

### Lower growth & high valuations !!!

Can Fin Homes results were below par; PAT came in at INR 200.2 cr, up by 32.1% yoy and 26.6% qoq. Incremental disbursements were down 22% yoy (7% qoq) & outstanding loan book growth at 13.1% yoy was one of the lowest seen in last 11 quarters. Reported spreads contracted by 19 bps qoq to 2.56% due to rise in cost of funds (3 bps qoq) and decline in yields (16 bps qoq). On the asset quality side, GNPA rose by 21.4% qoq to INR 309 cr due to higher slippages amounting to INR 309 cr. In % terms, GNPA/NNPA rose to 0.91%/0.49% in Q3 vs. 0.76%/0.43% in Q2 last quarter.

### Valuations

On the strategy side, it is planning for higher loan growth (20%+) in FY25 period more driven by digital sourcing (& less DSA dependent) and building pan-India presence & diversifying from current South region (which comprise of >70% loans currently). However, in our view, management will not be able to meet its loan growth target of 20% in FY25; growth will be ~15% in our view due to couple of reasons – 1) other players like LIC Housing Finance, PNB Housing Finance etc which were not aggressive earlier due to their NPL issues are pushing for higher growth 2) Pan-India players are seeing more better growth like IIFL Finance & PNB Housing Finance vs. Can Fin Homes which has more concentrated south regional focus business model 3) BT out rates are ~4%. This implies loan book will have to grow by 24-25% and after deducting for 4% BT out & prepayments, loan growth will settle down at 20%+ which is a tough task.

For Can Fin Homes, PAT is likely to grow by 15.5% CAGR over FY24-26e. It is trading at 2.0x/1.7x FY25e/FY26e for ROA of 2%/ROE of 17-18%. In our view, IIFL Finance is looking better as compared to Can Fin Homes. IIFL Finance which is available at 1.9x FY25e ABV for ROA of >3.7%/ROE of 19%+ has higher asset & PAT growth visibility (25%/27%+ respectively for FY25 period).

### Financial Summary

| (Rs.Cr)  | FY22  | FY23   | FY24E  | FY25E  | FY26E  |
|----------|-------|--------|--------|--------|--------|
| NII (Rs) | 816.2 | 1014.6 | 1210.2 | 1390.2 | 1598.8 |
| PAT (Rs) | 471.1 | 621.2  | 712.8  | 858.8  | 983.7  |
| EPS      | 35    | 47     | 54     | 64     | 74     |
| ROE (%)  | 16.6  | 18.5   | 17.9   | 18.2   | 17.6   |
| ROA (%)  | 1.9   | 2.0    | 2.0    | 2.1    | 2.1    |
| P/E      | 21.2  | 16.1   | 14.0   | 11.6   | 10.1   |
| P/ABV    | 3.3   | 2.8    | 2.4    | 2.0    | 1.7    |

Source: Company, Dalal & Broacha Research

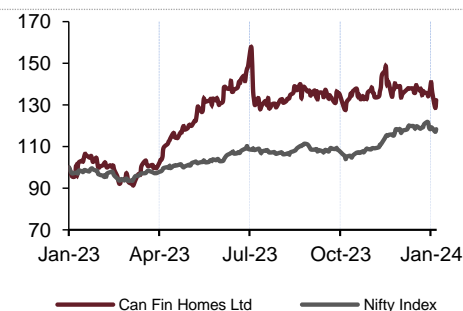
| Rating      | TP (Rs)    | Up/Dn (%) |
|-------------|------------|-----------|
| <b>HOLD</b> | <b>820</b> | <b>10</b> |

### Market data

|                      |           |           |
|----------------------|-----------|-----------|
| Current price        | Rs        | 746       |
| Market Cap (Rs.Bn)   | (Rs Bn)   | 99        |
| Market Cap (US\$ Mn) | (US\$ Mn) | 1,194     |
| Face Value           | Rs        | 2         |
| 52 Weeks High/Low    | Rs        | 678 / 407 |
| Average Daily Volume | ('000)    | 2,857     |
| BSE Code             |           | 511196    |
| Bloomberg            |           | CANF.IN   |

