

Disbursement growth momentum picks up

CMP: INR 867

Rating: Accumulate

Target Price: INR 1010

Stock Info

BSE	511196
NSE	CANFINHOME
Bloomberg	CANF IN
Reuters	CNFH.NS
Sector	BFSI
Face Value (INR)	2
Equity Capital (INR Cr)	267
Mkt Cap (INR Cr)	11,601
52w H/L (INR)	951 / 680
Avg Yearly Vol (in 000')	771

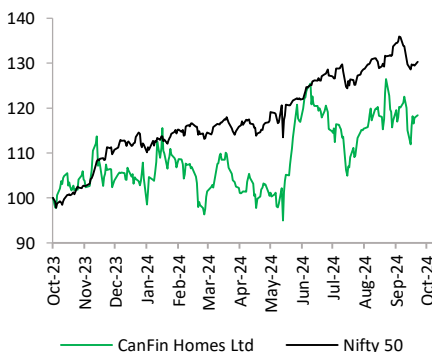
Shareholding Pattern %

(As on June, 2024)

Promoters	29.9
Public & Others	70.1

Stock Performance (%)	1m	6m	12m
CanFin Homes Ltd	0.7	16.61	17.83
Nifty 50	-5.8	9.08	26.73

CanFin Homes Ltd Vs Nifty 50



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CanFin Homes Ltd has posted a 7.26% YoY jump in net profit at INR 2.11 bn against INR 2.00 bn in Q1FY25 (up 5.94% QoQ). Provision for the quarter was at INR 0.14 bn vs. INR 0.24 bn in Q1FY25 (down 43.86% QoQ/ down 80.97% YoY). NII growth of the company was strong at 7.26% YoY at INR 3.4 bn, and was up sequentially by 5.7%. Asset quality saw some improvement as GNPA and NNPA ratios declined by 3 bps and 3 bps on a sequential basis to 0.88% and 0.47%, respectively.

Improvement in NIMs led by decline in NPA and declining cost of funds: NII growth for the quarter was at 7.26% YoY/ 5.7% QoQ to INR 3.40 bn. Further, the NIMs of the bank improved by 18bps YoY along with 18bps sequential improvement at 3.75%, due to reduction in cost of borrowing during the quarter. The yield on loan portfolio came at 10.12%, which was largely stable both on a YoY and sequential basis. Cost of funds of the bank decreased marginally at 7.56% (-2 bps YoY, -2 bps QoQ). The decline in cost of funds with stable yields, helped in improvement in NIMs.

Asset Quality improvement driven by reduction in slippages: Overall, loan book of the bank increased marginally by 2% QoQ and 10% YoY to INR 365.91 bn, whereas the GNPA during the quarter declined by 1.52% QoQ, during the Q2FY25 at INR 3.20 bn (Q1FY25: INR 3.25 bn). The GNPA and NNPA ratios decreased by 3 bps and 2 bps on a sequential basis to 0.88% and 0.47%, respectively. Further, NPA amount from restructured book stood at INR 0.94 bn v/s INR 1.06 bn QoQ.

Disbursement growth picks up: Disbursement registered a growth of 18% YoY and 28% QoQ. The dip in Q1FY25 was primarily attributable to election throughout the country especially in Andhra Pradesh and Telangana. In June 24, disbursements were back to normal levels. Andhra Pradesh has turned around in the quarter in terms of growth and is in the green, but Telangana is yet to fully recover. We expect H2FY25 to be better than H1FY25 in terms of disbursement, owing to festive season. Going forward, the company expects the disbursement growth momentum to continue and has guided a disbursement of INR 100bn for the whole FY25.

Valuation and View: Company's NIM improved due to the decline in cost of funds. Further, their disbursement growth has picked up in Q2FY25. We expect the disbursement growth momentum to continue in H2FY25, owing to festive season. The company has set a target of INR 100 bn disbursement for the whole FY25. Asset quality improved due to decrease in slippages in restructured book. No further slippages from restructured book is expected going forward. We maintain our positive outlook on the company. We have a target price of INR 1010 based on 1.9x FY27E ABV. We maintain our rating to **ACCUMULATE** on the stock.

