

Can Fin Homes Ltd.

21st July 2023

Steady Loan Book Growth and Improved NIM: Assessing the Priced-In Factors

During Q1FY24, Can Fin Homes Ltd (CFHL) registered a consistent growth in its loan book, which grew by 3% on QoQ and 18% on a YoY basis. The NII grew by ~9% sequentially and ~14% on a YoY basis. PAT growth was ~11% QoQ and ~13% on a YoY basis. However, the GNPA and NNPA deteriorated by ~8 bps sequentially at 0.63% and 0.34%, respectively. In line with the management guidance, the NIM improved by 11 bps QoQ to ~3.5%. In FY24, NIM is expected to remain stable at 3.5% and the cost-to-income ratio at ~17-18% as the company continues with its expansion plans.

Consistent growth in loan book

CFHL reported a steady QoQ growth of ~3% and a YoY growth of ~18% in Q1 FY24 on its loan book. The Company aims to sustain this growth rate of 18-20% over the coming years. This expansion is expected to be fueled by a 10% increase in business per branch and a 7-8% increase in the average ticket size by venturing into Approved Project Finance (APF) with an average unit size of Rs. 2.5-10 Mn. Additionally, they anticipate a 3-4% inflationary increase to contribute to the growth.

Maintain NIM Margin

The Company anticipates no pressure on NIM as there were no interest rate hikes during the quarter. The bank borrowing is linked to the repo rate and has remained stable in the quarter. The Company is actively engaged in negotiating credit spreads to reduce costs. Out of the Rs. 180 Bn book due for rate hikes, Rs. 5.5 Bn has already seen an 85 bps hike in Q1FY24 while the rest is due for a 35 bps hike, which shall be completed by Q3FY24. The management expects a further improvement of 3-5 bps NIM led by asset repricing (~Rs. 125 Bn eligible for repricing).

Asset quality marginally deteriorates

Over the last four quarters, the Company's asset quality has seen an improving trend while in Q1FY24 GNPA and NNPA deteriorated marginally. GNPA for the quarter has increased from 0.55% in Q4FY23 to 0.63% in Q1FY24. In FY24, the management expects GNPA to be below 0.7%.

View & Valuation

On the back of bright prospects of the housing finance market and robust execution of CFHL with 18-20% growth in loan book, we are optimistic about the Company's performance for FY24. However, we also perceive the valuation for CFHL to be overpriced, which is why we revise our estimates and alter our rating on Can Fin Homes Ltd. to a NEUTRAL rating and target price of Rs. 853 (2.7x FY24E adjusted book value).

NEUTRAL

CMP Rs. 833

TARGET Rs. 853 (2.4%)

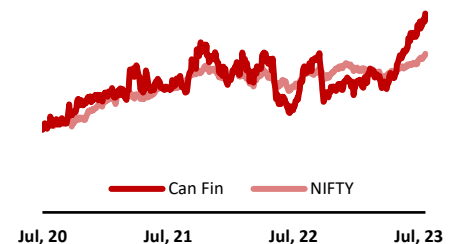
Company Data

MCAP (Rs. Mn)	1,10,877
O/S Shares (Mn)	133
52w High/Low	843 / 451
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	548

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	30.0	30.0	30.0
FIIs	10.4	10.0	9.3
DIIIs	25.0	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)	FY23	FY24E	FY25E
NII	10,092	11,730	13,579
PPOP	8,658	9,689	11,272
Net Profit	6,212	7,012	8,155
Networth	36,473	42,923	50,426
ROA (%)	1.9%	1.8%	1.8%
ROE (%)	17.0%	16.3%	16.2%

Source: Company, Keynote Capitals Ltd.

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Q1FY24 Result Update

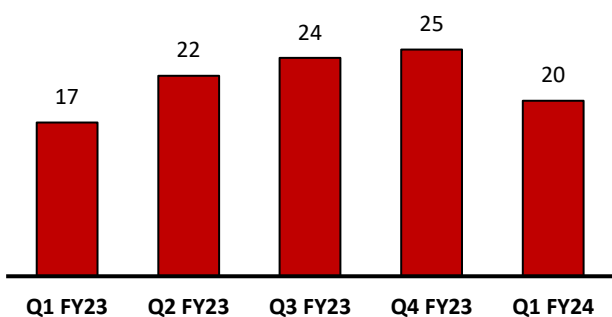
Result Highlights (Rs. Mn)

