Can Fin Homes Ltd.

No. of shares (m)	133.15
Mkt cap (Rscrs/$m)	11499/1371.0
Current price (Rs/$)	864/10.3
Price target (Rs/$)	1012/12.1
52 W H/L (Rs.)	938/680
Book Value (Rs/$)	337/4.0
Beta	1.3
Daily volume NSE (avg. monthly)	579170
P/BV (FY25e/26e)	2.3/2.0
P/E (FY25e/26e)	13.8/12.2
Cost to Income (FY24/25e/26e)	19.9/18.0/17.9
EPS growth (FY24/25e/26e)	20.9/10.7/13.5
NIM (FY24/25e/26e)	3.8/3.6/3.6
ROE (FY24/25e/26e)	19.0/17.8/17.3
ROA(FY24/25e/26e)	2.2/2.1/2.1
D/E ratio (FY24/25e/26e)	7.4/7.3/6.9
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF.IN
Reuters	CNFH.NS

Shareholding pattern	%
Promoters	30.0
MFs / Banks / FIs/ Others	27.8
Foreign Portfolio Investors	11.5
Govt. Holding	-
Public & Others	30.7
Total	**100.0**

As on June 30th, 2024

Recommendation

ACCUMULATE

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E- mail: research@cdequi.com

Quarterly Highlights

- The Company witnessed a decline in disbursements by 6% in Q1FY25 to Rs 1853 crs from Rs 1966 crs in Q1FY24 as the business was slow due to elections. The management aims to increase disbursements to Rs 2500 crs in Q2FY25. The growth in loan book was a mere 9.4% y-o-y at Rs 35557 crs in Q1FY25 (vs Rs 32505 crs in Q1FY24) partly due to CanFin's focus on streamlining its operations. The salaried and professional segment, comprising 72% of the book, grew by 7.75% to Rs 25477 crs (y-o-y), whereas, self-employed and non-professionals grew by 13.8%.
- The net interest income grew by 12.8% y-o-y to Rs 321.43 crs in Q1FY25 when compared to Rs 285.08 crs in Q1FY24. The Company made provisions for impairment of financial assets of Rs 24.47 crs in Q1FY25 vs Rs 13.71 crs in Q1FY24. CFHL booked PBT of Rs 255.10 crs in Q1FY25 as against Rs 233.90 crs during the same period in the preceding year.
- The asset quality of CanFin deteriorated in the past quarters as can be witnessed by a substantial increase in its GNPA (Rs 325 crs in Q1FY25 vs Rs 205 crs in Q1FY24). This resulted in an increase in its NNPA to Rs 174 crs in Q1FY25 from Rs 110 in Q1FY24. The GNPA and NNPA ratios stood at 0.91% and 0.49% respectively. Recovery in the range of Rs 30 crs to Rs 40 crs is expected by the management. This may relax the GNPA to 0.8% in the current fiscal.
- The stock currently trades at 2.3x FY25e BV (13.8x FY25e EPS of Rs 62.42) and 2x FY26e BV (12.2x FY26e EPS of Rs 70.86). With its internal controls set in place and an active sales team, CanFin aims a 15% growth in its AUM by adding around Rs 5250 crs to its loan book. However,, given the intense competition from its peers. It would be interesting to see how resilient CanFin is in the face of any macroeconomic challenges. Emerging competition from banks in the housing segment presents no small friction to business growth. In face of this adversity, CanFin, much like other NBFCs, hopes to 'survive' by deepening its network. Weighing odds, we retain 'accumulate' rating on the stock with revised target of Rs 1012 (previous target: Rs 883) based on 2.3x FY26e BV.

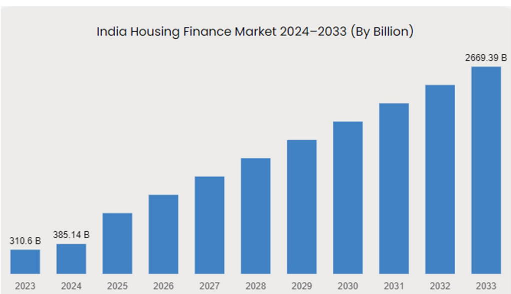
Figures in Rs crs	FY22	FY23	FY24	FY25e	FY26e
Net Interest Income	816.16	1014.55	1258.79	1354.46	1535.90
Non-Interest Income	18.84	27.71	34.51	38.40	42.33
Pre-Provision Profits	682.00	865.79	1036.34	1142.09	1295.24
Net profit	471.11	621.13	750.66	831.18	943.48
EPS(Rs)	35.38	46.64	56.37	62.42	70.86
EPS growth (%)	3.3	31.8	20.9	10.7	13.5

