

May 3, 2022

## Q4FY22 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	800		800	
NII (Rs.)	9,623	11,332	9,514	11,067
% Chng.	1.2	2.4		
PPoP (Rs.)	8,092	9,543	8,047	9,354
% Chng.	0.6	2.0		
EPS (Rs.)	41.3	48.7	41.3	48.4
% Chng.	-	0.5		

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Int.Inc. (Rs m)	7,980	8,162	9,623	11,332
Growth (%)	18.3	2.3	17.9	17.8
Op. Profit (Rs m)	6,861	6,820	8,092	9,543
PAT (Rs m)	4,561	4,711	5,502	6,481
EPS (Rs.)	34.2	35.4	41.3	48.7
Gr. (%)	21.3	3.3	16.8	17.8
DPS (Rs.)	2.0	1.5	2.1	2.9
Yield (%)	0.3	0.2	0.3	0.5
Margin (%)	3.7	3.2	3.1	3.1
RoAE (%)	19.2	16.6	16.5	16.7
RoAA (%)	2.1	1.9	1.8	1.8
PE (x)	18.8	18.2	15.5	13.2
P/BV (x)	3.3	2.8	2.4	2.0
P/ABV (x)	3.5	2.9	2.5	2.1

### Key Data

CNFH.BO | CANF IN

52-W High / Low	Rs.722 / Rs.492
Sensex / Nifty	56,976 / 17,069
Market Cap	Rs.86bn / \$ 1,118m
Shares Outstanding	133m
3M Avg. Daily Value	Rs.445.74m

### Shareholding Pattern (%)

Promoter's	29.99
Foreign	-
Domestic Institution	24.69
Public & Others	45.32
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.0)	(1.6)	10.5
Relative	2.0	3.7	(5.4)

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## Credit growth and margins sustaining

### Quick Pointers:

- Margins and credit growth which were a concern are trending well as guided.
- Overall asset quality also further improved with a strong provision cover.

**Can Fin Homes (Canfin) saw yet another good quarter with a positive surprise on loan growth, NII and asset quality. Credit accretion was ~21% YoY (PLe. 19%) as disbursements were highest ever at Rs27bn. Business momentum was again driven by salaried housing (+20% YoY). While repayments seem higher, the company suggested that they were in the normal course as competitive intensity has reduced. Guidance for FY23 loan growth/disbursements is ~20%. As guided, NIM continues to improve and even after adjusting for the positive carry on account of LCR it enhanced by ~10bps QoQ. CP share contracted from 19% in Mar'21 to 11%. Overall asset quality improved sequentially. GNPA reduced YoY due to higher resolutions while the restructured and stage-2 pool also declined QoQ led by stronger collection efficiency. Our FY23/24E earnings are largely unchanged. Given the affordable housing potential, we remain optimistic on Canfin as credit momentum could sustain without diluting credit quality. Maintain multiple at 2.7x FY24 ABV and TP at Rs800. Retain BUY. Risks: rise in funding cost due to Canara Bank stake sale.**

- **Good quarter with PPoP beat but in-line PAT due to higher PCR:** NII was ahead at Rs2.37bn (PLe Rs2.17) as NIM was higher at 3.9% (PLe 3.6%) owing to better yields while AuM growth at 20.8% YoY was higher by 1.5%. Disbursements were highest ever at Rs27bn (PLe Rs22.5bn) while repayments too were more at Rs10.8bn. Opex was a miss at Rs482mn due to stronger volumes while led by higher NII, PPoP was a beat at Rs1.95bn (PLe Rs1.8bn). Provisions rose QoQ to Rs302mn (PLe Rs133mn) due to a combination of provision on standard assets and increase in PCR QoQ from 45% to 53%. Asset quality improved QoQ with GNPA/NNPA declining by 7/8bps to 0.64%/0.30%. PAT was in-line at Rs1.23bn. FY22 PAT at Rs4.71bn was also as expected.
- **Business momentum to continue:** Credit flow was largely led by salaried housing (+20% YoY, 68% share). While repayments seem higher, BT-out has normalized from Rs5.4bn in FY21 to Rs2.9bn in FY22 indicating repayments were in the normal course. Annualized basis, BT-out could range from 1.5-2%. Guidance on loan growth and disbursements is ~20% and we are factoring loan CAGR 18% over FY22-24E. NIM jumped QoQ from 3.57% to 3.89% due to positive carry (Rs180mn) on account of LCR. Adjusting the same, NIM rose QoQ by 10bps implying that company is delivering as guided. On borrowings, CP share is down QoQ from 15% to 11% and it may hover around ~15%.
- **Asset quality further improving:** Credit quality improved sequentially despite of daily NPA recognition and GNPA declined YoY by 27bps led by higher resolutions due to implementation of SARFAESI. Stage-2 reduced QoQ from 6.6% to 4.8%. Restructured pool also fell from Rs6.91bn to Rs6.76bn with a 10% coverage. 10% of this pool would be due to FY23E while Canfin expects 7-8% of total pool to slip into NPA over time. The Rs302mn quarterly provision was split into: 45% standard assets and 55% NPA provisions.

