December 30, 2024

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	27,750.00	27,750.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
NCD programme	4,573.00	4,573.00	[ICRA]AAA (Stable); reaffirmed
Subordinated debt programme	200.00	200.00	[ICRA]AAA (Stable); reaffirmed
	100.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Fixed deposits	750.00	750.0	[ICRA]AAA (Stable); reaffirmed
Total	**37,873.00**	**37,773.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation continues to factor in the strong parentage of Can Fin Homes Limited (CFHL), its comfortable asset quality and healthy profitability on a sustained basis. Canara Bank[1], holding a stake of about 30%, has a stated position that CFHL is a core and strategic investment for it. The company also benefits from the strong managerial and operational guidance from Canara Bank, a shared brand name, and ongoing funding support in the form of credit limits on an arm's length basis. CFHL reported assets under management (AUM) of Rs. 34,999.0 crore as on March 31, 2024, up 9.6% year-on-year (YoY); the portfolio grew further by 5.8% YoY in H1 FY2025 to Rs. 36,591.0 crore as of September 2024.

CFHL's focus on the relatively low-risk salaried (and professional) home loan segment has helped it report comfortable asset quality metrics. It has consistently maintained its gross stage assets below 1% and its credit cost has also remained low as a result. The gross stage 3 (GS3) assets stood at 0.9% as of September 2024 and 0.8% as of March 2024. Supported by the low operating and credit costs, CFHL's profitability indicators have remained healthy with a return on managed assets (RoMA) of 1.9-2.1% during FY2020-FY2024; it stood at 2.1% (annualised) in H1 FY2025.

The ratings continue to factor in CFHL's high gearing level, which stood at 7.2 times as on September 30, 2024 (7.3 times as on March 31, 2024). While the gearing has steadily reduced over the last five years (10.5 times as on March 31, 2018), it remains higher than most peers. 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. The gearing is expected to stay below 8 times, going forward, and CFHL's internal accruals shall remain adequate to meet its near-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, with the leverage remaining under control, and a healthy earnings profile.

ICRA has reaffirmed and simultaneously withdrawn the long-term rating for the Rs. 100.00-crore subordinate non-convertible debenture (NCD) programme 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.

[1] Rated [ICRA]AAA (Stable) for Basel III Tier II bonds and [ICRA]AA+ (Stable) for Basel III AT-I bonds

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 29.99% equity stake – CFHL enjoys board-level guidance from Canara Bank, given its position as an associate of the bank with a 29.99% stake in the company as of September 2024. The company's board of directors comprises nine members, with three nominee directors from the bank including the bank's Managing Director and Chief Executive Officer (CEO). Further, two members of the company's senior management team, including its Deputy Managing Director, are on deputation from the bank. CFHL has borrowing limits from Canara Bank, which would support its funding and liquidity requirement to an extent; its dependence on the bank has, however, declined over the years. The shared brand name helps CFHL secure funds at competitive rates from other lenders. In terms of risk and monitoring oversight, the bank conducts quarterly monitoring visits and also provides guidance on strengthening various risk and compliance aspects.

Comfortable asset quality – CFHL is present in the relatively lower risk housing loan segment with housing loans comprising ~77% of its loan book as on September 30, 2024 (87% including commercial real estate residential loans) and non-housing loans (including top-up loans, staff loans, loan against property, builder loans, etc) for the balance (~23%). The salaried segment accounts for around 71% of the overall loans. 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.

ICRA notes that CFHL is developing its information technology (IT) infrastructure for the Loan Origination System (LOS) and Loan Management System (LMS), which is expected to enhance its operational efficiency. It is also pursuing significant IT projects to improve its technology platforms, thereby advancing analytics and the customer relationship management processes. Additionally, in response to fraud incidents in the past, the company has implemented several enhancements including a centralised disbursement and reconciliation system, a quarterly cluster-level risk management system, and a maker-checker process for document verification at the head office before submitting disbursement requests to banks. These initiatives have strengthened its fraud control systems.

CFHL's reported asset quality indicators remain healthy with GS3 assets of 0.9% and net stage 3 assets (NS3) of 0.5% as on September 30, 2024 vis-à-vis 0.8% and 0.4%, respectively, as on March 31, 2024. CFHL's provision coverage ratio (PCR) on its GS3 assets also remained adequate at ~47% as on September 30, 2024, though slightly lower than 49% as on March 31, 2024 (52% as on March 31, 2023). ICRA notes that the overall delinquency levels remain comfortable and are under control, though slippages from the restructured book (1.5% of the total portfolio as of September 2024) continue to be relatively higher than the rest of the book.

