Can Fin Homes Limited

October 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – long term	3,875.00	11,100.00	[ICRA]AAA (Negative); Rating reaffirmed
Non-Convertible Debenture (NCD) Programme	7,100.00	7,100.00	[ICRA]AAA (Negative); Rating reaffirmed
Non-Convertible Debenture (NCD) Programme	900.00	-	[ICRA]AAA (Negative); Rating Withdrawn
Bank facilities – short term	900.00	900.00	[ICRA]A1+ / Rating reaffirmed
Sub-ordinated Debt programme	300.00	300.00	[ICRA]AAA (Negative); Rating reaffirmed
Commercial Paper	4,500.00	4,500.00	[ICRA]A1+ / Rating reaffirmed
Fixed Deposits	-	-	MAAA (Negative) / Rating reaffirmed
Total	**17,575.00**	**23,900.00**	

Rating action

ICRA has reaffirmed the long-term rating outstanding of [ICRA]AAA (pronounced ICRA triple A)[1] on the Rs.11,100.0 crore bank facilities (enhanced from Rs.3,875.0 crore), the Rs.8,000.0 crore NCD programme and the Rs.300.0 crore subordinated debt programme of Can Fin Homes Limited (CFHL or the company)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.900.0 crore short-term bank facilities and the Rs.4,500.00 crore commercial paper programme of the company. ICRA has also reaffirmed the medium-term rating of MAAA (pronounced M triple A) on the fixed deposits programme of CFHL. The outlook on the long-term and medium-term rating is Negative.

ICRA has also withdrawn the long term rating of [ICRA]AAA (pronounced ICRA triple A) with Negative outlook on the Rs.900.0 crore NCD programme of CFHL as the same have been redeemed in full and there are no dues outstanding against the same.

Rationale

The ratings factor CFHL’s strong ownership profile with 30.0% stake being held as on June 30, 2018 by Canara Bank (rated [ICRA]AAA(negative) / [ICRA]A1+), the management support and financial flexibility being an associate of Canara Bank and the company’s focus on relatively low risk salaried home loans segment has aided CFHL in maintaining healthy asset quality indicators with gross non-performing assets (GNPA) of 0.66% and net non-performing assets (NNPA) of 0.44% as on June 30, 2018. Housing loans accounted for 90.1% of the portfolio as on June 30, 2018 of which 74.8% was accounted by salaried segment. While the company’s GNPA and NNPA have increased over the last few quarters, ICRA notes that the same remains under control and also takes cognisance of the management efforts to contain the same.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

CFHL’s financial profile is comfortable characterized by healthy profitability and adequate capitalization as reflected by return on net worth of 22.34% for Qi FY2019 and capital adequacy ratio of 18.70% as on June 30, 2018.

The ratings continue to factor CFHL’s diversified funding profile across debt market instruments, bank borrowings and National Housing Bank (NHB) refinance. 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. However, the risk is partly mitigated by the company’s policy of maintaining adequate unutilised bank lines as a liquidity buffer which can be drawn against the large proportion of portfolio eligible for priority sector funding. The company enjoys strong relationships with diversified base of lender and has sizeable undrawn sanctioned lines to the extent of Rs.3,900 crore as on September 30, 2018 in addition to support from parent to cushion its liquidity profile. 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 and rising interest rates would be key monitorables.

Outlook: Negative

The negative outlook is reflective of the weak outlook on Canara Bank’s profitability, its weak solvency levels and significant capital requirements to maintain capital cushion in line with rating category.

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 which held 30% stake in CFHL as on June 30, 2018. 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.

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 June 30, 2018, housing loans accounted for about 90.1% 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 more than 95% of the company’s portfolio has LTV of <80% and about 45% of the portfolio has LTV less than 70% as on March 31, 2018. 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 0.66% and net non-performing assets (NNPA) at 0.44% as on June 30, 2018 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. ICRA also takes note of the management efforts towards controlling the slippages by way of recovery measures and conservative lending practices.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with return on equity of 24.9% in FY2018 and 22.3% in Q1 FY2019 supported by its good operating efficiency, stable yields and low funding costs. As on March 31, 2018, nearly 49% of its borrowings was through money market instruments (including 15% CP), 15% through NHB and 17% through banks resulting in a cost of borrowing of 7.49% (8.22% as on March 31, 2017). However, the recent tightening in liquidity and the consequent rise in interest rates are likely to impact its margins during FY2019 given its limited ability to pass on increase in interest rates in entirety. The company's ability to maintain good operating efficiencies and control on credit costs would be crucial for incremental profitability.

