October 22, 2020

Can Fin Homes Limited: Ratings reaffirmed and remain on Watch with Developing Implications; Rating withdrawn for Rs. 2,480-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term	14,100.00	12,400.00	[ICRA]AA+ &; reaffirmed
Non-convertible debenture (NCD) programme	4,620.00	4,620.00	[ICRA]AA+ &; reaffirmed
Bank facilities – Short term	900.00	2,600.00	[ICRA]A1+; reaffirmed
Subordinated debt programme	300.00	300.00	[ICRA]AA+ &; reaffirmed
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
NCD programme	2,480.00	-	[ICRA]AA+ &; reaffirmed and simultaneously withdrawn
Fixed deposits	-	-	MAAA &; reaffirmed
Total	**26,900.00**	**24,420.00**	

** Instrument details are provided in Annexure-1*
& Rating on Watch with Developing Implications

Rationale

The outstanding rating on the Rs. 2,480-crore non-convertible debenture (NCD) programme of Can Fin Homes Limited (CFHL) has been withdrawn in accordance with ICRA's policy on the withdrawal and suspension of credit ratings and as requested by the company. The rated instrument was fully paid and there is no amount outstanding against the same.

The ratings remain on Watch with Developing Implications as the ratings of the company's principal shareholder, Canara Bank {(rated ICRA]AA+(hyb)&/[ICRA]AA-(hyb)&)}, which holds a stake of around 30% in CFHL as on June 30, 2020, remain on Watch with Developing Implications.

The ratings factor in the strength derived by the company as an associate of Canara Bank, namely management support, board-level guidance, a shared brand name and healthy financial flexibility. The ratings continue to factor in CFHL's steady profitability and its moderate, albeit improving, scale of operations in the domestic housing finance market. Further, CFHL's focus on the relatively low-risk salaried home loan segment (home loans accounted for around 90% of the portfolio as on June 30, 2020 of which around 71% was accounted for by the salaried segment) has helped the company maintain healthy asset quality indicators with gross non-performing assets (GNPAs) of 0.75% and net NPAs (NNPAs) of 0.50% as on June 30, 2020.

CFHL's funding profile remains diversified across debt market instruments (20%), bank borrowings (59%), National Housing Bank (NHB) refinance (20%) and deposits (1%) as on June 20, 2020. The company's asset-liability mismatch remains a monitorable, given the long-term nature of the asset class with the tenure of home loans ranging from 12-20 years. However, the risk is partly mitigated by the company's policy of maintaining adequate unutilised bank lines as a liquidity buffer. The ratings also factor in CFHL's moderate capitalisation profile despite some improvement in its gearing to 8.72x as on March 31, 2020 (8.09x as on June 30, 2020) from 9.47x as on March 31, 2019, driven by healthy internal accruals. The company's ability to maintain its interest spreads given its target segment, profitability, capitalisation and asset quality in the face of growth amid competition would be a key monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 30% equity stake – CFHL enjoys management support and board-level guidance by virtue of being an associate of Canara Bank, which held a 30% stake in the company as on June 30, 2020. Apart from the Deputy Managing Director, who has been deputed by Canara Bank, the company's board of directors (BoD) comprised nine members as on June 30, 2020, including two additional nominee directors from the bank. ICRA takes comfort from Canara Bank's continued sizeable stake in CFHL. However, ICRA also notes that the company's dependence on Canara Bank for its funding requirements has reduced over the years. The shared brand name, however, enables CFHL to secure funds at competitive rates.

Focus on low-risk salaried home loan segment – CFHL is present in the relatively lower budget housing loan segment and its customers primarily comprise first-time home buyers, government employees and the middle-income population segment (typically under the age of 40 years). As on June 30, 2020, housing loans accounted for about 90% of its loan book with the primary focus on salaried individuals. The non-housing loans segment primarily comprises loan against properties (LAP) and limited advances towards developer loans/commercial loans and staff loans. ICRA takes comfort from the company's borrower profile and its presence in the relatively low-risk segment with reasonable loan-to-value (LTV) ratios. The majority of the portfolio has an LTV ratio of less than 80% and a fixed obligation to income ratio (FOIR) of less than 50%. Going forward, the company's portfolio mix is expected to remain skewed towards housing loans, which provides comfort. The management has also informed that they have further tightened the credit norms to counter the expected risk associated with the Covid-19 pandemic.

Comfortable asset quality though some deterioration expected due to Covid-19-related disruptions – CFHL's asset quality indicators remain healthy with GNPAs of 0.76% and NNPAs of 0.54% as on March 31, 2020 (0.75% and 0.50%, respectively, as on June 30, 2020). CFHL's asset quality indicators have been supported by its good underwriting practices, appraisal norms and monitoring mechanisms. While the NPA levels have increased compared to the GNPA of 0.62% and NNPA of 0.43% as on March 31, 2019, ICRA notes that the overall NPA levels remain comfortable and under control. The delinquencies and the asset quality will remain monitorables to see the impact of the pandemic. The management stated that they have prudently provided for the expected credit costs due to the pandemic and are also seeing a significant improvement in collections.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with a return on managed assets (RoMA) of 1.9% and a return on net worth (RoNW) of 19.1% in FY2020 against 1.7% and 19.0%, respectively, in FY2019. The profitability is supported by the company's good operating efficiency, stable yields, low borrowing rates and credit costs. CFHL reported a net profit of Rs. 518.29 crore in FY2020 after making an additional provision of Rs. 36.54 crore in Q4 FY2020 as per the Reserve Bank of India's (RBI) circular on the Covid-19 regulatory package dated April 17, 2020. Further, it reported a net profit of Rs. 93.16 crore in Q1 FY2021 after making an additional provision of Rs. 44.14 crore. ICRA takes comfort from the company's improving collections and the provisions that were made in anticipation of higher credit costs. However, the collections and the asset quality levels will remain key monitorables.