Exhibit 1: Financial Performance

Y/E Mar (Rs Bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	8.16	10.15	12.58	14.02	16.57	17.77
PAT	4.71	6.21	7.51	8.17	9.78	11.11
Networth	30.67	36.47	43.44	51.29	60.75	71.54
EPS (Rs)	35	47	56	61	73	83
P/E (x)	24.5	18.6	15.4	14.1	11.8	10.4
P/Adj BV (x)	3.9	3.2	2.7	2.3	1.9	1.6
RoA (%)	1.9	2.0	2.2	2.0	1.9	1.7
RoE (%)	16.6	18.5	18.8	17.2	17.5	16.8

Q2FY25 - Quarterly Performance

(In INR Bn)

Particulars	Q2FY25	Q1FY25	Q2FY24	YoY	QoQ
Interest Income	9.55	9.24	8.65	10.41%	3.36%
Interest Expenditure	6.15	6.03	5.48	12.23%	2.12%
Net Interest Income	3.40	3.21	3.17	7.26%	5.70%
Fees & Other Income	0.07	0.07	0.06	27.89%	6.78%
Net Income	3.47	3.28	3.23	7.63%	5.72%
Other Expenditure	0.59	0.49	0.52	13.27%	21.58%
Pre-Provision Operating Profit (PPOP)	2.88	2.80	2.70	6.53%	2.95%
Provision for SA & NPA	0.14	0.24	0.72	-80.97%	-43.86%
Profit Before Tax	2.74	2.55	1.98	38.44%	7.45%
Provision for Taxation & DTL	0.63	0.55	0.40	56.83%	12.88%
Tax / PBT (%)	0.25	0.24	0.18	38.44%	7.45%
Profit After Tax	2.11	2.00	1.58	33.79%	5.94%

Balance Sheet

Particulars	Q2FY25	Q1FY25	Q2FY23	YoY	QoQ
New Approvals	26.17	19.69	2123	23%	33%
Disbursements	23.81	18.53	2019	18%	28%
Outstanding Loan Book	365.91	355.57	33359	10%	3%

Key Ratios

Particulars	Q2FY25	Q1FY25	Q2FY23	YoY	QoQ
Return on Avg Assets (Annualised)	2.29	2.17	2.17	12bps	12bps
Return on Avg Equity (Annualised)	17.99	17.57	17.57	41.9bps	41.9bps
Earning Per Share (INR)	15.88	14.99	14.99	6%	6%
Net Interest Margin (%)	3.75	3.57	3.57	18bps	18bps
Yield (%)	10.12	10.12	10.12	0bps	0bps
Cost (%)	7.56	7.58	7.58	-2bps	-2bps
Spread (%)	2.56	2.54	2.54	2bps	2bps
Avg. Business Per Branch (INR in Bn)	1.67	1.63	1.63	2%	2%
Avg. Business per Employee (INR in Bn)	0.32	0.33	0.33	-3%	-3%
Cost Income Ratio (%)	17.10	14.87	14.87	223bps	223bps
DER	7.19	7.14	7.14	5bps	5bps

Source: Arianth Research, Company Filings

Concall Highlights:

Guidance for FY25

- The management doesn't envisage any contraction in spread in the coming quarters and thus reiterated the guidance of 2.5%+ spread and 3.5%+ NIM for FY25.
- For FY25, the company has guided for 13%-14% loan book growth. Subsequently, for FY26 the management is anticipating 15%-17% growth.
- The company is planning to open 15 additional branches in FY25, mainly in North and West region. They plan to open 300 branches by FY28.
- The management anticipates reducing direct selling agents (DSA) business contribution from 80% to 60% by FY27.
- Average ticket size is expected to inch up to INR 0.27 bn in the next 12 months.
- The cost to income ratio is envisaged to be 16.5% until the new IT system is implemented, post implementation, the same should be 17%-18%.
- Disbursement guidance for FY25 is now INR 100 bn with 2H generally being strong accounting for 55% of the full year disbursement

