



Pick of the Week

Can Fin Homes Ltd.

January 27, 2025



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI - NBFC	Rs 683	Buy in Rs 680-695 band & add on dips in Rs 620-630 band	Rs 755	Rs 833	2-3 quarters

HDFC Scrip Code	CANFINEQNR
BSE Code	511196
NSE Code	CANFINHOME
Bloomberg	CANF IN
CMP Jan 24, 2025	682.7
Equity Capital (Rs Cr)	26.6
Face Value (Rs)	2
Equity Share O/S (Cr)	13.3
Market Cap (Rs Cr)	9090
Adj. Book Value (Rs)	363.0
Avg. 52 Wk Volumes	771,500
52 Week High	951.8
52 Week Low	650.2

Share holding Pattern % (Dec 2024)	
Promoters	30.0
Institutions	39.5
Non Institutions	30.5
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

CanFin Homes Ltd. (CFHL) is a south based well-established player in the affordable housing finance segment. The company has quality loan portfolio with salaried customers and low ticket size loans. CFHL has impeccable track record of delivering constant and strong growth numbers while maintaining best-in-class asset quality. The sovereign holding (Canara Bank as promoter) provides access to low cost funding opportunities. With a strong balance sheet position, the company has opportunity to increase its market share as well as scale up its presence in existing and newer geographies.

CFHL is set for consistent growth, with disbursement target of 11-12% in Q3 and 13-14% in Q4 of FY25E, aiming to reach Rs 10,000cr in disbursements by the end of FY25E. The company is planning to augment its geographical footprints by adding 15-20 branches in North & Western parts of India which will aid growth. Further, implementation of PMAY 2.0 is expected to boost home loan demand, sustaining growth. Favourable Indian demographics, low mortgage penetration rate and constant Government support are the key long term positives for the sector.

CFHL's ongoing investments in distribution, widening of the customer funnel (digital sourcing, APF, etc.), and shift towards higher ticket sizes (>Rs 20 lakh) are likely to reflate the loan growth. CFHL remains a robust franchise with steady profitability (RoE of 17-18%), with investments to solve the growth equation.

Valuation & Recommendation:

While CFHL has witnessed a marginal uptick in loan growth, further uptick in FY25 remains the key monitorable for rerating. The ongoing investments in distribution and additional sourcing channels, along with tech transformation, are likely to drive an uptick in loan growth, going ahead. Going forward, we have envisaged a 16.5% CAGR in its loan book over FY24-27E, while the PAT is expected to grow at 15% over the same period. The RoA of the company is expected to remain stable ~2.1%-2.2%. We feel that investors can buy Canfin Homes in the band of Rs 680-695 and add on dips in Rs 620-630 band (1.2x FY27E ABV) for base case fair value of Rs 755 (1.45x FY27E ABV) and bull case fair value of Rs 833 (1.6x FY27E ABV) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Interest Income	345	329	4.8	340	1.5	1258	1392	1597	1860
PPoP	291	286	1.7	288	1.2	1095	1174	1339	1557
APAT	212	200	6.0	211	0.3	751	857	984	1143
Diluted EPS (Rs)	15.9	15.0	6.0	15.9	0.3	56.4	64.4	73.9	85.8
P/E (x)						12.1	10.6	9.2	8.0
P/ABV (x)						2.2	1.8	1.5	1.3
RoAA (%)						2.2	2.2	2.2	2.1

Q3FY25 Result Update

CFHL reported subdued results largely due to muted loan growth (+9.1% YoY) and higher than expected credit costs (24bps annualised). Disbursements were tepid (0% YoY; -21% QoQ), partly due to property registration issues in Karnataka in Q3 and moderation in demand. NII grew 5% YoY to Rs 345cr as NIMs remained broadly steady at 3.73%. Opex ratios are likely to inch up from H2FY26, with the Tech transformation across its systems (LOS, LMS etc.)

GNPA/NNPA increased marginally to 0.92%/0.51% (Q2FY25: 0.87%/0.47%), along with increase in SMA-0 as well (7% vs. 5.4% in Q2FY25). As per management, the increase in SMA-0 is largely technical in nature (bounce/other penal charges etc.). A sufficient provision buffer (PCR of 45%, and adequate management overlay) is likely to drive muted credit costs of ~14-15bps during FY25-FY26E.

