

Can Fin Homes Limited

September 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	5,000.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	1,650.00 (Reduced from 1,900.00)	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	2,500.00	CARE AAA; Stable	Reaffirmed
Non-convertible debentures	3,000.00	CARE AAA; Stable	Reaffirmed
Tier II Bonds	300.00	CARE AAA; Stable	Reaffirmed
Commercial paper	4,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings of the long-term bank facilities and various debt instruments of Can Fin Homes Limited (CFHL) continue to draw comfort from the strong parentage of Canara Bank (rated 'CARE AAA; Stable'; primary shareholder of CFHL) resulting in Board-level guidance and sharing of the common brand name. Canara Bank views CHFL as an important entity and has expressed its resolve to extend support to CFHL irrespective of its modest shareholding and its intent to maintain the equity holding.

On the back of the parentage and CHFL's robust performance, it enjoys strong financial flexibility and has been able to raise funds through diversified sources at competitive rates. The ratings also factor the relatively low risk portfolio of CFHL with loans predominantly extended to the salaried class, continuation of healthy financial performance with stable profitability while maintaining strong asset quality and adequate capitalization. The rating strengths far out-weigh the credit challenges of high leverage and regional concentration of its loan portfolio.

Rating Sensitivities - Factors likely to lead to rating actions

Positive Factors - Factors that could, individually or collectively, lead to positive rating action/upgrade:

Not Applicable

Negative Factors- Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Weakening of the credit profile of Canara Bank.
- Change in Canara Bank's philosophy towards CFHL or announcement of stake sale.
- Increase in gearing (Total debt/Net-worth) beyond 10x levels.
- Weakening of asset quality with gross stressed assets of above 5% on a sustained basis.

Analytical approach: Standalone along with factoring in the parentage in Canara Bank with whom CFHL shares the brand name and derives managerial and financial support. Though the ownership is fragmented with Canara Bank's stake only at 29.99%, the bank's management has expressed strong resolve to support the entity and articulated to maintain this stake.

Outlook: Stable

The 'Stable' outlook reflects the strong parentage backing, low risk portfolio resulting in healthy asset quality and stable profitability.

Detailed description of the key rating drivers

Key strengths

Strong parentage

CFHL is promoted by Canara Bank (rated CARE AAA; Stable) which holds majority stake of 29.99% in the company as on June 30, 2023. Canara Bank being its sponsor, the company enjoys management & board guidance, and sharing of the brand name,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

besides strong financial flexibility. Canara Bank has deputed three of its senior-level officers as representatives on the board of CFHL including, K Satyanarayana Raju, Managing Director & CEO, Canara Bank. Canara Bank views CFHL as an important entity and has expressed its resolve to support CHFL irrespective of its modest shareholding, and its intent to maintain the stake. CARE Ratings expects the support from the parent to continue going forward.

Healthy asset quality aided by low-risk portfolio dominated by housing loans to salaried class

CFHL mainly focuses on loans to salaried and professional class which constituted 72.8% of the total outstanding loan portfolio as on June 30, 2023. Around 79% of the overall portfolio constitutes of housing loans, while the balance is made of mortgage loan/ loan against property and other top-up loans, personal loans, etc. Loans to salaried customers forming the major share of the loan portfolio has resulted in comfortable asset quality parameters over the years. Furthermore, all the loans in both housing and non-housing segments are backed by adequate security leading to healthy asset quality.

The average ticket size of loans in the housing loan segment was at ₹18 lakh, with an average Loan To Value (LTV) ratio of about 61%. The asset quality continues to be healthy as reflected in the gross NPA of 0.63% as on June 30, 2023 (March 31, 2023: 0.55%) and net NPA at 0.34% (March 31, 2023: 0.26%). Provision coverage ratio has remained stable at 52.29% as on March 31, 2023 (52.69% as on March 31, 2022). As on June 30, 2023, the company's standard restructured loans stood at ₹672 crore (2.06% of Gross advances). Gross stressed assets stood at 2.70% as on June 30, 2023, as against 2.75% as on March 31, 2023. CARE Ratings expects the asset quality to remain healthy going forward.

