

## Mahindra Rural Housing Finance Limited (Revised)

October 04, 2022

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Issuer rating Issuer Rating	0.00	CARE AA+ (Is); Stable [Double A Plus (Issuer Rating); Outlook: Stable ]	Reaffirmed
<b>Total Instrument</b>	<b>0.00</b> (₹ Only)		
Long Term Long Term Instruments	300.00	CARE AA+; Stable (Double A Plus; Outlook: Stable )	Reaffirmed
Non Convertible Debentures	65.00 (Reduced from 90.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable )	Reaffirmed
<b>Total Long Term Instruments</b>	<b>365.00</b> (₹ Three Hundred Sixty-Five Crore Only)		

<sup>1</sup>The rating is subject to the company maintaining overall gearing not exceeding 8 times

Details of instruments / facilities given in **Annexure – 1**

### Detailed rationale and key rating drivers

The issuer rating and ratings assigned to the debt instruments of Mahindra Rural Housing Finance Limited (MRHFL) continue to factor in its strong parentage of Mahindra & Mahindra Financial Services Ltd (MMFSL; rated 'CARE AAA; Stable') which in turn is a subsidiary of Mahindra and Mahindra Limited (M&M; rated 'CARE AAA; Stable/ CARE A1+'). The ratings reflect the demonstrated financial, operational and managerial support from MMFSL. Furthermore, MRHFL benefits from the parent group by way of the shared 'Mahindra' brand and branch network with MMFSL, which are considered as key credit strengths. The ratings also consider MRHFL's moderate gearing but comfortable capitalization levels, liquidity profile supported by good resource-raising ability and parentage and moderate financial performance. The ratings are constrained by MRHFL's weak asset quality including moderate borrower profile, relatively unseasoned portfolio and geographical concentration in addition to interest rate risk and high Opex model. Continued support of MMFSL, capital adequacy levels, asset quality and profitability are the key rating sensitivities.

### Rating Sensitivities

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

- Improvement in asset quality parameters at the consolidated level with Gross NPA decreasing below 6% on a sustained basis
- Improvement in ROTA at more than 4%

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

- Moderation in credit profile of the parent company or significant stake dilution
- Further deterioration in asset quality parameters at the consolidated level with Stage 3 increasing above 20% as per reported financials on a sustained basis

### Detailed description of the key rating drivers:

#### Key Rating Strengths

#### **Strong parentage of MMFSL and access to operational, managerial and financial support from MMFSL**

MMFSL is one of India's leading vehicle financiers. MRHFL has been receiving regular capital support over the past years from the parent company to support the strong business growth of MRHFL.

MRHFL benefits from the managerial support of MMFSL. The management of MRHFL is headed by Mr Ramesh Iyer (Vice Chairman & Managing director, MMFSL Ltd.) as the Chairman of the Board of Directors of MRHFL. Mr Shantanu Rege has taken over as MD and CEO from October 01, 2022. MRHFL has access to MMFSL's pan-India branch network as a result of which it operates from geographic areas and target segments wherein MMFSL has rich experience. In addition to the capital and management support, MRHFL also benefits from the commonly known 'Mahindra' brand, and support from the parent gives MRHFL an added advantage to expand its business rapidly in the rural and semi-urban areas which has been successfully demonstrated in the past.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

***Comfortable capitalization level***

The parent (MMFSL) has been regularly infusing equity capital in MRHFL helping it grow the business. MMFSL during FY18 and FY19, had infused Rs. 130 crore and Rs. 150 crore respectively to boost the capitalization profile of MRHFL. The company had a gearing of 4.97 times as on March 31, 2022 which has improved from 5.28 times as on March 31, 2021. MRHFL reported capital adequacy ratio (CAR) of 41.56% as on March 31, 2022 (Tier I CAR: 30.94%) and as on June 30, 2022 it stood at 42.58% (Tier I CAR: 32.44%).

***Comfortable liquidity and financial flexibility on account of support from MMFSL***

Being an HFC, over the past years, MRHFL's liquidity profile has remained moderate with cumulative negative mismatches due to longer tenor of loans given as against short tenor of borrowing. However, the company had no negative cumulative mismatches as on March 31, 2022. Being part of Mahindra group, the company enjoys strong financial flexibility and can avail ICDs from MMFSL and other group companies along with bank lines which provide comfort, in case of any mismatches. The company also has Rs. 912 crore in the form of cash & bank balance and other liquid investments along with Rs.600 crore of unutilized bank lines as on July 31, 2022. In addition, the company has raised about Rs.1060 crore for long term through various debt instruments during the period between Jan 2022 and July 31, 2022. Moreover, the company has an unutilised contingent line of Rs. 975 crore from the parent company.

