

Oct 24, 2024

RESULT REPORT Q2 FY25 | Sector: Financials

# CAN FIN Homes Limited

## Good quarter and firm commentary

### A quarter of in-line growth but resilient margins

Can Fin Homes delivered a 3-4% beat on NII/PPOP and a largely expected PAT on the back of in-line disbursements, small improvement in portfolio spread and stable NPLs. Opex was higher than expectations in the quarter due to promotions and increments, higher actuarial provisions, step-up in legal/SARFAESI actions and intensification of marketing activity. SMA 0/1 buckets transiently increased due to regulatory clarification disallowing holding of any advance EMI. Notwithstanding the credit cost pertaining to increase in SMA buckets and elevated opex, Can Fin delivered 2.3%/18% RoA/RoE for the quarter.

Disbursements stood at Rs23.8bn (up 29% qoq/18% yoy) leading to a small improvement in loan portfolio growth (up 3% qoq/10% yoy). The Disbursement/AUM mix continues to shift towards SENP HL and LAP products and more than Rs2mn HLs. Share of SENP HL and LAP in AUM inched-up to 24% and 5.7% respectively. Portfolio Yield was stable sequentially, underpinned by the product mix shift and unchanged product pricing. CoF declined by 2 bps on qoq basis, largely on downward repricing of CPs. Share on Bank Loans increased in the absence of NHB drawdown. Credit cost was annualized 15 bps owing to increase in standard assets provisions on account of loan growth and material increase in SMA 0/1 (from 7% of portfolio as of June to 8.2% as of Sept).

### Management expects further growth improvement and steady margins and credit cost

Can Fin anticipates full-year disbursements of near Rs100bn, leading to loan growth of 13-14% by end of the year. Loan growth in FY26 is estimated at 15-17%. Management expects disbursements run-rate to keep improving driven by 1) consistent distribution addition (mainly in North & West), 2) sustained higher growth in SENP HL and LAP, and 3) intensified marketing/sales activities (ramping-up of Sales team). Co. is aspiring to reach 300 branches by FY28 through consistent addition of 15-20 branches pa. The incremental ATS of HL is expected to move from 25 lacs to 27 lacs in a few quarters. BT Out & Closures have been steady in the band of 4-5%.

Spread/NIM guidance has been maintained at 2.5%/+3.5%+. Co. expects CoF to come down over the coming quarters with 65% of Bank Loans linked to Repo and short-term benchmarks and drawdown of Rs20bn NHB sanction which is at lower blended rate. The decline in Portfolio Yield would be restrained by further shift of AUM towards better-yielding products of SENP HL and LAP. Credit cost guidance has been maintained at 10-12 bps for the current year. Can Fin has deployed more people for SMA collections. SENP segment asset quality has been holding up well.

### Estimates largely unchanged; growth improvement can re-rate valuation

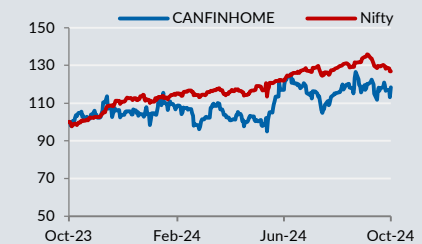
Unlike material cuts seen for most of our coverage companies, the FY25/26 earnings estimates of Can Fin remain largely unchanged. We have marginally trimmed loan growth on likely slowness in certain markets (TL & AP), but we expect a lesser margin decline over FY24-26 now. Stock trades at 10.8x PE and 1.7x PBV on FY27 estimates, and we believe that loan growth improvement on our current expectations (12-13%/14-15% by March 25/26) can re-rate the stock. Aided by strong balance sheet quality and funding franchise, Can Fin has delivered average RoE of 18% over the past 10 years with much lesser variability.

