

July 23, 2024

## Q1FY25 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		BUY	
Target Price	930		950	
NII (Rs.)	13,468	14,937	13,635	15,658
% Chng.	(1.2)	(4.6)		
PPoP (Rs.)	11,401	12,544	11,540	13,199
% Chng.	(1.2)	(5.0)		
EPS (Rs.)	62.4	67.9	62.4	71.4
% Chng.	(0.1)	(4.9)		

### Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Int.Inc. (Rs m)	10,146	12,588	13,468	14,937
Growth (%)	24.3	24.1	7.0	10.9
Op. Profit (Rs m)	8,658	10,768	11,401	12,544
PAT (Rs m)	6,212	7,507	8,304	9,040
EPS (Rs.)	46.6	56.4	62.4	67.9
Gr. (%)	31.9	20.8	10.6	8.9
DPS (Rs.)	3.0	4.0	3.7	4.1
Yield (%)	0.4	0.5	0.4	0.5
Margin (%)	3.3	3.6	3.4	3.3
RoAE (%)	18.5	18.8	17.5	16.3
RoAA (%)	2.0	2.2	2.1	2.0
PE (x)	18.1	15.0	13.6	12.5
P/BV (x)	3.1	2.6	2.2	1.9
P/ABV (x)	3.2	2.7	2.3	1.9

### Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.938 / Rs.680
Sensex / Nifty	80,502 / 24,509
Market Cap	Rs.113bn/ \$ 1,345m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.738.4m

### Shareholding Pattern (%)

Promoter's	29.99
Foreign	11.54
Domestic Institution	27.78
Public & Others	30.69
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(1.8)	10.0	0.9
Relative	(5.8)	(3.8)	(16.4)

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## Credit flow guided to normalize from Q2FY25

### Quick Pointers:

- Weaker disbursements likely to normalize; ~15% AuM growth guided for FY25E
- Q1FY25 NIM impacted, but funding cost to be protected; NIM aimed at 3.5%

**CANF saw a weak quarter since (1) disbursements at Rs18.5bn were 13% lower to PLe, (2) reported NIM fell by 16bps QoQ due to rise in cost of funds and (3) provisions spiked QoQ. As per the company, disbursements were affected owing to the general elections and seasonality. However, credit flow touched Rs8bn in Jun'24 and CANF expects disbursements of Rs25bn in Q2FY25 and Rs105bn in FY25, which would translate to 15% YoY AuM growth in FY25. We trim loan CAGR over FY24-26E by 1% to 14% due to competition from banks and larger HFCs. If a scheme similar to CLSS is introduced in the upcoming budget, loan growth could be positively impacted by 2-3%. We cut NIM for FY26E by 10bps due to likely repo rate cuts in FY25/FY26 and increased competition given the focus on growth. We trim PAT for FY26E by 5%. Tweaking multiple to 2.1x from 2.2x on Mar'26 ABV, we reduce TP to Rs930 from Rs950. Retain 'BUY'.**

