Feb 22, 2024

COMPANY UPDATE | Sector: Financials

CAN FIN Homes Limited

Poised for stronger performance

In the Investor Meetings hosted by us, Can Fin Homes have expressed significant confidence in delivering improved disbursements and loan growth and lower NPLs and credit cost over the coming quarters. Spread/NIM is expected to remain resilient in the near-term and glide towards the guided level of 2.5%/3.5% in the medium term. Management's aspiration is to grow loan assets 2-3% above the industry without compromising on risk profile and profitability. Capital raising is not required for 15-17% loan CAGR considering expected sturdy RoA/RoE of 2-2.2%/17-18%. The return ratios would get a cushion from normalization of credit cost amid some trade-off of margin for growth and the planned investment for Tech overhaul.

The underwhelming factors of recent quarters, which is sub-optimal disbursements and higher slippages, would significantly turnaround in coming quarters. Hence, the valuation focus/narrative would shift to steady-state growth and profitability (which has been healthy for Can Fin). Current valuation of 2.1x P/ABV and 12x P/E on 1-yr fwd. basis, which is significantly below long-term mean, does not fully reflect the high likelihood of a stronger disbursement and credit cost performance. Can Fin's healthy RoE of 18% also needs to be valued in the context of lower risk and variability associated with it (Avg. RoE of 19% for the past 10 years). Co.'s RoE and Balance Sheet quality stands superior to other prime HFCs and the Affordable HFCs.

Multiple growth levers viz. productivity, pricing, ticket size, branch addition and new channels

Levers that would drive better business in future would be 1) synchronization/improving adjustments of disbursement operations on the strengthened process, 2) impetus on branch addition and raising productivity of underperforming branches, 3) focus on sourcing from new channels like digital aggregators, developer tie-ups, etc. 4) emphasis on higher loan tickets and 5) running of competitive pricing schemes enabled by current strong spreads/margins. Notably, the branch staff attrition has been stable and there has not been any meaningful increase in sanctioned case rejections or customer dropouts under the changed process. The overall disbursement TAT has not seen any meaningful increase.

Can Fin would add 15 branches in the current fiscal (including seven in Q4) and intends to add another 15 next year. The focus is on adding presence outside the Southern region and in states of MH, GJ, RJ, NCR and MP. With the contribution of new channels expected to rise and direct sourcing by branches likely to improve, the share of DSAs in disbursements is estimated to decline from current 79% to 60% in 3-4 years. Within originations, the share of Rs.20-30 lac ticket segment and >Rs.30 lac ticket has increased in recent quarters, driving an accelerated rise in avg. ticket of new housing loans (20-25% uptick in past two years). Any transient impact from the planned tech systems overhaul (implementation of new LMS, LOS, etc.) in FY25 would be absorbed within an enlarged sourcing funnel, as per the Management

Resilient margin management thus far, but some moderation expected

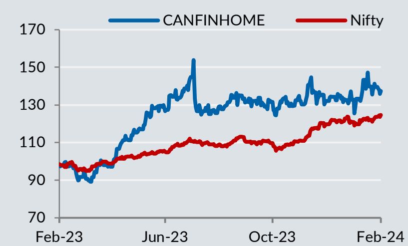
Company has managed its NIM/Spreads quite well in the current funding rate hike cycle without risking its ALM (CP share has declined and NCD share has marginally increased). Rate actions were timely and well-measured on the back book and new loans, while retaining growth competitiveness and BT Out. To minimize the lag between repricing of borrowings and loan assets, Can Fin has introduced quarterly rate reset for new loans from January 2024 and has given the option of shifting to existing customers also. The co. has always enjoyed finest pricing from banks (incr. cost at ~8% blended) and NCD borrowing cost has declined after the recent rating upgrade (recent issuance at ~8.25%). Further inch-up in funding cost, sustenance of pricing competitiveness and incremental growth shift towards >Rs.20 Lac loans is expected to gradually moderate Spread/NIM towards guided levels of 2.5%/3.5%.

Reco	:	**BUY**
CMP	:	Rs 795
Target Price	:	Rs 1,000
Potential Return	:	+25.8%

Stock data (as on Feb 22, 2024)

Nifty	22,217
52 Week h/l (Rs)	910 / 509
Market cap (Rs/USD mn)	104673 / 1264
Outstanding Shares (mn)	133
6m Avg t/o (Rs mn):	720
Div. yield (%):	0.5
Bloomberg code:	CANF IN
NSE code:	CANFINHOME

Stock performance



	1M	3M	1Y
Absolute return	3.4%	3.7%	40.9%

Shareholding pattern

Promoter	30.0%
FII+DII	39.5%
Others	30.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,000	930

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	56.2	64.3	72.0
EPS (Old)	55.7	63.6	71.6
% Change	0.9%	1.1%	0.6%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	12,844	14,208	15,906
PPOP	10,833	11,593	13,003
Net profit	7,483	8,566	9,590
Growth (%)	20.5	14.5	12.0
EPS (Rs)	56.2	64.3	72.0
ABVPS (Rs)	317.0	379.0	448.1
P/E (x)	14.1	12.4	11.0
P/ABV (x)	2.5	2.1	1.8
ROE (%)	18.7	17.9	17.0
ROA (%)	2.1	2.2	2.1

