CanFin Homes (CANHOM)

ICICI Direct

CMP: ₹ 723	Target: ₹ 900 (24%)	Target Period: 12 months	BUY

April 28, 2025

Steady quarter; growth to act as re-rating catalyst

About the stock: CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of March 2025. The HFC has a presence in 234 locations across 21 states and union territories (UTs).

- Housing loans comprise ~86% of book; of which ~70% is to salaried customers
- Average ticket size is ₹24 lakh for housing, ₹13 lakh for non-housing loans

Q4FY25 performance: Canfin Homes delivered a mixed Q4FY25 performance with continued slower business growth, though asset quality held steady. AUM stood at ₹38,217 crore, up 9.1% YoY and 3% QoQ, driven by muted disbursement growth of 5% YoY at ₹2,455 crore. NII grew 6.4% YoY, while margin improved 9 bps sequentially at 3.82%. One time tax reversal pertaining to previous fiscal (~₹19 crore) was set-off by additional overlay of ₹25 crore in Q4FY25. Asset quality remained stable with GNPA/NNPA at 0.87%/0.47%, improving marginally QoQ.

Investment Rationale

- **Optimistic on growth with focus on relatively high yield segment:** Canfin Homes is set for consistent growth, with disbursement targeted at ₹10,000-10,500 crores for FY26E. The company projects ~12-13% YoY growth in AUM from FY26E onwards, driven by augmentation of its geographical footprints by adding 15 branches in North & Western parts of India which will aid growth. Gradual shift in business mix tilting towards self-employed segment (target to reach AUM mix of 65:35 in next 2-3 years vs 70:30 currently among salaried: self-employed) and better yielding non-home loans is seen to aid growth as well yield.
- **Margins and asset quality expected to remain resilient:** Focus on liability management and stable asset quality positions well to protect and sustain RoA. In current cycle of interest reversal, management expects NIM to remain largely steady as transmission of rates will be aligned to benefit received on liabilities. Given borrowing from banks linked to repo rate at ~55%, overall benefit is estimated at ~20 bps. Thus, management guides for margins remaining above 3.5%. Steady asset quality with GNPA anticipated to remain below 90 bps, healthy provision coverage, credit costs is guided to be well management at ~13-15 bps. CI ratio to remain steady in FY26E, however, implementation of tech initiatives could result in ~100 bps increase in CI ratio inn FY27E. Thus, margin resilience, backed by a favourable funding mix and controlled asset quality, offers strong earnings visibility with RoA to continue at 2.1-2.2% ahead.

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.
- While steady RoA at 2-2.2% in FY26-27E warrants substantial re-rating, however, revival in business growth remains trigger to boost valuation. Thus, we value CanFin Homes at 1.7x FY27E BV and revise target price to ₹900 (earlier ₹870). Recommend Buy rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	1015	1259	1354	15.5%	1520	1719	12.7%
PPP	866	1036	1152	15.4%	1296	1452	12.2%
PAT	621	751	856	17.4%	961	1076	12.1%
ABV (₹)	268	315	371	17.7%	433	503	16.5%
P/E	15.5	12.8	11.2		10.0	8.9	
P/ABV	2.7	2.3	2.0		1.7	1.4	
RoA	2.0%	2.2%	2.2%		2.2%	2.2%	
RoE	18.5%	18.8%	18.2%		17.4%	16.6%	

Source: Company, ICICI Direct Research

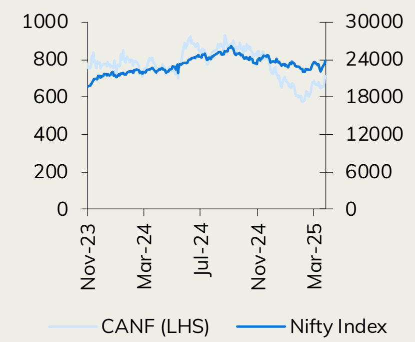
Can Fin Homes Ltd (Sponsor: CANARA BANK) HOME LOANS + DEPOSITS

Particulars	Amount
Market Capitalisation	₹ 9,629 crore
52-week H/L	952 / 558
Net worth	₹ 5067 Crore
Face Value	2.0
DII Holding (%)	24.7
FII Holding (%)	12.1

