August 20, 2021

Can Fin Homes Limited: Ratings reaffirmed/outstanding

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term	12,400.00	11,900.00	[ICRA]AA+ (Stable); reaffirmed
Bank facilities – Short term	2,600.00	3,100.00	[ICRA]A1+; reaffirmed
Non-convertible debenture (NCD) programme	4,620.00	4,620.00	[ICRA]AA+ (Stable); reaffirmed
Subordinated debt programme	300.00	300.00	[ICRA]AA+ (Stable); reaffirmed
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	MAAA (Stable); Outstanding
Total	**24,420.00**	**24,420.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in the benefits derived by Can Fin Homes Limited (CFHL) as an associate of Canara Bank like management support, board-level guidance, a shared brand name and healthy financial flexibility. In addition, the ratings continue to factor in the company's established presence in the domestic housing finance market, its experienced management, steady growth in the scale of operations and healthy profitability metrics. Covid-19-induced disruptions impacted the growth and asset quality metrics for the industry including CFHL. However, the company's focus on the relatively low-risk salaried home loan segment helped it report comfortable asset quality metrics, though with marginal deterioration. Home loans accounted for around 90% of its portfolio as on June 30, 2021 of which around 73% was accounted for by the salaried segment.

The company reported gross non-performing assets (GNPAs) of 0.90% and net NPAs (NNPAs) of 0.57% as on June 30, 2021. ICRA also notes that CFHL restructured 0.41% of its portfolio as on December 31, 2020 under the Reserve Bank of India's (RBI) Resolution Framework 1.0 and is expected to undertake some more restructuring in the current fiscal under Framework 2.0. However, ICRA draws comfort from the company's demonstrated ability to manage its asset quality.

CFHL's funding profile remains diversified across debt market instruments (including commercial paper (CP); 26%), bank borrowings (47%), National Housing Bank (NHB) refinance (25%) and deposits (2%) as on June 30, 2021. 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 CFHL'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 7.2x as on June 30, 2021 (7.4x as on March 31, 2021) from 8.7x as on March 31, 2020, 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 increasing competition would be a 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 30% equity stake – CFHL enjoys management support and board-level guidance as it is an associate of Canara Bank, which held a 30% stake in the company as on June 30, 2021. The company's board of directors comprised nine members as on June 30, 2021, including two nominee directors from Canara Bank. ICRA takes comfort from Canara Bank's sizeable stake in CFHL. However, ICRA notes that the company's dependence on Canara Bank for its funding requirements has reduced over the years. Nevertheless, 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 June 30, 2021, housing loans accounted for about 90% 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 a reasonable loan-to-value (LTV) ratio of less than 60% on average. Going forward, the company's portfolio mix is expected to remain skewed towards housing loans, which provides comfort.

Comfortable asset quality maintained so far though some deterioration expected due to Covid-19-related disruptions – CFHL's asset quality indicators remain healthy, though they deteriorated marginally due to the Covid-19 pandemic. It reported GNPAs of 0.90% and NNPAs of 0.57% as on June 30, 2021 (0.91% and 0.61%, respectively, as on March 31, 2021) against 0.76% and 0.54%, respectively, on March 31, 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, ICRA notes that the overall NPA levels remain comfortable and are under control. The delinquencies and the asset quality will remain monitorable, given the persisting challenges posed by the pandemic on borrowers' cash flows.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with a return on managed assets (RoMA) of 2.1% and a return on net worth (RoNW) of 19.2% in FY2021 against 1.9% and 19.1%, respectively, in FY2020. 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. 456 crore in FY2021 (Rs. 109 crore in Q1 FY2022) against Rs. 376 crore in FY2020. ICRA takes comfort from the company's collections and the provisions that were made in anticipation of higher credit costs. However, the collections and the asset quality levels will remain monitorable.

Credit challenges

Moderate leverage levels – Despite an improvement supported by internal capital accretion, the company's gearing was high at 7.4x and the capital adequacy was moderate at 25.6% as on March 31, 2021 (7.2x and 26.1%, respectively, as on June 30, 2021) compared to 8.7x and 22.3%, respectively, as on March 31, 2020. 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 the current level of operations. However, from a longer term and credit perspective, 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 board for raising capital and intends to raise some capital in FY2022. Its ability to raise the same in a timely manner would be critical for its credit profile.

Relatively high asset-liability management gaps; however, adequate unutilised bank lines result in 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 around Rs. 2,800 crore as on June 30, 2021.

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 -11.1% of its total assets as on March 31, 2021. However, ICRA draws comfort from CFHL's strong relationships with a diversified lender base and sizeable undrawn sanctioned lines. As on March 31, 2021, the company had undrawn sanctioned lines of Rs. 3,835 crore (~Rs. 2,800 crore as on June 30, 2021) to cover its debt obligations of Rs. 8,625 crore in the next one year (till March 2022).