Reco	: BUY
CMP	: Rs 871
Target Price	: Rs 1,050
Potential Return	: +20.5%

#### Stock data (as on Oct 23, 2024)

Nifty	24,436
52 Week h/l (Rs)	952 / 680
Market cap (Rs/USD mn)	110904 / 1319
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	619
Div. yield (%):	0.7
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

#### Stock performance



	1M	3M	1Y
Absolute return	1.1%	2.5%	18.4%

#### Shareholding pattern

Promoter	30.0%
FII+DII	39.3%
Others	30.7%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,050	1,000

#### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	65.1	71.8	80.8
EPS (Old)	64.9	72.5	-
% Change	0.4%	-0.9%	-

#### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	13,978	15,579	17,574
PPOP	11,640	12,822	14,435
Net profit	8,674	9,566	10,757
Growth (%)	15.5	10.3	12.4
EPS (Rs)	65.1	71.8	80.8
ABVPS (Rs)	375.9	442.5	518.1
P/E (x)	13.4	12.1	10.8
P/ABV (x)	2.3	2.0	1.7
ROE (%)	18.3	17.1	16.4
ROA (%)	2.2	2.2	2.1

#### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in



#### MANUJ OBEROI, Associate

## Exhibit 1: Result table

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Operating Income	9,625	9,311	3.4	8,710	10.5
Interest expended	(6,155)	(6,027)	2.1	(5,484)	12.2
Net Interest Income	3,470	3,284	5.7	3,226	7.6
Other Income	2.1	0.5	367.0	0.1	1,461.3
Total Income	3,472	3,284	5.7	3,226	7.6
Operating expenses	(594)	(488)	21.6	(524)	13.3
PPOP	2,878	2,796	3.0	2,702	6.5
Provisions	(137)	(245)	(43.9)	(722)	(81.0)
PBT	2,741	2,551	7.4	1,980	38.4
Tax	(626)	(555)	12.9	(399)	56.8
Reported PAT	2,115	1,996	5.9	1,581	33.8

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Loan Book	3,65,910	3,55,570	2.9	3,33,590	9.7
Salaried	2,59,300	2,54,770	1.8	2,41,550	7.3
Housing	2,36,070	2,32,450	1.6	2,20,670	7.0
Top-up Personal	11,210	10,920	2.7	10,200	9.9
Mortgage/Flex LAP	9,500	8,990	5.7	8,430	12.7
Loans for sites	2,130	2,040	4.4	1,840	15.8
Others	390	370	5.4	410	(4.9)
Non-Salaried	1,06,380	1,00,570	5.8	91,820	15.9
Housing	87,860	83,570	5.1	76,560	14.8
Top-up Personal	5,480	5,070	8.1	4,370	25.4
Mortgage/Flex LAP	11,440	10,470	9.3	9,500	20.4
Loans for sites	1,090	990	10.1	870	25.3
Others	510	470	8.5	520	(1.9)
Staff Loans	230	230	-	220	4.5

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
NIM	3.8	3.6	0.2	3.8	(0.0)
Yield	10.1	10.1	-	10.1	0.0
Cost of Funds	7.6	7.6	(0.0)	7.3	0.2
Spread	2.6	2.5	0.0	2.8	(0.2)
Cost to Income*	17.1	14.9	2.2	16.2	0.9
Gross NPA	0.9	0.9	(0.0)	0.8	0.1
Net NPA	0.5	0.5	(0.0)	0.4	0.0
PCR*	46.3	46.5	(0.2)	44.0	2.2
RoA	2.3	2.2	0.1	1.9	0.4
RoE	18.0	17.6	0.4	16.0	2.0

Source: Company, YES Sec; \*Calculated.

