

Can Fin Homes Limited

May 06, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – long term	11,100.00	11,100.00	[ICRA]AA+ (Stable) / Revised from [ICRA]AAA (Negative)
Non-Convertible Debenture (NCD) Programme	7,100.00	7,100.00	[ICRA]AA+ (Stable) / Revised from [ICRA]AAA (Negative)
Bank facilities – short term	900.00	900.00	[ICRA]A1+ / Rating reaffirmed
Sub-ordinated Debt programme	300.00	300.00	[ICRA]AA+ (Stable) / Revised from [ICRA]AAA (Negative)
Commercial Paper	4,500.00	4,500.00	[ICRA]A1+ / Rating reaffirmed
Fixed Deposits	-	-	MAAA (Stable) / Rating reaffirmed; outlook revised from Negative
Total	23,900.00	23,900.00	

Rationale

The revision in ratings factors the downgrade in credit ratings of Can Fin Homes Limited's (CFHL) principal shareholder - Canara Bank¹ (from [ICRA]AAA (Negative) / [ICRA]AAA (hyb) (Negative) / [ICRA]AA (hyb) (Negative) / [ICRA]A1+ to [ICRA]AA+ (hyb) (Stable) / [ICRA]AA- (hyb) (Stable) / [ICRA]A1+). The ratings continue to draw comfort from the company's strong ownership profile with 30.0% stake being held by Canara Bank as on March 31, 2019, the management support and financial flexibility being an associate of Canara Bank.

While CFHL's dependence on Canara Bank for funding requirements remains limited with the latter accounting for 16.4% of its total borrowings as on January 21, 2019, the company enjoys management support and Board level guidance by virtue of being an associate of Canara Bank and given the share brand name. The ratings continue to take into account CFHL's moderate scale of operations in the domestic housing finance market and the company's focus on relatively low risk salaried home loans segment (home loans accounted for 89.3% of the portfolio as on March 31, 2019 of which 73.2% was accounted for by salaried segment) which has aided CFHL in maintaining healthy asset quality indicators with gross non-performing assets (GNPA) of 0.62% and net non-performing assets (NNPA) of 0.43% as on March 31, 2019. The rating factors in good profitability indicators of the company (ROE of 18.2% for FY2019), and moderate capitalisation indicators (gearing of 9.5 times as on March 31, 2019).

CFHL's funding profile remains diversified across debt market instruments (34%), bank borrowings (52%) and National Housing Bank (NHB) refinance (12%) as on March 31, 2019. By virtue of the long term the nature of the asset class with tenure of home loans ranging from 12-20 years, the company's asset liability mismatch remains adverse with cumulative mismatches in the less than one year bucket at -17.6% of its total assets as on December 31, 2018. However, the risk is partly mitigated by the company's policy of maintaining adequate unutilised bank lines as a liquidity buffer. The company enjoys strong relationships with diversified base of lender and has sizeable undrawn sanctioned lines to the extent of Rs.2,500 crore as on December 31, 2018 in addition to support from Canara Bank to cushion its liquidity profile. The

¹ [Rating rationale on Canara Bank dated April 26, 2019](#)

company's ability to maintain its interest spreads given its target segment, profitability, capitalization and asset quality in the face of growth amidst competition and rising interest rates would be key monitorables.

Outlook: Stable

The Stable outlook factors in CFHL's stable ownership and credit profile of its principal shareholder; and ICRA's expectation that the company would continue to report healthy business scale up, maintain its borrower mix and improve its geographical diversification. The outlook may be revised to 'Positive' in the event of a material and favourable shareholding change or significant improvement in capitalization profile which is sustained over the longer term. The outlook may be revised to 'Negative' in case of deterioration in asset quality, capitalization, weakening of its liquidity profile or deterioration in the credit profile of Canara Bank.

Key rating drivers

Credit strengths

Strong parentage with Canara Bank (rated ICRA]AA+ (hyb) (Stable) / [ICRA]A1+) holding 30.0% equity stake – The company enjoys management support and Board level guidance by virtue of being an associate of Canara Bank which held 30% stake in CFHL as on March 31, 2019. Apart from the Managing Director and Deputy Managing Director who have been deputed by Canara Bank, the company's Board of Directors (BoD) of seven members comprises two nominee directors from Canara Bank and one additional director (General Manager – Canara Bank). ICRA takes comfort from the Canara Bank's continued sizeable stake in CFHL and its intent to maintain the same at the current levels. However, ICRA also notes that the company has reduced dependence on Canara Bank for its funding requirements over the years and the share of Canara Bank in its borrowings stood at 16.4% as on January 21, 2019. Shared brand name however enables CFHL to secure funding and fixed deposits at competitive rates.

Focus on low risk salaried home loan segment – 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). As on March 31, 2019, housing loans accounted for about 89.3% 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. ICRA takes comfort from the company's borrower profile and its presence in the relatively low risk segment with reasonable loan to value ratios with majority of the company's portfolio having loan to value (LTV) ratio of less than 80%. Also, the company's average ticket sizes remain moderate at about Rs.18.0 lakh. Going forward, the company's portfolio mix is expected to continue to be skewed towards housing loans which provides comfort.