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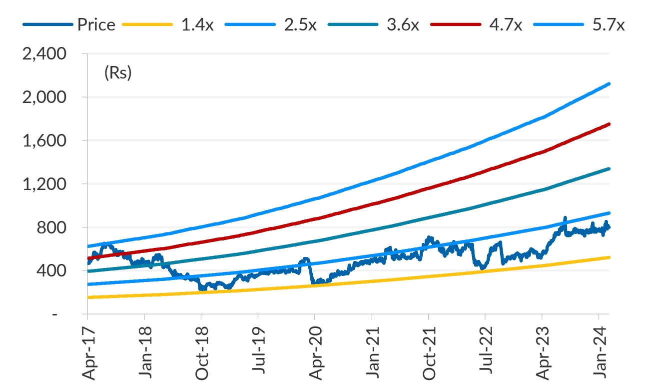
Slippages to normalize; NPL reduction to play out

Can Fin witnessed a significant increase in GNPLs through FY24 with substantial slippages (largely expected) from the restructured portfolio (came out of 2-year moratorium). The billing resumption now is behind for these loans and the weaker accounts have slipped. GNPLs on the non-restructured book remain steady at 0.6% (in-line with pre-Covid trend). Management thus expects a reduction in GNPLs in Q4 FY24 and in FY25. Co. carries significant provisions with ECL coverage of 46% on NPLs, management overlay of Rs340mn and restructured assets provisions of Rs590mn. Besides the expected NPL correction, the reversal of restructured provisions (on closures & takeovers) would keep credit cost benign in coming quarters.

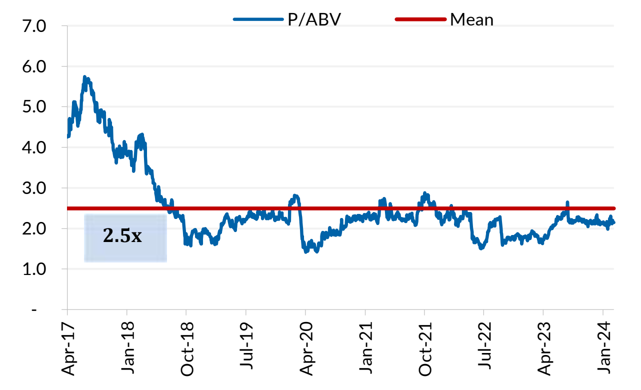
VALUATION CHARTS

Exhibit 1: 1-yr rolling P/ABV band



Source: Company, YES Sec

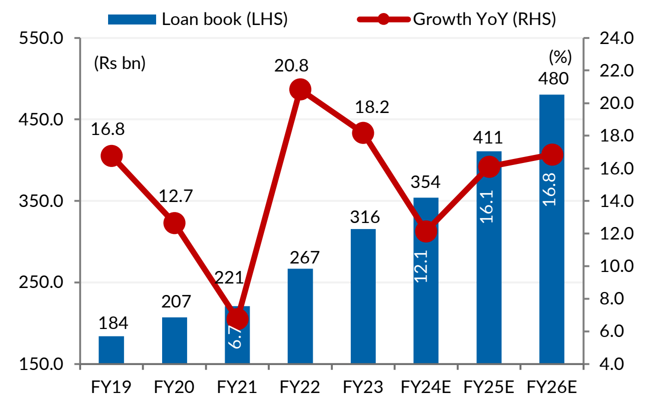
Exhibit 2: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

