

Can Fin Homes

Estimate change



TP change



Rating change



Bloomberg	CANF IN
Equity Shares (m)	133
M.Cap.(INRb)/(USD\$b)	85.6 / 1.1
52-Week Range (INR)	721 / 492
1, 6, 12 Rel. Per (%)	2/3/-6
12M Avg Val (INR M)	642

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	8.2	9.4	10.8
PPP	6.8	7.9	9.2
PAT	4.7	5.3	6.3
EPS (INR)	35.4	39.4	47.7
EPS Growth (%)	3.3	11.4	20.9
BVPS (INR)	230	268	313

Ratios (%)

NIM	3.4	3.3	3.2
C/I ratio	18.3	17.6	16.7
RoAA	1.9	1.7	1.8
RoE	16.6	15.8	16.4
Payout	5.7	5.6	4.6

Valuation

P/E (x)	18.2	16.3	13.5
P/BV (x)	2.8	2.4	2.1
Div. Yield (%)	0.3	0.3	0.3

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	30.0	30.0	30.0
DII	24.7	22.4	17.4
FII	0.0	0.0	0.0
Others	45.3	47.6	52.6

FII Includes depository receipts

CMP: INR643

TP: INR750 (+17%)

Buy

Strong loan growth and continued improvement in asset quality; but credit costs elevated

Can Fin Homes (CANF) reported an operationally healthy quarter wherein advances grew 21% YoY and asset quality improved further with GNPA declining 7bp QoQ to ~0.6%. However, credit costs were elevated since CANF shored up its standard asset provisions to strengthen its balance sheet. CANF has managed the pandemic upheaval and aggression from banks really well and delivered a 3% YoY PAT growth in FY22 despite the ~20bp/30bp compression in spreads/margin, respectively. CANF has now got back to its old ways of delivering strong loan growth and maintaining superior asset quality. Rumors on the resignation of the MD/CEO and any materiality from the NHB audit were denied and put to rest by the management. We maintain our BUY rating with a target price of INR750 (based on 2.4x FY24E BVPS).

Healthy operational performance; disbursements grew 35% YoY in 4Q

- Disbursements were up 35% YoY to INR27b while advances grew 21% YoY and 6.5% QoQ to INR267b. CANF's 4QFY22 PAT grew 20% YoY to INR1.23b (in line) driven by 40bp QoQ improvement in NIM.
- Over the last three quarters, CANF has demonstrated a very healthy improvement in spreads/margins. Given expectations of a rise in interest rates and CANF's guidance of ~15% commercial papers (CP) in the borrowing mix, we expect spreads/margins to now decline ~10bp each in FY23/24.

Asset quality to demonstrate strength but CANF guided conservatively on credit costs

- GNPA/NNPA declined 7bp/9bp QoQ to 0.64%/0.30%, respectively, and PCR improved ~8pp QoQ to ~53%. Credit costs in 4QFY22 included INR150m additional contingent provisions on standard loans.
- Against CANF's guidance of ~40bp credit costs, we model ~30bp/20bp credit costs in FY23/FY24, respectively. This is still 15-20bp higher than the pre-pandemic credit costs, as the portfolio is now seasoned and credit costs are likely to be higher. We estimate the headline GNPA to remain below 1%.

Highlights from the management commentary

- CANF has an enabling resolution to raise upto INR10b and it will raise equity capital (lower than INR10b) within the next two to three quarters.
- CANF guided for 2.4% spreads and 3.7%-3.75% NIM on a steady state basis.

Strong loan growth and pristine asset quality warrant a BUY rating

- The company has superior asset quality among its peers but we remain watchful of the seasoning in the portfolio that could lead to a relatively higher credit costs.
- CANF has again embarked on a strong loan growth trajectory and we expect very minimal spread/margin compression over the next two years. We model an AUM and PAT CAGR of 17% and 16%, respectively, over FY22-FY24E. With an RoA/RoE of 1.8%/16% in FY24E, we maintain our BUY rating with a target price of INR750 (based on 2.4x FY24E BVPS).

