

Can Fin Homes Ltd.

26th July 2024

Guidance for loan book growth reduced from previous years

During Q1FY25, Can Fin Homes Ltd (CFHL) registered a lower growth in its loan book, which grew by 2% on a QoQ and 9% on a YoY basis. According to the management, the growth in Q1FY25 is impacted due to elections which led to a slowdown in demand for disbursements. The NIM was impacted by 39 bps on a QoQ basis, led by a rise in its cost of funds. However, PPOP increased by ~3% on a QoQ basis, driven by a ~34% reduction in operating expenses. Due to the significant increase in provisions by 13x on a QoQ basis, the PAT declined by ~5% on a QoQ basis. The GNPA and NNPA deteriorated by 9 bps and 7 bps sequentially at 0.91% and 0.49%, respectively. In FY25, the management has expected NIM to remain at 3.5%, the loan book to grow by 15%, and improve its GNPA by 10 bps.

Guidance for loan book growth reduced from previous years

CFHL reported a lower QoQ growth of 2% and a YoY growth of 9% in Q1FY25 on its loan book. During the quarter, the Company witnessed a degrowth in disbursement of 20%/ 6% on a QoQ/ YoY basis. While it expects a growth in the disbursement of 25-30% in FY25. However, the Company expects to grow its loan book by 15% in FY25 compared to previous growth of 18-20%.

Asset quality to improve

During the quarter, the Company's asset quality deteriorated, led by a seasonally weak recovery. Going forward, the Company expects GNPA to fall below 0.8% in FY25 as it is not anticipating any defaults arising from its restructured portfolio. Additionally, the credit costs are expected to be at 12 bps in FY25 compared to 28 bps in Q1FY25.

NIM remained within the guided range

During the quarter, the Company's NIM declined from 4.0% in Q4FY24 to 3.6% in Q1FY25. The decline in NIM was due to the consistent enhancement in its cost of funds, attributed to the repricing effects on the portfolio, which led to a rise in interest expenses. The Company expects to maintain NIM at 3.5% in FY25.

View & Valuation

We have revised our estimates and changed our view on Can Fin Homes Ltd. from NEUTRAL to REDUCE rating and a target price of Rs. 806 (2.2x FY25E Adj. book value), suggesting a ~4% downside. We believe that CFHL will grow its loan book at 15% in FY25 and maintain its NIM at 3.5%.

REDUCE

CMP Rs. 840

TARGET Rs. 806 (-4.0%)

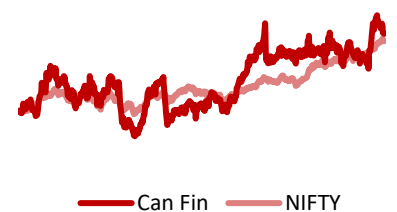
Company Data

Bloomberg Code	CANF IN
MCAP (Rs. Mn)	1,12,808
O/S Shares (Mn)	133
52w High/Low	937 / 680
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	764

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	30.0	30.0	30.0
FIIIs	11.5	11.5	11.1
DIIIs	27.8	27.9	28.5
Non-Institutional	30.7	30.6	30.5

CFHL vs Nifty



Jul, 21	Jul, 22	Jul, 23	Jul, 24
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Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
NII	13	13	15
PPOP	10	11	12
Net Profit	7	7	9
Networth	43	50	58
ROA (%)	2.0%	1.8%	1.8%
ROE (%)	16.6%	14.9%	15.0%

Source: Company, Keynote Capitals Ltd.