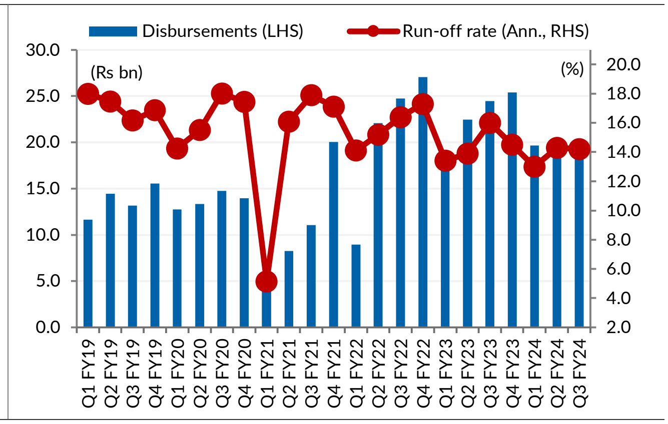
STORY IN CHARTS

Exhibit 3: Loan growth to recover



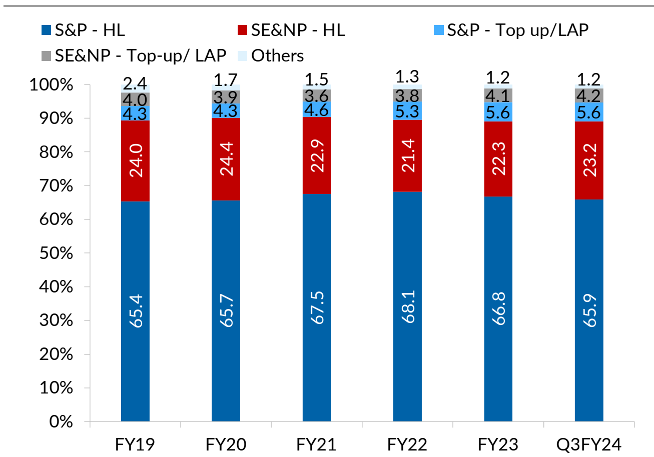
Source: Company, YES Sec

Exhibit 4: Disb. traction to improve; run-offs under control



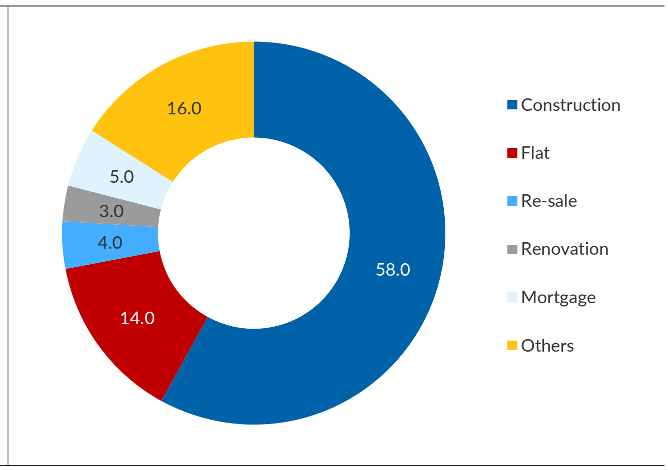
Source: Company, YES Sec

Exhibit 5: Prudent product & customer focus



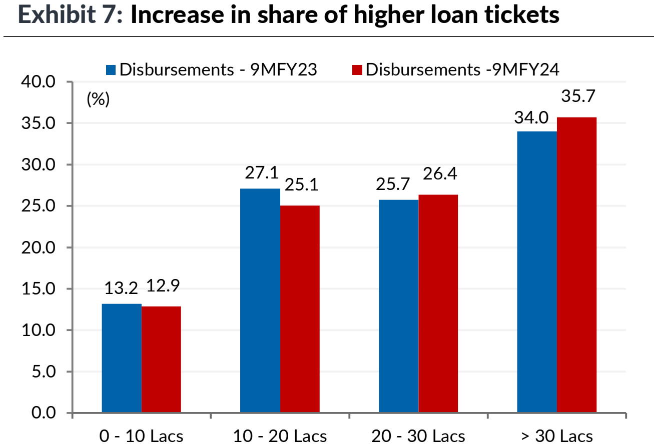
Source: Company, YES Sec

Exhibit 6: AUM break-up by loan purpose



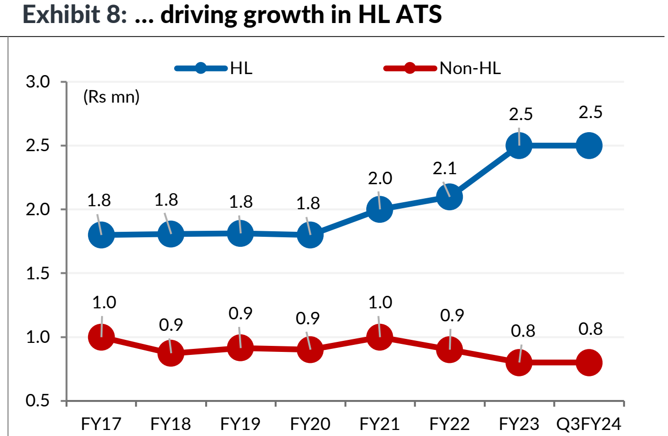
Source: Company, YES Sec

Exhibit 7: Increase in share of higher loan tickets



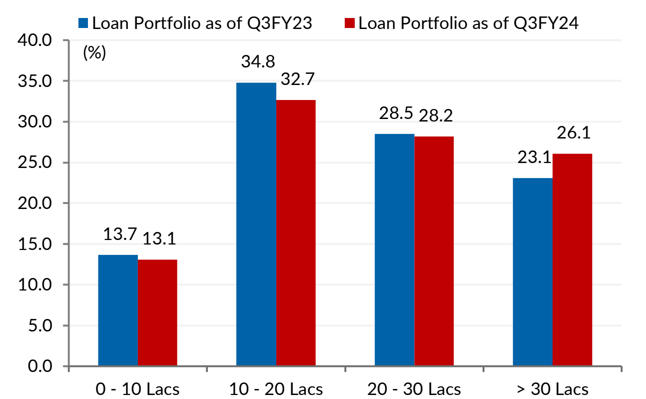
Source: Company, YES Sec

Exhibit 8: ... driving growth in HL ATS



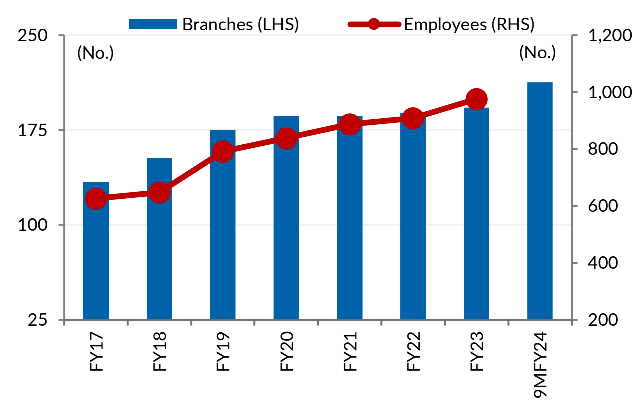
Source: Company, YES Sec

Exhibit 9: Portfolio has moved towards larger loans



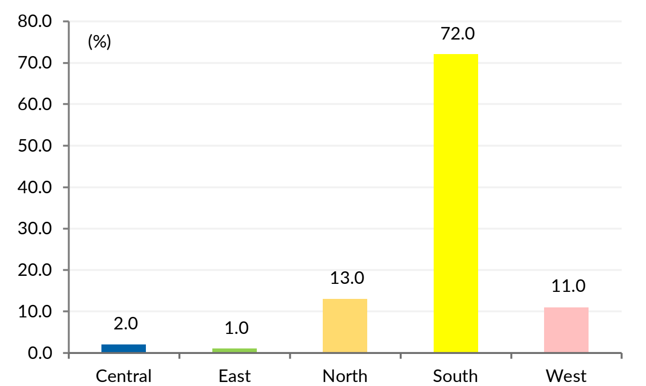
