Can Fin Homes Ltd.	
No. of shares (m)	133.15
Mkt cap (Rscrs/$m)	10222/1232.9
Current price (Rs/$)	768/9.3
Price target (Rs/$)	883/10.6
52 W H/L (Rs.)	910/509
Book Value (Rs/$)	310/3.7
Beta	1.1
Daily volume NSE (avg. monthly)	777300
P/BV (FY24e/25e)	2.4/2.0
P/E (FY24e/25e)	13.9/11.9
Cost to Income (FY23/24e/25e)	16.9/15.5/16.7
EPS growth (FY23/24e/25e)	31.9/18.4/17.2
NIM (FY23/24e/25e)	3.5/3.7/3.6
ROE (FY23/24e/25e)	18.6/18.6/18.3
ROA(FY23/24e/25e)	2.0/2.1/2.1
D/E ratio (FY23/24e/25e)	8.0/7.6/7.4
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF.IN
Reuters	CNFH.NS

Shareholding pattern	%
Promoters	30.0
MFs / Banks / FIs/ Others	28.5
Foreign Portfolio Investors	11.0
Govt. Holding	-
Public& Others	30.5
Total	**100.0**

As on December 31, 2023

Recommendation

ACCUMULATE

Phone: + 91 (33) 4488 0011

E- mail: research@cdequi.com

Quarterly Highlights

- The company witnessed a decrease in disbursement by 21.9% to Rs 1879.46 cr in Q3FY24 as against Rs 2408.03 crs in Q3FY23 due to the tightening of the company processes implemented in the previous quarter, led by the fraud detected in the Ambala branch. Consequently, company registered a lower growth in loan book which grew by 13% year-on-year to Rs 34053.41 crs in Q3FY24 (Vs Rs 33359.3 crs in Q2FY24). The salaried and professional segment, comprising 72% of the book, grew by 10.8% year-over-year to Rs. 24562 crs, whereas, self-employed and non-professionals grew by 19.3%.
- The company NIM has improved to 3.92% in Q3FY24 from 3.47% in Q3FY23 supported by higher reset rate on loans worth Rs 6700 cr and improvement in rating by India Ratings. Due to the NIM expansion the company saw a robust growth in net interest income grew by 30.6% to Rs 328.83 crs in Q3FY24 as against Rs 251.71 crs during the same period in the previous year. For provision, a large chunk of amount has been kept aside (Rs 30.81crs in Q3FY24 Vs Rs 8.42 crs in Q3FY23) on account of restructuring of book. PBT grew by 25.0% to Rs 255.69 crs in Q3FY24 on yoy basis.
- Over the last quarters Can Fin's asset quality has deteriorated on account of restructuring of books. Gross NPA for the quarter is more than last year's (Rs 308.84 crs by Q3FY24 vs Rs 181.14 crs by Q3FY23); as a result net NPA also increased from Rs 89.29 crs to Rs 167.39crs. GNPA and NPA increased ratios standing at 0.91% and 0.49% showing year-on-year increase (0.76% and 0.43% in Q3Y23). The management expects of recoveries to the tune of Rs 20-30 crs in Q4FY24, thereby supporting improvement in the GNPA.
- The stock currently trades at 2.4x FY24e BV (13.9x FY24e EPS of Rs 55.22) and 2.0x FY24e BV (11.9x FY25e EPS of Rs 64.72).With companies focus on affordable housing and increasing its branch presence we expect loan book to grow by 15% in FY25. However, growing presence of 'cost competitive' banks in the housing sector may cause pressure on banks spread and headwinds in business scaling. Weighing odds, we assign 'accumulate' rating on the stock with revised target of Rs 883 (previous target: Rs 645) based on 2.3x FY25e BV.

