

Can Fin Homes Ltd.

28th April 2023

Performance in line with growth to continue

Can Fin Homes Ltd (CFHL) registered a consistent growth in Q4 FY23 in the loan book at ~4% QoQ and ~18% YoY. The NII grew by 5% sequentially and 12% YoY. PAT growth was 9% QoQ and 35% YoY. The GNPA and NNPA improved by ~5 bps sequentially at 0.55% and 0.26%, respectively. In line with the management guidance, the NIM contracted by 10 bps sequentially at 3.4%. The average business per branch grew 4% QoQ and 12% YoY at ~ Rs. 15 Bn. During the quarter, the Company welcomed the new MD and CEO, Mr. Suresh Iyer, and CFO, Mr. Apurva Agarwal. To know more about CFHL, refer to our [initiating coverage report](#) and [Q3 FY23 update](#).

Consistent growth in loan book

CFHL's loan book for the quarter grew by 5% QoQ and 18% YoY, at ~ Rs. 316 Bn. The management of CFHL has expressed its commitment to continue expanding the loan book at an annual rate of 18-20%.

Best-in-class asset quality

During the quarter, the Company improved its asset quality by reducing the GNPA and NNPA by ~5 bps at 0.55% and 0.26%, respectively. The Company also raised its PCR by ~100 bps sequentially to 62%, merely to practice a conservative approach, and in the future, management is guided to maintain a PCR ratio at 50-55%.

View & Valuation

We have revised our estimates and maintained our view on Can Fin Homes Ltd. with a BUY rating and a target price of Rs. 696 (2.2x FY24E adjusted book value), suggesting a ~13% upside. We believe that CFHL will grow its loan book at 17-15% in the foreseeable future and maintain its robust asset quality.

BUY

CMP Rs. 615

TARGET Rs. 696 (+13%)

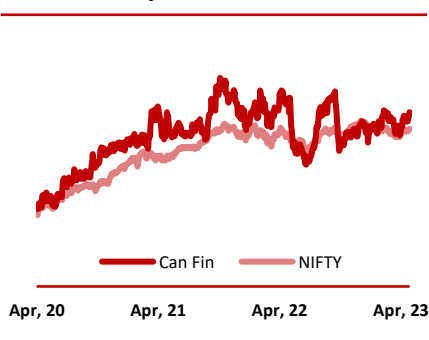
Company Data

MCAP (Rs. Mn)	79,133
O/S Shares (Mn)	133
52w High/Low	678 / 408
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	350

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	30	30	30
FIIIs	10	10	9.3
DIIIs	25	23.5	23.3
Non-Institutional	34.7	36.5	37.4

CFHL vs Nifty



Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23	FY24E
NII	8,280	10,092	11,169
PPOP	6,820	8,658	9,508
Net Profit	4,739	6,212	6,851
Networth	30,666	36,473	42,776
ROA (%)	1.7%	1.9%	1.8%
ROE (%)	15.5%	17.0%	16.0%

Source: Company, Keynote Capitals Ltd.

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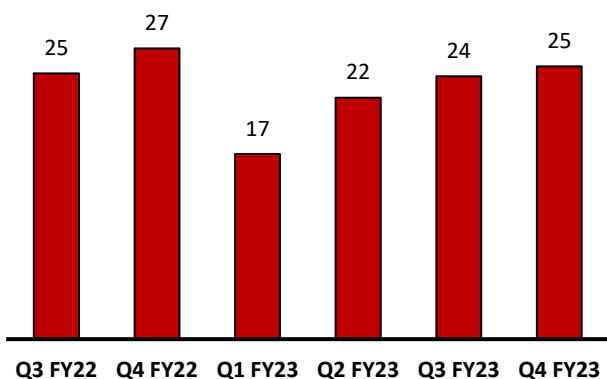
Q4 FY23 result update

Result Highlights (Rs. Mn)

Profit & Loss	Q4 FY23	Q4 FY22	Change YoY (%)	Q3 FY23	Change QoQ (%)	FY23	FY22	Change (%)
Net Interest Income	2,619	2,341	11.8%	2,485	5%	10,091	8,091	30.0%
Other Income	5	3	69.2%	2	209.0%	11	7	67.0%
Net Income	2,624	2,344	11.9%	2,487	5.5%	10,103	8,098	30.0%
Operating Expenses	406	398	1.9%	357	13.5%	1,445	1,278	18.2%
Pre-Provision Operating Profit	2,218	1,946	14.0%	2,129	4.2%	8,658	6,820	32.1%
Provisions	238	302	-21.3%	84	182.6%	418	469	7.5%
Profit Before Tax	1,980	1,643	20.5%	2,045	-3.2%	8,240	6,351	33.0%
Tax	322	414	-22.3%	530	-39.3%	2,028	1,640	39.2%
Profit After Tax	1,658	1,229	34.9%	1,515	9.4%	6,212	4,711	30.8%

