# Can Fin Homes Limited

October 01, 2018

**Ratings**

| **Facilities** | **Amount (Rs. crore)** | **Rating[1]** | **Rating Action** |
|---|---|---|---|
| Secured Redeemable Non-Convertible Debenture | 2500.00* | **CARE AAA; Stable (Triple A; Outlook: Stable)** | **Removed from credit watch with developing implications; Rating Reaffirmed** |
| Secured Redeemable Non-Convertible Debenture | 2500.00** | **CARE AAA; Stable (Triple A; Outlook: Stable)** | **Removed from credit watch with developing implications; Rating Reaffirmed** |
| Tier II Bonds (Subordinated Bonds) | 300.00$ | **CARE AAA; Stable (Triple A; Outlook: Stable)** | **Removed from credit watch with developing implications; Rating Reaffirmed** |
| Proposed Secured Redeemable Non-Convertible Debenture | 3000.00# | **CARE AAA; Stable (Triple A; Outlook: Stable)** | **Removed from credit watch with developing implications; Rating Reaffirmed** |
| Commercial Paper | 4500.00^ | **CARE A1+ (A One Plus)** | **Removed from credit watch with developing implications; Rating Reaffirmed** |
| **Total** | **12,800 (Rupees Twelve thousand eight hundred crore only)** | | |

*Details of instruments/facilities in Annexure-1*
** Outstanding of Rs. 1362 crore and Rs. 900 crore raised and redeemed as on August 31, 2018.*
***Outstanding of Rs. 2340 crore as on August 31, 2018*
*$ Outstanding of Rs.100 crore as on August 31, 2018*
*# Outstanding of Rs. 400 crore as on August 31, 2018*
*^ Rs. 2921.44 crore outstanding as on August 31, 2018*

**Detailed Rationale & Key Rating Drivers**

The above ratings of instruments of Can Fin Homes Limited (CFHL) had been placed under 'credit watch with developing implications' post the Canara Bank Limited's proposal to offload its stake in CFHL. Later, Canara Bank, through its BSE filing had called off the disinvestment process of its entire stake in Can Fin Homes Ltd. While the sale process stands temporarily withdrawn, stake sale process may be renewed in future. Till such time of stake sale, Canara Bank's managerial, operational and financial support is expected to continue. In view of the above, ratings have been removed from 'credit watch with developing implications'.

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 comfortable liquidity profile. CARE takes note of the slight moderation in asset quality during FY18 and Q1FY19. 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 FY18 and Q1FY19 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 around 30% (PY: 30%) in the company. 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 four of its senior level officers as representatives on the board of CFHL.

During FY18, Canara Bank had made announcement about invitation of bids for its stake sale in Can Fin Homes Limited. Later through exchange filing on Canara Bank announced that it has called off the divestment process in Can Fin Homes

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

Limited. While the sale process stands temporarily withdrawn, stake sale process may be renewed in future. 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 73% (75% as on March 31, 2017) of the total outstanding loan portfolio as on March 31, 2018 and around 90% (88% as on March 31, 2017) of the overall portfolio constitutes of housing loans. Also company maintains conservative sanctioning norms for housing loans as reflected in the average ticket size of loan outstanding as on Mar-18 of around Rs.16 lakh (March 31, 2017: 16 lakh), with average Loan To Value (LTV) ratio of about 60.90% (March 31, 2017: 60.68%) for housing loans as against the prescribed LTV ratio of 80% for housing loans. During FY18, 90.5% (88% in FY17) of fresh approvals were for the housing, and 10.5% (12% in FY17) for non-housing loans, with Average ticket size of incremental housing loans and non-housing loans at Rs.18.08 Lakh (Rs.18 lakhs in FY17) and Rs.8.73 Lakh (Rs.10 lakhs in FY17)respectively.
The non-housing segment majorly includes mortgage loans/Loan against property, whose share has been 5.02% (5.93% as on March 31, 2017) of portfolio outstanding as on March 31, 2018. Other than mortgage loans, it includes commercial loans, top-up personal loans, loan for sites, lease rental loans, builder loans, staff loans and others. During FY18, non-housing loan segment registered a y-o-y growth of 8% (from Rs.1,530 crore to Rs.1,654 crore, constituting 10.5% of total loan book). Builder loan constitute only 0.02% (0.12% as on March 31, 2017) of total outstanding loan book as on March 31, 2018. CFHL sources business through its own branches and also through direct selling agents (DSA). During FY18, CFHL sourced 46% (54% in FY17, and 53% in FY16) of total sanctions through its 687 DSA's.