Figures in Rs crs	FY21	FY22	FY23	FY24e	FY25e
Net Interest Income	798.04	816.16	1014.55	1231.56	1370.78
Non-Interest Income	12.06	18.84	27.71	27.94	30.87
Pre-Provision Profits	686.11	682.00	865.79	1064.74	1167.75
Net profit	456.10	471.11	621.21	735.24	861.72
EPS(Rs)	34.25	35.38	46.65	55.22	64.72
EPS growth (%)	21.3	3.3	31.9	18.4	17.2

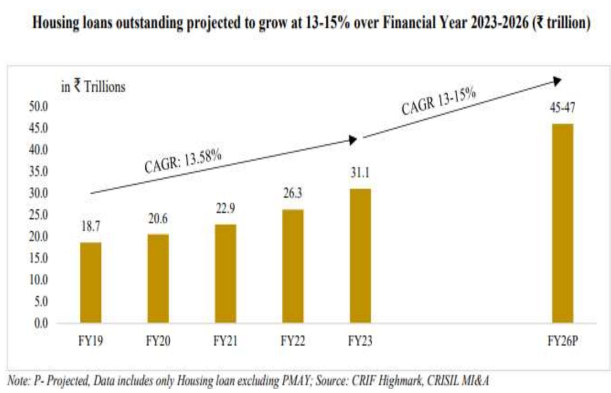
Outlook & Recommendation

Housing Finance Industry Overview

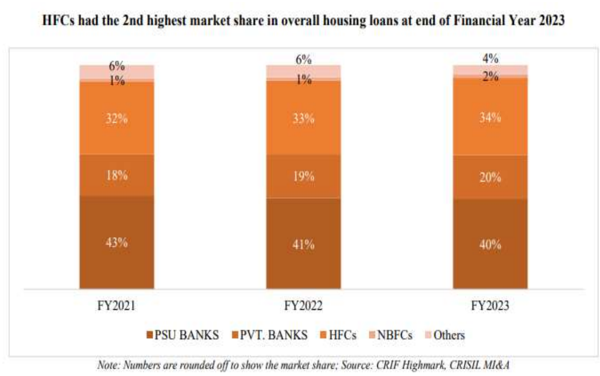
According to report by Crisil, the Indian housing finance industry clocked a healthy growth of 13.5% (CAGR) during FY19-23 period on the back of healthy demand, rise in disposable income and greater number of players entering the market. As of March 2023 the overall housing finance segment outstanding credit was Rs 31.1 trillion and is expected to log a CAGR of 13-15% between FY23 and FY26.

In FY21 credit growth slowed down due to covid-19 pandemic, which impacted the lower and middle income groups. However on the back of RBI, the Centre and state governments providing support to the segment with tax sops, lower stamp duty and favorable interest rates there was a faster than expected revival in 2nd half of FY21. The growth in the housing sector continued in FY22 with middle income groups opting for homes in Tier 2 and 3 cities. Also people shifted their preference towards large homes on account of work from home policies. Despite the aggressive rate hike during FY23 by RBI in order to control inflation, credit growth remained intact. In FY24 credit growth is expected to continue according to Crisil with affordable housing finance getting back on track and expected to post robust growth.

HFCs are facing stiff competition as competitive borrowing cost remains a major challenge versus the banks which benefit from low cost deposits. This relatively higher funding cost restricts the ability to HFCs to compete with banks in traditional salaried home loan segment. HFCs spearheaded the home loan market with a 70% market share in 1998, which came down to 30% by 2010. Following this, HFCs regained market share from banks and captured 42% of the market until the IL&FS crisis struck NBFCs in 2018. Currently, HFCs hold a 34% market share, which is expected to go down further as they struggle to raise low cost resources.



Source- Crisil MI&A

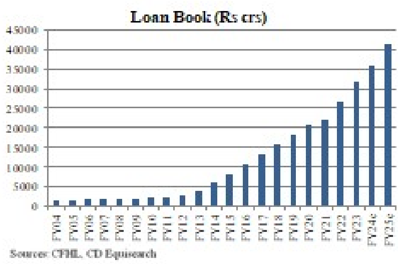


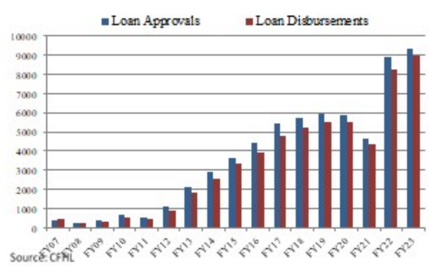
Source- Crisil MI&A

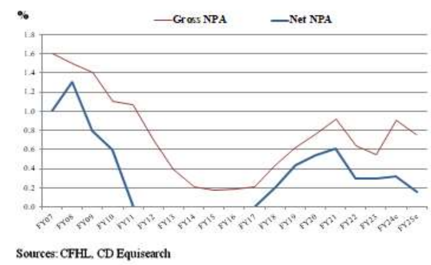
In FY23 India mortgage to GDP ratio stood at 12.3% and is expected to grow to 14-15% by FY25, according to Crisil. Compared to 20% to 30% in other Asian nations, mortgage penetration is far lower owing to lower per capita income and higher proportion of informal employment in the country. However, CRISIL believes rising urbanisation, growing disposable income, favourable demographics and government measures will lead to higher mortgage penetration going forward. Currently 65% of the population is under 35 and it is predicted that the working class population will increase by 10 million between 2021 and 2031. This will induce demand for more homes from working section of the country.