Good operating efficiency and low credit costs support profitability – CFHL's profitability has remained healthy with RoMA of 2.1% and a return on average net worth (RoNW) of 18.2% in H1 FY2025 vis-à-vis 2.1% and 18.8%, respectively, in FY2024. The profitability is supported by the company's good operating efficiency, competitive borrowing rates and low credit costs. The net interest margin remained largely stable at 3.4% in H1 FY2025 (3.6% in FY2024 and 3.3% in FY2023) with the company being able to pass on the changes in its cost of funding, given the floating lending rates. It expects to maintain a net interest margin of 3.5% on a steady-state basis in the near-to-medium term. CFHL's credit costs remained low at 0.2% of average managed assets (AMA; estimated) in H1 FY2025 as well as FY2024, supported by its healthy asset quality. Further, its operating expenses remained competitive at 0.6% of AMA in H1 FY2025 (0.7% in FY2024).

Credit challenges

High gearing, though limited loan quality risk and good internal generation support capital profile – CFHL's gearing stood at 7.2 times as of September 2024 (7.3 times as of March 2024) vis-à-vis 8.0 times as of March 2023. ICRA notes that the gearing has declined from 10.5 times as on March 31, 2018, but remains higher than most peers. The gearing level is expected to be capped at 8.0 times in the near-to-medium term. ICRA notes that the risk of operating with a high gearing is partially mitigated by CFHL's presence in the low-risk housing loan segment, wherein the borrowers are salaried individuals. As of September

2024, 71% of the outstanding loan book comprised exposure to the salaried segment (72% as of September 2023). ICRA expects the company to operate in a similar segment in the near-to-medium term. CFHL reported a capital-to-risk weighted assets ratio (CRAR) of 24.6% as of September 2024 against 24.5% as of March 2024.

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 whom such HFCs have an exposure, face livelihood disruptions 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 notes that the company has strengthened its internal processes following the instances of fraud at one of its branches in the previous year.

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 on September 30, 2024, 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 adequate on-book liquidity (including liquid investments in Government securities) of Rs. 1,522.1 crore and undrawn sanctions of Rs. 5,440.8 crore against debt obligations of Rs. 10,120.8 crore due from October 2024 to March 2025. As of September 2024, the company had maintained a liquidity coverage ratio of 166.0%.

The company's funding profile remains fairly diversified. As of September 2024, 58.6% of the overall funding comprised borrowings from banks, followed by NCDs (19.2%), National Housing Bank (14.0%), commercial paper (7.3%) and deposits (0.6%).

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 the company 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 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 the company. Headquartered in Bengaluru, CFHL has a presence in 21 states and Union Territories. It reported a loan book of Rs. 36,591 crore as on September 30, 2024. It primarily provides relatively smaller-ticket housing loans to salaried, professional, and self-employed non-professional (SENP) borrowers. The average ticket size of housing loans is ~Rs. 25 lakh while the average ticket size of non-housing loans is ~Rs. 8 lakh. The average tenure of these loans is 7-8 years, with an income-to-instalment ratio of less than 65%. CFHL reported a net profit (profit after tax; PAT) of Rs. 411.1 crore in H1 FY2025 on a loan book of Rs. 36,591 crore as on September 30, 2024 against a PAT of Rs. 750.7 crore in FY2024 on a loan book of Rs. 34,999 crore as on March 31, 2024.

Key financial indicators (audited)

Can Fin Homes Limited	FY2023	FY2024	H1 FY2025*
	Ind-AS	Ind-AS	Ind-AS
Total income	2,742.1	3,524.7	1,893.8
Profit after tax	621.2	750.7	411.1
Total managed assets	33,378.2	37,399.5	39,610.1
Return on average managed assets	2.0%	2.1%	2.1%
Managed gearing (times)	8.0	7.3	7.2
Gross NPA	0.6%	0.8%	0.9%
CRAR	23.1%	24.5%	24.6%

