

Jan 23, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

CAN FIN Homes Limited

Better quarters in store

Low disb. and higher slippages underwhelming; resilient margin and strong profitability positives

Can Fin's Q4 FY24 performance was characterized by expectedly modest originations (process changes/tightening), larger-than-expected NPL increase (flow from non-restructured was marginally higher) and better-than-expected margin performance (Spread/NIM improved qoq). Hence, even while disbursements were lower and credit cost was higher than our expectations, the NIM/PPOP/PAT were 3-5% higher than estimates. With portfolio run-off rate stable, the loan portfolio grew by 2% qoq/13% yoy, marking a significant moderation from 18% growth rate couple of quarters back.

Portfolio NIM improved further by 7 bps to 3.69% on the back of improvement in portfolio yield (10.01% v/s 9.93%) with repricing of residual book (~Rs67bn). Incremental Portfolio Yield was 9.91% and Incremental CoF was 7.35%, and hence Incremental Spread was 2.6%. GNPLs increased by 21% qoq (level rose from 0.76% to 0.91%) due to significant slippages from Restructured portfolio and seasonal increase in slippages from non-restructured book. Higher slippages drove higher-than-usual credit cost at 37 bps. Management overlay provisions of Rs340mn were not utilized by the company. RoA/RoE for the quarter was strong at 2.3%/19.4%

Management confident about significant pick-up in disb./loan growth

Management expects Q4 FY24 disbursements to be Rs25bn+ (Rs28-29bn also a possibility), which will translate into 13-14% AUM growth for FY24. AUM is expected to grow by 15%+ in FY25 and at 18-20% pa thereafter. FY25 disbursements are estimated at ~Rs120bn (avg. quarterly run-rate of Rs30bn). Besides branch addition, lead sourcing from digital channels and push for higher-ticket loans would drive the envisaged increase in disbursement volume. Strategy is to strengthen operations outside South with particular focus on the states of GJ, MH, PB and HR. Co. opened 5 branches/offices in Q3 FY24 (all outside South), and 7-8 would be opened in Q4 FY24.

Asset Quality to improve and Credit Cost to moderate

Not significant incremental pain is expected from the restructured book and flows witnessed during Q3 FY24 from the non-restructured portfolio are expected to largely reverse. Management expects a reduction of Rs250-300mn in GNPL during Q4 FY24 with the level reaching 0.75-0.8% by March. Further, the co. estimates its GNPL to decline in FY25 to near 0.6%. Credit Cost in Q4 FY24 is expected to be negligible and quite moderate in FY25. While Can Fin is carrying Management Overlay of Rs340mn, the Restructured Provision of Rs580mn (outside ECL coverage) would also reverse over a period. Hence, both these provisions are available buffers.

Spread/NIM will normalize from current elevated level

The company intends to maintain Incremental Spread around 2.5% (despite shift towards higher-ticket size loans), and thus expects NIM of around 3.5% in FY25 (3.69% as of Q3 FY24). Credit Rating upgrade by ICRA to AAA would help in getting more finer rates in the capital markets. Quarterly loan reset has been implemented from January; while existing customers will be given an option to shift, all the new customers would be on quarterly reset.

Risk-reward favourable; preferred pick within HFCs

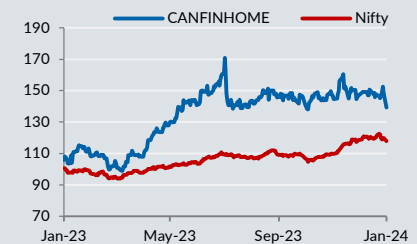
We expect Can Fin to deliver 12%/16%/17% loan growth and 19%/18%/17% RoE in FY24/25/26. While the co. has managed margins well and credit cost outlook appears benign now, the key re-rating trigger would be a material pick-up in disbursement activity over the coming quarters. Stock trades at 10x/1.6x PE/PBV on FY26 basis, a valuation which is undemanding even in the context of slightly lowered growth/RoE expectations. Retain BUY with belief that investment risk-reward is favourable for long-term investors.

