PL Capital
PRABHUDAS LILLADHER

Can Fin Homes (CANF IN)

Rating: BUY | CMP: Rs708 | TP: Rs860

January 21, 2025

Q3FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	**BUY**		**BUY**	
Target Price	**860**		**1,000**	
NII (Rs.)	14,380	15,819	14,781	16,837
% Chng.	*(2.7)*	*(6.0)*		
PPoP (Rs.)	12,026	13,151	12,387	14,104
% Chng.	*(2.9)*	*(6.8)*		
EPS (Rs.)	65.3	71.2	67.5	76.5
% Chng.	*(3.2)*	*(7.0)*		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Int.Inc. (Rs m)	12,588	13,590	14,380	15,819
Growth (%)	*24.1*	*8.0*	*5.8*	*10.0*
Op. Profit (Rs m)	10,768	11,498	12,026	13,151
PAT (Rs m)	7,507	8,402	8,692	9,484
EPS (Rs.)	56.4	63.1	65.3	71.2
Gr. (%)	*20.8*	*11.9*	*3.4*	*9.1*
DPS (Rs.)	4.0	3.8	3.9	4.3
Yield (%)	*0.6*	*0.5*	*0.6*	*0.6*
Margin (%)	*3.6*	*3.5*	*3.4*	*3.4*
RoAE (%)	*18.8*	*17.7*	*15.7*	*14.8*
RoAA (%)	*2.2*	*2.2*	*2.1*	*2.0*
PE (x)	12.6	11.2	10.8	9.9
P/BV (x)	2.2	1.8	1.6	1.4
P/ABV (x)	2.2	1.9	1.6	1.4

Key Data	CNFH.BO | CANF IN
52-W High / Low	Rs.952 / Rs.650
Sensex / Nifty	77,073 / 23,345
Market Cap	Rs.94bn/ $ 1,089m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.547.52m

Shareholding Pattern (%)

Promoter's	29.99
Foreign	11.41
Domestic Institution	28.14
Public & Others	30.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.3)	(16.6)	(7.9)
Relative	(4.1)	(12.8)	(14.6)

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Loan growth continues to remain weak

Quick Pointers:

- Soft quarter owing to lower loan growth and higher provisions.
- Lower loan growth in FY25/26/27E to drive PAT cut of 3%/7% in FY26/27E.

CANF saw a weak quarter since loan growth was lower while asset quality saw a blip. Credit growth was 9.1% YoY (PLe 10.9%) as disbursals were affected and dipped by 21% QoQ as state specific issues in Karnataka and Telangana marred credit flow. These 2 states contribute 48% to overall disbursals. The company is targeting credit growth of 15% YoY in FY26E which may be challenging given (1) demand recovery in abovementioned states could be protracted and (2) LOS/LMS implementation may impact disbursals. Hence, we cut loan growth for FY25/26/27E by 4%/3%/2% to 9%/11%/12% YoY. There is upside risk to loan growth due to renewal of CLSS. Asset quality has been worsening since Q4FY24 since the overdue portfolio has been increasing owing to new RBI circular disallowing adjustment of customer advances against EMIs. While stock is valued at 1.6/1.4x on FY26/27E ABV, underperformance on growth and asset quality are key concerns. We cut multiple to 1.8x from 2.1x on Sep'26 ABV and trim TP to Rs860 from Rs1,000 but retain 'BUY' due to favorable valuations.

- **Weak quarter with miss on loan growth and asset quality:** NII came in at Rs3.45bn (PLe Rs3.48bn); loan growth was a miss though NIM was largely in-line. NIM (calc.) was 3.87% (PLe3.88%) while yield on assets and cost of funds were higher than expected. Reported yield on advances improved QoQ while cost of funds reduced slightly QoQ. Reported NIM was flat QoQ at 3.64%. Loan growth was a miss at 9.1% YoY (PLe 10.9%) as disbursals were weak at Rs18.8bn (PLe Rs25bn); repayments at Rs13.15bn were in-line. Other income was lower at Rs58mn. Opex was better at Rs593mn (PLe Rs665mn) due to lesser staff cost and fees & commission. On asset quality, gross stage-3 saw a blip QoQ from 0.88% to 0.92%; PCR was 45.2% (46.3% in Q2FY25). Provisions were a miss at Rs221mn (PLe Rs150mn). PAT was 0.8% below PLe at Rs2.1bn led by lower NII and higher provisions.