## KEY CON-CALL HIGHLIGHTS

### Disbursements/Growth & Drivers

- AUM growth to reach 11-12% by Q3 and 13-14% by Q4 of FY25 – full-year disbursements would be around Rs100bn – haven't assumed much improvement in TL business run-rate.
- TP and AP last quarter witnessed negative growth - AP growth was positive in Q2 – TL going slow due to some issues around registration and demolition of unauthorized properties – cautious approach taken by developers in TL.
- Incremental ATS of HL has been stable at 25 lacs – higher growth in > 20 lac and > 30 lac ticket segment – ATS can increase to 27 lacs in a few quarters.
- Long-term growth drivers 1) consistent distribution addition, 2) higher growth in SENP and LAP, 3) intensified marketing/sales activities (ramping-up of Sales team).
- Have built a small Sales team in North and West - open to add sales force through lateral hiring - in long run Sales team would contribute 20% of loan sourcing.
- Looking at reach 300 branches by FY28 – would be consistently adding 15-20 branches per annum.
- 15% annualized loan run-off rate, of which 4-4.5% is BT Out & Closures and 10-10.5% would be part payment and amortization.
- FY26 loan growth expected to be 15-17%.
- Open to take SENP customers' share to 35% in next 3-4 years - SENP asset quality has been holding well.
- Share of LAP could reach 7% in next 3-4 years – about 90% of LAP is against residential property.

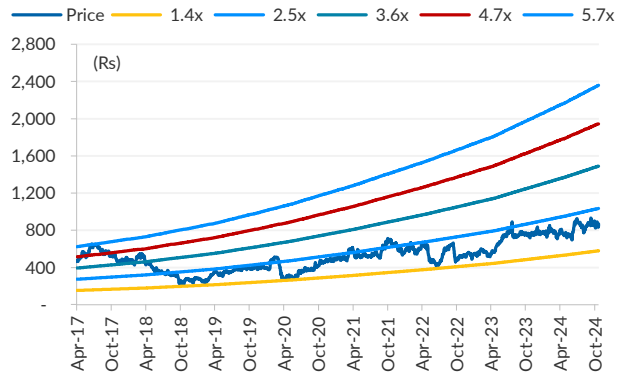
### Spread/NIM and Opex

- Spread/NIM guidance of 2.5%/+3.5%+ intact – can hold current Spread in coming quarters.
- Yield stability driven by product mix shift - no change in pricing of Sal HL, SE HL and LAP in Q2 vs Q1.
- No HL is linked to Repo/EBLR directly - loan reset is quarterly - have been fair and efficient in passing on - will be a quarter's lag in passing on.
- Given deposits rate dynamics, Banks may not be aggressive in passing the Repo rate cut – while Can Fin would pass on basis the benefits it receives.
- 60% of borrowings are Bank Loans, of which 45% is linked to Repo, 35% linked to MCLR and balance T-Bills & others.
- Have received Rs20bn sanction from NHB under refinance scheme – rate is lower than Bank Loans.
- May use new NHB money to repay a portion of high-cost MCLR linked bank loans.
- Opex higher in Q2 due to promotions and increments, higher actuarial provisions (impact 3cr) due to change in discounting rates, step-up in SARFAESI actions (impact 1cr) and intensification of marketing activity (impact 1cr).
- Upgrading LOS and LMS – pilots are completed and now would be implemented across branches in next two quarters.
- Current TAT of 3-4 days for Salaried HL and 7-10 days for SENP HL should come down post the tech upgrade.
- Cost/Income ratio could marginally increase to 17-18% after implementation of the upgraded IT system.

## Asset Quality & Credit Cost

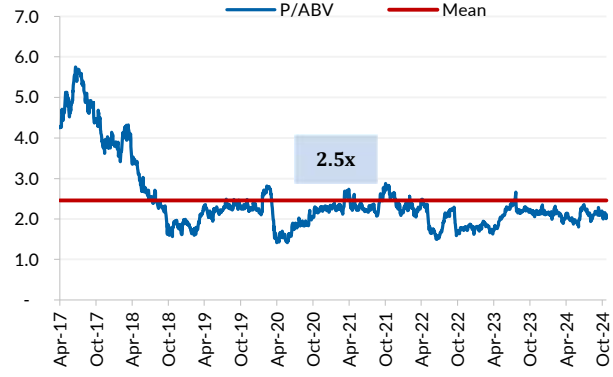
- Credit cost guidance maintained at 10-12 bps.
- Increase in SMA 0 due to some regulatory change which disallowed holding of any advance EMI (which use to act as a cover against the Bounce).
- Deploying more people for SMA collections.
- SENP segment asset quality has improved in buckets as well as NPLs.

