

October 03, 2017

## CanFin Homes Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term bank lines	3,875.0	[ICRA]AAA(negative) / Reaffirmed
Subordinated debt programme	300.0	[ICRA]AAA(negative) / Reaffirmed
Non-Convertible debt programme	5,000.0	[ICRA]AAA(negative) / Reaffirmed
Non-Convertible debt programme	3,000.0	[ICRA]AAA(negative) / Assigned
Commercial Paper programme	4,500.0 (revised from 3,500.0)	[ICRA]A1+ / Reaffirmed
Short-term bank lines	900.0	[ICRA]A1+ / Reaffirmed
Fixed Deposits programme	-	MAAA(negative) / Reaffirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs.3,875.0 crore bank facilities, the Rs.5,000.0 crore non-convertible debenture (NCD) programme, and the Rs.300.0 crore subordinated debt programme of CanFin Homes Limited (CFHL)<sup>1</sup>. The outlook on the long term rating is Negative. ICRA has also reaffirmed the medium term rating of MAAA (pronounced M triple A) to the fixed deposit program of the company. The outlook on the medium term rating is Negative. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs.900.0 crore short term bank facilities and the Rs.4,500.0 crore (enhanced from Rs.3,500.0 crore) commercial paper (CP) programme of the company.

ICRA has also assigned long term rating of [ICRA]AAA (pronounced ICRA triple A) to the Rs.3,000.0 crore NCD programme of CFHL. The outlook on the long-term rating is Negative.

### Rationale

The ratings factor CFHL's established presence in the mortgage finance market, the company's focus on low risk salaried home loans segment, and its comfortable asset quality indicators supported by good loan underwriting and appraisal norms. As on June 30, 2017, housing loans accounted for about 88% of its loan book with primary focus on salaried individuals. The ratings continue to factor the company's financial flexibility by virtue of its strong ownership with 30.0% stake being held by Canara Bank (rated [ICRA]AAA(negative) / [ICRA]A1+) and the management support entailing from the same.

CFHL's financial profile is comfortable characterized by healthy profitability and adequate capitalization as reflected by return on net worth of 25.54% and capital adequacy ratio of 19.17% as on June 30, 2017. CFHL's gearing was moderate at 11.01x as on June 30, 2017 with its funding profile being fairly diversified across debt market instruments, bank borrowings and National Housing Bank (NHB) refinance. The ratings continue to factor high competitive intensity in the mortgage finance market with large number of players and the resultant pressure on pricing. The company's ability to maintain its profitability and asset quality in the face of growth amidst competition would be key monitorables. CFHL has envisaged a compounded annual growth of 25-30% its loan book over the next three years. Its ability to fund this growth in a manner that protects its capitalization and leverage levels would be crucial from credit perspective.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

- **Strong parentage with Canara Bank (rated ICRA]AAA(negative)/[ICRA]A1+) currently holding 30.0% equity stake** – The company enjoys management support and Board level guidance by virtue of being an associate of Canara Bank. Apart from the Managing Director who has been deputed by Canara Bank, the company's Board of Directors (BoD) of seven members comprises two nominee directors from the parent. During March 2017, Canara Bank reduced its stake in CFHL to 30.0% from 43.45% previously. However, ICRA takes comfort from the parent's continued sizeable stake in CFHL and its intent to maintain the same at the current levels.
- **Focus on low risk salaried home loan segment** – As on June 30, 2017, housing loans accounted for about 88% of its loan book with primary focus on salaried individuals. The non-housing loans segment comprises primarily of loan against properties (LAP) and limited advances towards developer loans / commercial loans. CFHL is present in relatively lower budget housing loans and its customers primarily comprises first time home buyers, government employees and middle income segment population (typically under the age of 40 years). ICRA takes comfort from the company's borrower profile and its presence in the relatively low risk segment with reasonable loan to value ratios and moderate ticket sizes. Going forward, the company's portfolio mix is expected to continue to be skewed towards housing loans which provides comfort.
- **Asset quality remains under control** – CFHL's asset quality indicators remain healthy with gross non-performing assets (GNPA) at 0.38% and net non-performing assets (NNPA) at 0.17% as on June 30, 2017. While the same has increased marginally compared to the GNPA of 0.21% and NNPA of 0.0% reported as on March 31, 2017, ICRA notes that the overall NPA levels for the company remains comfortable and under control. CFHL's good underwriting and appraisal norms and monitoring mechanisms have enabled it in maintaining good asset quality.
- **Good operating efficiency and low funding costs support profitability** – CFHL's profitability has remained healthy with return on equity of 25.54% and 21.86% during Q1 FY2018 and FY2017 respectively supported by its good operating efficiency, stable yields and low funding costs. During Q1FY2018, nearly 52% of its borrowings was through money market instruments (including 17% CP), 27% through NHB and 19% through banks resulting in a cost of borrowing of 7.84% (8.35% as on March 31, 2017). In addition, the company is undertaking conversion of some of its satellite offices into full fledged branches which is expected to further cushion its profitability.

