

March 14, 2023

Can Fin Homes Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities – Long term/Short term	15,000	15,000	[ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
NCD programme	3,098	3,098	[ICRA]AA+ (Stable); reaffirmed
Subordinated debt programme	300	300	[ICRA]AA+ (Stable); reaffirmed
Commercial paper	4,500	4,500	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	[ICRA]AA+ (Stable); reaffirmed
Total	22,898	22,898	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in the benefits derived by Can Fin Homes Limited (CFHL) by virtue of its 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 board-level guidance, shared brand name and 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, comfortable asset quality numbers and healthy profitability metrics. CFHL's focus on the relatively low-risk salaried (and professional) home loan segment has 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, 2022, with the salaried and professional borrowers segment accounting for ~74% of the home loans.

CFHL grew its assets under management (AUM) at an annualised rate of ~17% in 9M FY2023 to Rs. 30,115 crore as on December 31, 2022. Further, it has consistently maintained its gross non-performing assets (GNPAs) below 1% and hence its credit cost has also remained low. CFHL reported GNPAs of 0.6% as on December 31, 2022 compared to 0.6% in March 2022 (0.9% in March 2021). Nonetheless, the performance of its restructured book (2.1% of AUM as on December 31, 2022) remains monitorable as a large part of same is still under moratorium.

CFHL's funding profile remains diversified across debt market instruments (15%), commercial paper (CP; 9%), bank borrowings (51%), National Housing Bank (NHB) refinance (23%) and deposits (2%) as on December 31, 2022. 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 9% of its borrowing as on December 31, 2022 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.

CFHL's ratings are, however, constrained by its moderate capitalisation profile with the gearing at 7.9 times as on December 31, 2022 (8.0 times as on March 31, 2022) compared to 7.4 times as on March 31, 2021, given the relatively higher growth in its AUM vis-à-vis internal accrual generation. 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 remain a monitorable.

The Stable outlook on the rating reflects ICRA's opinion that the company will be able to maintain steady credit profile, while expanding its scale, aided by its experienced management team.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 29.99% equity stake – CFHL enjoys board-level guidance as it is an associate of Canara Bank, which held a 29.99% stake in the company as on December 31, 2022. The company's board of directors comprised eight members as on December 31, 2022, including two nominee directors from the bank. ICRA takes comfort from Canara Bank's sizeable stake in CFHL, though it notes that the company's dependence on Canara Bank for its funding requirements has declined 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, 2022. Around 74% of the housing loans pertained to borrowers under the salaried and professional borrower segment as on December 31, 2022. 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. Going forward, the company's portfolio mix is expected to remain skewed towards housing loans, which provides comfort.

Comfortable asset quality – CFHL's asset quality indicators remain healthy with reported GNPA's of 0.6% and net NPAs (NNPA) of 0.3% as on December 31, 2022 vis-a-vis 0.6% and 0.3%, respectively, as on March 31, 2022 (0.9% and 0.6%, respectively, as on March 31, 2021). CFHL's provision coverage ratio (PCR) on its GNPA's also remains adequate at ~51% in December 2022 as against 53% as on March 31, 2022 (~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 2.1% (of the 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 2.0%¹ and a return on average net worth (RoNW)¹ of 18.4% in 9M FY2023 against 1.9% and 16.6%, respectively, in FY2022. The profitability is supported by the company's good operating efficiency, stable yields, and low borrowing rates and credit costs. In 9M FY2023, CFHL's credit cost remained low at 0.1% of average managed assets (AMA; estimated) supported by the healthy asset quality. ICRA notes that CFHL has increased its lending rate. As ~99% of its loan book is at a floating rate (with annual reset option), the yield increased in 9M FY2023 and was mostly in line with the increase in the blended cost of borrowing. Hence, the lending spread has largely remained stable.

Credit challenges

Moderate gearing level – CFHL's gearing remains moderate at 7.9 times as on December 31, 2022 against 8.0 times in March 2022 (7.4 times in March 2021). ICRA notes that the gearing has declined from 10.5 times as on March 31, 2018, but remains higher than most peers. The risk of operating at a high gearing is partially 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 and professional individuals. CFHL reported a capital-to-risk weighted assets ratio (CRAR) of 23.5% as on December 31, 2022 against 23.3% in March 2022 (25.6% in March 2021). ICRA believes CFHL will need to raise capital to reduce its gearing and further improve its capitalisation levels.

Relatively high ALM gaps; however, sufficient unutilised bank lines lead to adequate 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 9% of CFHL's borrowings were through CP with a tenure of up to 1 year as on December 31, 2022. 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. CFHL enjoys strong relationships with a diversified lender base and had sizeable undrawn sanctioned lines (working capital lines and term loans) of around Rs. 7,642 crore as on December 31, 2022.

¹ Profitability ratios for CFHL for 9M FY2023 are based on ICRA's estimates

Environmental and social risks

Environmental – While housing finance companies (HFCs) like CFHL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the borrowers, to which such HFCs have an exposure, face livelihood disruption because of physical climate adversities, it could translate into credit risks for the HFCs. However, such risk is not material for CFHL as it benefits from portfolio diversification.

