CanFin Homes (CANHOM)

ICICI Direct

CMP: ₹ 791	Target: ₹ 910 (15%)	Target Period: 12 months	BUY

July 23, 2025

Result Update

Steady quarter; guidance reiterated.....

About the stock: CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of June 2025. The HFC has a presence in 234 locations across 21 states and union territories (UTs).

- Housing loans comprise ~86% of book; of which ~70% is to salaried customers
- Average ticket size is ₹24 lakh for housing, ₹14 lakh for non-housing loans

Q1FY26 performance: Canfin Homes reported a steady performance in Q1FY26. AUM rose to ₹38,773 crore, up 9% YoY/ 1.5% QoQ, led by disbursement of ₹2,015 crore (up 9% YoY). NII grew 13% YoY to ₹363 crore (up 4% QoQ), while NIMs improved 7 bps YoY to 3.64%. Opex remained elevated, keeping CI ratio at 18.33% (better than 19.36% QoQ). PAT stood at ₹223 crore, up 12% YoY with RoA at 2.19%. Asset quality remained broadly steady with GNPA at 0.98%, up 11 bps QoQ.

Investment Rationale

- **Optimistic on growth with focus on relatively high yield segment:** Management has reiterated guidance targeting disbursement of ₹10,000–10,500 crore in FY26E, implying ~12–13% AUM growth. Such momentum is expected to be aided by addition of 15 branches in North and West India, set to be operational by September 2025, reaffirming its branch expansion roadmap of reaching 300 locations by FY28E. Yield growth is expected to be supported by a gradual shift in portfolio mix toward the higher-yielding non-home loans, aiming for a 20% share of AUM and an increased focus on self-employed segment, with the salaried-to-self-employed mix targeted to reach to 65:35 over the next 2-3 years.
- **Margins and asset quality expected to remain resilient:** Despite the ongoing softening of interest rates, management expects to maintain NIM above 3.5%, with spreads staying comfortably over 2.5%, supported by a favourable borrowing profile, where 53% of borrowings are from banks, with 80% linked to repo set to benefit from recent rate cuts. Incremental borrowing cost has moderated to ~7.3%, and further savings are expected as upcoming term loans are repriced and NHB's lending rates are revised downwards. Given steady asset quality, healthy coverage, credit costs guidance is maintained at 12-15 bps. CI ratio expected to stabilize at 18% for FY26E, though increase marginally in FY27E due to IT project cost. Thus, margin resilience, backed by a favourable funding mix and controlled asset quality, offers strong earnings visibility with RoA to sustain at 2.1-2.2%.

Rating and Target Price

- Canfin Homes has been best in class HFC player with a robust business model & underwriting practice, which resulted in healthy earnings growth with GNPA <1% across cycles.
- While RoA is expected at 2-2.2% in FY26-27E, revival in business growth remains trigger to boost valuation. Thus, we continue to value CanFin Homes at ~1.7x FY27E BV and revise target price to ₹910 (earlier ₹900). Maintain Buy rating.

CanFin Homes Ltd (Sponsor: CANARA BANK) HOME LOANS ✦ DEPOSITS Translating Dreams into Reality

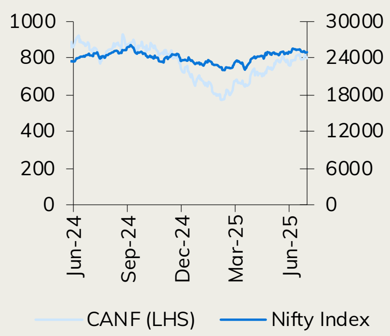
Particulars

Particulars	Amount
Market Capitalisation	₹ 10,634 crore
52-week H/L	952 / 558
Net worth	₹ 5067 Crore
Face Value	2.0
DII Holding (%)	24.5
FII Holding (%)	12.1

Shareholding pattern

Holding (%)	Sep-24	Dec-24	Mar-24	Jun-25
Promoter	30.0	30.0	30.0	30.0
FII	11.5	11.4	12.1	12.1
DII	27.9	28.1	24.7	24.5
Public	30.6	30.5	33.2	33.4

Price Chart



Key risks

(i) Revival in business growth

(ii) Shift towards self-employed segment could increase repayment volatility

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	1,014.6	1,258.8	1,353.7	16%	1,517.6	1,719.8	13%
PPP	865.8	1,036.3	1,152.5	15%	1,293.5	1,453.0	12%
PAT	621.2	750.7	856.4	17%	956.4	1,077.3	12%
ABV (₹)	267.7	315.2	370.7	18%	433.0	503.3	17%
P/E	16.9	14.0	12.3		11.0	9.8	
P/ABV	2.9	2.5	2.1		1.8	1.6	
RoA	2.0%	2.2%	2.2%		2.2%	2.2%	
RoE	18.5%	18.8%	18.2%		17.3%	16.6%	

