

## Can Fin Homes Ltd.

19<sup>th</sup> Oct 2023

## Enhanced NIM, but increased provisions impact profitability

During Q2FY24, Can Fin Homes Ltd (CFHL) registered a consistent growth in its loan book, which grew by 3% on a QoQ and 16% on a YoY basis. The NII grew by 11% sequentially and 27% on a YoY basis. Due to the increase in provisions by ~4x on a QoQ and YoY basis, the PAT declined by 14% on a QoQ basis. However, it showed a 12% YoY growth, largely due to a reduction in the effective tax rate. This reduction was influenced by the impact of the Ambala provisions, leading to an increase in deferred tax. The GNPA and NNPA deteriorated by 13 bps and 9 bps sequentially at 0.76% and 0.43%, respectively. In line with the management guidance, the NIM improved by 14 bps on a QoQ basis to 3.6%. In FY24, NIM is expected to remain stable at 3.5% and the cost-to-income ratio at ~17-18% as the Company continues its expansion plans.

## Consistent growth in loan book

CFHL reported a steady QoQ growth of 3% and a YoY growth of 16% in Q2FY24 on its loan book. The management forecasts a significant increase in disbursement, with expectations of growing from ~Rs. 40 Bn in H1FY24 to around Rs. 60 Bn in H2FY24. This represents a significant growth of 51% on a QoQ basis. The subdued disbursement growth during the H1FY24 can be attributed to the internal process adjustments necessitated by the Ambala incident. Going forward, the Company aims to sustain this growth rate of 18-20% over the coming years. CFHL is increasingly focusing on a higher ticket-size housing loan segment of Rs. 2.5-5.0 Mn.

## Asset quality deteriorates

Over the last two quarters, the Company's asset quality has deteriorated. GNPA for the quarter has increased from 0.63% in Q1FY24 to 0.76% in Q2FY24. The increase in GNPA during the quarter is due to the restructuring book. The total restructured portfolio was around Rs. 7 Bn, out of which ~Rs. 5 Bn book had come out of restructured portfolio in Q1FY24 and ~14% moved into GNPA in Q2FY24. The remaining ~Rs. 2 Bn will be coming out of restructuring in October and November 2023. The Company expects a similar ~14% of the restructured book to fall into GNPA. Going forward, the Company guides to increase the PCR ratio, which will lead to lower growth in profit.

## Strengthening the processes

In Q1FY24, three CFHL employees engaged in fraudulent activities at the Ambala branch. The Company has taken multiple measures to enhance its internal processes. The management conducted an internal audit across all branches, uncovering a fraud amounting to Rs. 397 Mn. The Company has made a comprehensive provision during the quarter to address this issue. Additionally, to fortify its processes and risk management, the Company has initiated centralization of disbursement and reconciliation, introduced litigation management software, and established a quarterly cluster-level risk management framework.

## View &amp; Valuation

We have revised our estimates and maintained our view on Can Fin Homes Ltd. with a NEUTRAL rating and a target price of Rs. 809 (2.2x FY25E Adj. book value), suggesting a ~6% upside. We believe that CFHL will grow its loan book at 18% in the foreseeable future and maintain an NIM of 3.5%, while the increase in provisions will lead to lower growth in profit.

## NEUTRAL

CMP Rs. 765

TARGET Rs. 809 (5.8%)

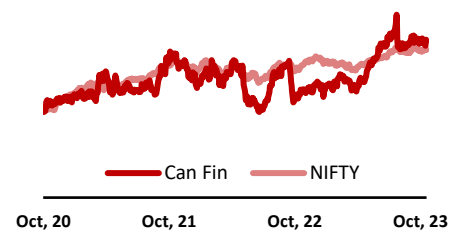
## Company Data

Bloomberg Code	CANF IN
MCAP (Rs. Mn)	1,01,597
O/S Shares (Mn)	133
52w High/Low	905 / 486
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	883

## Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	30.0	30.0	30.0
FII's	10.7	10.4	10.0
DII's	28.0	25.0	23.5
Non-Institutional	31.3	34.7	36.5

## CFHL vs Nifty



Source: Company, Keynote Capitals Ltd.

## Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
NII	10	12	14
PPOP	9	10	11
Net Profit	6	7	8
Networth	36	43	50
ROA (%)	1.9%	1.7%	1.8%
ROE (%)	17.0%	15.6%	16.3%

Source: Company, Keynote Capitals Ltd.

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## Q2FY24 Result Update

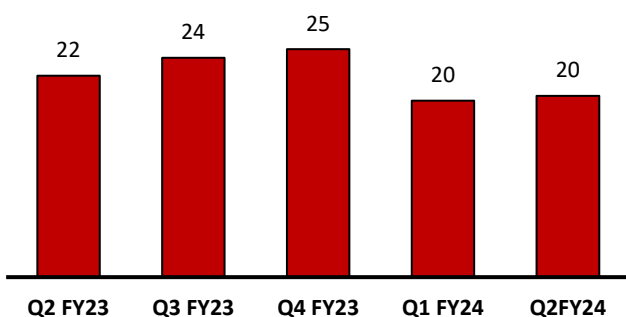
### Result Highlights (Rs. Mn)

Profit & Loss	Q2FY24	Q2FY23	Change YoY (%)	Q1FY24	Change QoQ (%)	H1FY24	H1FY23	Change YoY (%)	FY23
Net Interest Income	3,160	2,492	26.8%	2,842	11.2%	6,002	4,988	20.3%	10,091
Other Income	0	1	-81.2%	1	-89.2%	1	4	-68.5%	11
Net Income	3,160	2,493	26.8%	2,843	11.1%	6,003	4,992	20.3%	10,103
Operating Expenses	458	332	38.0%	368	24.6%	826	682	21.1%	1,445
<b>Pre-Provision Operating Profit</b>	<b>2,702</b>	<b>2,161</b>	<b>25.0%</b>	<b>2,476</b>	<b>9.1%</b>	<b>5,178</b>	<b>4,311</b>	<b>20.1%</b>	<b>8,658</b>
Provisions	722	132	445.6%	137	426.7%	859	95	800.3%	418
Profit Before Tax	1,980	2,028	-2.4%	2,338	-15.3%	4,319	4,215	2.5%	8,240
Tax	399	611	-34.7%	504	-20.9%	904	1,176	-23.2%	2,028
<b>Profit After Tax</b>	<b>1,581</b>	<b>1,417</b>	<b>11.5%</b>	<b>1,834</b>	<b>-13.8%</b>	<b>3,415</b>	<b>3,039</b>	<b>12.4%</b>	<b>6,212</b>
EPS (Rs.)	11.9	10.6		13.8		25.7	22.8		

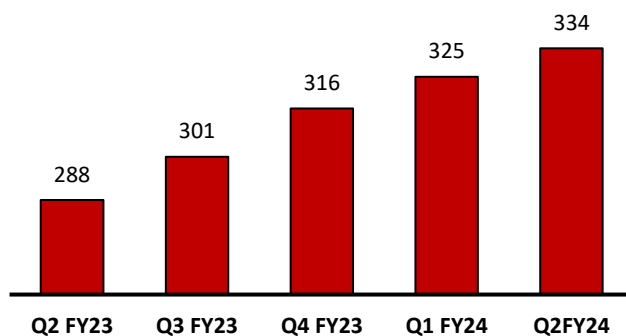
Source: Company, Keynote Capitals Ltd.

## Quarterly Business Progression

Disbursement (Rs. Bn)

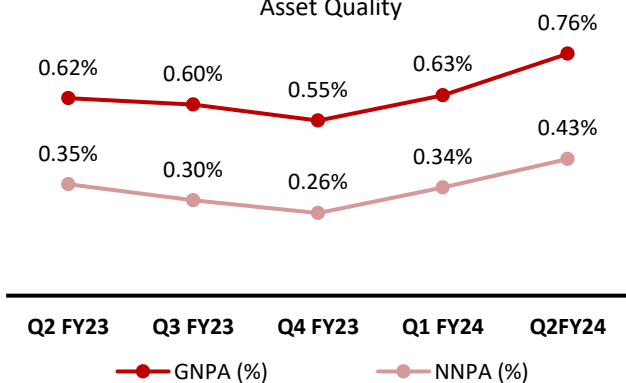


Outstanding Loan Book (Rs. Bn)