- **Karnataka and Telangana impacting overall growth:** Disbursals fell by 21% QoQ driven by (1) E-Khaata issue in Karnataka due to which registrations stopped (2) land demolition in Telangana due to change in govt. impacting demand. Hence disbursals were hit by Rs4.3bn (Rs3.5-4bn from Karnataka). Usually, Karnataka/Telangana contribute 34%/15% to disbursals. The company does not expect the situation in Karnataka to prolong and the state govt. has already deployed staff to release E-Khaata. CANF is targeting disbursals of Rs120bn in FY26 which would translate to AuM growth of 15% YoY. Salaried vs self-employed mix was 71:29 compared with 73:27 in Q4FY23; the company is comfortable with a mix of 65:35. We cut loan growth for FY25/26/27E by 4%/3%/2% as (1) ~50% of credit flow is exposed to state related bottlenecks (2) LOS/LMS implementation in FY26 could hamper credit accretion.

- **Asset quality has been a drag due to increasing SMA levels:** SMA-0 balance has consistently risen from Rs1.38bn in Q4FY24 to Rs2.59bn. Earlier, company used to adjust customer advances with EMI at the end of the month however the new RBI circular disallows the same causing SMA balances to increase. This has led to elevated provisioning levels. Management expects stage-3 to fall to 0.8% from 0.9% due to higher recoveries in Q4. Hence credit costs for Q4FY25 could be negligible, suggesting provisions of 15bps for FY25.

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

Financial Statement (Rs mn)	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)	Q3FY25E	% Var.
Interest Income	9,803	8,948	9.6	9,553	2.6	9,810	(0.1)
Interest Expense	6,356	5,660	12.3	6,155	3.3	6,326	0.5
Net interest income (NII)	**3,447**	**3,288**	**4.8**	**3,398**	**1.5**	**3,484**	**(1.0)**
Other income	58	64	(8.9)	74	(21.7)	77	(24.6)
Total income	**3,506**	**3,352**	**4.6**	**3,472**	**1.0**	**3,561**	**(1.6)**
Operating expenses	593	494	20.0	594	(0.1)	665	(10.8)
Operating profit	**2,913**	**2,858**	**1.9**	**2,878**	**1.2**	**2,896**	**0.6**
Total provisions	221	308	(28.1)	137	61.1	150	47.6
Profit before tax	**2,691**	**2,550**	**5.5**	**2,741**	**(1.8)**	**2,746**	**(2.0)**
Tax	570	587	(2.8)	626	(8.9)	607	(6.1)
Profit after tax	**2,121**	**1,964**	**8.0**	**2,115**	**0.3**	**2,139**	**(0.8)**
AUM (Rs mn)	3,71,550	3,40,534	9.1	3,65,910	1.5	3,77,786	(1.7)
Disbursements (Rs mn)	18,790	18,795	(0.0)	23,810	(21.1)	25,001	(24.8)
Profitability ratios							
NIM (calc.)	**3.9**	**4.1**	**(23)**	**3.9**	**(1)**	**3.9**	**(1)**
RoAA	2.3	2.3	(8)	2.3	(4)	2.4	(13)
RoAE	17.6	19.4	(181)	18.0	(44)	18.7	(116)
Asset Quality ratios							
Gross NPL (Rs m)	3,410	3,088	10.4	3,200	6.6	3,211	6.2
Net NPL (Rs m)	1,870	1,674	11.7	1,720	8.7	1,606	16.5
Gross NPL ratio	**0.9**	**0.9**	**1**	**0.9**	**4**	**0.9**	7
Net NPL ratio	**0.5**	**0.5**	**1**	**0.5**	**3**	**0.4**	8
Coverage ratio	45.2	45.8	(64)	46.3	(109)	50.0	(484)
Business & Other Ratios							
Yield on Loans (%)	10.2	9.9	28	10.1	7	-	-
Cost of Borrowings (%)	7.5	7.4	16	7.6	(5)	-	-
Spread (%)	2.6	2.6	4	2.6	4	-	-
Cost/Income Ratio	16.9	14.7	221	17.1	(18)	-	-