Management has lowered its loan growth guidance for FY25 from 13-14% earlier to 10-12% due to muted disbursements growth during 9MFY25 (+4% YoY). Further, the Tech transformation during FY26 is likely to moderate the business momentum, although the branch additions, additional sourcing channels and shift towards higher ticket sizes in mortgages is likely to aid the loan growth. CHFL is seeking to maintain its NIMs with shift towards higher ticket sizes, partially offset by higher share of LAP/SENP segment.

Key Triggers

Housing finance industry in a sweet spot

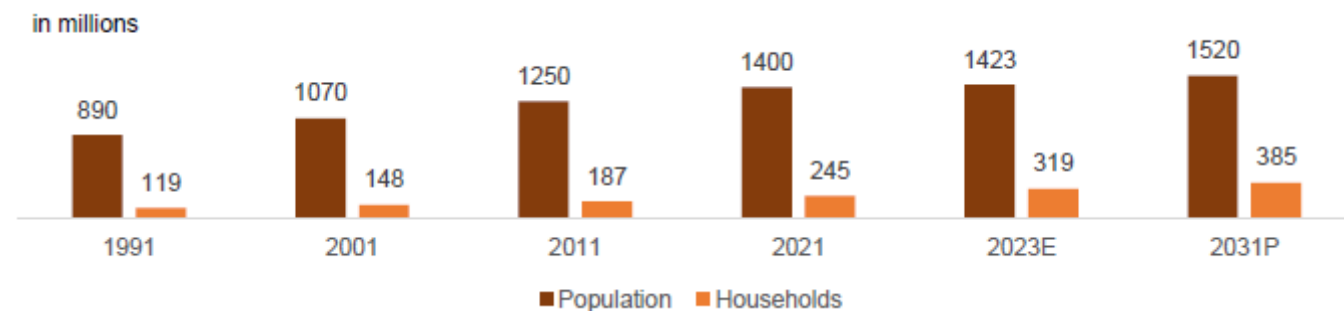
The Indian financial sector has been exhibiting an increasing trend in terms of development and maturity. The amount of outstanding mortgage loans has increased by a healthy percentage over the years. The housing finance sector appears to be in a sweet spot due to demographic trends, rapid urbanisation, and favourable government policies. The housing sector is also perceived to grow in the upcoming years. This is due to increased demands for homes, which is the result of changing lifestyles, societal perspectives, and the expansion of labour mobility.

The government is also promoting programmes to provide loans at cheaper rates, and interest concessions under the Pradhan Mantri Awas Yojana scheme will contribute further in the demand for housing. Another key catalyst is the likely start of the rate reduction cycle. After the US Fed, the Reserve Bank of India (RBI) is expected to start cutting rates as inflation has eased significantly.

Growing population and increasing urbanization to fuel demand for housing

As per Census 2011, India's population was approximately 1.25 billion, and comprised nearly 245 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by CRISIL MI&A to increase at 1.1% CAGR between 2011 and 2021 to reach 1.40 billion. The population is expected to reach 1.5 billion by 2031, and the number of households are expected to reach approximately 385 million over the same period.

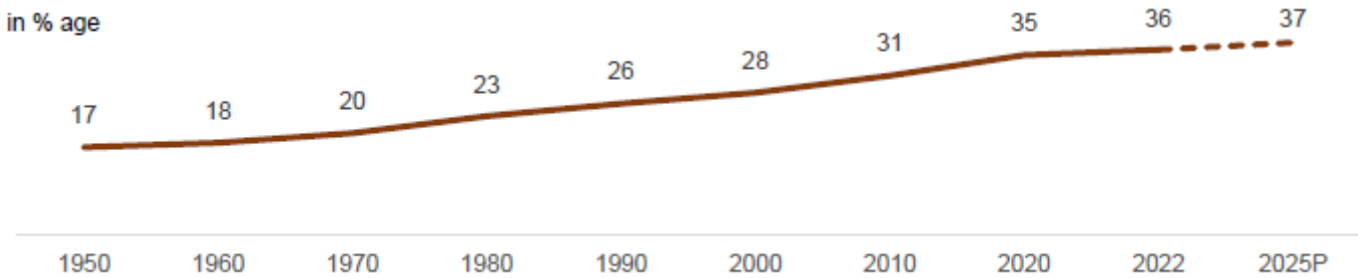
India's population growth trajectory and number of households



(Source: United Nations Department of Economic and Social Affairs, Census India, CRISIL MI&A)

Urbanisation is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services, and increase the ability to mobilise savings. India's urban population has been rising consistently over the decades. As per the 2018 revision of World Urbanization Prospects, the urban population was estimated at 36% of India's total population in 2022. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 37.4% by 2025.