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Quarterly performance (INR m)

Y/E March	FY21				FY22				FY21	FY22	4QFY22E	Act v/s est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	5,221	5,240	4,996	4,606	4,492	4,626	5,020	5,558	20,064	19,697	5,361	4
Interest Expenses	3,308	3,135	2,892	2,748	2,680	2,708	2,961	3,185	12,083	11,535	3,181	0
Net Interest Income	1,913	2,106	2,104	1,858	1,812	1,918	2,059	2,373	7,980	8,162	2,180	9
YoY Growth (%)	25.3	35.4	21.1	-1.4	-5.3	-8.9	-2.1	27.7	18.3	2.3	17.4	
Other income	4	18	31	68	16	53	64	55	121	188	58	-7
Total Income	1,917	2,124	2,135	1,925	1,828	1,971	2,124	2,428	8,101	8,350	2,239	8
YoY Growth (%)	23.8	30.9	20.6	0.1	-4.6	-7.2	-0.6	26.1	18.0	3.1	16.3	
Operating Expenses	215	252	344	428	303	342	403	482	1,240	1,530	453	6
YoY Growth (%)	-7.4	0.7	28.2	31.8	40.8	35.8	17.1	12.4	15.2	23.4	5.6	
Operating Profits	1,702	1,872	1,791	1,497	1,526	1,628	1,720	1,946	6,861	6,820	1,786	9
YoY Growth (%)	29.4	36.4	19.3	-6.3	-10.4	-13.0	-4.0	30.0	18.6	-0.6	19.3	
Provisions	441	151	16	77	65	-62	164	302	685	469	98	210
Profit before Tax	1,260	1,720	1,775	1,420	1,460	1,690	1,557	1,643	6,176	6,351	1,689	-3
Tax Provisions	329	436	456	394	372	454	400	414	1,615	1,640	431	-4
Profit after tax	932	1,284	1,319	1,026	1,088	1,236	1,157	1,229	4,561	4,711	1,257	-2
YoY Growth (%)	15.0	31.5	23.7	12.8	16.8	-3.7	-12.3	19.8	21.3	3.3	22.6	
Key Parameters (%)												
Yield on loans	10.1	10.1	9.6	8.5	8.1	8.1	8.3	8.6				
Cost of funds	7.2	6.9	6.3	5.9	5.6	5.4	5.4	5.3				
Spread	2.9	3.2	3.2	2.7	2.5	2.7	2.9	3.3				
NIM	3.7	4.0	4.0	3.4	3.3	3.3	3.4	3.7				
Credit cost	0.8	0.3	0.0	0.1	0.1	-0.1	0.3	0.5				
Cost to Income Ratio (%)	11.2	11.9	16.1	22.3	16.5	17.4	19.0	19.8				
Tax Rate (%)	26.1	25.4	25.7	27.8	25.4	26.9	25.7	25.2				
Balance Sheet Parameters												
Loans (INR B)	208.4	208.3	210.0	221.1	222.2	235.8	250.9	267.1				
Growth (%)	9.7	6.3	4.0	6.7	6.6	13.2	19.5	20.8				
AUM mix (%)												
Home loans	90.2	90.4	90.5	90.4	90.5	90.3	89.9	89.6				
Non-housing loans	9.8	9.6	9.5	9.6	9.5	9.7	10.1	10.4				
Salaried customers	70.9	71.2	71.9	73.0	73.3	74.0	74.2	74.3				
Self-employed customers	29.1	28.8	28.1	27.0	26.7	25.9	25.7	25.7				
Disbursements (INR B)	4.0	8.3	11.1	20.0	8.9	22.1	24.7	27.1				
Change YoY (%)	-68.6	-38.2	-25.1	43.5	122.9	167.6	123.5	35.2				
Borrowing mix (%)												
Banks	59.0	60.0	57.0	51.0	47.0	50.0	53.0	51.0				
NHB	20.0	21.0	21.0	21.0	25.0	24.0	23.0	22.0				
Market borrowings	20.0	18.0	20.0	26.0	26.0	24.0	22.0	25.0				
Deposits	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0				
Asset Quality												
GNPL (INR m)	1,563	1,499	1,419	2,019	2,000	1,851	1,772	1,706				
NNPL (INR m)	1,037	954	863	1,343	1,265	1,103	970	807				
GNPL ratio %	0.75	0.72	0.68	0.91	0.90	0.78	0.71	0.64				
GNPL ratio %	0.50	0.46	0.41	0.61	0.57	0.47	0.39	0.30				
PCR %	34	36	39	33	37	40	45	53				
Return Ratios (%)												
ROA (Rep)	1.8	2.1	2.3	2.2	2.0	2.1	2.0	2.0				
ROE (Rep)	16.6	18.8	18.8	17.5	16.0	16.4	15.8	16.0				