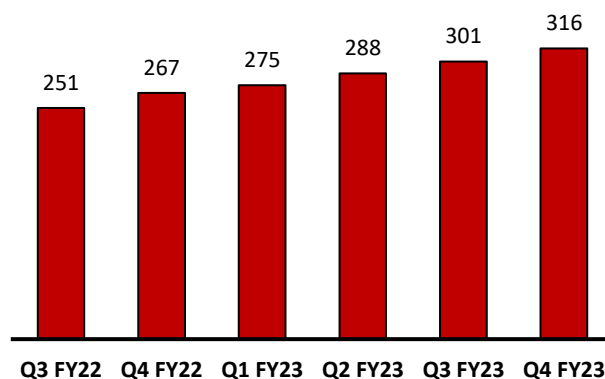
Source: Company, Keynote Capitals Ltd.

Disbursement (Rs. Bn)

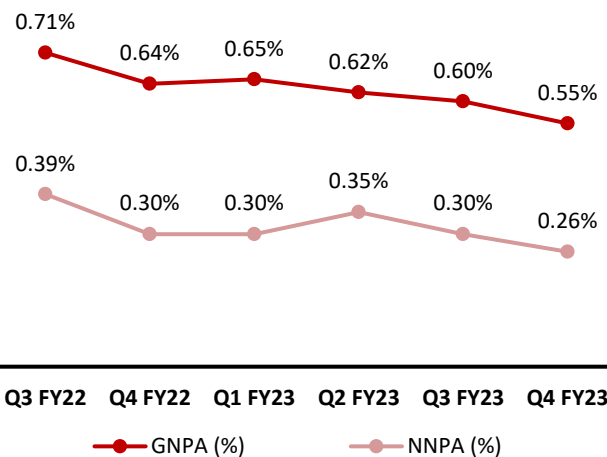


Source: Company, Keynote Capitals Ltd.

Consistent growth in loan book (Rs. Bn)

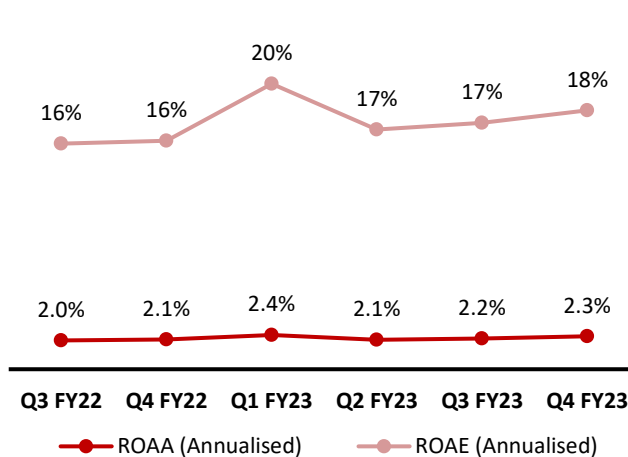


QoQ improvement in asset quality



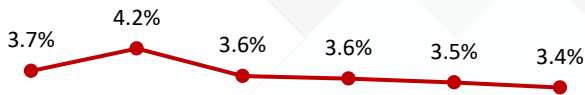
Source: Company, Keynote Capitals Ltd.

Return ratios (%)



Can Fin Homes Ltd. | Quarterly Update

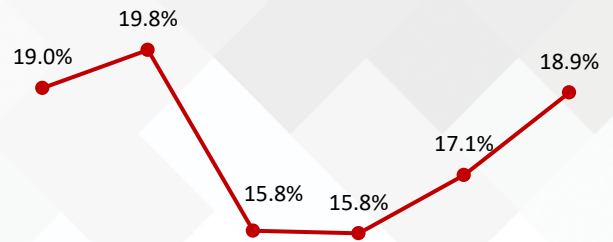
Stable NIM (%)



Q3 FY22 Q4 FY22 Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23

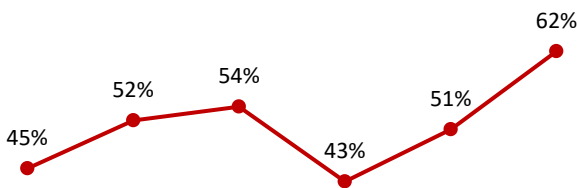
Source: Company, Keynote Capitals Ltd.