Diversified resource profile

CHFL has access to diversified sources to meet its borrowing requirement including term loans from private and public banks (51.34%), non-convertible debentures (16.48%), deposits (1.52%), commercial paper (4.45%) and refinancing from National Housing Bank (NHB) (21.58%) as on June 30, 2023. The overall share of commercial paper (CP) borrowings has witnessed decline from 11.6% of total borrowings as on March 31, 2022 to 4.5 % as on March 31, 2023. As a practice the company maintains significant amount of undrawn credit lines (including working capital limits) as liquidity buffer. CARE Ratings expects the resource profile to remain diversified considering the strong financial flexibility and the ability of the company to raise funds at competitive rates.

Stable profitability levels

The company has reported consistent profits over the past five years mainly owing to stable net interest margin (NIM) coupled with control in operating and credit costs of the company. During FY23, NIM remained stable at 3.33% as compared to 3.27% as on March 31, 2022. The operating expense to total assets remained at 0.58% in FY23 as against 0.61% in FY22. The pre-provision operating profit improved from ₹682 crore as on March 31, 2022 to ₹866 crore as on March 31, 2023. The credit cost has declined to 0.14% in FY22 (PY: 0.19%) with improvement in asset quality. On account of the above, return on total assets (ROTA) has improved from 1.89% in FY22 to 2.04% in FY23. CARE Ratings expects the profitability levels to remain profitable with the ability to maintain spreads and the asset quality remaining healthy.

Key weaknesses

Relatively moderate size and regional concentration of operations

CHFL is a relatively moderate sized player in the industry with a loan portfolio of Rs.32505 crore as on June 30, 2023. The company remains southern region focused with 120 out of 205 total branches located in South India. As on June 30, 2023, 71.6% (PY:69.1%) of the total advances came from the southern states of which Karnataka alone contributes 26.6% of loan portfolio (PY Karnataka: 25.4%). CARE Ratings expects the regional concentration to continue over the medium term.

Adequate capitalization levels and high gearing levels

The healthy profit generation has helped the company to maintain a comfortable capital adequacy ratio (CAR) of 23.74% as on June 30, 2023 as against regulatory requirement of 15%. The loan book has grown by 18% in FY23, however, the company's overall gearing remained stable at 8.09x as on March 31, 2023 as against 8.18x as on March 31, 2022. The company has been able to raise funds through diversified sources at lower rates enabling them to operate at relatively higher leverage levels. CARE Ratings expects the capitalization levels to remain at similar levels over the medium term.

Liquidity: Adequate

As per the ALM statement submitted by the company as on June 30, 2023, CFHL's liquidity profile is characterized by negative cumulative mismatches in up to 1-year time bucket without considering pre closures as well as unutilized limits available from

banks. As on June 30, 2023, the company had unavailed bank limits of ₹8,614 crore besides cash and bank balance of ₹17 crore and investments of ₹304.64 crore as against debt repayment obligation of ₹10,178 crore for the next one year (till June 2024). The advances inflow for the next one year stood at ₹1,984 crore. However, CARE Ratings draws comfort from the company's demonstrated ability to raise funds at competitive rates through its diversified resource base on the back of strong parentage and its robust performance.

Environment, social, and governance (ESG) risks

Can Fin Homes recognize the importance of energy management and is in the process of quantifying energy consumption in terms of units. CHFL prioritizes business model resilience through Regular risk assessments, Contingency planning, Diversification of revenue streams, Market monitoring and Investment in technology and innovation.

Ensuring data security and customer privacy is critical to protecting customer information from cyber-attacks and data breaches. Can Fin Homes recognizes the importance of fostering a corporate culture that encourages open communication, feedback, and embraces diversity and inclusion.

CHFL has established strong corporate governance practices, by adherence to the standards and principles to corporate governance, compliance with statutory and regulatory guidelines, strong internal control systems, risk assessments, providing timely and adequate disclosures of information, etc.