Source: Company, YES Sec

Exhibit 10: Adding growth capacity through branches



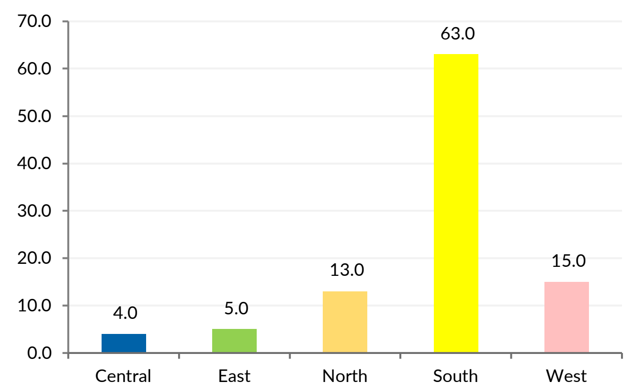
Source: Company, YES Sec

Exhibit 11: Geographical distribution of Loan Portfolio



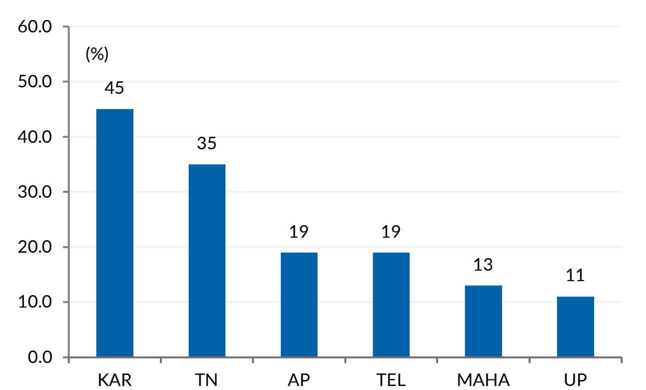
Source: Company, YES Sec

Exhibit 12: Geographical distribution of Branches



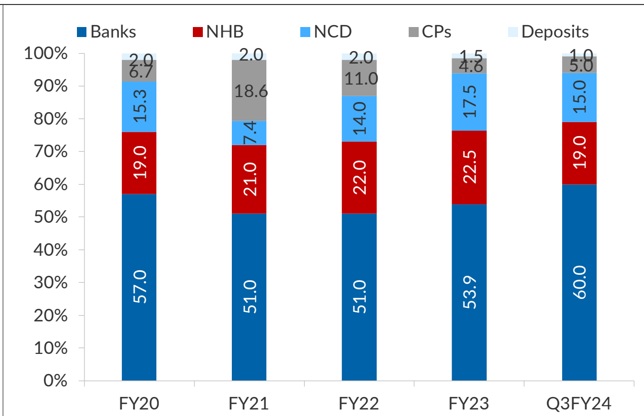
Source: Company, YES Sec

Exhibit 13: Distribution (Branches) in Key States



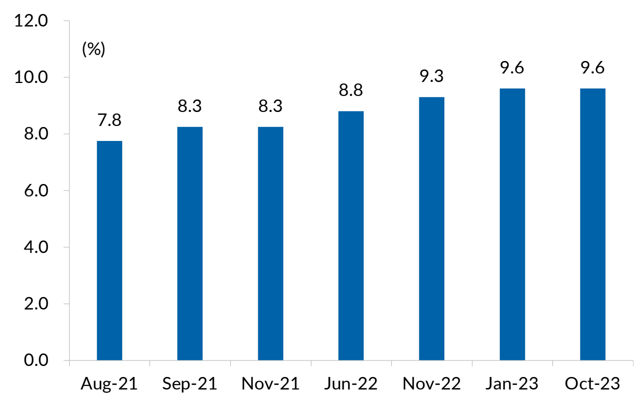
Source: Company, YES Sec

Exhibit 14: Funding mix has shifted towards Banks



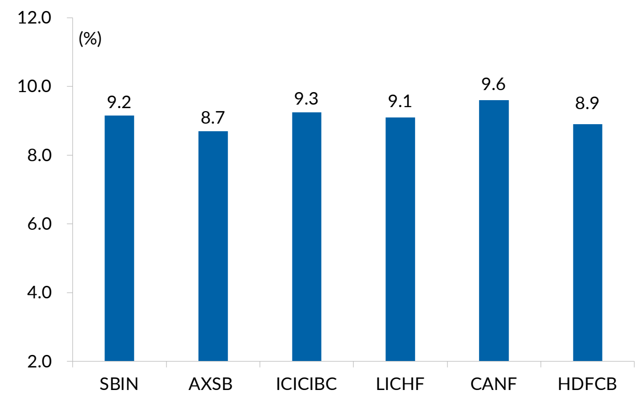
Source: Company, YES Sec

Exhibit 15: Pricing trend for Fresh Loans*



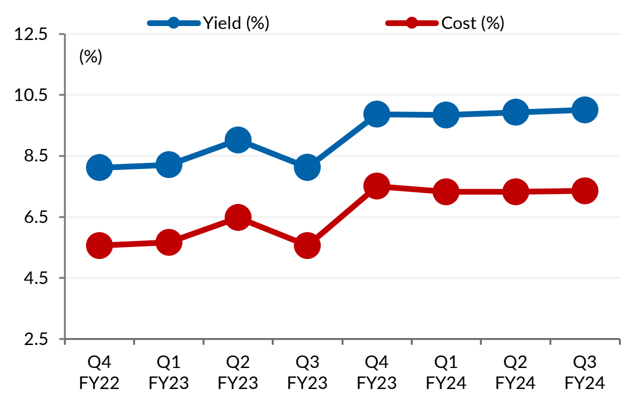
Source: Company, YES Sec, * Starting HL rate for S&P Customer with lowest risk category for loan amount of Rs50lac and below