Outlook & Recommendation

Housing Finance Industry Overview

According to a report by Custom Market Insights, the Indian housing finance market is anticipated to grow at a CAGR of 24.1% in the period 2024-2033. The forecasted valuation of market size for the year 2024 is USD 385.14 billion which will reach to USD 2669.39 billion by 2033. The growth of housing finance industry depends upon several macroeconomic factors like growth in urbanization and real estate development, improvement in technology, rise in disposable income, interest rate trends and demographic shifts. Government initiatives like PMAY and CLSS also boost demand by eligible home loan borrowers as it provides subsidies and interest rate benefits. The factors that might hinder the growth of this sector are unstable economic environment, frequent changes in regulations, market saturation, credit risk, technological disruption and external shocks.

According to RBI's data, there has been surge in credit outstanding to the housing sector in the last two years (from Rs 17.26 lakh crs in FY22 to Rs 27.22 lakh crs in FY24). According to a report by CRISIL, GNPA for HFCs is expected to marginally decline to 1.3% in FY25. Credit costs are expected to decline 20 bps in FY25 on account of higher write-offs in the first half of fiscal 2024 translating into an improvement in return on assets in FY25 at 2.0%. Growth in housing sector loans depicts that people are becoming more inclined towards home ownership. The effect of Covid-19 pandemic (introduction of WFH mode in several offices) evolved the living preferences of working population. With the growth in prices of luxury residential real estate, many people see it as an investment and try to leverage their investments by capturing any opportunity in the home loan market.

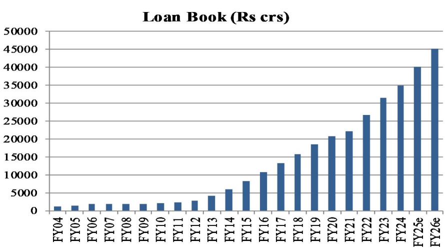


Source: Custom Market Insights

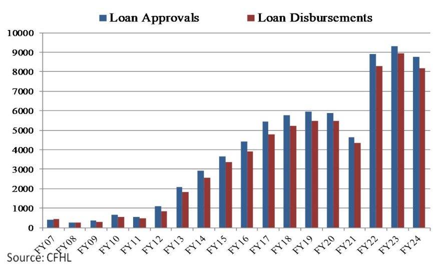
The ripple effect of growing demand in the housing sector is clearly visible in the other parts of the economy such as construction and home improvement market. One of the key metrics to gauge the health of housing finance industry is mortgage-to-GDP ratio. This ratio is positively correlated to per capita income and negatively correlated to the proportion of informal employment in the country. India's mortgage-to-GDP ratio is much lower than other Asian countries. The penetration of India in housing market is very low in comparison to its peer countries. This depicts that there is sufficient scope for expansion.

Financials and Valuation

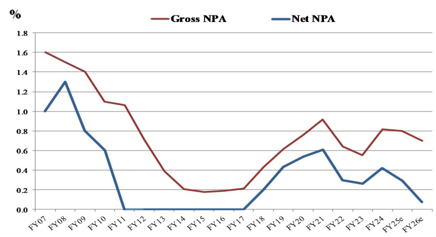
The loan book grew by 10.9% to Rs 34999 crs in FY24 as against Rs 31563 crs in FY23. The southern states contributed 72% to the total loan portfolio in FY24. The proportion of loans given to salaried class and SENP stands at 72% and 28% respectively. CFHL has, over past few years, increased its focus on SENP category. Although, sufficient due diligence is done by the Company before sanctioning such loans, asset quality of CanFin should be monitored routinely. The Company targets a loan portfolio of ~Rs 41,000 crs by the end of FY25 showcasing a growth rate of over 15%. Disbursements in FY24 declined by 8.6% to Rs 8177 crs when compared to Rs 8947 crs in the preceding fiscal year. Going forward, management aims to increase total disbursements to Rs 10,500 crs by FY25.



