

March 15, 2022

Can Fin Homes Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term [@]	11,900	11,900	[ICRA]AA+ (Stable); reaffirmed
Bank facilities – Short term [@]	3,100	2,600	[ICRA]A1+; reaffirmed
Long-term/short-term fund based [@]	-	500	[ICRA]AA+ (Stable)/[ICRA] A1+; reaffirmed
Short-term loan ^{@^}	-	(500) [^]	[ICRA]A1+; reaffirmed
Non-convertible debenture (NCD) programme	3,820	3,820	[ICRA]AA+ (Stable); reaffirmed
Subordinated debt programme	300	300	[ICRA]AA+ (Stable); reaffirmed
Commercial paper	4,500	4,500	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	MAAA (Stable); reaffirmed
Total	23,620.00	23,620.00	

*Instrument details are provided in Annexure-1; ^ Sub limit of Long term/ short term fund based; @ Change in limits

Rationale

The ratings factor in the benefits derived by Can Fin Homes Limited's (CFHL) association with Canara Bank (sponsor bank of CFHL; rated [ICRA]AAA (Stable) for Basel III Tier II Bonds and [ICRA]AA+ (Stable) for Basel III AT-I Bonds) like management support, board-level guidance, shared brand name and healthy financial flexibility. In addition, the ratings continue to factor in the company's established presence in the domestic housing finance market, its experienced management, steady growth in the scale of operations, improving asset quality numbers and healthy profitability metrics. CFHL's focus on the relatively low-risk salaried home loan segment helped it report comfortable asset quality metrics, though the performance of the restructured book remains a monitorable. Home loans accounted for ~90% of its portfolio as on December 31, 2021 with the salaried and professional borrowers segment accounting for ~74% of the home loans.

The company reported gross non-performing assets (GNPAs) of 0.71% and net NPAs (NNPAs) of 0.39% as on December 31, 2021 against 0.91% and 0.61%, respectively, as on March 31, 2021. ICRA also notes that CFHL's outstanding restructured book (including capitalised interest) under the Reserve Bank of India's (RBI) Resolution Framework 1.0 and 2.0 stood at 2.8% of its portfolio as on December 31, 2021. However, ICRA draws comfort from the company's demonstrated ability to manage its asset quality.

CFHL's funding profile remains diversified across debt market instruments (7%), commercial paper (CP; 15%), bank borrowings (53%), National Housing Bank (NHB) refinance (23%) and deposits (2%) as on December 31, 2021. The company's asset-liability management (ALM) mismatch remains a monitorable, given the long-term nature of the asset class with the tenure of home loans ranging from 12-20 years. Further, around 15% of its borrowing as on December 31, 2021 was through CP with a tenure of up to 1 year. Thus, CFHL's ability to roll over/refinance the same in a timely manner is important from a credit perspective. ICRA notes that the risk is partly mitigated by CFHL's policy of maintaining adequate unutilised bank lines as a liquidity buffer and its demonstrated ability in refinancing CP funding.

The ratings also factor in CFHL's moderate capitalisation profile despite some improvement in its gearing to 7.7 times as on December 31, 2021 (7.3 times as on September 30, 2021) from 8.7 times as on March 31, 2020, driven by healthy internal

accruals. The company's ability to maintain its interest spreads given its target segment, profitability, capitalisation, and asset quality in the face of increasing competition would be a monitorable.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from the experience of its management team along with the Stable outlook on the ratings of Canara Bank.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 30% equity stake – CFHL enjoys management support and board-level guidance as it is an associate of Canara Bank, which held a 30% stake in the company as on December 31, 2021. The company's board of directors comprised eight members as on December 31, 2021, including two nominee directors from Canara Bank. ICRA takes comfort from Canara Bank's sizeable stake in CFHL. However, ICRA notes that the company's dependence on Canara Bank for its funding requirements has reduced over the years. Nevertheless, the shared brand name helps CFHL secure funds at competitive rates.

Focus on low-risk salaried home loan segment – CFHL is present in the relatively lower-budget housing loan segment with ~90% of its loan book towards housing loans and the remaining ~10% towards non-housing loans (including top-up loans, staff loans, loan against property, builder loans, etc) as on December 31, 2021. Around 74% of the housing loans pertained to borrowers under the salaried and professional borrower segment as on December 31, 2021. ICRA takes comfort from the company's borrower profile and its presence in the relatively low-risk segment with a reasonable loan-to-value (LTV) ratio of less than 60% on average. Going forward, the company's portfolio mix is expected to remain skewed towards housing loans, which provides comfort.

