Can Fin Homes Limited

September 28, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Secured Redeemable Non-Convertible Debenture	2,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Secured Redeemable Non-Convertible Debenture	2,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Secured Redeemable Non-Convertible Debenture	3,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Tier II Bonds (Subordinated Bonds)	300.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long-term Bank Facilities	5,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Commercial Paper	4,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**17,800.00 (Rs. Seventeen thousand eight hundred crore only)**		

Details of instruments/facilities in Annexure-1

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 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 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 capitalization. The ratings take note of the increasing share of commercial paper borrowings in the recent past leading to asset-liability mismatch; however, comfort is drawn from the company's financial flexibility on the back of parentage with demonstrated ability to raise funds at competitive rates. Going forward, maintenance of adequate unutilized bank limits as a liquidity buffer would be a key rating monitorable.

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

Outlook: Stable

The revision in the outlook from 'Negative' to 'Stable' follows similar rating action on Canara Bank.

Detailed description of the key rating drivers

Key Rating Strengths

Strong Parentage: CFHL is promoted by Canara Bank which holds the majority stake of 29.99% in the company as on June 30, 2021. Canara Bank being its sponsor, the company enjoys management and Board guidance and sharing 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, Mr Lingam Venkata Prabhakar, Managing Director & CEO, Canara Bank. Canara Bank views CHFL as an important entity and has expressed its resolve to support CFHL irrespective of its modest shareholding, and its intent to maintain the stake.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE 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 90.5% of the overall portfolio constitutes of housing loans, while the balance is made of mortgage loan/ loan against property and other top-up loans, top-up 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 Rs.19.8 lakh, with an average Loan To Value (LTV) ratio of about 64%.
Consequently, the asset quality, though moderated slightly, continues to be healthy as reflected in the gross NPA of 0.90% as on June 30, 2021 (March 31, 2020: 0.76%) and net NPA at 0.57% (March 31, 2020: 0.54%). The provision coverage of the company stood at 33.47% as on March 31, 2021 (March 31, 2020: 28.83%), though the same was in line with regulatory requirements. NNPA/ Networth has also remained healthy at 5.24% as on March 31, 2021. As on June 30, 2021, the company has restructured loans amounting to Rs.87 crore (0.4% of AUM).
Going forward, the company expects marginal increase in stressed assets with company planning additional restructuring of loan book. However, with the company having already made Rs.33 crore of additional provisions related to Covid-19, any significant increase in provisioning requirements is less likely.

Stable Earnings Lend Support to Capitalization Levels: CHFL reported an improvement in Net Interest Margin (NIM) from 3.39% during FY20 to 3.70% in FY21 mainly due to decline in cost of funds from 7.54% in FY20 to 6.34% in FY21 (refers to the period April 1 to March 31). However, CARE Ratings observes that this is also a result of higher proportion of Commercial paper (CP) in total borrowings. The company's operating cost remained in control with operating expense to average total assets at 0.57% (FY20: 0.54%) and cost to income at 15.22% (FY20: 15.60%) in FY21 which are one of the lowest in the industry. The pre-provision operating profit improved 18.6% during FY21 and stood at Rs.686.1 crore. Further, the credit cost has also remained in similar levels of FY20 at 0.32%. On account of above, return on total assets (ROTA) improved to 2.12% in FY21 from 1.89% in FY20. This healthy profit generation has helped the company to maintain a comfortable capital adequacy ratio (CAR) of 26.12% (Tier I CAR: 24.33%) as on June 30, 2021 as against 22.26% (Tier I CAR: 20.46%) as on March 31, 2020.

Diversified Resource Profile: CHFL has accessed to diversified sources to meet its borrowing requirement including term loans from Canara Bank and other private and public banks (45.6%), non-convertible debentures (7.2%), deposits (2.4), commercial paper (19.8%) and refinancing from National housing bank (NHB) (25%) as on June 30, 2021. As a practice, the company's reliance on short-term CP is limited to the extent of unutilized OD limit. However, during the past two quarters the unutilized limits has been lower than the CP outstanding. Nonetheless, the company has in-principle loan approvals in place and is expected to maintain adequate liquidity buffer in terms of undrawn bank lines post sanctioning of the same. Going forward, the CP outstanding as a percentage of total borrowings will be key monitorable.

