November 20, 2020[Revised]

Can Fin Homes Limited: Ratings reaffirmed, removed from Watch with Developing Implications, Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term	12,400.00	12,400.00	[ICRA]AA+ reaffirmed, removed from Watch with Developing Implications and assigned Stable outlook
Non-convertible debenture (NCD) programme	4,620.00	4,620.00	[ICRA]AA+ reaffirmed, removed from Watch with Developing Implications and assigned Stable outlook
Bank facilities – Short term	2,600.00	2,600.00	[ICRA]A1+; reaffirmed
Subordinated debt programme	300.00	300.00	[ICRA]AA+ reaffirmed, removed from Watch with Developing Implications and assigned Stable outlook
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	MAAA; reaffirmed, removed from Watch with Developing Implications and assigned Stable outlook
Total	**24,420.00**	**24,420.00**	

** Instrument details are provided in Annexure-1*

Rationale

The ratings of Can Fin Homes Limited (CFHL) have been removed from Watch with Developing Implications as the ratings of the company's principal shareholder, Canara Bank {(rated ICRA]AA+(hyb) (Stable)/[ICRA]AA(hyb) (Stable))}, which holds a stake of around 30% in CFHL as on September 30, 2020, have been removed from Watch with Developing Implications.

The ratings factor in the strengths derived by the company as an associate of Canara Bank like 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 92% of the portfolio as on September 30, 2020 of which around 71% was accounted for by the salaried segment) has helped the company maintain healthy asset quality indicators (as per Ind-AS) with gross non-performing assets (GNPAs) of 0.73% and net NPAs (NNPAs) of 0.45% as on September 30, 2020.

CFHL's funding profile remains diversified across debt market instruments (17%), bank borrowings (60%), National Housing Bank (NHB) refinance (21%) and deposits (2%) as on September 30, 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 (7.77x as on September 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.

The Stable outlook on the ratings reflects ICRA's opinion that the company will continue to benefit from the experience of its management team along with the Stable outlook on the ratings of Canara Bank.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding a 30% equity stake – CFHL enjoys management support and board-level guidance for being an associate of Canara Bank, which held a 30% stake in the company as on September 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 September 30, 2020, including two additional nominee directors from the bank. ICRA takes comfort from Canara Bank's 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 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 (primarily under the age of 40 years). As on September 30, 2020, housing loans accounted for about 92% 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 major portion 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 maintained so far 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 (0.73% and 0.45%, respectively, as on September 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 are under control. The delinquencies and the asset quality will remain under focus 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 the 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. 376.12 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. 221.57 crore in H1 FY2021 converting into an RoMA of 2.1% and an RoNW of 19.7%. 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 (7.77x and 24.8%, respectively, as on September 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 Asset Liability Management (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 between 12 and 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. 3,084 crore as on October 31, 2020 in addition to Rs. 4,390 crore of funds in the pipeline.

Liquidity position: Adequate

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 between 12 and 20 years, the company's asset-liability mismatch remains adverse with cumulative mismatches in the less-than-one-year bucket at -3.2% (Rs. 1,271.62 crore) of its total assets as on September 30, 2020. However, ICRA draws comfort from CFHL's strong relationships with a diversified lender base and sizeable undrawn sanctioned lines. As on October 31, 2020, the company had undrawn sanctioned lines of Rs. 3,084 crore along with in-principle sanctioned approvals for lines of around Rs. 4,390 crore, as stated by the management, to cover its debt obligations of Rs. 5,367 crore in the next one year (till September 2021).

Rating sensitivities

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

Negative triggers – ICRA could revise the outlook to Negative or downgrade the ratings in case of a significant deterioration in its asset quality or the gearing level. Weakening of its liquidity profile or a deterioration in the credit profile of Canara Bank or an unfavourable shareholding change could also adversely impact the ratings.