Comfortable asset quality maintained so far, though it remains a monitorable – CFHL's asset quality indicators remain healthy, though they deteriorated marginally due to the Covid-19 pandemic. It reported GNPA of 0.71% and NNPA of 0.39% as on December 31, 2021 against 0.91% and 0.61%, respectively, as on March 31, 2021. CFHL increased the provision coverage ratio (PCR) on its GNPA to ~45% in December 2021 (~40% in September 2021) from ~33% in March 2021. ICRA notes that the overall NPA levels remain comfortable and are under control, though the performance of the outstanding restructured book of 2.8% (of its total portfolio) remains a monitorable.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with a return on managed assets (RoMA) of 2.2% and a return on net worth (RoNW) of 17.1% in H1 FY2022 against 2.1% and 19.2%, respectively, in FY2021. The profitability is supported by the company's good operating efficiency, stable yields, low borrowing rates and credit costs. In Q2 FY2022, CFHL also wrote back a provision, which helped it to marginally improve the profitability as the credit cost with respect to average managed assets (AMA) was 0.0% in H1 FY2022 against 0.3% in FY2021. CFHL reported a net profit of Rs. 232 crore in H1 FY2022 (Rs. 348 crore in 9M FY2022) against a net profit of Rs. 456 crore in FY2021.

Credit challenges

Moderate leverage levels – Despite an improvement, supported by internal capital accretion, the company's gearing was high at 7.7 times and the capital adequacy was moderate at 24.2% as on December 31, 2021 against 7.4 times and 25.6%, respectively, as on March 31, 2021. ICRA notes that the gearing has declined from 10.5 times as on March 31, 2018. Further, the risk of operating at high gearing is somewhat mitigated by CFHL's presence in the low-risk housing loan segment, wherein the average ticket size is low and most of the borrowers are salaried individuals. The current capital profile seems adequate for the current level of operations. However, from a longer-term and credit perspective, CFHL's ability to fund the growth in a manner that protects its capitalisation and leverage levels, in line with the management's growth plans, would be crucial.

Relatively high ALM gaps; however, adequate unutilised bank lines result in a comfortable liquidity profile – CFHL's asset-liability mismatch remains a monitorable because of the long-term nature of the asset class with the tenure of the home loans

ranging between 12 and 20 years while the funding is through relatively shorter-term borrowings. Around 15% of CFHL's borrowings were through CP with a tenure of up to 1 year as on December 31, 2021. ICRA notes that the risk is partly mitigated by CFHL's policy and demonstrated record of maintaining adequate unutilised bank lines as a liquidity buffer and the refinance of CP funding. Nevertheless, the substantial share of CP in CFHL's funding profile keeps the same a monitorable. CFHL enjoys strong relationships with a diversified lender base and had sizeable undrawn sanctioned lines of around Rs. 4,286 crore as on December 31, 2021.

Liquidity position: Adequate

Given the relatively higher share of short-term borrowings vis-à-vis the long-term nature of the asset class with the tenure of home loans ranging between 12 and 20 years, the company's asset-liability mismatch (provisional) remains adverse. As on December 31, 2021, CFHL had undrawn sanctions of Rs. 4,286 crore with debt obligations (including interest) of Rs. 10,210 crore due from January 2022 to December 2022 and collections (including interest) of Rs. 4,751 crore due over the same period.

ICRA also notes that CFHL has started to maintain some on-book liquidity in the form of investment in high quality liquid assets (HQLA) under the RBI's master direction on Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021. As per the regulation, all deposit-taking housing finance companies (HFCs), irrespective of their asset size, are required to maintain a minimum liquidity coverage ratio (LCR) of 50% in the form of HQLA to survive any acute liquidity stress scenario lasting for 30 days with respect from December 1, 2021 (60% from December 1, 2022). CFHL is complying with this requirement, as indicated by the management.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade CFHL's rating if it is able to demonstrate a steady business scale-up while reporting an improvement in its capitalisation profile and maintaining a good asset quality with GNPA <1%, which is sustained over the long term.