Shareholding pattern

Holding (%)	Jun-24	Sep-24	Dec-24	Mar-24
Promoter	30.0	30.0	30.0	30.0
FII	11.5	11.5	11.4	12.1
DII	27.9	27.9	28.1	24.7
Public	30.6	30.6	30.5	33.2

Price Chart



Key risks

(i) Impact on disbursement amid increasing competition on rates

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

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Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook:

Operational Performance

- AUM at ₹ 38,217 crores, up 9.2% YoY, PAT at ₹ 234 crores, a 12% YoY increase.
- Maintain spread at 2.55% and NIM at 3.82% in Q4FY25. RoA at 2.59% and RoE at 18.47%.
- Asset quality remains stable with 5 bps QoQ decline in GNPA at 0.87%, and 4 bps QoQ reduction in NNPA at 0.46%.

Business Strategy

- Karnataka posted strong traction with disbursement in Jan'25 & Feb'25 at ~₹200 crore/month and March'25 at ₹300 crore. Thus, Karnataka contributed ₹700 crore in Q4FY25 vs ₹475 crore in Q3FY25. Management expects Karnataka state to clock 20%+ growth in FY26, returning to H1FY25 levels.
- Signs of recovery can be seen in Telangana from monthly disbursements improving from ₹70 crore to ₹100+ crore in Q4FY25. Management remains optimistic on a positive trend ahead.
- ₹19 crore tax provision reversed in Q4FY25 related to assessment order for earlier quarters (FY24), resulting in lower tax in the quarter. Going ahead, effective tax rate is expected to remain at 21%. Management has utilized tax reversal to strengthen balance sheet by creating overlay during the quarter.
- Housing + CRE mix reduced from 89% to 86%; target to reduce to 80% over 3 years.
- Salaried borrower mix currently at 70%; aim to bring it down to 65% over 3 years.
- DSA share reduced marginally from 82% to 80%. Target remains to bring it down to 60% level ahead.
- Current branch strength at 234 with plans to add 15 new branches in FY26 (mostly in North, West & Tamil Nadu) targeting FY26-end to 249 branches. New branches remain on track to break even in 18–24 months.
- Increase of investment (₹400 crore) is for maintaining LCR norms.

Asset quality

- ECL provision write-back of ₹10 crore in Q4FY25 due to improved collections. Management overlay increased by ₹25 crore this quarter, taking total overlay to ₹59 crore (~15–17 bps of book).
- Excluding management overlay, credit cost stood at ~ ₹50 crore (i.e ~13 bps), below guidance of 15 bps.
- Restructured advances reduced from ₹720 crore in FY24 (including interest of ₹40 crore) to ₹480 crore in FY25. Slippages from restructured pool are at ~17%. Provision on restructured pool is sufficient and thus management overlay remains a buffer without any concern on asset quality.

Margins

- Banks are not passing entire benefit of repo rate cut through revision of additional margins charged (for example: earlier repo + 150 bps is now revised to repo rate + 170 bps). With bank borrowing at ~55% (80% linked to repo and 20% linked to T-bill), reversal in interest cycle is expected to have minimal impact on margins. Management suggests 10 bps reduction in CoF in Q1FY26 which could be passed on the customers. Overall, repo rate cut of 50 bps is benefit CoF to the extent of ~20 bps which would be gradual passed on to customers.
- NCD contribution is set to increase to ~25%, adhering to the regulation in next 2 years. Mortgage-Backed Securities by NHB is in pilot stage, which could become a significant funding source ahead.

Guidance

- Disbursements in FY26 targeted at ₹ 10,000–10,500 crore (20% YoY growth) resulting in credit growth of 12-13%.
- Maintained guidance on spreads at 2.5%+ and NIM of 3.5%+. Aiming to sustain RoA at ~2.1–2.2% and RoE at ~17%.
- Maintain credit cost guidance at 15 bps for FY26 with GNPA expected to remain below 0.9%.
- Opex for FY26 to be same level as FY25. IT transformation costs is expected to begin from April FY27 (FY26-end). Additional tech related cost should result in CI ratio at 18% in FY27E vs 17% in FY26E.