### Credit weaknesses

- **To maintain adequate capitalisation levels** – The company's gearing remains moderate at 11.01x as on June 30, 2017 though its capitalization remains comfortable with capital adequacy ratio at 19.17% as on June 30, 2017. However, CFHL has envisaged a compounded annual growth of 25-30% on its loan book over the next three years. Its ability to fund this growth in a manner that protects its capitalization and leverage levels would be crucial from credit perspective. To this effect, the company has taken BoD approval for rights issue to the extent of Rs.1,000.0 crore which the management intends to raise during FY2019. In addition to supporting growth requirements, the equity raising plans would also ease the pressure on its gearing and capitalization levels.

- **To maintain asset quality indicators, specifically in the non-housing segment** – The company's NPA levels witnessed marginal deterioration during Q1 FY2018 post cessation of the 60-day dispensation by NHB. While the NPA levels increased across product categories, the same was more pronounced in the non-housing segment with CFHL's LAP portfolio reporting GNPA of about 0.73%. While the NPA levels have increased marginally during Q1 FY2018, ICRA notes that the overall NPA levels for CFHL remains comfortable and under control. The company is also taking measures to contain the same by way of increased personnel deployment towards recoveries. However, going forward, its ability to maintain healthy asset quality indicators in the face of increasing competition would remain crucial.
- **To maintain profitability and business growth in a competitive environment** – There has been an increase in the number of new entrants in the housing finance market, including housing finance companies promoted by existing non-banking finance companies, new companies started by entrepreneurs and supported by private equity players. This has led to increased competition in the industry across segments and consequently pressure on pricing. In this backdrop, ICRA notes that the company's ability to maintain good quality business growth and healthy profitability would be critical.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

**About the bank:**

CanFin Homes Limited (CFHL) – promoted by Canara Bank, HDFC Limited and UTI in 1987 – is a deposit taking housing finance company registered with National Housing Bank. Headquartered in Bangalore, the company has presence in 19 states and union territories. CFHL mainly focuses on housing loans to individuals which accounted for about 88% of its portfolio as on June 30, 2017. CFHL operates through a nation-wide network of around 130 branches, 12 affordable housing loan centres and 33 satellite offices as on June 30, 2017. CFHL's portfolio stood at Rs.13,808 crore as on June 30, 2017 of which about 74% is sourced from the Southern region – mainly Karnataka. The company primarily operates in the affordable housing category with the average ticket size of the loans being at around Rs.18.0 lakh and 96% of its borrowers in the income bracket of upto Rs.18.0 lakh. CFHL's employee base stood at 617 as on June 30, 2017.

Canara Bank held 43.45% equity stake in the company as on December 31, 2016 which was subsequently reduced to 30.00% during March 2017.

During Q1 FY2018, CFHL reported net profit of Rs.71.22 crore on advances of Rs.13,808.0 crore as against net profit of Rs.49.73 crore on advances of Rs.11,183.0 crore during the same period previous fiscal. For FY2017, the company reported net profit of Rs.235.03 crore on advances of Rs.13,313.0 crore.

**Key Financial Indicators:**

<b>Fiscal / quarter</b>	<b>FY2016</b>	<b>FY2017</b>	<b>Q1FY2017</b>	<b>Q1FY2018</b>
Total Income	1,083.54	1353.12	309.62	368.82
Net interest income	300.94	422.06	91.87	123.30
Profit before tax	253.86	370.18	78.53	111.18
Profit after tax	157.11	235.03	49.73	71.22
Total Managed advances	10,643	13,313	11,183	13,808
Total Managed assets	10,795	13,458	11,267	13,886
Total assets	10,795	13,458	11,267	13,886
Net worth	878	1,076	919	1,115
% Tier 1	17.64%	16.01%	16.72%	16.70%
% CRAR	20.69%	18.50%	19.53%	19.17%
Gearing	10.79	11.03	10.87	11.01
% Net profit/Average Advances (ROA)	1.69%	1.97%	1.84%	2.11%
% Return on Managed Advances (ROMA)	1.69%	1.97%	1.84%	2.11%
% Return on net worth	17.89%	21.86%	21.66%	25.54%
% Gross NPAs	0.19%	0.21%	0.24%	0.38%
% Net NPAs	0.00%	0.00%	0.04%	0.17%
Net NPA/Net worth	0.00%	0.00%	0.49%	2.10%