**Exhibit 1: Steady and broadly in-line performance**

NII growth was 27% YoY on account of yields on liquidity (12bps) and insurance income impact.

Other income declined despite strong disbursements.

Opex has been relatively elevated due to higher business volumes, tech expenses.

Continue to provide on prudent basis.

Disbursements have been highest ever in this quarter.

NIMs improve marginally, due to other income.

Asset Quality steady; PCR bulked up to 52%

Financial Statement (Rs mn)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Interest Income	5,558	4,606	20.7	5,020	10.7
Interest Expense	3,185	2,748	15.9	2,961	7.6
<b>Net interest income (NII)</b>	<b>2,373</b>	<b>1,858</b>	<b>27.7</b>	<b>2,059</b>	<b>15.2</b>
Other income	55	68	(19.2)	64	(15.3)
<b>Total income</b>	<b>2,428</b>	<b>1,925</b>	<b>26.1</b>	<b>2,124</b>	<b>14.3</b>
Operating expenses	482	428	12.4	403	19.4
<b>Operating profit</b>	<b>1,946</b>	<b>1,497</b>	<b>30.0</b>	<b>1,720</b>	<b>13.1</b>
Total provisions	302	77	294.7	164	84.9
<b>Profit before tax</b>	<b>1,643</b>	<b>1,420</b>	<b>15.7</b>	<b>1,557</b>	<b>5.6</b>
Tax	414	394	5.0	400	3.6
<b>Profit after tax</b>	<b>1,229</b>	<b>1,026</b>	<b>19.8</b>	<b>1,157</b>	<b>6.3</b>
AUM (Rs mn)	267,110	221,050	20.8	250,910	6.5
Disbursements (Rs mn)	27,040	20,010	35.1	24,720	9.4
<b>Profitability ratios</b>					
<b>NIM</b>	<b>4.2</b>	<b>3.9</b>	<b>27</b>	<b>3.5</b>	<b>67</b>
RoAA	2.0	2.2	(17)	2.0	(3)
RoAE	16.0	17.5	(144)	15.8	20
<b>Asset Quality ratios</b>					
Gross NPL (Rs m)	1,706	2,019	(15.5)	1,772	(3.7)
Net NPL (Rs m)	807	1,343	(39.9)	970	(16.8)
Gross NPL ratio	<b>0.6</b>	<b>0.9</b>	<b>(27)</b>	<b>0.7</b>	<b>(7)</b>
Net NPL ratio	<b>0.3</b>	<b>0.6</b>	<b>(31)</b>	<b>0.4</b>	<b>(8)</b>
Coverage ratio	52.7	33.5	1,922	45.2	745
<b>Business &amp; Other Ratios</b>					
Yield on Loans (%)	8.1	9.5	(138)	8.1	6
Cost of Borrowings (%)	5.6	6.7	(115)	5.6	-
Spread (%)	2.6	2.8	(23)	2.5	6
Cost/Income Ratio	19.8	15.3	451	17.7	214

Source: Company, PL

**Exhibit 2: Loan Mix**

AUM Book Details (Rs mn)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Top-up Personal	239,370	199,720	19.9	225,470	6.2
Mortgage Loans/Flexilap	13,680	10,080	35.7	12,420	10.1
Loans for Sites	10,680	8,020	33.2	9,780	9.2
Others	2,290	2,130	7.5	2,180	5.0
Builder Loans	880	880	-	850	3.5
Staff Loans	210	170	23.5	200	5.0

