CanFin Homes (CANHOM)

ICICI direct Research

CMP: ₹ 690 | Target: ₹ 870 (26%) | Target Period: 12 months | BUY

January 22, 2025

Steady operational performance; outlook steady

About the stock: CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of December 2024. The HFC has a presence in 219 locations across 21 states and union territories (UTs).

- Housing loans comprise ~87% of book; of which ~71% is to salaried customers
- Average ticket size is ₹23 lakh for housing, ₹13 lakh for non-housing loans

Q3FY25 performance: Canfin Homes reported mixed performance in Q3FY25 with continued deceleration in business growth and earnings, though asset quality remained steady. Moderation in business growth continued with AUM at ₹37155 crore, growing 9.1% YoY, on the back of flat disbursement (₹1879 crore in Q3FY25), impacted owing to issues in registration in Karnataka. Operating performance remained muted with NII growth at 4.8% YoY, margin pressure (-2 bps QoQ and 19 bps YoY to 3.73%) and 20% YoY uptick in opex. Resultantly, earnings traction remained in single digit at 6% YoY at ₹212 crore. Asset quality continued to remain steady with GNPA at 92 bps (up 4 bps QoQ) and NNPA at 50 bps (up 3 bps QoQ).

Investment Rationale

- Optimistic on growth with focus on relatively high yield segment: Canfin Homes is set for consistent growth, with disbursement targeted at ₹12,000 crores for FY26E. The company projects ~15% YoY growth in AUM from FY26E onwards, driven by augmentation of its geographical footprints by adding 15-20 branches in North & Western parts of India which will aid growth. Focus on self-employed customers with incremental share at 35-38% (vs AUM mix of 71:29 among salaried: self-employed) is seen to aid support to margins. Management is comfortable with contribution of self-employed inching up to 35% over next 2-3 years.

- Disbursements impacted by regional challenges, but optimism prevails with recovery in sight: Disbursements stood at ₹1879 crores for Q3FY25 as against the projected ₹2300-2400 crores, impacted by setbacks in Karnataka due to e-khata issues, resulting in a loss of ~ ₹400 crores in business. However, management remains optimistic about gradual improvement in the process of registration. Management expects an additional ₹25-30 crore annual opex related to new IT project. Nevertheless, credit costs are projected to stay within 12-15 bps, eventually keeping RoA steady between 2-2.2%, reflecting a strong earnings outlook.

Rating and Target Price

- Canfin Homes has been best in class HFC player with a robust business model & underwriting practice, which resulted in healthy earnings growth with GNPA <1% across cycles. Steady business with conservative approach to keep asset quality stable in current challenging environment.

- Expecting gradual pick up in business growth and RoA trajectory at 2-2.2% in FY25-27E, we value CanFin Homes at 1.7x FY27E BV and assign a target price of ₹870 (earlier ₹1000). Recommend Buy rating.

Result Update

CanFinHomes Ltd (Sponsor: CANARA BANK) HOME LOANS ✦ DEPOSITS

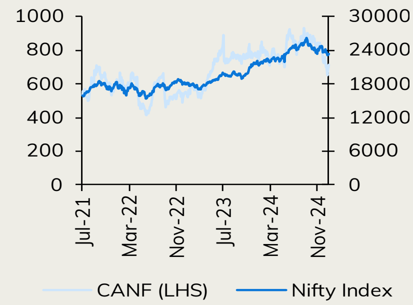
Particulars

Particulars	Amount
Market Capitalisation	₹ 9,286 crore
52 week H/L	952 / 650
Net worth	₹ 4343 Crore
Face Value	2.0
DII Holding (%)	28.1
FII Holding (%)	11.4

Shareholding pattern

Holding (%)	Mar-24	Jun-24	Sep-24	Dec-24
Promoter	30.0	30.0	30.0	30.0
FII	11.5	11.5	11.5	11.4
DII	27.9	27.9	27.9	28.1
Public	30.6	30.6	30.6	30.5