Cost to Income Ratio (%)



Q3 FY22 Q4 FY22 Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23

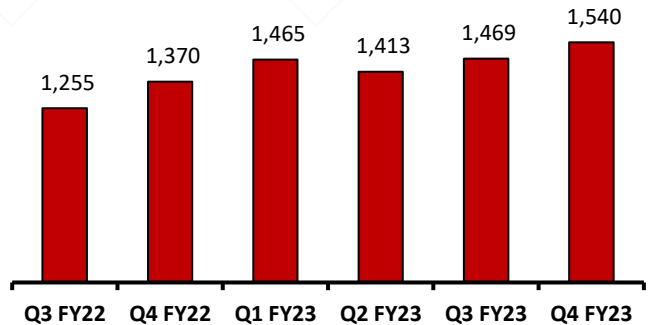
PCR (%)



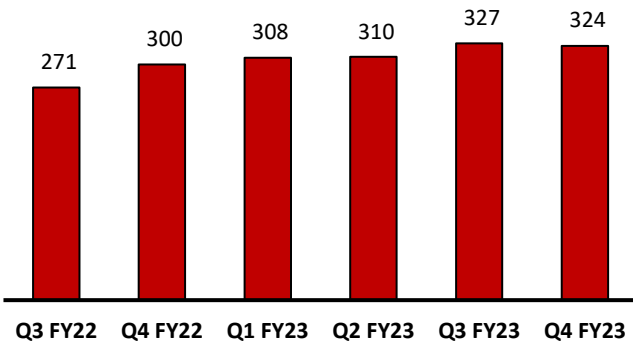
Q3 FY22 Q4 FY22 Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23

Source: Company, Keynote Capitals Ltd.

Rise in average business per branch (Rs. Mn)

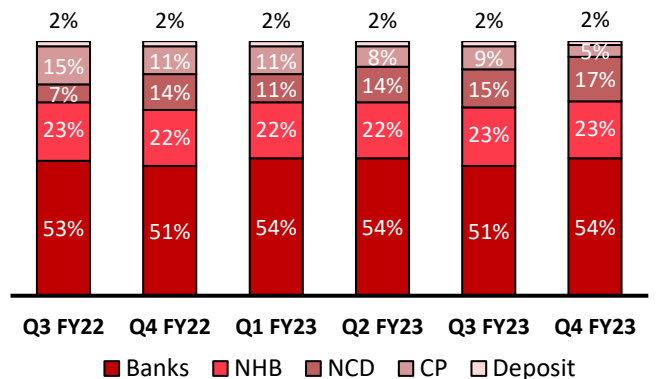


Average Business Per Employee (Rs. Mn)

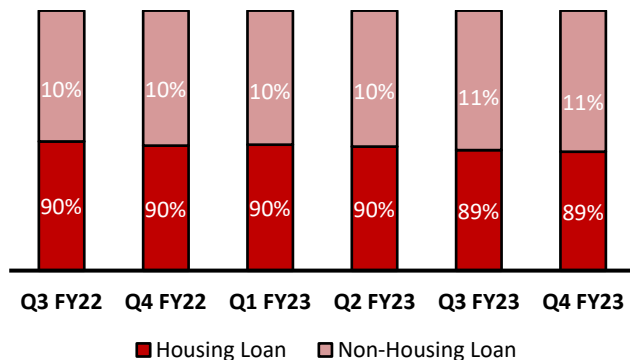


Source: Company, Keynote Capitals Ltd.

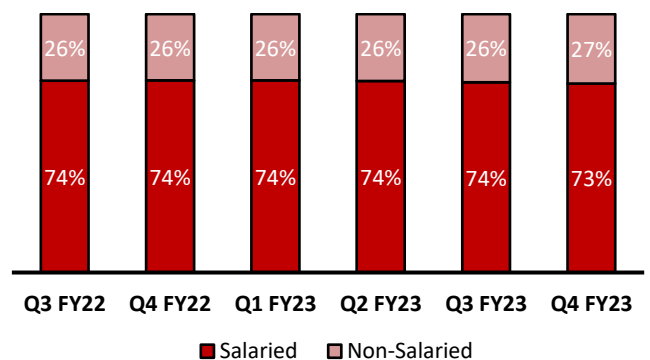
Funding Basket (%)



Loan book mix (%) by business segment



Category wise loan book mix (%)



Source: Company, Keynote Capitals Ltd.

Q4 FY23 Conference Call Takeaways

Lending

- In FY23, around a third of the loan book of Rs. 100 Bn was fully repriced with an increase of ~135 bps in three instalments. The remaining loan book is yet to undergo rate hikes. After the entire book is repriced by Q2 FY24, the Company expects NIM to increase by ~10 bps to 3.5%.
- The Company expects that the demand for home loans, subdued due to increased interest rates, will return by H2 FY24. This will equip the Company to expand the loan book by 18-20%.
- The Company aims to reduce its concentration of loan book in the South from ~65% currently to ~60% in the future.
- Credit-linked subsidy scheme (CLSS) claims during the year were ~ Rs. 2.7 Bn.
- The restructured book is worth ~ Rs. 6.9 Bn, 25% of which became due towards the end of the quarter, with ~ 78% collection efficiency. The remaining 75% of the book will begin servicing the loan by Nov'23.
- The quantum of roll forward and roll backward for the year stood at Rs. 5,200 Mn and Rs. 5,400 Mn, respectively.
- The quarterly run rate of collection (EMI including prepayment) is ~ Rs. 15 Bn.
- The Company aims to settle for a mix of 70:30 between salaried and non-salaried class of borrowers.