Exhibit 16: HL rate differential v/s peers is competitive



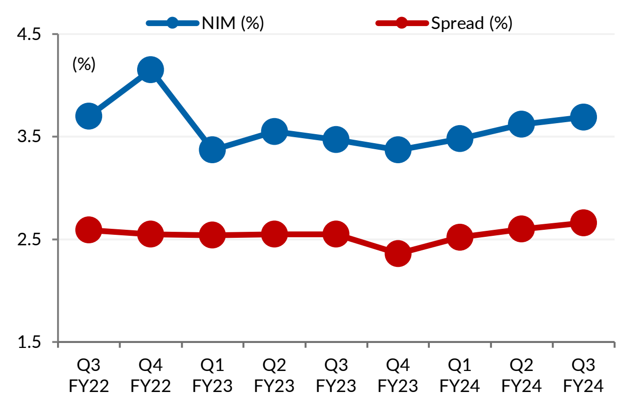
Source: Company, YES Sec

Exhibit 17: Portfolio Yield and CoF have largely moved in tandem



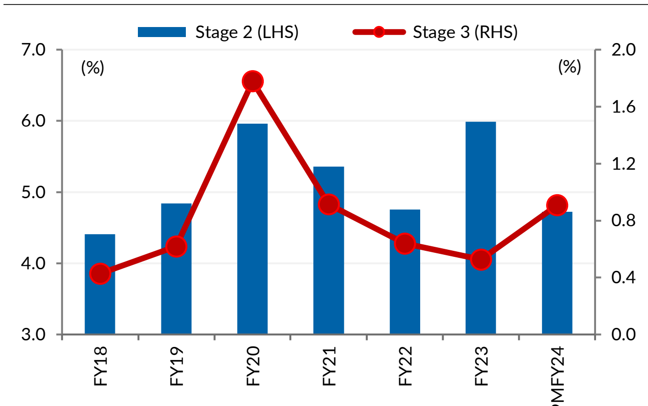
Source: Company, YES Sec

Exhibit 18: NIM has exhibited cyclicality



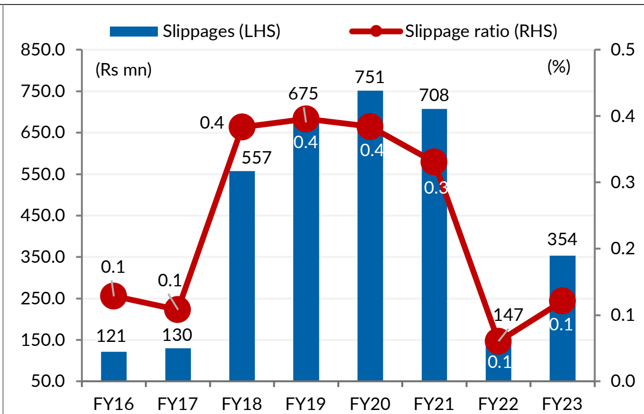
Source: Company, YES Sec

Exhibit 19: Overall delinquent pool near pre-pandemic levels



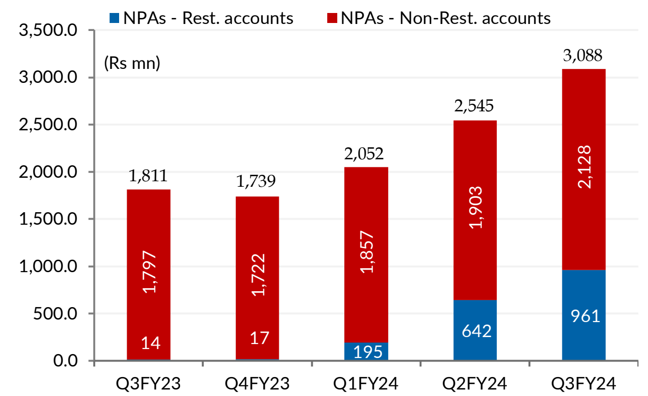
Source: Company, YES Sec

Exhibit 20: Long-term slippage trend



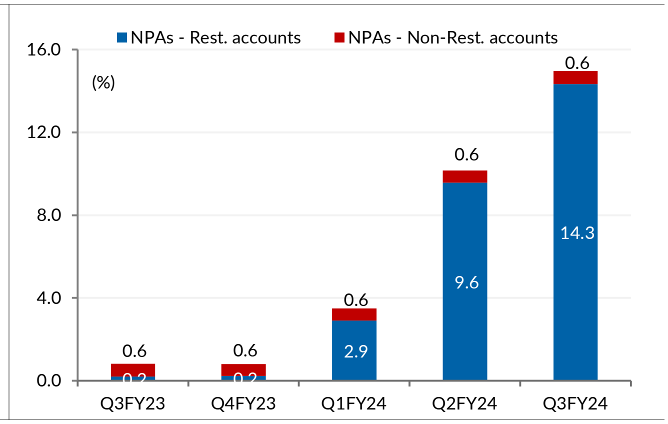
Source: Company, YES Sec

Exhibit 21: NPAs rose sharply in recent quarters



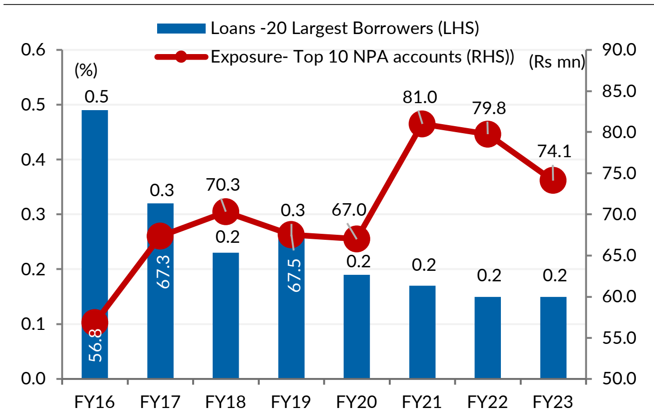
Source: Company, YES Sec

Exhibit 22: Non-Restructured NPA level is steady



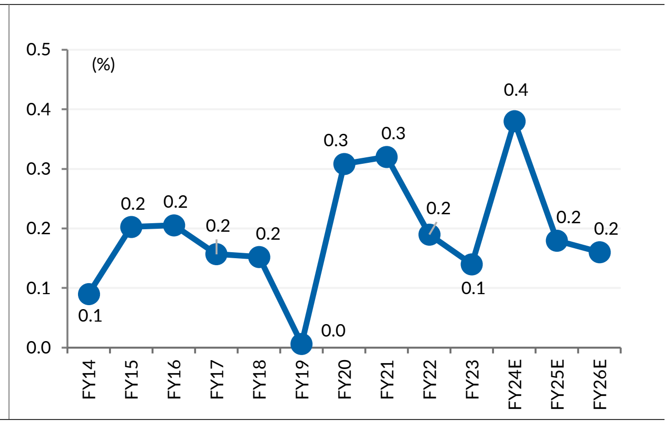
Source: Company, YES Sec

Exhibit 23: Granular Loan Portfolio and NPLs



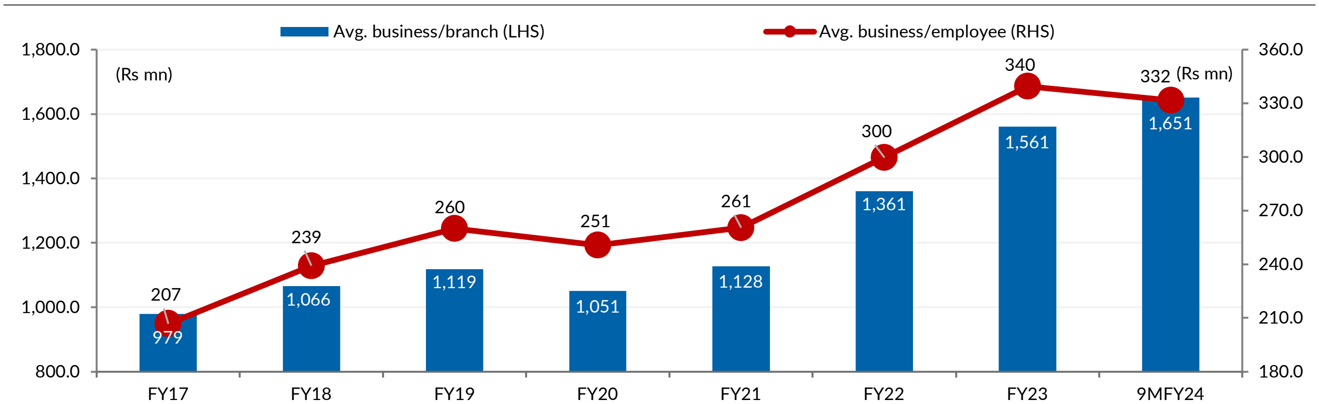
Source: Company, YES Sec

Exhibit 24: Comforting long-term credit cost history



