



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	✓	↔	✓

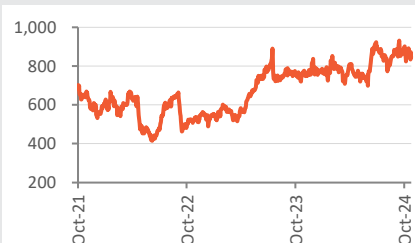
Company details

Market cap:	Rs. 11,322 cr
52-week high/low:	Rs. 951 / 680
NSE volume: (No of shares)	11.1 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	30.0
FII	11.7
DII	27.5
Others	30.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.2	2.3	13.4	14.5
Relative to Sensex	3.0	4.7	7.1	-9.4

Sharekhan Research, Bloomberg

Can Fin Homes Ltd

Strong Quarter

NBFC

Sharekhan code: CANFINHOME

Reco/View: Buy

CMP: Rs. 846

Price Target: Rs. 1,050



Upgrade



Maintain



Downgrade

Summary

- Can Fin Homes reported a strong performance in Q2FY2025. Earnings were in line with estimates, mainly led by lower-than-expected credit cost and improvement in NIM.
- Business momentum remained strong, as disbursements were up 17.9% y-o-y/28.8% q-o-q due to higher sanctions and demand across geographies, barring a couple of states. AUM growth stood at 9.7% y-o-y and 2.9% q-o-q.
- Asset-quality trends also improved on a sequential basis to 0.88% during the quarter, further likely to improve for FY2025 and FY2026. Credit cost reduced to 15 bps (AUM) in Q2FY2025 from 28 bps in Q1FY2025 and 87 bps in Q2FY2024.
- We maintain BUY with an unchanged PT of Rs. 1,050. The stock trades at 2.2x/1.9x/1.6x its FY2025E/FY2026E/FY2027E ABV estimates.

Can Fin Home's NII was above estimates by 2.5% to Rs. 340 crore in Q2FY2025, growing by 7.3% y-o-y and 5.7% q-o-q. NIM improved by 10 bps q-o-q to 3.71% (calculated as a percentage of AUM) due to higher yield on loans and lower cost of borrowings. Finance cost (as a percentage of AUM) declined 5 bps q-o-q due to increased bank borrowings to 60% as of September 30, 2024, from 56% as of June 30, 2024, to total borrowings. Opex increased by 12.8% y-o-y and 21.1% q-o-q to Rs. 59 crore due to higher other operating expenses and employee expenses. Cost-to-income ratio increased to 16.7% during the quarter from 14.9% in Q1FY2025 and is likely to increase to 18.5%, following the implementation of technology transformation. PPOP was lower than estimates (~0.5%) at Rs. 288 crore (up 6.6% y-o-y, 3% q-o-q, estimate Rs. 291 crore). Higher opex growth impacted PPOP; however, higher NII growth partially offset it. Provisions were lower than estimates at Rs. 14 crore versus estimate of Rs. 22 crore. It was also base effect due to Ambala incident which led for higher provisions at Rs. 72 in Q2FY24. Annualised credit cost (calculated as a percentage of AUM) stood at 0.15% vs. estimate of 0.24%. PAT was in line at Rs. 211 crore, up 34% y-o-y and 5.9% q-o-q, due to lower credit cost; however, slower PPOP growth partially impacted it. AUM at Rs. 36,591 witnessed healthy growth of 9.7% y-o-y and 2.9% q-o-q. Loan disbursements witnessed robust growth of 17.9% y-o-y and 28.5% q-o-q to Rs. 2,381 due to higher sanction of the loans, it reported positive growth in Q2FY2025 post four to five quarters of negative growth. Disbursements are expected at Rs. 10,000 crore for FY2025 due to focus on business growth by the management as the internal IT system is strengthened, opening of new branches (15) in Northern India, focus on tier-2 cities, and partnering with builders. Gross NPA dropped to 0.88% as of September 30, 2024, vs. 0.91% as of June 30, 2024.

