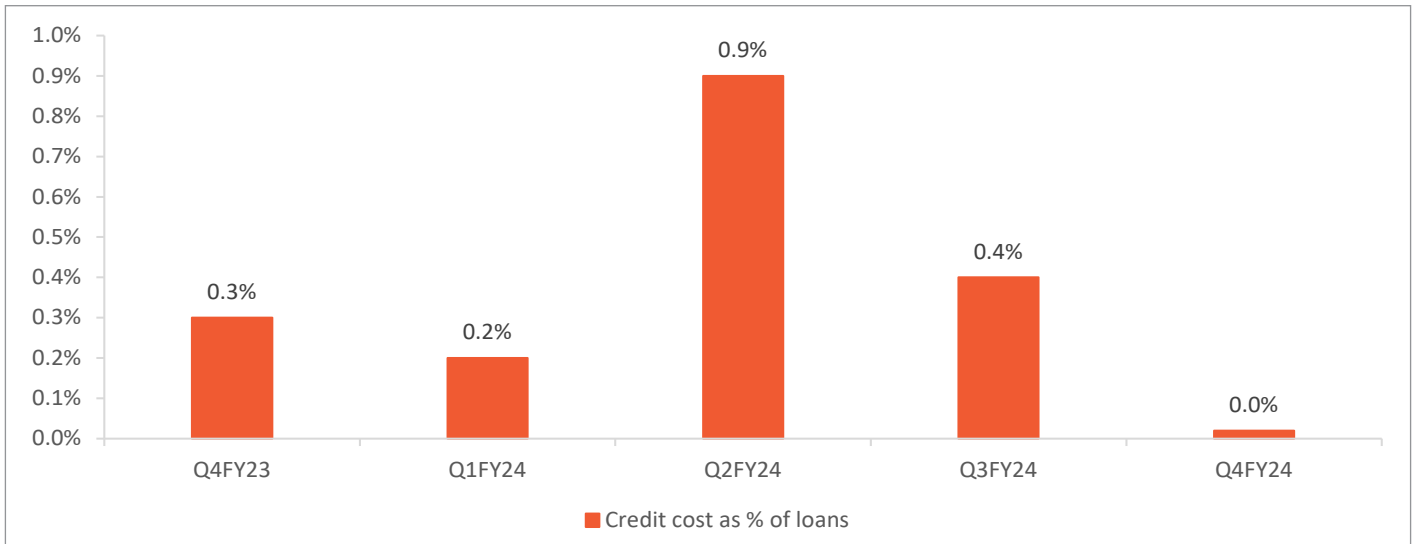
Source: Company; Sharekhan estimates

Trend in Disbursement and AUM growth; growth likely to pick up



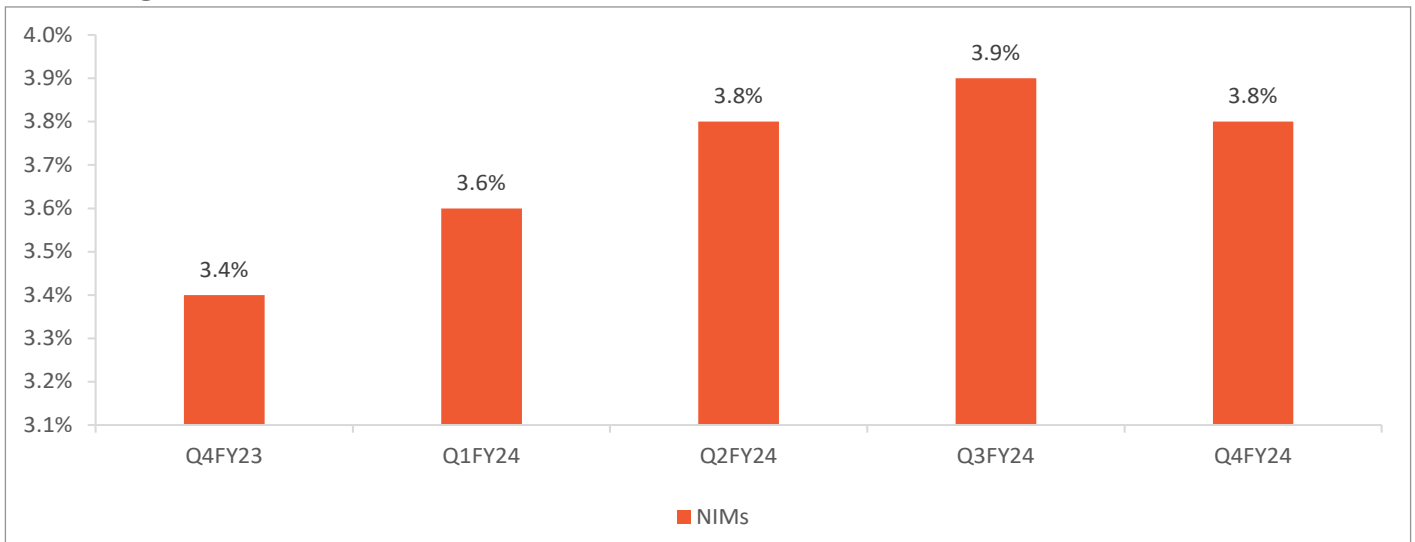
Source: Company, Sharekhan Research

Trend in credit cost; credit cost is expected to be lower



Source: Company, Sharekhan Research

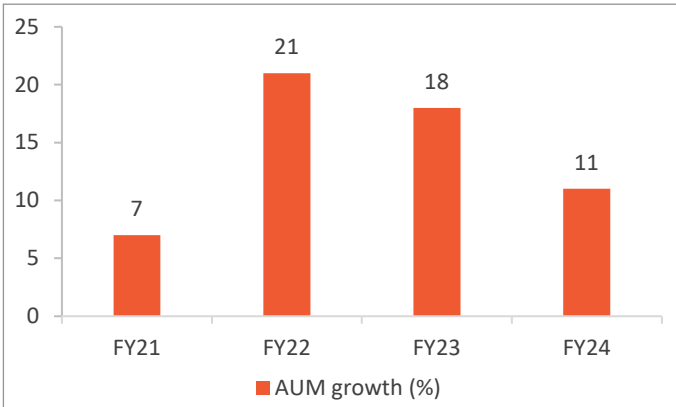
Trend in Margin



Source: Company, Sharekhan Research

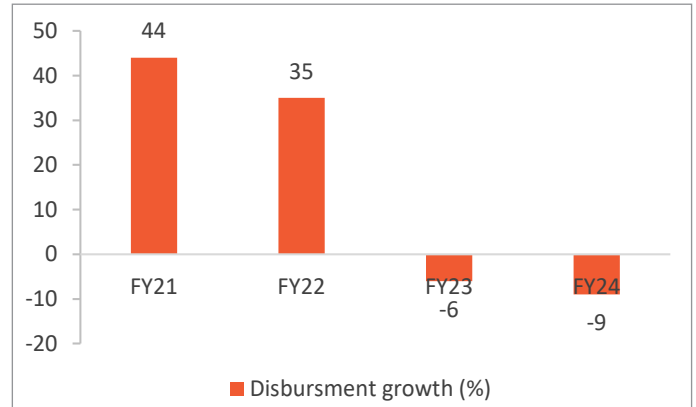
Financials in charts

Trend in AUM growth



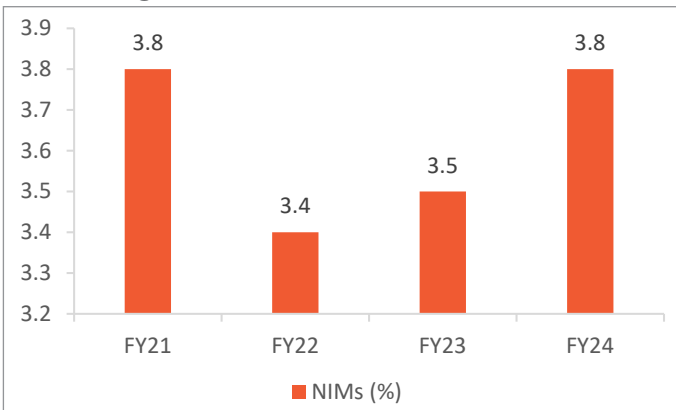
Source: Company, Sharekhan Research

Trend in Disbursement growth



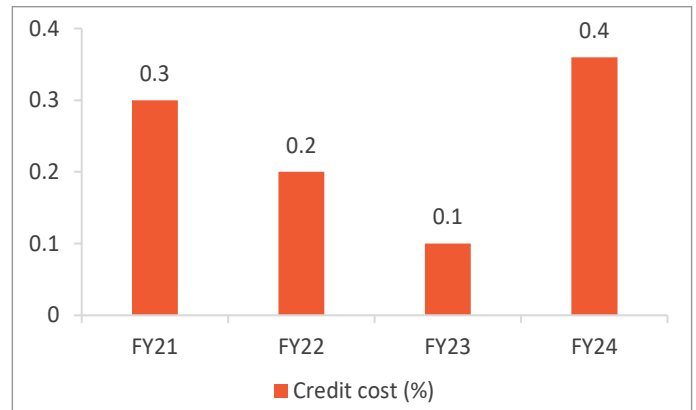
Source: Company, Sharekhan Research

Trend in margins



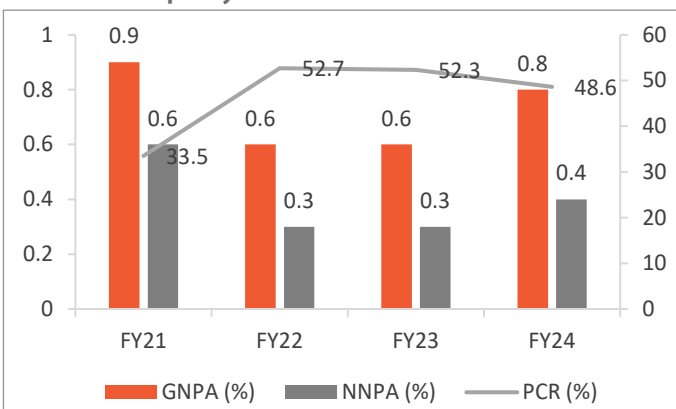
Source: Company, Sharekhan Research

Trend in Credit cost



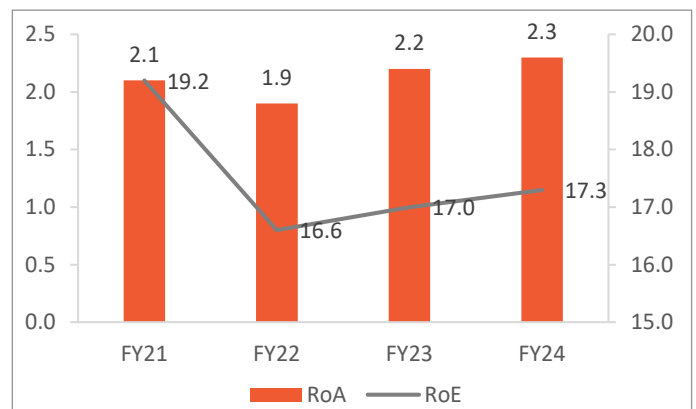
Source: Company, Sharekhan Research

Trend in Asset quality



Source: Company, Sharekhan Research

Trend in Return ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Housing demand to grow at steady rate

Long-term structural drivers remain strong for mortgages in India. We have not seen any major signs of slowdown in the real estate sector. With prices being stable, affordability remains strong. Hence, we remain assertive on real estate volumes for HFCs in 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 newer geographies. Moreover, the interest rate cycle is closer to its peak, which could act as a tailwind. Overall, asset-quality trends are stable in the sector.