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Q1FY25 Result Update

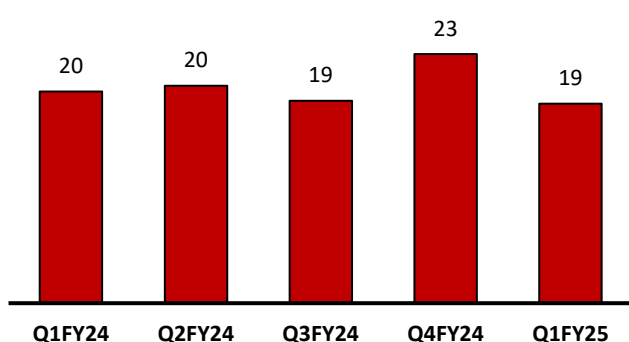
Result Highlights (Rs. Mn)

Profit & Loss	Q1FY25	Q1FY24	Change (%) YoY	Q4FY24	Change (%) QoQ	FY24
Net Interest Income	3,220	2,842	13.3%	3,350	-4%	12,643
Other Income	0	1	-63.9%	8	-94.4%	16
Net Income	3,220	2,844	13.3%	3,358	-4.1%	12,659
Operating Expenses	425	368	15.5%	640	-33.7%	2,296
Pre-Provision Operating Profit	2,796	2,476	12.9%	2,717	2.9%	10,363
Provisions	245	137	78.6%	18	1271.3%	788
Profit Before Tax	2,551	2,339	9.1%	2,700	-5.5%	9,575
Tax	555	504	10.0%	609	-9.0%	2,068
Profit After Tax	1,996	1,835	8.8%	2,090	-4.5%	7,507
EPS (Rs.)	15	14		16		56

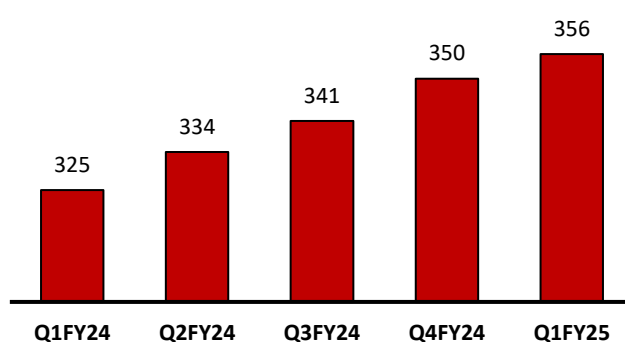
Source: Company, Keynote Capitals Ltd.

Quarterly Business Progression

Disbursement (Rs. Bn)

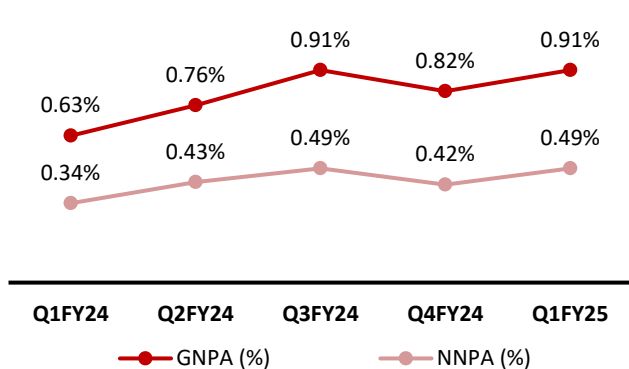


Outstanding Loan Book (Rs. Bn)

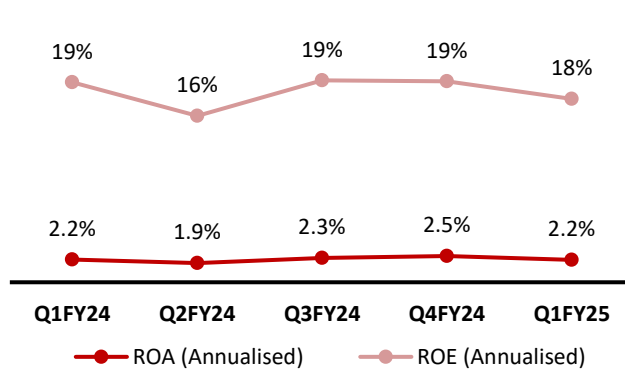


Source: Company, Keynote Capitals Ltd.

