

Can Fin Homes

Estimate change
TP change
Rating change


Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USDb)	79.1 / 1
52-Week Range (INR)	678 / 408
1, 6, 12 Rel. Per (%)	9/14/-12
12M Avg Val (INR M)	586

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	10.1	11.8	13.8
PPP	8.7	10.1	11.9
PAT	6.2	7.4	8.5
EPS (INR)	46.6	55.2	64.0
EPS Growth (%)	32	18	16
BVPS (INR)	274	325	385

Ratios (%)

NIM	3.5	3.5	3.5
C/I ratio	16.9	16.5	15.9
RoAA	2.0	2.1	2.1
RoE	18.5	18.4	18.0
Payout	7.5	7.2	7.0

Valuation

P/E (x)	12.7	10.8	9.3
P/BV (x)	2.2	1.8	1.5
Div. Yield (%)	0.6	0.7	0.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	30.0	30.0	30.0
DII	25.0	23.5	24.7
FII	10.4	10.0	0.0
Others	34.7	36.5	45.3

FII Includes depository receipts

CMP: INR594
TP: INR700 (+18%)
Buy

Healthy guidance on loan growth and improvement in NIM

Moderation in credit costs likely to be a trigger for valuation rerating

- Can Fin Homes (CANF) reported a healthy operational performance in 4QFY23, with 35% YoY growth in PAT to ~INR1.7b (9% beat). Despite elevated credit costs (~30bp annualized), the earnings beat was driven by the low effective tax rate. FY23 PAT grew 32% YoY to INR6.2b (PY: INR4.7b).
- Interest rate reset for existing customers and incremental disbursements at higher interest rates led to a sequential improvement of ~20bp in yields. Higher yields offset the 25bp QoQ rise in CoF, leading to stable NIM of 3.4%. Repricing of ~INR180b of loans in FY24 will help CANF sustain (or even improve) NIM. We estimate NIM of ~3.5% in FY24/FY25.
- We increase our FY24/FY25 PAT estimates by ~7%/5% to factor in high margins, low credit costs and low effective tax rate. We model an AUM/PAT CAGR of 16%/17% over FY23-25E for RoA/RoE of 2.1/18% in FY25.
- Valuations could be re-rated to 2x P/BV if CANF continues to deliver strong loan growth and pristine asset quality as exhibited in the past. Maintain our BUY rating with a TP of INR700 (1.8x FY25 BV).

Disbursements sluggish in 4QFY23; loan growth healthy at 18% YoY

- 4QFY23 disbursements fell 6% YoY to INR25.4b, while FY23 disbursements grew 8% YoY to INR89.5b.
- Advances grew 18% YoY and ~5% QoQ to ~INR315b. The run-off in the loan book moderated to ~14.5% (PY: ~17%). With concerted efforts, CANF has brought down the BT-OUT quarterly run rate to ~INR1b over the last two quarters and does not foresee any extraordinary pressure on BT-OUTS.

Sequentially stable margins; share of bank borrowings grew QoQ

- Reported YTD spreads expanded ~25bp to 2.65% (9MFY23: 2.4%). This was driven by a ~33bp QoQ increase in yields, which offset a 10bp increase in CoF.
- NIM (calc.) was stable sequentially at 3.4%.
- The proportion of CPs in the borrowing mix declined to ~5% as of FY23 (PQ: 9%, PY: 11%). Overall debt market borrowings declined 2pp QoQ.

Increase in PCR on standard loans led to elevated credit costs

- Asset quality remained pristine, with GS3/NS3 improving ~5bp/4bp QoQ to ~0.55%/0.26% and PCR on S3 loans improving ~2pp QoQ to ~53%.
- The elevated credit cost of ~31bp (PQ: 11bp) in 4QFY23 was driven by the conservative stance adopted by the management to improve the provision cover on standard loans.
- 75% of restructured customers are yet to come out of the moratorium and the entire restructured book will exit the moratorium by Nov'23.

Positive commentary on loan growth, margins, credit cost and tax rate

- CANF has guided for 18-20% loan growth. It expects NIM to improve to ~3.5% and the cost-to-income ratio to be in the range of 16-17% in FY24.
- It has guided for the credit cost of 5-10bp and an effective tax-rate of 22%.

