Can Fin Homes Limited

September 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Secured Redeemable Non-Convertible Debenture	2500@	**CARE AAA; Negative (Triple A; Outlook: Negative)**	Rating reaffirmed and removed from credit watch with developing implications
Secured Redeemable Non-Convertible Debenture	2500@	**CARE AAA; Negative (Triple A; Outlook: Negative)**	Rating reaffirmed and removed from credit watch with developing implications
Tier II Bonds (Subordinated Bonds)	300$	**CARE AAA; Negative (Triple A; Outlook: Negative)**	Rating reaffirmed and removed from credit watch with developing implications
Secured Redeemable Non-Convertible Debenture	3000@	**CARE AAA; Negative (Triple A; Outlook: Negative)**	Rating reaffirmed and removed from credit watch with developing implications
Commercial Paper	4500#	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**12,800 (Rupees Twelve thousand eight hundred crore only)**		

Details of instruments/facilities in Annexure-1
@ Rs.1872 crore is outstanding as on September 4, 2020.
$ Rs.100 crore outstanding as on September 4, 2020.
#Rs.1850 crore outstanding as on September 4, 2020.

Detailed Rationale & Key Rating Drivers

The rating of various instruments of Can Fin Homes Limited (CFHL) were earlier placed under credit watch with developing implications due to ongoing amalgamation process of Syndicate Bank with Canara Bank (principal shareholder of CFHL). Post conclusion of the merger and assessment of the combined financials and business risk profile, rating watch on Canara Bank was resolved. Accordingly, watch on various instruments and facilities of CFHL has been removed and Negative outlook is assigned following similar rating action on Canara Bank. Further, given ownership of CFHL is fragmented with Canara Bank holding only 29.99%, any likely weakening of support or change in view of Canara Bank towards CHFL would be credit negative.

The rating continues to draw comfort from the strong parentage of Canara Bank extending Board level guidance and sharing the brand name. Canara Bank views CHFL as an important entity and has expressed its resolve to support CFHL irrespective of its low shareholding and its intent to maintain the stake. On back of parentage and its robust performance, company enjoys strong financial flexibility and has been able to raise funds through diversified sources at finer rates. The ratings also positively factor in relatively low risk portfolio of the CFHL with loans predominantly extended to salaried class and nil wholesale exposure, consistent improvement in income and profit levels bolstered by satisfactory growth in its portfolio year on year helping sustain the healthy financial performance while maintaining strong asset quality and adequate capitalization.
These rating strengths outweigh factors such as moderate business size coupled with regional concentration and high gearing levels of the company. The rating also takes note of the relatively modest growth in loan portfolio in FY20 and Q1FY21 attributed primarily to the slowdown in real estate business.
Going forward, continued support of Canara Bank and ability of CFHL to limit incremental slippages with currently 29% of loan book under moratorium whose repayment behaviour post completion of moratorium on August 31, 2020 remain to be seen and to maintain asset quality would be critical to earnings profile of CFHL and the same will be 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 resulting into downgrade in rating of Canara Bank
- Change in Canara Bank's philosophy towards CFHL or announcement of stake sale.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

- Increase in gearing (Total debt/Net-worth) beyond 10x levels.
- Significant deterioration in liquidity or access to funding.

Outlook: Negative

Negative outlook follows similar rating action on Canara Bank. Further, given ownership of CFHL is fragmented with Canara Bank holding only 29.99%, any likely weakening of support or change in view of Canara Bank towards CHFL would be credit negative. The oulook may be revised to 'Stable' in case of similar rating action in 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, 2020. Canara Bank being its sponsor, the company enjoys management and Board guidance, 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 low shareholding and its intent to maintain the stake.

Low risk portfolio dominated by housing loans to salaried class: CFHL mainly focuses on loans to salaried and professional class which constituted of 70.8% of the total outstanding loan portfolio as on June 30, 2020. Around 90.2% of the overall portfolio constitutes of housing loans while the balance is made of mortgage loan/ loan against property and other top-up loans, builder loans etc. The average ticket size of loan in housing loan segment outstanding as on March 31, 2020 was around Rs.18 lakh, with average Loan To Value (LTV) ratio of about 65% as against the prescribed LTV ratio of 80%. During FY20, 88% of fresh approvals were for the housing, and 12% for non-housing loans, with average ticket size of incremental housing loans and non-housing loans at Rs.18 Lakh and Rs.9 Lakh respectively. During FY20, non-housing loan segment registered a y-o-y growth of 4.6% (from Rs.1,939 crore to Rs.2,029 crore, constituting 9.8% of total loan book). Top 20 exposure of the company constitutes around 0.19% and 1.87% of total advances and networth as on March 31, 2020. At the same time, the share of salaried individual has declined over the years though the same continues to constitute significant share. Company's ability to build on its good quality portfolio while maintaining its profitability is key to its credit profile.