Asset Quality

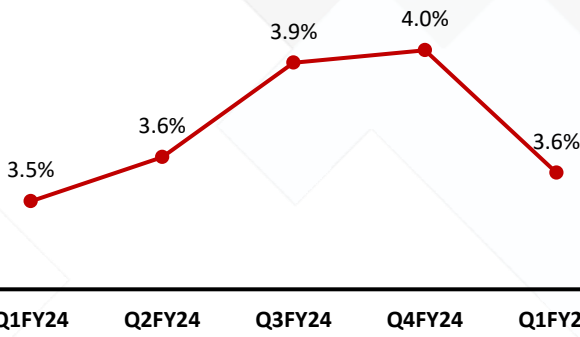


Return Ratios (%)

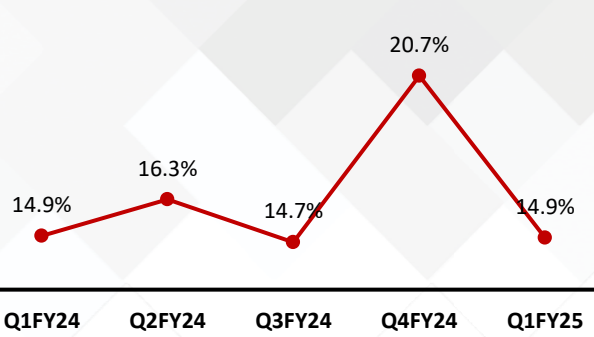


Source: Company, Keynote Capitals Ltd.

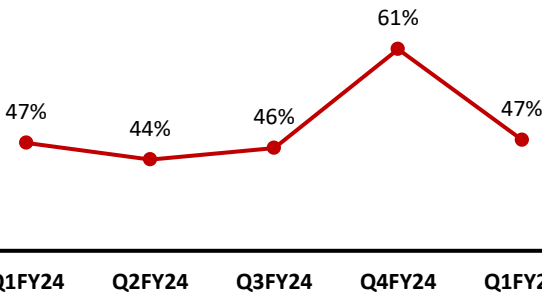
NIM (%)



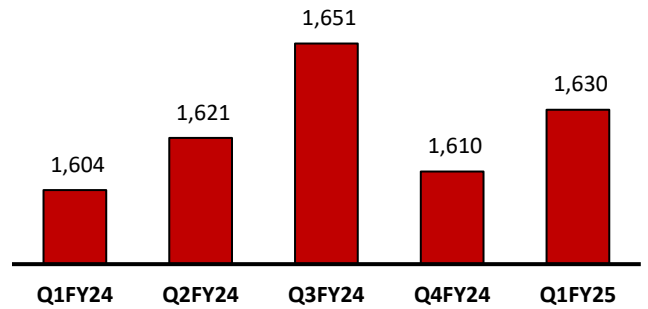
Cost to Income Ratio (%)



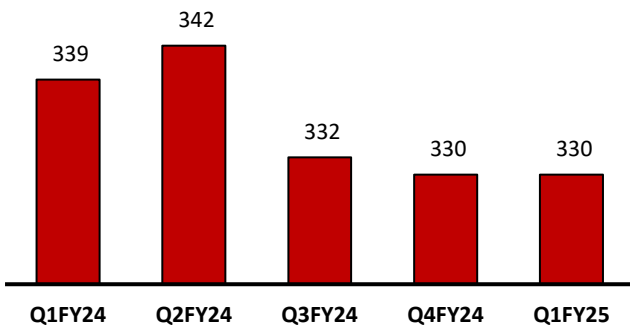
PCR (%)