Source: MOFSL, Company



Highlights from the management commentary

Business updates

- BT-OUT declined to INR2.93b in FY22 from INR5.43b in FY21.
- CANF is holding restructured provisions of INR670m and INR150m of additional provisions on the standard loans.
- CANF will be looking to add 10-12 branches in FY23E.
- Restructured book has declined INR420m to INR6.76b. CANF has written-back INR16.9m.
- The company has an enabling resolution to raise upto INR10b. It will raise equity capital (quantum lower than INR10b) within the next two to three quarters.
- Incremental CoF was 5.03% in 4QFY22 and the company expects that it should go up by 100-125bp over the next 12-18 months.
- Average ticket size stood at INR2.1m and CANF has increased interest rates twice since Apr'21.
- Other income stood at INR60m (v/s INR33-35m) from cross-selling insurance and was included as part of the NIM reported by the company.

Guidance

- Guided for 18%-20% loan growth and credit costs of 0.4% for FY23E.
- On a steady state basis, spreads will be 2.4% and NIM will be 3.7%-3.75%
- CANF will look to keep CP share between 13% and 17% of the liability mix.
- Disbursements could be upwards of INR100b in FY23E.

Rumors on NHB audit and MD/CEO resignation

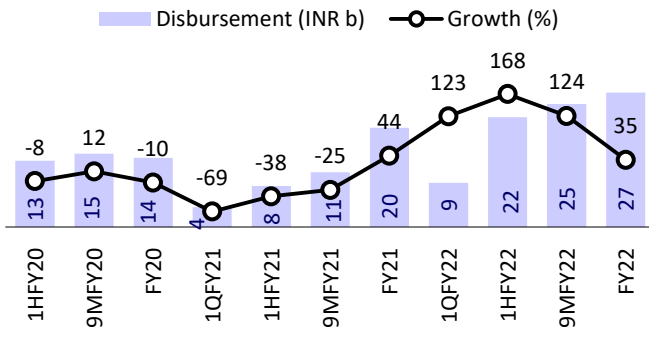
- Audit is a regular exercise and just that in one of the branches the company had identified fraud accounts of INR39.3m
- **The MD/CEO has no plans of moving on and there is no truth to the rumors of his resignation.**

Others

- **LGD disclosure:** Stage 1: 0.33%, Stage 2: 18% and Stage 3: 79%
- CRAR of 23.3%. Equity capital will be raised within the next two to three quarters to bring down the DER.
- Within the reported NIM of 4.15% in 4QFY22, 12bp is attributable to LCR investments. There is no negative carry from these investments.
- Gross Stage 2 stood at INR12.7b and provisions on Stage 2 stood at INR342.3m.

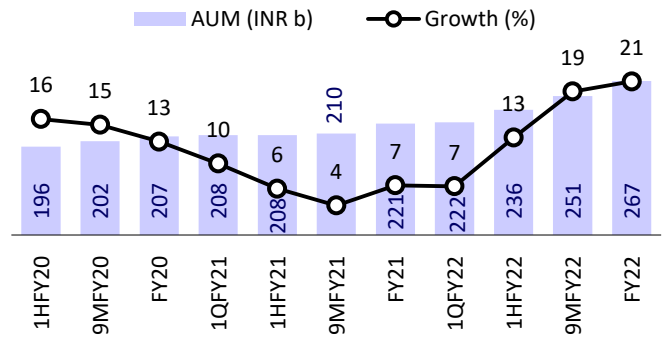
Key exhibits

Exhibit 1: Disbursements reached another all-time high...