***Moderate financial risk profile***

MRHFL reported PAT of Rs.47.73 crore during FY22 as compared to PAT of Rs.151.01 crore in FY21. The decrease in PAT is due to increase in administration expense (+23% y-o-y) and increase in provisioning (+22% y-o-y) done for FY 22. This increase in provisioning in overall fiscal 2022 was due to second wave of Covid-19 and delinquencies thereafter. Further, the company has provided additional provisioning of Rs 98.07 crore which is in line with IRAC provisions. Nevertheless, the revised IRAC norms (with respect to NPA recognition upon 90+ dpd and upgradation of NPA accounts only post all dues being cleared) will be applicable from October 1, 2022.

MRHFL reported PAT of Rs. 2.45 crore during Q1FY23 as against loss of Rs. 65.35 crore during Q1FY22.

***Diversified funding profile***

MRHFL has a diversified funding profile with bank funding (including working capital demand loans and cash credit) contributing 38% of the total borrowings and 50% by way of NCDs. The remaining is in the form of subordinated debt (7%) and support from other group companies by way of ICDs (5%). Being part of the Mahindra group enhances the resource raising ability of the company helping it to raise funds at competitive rates.

***Key Rating Weaknesses******Deteriorating asset quality***

The Gross and net NPA ratios undergo substantial variations on account of the fact that rural operations are characterized by seasonal nature of income flows. MRHFL reported GNPA ratio of 11.33% (as on June 30, 2022: 14.49%) and NNPA ratio of 8.47% as on March 31, 2022 (as on June 30, 2022: 9.95%) as compared with GNPA ratio of 13.16% and Net NPA ratio of 9.87% as on March 31, 2021. The asset quality ratios of MRHFL are significantly adverse as compared to traditional housing finance companies on account of exposure mainly to informal sector (low ticket-size loans to agriculturalist and self-employed class). The company's credit cost ratio increased to 3.68% as on March 31, 2022, as compared with 3.07% as on March 31, 2021, due to substantial increase in provisioning.

Further to adhere to the IRAC norms from October 1, 2022, MRHFL has made additional provision of Rs.98.07 crore during FY22.

***Unseasoned portfolio in semi-urban area and geographic concentration***

The loan book of MRHFL has remained stagnant at Rs. 7,602 crore in March 31, 2022 as compared to Rs.7,646 crore as on March 31, 2021. The loan book comprises of 72% from rural sector while the balance 28% is from the semi-urban sector which is primarily catering to the affordable housing segment. The loan portfolio of MRHFL continues to be concentrated in the state of Maharashtra (31%), Tamil Nadu (26.3%) and Andhra Pradesh (12.2%) as on March 31, 2022. Further, about 66% of MRHFL's loan portfolio had a ticket size upto of Rs. 2 lakh as on March 31, 2022 as compared to 71% as on March 31, 2021.

***Interest rate risk and high Opex model***

Interest rate risk is inherent in the business model of MRHFL principally as a result of lending to customers at fixed interest rates and in amounts and for periods, which may differ from its funding sources. However, on the asset side, its fixed interest rate portfolio has reduced to 72% as compared to 100% earlier, which is primarily due to MRHFL's increased lending to affordable segment over the last 2 years. Further, on the liability side, around 60% of its borrowings are at floating rates while 40% are at fixed rates. With the rising interest rates, the cost of borrowing for MRHFL has also gone up. This has led to MRHFL increasing their interest rates in floating rate portfolio from July 1, 2022.

MRHFL has a higher opex majorly because of employee costs & travelling and conveyance expenses. Further, as MRHFL wants to increase their affordable book, it has added around 100 branches in the markets where it is already present which has also contributed to the high opex. Since the company caters to the rural and semi-urban areas where majority collections happen through cash mode, employee costs are comparatively higher. However, the higher yields leveraged by the company compensate for the higher credit costs and Opex expenses incurred by it.