Sources: CFHL, CD Equisearch

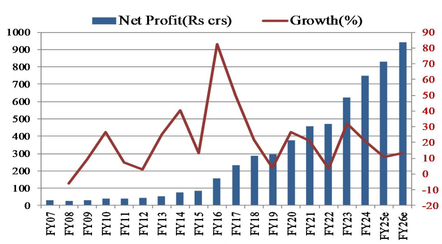


Source: CFHL

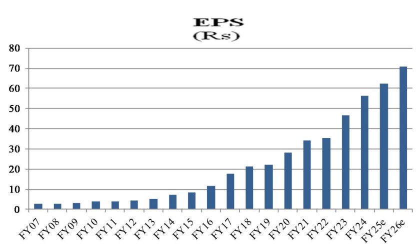


Sources: CFHL, CD Equisearch

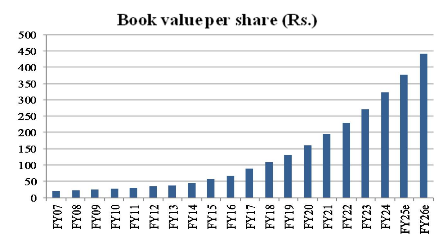
The GNPA of CanFin rose by 64.4% to Rs 286 crs in FY24 from Rs 176 crs in FY23. As a result, net NPA witnessed an increase of 77% to Rs 147 crs in FY24 from Rs 83 crs in FY23. Most of the funds that CanFin raised in FY24 were from banks and through NCDs. As the rates are high in such forms, the borrowing cost of the Company shot up to 7.4% in FY24 from 6.54% in FY23. Going forward if provision for AHF in NHBs is introduced, the Company might borrow from NHBs where the rates are comparatively low. The cost of funds may then see reduction.



Sources: CFHL, CD Equisearch;adjusted for stock split

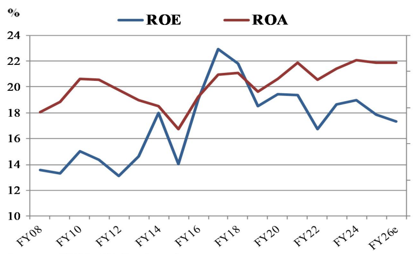


Sources: CFHL, CD Equisearch;adjusted for stock split

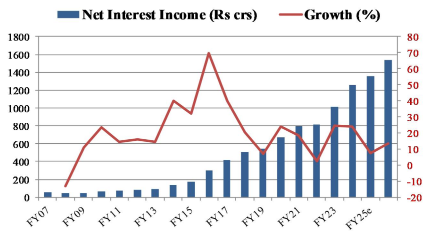


Sources: CFHL, CD Equisearch ;adjusted for stock split

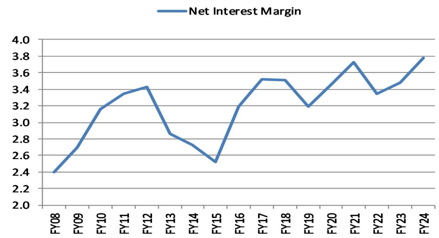
Along with DSAs being in place, CanFin has established a direct marketing/direct sourcing channel to enhance its loan book. The Company has moved from a Tier 2 to Tier 3 structure of operation by introducing a layer of zonal officers in branches who have higher sanctioning power. According to the Company, these initiatives will accelerate the rate of loan approvals and consequently increase the size of loan book. The current average ticket size of CanFin is Rs 22-25 lacs. The management aims to increase it to Rs 27 lacs in FY25. Government initiatives and policies also impact the growth of housing and non-housing loans demanded by people. Increase in capital expenditure and schemes like Pradhan Mantri Awas Yojana (PMAY) assists the dreams of many aspirational homeowners. The Company plans to open around 15 branches in Tier 2 cities to cater the home loan needs of aspiring homeowners.