[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'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 the National Housing Bank. Headquartered in Bangalore, the company has presence in 19 states and Union Territories. CFHL reported a loan book of Rs. 20,830 crore (~Rs. 20,629 crore under Ind-AS) with 1.64 lakh customers as on September 30, 2020. It witnessed an annualised growth of 1% in the loan book. Home loans accounted for 92% of the loan book outstanding as on September 30, 2020, and 71% of the borrowers pertained to the salaried/professional segment. CFHL had a nationwide network of 163 branches, 21 affordable housing loan centres and 14 satellite offices as on September 30, 2020. 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 an RoMA and an RoNW of 1.9% and 19.1%, respectively, in FY2020 compared to 1.7% and 19.0%, respectively, in FY2019. In H1 FY2021, the company reported a net profit of Rs. 221.57 crore on a loan book of Rs. 20,830 crore as on September 30, 2020.

Key financial indicators (audited)

Fiscal As per	FY2018 I-GAAP Audited	FY2019 Ind-AS Audited	FY2020 Ind-AS Audited	H1 FY2021 Ind-AS Provisional
Total income (Rs. crore)	1,537.9	1,716.2	2,018.1	1,043.3
Profit after tax (Rs. crore)	301.77	296.74	376.12	221.57
Net worth (Rs. crore)	1,346.50	1,782.19	2,150	2,361
Total managed portfolio (Rs. crore)	15,748	18,333	20,644	20,629~
Total managed assets (Rs. crore)	15,807	18,829	21,162	20,855
Return on average managed assets (%)	2.1%	1.7%	1.9%	2.1%
Return on net worth (%)	24.9%	19.0%	19.1%	19.7%
Gearing (times)	10.51	9.47	8.72	7.77
Gross NPA (%)	0.4%	0.6%	0.8%	0.7%
Net NPA (%)	0.2%	0.4%	0.5%	0.5%
Capital Adequacy Ratio (%)	19.08%	16.44%^	22.28%	24.77%

~ Rs. 20,830 crore AUM as on September 30, 2020; Rs. 20,629 crore as per Ind-AS financials

^ 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	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020		FY2019	FY2018
					Nov-20-2020	Oct-22-2020	Sep-27-2019	May-6-2019	Oct-22-2018	Oct-3-2017
1	Bank lines – LT	Long Term	9,770.54	9,770.54*	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
2	Bank lines – LT: Unallocated	Long Term	2,629.46	-	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
3	Sub-debt	Long Term	300	100*	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
4	NCD	Long Term	4,620	1,522*	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)
5	Bank lines – ST	Short Term	2,600	2,600	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial papers	Short Term	4,500	4,500	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fixed deposits	Medium Term	-	-	MAAA (Stable)	MAAA &	MAAA &	MAAA (Stable)	MAAA (Negative)	MAAA (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 click here