Highlights from the management commentary

- Interest rate hikes have affected mortgage demand. However, with expectations of stable interest rates, demand should improve by 2HFY24.
- Southern states contribute over 65% to the AUM mix. It expects the contribution of southern states to decline to ~60% over a period of time.

Valuation and view

- CANF has successfully demonstrated its ability to maintain its pristine asset quality for many years now and we conservatively estimate a credit cost of ~15bp in FY24 (v/s guidance of 5-10bp). We estimate NII/PPOP/PAT CAGRs of 16%/17%/17% over FY23-25 and RoA of 2.1% and RoE of 18% in FY25.
- Maintain our Buy rating with a TP of INR700 (based on 1.8x FY25E BVPS).

Quarterly performance												INR m
Y/E March	FY22				FY23				FY22	FY23	4QFY23E	Act vs est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	4,492	4,626	5,020	5,558	6,065	6,522	7,046	7,521	19,697	27,154	7,655	-2
Interest Expenses	2,680	2,708	2,961	3,185	3,561	4,010	4,529	4,908	11,535	17,009	5,088	-4
Net Interest Income	1,812	1,918	2,059	2,373	2,504	2,512	2,517	2,613	8,162	10,146	2,567	2
YoY Growth (%)	-5.3	-8.9	-2.1	27.7	38.2	31.0	22.2	10.1	2.3	24.3	8.2	
Other income	16	53	64	55	51	54	51	122	188	277	55	122
Total Income	1,828	1,971	2,124	2,428	2,555	2,566	2,568	2,735	8,350	10,423	2,622	4
YoY Growth (%)	-4.6	-7.2	-0.6	26.1	39.8	30.2	20.9	12.7	3.1	24.8	8.0	
Operating Expenses	303	342	403	482	405	405	438	517	1,530	1,765	468	10
YoY Growth (%)	40.8	35.8	17.1	12.4	33.8	18.3	8.7	7.3	23.4	15.3	-2.9	
Operating Profits	1,526	1,628	1,720	1,946	2,150	2,161	2,129	2,218	6,820	8,658	2,155	3
YoY Growth (%)	-10.4	-13.0	-4.0	30.0	40.9	32.7	23.8	14.0	-0.6	26.9	10.7	
Provisions	65	-62	164	302	-37	132	84	238	469	418	90	165
Profit before Tax	1,460	1,690	1,557	1,643	2,187	2,028	2,045	1,980	6,351	8,240	2,065	-4
Tax Provisions	372	454	400	414	565	611	530	322	1,640	2,028	541	-41
Profit after tax	1,088	1,236	1,157	1,229	1,622	1,417	1,515	1,658	4,711	6,212	1,523	9
YoY Growth (%)	16.8	-3.7	-12.3	19.8	49.0	14.6	30.9	34.9	3.3	31.9	23.9	
Key Parameters (%)												
Yield on loans	8.1	8.1	8.3	8.6	8.9	9.3	9.6	9.8				
Cost of funds	5.6	5.4	5.4	5.3	5.7	6.2	6.6	6.9				
Spread	2.5	2.7	2.9	3.3	3.3	3.1	2.9	2.9				
NIM	3.3	3.3	3.4	3.7	3.7	3.6	3.4	3.4				
Credit cost	0.1	-0.1	0.3	0.5	-0.1	0.2	0.1	0.3				
Cost to Income Ratio (%)	16.5	17.4	19.0	19.8	15.8	15.8	17.1	18.9				
Tax Rate (%)	25.4	26.9	25.7	25.2	25.8	30.1	25.9	16.3				
Balance Sheet Parameters												
Loans (INR B)	222.2	235.8	250.9	267.1	275.4	288.2	301.2	315.6				
Growth (%)	6.6	13.2	19.5	20.8	23.9	22.2	20.0	18.2				
AUM mix (%)												
Home loans	90.5	90.3	89.9	89.6	89.6	89.5	89.2	89.1				
Non-housing loans	9.5	9.7	10.1	10.4	10.4	10.5	10.8	10.9				
Salaried customers	73.3	74.0	74.2	74.3	74.3	74.1	73.6	73.1				
Self-employed customers	26.7	25.9	25.7	25.7	25.7	25.9	26.3	26.9				
Disbursements (INR B)	8.9	22.1	24.7	27.1	17.2	22.5	24.4	25.4				
Change YoY (%)	122.9	167.6	123.5	35.2	92.6	1.7	-1.1	-6.2				
Borrowing mix (%)												
Banks	47.0	50.0	53.0	56.9	54.0	54.0	51.0	53.9				
NHB	25.0	24.0	23.0	16.1	22.0	22.0	23.0	22.5				
Market borrowings	26.0	24.0	22.0	25.1	22.0	22.0	24.0	22.1				
Deposits	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5				
Asset Quality												
GNPL (INR m)	2,000	1,851	1,772	1,706	1,798	1,787	1,811	1,738				
NNPL (INR m)	1,265	1,103	970	807	819	1,012	893	829				
GNPL ratio %	0.90	0.78	0.71	0.64	0.65	0.62	0.60	0.55				
GNPL ratio %	0.57	0.47	0.39	0.30	0.30	0.35	0.30	0.26				
PCR %	37	40	45	53	54	43	51	52				
Return Ratios (%)												
ROA (Rep)	2.0	2.1	2.0	2.1	2.4	2.1	2.2	2.3				
ROE (Rep)	16.0	16.4	15.8	16.0	20.0	16.8	17.3	18.2				