Sources: CFHL, CD Equisearch



Sources: CFHL, CD Equisearch



Sources: CFHL, CD Equisearch

The stock currently trades at 2.3x FY25e BV (13.8x FY25e EPS of Rs 62.42) and 2x FY26e BV (12.2x FY26e EPS of Rs 70.86). The growth in loan book in FY24 remained depressed because the company was focused more on enhancing its internal operations. The spread and NIM will not have any adverse impact from increase in borrowing cost as the Company will be passing it to its borrowers. The Company has also increased its CIBIL score from 600 to 650 to augment its credit risk assessment. So, the future quality of loan book looks positive and the NPA is set to decline. However, threat from peers remains. Scaling the business from hereon may face increased resistance from banks, who have gone full hog to boost their share in housing finance industry. HFCs get thin competitive advantage in form of deeper rural network and better customer relations would only help them go that far. Weighing odds, we retain 'accumulate' rating on the stock with revised target of Rs 1012 (previous target: Rs 883) based on 2.3x FY26e BV. For more information, refer to our February 2024 report.

Cross Sectional Analysis

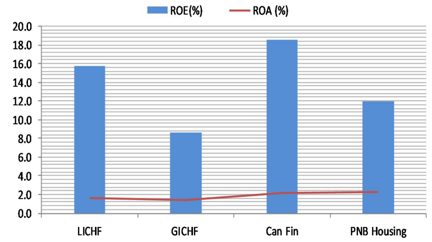
Company	Equity*	CMP	Mcap*	NII*	Profit*	NIMs (%)	Loan Book growth(%)	ROE (%)	ROA (%)	P/E	P/BV
LICHF	110.0	674	37096	8431	4742	3.0	4.4	15.8	1.7	7.8	1.2
GICHF	53.9	240	1290	334	154	3.2	-1.7	8.7	1.4	8.4	0.7
Can Fin	26.6	864	11499	1295	767	3.8	9.4	18.5	2.2	15.0	2.6
PNB Housing	259.7	977	25387	2504	1594	3.9	10.9	11.9	2.3	15.9	1.6

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

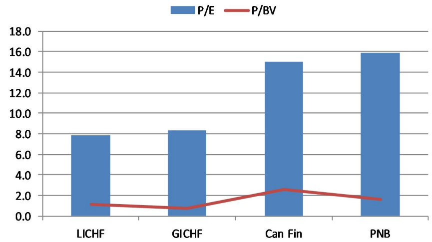
Disbursements of LICHF grew by 19% to Rs 12915 crs in Q1FY25 from Rs 10856 crs in Q1FY24. The composition of individual home loan in disbursement was Rs 10932 crs and Rs 9419 crs in Q1FY25 and Q1FY24 respectively, up by 16%. The management is aiming to bring down the share of individual home loan from the current 85% to 80% and targets a growth of 7-8% in the non-housing loan category. Net interest income declined by 10% to Rs 1989.08 crs in Q1FY25 from Rs 2209.44 crs in Q1FY24 due to moderate collection from NPA accounts and lower rates of interest charged in order to pace up the disbursement. As a result, net interest margin fell to 2.76% from 3.21% y-o-y. The Company's provision coverage rose to 49.8% in Q1FY25 from 41% in Q1FY24.

GICHF witnessed a whopping increase of 65% in its disbursements at Rs 375 crs in Q1FY25 from Rs 227 crs in Q1FY23. Marginal increase of 2% was seen in the net interest income (Rs 83.74 crs in Q1FY25 vs Rs 82.07 crs in Q1FY24). Loan book of the Company declined by a mere 2% to Rs 10281 crs in Q1FY25 as against Rs 10459 crs in Q1FY24. PAT for the quarter grew by 22.5% to Rs 39 crs in Q1FY25 when compared to Rs 32 crs in Q1FY24. Profits would have been higher had the Company not increased its provisions by 126.2% to Rs 23.84 crs in Q1FY25 from Rs 10.54 crs in Q1FY24.

PNB Housing's disbursement in the retail segment grew by 19% y-o-y to Rs 4363 crs in Q1FY25, while the corporate segment grew by 80.5% y-o-y to Rs 34 crs. Within the retail segment, the Company is more inclined towards growing the emerging market and affordable segments. The cost of borrowings reduced to 7.92% in Q1FY25, a dip of 6 bps from Q4FY24 as the Company managed to secure funds from debt market at competitive rates coupled with improved pricing from the bank. Net interest margin witnessed a decline at 3.65% in Q1FY25 when compared to 3.86% in Q1FY24. Improvement in NIMs is not expected in the near term. However, with the evolving business mix there might be some growth in affordable and emerging segments. With the presence of 303 branches pan India and enhancement in the Government policies like PMAY, the Company is optimistic about its future prospects. The Company has plans of adding 40 to 50 branches which will be focusing on emerging and affordable loan segments.