- **Weak quarter; miss on PAT due to lower NII and asset quality blip:** NII was a miss at Rs3.21bn (PLe Rs3.39bn) mainly due to lower NIM. AuM growth was also tad lower at 9.4% YoY (PLe 9.7% YoY), to Rs355bn, as disbursements were softer at Rs18.5bn (PLe Rs21.4bn) that was partly offset by lower repayments at Rs13bn (PLe Rs14.9bn). NIM (calc.) at 3.78% missed PLe by 20bps due to lower yields and higher funding cost. Reported NIM declined by 16bps QoQ to 3.57%. Opex was better at Rs488mn (PLe Rs612mn) due to softer staff cost & other opex. PPoP at Rs2.8bn was 2.2% below PLe because of lower NII. Asset quality worsened as GNPA/NNPA increased by 9bps/7bps QoQ to 0.9%/0.5%. Provisions were a miss at Rs245mn (PLe Rs180mn). PCR declined by 214bps QoQ to 46.5%. Management overlay was intact at Rs342mn. PAT was a miss Rs2bn (PLe Rs2.1bn) due to higher provisions.
- **CANF expects disbursements to expand:** While Q1 is generally weak due to seasonality, disbursements were further impacted in Apr'24/May'24 (combined Rs10.5bn) due to the general elections and govt. change in AP/Telangana. However, disbursements scaled up to Rs8bn in Jun'24. CANF expects credit flow of Rs25bn in Q2FY25 and Rs105bn in FY25E, which would translate to ~15% YoY AuM growth. However, due to intense competition from banks, we have slightly trimmed loan growth by 1% in FY25/26E to CAGR of 14%. If CLSS is re-introduced, AuM growth could be 2-3% higher than the estimates for FY25/26E. Historical data suggests that CLSS contributed ~22% to disbursements in FY22/23, while on a stock basis, contribution to AuM is nearly 14%.
- **NIM guided at 3.5%; credit costs to decline:** Reported NIM for Q1FY25 dipped by 16bps QoQ due to rise in funding cost (+18bps) owing to higher cost CPs, which are likely to be priced lower from Q2FY25 that would protect funding cost. The company is targeting a NIM of 3.5% for FY25E compared to 3.63% for FY24. We trim FY26E NIM by 10bps to 3.34%. Provisions spiked QoQ from 2bps to 29bps driven by the rise in standard (Rs160mn) and NPA provisions (Rs120mn) owing to protracted recoveries in Q1. However, CANF aims to reduce this stress to achieve full-year provisions of 12bps.

**Exhibit 1: Miss on PAT at Rs1.99bn due to lower NII & higher provisions**

*NII degrew sequentially due to lower NIM*

*Provisions increased to Rs245mn and PCR declined to 46.5%.*

*Disbursements fell by 5.7% YoY, offset by lower repayments leading to softer AUM growth*

*NIMs were a miss by 20bps at 3.78% due to lower yields and higher funding cost.*

*Asset quality worsened sequentially; GNPA/NNPA increased to 0.9%/0.5%.*

Financial Statement (Rs mn)	Q1FY25	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)
Interest Income	9,242	8,181	13.0	9,117	1.4
Interest Expense	6,027	5,330	13.1	5,839	3.2
<b>Net interest income (NII)</b>	<b>3,214</b>	<b>2,851</b>	<b>12.7</b>	<b>3,278</b>	<b>(1.9)</b>
Other income	70	60	16.1	159	(56.2)
<b>Total income</b>	<b>3,284</b>	<b>2,911</b>	<b>12.8</b>	<b>3,437</b>	<b>(4.5)</b>
Operating expenses	488	435	12.3	720	(32.2)
<b>Operating profit</b>	<b>2,796</b>	<b>2,476</b>	<b>12.9</b>	<b>2,717</b>	<b>2.9</b>
Total provisions	245	137	78.6	18	1,271.3
<b>Profit before tax</b>	<b>2,551</b>	<b>2,339</b>	<b>9.1</b>	<b>2,700</b>	<b>(5.5)</b>
Tax	555	504	10.0	609	(9.0)
<b>Profit after tax</b>	<b>1,996</b>	<b>1,835</b>	<b>8.8</b>	<b>2,090</b>	<b>(4.5)</b>
AUM (Rs mn)	3,55,570	3,25,050	9.4	3,49,990	1.6
Disbursements (Rs mn)	18,530	19,660	(5.7)	23,140	(19.9)
<b>Profitability ratios</b>					
<b>NIM (calc.)</b>	<b>3.8</b>	<b>3.8</b>	<b>(2)</b>	<b>3.9</b>	<b>(16)</b>
RoAA	2.2	2.2	(2)	2.5	(37)
RoAE	17.6	19.2	(159)	19.3	(168)
<b>Asset Quality ratios</b>					
Gross NPL (Rs m)	3,250	2,052	58.4	2,860	13.6
Net NPL (Rs m)	1,740	1,096	58.7	1,470	18.4
<b>Gross NPL ratio</b>	<b>0.9</b>	<b>0.6</b>	<b>28</b>	<b>0.8</b>	<b>10</b>
<b>Net NPL ratio</b>	<b>0.5</b>	<b>0.3</b>	<b>15</b>	<b>0.4</b>	<b>7</b>
Coverage ratio	46.5	46.6	(12)	48.6	(214)
<b>Business &amp; Other Ratios</b>					
Yield on Loans (%)	10.1	9.8	28	9.8	32
Cost of Borrowings (%)	7.6	7.3	26	7.5	6
Spread (%)	2.5	2.5	2	2.3	26
Cost/Income Ratio	14.9	14.9	(7)	20.7	(583)