Key Rating Weaknesses
Relatively Moderate Size and Regional Concentration: CHFL has a moderate operational scale with a loan portfolio of Rs.22,221 crore as on June 30, 2021. The company remains southern region focused with 114 out of 200 total branches located in south India. As on June 30, 2021, 69% (PY:69.2%) of the total advances came from the southern states of which Karnataka alone contributed 25.7% (PY:27.8%) of loan portfolio.

High Gearing Levels: The company's overall gearing improved to 7.54x as on March 31, 2021 as against 8.88x as on March 31, 2020 aided by internal accruals, however, the same continues to remain high. The company has been able to raise funds through diversified sources at lower rates enabling them to operate at relatively higher leverage levels.

Liquidity: Adequate
As per the ALM statement submitted by the company as on June 30, 2021, CFHL's liquidity profile is characterized by negative cumulative mismatches on account of higher share of short-term borrowings in upto 1-year time bucket considering pre-closures as well as unutilized limits available from banks. As on June 30, 2021, the company had unavailed bank limits of Rs.4,003 crore besides cash and bank balance of Rs.1.8 crore and investments of Rs.347.4 crore as against debt repayment obligation of Rs.7,708.1 crore for next one year (till June 2022). 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.

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
Rating Methodology: Notching by factoring linkages in Ratings
Financial Ratios – Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Housing Finance Companies (HFCs)
CARE's Policy on Default Recognition

About the Company
Can Fin Homes Limited (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, 2021. 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 114 out of 200 the total branches and 69% of the total advances from southern states as on June 30, 2021. As on June 30, 2021, CHFL's advances stood at Rs.22,221 crore. Housing loans account for major share (around 90.5% as on June 30, 2021) of CFHL's portfolio, and overall loans to salaried class form the major share of around 73.2% as on June 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2030	2018
PAT	376	456
Interest coverage (times)	1.39	1.51
Total Assets	21010	22028
Net NPA (%)	0.54	0.61
ROTA (%)	1.89	2.12

A: Audited
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 No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds	INE477A08025	December 03, 2014	8.94%	December 03, 2024	100.00	CARE AAA; Stable
Proposed-Bonds-Tier II Bonds	-	-	-	-	200.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE477A07217	November 15, 2016	7.77%	November 15, 2021	122.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE477A07241	May 18, 2017	7.89%	May 18, 2022	600.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE477A07282	February 27, 2020	7.85%	May 27, 2023	250.00	CARE AAA; Stable
Debentures-Non Convertible Debentures	INE477A07290	December 24, 2020	6.25%	December 24, 2023	275.00	CARE AAA; Stable
Proposed-Debentures-Non Convertible Debentures	-	-	-	-	6753.00	CARE AAA; Stable

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 365 days	4500.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	March 2031	5000.00	CARE AAA; 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Tier II Bonds	LT	300.00	CARE AAA; Stable	-	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)	1)CARE AAA; Stable (01-Oct-18)
2.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	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)	1)CARE AAA; Stable (01-Oct-18)
3.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Stable	-	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)	1)CARE AAA; Stable (01-Oct-18)
4.	Debentures-Non Convertible Debentures	LT	3000.00	CARE AAA; Stable	-	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)	1)CARE AAA; Stable (01-Oct-18)

5.	Commercial Paper-Commercial Paper (Standalone)	ST	4500.00	CARE A1+	-	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)	1)CARE A1+ (01-Oct-18)
6.	Fund-based - LT-Term Loan	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Negative (07-Oct-20)	-	-

- Long Term / Short Term

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

Term Loan	**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 CRAR	Minimum CRAR 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 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: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

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