Source: Bloomberg

### One Year Performance



Source: Bloomberg

| % Shareholding | Dec-23 | Sep-23 |
|----------------|--------|--------|
| Promoters      | 29.99  | 29.99  |
| Public         | 70.01  | 70.01  |
| Total          | 100    | 100    |

Source: Bloomberg

**Anusha Raheja**  
+91 22 6714449

[anusha.raheja@dalal-broacha.com](mailto:anusha.raheja@dalal-broacha.com)

**We recommend switch call from Can Fin Homes to IIFL Finance (INR 813, 35% upside). Revising Can Fin Homes target price to INR 820 (discounting its FY26e ABV by 1.9x, 10% upside from current levels).**

### Key Financial Highlights

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- Can Fin Homes results were below par; PAT came in at INR 200.2 cr, up by 32.1% yoy and 26.6% qoq. Incremental disbursements were down 22% yoy (7% qoq) & outstanding loan book growth at 13.1% yoy was one of the lowest seen in last 11 quarters
- Outstanding loan book grew at slower pace of 13.1% yoy (2.1% qoq) to INR 340.5 bn which was mainly due to lower disbursements & sanctions (20.6% yoy & 3.3% qoq). Additionally, during the quarter, higher growth was seen in the non-salaried class segment at 3.2% qoq (28% share) than salaried segment which grew by 1.7% qoq (72% share).
- Reported spreads contracted by 19 bps qoq to 2.56% due to rise in cost of funds (3 bps qoq) and decline in yields (16 bps qoq). Incrementally, large part of the growth is coming in the higher ticket size segment where the competition intensity is high & relative lending yields are also low.
- On the asset quality side, GNPA rose by 21.4% qoq to INR 309 cr due to higher slippages amounting to INR 309 cr. In % terms, GNPA/NNPA rose to 0.91%/0.49% in Q3 vs. 0.76%/0.43% in Q2 last quarter. Out of the total provisions of INR 30.8 cr, incremental ECL provisions for NPAs were at INR 29 cr, drawdown of restructured provisions of -10 cr and provisions for standard assets at INR 12 cr.

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## Concall Highlights

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- **Management is expecting loan growth of 20% in FY25 based on the assumption of the average quarterly run-rate of disbursements of ~INR30 bn (i.e. growth of ~33% in FY24 over FY24 period). Loan growth is on lower end due to higher pre-payments & BT out rates which is ~4% despite higher disbursement growth**
- In Q4FY24, disbursements are expected to be ~INR25 bn
- And incremental disbursement growth of INR 64 bn in 9MFY24, 13.2% growth has come in the INR <10 lakh ticket size of loans, 27.1% in INR10-20 lakh ticket size, 25.7% in INR 20-30 lakh and 34% in INR >30 lakh segment.
- **Management is expecting no margin contraction ahead** - It is looking at margins of 3.7-3.8% levels vs. 3.7% levels seen in 9MFY24 and spreads of 2.6-2.7% similar to current levels.
- **Dependence on DSA channel is being reduced;** incremental disbursements sourced via DSAs is reduced to 79% now (Q3FY24) and incremental more lead sourcing will be done via digital channels.
- **During the quarter, it added 3 branches in Q2 and 5 branches in Q3 taking total count to 213.**
- **During the quarter, it received rating upgrade from ICRA to AAA/Stable for public deposits.**
- Average ticket size of incremental housing & non-housing loans is INR 25 lakh and INR 8 lakh respectively
- It is likely to see Cost/Income ratio target of ~18-18.5% going forward
- Periodic reset of the lending rates will be quarterly feature now vs. yearly reset earlier
- On the asset quality side, gross NPAs are anticipated to be at current levels of ~0.8-0.85% levels
- Large part of IT transformation for strengthening the systems & processes is over. Cost related to same is approx. ~INR30 cr for FY24 period and is likely to INR15 cr in FY25.
- Credit cost is expected to be ~10 bps for FY25

## Valuations

On the strategy side, it is planning for higher loan growth (20%+) in FY25 period more driven by digital sourcing (& less DSA dependent) and building pan-India presence & diversifying from current South region (which comprise of >70% loans currently). However, in our view, management will not be able to meet its loan growth target of 20% in FY25; growth will be ~15% in our view due to couple of reasons – 1) other players like LIC Housing Finance, PNB Housing Finance etc which were not aggressive earlier due to their NPL issues are pushing for higher growth 2) Pan-India players are seeing more better growth like IIFL Finance vs. Can Fin Homes which has more concentrated south regional focus business model 3) BT out rates are ~4%. This implies loan book will have to grow by 24-25% and after deducting for 4% BT out & prepayments, loan growth will settle down at 20%+ which is a tough task.