E: MOFSL Estimates



Highlights from the management commentary

Outlook on Mortgage Demand

- Interest rate hikes have affected EMIs and demand. There has been some rethink by customers and postponement of demand. With expectations of stable interest rates, demand should improve by 2HFY24.

Transmission of interest rates

- CANF has increased interest rates by 135bp (50bp + 50bp + 35bp). The last tranche of a ~35bp rate hike was taken in Nov'22.
- INR100b of the loan book has experienced the entire rate hike. The remaining ~INR180b is yet to experience one/two interest rate hikes.
- INR55b of loans in 1QFY24 and INR75b of loans in 2QFY24 will be re-priced to existing retail PLR of the company.
- New loans are being disbursed at >9.8%.

Restructured Book

- 78% of restructured customers who have exited the moratorium have started servicing their loan installments.
- 75% of the customers are yet to come out of the moratorium. (Entire restructured book will exit moratorium/restructuring by Nov'23).

NIM and Spreads

- Interest rate resets on existing customers and incremental disbursements at higher interest rates have helped CANF improve yields.
- CANF expects the impact of the rate hikes to reflect in the asset book over the next two quarters.
- Yield re-pricing should continue for the next two quarters, while the CoB should not increase from here.
- A part of the portfolio will see an 85bp increase in yields and another portfolio will see a ~35bp increase in yields.
- Incremental CoF will decline in 1QFY24.

Guidance

- Loan book growth of 18-20% and disbursement growth of 20% in FY24
- NIM to improve to 3.5% and cost-Income ratio of 16-17% in FY24
- Credit costs of 5-10bp
- Effective tax rate of 22%

Effective Tax Rate

- More than 90% of the book is long-term housing and Section 36 (1) (8) benefit of long-term housing comes at the end of the fiscal year. Crystallization of actual tax liability led to a lower effective tax rate in 4QFY23.

Asset Quality

- CANF has conservatively built additional standard provisions during the quarter to increase the PCR ratio.
- Total ECL provisions stood at INR3.12b (PQ: INR2.9b)
- Restructured book stood at INR6.95b. Repayments have resumed in Feb'23 and it expects good collections from this book.
- The company will look to improve the provisioning cover on standard loans and NPA loans whenever there is an opportunity.
- In FY23, there was INR520m of roll-forward and INR540m of roll-back of loans. In 4QFY23, the company had ~INR160m of NPA recoveries and slippages of ~INR80m.

Distribution and Branches

- CANF has branch presence in metro and urban towns, and hence the ticket sizes for CANF are higher than those for GRUH, which has branches in deeper pockets.
- CANF has not added branches over the last three years because of Covid. CANF has a wide geographical presence. It will be looking to gradually add 10-15 branches every year.

Sourcing Mix

- While the company's DSA business will continue to constitute a sizable proportion of its sourcing mix.
- About 65% of the book is coming from southern states. It has guided for a geographical mix of 60:40 between southern and non-southern states.

Capital raise

- Internal accruals should also accrete to the capital. It has an enabling clause in the AGM for raising equity capital.
- If the loan growth is strong, it might need to raise equity capital. However, it does not foresee the need to raise equity capital within the next 3-4 quarters.