Source: Company, ICICI Direct Research

Concall highlights and outlook:

Operational Performance

- AUM at ₹38733 crore, up 8.9% YoY, PAT at ₹ 223 crore, a 11.5% YoY increase.
- Healthy disbursement growth of ₹2,015 crore, up 9% YoY with strong regional performance in North (40%+), Tamil Nadu (35%+), West (15%), and East (40%+) zones, while Karnataka remained flat and Telangana showed negative growth.
- Karnataka posted healthy traction with disbursement at ~₹600 crore in Q1FY26 vs ₹700 crore in Q4FY25. Signs of recovery can be seen in Telangana owing to disbursement inching up to ₹200-225 crore in Q1FY26 vs ~₹100+ crore in Q4FY25.
- Maintain spread at 2.62% and NIM at 3.64% in Q1FY26. RoA at 2.19% and RoE at 16.93%.
- Staff costs have increased due to recruitment and training initiatives for the new branches.
- Outstanding ECL provision at ₹ 171 crore, total provision ₹ 485 crore (inclusive of management overlays and for restructured accounts).
- Asset quality increased marginally with 11 bps QoQ rise in GNPA at 0.98%, and 8 bps QoQ increase in NNPA at 0.54%.
- Branch Network - 234 branches including 18 affordable housing loan centers

Business Strategy

- DSA share reduced marginally from 80% to 79%.
- Housing + CRE mix at 89% and non-housing at 11%, aim to increase share to 20% by FY28E.
- Current branch strength at 234 with plans to add 15 new branches in FY26 (mostly in North, West & Tamil Nadu) targeting FY26-end to 249 branches. Sales team strength increased from 39 to 100 people to support the expansion.
- The company has passed on 25 basis point rate cut to customers (10 bps in May, 15 bps in July).
- Staff costs increased due to salary revision to align with market rates, plus a one-time actuarial impact of ₹4.5 crore. The actuarial impact is expected to even out in future quarters. Staff count increased by 16.5% compared to first quarter of previous year. Rent and taxes increased due to 25 new branches opened last year, six new zonal offices opened after June last year, and expanded corporate office space. The recurring employee cost going forward will be around ₹37 crore per quarter, excluding costs for additional new hires. Additional CSR expenses of approximately ₹75 lakhs were incurred in the quarter due to increased CSR budget from ₹16.12 crore last year to over ₹19 crore.
- IT project to be implemented in 2 phases, Phase 1 (August-September 2025) will implement borrowings, ALM and treasury module. Phase 2 (November 2025) will implement core systems including LOS (Loan Origination System), LMS (Loan Management System), DMS (Document Management System) and deposits.
- The affordable housing segment to see a slowdown due to reduced developer incentives and changes in PMAY scheme.
- The company processes approximately 4,000-4,200 contracts per month, totaling 48,000-50,000 contracts annually with expectation to increase through direct sourcing initiatives.
- BT out represents less than 4% of the total 15-15.5% annual rundown rate, with the remainder coming from amortization (3.75%) and part payments (around 8%).
- The company provides loans up to 80% of property cost, but due to differences between market value and realizable value, effective LTV is around 60%
- The mortgage LAP and top-up loan segment has grown by 2% recently as part of their conscious strategy to expand non-housing loans.
- Average ticket size is ₹24 lakhs for housing loans and ₹ 14 lakhs for non-housing loans, with 80% of customers having CIBIL scores above 700.

Asset quality

- Total delinquencies (SMA 0/1/2 + NPA) declined to ₹280 crore QoQ, lowest in five quarters. Seasonally GNPA increased by ₹45 crore; ~96 sticky accounts with exposure totaling to ₹13.9 crore, allowed to slip into NPA to enable focused recovery through SARFAESI.
- Moderation in credit cost expected due to improved recoveries. Karnataka zone recovered ₹1.5 crore, worth of properties, unable to be sold due to E-Khata issues.

Margins

- Incremental borrowing rates have declined to around 7.3% from 7.55%, aided by lower repo rate and access to cheaper CD/NCD funding. ~53% of borrowings are from banks, with 80% linked to repo and 20% to T-bills. Commercial Papers (CPs) are being raised at sub-6% rates. Further reduction in borrowing cost is expected as ₹2,500-3,000 crore of term loans get repriced and NHB revises its PLR. Cost reduction benefit to be passed on to customers, with ~67% of loan book remains on annual reset, with 25 bps reduction to reflect as per individual reset date. This lag in rate transmission to temporarily support margins.