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## Quarterly Financials (Q3FY24)

| Particulars (INR Cr )         | Q4FY22       | Q1FY23       | Q2FY23       | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       | YoY   | QoQ   |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------|-------|
| Interest Earned               | 555.8        | 606.5        | 652.2        | 704.6        | 752.1        | 818.1        | 865.2        | 894.8        | 27.0  | 3.4   |
| Interest Expended             | 318.5        | 356.1        | 401.0        | 452.9        | 490.8        | 533.0        | 548.4        | 566.0        | 25.0  | 3.2   |
| <b>NII</b>                    | <b>237.3</b> | <b>250.4</b> | <b>251.2</b> | <b>251.7</b> | <b>261.3</b> | <b>285.1</b> | <b>316.8</b> | <b>328.8</b> | 30.6  | 3.8   |
| Other Income                  | 5.5          | 5.1          | 5.4          | 5.1          | 12.2         | 6.0          | 5.8          | 7.1          | 39.9  | 21.7  |
| <b>Net Income</b>             | <b>242.8</b> | <b>255.5</b> | <b>256.6</b> | <b>256.8</b> | <b>273.5</b> | <b>291.1</b> | <b>322.6</b> | <b>335.9</b> | 30.8  | 4.1   |
| Opex                          | 48.2         | 40.5         | 40.5         | 43.8         | 51.7         | 43.5         | 52.4         | 49.4         | 12.7  | -5.7  |
| <b>PPOP</b>                   | <b>194.6</b> | <b>215.0</b> | <b>216.1</b> | <b>212.9</b> | <b>221.8</b> | <b>247.6</b> | <b>270.2</b> | <b>286.5</b> | 34.6  | 6.0   |
| Provisions                    | 30.2         | -3.7         | 13.2         | 8.4          | 23.8         | 13.7         | 72.2         | 30.8         | 266.2 | -57.3 |
| <b>PBT</b>                    | <b>164.3</b> | <b>218.7</b> | <b>202.9</b> | <b>204.5</b> | <b>198.0</b> | <b>233.9</b> | <b>198.0</b> | <b>255.7</b> | 25.0  | 29.1  |
| Tax                           | 41.4         | 56.5         | 61.1         | 53.0         | 32.2         | 50.4         | 39.9         | 55.6         | 4.8   | 39.2  |
| <b>PAT</b>                    | <b>122.9</b> | <b>162.2</b> | <b>141.7</b> | <b>151.5</b> | <b>165.8</b> | <b>183.5</b> | <b>158.1</b> | <b>200.2</b> | 32.1  | 26.6  |
| <b>Balance sheet (INR Cr)</b> |              |              |              |              |              |              |              |              |       |       |
|                               | Q4FY22       | Q1FY23       | Q2FY23       | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       | YoY   | QoQ   |
| New Approvals                 | 3018         | 1751         | 2348         | 2585         | 2769         | 2071         | 2123         | 2053         | -9.6  | 2.5   |
| Disbursements                 | 2705         | 1722         | 2245         | 2444         | 2538         | 1966         | 2019         | 1879         | -10.1 | 2.7   |
| Outstanding loan book         | 26711        | 27538        | 28823        | 30115        | 31563        | 32505        | 33359        | 34053        | 15.7  | 2.6   |
| <b>Key Ratios (%)</b>         |              |              |              |              |              |              |              |              |       |       |
|                               | Q4FY22       | Q1FY23       | Q2FY23       | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       |       |       |
| Gross NPAs (Rs)               | 171          | 180          | 179          | 181          | 174          | 205          | 254          | 309          |       |       |
| Net NPAs (Rs)                 | 81           | 82           | 101          | 89           | 83           | 110          | 142          | 167          |       |       |
| <b>GNPA (%)</b>               | <b>0.6</b>   | <b>0.7</b>   | <b>0.6</b>   | <b>0.6</b>   | <b>0.6</b>   | <b>0.63</b>  | <b>0.76</b>  | <b>0.91</b>  |       |       |
| <b>NNPA (%)</b>               | <b>0.3</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.3</b>   | <b>0.34</b>  | <b>0.43</b>  | <b>0.49</b>  |       |       |
| PCR (%)                       | 52.7         | 54.4         | 43.4         | 50.7         | 62.1         | 53.4         | 56.0         | 54.2         |       |       |
| C/I Ratio (%)                 | 19.8         | 15.8         | 15.8         | 17.1         | 18.9         | 14.9         | 16.2         | 14.7         |       |       |
| <b>ROA (%) (Reported)</b>     | <b>2.0</b>   | <b>2.4</b>   | <b>2.1</b>   | <b>2.2</b>   | <b>2.3</b>   | <b>2.2</b>   | <b>1.8</b>   | <b>2.3</b>   |       |       |
| <b>ROE (%) (Reported)</b>     | <b>16.0</b>  | <b>20.0</b>  | <b>16.8</b>  | <b>17.3</b>  | <b>17.0</b>  | <b>19.2</b>  | <b>16.0</b>  | <b>19.4</b>  |       |       |
| EPS (Rs)                      | 9.2          | 12.2         | 10.6         | 11.4         | 12.5         | 13.8         | 11.9         | 15.0         |       |       |
| <b>NIM (%) (Reported)</b>     | <b>4.2</b>   | <b>3.6</b>   | <b>3.6</b>   | <b>3.5</b>   | <b>3.37</b>  | <b>3.48</b>  | <b>3.80</b>  | <b>3.92</b>  |       |       |
| <b>Yield (%) (Reported)</b>   | <b>8.1</b>   | <b>8.5</b>   | <b>8.6</b>   | <b>8.9</b>   | <b>9.9</b>   | <b>9.8</b>   | <b>10.1</b>  | <b>9.9</b>   |       |       |
| <b>Cost (%) (Reported)</b>    | <b>5.6</b>   | <b>5.8</b>   | <b>6.0</b>   | <b>6.6</b>   | <b>7.5</b>   | <b>7.3</b>   | <b>7.3</b>   | <b>7.4</b>   |       |       |
| <b>Spread (%) (Reported)</b>  | <b>2.6</b>   | <b>2.7</b>   | <b>2.5</b>   | <b>2.2</b>   | <b>2.4</b>   | <b>2.5</b>   | <b>2.8</b>   | <b>2.6</b>   |       |       |
| Avg. Business Per Branch      | 136.1        | 146.5        | 143.8        | 146.9        | 154.0        | 160.4        | 162.1        | 165.1        |       |       |
| Avg. Business per Employee    | 30.0         | 30.8         | 31.5         | 32.7         | 32.4         | 33.9         | 34.2         | 33.2         |       |       |

