

Growth Recovery in Sight, Maintain BUY!
Est. Vs. Actual for Q1FY25: NII – MISS; PPOP – INLINE; PAT – INLINE
Changes in Estimates post Q1FY25
FY25E/FY26E: NII -1.5%/0.1%; PPOP -0.3%/1.9%; PAT 0.5%/2.1%
Recommendation Rationale

- **Growth to accelerate in coming quarters:** Disbursements in Q1FY25 were impacted by (i) general elections and (ii) slowdown in disbursements momentum in the Andhra Pradesh and Telangana post change in regime. However, CANF is seeing signs of revival with disbursements in Jun'24 showing strong recovery and positive trends continuing in Jul'24. The management remains confident of clocking disbursements of ~Rs 2,500 Cr in Q2FY25 and expects to exit FY25 with disbursements of Rs 10,500 Cr. This growth is likely to translate into an improved AUM growth of ~15% in FY25 and expect CANF to report a 16+% CAGR AUM growth over FY25-27E.
- **Margins to be maintained at 3.5%:** CANF's focus on the higher ticket size loans, where yields are finer and with loan re-pricing largely behind poses challenges for yield improvement. In order to maintain Spreads/NIMs at 2.5/3.5%, the company aims at (i) improving the share of self-employed segment (where yields are better vs salaried segment), (ii) push for growth in the LAP segment and (iii) pursue growth in the <Rs 20 Lc ticket size category, anticipating a fillip to demand with announcements in the upcoming budget. Collectively, this should help offset the increased CoF. In FY24, CANF's borrowings were primarily from banks and NCDs wherein CoF were higher vs. NHB borrowings. Going into Q2FY25, the impact (30-40bps on ~7-8 % of borrowing) of re-pricing of CPs at a lower rate would reflect in the CoF. We expect NIMs to range between 3.5-3.6% over FY25-27E.
- **Expectations from Budget Announcements to support Affordable Housing:** The management anticipates a budget announcement with regards to CLSS, which would give a further boost to growth, as ~34% of the incremental disbursements are <Rs 20 Lc which are likely to benefit from the announcement. The management is also keenly eyeing any announcement regarding an 'Affordable Housing Fund' (AFH), which will augur well from the CoF perspective for CANF. In case of such an announcement, CANF will look to tap into the low-cost funds through NHB, which would impact NIMs positively.

Sector Outlook: Positive

Company Guidance: Backed by an improved growth outlook, the management remains confident of achieving AUM growth of 15% in FY25. Contingent to the implementation of Phase 2 of the IT transformation, the management has re-iterated its guidance of maintaining C-I Ratio at ~18%. With expectations of asset quality improvement, credit costs will be capped at 12bps for FY25E.

Current Valuation: 2.1x FY26E BV; Earlier Valuation: 2.0x Sep'25E BV

Current TP: Rs 950/share; Earlier TP: Rs 840/share

Recommendation: We maintain our BUY recommendation on the stock

Financial Performance:

- **Operational Performance:** CANF's disbursement growth was weak and de-grew by 6/30% YoY/QoQ. AUM growth was slowest in 12 quarters, registering a growth of ~9/2% YoY/QoQ (vs our expectation of 11% YoY growth). The share of salaried to self-employed customers stood steady at 72:28, flat QoQ.
- **Financial Performance:** NII grew by 13% YoY, de-grew by 2% QoQ. NIMs contracted sharply by 39bps and stood at 3.6% vs 4% QoQ. Non-interest income grew by 16% YoY and de-grew by 56% QoQ. Opex de-grew sharply by 2/41% YoY/QoQ, taking the C-I Ratio to 12.9% vs 14.9/20.9% YoY/QoQ. Resultantly, PPOP growth was healthy at 15/5% YoY/QoQ. Provisions came in higher than expected at Rs 24 Cr (~28bps vs 17/2 bps YoY/QoQ). PAT was in-line with our expectations and grew by 12% YoY. **Asset Quality deteriorated** with GNPA/NNPA inching-up to 0.91/0.49% vs 0.82/0.42% QoQ.