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade CFHL's ratings if the company is able to demonstrate a steady business scale-up while reporting an improvement in its capitalisation profile and maintaining a good asset quality with GNPA <1%, which is sustained over the long term.

Negative factors – ICRA could revise the outlook to Negative or downgrade the ratings in case of a significant deterioration in CFHL's asset quality or the gearing level. Weakening of its liquidity profile or a deterioration in the credit profile of Canara Bank could also adversely impact the ratings.

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 National Housing Bank. Headquartered in Bengaluru, the company has a presence in 19 states and Union Territories. CFHL reported a loan book of Rs. 22,221 crore as on June 30, 2021. It primarily operates in the affordable housing category with the average ticket size of the loans being less than Rs. 25 lakh, a median tenure of 16 to 20 years and a fixed obligation to income ratio (FOIR) of less than 50%.

CFHL reported a net profit (profit after tax; PAT) of Rs. 456 crore in FY2021 on a loan book of Rs. 22,105 crore as on March 31, 2021 (Rs. 109 crore in Q1 FY2022 on a loan book of Rs. 22,221 crore on June 30, 2021) against a net profit of Rs. 376 crore in FY2020 on a loan book of Rs. 20,708 crore as on March 31, 2020. The company's RoMA and RoNW stood at 2.1% and 19.2%, respectively, in FY2022 compared to 1.9% and 19.1%, respectively, in FY2020.

Key financial indicators (audited)

Can Fin Homes Limited (standalone)	FY2019	FY2020	FY2021	Q1 FY2022^
Accounting as per	Ind-As	Ind-As	Ind-As	Ind-As
Total income (Rs. crore)	1,727	2,030	2,018	451
Profit after tax (Rs. crore)	297	376	456	109
Net worth (Rs. crore)	1,782	2,150	2,610	2,719
Gross AUM (Rs. crore)	18,381	20,708	22,105	22,221
Total managed assets (Rs. crore)	18,829	21,162	22,074	22,406
Return on average managed assets (%)	1.7%	1.9%	2.1%	2.0%
Return on net worth (%)	18.2%	19.1%	19.2%	16.0%
Gross gearing (times)	9.5	8.7	7.4	7.2
Gross NPA / gross advances (%)	0.62%	0.76%	0.91%	0.90%
Net NPA / net advances (%)	0.43%	0.54%	0.61%	0.57%
Solvency (net NPA/net worth)	4.46%	5.20%	5.15%	4.65%^
CRAR (%)	16.44%^	22.28%	25.63%	26.12%

Source: *Company, ICRA Research; All ratios and values as per ICRA calculations*

^ Q1 FY2022 values and ratios as per reviewed financials and CFHL's investor presentation; Solvency based on estimated net worth = Prev. net worth + TCI for Q1 FY2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Aug-20-2021	Nov-20-2020	Oct-22-2020	Sep-27-2019	May-6-2019	Oct-22-2018
1	Bank lines – LT	Long Term	11,900	7,193.64	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
2	Sub-debt	Long Term	300	100	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
3	NCD	Long Term	4,620	1,522	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
4	Bank lines – ST	Short Term	3,100^	3,100^	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial papers	Short Term	4,500	3,700*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Fixed deposits	Medium Term	-	-	MAAA (Stable)	MAAA (Stable)	MAAA &	MAAA &	MAAA (Stable)	MAAA (Negative)