Adequate liquidity position, funding lines available from diverse lenders – 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. 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.3,900 crore as on September 30, 2018 and support from parent to cushion its liquidity profile.

Credit weaknesses

To maintain adequate capitalisation levels–The company's gearing and capital adequacy remain moderate at 10.0x as on and 18.7% respectively as on June 30, 2018 (compared to 10.5x and 19.1% respectively as on March 31, 2018). However, given that 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. While the company has secured BoD approval 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 crucial. 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 GNPA witnessed deterioration during FY2018 to 0.43% as on March 31, 2018 compared to 0.21% as on March 31, 2017. 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 0.77% as on March 31, 2018. The GNPA has further increased during Q1 FY2019 to 0.66% as on June 30, 2018; however, ICRA notes that the overall NPA levels for CFHL remains under control. The company is also taking measures to contain the same by way of increased personnel deployment towards recoveries. 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 and rising interest rate scenario – 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. Further, tightening liquidity scenario in the recent past has resulted in increased borrowing costs. 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 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 19 states and union territories. CFHL mainly focuses on housing loans to individuals which accounted for about 90.5% of its portfolio as on June 30, 2018. CFHL operates through a nation-wide network of around 148 branches, 20 affordable housing loan centres and 17 satellite offices as on June 30, 2018. CFHL's portfolio stood at Rs.16,199 crore as on June 30, 2018 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 June 30, 2018.

During Q1 FY2019, CFHL reported net profit of Rs.77.3 crore on advances of Rs.16,199.0 crore as against net profit of Rs.69.6 crore on advances of Rs.13,808 crore during the same period previous fiscal. For FY2018, the company reported net profit of Rs.301.8 crore on advances of Rs.15,743 crore.

Key Financial Indicators (Audited)

Fiscal	FY 2017	FY2018
Total Income (Rs. Crore)	1,353.1	1,547.1
Profit after Tax (Rs. Crore)	235.3	301.8
Net worth (Rs. Crore)	1,076.3	1,346.5
Total Managed Portfolio (Rs. Crore)	13,313.1	15,743.0
Total Managed Assets (Rs. Crore)	13,378.5	15,801.0
Return on Managed Assets (%)	1.9%	2.1%
Return on Net worth (%)	24.1%	24.9%
Gearing (times)	11.2	10.5
Gross NPA (%)	0.2%	0.4%
Net NPA (%)	0.0%	0.2%
Capital Adequacy Ratio (%)	18.5%	19.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	FY2018	FY2017			FY2016	
					Oct 2018	Oct 2017	Mar 2017	Sep 2016	Jul 2016	Mar 2016	Nov 2015
1	Bank lines – LT	LT	11,100.00	11,100.00	[ICRA]AAA (Negative)	[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]AAA (Negative)	[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]AAA (Negative)	[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 (Negative)	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]AAA (Negative)
Bank Facilities	Unallocated	-	-	-	9,392.00	[ICRA]AAA (Negative)
Bank Facilities	Short Term	-	-	-	900.00	[ICRA]A1+
INE477A07100	NCD	10-09-2015	8.69%	10-09-2020	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	100.00	[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	125.00	[ICRA]AAA (Negative)
INE477A07167	NCD	17-02-2016	8.85%	17-05-2019	165.00	[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	400.00	[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)
INE477A07266	NCD	17-10-2017	7.44%	17-01-2021	200.00	[ICRA]AAA (Negative)
INE477A07274	NCD	29-11-2017	7.64%	28-02-2021	200.00	[ICRA]AAA (Negative)
Unallocated	NCD	-	-	-	3,098.00	[ICRA]AAA (Negative)
INE477A08025	Sub-debt	12-03-2014	8.94%	12-03-2024	100.00	[ICRA]AAA (Negative)
Unallocated	Sub-debt	-	-	-	200.00	[ICRA]AAA (Negative)
-	Commercial Paper	-	-	-	4,500.00	[ICRA]A1+
-	Fixed deposit	-	-	-	-	MAAA (Negative)

Source: Can Fin Homes Limited

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