Comfortable asset quality – CFHL's asset quality indicators remain healthy with gross non-performing assets (GNPA) at 0.62% and net non-performing assets (NNPA) at 0.43% as on March 31, 2019 which has been supported by the company's good underwriting and appraisal norms and monitoring mechanisms. While the NPA levels have increased compared to the GNPA of 0.43% and NNPA of 0.20% reported as on March 31, 2018, ICRA notes that the overall NPA levels for the company remains comfortable and under control. NPA levels increased across product categories and was more pronounced in the non-housing segment. ICRA also takes note of the management efforts towards controlling the slippages by way of recovery measures and conservative lending practices. Going forward, its ability to maintain healthy asset quality indicators in the face of increasing competition would remain crucial.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with return on equity of 22.3% in FY2018 and 18.2% in FY2019 (as per IndAS) supported by its good operating efficiency, stable yields, low borrowing rates and credit costs. As on March 31, 2018, nearly 49% of its borrowings was through debt

market instruments (including 15% CP), 15% through NHB and 33% through banks resulting in a cost of borrowing of 7.49% (8.22% as on March 31, 2017). However, following the tightening of liquidity during H2 FY2019, the company's debt mix has shifted towards bank borrowings which accounted for 52% of its total debt as on March 31, 2019 resulting in increase in cost of funds to 7.53% for FY2019. The company's net interest margins shrank to 3.1% in FY2019 compared to 3.5% during the same period previous fiscal thereby leading to lower net profitability of 1.7% in FY2019 compared to 2.0% in FY2018 (as per IndAS) given its limited ability to pass on increase in interest rates in entirety. Going forward, the company's ability to maintain interest spreads and control on credit costs would be crucial for its incremental profitability.

Credit weaknesses

Moderate capitalisation levels – The company's gearing stood high at 9.5x and capital adequacy was moderate at 19.6% as on March 31, 2019 (compared to 9.5x and 19.1% respectively as on March 31, 2018) as per IndAS. However, this is mitigated to some extent by CFHL's presence in the low-risk housing loans segment with majority of the borrowers being salaried individuals and its low average ticket sizes. Going forward, given that CFHL has envisaged a compounded annual growth of about 25% 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. ICRA notes that the company has secured approval from its Board of Directors (BoD) for rights issue to the extent of Rs.1,000.0 crore; the company's ability to raise the same in a timely manner would be critical for its credit profile

Relatively high ALM gaps; however, adequate unutilised bank lines and cash balances result in a comfortable liquidity profile – CFHL's asset liability maturity profile is negative in most buckets with cumulative negative mismatches of -17.6% as on December 31, 2018 in the up to one-year bucket – in line with the nature of its advances with tenors ranging 12-20 years against shorter term borrowings. Commercial paper borrowings accounted for about 12% of its total borrowings as on December 31, 2018 – reduced from 15% previously. However, the company's established relationships with several banks, expected timely support from Canara Bank in case of liquidity pressures and presence of un-availed sanctions to the extent of Rs.2,500 crore as on December 31, 2018 provides cushion to some extent.

To maintain profitability and business growth in a competitive and rising interest rate scenario – Heightened competition from banks and other housing finance companies limits the company's ability to pass on increase in cost of funds to borrowers in full. This, in the backdrop of increase in the cost of funds following the liquidity tightening in the market is expected to impact CFHL's lending spreads. Going forward, the company's ability to drive business growth by onboard good quality customers while maintaining healthy profitability would be crucial.

Liquidity Position:

Given the relatively higher share of short term borrowings vis-a-vis long term the nature of the asset class with tenure of home loans ranging from 12-20 years, the company's asset liability mismatch remains adverse with cumulative mismatches in the less than one-year bucket at -17.6% (Rs.3,128.8 crore) of its total assets as on December 31, 2018. However, ICRA draws comfort from the company's strong relationships with diversified base of lenders – across instrument types, sizeable undrawn sanctioned lines to the extent of Rs.2,500 crore as on December 31, 2018 and support from parent to cushion its liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	The rating factors ICRA's expectations that Canara Bank (rated [ICRA]AA+ (hyb) (Stable) / [ICRA]AA- (hyb) (Stable) / [ICRA]A1+) would be willing to extend support to CFHL, should there be a need, given its importance and also the shared common name.
Consolidation / Standalone	Rating is based on standalone financial statements of the company.

About the company:

Can Fin 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 21 states and union territories. CFHL mainly focuses on housing loans to individuals which accounted for about 89.3% of its portfolio as on March 31, 2019. CFHL operates through a nation-wide network of around 154 branches, 21 affordable housing loan centres and 14 satellite offices as on March 31, 2019. CFHL's portfolio stood at Rs.18,381 crore as on March 31, 2019 of which sizeable share 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. CFHL's employee base stood at about 650 as on June 30, 2018. Canara Bank held 30.0% equity stake in the company as on March 31, 2019.