Applicable Criteria

[Rating Outlook and Credit Watch](#)

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

[Financial ratios – Financial Sector](#)

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

[Criteria for Short Term Instruments](#)

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

[Withdrawal Policy](#)

About the Company and Industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Housing Finance Company

CFHL was incorporated in 1987 by Canara Bank (rated CARE AAA; Stable) in association with financial institutions including HDFC and UTI. CFHL is the first bank sponsored Housing Finance Company in India with Canara Bank holding a stake of 29.99% as on June 30, 2023. The company is engaged in the business of providing housing finance to individuals for construction, purchase, repair and upgradation of houses. Company operates mainly in the Southern India with 120 out of 205 the total branches located in South India as on June 30, 2023, with 72% of the total advances from southern states. As on June 30, 2023, CHFL's advances stood at Rs.32,505 crore, housing loans account for major share of CFHL's portfolio, and overall loans to salaried class form the major share of around 73.1% as on June 30, 2023.

Brief Financials (Rs. crore)	31-03-2022 (A)	31-03-2023 (A)	Q1FY24 (UA)
Total operating income	1989	2743	825
PAT	471	621	183
Total Assets	27897	33022	34020
Net NPA (%)	0.30	0.26	0.34
ROTA (%)	1.89	2.04	2.18

A: Audited; UA : Unaudited; NA: Not Available. Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Tier II bonds	INE477A08025	03-12-2014	8.94%	03-12-2024	100.00	CARE AAA; Stable
Proposed Bonds-Tier II bonds	Proposed	-	-	-	200.00	CARE AAA; Stable
Commercial paper-Commercial paper (Standalone)	INE477A14CA1	02-12-2022	7.80%	23-06-2023	600.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE477A14CD5	06-04-2023	7.20%	20-06-2023	500.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE477A14CE3	24-04-2023	7.25%	24-07-2023	500.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE477A14CF0	18-05-2023	7.37%	17-08-2023	500.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE477A14CG8	22-05-2023	7.35%	21-08-2023	500.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	INE477A14CH6	26-05-2023	7.04%	25-08-2023	500.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	Proposed	-	-	-	1400.00	CARE A1+
Debentures-Non-convertible debentures	INE477A07282*	27-02-2020	7.85%	27-05-2023	-	Withdrawn
Debentures-Non-convertible debentures	INE477A07290	24-12-2020	6.25%	24-12-2023	275.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07308	10-11-2021	6.10%	10-02-2025	275.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07316	25-02-2022	6.70%	25-02-2025	500.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07324	10-03-2022	6.80%	10-06-2025	700.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07332	25-03-2022	6.80%	25-06-2025	260.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07357	24-08-2022	7.80%	24-11-2025	1000.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07340	30-03-2022	6.85%	30-06-2025	400.00	CARE AAA; Stable
Debentures-Non-convertible debentures	INE477A07365	23-12-2022	8.08%	23-03-2026	301.00	CARE AAA; Stable

Debentures-Non-convertible debentures	INE477A07373	27-02-2023	8.45%	27-05-2026	935.00	CARE AAA; Stable
Debentures-Non-convertible debentures	Proposed	-	-	-	2504.00	CARE AAA; Stable
Fund-based - LT-Term loan	-	-	-	March 2031	5000.00	CARE AAA; Stable

*Company has redeemed the instrument.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Tier II Bonds	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-22)	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)
2	Debentures-Non-convertible debentures	LT	1650.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-22)	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)
3	Debentures-Non-convertible debentures	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-22)	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)
4	Debentures-Non-convertible debentures	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-22)	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)
5	Commercial paper-Commercial paper (Standalone)	ST	4500.00	CARE A1+	-	1)CARE A1+ (27-Sep-22)	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20) 2)CARE A1+ (14-Sep-20)
6	Fund-based - LT-Term loan	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Sep-22)	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (07-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities : NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Debentures-Non-convertible debentures	Simple
4	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

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

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About us:

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