Can Fin Homes Limited

August 30, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Secured Redeemable Non-Convertible Debenture	2500.00@	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Secured Redeemable Non-Convertible Debenture	2500.00@	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Tier II Bonds (Subordinated Bonds)	300.00$	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Secured Redeemable Non-Convertible Debenture	3000.00@	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Commercial Paper	4500.00#	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**12,800.00 (Rupees Twelve thousand eight hundred crore only)**		

Details of instruments/facilities in Annexure-1
@ Rs.3060 crore is outstanding as on June 30, 2019
$ Rs.100 crore outstanding as on June 30, 2019
#Rs.2575 crore outstanding as on June 30, 2019

Detailed Rationale & Key Rating Drivers

The rating continues to draw comfort from the strong parentage of Canara Bank (holding 29.99% stake in the company as on June 30, 2019) extending operational, financial and management support. The ratings continue to factor in low risk portfolio of the CFHL dominated by loans to salaried class, consistent improvement in income and profits levels, bolstered by satisfactory growth in its portfolio year on year, helping sustain the healthy financial performance of the company while maintaining healthy asset quality, and adequate capitalization, diversified resource profile and satisfactory liquidity profile.
CARE takes note of the slight moderation in asset quality during FY19 and Q1FY20. These rating strengths outweigh factors such as moderate business size, regional concentration and moderate profitability levels. The rating also takes note of the relatively modest growth in loan portfolio in FY19 and Q1FY20 attributed primarily to the slowdown in real estate business in its key market of Karnataka.
Continued support and majority ownership of Canara Bank and CFHL maintaining asset quality are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage with established track record: CFHL is promoted by Canara Bank which holds the majority stake of 29.99% (PY: 29.99%) in the company as on June 30, 2019. Canara Bank being its sponsor, the company enjoys managerial, operational as well as financial support from the parent. Canara Bank have its representation on CFHL's board as in the past and extend the operational and financial support. Canara Bank has deputed three of its senior level officers as representatives on the board of CFHL.
During Q1FY20, Canara Bank had made announcement about permission to initiate its stake sale in Can Fin Homes Limited. However, the stake sale process is subject to market conditions and market valuations. Till such time of stake sale, Canara Bank's managerial, operational and financial support is expected to continue.

Low risk portfolio dominated by housing loans to salaried class: CFHL mainly focuses on loans to salaried and professional class which constituted of 71.1% (73% as on March 31, 2018) of the total outstanding loan portfolio as on March 31, 2019 and around 89.5% (89.5% as on March 31, 2018) of the overall portfolio constitutes of housing loans. The average ticket size of loan outstanding as on March 31, 2019 was around Rs.17.1 lakh (March 31, 2018: 16 lakh), with average Loan To Value (LTV) ratio of about 64.26% for housing loans as against the prescribed LTV ratio of 80% for housing loans. During FY19, 87.7% (90.3% in FY18) of fresh approvals were for the housing, and 12.3% (9.7% in FY18) for non-housing loans, with Average ticket size of incremental housing loans and non-housing loans at Rs.18.12 Lakh (Rs.18.08 lakhs in FY18) and Rs.9.15 Lakh (Rs.8.73 lakhs in FY18) respectively. During FY18, non-housing loan segment registered a y-o-y growth of 17.2% (from Rs.1,654 crore to Rs.1,939 crore, constituting 10.5% of total loan book). Builder loan constitute only 0.06% (0.02% as on March 31, 2018) of total outstanding loan book as on March 31, 2019. CFHL sources business through its own branches and

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

also through direct selling agents (DSA). During FY19, CFHL sourced 53% (46% in FY18, and 54% in FY17) of total sanctions through its 687 DSA's.

Healthy asset quality, though slight moderation during FY19 & Q1FY20: The asset quality, though moderated slightly, continues to be healthy as reflected in the gross NPA of 0.62% as on Mar 31, 2019 (March 31, 2018: 0.43%) and net NPA at 0.42% (March 31, 2018: 0.20). With CFHL expecting recovery from the fresh slippage during the year, company has not fully provided for NPA during FY19, and its provision coverage stood at 29.99% as on March 31, 2019, as against the earlier practice of providing 100% for NPA and having nil net NPA till FY17. GNPA & NNPA moderated further to 0.73% & 0.52% respectively as on June 30, 2019, attributable to practice of high NPA recognition in first quarter of fiscal to hasten recovery process.
Loans to salaried customers forming the major share of the loan portfolio, has resulted in comfortable asset quality parameters over the years. Further, the company adopts a rigorous follow-up by way of individual account monitoring statement, through which each SMA/NPA account is tracked closely for closure or for regularization. Further all the loans in both housing and non-housing segments are backed by adequate security leading to strong asset quality. Given significant growth over last 2-3 years, the sustainability of the asset quality is to be seen with the seasoning of loans.

Adequate capitalization levels: CAR stood at 16.44% (Tier I CAR: 14.64%) as on March 31, 2019 as against 19.08% (Tier I CAR: 16.96%) as on March 31, 2018, against the 12% stipulation by NHB. Decline in CAR is on account of accounting adjustment in which investments of over 10% in related party was deducted from calculation of Tier I and total capital. Adjusting for the same, CAR would have been at 19.24% and Tier I CAR at 17.44% as on March 31, 2019. CAR stood at to 19.59% (Tier I CAR at 17.96%) as on June 30, 2019. CFHL leverage levels (overall debt/tangible net worth) was at 9.50 times as on March 31, 2019 (as on March 31, 2018: 9.51 times). High proportion of Tier I CAR provides cushion to raise additional Tier-II capital to fund future growth.