Source: Company, PL

## Q4FY22 Concall Highlights

### Assets/Liabilities

- Disbursements in the quarter have been at all-time high of Rs.27bn leading to an AUM growth of 20.8% YoY/6.5% QoQ. For FY23, the management guides for disbursements of RS100bn and AUM growth of 18-20% aided by strong demand in the sector.
- In terms of loan book mix, demand from self-employed segment was subdued, however the same has been seeing traction.
- Earlier, the reliance of the company was more on sourcing from Southern part of India, portfolio was concentrated in those areas; however, the company has been witnessing good disbursements in other regions as well. Southern India concentration would be 65%
- CP mix in the borrowing has reduced to 11%, which would be settle around 15-16%.

### Fees/NIMs/Branches

- NIM came to 4.15. Margin expansion was majorly due to positive impact of liquidity and insurance impact. However, the management guided that normalized levels of NIM would be 3.70-3.75%. While spreads would be 2.5%
- Opex is expected to increase due to revamping of technology, increase in business volumes, branch expansion.

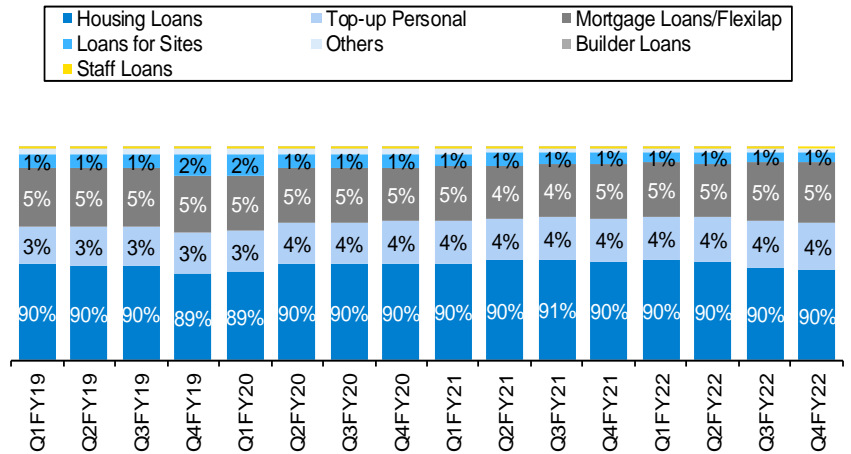
### Asset Quality

- **Restructuring:** Restructuring book stood at Rs. 0.67bn against which the company has provided 10%. Rs0.42bn have been repaid during the quarter. Against the EMI, collection efficiency was 100%.
- Credit Cost guidance for FY23 would 0.4%, elevated levels due to prudent provisioning.

### Others

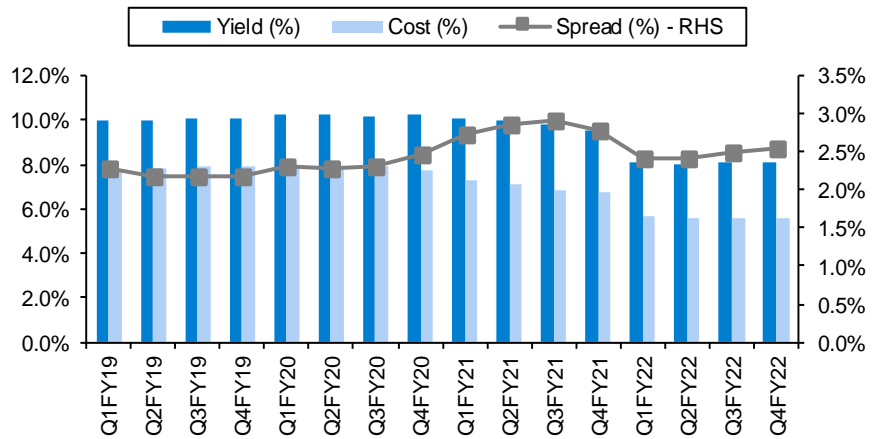
- The company has enabling provisions of Rs10bn to raise funds, part of which would be raised in order to comply with lender's requirement.
- Incremental CoF was 5.0%, which may go up by 100-125bps, in line with this yields would be increased too.
- Average Ticket Size would be stable ~Rs.21 lakhs.