Source: Company, PL

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

AUM Book Details (Rs mn)	Q3FY25	Q3FY24	YoY gr. (%)	Q2FY25	QoQ gr. (%)
Housing Loans	3,27,930	3,03,190	8.2	3,23,930	1.2
Top-up Personal	21,990	18,190	20.9	20,940	5.0
Mortgage Loans/Flexilap	17,220	14,990	14.9	16,690	3.2
Loans for Sites	3,230	2,810	14.9	3,220	0.3
Others	930	910	2.2	900	3.3
Staff Loans	250	220	13.6	230	8.7
Builder Loans	-	-	-	-	-

Source: Company, PL

Q3FY25 Concall Highlights

Assets/Liabilities

- Disbursals declined QoQ mainly driven by (1) E-Khaata issue due to which registrations stopped in Karnataka (2) demolition of lands in Telangana due to change in govt. impacting demand. Karnataka/Telangana usually contribute 34%/15% to total disbursals.
- Total drop in Karnataka and Telangana disbursals is Rs4.3bn of which Rs3.5-4bn is from Karnataka.
- Management expects situation in Karnataka to normalize in a few quarters as the state govt has already deployed staff to release E-Khaata.
- Rest of the states are doing well in terms of disbursals. AUM growth guided at 15% for FY26. Disbursal target for FY26 at Rs120bn.
- During the quarter, 35% of the borrowings which were previously linked to MCLR have been either shifted to repo or repaid resulting in nil balance of borrowings linked to MCLR as of Dec'24.
- Company raised Rs16bn from NHB (Rs4bn under AHF & Rs12bn under refinance) at 7.6% (30-40bps lower than cost of bank borrowing).

NIM/Opex

- Yields increased QoQ on account of (1) increase in LAP (which yields 0.5% higher) (2) increase in share of SENP & Professional (which yields 0.5% higher) (3) re-appraisal of customer profiling in which case higher rate of interest is charged in case customer's profile deteriorates.
- Employee cost saw QoQ increase due to recruitment for the new branches that are likely to be operational in Q4FY25. Employee cost is not expected to increase materially going forward.
- CANF is undertaking major tech transformation (by IBM) in Q3FY26 costing around Rs300-350mn every year. Total cost is Rs2.5-3.0bn of which Rs600-650mn is capex and rest would be spread across 7 years.
- Management is expecting some demand disruption due to this tech transformation, however, efforts will be taken to minimize the impact.
- Cost to income ratio is guided to be 18-18.5% for FY26.
- Company merged branches having overlapping customers and opened new branches at other places. On a net basis, it plans to open 15 branches of which 11 are to be opened in Q4FY25.
- Branches opened last year have delivered ~Rs7.5mn business per month and they are slated to reach the breakeven point in 1.5-2 years.
- Sales team comprises of 34 people that has contributed to 3.0-3.25% of the incremental business in Q3FY25.

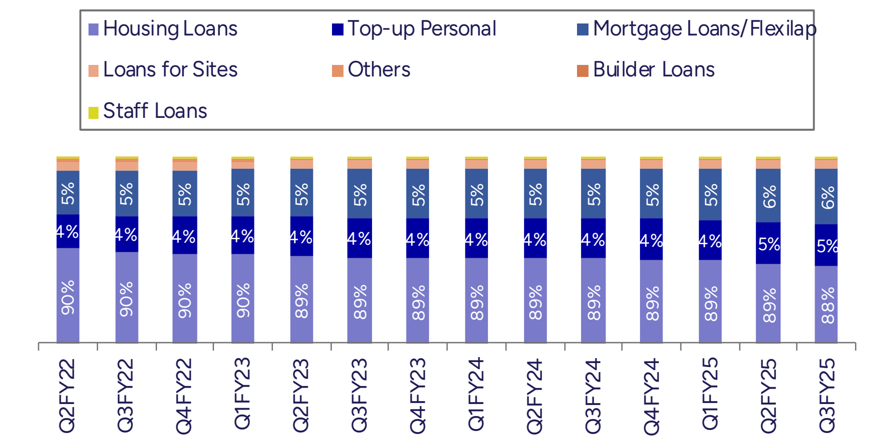
Asset Quality

- Out of Rs25.9bn of SMA-0 balance, Rs7.7bn refers to cases where customers have settled the EMIs but failed to pay cheque bounce charges. Management expects the SMA-0 balance to reduce in Q4FY25.
- Earlier company used to keep advances from customer and account it at the end of the month which used to act as buffer however the new RBI circular disallows the same, impacting asset quality.
- Management is closely monitoring to recover older loans mainly in 48 months+ bucket to improve LGD numbers under ECL.
- Management expects Q4 to be better in terms of stage-3; it is guided to be ~0.8%. Credit cost guided to be 15bps for FY25 meaning almost negligible provisions for Q4FY25. Credit cost guided to remain at 15bps for FY26.
- PCR to be maintained between 46-49% however company would like to increase it via management overlay.

