

Can Fin Homes Ltd.

20th Jan 2023

Consistent growth in loan book with best-in-class asset quality

Can Fin Homes Ltd. (CFHL) reported strong growth of 4% Q-o-Q and 20% Y-o-Y in the loan book during the quarter, with the non-housing loan category showing even more robust growth of 7% Q-o-Q and 28% Y-o-Y. With consistent growth in the loan book, the Company's NII has jumped by 22% Y-o-Y and remained flat Q-o-Q. The Company has appointed a new CEO, whose name will be announced within the next quarter. The management expects its NIM to improve going forward.

Consistent growth in loan book

CFHL reported a consistent and strong growth of 4% Q-o-Q and 20% Y-o-Y in the loan book during the quarter. The disbursement grew by 9% Q-o-Q, and management expects an even stronger performance in Q4FY23. The Company is targeting an 18-20% growth in the loan book for FY24.

Maintain NIM Margin

CFHL reported a NIM of 3.47% in Q3FY23. The decline in NIM was attributed to a 44-basis point Q-o-Q increase in the cost of funds. However, the Company stated that repricing 72% of its loan book within the next 3-6 months would maintain the NIM of ~3.5%.

Best-in-class asset quality

In Q3FY22, the Company reported a GNPA of 0.71%, which improved further in Q3FY23 by 11 basis points. The Company has maintained a remarkable asset quality by keeping the ratio below 1% since FY16.

View & Valuation

We have revised our estimates and maintain our view on Can Fin Homes Ltd. with a BUY rating and a target price of Rs. 676 (2.2x FY24E adjusted book value). We believe that CFHL will grow its loan book at 18-20% in the foreseeable future and maintain its robust asset quality.

BUY

CMP Rs. 521

TARGET Rs. 676 (+29.8%)

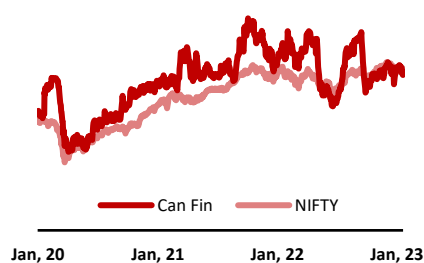
Company Data

MCAP (Rs. Mn)	6,9320
O/S Shares (Mn)	133
52w High/Low	685 / 408
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	396

Shareholding Pattern %

	Dec	Sep	Jun
	22	22	22
Promoters	30	30	30
FIIIs	10	9.3	0
DIIIs	23.5	23.3	24.8
Non-Institutional	36.5	37.4	45.2

CFHL vs Nifty



Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
NII	8,280	10,156	11,041
PPOP	6,820	8,458	9,304
Net Profit	4,739	6,017	6,719
Networth	30,666	36,202	42,384
ROA (%)	1.7%	1.8%	1.7%
ROE (%)	15.5%	16.6%	15.9%

Source: Company, Keynote Capitals Ltd.

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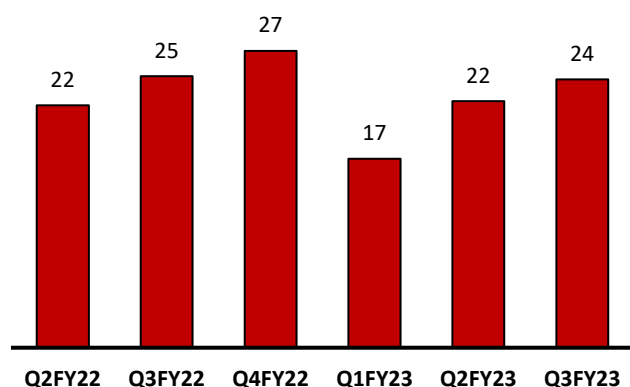
Q3FY23 result update

Result Highlights (Rs. Mn)

Profit & Loss	Q3FY23	Q3FY22	Change YoY (%)	Q2FY23	Change QoQ (%)	9MFY23	9MFY22	Change (%)	FY22
Net Interest Income	2,485	2,044	21.6%	2,492	0%	7,473	5,750	30.0%	8,091
Other Income	2	2	-20.9%	1	131.2%	6	4	67.0%	7
Net Income	2,487	2,046	21.6%	2,493	-0.2%	7,479	5,754	30.0%	8,098
Operating Expenses	357	325	9.9%	332	7.7%	1,039	879	18.2%	1,278
Pre-Provision Operating Profit	2,129	1,720	23.8%	2,161	-1.5%	6,440	4,874	32.1%	6,820
Provisions	84	164	-48.5%	132	-36.4%	180	167	7.5%	469
Profit Before Tax	2,045	1,557	31.4%	2,028	0.8%	6,260	4,707	33.0%	6,351
Tax	530	400	32.6%	611	-13.3%	1,706	1,225	39.2%	1,640
Profit After Tax	1,515	1,157	30.9%	1,417	6.9%	4,554	3,482	30.8%	4,711

