

October 24, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	1,000		930	
NII (Rs.)	14,764	16,819	14,937	16,680
% Chng.	(1.2)	0.8		
PPoP (Rs.)	12,367	14,083	12,544	13,877
% Chng.	(1.4)	1.5		
EPS (Rs.)	67.3	76.4	67.9	75.2
% Chng.	(0.8)	1.6		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Int.Inc. (Rs m)	12,588	13,366	14,764	16,819
Growth (%)	24.1	6.2	10.5	13.9
Op. Profit (Rs m)	10,768	11,297	12,367	14,083
PAT (Rs m)	7,507	8,229	8,967	10,177
EPS (Rs.)	56.4	61.8	67.3	76.4
Gr. (%)	20.8	9.6	9.0	13.5
DPS (Rs.)	4.0	3.7	4.0	4.6
Yield (%)	0.5	0.4	0.5	0.5
Margin (%)	3.6	3.4	3.3	3.3
RoAE (%)	18.8	17.4	16.2	15.8
RoAA (%)	2.2	2.1	2.0	2.0
PE (x)	15.5	14.1	12.9	11.4
P/BV (x)	2.7	2.3	1.9	1.7
P/ABV (x)	2.8	2.3	2.0	1.7

Key Data CNFH.BO | CANF IN

52-W High / Low	Rs.952 / Rs.680
Sensex / Nifty	80,082 / 24,436
Market Cap	Rs.116bn / \$ 1,380m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.678.45m

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	(1.0)	17.1	18.4
Relative	5.0	7.8	(4.6)

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Upside risks to loan growth and earnings

Quick Pointers:

- PAT beat owing to higher NII/NIM due to favorable yields/cost
- AuM growth guidance of 13-15% in FY25 and 15-17% in FY26E

CANF saw a good quarter since NII/NIM surprised positively as reported NIM increased by 8bps QoQ to 3.65% driven by favorable loan yields and funding cost. A key monitorable, loan growth was in-line at 9.7% YoY, and the company is targeting disbursements of Rs100bn for FY25, suggesting loan growth of 13-15% YoY for FY25. It aims to improve loan growth to 15-17% in FY26E. While we are forecasting an AuM CAGR of 13.7% over FY24-27E, there are upside risks to growth due to renewal of CLSS, focus on SENP and adoption of technology initiatives. As per the management, following levers are in place to cushion NIM: (1) NHB sanction at a lower cost, (2) 27% of overall borrowings are repo linked and (3) share of higher yielding SENP in incremental credit flow is high at 30-35%. We remain constructive on CANF. With valuation at 1.9x and retaining multiple at 2.1x, we raise TP to Rs1,000 from Rs930 as we roll forward to Sep'26 ABV. Retain 'BUY'.

- **Good quarter; PAT beat due to higher NII/NIM:** NII was higher at Rs3.4bn (PLe Rs3.2bn) due to higher NIM as loan growth was largely in-line. NIM (calc.) was a beat and inched up 11bps QoQ to 3.9% (PLe 3.7%); yield on advances improved to 10.92% (PLe 10.86%), while cost of funds was lower at 7.64% (PLe 7.80%). Reported NIM increased QoQ from 3.57% to 3.65%. AuM growth was 9.7% YoY (PLe 9.9%); disbursements amounted to Rs23.8bn (PLe Rs24.6bn) and repayment was Rs13.5bn (PLe Rs13.6bn). Other income came in at Rs74mn, as expected. Opex at Rs593.7mn was 2.4% above PLe due to higher staff cost. On asset quality, gross stage-3 was 0.88% (0.91% in Q1FY25); PCR was 46.3% (PLe 48.8%). Provisions were lower at Rs137mn (PLe Rs150mn). Management overlay was intact at Rs34.3mn. PAT was 4.2% above PLe at Rs2.1bn led by better NII and tad lower provisions.
- **Target to improve AuM growth in FY26:** In Q1FY25, the company had indicated lower disbursements in AP/Telangana in due to govt change. In Q2FY25, disbursements normalized in AP, although Telangana continued to see softer credit flow. Disbursement target for FY25 is Rs100bn, which would translate to AUM growth of 13-15% YoY for FY25. The company aims to improve loan growth to 15-17% in FY26. To achieve this, the management is (1) deepening geographical presence and (2) increasing share of SENP. Salaried vs self-employed mix was 71:29 as at Q2FY25 compared with 73:27 in Q4FY23; the company is comfortable with a mix of 65:35. While we are factoring AuM CAGR of 13.7% over FY24-27, growth could be 2-3% higher for FY26/27E due to re-introduction of CLSS, focus on SENP and technology/marketing initiatives taken to shore up business.
- **Levers in place to cushion NIM:** While NIM surprised positively due to favorable movement in funding cost, CANF expects the following levers to cushion NIM, despite likely repo rate cuts: (1) it has received sanction for NHB funding which is at a lower cost; (2) repo-linked bank borrowings make up for 45%, suggesting 27% of overall funding would be immediately repriced following rate cuts; and (3) share of SENP in incremental lending is higher at 30-35%, which would support portfolio yields.