Others

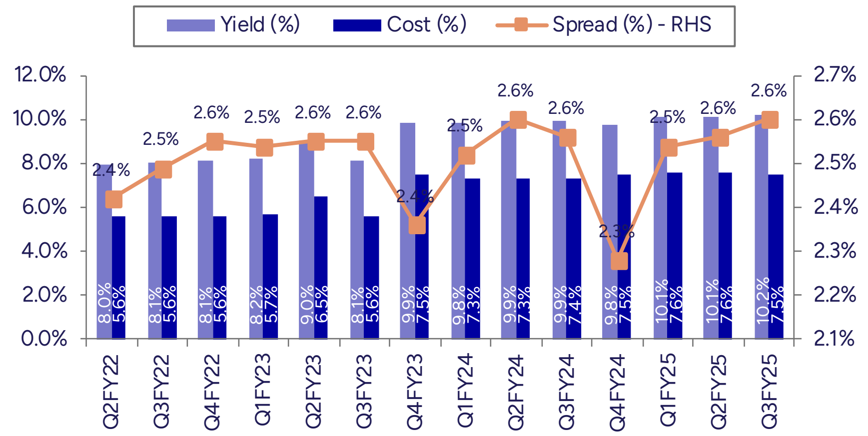
- As per management, there is no rate competition from banks and NBFCs but there is competition in terms of the speed and ability to underwrite loans.
- Canara bank has submitted its comments to RBI on the draft circular relating to overlapping business with subsidiaries.

Exhibit 3: Loan book continues to be dominated by housing (88% share)