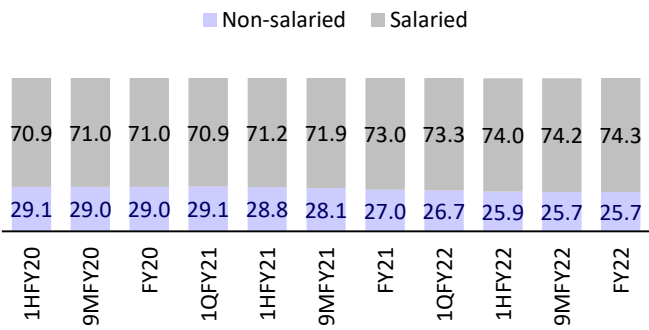
Source: MOFSL, Company

Exhibit 2: ...resulting in AUM growth of 21% YoY



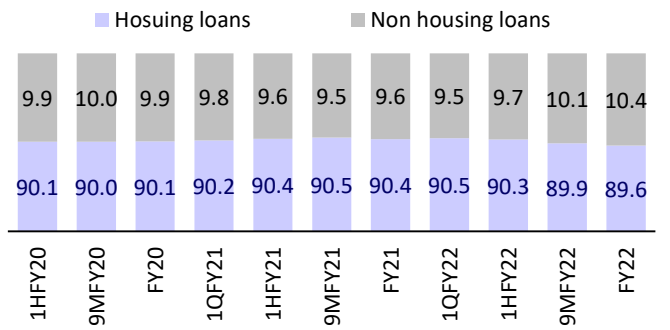
Source: MOFSL, Company

Exhibit 3: Share of salaried customers stable at ~74%



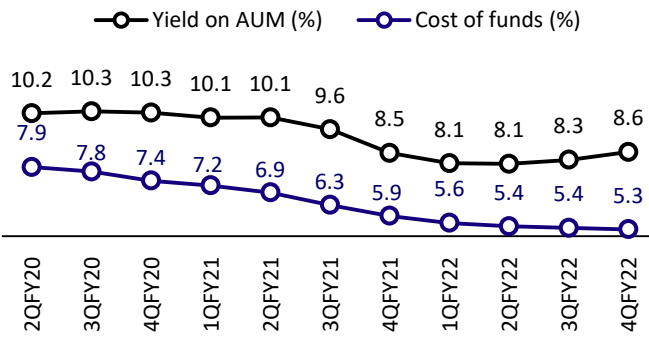
Source: MOFSL, Company

Exhibit 4: Share of housing loans stable at ~90%



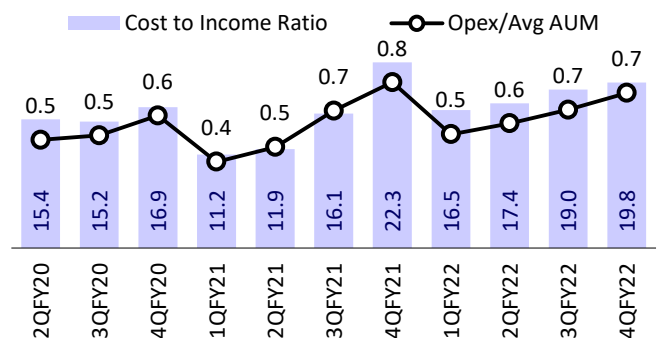
Source: MOFSL, Company

Exhibit 5: Calculated yields rose ~30bp QoQ



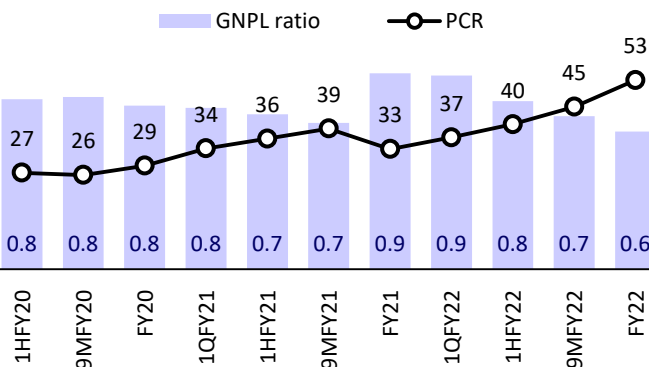
Source: MOFSL, Company

Exhibit 6: C/I ratio up 80bp QoQ



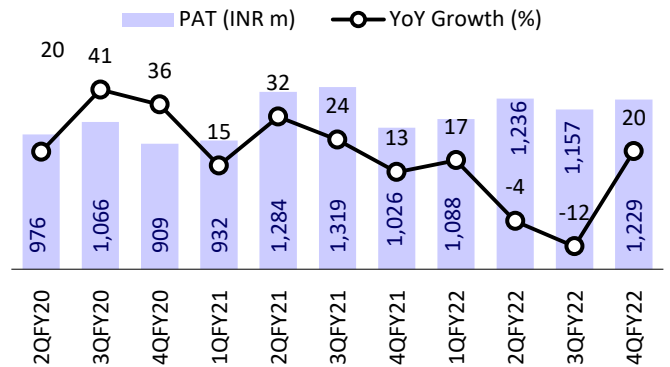
Source: MOFSL, Company

Exhibit 7: PCR up ~8pp QoQ



Source: MOFSL, Company

Exhibit 8: PAT grew 6% QoQ (up 20% YoY)



