

Cent Bank Home Finance Limited

April 08, 2021

Rating

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-Term Instruments	30.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Long-Term Instruments	30.00 (Rs. Thirty Crore Only)		

Details of Instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the non-convertible debenture (NCD) issue of Cent Bank Home Finance Limited (CBHFL) has been removed from 'Credit Watch with Developing Implications' in view of Central Bank of India's (CBI) announcement with regards to termination of the Share Purchase Agreement (SPA) with effect from April 01, 2021 which was entered into with Centrum Housing Finance Limited (CHFL; rated CARE A-; Under Credit Watch with Developing Implications) for selling of its entire equity stake in CBHFL, constituting 64.40% of the share capital of CBHFL on a fully diluted basis, to CHFL. The long stop date of the said SPA was March 31, 2021 and has been terminated with lapse of its validity without regulatory approval having been obtained.

The present rating continues to derive strength from CBHFL's parentage of CBI along with the managerial, operational and financial support it receives from CBI; though moderation in the financial performance of CBI, in recent years, has limited the parent's ability to infuse further equity in CBHFL. The rating also continues to factor in CBHFL's long track record of operations in housing finance business, geographically diversified loan portfolio with moderate seasoning and adequate liquidity.

The rating, however, continues to be constrained by CBHFL's deterioration in its asset quality at FY20 (refers to the period April 1 to March 31) end and 9MFY21 end, moderate profitability & capitalization levels, high leverage, concentrated resource base and moderation in its loan portfolio at 9MFY21 end.

Rating Sensitivities:

Positive factors

- Significant increase in scale of operations and corresponding increase in profitability
- Improvement in asset quality with decline in gross non-performing assets (NPA) levels below 1%
- Increase in capital adequacy ratio (CAR) levels above 25%

Negative factors

- Significant deterioration in credit profile of its parent viz. CBI
- Significant deterioration in asset quality and delay in receipt of necessary support from parent
- Decline in CAR below 16%

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of CBI with which CBHFL has strong linkages: CBHFL is promoted by CBI which presently holds majority stake of 64.40% in the company. CBI being its main sponsor, CBHFL derives significant managerial, operational as well as financial support from it, including term loans and working capital finance. There has been moderation in the credit profile of CBI in the recent years marked by continuous deterioration in its capital adequacy, profitability and asset quality, which has also led to multiple revisions in the credit rating of its various debt instruments. This has limited CBI's ability to infuse further equity in CBHFL during past few years ended FY20. The board of directors of CBHFL is well diversified and consists of highly qualified directors, having experience in a wide spectrum of activities ranging from finance, regulatory background, banks and government services. The senior management team also comprises employees having vast experience in the housing finance sector.

Moderately seasoned loan portfolio with geographical diversification: CBHFL has a moderate level of seasoning of its loan portfolio. CBHFL's loan portfolio is spread across eighteen locations in nine states with top four states viz. Maharashtra (19%), Madhya Pradesh (19%), Gujarat (17%) and Karnataka (10%) together accounting for around 65% of the total loan

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

portfolio as on December 31, 2020. The geographic diversification strategy adopted over past few years has gradually shifted the company's concentration in Madhya Pradesh from around 32% at FY15 end to around 19% at 9MFY21 end.

Key Rating Weaknesses

Deterioration in asset quality: CBHFL's asset quality continues to remain moderate with gross NPA of 4.06% as on March 31, 2020. The gross NPA of the company deteriorated from 2.12% as on March 31, 2018 to 2.20% and to 4.06% as on March 31, 2019 and March 31, 2020 respectively. The NPA levels increased at FY19 end and FY20 end mainly due to tight liquidity conditions and slowdown in the economy during FY19 and FY20. Further, the portfolio in 90+ days past due (DPD) bucket increased to 5.71% at 9MFY21 end due to disruptions caused by outbreak of Covid-19 pandemic. Net NPA to net-worth also increased from 17.86% at FY18 end to 25.07% at FY20 end after improving to 15.41% at FY19 end. In order to improve its asset quality, CBHFL has curtailed disbursements to higher ticket size loans and has increased its reliance on individual housing loans with ticket size of up to Rs.20 lakh during past few months. Also, majority of its lending is for loan-to-value (LTV) ratio not exceeding 75% in order to reduce the credit risk. Moreover, CBHFL has centralized its entire recovery system in order to exert better control over the recovery process and has also appointed an external agency for recovery & collection from stressed accounts along with initiation of one-time settlement (OTS) system for recovery in many loan accounts.

Moderation in profitability levels during FY20 along with moderate loan portfolio: The loan portfolio of CBHFL remained stable at Rs.1,270.79 crore as on March 31, 2019 as compared to Rs.1,266.09 crore as on March 31, 2018. However, it declined to Rs.1,230.65 crore as on March 31, 2020 and further to Rs.1,190.44 crore as on December 31, 2020 on account of CBHFL's efforts to curtail leverage and reduction in overall lending rates in the market. However, CBHFL's focus on the niche segment of salaried and self-employed category in tier-II & tier-III cities in Western, Central and Northern India has aided in establishing a strong position in the housing finance segment in Central India and grow its loan portfolio over the past few years.

Profitability of CBHFL reduced in FY20 in terms of decline in ROTA from 1.20% in FY19 to 0.76% in FY20, while the NIM has marginally improved from 2.89% in FY19 to 2.97% in FY20, mainly due to increase in credit cost from 0.16% in FY19 to 0.76% in FY20 due to increased provisioning in light of deteriorating asset quality. However, the profitability has improved during 9MFY21 marked by improvement in ROTA to 1.65% during the period.