***Healthy asset quality, though slight moderation during FY18, & Q1FY19:*** The asset quality, though moderated slightly, continues to be healthy as reflected in the gross NPA of 0.43% as on Mar 31, 2018 (March 31, 2017: 0.21%) and net NPA at 0.20% (March 31, 2017: Nil). With CFHL expecting recovery from the fresh slippage during the year, company has not fully provided for NPA during FY18, and its provision coverage stood at 53% as on March 31, 2018, as against the earlier practice of providing 100% for NPA and having nil net NPA for the past eight years. GNPA & NNPA moderated further to 0.66% & 0.44% respectively as on June 30, 2018, 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 19.08% (Tier I CAR: 16.96%) as on March 31, 2018 as against 18.50% (Tier I CAR: 16.01%) as on March 31, 2017, against the 12% stipulation by NHB. CAR remained adequate even after the growth in the portfolio by 18%. The risk weighted assets stood at Rs.7,751 crore (49% of loan outstanding; PY: 49% of the loans outstanding). CAR stood at to 18.70% (Tier I CAR at 16.72%) as on June 30, 2018. CFHL leverage levels (overall debt/tangible net worth) was at 10.34 times as on March 31, 2018 (as on March 31, 2017: 11.03 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.5207 crores in FY18 (PY: Rs.4792 crores). Yield on advances have fallen moderately from 10.93% in FY17 to 10.27% in FY18, due to the fall in interest rates. However, Net interest margin (NIM) remained constant at 3.49% during FY18 (FY17: 3.49%) due to decrease in cost of borrowings from 8.30% in FY17 to 7.61% in FY18. Similar level of NIM, along with improvement in operational efficiency (operating expense/total income stood at 5.55% (PY: 5.88%)) led to improvement in ROTA to 2.07% (PY: 1.94%). The improvement in the profitability is also attributable to continued improvement in its operational parameters, with rise in business per branch (from Rs.97.88 crore in FY17 to Rs.109.07 crore in FY18), and business per employee (from Rs.20.68 crore in FY17 to Rs.23.88 crore in FY18). Improvement of operational efficiency, along with the growth of 14% in interest income due to the growth in loan portfolio, and decreasing cost of borrowings resulted in improvement in PAT margin from 17.38% in FY17 to 19.51% in FY18. The company reported PAT of Rs.302 crores for FY18 as compared to Rs.235 crores for FY17 showing around 29% growth. During Q1FY19, the growth in disbursement was miniscule at 0.95% on y-o-y basis. The drop in the growth in disbursement could be attributed to the ambiguity associated with the implementation of RERA Act resulting in slowdown in investment sentiment. CFHL earned a PAT of Rs.77 crore on a total income of Rs.407 crore, with moderation in NIM margin falling to 3.23%, mainly due to CFHL's limited ability to pass rise in the cost of funds to its customers, in the hardening of yields scenario.

**Key Rating Weaknesses**
***Moderate size and regional concentration:*** Although the total asset of the company has grown by 18% from Rs.13,379 crores as on March 31, 2017 to Rs.15,807 crore as of March 31, 2018, 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 153 as on June 30, 2018. Company operates mainly in the Southern India with 98 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, 2018, CHFL's advances stood at Rs.16,189 crores with 72.28% of the total advances from southern states.

***Prospects:***

The housing finance segment in India has emerged as one of the most secured and resilient asset classes witnessing healthy growth rates and low delinquencies. As a result, housing finance has continued to be a focus segment for both banks as well as housing finance companies registering a robust growth during past few years. Owing to the stress in their corporates portfolios, banks have been increasingly shifting their focus towards retail asset classes such as mortgage finance. Although banks continue to dominate the housing finance space in India given their extensive reach and access to low cost funds which has resulted into a rise in balance transfers from HFCs to banks; HFCs continue to mark their presence with their focus, systems as well as specialization in their target segment and geographies. Continued healthy portfolio growth, stable margins and operating efficiencies as well as low credit costs have contributed to healthy profitability parameters of HFCs. The GNPA ratios continue to be stable. While some of the players are witnessing rising NPA levels in their loans against property (LAP) and non-housing loans portfolio; the fact that individual housing loans (excluding LAP) account for bulk of the total mortgage finance portfolios of HFCs, the overall delinquencies are still low. Over the last few years, many new HFCs backed by private equity players and or strong promoters with a focus on affordable housing have started operations. Recent initiatives such as lowering of risk weights for housing loans upto Rs.75 lakh, revision in interest rates and on-lending spread caps under Rural Housing Fund by NHB in addition to Housing for All by 2022 are expected to boost credit growth in the affordable housing segment. Furthermore, initiatives such as Real Estate Act, 2016, 100% tax exemption to developers on profits from building affordable housing and services tax exemption are expected to help transparency and supply side issues. HFCs are expected to maintain their good profitability on the basis of strong business growth and stable asset quality over the medium term. However, rising competition and the resultant possible dilution in credit underwriting norms, long-term funding and asset quality are the key challenges for the sector.