Key positives

- Robust disbursement growth of 17.9% y-o-y and 28.5% q-o-q to Rs. 2,381 crore in Q2FY2025 due to healthy demand across geographies, except Telangana and Adhara Pradesh.
- Lower credit cost at 0.15%, dropping 71 bps y-o-y and 13 q-o-q.
- Cost of borrowing declined by 5 bps due to increased share of bank borrowings to the total borrowings.
- Reported RoA at 2.29%, while RoE at 17.99% in Q2FY2025.

Key negatives

- Opex increased by 12.8% y-o-y and 21.1% q-o-q due to lower other opex and employee expenses.

Management Commentary

- Management is confident of maintaining spreads/NIMs above 2.5%/3.5% for FY2025. Moreover, any rise in the cost of borrowing is expected to pass on to clients.
- Management expects to disburse loan of Rs. 10,000 for FY2025. Loan portfolio is expected to grow by 13-15% for FY2025 and 15-17% for FY2026 due to management's focus on business growth, as the internal IT system is strengthened, opening of new branches in the Northern and Western India, and focus on Tier-2 cities. Moreover, construction of an additional three crore houses under the PMAY Scheme is potentially positive.
- Currently, salaried and profession portfolio constitutes ~71% of the total portfolio, which is expected to come down due to management's focus on the non-salaried portfolio as it offers a higher-yield portfolio.

Our Call

Valuation – We maintain BUY with an unchanged PT of Rs. 1,050: The company's inadequate internal controls and systems have impacted the business in FY2024, now IT systems and processes have been streamlined, which will help in growing the business with enhanced centralised due diligence. Management is also focusing on new geographies in tier-2 and tier-3 cities, which offer higher growth. Moreover, the interest rate cycle is closer to its peak, which would drive volume growth. The company has successfully been maintaining its pristine asset quality for several years, and we expect the same to continue. Management has to accelerate disbursements over the next few quarters to deliver on its guided loan growth (13-14% for FY2025 and 16-17% for FY2026). We expect RoA of 2.2% and RoE of 18% for FY2026 and continue on the same level for FY2027. Hence, we retain our BUY rating on the stock. At the CMP, the stock trades at 2.2x/1.9x/1.6x its FY2025E/FY2026E/FY2027E BV.

Key Risks

Slower-than-expected growth due to high competition, difficult to pass on higher cost of borrowings due to competitive intensity, and deterioration of asset quality.

Valuation

	Rs cr				
Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,015	1,259	1,361	1,551	1,768
Net profit	621	751	857	972	1,124
EPS (Rs.)	47	56	64	73	84
P/E (x)	18.1	15.0	13.14	11.59	10.03
P/BV (x)	3.1	2.6	2.2	1.9	1.6
RoA (%)	2.0	2.2	2.2	2.2	2.2
RoE (%)	18.5	18.7	18.2	17.6	18.5

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **Margin outlook:** NII grew by 7.3% y-o-y and 5.7% q-o-q to Rs. 340 crore in Q2FY2025. NIM improved by 10 bps q-o-q to 3.71% (calculated as a percentage of AUM) due to the rise in yield and lower cost of funds. Finance cost (as a percentage of AUM) declined by 5 bps q-o-q to 6.73% during the quarter, driven by a higher mix of bank borrowing to total borrowings. Management maintains NIM guidance at 3.5% for FY2025 and spread at 2.5%.
- ♦ **Loan growth outlook:** AUM grew by ~9.7% y-o-y and 2.9% q-o-q in Q2FY2025. Disbursements witnessed robust growth by 17.9% y-o-y/28.5% q-o-q. Asset mix for salaried class and professional stood at 71% in Q2FY2025; however, it is likely to come down to 70% due to higher focus on non-salaried class, as it offers a high yield. The company is expected to open 15 branches in the northern and the western regions and management focuses tier-2 cities. Management has guided for loan disbursement of Rs. 10,000 crore for FY2025. Overall, AUM is expected to grow by 13-14% for FY2025 and 16-17% for FY2026.
- ♦ **Asset quality improves:** Provisions were lower than estimates at Rs. 14 crore versus estimates of Rs. 22 crore. Provisions were at Rs. 72 crore in Q2FY2024 and Rs. 24 crore in Q1FY2025. Annualised credit cost (calculated as a percentage of AUM) stood at 0.15% vs. estimate of 0.24%. Gross NPA at 0.88% as of September 30, 2024, vs. 0.91% as of June 31, 2024. SMA0 and SMA1 slightly increased during the quarter, both together contribute ~Rs. 100 crore. Management will focus on bringing it down in Q3FY2025. Credit cost is expected at 10-12 bps in FY2025, according to management. We expect credit costs of ~15/17 bps for FY2025/FY2026. Asset-quality outlook remains stable. The company expects GNPA's at 0.8% by the end of FY2025 and credit cost is expected at 12-14 bps for FY2025.