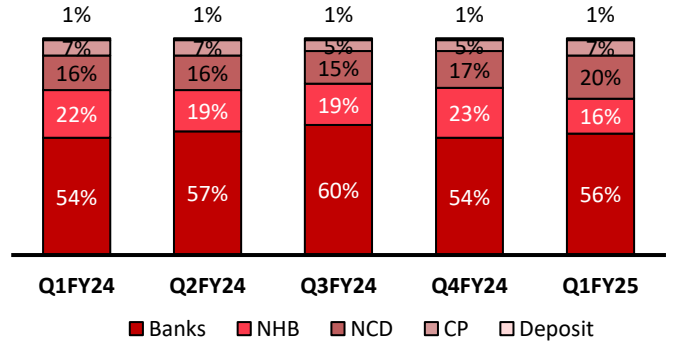
Average Business Per Branch (Rs. Mn)



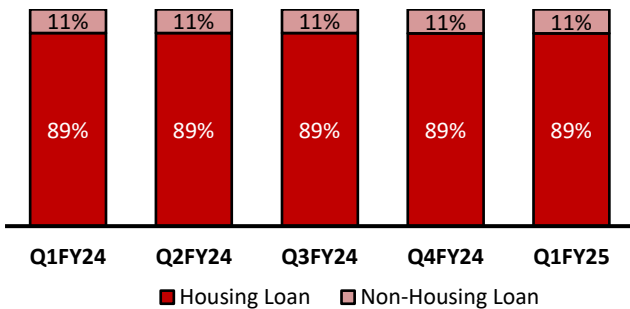
Average Business Per Employee (Rs. Mn)



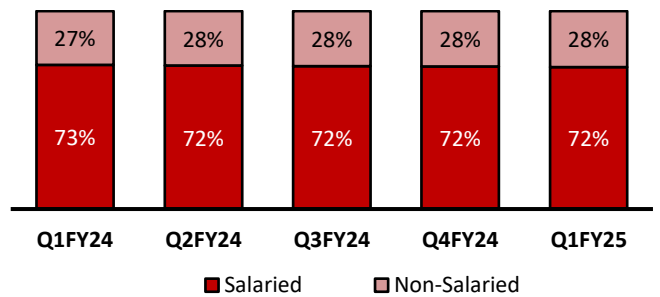
Funding Basket (%)



Percentage of home loans in the total book



Percentage of the book lent to salaried borrowers



Source: Company, Keynote Capitals Ltd.

Q1FY25 Conference Call Takeaways

General highlights

- During the quarter, the ongoing elections have led to a slowdown in demand for disbursements.
- The change in state governments in Andhra Pradesh and Telangana has led to operational delays and uncertainties in Sub-Registrar offices, adversely affecting the registration process and subsequently impacting loan disbursements.
- Due to the cyclical nature of the first quarter, recovery efforts have been hampered, leading to an increase in GNPA.
- Disbursements are projected to reach Rs. 105 Bn in FY25, with an initial Rs. 25 Bn expected in the upcoming quarter. Subsequently, to achieve the annual target, disbursements are planned to increase progressively by Rs. 3-3.5 Bn each quarter.
- Throughout the year, the Company experienced a consistent enhancement in its cost of funds, attributed to the repricing effects on the portfolio that impacted the NIM.
- The Company plans to increase its low-cost borrowings from the NHB, anticipating benefits for affordable housing in the upcoming budget.
- The Company expects a 30-40 bps reduction in borrowing costs from commercial paper in Q2, which is 7% of the loan book.
- ~45% of the loan portfolio comprises loans with ticket sizes below Rs. 2 Mn.
- The Company has increased its IT expenditure compared to the previous year and has also raised its CSR budget.
- To boost disbursements, the Company is focusing on direct sourcing and has hired dedicated marketing and sales teams to support this strategy.
- The Company has transitioned from a two-tier to a three-tier organizational structure, incorporating zonal offices with enhanced sanctioning authority to expedite disbursements.
- The Company anticipates an increase in the percentage of its LAP portfolio. Previously limited to existing customers, the LAP product is now offered to new customers as well, leading to a modest rise in demand for this product.

