

Retain positive outlook !!!

PAT came in at INR 1.8 bn, up by 13.1% yoy and 10.6% qoq led by healthy asset growth, stable margins and asset quality. AUM showed healthy growth of 18% yoy and 3% qoq to INR 325 bn. While the disbursements growth was slightly lower at 14% yoy (-23% qoq) to INR 19.7 bn due to seasonally weak Q1. Margins improved by 11 bps qoq to 3.48%. Gross NPAs increased by 18% qoq to INR 2.05 bn. In % terms, gross NPAs/net NPAs 0.63%/0.34% similar to last quarter levels. We expect continued good performance to continue. Assign ACCUMULATE rating to the stock with revised TP of INR 924, upside of 11% from current levels.

Outlook

- AUMs to grow by 18-20% CAGR in FY24 which is build on the premise of 20% disbursement growth
- Headroom for margin expansion from the current levels is minimal; hence margins are likely to increase by meagre 3-5 bps to 3.5-3.53% levels (spreads of 2.5%)
- Branch expansion plans - It is likely to add 15 branches in current fiscal
- Asset quality outlook stable - Gross NPAs are expected to be at 0.7% and the provisioning on the same could be to the tune of ~47% and ultimate loss on these assets is likely to be not more than 10 bps
- Cost/Income ratio is expected to be on higher end at 17.5-18% levels
- Fund raising plans - It has enabling resolution to raise the capital while it may not look to raise it as it comfortable with current gearing of 8x currently.

Valuations - It is currently, trading at 2.6x/2.2x FY24e/FY25e ABV on ROE/ROA of 18%/2%. There is significant scope in low-ticket size home loan market and Can Fin Homes is one of the profitable player in this segment. Key plus is its under-writing skills are good. Given AUM loan growth guidance of 18-20% and stable margin & asset quality outlook, **we assign ACCUMULATE rating on the stock with revised TP of INR 924**, upside of 11% from the current levels (assigning target multiple of 2.5x on FY25e ABV)

Financial Summary

(Rs.Bn)	FY21	FY22	FY23e	FY24e	FY25e
NII (Rs)	798.0	816.2	1014.6	1193.9	1430.0
PAT (Rs)	456.1	496.6	620.2	728.9	875.1
EPS	34	37	47	55	66
ROE (%)	19.2	17.5	18.5	18.3	18.5
ROA (%)	2.1	2.0	2.0	2.0	2.0
P/E	24.2	22.2	17.8	15.1	12.6
P/ABV	4.5	3.7	3.1	2.6	2.2

Source: Dalal & Broacha Research, Company

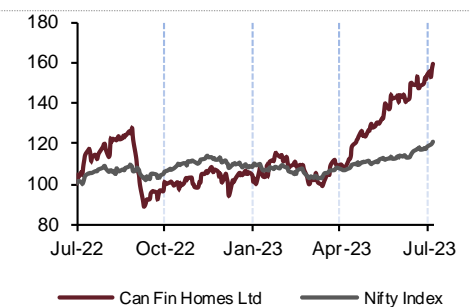
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	924	11

Market data

Current price	Rs	831
Market Cap (Rs.Bn)	(Rs Bn)	111
Market Cap (US\$ Mn)	(US\$ Mn)	1,348
Face Value	Rs	2
52 Weeks High/Low	Rs	843 / 451
Average Daily Volume	('000)	1,147
BSE Code		511196
Bloomberg		CANF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	29.99	29.99
Public	70.01	70.01
Total	100	100

Source: Bloomberg

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Q1FY24 Concall Highlights

- **AUM growth** – Management is expecting AUMs to grow by 18-20% CAGR in FY24 which is build on the premise of 20% disbursement growth. Nearly, 5% growth will come from the increase in the ticket size of the loans and some from new branch additions and rest would be pure volume growth
- Avg. ticket size of the loans is ~22 lacs vs. 24 lacs last year; which it is expecting to increase to 27-28 lacs
- **Outlook on the competition** – As per management, there is uptick in the supply side in 2/3/4 BHK segment while there are good project launches also coming up. Also, demand is good; home buying decisions are happening and also some states are expected to reduce the stamp duty as well.
- **Headroom for margin expansion from the current levels is minimal; hence margins are likely to increase by meagre 3-5 bps to 3.5-3.53% levels (spreads of 2.5%).** Large part of cost of funds increased has happened; hence, funding cost is likely to remain at current levels. On the asset side, nearly INR 12500 cr of book is likely witness upward repricing to the tune of ~35 bps.
- **Asset quality** – Gross NPAs are expected to be at 0.7% and the provisioning on the same could be to the tune of ~47% and ultimate loss on these assets is likely to be not more than 10 bps
- Total restructured book was INR ~740 cr, of this INR 475 cr has come out of restructuring i.e. become standard or turned NPA. Current outstanding restructured book stands at INR 262 cr (60% of this will come out of it by Aug 2023) and nearly 10% could slip into NPLs in coming quarters
- **Branch expansion plans** – It is likely to add 15 branches in current fiscal FY24. Of this, 4 branches will be added in Q2 and balance will be added in Q3 & Q4 quarter. On geography wise, 4 branches will be added in south, 2 in east and balance 9 in the south and north region – all the branches are in the upcoming urban town locations.
- **Cost/Income ratio is expected to be on higher end at 17.5-18% levels** as 1) branch expansion plans will happen on continued pace 2) it has set aside INR 250 cr for upgradation of IT infrastructure set up which will be spread over the next 7 years time. This will enable the NBFC to get acquire customers digitally
- It is also tying up with builders for direct sourcing of the loans. Such loans could form share of 20% of the overall loans sourced over the next 1-2 years time. Nearly 10% of the loans are expected to be sourced digitally once the IT platforms are build while balance 70% will be via DSAs (which charge ~0.43% of the total loan value)
- **Fund raising plans** – It has enabling resolution to raise the capital while it may not look to raise it as it comfortable with current gearing of 8x currently
- BT out rates is INR 100-125 cr is normalised run-rate per quarter.