*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

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Dec 30, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long term	-	-	-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)	15-Mar-22	[ICRA]AA+ (Stable)
				-	-	-	-			18-Nov-21	[ICRA]AA+ &
				-	-	-	-			20-Aug-21	[ICRA]AA+ &
Bank lines – ST	Short term	-	-	-	-	-	-	09-Jun-22	[ICRA]A1+	15-Mar-22	[ICRA]A1+
				-	-	-	-			18-Nov-21	[ICRA]A1+
				-	-	-	-			20-Aug-21	[ICRA]A1+
Long-term/Short-term fund based	Long term/ Short term	-	-	-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)/ [ICRA] A1+	15-Mar-22	[ICRA]AA+ (Stable)/ [ICRA] A1+
Short-term loan	Short term	-	-	-	-	-	-	09-Jun-22	[ICRA]A1+	15-Mar-22	[ICRA]A1+
Long-term/Short-term fund-based bank facilities	Long term	27,750.00	[ICRA]AAA (Stable)/[ICRA] A1+	14-May-24	[ICRA]AAA (Stable)/ [ICRA] A1+	03-Jan-24	[ICRA]AAA (Stable)/ [ICRA] A1+	14-Mar-23	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	-
						22-Dec-23	[ICRA]AAA (Stable)/ [ICRA] A1+	20-Sep-22	[ICRA]AA+ (Stable)/ [ICRA] A1+	-	-
Sub-debt	Long term	200.00	[ICRA]AAA (Stable)	14-May-24	[ICRA]AAA (Stable)	03-Jan-24	[ICRA]AAA (Stable)	14-Mar-23	[ICRA]AA+ (Stable)	15-Mar-22	[ICRA]AA+ (Stable)
				-	-	22-Dec-23	[ICRA]AAA (Stable)	20-Sep-22	[ICRA]AA+ (Stable)	18-Nov-21	[ICRA]AA+ (Stable)
				-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)	20-Aug-21	[ICRA]AA+ (Stable)
Sub-debt	Long term	100.00	[ICRA]AAA (Stable); withdrawn	14-May-24	[ICRA]AAA (Stable)	03-Jan-24	[ICRA]AAA (Stable)	14-Mar-23	[ICRA]AA+ (Stable)	15-Mar-22	[ICRA]AA+ (Stable)

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Dec 30, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
				-	-	22-Dec-23	[ICRA]AAA (Stable)	20-Sep-22	[ICRA]AA+ (Stable)	18-Nov-21	[ICRA]AA+ (Stable)
				-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)	20-Aug-21	[ICRA]AA+ (Stable)
NCD	Long term	4,573.00	[ICRA]AAA (Stable)	14-May-24	[ICRA]AAA (Stable)	03-Jan-24	[ICRA]AAA (Stable)	14-Mar-23	[ICRA]AA+ (Stable)	15-Mar-22	[ICRA]AA+ (Stable)
				-	-	22-Dec-23	[ICRA]AAA (Stable)	20-Sep-22	[ICRA]AA+ (Stable)	18-Nov-21	[ICRA]AA+ (Stable)
				-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)	20-Aug-21	[ICRA]AA+ (Stable)
Commercial paper	Short term	4,500.00	[ICRA]A1+	14-May-24	[ICRA]A1+	03-Jan-24	[ICRA]A1+	14-Mar-23	[ICRA]A1+	15-Mar-22	[ICRA]A1+
				-	-	22-Dec-23	[ICRA]A1+	20-Sep-22	[ICRA]A1+	18-Nov-21	[ICRA]A1+
				-	-	-	-	09-Jun-22	[ICRA]A1+	20-Aug-21	[ICRA]A1+
Fixed deposits	Long term	750.00	[ICRA]AAA (Stable)	14-May-24	[ICRA]AAA (Stable)	03-Jan-24	[ICRA]AAA (Stable)	14-Mar-23	[ICRA]AA+ (Stable)	15-Mar-22	MAAA (Stable)
				-	-	22-Dec-23	[ICRA]AAA (Stable)	20-Sep-22	[ICRA]AA+ (Stable)	18-Nov-21	MAAA (Stable)
				-	-	-	-	09-Jun-22	[ICRA]AA+ (Stable)	20-Aug-21	MAAA (Stable)

ST – Short term

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	Dec-26-13 to Jan-01-25	NA	Jan-03-24 to Apr-01-34	27,750.0	[ICRA]AAA (Stable)/ [ICRA]A1+
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)
INE477A07381	NCD	Feb-23-24	8.25%	May-21-27	1,000.0	[ICRA]AAA (Stable)
INE477A07399	NCD	Apr-03-24	8.18%	Apr-03-29	900.0	[ICRA]AAA (Stable)
Proposed	NCD	NA	NA	NA	538.0	[ICRA]AAA (Stable)
INE477A08025	Sub-debt	Dec-03-14	8.94%	Dec-03-24	100.0*	[ICRA]AAA (Stable); withdrawn
Not issued yet	Sub-debt	NA	NA	NA	200.0	[ICRA]AAA (Stable)
INE477A14DE1	CP programme	Oct -03-24	7.30%	Dec-12-24	500.0	[ICRA]A1+
INE477A14DF8	CP programme	Oct-03-24	7.30%	Dec-30-24	500.0	[ICRA]A1+
INE477A14DG6	CP programme	Nov-08-24	7.26%	Jan-01-25	250.0	[ICRA]A1+
INE477A14DH4	CP programme	Nov-08-24	7.26%	Feb-02-25	750.0	[ICRA]A1+
INE477A14DI2	CP programme	Nov-11-24	7.26%	Feb-20-25	500.0	[ICRA]A1+
Proposed	CP programme	NA	NA	NA	2,000.00	[ICRA]A1+
NA	Fixed deposit	-	-	-	750.0	[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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