Profit & Loss	Q1FY24	Q1FY23	Change YoY (%)	Q4FY23	Change QoQ (%)	FY23
Net Interest Income	2,842	2,495	13.9%	2,619	9%	10,091
Other Income	1	4	-66.0%	5	-75.6%	11
Net Income	2,843	2,499	13.8%	2,624	8.4%	10,103
Operating Expenses	368	3,49	5.2%	406	-9.4%	1,445
Pre-Provision Operating Profit	2,476	2,150	15.2%	2,218	11.6%	8,658
Provisions	137	(37)	-471.4%	238	-42.4%	418
Profit Before Tax	2,338	2,187	7.0%	1,980	18.1%	8,240
Tax	504	565	-10.7%	322	56.7%	2,028
Profit After Tax	1,834	1,622	13.1%	1,658	10.7%	6,212

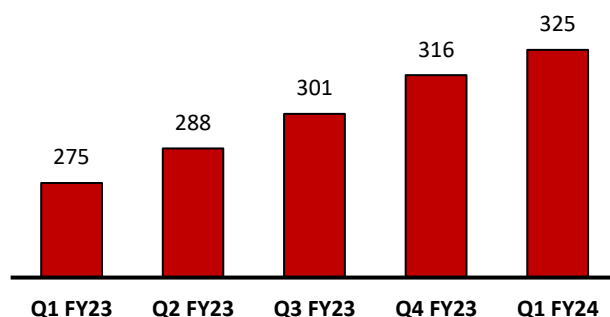
Source: Company, Keynote Capitals Ltd.

Quarterly Based Business Progression

Disbursement (Rs. Bn)

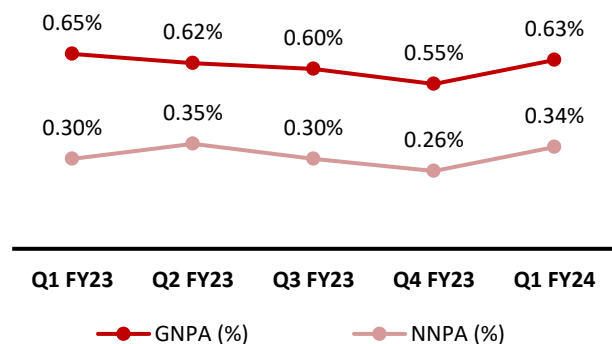


Outstanding Loan Book (Rs. Bn)

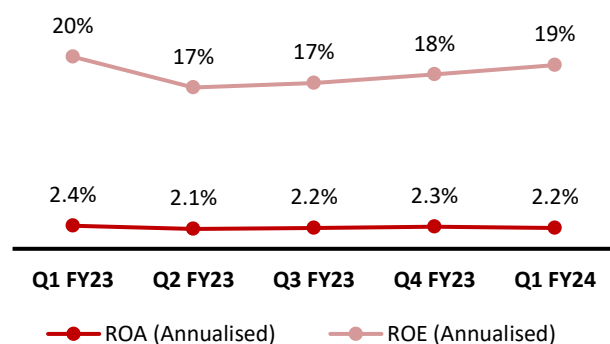


Source: Company, Keynote Capitals Ltd.

Asset Quality

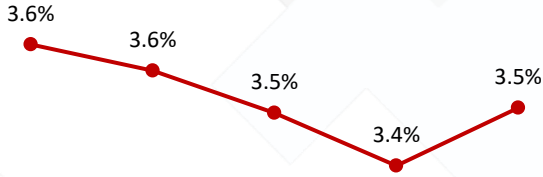


Return Ratios (%)



Source: Company, Keynote Capitals Ltd.

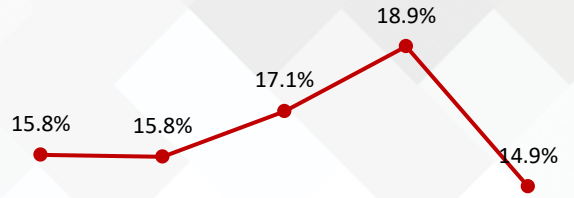
NIM (%)



Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23 Q1 FY24

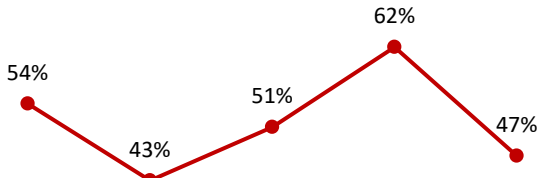
Source: Company, Keynote Capitals Ltd.