Exhibit 1: Beat on PAT at Rs2.12bn due to higher NII & lower provisions

Financial Statement (Rs mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	Q2FY25E	% Var.
Interest Income	9,553	8,652	10.4	9,242	3.4	9,507	0.5
Interest Expense	6,155	5,484	12.2	6,027	2.1	6,246	(1.5)
Net interest income (NII)	3,398	3,168	7.3	3,214	5.7	3,261	4.2
Other income	74	58	27.9	70	6.8	74	0.2
Total income	3,472	3,226	7.6	3,284	5.7	3,335	4.1
Operating expenses	594	524	13.3	488	21.6	580	2.4
Operating profit	2,878	2,702	6.5	2,796	3.0	2,755	4.5
Total provisions	137	722	(81.0)	245	(43.9)	150	(8.4)
Profit before tax	2,741	1,980	38.4	2,551	7.4	2,605	5.2
Tax	626	399	56.8	555	12.9	576	8.7
Profit after tax	2,115	1,581	33.8	1,996	5.9	2,030	4.2
AUM (Rs mn)	3,65,910	3,33,590	9.7	3,55,570	2.9	3,66,560	(0.2)
Disbursements (Rs mn)	23,810	20,190	17.9	18,530	28.5	24,552	(3.0)
Profitability ratios							
NIM (calc.)	3.9	4.1	(19)	3.8	11	3.7	16
RoAA	2.3	1.9	43	2.2	12	2.3	(3)
RoAE	18.0	16.0	203	17.6	42	18.6	(61)
Asset Quality ratios							
Gross NPL (Rs m)	3,200	2,535	26.2	3,250	(1.5)	3,116	2.7
Net NPL (Rs m)	1,720	1,434	19.9	1,740	(1.1)	1,595	7.9
Gross NPL ratio	0.9	0.8	11	0.9	(4)	0.9	2
Net NPL ratio	0.5	0.4	4	0.5	(2)	0.4	4
Coverage ratio	46.3	43.4	283	46.5	(21)	48.8	(257)
Business & Other Ratios							
Yield on Loans (%)	10.1	9.9	19	10.1	-	-	-
Cost of Borrowings (%)	7.6	7.3	24	7.6	(2)	-	-
Spread (%)	2.6	2.6	(4)	2.5	2	-	-
Cost/Income Ratio	17.1	16.3	85	14.9	223	-	-

Source: Company, PL

Exhibit 2: Loan mix – Growth led by housing & personal loans

AUM Book Details (Rs mn)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)
Housing Loans	3,23,930	2,97,230	9.0	3,16,020	2.5
Top-up Personal	20,940	17,930	16.8	19,460	7.6
Mortgage Loans/Flexilap	16,690	14,570	14.6	15,990	4.4
Loans for Sites	3,220	2,710	18.8	3,030	6.3
Others	900	930	(3.2)	840	7.1
Staff Loans	230	220	4.5	230	-
Builder Loans	-	-	-	-	-