Price Chart



Key risks

(i) Depay in pick up in disbursement

(ii) Higher disbursement to self-employed segment could result in repayment volatility

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Key Financial Summary

₹ crore	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	816	1015	1259	16.4%	1372	1523	1683	10.2%
PPP	682	866	1036	14.7%	1139	1251	1368	9.7%
PAT	471	621	751	18.1%	837	919	1002	10.1%
ABV (₹)	224	268	315	19.2%	375	439	509	17.4%
P/E	19.7	14.9	12.3		11.1	10.1	9.2	
P/ABV	3.1	2.6	2.2		1.9	1.6	1.4	
RoA	1.9%	2.0%	2.2%		2.2%	2.1%	2.1%	
RoE	16.6%	18.5%	18.8%		17.7%	16.5%	15.5%	

Source: Company, ICICI Direct Research

Concall highlights and outlook:

Operational Performance

- AUM at ₹ 37,155 crores, up 9% YoY.
- Net profit at ₹ 212 crores, a 6% year-on-year increase.
- Maintain Spread of 2.68% and Net Interest Margin at 3.72% in Q3FY25.
- RoA at 2.25% and RoE at 17.55%.
- Staff costs have increased due to recruitment and training initiatives for the new branches.
- Credit Provision -: ECL provision at ₹ 300 crores, total provision ₹ 443 crores (inclusive of management overlays and for restructured accounts).
- Asset quality remain stable with GNPA at 0.92%, and a marginal increase in NNPA.
- Branch Network - 219 branches, with 10 closures/mergers and 10 new openings; 15 branches are in the pipeline.

Business Strategy

- Loan disbursements stood at ₹1,879 crores, flat YoY, and 21% down QoQ affected by registration issues, particularly in Karnataka. ₹400 crore business impacted due to registration issues in Karnataka.
- Business slowdown was witnessed in Telangana owing to delay in recognition of land deals entered by earlier government.
- Karnataka contributed ~34% and Telangana constitutes ~15% in total disbursement.
- Average ticket size in LAP increased from ₹8 lakh to ₹13 lakh with business from new customers allowed.
- Growth in AUM contributed by customer accretion as average ticket size has seen a decline to ~₹23 lakh compared to ₹25 lakhs earlier.
- ₹770 crore in SMA 0 are accounts wherein customer have paid outstanding dues and is yet to pay charges (O/s less than ₹850).
- Yield witnessing marginal uptick at 10.14%, owing to shift towards relatively higher yield LAP.

Guidance:

- Management maintains guidance of ~13-14% AUM growth for FY26E with target for disbursement slated at ₹ 12,000 crores.
- Management maintains its guidance for NIM at 3.5% and spreads at 2.5%, with RoE projected above 17% and RoAA at 2.1%.
- Credit cost of ~15 bps for the year, with minimal provisions expected in Q4, points to a stable outlook for credit quality.
- Management expect CI ratio to improve marginally for FY25 and targeting 18-19% for FY26.
- 15 new branches (as guided) are planned to open in Q4FY25.
- IT Transformation Project of ₹250-300 crore, underway to enhance operations, is expected to completed by Q3FY26.

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
NII	345	329	4.8	340	1.5	Moderation in credit off-take kept NII traction slower
Reported NIM (%)	3.7%	3.9%	-19 bps	3.8%	-2 bps	
Other Income	6	7	-17.7	7	-21.7	
Net Total Income	351	336	4.4	347	1.0	
Staff cost	29	25	18.5	29	1.0	
Other Operating Expenses	30	25	21.4	31	-1.2	
PPP	291	286	1.7	288	1.2	
Provision	22	31	-28.1	14	61.1	Steady asset quality with controlled slippages
PBT	269	256	5.3	274	-1.8	
Tax Outgo	57	56	2.6	63	-8.9	
PAT	212	200	6.0	211	0.3	Lower credit cost aided earnings
Key Metrics						
GNPA	341	309	10.4	320	6.6	Asset quality continues to remain strong
NNPA	187	167	11.7	172	8.7	
Loan Book	37155	34053	9.1	36591	1.5	
Borrowings	32325	31196	3.6	32209	0.4	

