December 22, 2023

Can Fin Homes Limited: Long-term rating upgraded, and short-term rating reaffirmed; rated amount enhanced

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	15,000.00	15,000.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed
	0.00	5,000.00	[ICRA]AAA (Stable)/ [ICRA]A1+; assigned
NCD programme	2,848.00	2,848.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable)
	250.00	0.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable) and withdrawn
Subordinated debt programme	300.00	300.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable)
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	[ICRA]AAA (Stable); upgraded from [ICRA]AA+ (Stable)
Total	**22,898.00**	**27,648.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating action factors in Canara Bank's (rated [ICRA]AAA (Stable*)* for Basel III Tier II bonds and [ICRA]AA+ (Stable) for Basel III AT-I bonds) stated position that Can Fin Homes Limited (CFHL) is a core and strategic investment for the bank, which currently does not plan to divest its shareholding in the company. Canara Bank, the promoter, holds a stake of about 30% in CFHL. ICRA notes that the bank was exploring the divestment of its stake in CFHL in the recent past; however, the same was dropped subsequently. CFHL further benefits from the strong managerial and operational linkages with Canara Bank, the shared brand name, funding support in the form of credit limits on an ongoing basis, etc. CFHL's board has three nominee directors from the bank, including the Managing Director and Chief Executive Officer (CEO) of Canara Bank. Further, two members of the company's senior management team, including its Deputy Managing Director, are on deputation from the bank. The bank's senior management interacts regularly, in terms of risk and monitoring oversight, providing guidance on strengthening various risk and compliance aspects. Canara Bank also provides technology support as required.

The ratings continue to factor in the company's established presence in the domestic housing finance market, comfortable asset quality numbers and healthy profitability metrics. CFHL reported assets under management (AUM) of Rs. 31,563.0 crore as on March 31, 2023, up 18.0% year-on-year (YoY); the portfolio grew further by 15.7% YoY in H1 FY2024 to Rs. 33,359.0 crore as of September 2023.

CFHL's focus on the relatively low-risk salaried (and professional) home loan segment has helped it report comfortable asset quality metrics. Housing loans (including commercial real estate residential loans) accounted for 89.0% of its portfolio as on September 30, 2023, with the salaried and professional borrowers segment accounting for 72.0% of the housing loans. The company is expected to continue with a similar mix, going forward as well. CFHL has consistently maintained its gross stage assets below 1% and hence its credit cost has also remained low. The gross stage 3 (GS3) assets stood at 0.8% as of September 2023 and 0.6% as of March 2023 (0.6% as of March 2022). Supported by the low operating and credit costs, CFHL's profitability indicators have remained healthy with a return on managed assets (RoMA) of 1.9-2.0% during FY2020-FY2023; RoMA stood at 2.0% (annualised) in H1 FY2024.

ICRA notes that CFHL's gearing has declined steadily over the last five years (10.5 times as on March 31, 2018) but remains higher than most peers; it stood at 7.7 times as on September 30, 2023 (8.0 times as on March 31, 2023, as well as March 31, 2022). The risk of operating with a high gearing is partially mitigated by the company's presence in the low-risk mortgage loan segments with a track record of very modest loan losses. CFHL reported a capital-to-risk weighted assets ratio (CRAR) of 23.8% as on September 30, 2023, against 23.1% as of March 31, 2023 (23.2% as of March 31, 2022). The gearing is expected to remain below 8 times, going forward, and CFHL's internal accruals shall remain adequate to meet its near-to-medium-term growth plans.

The Stable outlook on the rating reflects ICRA's opinion that CFHL would benefit from its association and support from Canara Bank. The company is also expected to have stable asset quality and leverage as well as a healthy earnings profile, going forward.

ICRA has upgraded the long-term rating for the Rs. 250.00-crore non-convertible debenture (NCD) programme to [ICRA]AAA (Stable) from [ICRA]AA+ (Stable) and has subsequently withdrawn the rating as the instrument has been fully redeemed with no amount outstanding against the same. The rating was withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 29.99% equity stake – CFHL has been promoted by Canara Bank, which has a 29.99% stake in the company. ICRA notes Canara Bank's stated position that CFHL is a core and strategic investment for the bank, which currently does not plan to divest its shareholding in the company. CFHL enjoys strong managerial and operational linkages with the bank. Its board comprised nine members as on September 30, 2023, including three nominee directors from the bank. Further, two members of CFHL's senior management team, including its Deputy Managing Director, are on deputation from the bank. Canara Bank's senior management interacts regularly, in terms of risk and monitoring oversight, providing guidance on strengthening various risk and compliance aspects; the bank also provides technology support as required. ICRA also notes that the shared brand name helps CFHL secure funds at competitive rates. Moreover, the company has borrowing limits from the bank on an ongoing basis, which would support its funding and liquidity requirement to an extent.