Source: Company, PL

Q2FY25 Concall Highlights

Assets/Liabilities

- The management had indicated lower disbursements in AP/Telangana in Q1FY25 due to govt change. In Q2FY25, disbursements normalized for AP, but credit flow in Telangana remained soft.
- AUM growth target for FY25E is 13-15% and for FY26E is 15-17%. To achieve this, the management is deepening geographical presence. It has also initiated marketing activities, which should aid business growth. As per the management, 20% of business should come from in-house sales channel in the long run, and sourcing should come down to 60% by FY27 from current 80%.
- Incremental average ticket size is Rs2.5mn, which should inch up to Rs2.7mn in a year.
- The management is comfortable with salaried to self-employed mix of 65:35 and HL:non-HL mix of 70:30.
- The company has 20 builder tie-ups, which should reach 50 by the end of next quarter
- Customers are not eligible to take full benefit of PMAY if they transfer the loan midway, or default on loan payments. The management lauded these changes in the scheme as they favor the industry.
- CANF has received sanction for NHB funding which is at a lower cost and may reduce borrowing cost further.
- Bank borrowing mix by benchmark: repo - 45%, MCLR - 35% and T-bill - 20%. The management expects to benefit from repricing of liabilities once rate cut starts.

NIM/Opex

- 30-35% extra lending in SENP segment helped hold up the portfolio yields for Q2FY25.
- Spread is guided to remain ~2.5% and NIMs to remain ~3.5%.
- Opex saw sequential increase in Q2FY25 on account of (1) Rs30mn impact from actuarial valuations due to discount rate changes, (2) Rs10mn for legal action under SARAFAESI, (3) communication and advertising expenses and (4) cyclical employee promotion expenses.
- The company has upgraded its LOSLMS package and the related cost of ~Rs30mn has been factored in opex for Q2FY25.
- TAT for salaried customers is expected to reduce to 1-3 days from existing 4-5 days. Login to sanction ratio is at 90-95%.
- The company is evaluating a major IT transformation project, which may be awarded by Dec'24 end. The project is estimated to be implemented by

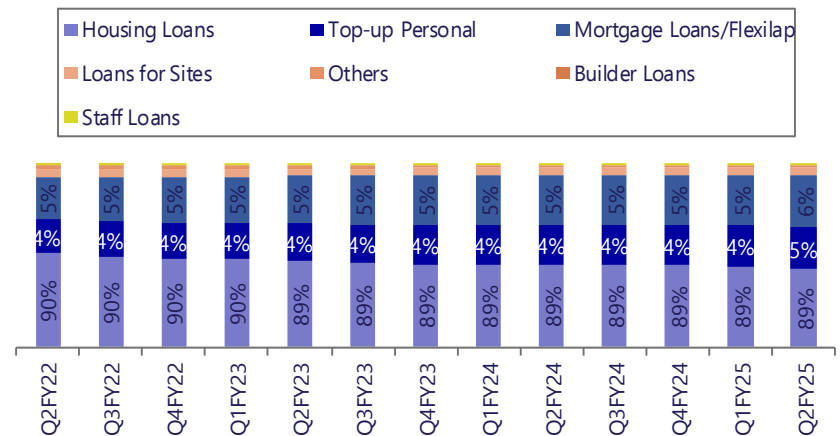
Q3FY26. Total cost for this project, including opex and capex, is estimated to be Rs2.5-3bn over the next 7 years.

- Cost to income ratio is expected to be 16.0-16.5% before IT project implementation and 17% after it is implemented.
- The company expects to add 15 branches in FY25, and branch base is targeted to reach 300 by FY28.