Healthy asset quality, but exposure to asset quality pressure post Covid breakout: The asset quality, though moderated slightly, continues to be healthy as reflected in the gross NPA of 0.76% as on Mar 31, 2020 (March 31, 2019: 0.62%) and net NPA at 0.54% (March 31, 2019: 0.43%). Company's provision coverage stood low at 28.83% as on March 31, 2020 (March 31, 2019: 29.99%) though the same was in line with regulatory requirements. GNPA & NNPA has remained stable at 0.75% & 0.50% respectively as on June 30, 2020. NNPA/ Networth has also remained healthy at 5.29% as on March 31, 2020.
Loans to salaried customers forming the major share of the loan portfolio, has resulted in comfortable asset quality parameters over the years. Further all the loans in both housing and non-housing segments are backed by adequate security leading to strong asset quality. However, given high share of 29% of loan book under moratorium of which 14% has not paid any of the installment, the ability of the company to limit incremental slippages or restructuring in the challenging macro environment conditions due to COVID-19 and maintain asset quality would be critical to the earnings profile of the company and the same will be a key rating sensitivity. As on June 30, 2020, company has made Rs.72.9 crore of provisions related to COVID-19. Management expects the NPA levels to rise in the coming quarters but confident of bringing it back to the current levels over the new few quarters.

Adequate capitalization levels: CAR stood at 22.28% (Tier I CAR: 20.47%) as on March 31, 2020 as against 16.44% (Tier I CAR: 14.64%) as on March 31, 2019, against the 13% stipulation by RBI. During FY19, CAR was lower on account of accounting adjustment in which investments of over 10% in related party was deducted from calculation of Tier I and total capital. Adjusting for the same, CAR would have been at 19.24% and Tier I CAR at 17.44% as on March 31, 2019. CAR and Tier-I CAR remained stable at 22.26% and 20.46% respectively as on June 30, 2020. High proportion of Tier I CAR provides cushion to raise additional Tier-II capital to fund future growth.

Moderate but consistent profitability: CFHL reported growth of 17.8% in interest income which was supported by a growth in portfolio by 12.6%. Disbursements during the year remained stable at Rs.5481 crores in FY20 (PY: Rs.5479 crores). Company's yield on advances improved to 10.40% in FY20 from 10.10% in FY19 and cost of funds has remained stable at 7.55% in FY20 as against 7.59% in FY20 and fares amongst the best in the industry. Consequently, Company reported NII of Rs.674 crore in FY20 as against Rs.544 crore in FY19. Net interest margin (NIM) also improved to 3.39% during FY20 (FY19: 3.16%) though the higher NIM levels may not be sustainable.
Company's operational cost remained in control with operating expense to avg. total assets at 0.53% (FY19: 0.54%) and cost to income witnessed improvement and stood at 15.62% (FY19: 16.22%) which are one of the lowest in the industry. Company has made higher provisioning of Rs.60 crore during FY20 (COVID provisions-Rs.36.54 crore). However, aided by healthy growth in NII and stable operational efficiency parameters, CFHL reported a PAT of Rs.376 crore on a total income of Rs.2,030

crore as against the PAT of Rs.297 crore on a total income of Rs.1,731 crore in FY19. CFHL's ROTA improved from 1.72% in FY19 to 1.89% in FY20. CFHL earned a PAT of Rs.93.15 crore on a total income of Rs.522.5 crore in Q1FY21 registering a 15.03% growth in PAT on y-o-y basis despite higher provisioning. As on June 30, 2020, Company holds an aggregate provision of Rs. 72.89 crore on account of Covid-19.

Diversified resource profile: CFHL has a diversified resource profile, and meet its borrowing requirement through multiple sources, including term loans from Canara Bank and other private and public banks, non-convertible debentures, deposits, commercial paper, and refinancing from National housing bank (NHB). CFHL had relied majorly on banks to fund the growth of portfolio, and its share has increased from 53% as on March 31, 2019 to 59% as on March 31, 2020. As a policy, company's reliance on short term commercial paper is limited to the extent of unutilized OD limit. Company has been able to raise funds through diversified sources at finer rates enabling them to operate at relatively higher leverage levels.

Key Rating Weaknesses

Moderate size and regional concentration: Although the total asset of the company has grown by 12.3% from Rs.18,705 crore as on March 31, 2019 to Rs.21,010 crore as of March 31, 2020, the company continues to be moderately sized housing finance company in India in its rating category. The company has been expanding its geographical presence, in the Tier II cities, and has increased the number of branches to 198 as on March 31, 2020 with 69.2% of the total advances from southern states. Company operates mainly in the Southern India with 112 out of the total branches located in the five states (Tamil Nadu, Telangana, Andhra Pradesh (AP), Kerala and Karnataka) of South India. As on March 31, 2020, CHFL's advances stood at Rs.20,843 crores.