Source: Company, PL

**Exhibit 2: Loan Mix – Growth led by personal & mortgage loans**

AUM Book Details (Rs mn)	Q1FY25	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)
Housing Loans	3,16,020	2,89,590	9.1	3,11,250	1.5
Top-up Personal	19,460	17,580	10.7	18,990	2.5
Mortgage Loans/Flexilap	15,990	14,050	13.8	15,630	2.3
Loans for Sites	3,030	2,660	13.9	2,990	1.3
Others	840	960	(12.5)	890	(5.6)
Staff Loans	230	210	9.5	240	(4.2)
Builder Loans	-	-	NA	-	NA

Source: Company, PL

## Q1FY25 Concall Highlights

### Assets/Liabilities

- Disbursals for Apr'24 and May'24 were slower due to **general elections and Q1 seasonality**. Geographically, **AP and Telangana** were down on disbursals by 15% and 40%, respectively, due to change in government. While credit flow in Jun'24 normalized to Rs8bn, shortfall of the prior 2 months was not met.
- As per management analysis, the **loan book** was growing at a slower rate as last year's focus was on streamlining internal processes and controls. All processes have been stabilized, and the loan book is expected to grow at 15%.
- **Disbursals** are expected to be Rs105bn for FY24-25. Disbursal target for Q2FY25 is Rs25bn which may further increase by Rs3.0-3.5bn in Q3 and Q4 of FY25. The company has shifted to quarterly repricing for its loan book.
- **Several measures** are being implemented to increase disbursals, such as carving out a new sales team, addition of zonal offices with senior staff members acting as the approval authority, and centralization of processes.
- **Current cost of borrowings** for different sources: NHB at 6.75%, long-term bank borrowings at 7.95%-8%, CP at 7.2%-7.25% and NCD at 8.18%. 40% of bank borrowings are repo linked.
- The company did not opt for the sanctioned limit of Rs15bn for NHB sourcing. It preferred **borrowing from banks** over NHBs as last year's budgetary allocation to NHB was very small. It carried an insignificant component of AHF, which necessitated raising higher cost bank borrowings.
- The management is expecting positive news in upcoming budget around **allocation of funds to NHB** for affordable housing and **CLSS**. Thereafter, additional borrowings are expected to be made from NHB to avail low cost of benefits. If CLSS is announced in the budget, disbursals are expected to exceed the target of Rs105bn.
- RoA and RoE guidance is 2.1% and 17%, respectively, for FY24-25.

