

October 20, 2025

Guidance reiterated; growth & earnings to pick up

About the stock: CanFin Homes (CFHL) was promoted by Canara Bank in 1987, with ~30% stake as of Sep 2025. The HFC has a presence in 248 locations across 21 states and union territories (UTs).

- Housing loans comprise ~87% of book; of which ~70% is to salaried customers
- Average ticket size is ₹25 lakh for housing, ₹14 lakh for non-housing loans

Q2FY26 performance: Canfin Homes reported healthy performance in Q2FY26. Steady disbursement at ₹2545 crore (6.9%), was offset by pre-payment resulting in AUM growth being broadly steady at 8.4% YoY/ 2.3% QoQ to ₹39,657 crore. NII grew 19.1% YoY to ₹405 crore (up 11.5% QoQ), driven by 27 bps YoY/ 38 bps QoQ in margin to ~4%, on the back of reduction in cost of borrowing. Opex remained elevated, keeping CI ratio at 18.55%, however, healthy top-line resulted in 18.9% YoY growth in earnings at ₹251 crore with RoA at 2.46%. Asset quality remained broadly steady with GNPA at 0.94%, down 4 bps QoQ.

Investment Rationale

- Optimistic on growth; guidance reiterated:** 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 branch addition (14 added out of planned 15) and improving disbursement across geographies. 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.
- Lower funding cost and asset quality resilience to aid earnings:** Incremental borrowing cost has moderated to ~7.1%, and further savings are expected as upcoming term loans are repriced and NHB's lending rates are anticipated to be revised downwards. Thus, management has maintained guidance of margins at 3.75% and spreads at 2.75%. Given steady asset quality, healthy coverage, credit costs guidance is maintained at ~12-15 bps. Tech initiatives is expected to keep CI ratio elevated at 19-19.5% in FY26, with improvement anticipated in FY27E as business growth accrue. Thus, margin resilience, backed by a favourable funding mix and controlled asset quality, offers strong earnings visibility with RoA to sustain at 2.1-2.3%.

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.
- Margin resilience coupled with strong asset quality is expected to sustain RoA at 2-2.3% in FY26-27E. Revival in business growth to act as trigger to boost valuation. Thus, we value CanFin Homes at ~1.9x FY27E BV and revise target price to ₹1,000 (earlier ₹910). Maintain Buy rating.

Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-27E)
NII	1015	1259	1354	15.5%	1573	1789	15.0%
PPP	866	1036	1152	15.4%	1304	1487	13.6%
PAT	621	751	856	17.4%	975	1104	13.6%
ABV (₹)	268	315	367	17.2%	435	511	17.9%
P/E	18.0	14.9	13.0		11.4	10.1	
P/ABV	3.1	2.7	2.3		1.9	1.6	
RoA	2.0%	2.2%	2.2%		2.3%	2.3%	
RoE	18.5%	18.8%	18.2%		17.6%	17.0%	

Source: Company, ICICI Direct Research



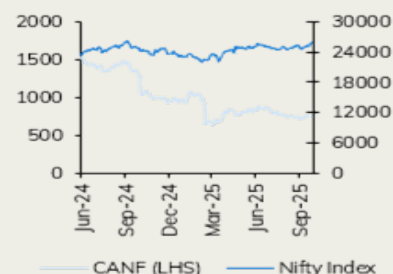
Particulars

Particulars	Amount
Market Capitalisation	₹ 11,163 crore
52 week H/L	898 / 558
Net worth	₹ 5462 Crore
Face Value	2.0
DII Holding (%)	23.9
FII Holding (%)	12.5

Shareholding pattern

Holding (%)	Sep-24	Dec-24	Mar-24	Jun-24
Promoter	30.0	30.0	30.0	30.0
FII	11.5	11.4	12.1	12.5
DII	27.9	28.1	24.7	23.9
Public	30.6	30.5	33.2	33.6