Highlights

- AUM growth trend should continue in the medium term as the company is broad basing its geographical presence in North and West, established a marketing team and increased focus on the SENP and LAP segment.
- No change in product pricing in 2QFY25 compared to 1QFY25.
- Yields have held up as incremental lending is 38% to SENP vs 28% earlier, which has 50 bps higher yields compared to salaried customers.
- The management don't expect further deterioration in spreads in the coming quarters.
- The company is more likely to benefit from the repricing of the liabilities compared to assets which are likely to benefit margins.
- The company has received NHB refinance sanctions at lower borrowing cost compared to bank and NCD borrowing costs, which should also help in maintaining margins.
- 60% of the borrowing through bank loans, out of which, 45% of the bank term loans are repo linked; 35% of the bank term loans are MCLR and rest are T-bill and other benchmark linked.
- On a pro-rata basis, the company will pass on the benefits of repo cuts in terms of lower borrowing costs to the customers. The company has now shifted to quarterly reset for its customers.
- The company has a Pan-India presence with 219 branches & offices spanning across 21 States and Union Territories till date.
- Opex during the quarter was higher on a YoY basis due to annual promotion, actuarial valuations, legal cost and marketing team.
- Increase in SMA 0 mainly on account of a regulatory change where in 1 EMI was paid in advance earlier by the customer which was used to cover the one EMI bounce. This now needs to be adjusted against the principal amount as per the regulatory change.
- Management will work on reducing the increase in SMA 1 + SMA 2 in the current quarter. The company will add more employees in collections which should help in reducing the SMA1 and SMA2 accounts.

Key Financials

P&L (INR Bn)	FY22	FY23	FY24	FY25e	FY26E	FY27E
Interest income	19.70	27.15	34.90	40.00	48.44	58.68
Interest expense	11.54	17.01	22.31	25.99	31.87	39.91
NII	8.16	10.15	12.58	14.02	16.57	18.77
Non-interest income	0.19	0.28	0.35	0.65	0.77	0.92
Net revenues	8.35	10.43	12.93	14.67	17.35	19.69
Operating expenses	1.53	1.76	2.57	2.85	3.16	3.50
PPOP	6.82	8.66	10.36	11.82	14.19	16.19
Provisions	0.47	0.42	0.79	0.90	1.11	1.34
PBT	6.35	8.24	9.58	10.92	13.08	14.85
Tax	1.64	2.03	2.07	2.75	3.30	3.74
PAT	4.71	6.21	7.51	8.17	9.78	11.11

Balance sheet	FY22	FY23	FY24	FY25e	FY26E	FY27E
Share capital	0.3	0.3	0.3	0.3	0.3	0.3
Reserves & surplus	30.4	36.2	43.2	51.0	60.5	71.3
Net worth	30.7	36.5	43.4	51.3	60.8	71.5
Borrowings	246.5	290.7	318.6	413.0	506.4	634.1
Other liability	2.3	3.5	3.9	4.2	4.6	5.0
Total liabilities	279.4	330.7	366.0	468.5	571.7	710.7

Fixed assets	0.5	0.5	0.5	0.6	0.6	0.6
Investments	11.3	14.6	14.6	15.3	16.1	16.9
Loans	263.8	311.9	345.5	450.3	541.2	650.3
Cash	3.2	3.1	4.6	1.5	13.1	42.1
Other assets	0.7	0.6	0.7	0.8	0.8	0.8
Total assets	279.4	330.7	366.0	468.5	571.7	710.7

Source: Arihant Research, Company Filings

Key Ratios

Ratios	FY21	FY22	FY23	FY24	FY25e	FY26E	FY27E
Growth (%)							
NII	18	2	24	24	11	18	13
PPOP	19	-1	27	20	14	20	14
PAT	22	3	32	21	9	20	14
Advances	7	20	18	11	30	20	20
Spread (%)							
Yield on Funds	9.4	8.0	9.0	10.2	9.7	9.5	9.6
Cost of Funds	6.4	5.3	6.4	7.3	7.1	6.9	7.0
Spread	3.1	2.7	2.7	2.8	2.6	2.5	2.6
NIM	3.7	3.3	3.3	3.6	3.4	3.2	2.9
Asset quality (%)							
Gross NPAs	0.9	0.6	0.6	0.5	0.4	0.3	0.3
Net NPAs	0.6	0.3	0.3	0.2	0.1	0.1	0.1
Provisions	33	53	62	62	62	62	62
Return ratios (%)							
RoE	19.2	16.6	18.5	18.8	17.2	17.5	16.8
RoA	2.1	1.9	2.0	2.2	2.0	1.9	1.7
Per share (Rs)							
EPS	34	35	47	56	61	73	83
BV	196	230	274	326	385	456	537
ABV	186	224	268	322	381	452	531
Valuation (x)							
P/E	25	25	19	15	14	12	10
P/BV	4.4	3.8	3.2	2.7	2.3	1.9	1.6
P/ABV	4.7	3.9	3.2	2.7	2.3	1.9	1.6

Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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