Asset Quality

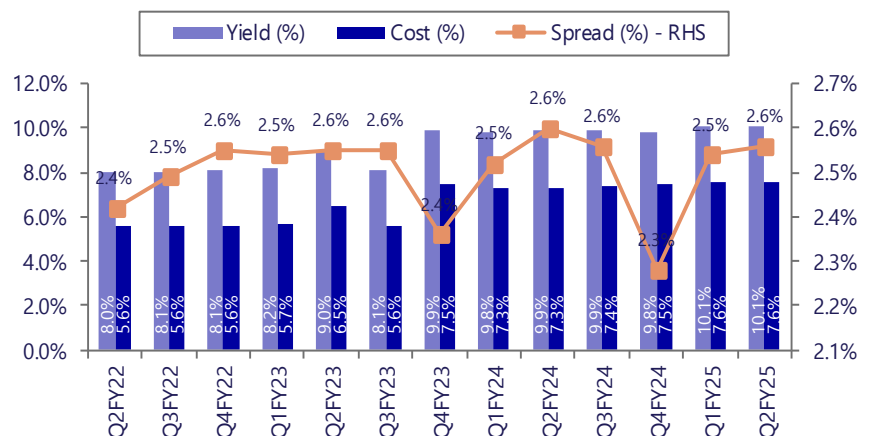
- Credit cost is guided to be 10-12bps for FY25.
- SMA-0 balance increased in Q2FY25 due to a regulatory change as prepayments by customers can't be used for short-term advances. Increase in SMA-1 is not driven by SENP as collections have improved.