High gearing levels: Albeit improvement, company's overall gearing continues to remain high at 8.86x as on March 31, 2020 as against 9.60x as on March 31, 2019. During FY21, company has taken shareholder approval to raise fresh equity of Rs.1,000 crore which is important to address its growth while tempering its high leverage and meet any exigencies arising out of Covid impact on asset quality.

Industry prospects: The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions, could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. Recent measures announced by the RBI like the Targeted Long Term Repo Operations 2.0 (TLTRO-2) and refinancing from NABARD, SIDBI & NHB could provide some solace to the NBFCs & HFCs, however, the sector continues to stare at asset side challenges which are expected to mount going forward after the moratorium period is over.

Liquidity: Adequate

As per ALM statement submitted by company as on June 30, 2020, CFHL's liquidity profile is characterized by positive cumulative mismatches in all time buckets considering pre-closures as well as unutilized limits available from banks. As on July31, 2020, company had unavailed bank limits of Rs. 3319 crore (including OD limits of Rs. 2149 crore) besides cash and bank balance of Rs.7.1 crore and FD of Rs.18.6 crore. Company has not availed moratorium on their repayments under RBI's Covid19 regulatory package.

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%, management has expressed strong resolve to support the entity and articulated to maintain this stake.

Applicable Criteria

Consolidation and factoring linkages in rating
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Housing Finance Companies
Definition of Default

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, 2020. 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 112 out of 198 the total branches and 69.2% of the total advances from southern states as on March 31, 2020. As on June 30, 2020, CHFL's advances stood at Rs.20,843 crore. Housing loans account for major share (around 90.2% as on June 30, 2020) of CFHL's portfolio, and overall loans to salaried class form the major share of around 70.8% as on June 30, 2020.

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1731	2030
PAT	297	374
Interest coverage (times)	1.40	1.39
Total Assets	18705	21010
Net NPA (%)	0.43	0.54
ROTA (%)	1.72	1.89

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

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%	Decemeber 03, 2024	100.00	CARE AAA; Negative
Proposed-Bonds-Tier II Bonds	-	-	-	-	200.00	CARE AAA; Negative
Debentures-Non Convertible Debentures	INE477A07100	September 10, 2015	8.69%	September 10, 2020	100.00	CARE AAA; Negative
Debentures-Non Convertible Debentures	INE477A07217	November 15, 2016	7.77%	November 15, 2021	122.00	CARE AAA; Negative
Debentures-Non Convertible Debentures	INE477A07241	May 18, 2017	7.89%	May 18, 2022	600.00	CARE AAA; Negative
Debentures-Non Convertible Debentures	INE477A07258	July 26, 2017	7.32%	October 26, 2022	400.00	
Debentures-Non Convertible Debentures	INE477A07266	October 17, 2017	7.44%	January 17, 2021	200.00	
Debentures-Non Convertible Debentures	INE477A07274	November 29, 2017	7.64%	February 28, 2021	200.00	
Debentures-Non Convertible Debentures	INE477A07282	February 27, 2020	7.85%	May 27, 2023	250.00	
Proposed-Debentures-Non Convertible Debentures	-	-	-	-	6128.00	CARE AAA; Negative
Commercial Paper-Commercial Paper (Standalone)	-	January 01, 1753	-	7 days to 365 days	4500.00	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 (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.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Oct-17)
2.	Bonds-Tier II Bonds	LT	300.00	CARE AAA; Negative	-	1)CARE AAA (Under Credit watch with Developing Implications) (22-Jan-20) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17)
3.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Negative	-	1)CARE AAA (Under Credit watch with Developing Implications) (22-Jan-20) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17) 3)CARE AAA; Stable (27-Jul-17)
4.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AAA; Negative	-	1)CARE AAA (Under Credit watch with Developing Implications) (22-Jan-20) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17) 3)CARE AAA; Stable (27-Jul-17)

5.	Debentures-Non Convertible Debentures	LT	3000.00	CARE AAA; Negative	-	1)CARE AAA (Under Credit watch with Developing Implications) (22-Jan-20) 2)CARE AAA (Under Credit watch with Developing Implications) (11-Sep-19) 3)CARE AAA; Stable (30-Aug-19)	1)CARE AAA; Stable (01-Oct-18)	1)CARE AAA (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE AAA; Stable (05-Oct-17)
6.	Commercial Paper-Commercial Paper (Standalone)	ST	4500.00	CARE A1+	1)CARE A1+ (14-Sep-20)	1)CARE A1+ (Under Credit watch with Developing Implications) (22-Jan-20) 2)CARE A1+ (Under Credit watch with Developing Implications) (11-Sep-19) 3)CARE A1+ (30-Aug-19)	1)CARE A1+ (01-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (15-Mar-18) 2)CARE A1+ (05-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-No financial covenants stipulated.

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

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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