■ Company outlook - Attractive franchise

CanFin has shown its ability to deliver superior return ratios metrics, navigated stiff competition from the bank in the past and its asset quality continues to be the best in class among peers. The company is investing in a tech transformation project to strengthen the internal control systems and thus opex cost is expected to be higher in the near term but should help business to grow with all due diligence. Growth guidance appears conservative.

■ Valuation - We maintain Buy with a revised PT of Rs. 1,050

At CMP, the stock trades at 2.3x/2.0x its FY2025E/FY2026E ABV. We remain assertive on real estate volumes for housing finance companies in the salaried and prime/mid segment. We expect steady mid-to-high teen growth in this segment to continue. Smaller HFCs are clocking high growth by penetrating newer regions. Inadequate internal controls and systems have impacted the business in the recent times but now most IT systems and processes have been streamlined which should help business to grow with all due diligence. Moreover, the interest rate cycle is closer to its peak, which could act as a growth tailwinds.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Can Fin Homes	882	11,744	14.1	12.2	2.3	2.0	17.7	17.5	2.0	2.0
LIC Housing Finance	731	40,226	8.2	7.6	1.1	1.0	14.7	14.1	1.5	1.5

Source: Company; Sharekhan Research

About company

CFHL is a leading housing finance company promoted by Canara Bank. The company has 219 branches across 21 states and Union Territories. The company offers housing loans at competitive interest rates, both to salaried and self-employed borrowers. The company focuses on housing loans to individuals with ~89% of the book constituting to retail home loans.

Investment theme

We remain assertive on real estate volumes for HFCs in the salaried and prime/mid segment. We expect steady mid-to-high teen growth in this segment to continue. We believe HFCs stand to benefit from this housing sector's growth as they are well equipped with superior customer service and last-mile connect with potential informal sector customers that large banks are unable to service.

Key Risks

Slower growth and deterioration in asset quality.

Additional Data

Key management personnel

Mr. Suresh Iyer	MD & CEO
Mr. Apurav Agarwal	CFO
Mr. A. Uthaya Kumar	CRO

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Bank	29.99
2	Chhattisgarh Investments Ltd.	6.17
3	Axis Asset Management Co. Ltd./India	4.17
4	DSP Investment Managers Pvt Ltd	4.13
5	The Vanguard Group Inc.	2.76
6	L&T Mutual Fund Trustee Ltd./India	2.66
7	Sundaram Asset Management Co. Ltd.	2.11
8	ICICI Prudential AMC Ltd	1.60
9	Sarda Energy & Minerals Ltd.	1.49
10	Canara Robeco AMC Ltd	1.39

Source: Bloomberg

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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 deteriorating 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

Sharekhan

by BNP PARIBAS

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