**Analytical approach:** Standalone

**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

**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 March 31, 2018 (PY: 30%). 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 98 out of 153 the total branches located in south India as on June 30, 2018. As on June 30, 2018, CHFL's advances stood at Rs.16,189 crores with around 72% of the total advances from southern states. Housing loans account for major share (around 90% as on June 30, 2018) of CFHL's portfolio, and overall loans to salaried class form the major share of around 73% as on June 30, 2018.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 1,353 | 1,547 |
| PAT | 235 | 302 |
| Interest coverage (times) | 1.42 | 1.47 |
| Total Assets | 13,379 | 15,807 |
| Net NPA (%) | - | 0.20 |
| ROTA (%) | 1.94 | 2.07 |

*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

***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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**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 |
|---|---|---|---|---|---|
| Non-Convertible Debentures | 08 October 2015 | 8.44% | 08 October 2018 | 100 | CARE AAA; Stable |
| Non-Convertible Debentures | 30 October 2015 | 8.41% | 30 January 2019 | 150 | CARE AAA; Stable |
| Non-Convertible Debentures | 24 November 2015 | 8.45% | 22 February 2019 | 100 | CARE AAA; Stable |
| Non-Convertible Debentures | 22 December 2015 | 8.55% | 22 March 2019 | 100 | CARE AAA; Stable |
| Non-Convertible Debentures | 07 January 2016 | 8.60% | 06 April 2019 | 125 | CARE AAA; Stable |
| Non-Convertible Debentures | 17 February 2016 | 8.85% | 19 May 2019 | 165 | CARE AAA; Stable |
| Non-Convertible Debentures | 10 September 2015 | 8.69% | 10 September 2020 | 100 | CARE AAA; Stable |
| Non-Convertible Debentures | April 22, 2016 | 8.37% | 22 March 2019 | 300 | CARE AAA; Stable |
| Non-Convertible Debentures | 27 May 2016 | 8.55% | 27 August 2019 | 100 | CARE AAA; Stable |
| Non-Convertible Debentures | 16 September 2016 | 7.85% | 16 December 2019 | 300 | CARE AAA; Stable |
| Non-Convertible Debentures | 24 October 2016 | 7.73% | 24 January 2020 | 440 | CARE AAA; Stable |
| Non-Convertible Debentures | 15 November 2016 | 7.77% | 15 November 2021 | 122 | CARE AAA; Stable |
| Non-Convertible Debentures | 12 January 2017 | 7.57% | 12 April 2020 | 400 | CARE AAA; Stable |
| Non-Convertible Debentures | 27 February 2017 | 7.68% | 27 May 2020 | 200 | CARE AAA; Stable |
| Non-Convertible Debentures | 18 May 2017 | 7.89% | 18 May 2022 | 600 | CARE AAA; Stable |
| Non-Convertible Debentures | 26 July 2017 | 7.32% | 26 October 2022 | 400 | CARE AAA; Stable |
| Non-Convertible Debentures | 17 October 2017 | 7.44% | 17 January 2021 | 200 | CARE AAA; Stable |
| Non-Convertible Debentures | 29 November 2017 | 7.64% | 28 February 2021 | 200 | CARE AAA; Stable |
| Non-Convertible Debentures-Proposed | - | - | - | 238 | CARE AAA; Stable |
| Non-Convertible Debentures-Proposed | - | - | - | 160 | CARE AAA; Stable |
| Non-Convertible Debentures-Proposed | - | - | - | 2,600 | CARE AAA; Stable |
| Bonds-Tier II Bonds | December 03, 2014 | 8.94% | December 03, 2024 | 100 | CARE AAA; Stable |
| Bonds-Tier II Bonds-Proposed | - | - | - | 200 | CARE AAA; Stable |
| Commercial Paper | | | 7-364 days | 4,500 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (05-Oct-17) | 1)CARE AAA; Stable (01-Mar-17)<br>2)CARE AAA (11-Aug-16) | 1)CARE AAA (13-Oct-15) |
| 2. | Bonds-Tier II Bonds | LT | 300.00 | CARE AAA; Stable | - | 1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18)<br>2)CARE AAA; Stable (05-Oct-17) | 1)CARE AAA; Stable (01-Mar-17)<br>2)CARE AAA (11-Aug-16) | 1)CARE AAA (13-Oct-15) |
| 3. | Debentures-Non Convertible Debentures | LT | 2500.00 | CARE AAA; Stable | - | 1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18)<br>2)CARE AAA; Stable (05-Oct-17)<br>3)CARE AAA; Stable (27-Jul-17) | 1)CARE AAA; Stable (01-Mar-17)<br>2)CARE AAA (11-Aug-16) | 1)CARE AAA (13-Oct-15) |
| 4. | Debentures-Non Convertible Debentures | LT | 2500.00 | CARE AAA; Stable | - | 1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18)<br>2)CARE AAA; Stable (05-Oct-17)<br>3)CARE AAA; Stable (27-Jul-17) | 1)CARE AAA; Stable (01-Mar-17)<br>2)CARE AAA (11-Aug-16) | - |
| 5. | Debentures-Non Convertible Debentures | LT | 3000.00 | CARE AAA; Stable | - | 1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18)<br>2)CARE AAA; Stable (05-Oct-17) | - | - |
| 6. | Commercial Paper | ST | 4500.00 | CARE A1+ | - | 1)CARE A1+ (Under Credit watch with Developing Implications) (15-Mar-18)<br>2)CARE A1+ (05-Oct-17) | - | - |

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