

March 01, 2017

## Can Fin Homes Limited

Instrument*	Rated Amount	Rating Action
Long-term bank lines	Rs. 3,875.0 crore	[ICRA]AAA(negative) reaffirmed
Subordinated debt programme	Rs. 300.0 crore	[ICRA]AAA(negative) reaffirmed
Non-Convertible debt programme	Rs. 5,000.0 crore	[ICRA]AAA(negative) reaffirmed
Commercial Paper programme	Rs. 3,500.0 crore	[ICRA]A1+ reaffirmed
Short-term bank lines	Rs. 900.0 crore	[ICRA]A1+ reaffirmed
Fixed Deposits programme	-	MAAA(negative) reaffirmed

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) for the Rs. 3,875 crore long-term bank lines, Rs. 300 crore subordinated debt (outstanding Rs. 100 crore) and Rs. 5,000 crore (outstanding Rs. 3,402 crore) NCD programmes of Can Fin Homes Limited (CFHL). The outlook on the long-term rating is negative. ICRA has also reaffirmed the rating of MAAA (pronounced M triple A) for the fixed deposit programme of CFHL. The outlook on the medium-term rating is negative.

ICRA has also reaffirmed the rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 3,500 crore commercial paper programme and Rs. 900 crore short-term bank lines of the company.

### Rationale

The ratings factor in CFHL's focus on relatively low risk salaried home loans segment (88% of the portfolio as on December 31, 2016) and the company's good loan underwriting and appraisal norms which have enabled it to maintain good asset quality (gross NPA% of 0.24% as on December 31, 2016). The ratings continue to factor in the company's strong parentage, with 43.45% equity as on December 31, 2016, being held by Canara Bank (rated [ICRA]AAA(negative)). ICRA has noted Canara Bank is likely to reduce stake in the company to around 30%, however, management support from Canara Bank is likely to continue. The ratings reflect Canara Bank's own credit profile( rated [ICRA]AAA(negative) for Lower Tier 2 Bonds programme) and CFHL's strategic significance to the parent.

CFHL has diversified its funding mix during FY2017 by increasing the share of debt market instruments. The company's liquidity profile is also supported by adequate access to long-tenure borrowings which matched the average maturity of assets and unutilised lines to bridge gaps. Given the pace of growth of portfolio, the company's capitalisation profile was moderate with a gearing of 11.22 times as on December 31, 2016 as compared with 10.79 times as on March 31, 2016. The company plans to grow its portfolio at a CAGR of 35-40% in the medium-term with a similar product mix. Overall, CFHL's ability to maintain its asset quality and improve its capitalisation levels on a growing book would remain a key rating sensitivity.

## Key Rating Drivers

### Credit Strengths

- Strong parentage with Canara Bank (rated ICRA]AAA(negative)/[ICRA]A1+) currently holding 43.45% equity stake
- Focus on low risk salaried home loan segment
- Low operating costs in comparison with peer housing finance companies
- Asset quality remains under control

### Credit Challenges

- To maintain adequate capitalisation levels
- To maintain asset quality indicators, specifically in the non-housing segment

### Key Rating Sensitivities

- Any change in funding or managerial support from Canara Bank may warrant a change in rating

### Description of key rating drivers highlighted above

CFHL had an outstanding portfolio of Rs. 12,688 crore as on December 31, 2016 (portfolio of Rs. 10,651 crore as on March 31, 2016), with a predominant share (88%) of housing loans. The company primarily caters to the relatively low risk salaried segment, which formed 77% of the overall portfolio. CFHL's good underwriting and appraisal norms and monitoring mechanisms enabled it to report good asset quality, as reflected by gross NPAs of 0.24% as on December 31, 2016. The company's operations continue to remain geographically concentrated with nearly 75% of the portfolio being contributed by southern India, with Karnataka alone accounting for 37% of the loan book as on December 31, 2016.

The company diversified its funding mix further in 9MFY2017, by increasing the share of debt market instruments in its resource profile from 40% in March 2016 to 48% in December 2016. CFHL's liquidity profile was adequately supported by long-tenure borrowings (average maturity of 7-8 years) that matched the duration of its assets (average maturity of around 10 years) as well as access to unutilised bank lines to plug any short term mismatches. Given the higher pace of portfolio growth than internal capital generation, CFHL's capitalisation profile remained moderate with a gearing of 11.22 times as on December 31, 2016. Going forward, the company plans to grow its portfolio at a CAGR of 35-40% over the next three years and would require Rs. 500 – 600 crore of external capital to meet its growth plans (50-60% of its net worth as on December 31, 2016). Overall, the company's ability to maintain its asset quality and prudent capitalisation levels on a growing book would remain a key rating sensitivity.

CFHL's profitability indicators remained healthy (return on equity of 23.2% in 9MFY2017), supported by the increasing share of higher yielding (yields of 13.5% as on December 31, 2016) non-housing loans, moderation in cost of funds (8.48% in December 2016 vis-a-vis 8.82% in March 2016) and stable operating expenses (0.65% as in December 2016 as compared with 0.70% in March 2016) and credit costs (0.20% as in December 2016 and March 2016). Going forward, ICRA expects CFHL's interest spreads to be around 2.0-2.2% in the medium term, leading to net interest margins in the range of 2.5-2.8%. The company's operating expenses are likely to remain at around 0.70-0.80% leading to profitability indicators (PAT/ATA) of around 1.0-1.2% and ROE of 13-14% provided it is able to maintain its asset quality indicators.