Source: MOFSL, Company

Strong loan growth and pristine asset quality warrant a BUY rating

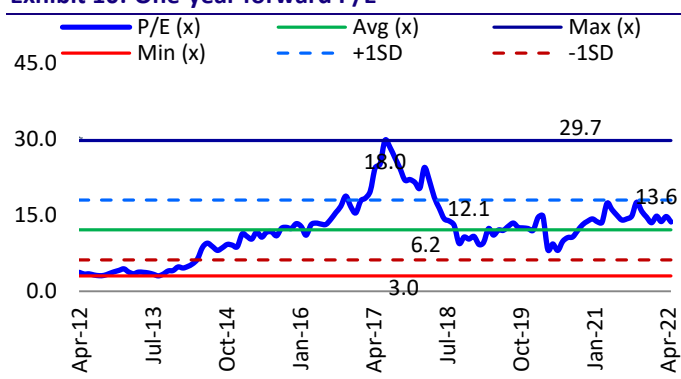
- CANF has superior asset quality among its peers but we remain watchful of the seasoning in the portfolio that could lead to a relatively higher credit costs.
- CANF has again embarked on a strong loan growth trajectory and we expect very minimal spread/margin compression over the next two years. We model an AUM and PAT CAGR of 17% and 16%, respectively, over FY22-FY24E.
- With an RoA/RoE of 1.8%/16% in FY24E, we maintain our BUY rating with a target price of INR750 (based on 2.4x FY24E BVPS).

Exhibit 9: We cut our FY23E/FY24E EPS by ~4% each to factor in higher credit costs

INR b	Old Est.			New Est.			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
NII	8.0	9.2	10.8	8.2	9.4	10.8	1.7	1.9	0.4
Other Income	0.1	0.1	0.2	0.2	0.2	0.3			
Total Income	8.2	9.4	10.9	8.4	9.6	11.1	2.3	2.7	1.2
Operating Expenses	1.5	1.7	1.8	1.5	1.7	1.8	1.9	2.1	3.0
Operating Profits	6.7	7.7	9.1	6.8	7.9	9.2	2.4	2.8	0.9
Provisions	0.3	0.4	0.3	0.5	0.9	0.7	77.5	122.7	129.8
PBT	6.4	7.3	8.8	6.4	7.0	8.5	-0.7	-3.7	-3.6
Tax	1.7	1.9	2.3	1.6	1.8	2.2	-1.0	-3.7	-3.6
PAT	4.7	5.5	6.6	4.7	5.3	6.3	-0.6	-3.7	-3.6
AUM	267	314	366	267	316	369	0.2	0.7	0.8
Borrowings	241	280	326	246	285	332	2.5	1.7	1.8
NIM (%)	3.3	3.2	3.2	3.4	3.3	3.2			
ROA (%)	1.9	1.8	1.9	1.9	1.7	1.8			
RoE (%)	16.7	16.4	16.9	16.6	15.8	16.4			