Liabilities and ALM

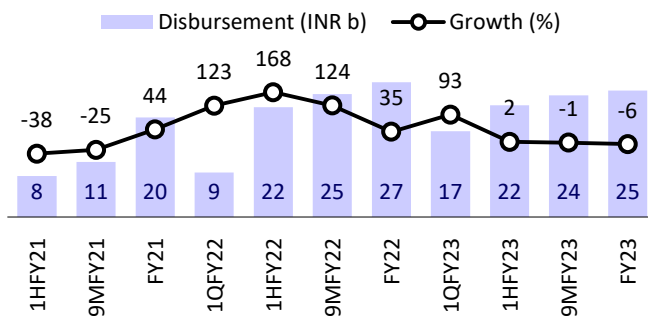
- Apr'23 to Jun'23 bucket mismatch stood at ~INR30-35b. Sanctioned undisbursed limits (~INR46b) from the banks take care of the short-term liquidity management. The company does not have to pay any charges to banks on the sanctioned limits.
- Sanctioned CP limits cannot be considered for computing the ALM statement.
- CP is used as a cost-hedging tool. Since the debt markets were not favorable in 4Q, the company chose to leverage other borrowing instruments.
- About 43% of the bank borrowings are linked to repo and the remaining is linked to T-Bill and MCLR.
- It raised NCD of ~INR10b at 8.45%, which has led to an increase in the marginal cost of funds.

Others

- The team is stable and well-experienced. The process and the audits are very well in place.
- CFO has already been appointed, and they will be looking to appoint an external CRO.
- 4QFY23 BT-OUT stood at ~INR1b. No extraordinary pressure on BT-OUTS.
- It received a CLSS subsidy of ~INR2.72b in FY23, which resulted in rundown of the loan book.
- Total investment income stood at ~INR1.09b. LCR is ~100% (v/s regulatory requirement of 60%). CANF does not expect any impact on margins because of the graded increase in regulatory LCR over the next few years.
- Penal charges (which were not levied during Covid) have now been reinstated.