Key Financial Highlights

- PAT came in at INR 1.8 bn, up by 13.1% yoy and 10.6% qoq led by healthy asset growth, stable margins and asset quality
- AUM showed a growth of 18% yoy and 3% qoq to INR 325 bn. While the disbursements growth was slightly lower at 14% yoy (-23% qoq) to INR 19.7 bn due to seasonally weak Q1.
- In the total AUMs, growth in the salaried professional segment AUMs showed a growth of 15.6% yoy and 2.5% qoq (which forms 73% of the total loans). While in non-salaried class, self-employed & non-professionals AUM grew at higher rate by 25.1% yoy and 4.3% qoq to INR 88.4 bn (27% share).
- NII grew by 13.9% and 9.1% qoq to INR 2.85 bn
- Margins improved by 11 bps qoq to 3.48% levels led by faster repricing of assets. Spreads stood at 2.52% vs. 2.36% qoq
- Gross NPAs increased by 18% qoq to INR 2.05 bn. In % terms, gross NPAs/net NPAs 0.63%/0.34% similar to last quarter levels

Outlook & Valuations

It is currently, trading at 2.6x/2.2x FY24e/FY25e ABV on ROE/ROA of 18%/2%. There is significant scope in low-ticket size home loan market and Can Fin Homes is one of the profitable player in this segment. Key plus is its under-writing skills are good. Given AUM loan growth guidance of 18-20% and stable margin & asset quality outlook, we assign **ACCUMULATE** rating on the stock with revised TP of INR 924, upside of 11% from the current levels (assigning target multiple of 2.5x on FY25e ABV).

Quarterly Financials (Q1FY24)

Particulars (INR cr)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY	QoQ
Interest Earned	460.6	449.2	462.6	502.0	555.8	606.5	652.2	704.6	752.1	818.1	34.9	8.8
Interest Expended	274.8	268.0	270.8	296.1	318.5	356.1	401.0	452.9	490.8	533.0	49.7	8.6
NII	185.8	181.2	191.8	205.9	237.3	250.4	251.2	251.7	261.3	285.1	13.9	9.1
Other Income	6.8	1.6	5.3	6.4	5.5	5.1	5.4	5.1	12.2	6.0	18.0	-50.8
Net Income	192.5	182.8	197.1	212.4	242.8	255.5	256.6	256.8	273.5	291.1	13.9	6.4
Opex	42.8	30.3	34.2	40.3	48.2	40.5	40.5	43.8	51.7	43.5	7.4	-15.8
PPOP	149.7	152.6	162.8	172.0	194.6	215.0	216.1	212.9	221.8	247.6	15.2	11.6
Provisions	7.7	6.5	-6.2	16.4	30.2	-3.7	13.2	8.4	23.8	13.7	-471.4	-42.4
PBT	142.0	146.0	169.0	155.7	164.3	218.7	202.9	204.5	198.0	233.9	7.0	18.1
Tax	39.4	37.2	45.4	40.0	41.4	56.5	61.1	53.0	32.2	50.4	-10.7	56.7
PAT	102.6	108.8	123.6	115.7	122.9	162.2	141.7	151.5	165.8	183.5	13.1	10.6
Balance sheet (INR Cr)												
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY	QoQ
New Approvals	2260	829	2288	2762	3018	1751	2348	2585	2769	2071	18.3	-25.2
Disbursements	2001	894	2208	2472	2705	1722	2245	2444	2538	1966	14.2	-22.5
Outstanding loan book	22105	22221	23584	25091	26711	27538	28823	30115	31563	32505	18.0	3.0
Key Ratios (%)												
	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24		
Gross NPAs (Rs)	202	200	185	177	171	180	179	181	174	205		
Net NPAs (Rs)	134	126	110	97	81	82	101	89	83	110		
GNPA (%)	0.9	0.9	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.63		
NNPA (%)	0.6	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.34		
PCR (%)	33.5	36.8	40.4	45.2	52.7	54.4	43.4	50.7	62.1	53.4		
C/I Ratio (%)	22.4	16.5	17.4	19.0	19.8	15.8	15.8	17.1	18.9	14.9		
ROA (%) (Reported)	2.2	2.0	2.1	2.0	2.0	2.4	2.1	2.2	2.3	2.2		
ROE (%) (Reported)	17.5	16.0	16.4	15.8	16.0	20.0	16.8	17.3	17.0	19.2		
EPS (Rs)	34.3	8.2	17.5	8.7	9.2	12.2	10.6	11.4	12.5	13.8		
NIM (%) (Reported)	3.9	3.3	3.4	3.7	4.2	3.6	3.6	3.5	3.37	3.48		
Yield (%) (Reported)	9.5	8.1	8.0	8.1	8.1	8.5	8.6	8.9	9.9	9.8		
Cost (%) (Reported)	6.7	5.7	5.6	5.6	5.6	5.8	6.0	6.6	7.5	7.3		
Spread (%) (Reported)	2.8	2.4	2.4	2.5	2.6	2.7	2.5	2.2	2.4	2.5		
Avg. Business Per Branch	112.8	113.4	120.3	127.9	136.1	146.5	143.8	146.9	154.0	160.4		
Avg. Business per Employee	26.1	25.9	26.8	27.6	30.0	30.8	31.5	32.7	32.4	33.9		