Reco	: BUY
CMP	: Rs 725
Target Price	: Rs 930
Potential Return	: 28.3%

Stock data (as on Jan 23, 2024)

Nifty	21,239
52 Week h/l (Rs)	910 / 509
Market cap (Rs/USD mn)	102309 / 1231
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	676
Div. yield (%):	0.5
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	-5.1%	-1.5%	31.4%

Shareholding pattern

Promoter	30.0%
FII+DII	39.5%
Others	30.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	930	916

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	55.7	63.6	71.6
EPS (Old)	55.4	65.7	76.4
% Change	0.5%	-3.3%	-6.3%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	12,794	14,166	15,872
PPOP	10,774	11,540	12,930
Net profit	7,411	8,464	9,529
Growth (%)	19.3	14.2	12.6
EPS (Rs)	55.7	63.6	71.6
ABVPS (Rs)	319.7	379.8	447.7
P/E (x)	13.0	11.4	10.1
P/ABV (x)	2.3	1.9	1.6
ROE (%)	18.5	17.8	16.9
ROA (%)	2.1	2.1	2.1

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MANUJ OBEROI, Associate

Exhibit 1: Result table

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	9,012	8,710	3.5	7,095	27.0
Interest expended	(5,660)	(5,484)	3.2	(4,529)	25.0
Net Interest Income	3,352	3,226	3.9	2,566	30.6
Other Income	6.9	0.1	4,914.6	1.7	308.2
Total Income	3,359	3,226	4.1	2,568	30.8
Operating expenses	(494)	(524)	(5.7)	(438)	12.7
PPOP	2,865	2,702	6.0	2,129	34.6
Provisions	(308)	(722)	(57.3)	(84)	265.9
PBT	2,557	1,980	29.1	2,045	25.0
Tax	(556)	(399)	39.2	(530)	4.8
Reported PAT	2,001	1,581	26.6	1,515	32.1

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Loan Book	3,40,530	3,33,590	2.1	3,01,150	13.1
Salaried	2,45,620	2,41,550	1.7	2,21,590	10.8
Housing	2,24,420	2,20,670	1.7	2,02,560	10.8
Top-up Personal	10,400	10,200	2.0	9,150	13.7
Mortgage/Flex LAP	8,520	8,430	1.1	7,740	10.1
Loans for sites	1,880	1,840	2.2	1,770	6.2
Others	400	410	(2.4)	370	8.1
Non-Salaried	94,690	91,820	3.1	79,350	19.3
Housing	78,990	76,560	3.2	66,130	19.4
Top-up Personal	4,590	4,370	5.0	3,670	25.1
Mortgage/Flex LAP	9,670	9,500	1.8	8,250	17.2
Loans for sites	930	870	6.9	760	22.4
Others	510	520	(1.9)	540	(5.6)
Staff Loans	220	220	-	210	4.8

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	3.9	3.8	0.1	3.5	0.5
Yield	9.9	10.1	(0.2)	8.9	1.0
Cost of Funds	7.4	7.3	0.0	6.6	0.7
Spread	2.6	2.8	(0.2)	2.2	0.3
Cost to Income*	14.7	16.2	(1.5)	17.1	(2.4)
Gross NPA	0.9	0.8	0.2	0.6	0.3
Net NPA	0.5	0.4	0.1	0.3	0.2
PCR*	45.8	44.0	1.8	50.7	(4.9)
RoA	2.3	1.9	0.5	2.2	0.2
RoE	19.4	16.0	3.4	17.3	2.1

Source: Company, YES Sec; *Calculated.

KEY CON-CALL HIGHLIGHTS

Disbursements & Loan Growth

- Process changes/tightening impacted disbursements in Q3 FY24 - October was most impacted while business run-rate improved to Rs7bn in December.
- Management expects Q4 FY24 disbursements to be Rs25bn+ (Rs28-29bn also a possibility), which will translate into 13-14% AUM growth for FY24.
- AUM expected to grow by 15%+ in FY25 and at 18-20% pa thereafter - FY25 disbursements estimated around Rs120bn (Average Quarterly run-rate of Rs30bn).
- Besides branch addition, lead sourcing from digital channels and push for higher-ticket loans would drive the envisaged increase in disbursement run-rate.
- Co. opened 5 offices in Q3, all of which were in North and West - 7-8 branches/offices have been planned to be opened in Q4.
- Strategy is to strengthen operations outside South with particular focus on GJ, MH, PB and HR for branch expansion - disbursement share of Southern States has fallen to 72% from 74% earlier.
- DSA sourcing would decline to 60% in 2-3 years, which is currently at 79%.
- The share of Salaried customers unlikely to fall below 70%.
- Disb. share of loans between Rs20-30 lakhs at 26% and of loans >Rs30 lakhs at 36%.

