

Retail Equity Research

Can Fin Homes Ltd.

NBFC

BSE CODE : 511196

NSE CODE: CANFINHOME

BLOOMBERG CODE: CANF:IN

SENSEX : 73,512

BUY

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 740 TARGET Rs. 900 RETURN 22% ↑

(Closing: 07-05-24)

KEY CHANGES:
TARGET ↔

RATING ↑

EARNINGS ↓

Supporting growth through new channels..

Can Fin Homes Ltd. (CANF) is the housing finance arm of Canara Bank. Predominantly active in South India, it targets Tier 1 and Tier 2 cities. The company offers a range of financial products, including housing loans, composite loans, non-housing loans, mortgage loans, and commercial property loans, in addition to fixed and cumulative deposits.

- The loan book grew by 11%YoY and 3% sequentially to Rs.34,999cr. The client base now stands at Rs. 2.53 lakh.
- Disbursements grew by 23.1%QoQ but declined by 8.8%YoY. Net Interest Income marginally decreased sequentially but expanded by 25.5%YoY. The sequential decrease in NII growth was attributed to margin pressure.
- The management anticipates achieving a disbursal of Rs. 11,000cr by the end of FY25, driven by the addition of customers from new channels, including developer tie-ups.
- The Net Interest Margin (NIM) is expected to remain at ~3.6%, supported by completed repricing activities and a favourable credit rating adjustment by ICRA, which should alleviate pressure on the cost of funds.
- We assign Buy rating on the stock with a target price of Rs. 900 based on 2x FY26E BVPS.

Advances and deposits experienced a modest growth

The outstanding loan book of the company increased by 11%YoY and 3% sequentially during the quarter to Rs.34,999cr. with a clientele base of 2.5 lakh. Disbursements witnessed a QoQ increment of 23% to Rs. 2,314cr. Salaried and professional segments, which hold 72% of the total loan book, grew by 9%YoY, while the self-employed & non-professional segments, constituting 28% of the loan book, grew by 16% YoY. Management anticipates maintaining the current composition for the near future. Management aims to achieve an AUM growth target at 14–15%. On the liability side, out of the total borrowing, 59% is from banks, 16% from the NHB (National Housing Bank), and 24% through NCDs.

Margins to stabilise at current levels

Net interest income rose by 26%YoY, with interest income growing at 21%YoY and interest expense at 19%YoY. We project the NIM to remain around 3.6% for FY25-26. Pre-provision profit grew by 22.5%YoY, while CANF has conservatively increased provisions, raising PCR by 287 basis points to 48.67%. Profit after tax (PAT) registered a growth of 26.1%YoY to Rs. 209cr. There has been an uptick in operating expenses due to a one-off event relating to GST claims. We expect the NII to grow at a compound annual growth rate (CAGR) of 13% and the PAT to grow at a CAGR of 15% in FY25-26.

Pressure on asset quality has faded

Can Fin Homes has a history of maintaining premium asset quality compared to its peers. During the quarter, GNPA has improved by 9bps to 0.82% from the previous quarter's 0.91%, while NNPA has improved to 0.42% from 0.49%. Management is confident that provisions adequately address potential losses from NPAs. The PCR currently stands at 48.67% compared to 45.8% in the last quarter. The majority of restructured books have come out of the moratorium.

Outlook and valuation

The key strengths of CANF are its ability to keep asset quality under control and its strong balance sheet. Disbursal is expected to pick up due to the addition of customers from new sources, such as developer tie-up channels. Management expects demand to start picking up by year-end. Margins are expected to be sustained at around 3.6%. We therefore assign a Buy rating with a target price of Rs. 900 based on 2x FY26E BVPS.

Company Data

Market Cap (Rs cr)	9840.0
Outstanding Shares (cr)	13.3
Free Float(%)	63.0
Dividend Yield(%)	0.5
52 week high (Rs)	905.0
52 week low (Rs)	640.0
6m average volume (cr)	0.1
Beta	1.0
Face value (Rs)	2.0

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	30.0	30.0	30.0
FII's	11.4	11.0	11.5
MFs/Institutions	27.4	28.5	27.9
Public	31.2	30.5	30.6
Total	100.0	100.0	100.0
Promoter pledge	-	-	-

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.6%	0.4%	18.7%
Absolute Sensex	2.5%	13.9%	21.2%
Relative Return*	-9.1%	-13.2%	-2.5%

*over or under performance to benchmark index



Standalone (Rs cr.)	FY24A	FY25E	FY26E
NII	1,258	1,406	1,606
Growth(%)	24.0	11.7	14.2
NIM(%)	3.6	3.6	3.6
Provisions	79	89	84
Adj. PAT	751	847	990
Growth(%)	20.8	12.8	16.9
Adj. EPS	56.4	63.6	74.4
Growth(%)	20.8	12.8	16.9
BVPS	326	385	453
Adj BVPS	317	373	438
P/E	13.1	11.6	9.9
P/B	2.3	1.9	1.6
ROA (%)	2.2	2.2	2.2
ROE (%)	18.8	17.9	17.8

Quarterly Financials

(Rs cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Interest Income	912	752	21.2	895	1.9	3,490	2,715	28.5
Interest Expense	584	491	19.0	566	3.2	2,231	1,701	31.2
Net Interest Income (NII)	328	261	25.5	329	-0.3	1,258	1,015	24.0
Fee and Other Income	16	12	30.6	7	124.6	35	28	25.6
Total Income	344	273	25.7	336	2.3	1,293	1,042	24.1
Expenditure	72	52	39.3	49	45.7	257	176	45.6
Pre-Provision Profit	272	222	22.5	286	-5.2	1,036	866	19.7
Provision	2	24	-92.5	31	-94.2	79	42	88.7
PBT	270	198	36.3	256	5.6	958	824	16.2
Tax	61	32	89.3	56	9.7	207	203	2.0
Reported PAT	209	166	26.1	200	4.4	751	621	20.8
Adjustment	-	-	-	-	-	-	-	-
Adj. PAT	209	166	26.1	200	4.4	751	621	20.8
Diluted EPS (Rs)	15.70	12.45	26.1	15.03	4.5	56	47	20.8