Moderate profitability: CFHL reported growth of 14% in interest income which was supported by a healthy growth in disbursements to Rs.5479 crores in FY19 (PY: Rs.5207 crores). Yield on advances have fallen moderately from 10.28% in FY18 to 10.01% in FY19, due to the fall in interest rates. Net interest margin (NIM) fell from 3.50% during FY18 to 3.08% in FY19. Owing to the same despite improvement in operational efficiency (operating expense/total income stood at 5.28% (PY: 5.75%)) company's ROTA declined to 1.72% (PY: 1.97%). The company reported PAT of Rs.297 crore for FY19 as compared to Rs.286 crore for FY18. PAT was also impacted due to adoption of IND AS on account of which company has to amortize processing fees earned on the entire tenor of loans.

Diversified resource profile: CFHL has a diversified resource profile, and meet its borrowing requirement through multiple sources, including term loans from Canara Bank and other private and public banks, non-convertible debentures, deposits, commercial paper, and refinancing from National housing bank (NHB). CFHL had relied majorly on banks to fund the growth of portfolio, and its share has increased from 33% as on March-18 to 53% as on March-19.

Key Rating Weaknesses

Moderate size and regional concentration: Although the total asset of the company has grown by 19.4% from Rs.15,706 crore as on March 31, 2018 to Rs.18,756 crore as of March 31, 2019, the company continues to be moderately sized housing finance company in India. The company has been expanding its geographical presence, in the Tier II cities, and has increased the number of branches to 175 as on June 30, 2019. Company operates mainly in the Southern India with 104 out of the total branches located in the five states (Tamil Nadu, Telangana, Andhra Pradesh (AP), Kerala and Karnataka) of South India. As on June 30, 2019, CHFL's advances stood at Rs.19,003 crores with 71% of the total advances from southern states.

Industry prospects: Continuation of prevailing tight liquidity scenario in the credit market may impact the overall growth of the sector. The slowdown in the real estate market coupled with elevated refinancing risk for the developers is expected to impact the asset quality of players in the sector. Further, increase in the cost of funds and delinquencies would impact their profitability margins. However, the continuation of long-term trend of robust asset quality of home loans, except for some players who are in the affordable housing segment, is a key positive for the sector. Going ahead, the transmission of increasing funding costs to the borrower base is a key monitorable in the highly competitive scenario. Such a development could lead to high prepayments and compel players to reduce the proportion of prime borrower segment, to compensate for the reduction in margin.

Adequate liquidity position: As per ALM statement submitted by company as on June 30, 2019 CFHL's liquidity profile is characterized by positive cumulative mismatches in all time buckets. The positive cumulative mismatches was on account of trend of higher prepayments, longer tenor loans from banks, and lower dependence of funds of medium term nature like deposits as well as unutilized limits available from banks. Liquidity is also supported from strength of its parent.

Analytical approach: Standalone along with Canara Bank's managerial, operational and financial support is considered.

Applicable Criteria
CARE's Criteria on assigning Outlook to Credit Ratings
Criteria for Short-term Instruments
CARE's Policy on Default Recognition
Financial Sector Ratios
Sector Methodology- Housing Finance Companies
Factoring Linkages in Ratings

About the Company
Can Fin Homes Limited (CFHL) was incorporated in 1987 by Canara Bank in association with financial institutions including HDFC and UTI. CFHL is the first Bank sponsored Housing Finance Company in India with Canara Bank holding a stake of 29.99% as on June 30, 2019. Company is engaged in the business of providing housing finance to individuals for construction, purchase, repair and upgradation of houses. Company operates mainly in the Southern India with 104 out of 175 the total branches located in south India as on June 30, 2019. As on June 30, 2019, CHFL's advances stood at Rs.19,003 crore with 71% of the total advances from southern states. Housing loans account for major share (around 89.5% as on June 30, 2019) of CFHL's portfolio, and overall loans to salaried class form the major share of around 71.1% as on June 30, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1522	1731
PAT	286	297
Interest coverage (times)	1.44	1.40
Total Assets	15,707	18,755
Net NPA (%)	0.20	0.43
ROTA (%)	1.97	1.72

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds	December 03, 2014	8.94%	Decemeber 03, 2024	300.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	November 15, 2016	7.77%	November 11, 2021	2500.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	July 26, 2017	7.32%	October 26, 2022	2500.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	November 29, 2017	7.64%	February 28, 2021	3000.00	CARE AAA; Stable
Commercial Paper	-	-	-	4500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Oct-17)	1)CARE AAA; Stable (01-Mar-17)

								2)CARE AAA (11-Aug-16)
2.	Bonds-Tier II Bonds	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17)	1)CARE AAA; Stable (01-Mar-17) 2)CARE AAA (11-Aug-16)
3.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17) 3)CARE AAA; Stable (27-Jul-17)	1)CARE AAA; Stable (01-Mar-17) 2)CARE AAA (11-Aug-16)
4.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17) 3)CARE AAA; Stable (27-Jul-17)	1)CARE AAA; Stable (01-Mar-17) 2)CARE AAA (11-Aug-16)
5.	Debentures-Non Convertible Debentures	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17)	-
6.	Commercial Paper	ST	4500.00	CARE A1+	-	1)CARE A1+ (01-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE A1+ (05-Oct-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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