### NIM/Opex/Branches

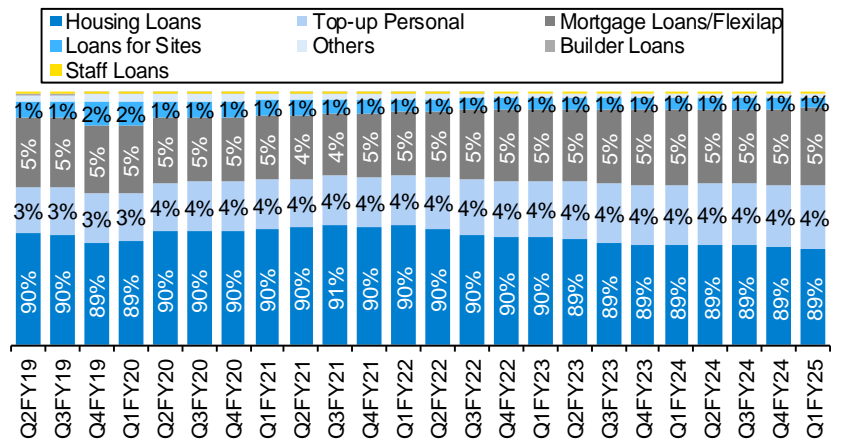
- **Cost of funds** increased gradually from FY24. In Q1FY25, sourcing through higher cost CPs led to a sharp increase in the cost of funds. These CPs would be priced lower from Q2FY25.
- **Spreads and NIM** guidance is 2.5% and 3.5%, respectively, for FY24-25.
- On the expenses side, Phase 1 of **IT upgradation** is underway with ~Rs30mn expected to be incurred every quarter in FY24-25. Q1FY25 saw an additional provision of Rs10mn on account of increase in the **CSR budget**. CSR expenses are expected to increase by Rs10mn every quarter.
- **Cost to income** guidance is maintained at 18%. However, costs may escalate further if Phase-2 of IT upgradation starts in FY24-25.

- **15 branches** are expected to be opened in FY25 in Tier 2 towns, where ticket size is generally below Rs2mn.

### Asset Quality

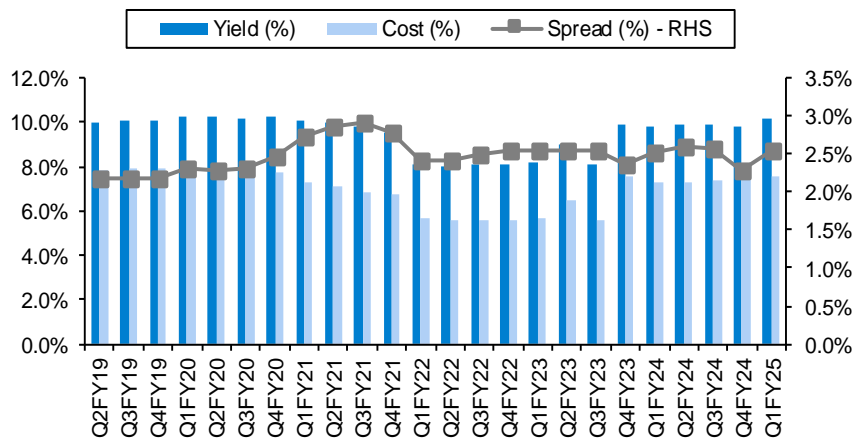
- As per the management, NPA spike in Q1FY25 was not attributable to a particular region, but was spread out geographically.
- For FY25 GNPA is expected to fall below 0.8% and **credit costs** are guided at 12bps or Rs350mn.

