

05th March 2024

Can Fin Homes Ltd. – BUY

CMP : Rs. 792
Target Price : Rs. 1,075
Upside : 36%+
Stop Loss : Rs. 685 (Closing basis)

Investment Thesis

- Can Fin Homes Ltd (CFHL) has a proven track record of maintaining good asset quality. As at the end of Q3FY24, the GNPA / NNPA stood at 0.91% / 0.49%. This is best in the category despite there being a deterioration in the asset quality over the previous two quarters on account of slippage in the restructured book. Management has indicated that there could be a marginal rise in the NPAs from the restructured book, however, it would be insignificant. This underscores the sound underwriting and prudent provisioning practices.
- The driving factor behind the stable and pristine asset quality lies in the composition of the Loan book. As of Q3FY24, 89% (Rs. 30,341 crs) of the loan book was Home Loans which are secured. Of this Rs. 22,442 crs (65% of AUM) is outstanding with Salaried and Professional Individuals. This highly secured portfolio provides significant comfort w.r.t asset quality.
- The management of CFHL has placed a high focus on branch additions to improve its network and presence across the country. Currently, CFHL has Pan-India presence with 180 branches, 21 affordable housing loan centers and 12 satellite offices at the end of Q3FY24. In Q3FY24, CFHL added 5 branches. The network effect of the additional branches would accelerate the AUM growth. During the Q3FY24 results update, management outlined its plan to add 15 – 20 branches every year.
- Additionally, CFHL will create tie-ups with builders for financing new projects. This move is expected to accrue incrementally benefits for AUM growth. As of Q3FY24 end, no such loans have been disbursed.
- Backed by the Canara bank, stable and superior asset quality and steady operational performance has enabled CFHL to enjoy an AAA credit rating. Therefore, its cost of funds is among the lowest. This cost leadership is a massive competitive advantage for CFHL.
- Guidance**
 - Targeting to cross Rs. 12,000 crs disbursement in FY25.
 - Targeting around 20% disbursement growth and 18% AUM growth for the next 3 years.
 - Comfortable with a spread of 2.5% and NIM of 3.5% to boost growth.
 - Plans to increase ticket size to Rs. 27-30 lakhs in the next 3 years.

Financials

- During Q3FY24, CFHL reported a Nil of Rs. 328.8 crs up 30.6% YoY from Rs. 251.7 crs. On a Q-o-Q basis, the growth was modest 3.8%. For 9MFY24, the Nil was Rs. 930.7 crs which just below the Nil for FY23 as whole.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Nil (Rs. in Crs)	798.0	816.2	1014.6	1249.6	1379.5
NIM (%)	3.9	3.6	3.5	3.8	3.6
RoA (%)	2.2	2.0	2.2	2.3	2.2
Adj. PAT (Rs. in Crs)	456.1	471.1	621.2	783.5	862.7
Book Value (Rs.)	196.0	230.3	273.9	333.1	398.0
PB Multiple (x)	3.1	2.7	1.9	2.5	2.1
RoE (%)	17.5	15.4	17.0	18.8	17.5

Stock Data

Market Cap (Rs. Crs)	10,551
Market Cap (\$ Mn)	1,272
Shares O/S (in Mn)	133
Avg. Volume (3 month)	9,22,833
52-Week Range (Rs.)	910 / 508

Shareholding Pattern

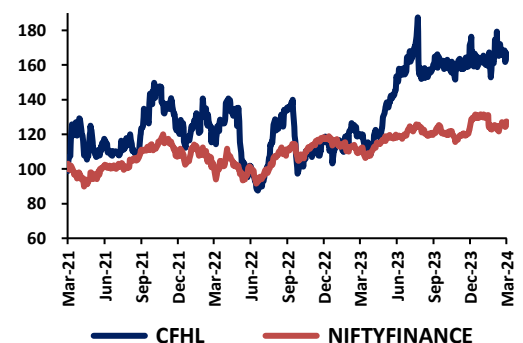
Promoters	29.99
FII's	11.06
Institutions	28.46
Others (incl. body corporate)	30.48

Key Ratios

Div Yield (%)	0.45
TTM PE (x)	14.9
ROE (%)	18.5
TTM EPS (Rs.)	53.13

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-0.6	4.0	40.2
NIFTYFINANCE	1.6	5.5	14.1



- The disbursement during Q3FY24 were subdued as CFHL is implemented an IT transformation which would improve efficiency and capacity. During the earning call, management has assured that the disbursements have normalized and expect the quarterly disbursement for Q4FY24 to be around Rs. 2,500 crs.
- Due to seasonality effects and slippage in the restructured book, the GNPA / NNPA saw a deterioration by 15 / 6 bps Q-o-Q. In this regard management has re-assured that there would be no incremental slippage from the restructured book and the asset would improve.