& - Rating under Watch with Developing Implications; ^ Reflects sanctioned amount
**CP amount outstanding on June 30, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT- Bank facilities	Simple
ST – Bank facilities	Simple
NCD programme	Simple
Subordinated debt programme	Simple
Commercial paper	Very Simple
Fixed deposits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount	Rating
NA	Term Loan 1	Sep-21-2017	6.70%	10 years	900.00	[ICRA]AA+ (Stable)
NA	Term Loan 2	Apr-12-2016	6.14%	10 years	377.20	[ICRA]AA+ (Stable)
NA	Term Loan 3	Apr-23-2018	6.30%	10 years	774.97	[ICRA]AA+ (Stable)
NA	Term Loan 4	Dec-31-2018	6.09%	10 years	758.92	[ICRA]AA+ (Stable)
NA	Term Loan 5	Sep-13-2019	6.14% & 6.65%	10 years	825.00	[ICRA]AA+ (Stable)
NA	Term Loan 6	Mar-9-2021	6.65%	10 years	10.00	[ICRA]AA+ (Stable)
NA	Term Loan 7	Jan-20-2018	5.65%	7 years	160.71	[ICRA]AA+ (Stable)
NA	Term Loan 8	May-16-2018	4.46%	7 years	145.71	[ICRA]AA+ (Stable)
NA	Term Loan 9	Mar-22-2019	5.50%	6 Years	305.56	[ICRA]AA+ (Stable)
NA	Term Loan 10	Nov-29-2019	5.5% & 5.25%	6 Years	368.06	[ICRA]AA+ (Stable)
NA	Term Loan 11	Jul-27-2020	5.70% & 5.75%	4 years	801.97	[ICRA]AA+ (Stable)
NA	Term Loan 12	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 13	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 14	Jun-11-2019	5.99%	7 years	178.57	[ICRA]AA+ (Stable)
NA	Term Loan 15	Jul-20-2019	5.99%	7 years	60.70	[ICRA]AA+ (Stable)
NA	Term Loan 16	Dec-27-2019	5.99%	7 years	82.14	[ICRA]AA+ (Stable)
NA	Term Loan 17	Sep-21-2020	5.99%	7 years	232.14	[ICRA]AA+ (Stable)
NA	Term Loan 18	Sep-27-2019	6.65%	10 years	9.61	[ICRA]AA+ (Stable)
NA	Term Loan 19	Sep-19-2020	5.55%	3 years	252.08	[ICRA]AA+ (Stable)
NA	Term Loan 20	Sep-19-2020	5.55%	10 years	682.50	[ICRA]AA+ (Stable)
NA	*Unallocated*				4,706.36	[ICRA]AA+ (Stable)
NA	Canara Bank OD	Dec-23-2020	7.35%	NA	700.00	[ICRA]A1+
NA	Canara Bank OD – Short-term Loan	Dec-23-2020	4.75%	20-Dec-21	800.00	[ICRA]A1+
NA	SBI OD /WCDL	Aug-29-2018	6.90%, 6.20%	NA	1,000.00	[ICRA]A1+
NA	HDFC OD	NA	7.05%	NA	100.00	[ICRA]A1+
NA*	Bank of India – Short-term Loan	Mar-5-2021	6.00%	4-Mar-36[1]	500.00	[ICRA]A1+
INE477A07217	NCD	Nov-15-2016	7.77%	15-11-2021	122	[ICRA]AA+ (Stable)
INE477A07241	NCD	May-18-2017	7.89%	18-05-2022	600	[ICRA]AA+ (Stable)
INE477A07258	NCD	Jul-26-2017	7.32%	26-10-2020	400	[ICRA]AA+ (Stable)
INE477A07266	NCD	Oct-17-2017	7.44%	17-01-2021	200	[ICRA]AA+ (Stable)
INE477A07274	NCD	Nov-29-2017	7.64%	28-02-2021	200	[ICRA]AA+ (Stable)
Unallocated	NCD	NA	NA	NA	3,098	[ICRA]AA+ (Stable)
INE477A08025	Sub-debt	Mar-12-2014	8.94%	12-03-2024	100	[ICRA]AA+ (Stable)
Unallocated	Sub-debt	NA	NA	NA	200	[ICRA]AA+ (Stable)

[1] *Payable within 1 year from date of disbursement*

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount	Rating
INE477A14AZ2	CP Programme	Oct-16-2020	4.30%	346 days	400	[ICRA]A1+
INE477A14BA3	CP Programme	Nov-19-2020	4.07%	364 days	150	[ICRA]A1+
INE477A14BC9	CP Programme	Nov-24-2020	4.07%	364 days	200	[ICRA]A1+
INE477A14BC9	CP Programme	Jan-12-2021	4.18%	315 days	400	[ICRA]A1+
INE477A14BE5	CP Programme	Feb-8-2021	4.99%	365 days	500	[ICRA]A1+
INE477A14BF2	CP Programme	Feb-18-2021	4.89%	334 days	500	[ICRA]A1+
INE477A14BG0	CP Programme	Mar-5-2021	4.23%	153 days	400	[ICRA]A1+
INE477A14BH8	CP Programme	Mar-12-2021	4.85%	364 days	400	[ICRA]A1+
INE477A14BI6	CP Programme	Mar-16-2021	4.85%	365 days	250	[ICRA]A1+
INE477A14BJ4	CP Programme	Apr-6-2021	4.15%	244 days	500	[ICRA]A1+
Not issued	CP Programme	NA	NA	NA	800	[ICRA]A1+
NA	Fixed Deposit	-	-	-	-	MAAA (Stable)

Amounts for term loans outstanding as on July 31, 2021
Amounts for OD/WCDL/STL are sanctioned amounts as on July 31, 2021
CPs outstanding as on June 30, 2021

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 300
sachin.sachdeva@icraindia.com

Jatin Arora
+91 124 4545 300
jatin.arora@icraindia.com

Jitesh Setia
+91 22 6114 3463
jitesh.setia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches