



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	■	↔	■

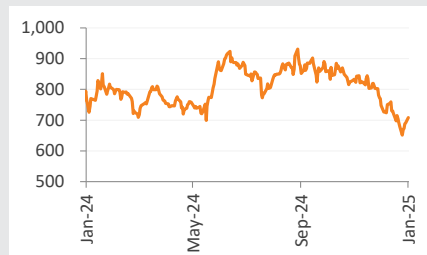
Company details

Market cap:	Rs. 9,425 cr
52-week high/low:	Rs. 951/650
NSE volume: (No of shares)	7.2 lakh
BSE code:	511196
NSE code:	CANFINHOME
Free float: (No of shares)	8.38 cr

Shareholding (%)

Promoters	30.0
FII	11.4
DII	28.1
Others	30.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-17.8	-18.0	-7.8
Relative to Sensex	-4.0	-12.7	-13.7	-15.7

Source: Mirae Asset Sharekhan Research, Bloomberg

Can Fin Homes Ltd

Weak business momentum

NBFC	Sharekhan code: CANFINHOME		
Reco/View: Buy	↔	CMP: Rs. 708	Price Target: Rs. 850
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Loan growth and disbursements were weak during the current quarter due to issues pertaining to registrations in Karnataka following the introduction of E-Khata.
- Asset quality slightly deteriorated; GNPA's were higher by 5 bps q-o-q and 1 bps y-o-y. Besides, credit cost stood at 24 bps vs. 15 bps q-o-q, higher than our estimates.
- Thus, PAT at Rs. 212 crore (up 5.9% y-o-y and 0.2% q-o-q) was below estimates, mainly led by higher-than-expected credit cost and weak business momentum.
- We maintain BUY with a revised PT of Rs. 850 as stock has witnessed sharp decline of 27% from the beginning of Q3FY2025. The stock price trend will see reversal as we expect AUM growth and asset quality will improve in FY25 and FY26, along with generating a sustainable RoE of 17%. Valuations are still reasonable; hence, we maintain our BUY recommendation. At the CMP, the stock trades at 1.9x/1.6x/1.4x its FY2025E/FY2026E/FY2027 BV.

Can Fin Homes' NII was slightly below estimates by 1.8% (up 4.8% y-o-y and 1.5% q-o-q) at Rs. 345 crore in Q3FY2025 due to higher cost of funds. NIM stood at 3.71% (as a percentage of AUM), 4 bps below estimates (lower by 15 bps y-o-y). Opex increased by 20.1% y-o-y and 0.3% q-o-q to Rs. 59 crore. However, it was slightly below estimates by 2.6%. Cost-to-income ratio reduced to 16.9% in Q3FY2025 from 17% in Q2FY2025 and is likely to increase for FY2025 and FY2026 due to reforms implemented for IT transformations. PPOP stood below estimates 2.2% (up 1.6% y-o-y and 1.1% q-o-q) to Rs. 291 crore due to lower growth in NII and drop in other income. Credit cost at 0.24% (up 9 bps q-o-q), 13 bps higher than estimates. Provisions increased 61% q-o-q to Rs. 22 crore (estimate Rs. 11 crore), higher than estimates. PAT stood at Rs. 212 crore, up 5.9% y-o-y and 0.2% q-o-q, below estimates by 4.8% due to higher credit cost and lower operating profit growth. Loan book stood at Rs. 37,155 crore, up 9.1% y-o-y and 1.5% q-o-q, 0.8% below estimates. Disbursements sharply dropped by 21.1% q-o-q due to E-Khata issue in Karnataka and slow growth in Telangana. Asset quality slightly deteriorated. Gross NPA increased 0.92% as of September 30, 2024, up 1 bps y-o-y and 5 bps q-o-q.

Key positives

- Cost to AUM was at 64 bps in Q3FY2025, stable from 65 bps in Q2FY2025. More importantly, it was below our expectation.
- The company reported lower cost-to-income ratio at 16.9%, down 12 bps q-o-q.
- E-Khata issue in Karnataka is improving and is likely to resolve by Q4FY2025/Q1FY2026.

Key negatives

- Disbursements dropped sharply by 21.1% q-o-q due to E-Khata issue in Karnataka and slow growth in Telangana.
- Credit cost stood 13 bps above estimates at 0.24% (AUM) due to deterioration in asset quality. Provisions were up by 61% q-o-q at Rs. 22 crore (estimate of Rs. 11 crore).
- SMA 0 increased to Rs. 2,593 crore in Q3FY2025 from Rs. 1,977 crore in Q2FY2025.

Management Commentary

- Management expects E-Khata issue to resolve by Q4FY2025/Q1FY2026. Overall, AUM growth is expected at 10% for FY2025 and 15% for FY2026. Disbursements are expected to be at Rs. 12,000 crore for FY2026.
- Management is confident to maintain spreads/NIMs above 2.5%/3.5% for FY2025.
- Credit cost is expected at 0.15% for FY2025, likely to reduce from the current level of 0.24% in Q3FY2025.
- RoE is expected at 17%+, while RoA is expected at 2.1%+ for FY2025.
- The company received borrowings of Rs. 1,600 crore from NHB during the quarter, which will reduce borrowing costs.