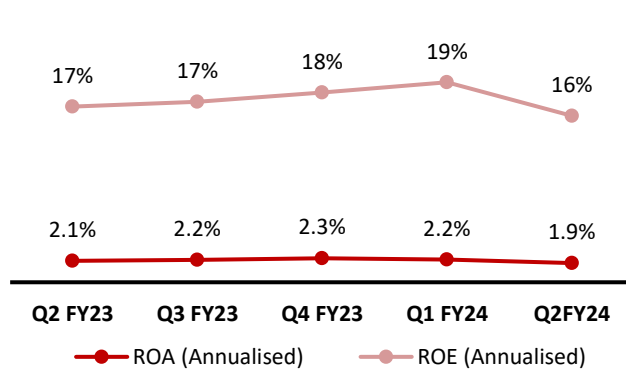


Source: Company, Keynote Capitals Ltd.

Asset Quality

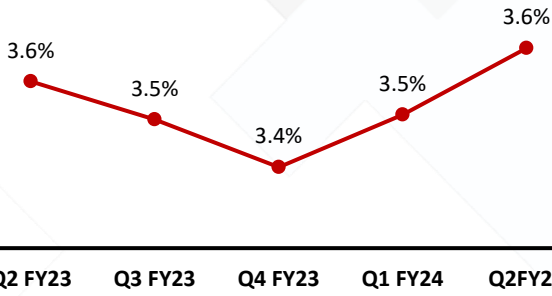


Return Ratios (%)



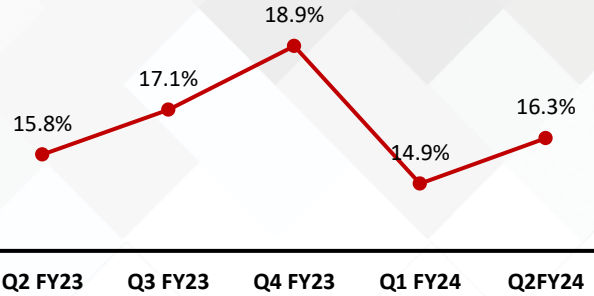
Source: Company, Keynote Capitals Ltd.

NIM (%)

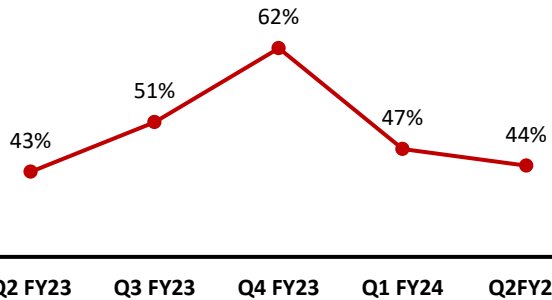


Source: Company, Keynote Capitals Ltd.

Cost to Income Ratio (%)

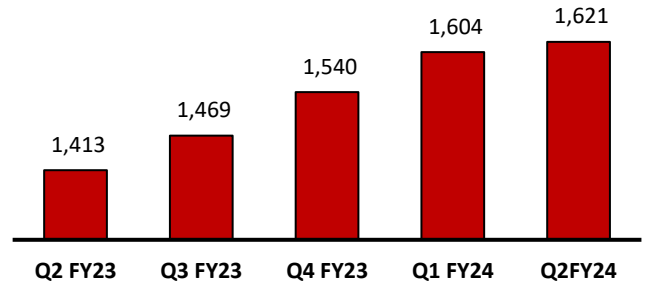


PCR (%)

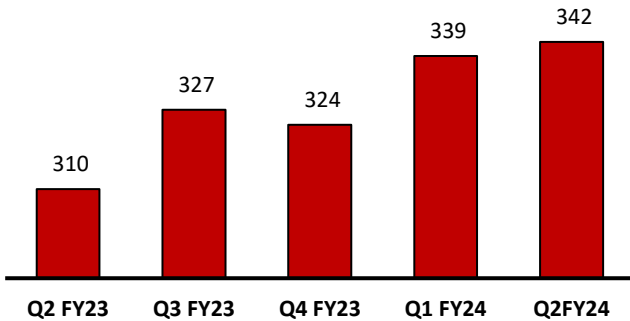


Source: Company, Keynote Capitals Ltd.