Management guidance

- The Company has guided to grow its AUM by 15% in FY25.
- The Company has guided a NIM of 3.5% in FY25.
- The Company aims to maintain a cost-to-income ratio of 18% in FY25, as it plans to continue investing in IT enhancements.
- The Company is expecting a 2.1% ROA and 17% ROE in FY25.
- The Company is expecting GNPA to fall below 0.8% in FY25.
- The Company is expecting credit cost to be around 12 bps in FY25.

Financial Statement Analysis

Profit & Loss

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	10,092	12,643	13,001	14,951	17,193
Other Income	11	70	70	50	50
Net Income	10,103	12,713	13,071	15,001	17,243
Operating Expenses	1,445	2,296	2,340	2,542	2,923
Pre-Provision Operating Profit	8,658	10,417	10,730	12,459	14,320
Provisions	418	788	743	769	884
Profit Before Tax	8,240	9,629	9,988	11,690	13,436
Tax	2,028	2,407	2,497	2,923	3,359
Profit After Tax	6,212	7,222	7,491	8,768	10,077
EPS (Rs.)	46.7	54.3	56.3	65.9	75.7

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	266	266	266	266	266
Reserves & Surplus	36,207	43,172	50,064	58,130	67,401
Networth	36,473	43,439	50,330	58,396	67,667
Borrowings	2,90,681	3,18,629	3,67,927	4,21,166	4,86,583
Other Liabilities & Provisions	3,551	3,948	3,996	4,185	4,288
Total Liabilities	3,30,705	3,66,016	4,22,253	4,83,747	5,58,538
ASSETS					
Cash and Balance	17,675	19,165	23,421	25,227	31,329
Advances	3,11,933	3,45,531	3,97,361	4,56,965	5,25,509
Fixed Assets & Others	1,087	1,310	1,471	1,556	1,700
Total Assets	3,30,705	3,66,016	4,22,253	4,83,747	5,58,538

Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Growth YoY (%)					
Advance Growth (%)	18.3%	10.8%	15.0%	15.0%	15.0%
Borrowing Growth (%)	17.9%	9.6%	15.5%	14.5%	15.5%
NII Growth (%)	21.9%	25.3%	2.8%	15.0%	15.0%
PPOP Growth (%)	26.9%	20.3%	3.0%	16.1%	14.9%
Ratios					
NIM (%)	3.5%	3.8%	3.5%	3.5%	3.5%
Cost to Income Ratio	14.3%	18.1%	17.9%	16.9%	17.0%
C/D Ratio	107.3%	108.4%	108.0%	108.5%	108.0%
Capital Adequacy Ratio (%)	23.0%	22.0%	22.0%	22.0%	22.0%
ROE (%)	17.0%	16.6%	14.9%	15.0%	14.9%
ROA (%)	1.9%	2.0%	1.8%	1.8%	1.8%
Asset Quality					
GNPA	0.6%	0.8%	0.8%	0.8%	0.7%
NNPA	0.3%	0.4%	0.4%	0.4%	0.4%
PCR (%)	52.7%	48.8%	50.0%	50.7%	50.0%
Credit Cost (%)	0.1%	0.2%	0.2%	0.2%	0.2%
Valuation					
Book Value Per Share		326.6	378.4	439.1	508.8
Adjusted Book Value Per Share		315.7	366.5	426.4	494.9
P/BV (x)		2.6	2.2	1.9	1.7
Price-ABV (x)		2.7	2.3	2.0	1.7

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
23 rd Nov 2022	BUY	526	+27%
20 th Jan 2023	BUY	521	+17%
28 th April 2023	BUY	651	+13%
21 st July 2023	NEUTRAL	833	+2.4%
19 th Oct 2023	NEUTRAL	765	+5.8%
25 th Jan 2024	NEUTRAL	770	+5.8%
2 nd May 2024	NEUTRAL	763	+6.0%
26 th July 2024	REDUCE	840	-4.0%

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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