Low capitalization and high gearing levels due to delay in equity infusion: There has been an inordinate delay in equity infusion in CBHFL as seen from absence of equity infusion in the company during past few years ended March 31, 2020. However, CBHFL's overall gearing improved from 11.13x as on March 31, 2019 to 9.11x and 7.33x as on March 31, 2020 and December 31, 2020, respectively, on account of gradual accretion of profits to net-worth and non-significant increase in bank borrowings due to de-growth in loan portfolio. CBHFL's CAR witnessed improvement from 17.88% as on March 31, 2019 to 20.01% as on March 31, 2020 and further to 20.62% as on December 31, 2020 on account of reduction in loan portfolio of CBHFL, reduction in loan against property (LAP) disbursements and reduction in exposure to high ticket size loans which carry high risk weights coupled with gradual accretion of profits to net-worth. Timely infusion of equity would be extremely critical to improve the capitalization of the company and fund its future loan portfolio growth.

Concentrated resource base: CBHFL's current resource profile is concentrated as it continues to rely heavily on public deposits and loans from two banks, including term loan and overdraft facility from its parent CBI, along with refinance loans from National Housing Bank (NHB; rated CARE AAA; Stable). Out of its total debt as on December 31, 2020, nearly 43% was in the form of fixed deposits, 3% in the form of non-convertible debentures, 29% in the form of overdraft facility and term loans from CBI and the balance 24% in the form of refinancing loans from NHB and term loans from HDFC Bank Limited. Going forward, CBHFL's ability to maintain low borrowing cost shall depend upon its ability to diversify its resource base, along with improvement in the proportion of NHB refinance.

Liquidity: Adequate

CBHFL's liquidity profile remained adequate despite ALM mismatches in shorter time buckets as on December 31, 2020 on the back of presence of un-utilized bank lines in the form of overdraft limits from its parent viz. CBI. CBHFL is directly owned by CBI (64.40% stake) and NHB (16.00% stake). Due to its parentage, CBHFL does not face any issues in raising funds at reasonable rate of interest in order to maintain liquidity. Presently, CBHFL has sanctioned overdraft limit of Rs.100 crore from CBI. Also, CBHFL keeps on refinancing its existing term loans at a longer tenor and lower rate of interest from NHB in order to reduce its overall cost of borrowings. Also, as on December 31, 2020, CBHFL had free cash & bank balance of around Rs.23 crore apart from investments in government securities to the tune of around Rs.27 crore. Moreover, housing finance business is characterized by high amount of loan prepayments. CBHFL receives prepayments to the tune of around Rs.8-9 crore every month which takes care of any mismatches in ALM. CARE also takes cognizance of CBHFL not having availed moratorium from the lenders as a COVID-19 relief measure [as permitted by the Reserve Bank of India (RBI)].

Analytical Approach: Standalone along with parentage of CBI

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Rating Methodology - Housing Finance Companies \(HFCs\)](#)

[Financial Ratios-Financial Sector](#)

About the Company

CBHFL is an HFC focused on providing housing loans to individuals in tier-II and tier-III cities of India. It was incorporated in the year 1991 with the name 'Apna Ghar Vitta Nigam Limited' and subsequently in the year 1992 was rechristened to its present name. It received its NHB License – Certificate of Registration on July 21, 2001. CBHFL is a subsidiary of CBI with CBI holding 64.40% equity stake in CBHFL as on March 31, 2020. National Housing Bank (NHB; rated CARE AAA; Stable), Unit Trust of India (UTI) and The Housing and Urban Development Corporation Limited (HUDCO; rated CARE AAA; Stable / CARE A1+) held 16.00%, 12.80% and 6.80% stake respectively in the company as on March 31, 2020. Customer profile of CBHFL primarily comprises salaried and self-employed individuals. As on March 31, 2020, CBHFL had a loan portfolio of Rs.1,230.65 crore. The operations of the company are spread across nine states with major presence in Madhya Pradesh, Gujarat, Maharashtra, Karnataka and Delhi.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	141.68	142.09
PAT	16.28	10.23
Interest coverage (times)	1.24	1.15
Total Assets	1,394.61	1,285.20
Net NPA (%)	1.35	2.50
ROTA (%)	1.20	0.76

A: Audited

As per 9MFY21 (Unaudited) results, CBHFL has registered total income of Rs.98.77 crore and PBT of Rs.16.71 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debt-Non-convertible Debenture/Subordinate Debt	INE852R08015	August 20, 2015	10.75% p.a.	August 20, 2021	30.00	CARE BBB+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debt-Non-convertible Debenture/Subordinate Debt	LT	30.00	CARE BBB+; Stable	-	1)CARE BBB+ (CWD) (31-Mar-21) 2)CARE BBB+ (CWD) (06-Jan-21)	1)CARE BBB+; Stable (06-Mar-20)	1)CARE BBB+; Stable (28-Mar-19) 2)CARE BBB+; Stable (03-Apr-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BBB+; Stable (25-Mar-20) 2)Withdrawn (25-Mar-20)	1)CARE BBB+; Stable (28-Mar-19) 2)CARE BBB+; Stable (03-Apr-18)

Annexure-3: Detailed explanation of covenants of the rated instrument

Particulars	Terms
Issuer	Cent Bank Home Finance Limited
Instrument	Non-Convertible Debentures (Tier – II Capital)
Security	Receivables of the company junior to the existing secured lenders
Purpose	For lending towards housing loans
Trustee	IDBI Trusteeship Services Limited
Listing	Unlisted
Issue Size	Rs.30.00 crore
Tenor/Maturity	72 months
Coupon Rate (%)	10.75% p.a.
Coupon Frequency	Annual
Put/ Call option	Nil
Redemption (At Par)	By way of bullet payment on August 20, 2021
Date of Placement	August 20, 2015
Outstanding as on December 31, 2020	Rs.30.00 crore

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debt-Non-convertible Debenture/Subordinate Debt	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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