ICRA takes note of the process improvement undertaken by CFHL, post the employee-related frauds of ~Rs. 39 crore, reported by its Ambala branch in Q1 FY2024. As mitigating steps, the company has strengthened its process by implementing a centralised disbursement & reconciliation system and establishing a maker checker system for verification of documents at the head office before sending the disbursement request to the bank. Further, strategic initiatives have been proposed, including augmentation of the fraud control unit and an online reconciliation system.

Comfortable asset quality – CFHL reported GS3 assets of 0.8% and net stage 3 (NS3) assets of 0.4% as on September 30, 2023 vis-à-vis 0.6% and 0.3%, respectively, as on March 31, 2023 as well as March 31, 2022 (0.9% and 0.6%, respectively, as on March 31, 2021). The increase in the GS3 percentage between March 2023 and September 2023 was largely on account of the slippages from the restructured portfolio, which came out of moratorium in Q4 FY2023 and Q1 FY2024. Nevertheless, the overall delinquency levels remain comfortable and under control. The standard restructured book stood at 1.8% as of September 2023 and CFHL carried provisions of 11.1% on this book. ICRA notes that the company has historically incurred low write-offs (write-offs have been negligible between FY2018 and FY2023). Further, CFHL's provision coverage ratio (PCR) on its GS3 assets remains adequate at ~44% as on September 30, 2023, against 52% as on March 31, 2023 as well as March 31, 2022(~33% in March 2021).

CFHL is present in the relatively lower budget housing loan segment with ~89% of its loan book towards housing loans (including commercial real estate residential loans) and the remaining ~11% towards non-housing loans (including top-up loans, staff loans, loan against property, builder loans, etc) as on September 30, 2023. Around 72% of the housing loans pertained to individuals from the salaried and professional borrowers' segment as on September 30, 2023. 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, CFHL's portfolio mix is expected to remain skewed towards housing loans, which provides comfort.

Good operating efficiency and low credit costs support profitability – CFHL's profitability has remained healthy with RoMA of 2.0% and a return on average net worth (RoNW) of 18.0% in H1 FY2024 (2.0% and 18.5%, respectively, in FY2023) vis-à-vis 1.9% and 16.6%, respectively, in FY2022. The net interest margin remained stable at 3.3% in FY2022 as well as FY2023 and improved to 3.5% in H1 FY2024 on account of the hike in the interest rate for the lending portfolio and the subsequent loan repricing. The company expects to maintain a net interest margin of 3.5% on a steady-state basis in the near-to-medium term. Further, the cost-to-income ratio remained under control at 17.2% in FY2023 and 15.6% in H1 FY2024. CFHL's credit cost was also modest at 0.5% of average managed assets (AMA; estimated) in H1 FY2024 and 0.1% in FY2023, supported by the healthy asset quality.

Credit challenges

High gearing level, though limited loan quality risk and good internal generation provide support to capital profile – CFHL's gearing stood at 7.7 times as on September 30, 2023, against 8.0 times in March 2023 as well as March 2022 (7.4 times in March 2021). ICRA notes that the gearing has declined steadily over the last five years (10.5 times as on March 31, 2018) but remains higher than most peers. Going forward, the company is expected to maintain its leverage (managed gearing) below 8 times. Further, ICRA expects internal accruals to be adequate to meet the medium-term growth plans. Nevertheless, CFHL is expected to raise capital, in case of higher-than-anticipated growth in the future, to maintain its leverage at the desired level.

The risk of operating at a high leverage is partially mitigated by CFHL's presence in the low-risk housing loan segment, wherein the borrowers are salaried and professional individuals. As of September 2023, 72% of the outstanding loan book comprised exposure to the salaried and professional borrowers' segment (74% as of September 2022); ICRA expects the company to operate in a similar segment in the near to medium term. CFHL reported a CRAR of 23.8% as on September 30, 2023 against 23.1% as of March 31, 2023 (23.2% as of March 31, 2022).

Environmental and social risks

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, the same could translate into credit risks for the HFCs. However, such risk is not material for CFHL as it benefits from portfolio diversification.

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. ICRA also noted that the company has strengthened its internal processes following the recent instances of fraud at one of its branches.