Cost to Income Ratio (%)



Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23 Q1 FY24

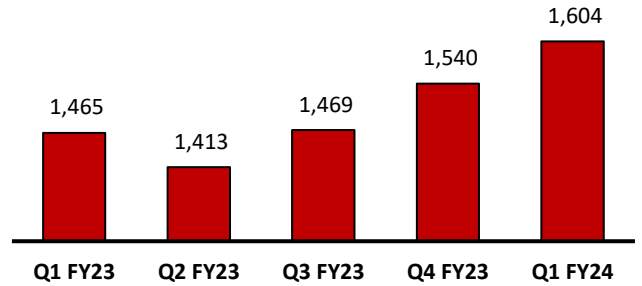
PCR (%)



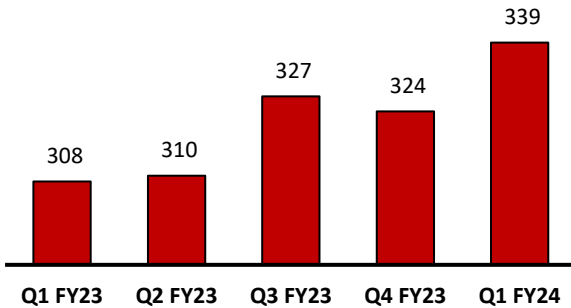
Q1 FY23 Q2 FY23 Q3 FY23 Q4 FY23 Q1 FY24

Source: Company, Keynote Capitals Ltd.

Average Business Per Branch (Rs. Mn)

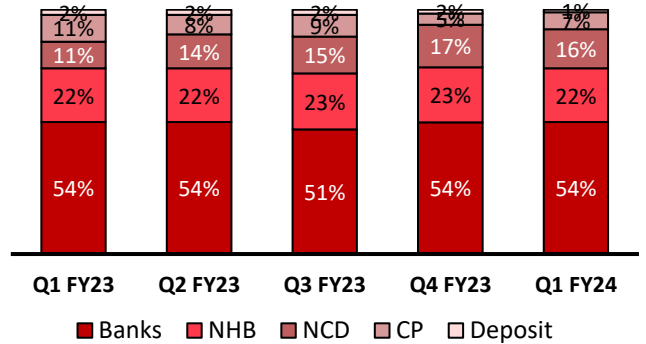


Average Business Per Employee (Rs. Mn)

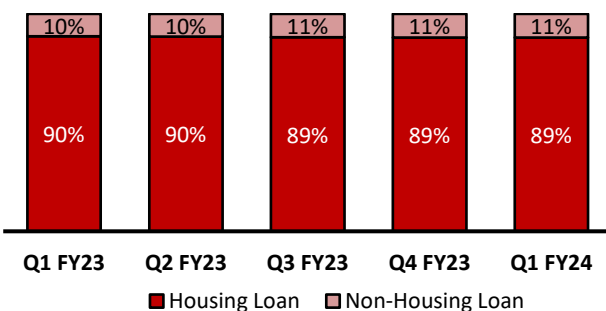


Source: Company, Keynote Capitals Ltd.

Funding Basket (%)

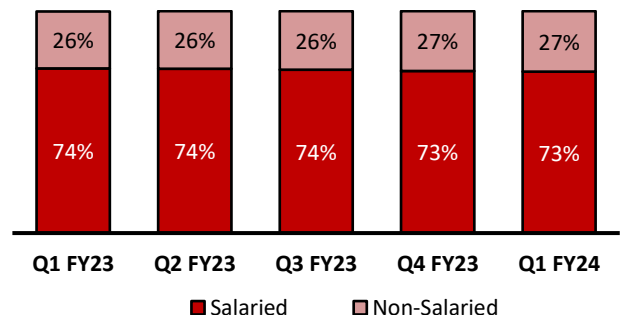


Percentage of home loans in the total book



Source: Company, Keynote Capitals Ltd.

Percentage of the book lent to salaried borrowers



Q1 FY24 Conference Call Takeaways

Lending

- Of the 18-20% loan book growth rate, 10-15% will be sourced from growth in business per branch, a 7-8% increase in average ticket size, including 3-4% of inflation.
- The average ticket size has decreased from Rs. 2.4 Mn in Q1FY23 to Rs. 2.2 Mn in Q1FY24. However, with APF and builder segment beginning from Q2 FY24, where the Company plans to tap into 2 to 4 BHKs of smaller builders, with average unit price between Rs. 2.5-10 Mn, enveloping ~10% of the book in a few years, the estimated guided average ticket size will inch up to Rs. 2.5-2.7 Mn.
- The loan sourcing mix has been standing at 20:80, between direct and DSA. However, the Company plans to change the mix to 10% direct, 10% digital, 20% APF and builders, and 60% DSA in the next 2-3 years.
- DSA's are rewarded with ~43 bps of payout on the business. With the Company planning to reduce their dependence in the next 2-3 years, it will assist them to save costs, which they can pass on to the customers.
- Majority of the prepayments and BT-Outs take place in H2, which also signifies ~55% of the business for a year.
- There was a prepayment of ~3.5 Bn during the quarter, of which Rs. 1-1.3 Bn was under BT-Outs.
- Out of the ~Rs. 7 Bn restructured book, ~32% became serviceable in Q4FY23, ~36% in Q1FY24 and the remaining ~32% will become due by Q3FY24. While the Company guided to incur a 10% NPA on the restructured book in the earlier quarters, it recorded ~8.7% bad loans on the restructured book but guides the limit of 10%.
- Out of the total Rs. 180 Bn, Rs. 55 Bn has already been fully repriced as of Q1FY24. The remaining Rs. 125 Bn has a marginal scope of 25 bps, which will be entirely factored in by December 2023, maintaining NIM at ~3.5%