### Liquidity Profile – Adequate

The ALM as on March 31, 2022, showed no negative cumulative mismatches. The company has availed ICDs from group companies (other than MMFSL) to the tune of Rs. 306 crore as on June 30, 2022. The company also has Rs. 912 crore in the form of cash & bank balance and other liquid investments along with unutilised bank lines of Rs. 600 crore as on July 31, 2022. Moreover, the company has an unutilised contingent line of Rs.975 crore from the parent company.

**Analytical approach:** CARE Ratings has taken a view based on the standalone financial profile of MRHFL, along with factoring in the parentage and operational linkages with MMFSL.

### Applicable criteria:

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Issuer Rating](#)

[Rating Outlook and Credit Watch](#)

[CARE's criteria for Housing Finance Companies](#)

### About the company

Incorporated in April 2007, Mahindra Rural Housing Finance Ltd. (MRHFL) is a housing finance company. It provides very low ticket housing loans with presence predominantly in rural and semi-urban areas. Mahindra Rural Housing Finance Limited (MRHFL) is a subsidiary of Mahindra & Mahindra Financial Services Limited (MMFSL) [rated 'CARE AAA; Stable (Triple A; Outlook: Stable)]. MMFSL holds 98.43% stake with the remaining 1.57% being held by MRHFL ESOP Trust as on March 31, 2021.

### Brief Financials (Standalone)

Brief Financials (₹ crore)*	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	1,455	1,377	329
PAT	151	48	2.4
Interest coverage (times)	1.32	1.11	1.02
Total Assets	8,816	8,514	-
Net NPA (%)	9.87	8.47	9.95
ROTA (%)	1.77	0.55	-

A: Audited; \*as per IND AS; Total Assets are net of Deferred Tax Assets, Revaluation Reserves and Intangible assets. All ratios are as per CARE Ratings Calculations

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

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating	-	-	-	-	-	CARE AA+ (Is); Stable
Subordinate Debt	INE950008014	29-Apr-15	9.50%	29-Apr-25	25.00	CARE AA+; Stable
Subordinate Debt	INE950008022	13-Oct-15	9.25%	13-Oct-25	35.00	CARE AA+; Stable
Subordinate Debt	INE950008030	29-Apr-16	9.10%	29-Apr-26	15.00	CARE AA+; Stable
Subordinate Debt	INE950008055	06-May-16	9.10%	06-May-26	15.00	CARE AA+; Stable
Subordinate Debt	INE950008063	18-May-16	9.10%	18-May-26	6.00	CARE AA+; Stable
Subordinate Debt	INE950008071	20-May-16	9.10%	20-May-26	10.00	CARE AA+; Stable
Subordinate Debt	INE950008089	30-May-16	9.10%	29-May-26	4.00	CARE AA+; Stable
Subordinate Debt	INE950008097	25-Jul-16	8.99%	24-Jul-26	25.00	CARE AA+; Stable
Subordinate Debt	INE950008113	17-May-17	8.40%	17-May-24	10.00	CARE AA+; Stable
Subordinate Debt	INE950008121	19-May-17	8.50%	19-May-27	10.00	CARE AA+; Stable
Subordinate Debt	INE950008139	30-May-17	8.50%	28-May-27	25.00	CARE AA+; Stable
Subordinate Debt	INE950008147	15-Jun-17	8.50%	15-Jun-27	50.00	CARE AA+; Stable
Subordinate Debt (proposed)	-	-	-	-	70.00	CARE AA+; Stable
Non-convertible Debenture	INE950007123	27-Mar-17	8.30%	26-Mar-27	10.00	CARE AA+; Stable
Non-Convertible Debenture (proposed)	-	-	-	-	55.00	CARE AA+; Stable

**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 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	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is); Stable	-	1)CARE AA+ (Is); Stable (06-Oct-21)	1)CARE AA+ (Is); Stable (07-Oct-20)	1)CARE AA+ (Is); Stable (08-Jan-20)
2	Debt-Subordinate Debt	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Stable (07-Oct-20) 2)CARE AA+; Stable (18-Jun-20)	1)CARE AA+; Stable (08-Jan-20)
3	Debentures-Non Convertible Debentures	LT	65.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Oct-21)	1)CARE AA+; Stable (07-Oct-20) 2)CARE AA+; Stable (18-Jun-20)	1)CARE AA+; Stable (08-Jan-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not Applicable****Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Debt-Subordinate Debt	Complex
3	Issuer Rating-Issuer Ratings	

**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 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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