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



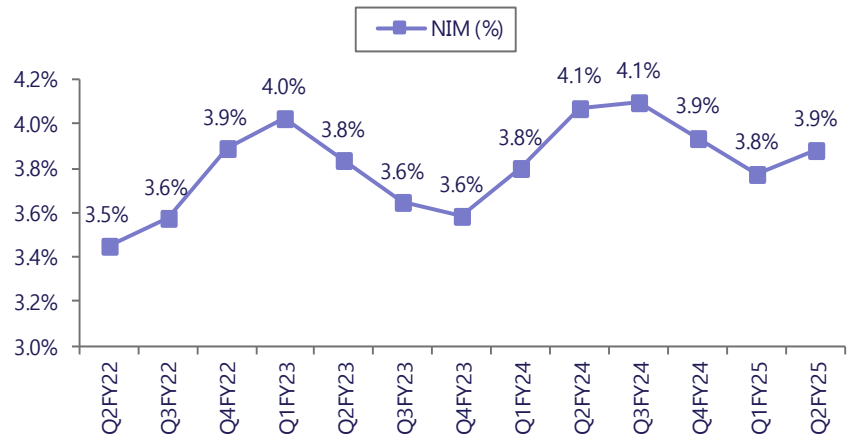
Source: Company, PL

Exhibit 4: Spreads improve marginally due to lower CoF



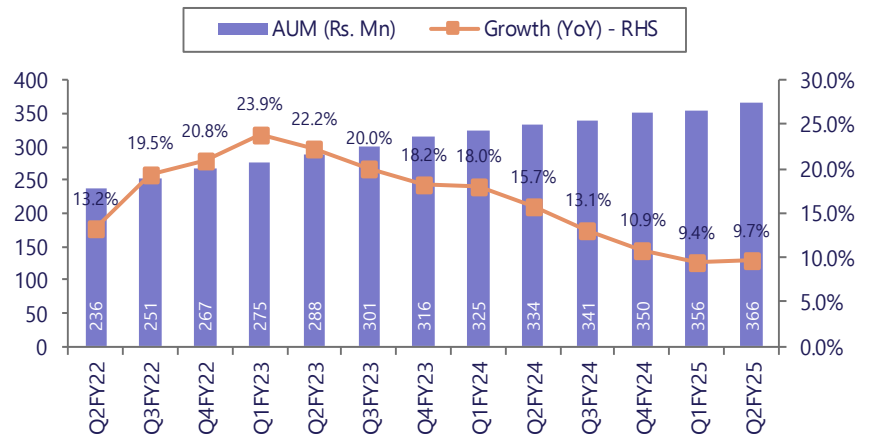
Source: Company, PL

Exhibit 5: NIMs increase to 3.9% due to higher yields and lower funding cost



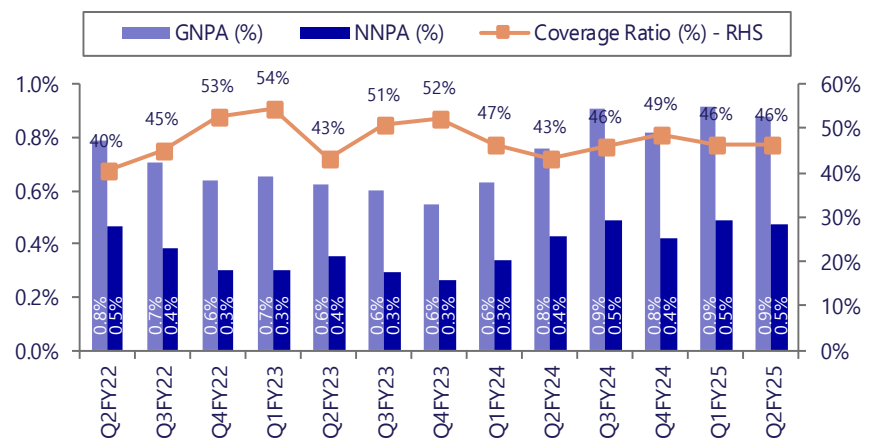
Source: Company, PL

Exhibit 6: AUM growth in-line at 9.7% YoY



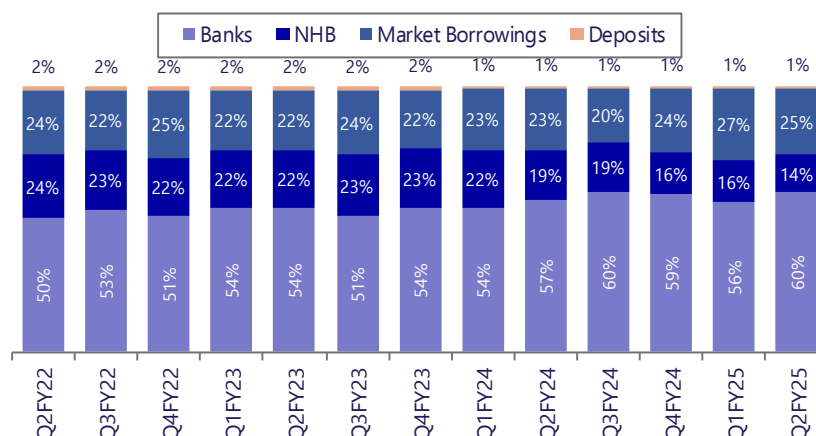
Source: Company, PL

Exhibit 7: GNPA/NNPA improves to 0.87%/0.47%, PCR declines to 46.3%



Source: Company, PL

Exhibit 8: Borrowing mix largely stable; banks' share increases to 60%



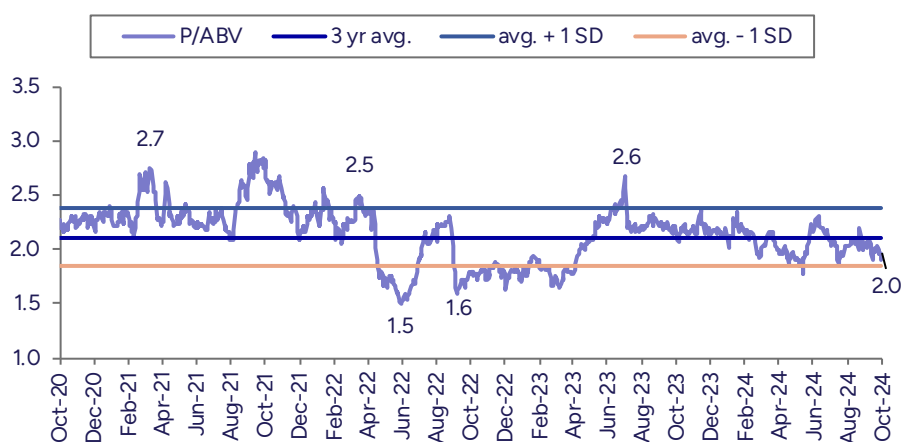
Source: Company, PL Research

Exhibit 9: NIM profile to keep RoA/RoE at 2.0%/16.2% FY26E

RoE decomposition (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	10.1	9.3	7.9	8.9	10.0	9.9	9.6	9.3
Interest expenses	6.7	5.6	4.6	5.6	6.4	6.4	6.2	5.9
Net interest income	3.4	3.7	3.3	3.3	3.6	3.4	3.3	3.3
Other Inc. from operations	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total income	3.4	3.7	3.3	3.4	3.7	3.5	3.4	3.4
Employee expenses	0.3	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	0.3	0.3	0.3	0.3
Operating profit	2.9	3.2	2.7	2.8	3.1	2.9	2.8	2.8
Loan loss provisions	0.3	0.3	0.2	0.14	0.3	0.2	0.2	0.2
Tax	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6
RoAA	1.9	2.1	1.9	2.0	2.2	2.1	2.0	2.0
RoAE	19.1	19.2	16.6	18.5	18.8	17.4	16.2	15.8

Source: Company, PL

Exhibit 10: One-year forward P/ABV of Can Fin trades at 1.9x



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Int. Inc. / Opt. Inc.	34,902	38,576	42,475	46,941
Interest Expenses	22,314	25,210	27,711	30,122