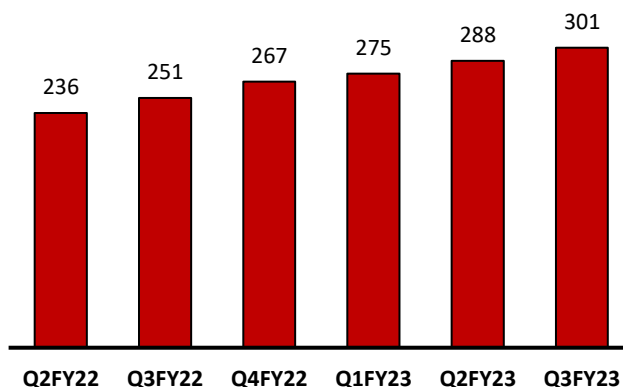
Source: Company, Keynote Capitals Ltd.

Disbursement (Rs. Bn) grew by 9% Q-o-Q

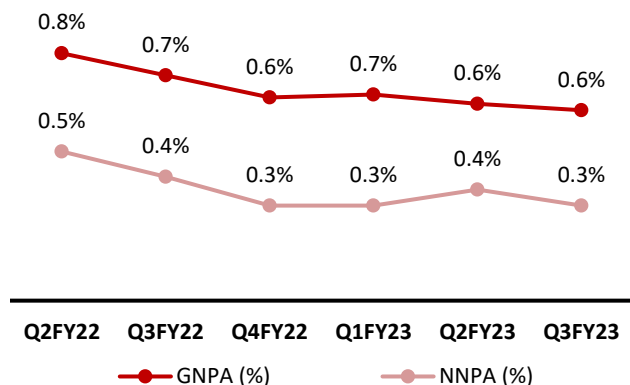


Source: Company, Keynote Capitals Ltd.

Consistent growth in loan book (Rs. Bn) Q-o-Q

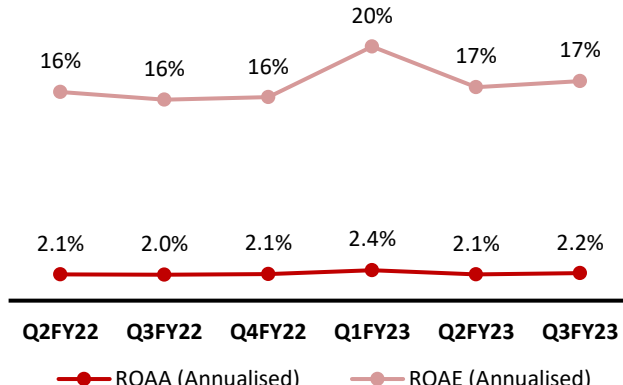


Best-in-class asset quality



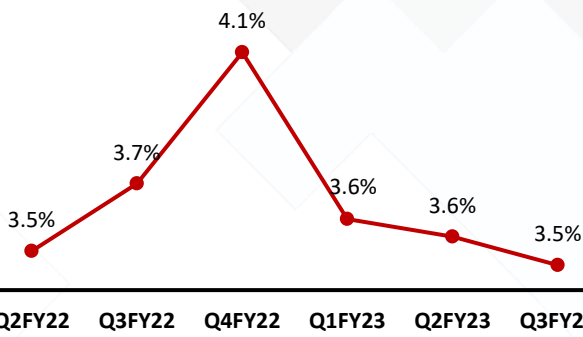
Source: Company, Keynote Capitals Ltd.