Financials and Valuation

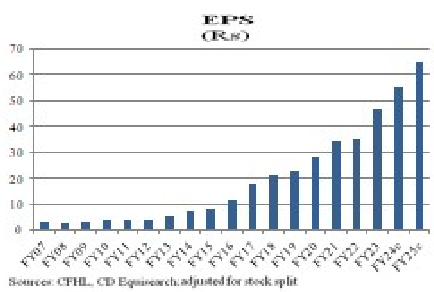
At the end of Q3, the loan book stood at Rs 34053 cr with southern states contributing 72% (Company is planning to diversity in different region and bring its share to 60% in the south) to total loans. Disbursements in 9MFY24, were at Rs 5864.7 cr as against Rs 6409.05 cr in 9MFY23. Rising housing demand and improved affordability led by government initiatives will continue to drive the pace of disbursements. CFHL continues to focus on tier II and tier III cities where competition from banks is less and so it can benefit from pricing power with an increased focus on branch expansion. With the government's focus on affordable housing, largely in non-metro cities, CFHL is poised well to benefit in terms of an improved growth trajectory. Hence, we expect the loan book to grow at a healthy CAGR of 14.4% in FY23-25E. However, no major gain in Can Fin's market share over the past few years due to growing presence of 'cost-competitive' banks in the housing sector barely leaves massive scope of business scaling.

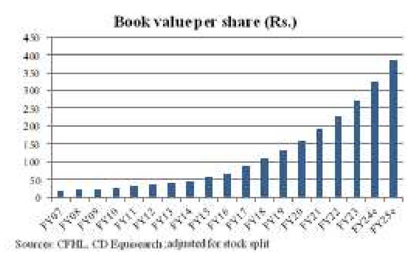






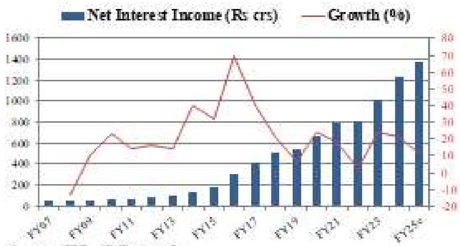
Given the restructuring of Rs 685 crs of assets, GNPA has shot up by 70.5% to Rs 308.84 crs by the end of Q3 as against Rs 181.14 crs. Following the same trend, net NPA increased from Rs 89.29crs by the end of Q3 last year Vs Rs 167.39 crs by end of Q3 this year. However, NPA created against the restructuring of books came to around Rs 96 crs which is less than 15% in terms of the total restructured book of Rs 685 crores. Can Fin enjoys low cost of funding due to its parent company and AAA rating by credit rating agency help it to raise funds further. However, Can Fin, too, suffers from the inherent structural problem of asset-liability mismatch in the industry. Majority of Can Fin's book is long dated while majority of borrowings are short-term.





By the end of Q3 commercial paper formed merely 5% of Can Fin's funding mix comparatively below that in last fiscal. The decline can be largely attributed to the rising cost of raising funds. As made evident by the management CP is not for funding purpose but predominantly used for cost leveraging and largely extent of the undrawn term loan limits. However, considering the Asset and Liability management (ALM) perspective, this decline in the mix of CP in the funding mix could be seen as a positive sign.

