Canfin Homes Limited

	Amount	Rating Action
Commercial Paper Programme	Rs. 3500 Crore (enhanced from Rs 2500 crore)	[ICRA]A1+ assigned to enhanced amount

ICRA has assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the enhanced Rs 3500 crore(enhanced from Rs 2500 crore) Commercial paper programme of Canfin Homes Limited . ICRA also has a rating of [ICRA]AAA(negative) outstanding on the Rs 3875 crore bank lines, Rs 5000 crore Non convertible debenture programme , Rs 300 crore Subordinated debt programme of the company . ICRA also has a rating of [ICRA]A1+(pronounced ICRA A one plus) outstanding on the Rs 900 crore bank lines. ICRA also has a rating of MAAA (negative) (pronounced M triple A with a negative outlook) on the Fixed deposits programme of the company.

The rating factors in CFHL's focus on relatively low risk 'salaried home loans' segment (83% of portfolio as on June 2016 was towards individual housing loans (average ticket size of approximately Rs. 18 lakhs) of which more than 75% was towards salaried segment) and good loan underwriting and appraisal norms which have enabled the company to maintain good asset quality indicators (Gross NPA% of 0.24% as on June 30,2016). The rating for CFHL continues to factor in its strong ownership (Canara bank rated [ICRA]AAA(negative) by ICRA was the largest shareholder with 43.45% stake as on June 30, 2016). Given that CFHL receives the management, capital and funding support CFHL from its sponsor Canara Bank, CFHLs ratings would continue to be driven by CFHL's importance for Canara Bank, as well as Canara Bank's credit profile and rating.

As for funding, the company has diversified its funding mix, by increasing the share of debt market instruments[1] in its resource profile (share of debt market funding increased from 5% in Mar-14 to 34% in June -16). CFHL's liquidity profile was adequate supported by access to long-tenure borrowings (average maturity of 7-8 years) to match the duration of its assets (average maturity of around 10 years) as well as access to unutilised bank lines to plug the mismatches. As for capitalisation, capital infusion of Rs. 276 crore through rights issue in February 2015 enabled the company to maintain capitalisation at moderate levels (Gearing levels of 10.79 times as on June 30, 2016). Going forward, the company plans to grow its portfolio at a Compounded Annual Growth Rate (CAGR) of 30-35% over the medium term, and would require Rs. 300-500 crore external capitals to meet its growth plans (40-60% of the present net worth). Overall, ability of the company to maintain its asset quality and prudent capitalisation levels on a growing book would remain a key rating sensitivity.

CFHL's profitability indicators were good (Return on Equity (ROE) of 19% in 2015-16), supported by rising share of higher yielding non housing loans (17% as on March 31,2016), moderation in cost of funds and stable operating expenses (0.75% FY16) and credit costs. Going forward, interest spreads for CFHL are likely to be around 2.1-2.3%, leading to net interest margins in the range of 2.7-3.0%. Operating expenses for the company are likely to remain at around 0.8-0.9% leading to profitability indicators (PAT/ATA) of around 1.6-1.7% and ROE of 14-16% provided the company is able to maintain its asset quality indicators.

About the Company

CFHL was promoted by Canara Bank, HDFC and UTI in 1987. Canara Bank held 43.45% equity stake in the company as on March 31, 2016 with the balance shareholding fairly diversified amongst corporate and retail shareholders. CFHL operates through a nation-wide network of around 117 branches and 50 satellite offices as on March 31, 2016. CFHL reported a Profit after Tax (PAT) of Rs 157.11 crore on an asset base of Rs 10795 crore vis-a-vis PAT of Rs. 86.24 crore on an asset base of Rs. 8,334 crore for FY15. CFHL reported Capital Adequacy Ratio of 20.69% as on March 31, 2016.

September 2016

[1] Includes both CP and NCDs

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