During FY2019, CFHL reported net profit of Rs.296.7 crore on advances of Rs.18,381 crore as against net profit of Rs.286.2 crore on advances of Rs.15,644 crore in FY2018 (as per IndAS).

Key Financial Indicators

Fiscal	FY 2017	FY 2018 (iGAAP)	FY2018 (IndAS)	FY2019 (IndAS)
Total Income (Rs. Crore)	1,353.1	1,547.1	1,522.0	1,731.4
Profit after Tax (Rs. Crore)	235.3	301.8	286.2	296.7
Net worth (Rs. Crore)	1,076.3	1,346.5	1,487.0	1,782.2
Total Managed Portfolio (Rs. Crore)	13,313.1	15,743.0	15,644.0	18,284.5
Total Managed Assets (Rs. Crore)	13,378.5	15,801.0	15,729.5	18,779.8
Return on Managed Assets (%)	1.9%	2.1%	2.0%	1.7%
Return on Net worth (%)	24.1%	24.9%	22.3%	18.2%
Gearing (times)	11.2	10.5	9.5	9.5
Gross NPA (%)	0.2%	0.4%	0.4%	0.6%
Net NPA (%)	0.0%	0.2%	0.2%	0.4%
Capital Adequacy Ratio (%)	18.5%	19.1%	19.1%	19.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)			Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	FY2019	FY2018	FY2017			
					May 2019	Oct 2018	Oct 2017	March 2017	Sep 2016	Jul 2016	
1	Bank lines – LT	LT	11,100.00	11,100.00	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
2	Sub-debt	LT	300.00	100.00	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
3	NCD	LT	7,100.00	4,002.00	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
4	Bank lines – ST	ST	900.00	900.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Papers	ST	4,500.00	4,500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fixed Deposits	MT	-	-	MAAA (Stable)	MAAA (Negative)	MAAA (Negative)	MAAA (Negative)	MAAA (Negative)	MAAA (Negative)	MAAA (Negative)

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Bank Facilities	Fund Based	-	-	-	1,708.00	[ICRA]AA+ (Stable)
Bank Facilities	Unallocated	-	-	-	9,392.00	[ICRA]AA+ (Stable)
Bank Facilities	Short Term	-	-	-	900.00	[ICRA]A1+
INE477A07100	NCD	10-09-2015	8.69%	10-09-2020	100.00	[ICRA]AA+ (Stable)
INE477A07126	NCD	30-10-2015	8.41%	30-01-2019	150.00	[ICRA]AA+ (Stable)
INE477A07134	NCD	24-11-2015	8.45%	22-02-2019	100.00	[ICRA]AA+ (Stable)
INE477A07142	NCD	22-12-2015	8.55%	22-03-2019	100.00	[ICRA]AA+ (Stable)
INE477A07159	NCD	07-01-2016	8.60%	06-04-2019	125.00	[ICRA]AA+ (Stable)
INE477A07167	NCD	17-02-2016	8.85%	17-05-2019	165.00	[ICRA]AA+ (Stable)
INE477A07175	NCD	22-04-2016	8.37%	22-03-2019	300.00	[ICRA]AA+ (Stable)
INE477A07183	NCD	27-05-2016	8.55%	27-08-2019	100.00	[ICRA]AA+ (Stable)
INE477A07191	NCD	16-09-2016	7.85%	16-12-2019	300.00	[ICRA]AA+ (Stable)
INE477A07209	NCD	24-10-2016	7.73%	24-01-2020	440.00	[ICRA]AA+ (Stable)
INE477A07217	NCD	15-11-2016	7.77%	15-11-2021	122.00	[ICRA]AA+ (Stable)
INE477A07225	NCD	12-01-2017	7.57%	12-04-2020	400.00	[ICRA]AA+ (Stable)
INE477A07233	NCD	27-02-2017	7.68%	27-05-2020	200.00	[ICRA]AA+ (Stable)
INE477A07241	NCD	18-05-2017	7.89%	18-05-2022	600.00	[ICRA]AA+ (Stable)
INE477A07258	NCD	26-07-2017	7.32%	26-10-2020	400.00	[ICRA]AA+ (Stable)
INE477A07266	NCD	17-10-2017	7.44%	17-01-2021	200.00	[ICRA]AA+ (Stable)
INE477A07274	NCD	29-11-2017	7.64%	28-02-2021	200.00	[ICRA]AA+ (Stable)
Unallocated	NCD	-	-	-	3,098.00	[ICRA]AA+ (Stable)
INE477A08025	Sub-debt	12-03-2014	8.94%	12-03-2024	100.00	[ICRA]AA+ (Stable)
Unallocated	Sub-debt	-	-	-	200.00	[ICRA]AA+ (Stable)
-	Commercial Paper	-	-	-	4,500.00	[ICRA]A1+
-	Fixed deposit	-	-	-	-	MAAA (Stable)

Source: Can Fin Homes Limited

Annexure - 2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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