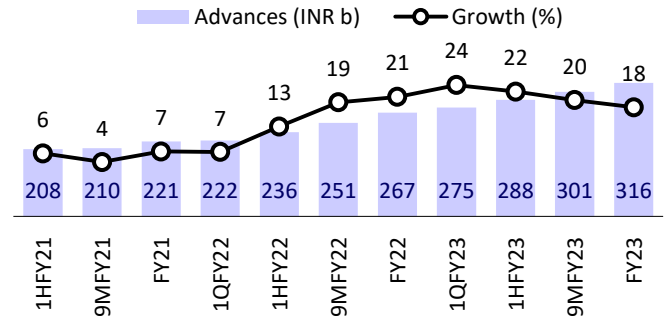
Key exhibits

Exhibit 1: Disbursements declined 6% YoY



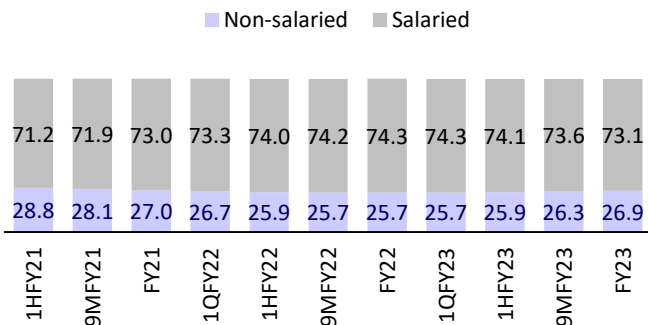
Sources: MOFSL, Company reports

Exhibit 2: Advances grew 18% YoY



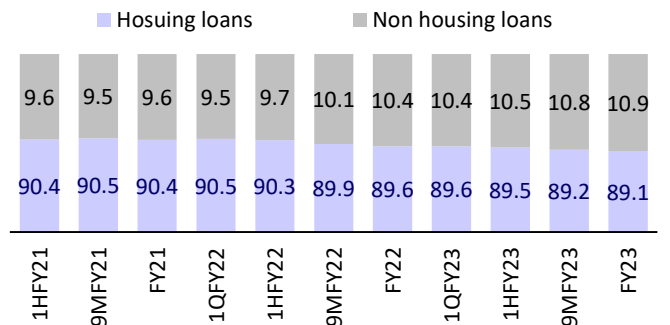
Sources: MOFSL, Company reports

Exhibit 3: Share of salaried customers largely stable at ~73%



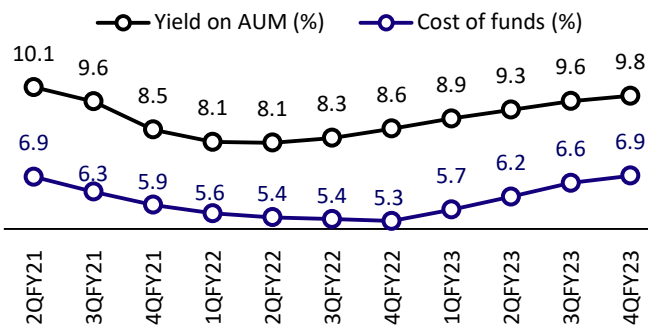
Sources: MOFSL, company reports

Exhibit 4: Share of Housing loans stable at ~89%



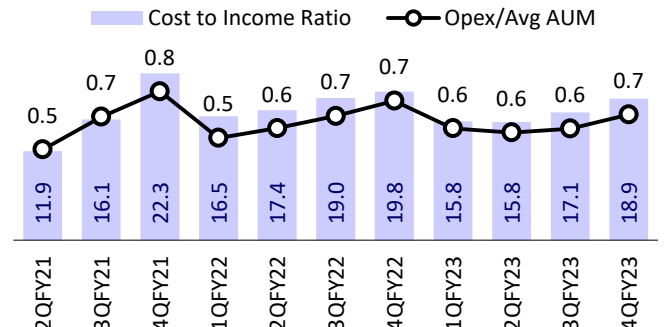
Sources: MOFSL, company reports

Exhibit 5: Calculated spreads declined ~10bp QoQ



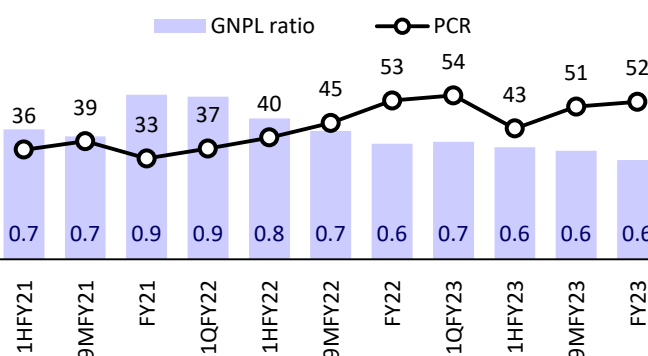
Sources: MOFSL, company reports

Exhibit 6: C/I ratio improved ~100bp YoY



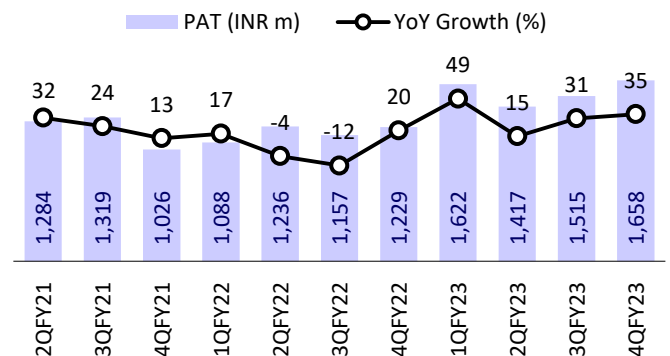
Sources: MOFSL, company reports

Exhibit 7: PCR up ~40bp QoQ, with GNPL largely stable



Sources: MOFSL, company reports

Exhibit 8: PAT grew ~35% YoY



Sources: MOFSL, company reports

Valuation and view

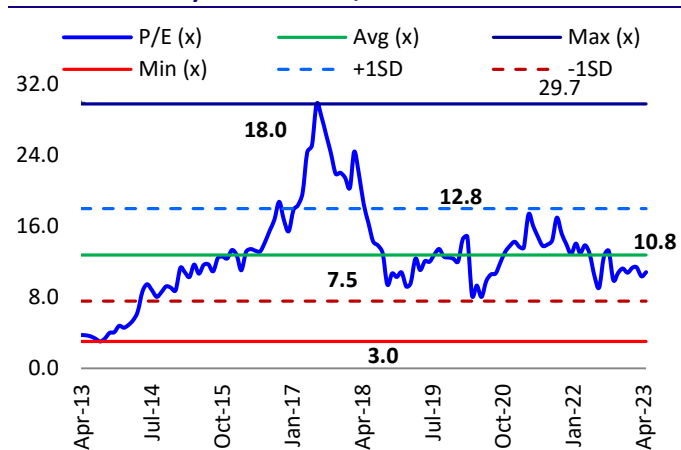