Asset Quality & Credit Cost

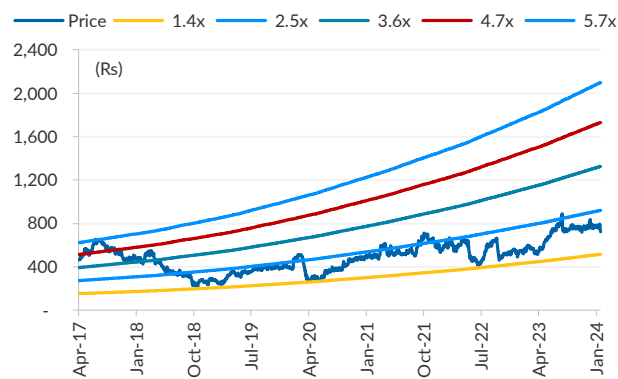
- Rs6.7bn was the original restructured book - NPL flows so far near 15%, which is in-line with guidance - not much pain expected in coming quarters.
- Non-restructured NPL flow in Q3 was seasonal and would reverse largely.
- Management expects Rs250-300mn GNPL reduction in Q4 with the level reaching 0.75-0.8% by March.
- ECL provision estimated to be negligible in Q4.
- Co. is carrying Management Overlay of Rs340mn - there are Restructured Provision of Rs580mn which are reversible over a period of time.
- Board would take a call on utilization of Management Overlay and the releasing Restructured Provisions - mostly would be kept as buffers.
- GNPL expected to fall to near 0.6% by end of FY25 - next year Credit Cost expected to be normal/moderate.

NIM, Funding & Opex

- Spread and NIM improved in Q3 aided by repricing of loan assets worth Rs67bn and from judicious management of CoF.
- Management expects Q4 Spread to be 2.6% (2.66% in Q3) and NIM of 3.7-3.8% (3.92% in Q3).
- Quarterly loan reset implemented from January - existing customers given an option to shift while all new customers would be on quarterly reset.
- Incremental Portfolio Yield was 9.91% and Incremental CoF was 7.35% in Q3, and hence Incremental Spread was 2.6%.
- Incremental Spread would be maintained around 2.5% (despite shift towards higher ticket size), and hence NIM would be maintained around 3.5% in FY25 (3.69% as of Q3 FY24).

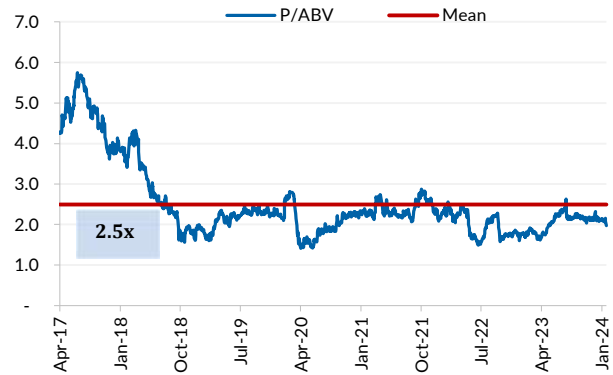
- Credit Rating upgrade by ICRA to AAA would help in getting even finer rates in Capital Markets.
- Company hopes to avail NHB refinance soon.
- IT transformation project has got delayed due to delay in finalization of Vendor, so C/I ratio would be 16% for FY24 and 18-18.5% for FY25.

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity and Liabilities					
Equity Capital	266	266	266	266	266
Other Equity	30,400	36,206	43,306	51,458	60,676
Shareholder's funds	30,666	36,473	43,572	51,725	60,942
Financial Liabilities	2,48,311	2,93,665	3,24,491	3,74,775	4,37,536
Trade payables	56	80	80	80	80
Debt Securities	60,720	63,110	69,736	80,546	94,037
Borrowings (excl. debt securities)	1,79,818	2,22,191	2,45,521	2,83,576	3,31,075
Deposits	4,911	4,352	4,809	5,554	6,484
Other Financial Liabilities	2,806	3,932	4,345	5,019	5,859
Non-Financial Liabilities	467	567	624	686	755
Provisions	255	339	373	410	451
Other non-financial liabilities	212	228	251	276	304
Total Liabilities + Equity	2,79,443	3,30,705	3,68,687	4,27,186	4,99,233
Assets					
Financial Assets	2,78,352	3,29,729	3,67,665	4,26,114	4,98,110
Cash and Cash Equivalents	27	19	923	299	672
Bank balances	3,214	3,066	766	766	766
Receivables	11	11	11	11	11
Loans	2,63,781	3,11,933	3,49,794	4,06,126	4,74,544
Investments	11,260	14,590	16,049	18,778	21,970
Other Financial Assets	59	110	121	133	146
Non- Financial Assets	1,092	976	1,022	1,072	1,123
Current tax assets (Net)	230	0	0	0	0
Deferred tax assets (Net)	477	484	509	534	561
Property, Plant and Equipment	346	454	477	501	526
Other Non-Financial Assets	38	37	37	37	37
Total Assets	2,79,443	3,30,705	3,68,687	4,27,186	4,99,233