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	Comments
NII	349	328	6.3	345	1.1	Slower credit off-take kept NII traction muted
Reported NIM (%)	3.6%	4.0%	-32 bps	3.7%	-6 bps	Increase in cost of funds impacted margins
Other Income	17	7	137.0	6	188.0	
Net Total Income	365	344	6.3	351	4.2	
Staff cost	31	27	15.5	29	5.4	
Other Operating Expenses	40	45	-11.8	30	32.6	
PPP	295	272	8.4	291	1.1	
Provision	15	2	764.4	22	-30.3	Credit cost at higher end of guidance
PBT	279	270	3.4	269	3.7	
Tax Outgo	45	61	-25.7	57	-20.6	
PAT	234	209	11.9	212	10.3	Lower tax amid one-time reversal aid earningss
Key Metrics						
GNPA	333	286	16.4	341	-2.3	Asset quality continues to remain steady
NNPA	17	147	-88.2	187	-90.7	
Loan Book	38217	34999	9.2	37155	2.9	Continued focus on non-home segment
Borrowings	29509	23093	27.8	32325	-8.7	
CI ratio	19.4%	20.9%	-158 bps	16.9%	245 bps	Higher cost QoQ, but efficiency improved YoY
Provison for std assets	-5.93			10.97		
NPA provision	14.35			5.39		
	8.42			16.36		

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	2,715	3,490	3,853	4,158	4,673
Interest Expended	1,701	2,231	2,499	2,638	2,955
Net Interest Income	1,015	1,259	1,354	1,520	1,719
% growth	24.3	24.1	7.5	12.3	13.1
Non Interest Income	28	35	37	41	47
Net Income	1,042	1,293	1,391	1,561	1,765
Employee cost	84	97	112	128	146
Other operating Exp.	93	160	126	137	168
Operating Profit	866	1,036	1,152	1,296	1,452
Provisions	42	79	76	64	72
PBT	824	958	1,077	1,232	1,380
Taxes	203	207	220	271	304
Net Profit	621	751	856	961	1,076
% growth	31.9	20.8	14.1	12.2	12.0
EPS (₹)	46.6	56.4	64.3	72.2	80.8

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	64.3	72.2	80.8
BV (₹)	273.9	326.2	380.9	448.8	524.7
ABV (₹)	267.7	315.2	370.7	433.0	503.3
P/E	15.5	12.8	11.2	10.0	8.9
P/BV	2.6	2.2	1.9	1.6	1.4
P/adj.BV	2.7	2.3	2.0	1.7	1.4
Yields & Margins (%)					
Yield on interest earning assets	8.8%	9.9%	10.0%	9.8%	9.8%
Avg. cost on funds	6.3%	7.3%	7.5%	7.1%	7.1%
Net Interest Margins	3.3%	3.6%	3.5%	3.5%	3.5%
Spreads	2.5%	2.6%	2.5%	2.7%	2.7%
Quality and Efficiency					
Cost / Total net income	18.8%	22.0%	17.8%	18.0%	18.8%
GNPA%	0.6%	0.8%	0.9%	0.9%	0.9%
NNPA%	0.3%	0.4%	0.4%	0.5%	0.6%
RoE (%)	18.5%	18.8%	18.2%	17.4%	16.6%
RoA (%)	2.0%	2.2%	2.2%	2.2%	2.2%

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	5,046	5,949	6,961
Networth	3,647	4,344	5,073	5,976	6,988
Borrowings	29,068	31,863	35,052	39,417	44,139
Other Liabilities & Provisi	350	379	351	516	578
Total	**33,065**	**36,586**	**40,475**	**45,910**	**51,705**
Applications of Funds					
Fixed Assets	45	53	50	53	55
Investments	1,459	1,459	2,373	2,566	2,662
Advances	31,193	34,553	37,771	42,477	48,074
Other Assets	367	521	282	815	914
Total	**33,065**	**36,586**	**40,475**	**45,910**	**51,705**

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	18.3%	10.7%	10.9%	12.4%	12.6%
Advances	18.3%	10.8%	9.3%	12.5%	13.2%
Borrowings	17.9%	9.6%	10.0%	12.0%	12.0%
Total Income	24.8%	24.1%	7.5%	12.3%	13.1%
Net interest income	24.3%	24.1%	7.5%	12.3%	13.1%
Operating expenses	15.4%	45.6%	-7.3%	11.4%	18.0%
Operating profit	26.9%	19.7%	11.2%	12.4%	12.0%
Net profit	31.9%	20.8%	14.1%	12.2%	12.0%
Book value	18.9%	19.1%	16.8%	17.8%	16.9%
EPS	31.9%	20.8%	14.1%	12.2%	12.0%

Source: Company, ICICI Direct Research

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