**Exhibit 3: Loan Book continues to remain skewed to Housing Loans**



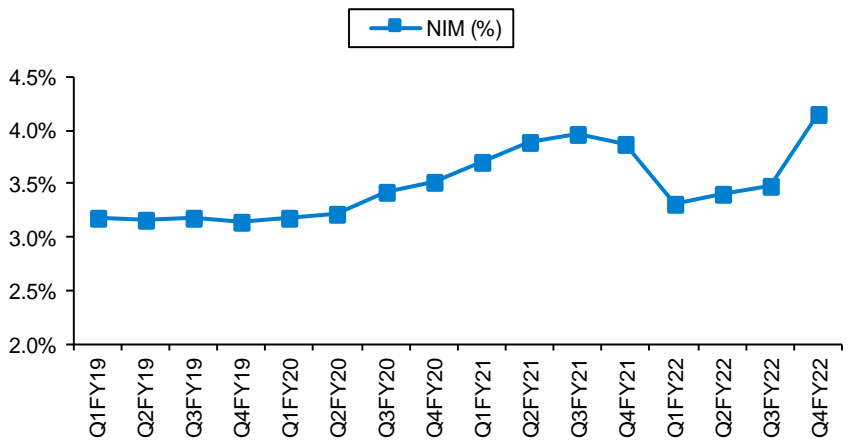
Source: Company, PL Research

**Exhibit 4: Steady yields and costs, keep Spreads constant**



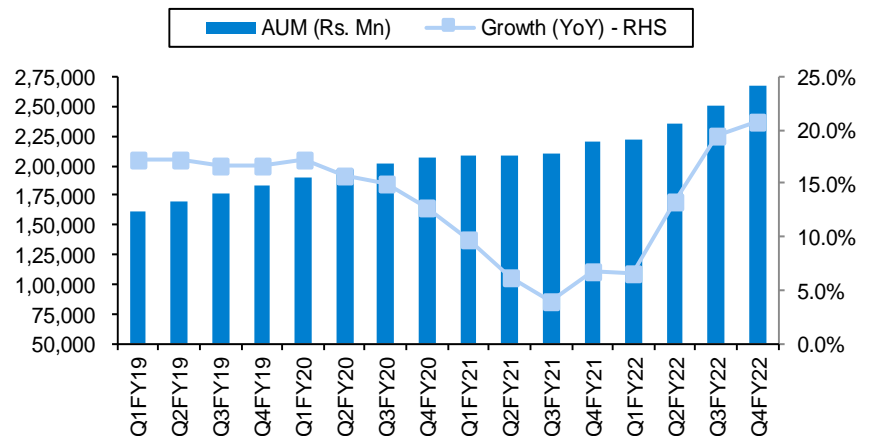
Source: Company, PL Research

**Exhibit 5: NIM expansion led by factors other income**



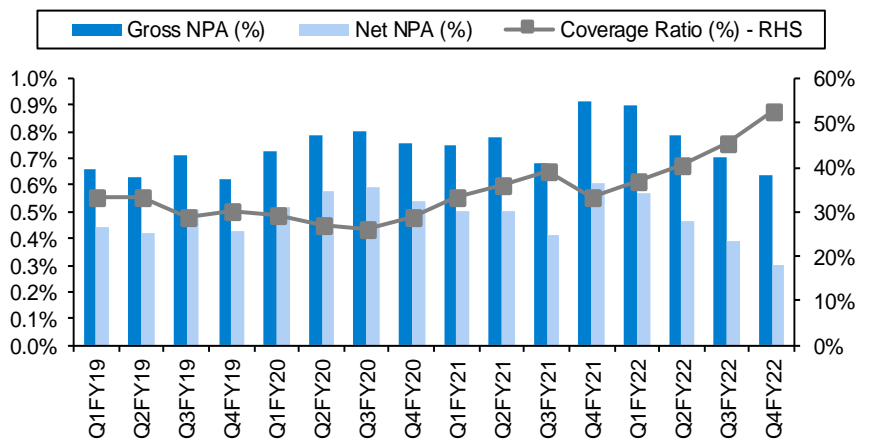
Source: Company, PL

**Exhibit 6: AUM growth was strong led by strong disburseals**



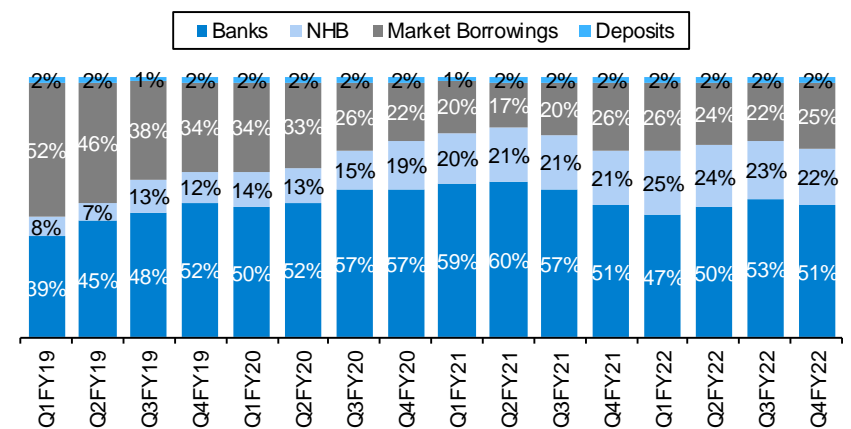
Source: Company, PL

**Exhibit 7: Asset Quality robust, PCR bulked up.**



Source: Company, PL

**Exhibit 8: Borrowing Mix mainly from Banks and NHB refinance**



Source: Company, PL Research

**Exhibit 9: ROEs to improve on lower provision**

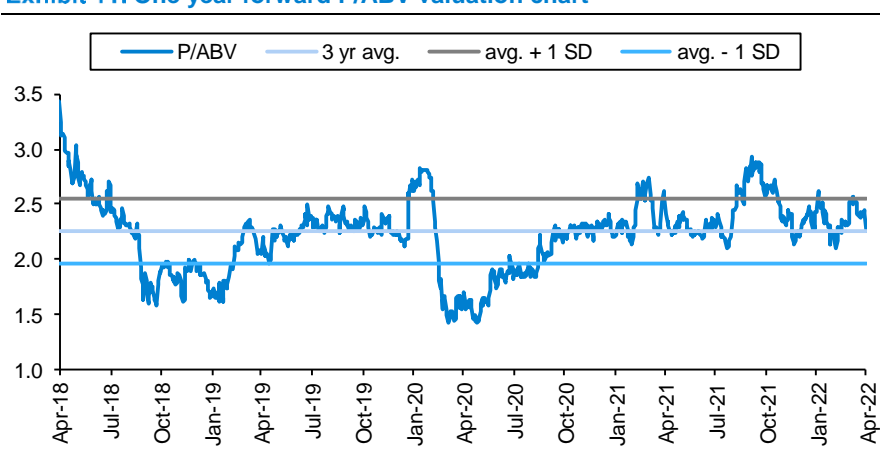
RoE decomposition (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	10.3	9.9	10.1	9.3	7.8	8.0	8.2
Interest expenses	6.8	6.8	6.7	5.6	4.6	4.9	5.1
<b>Net interest income</b>	<b>3.5</b>	<b>3.2</b>	<b>3.4</b>	<b>3.7</b>	<b>3.2</b>	<b>3.1</b>	<b>3.1</b>
Other Inc. from operations	0.2	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total income</b>	<b>3.7</b>	<b>3.3</b>	<b>3.4</b>	<b>3.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>
Employee expenses	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Other operating expenses	0.3	0.2	0.3	0.3	0.3	0.3	0.3
<b>Operating profit</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Tax	1.0	1.0	0.7	0.7	0.7	0.6	0.6
Loan loss provisions	0.2	0.0	0.3	0.3	0.2	0.2	0.2
<b>RoAA</b>	<b>2.0</b>	<b>1.7</b>	<b>1.9</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>
<b>RoAE</b>	<b>21.3</b>	<b>18.2</b>	<b>19.1</b>	<b>19.2</b>	<b>16.6</b>	<b>16.5</b>	<b>17.0</b>