Urban population as a percentage of total population (%)



(Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN))

Under penetration and untapped market presents a huge opportunity for growth of financiers

Despite the constant focus on the housing segment, housing in India is far from adequate. The shortage of overall houses (rural & urban regions) is at a very high level at 62.5 million houses (as per twelfth five-year plan 2012-17) due to changing social and demographic pattern in India such as nuclearization of families and rapid growth of urbanisation. The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan.

Housing shortage in India

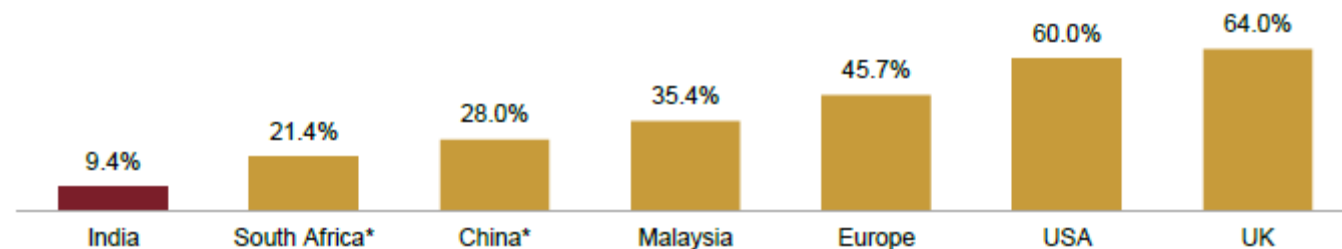
	Total hous- ing shortage	Housing shortage (Ex HIG)	Area	Cost of dwelling	Average cost	Market size	Potential home loan market	Financing Opportunity
	Units in mn	Units in mn	Sq ft	Rs mn	Rs mn	Rs tn	Rs tn *	Rs tn **
EWS	15.0	15.0	150-300	<1.5	1.2	17.4	13.4	11.8
LIG	10.9	10.9	300-600	1.5-3.0	2.3	25.2	19.4	17.2
MIG	5.3	5.3	600-1200	3.0-5.5	4.6	24.6	18.9	14.9
HIG	1.1							
Total	32.3	31.2				67.1	51.6	44.6

Source: CII-Knight Frank

According to CII-Knight Frank analysis, the cumulative affordable housing shortage in India is projected to reach 3.12 cr by 2030, with the market size estimated at Rs 67 lakh crore. Based on an assumption of a 77% loan dependency and Loan-to-Value (LTV) ratios applied at various loan thresholds, the potential financing opportunity for banks and Housing Finance Companies (HFCs) in the affordable housing segment is estimated to be Rs 45 lakh crore.

India has very low penetration in terms of housing finance as compared to its rising peers which shows a high potential for expansion of Indian housing finance companies. The housing finance market continues to face supply constraints from Banks and NBFCs, particularly for the lower income.

Mortgage-to-GDP ratio in India (Fiscal 2023)



Source: NHB, CRISIL MI&A

Budget expectations if approves could give a strong boost to housing finance industry

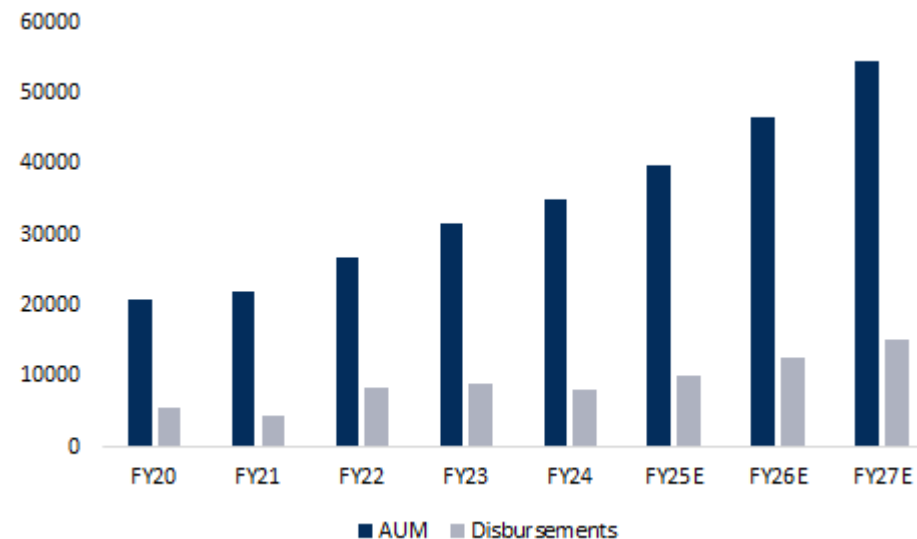
The repayment of the principal component of home loans is eligible for tax deduction under Section 80C. In contrast, the repayment of interest component of up to INR 2 lakh qualifies for tax deduction under Section 24(b). There is a growing demand for a separate section for home loan repayment with a combined maximum deduction of up to INR 5 lakh for both principal and interest components. This would boost home buyers' sentiments and prospects for housing demand and house finance.