*Amounts in Rs. crore*

*Source: Company results, ICRA research*

**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 (Rs. crore)	Sep 2017	FY2017			FY2016		FY2015
					Feb 2017	Sep 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 (negative)	[ICRA]AAA (stable)	[ICRA]AAA(stable)
2	Subordinated debt programme	Long Term	300.0	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AAA (stable);
3	Non-Convertible debentures	Long Term	5,000.0	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (negative)	[ICRA]AAA (stable)	[ICRA]AAA (stable);
4	Non-Convertible debentures	Long Term	3,000.00	[ICRA]AAA (negative)	-	-	-	-	-	-
5	Short-term bank lines	Short Term	900.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial Paper programme	Short Term	4,500.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fixed Deposit Programme	FD	NA	MAAA (negative)	MAAA (negative)	MAAA (negative)	MAAA (negative)	MAAA (negative)	MAAA (stable)	MAAA (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  
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Bank facilities	Term loans	-	-	-	1,708.0	[ICRA]AAA (negative)
Bank facilities	Unallocated	-	-	-	2,167.0	[ICRA]AAA (negative)
Bank facilities	Fund based	-	-	-	900.0	[ICRA]A1+
INE477A07068	NCD	28-04-2015	8.69%	28-04-2018	200.00	[ICRA]AAA (negative)
INE477A07076	NCD	28-05-2015	8.70%	28-06-2018	200.00	[ICRA]AAA (negative)
INE477A07084	NCD	02-07-2015	8.80%	02-07-2018	200.00	[ICRA]AAA (negative)
INE477A07092	NCD	07-08-2015	8.71%	07-08-2018	200.00	[ICRA]AAA (negative)
INE477A07100	NCD	10-09-2015	8.69%	10-09-2020	100.00	[ICRA]AAA (negative)
INE477A07118	NCD	08-10-2015	8.44%	08-10-2018	100.00	[ICRA]AAA (negative)
INE477A07126	NCD	30-10-2015	8.41%	30-01-2019	150.00	[ICRA]AAA (negative)
INE477A07134	NCD	24-11-2015	8.45%	22-02-2019	200.00	[ICRA]AAA (negative)
INE477A07142	NCD	22-12-2015	8.55%	22-03-2019	100.00	[ICRA]AAA (negative)
INE477A07159	NCD	07-01-2016	8.60%	06-04-2019	200.00	[ICRA]AAA (negative)
INE477A07167	NCD	17-02-2016	8.85%	17-05-2019	200.00	[ICRA]AAA (negative)
INE477A07175	NCD	22-04-2016	8.37%	22-03-2019	300.00	[ICRA]AAA (negative)
INE477A07183	NCD	27-05-2016	8.55%	27-08-2019	100.00	[ICRA]AAA (negative)
INE477A07191	NCD	16-09-2016	7.85%	16-12-2019	300.00	[ICRA]AAA (negative)
INE477A07209	NCD	24-10-2016	7.73%	24-01-2020	440.00	[ICRA]AAA (negative)
INE477A07217	NCD	15-11-2016	7.77%	15-11-2021	122.00	[ICRA]AAA (negative)
INE477A07225	NCD	12-01-2017	7.57%	12-04-2020	500.00	[ICRA]AAA (negative)
INE477A07233	NCD	27-02-2017	7.68%	27-05-2020	200.00	[ICRA]AAA (negative)
INE477A07241	NCD	18-05-2017	7.89%	18-05-2022	600.00	[ICRA]AAA (negative)
INE477A07258	NCD	26-07-2017	7.32%	26-10-2020	400.00	[ICRA]AAA (negative)

Unallocated	NCD	-	-	-	188.00	[ICRA]AAA (negative)
INE477A08025	Sub-debt	03-12-2014	8.94%	03-12-2024	100.00	[ICRA]AAA (negative)
Unallocated	Sub-debt	-	-	-	200.00	[ICRA]AAA (negative)
NCD - Un-availed	NCD	-	-	-	3,000.00	[ICRA]AAA (negative)
CP	CP	-	-	-	4,500.00	[ICRA]A1+

Source: the company

## Contact Details

### Analyst Contacts

**Karthik Srinivasan**

+91 22 6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**Rohit Inamdar**

+91 124 4545847

[rohit.inamdar@icraindia.com](mailto:rohit.inamdar@icraindia.com)

**Supreeta Nijjar**

+91 124 4545 324

[supreetan@icraindia.com](mailto:supreetan@icraindia.com)

**Swathi Hebbar**

+91 80 4332 6404

[swathi.hebbar@icraindia.com](mailto:swathi.hebbar@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500