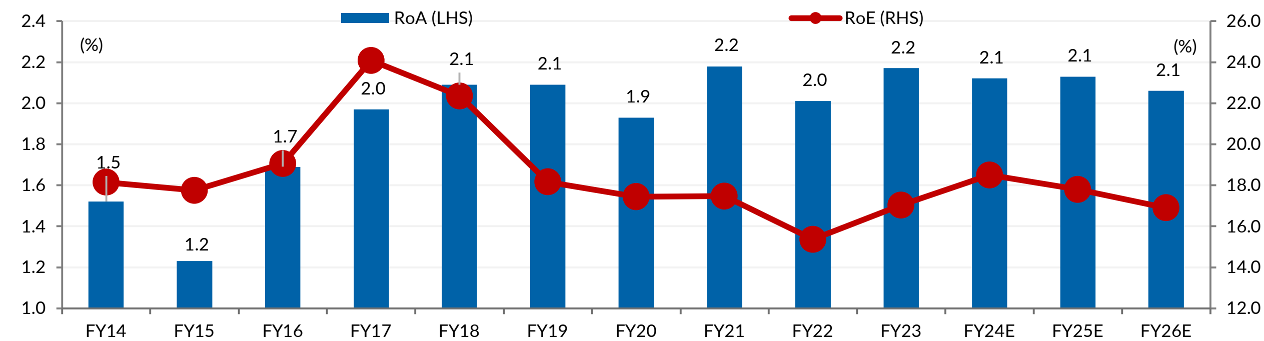
Source: Company, YES Sec

Exhibit 25: Pick-up in housing demand and prices reflected in improving business productivity



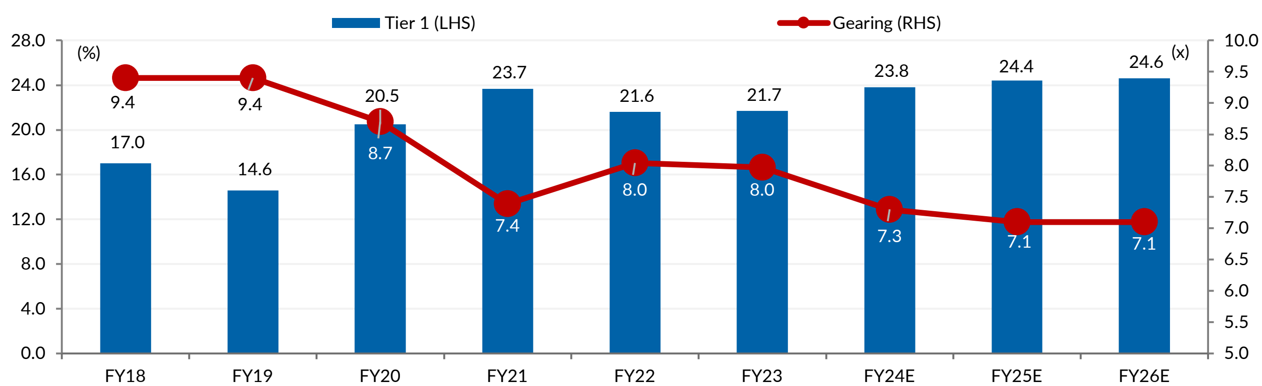
Source: Company, YES Sec

Exhibit 26: Profitability ratios have remained strong despite NIM volatility



Source: Company, YES Sec

Exhibit 27: Tier-1 Capital and Leverage to be stable notwithstanding acceleration in growth



Source: Company, YES Sec

FINANCIALS

Exhibit 28: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity and Liabilities					
Equity Capital	266	266	266	266	266
Other Equity	30,400	36,206	43,378	51,633	60,911
Shareholder's funds	**30,666**	**36,473**	**43,644**	**51,899**	**61,178**
Financial Liabilities	**2,48,311**	**2,93,665**	**3,24,491**	**3,72,179**	**4,31,715**
Trade payables	56	80	80	80	80
Debt Securities	60,720	63,110	69,736	79,988	92,786
Borrowings (excl. debt securities)	1,79,818	2,22,191	2,45,521	2,81,612	3,26,670