Outlook:

With the processes and system upgrades having stabilized, CANF will look to accelerate growth over FY25E. We revise our AUM growth estimates for FY25E/26E by ~2% each. Expectations of positive announcements from the budget should support growth along with NIMs. Normalising asset quality with collections efforts being intensified should help control credit costs at ~12bps in FY25E. Thus, we broadly maintain our earnings estimates for FY25E, which we revise FY26E estimates upwards by ~2%. We expect CANF to deliver steady RoA/RoE of 2-2.1%/17-18% over FY25-27E.

Valuation & Recommendation:

CANF currently trades at 1.9x FY26E BV and we value the stock at 2.1x FY26E BV to arrive at a target price of Rs 950/share, implying an upside of 12% from the CMP. **We maintain our BUY recommendation on the stock.**

Key Financials (Standalone)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	321	-1.9	+12.7	331	-3.0
PPOP	286	+5.2	+15.5	281	+1.7
Net Profit	206	-1.5	+12.3	206	-0.1
NNPA (%)	0.5	+7 bps	+15 bps	0.4	+8 bps
RoA (%)	2.2	-11 bps	-2 bps	2.2	-3 bps

Source: Company, Axis Securities Research

(CMP as of 22 Jul, 2024)

CMP (Rs)	847
Upside /Downside (%)	12%
High/Low (Rs)	843/451
Market cap (Cr)	11,281
Avg. daily vol. (6m) Shrs.	8,29,796
No. of shares (Cr)	13.3

Shareholding (%)

	Dec-23	Mar-24	Jun-24
Promoter	30.0	30.0	30.0
FII's	11.1	11.5	11.5
MFs / UTI	26.4	25.0	24.9
Others	32.0	33.5	33.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	1,357	1,558	1,805
PPOP	1,153	1,333	1,554
Net Profit	843	967	1,126
EPS (Rs)	63.3	72.6	84.5
BV (Rs)	384.7	451.9	530.1
P/BV (x)	2.2	1.9	1.6
RoA (%)	2.1	2.1	2.1
NNPA (%)	0.4	0.4	0.4

Change in Estimates (%)

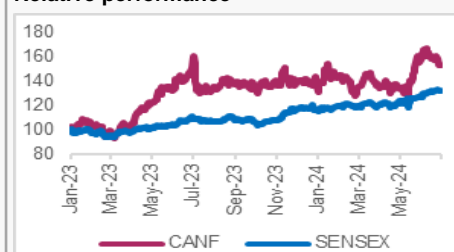
Y/E Mar	FY25E	FY26E
NII	-1.5	0.1
PPOP	-0.3	1.9
PAT	0.5	2.1

ESG disclosure Score**

Environmental Disclosure	4.9
Social Disclosure Score	23.6
Governance Disclosure Score	83.6
Total ESG Disclosure Score	37.4
Sector Average	38.9

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities Research

Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Pranav Nawale

Research Associate

Email: pranav.nawale@axissecurities.in

Key Highlights

- **Asset Quality to improve** – The deterioration in asset quality was owing to seasonality. The management remains confident of improvement in asset quality over FY25. CANF expects to exit FY25 with GNPA <0.8% vs 0.91% currently. The management has indicated that the credit costs are front-ended and are expected to taper in the coming quarter. In FY25E, credit costs are expected to be capped at ~12bps.

Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum which could potentially derail earnings momentum for the company.

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	1,357	1,558	1,805	1,378	1,557	-	-1.5	0.1	-
PBP	1,153	1,333	1,554	1,156	1,308	-	-0.3	1.9	-
Provisions	45	60	73	54	62	-	-17.3	-3.6	-
PAT	843	967	1,126	838	947	-	0.5	2.1	-