Price Chart



Key risks

- Delay in business growth revival
- Continued elevated repayment

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Concall highlights and outlook:**Operational Performance**

- AUM stood at ₹39,657 crore, up 8.4% YoY, while PAT rose 18.9% YoY to ₹251 crore. AUM growth was slightly below 9% due to higher prepayments of ₹200 crore, ₹120 crore from loan closures and ₹80 crore from customers paying more than regular EMLs.
- Q2FY26 disbursements exceeded guidance, reaching ₹2,500 crore, while Q1FY26 had crossed ₹2,000 crore.
- Karnataka recovered strongly, with disbursements of ₹270 crore in September, close to historical levels of ₹275–278 crore. Policy changes allowing E-Khata conversion and 15-day E-Khata processing are expected to drive 3–4% YTD growth by Q3-end.
- Telangana's negative growth improved from -30% to -27%, showing steady monthly improvement, though full recovery is expected only by Q4. The state saw higher prepayments, accounting for 40% of loan closures.
- The North and East zones delivered strong 30% growth, while Tamil Nadu and the West zone grew 25%, with the latter improving from 18–20% earlier.
- Branch expansion continued, focused on the North and West due to lower representation, while expansion in the South continued excluding Telangana and Karnataka. The company opened 14 branches in H1 out of 15 branches planned.
- The company is implementing IT transformation modules in two phases: Phase 1 (completed in Q2) included SD-WAN, Mailing solutions, Active Directory, ALM borrowing and treasury modules; Phase 2 (scheduled for Q3) includes LOS LMS, HRMS, deposits module and accounts package. The IT transformation will require staff training and system downtime, which is expected to temporarily impact disbursements in Q3.
- Total loan closures were ₹390 crore out of total prepayments/amortization of ₹1,661 crore in Q2. Telangana contributed ~₹45 crore of the increase, while other states saw smaller BT-out amounts of ₹8–14 crore each.

Margins

- The lowest lending rate is 8.7% (reduced from 8.95% after two rate cuts), and the highest is around 11.5%, with a blended incremental lending rate of 10.08%.
- The proportion of customers on annual resets continues to decline, from 72% to 67% in Q1 and further to 59% in Q2. The company expects to maintain spreads and margins despite the shift to quarterly resets, supported by lower incremental borrowing costs.
- The overall cost of borrowing at the end of Q2FY26 was 7.29%. The highest bank borrowing cost is 7.1% for long-term loans and below 7% for short-term/WCDL loans. NHB refinance sanction of ₹1,500 crore was received at a blended rate of 6.8%. NHB's 30 bps PLR rate cut (effective July) will benefit floating-rate borrowings over the next two quarters.
- NIM crossed 4% in Q2FY26, with spreads improving from 2.62% in Q1 to 2.79% in Q2. Management guides for a steady NIM of 3.75% and spread of 2.75% going forward, maintaining flexibility to offer competitive rates in Q4.
- For Q2FY26, standalone NIM stood at 4.02%, while H1FY26 combined NIM was 3.83%. The improvement was largely driven by a 100-bps benefit from repo rate cuts across bank borrowings.

Asset quality

- Delinquency declined to ₹3,850 crore, an absolute reduction of ₹130 crore, with improvements across SMA-0, SMA-2, and ₹ NPA segments.
- Credit costs were minimal in Q2, with ₹3 crore of provisioning mainly for portfolio growth rather than delinquencies.
- Management targets further delinquency reduction to around ₹3,750 crore by Q3.