Sources: CFHL, CD Equisearch



Sources: CFHL, CD Equisearch

Sources: CFHL, CD Equisearch

The stock currently trades at 2.4x FY24e BV (13.9x FY24e EPS of Rs 55.22) and 2.0x FY24e BV (11.9x FY25e EPS of Rs 64.72). The growth has remained subdued given to revamping of process and tightening rules after the Ambala incident. But Can Fin NIMs has benefited from the rerating and lag effect of loan repricing, which will help the NII to grow around 11% in FY25. However, company is facing stiff competition from banks that offer loan at competitive rate. Can Fin used to charge 120 bps higher than banks but right now it has come down to around 55 bps. This can put pressure on spreads. Moreover, less focus on yield enhancing segments like developer financing and LAP would lead to moderation in NIMs in the near-term. Furthermore, company plans to establish 12-15 branches and increase focus on lower tier cities and increase ticket size, which will help it to maintain pricing power over its customers. Weighing odds, we assign 'accumulate' rating on the stock with revised target of Rs 883 (previous target: Rs 645) based on 2.3x FY25e BV. For more info, refer to our November 2022 report.

Cross Sectional Analysis

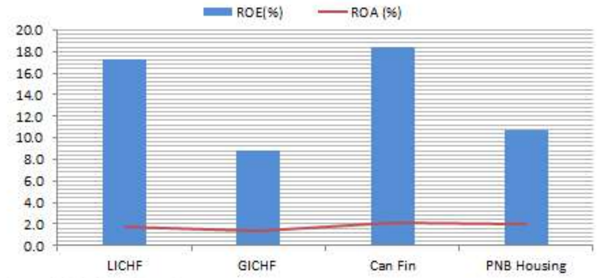
Company	Equity*	CMP	Mcap*	NII*	Profit*	NIMs (%)	Loan Book growth(%)	ROE (%)	ROA (%)	P/E	P/BV
LICHF	110.0	638	35102	8404	4855	3.1	4.8	17.3	1.8	7.2	1.2
GICHF	53.9	228	1226	346	150	3.3	-7.2	8.8	1.4	8.2	0.7
Can Fin	26.6	768	10222	1192	707	3.7	13.1	18.4	2.2	14.4	2.5
PNB Housing	259.7	702	18223	2439	1348	4.1	7.4	10.7	2.0	13.5	1.3

*figures in crores; calculations on ttm basis; standalone or consolidated data as available as on December 31, 2024

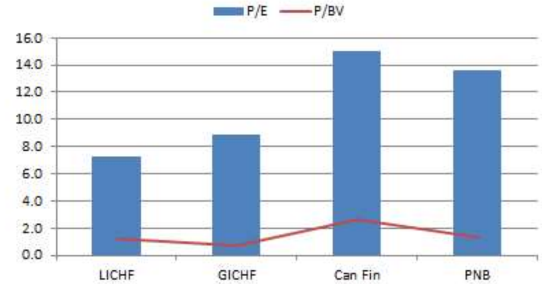
LIC's disbursements for Q3FY24 stood at Rs 15184 cr as against Rs 16100 cr in the corresponding quarter of the prior year, exhibit a decline of 5.7%. The decrease was on account of new technology implementation and organisational structure changes for strengthening back office infrastructure. Out of this, the individual home loan disbursements were Rs 12868 cr as against Rs 13580 crs in Q3FY23. Net interest income has witnessed a robust growth of 31.2% in Q3FY24 to Rs 2097 cr as against Rs 1598 cr in the corresponding quarter of the next year. However, NIM fell at 3% as against 3.04% (quarter on quarter) due to increase in cost of funds. Margin pressure is expected to continue and company has revised it NIM guidance for Q4FY24 to 2.8-3%. During the quarter, the Company has made an additional provision of Rs.50 Cr, on account of RBI Circular on Investment in AIF.

Driven by a year-over-year decline of over 4.4% to Rs 786.79 cr in 9MFY24 interest income, GICHF's NII witnessed a marginal decline to Rs. 248.74 crs as against Rs. 298.65 crs in 9MFY23. Higher provisions created during the period drive down the profits as pre-tax earnings declined by over 41.1% during the period to Rs. 124.95 crs as against Rs. 212.29 crs. PAT also decline to Rs 97.68 crs in 9MFY24. Loan book declined by some 7% to Rs. 10,229 crs in at the end of Q3 as against Rs. 11017 crs.