Consistent return ratios (%)



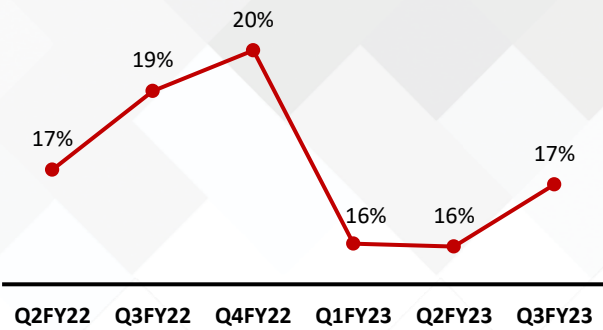
Can Fin Homes Ltd. | Quarterly Update

NIM (%)

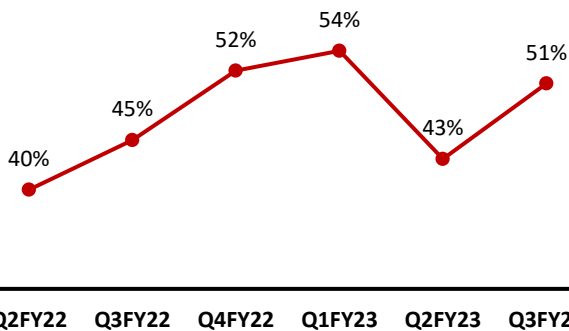


Source: Company, Keynote Capitals Ltd.

Cost to Income Ratio (%)

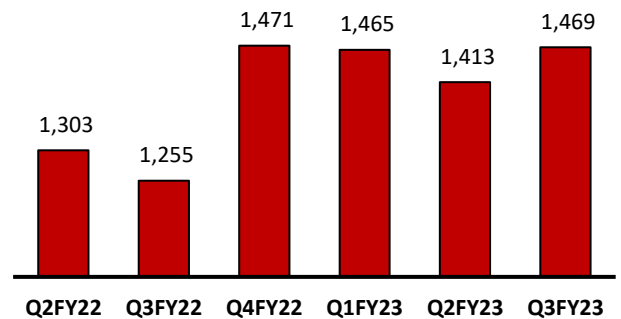


PCR (%)

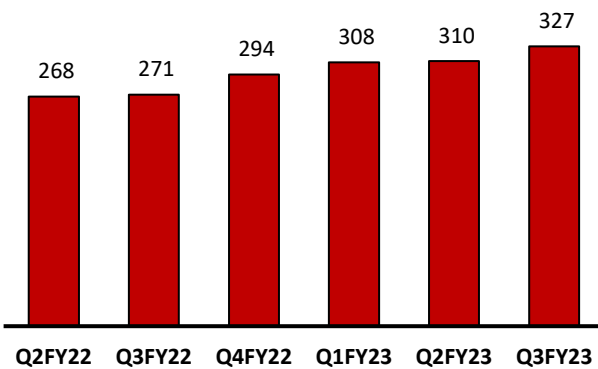


Source: Company, Keynote Capitals Ltd.

Average Business Per Branch (Rs. Mn)

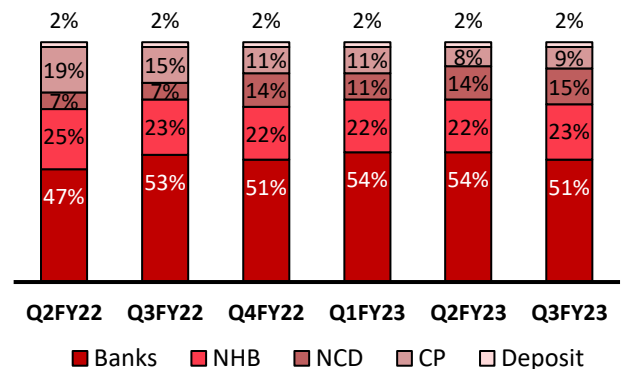


Average Business Per Employee (Rs. Mn)

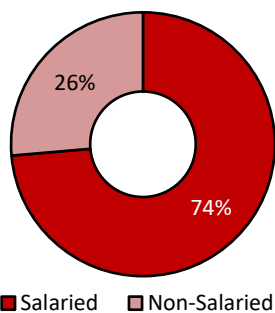


Source: Company, Keynote Capitals Ltd.

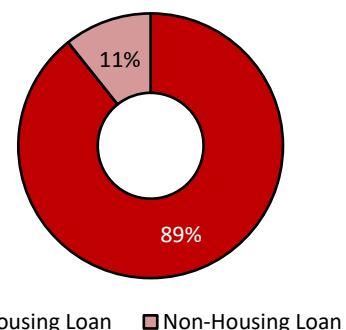
Funding Basket (%)



Lending Basket for Q3FY23



Category of Loans for Q3FY23 (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY23 Conference Call Takeaways

Lending

- The Company has guided a 20% growth in disbursement and loan book for the next few years.
- Q-o-Q growth in loan accounts was 14%, from 10,500 loan accounts in Q2FY23 to 12,000 in Q3FY23.
- The Company has seen a reduction in average BT-outs per quarter from Rs. 3 Bn in the past couple of years to Rs. 1 Bn currently. Despite the rise in interest rates, the Company is confident in maintaining its customer base as it believes that the difference in its loan rates compared to those of banks will not be significant.
- The average ticket size has increased from Rs. 2.1 Mn in Q1FY23 and Rs. 2.2 Mn in Q2FY23, to Rs. 2.4 Mn in Q3FY23. While the increase in ticket size is driven by tier 1 cities, the Company continues to focus on affordable lending in tier 2 and 3 cities.