Social – With regard to social risks, data security and customer privacy are among the key sources of vulnerability for HFCs, as any material lapse could be detrimental to their reputation and invite regulatory censure. CFHL has not faced any material lapses over the years, which highlights its sensitivity to such risks. The company’s lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

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, 2022, CFHL had on-book liquidity (including liquid investments in Government securities) of Rs. 1,762 crore and undrawn sanctions of Rs. 7,642 crore against debt obligations (including interest) of Rs. 10,888 crore due from January 2023 to December 2023. For the same period, CFHL’s collections (including interest) of Rs. 6,408 crore are also due.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade CFHL’s rating if it is able to demonstrate a steady scale-up in the business while reporting an improvement in its capitalisation profile and maintaining good asset quality with GNPA of less than 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’S credit rating methodology for NBFCs Rating approach – Implicit support from parent/group
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 housing finance company (HFC) registered with National Housing Bank (NHB). Headquartered in Bengaluru, the company has a presence in 21 states and Union Territories. CFHL reported a loan book of Rs. 30,115 crore as on December 31, 2022. It primarily provides relatively-smaller-ticket-size housing loans to salaried & professional and self-employed non-professional (SENP) borrowers. 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. 455 crore in 9M FY2023 on a loan book of Rs. 30,115 crore as on December 31, 2022 against a PAT of Rs. 471 crore in FY2021 on a loan book of Rs. 26,711 crore as on March 31, 2022.

Key financial indicators (audited)

Can Fin Homes Limited	FY2021	FY2022	9M FY2023*
Account as per	Ind AS	Ind AS	Ind AS
Total income	2,018	1,989	1,979
Profit after tax	456	471	455
Net worth	2,610	3,067	3,521 (E)
Loan book	22,105	26,711	30,115
Total assets	22,227	28,215	NA
Return on average managed assets	2.1%	1.9%	2.0% (E)
Return on average net worth	19.2%	16.6%	18.4% (E)
Managed gearing (times)	7.4	8.0	7.9
Gross NPA	0.9%	0.6%	0.6%
Net NPA	0.6%	0.3%	0.3%
Solvency (Net NPA/Net worth)	5.2%	2.6%	2.5%
CRAR	25.6%	23.3%	23.5%

Source: Company, ICRA Research; * Limited review numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

E – ICRA's estimate; Estimated net worth for Dec 2022 = Net worth as on March 31, 2022 + Total comprehensive income for 9M FY2023; This value might change subject to availability of schedules to account

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years								
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020	
				Mar-14-2023	Sep-19-2022	Jun-09-2022	Mar-15-2022	Nov-18-2021 Aug-20-2021	Nov-20-2020 Oct-22-2020	Sep-27-2019	May-6-2019	
1	Term loans	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]AA+ &	[ICRA]A+ (Stable)
2	Bank lines – ST	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Long-term/short-term fund based	-	-	-	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA+ (Stable)/ [ICRA] A1+					
4	Short-term loan	-	-	-	-	[ICRA]A1+	[ICRA]A1+					
5	Long-term/short-term fund-based bank facilities	15,000	13,983.15	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA+ (Stable)/ [ICRA] A1+							
6	Sub-debt	300	100	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]AA+ &	[ICRA]A+ (Stable)
7	NCD	-	-	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]AA+ &	[ICRA]A+ (Stable)
8	NCD	3,098	2,660	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]AA+ &	[ICRA]A+ (Stable)
9	Commercial papers	4,500	2,800	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Fixed deposits	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA &	MAAA &	MAAA (Stable)

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based bank facilities – Long term/Short term	Simple
NCD programme	Simple
Subordinated debt programme	Simple
Commercial paper	Very Simple
Fixed deposits	Very Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based bank facilities – Long term/ Short term	NA	NA	NA	15,000.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
INE477A07282	NCD	Feb-27-20	7.85%	May-27-23	250	[ICRA]AA+ (Stable)
INE477A07290	NCD	Dec-24-20	6.25%	Dec-24-23	275	[ICRA]AA+ (Stable)
INE477A07308	NCD	Nov-10-21	6.10%	Feb-10-25	275	[ICRA]AA+ (Stable)
INE477A07316	NCD	Feb-25-22	6.70%	Feb-25-25	500	[ICRA]AA+ (Stable)
INE477A07324	NCD	Mar-10-22	6.80%	Jun-10-25	700	[ICRA]AA+ (Stable)
INE477A07332	NCD	Mar-25-22	6.80%	Jun-25-25	260	[ICRA]AA+ (Stable)
INE477A07340	NCD	Mar-30-22	6.85%	Jun-30-25	400	[ICRA]AA+ (Stable)
Not issued yet	NCD	NA	NA	NA	438	[ICRA]AA+ (Stable)
INE477A08025	Sub-debt	Mar-12-14	8.94%	Mar-12-24	100	[ICRA]AA+ (Stable)
Not issued yet	Sub-debt	NA	NA	NA	200	[ICRA]AA+ (Stable)
INE477A14BV9	CP programme	Apr-07-22	5.10%	Mar-08-23	500	[ICRA]A1+
INE477A14BZ0	CP programme	Nov-10-22	7.63%	Mar-23-23	500	[ICRA]A1+
INE477A14CA1	CP programme	Dec-02-22	7.80%	Jun-23-23	600	[ICRA]A1+
INE477A14CB9	CP programme	Jan-03-23	6.99%	Mar-30-23	500	[ICRA]A1+
INE477A14CC7	CP programme	Jan-27-23	7.46%	Apr-28-23	250	[ICRA]A1+
INE477A14CC7	CP programme	Feb-01-23	7.46%	Apr-28-23	500	[ICRA]A1+
Not issued yet	CP programme	NA	NA	NA	1,650	[ICRA]A1+
NA	Fixed deposit	-	-	-	-	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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