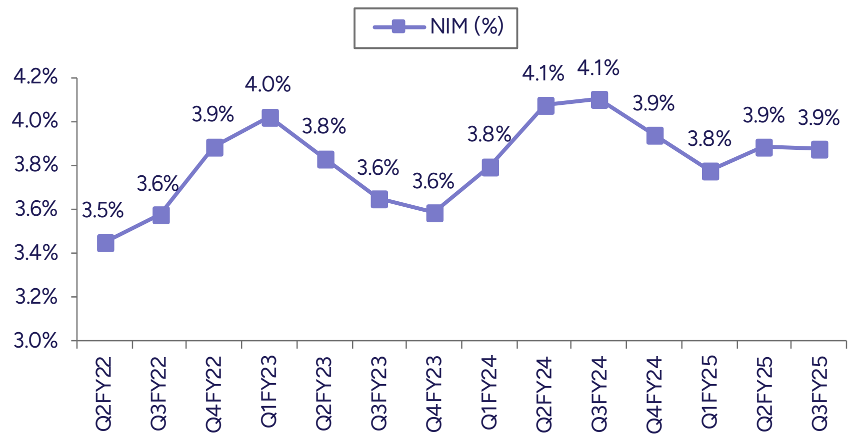
Source: Company, PL

Exhibit 4: Spreads steady at 2.6%



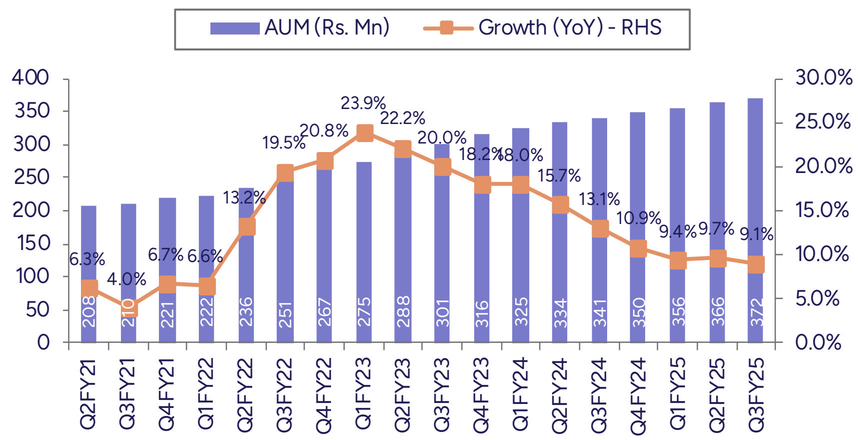
Source: Company, PL

Exhibit 5: NIMs decrease to 3.87% due to higher yields offset by higher CoF



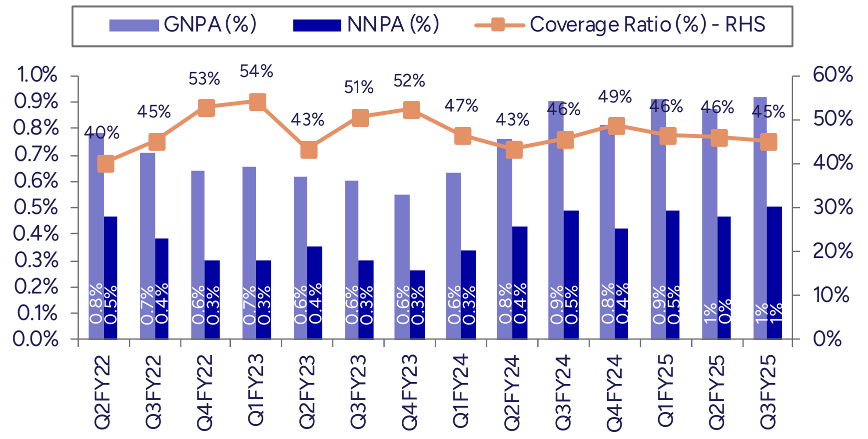
Source: Company, PL

Exhibit 6: AUM growth lower at 9.1% YoY



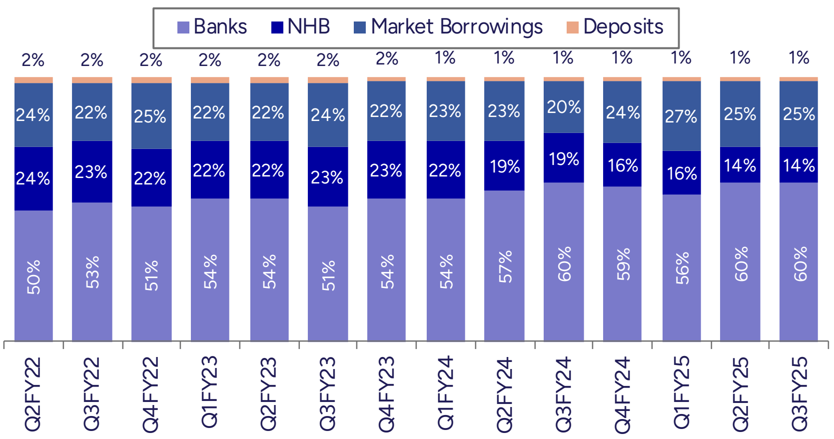
Source: Company, PL

Exhibit 7: GNPA/NNPA worsen to 0.92%/0.5%, PCR declines to 45.2%



Source: Company, PL

Exhibit 8: Borrowing mix largely stable; banks' share steady at 60%



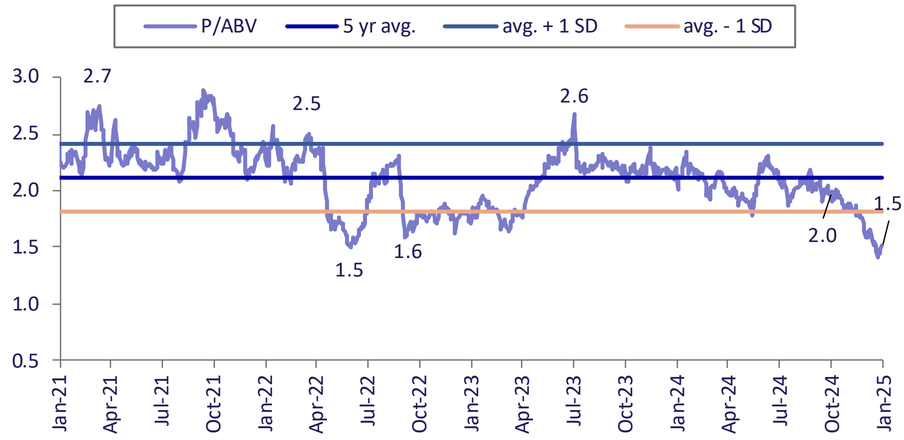
Source: Company, PL Research

Exhibit 9: NIM profile to keep RoA/RoE at 2.0%/14.8% FY27E

RoE decomposition (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	10.1	9.3	7.9	8.9	10.0	10.1	9.8	9.6
Interest expenses	6.7	5.6	4.6	5.6	6.4	6.5	6.4	6.2
Net interest income	**3.4**	**3.7**	**3.3**	**3.3**	**3.6**	**3.5**	**3.4**	**3.4**
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**	**3.6**	**3.5**	**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**	**3.0**	**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**	**2.2**	**2.1**	**2.0**
RoAE	**19.1**	**19.2**	**16.6**	**18.5**	**18.8**	**17.7**	**15.7**	**14.8**