Our Call

Valuation - We maintain BUY with a revised PT of Rs. 850: Loan growth and disbursements were weak during the current quarter because of issues pertaining to registrations in Karnataka following the introduction of E-Khata. Asset quality slightly deteriorated during the quarter. However, management expects improvement in asset quality and growth going forward, as E-Khata issue (Karnataka) is likely to resolve by Q4FY2025/Q1FY2026. Valuations are reasonable; hence, we maintain our BUY recommendation. We expect AUM to register a CAGR of 14% for FY2024-FY2027. We expect RoA of 2.2% and RoE of 17% for FY2026; they are expected to stay on the same level for FY2027. At the CMP, the stock trades at 1.9x/1.6x/1.4x its FY2025E/FY2026E/FY2027 BV.

Key Risks

Slower-than-expected growth due to high competition; difficulty in passing on higher cost of borrowings due to competitive intensity; and deterioration of asset quality.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,015	1,259	1,334	1,499	1,719
Net profit	621	751	848	940	1,087
EPS (Rs.)	46.7	56.5	63.6	70.6	81.6
P/E (x)	15.2	12.6	11.1	10.0	8.7
P/BV (x)	2.6	2.2	1.9	1.6	1.4
RoA (%)	2.0	2.2	2.2	2.2	2.2
RoE (%)	18.5	18.7	18.0	17.1	17.0

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- ◆ **Margins Outlook:** NII grew by 4.8% y-o-y and 1.5% q-o-q to Rs. 344 crore in Q3FY2025. NIM declined by 15 bps y-o-y (calculated as a percentage of AUM) due to higher cost of borrowings. Management is confident of maintaining spreads/NIMs (Reported) above 2.5%/3.5% for FY2025.
- ◆ **Loan growth outlook:** AUM grew by ~9.1% y-o-y and 1.5% q-o-q in Q3FY2025. Disbursements witnessed a sharp decline by 21.1 q-o-q. Management expects E-khata issue is likely to resolve by Q4FY2025/Q1FY2026. Overall, AUM growth is expected ~10% for FY2025 and 15% for FY2026. Disbursements are expected at Rs. 12000 crore for FY2026. Asset mix for salaried class and professional stood at ~70% in Q3FY2025; however, it is likely to come down to 65% in the next couple of years due to higher focus on non-salaried class, as it offers high yield. The company is expected to open 15 branches in the northern and the western regions and management focuses Tier-2 cities and tier 3 cities for growth.
- ◆ **Asset quality improves:** Provisions were higher than estimates at Rs. 22 crore (Q2FY2025; Rs. 14 crore) vs. estimate of Rs. 11 crore. Credit cost (calculated as a percentage of AUM) stood at 0.24% vs. estimate of 0.12%. Gross NPA stood at 0.92% as of December 31, 2024, vs. 0.88% as of September 30, 2024. Overall, asset quality is expected to improve from this level and GNPA is expected at 0.8% for FY2025 from 0.9% in Q3FY2025.

Results

Particulars	Rs cr				
	Q3FY25	Q3FY24	Q2FY25	Y-o-Y %	Q-o-Q %
Interest Income	980	895	955	9.5%	2.6%
Interest Expenses	636	566	615	12.3%	3.3%
NII	345	329	340	4.8%	1.5%
Other Income	6	7	7	-17.6%	-21.7%
Total Income	351	336	347	4.3%	1.0%
Opex	59	49	59	20.1%	0.3%
PPOP	291	287	288	1.6%	1.1%
P&C	22	31	14	-28.1%	61.1%
PBT	269	256	274	5.2%	-1.9%
Tax	57	56	63	2.6%	-8.9%
PAT	212	200	212	5.9%	0.2%

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 housing finance companies (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 additional three crore houses is under the PMAY Scheme, which is potentially positive.

■ Company Outlook – Attractive franchise

The company 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 is expanding in Tier-3 cities, which are high-margin regions as compared to Tier-1 cities.

■ Valuation – We maintain Buy with a revised PT of Rs. 850

Loan growth and disbursements were weak during the current quarter because of issues pertaining to registrations in Karnataka following the introduction of E-Khata. Asset quality slightly deteriorated during the quarter. However, management expects improvement in asset quality and growth going forward, as E-Khata issue (Karnataka) is likely to resolve by Q4FY2025/Q1FY2026. Valuations are reasonable; hence, we maintain our BUY recommendation. We expect AUM to register a CAGR of 14% for FY2024-FY2027. We expect RoA of 2.2% and RoE of 17% for FY2026; they are expected to stay on the same level for FY2027. At the CMP, the stock trades at 1.9x/1.6x/1.4X its FY2025E/FY2026E/FY2027 BV.

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	708	9,425.0	11.1	10.0	1.9	1.6	18.0	17.1	2.2	2.2
LIC Housing Finance	570	31,348	6.0	5.5	0.8	0.7	15.7	15.1	1.7	1.7

Source: Company; Mirae Asset Sharekhan Research

About the company

Can Fin Homes is a leading HFC 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 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

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	3.44
5	The Vanguard Group Inc.	2.82
6	ICICI Prudential Asset Management	2.74
7	L&T Mutual Fund Trustee Ltd./India	2.58
8	Canara Robeco Asset Management Co.	1.57
9	3P INDIA EQUITY FUND	1.53
10	Sarda Energy & Minerals Ltd.	1.49

Source: Bloomberg

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Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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