Branches

- The Company plans to open 15 branches in FY24. In Q2FY24, 4 branches will be opened, followed by 8 in the next quarter, and 3 more in the subsequent quarter. The regional distribution includes 4 branches in the South, 9 in the North and West collectively, and 2 in the East.
- CFHL met the Rs. 1,600 Mn per branch target, achieving 10% YoY growth. The new guidance aims for a 10-15% increase, approaching the earlier target of Rs. 2,000 Mn per branch set in Q3FY23.

Others

- The ROA and ROE are expected to be around 2% and 17-18%, respectively.
- The cost-to-income ratio is guided to inch up to 17-18%, on the back of branch launches and IT expenses, which is for ~Rs. 2.5 Bn staggered over a period of 7 years.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	8,280	10,092	11,730	13,579	15,814
Other Income	70	11	70	70	50
Net Income	8,350	10,103	11,800	13,649	15,864
Operating Expenses	1,530	1,445	2,111	2,376	2,688
Pre-Provision Operating Profit	6,820	8,658	9,689	11,272	13,175
Provisions	460	418	340	399	419
Profit Before Tax	6,360	8,240	9,349	10,873	12,757
Tax	1,621	2,028	2,337	2,718	3,189
Profit After Tax	4,739	6,212	7,012	8,155	9,568

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	266	266	266	266	266
Reserves & Surplus	30,400	36,207	42,657	50,159	58,962
Networth	30,666	36,473	42,923	50,426	59,228
Borrowings	2,46,477	2,90,681	3,42,401	3,98,755	4,62,555
Other Liabilities & Provisions	2,301	3,551	3,668	3,831	4,000
Total Liabilities	2,79,444	3,30,706	3,88,933	4,53,011	5,25,783
ASSETS					
Cash and Balance	14,501	17,675	19,505	20,977	24,667
Advances	2,63,781	3,11,933	3,68,081	4,30,655	4,99,560
Fixed Assets & Others	1,162	1,087	1,397	1,379	1,556
Total Assets	2,79,443	3,30,706	3,88,993	4,53,011	5,25,783

Source: Company, Keynote Capitals Ltd.

Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Growth YoY (%)					
Advance Growth (%)	20.5%	18.3%	18.0%	17.0%	16.0%
Borrowing Growth (%)	27.8%	17.9%	17.8%	16.5%	16.0%
NII Growth (%)	2.6%	21.9%	16.2%	15.8%	16.5%
PPOP Growth (%)	-0.7%	26.9%	11.9%	16.3%	16.9%
Ratios					
NIM (%)	3.4%	3.5%	3.5%	3.4%	3.4%
Cost to Income Ratio	18.3%	14.3%	17.9%	17.4%	16.9%
C/D Ratio	107.0%	107.3%	107.5%	108.0%	108.0%
Capital Adequacy Ratio (%)	23.2%	23.0%	22.0%	22.0%	22.0%
ROE (%)	15.5%	17.0%	16.3%	16.2%	16.2%
ROA (%)	1.7%	1.9%	1.8%	1.8%	1.8%
Asset Quality					
GNPA	0.6%	0.6%	0.5%	0.4%	0.3%
NNPA	0.3%	0.3%	0.3%	0.2%	0.2%
PCR (%)	52.7%	52.7%	50.0%	55.0%	33.3%
Credit Cost (%)	0.2%	0.1%	0.1%	0.1%	0.1%
Valuation					
Book Value Per Share		274.2	322.7	379.1	445.3
Adjusted Book Value Per Share		268.1	315.8	373.3	437.8
P/BV (x)		3.0	2.6	2.2	1.9
Price-ABV (x)		3.1	2.6	2.2	1.9

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%
28 th April 2023	BUY	651	+13%
21 st July 2023	NEUTRAL	833	+2.4%

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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