Credit challenges

Moderate capitalisation levels – Despite an improvement, the company's gearing was high at 8.72x and the capital adequacy was moderate at 22.3% as on March 31, 2020 (8.09x and 22.3%, respectively, as on June 30, 2020) compared to 9.47x and 16.4%[1], respectively, as on March 31, 2019. However, the risk is somewhat mitigated by CFHL's presence in the low-risk housing loan segment, wherein the average ticket size is low and the majority of the borrowers are salaried individuals. The current capital profile seems adequate for FY2021 as ICRA expects the growth in the loan book to remain muted. However, from a longer term and credit prospective, CFHL's ability to fund the growth in a manner that protects its capitalisation and leverage levels would be crucial. ICRA notes that the company has secured approval from its BoD for raising capital to the extent of Rs. 1,000 crore. Its 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 result in a comfortable liquidity profile – CFHL's asset-liability mismatch remains a monitorable because of the long-term nature of the asset class with the tenure of the home loans ranging from 12-20 years while the funding is through relatively shorter-term borrowings. However, the risk is partly mitigated by the company's policy of maintaining adequate unutilised bank lines as a liquidity buffer. CFHL enjoys strong relationships with a diversified lender base and had sizeable undrawn sanctioned lines of Rs. 3,709 crore as on August 31, 2020 in addition to Rs. 2,500 crore of funds in the pipeline.

Liquidity position

Given the relatively higher share of short-term borrowings vis-à-vis the long-term nature of the asset class with the 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 -5.0% (Rs. 2,014.84 crore) of its total assets as on March 31, 2020. However, ICRA draws comfort from CFHL's strong relationships with a diversified lender base and sizeable undrawn sanctioned lines. As on August 31, 2020, the company had undrawn sanctioned lines of Rs. 3,709 crore along with in-principle sanctioned approvals for lines of around Rs. 2,500 crore, as stated by the management, to cover debt obligations of Rs. 3,617 crore till March 2021.

Rating sensitivities

Positive triggers – ICRA could upgrade CFHL's rating in the event of a material and favourable change in the shareholding or a steady scale-up in the business while reporting an improvement in the capitalisation profile and maintaining good asset quality with GNPA <1%, which is sustained over the long term.

Negative triggers – ICRA could downgrade the ratings in case of a significant deterioration in the asset quality, an increase in the capitalisation/gearing levels beyond 11x, weakening of the liquidity profile, deterioration in the credit profile of Canara Bank or a materially unfavourable change in the shareholding.

[1] Term deposit amounting to Rs. 257.00 crore (matured on April 10, 2019) held with Canara Bank is reduced in the computation of net owned funds; CAR, without considering the aforesaid term deposit, would have been 19.24%

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-Banking Finance Companies ICRA Policy on Withdrawal and Suspension of Credit Rating ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	The ratings factor in ICRA's expectations 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

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 a presence in 19 states and Union Territories. CFHL's loan book reached Rs. 20,843 crore with 1.66 lakh customers as on June 30, 2020. It witnessed a YoY growth of 10% in the loan book. Home loans accounted for 90% of the loan book outstanding as on June 30, 2020, and 71% of the borrowers pertained to salaried/professionals segment. CFHL had a nationwide network of 165 branches, 21 affordable housing loan centres and 14 satellite offices as on June 30, 2020. A sizeable share of its portfolio, which stood at Rs. 20,843 crore as on June 30, 2020, 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 less than Rs. 25 lakh with a median tenure of 16 to 20 years and an FOIR of less than 50%.

CFHL reported a net profit (PAT) of Rs. 376.12 crore in FY2020 on a loan book of Rs. 20,644 crore as on March 31, 2020 against a net profit of Rs. 296.74 crore in FY2019 on a loan book of Rs. 18,333 crore as on March 31, 2019. The company reported RoMA and RoNW of 1.9% and 19.1%, respectively, in FY2020 compared to 1.7% and 19.0%, respectively, in FY2019. In Q1 FY2021, the company reported a net profit of Rs. 93.16 crore on a loan book of Rs. 20,843 crore as on June 30, 2020.