Deposits	4,911	4,352	4,809	5,515	6,398
Other Financial Liabilities	2,806	3,932	4,345	4,984	5,781
Non-Financial Liabilities	**467**	**567**	**624**	**686**	**755**
Provisions	255	339	373	410	451
Other non-financial liabilities	212	228	251	276	304
Total Liabilities + Equity	**2,79,443**	**3,30,705**	**3,68,760**	**4,24,765**	**4,93,648**
Assets					
Financial Assets	**2,78,352**	**3,29,729**	**3,67,737**	**4,23,693**	**4,92,525**
Cash and Cash Equivalents	27	19	995	555	375
Bank balances	3,214	3,066	766	500	500
Receivables	11	11	11	11	11
Loans	2,63,781	3,11,933	3,49,794	4,04,037	4,70,267
Investments	11,260	14,590	16,049	18,457	21,225
Other Financial Assets	59	110	121	133	146
Non- Financial Assets	**1,092**	**976**	**1,022**	**1,072**	**1,123**
Current tax assets (Net)	230	0	0	0	0
Deferred tax assets (Net)	477	484	509	534	561
Property, Plant and Equipment	346	454	477	501	526
Other Non-Financial Assets	38	37	37	37	37
Total Assets	**2,79,443**	**3,30,705**	**3,68,760**	**4,24,765**	**4,93,648**