Liquidity position: Adequate

The company's Asset Liability Management profile is characterised by negative cumulative mismatches (without factoring in committed lines) across maturity buckets in the less than 1-year bucket as of September 30, 2023, given the long-term nature of the asset class with the tenure of home loans ranging between 12 and 20 years while the borrowings are relatively short-tenured. However, CFHL had on-book liquidity (including liquid investments in government securities) of Rs. 1,762.9 crore as of September 2023 and undrawn sanctions of Rs. 9,042.9 crore against debt obligations of Rs. 9,401.4 crore due during October 2023 to March 2024. As of September 2023, the company had maintained a liquidity coverage ratio of ~118%.

The company's funding profile remains fairly diversified. As of September 2023, 57.0% of the overall funding comprised borrowings from banks, followed by National Housing Bank (19.0%), NCDs (16.0%), commercial paper (7.0%) and deposits (1.0%).

Rating sensitivities

Positive factors – Not applicable

Negative factors – A significant deterioration in CFHL's asset quality or gearing level would lead to a rating downgrade. Weakening in the credit profile of Canara Bank, a change in the bank's support philosophy towards CFHL or a stake sale could also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Rating Approach – Implicit Support from Parent or Group Policy on Withdrawal of Credit Ratings
Parent/Group support	The ratings factor in ICRA's expectation 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 is a deposit-taking housing finance company (HFC) registered with National Housing Bank (NHB). Canara Bank holds a 29.99% stake in CFHL. Headquartered in Bengaluru, the company has a presence in 21 states and Union Territories. CFHL reported a loan book of Rs. 32,944 crore as on September 30, 2023. It primarily provides relatively smaller ticket-sized 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 an income-to-instalment ratio of less than 65%. CFHL reported a net profit (profit after tax; PAT) of Rs. 341.5 crore in H1 FY2024 on a loan book of Rs. 33,359 crore as on September 30, 2023, against a PAT of Rs. 621.2 crore in FY2023 on a loan book of Rs. 31,563 crore as on March 31, 2023.

Key financial indicators (audited)

Can Fin Homes Limited	FY2021	FY2022	FY2023	H1 FY2024
Account as per	IndAS	IndAS	IndAS	IndAS
Total income	2,018.1	1,987.8	2,742.1	1,695.1
Profit after tax	456.1	471.1	621.2	341.5
Net worth	2,609.8	3,066.6	3,647.3	3,961.3
***Loan book**	21,891.5	26,378.1	31,193.3	32,944.0
Total assets	22,073.7	27,944.3	33,070.5	34,885.2
Return on average managed assets	2.1%	1.9%	2.0%	2.0%
Return on average net worth	19.2%	16.6%	18.5%	18.0%
Managed gearing (times)	7.4	8.0	8.0	7.7
Gross stage 3 (%)	0.9%	0.6%	0.6%	0.8%
Net stage 3 (%)	0.6%	0.3%	0.3%	0.4%
Solvency (Net NPA/Net worth)	5.2%	2.6%	2.3%	3.6%
CRAR	25.6%	23.2%	23.1%	23.8%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *loan book net of provisions and processing fees*
Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
					Dec-22-2023	Mar-14-2023	Sep-20-2022	Jun-09-2022	Mar-15-2022	Nov-18-2021 Aug-20-2021	Nov-20-2020	Oct-22-2020
1	Term loans	Long term	-	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &
2	Bank lines – ST	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Long-term/short-term fund based	Long term/ short term	-	-	-	-	-	[ICRA]AA+ (Stable)/ [ICRA] A1+	[ICRA]AA+ (Stable)/ [ICRA] A1+			
4	Short-term loan	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1+			
5	Long-term/short-term fund-based bank facilities	Long term/ short term	20,000.00	14,212.25	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+					
6	Sub-debt	Long term	300.00	100.00	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &
7	NCD	Long term	250.00	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &
8	NCD	Long term	2,848.00	2,410.00	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &
9	Commercial paper	Short term	4,500.00	2,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
10	Fixed deposits	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA &

&: 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	Sep-07-17 to Dec-14-23	NA	Dec-22-23 to Dec-31-32	20,000.0	[ICRA]AAA (Stable)/ [ICRA]A1+
INE477A07282	NCD	Feb-27-20	7.85%	May-27-23	250.0	[ICRA]AAA (Stable); withdrawn
INE477A07290	NCD	Dec-24-20	6.25%	Dec-24-23	275.0	[ICRA]AAA (Stable)
INE477A07308	NCD	Nov-10-21	6.10%	Feb-10-25	275.0	[ICRA]AAA (Stable)
INE477A07316	NCD	Feb-25-22	6.70%	Feb-25-25	500.0	[ICRA]AAA (Stable)
INE477A07324	NCD	Mar-10-22	6.80%	Jun-10-25	700.0	[ICRA]AAA (Stable)
INE477A07332	NCD	Mar-25-22	6.80%	Jun-25-25	260.0	[ICRA]AAA (Stable)
INE477A07340	NCD	Mar-30-22	6.85%	Jun-30-25	400.0	[ICRA]AAA (Stable)
Proposed	NCD	NA	NA	NA	438.0	[ICRA]AAA (Stable)
INE477A08025	Sub-debt	Mar-12-14	8.94%	Mar-12-24	100.0	[ICRA]AAA (Stable)
Not issued yet	Sub-debt	NA	NA	NA	200.0	[ICRA]AAA (Stable)
INE477A14CP9	CP programme	Oct-10-23	7.10%	Dec-26-23	1,000.0	[ICRA]A1+
INE477A14CQ7	CP programme	Nov-03-23	7.36%	Jan-31-24	1,000.0	[ICRA]A1+
Proposed	CP programme	NA	NA	NA	2,500.0	[ICRA]A1+
NA	Fixed deposit	-	-	-	-	[ICRA]AAA (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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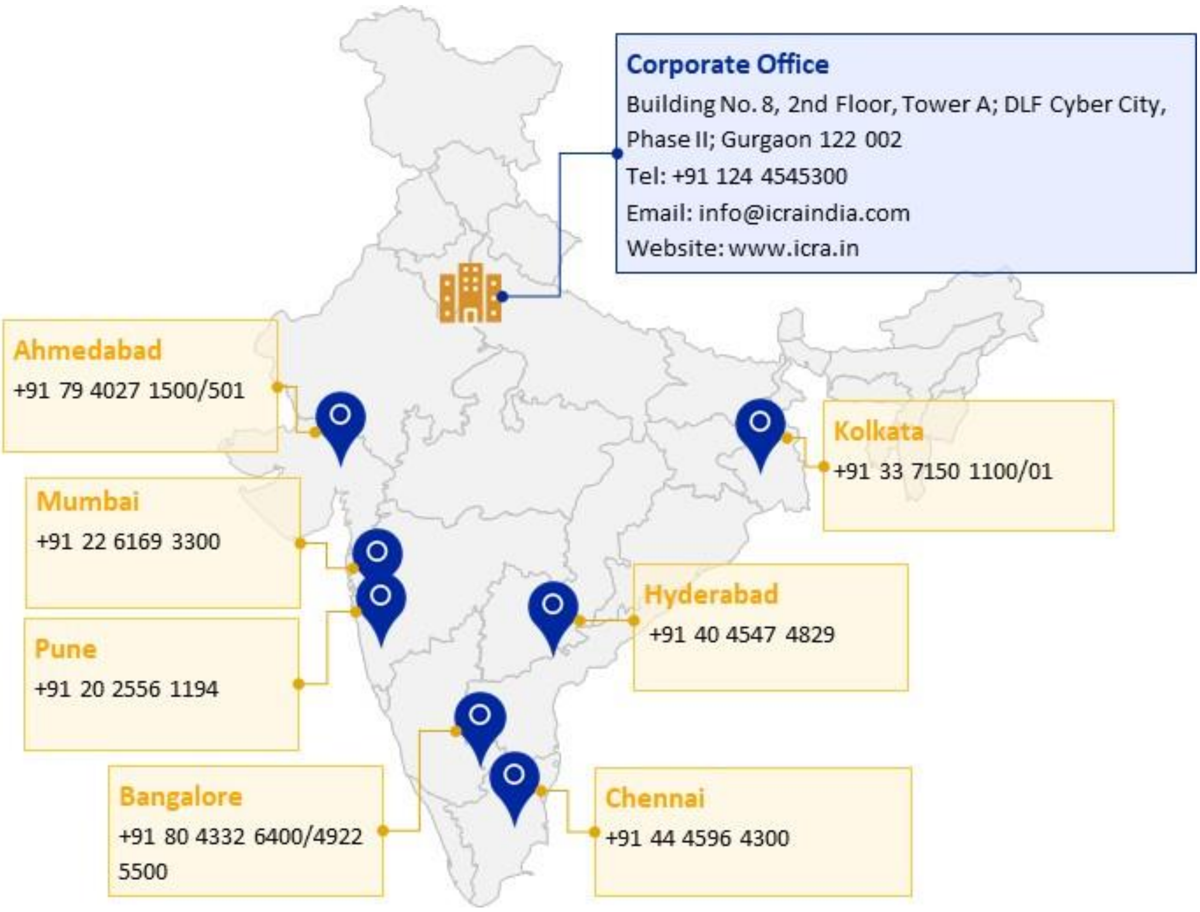

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