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



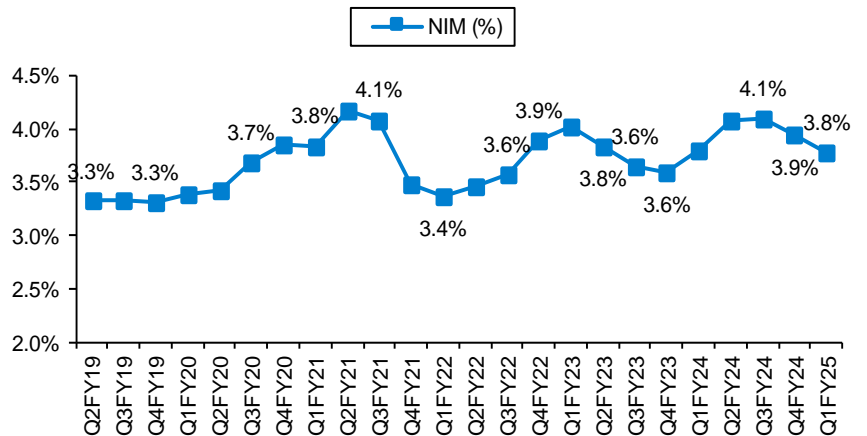
Source: Company, PL

Exhibit 4: Spreads improved marginally due higher yields offset by higher CoF



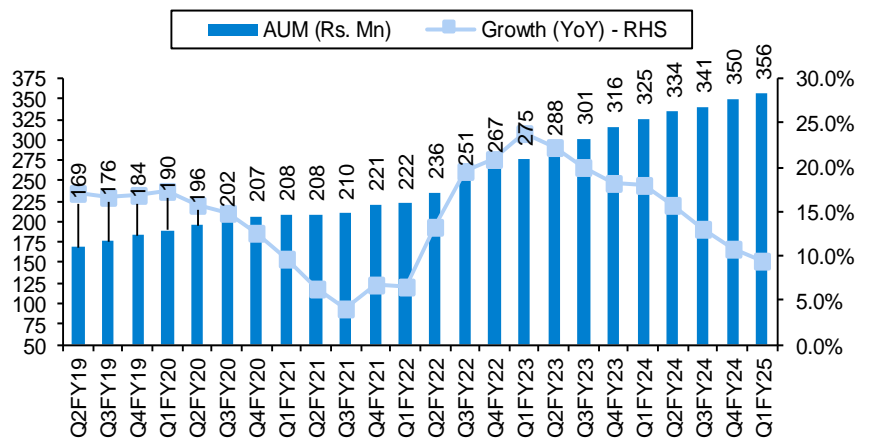
Source: Company, PL

**Exhibit 5: NIMs fell to 3.8% due to lower yields and higher funding cost**



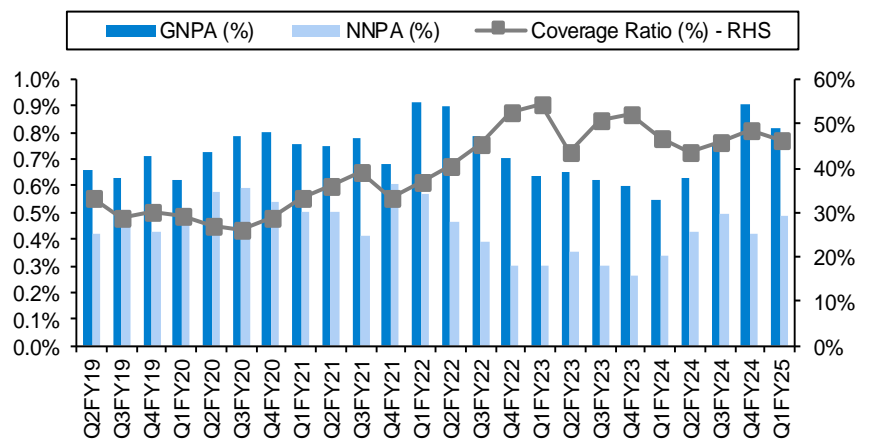
Source: Company, PL

**Exhibit 6: AUM growth was lower at 9.4% YoY due to lower disbursals.**



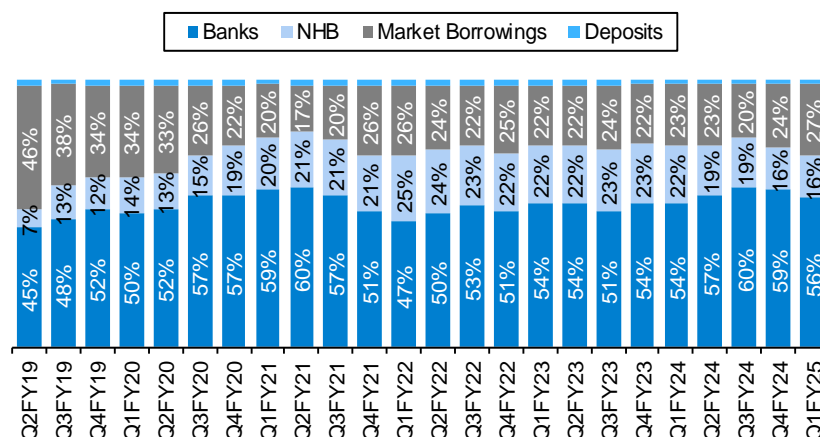
Source: Company, PL

**Exhibit 7: GNPA/NNPA increased to 0.91%/0.49%, PCR declined to 46.5%**



Source: Company, PL

**Exhibit 8: Borrowing mix largely stable; banks share decreased to 56%**



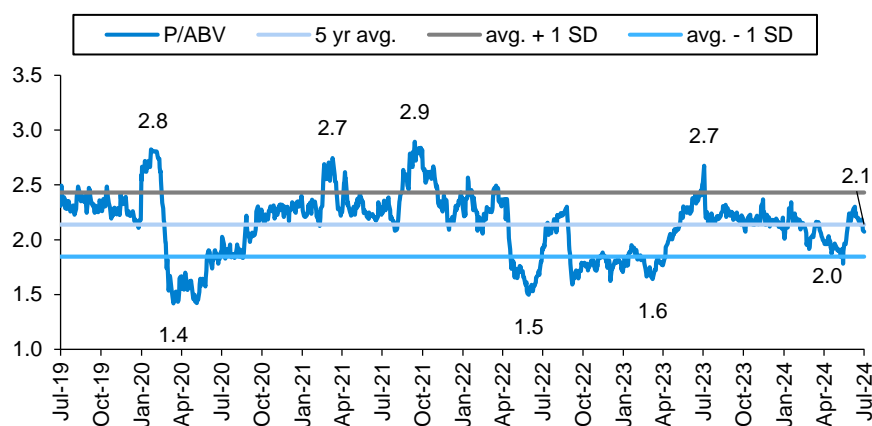
Source: Company, PL Research

**Exhibit 9: NIM profile to keep RoA/RoE at 2.0%/16.3% FY26E**

RoE decomposition (%)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest income	9.9	10.1	9.3	7.9	8.9	10.0	9.9	9.3
Interest expenses	6.8	6.7	5.6	4.6	5.6	6.4	6.4	5.9
<b>Net interest income</b>	<b>3.2</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>	<b>3.6</b>	<b>3.4</b>	<b>3.3</b>
Other Inc. from operations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total income</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.5</b>	<b>3.4</b>
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	0.3	0.3	0.3