Source: Company, Axis Securities Research

Results Review

(Rs Cr)	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Net Interest Income	321	285	12.7	328	-1.9
Non-Interest Income	7	6	16.1	16	-56.2
Operating expenses	42	43	-2.3	72	-41.0
<i>Staff Cost</i>	23	21	12.5	27	-12.4
Pre provision profits	286	248	15.5	272	5.2
Provisions and contingencies	24	14	78.6	2	1271.3
PBT	261	234	11.8	270	-3.1
Provision for Tax	55	50	10.0	61	-9.0
PAT	206	183	12.3	209	-1.5
Business Update					
Gross AUM	35,557	32,505	9.4	35,000	1.6
Disbursements	1,853	1,966	-5.7	2,659	-30.3
NIM (%)	3.57	3.48	9bps	3.96	-39bps
Cost-Income ratio (%)	12.9	14.9	-201bps	20.9	-801bps
Asset Quality					
Gross NPA (%)	0.91%	0.63%	28bps	0.82%	9bps
Net NPA (%)	0.49%	0.34%	15bps	0.42%	7bps
PCR (%)	46.5%	46.6%	-12bps	48.6%	-214bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Interest Income	1,258	1,357	1,558	1,805
Other Income	35	40	44	49
Total Income	1,293	1,397	1,603	1,854
Total Operating Exp	257	244	270	300
PPOP	1,036	1,153	1,333	1,554
Provisions & Contingencies	79	45	60	73
PBT	958	1,109	1,272	1,481
Provision for Tax	207	266	305	356
PAT	751	843	967	1,126

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	27	27	27	27
Reserves	4,317	5,097	5,991	7,033
Shareholder's Funds	4,344	5,123	6,018	7,060
Borrowings	31,760	36,493	42,502	49,946
Other Liabilities & Provisions	498	494	576	677
Total Liabilities	36,602	42,110	49,096	57,683
APPLICATION OF FUNDS				
Cash & Bank Balance	457	526	614	721
Investments	1,459	1,781	2,076	2,440
Advances	34,553	39,651	46,229	54,314
Fixed Assets & Other Assets	132	152	177	208
Total Assets	36,602	42,110	49,096	57,683

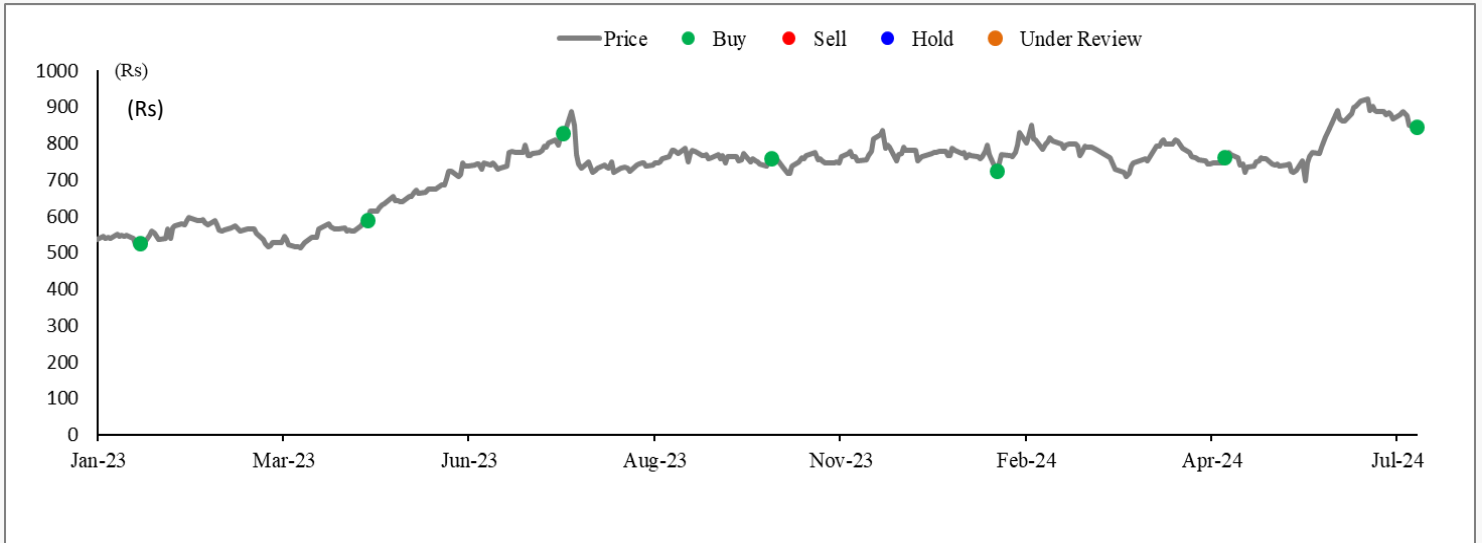
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25E	FY26E	FY27E
VALUATION RATIOS				
EPS	56.4	63.3	72.6	84.5
Earnings Growth (%)	20.8	12.2	14.8	16.4
BVPS	326.2	384.7	451.9	530.1
Adj. BVPS	315.2	372.9	437.8	513.4
ROAA (%)	2.0	2.1	2.1	2.0
ROAE (%)	17.7	17.3	16.9	16.7
P/E (x)	15.1	13.5	11.7	10.1
P/BV (x)	2.6	2.2	1.9	1.6
PROFITABILITY				
NIM (%)	3.7	3.6	3.5	3.5
Cost-Income Ratio	19.9	17.5	16.9	16.2
ASSET QUALITY				
Gross NPLs (%)	0.8	0.8	0.8	0.8
Net NPLs (%)	0.4	0.4	0.4	0.4
Coverage Ratio (%)	48.0	50.0	50.0	50.0
Credit Costs	0.1	0.1	0.1	0.1
ROAA TREE				
Net Interest Income	3.6	3.4	3.4	3.4
Non-Interest Income	0.1	0.1	0.1	0.1
Operating Cost	0.7	0.6	0.6	0.6
Provisions	0.2	0.1	0.1	0.1
ROAA	2.0	2.1	2.1	2.1
Leverage (x)	8.7	8.3	8.2	8.2
ROAE	17.7	17.3	16.9	16.7