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	2,715	3,490	3,787	4,144	4,709
Interest Expended	1,701	2,231	2,415	2,621	3,026
Net Interest Income	1,015	1,259	1,372	1,523	1,683
% growth	24.3	24.1	9.0	11.0	10.5
Non Interest Income	28	35	38	42	48
Net Income	1,042	1,293	1,410	1,565	1,731
Employee cost	84	97	110	127	148
Other operating Exp.	93	160	161	186	215
Operating Profit	866	1,036	1,139	1,251	1,368
Provisions	42	79	66	73	83
PBT	824	958	1,073	1,178	1,285
Taxes	203	207	236	259	283
Net Profit	621	751	837	919	1,002
% growth	31.9	20.8	11.5	9.8	9.0
EPS (₹)	46.6	56.4	62.9	69.0	75.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Valuation					
No. of Equity Shares	13.3	13.3	13.3	13.3	13.3
EPS (₹)	46.6	56.4	62.9	69.0	75.3
BV (₹)	273.9	326.2	385.6	450.4	521.2
ABV (₹)	267.7	315.2	374.5	439.2	509.4
P/E	14.8	12.2	11.0	10.0	9.2
P/BV	2.5	2.1	1.8	1.5	1.3
P/adj.BV	2.6	2.2	1.8	1.6	1.4
Yields & Margins (%)					
Yield on interest earning assets	8.8%	9.9%	10.0%	9.9%	9.9%
Avg. cost on funds	6.3%	7.3%	7.2%	6.8%	6.8%
Net Interest Margins	3.3%	3.6%	3.5%	3.5%	3.5%
Spreads	2.5%	2.6%	2.9%	3.1%	3.1%
Quality and Efficiency					
Cost / Total net income	18.8%	22.0%	20.1%	21.1%	22.0%
GNPA%	0.6%	0.8%	0.8%	0.7%	0.7%
NNPA%	0.3%	0.4%	0.4%	0.4%	0.3%
RoE (%)	18.5%	18.8%	17.7%	16.5%	15.5%
RoA (%)	2.0%	2.2%	2.2%	2.1%	2.1%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	27	27	27	27	27
Reserves and Surplus	3,621	4,317	5,108	5,972	6,914
Networth	3,647	4,344	5,134	5,998	6,940
Borrowings	29,068	31,863	34,715	39,645	45,834
Other Liabilities & Provisi	350	379	469	543	624
Total	**33,065**	**36,586**	**40,318**	**46,186**	**53,398**
Applications of Funds					
Fixed Assets	45	53	55	58	61
Investments	1,459	1,459	1,725	1,939	2,205
Advances	31,193	34,553	38,078	42,794	48,668
Other Assets	367	521	460	1,395	2,464
Total	**33,065**	**36,586**	**40,318**	**46,186**	**53,398**

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	18.3%	10.7%	10.2%	12.4%	13.7%
Advances	18.3%	10.8%	10.2%	12.4%	13.7%
Borrowings	17.9%	9.6%	12.0%	16.0%	15.0%
Total Income	24.8%	24.1%	9.0%	11.0%	10.6%
Net interest income	24.3%	24.1%	9.0%	11.0%	10.5%
Operating expenses	15.4%	45.6%	5.5%	15.8%	15.8%
Operating profit	26.9%	19.7%	9.9%	9.9%	9.3%
Net profit	31.9%	20.8%	11.5%	9.8%	9.0%
Book value	18.9%	19.1%	18.2%	16.8%	15.7%
EPS	31.9%	20.8%	11.5%	9.8%	9.0%

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%

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