Source: Company, YES Sec

Exhibit 29: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	19,878	27,420	35,199	38,030	41,018
Interest expense	(11,535)	(17,009)	(22,368)	(23,835)	(25,126)
Net interest income	**8,343**	**10,411**	**12,831**	**14,195**	**15,892**
Non-interest income	7	11	14	14	14
Total op income	8,350	10,423	12,844	14,208	15,906
Total op expenses	(1,530)	(1,765)	(2,012)	(2,615)	(2,903)
PPoP	**6,820**	**8,658**	**10,833**	**11,593**	**13,003**
Provisions	(469)	(418)	(1,239)	(610)	(708)
Profit before tax	6,351	8,240	9,594	10,982	12,295
Taxes	(1,640)	(2,028)	(2,111)	(2,416)	(2,705)
Net profit	**4,711**	**6,212**	**7,483**	**8,566**	**9,590**

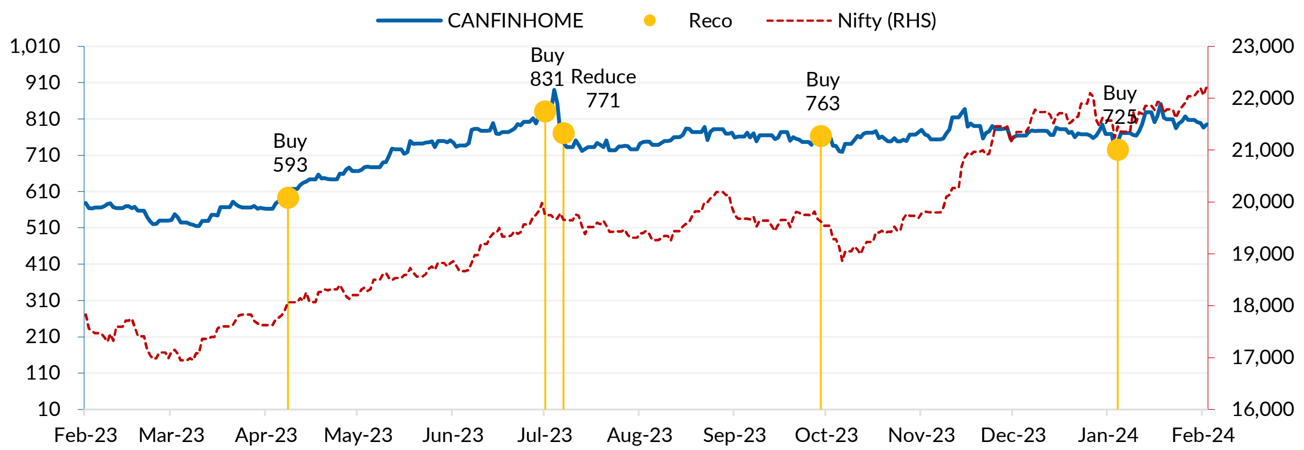
Source: Company, YES Sec

Exhibit 30: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	3.0	24.8	23.2	10.6	12.0
Total op income	3.1	24.8	23.2	10.6	11.9
Op profit (pre-provision)	(0.6)	26.9	25.1	7.0	12.2
Net profit	3.3	31.9	20.5	14.5	12.0
Loans	20.5	18.3	12.1	15.5	16.4
Borrowings + Debt	29.8	23.6	10.5	14.7	16.0
Total assets	26.6	18.3	11.5	15.2	16.2
Profitability Ratios (%)					
NIM	3.4	3.6	3.8	3.7	3.6
Return on Avg. Equity	16.6	18.5	18.7	17.9	17.0
Return on Avg. Assets	1.9	2.0	2.1	2.2	2.1
Per share ratios (Rs)					
EPS	35.4	46.6	56.2	64.3	72.0
Adj. BVPS	224.2	267.7	317.0	379.0	448.1
DPS	1.5	2.0	2.0	2.0	2.0
Other key ratios (%)					
Loans/Borrowings	107.5	107.7	109.3	110.1	110.4
Cost/Income	18.3	16.9	15.7	18.4	18.3
Gross NPLs/Loans	0.6	0.6	0.8	0.7	0.6
Credit Cost	0.2	0.1	0.4	0.2	0.2
Net NPLs/Net loans	0.3	0.3	0.4	0.4	0.3
Tax rate	25.8	24.6	22.0	22.0	22.0
Dividend yield	0.2	0.3	0.3	0.3	0.3

Source: Company, YES Sec

Recommendation Tracker



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