Average Business Per Branch (Rs. Mn)

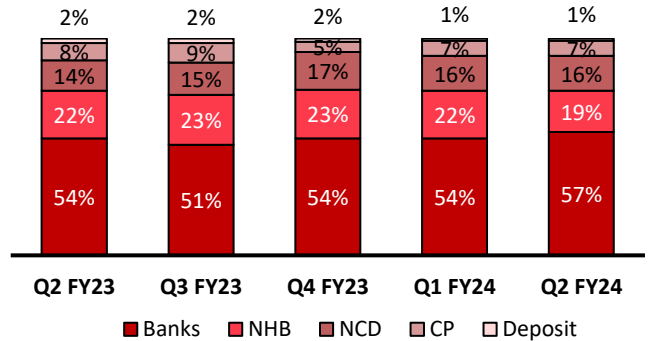


Average Business Per Employee (Rs. Mn)

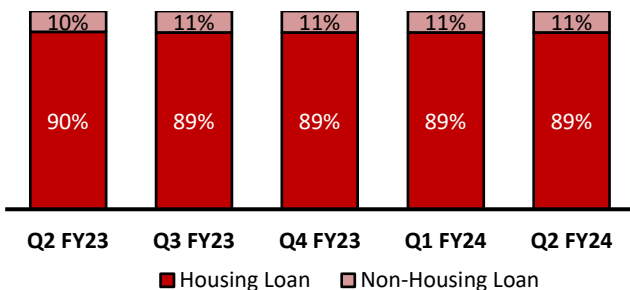


Source: Company, Keynote Capitals Ltd.

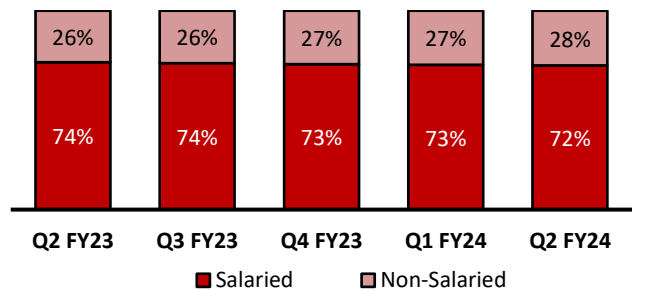
Funding Basket (%)



Percentage of home loans in the total book



Percentage of the book lent to salaried borrowers



Source: Company, Keynote Capitals Ltd.

## Q2FY24 Conference Call Takeaways

### Lending

- The Company had witnessed a sequential growth in disbursement while degrowth on a YoY basis due to the Ambala incident.
- Going forward, the Company expects to increase the average ticket size from Rs. 2.2 Mn in Q2FY24 to Rs. 2.7-3.0 Mn in the housing portfolio as they are focusing on the builder segment.
- 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% Approved Project Finance (APF) and builders, and 60% DSA in the next 2-3 years.
- 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 had guided to incur a 10% NPA on the restructured book in the earlier quarters, it recorded 14% bad loans on the restructured book, due to which GNPA has increased.
- Out of the total loan book of Rs. 180 Bn of repricing, Rs. 120 Bn had already been fully repriced as of Q2FY24. This repricing contributed to the growth in NIM during Q2FY24. The remaining Rs. 60 Bn has a scope to increase the rate by 35 bps, which will be entirely factored in by December 2023. The advantages of this repricing will be evident in Q4FY24, thereby helping to sustain NIM at ~3.5%.
- The Company guides 20% disbursement growth for the next 3-4 years and 18-20% AUM growth.