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	1,344.2	2,006.4	1,969.7	2,715.4	3,294.0	3,952.8
Interest expense	654.9	1,208.3	1,153.5	1,700.9	2,100.1	2,522.8
NII	689.3	798.0	816.2	1,014.6	1,193.9	1,430.0
Non-interest income	32.4	12.1	18.8	27.7	29.3	33.7
Net revenues	721.8	810.1	835.0	1,042.3	1,223.3	1,463.7
Operating expenses	107.6	124.0	127.5	176.5	169.2	198.2
PPOP	614.1	686.1	707.5	865.8	1,054.1	1,265.5
Provisions	60.3	68.5	46.9	41.8	86.1	103.3
PBT	553.8	617.6	660.5	824.0	968.0	1,162.1
Tax	143.9	161.5	164.0	203.8	239.1	287.0
PAT	409.9	456.1	496.6	620.2	728.9	875.1

Balance sheet (Rs.cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	27	27	27	27	27	27
Reserves & surplus	2,123	2,583	3,040	3,621	4,296	5,111
Net worth	2,150	2,610	3,067	3,647	4,323	5,138
Borrowings	18,646	19,190	24,545	28,965	34,673	41,775
Other liability	248	274	333	458	799	913
Total liabilities	21044	22074	27944	33070	39795	47825
Cash	392	22	324	309	483	744
Investments	24	50	1126	1459	1751	2013
Loans	20,526	21,891	26,378	31,193	37,432	44,918
Fixed assets	38	45	48	45	50	55
Other assets	63	66	69	63	79	94
Total assets	21,044	22,074	27,944	33,070	39,795	47,825

Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth (%)						
NII	23.5	15.8	2.3	24.3	17.7	19.8
PPOP	23.2	11.7	3.1	22.4	21.7	20.1
PAT	26.5	11.3	8.9	24.9	17.5	20.1
Advances	12.6	6.7	20.5	18.3	20.0	20.0
Spread (%)						
Yield on Funds	10.3	9.4	8.0	9.0	9.2	9.2
Cost of Funds	7.6	6.4	5.3	6.4	6.6	6.6
Spread	2.7	3.1	2.7	2.7	2.6	2.6
NIM	3.3	3.7	3.3	3.3	3.3	3.3
Asset quality (%)						
Gross NPAs	0.8	0.9	0.6	0.7	0.7	0.9
Net NPAs	0.5	0.6	0.3	0.3	0.4	0.5
Provisions	29	34	53	50	49	43
Return ratios (%)						
RoE	19.1	19.2	17.5	18.5	18.3	18.5
RoA	1.9	2.1	2.0	2.0	2.0	2.0
Per share (Rs)						
EPS	28	34	37	47	55	66
BV	161	196	230	274	325	386
ABV	153	186	224	266	314	369
Valuation (x)						
P/E	29	24	22	18	15	13
P/BV	5.1	4.2	3.6	3.0	2.6	2.1
P/ABV	5.4	4.5	3.7	3.1	2.6	2.2
Cost/Income ratio	14.9	15.3	15.3	16.9	13.8	13.5
CD ratio	110.1	114.1	107.5	107.7	108.0	107.5

Source: Dalal & Broacha Research, Company

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