<b>Operating profit</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>2.7</b>	<b>2.8</b>	<b>3.1</b>	<b>2.9</b>	<b>2.8</b>
Loan loss provisions	0.0	0.3	0.3	0.2	0.14	0.3	0.2	0.2
Tax	1.0	0.7	0.7	0.7	0.7	0.6	0.6	0.6
<b>RoAA</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>	<b>2.1</b>	<b>2.0</b>
<b>RoAE</b>	<b>18.2</b>	<b>19.1</b>	<b>19.2</b>	<b>16.6</b>	<b>18.5</b>	<b>18.8</b>	<b>17.5</b>	<b>16.3</b>

Source: Company, PL

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



Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY23	FY24	FY25E	FY26E
Int. Inc. / Opt. Inc.	27,154	34,902	38,757	41,484
Interest Expenses	17,009	22,314	25,289	26,548
<b>Net interest income</b>	<b>10,146</b>	<b>12,588</b>	<b>13,468</b>	<b>14,937</b>
<i>Growth(%)</i>	24.3	24.1	7.0	10.9
Non-interest income	277	345	373	425
<i>Growth(%)</i>	47.1	24.5	7.9	14.1
Net operating income	10,423	12,933	13,840	15,362
<b>Expenditures</b>				
Employees	837	969	1,083	1,223
Other Expenses	803	1,069	1,210	1,423
Depreciation	125	127	147	172
Operating Expenses	1,765	2,165	2,440	2,818
<b>PPP</b>	<b>8,658</b>	<b>10,768</b>	<b>11,401</b>	<b>12,544</b>
<i>Growth(%)</i>	26.9	24.4	5.9	10.0
Provisions	418	1,193	617	804
<b>Profit Before Tax</b>	<b>8,240</b>	<b>9,575</b>	<b>10,784</b>	<b>11,740</b>
Tax	2,028	2,068	2,480	2,700
<i>Effective Tax rate(%)</i>	24.6	21.6	23.0	23.0
<b>PAT</b>	<b>6,212</b>	<b>7,507</b>	<b>8,304</b>	<b>9,040</b>
<i>Growth(%)</i>	31.9	20.8	10.6	8.9