Key Business Highlights

- CFHL is a 36-year-old public deposit-taking housing finance company promoted by Canara Bank in 1987. CFHL focuses on funding to low & middle group individuals and first-time homebuyers preferably salaried or professional. However, since 2014 it is also increasing exposure to self-employed professionals and non-professionals.
- CFHL has Pan-India presence with 180 branches, 21 affordable housing loan centers and 12 satellite offices at the end of Q3FY24.
- CFHL's 58% of the loans disbursed are for construction. Further, 72% of the loans are provided to Salaried and Professionals applicants.

Valuation

Q3FY24 numbers of CFHL were a strong show as the management has laid out an ambitious guidance. The asset quality was impacted due to the restructured book, however, the worst is behind. Cost leadership, focus on AUM growth and branch expansion provide a sanguine picture.

Currently, CFHL is trading at a TTM PB 2.7x, against the average PB of the peers in the Home Financing space, which are trading at 3.0x, implying there is marginal undervaluation.

Therefore, considering above, we ascribe a **BUY** rating for **CFHL** with a **target price of Rs. 1,075**, translating to an **upside of 36+%**.

Risk & Concern

- Increased interest rate competition from peers.
- Delay in execution of the guidance provided.
- Economic slowdown.
- Slowdown in the real estate sector.

Graphs & Charts

Figure 1: NII & NIM Trend

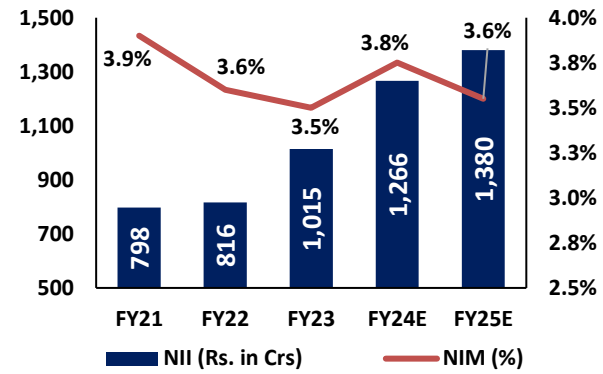


Figure 2: PAT & RoA Trend

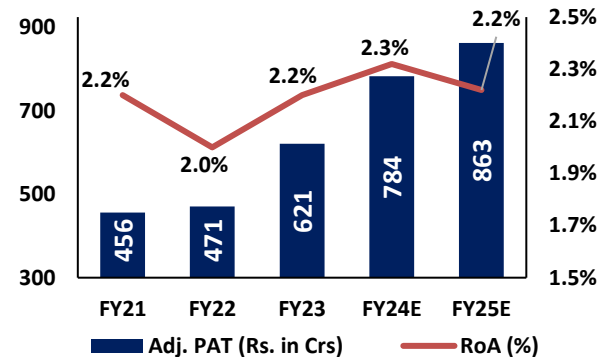


Figure 3: GNPA & NNPA Trend

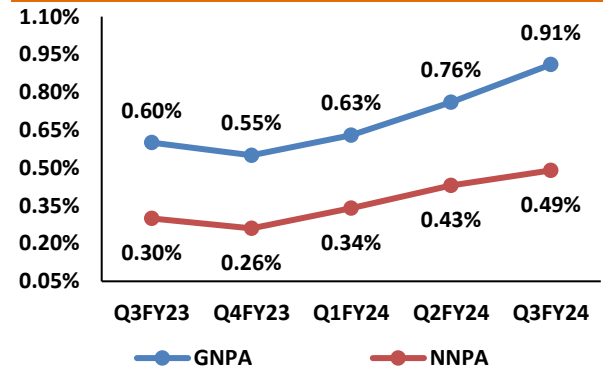
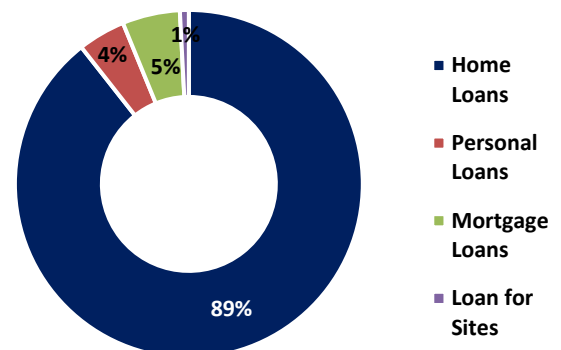


Figure 4: AUM breakup



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