Source: Company, PL Research

**Exhibit 10: We slightly tweak estimates and credit cost assumptions**

Estimates Change Table Rs (mn)	Old		Revised		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	9,514	11,067	9,625	11,339	1.1	2.5
Operating profit	8,047	9,354	8,094	9,550	0.6	2.1
Net profit	5,504	6,449	5,562	6,618	0.9	2.6
Loan Growth (%)	17.1	17.1	18.0	18.0	-	4.0
Credit Cost (bps)	19.7	17.5	22.2	22.5	2.5	5.0
EPS, Rs.	41.3	48.4	41.8	49.7	-	0.6
ABV per share, Rs.	255.0	297.3	260.7	303.1	2.1	1.5
<b>Price target, Rs.</b>	<b>800</b>		<b>800</b>			-
<b>Recommendation</b>	<b>BUY</b>		<b>BUY</b>			

Source: Company, PL

**Exhibit 11: One year forward P/ABV valuation chart**


Source: Company, PL Research

**Income Statement (Rs. m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Inc. / Opt. Inc.	20,064	19,697	24,623	29,868
Interest Expenses	12,083	11,535	15,000	18,535
<b>Net interest income</b>	<b>7,980</b>	<b>8,162</b>	<b>9,623</b>	<b>11,332</b>
<i>Growth(%)</i>	18.3	2.3	17.9	17.8
Non-interest income	121	188	214	247
<i>Growth(%)</i>	4.5	56.2	13.7	15.1
Net operating income	8,101	8,350	9,837	11,579
<b>Expenditures</b>				
Employees	700	768	881	1,047
Other Expenses	444	664	753	862
Depreciation	96	98	111	127
Operating Expenses	1,240	1,530	1,745	2,036
<b>PPP</b>	<b>6,861</b>	<b>6,820</b>	<b>8,092</b>	<b>9,543</b>
<i>Growth(%)</i>	18.6	(0.6)	18.7	17.9
Provisions	685	469	648	772
<b>Profit Before Tax</b>	<b>6,176</b>	<b>6,351</b>	<b>7,445</b>	<b>8,771</b>
Tax	1,615	1,640	1,943	2,289
<i>Effective Tax rate(%)</i>	26.2	25.8	26.1	26.1
<b>PAT</b>	<b>4,561</b>	<b>4,711</b>	<b>5,502</b>	<b>6,481</b>
<i>Growth(%)</i>	21.3	3.3	16.8	17.8

**Balance Sheet (Rs. m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Source of funds</b>				
Equity	266	266	266	266
Reserves and Surplus	25,832	30,400	35,582	41,675
Networth	26,098	30,666	35,849	41,941
<i>Growth (%)</i>	21.4	17.5	16.9	17.0
Loan funds	192,929	246,477	294,297	347,717
<i>Growth (%)</i>	2.9	27.8	19.4	18.2
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	688	2,046	1,920	2,258
Other Liabilities	1,023	255	480	567
<b>Total Liabilities</b>	<b>220,737</b>	<b>279,443</b>	<b>332,545</b>	<b>392,483</b>
<b>Application of funds</b>				
Net fixed assets	378	346	360	374
Advances	218,915	263,781	312,286	368,573
<i>Growth (%)</i>	6.7	20.5	18.4	18.0
Investments	496	11,260	15,756	18,596
Current Assets	223	3,252	3,312	3,909
<b>Net current assets</b>	<b>(465)</b>	<b>1,206</b>	<b>1,392</b>	<b>1,651</b>
Other Assets	726	805	831	1,031
<b>Total Assets</b>	<b>220,738</b>	<b>279,443</b>	<b>332,545</b>	<b>392,483</b>
<i>Growth (%)</i>	4.9	26.6	19.0	18.0
<b>Business Mix</b>				
AUM	221,050	267,110	315,120	371,917
<i>Growth (%)</i>	6.7	20.8	18.0	18.0
On Balance Sheet	221,050	267,110	315,120	371,917
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	3.7	3.2	3.1	3.1
ROAA	2.1	1.9	1.8	1.8
ROAE	19.2	16.6	16.5	16.7