**Balance Sheet (Rs. m)**

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Source of funds</b>				
Equity	266	266	266	266
Reserves and Surplus	36,206	43,172	50,978	59,475
Networth	36,473	43,439	51,244	59,742
<i>Growth (%)</i>	18.9	19.1	18.0	16.6
Loan funds	2,90,681	3,18,629	3,62,588	4,11,989
<i>Growth (%)</i>	17.9	9.6	13.8	13.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	3,156	3,204	3,525	3,998
Other Liabilities	395	743	859	975
<b>Total Liabilities</b>	<b>3,30,705</b>	<b>3,66,015</b>	<b>4,18,216</b>	<b>4,76,704</b>
<b>Application of funds</b>				
Net fixed assets	454	526	579	637
Advances	3,11,933	3,45,531	3,95,790	4,51,229
<i>Growth (%)</i>	18.3	10.8	14.5	14.0
Investments	14,590	14,590	15,961	18,197
Current Assets	3,096	4,583	5,196	5,923
<b>Net current assets</b>	<b>(60)</b>	<b>1,379</b>	<b>1,671</b>	<b>1,925</b>
Other Assets	631	785	690	719
<b>Total Assets</b>	<b>3,30,705</b>	<b>3,66,015</b>	<b>4,18,216</b>	<b>4,76,704</b>
<i>Growth (%)</i>	18.3	10.7	14.3	14.0
<b>Business Mix</b>				
AUM	3,15,630	3,49,990	3,99,022	4,54,914
<i>Growth (%)</i>	18.2	10.9	14.0	14.0
On Balance Sheet	3,15,630	3,49,990	3,99,022	4,54,914
<i>% of AUM</i>	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
<i>% of AUM</i>	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY23	FY24	FY25E	FY26E
NIM	3.3	3.6	3.4	3.3
ROAA	2.0	2.2	2.1	2.0
ROAE	18.5	18.8	17.5	16.3

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Int. Inc. / Operating Inc.	8,652	8,948	9,117	9,242
Income from securitization	-	-	-	-
Interest Expenses	5,484	5,660	5,839	6,027
<b>Net Interest Income</b>	<b>3,168</b>	<b>3,288</b>	<b>3,278</b>	<b>3,214</b>
<i>Growth (%)</i>	26.1	30.6	25.5	12.7
Non-Interest Income	58	64	159	70
<b>Net Operating Income</b>	<b>3,226</b>	<b>3,352</b>	<b>3,437</b>	<b>3,284</b>
<i>Growth (%)</i>	25.7	30.6	25.7	12.8
Operating expenditure	524	494	720	488
<b>PPP</b>	<b>2,702</b>	<b>2,858</b>	<b>2,717</b>	<b>2,796</b>
<i>Growth (%)</i>	-	-	-	-
Provision	722	308	18	245
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,980	2,550	2,700	2,551
Tax	399	587	609	555
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	20.2	23.0	22.6	21.7
<b>PAT</b>	<b>1,581</b>	<b>1,964</b>	<b>2,090</b>	<b>1,996</b>
<i>Growth</i>	12	30	26	9
AUM	3,33,590	3,40,534	3,49,990	3,55,570
YoY growth (%)	15.7	13.1	10.9	9.4
Borrowing	3,06,280	3,12,656	3,18,630	3,24,280
YoY growth (%)	17.2	12.5	9.4	9.2