- CANF has successfully demonstrated its ability to keep the asset quality pristine for many years now, and we conservatively estimate a credit cost of ~15bp in FY24 (v/s guidance of 5-10bp). We estimate NII/PPOP/PAT CAGRs of 16%/17%/17% over FY23-25 and RoA of 2.1% and RoE of 18% in FY25.
- Maintain our Buy rating with a TP of INR700 (premised on 1.8x FY25E BVPS).

Exhibit 9: Increase our FY24/FY25 estimates by ~8%/5% to factor in higher margins, lower credit costs and effective tax rate

INR b	Old Est.		New Est.		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
NII	11.5	13.6	11.8	13.8	2.0	1.5
Other Income	0.2	0.3	0.3	0.4	37.2	37.1
Total Income	11.8	13.8	12.1	14.1	2.7	2.2
Operating Expenses	1.9	2.2	2.0	2.3	2.8	3.5
Operating Profits	9.8	11.7	10.1	11.9	2.7	1.9
Provisions	0.6	0.7	0.5	0.7	-23.3	2.1
PBT	9.2	10.9	9.6	11.1	4.5	1.9
Tax	2.4	2.8	2.3	2.6	-5.6	-7.9
PAT	6.8	8.1	7.4	8.5	8.0	5.3
AUM	366	419	368	422	0.6	0.7
Borrowings	335	379	337	382	0.6	0.7
NIM (%)	3.4	3.5	3.5	3.5		
ROA (%)	1.9	2.0	2.1	2.1		
RoE (%)	17.2	17.4	18.4	18.0		