Source: Company, Dalal &amp; Broacha Research

## Financials

### Profit & Loss Account

| P&L (Rs cr)           | FY22       | FY23         | FY24E        | FY25E        | FY26E        |
|-----------------------|------------|--------------|--------------|--------------|--------------|
| Interest income       | 1,970      | 2,715        | 3,411        | 3,911        | 4,497        |
| Interest expense      | 1,153      | 1,701        | 2,201        | 2,521        | 2,899        |
| <b>NII</b>            | <b>816</b> | <b>1,015</b> | <b>1,210</b> | <b>1,390</b> | <b>1,599</b> |
| Non-interest income   | 19         | 28           | 40           | 45           | 51           |
| <b>Net revenues</b>   | <b>835</b> | <b>1,042</b> | <b>1,250</b> | <b>1,435</b> | <b>1,649</b> |
| Operating expenses    | 153        | 176          | 169          | 198          | 232          |
| <b>PPOP</b>           | <b>682</b> | <b>866</b>   | <b>1,081</b> | <b>1,237</b> | <b>1,417</b> |
| Provisions            | 47         | 42           | 134          | 96           | 111          |
| <b>PBT</b>            | <b>635</b> | <b>824</b>   | <b>947</b>   | <b>1,141</b> | <b>1,306</b> |
| Tax                   | 164        | 203          | 234          | 282          | 323          |
| <b>PAT</b>            | <b>471</b> | <b>621</b>   | <b>713</b>   | <b>859</b>   | <b>984</b>   |
| <b>growth (% yoy)</b> | <b>3.2</b> | <b>31.9</b>  | <b>14.7</b>  | <b>20.5</b>  | <b>14.5</b>  |