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	1,439	1,635	1,406	1,606	-2.3	-1.8
Net Interest Margin (%)	3.7	3.7	3.6	3.6	-8bps	-6bps
Pre-Provision Profit	1,217	1,395	1,203	1,387	-1.1	-0.6
Adj. PAT	855	1,003	847	990	-0.9	-1.3
Diluted EPS (Rs)	64.2	75.3	63.6	74.4	-0.9	-1.2

PROFIT & LOSS

Y.E March (Rs cr.)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	1,970	2,715	3,490	3,993	4,354
Interest Expense	1,154	1,701	2,231	2,587	2,748
Net Int. Income	816	1,015	1,258	1,406	1,606
<i>Change (%)</i>	<i>2.3</i>	<i>24.3</i>	<i>24.0</i>	<i>11.7</i>	<i>14.2</i>
Non Int. Income	19	28	35	34	41
Total Income	835	1,042	1,293	1,440	1,648
Operating Expenses	153	176	257	237	261
Pre Prov. Profit	682	866	1,036	1,203	1,387
<i>Change (%)</i>	<i>-0.6</i>	<i>26.9</i>	<i>19.7</i>	<i>16.1</i>	<i>15.3</i>
Prov. & Conting.	47	42	79	89	84
PBT	635	824	958	1,114	1,303
<i>Change (%)</i>	<i>2.8</i>	<i>29.8</i>	<i>16.2</i>	<i>16.4</i>	<i>16.9</i>
Tax	164	203	207	267	313
Tax Rate (%)	25.8	24.6	21.6	24.0	24.0
Reported PAT	471	621	751	847	990
Adj*	-	-	-	-	-
Adj. PAT	471	621	751	847	990
<i>Change (%)</i>	<i>3.3</i>	<i>31.9</i>	<i>20.8</i>	<i>12.8</i>	<i>16.9</i>
No. of shares (Cr)	13.3	13.3	13.3	13.3	13.3
EPS (Rs)	35.4	46.7	56.4	63.6	74.4
<i>Change (%)</i>	<i>3.3</i>	<i>31.9</i>	<i>20.8</i>	<i>12.8</i>	<i>16.9</i>
DPS (Rs)	3.5	3.0	4.0	5.0	6.0

BALANCE SHEET

Y.E March (Rs cr.)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	3	2	1	1	2
Loans & Advances	26,378	31,193	34,553	39,241	44,645
Investments	1,126	1,459	1,459	1,488	1,518
Net Fixed Assets	35	45	53	60	67
Def. Tax (Net)	48	48	66	70	78
Other Assets	355	322	470	483	489
Total Assets	27,944	33,070	36,602	41,344	46,800
Deposits	491	435	218	318	355
Debt Funds	24,157	28,633	31,645	35,307	39,783
Other Liabilities	205	321	336	523	545
Provisions	25	34	59	71	82
Equity Capital	27	27	27	27	27
Reserves & Surplus	3,040	3,621	4,317	5,098	6,008
Shareholder's Funds	3,067	3,647	4,344	5,124	6,035
Total Liabilities	27,944	33,070	36,602	41,344	46,800
BVPS (Rs)	230.3	273.9	326.2	384.8	453.2
<i>Change (%)</i>	<i>17.5</i>	<i>18.9</i>	<i>19.1</i>	<i>18.0</i>	<i>17.8</i>
Adj. BVPS (Rs)	223.6	266.3	316.9	372.9	438.2
<i>Change (%)</i>	<i>17.1</i>	<i>19.1</i>	<i>19.0</i>	<i>17.7</i>	<i>17.5</i>

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
Interest yield (%)	7.9	8.9	10.0	10.3	9.9
Cost of funds (%)	5.3	6.3	7.3	7.7	7.3
Spread(%)	2.6	2.6	2.7	2.6	2.6
NIM (%)	3.3	3.3	3.6	3.6	3.6
ROE (%)	16.6	18.5	18.8	17.9	17.8
ROA(%)	1.9	2.0	2.2	2.2	2.2
Business Growth					
Loans & Advances (%)	20.9	18.1	10.9	13.5	14.6
Borrowings (%)	28.1	18.5	10.5	11.6	12.7
Operating Ratios					
Cost to Income (%)	18.3	16.9	19.9	16.5	15.8
Capital Adequacy					
CAR (%)	22.3	22.3	33.4	27.8	27.8
Asset Quality					
GNPA (%)	0.6	0.6	0.7	0.8	0.8
NNPA (%)	0.3	0.3	0.3	0.4	0.4
Valuation					
P/E (x)	20.9	15.8	13.1	11.6	9.9
P/B (x)	3.2	2.7	2.3	1.9	1.6
Adj. P/B (x)	3.3	2.8	2.3	2.0	1.7

Recommendation Summary (last 3 years)



Dates	Rating	Target
02 February 21	Buy	596
02 August 21	Accumulate	626
04 February 22	Accumulate	729
27 July 22	Accumulate	619
25 October 22	Accumulate	611
28 April 23	Accumulate	714
27 February 24	Accumulate	900
08 May 24	Buy	900

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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