PNB Housing's disbursement in the retail segment grew by 22.2% to Rs 4110 crs in Q3FY24 (yoy). Since the company is de-growing its corporate book disbursement in the segment declined by 47.8% y-o-y with books standing at Rs 2208 crs as of Q3FY24. Due to higher cost of funds, shifting loan mix and elevated competitive intensity net interest margin contracted sequentially at 3.49% for the quarter as against 4.68% in Q3FY23.Average cost of borrowing also increase to 7.98% in Q3FY24 as against 7.55% in Q3FY23.Recently the company got a rating upgrade by Indian Ratings from "AA" to "AA+" with 'Stable' outlook which is expected to help the company to bring its cost of borrowing down in future. The company has expanded its branch network to 212 by the end of Q3 and is aiming to add another ~88 branches during Q4FY24 to increase the share of retail loans to offset the rundown of corporate loans and loans to self-employed segment. However, branch throughput remains a key monitorable, given higher competitive intensity and elevated cost of business in the affordable housing segment.



Sources: CD Equisearch; Companies



Sources: CD Equisearch; Companies

Financials

Quarterly Results

Figures in Rs crs

	Q3FY24	Q3FY23	% chg.	9MFY24	9MFY23	% chg.
Net Interest Income	328.83	251.70	30.6	930.69	753.27	23.6
Non-Interest Income	7.08	5.06	39.9	18.91	15.53	21.7
Total Operating Income	**335.91**	**256.77**	**30.8**	**949.59**	**768.80**	**23.5**
Operating Expenses	49.41	43.84	12.7	145.32	124.80	16.4
Pre-Provision Profits	**286.50**	**212.93**	**34.6**	**804.28**	**644.00**	**24.9**
Provision	30.81	8.42	265.9	116.70	17.96	549.8
PBT	**255.69**	**204.51**	**25.0**	**687.58**	**626.04**	**9.8**
Tax	55.55	53.01	4.8	145.91	170.63	-14.5
PAT	**200.14**	**151.49**	**32.1**	**541.67**	**455.42**	**18.9**
Extraordinary items	-	-	-	-	-	-
Adjusted Net Profit	**200.14**	**151.49**	**32.1**	**541.67**	**455.42**	**18.9**
EPS	15.03	11.38	32.1	40.68	34.20	18.9

Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Net Interest Income	798.04	816.16	1014.55	1231.56	1370.78
Non-Interest Income	12.06	18.84	27.71	27.94	30.87
Total Operating Income	**810.10**	**835.00**	**1042.27**	**1259.50**	**1401.65**
Operating Expenses	123.99	153.00	176.48	194.76	233.90
Pre-Provision Profits	**686.11**	**682.00**	**865.79**	**1064.74**	**1167.75**
Provision	68.53	46.94	41.76	122.13	41.31
PBT	**617.58**	**635.06**	**824.03**	**942.62**	**1126.44**
Tax	161.52	163.95	202.82	207.38	264.71
PAT	**456.06**	**471.11**	**621.21**	**735.24**	**861.72**
Extraordinary items	-0.04	-	-	-	-
Adjusted Net Profit	**456.10**	**471.11**	**621.21**	**735.24**	**861.72**
EPS	34.25	35.38	46.65	55.22	64.72

Balance Sheet

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Sources Of Funds	**22028.29**	**27896.62**	**33022.06**	**37415.48**	**43056.42**
Shareholders' Funds	**2609.81**	**3066.62**	**3647.28**	**4329.26**	**5137.72**
Share Capital	26.63	26.63	26.63	26.63	26.63
Reserves and Surplus	2583.17	3039.99	3620.65	4302.63	5111.09
Financial Liabilities	**19348.01**	**24831.05**	**29366.48**	**33081.39**	**37904.46**
Debt Securities	4891.30	6072.02	6310.99	7902.31	9087.66
Borrowings and Deposits	14298.69	18472.92	22654.22	24874.32	28502.19
Other Financial Liabilities	158.02	286.12	401.27	304.76	314.61
Non-Financial Liabilities	**70.47**	**-1.05**	**8.30**	**4.83**	**14.24**
Provisions	102.25	25.47	33.89	33.11	42.84
Other Non-Financial Liabilities	13.67	21.20	22.84	25.00	30.00
Deferred Tax Liability	-45.45	-47.73	-48.43	-53.27	-58.60
Application of Funds	**22028.29**	**27896.62**	**33022.06**	**37415.48**	**43056.42**
Financial Assets	**21967.04**	**27835.19**	**32972.93**	**37336.00**	**42965.15**
Cash and Bank	21.55	324.08	308.47	315.89	457.93
Investments	49.60	1125.97	1459.03	1450.00	1600.00
Loans and Advances	21891.48	26378.06	31193.33	35560.39	40894.45
Other Financial Assets	4.40	7.08	12.11	9.72	12.77
Non-Financial Assets	**61.25**	**61.43**	**49.13**	**79.48**	**91.27**
Tangible Assets	37.82	34.62	45.40	47.45	51.47
Other Non-Financial Assets	23.43	26.81	3.72	32.03	39.81