### Branches

- Out of the total branches, ~63% of the branches are in the South and contribute 72% of the total loan book. North and West contribute 13% and 11% of the total loan book.
- In H2FY24, the Company plans to expand its branch network by an additional 9 branches.
- **Others**
  - The ROA and ROE are expected to be ~2% and 17-18%, respectively.
  - The cost-to-income ratio is guided to increase to 17-18% on the back of branch launches and IT expenses.

## Financial Statement Analysis

### Profit & Loss

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	8,280	10,092	11,900	13,842	15,551
Other Income	70	11	70	70	50
Net Income	8,350	10,103	11,970	13,912	15,601
Operating Expenses	1,530	1,445	2,142	2,422	2,644
<b>Pre-Provision Operating Profit</b>	<b>6,820</b>	<b>8,658</b>	<b>9,828</b>	<b>11,489</b>	<b>12,958</b>
Provisions	460	418	952	602	471
<b>Profit Before Tax</b>	<b>6,360</b>	<b>8,240</b>	<b>8,876</b>	<b>10,888</b>	<b>12,486</b>
Tax	1,621	2,028	2,219	2,722	3,122
<b>Profit After Tax</b>	<b>4,739</b>	<b>6,212</b>	<b>6,657</b>	<b>8,166</b>	<b>9,365</b>
<b>EPS (Rs.)</b>	<b>35.6</b>	<b>46.7</b>	<b>50.1</b>	<b>61.4</b>	<b>70.4</b>

### 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	42,331	49,844	58,459
<b>Networth</b>	<b>30,666</b>	<b>36,473</b>	<b>42,597</b>	<b>50,110</b>	<b>58,725</b>
Borrowings	2,46,477	2,90,681	3,42,401	4,02,163	4,70,530
Other Liabilities & Provisions	2,301	3,551	3,668	3,834	4,008
<b>Total Liabilities</b>	<b>2,79,444</b>	<b>3,30,705</b>	<b>3,88,667</b>	<b>4,56,107</b>	<b>5,33,264</b>
<b>ASSETS</b>					
Cash and Balance	14,501	17,675	19,305	20,427	23,535
Advances	2,63,781	3,11,933	3,68,081	4,34,336	5,08,173
Fixed Assets & Others	1,162	1,087	1,271	1,344	1,556
<b>Total Assets</b>	<b>2,79,443</b>	<b>3,30,705</b>	<b>3,88,667</b>	<b>4,56,107</b>	<b>5,33,264</b>

### Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth YoY (%)</b>					
Advance Growth (%)	20.5%	18.3%	18.0%	18.0%	17.0%
Borrowing Growth (%)	27.8%	17.9%	17.8%	17.5%	17.0%
NII Growth (%)	2.6%	21.9%	17.9%	16.3%	12.4%
PPOP Growth (%)	-0.7%	26.9%	13.5%	16.9%	12.8%
<b>Ratios</b>					
NIM (%)	3.4%	3.5%	3.5%	3.5%	3.3%
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%	15.6%	16.3%	15.9%
ROA (%)	1.7%	1.9%	1.7%	1.8%	1.8%
<b>Asset Quality</b>					
GNPA	0.6%	0.6%	0.8%	0.7%	0.6%
NNPA	0.3%	0.3%	0.4%	0.3%	0.3%
PCR (%)	52.7%	52.7%	53.9%	58.8%	59.7%
Credit Cost (%)	0.2%	0.1%	0.3%	0.2%	0.1%
<b>Valuation</b>					
Book Value Per Share		274.2	320.3	376.8	441.5
Adjusted Book Value Per Share		268.1	310.6	367.6	432.0
P/BV (x)		3.0	2.4	2.0	1.7
Price-ABV (x)		3.1	2.5	2.1	1.8

Source: Company, Keynote Capitals Ltd.

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
23 <sup>rd</sup> November 2022	BUY	526	+27%
20 <sup>th</sup> January 2023	BUY	521	+17%
28 <sup>th</sup> April 2023	BUY	651	+13%
21 <sup>st</sup> July 2023	NEUTRAL	833	+2.4%
19 <sup>th</sup> Oct 2023	NEUTRAL	765	+5.8%

Source: Company, Keynote Capitals Ltd.

## 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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