Net interest income	12,588	13,366	14,764	16,819
Growth(%)	24.1	6.2	10.5	13.9
Non-interest income	345	371	421	480
Growth(%)	24.5	7.4	13.6	14.0
Net operating income	12,933	13,736	15,185	17,299
Expenditures				
Employees	969	1,083	1,223	1,374
Other Expenses	1,069	1,210	1,423	1,643
Depreciation	127	147	172	199
Operating Expenses	2,165	2,440	2,818	3,216
PPP	10,768	11,297	12,367	14,083
Growth(%)	24.4	4.9	9.5	13.9
Provisions	1,193	678	797	951
Profit Before Tax	9,575	10,619	11,571	13,132
Tax	2,068	2,389	2,603	2,955
Effective Tax rate(%)	21.6	22.5	22.5	22.5
PAT	7,507	8,229	8,967	10,177
Growth(%)	20.8	9.6	9.0	13.5

Balance Sheet (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Source of funds				
Equity	266	266	266	266
Reserves and Surplus	43,172	50,908	59,337	68,903
Networth	43,439	51,174	59,603	69,170
Growth (%)	19.1	17.8	16.5	16.1
Loan funds	3,18,629	3,59,029	4,07,986	4,63,685
Growth (%)	9.6	12.7	13.6	13.7
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	3,204	3,491	3,960	4,494
Other Liabilities	743	850	966	1,098
Total Liabilities	3,66,015	4,14,544	4,72,515	5,38,446
Application of funds				
Net fixed assets	526	579	637	700
Advances	3,45,531	3,92,314	4,47,264	5,09,673
Growth (%)	10.8	13.5	14.0	14.0
Investments	14,590	15,821	18,037	20,553
Current Assets	4,583	5,151	5,871	6,689
Net current assets	1,379	1,660	1,911	2,195
Other Assets	785	679	707	831
Total Assets	3,66,015	4,14,544	4,72,515	5,38,446
Growth (%)	10.7	13.3	14.0	14.0
Business Mix				
AUM	3,49,990	3,95,528	4,50,916	5,13,836
Growth (%)	10.9	13.0	14.0	14.0
On Balance Sheet	3,49,990	3,95,528	4,50,916	5,13,836
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY24	FY25E	FY26E	FY27E
NIM	3.6	3.4	3.3	3.3
ROAA	2.2	2.1	2.0	2.0
ROAE	18.8	17.4	16.2	15.8