Key Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Net Interest Income	18.3	2.3	24.3	21.4	11.3
Total Operating Income	18.0	3.1	24.8	20.8	11.3
Pre Provision Profits	18.6	-0.6	26.9	23.0	9.7
Net Profit	21.3	3.3	31.9	18.4	17.2
EPS	21.3	3.3	31.9	18.4	17.2
Loan Book	6.7	20.8	18.2	13.8	15.0
Return Ratios (%)					
ROE	19.4	16.7	18.6	18.6	18.3
ROA	2.1	1.9	2.0	2.1	2.1
Margins (%)					
Cost To Income Ratio	15.3	18.3	16.9	15.5	16.7
Net Interest Margin	3.7	3.3	3.5	3.7	3.6
Asset Quality (%)					
Gross NPA	0.9	0.6	0.6	0.9	0.8
Net NPA	0.6	0.3	0.3	0.3	0.2
Valuation Ratios					
P/BV	3.2	2.8	1.9	2.4	2.0
P/E	17.9	17.8	11.3	13.9	11.9
Other Ratios					
Debt / Equity	7.5	8.1	8.0	7.6	7.4

Cumulative Financial Data

Figures in Rs crs	FY17-19	FY20-22	FY23-25e
NII	1476	2289	3617
Pre-provision profits	1312	1947	3098
PBT	1270	1771	2893
PAT	818	1303	2218
Dividends	96	93	153
Loan Book*	18381	26711	41308
Loan Book growth (%)		45.3	54.6
Cost to Income (%)	16.5	16.5	16.3
NIM (%)	3.4	3.4	3.5
ROE (%)	20.7	18.1	18.1
ROA (%)	1.9	1.9	2.1
GNPA (%)*	0.6	0.6	0.8
Dividend payout ratio (%)	11.8	7.2	6.9

FY17-19 implies three year period ending fiscal 2019;*as on terminal year.

GNPA may see a 20 bps jump during FY23-25e to 0.8% (still below 1% company historical rate) as against 0.6% in FY20-22 due to restructuring of loan .With competition intensifying in low risk affordable home loan space and lenders struggling to borrow competitively, net interest margins would barely edge upward to 3.5% in FY23-25e as against 3.4% in the preceding three period. The company will be able to maintain its cost to income at 16.3% which will support earnings.

Given the strong momentum in demand for individual home loans, loan book is likely to witness decent traction and could grow by some 54.6% in FY23-25e, though this growth would hardly equip the company to make any dent in its market share of housing credit. ROE is also expected to remain flat at 18.1% FY23-25e due to thin spreads and increase in operating expenses. ROA would inch upward at 2.1% in FY23-25e as against 1.9% in FY20-22.

Financial Summary- US$ denominated

million $	FY21	FY22	FY23	FY24e	FY25e
Equity capital	3.6	3.5	3.2	3.2	3.2
Shareholders' funds	351.4	401.9	440.4	518.9	616.4
Total debt	2624.7	3251.4	3535.5	3965.3	4545.8
Total loans and advances	2978.2	3479.6	3794.0	4288.8	4932.1
Investments	6.7	148.5	177.5	174.9	193.0
Total assets	2996.9	3679.9	4016.5	4512.5	5192.8
Net Interest Income	107.6	109.5	126.2	148.5	165.3
Pre-provision Profits	92.5	91.5	107.7	128.4	140.8
PBT	83.2	85.2	102.5	113.7	135.9
PAT	61.5	63.2	77.3	88.7	103.9
EPS($)	0.46	0.47	0.58	0.67	0.78
Book value ($)	2.64	3.02	3.31	3.90	4.63

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 82.92/$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY20	FY21	FY22	FY23
Average	70.88	74.20	74.51	80.39
Year end	75.39	73.50	75.81	82.22

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.