Increasing disbursements to drive AUM growth

Disbursements of the company were impacted in H1FY25 due to general elections and change of Government in Andhra Pradesh and Telangana. It has now stabilized in both these states and picking up in rest of the country. Disbursements were flat YoY and declined 21% QoQ in Q3FY25 to Rs 1879cr due to issues pertaining to registration in Karnataka following the introduction of E-Khata. However, management expects higher disbursements in Q4 and FY26. The loan portfolio as at Dec'24, stood at Rs 37,155cr, growing by 9% YoY. 88% of the loan book comprises of housing loan and 12% is made up of non-housing loans.

Focus is now on accelerating growth with enhanced centralised due diligence. The company is also planning to open new branches in tier-2 cities and expand in tier-3 cities, which are high-margin regions compared to tier-1 cities. Construction of three crore houses under PMAY scheme would drive volume growth in affordable housing.

AUM and disbursement trend (Rs cr)



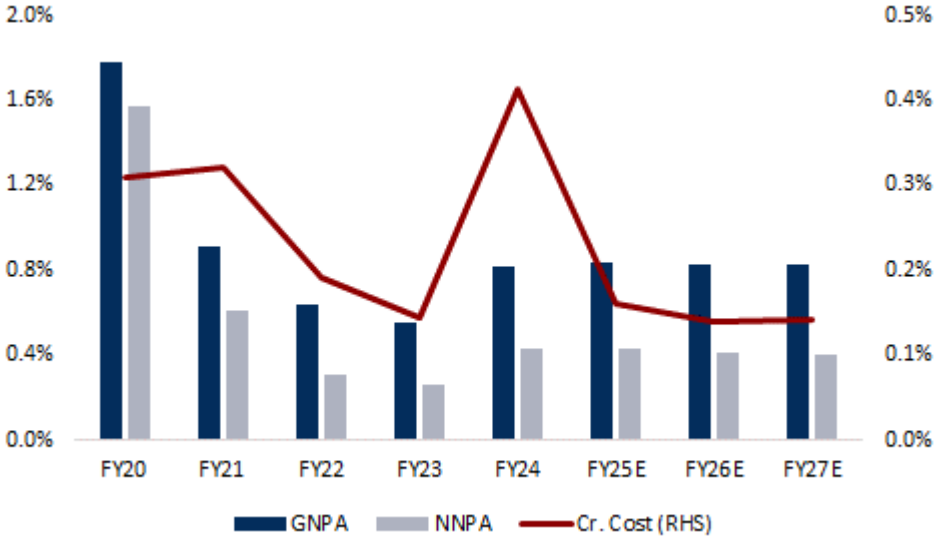
(Source: Company, HDFCsec)

Prudent underwriting to lead further improvement in asset quality

CFHL has a large onboarding system that takes into account multiple parameters such as individual risk rating based on credit score, professional qualifications and financial soundness among others. This has led to maintenance of lower non-performing assets (NPAs) compared to its competitors. Large part of the loan book comprises of loan to salaried class where the scope of NPA is lower. However, over the last 5 years, it has been increasing its exposure to self-employed and non-professional (SENP) category.

CFHL has healthy asset quality compared to peers as GNPA/NNPA stood at 0.92%/0.51% at the end of Q3FY25. Its restructured portfolio is reducing post the seasonal increase in NPA during Q1FY25, asset quality is also witnessing improvement. Credit cost was higher in FY24 at ~36 bps versus the average trajectory of 10-20 bps on higher management overlay and provisions for fraud. Credit cost is expected to moderate to ~15 bps going forward. Management has guided for credit costs of ~15 bps for FY25 and FY26.