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
Net Interest Income	3,168	3,288	3,278	3,214
Growth (%)	26.1	30.6	25.5	12.7
Non-Interest Income	58	64	159	70
Net Operating Income	3,226	3,352	3,437	3,284
Growth (%)	25.7	30.6	25.7	12.8
Operating expenditure	524	494	720	488
PPP	2,702	2,858	2,717	2,796
Growth (%)	-	-	-	-
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
PAT	1,581	1,964	2,090	1,996
Growth	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	FY24	FY25E	FY26E	FY27E
CMP (Rs)	871	871	871	871
EPS (Rs)	56.4	61.8	67.3	76.4
Book value (Rs)	326.2	384.3	447.6	519.4
Adj. BV(Rs)	315.2	371.8	433.7	503.9
P/E(x)	15.5	14.1	12.9	11.4
P/BV(x)	2.7	2.3	1.9	1.7
P/ABV(x)	2.8	2.3	2.0	1.7
DPS (Rs)	4.0	3.7	4.0	4.6
Dividend Payout Ratio(%)	7.1	6.0	6.0	6.0
Dividend Yield(%)	0.5	0.4	0.5	0.5

Asset Quality

Y/e Mar	FY24	FY25E	FY26E	FY27E
Gross NPAs(Rs m)	2,860	3,187	3,554	3,984
Net NPA(Rs m)	1,468	1,658	1,847	2,071
Gross NPAs to Gross Adv.(%)	0.8	0.8	0.8	0.8
Net NPAs to net Adv.(%)	0.4	0.4	0.4	0.4
NPA coverage(%)	48.7	48.0	48.0	48.0

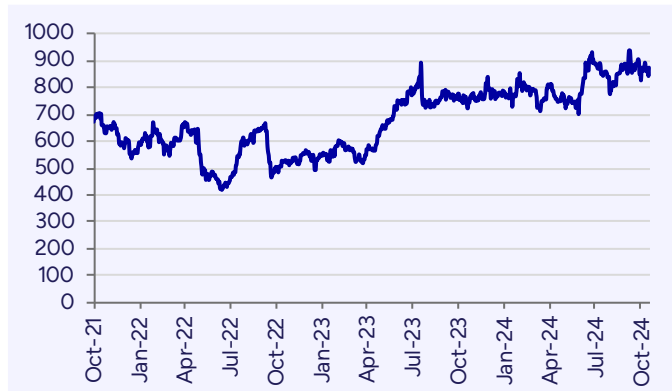
Du-Pont as a % of AUM

NII	3.6	3.4	3.3	3.3
NII INCI. Securitization	3.6	3.4	3.3	3.3
Total income	3.7	3.5	3.4	3.4
Operating Expenses	0.6	0.6	0.6	0.6
PPOP	3.1	2.9	2.8	2.8
Total Provisions	0.3	0.2	0.2	0.2
RoAA	2.2	2.1	2.0	2.0
Avg. Assets/Avg. net worth	8.7	8.3	8.0	7.9
RoAE	18.8	17.4	16.2	15.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-24	BUY	930	857
2	23-Jul-24	BUY	930	845
3	10-Jul-24	BUY	950	880
4	30-Apr-24	BUY	950	763
5	09-Apr-24	BUY	900	799
6	24-Jan-24	BUY	900	725
7	08-Jan-24	BUY	900	781

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,875	1,745
2	Axis Bank	BUY	1,530	1,132
3	Bank of Baroda	BUY	300	251
4	Can Fin Homes	BUY	930	857
5	City Union Bank	BUY	190	150
6	DCB Bank	BUY	180	119
7	Federal Bank	BUY	210	194
8	HDFC Asset Management Company	BUY	5,360	4,555
9	HDFC Bank	BUY	2,000	1,682
10	ICICI Bank	BUY	1,520	1,240
11	IndusInd Bank	BUY	1,750	1,383
12	Kotak Mahindra Bank	BUY	2,230	1,872
13	LIC Housing Finance	Hold	660	618
14	Nippon Life India Asset Management	BUY	615	631
15	State Bank of India	BUY	960	797
16	UTI Asset Management Company	BUY	1,050	1,202

PL's Recommendation Nomenclature (Absolute Performance)

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, Passed CFA Level II, Ms. Harshada Gite- CA, Mr. Aditya Modani- CA, Passed CFA Level II Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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