**Links to Applicable Criteria**

<http://www.icra.in/Files/Articles/RM,%20Housing%20Finance%20-%20April%202016.pdf>

**About the Company**
**Can Fin Homes Limited**

CFHL was promoted by Canara Bank, HDFC Limited and UTI in 1987. Canara Bank held 43.45% equity stake in the company as on December 31, 2016 with the balance shareholding distributed among a number of corporate and retail shareholders. CFHL operates through a nation-wide network of around 124 branches and 46 satellite offices as on December 31, 2016.

CFHL reported a profit after tax (PAT) of Rs. 164.39 crore on an asset base of Rs. 12,688 crore for 9MFY2017 vis-a-vis a PAT of Rs 109.66 crore on an asset base of Rs. 9,695 crore for 9MFY2016. CFHL reported a PAT of Rs. 157.11 crore on an asset base of Rs. 10,795 crore for FY2016 vis-a-vis a PAT of Rs 86.24 crore on an asset base of Rs. 8,231 crore for FY2015. The company's gross NPAs stood at 0.24% and capital adequacy ratio at 18.76% as on December 31, 2016.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years				
		Type	Rated amount (in Rs. crore)	Feb 2017	FY2017		FY2016		FY2015
					Sept 2016	July 2016	Feb 2016*	Nov 2015	Oct 2014
1	Long-term bank lines	Long Term	3,875.0	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AAA(stable); upgraded from [ICRA]AA+(stable)
2	Subordinated debt programme	Long Term	300.0	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AAA (stable); assigned
3	Non-Convertible debentures	Long Term	5,000.0 (o/s Rs. 3,402 crore)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AAA (stable); assigned
4	Short-term bank lines	Short Term	900.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; reaffirmed
5	Commercial Paper programme	Short Term	3,500.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fixed Deposit Programme	FD	NA	MAAA (negative)	MAAA (negative)	MAAA (negative)	MAAA (negative)	MAAA (stable)	MAAA (stable); upgraded from MAA+(stable)

\*Outlook revised to negative from stable following revision in outlook for the long-term debt programme of Canara Bank

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Amount Outstanding (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Non-Convertible Debentures	6/2/2015	8.80%	6/2/2018	200	[ICRA]AAA (negative)
Non-Convertible Debentures	28/04/2015	8.69%	28/04/2018	200	[ICRA]AAA (negative)
Non-Convertible Debentures	28/05/2015	8.70%	28/06/2018	100	[ICRA]AAA (negative)
Non-Convertible Debentures	2/7/2015	8.80%	2/7/2018	200	[ICRA]AAA (negative)
Non-Convertible Debentures	7/8/2015	8.71%	7/8/2018	200	[ICRA]AAA (negative)
Non-Convertible Debentures	8/10/2015	8.44%	8/10/2018	100	[ICRA]AAA (negative)
Non-Convertible Debentures	30/10/2015	8.41%	30/01/2019	150	[ICRA]AAA (negative)
Non-Convertible Debentures	24/11/2015	8.45%	22/02/2019	100	[ICRA]AAA (negative)
Non-Convertible Debentures	22/12/2015	8.55%	22/03/2019	100	[ICRA]AAA (negative)
Non-Convertible Debentures	7/1/2016	8.60%	6/4/2019	125	[ICRA]AAA (negative)
Non-Convertible Debentures	17/02/2016	8.85%	17/05/2019	165	[ICRA]AAA (negative)
Non-Convertible Debentures	10/9/2015	8.69%	10/9/2020	100	[ICRA]AAA (negative)
Non-Convertible Debentures	22/04/2016	8.37%	22/03/2019	300	[ICRA]AAA (negative)
Non-Convertible Debentures	27/05/2016	8.55%	27/08/2019	100	[ICRA]AAA (negative)
Non-Convertible Debentures	16/09/2016	7.85%	16/12/2019	300	[ICRA]AAA (negative)
Non-Convertible Debentures	24/10/2016	7.73%	24/01/2020	440	[ICRA]AAA (negative)
Non-Convertible Debentures	15/11/2016	7.77%	15/11/2021	122	[ICRA]AAA (negative)
Non-Convertible Debentures	12/1/2017	7.57%	12/4/2020	400	[ICRA]AAA (negative)
Short-term loan/OD: Canara bank	26/09/2016	8.25%	Less than 365 days	35 (limit Rs. 500 crore)	[ICRA]A1+
Short-term loan/OD: SBI	15/11/2016	8.00%	Less than 365 days	94 (limit Rs. 500 crore)	[ICRA]A1+
Term Loan: Canara Bank	15/12/2016	8.25%	15/12/2026	492	[ICRA]AAA (negative)
Term Loan: State Bank of	08/01/2016	8.00%	08/01/2026	488	[ICRA]AAA

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Amount Outstanding (Rs. crore)	Current Rating and Outlook
India					(negative)
Unallocated: long-term bank lines	NA	NA	NA	2,894	[ICRA]AAA (negative)
Subordinated Debt	03/12/2014	8.94%	03/12/2024	100	[ICRA]AAA (negative)
Fixed Deposit Programme	NA	NA	NA	-	MAAA (negative)
Commercial Paper Programme	NA	NA	NA	3,500	[ICRA]A1+

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