Sources: CD Equisearch; Companies



Sources: CD Equisearch; Companies

Financials

Quarterly Results

Figures in Rs crs

	Q1FY25	Q1FY24	% chg.	FY24	FY23	% chg.
Net Interest Income	321.43	285.09	12.7	1258.79	1014.55	24.1
Non-Interest Income	6.97	6.00	16.1	34.51	27.71	24.5
Total Operating Income	**328.40**	**291.09**	**12.8**	**1293.30**	**1042.27**	**24.1**
Operating Expenses	48.83	43.49	12.3	256.96	176.48	45.6
Pre-Provision Profits	**279.57**	**247.60**	**12.9**	**1036.34**	**865.79**	**19.7**
Provision	24.47	13.71	78.6	78.81	41.76	88.7
PBT	**255.10**	**233.90**	**9.1**	**957.73**	**824.03**	**16.2**
Tax	55.46	50.44	10.0	206.83	202.82	2.0
PAT	**199.64**	**183.45**	**8.8**	**750.70**	**621.21**	**20.8**
Extraordinary items	-	-	-	0.04	0.08	-47.5
Adjusted Net Profit	**199.64**	**183.45**	**8.8**	**750.66**	**621.13**	**20.9**
EPS	14.99	13.78	8.8	56.37	46.64	20.9

Income Statement

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Net Interest Income	816.16	1014.55	1258.79	1354.46	1535.90
Non-Interest Income	18.84	27.71	34.51	38.40	42.33
Total Operating Income	**835.00**	**1042.27**	**1293.30**	**1392.86**	**1578.23**
Operating Expenses	153.00	176.48	256.96	250.77	282.99
Pre-Provision Profits	**682.00**	**865.79**	**1036.34**	**1142.09**	**1295.24**
Provision	46.94	41.76	78.81	76.47	85.65
PBT	**635.06**	**824.03**	**957.53**	**1065.62**	**1209.59**
Tax	163.95	202.82	206.83	234.44	266.11
PAT	**471.11**	**621.21**	**750.70**	**831.18**	**943.48**
Extraordinary items	-	0.08	0.04	-	-
Adjusted Net Profit	**471.11**	**621.13**	**750.66**	**831.18**	**943.48**
EPS	35.38	46.64	56.37	62.42	70.86

Balance Sheet

Figures in Rs crs

	FY22	FY23	FY24	FY25e	FY26e
Sources Of Funds	**27896.62**	**33022.06**	**36535.68**	**42117.47**	**46909.82**
Shareholders' Funds	**3066.62**	**3647.28**	**4343.85**	**5081.83**	**5918.78**
Share Capital	26.63	26.63	26.63	26.63	26.63
Reserves and Surplus	3039.99	3620.65	4317.22	5055.20	5892.15
Financial Liabilities	**24831.05**	**29366.48**	**32163.85**	**37035.48**	**40988.50**
Debt Securities	6072.02	6310.99	7575.12	8452.26	9466.53
Borrowings and Deposits	18472.92	22654.22	24184.91	28174.20	31104.31
Other Financial Liabilities	286.12	401.27	403.82	409.03	417.66
Non-Financial Liabilities	**-1.05**	**8.30**	**27.98**	**0.16**	**2.53**
Provisions	25.47	33.89	58.73	42.64	48.06
Other Non-Financial Liabilities	21.20	22.84	35.11	28.00	32.00
Deferred Tax Liability	-47.73	-48.43	-65.87	-70.48	-77.52
Application of Funds	**27896.62**	**33022.06**	**36535.68**	**42117.47**	**46909.82**
Financial Assets	**27835.19**	**32972.93**	**36478.22**	**42053.74**	**46842.17**
Cash and Bank	324.08	308.47	457.42	697.58	603.48
Investments	1125.97	1459.03	1459.03	1500.00	1600.00
Loans and Advances	26378.06	31193.33	34553.10	39846.36	44627.92
Other Financial Assets	7.08	12.11	8.67	9.79	10.76
Non-Financial Assets	**61.43**	**49.13**	**57.46**	**63.73**	**67.65**
Tangible Assets	34.62	45.40	52.62	58.40	61.79
Other Non-Financial Assets	26.81	3.72	4.85	5.33	5.86

