

Mahindra Rural Housing Finance Limited

February 8, 2017

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture	200.00 (Reduced from 300.00)	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Subordinated Debt	300.00 (Enhanced from 200.00)	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Total Instruments	500.00 (Rupees Five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings factor in its strong parentage of Mahindra & Mahindra Financial Services Ltd (MMFSL) (rated 'CARE AAA'). The ratings reflect the demonstrated financial, operational and managerial support from MMFSL. Shared brand and branch network with MMFSL are also considered as key credit strengths. The ratings also factor in Mahindra Rural Housing Finance Limited's (MRHFL) adequate capitalization levels, comfortable liquidity profile, good resource raising ability and profitability. The ratings are constrained by MRHFL's moderate asset quality, relatively unseasoned portfolio and geographical concentration. Continued support of MMFSL, capital adequacy, asset quality and profitability are the key rating sensitivities.

Detailed description of the key rating drivers

MRHFL is a subsidiary of MMFSL (rated CARE AAA) with 87.5% of shareholding and the balance 12.5% stake is held by NHB (National Housing Bank). MRHFL benefits from the managerial support of MMFSL, with senior directors of MMFSL present on the board of MRHFL. MMFSL has been regularly funding MRHFL's operations both through capital infusion as well as Inter Corporate Loans (ICDs).

MRHFL has adequate capitalization with Tier I and Total CAR ratios of 23.65% and 18.31% respectively as on March 31, 2016 (Tier I and Total CAR ratios were 14.27% and 15.27% respectively as on March 31, 2015). Majority of MRHFL's loan book is under Rs.30 lakh category with an LTV of upto 80% for which a 35% risk weight is prescribed as per NHB guidelines.

MRHFL has good resource raising ability banking lines from 16 banks, and has also raised funding through non convertible debentures, subordinated debt and commercial paper (CP). Furthermore, MRHFL is able to borrow funds at very competitive rates being part of Mahindra group.

As on March 31, 2016, MRHFL had cumulative negative mismatches up to 1 year. However, MRHFL has unutilized lines of credit available from various banks, roll over of CPM and can avail ICDs from MMFSL, which provides comfort.

In FY16 (refers to the period April 1 to March 31), MRHFL reported PAT of Rs.63 crore on total income of Rs.495 crore as compared to PAT of Rs.44 crore on total income of Rs.328 crore. MRHFL reported ROTA of 2.32% in FY16 as against 2.53% in FY15, with the decline in ROTA mainly on account of higher credit costs. However, MRHFL's profitability is comparable with other HFCs.

MRHFL's asset quality remains moderate with GNPA ratio of 7.26% and Net NPA ratio of 5.55% as on March 31, 2016 (GNPA ratio of 5.85% and NNPA ratio of 4.58% as on March 31, 2015). As on September 30, 2016 GNPA and Net NPA ratios were 10.25% and 8.02% respectively.

Loan book remains geographically concentrated with Maharashtra and Tamil Nadu accounting for 58% of the book as on March 31, 2016 (59% as on March 31, 2015). Furthermore, the company has recently started disbursing loans in semi-urban areas.

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

Analytical approach:

CARE has analyzed standalone credit profile of MRHFL along with MRHFL's financial, operational and managerial linkages with its parent company, Mahindra & Mahindra Financial Services Ltd.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Non Banking Financial Companies](#)

[Financial ratios – Financial Sector](#)

Background of Mahindra Rural Housing Finance Limited

Mahindra Rural Housing Finance Limited (MRHFL) was incorporated in April 2007 as a housing finance company with a focus on the rural and semi-urban areas. MRHFL is a 87.5% subsidiary of MMFSL, one of India's leading vehicle financiers. The balance stake is held by NHB. The lending operations of MRHFL are conducted mainly through select branches of MMFSL. As on September 30, 2016, MRHFL operated out of a network of 362 branches across 11 states, of which, 203 branches are of MMFSL. MRHFL has major presence in Maharashtra and Tamil Nadu, which collectively accounted for 58% of the loan book as on March 31, 2016. The company's senior management is lead by Mr. Ramesh Iyer, Chairman of MRHFL (Managing director, MMFSL Ltd.) and Mr. Anuj Mehra, Managing Director of MRHFL, who have over more than 20 years of experience.

Status of non-cooperation with previous CRA: Not Applicable**Any other information: Not Applicable**

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

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

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non convertible Debenture	03-May-16	8.75%	03-May-21	5.00	CARE AA+; Stable
Non convertible Debenture	07-Jun-16	8.90%	07-Jun-21	30.00	CARE AA+; Stable
Non convertible Debenture	18-Nov-16	7.90%	16-Nov-18	25.00	CARE AA+; Stable
Non convertible Debenture	22-Nov-16	8.10%	22-Nov-21	25.00	CARE AA+; Stable
Subordinated Debt	29-Apr-15	9.50%	29-Apr-25	25.00	CARE AA+; Stable
Subordinated Debt	13-Oct-15	9.25%	13-Oct-25	35.00	CARE AA+; Stable
Subordinated Debt	29-Apr-16	9.10%	29-Apr-26	15.00	CARE AA+; Stable
Subordinated Debt	06-May-16	9.10%	06-May-26	15.00	CARE AA+; Stable
Subordinated Debt	18-May-16	9.10%	18-May-26	6.00	CARE AA+; Stable
Subordinated Debt	20-May-16	9.10%	20-May-26	10.00	CARE AA+; Stable
Subordinated Debt	30-May-16	9.10%	29-May-26	4.00	CARE AA+; Stable
Subordinated Debt	25-Jul-16	8.99%	24-Jul-26	25.00	CARE AA+; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is); Stable	1)CARE AA+ (Is); Stable (31-Dec-16)	1)CARE AA+ (Is) (24-Dec-15)	1)CARE AA+ (Is) (16-Oct-14)	1)CARE A+ (Is) (07-Mar-14)
2.	Debt-Subordinate Debt	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (13-May-16)	1)CARE AA+ (24-Dec-15) 2)CARE AA+ (21-Sep-15)	1)CARE AA+ (11-Mar-15)	-
3.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA+; Stable	1)CARE AA+; Stable (31-Dec-16) 2)CARE AA+ (13-May-16) 3)CARE AA+ (13-Apr-16)	-	-	-

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