Results					Rs cr
Particulars	Q2FY25	Q2FY24	Q1FY25	Y-o-Y (%)	Q-o-Q (%)
Income statement					
NII	340	317	321	7.3%	5.7%
Other Income	7	6	7	28.0%	6.8%
Total Income	347	323	328	7.6%	5.7%
Operating Expenditures	59	52	49	12.8%	21.1%
Pre- Prov Operating Profit	288	270	280	6.6%	3.0%
P&C	14	72	24	-81.0%	-43.9%
PBT	274	198	255	38.6%	7.5%
Tax	63	40	55	56.8%	12.9%
Net Profit	211	158	200	34.0%	5.9%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Housing demand to grow at a steady pace

Long-term structural drivers remain strong for mortgages in India. We have not seen any major signs of any 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 would drive volume growth. Overall, asset-quality trends are stable in the sector. Moreover, construction of an additional three crore houses under the PMAY Scheme is potentially positive.

■ Company Outlook – Attractive franchise

Can Fin Homes has shown its ability to deliver superior return ratio metrics, has navigated stiff competition from the bank in the past, and its asset quality continues to be the best in class among peers. The company has strengthened its IT system; now management can focus on business development with enhanced centralised monitoring. The company is also planning to open new branches in tier-2 cities and expanding in tier-3 cities, which are high-margin regions as compared to tier-1 cities.

■ Valuation – We maintain Buy with an unchanged PT of Rs. 1050.

The company's inadequate internal controls and systems have impacted the business in FY2024, now IT systems and processes have been streamlined, which will help in growing the business with enhanced centralised due diligence. Management is also focusing on new geographies in tier-2 and tier-3 cities, which offer higher growth. Moreover, the interest rate cycle is closer to its peak, which would drive volume growth. The company has successfully been maintaining its pristine asset quality for several years, and we expect the same to continue. Management has to accelerate disbursements over the next few quarters to deliver on its guided loan growth (13-14% for FY2025 and 16-17% for FY2026). We expect RoA of 2.2% and RoE of 18% for FY2026 and continue on the same level for FY2027. Hence, we retain our BUY rating on the stock. At the CMP, the stock trades at 2.2x/1.9x/1.6X its FY2025E/FY2026E/FY2027 BV.

Peer valuation

Particulars	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	846.0	11,263.0	13.1	11.6	2.2	1.9	18.2	17.6	2.2	2.2
LIC Housing Finance	598.0	33,000	7.8	7.6	1.0	0.9	14.7	14.1	1.5	1.5

Source: Company, Sharekhan estimates

About company

Can Fin Homes is a leading housing finance company promoted by Canara Bank. The company has a wide network across 21 states and union territories, along with a strong brand. 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

Rise in the cost of borrowing, slower growth, and deterioration in asset quality.

Additional Data

Key management personnel

Suresh Iyer	MD and CEO
Apurav Agarwal	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Bank	29.99
2	Chhattisgarh Investments Ltd	6.27
3	SBI Life Insurance Co Ltd	4.15
4	Axis Asset Management Co Ltd/India	3.64
5	ICICI Prudential Asset Management	3.00
6	Vanguard Group Inc/The	2.75
7	L&T Mutual Fund Trustee Ltd/India	2.58
8	Prudential PLC	2.11
9	Canara Robeco Asset Management Co	1.68
10	Edelweiss Asset Management Ltd	1.50

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.