**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)	FY23	FY24	FY25E	FY26E	FY27E
<b>Equity and Liabilities</b>					
Equity Capital	266	266	266	266	266
Other Equity	36,206	43,172	51,223	60,166	70,300
<b>Shareholder's funds</b>	<b>36,473</b>	<b>43,439</b>	<b>51,489</b>	<b>60,432</b>	<b>70,566</b>
<b>Financial Liabilities</b>	<b>2,93,665</b>	<b>3,21,639</b>	<b>3,57,013</b>	<b>4,06,989</b>	<b>4,72,099</b>
Trade payables	80	48	48	48	48
Debt Securities	63,110	75,751	84,084	95,856	1,11,192
Borrowings (excl. debt securities)	2,22,191	2,39,671	2,66,035	3,03,280	3,51,804
Deposits	4,352	2,178	2,418	2,756	3,197
Other Financial Liabilities	3,932	3,990	4,429	5,049	5,857
<b>Non-Financial Liabilities</b>	<b>567</b>	<b>938</b>	<b>1,032</b>	<b>1,136</b>	<b>1,249</b>
Provisions	339	587	646	711	782
Other non-financial liabilities	228	351	386	425	467
<b>Total Liabilities + Equity</b>	<b>3,30,705</b>	<b>3,66,015</b>	<b>4,09,535</b>	<b>4,68,556</b>	<b>5,43,914</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>3,29,729</b>	<b>3,64,782</b>	<b>4,08,242</b>	<b>4,67,201</b>	<b>5,42,494</b>
Cash and Cash Equivalents	19	8	3,636	3,890	5,451
Bank balances	3,066	4,567	500	500	500
Receivables	11	9	9	9	9
Loans	3,11,933	3,45,531	3,87,233	4,43,413	5,14,241
Investments	14,590	14,590	16,779	19,296	22,190
Other Financial Assets	110	78	86	94	104
<b>Non- Financial Assets</b>	<b>976</b>	<b>1,233</b>	<b>1,293</b>	<b>1,355</b>	<b>1,420</b>
Current tax assets (Net)	0	0	0	0	0
Deferred tax assets (Net)	484	659	692	726	762
Property, Plant and Equipment	454	526	552	580	609
Other Non-Financial Assets	37	48	48	48	48
<b>Total Assets</b>	<b>3,30,705</b>	<b>3,66,015</b>	<b>4,09,535</b>	<b>4,68,556</b>	<b>5,43,914</b>

Source: Company, YES Sec

## Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	27,420	35,231	39,218	41,687	45,444
Interest expense	(17,009)	(22,314)	(25,250)	(26,119)	(27,884)
<b>Net interest income</b>	<b>10,411</b>	<b>12,917</b>	<b>13,968</b>	<b>15,567</b>	<b>17,559</b>
Non-interest income	11	16	10	12	14
Total op income	10,423	12,933	13,978	15,579	17,574
Total op expenses	(1,765)	(2,173)	(2,338)	(2,757)	(3,139)
<b>PPoP</b>	<b>8,658</b>	<b>10,760</b>	<b>11,640</b>	<b>12,822</b>	<b>14,435</b>
Provisions	(418)	(1,185)	(520)	(589)	(679)
Profit before tax	8,240	9,575	11,120	12,233	13,756
Taxes	(2,028)	(2,068)	(2,446)	(2,667)	(2,999)
<b>Net profit</b>	<b>6,212</b>	<b>7,507</b>	<b>8,674</b>	<b>9,566</b>	<b>10,757</b>