Borrowing

- The credit cost is expected to remain between 5-10 bps in the coming year.
- As per the large corporate borrower regime regulated by SEBI, CFHL is liable to raise 25% of the incremental long-term borrowing as Non-Convertible Debenture (NCD). This will eventually have NCD's contribution to the borrowing mix of 25%, up from the current 17%.

Branches

- The Management guided to open 10-15 branches annually. A branch opened in a geography where the company is already present takes 1.5 years to break even, whereas adding a new branch in completely new geography takes two years.

Others

- The ALM mismatch of ~ Rs. 35 Bn for the April-June quarter is expected to be covered by the bank sanction limit of ~ Rs. 46 Bn.
- Given that 90% of the book comes under the home loan category, the Company becomes beneficiary of certain tax benefits that allow the Company to have an effective tax rate of ~22%.
- The Company has guided the cost-to-income ratio to come down to ~16-17% in the coming future.
- The fees and commission, which were not levied during the Covid period due to government regulations, have resumed having an annual run rate of ~ Rs. 260 Mn.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Interest Income	8,067	8,280	10,092	11,169	12,555
Other Income	30	70	11	70	70
Net Income	8,097	8,350	10,103	11,239	12,625
Operating Expenses	1,230	1,530	1,445	1,731	1,883
Pre-Provision Operating Profit	6,867	6,820	8,658	9,508	10,741
Provisions	680	460	418	372	353
Profit Before Tax	6,187	6,360	8,240	9,135	10,388
Tax	1,614	1,621	2,028	2,284	2,597
Profit After Tax	4,573	4,739	6,212	6,851	7,791

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Share Capital	266	266	266	266	266
Reserves & Surplus	25,832	30,400	36,207	42,510	49,678
Networth	26,098	30,666	36,473	42,776	49,944
Borrowings	1,92,929	2,46,477	2,90,681	3,39,499	3,88,617
Other Liabilities & Provisions	1,710	2,301	3,551	2,415	2,470
Total Liabilities	2,20,737	2,79,444	3,30,705	3,84,691	4,41,031
ASSETS					
Cash and Balance	711	14,501	17,675	18,501	20,079
Advances	2,18,915	2,63,781	3,11,933	3,64,962	4,19,706
Fixed Assets & Others	1,111	1,162	1,087	1,218	1,246
Total Assets	2,20,737	2,79,443	3,30,705	3,84,691	4,41,031

Ratios

	FY21	FY22	FY23	FY24E	FY25E
Growth YoY (%)					
Advance Growth (%)	6.7%	20.5%	18.3%	17.0%	15.0%
Borrowing Growth (%)	2.9%	27.8%	17.9%	16.8%	14.5%
NII Growth (%)	18.1%	2.6%	21.9%	10.7%	12.4%
PPOP Growth (%)	19.1%	-0.7%	26.9%	9.8%	13.0%
Ratios					
NIM (%)	3.8%	3.4%	3.5%	3.3%	3.2%
Cost to Income Ratio	15.2%	18.3%	14.3%	15.4%	14.9%
C/D Ratio	113.5%	107.0%	107.3%	107.5%	108.0%
Capital Adequacy Ratio (%)	25.5%	23.2%	23.0%	22.0%	22.0%
ROE (%)	17.5%	15.5%	17.0%	16.0%	15.6%
ROA (%)	2.1%	1.7%	1.9%	1.8%	1.8%
Asset Quality					
GNPA	0.9%	0.6%	0.6%	0.4%	0.3%
NNPA	0.6%	0.3%	0.3%	0.2%	0.2%
PCR (%)	33.5%	52.7%	52.7%	50.0%	50.0%
Credit Cost (%)	0.3%	0.2%	0.1%	0.1%	0.1%
Valuation					
ROE	17.5%	15.5%	17.0%	16.0%	15.6%
ROA	2.1%	1.7%	1.9%	1.8%	1.8%
P/BV (x)			2.1	1.8	1.5
Price-ABV (x)			2.2	1.8	1.6

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
23rd November 2022	BUY	526	+27%
20th January 2023	BUY	521	+29%
28th April 2023	BUY	615	+13%

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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