Annexure-1: Instrument details

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount	Rating outstanding
NA	Term Loan 1	21-Aug-17	7.65%	10 years	1200.00	[ICRA] AA+(Stable)
NA	Term Loan 2	2-Nov-18	7.65%	10 years	400.00	[ICRA] AA+(Stable)
NA	Term Loan 3	27-Feb-18	7.65%	10 years	450.00	[ICRA] AA+(Stable)
NA	Term Loan 4	29-Jan-18	7.70%	10 years	130.46	[ICRA] AA+(Stable)
NA	Term Loan 5	12-Apr-16	7.70%	10 years	424.99	[ICRA] AA+(Stable)
NA	Term Loan 6	23-Apr-18	7.80%	10 years	875.00	[ICRA] AA+(Stable)
NA	Term Loan 7	29-Jan-18	7.80%	10 years	412.49	[ICRA] AA+(Stable)
NA	Term Loan 8	31-Dec-18	7.70%	10 years	850.00	[ICRA] AA+(Stable)
NA	Term Loan 9	20-Jan-18	5.65%	7 years	192.86	[ICRA] AA+(Stable)
NA	Term Loan 10	16-May-18	6.88%	7 years	173.04	[ICRA] AA+(Stable)
NA	Term Loan 11	22-Mar-19	7.85%	6 Years	375.00	[ICRA] AA+(Stable)
NA	Term Loan 12	29-Nov-19	7.70%	6 Years	437.50	[ICRA] AA+(Stable)
NA	Term Loan 13	8-Feb-18	7.65%	7 years	160.69	[ICRA] AA+(Stable)
NA	Term Loan 14	8-Feb-18	7.65%	7 years	160.69	[ICRA] AA+(Stable)
NA	Term Loan 15	11-Jun-19	7.65%	7 years	205.35	[ICRA] AA+(Stable)
NA	Term Loan 16	20-Jul-19	7.95%	7 years	72.85	[ICRA] AA+(Stable)
NA	Term Loan 17	27-Dec-19	7.65%	7 years	92.85	[ICRA] AA+(Stable)
NA	Term Loan 18	15-Jun-19	7.60%	10 years	185.00	[ICRA] AA+(Stable)
NA	Term Loan 19	15-Jun-19	7.60%	10 Years	370.00	[ICRA] AA+(Stable)
NA	Term Loan 20	24-Jul-19	7.80%	7 years	100.00	[ICRA] AA+(Stable)
NA	Term Loan 21	13-Sep-19	7.80%	10 years	675.00	[ICRA] AA+(Stable)
NA	Term Loan 22	17-Sep-19	8.10%	10 years	4.93	[ICRA] AA+(Stable)
NA	Term Loan 23	27-Sep-19	7.50%	10 years	994.36	[ICRA] AA+(Stable)
NA	Term Loan 24	11-Dec-19	7.75%	10 years	191.02	[ICRA] AA+(Stable)
NA	Term Loan 25	27-Jul-20	6.25%	4 years	636.46	[ICRA] AA+(Stable)
Unallocated	LT: Bank facilities	NA	NA	NA	2,629.46	[ICRA] AA+(Stable)
	Subtotal (A)				**12,400.00**	
NA	OD 1	**NA**	**NA**	**NA**	1000.00	[ICRA] A1+
NA	OD 2/ WCDL	29-Aug-18	7.90%, 7.45%	NA	1000.00	[ICRA] A1+
NA	OD 3	**NA**	**NA**	**NA**	100.00	[ICRA] A1+
NA	OD 4	**NA**	**NA**	**NA**	500.00	[ICRA] A1+
	Subtotal (B)				**2,600.00**	
INE477A07217	NCD	15-11-2016	7.77%	15-11-2021	122	[ICRA] AA+(Stable)
INE477A07241	NCD	18-05-2017	7.89%	18-05-2022	600	[ICRA] AA+(Stable)
INE477A07258	NCD	26-07-2017	7.32%	26-10-2020	400	[ICRA] AA+(Stable)
INE477A07266	NCD	17-10-2017	7.44%	17-01-2021	200	[ICRA] AA+(Stable)
INE477A07274	NCD	29-11-2017	7.64%	28-02-2021	200	[ICRA] AA+(Stable)
Unallocated	NCD	NA	NA	NA	3,098	[ICRA] AA+(Stable)
	Subtotal (C)				**4,620**	
INE477A08025	Sub-debt	12-03-2014	8.94%	12-03-2024	100	[ICRA] AA+(Stable)
Unallocated	Sub-debt				200	[ICRA] AA+(Stable)
	Subtotal (D)				**300**	
NA	CP programme	NA	NA	7-365 days	4,500	[ICRA] A1+

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount	Rating outstanding
	Subtotal (E)				**4,500**	
NA	Fixed deposit	-	-	-	-	MAAA (Stable)
	Subtotal (F)				**-**	
	Total				**24,420**	

Source: Can Fin Homes Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ICRA

Corrigendum:

Document dated November 20, 2020 has been corrected with revision as detailed below:

Page 1 – Publication error in Total of Previous Rated Amount has been in “Summary of rating action” has been rectified.

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