Asset quality and credit cost



(Source: Company, HDFCsec)

Strong parentage

CFHL is promoted by Canara Bank which holds majority stake of ~30% in the company as on Dec'24. Canara Bank being its sponsor, the company enjoys management & board guidance, and sharing of the brand name, besides strong financial flexibility. Canara Bank has deputed three of its senior-level officers as representatives on the board of CFHL. Canara Bank views CFHL as an important entity and has expressed its resolve to support CHFL irrespective of its modest shareholding, and its intent to maintain the stake

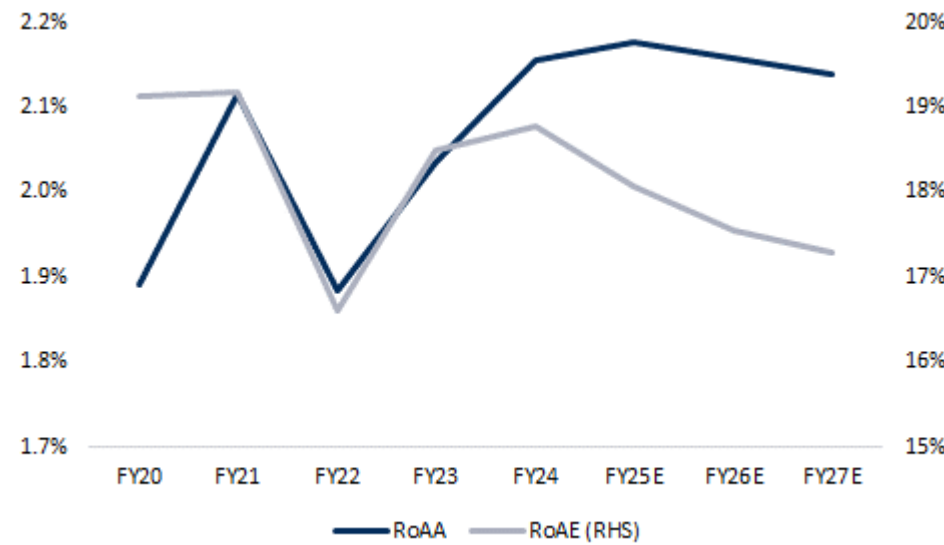
Risks & Concerns

- Intense competition from the banks; the company had to cut rates to match the big banks. This puts pressure on margins and if this level of severity in competition continues, there could be impact on profitability of the company and fear of losing market share also remains high. Emergence of new fintechs could also bring fresh competition for the HFCs like CFHL.
- Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the company.
- Lower than expected business growth or sharp rise in slippages could result in deterioration in profitability and capital. Continuity in the growth of disbursements will be important point to watch out in coming quarters.
- CFHL's business is highly concentrated in the southern part of the country. Any political and economy uncertainty in that region could impact the business of CFHL.
- Earlier, Canara Bank (holds 30% stake) was looking to divest its stake in the company. If the strong parent exits, there could be a credit impact on CFHL. Being a Public Sector Bank (PSB) Canara has a sovereign support and due to that reason CFHL has benefit of getting funding at lower cost. However, if this stake is acquired by an established P/E or large HFC, it may result in rerating of the company.
- In the borrowing mix there is high share of short term borrowing (Commercial Papers). This practice could impact the ALM for the lender who lends money for long term.