Negative factors – ICRA could revise the outlook to Negative or downgrade the ratings in case of a significant deterioration in CFHL's asset quality or gearing level. Weakening of its liquidity profile or a deterioration in the credit profile of Canara Bank could also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	The ratings factor in ICRA's expectations that Canara Bank would be willing to extend support to CFHL, if needed, given its importance as well as the shared brand name.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

CFHL – promoted by Canara Bank, HDFC Limited and UTI in 1987 – is a deposit-taking HFC registered with NHB. Headquartered in Bengaluru, the company has a presence in 21 states and Union Territories. CFHL reported a loan book of Rs. 25,091 crore as on December 31, 2021. It primarily operates in the affordable housing category. The average ticket size of the loans is less than Rs. 25 lakh with a median tenure of 16 to 20 years and a fixed obligation to income ratio (FOIR) of less than 50%.

CFHL reported a net profit (profit after tax; PAT) of Rs. 348 crore in 9M FY2022 on a loan book of Rs. 25,091 crore as on December 31, 2021 against a PAT of Rs. 456 crore in FY2021 on a loan book of Rs. 22,105 crore as on March 31, 2021.

Key financial indicators (audited)

Can Fin Homes Limited (standalone)	FY2019	FY2020	FY2021	H1 FY2022 [^]	9M FY2022 [§]
Accounting as per	Ind-AS	Ind-AS	Ind-AS	Ind-AS	Ind-AS
Total income (Rs. crore)	1,727	2,030	2,018	919	1,427
Profit after tax (Rs. crore)	297	376	456	232	348
Net worth (Rs. crore)	1,782	2,150	2,610	2,830	2,957 (E)
Gross AUM (Rs. crore)	18,381	20,708	22,105	23,584	25,091
Total managed assets (Rs. crore)	18,829	21,162	22,074	23,798	NA
Return on average managed assets (%)	1.7%	1.9%	2.1%	2.2%	2.0%
Return on net worth (%)	18.2%	19.1%	19.2%	17.1%	15.8%
Gross gearing (times)	9.5	8.7	7.4	7.3	7.7
Gross NPA / gross advances (%)	0.62%	0.76%	0.91%	0.78%	0.71%
Net NPA / net advances (%)	0.43%	0.54%	0.61%	0.47%	0.39%
Solvency (net NPA/net worth)	4.46%	5.20%	5.15%	3.89%	3.28% (E)
CRAR (%)	16.44% [^]	22.28%	25.63%	25.22%	24.18%

Source: Company, ICRA Research; All ratios and values as per ICRA's calculations; E - Estimated

[^] H1 FY2022 values and ratios are as per reviewed financials and might change subject to notes to accounts

[§] Ratios for 9M FY2022 are as per CFHL's investors' presentation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				Mar-15-2022	Nov-18-2021	Aug-20-2021	Nov-20-2020	Oct-22-2020	Sep-27-2019	May-6-2019	Oct-22-2018	
1	Bank lines – LT	Long term	11,900	7,193.64	[ICRA]AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
2	Bank lines – ST	Short term	2,600 [^]	2,600 [^]	[ICRA]A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Long-term/short-term fund based	Long term/short term	500	500 [^]	[ICRA]AA+ (Stable) / [ICRA]A1+							
4	Short-term loan	Short term	(500)	(500) [^]	[ICRA]A1+							
5	Sub-debt	Long term	300	100	[ICRA]AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)

6	NCD	Long term	3,820	722	[ICRA]AA+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]A A+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
7	Commercial papers	Short term	4,500	3,400*	[ICRA]A1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	Fixed deposits	Medium term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA &	MAAA &	MAAA (Stable)	MAAA (Negative)

& - Rating under Watch with Developing Implications; ^ Reflects sanctioned amount