Guidance

- Disbursements in Q3FY26 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 2.75% and NIM of 3.75%.
- Management expect CI ratio to increase to 19–19.5% for FY27 due to IT project cost.
- Delinquency is aimed to be reduced by another ₹100 crore in Q3FY26 to around ₹3750 crore. Credit cost to be lower than original guidance of 15 bps for the year.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Net Interest Inc	405	340	19.1	363	11.5	Healthy NI growth driven by AUM expansion
Reported NIM %	4.0%	3.8%	27 bps	3.6%	38 bps	Decrease in cost of funds aided margins
Other Income	6.3	7.4	-15.5	9.3	-32.7	
Net Total Income	411	347	18.3	372	10.4	
Employee Benefit expense	43	29	49.9	42	3.8	Salary revision undertaken in Q1FY26
Other Operating Expenses	33	31	8.0	27	24.2	
PPP	335	288	16.3	304	10.1	
Provision	3	14	-77.7	26	-88.3	Credit cost at lower end of guidance
PBT	332	274	21.0	278	19.4	
Provision for Tax	80	63	28.0	54	49.1	
PAT	251	211	18.9	224	12.3	
Key Metrics						
GNPA	373	320	16.6	378	-1.3	Asset quality continues to remain steady
NNPA	191	172	11.0	208	-8.2	
Total Loan Book	39657	36591	8.4	38773	2.3	Continued focus on non-home segment
Borrowings	36107	33790	6.9	35489	1.7	

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	3,842	4,173	4,702
Interest Expended	2,231	2,488	2,601	2,913
Net Interest Income	1,259	1,354	1,573	1,789
% growth	24.1	7.5	16.2	13.7
Non Interest Income	35	37	41	46
Net Income	1,293	1,390	1,614	1,835
Employee cost	97	112	173	189
Other operating Exp.	160	126	136	159
Operating Profit	1,036	1,152	1,304	1,487
Provisions	79	76	55	72
PBT	958	1,076	1,250	1,415
Taxes	207	220	275	311
Net Profit	751	856	975	1,104
% growth	20.8	14.0	13.9	13.2
EPS (₹)	56.4	64.3	73.2	82.9

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	73.2	82.9
BV (₹)	326.2	380.5	449.6	527.5
ABV (₹)	315.2	367.5	435.0	510.6
P/E	14.9	13.0	11.4	10.1
P/BV	2.6	2.2	1.9	1.6
P/adj.BV	2.7	2.3	1.9	1.6
Yields & Margins (%)				
Yield on interest earning assets	9.9%	9.9%	9.8%	9.8%
Avg. cost on funds	7.3%	7.4%	7.0%	7.0%
Net Interest Margins	3.6%	3.5%	3.6%	3.7%
Spreads	2.6%	2.4%	2.8%	2.8%
Quality and Efficiency				
Cost / Total net income	22.0%	17.8%	20.6%	20.2%
GNPA%	0.8%	0.9%	0.8%	0.8%
NNPA%	0.4%	0.5%	0.5%	0.5%
RoE (%)	18.8%	18.2%	17.6%	17.0%
RoA (%)	2.2%	2.2%	2.3%	2.3%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	27	27	27	27
Reserves and Surplus	4,317	5,041	5,960	6,998
Networth	4,344	5,067	5,987	7,024
Borrowings	31,863	35,051	39,257	43,968
Other Liabilities & Provisions	379	381	516	578
Total	36,586	40,500	45,760	51,570
Applications of Funds				
Fixed Assets	53	50	53	56
Investments	1,459	2,374	2,560	2,673
Advances	34,553	37,696	42,387	48,280
Other Assets	521	379	761	561
Total	36,586	40,500	45,760	51,570

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	10.7%	10.7%	12.4%	13.4%
Advances	10.8%	9.1%	12.4%	13.9%
Borrowings	9.6%	10.0%	12.0%	12.0%
Total Income	24.1%	7.5%	16.1%	13.7%
Net interest income	24.1%	7.5%	16.2%	13.7%
Operating expenses	45.6%	-7.3%	29.9%	12.5%
Operating profit	19.7%	11.2%	13.2%	14.0%
Net profit	20.8%	14.0%	13.9%	13.2%
Book value	19.1%	16.7%	18.1%	17.3%
EPS	20.8%	14.0%	13.9%	13.2%

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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