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	19,878	27,420	35,149	38,077	41,247
Interest expense	(11,535)	(17,009)	(22,368)	(23,924)	(25,389)
Net interest income	8,343	10,411	12,781	14,153	15,858
Non-interest income	7	11	14	14	14
Total op income	8,350	10,423	12,794	14,166	15,872
Total op expenses	(1,530)	(1,765)	(2,021)	(2,627)	(2,942)
PPoP	6,820	8,658	10,774	11,540	12,930
Provisions	(469)	(418)	(1,272)	(688)	(713)
Profit before tax	6,351	8,240	9,501	10,851	12,217
Taxes	(1,640)	(2,028)	(2,090)	(2,387)	(2,688)
Net profit	4,711	6,212	7,411	8,464	9,529

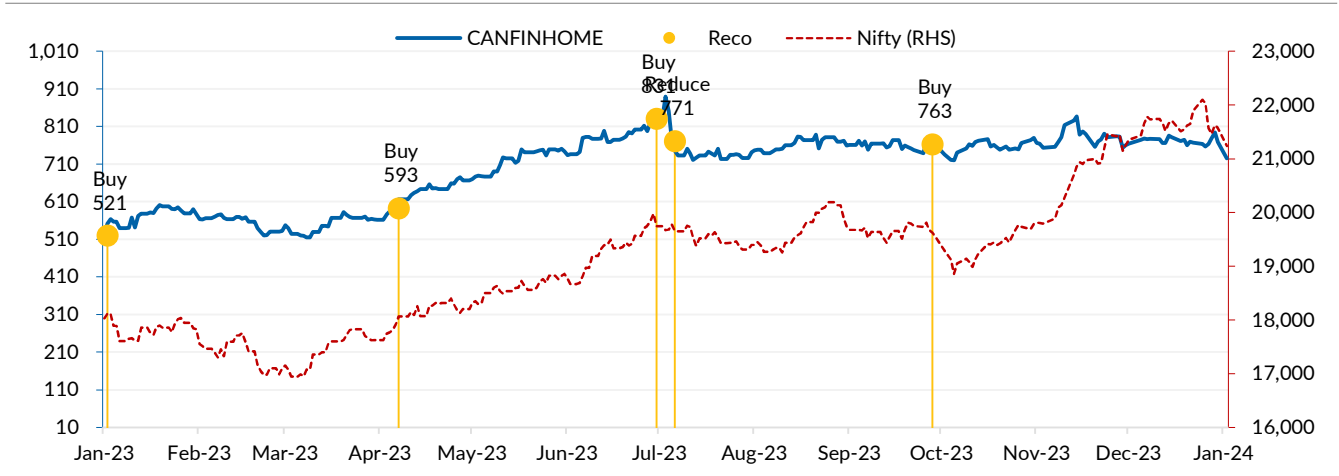
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	3.0	24.8	22.8	10.7	12.0
Total op income	3.1	24.8	22.8	10.7	12.0
Op profit (pre-provision)	(0.6)	26.9	24.4	7.1	12.0
Net profit	3.3	31.9	19.3	14.2	12.6
Loans	20.5	18.3	12.1	16.1	16.8
Borrowings + Debt	29.8	23.6	10.5	15.5	16.8
Total assets	26.6	18.3	11.5	15.9	16.9
Profitability Ratios (%)					
NIM	3.4	3.6	3.8	3.7	3.6
Return on Avg. Equity	16.6	18.5	18.5	17.8	16.9
Return on Avg. Assets	1.9	2.0	2.1	2.1	2.1
Per share ratios (Rs)					
EPS	35.4	46.6	55.7	63.6	71.6
Adj. BVPS	224.2	267.7	319.7	379.8	447.7
DPS	1.5	2.0	2.0	2.0	2.0
Other key ratios (%)					
Loans/Borrowings	107.5	107.7	109.3	109.9	110.0
Cost/Income	18.3	16.9	15.8	18.5	18.5
Gross NPLs/Loans	0.6	0.6	0.6	0.6	0.6
Credit Cost	0.2	0.1	0.4	0.2	0.2
Net NPLs/Net loans	0.3	0.3	0.3	0.3	0.3
Tax rate	25.8	24.6	22.0	22.0	22.0
Dividend yield	0.2	0.3	0.3	0.3	0.3

Source: Company, YES Sec

Recommendation Tracker



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