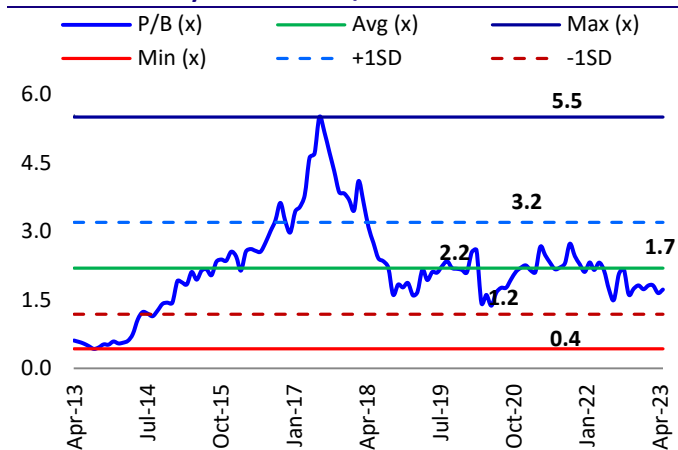
Sources: MOFSL, company reports

Exhibit 10: One-year forward P/E ratio



Sources: MOFSL

Exhibit 11: One-year forward P/B ratio



Sources: MOFSL

Financials and valuations

Income statement								INR m	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	13,060	14,906	17,134	20,189	20,064	19,697	27,154	34,146	39,820
Interest Expended	8,840	9,810	11,693	13,442	12,083	11,535	17,009	22,373	26,055
Net Interest Income	4,220	5,096	5,441	6,747	7,980	8,162	10,146	11,772	13,765
Change (%)	40.2	20.8	6.8	24.0	18.3	2.3	24.3	16.0	16.9
Other Income	471	314	179	115	121	188	277	330	378
Net Income	4,691	5,410	5,621	6,862	8,101	8,350	10,423	12,103	14,143
Change (%)	37.9	15.3	3.9	22.1	18.0	3.1	24.8	16.1	16.9
Operating Expenses	807	878	915	1,076	1,240	1,530	1,765	2,003	2,252
Operating Income	3,884	4,532	4,706	5,786	6,861	6,820	8,658	10,100	11,891
Change (%)	42.1	16.7	3.8	23.0	18.6	-0.6	26.9	16.7	17.7
Provisions/write offs	188	221	11	603	685	469	418	487	743
PBT	3,696	4,311	4,695	5,183	6,176	6,351	8,240	9,613	11,148
Tax	1,349	1,449	1,728	1,422	1,615	1,640	2,028	2,259	2,620
Tax Rate (%)	36.5	33.6	36.8	27.4	26.2	25.8	24.6	23.5	23.5
Reported PAT	2,347	2,862	2,967	3,761	4,561	4,711	6,212	7,354	8,529
Change (%)	49.4	22.0	3.7	26.8	21.3	3.3	31.9	18.4	16.0
Proposed Dividend (incl. tax)	321	321	321	321	266	399	466	533	599

Balance sheet

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	266	266	266	266	266	266	266	266	266
Reserves & Surplus	11,771	14,604	17,556	21,234	25,832	30,400	36,206	43,028	50,957
Net Worth	12,037	14,870	17,822	21,501	26,098	30,666	36,473	43,294	51,223
Borrowings	1,18,675	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,90,681	3,36,906	3,81,860
Change (%)	30.8	17.3	20.7	11.6	2.9	27.8	17.9	15.9	13.3
Other liabilities	2,168	3,215	1,500	1,451	1,710	2,300	3,551	4,262	5,114
Total Liabilities	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,84,461	4,38,198
Loans	1,32,241	1,56,440	1,82,342	2,05,257	2,18,915	2,63,781	3,11,933	3,64,222	4,17,334
Change (%)	23.4	18.3	16.6	12.6	6.7	20.5	18.3	16.8	14.6
Investments	160	160	163	243	496	11,260	14,590	16,779	19,296
Change (%)	7.1	0.0	1.9	49.1	104.1	2,169.9	29.6	15.0	15.0
Net Fixed Assets	102	96	99	379	378	346	454	595	781
Other assets	377	600	4,692	4,557	948	4,057	3,727	2,865	787
Total Assets	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,30,705	3,84,461	4,38,198

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Yield on loans	10.9	10.3	10.1	10.4	9.44	8.14	9.4	10.1	10.2
Cost of funds	8.4	7.6	7.6	7.6	6.35	5.25	6.3	7.1	7.3
Spread	2.5	2.7	2.5	2.8	3.1	2.9	3.1	3.0	2.9
Net Interest Margin	3.5	3.5	3.2	3.5	3.8	3.4	3.5	3.5	3.5
Profitability Ratios (%)									
RoE	22.5	21.3	18.2	19.1	19.2	16.6	18.5	18.4	18.0
RoA	2.0	2.0	1.7	1.9	2.1	1.9	2.0	2.1	2.1
C/I ratio	17.2	16.2	16.3	15.7	15.3	18.3	16.9	16.5	15.9
Asset Quality (%)									
Gross NPAs	279	675	1,135	1,571	2,019	1,706	1,738	1,880	2,545
Gross NPAs to Adv.	0.2	0.4	0.6	0.8	0.9	0.6	0.6	0.5	0.6
Net NPAs	0	316	795	1,118	1,343	807	829	846	1,145
Net NPAs to Adv.	0.0	0.2	0.4	0.5	0.6	0.3	0.3	0.2	0.3
PCR	100.0	53.2	30.0	28.8	33.5	52.7	52.3	55.0	55.0
VALUATION									
Book Value (INR)	90	112	134	161	196	230	274	325	385
Price-BV (x)	6.6	5.3	4.4	3.7	3.0	2.6	2.2	1.8	1.5
EPS (INR)	17.6	21.5	22.3	28.2	34.2	35.4	46.6	55.2	64.0
EPS Growth YoY	49.4	21.9	3.7	26.8	21.3	3.3	31.9	18.4	16.0
Price-Earnings (x)	33.7	27.6	26.7	21.0	17.3	16.8	12.7	10.8	9.3
Dividend per share (INR)	2.0	2.0	2.0	2.0	2.0	3.0	3.5	4.0	4.5
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3	0.5	0.6	0.7	0.8

E: MOFSL Estimates

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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