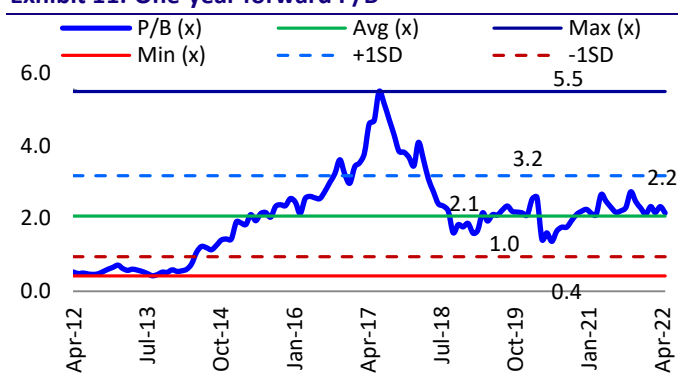
Source: MOFSL, Company

Exhibit 10: One-year forward P/E



Source: MOFSL, Company

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income statement								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	10,444	13,060	14,906	17,134	20,189	20,064	19,697	24,004	28,546
Interest Expended	7,435	8,840	9,810	11,693	13,442	12,083	11,535	14,614	17,739
Net Interest Income	3,009	4,220	5,096	5,441	6,747	7,980	8,162	9,390	10,807
Change (%)	69.4	40.2	20.8	6.8	24.0	18.3	2.3	15.0	15.1
Other Income	391	471	314	179	115	121	188	225	257
Net Income	3,401	4,691	5,410	5,621	6,862	8,101	8,350	9,614	11,064
Change (%)	64.5	37.9	15.3	3.9	22.1	18.0	3.1	15.1	15.1
Operating Expenses	668	807	878	915	1,076	1,240	1,530	1,689	1,849
Operating Income	2,733	3,884	4,532	4,706	5,786	6,861	6,820	7,926	9,215
Change (%)	80.1	42.1	16.7	3.8	23.0	18.6	-0.6	16.2	16.3
Provisions/write offs	194	188	221	11	603	685	469	878	697
PBT	2,539	3,696	4,311	4,695	5,183	6,176	6,351	7,047	8,518
Tax	968	1,349	1,449	1,728	1,422	1,615	1,640	1,797	2,172
Tax Rate (%)	38.1	36.5	33.6	36.8	27.4	26.2	25.8	25.5	25.5
Reported PAT	1,571	2,347	2,862	2,967	3,761	4,561	4,711	5,250	6,346
Change (%)	82.2	49.4	22.0	3.7	26.8	21.3	3.3	11.4	20.9
Proposed Dividend (incl. tax)	321	321	321	321	321	266	266	293	293

Balance sheet

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	266	266	266	266	266	266	266	266	266
Reserves & Surplus	8,514	11,771	14,604	17,556	21,234	25,832	30,400	35,357	41,410
Net Worth	8,780	12,037	14,870	17,822	21,501	26,098	30,666	35,623	41,676
Borrowings	90,740	1,18,675	1,39,210	1,67,974	1,87,484	1,92,929	2,46,477	2,84,937	3,32,076
Change (%)	23.0	30.8	17.3	20.7	11.6	2.9	27.8	15.6	16.5
Other liabilities	8,040	2,168	3,215	1,500	1,451	1,710	2,300	2,876	3,594
Total Liabilities	1,07,560	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,23,436	3,77,347
Loans	1,07,146	1,32,241	1,56,440	1,82,342	2,05,257	2,18,915	2,63,781	3,13,118	3,64,919
Change (%)	29.1	23.4	18.3	16.6	12.6	6.7	20.5	18.7	16.5
Investments	149	160	160	163	243	496	11,260	12,949	14,891
Change (%)	0.0	7.1	0.0	1.9	49.1	104.1	2,169.9	15.0	15.0
Net Fixed Assets	89	102	96	99	379	378	346	317	290
Other assets	175	377	600	4,692	4,557	948	4,057	-2,947	-2,753
Total Assets	1,07,560	1,32,880	1,57,295	1,87,295	2,10,436	2,20,737	2,79,443	3,23,436	3,77,347

E: MOFSL Estimates

Financials and valuations

Ratios								(%)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Yield on loans	11.0	10.9	10.3	10.1	10.4	9.44	8.1	8.3	8.4
Cost of funds	9.0	8.4	7.6	7.6	7.6	6.35	5.3	5.5	5.8
Spread	1.9	2.5	2.7	2.5	2.8	3.1	2.9	2.8	2.7
Net Interest Margin	3.2	3.5	3.5	3.2	3.5	3.8	3.4	3.3	3.2
Profitability Ratios (%)									
RoE	19.0	22.5	21.3	18.2	19.1	19.2	16.6	15.8	16.4
RoA	1.6	2.0	2.0	1.7	1.9	2.1	1.9	1.7	1.8
C/I ratio	19.6	17.2	16.2	16.3	15.7	15.3	18.3	17.6	16.7
Asset Quality (%)									
Gross NPAs	198	279	675	1,135	1,571	2,019	1,706	2,513	3,071
Gross NPAs to Adv.	0.2	0.2	0.4	0.6	0.8	0.9	0.6	0.8	0.8
Net NPAs	0	0	316	795	1,118	1,343	807	1,206	1,535
Net NPAs to Adv.	0.0	0.0	0.2	0.4	0.5	0.6	0.3	0.4	0.4
PCR	100.0	100.0	53.2	30.0	28.8	33.5	52.7	52.0	50.0
VALUATION									
Book Value (INR)	66	90	112	134	161	196	230	268	313
Price-BV (x)	9.7	7.1	5.8	4.8	4.0	3.3	2.8	2.4	2.1
EPS (INR)	11.8	17.6	21.5	22.3	28.2	34.2	35.4	39.4	47.7
EPS Growth YoY	82.2	49.4	21.9	3.7	26.8	21.3	3.3	11.4	20.9
Price-Earnings (x)	54.5	36.5	29.9	28.9	22.8	18.8	18.2	16.3	13.5
Dividend per share (INR)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.2
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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