Can Fin Homes Limited

September 27, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Secured redeemable non-convertible debenture	1,900.00@ (Reduced from 2,500.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Secured redeemable non-convertible debenture	2,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Secured redeemable non-convertible debenture	3,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Tier II bonds (subordinated bonds)	3,00.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term bank facilities	5,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Commercial paper	4,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total facilities	**17,200.00 (₹ Seventeen thousand and two hundred crore only)**		

Details of instruments/facilities in Annexure-1
@₹600 crore NCD redeemed

Detailed rationale & 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 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, improvement in income and profit levels bolstered by satisfactory growth in its portfolio over the years helping CHFL to sustain the healthy financial performance while maintaining strong asset quality and adequate capitalisation. The ratings take note of the high share of commercial paper borrowings leading to asset-liability mismatch; however, comfort is drawn from the company's financial flexibility on the back of the parentage with demonstrated ability to raise funds at competitive rates. The rating strengths far out-weigh the credit challenges of high leverage and regional concentration of its loan portfolio.

Rating sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade: Not Applicable

Negative Factors- Factors that could 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.

Detailed description of the key rating drivers

Key rating 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, 2022. Canara Bank being its sponsor, the company enjoys management & Board guidance, and sharing of the brand name, besides strong financial flexibility. Canara Bank has deputed three of its senior-level officers as representatives on the board of CFHL including, Lingam Venkata Prabhakar, 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.

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

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 of 73.2% of the total outstanding loan portfolio as on June 30, 2021. Around 89.6% 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 ₹17.8 lakh, with an average Loan To Value (LTV) ratio of about 65%. The asset quality continues to be healthy as reflected in the gross NPA of 0.65% as on June 30, 2022 (March 31, 2021: 0.92%) and net NPA at 0.30% (March 31, 2021: 0.61%). Provision coverage ratio has improved to 52.69% as on March 31, 2022 (33.47% as on March 31, 2021). The company has made additional restructuring during FY22 consequently leading to increase in gross stressed assets. As on June 30, 2022, the company's restructured loans stood at ₹709 crore (2.5% of Gross advances). Gross stressed assets stood at 3.23% as on June 30, 2022 as against 1.26% as on March 31, 2021.

Adequate capitalisation levels supported by stable earnings: During FY22, the Net interest margin moderated to 3.27% as compared to 3.70% with around 62% of disbursements happening in H2FY22 and the company passing on the benefit of reduced cost of funds to its customers with lower lending rates on account of increased competition in retail housing loan segment. With the company using commercial paper (CP) as a cost-leverage measure and ability of the company to mobilise funds at finer rates has led to decline in cost of funds from 6.34% in FY21 to 5.25% in FY22 (refers to the period April 1 to March 31). The company's operating cost remained in control with operating expense to average total assets at 0.61% (FY21: 0.57%) which is one of the lowest in the industry. The pre-provision operating profit remained stable at ₹682 crore in FY22 as against ₹686 crore in FY21. The credit costs declined to 0.19% in FY22 with the improvement in asset quality. On account of the above, the ROTA stood stable at 1.89% in FY22 (FY21: 2.12%). During Q1FY23, CFHL earned a PAT of ₹162 crore (Q1FY22: ₹109 crore). This healthy profit generation has helped the company to maintain a comfortable capital adequacy ratio (CAR) of 24.08% as on June 30, 2022 as against regulatory requirement of 15%.

Diversified resource profile: CHFL has accessed to diversified sources to meet its borrowing requirement including term loans from private and public banks (52.3%), non-convertible debentures (10.9%), deposits (1.9%), commercial paper (12.4%) and refinancing from National Housing Bank (NHB) (22.6%) as on June 30, 2022. The overall share of CP borrowings has witnessed decline from 19.8% of total borrowings as on June 30, 2021 to 12.4% as on June 30, 2022. The share of CP in total borrowings continues to remain high given relatively longer tenure of loan book. As a practice the company maintains significant amount of undrawn credit lines (including working capital limits) as liquidity buffer.

Key rating weaknesses

Relatively moderate size and regional concentration of operations: CHFL is a relatively moderate-sized player in the industry with a loan portfolio of ₹27,538 crore as on June 30, 2022. The company remains southern-region focused with 115 out of 201 total branches located in south India. As on June 30, 2022, 69.1% (PY:69.2%) of the total advances came from the southern states of which Karnataka alone contributed 25.4% (PY:25.7%) of the loan portfolio.