| Balance sheet (Rs.cr)    | FY22          | FY23          | FY24E         | FY25E         | FY26E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital            | 27            | 27            | 27            | 27            | 27            |
| Reserves & surplus       | 3,040         | 3,621         | 4,294         | 5,106         | 6,043         |
| <b>Net worth</b>         | <b>3,067</b>  | <b>3,647</b>  | <b>4,320</b>  | <b>5,132</b>  | <b>6,069</b>  |
| Borrowings               | 24,545        | 28,965        | 33,310        | 38,306        | 44,052        |
| Other liability          | 333           | 458           | 799           | 913           | 968           |
| <b>Total liabilities</b> | <b>27,944</b> | <b>33,070</b> | <b>38,429</b> | <b>44,352</b> | <b>51,090</b> |
| Cash                     | 324           | 289           | 883           | 1,173         | 1,434         |
| Investments              | 1,126         | 1,459         | 1,751         | 2,013         | 2,315         |
| Loans                    | 26,378        | 31,213        | 35,666        | 41,016        | 47,169        |
| Fixed assets             | 48            | 45            | 50            | 55            | 60            |
| Other assets             | 69            | 63            | 79            | 94            | 111           |
| <b>Total assets</b>      | <b>27,944</b> | <b>33,070</b> | <b>38,429</b> | <b>44,352</b> | <b>51,090</b> |

| Ratios                   | FY22  | FY23  | FY24E | FY25E | FY26E |
|--------------------------|-------|-------|-------|-------|-------|
| <b>Growth (%)</b>        |       |       |       |       |       |
| NII                      | 2.3   | 24.3  | 19.3  | 14.9  | 15.0  |
| PPOP                     | -0.6  | 26.9  | 24.8  | 14.4  | 14.6  |
| PAT                      | 3.2   | 31.9  | 14.7  | 20.5  | 14.5  |
| Advances                 | 20.5  | 18.3  | 14.3  | 15.0  | 15.0  |
| <b>Spread (%)</b>        |       |       |       |       |       |
| Yield on Funds           | 8.0   | 9.0   | 9.7   | 9.7   | 9.7   |
| Cost of Funds            | 5.3   | 6.4   | 7.1   | 7.0   | 7.0   |
| Spread                   | 2.7   | 2.7   | 2.7   | 2.7   | 2.7   |
| NIM                      | 3.3   | 3.3   | 3.4   | 3.4   | 3.4   |
| <b>Asset quality (%)</b> |       |       |       |       |       |
| Gross NPAs               | 0.6   | 0.6   | 0.7   | 0.8   | 1.1   |
| Net NPAs                 | 0.3   | 0.3   | 0.3   | 0.5   | 0.7   |
| Provisions               | 53    | 52    | 50    | 44    | 37    |
| <b>Return ratios (%)</b> |       |       |       |       |       |
| RoE                      | 16.6  | 18.5  | 17.9  | 18.2  | 17.6  |
| RoA                      | 1.9   | 2.0   | 2.0   | 2.1   | 2.1   |
| <b>Per share (Rs)</b>    |       |       |       |       |       |
| DPS                      | 3.5   | 3.0   | 3.0   | 3.5   | 3.5   |
| EPS                      | 35    | 47    | 54    | 64    | 74    |
| BV                       | 230   | 274   | 324   | 385   | 456   |
| ABV                      | 224   | 268   | 315   | 371   | 432   |
| <b>Valuation (x)</b>     |       |       |       |       |       |
| P/E                      | 21    | 16    | 14    | 12    | 10    |
| P/BV                     | 3.3   | 2.7   | 2.3   | 1.9   | 1.6   |
| P/ABV                    | 3.3   | 2.8   | 2.4   | 2.0   | 1.7   |
| Cost/Income ratio        | 18.3  | 16.9  | 13.5  | 13.8  | 14.1  |
| CD ratio                 | 107.5 | 107.8 | 107.1 | 107.1 | 107.1 |

Source: Dalal & Broacha Research, Company

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | E-mail: [equity.research@dalal-broacha.com](mailto:equity.research@dalal-broacha.com)