*CP amount outstanding on December 31, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT – Bank facilities	Simple
ST – Bank facilities	Simple
Long-term/short-term fund based	Simple
Short-term fund based	Simple
NCD programme	Simple
Subordinated debt programme	Simple
Commercial paper	Very Simple
Fixed deposits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount (Rs. crore)	Rating
NA	Term Loan 1	Sep-21-2017	6.70%	10 years	900.00	[ICRA]AA+ (Stable)
NA	Term Loan 2	Apr-12-2016	6.14%	10 years	377.20	[ICRA]AA+ (Stable)
NA	Term Loan 3	Apr-23-2018	6.30%	10 years	774.97	[ICRA]AA+ (Stable)
NA	Term Loan 4	Dec-31-2018	6.09%	10 years	758.92	[ICRA]AA+ (Stable)
NA	Term Loan 5	Sep-13-2019	6.14% & 6.65%	10 years	825.00	[ICRA]AA+ (Stable)
NA	Term Loan 6	Mar-9-2021	6.65%	10 years	10.00	[ICRA]AA+ (Stable)
NA	Term Loan 7	Jan-20-2018	5.65%	7 years	160.71	[ICRA]AA+ (Stable)
NA	Term Loan 8	May-16-2018	4.46%	7 years	145.71	[ICRA]AA+ (Stable)
NA	Term Loan 9	Mar-22-2019	5.50%	6 years	305.56	[ICRA]AA+ (Stable)
NA	Term Loan 10	Nov-29-2019	5.5% & 5.25%	6 years	368.06	[ICRA]AA+ (Stable)
NA	Term Loan 11	Jul-27-2020	5.70% & 5.75%	4 years	801.97	[ICRA]AA+ (Stable)
NA	Term Loan 12	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 13	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 14	Jun-11-2019	5.99%	7 years	178.57	[ICRA]AA+ (Stable)
NA	Term Loan 15	Jul-20-2019	5.99%	7 years	60.70	[ICRA]AA+ (Stable)
NA	Term Loan 16	Dec-27-2019	5.99%	7 years	82.14	[ICRA]AA+ (Stable)
NA	Term Loan 17	Sep-21-2020	5.99%	7 years	232.14	[ICRA]AA+ (Stable)
NA	Term Loan 18	Sep-27-2019	6.65%	10 years	9.61	[ICRA]AA+ (Stable)
NA	Term Loan 19	Sep-19-2020	5.55%	3 years	252.08	[ICRA]AA+ (Stable)
NA	Term Loan 20	Sep-19-2020	5.55%	10 years	682.50	[ICRA]AA+ (Stable)
NA	<i>Unallocated</i>				4,706.36	[ICRA]AA+ (Stable)
NA	CC/WCDL – 1	Dec-2021	MCLR + 5 bps	1 year	500	[ICRA]AA+ (Stable)/ [ICRA] A1+
NA	(STL – 1)	Dec-2021	MCLR + 5 bps	1 year	(500) ¹	[ICRA] A1+
NA	STL – 2	Nov-2021	To be decided at availment	1 year	1,000	[ICRA] A1+
NA	OD /WCDL – 3	Aug-29-2018	6.90%, 6.20%	NA	1,000.00	[ICRA]A1+
NA	OD – 4	NA	7.05%	NA	100.00	[ICRA]A1+
NA	STL – 5	Mar-5-2021	6.00%	Mar-4-36 ²	500.00	[ICRA]A1+
INE477A07217	NCD	Nov-15-2016	7.77%	Nov-15-2021	122	[ICRA]AA+ (Stable)
INE477A07241	NCD	May-18-2017	7.89%	May-18-2022	600	[ICRA]AA+ (Stable)
Unallocated	NCD	NA	NA	NA	3,098	[ICRA]AA+ (Stable)
INE477A08025	Sub-debt	Mar-12-2014	8.94%	Mar-12-2024	100	[ICRA]AA+ (Stable)
Unallocated	Sub-debt	NA	NA	NA	200	[ICRA]AA+ (Stable)
INE477A14BE5	CP Programme	Feb-8-21	4.99%	Feb-8-22	500	[ICRA] A1+

¹ Sub-limit of CC/WCDL

² Payable within 1 year from date of disbursement

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount (Rs. crore)	Rating
INE477A14BF2	CP Programme	Feb-18-21	4.89%	18-Jan-18-22	500	[ICRA] A1+
INE477A14BH8	CP Programme	Mar-12-21	4.85%	Mar-11-22	400	[ICRA] A1+
INE477A14BI6	CP Programme	Mar-16-21	4.85%	Mar-16-22	250	[ICRA] A1+
INE477A14BL0	CP Programme	Aug-30-21	4.19%	Jun-20-22	350	[ICRA] A1+
INE477A14BM8	CP Programme	Sep-15-21	4.18%	May-2-22	350	[ICRA] A1+
INE477A14BO4	CP Programme	Oct-1-21	4.77%	Sep-27-22	500	[ICRA] A1+
INE477A14BN6	CP Programme	Oct-1-21	4.25%	Apr-8-22	300	[ICRA] A1+
INE477A14BP1	CP Programme	Nov-23-21	4.86%	Aug-31-22	250	[ICRA] A1+
Not issued	CP Programme	NA	NA	NA	1,100	[ICRA] A1+
NA	Fixed Deposit	-	-	-	-	MAAA (Stable)

Source: Company

Amounts for term loans outstanding as on July 31, 2021

Amounts for OD/WCDL/STL are sanctioned amounts as on July 31, 2021

CP outstanding as on December 31, 2021

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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