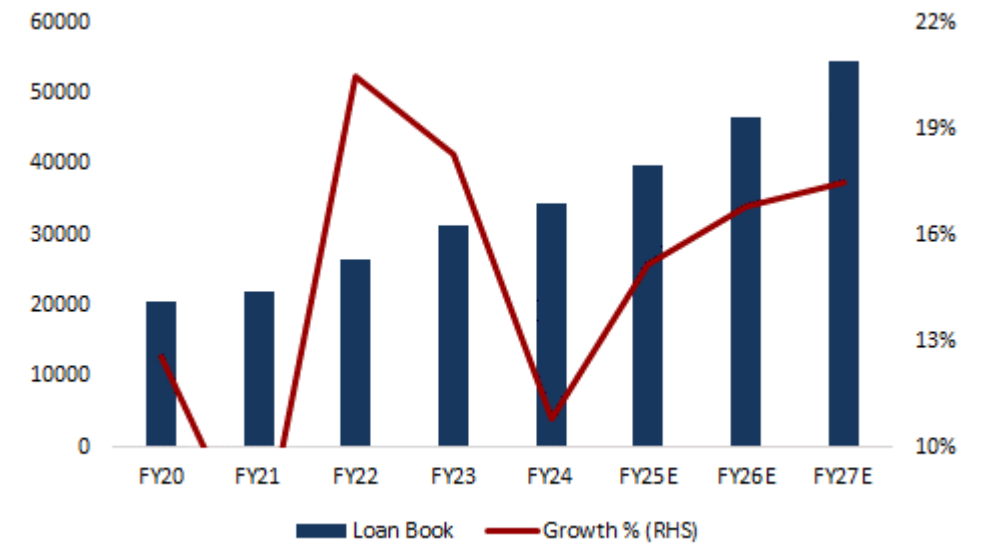
Company Background

Can Fin Homes Ltd. (CFHL) is a public deposit-taking housing finance company started in 1987 by Canara Bank in association with Housing Development and Finance Corporation and Unit Trust of India. The company caters primarily to salaried borrowers (low & middle group individuals & first-time homebuyers) in urban areas and majority of its advances are sourced from southern states. It has Pan-India presence with 201 branches and 18 Affordable Housing Loan Centers spread across 21 States / Union Territories. The company focuses on housing loans to individuals, with ~89% of the book comprised of retail home loans.

Return Ratios



Loan Book



(Source: Company, HDFCsec)

Financials

Income Statement

(Rs cr)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	2715	3490	3919	4519	5281
Interest Expenses	1701	2231	2527	2922	3420
Net Interest Income	1015	1258	1392	1597	1860
Non interest income	28	35	41	48	55
Operating Income	1042	1293	1433	1645	1916
Operating Expenses	176	198	259	306	359
PPoP	866	1095	1174	1339	1557
Prov & Cont	42	138	60	60	72
Profit Before Tax	824	958	1114	1279	1485
Tax	203	207	256	294	341
PAT	621	751	857	984	1143

Balance Sheet

(Rs cr)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	27	27	27	27	27
Reserves & Surplus	3621	4317	5121	6046	7122
Shareholder funds	3647	4344	5148	6073	7149
Borrowings	29068	31863	36555	42557	50037
Other Liab & Prov.	355	395	438	502	589
SOURCES OF FUNDS	33070	36602	42141	49132	57775
Fixed Assets	308	457	561	683	1002
Investment	1459	1459	1605	1765	1942
Cash & Bank Balance	31193	34553	39787	46466	54578
Advances	45	53	61	70	80
Other Assets	64	79	126	147	173
TOTAL ASSETS	33070	36602	42141	49132	57775

Ratio Analysis

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Return Ratios (%)					
Yield on adv	9.0	10.1	10.1	10.1	10.1
Cost of funds	6.3	7.3	7.4	7.4	7.4
NIM	3.3	3.6	3.5	3.5	3.5
RoAE	18.5	18.8	18.1	17.5	17.3
RoAA	2.0	2.2	2.2	2.2	2.1
Asset Quality Ratios (%)					
GNPA	0.6	0.8	0.8	0.8	0.8
NNPA	0.3	0.4	0.4	0.4	0.4
PCR	52.3	48.5	49.5	50.7	51.6
Growth Ratios (%)					
Advances	18.3	10.8	15.1	16.8	17.5
Borrowings	17.9	9.6	14.7	16.4	17.6
NII	24.3	24.0	10.6	14.7	16.5
PPoP	26.9	26.5	7.2	14.1	16.3
PAT	23.7	2.0	23.8	14.8	16.1
Per Share Data (Rs)					
EPS (Rs)	46.7	56.4	64.4	73.9	85.8
Adj. BVPS (Rs)	267.7	315.2	374.0	441.7	520.6
Dividend per share (Rs)	2.0	4.0	4.5	5.0	5.0
Valuation Ratios (x)					
P/E	14.6	12.1	10.6	9.2	8.0
P/ABV	2.6	2.2	1.8	1.5	1.3
Dividend Yield (%)	0.3	0.6	0.7	0.7	0.7
Other Ratios (%)					
Cost-Avg AUM	0.6	0.6	0.7	0.7	0.7
Cost-Income	16.9	15.3	18.1	18.6	18.7

Price chart



HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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