Borrowing

- The total borrowing stood at Rs. 278 Bn by the end of Dec '22, of which the Company raised Rs. 9 Bn from NHB in Q3FY23.
- 54% of the total borrowing has been repriced.

Branches

- The top 50 branches represent 40% of the total loan book and 35% of disbursement.
- The Company has revised the branch expansion plan downward from 12-15 per year to 5-7 annually, which they executed in 9MFY23 as they affirm that 25% of their branches are underperforming.
- The average business per branch has been guided to increase from Rs. 1,462 Mn to Rs. 1,600 Mn in the near future and Rs. 2,000 Mn thereafter.
- Karnataka & Bangalore contribute 20-22% and 17% of the Company's loan book, respectively. However, the management guided to increase their growth in Maharashtra, Gujarat, and Rajasthan by 30%, adding 2-3 branches in each state in the coming year itself.

Others

- The management has guided to invest Rs. 2 Bn in IT over the next 7 years, which will make them capable of managing Rs. 1 Trn of the loan book, which could be doubled if required.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Interest Income	8,067	8,280	10,156	11,041	12,214
Other Income	30	70	80	85	100
Net Income	8,097	8,350	10,236	11,126	12,314
Operating Expenses	1,230	1,530	1,777	1,822	1,832
Pre-Provision Operating Profit	6,867	6,820	8,458	9,304	10,482
Provisions	680	460	435	345	407
Profit Before Tax	6,187	6,360	8,023	8,959	10,075
Tax	1,614	1,621	2,006	2,240	2,519
Profit After Tax	4,573	4,739	6,017	6,719	7,556

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	266	266	266	266	266
Reserves & Surplus	25,832	30,400	35,936	42,118	49,069
Networth	26,098	30,666	36,202	42,384	49,335
Borrowings	1,92,929	2,46,477	2,93,090	3,45,846	4,08,098
Other Liabilities & Provisions	1,710	2,301	2,653	2,874	3,041
Total Liabilities	2,20,737	2,79,444	3,31,945	3,91,103	4,60,474
ASSETS					
Cash and Balance	711	14,501	14,165	16,331	18,458
Advances	2,18,915	2,63,781	3,16,537	3,73,513	4,40,746
Fixed Assets & Others	1,111	1,162	1,233	1,249	1,270
Total Assets	2,20,737	2,79,443	3,31,945	3,91,103	4,60,474

Source: Company, Keynote Capitals Ltd.

Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Growth YoY (%)					
Advance Growth (%)	6.7%	20.5%	20.0%	18.0%	18.0%
Borrowing Growth (%)	2.9%	27.8%	18.9%	18.0%	18.0%
NII Growth (%)	18.1%	2.6%	22.7%	8.7%	10.6%
PPOP Growth (%)	19.1%	-0.7%	22.4%	11.3%	12.5%
Ratios					
NIM (%)	3.8%	3.4%	3.5%	3.2%	3.0%
Cost to Income Ratio	15.2%	18.3%	18.4%	16.4%	14.9%
C/D Ratio	113.5%	107.0%	108.0%	108.0%	108.0%
Capital Adequacy Ratio (%)	25.5%	23.2%	23.0%	22.0%	22.0%
ROE (%)	17.5%	15.5%	16.6%	15.9%	15.3%
ROA (%)	2.1%	1.7%	1.8%	1.7%	1.6%
Asset Quality					
GNPA	0.9%	0.6%	0.5%	0.4%	0.3%
NNPA	0.6%	0.3%	0.3%	0.3%	0.2%
PCR (%)	33.5%	52.7%	50.0%	45.0%	39.4%
Credit Cost (%)	0.3%	0.2%	0.2%	0.2%	0.2%
Valuation					
Book Value Per Share		230.6	272.2	318.7	370.9
Adjusted Book Value Per Share		217.9	260.3	307.4	361.0
P/BV (x)		2.6	1.9	1.6	1.4
Price-ABV (x)		2.8	2.0	1.7	1.5

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
23 rd November 2022	BUY	526	+27%
20 th January 2023	BUY	521	+17%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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