CanFin Homes (CANHOM)

ICICI direct Research

CMP: ₹ 857 | Target: ₹ 1000 (17%) | Target Period: 12 months | BUY

November 7, 2024

Result Update

Growth & profitability on track; trend to sustain

About the stock: CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of Sep 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 ₹25 lakh for housing, ₹8 lakh for non-housing loans

Q2FY25 performance: Can Fin Homes' results reflected steady progress, with AUM growing by 10% YoY (2.9% QoQ) to ₹36,591 crore, primarily driven by its core housing loan portfolio, which constitutes 87% of loan book. Loan disbursements showed a robust increase of 18% YoY (28% QoQ) to ₹2,381 crore. NII grew by 7% YoY to ₹340 crore, while NIM stood at 3.75%, reflecting 18 bps improvement QoQ but a slight decline of 5 bps YoY due to higher borrowing costs. Credit costs reduced to ₹14 crore. GNPA increased marginally YoY to 0.88% (from 0.76%), though there was improvement of 3 bps QoQ. PAT rose by 34% YoY to ₹211 crore, supported by improved profitability and lower provisioning.

Investment Rationale

- Optimistic on growth with focus on relatively high yield segment: Canfin Homes is set for consistent growth, with disbursement target of 11-12% in Q3 and 13-14% in Q4 of FY25E, aiming to reach ₹10,000 crores in disbursements by the end of FY25E. The company also projects ~15% YoY growth in AUM from FY26E onwards. The company is planning to augment 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 72:28 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. Further, implementation of PMAY 2.0 is expected to boost home loan demand, sustaining growth.
- Strong profitability trend amid benign credit cost: Growth in earnings remained strong at ~34% YoY driven by uptick in margins and decline in provisioning, despite rising operating expenses. Staff costs and fees rose 22-25% YoY, influenced by promotions, legal expenses, and marketing initiatives. Management expects an additional ₹20-25 crore annual opex related to new IT project by December 2025. Nevertheless, credit costs are projected to stay within 10-12 bps, eventually keeping RoA steady between 2-2.3%, 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. Strategy to strengthen distribution & processes including IT infrastructure to further aid business growth & RoA.
- Expecting business growth aligning to nominal GDP and RoA trajectory at 2-2.2% in FY25-27E, we value CanFin Homes at 2x FY27E BV and assign a target price of ₹1000. Recommend Buy rating.

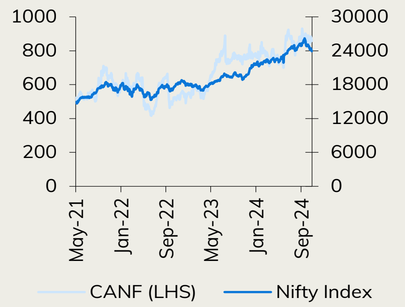
Particulars

Particulars	Amount
Market Capitalisation	₹ 11,414 crore
52 week H/L	952 / 680
Net worth	₹ 4,702 Crore
Face Value	2.0
DII Holding (%)	27.5
FII Holding (%)	11.7

Shareholding pattern

Holding (%)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	30.0	30.0	30.0	30.0
FII	11.1	11.5	11.5	11.5
DII	28.5	27.9	27.9	27.9
Public	30.5	30.6	30.6	30.6

Price Chart



Key risks

(i) Impact on profitability by rising opex

(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%	1390	1550	1745	11.5%
PPP	682	866	1036	14.7%	1132	1250	1397	10.5%
PAT	471	621	751	18.1%	831	916	1023	10.9%
ABV (₹)	224	268	315	19.2%	374	438	510	17.4%
P/E	24.5	18.6	15.4		13.9	12.6	11.3	
P/ABV	3.9	3.2	2.8		2.3	2.0	1.7	
RoA	1.9%	2.0%	2.2%		2.1%	2.1%	2.0%	
RoE	16.6%	18.5%	18.8%		17.5%	16.5%	15.8%	

Source: Company, ICICI Direct Research

Concall highlights and outlook:

- The AUM growth improved to 10% in Q2FY25, from 9% in Q1FY25. The company targets AUM growth of 11%-12% by Q3 and 13%-14% by Q4FY25
- Disbursements saw an impressive growth of 28% QoQ and 18% YoY compared to Q2FY24. Disbursement to sanction ratio is almost 90-95% which is one of the essential drivers to healthy growth.
- Key regions like Andhra Pradesh witnessed improvement, while Telangana remained a concern due to issues like demolition of houses and registration problems.
- Sanctions witnessed strong growth with particular strength in ₹20 lakhs+ segment
- Cost of borrowing improved marginally, leading to a decent performance in spreads and NIMs. Management expects to maintain spreads of 2.5% plus and NIMs of 3.5% plus.
- Stage 3 NPAs have reduced, but there was a slight increase in Stage 2 provisioning. Overall, the company maintains guidance for 10-12 bps of credit cost.
- There was a slight increase in operating expenses (Opex) due to:
  - Promotions and increments
  - Actuarial valuation leading to ₹3 crores higher cost
  - Increased legal expenses and higher communication costs
- The company is confident of maintaining strong growth in the coming quarters, with stable margins supported by competitive sanction rates and refinance from NHB, which is expected to bring down borrowing costs.
- SMA 0 & SMA 1 levels saw an increase due to regulatory changes but are considered cyclical and manageable.
- The company has 60% borrowings from banks of which ~45% is linked to repo rate.
- The company currently has 72% salaried and 28% SENP, incremental growth in self-employed segment has reached 35%-38%. The company is comfortable with near-term mix of 65% salaried and 35% SENP over next 2-3 years which will help sustain yields.

Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	340	317	7.3	321	5.7	Increase in lending mix towards CRE & LAP
Reported NIM (%)	4.0%	4.2%	-19 bps	3.5%	49 bps	Increase in leverage aided margins
Other Income	7	6	27.9	7	6.8	
Net Total Income	347	323	7.6	328	5.7	
Staff cost	29	25	15.6	23	23.8	Marginal increase due to promotions and increment
Other Operating Expenses	31	27	11.2	26	19.5	
PPP	288	270	6.5	280	3.0	
Provision	14	72	-81.0	24	-43.9	Steady asset quality with controlled slippages led to decline in credit cost
PBT	274	198	38.4	255	7.4	
Tax Outgo	63	40	56.8	55	12.9	
PAT	211	158	33.8	200	5.9	Steady growth with lower provision aided earnings
Key Metrics						
GNPA	320	254	25.8	325	-1.5	Asset quality continues to remain strong
NNPA	172	142	20.8	147	17.0	
Loan Book	36591	33359	9.7	34957	4.7	
Borrowings	23947	23374	2.5	27539	-13.0	
CI ratio	17.1%	16.2%	85 bps	14.9%	223 bps	Closer look at increase in CI ratio required for coming quarters

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	2,715	3,490	3,834	4,264	4,879
Interest Expended	1,701	2,231	2,443	2,714	3,134
Net Interest Income	1,015	1,259	1,390	1,550	1,745
% growth	24.3	24.1	10.4	11.5	12.6
Non Interest Income	28	35	39	44	50
Net Income	1,042	1,293	1,429	1,593	1,795
Employee cost	84	97	112	130	151
Other operating Exp.	93	160	185	214	247
Operating Profit	866	1,036	1,132	1,250	1,397
Provisions	42	79	67	75	86
PBT	824	958	1,065	1,174	1,311
Taxes	203	207	234	258	288
Net Profit	621	751	831	916	1,023
% growth	31.9	20.8	10.7	10.3	11.7
EPS (₹)	46.6	56.4	62.4	68.8	76.8

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	62.4	68.8	76.8
BV (₹)	273.9	326.2	385.1	449.8	522.0
ABV (₹)	267.7	315.2	374.1	438.4	510.0
P/E	18.3	15.1	13.7	12.4	11.1
P/BV	3.1	2.6	2.2	1.9	1.6
P/adj.BV	3.2	2.7	2.3	1.9	1.7
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%	7.1%	6.8%	6.8%
Net Interest Margins	3.3%	3.6%	3.6%	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%	21.8%	22.7%	23.5%
GNPA%	0.6%	0.8%	0.8%	0.7%	0.7%
NNPA%	0.3%	0.4%	0.4%	0.3%	0.3%
RoE (%)	18.5%	18.8%	17.5%	16.5%	15.8%
RoA (%)	2.0%	2.2%	2.1%	2.1%	2.0%

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	5,102	5,963	6,924
Networth	3,647	4,344	5,128	5,990	6,951
Borrowings	29,068	31,863	35,955	41,061	47,471
Other Liabilities & Provisior	350	379	485	562	646
Total	**33,065**	**36,586**	**41,569**	**47,612**	**55,067**
Applications of Funds					
Fixed Assets	45	53	55	58	61
Investments	1,459	1,459	1,766	2,005	2,288
Advances	31,193	34,553	38,975	44,255	50,518
Other Assets	367	521	773	1,294	2,200
Total	**33,065**	**36,586**	**41,569**	**47,612**	**55,067**

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	18.3%	10.7%	12.8%	13.5%	14.2%
Advances	18.3%	10.8%	12.8%	13.5%	14.2%
Borrowings	17.9%	9.6%	16.0%	16.0%	15.0%
Total Income	24.8%	24.1%	10.5%	11.5%	12.6%
Net interest income	24.3%	24.1%	10.4%	11.5%	12.6%
Operating expenses	15.4%	45.6%	15.6%	15.7%	15.7%
Operating profit	26.9%	19.7%	9.2%	10.4%	11.8%
Net profit	31.9%	20.8%	10.7%	10.3%	11.7%
Book value	18.9%	19.1%	18.1%	16.8%	16.1%
EPS	31.9%	20.8%	10.7%	10.3%	11.7%

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%

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