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Int. Inc. / Operating Inc.	4,492	4,626	5,020	5,558
Income from securitization	-	-	-	-
Interest Expenses	2,680	2,708	2,961	3,185
<b>Net Interest Income</b>	<b>1,812</b>	<b>1,918</b>	<b>2,059</b>	<b>2,373</b>
<i>Growth (%)</i>	(5.3)	(8.9)	(2.1)	27.7
Non-Interest Income	16	53	64	55
<b>Net Operating Income</b>	<b>1,828</b>	<b>1,971</b>	<b>2,124</b>	<b>2,428</b>
<i>Growth (%)</i>	(4.6)	(7.2)	(0.6)	26.1
Operating expenditure	303	342	403	482
<b>PPP</b>	<b>1,526</b>	<b>1,628</b>	<b>1,720</b>	<b>1,946</b>
<i>Growth (%)</i>	-	-	-	-
Provision	65	(62)	164	302
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	1,460	1,690	1,557	1,643
Tax	372	454	400	414
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.4	26.9	25.7	25.2
<b>PAT</b>	<b>1,088</b>	<b>1,236</b>	<b>1,157</b>	<b>1,229</b>
<i>Growth</i>	17	(4)	(12)	20
AUM	222,210	235,840	250,910	267,110
YoY growth (%)	6.6	13.2	19.5	20.8
Borrowing	192,750	207,107	235,500	246,556
YoY growth (%)	5.9	13.9	29.4	35.1

**Key Ratios**

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	642	642	642	642
EPS (Rs)	34.2	35.4	41.3	48.7
Book value (Rs)	196.0	230.3	269.2	315.0
Adj. BV(Rs)	185.9	224.2	260.3	301.7
P/E(x)	18.8	18.2	15.5	13.2
P/BV(x)	3.3	2.8	2.4	2.0
P/ABV(x)	3.5	2.9	2.5	2.1
DPS (Rs)	2.0	1.5	2.1	2.9
<i>Dividend Payout Ratio(%)</i>	5.8	4.2	5.0	6.0
<i>Dividend Yield(%)</i>	0.3	0.2	0.3	0.5

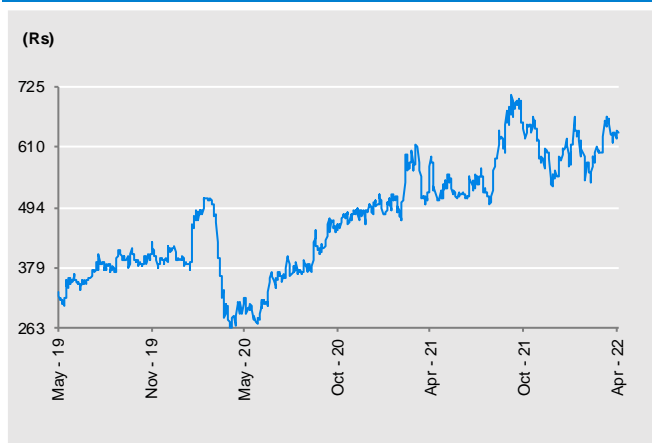
**Asset Quality**

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs(Rs m)	2,021	1,706	2,129	2,868
Net NPA(Rs m)	1,338	807	1,188	1,769
Gross NPAs to Gross Adv.(%)	0.9	0.6	0.7	0.8
Net NPAs to net Adv.(%)	0.6	0.3	0.4	0.5
NPA coverage(%)	33.8	52.7	44.2	38.3

**Du-Pont as a % of AUM**

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	3.7	3.2	3.1	3.1
NII INCL. Securitization	3.7	3.2	3.1	3.1
Total income	3.7	3.3	3.2	3.2
Operating Expenses	0.6	0.6	<b>0.6</b>	0.6
PPOP	3.2	2.7	2.6	2.6
Total Provisions	0.3	0.2	0.2	0.2
RoAA	2.1	1.9	1.8	1.8
Avg. Assets/Avg. net worth	9.1	8.8	9.2	9.3
RoAE	19.2	16.6	16.5	16.7

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-22	BUY	800	661

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	BUY	3,500	2,485
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	150	120
4	Can Fin Homes	BUY	800	661
5	City Union Bank	BUY	180	140
6	DCB Bank	BUY	120	86
7	Federal Bank	BUY	135	100
8	HDFC	BUY	3,272	2,445
9	HDFC Bank	BUY	1,740	1,465
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	979
13	Kotak Mahindra Bank	Accumulate	1,925	1,785
14	LIC Housing Finance	Accumulate	420	393
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	610	516

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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