Key Financial Ratios

	FY22	FY23	FY24	FY25e	FY26e
Growth Ratios (%)					
Net Interest Income	2.3	24.3	24.1	7.6	13.4
Total Operating Income	3.1	24.8	24.1	7.7	13.3
Pre Provision Profits	-0.6	26.9	19.7	10.2	13.4
Net Profit	3.3	31.9	20.9	10.7	13.5
EPS	3.3	31.9	20.9	10.7	13.5
Loan Book	20.8	18.2	10.9	15.0	12.0
Return Ratios (%)					
ROE	16.7	18.6	19.0	17.8	17.3
ROA	1.9	2.0	2.2	2.1	2.1
Margins (%)					
Cost To Income Ratio	18.3	16.9	19.9	18.0	17.9
Net Interest Margin	3.3	3.5	3.8	3.6	3.6
Asset Quality (%)					
Gross NPA	0.6	0.6	0.8	0.8	0.7
Net NPA	0.3	0.3	0.4	0.3	0.1
Valuation Ratios					
P/BV	2.8	1.9	2.7	2.3	2.0
P/E	17.8	11.3	15.3	13.8	12.2
Other Ratios					
Debt / Equity	8.1	8.0	7.4	7.3	6.9

Cumulative Financial Data

Figures in Rs crs	FY18-20	FY21-23	FY24-26e
NII	1728	2629	4149
Pre-provision profits	1502	2234	3474
PBT	1419	2077	3233
PAT	959	1548	2525
Dividends	91	113	280
Loan Book*	20708	31563	45079
Loan Book growth (%)		52.4	42.8
Cost to Income (%)	16.0	16.9	18.5
NIM (%)	3.4	3.4	3.6
ROE (%)	19.4	18.0	17.7
ROA (%)	1.9	1.9	2.1
GNPA (%)*	0.8	0.6	0.7
Dividend payout ratio (%)	9.5	7.3	11.1

FY18-20 implies three year period ending fiscal 2020;*as on terminal year.

CanFin has raised its CIBIL score criteria while sanctioning loans. This promises long-term low-risk lending portfolio. Restructured loans and modified internal operations may also contribute in the improvement of CanFin's asset quality. Effect of the same will be reflected in its GNPA as it may see an increase of only 10 bps in FY24-26e to 0.7% as against 0.6% in FY21-23.

The NII is anticipated to witness a growth of 57.8% to Rs 4149 crs in FY24-26e when compared to Rs 2629 crs in the preceding three year period. NIM will increase by 20bps to 3.6% in FY24-26e from 3.4% in FY21-23. The cost to income ratio will go up to 18.5% in FY24-26e (vs 16.9 in FY21-23). ROA would inch up to 2.1% in FY24-26e as against 1.9% in FY21-23. With increasing competition from banks and nearly unprecedented pressure in garnering funds, growing loan book in high double digits would present all but a daunting task.

Financial Summary- US$ denominated

million $	FY22	FY23	FY24	FY25e	FY26e
Equity capital	3.5	3.2	3.2	3.2	3.2
Shareholders' funds	401.9	440.4	514.6	599.6	699.4
Total debt	3251.4	3535.5	3821.7	4379.2	4849.5
Total loans and advances	3479.6	3794.0	4144.4	4750.9	5321.0
Investments	148.5	177.5	175.0	178.8	190.8
Total assets	3679.9	4016.5	4382.1	5021.7	5593.1
Net Interest Income	109.5	126.2	152.0	161.5	183.1
Pre-provision Profits	91.5	107.7	125.2	136.2	154.4
PBT	85.2	102.5	115.6	127.1	144.2
PAT	63.2	77.3	90.7	99.1	112.5
EPS($)	0.47	0.58	0.68	0.74	0.84
Book value ($)	3.02	3.31	3.86	4.50	5.25

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 83.87/$). 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/$	FY21	FY22	FY23	FY24
Average	74.20	74.51	80.39	82.79
Year end	73.50	75.81	82.22	83.37

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.