Key financial indicators (audited)

Fiscal As per	FY2018 I-GAAP Audited	FY2019 Ind-AS Audited	FY2020 Ind-AS Audited	Q1 FY2021 Ind-AS Provisional
Total Income (Rs. Crore)	1,537.9	1,716.2	2,018.1	521.5
Profit after Tax (Rs. Crore)	301.77	296.74	376.12	93.16
Net Worth (Rs. Crore)	1,346.50	1,782.19	2,150	2,243@
Total Managed Portfolio (Rs. Crore)	15,748	18,333	20,644	20,843
Total Managed Assets (Rs. Crore)	15,807	18,829	21,162	21,366^
Return on Managed Assets (%)	2.1%	1.7%	1.9%	1.8%*
Return on Net Worth (%)	24.9%	19.0%	19.1%	16.6%*
Gearing (times)	10.51	9.47	8.72	8.09*
Gross NPA (%)	0.4%	0.6%	0.8%	0.8%
Net NPA (%)	0.2%	0.4%	0.5%	0.5%
Capital Adequacy Ratio (%)	19.08%	16.44%~	22.28%	22.26%

@Estimated net worth = (Prev. net worth as on March 31, 2020 + TCI for Q1 FY2021)

^ FY2021 ratios are on an estimated basis (exact values for assets as on June 30, 2020 not available); managed assets have been calculated as a percentage of the loan book in the same ratio as on March 31, 2020 i.e. Managed assets as on June 30, 2020 = (Managed assets as on March 31, 2020 x Loan book as on June 30, 2020)/(Loan book as on March 31, 2020)

**As per Can Fin's investor presentation*

~ Term deposit amounting to Rs. 257.00 crore (matured on April 10, 2019) held with Canara Bank is reduced in the computation of net owned funds; CAR, without considering the aforesaid term deposit, would have been 19.24%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					22-Oct-2020	27-Sep-2019	6-May-2019	22-Oct-2018	3-Oct-2017
1	Bank lines – LT	Long Term	12,400	9,770.54*	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
2	Sub-debt	Long Term	300	100*	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
3	NCD	Long Term	4,620	1,522*	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
4	Bank lines – ST	Short Term	2,600	2,600	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial papers	Short Term	4,500	4,500	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fixed deposits	Medium Term	-	-	MAAA &	MAAA &	MAAA (Stable)	MAAA (Negative)	MAAA (Negative)
7	NCD programme	Long Term	2,480	-	Withdrawn	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)

*& - On Rating Watch with Developing Implications; * Outstanding as on September 30, 2020*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Bank Facilities	Fund Based	-	-	-	9,770.54	[ICRA]AA+ &
Bank Facilities	Unallocated	-	-	-	2,629.46	[ICRA]AA+ &
Bank Facilities	Short Term	-	-	-	2600.00	[ICRA]A1+
INE477A07100	NCD	10-09-2015	8.69%	10-09-2020	100	[ICRA]AA+ &; withdrawn
INE477A07126	NCD	30-10-2015	8.41%	30-01-2019	150	[ICRA]AA+ &; withdrawn
INE477A07134	NCD	24-11-2015	8.45%	22-02-2019	100	[ICRA]AA+ &; withdrawn
INE477A07142	NCD	22-12-2015	8.55%	22-03-2019	100	[ICRA]AA+ &; withdrawn
INE477A07159	NCD	07-01-2016	8.60%	06-04-2019	125	[ICRA]AA+ &; withdrawn
INE477A07167	NCD	17-02-2016	8.85%	17-05-2019	165	[ICRA]AA+ &; withdrawn
INE477A07175	NCD	22-04-2016	8.37%	22-03-2019	300	[ICRA]AA+ &; withdrawn
INE477A07183	NCD	27-05-2016	8.55%	27-08-2019	100	[ICRA]AA+ &; withdrawn
INE477A07191	NCD	16-09-2016	7.85%	16-12-2019	300	[ICRA]AA+ &; withdrawn
INE477A07209	NCD	24-10-2016	7.73%	24-01-2020	440	[ICRA]AA+ &; withdrawn
INE477A07217	NCD	15-11-2016	7.77%	15-11-2021	122	[ICRA]AA+ &
INE477A07225	NCD	12-01-2017	7.57%	12-04-2020	400	[ICRA]AA+ &; withdrawn
INE477A07233	NCD	27-02-2017	7.68%	27-05-2020	200	[ICRA]AA+ &; withdrawn
INE477A07241	NCD	18-05-2017	7.89%	18-05-2022	600	[ICRA]AA+ &
INE477A07258	NCD	26-07-2017	7.32%	26-10-2020	400	[ICRA]AA+ &
INE477A07266	NCD	17-10-2017	7.44%	17-01-2021	200	[ICRA]AA+ &
INE477A07274	NCD	29-11-2017	7.64%	28-02-2021	200	[ICRA]AA+ &
Unallocated	NCD	NA	NA	NA	3,098	[ICRA]AA+ &
INE477A08025	Sub-debt	12-03-2014	8.94%	12-03-2024	100.00	[ICRA]AA+ &
Unallocated	Sub-debt	-	-	-	200.00	[ICRA]AA+ &
-	Commercial Paper	-	-	-	4,500.00	[ICRA]A1+
-	Fixed Deposit	-	-	-	-	MAAA &

Source: Can Fin Homes Limited
& - On Watch with Developing Implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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For more information, visit www.icra.in

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