Source: Company, PL

Exhibit 10: One-year forward P/ABV of Can Fin trades at 1.5x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Int. Inc. / Opt. Inc.	34,902	38,625	41,293	45,269
Interest Expenses	22,314	25,034	26,913	29,450
Net interest income	**12,588**	**13,590**	**14,380**	**15,819**
Growth(%)	*24.1*	*8.0*	*5.8*	*10.0*
Non-interest income	345	326	380	423
Growth(%)	*24.5*	*(5.7)*	*16.7*	*11.5*
Net operating income	12,933	13,916	14,760	16,243
Expenditures				
Employees	969	1,130	1,246	1,373
Other Expenses	1,069	1,160	1,350	1,570
Depreciation	127	128	138	148
Operating Expenses	2,165	2,418	2,734	3,092
PPP	**10,768**	**11,498**	**12,026**	**13,151**
Growth(%)	*24.4*	*6.8*	*4.6*	*9.4*
Provisions	1,193	705	811	914
Profit Before Tax	**9,575**	**10,793**	**11,215**	**12,237**
Tax	2,068	2,391	2,523	2,753
Effective Tax rate(%)	*21.6*	*22.2*	*22.5*	*22.5*
PAT	**7,507**	**8,402**	**8,692**	**9,484**
Growth(%)	*20.8*	*11.9*	*3.4*	*9.1*

Balance Sheet (Rs. m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Source of funds				
Equity	266	266	266	266
Reserves and Surplus	43,172	51,070	59,240	68,155
Networth	43,439	51,336	59,507	68,421
Growth (%)	*19.1*	*18.2*	*15.9*	*15.0*
Loan funds	3,18,629	3,44,426	3,79,819	4,23,639
Growth (%)	*9.6*	*8.1*	*10.3*	*11.5*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	3,204	3,351	3,690	4,110
Other Liabilities	743	816	899	1,003
Total Liabilities	**3,66,015**	**3,99,929**	**4,43,915**	**4,97,174**
Application of funds				
Net fixed assets	526	579	637	700
Advances	3,45,531	3,78,480	4,20,190	4,70,604
Growth (%)	*10.8*	*9.5*	*11.0*	*12.0*
Investments	14,590	15,265	16,946	18,979
Current Assets	4,583	4,970	5,516	6,177
Net current assets	**1,379**	**1,619**	**1,827**	**2,067**
Other Assets	785	635	626	714
Total Assets	**3,66,015**	**3,99,929**	**4,43,915**	**4,97,174**
Growth (%)	*10.7*	*9.3*	*11.0*	*12.0*
Business Mix				
AUM	3,49,990	3,81,623	4,23,655	4,74,472
Growth (%)	*10.9*	*9.0*	*11.0*	*12.0*
On Balance Sheet	3,49,990	3,81,623	4,23,655	4,74,472
% 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	3.5	3.4	3.4
ROAA	2.2	2.2	2.1	2.0
ROAE	18.8	17.7	15.7	14.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Int. Inc. / Operating Inc.	9,117	9,242	9,553	9,803
Income from securitization	-	-	-	-
Interest Expenses	5,839	6,027	6,155	6,356
Net Interest Income	**3,278**	**3,214**	**3,398**	**3,447**
Growth (%)	*25.5*	*12.7*	*7.3*	*4.8*
Non-Interest Income	159	70	74	58
Net Operating Income	**3,437**	**3,284**	**3,472**	**3,506**
Growth (%)	*25.7*	*12.8*	*7.6*	*4.6*
Operating expenditure	720	488	594	593
PPP	**2,717**	**2,796**	**2,878**	**2,913**
Growth (%)	-	-	-	-
Provision	18	245	137	221
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	2,700	2,551	2,741	2,691
Tax	609	555	626	570
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	22.6	21.7	22.8	21.2
PAT	**2,090**	**1,996**	**2,115**	**2,121**
Growth	*26*	*9*	*34*	*8*
AUM	3,49,990	3,55,570	3,65,910	3,71,550
YoY growth (%)	10.9	9.4	9.7	9.1
Borrowing	3,18,630	3,24,280	3,37,900	3,34,540
YoY growth (%)	*9.4*	*9.2*	*10.3*	*7.0*