Source: Company, Axis Securities Research

Can Fin Homes Price Chart and Recommendation History



Date	Reco	TP	Research
23-Jan-23	BUY	650	Result Update
28-Apr-23	BUY	675	Result Update
21-Jul-23	BUY	930	Result Update
19-Oct-23	BUY	925	Result Update
29-Jan-24	BUY	885	Result Update
02-May-24	BUY	840	Result Update
23-Jul-24	BUY	950	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Jatin Sanghani, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.; Registered Office Address – Axis House, 8th Floor, Wadia International Centre, P.B. Marg, Worli, Mumbai-400025.

Corporate Office Address – Axis Securities Limited, Unit No.002 A, Ground Floor, Agastya Corporate Park- Piramal Realty, Near Phoenix Market City Mall, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Paré, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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List of Research Analyst (Fundamental):

Sr. No	Name	Designation	Sector	E-mail
1	Neeraj Chadawar	Head of Research	All Sectors	neeraj.chadawar@axissecurities.in
2	Preeyam Tolia	Research Analyst	FMCG and Retail, Real Estate	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	IT, Telecom, Internet	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	Cement, Infra, Railway	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	Pharmaceutical, Hospital, Hotel	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	BFSI	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	Metal and Mining, Power Utilities	aditya.welekar@axissecurities.in
8	Sani Vishe	Research Analyst	Chemicals, Capital Goods, Mid-cap	sani.vishe@axissecurities.in
9	Eesha Shah	Research Analyst	Real Estate, Special Situation	eesha.shah@axissecurities.in
10	Shridhar Kallani	Research Associate	Auto and Auto ancillaries	shridhar.kallani@axissecurities.in
11	Shikha Doshi	Research Associate	Cement, Infra, Railway	shikha.doshi@axissecurities.in
12	Suhanee Shome	Research Associate	FMCG and Retail	suhanee.shome@axissecurities.in
13	Shivani More	Research Associate	Chemicals Capital Goods, Mid-cap	shivani.more@axissecurities.in
14	Pranav Nawale	Research Associate	BFSI	pranav.nawale@axissecurities.in
15	Darsh Solanki	Research Associate	Metal and Mining, Power Utilities	darsh.Solanki@axissecurities.in
16	Arundhati Bagchi	Research Associate	Database Analyst, Economy	Arundhati.Bagchi@axissecurities.in