**Key Ratios**

Y/e Mar	FY23	FY24	FY25E	FY26E
CMP (Rs)	845	845	845	845
EPS (Rs)	46.6	56.4	62.4	67.9
Book value (Rs)	273.9	326.2	384.8	448.6
Adj. BV(Rs)	267.7	315.2	372.2	434.4
P/E(x)	18.1	15.0	13.6	12.5
P/BV(x)	3.1	2.6	2.2	1.9
P/ABV(x)	3.2	2.7	2.3	1.9
DPS (Rs)	3.0	4.0	3.7	4.1
<i>Dividend Payout Ratio(%)</i>	6.4	7.1	6.0	6.0
<i>Dividend Yield(%)</i>	0.4	0.5	0.4	0.5

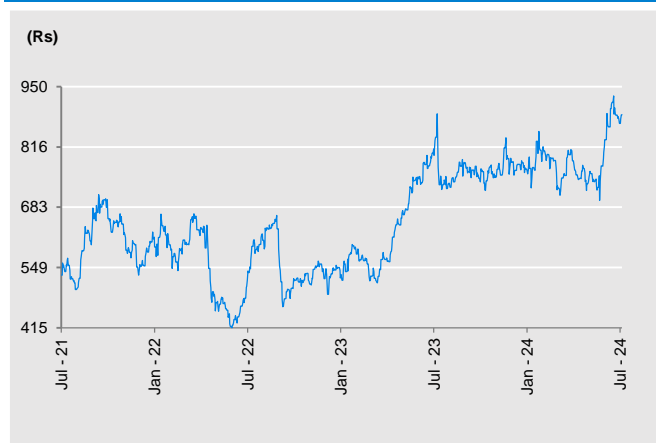
**Asset Quality**

Y/e Mar	FY23	FY24	FY25E	FY26E
Gross NPAs(Rs m)	1,738	2,860	3,192	3,565
Net NPA(Rs m)	829	1,468	1,677	1,892
Gross NPAs to Gross Adv.(%)	0.6	0.8	0.8	0.8
Net NPAs to net Adv.(%)	0.3	0.4	0.4	0.4
NPA coverage(%)	52.3	48.7	47.4	46.9

**Du-Pont as a % of AUM**

Y/e Mar	FY23	FY24	FY25E	FY26E
NII	3.3	3.6	3.4	3.3
NII INCL. Securitization	3.3	3.6	3.4	3.3
Total income	3.4	3.7	3.5	3.4
Operating Expenses	0.6	0.6	0.6	0.6
PPOP	2.8	3.1	2.9	2.8
Total Provisions	0.1	0.3	0.2	0.2
RoAA	2.0	2.2	2.1	2.0
Avg. Assets/Avg. net worth	9.1	8.7	8.3	8.1
RoAE	18.5	18.8	17.5	16.3

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jul-24	BUY	950	880
2	30-Apr-24	BUY	950	763
3	09-Apr-24	BUY	900	799
4	24-Jan-24	BUY	900	725
5	08-Jan-24	BUY	900	781
6	19-Oct-23	BUY	900	763
7	07-Oct-23	BUY	900	774
8	09-Aug-23	BUY	900	738

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,720	1,800
2	Axis Bank	BUY	1,450	1,287
3	Bank of Baroda	BUY	290	274
4	Can Fin Homes	BUY	950	880
5	City Union Bank	Accumulate	170	170
6	DCB Bank	BUY	180	137
7	Federal Bank	BUY	195	186
8	HDFC Asset Management Company	BUY	4,700	4,196
9	HDFC Bank	BUY	2,000	1,648
10	ICICI Bank	BUY	1,450	1,233
11	IndusInd Bank	BUY	1,800	1,434
12	Kotak Mahindra Bank	BUY	2,100	1,853
13	LIC Housing Finance	Hold	660	771
14	Nippon Life India Asset Management	BUY	615	667
15	State Bank of India	BUY	910	860
16	UTI Asset Management Company	BUY	1,050	1,049

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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