High gearing levels: On account of the loan book growth of 20% witnessed in FY22, the company's overall gearing moderated to 8.18x as on March 31, 2022 as against 7.54x as on March 31, 2021. The company has been able to raise funds through diversified sources at lower rates enabling them to operate at relatively higher leverage levels. The company has approval in place to raise upto ₹1000 crore by way of followon public issue/rights issue/private placement/Qualified Institutional Placement/ preferential allotment or by any other mode of further issue of specified securities or any combination thereof.

Liquidity: Adequate

As per the ALM statement submitted by the company as on June 30, 2022, CFHL's liquidity profile is characterised by negative cumulative mismatches in upto 1-year time bucket considering preclosures as well as unutilised limits available from banks. As on June 30, 2022, the company had unavailed bank limits of ₹4,690 crore besides cash and bank balance of ₹3.7 crore and investments of ₹1,451.7 crore as against debt repayment obligation of ₹9,562.9 crore for the next one year (till June 2023). The advances inflow for the next one year stood at ₹1,666 crore. However, CARE Ratings Limited (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.

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.

Applicable Criteria

Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Notching by Factoring Linkages in Ratings
Policy on Default Recognition
Rating Methodology - Housing Finance Companies (HFCs)
Financial Ratios – Financial Sector
Criteria for Short Term Instruments

About the Company

CFHL was incorporated in 1987 by Canara Bank 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, 2022. The company is engaged in the business of providing housing finance to individuals for construction, purchase, repair and upgradation of houses. The company operates mainly in the Southern India with 115 out of 201 the total branches and 69% of the total advances from southern states as on March 31, 2022. As on June 30, 2022, CHFL's advances stood at ₹27,538 crore. Housing loans account for major share (around 89.6% as on June 30, 2022) of CFHL's portfolio, and overall loans to salaried class form the major share of around 74.3% as on June 30, 2022.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (Prov)
Total operating income	2018	1989	612
PAT	456	471	162
Total assets	22028	27897	NA
Net NPA (%)	0.61	0.30	0.30
ROTA (%)	2.12	1.89	NA

A: Audited; Prov: Provisional; NA: Not 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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2028	5000.00	CARE AAA; Stable
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
Debentures-Non Convertible Debentures	INE477A07282	27-02-2020	7.85%	27-05-2023	250.00	CARE AAA; Stable
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	INE477A07332	25-03-2022	6.80%	25-06-2025	260.00	CARE AAA; Stable

Convertible Debentures						
Debentures-Non Convertible Debentures	INE477A07340	30-03-2022	6.85%	30-06-2025	400.00	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	Proposed	-	-	-	3740.00	CARE AAA; Stable
Commercial Paper-Commercial Paper (Standalone)	INE477A14BO4	01-10-2021	4.77%	27-09-2022	500.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE477A14BT3	08-02-2022	5.20%	27-10-2022	500.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE477A14BW7	27-07-2022	6.28%	28-11-2022	550.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE477A14BU1	07-04-2022	4.99%	10-01-2023	500.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	INE477A14BV9	07-04-2022	5.10%	08-03-2023	500.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	1950.00	CARE A1+

Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Tier II Bonds	LT	300.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)	1)CARE AAA (CWD) (22-Jan-20) 2)CARE AAA (CWD) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)
2	Debentures-Non Convertible Debentures	LT	1900.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)	1)CARE AAA (CWD) (22-Jan-20) 2)CARE AAA (CWD) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)
3	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)	1)CARE AAA (CWD) (22-Jan-20) 2)CARE AAA (CWD)

								(11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)
4	Debentures-Non Convertible Debentures	LT	3000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (28-Sep-21)	1)CARE AAA; Negative (29-Sep-20)	1)CARE AAA (CWD) (22-Jan-20) 2)CARE AAA (CWD) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)
5	Commercial Paper-Commercial Paper (Standalone)	ST	4500.00	CARE A1+	-	1)CARE A1+ (28-Sep-21)	1)CARE A1+ (29-Sep-20) 2)CARE A1+ (14-Sep-20)	1)CARE A1+ (CWD) (22-Jan-20) 2)CARE A1+ (CWD) (11-Sep-19) 3)CARE A1+ (30-Aug-19)
6	Fund-based - LT-Term Loan	LT	5000.00	CARE AAA; Stable	-	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 instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. GNPA and NNPA	GNPA% and NNPA% to be maintained below 2% and 1% respectively throughout the loan period.
II. Minimum CAR	Minimum CAR of 17% to be maintained throughout the loan period.
B. Non financial covenants	
I. External Rating Covenant	Down gradation of external rating by more than two notches will attract 2% penal interest till cure of breach of sanction order condition.

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

Sr. No.	Name of 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

Note on 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.

Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please click here

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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