Guidance

- Disbursements in Q2FY26 targeted at ₹ 2,500 crore, FY26 targeted at ₹10,500 crore (20% YoY growth) resulting in AUM growth of 12-13% in FY26 and 15% growth in FY27.
- Maintained guidance on spreads at 2.5%+ and NIM of 3.5%+. Aiming to sustain RoA at ~2.1–2.2% and RoE at ~17%.
- Maintain credit cost guidance at ~15 bps for FY26 with further improvement in delinquencies expected leading to a stable outlook for credit quality.
- Management expect CI ratio to stabilize to 18% for FY26 and increase marginally in FY27 due to IT project cost.
- 15 new branches are planned to open in Q1FY26, operational by September 2025 focusing on North and West zones, 300 branches guidance for FY28E.
- Maintain dividend payout ratio guidance at 18-20%.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	363	321	13	349	4	Credit off-take remain steady, spreads improve
Reported NIM (%)	3.6%	3.6%	7 bps	3.8%	-18 bps	
Other Income	9	7	34	17	-44	
Net Total Income	372	328	13	365	2	
Staff cost	42	23	79	31	36	Hiring of sales staff and compensation revision led to uptick in employee expense
Other Operating Expense	27	26	4	40	-34	
PPP	304	280	9	295	3	
Provision	26	24	7	15	70	Credit cost within guidance
PBT	278	255	9	279	-1	
Tax Outgo	54	55	-3	45	19	
PAT	224	200	12	234	-4	Steady earnings momentum in-line with growth
Key Metrics						
GNPA	378	325	16	333	14	Asset quality continues to remain steady
NNPA	208	147	41	174	20	
Loan Book	38773	34957	11	38217	1	Continued focus on non-home segment
Borrowings	33959	27539	23	29509	15	
CI ratio	18.3%	14.9%	346 bps	19.4%	-103 bps	Higher cost YoY, but efficiency improved QoQ

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	3,490.2	3,852.9	4,155.5	4,674.3
Interest Expended	2,231.4	2,499.2	2,638.0	2,954.5
Net Interest Income	1,258.8	1,353.7	1,517.6	1,719.8
% growth	24.1	7.5	12.1	13.3
Non Interest Income	34.5	37.1	41.4	46.6
Net Income	1,293.3	1,390.8	1,558.9	1,766.3
Employee cost	96.9	112.4	128.0	145.8
Other operating Exp.	160.1	125.9	137.4	167.5
Operating Profit	1,036.3	1,152.5	1,293.5	1,453.0
Provisions	78.8	75.7	67.4	71.8
PBT	957.5	1,076.8	1,226.1	1,381.2
Taxes	206.8	220.3	269.7	303.9
Net Profit	750.7	856.4	956.4	1,077.3
% growth	20.8	14.1	11.7	12.6
EPS (₹)	56.4	64.3	71.8	80.9

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares	13.3	13.3	13.3	13.3
EPS (₹)	56.4	64.3	71.8	80.9
BV (₹)	326.2	380.9	448.4	524.5
ABV (₹)	315.2	370.7	433.0	503.3
P/E	14.0	12.3	11.0	9.8
P/BV	2.4	2.1	1.8	1.5
P/adj.BV	2.5	2.1	1.8	1.6
Yields & Margins (%)				
Yield on interest earning assets	9.9%	10.0%	9.8%	9.8%
Avg. cost on funds	7.3%	7.5%	7.1%	7.1%
Net Interest Margins	3.6%	3.5%	3.5%	3.5%
Spreads	2.6%	2.5%	2.7%	2.7%
Quality and Efficiency				
Cost / Total net income	22.0%	17.8%	18.0%	18.8%
GNPA%	0.8%	0.9%	0.9%	0.9%
NNPA%	0.4%	0.4%	0.5%	0.6%
RoE (%)	18.8%	18.2%	17.3%	16.6%
RoA (%)	2.2%	2.2%	2.2%	2.2%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	26.6	26.6	26.6	26.6
Reserves and Surplus	4,317.2	5,046.0	5,944.9	6,957.6
Networth	4,343.9	5,072.6	5,971.6	6,984.2
Borrowings	31,862.9	35,051.6	39,417.3	44,139.3
Other Liabilities & Provisi	379.2	351.3	516.4	577.7
Total	36,585.9	40,475.5	45,905.3	51,701.2
Applications of Funds				
Fixed Assets	52.6	50.3	52.8	55.4
Investments	1,459.0	2,372.8	2,563.0	2,665.3
Advances	34,553.1	37,770.7	42,434.0	48,140.4
Other Assets	521.2	281.7	855.5	840.1
Total	36,585.9	40,475.5	45,905.3	51,701.2

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	10.7%	10.9%	12.3%	12.9%
Advances	10.8%	9.3%	12.3%	13.4%
Borrowings	9.6%	10.0%	12.0%	12.0%
Total Income	24.1%	7.5%	12.1%	13.3%
Net interest income	24.1%	7.5%	12.1%	13.3%
Operating expenses	45.6%	-7.3%	11.4%	18.0%
Operating profit	19.7%	11.2%	12.2%	12.3%
Net profit	20.8%	14.1%	11.7%	12.6%
Book value	19.1%	16.8%	17.7%	17.0%
EPS	20.8%	14.1%	11.7%	12.6%

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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