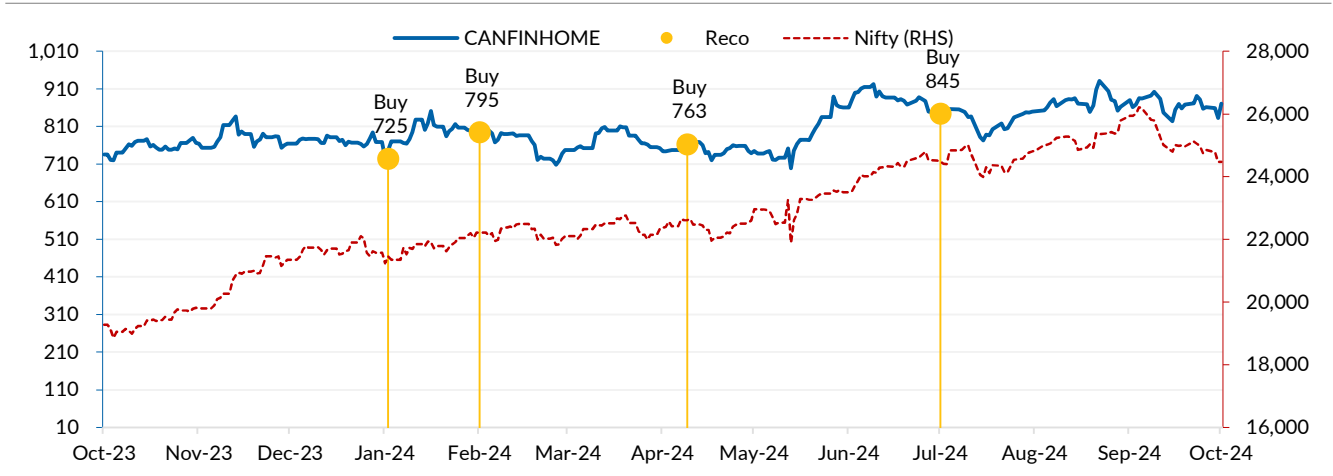
Source: Company, YES Sec

## Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth matrix (%)</b>					
Net interest income	24.8	24.1	8.1	11.4	12.8
Total op income	24.8	24.1	8.1	11.5	12.8
Op profit (pre-provision)	26.9	24.3	8.2	10.2	12.6
Net profit	31.9	20.8	15.5	10.3	12.4
Loans	18.3	10.8	12.1	14.5	16.0
Borrowings + Debt	23.6	7.9	11.0	14.0	16.0
Total assets	18.3	10.7	11.9	14.4	16.1
<b>Profitability Ratios (%)</b>					
NIM	3.6	3.9	3.8	3.7	3.6
Return on Avg. Equity	18.5	18.8	18.3	17.1	16.4
Return on Avg. Assets	2.0	2.2	2.2	2.2	2.1
<b>Per share ratios (Rs)</b>					
EPS	46.6	56.4	65.1	71.8	80.8
Adj. BVPS	267.7	315.2	375.9	442.5	518.1
DPS	2.0	4.0	4.0	4.0	4.0
<b>Other key ratios (%)</b>					
Loans/Borrowings	107.7	108.8	109.8	110.3	110.3
Cost/Income	16.9	16.8	16.7	17.7	17.9
Gross NPLs/Loans	0.6	0.8	0.7	0.7	0.6
Credit Cost	0.1	0.4	0.1	0.1	0.1
Net NPLs/Net loans	0.3	0.4	0.4	0.3	0.3
Tax rate	24.6	21.6	22.0	21.8	21.8
Dividend yield	0.2	0.5	0.5	0.5	0.5

Source: Company, YES Sec

## Recommendation Tracker





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Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

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Analyst signature

Analyst signature

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