Key Ratios

Y/e Mar	FY24	FY25E	FY26E	FY27E
CMP (Rs)	708	708	708	708
EPS (Rs)	56.4	63.1	65.3	71.2
Book value (Rs)	326.2	385.5	446.9	513.8
Adj. BV(Rs)	315.2	372.9	433.0	498.2
P/E(x)	12.6	11.2	10.8	9.9
P/BV(x)	2.2	1.8	1.6	1.4
P/ABV(x)	2.2	1.9	1.6	1.4
DPS (Rs)	4.0	3.8	3.9	4.3
Dividend Payout Ratio(%)	*7.1*	*6.0*	*6.0*	*6.0*
Dividend Yield(%)	*0.6*	*0.5*	*0.6*	*0.6*

Asset Quality

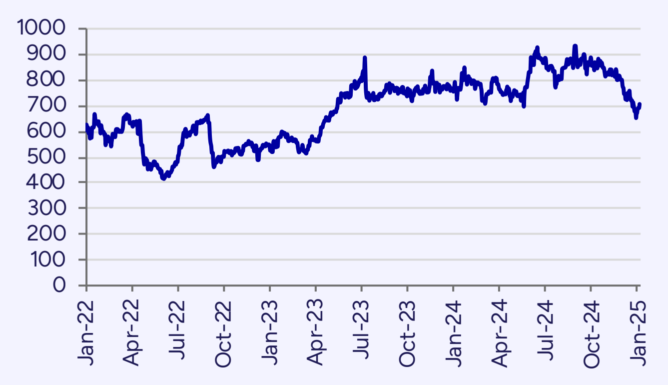
Y/e Mar	FY24	FY25E	FY26E	FY27E
Gross NPAs(Rs m)	2,860	3,368	3,701	4,161
Net NPA(Rs m)	1,468	1,679	1,847	2,078
Gross NPAs to Gross Adv.(%)	0.8	0.9	0.9	0.9
Net NPAs to net Adv.(%)	0.4	0.4	0.4	0.4
NPA coverage(%)	48.7	50.1	50.1	50.1

Du-Pont as a % of AUM

Y/e Mar	FY24	FY25E	FY26E	FY27E
NII	3.6	3.5	3.4	3.4
NII INCI. Securitization	3.6	3.5	3.4	3.4
Total income	3.7	3.6	3.5	3.4
Operating Expenses	0.6	0.6	**0.6**	0.7
PPOP	3.1	3.0	2.8	2.8
Total Provisions	0.3	0.2	0.2	0.2
RoAA	2.2	2.2	2.1	2.0
Avg. Assets/Avg. net worth	8.7	8.1	7.6	7.4
RoAE	18.8	17.7	15.7	14.8

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jan-25	BUY	1,000	705
2	24-Oct-24	BUY	1,000	871
3	08-Oct-24	BUY	930	857
4	23-Jul-24	BUY	930	845
5	10-Jul-24	BUY	950	880
6	30-Apr-24	BUY	950	763
7	09-Apr-24	BUY	900	799
8	24-Jan-24	BUY	900	725

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,900	1,681
2	Axis Bank	BUY	1,350	1,038
3	Bank of Baroda	BUY	315	232
4	Can Fin Homes	BUY	1,000	705
5	City Union Bank	BUY	190	171
6	DCB Bank	BUY	155	117
7	Federal Bank	BUY	220	197
8	HDFC Asset Management Company	BUY	4,700	3,865
9	HDFC Bank	BUY	2,000	1,713
10	ICICI Bank	BUY	1,640	1,279
11	IndusInd Bank	BUY	1,500	984
12	Kotak Mahindra Bank	BUY	2,230	1,759
13	LIC Housing Finance	Hold	675	583
14	Nippon Life India Asset Management	BUY	820	722
15	State Bank of India	BUY	1,025	779
16	UTI Asset Management Company	BUY	1,320	1,296

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

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