Repco Home Finance Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10,145.00 (Enhanced from 8,645.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total bank facilities	**10,145.00 (₹ Ten thousand one hundred forty-five crore only)**		
Commercial paper	800.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**800.00 (₹ Eight hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Repco Home Finance Limited (RHFL) factor in the established track record of the company in south India, especially in the Tier-II and Tier-III cities, the experienced senior management team, the comfortable capital adequacy levels, and the track record of healthy profitability except in FY22 (refers to the period from April 01 to March 31). During FY22, the company witnessed a moderation in profitability due to the increased credit costs.

The ratings are, however, constrained by the regional concentration of the loan portfolio, moderate resource profile with reliance on bank borrowings, and relatively higher exposure to certain riskier borrower segments. The ratings also take note of the weakening in the asset quality with an increase in the gross non-performing assets (GNPA) level and the relatively high restructured book. The GNPA (considering the impact of income recognition, asset classification and provisioning [IRACP] norms) increased from 3.68% as on March 31, 2021, to 6.97% as on March 31, 2022, due to the impact of the COVID-19 pandemic and the implementation of IRACP norms from December 2021 results. The GNPA and net non-performing assets (NNPA) showed improvement to 6.43% and 4.17% as on June 30, 2022. The restructured portfolio outstanding was ₹708 crore as on June 30, 2022. Given that a significant proportion of the restructured portfolio was in the harder buckets, there may be a marginal increase in the GNPA levels in the near term. However, RHFL has taken various initiatives to control the slippages and improve recovery, which is expected to limit the flow from the restructured book to the GNPA. The sharp increase in the GNPA from the present level will be a key monitorable in the near term.

Rating sensitivities

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

- Increase in the scale of operations with improvement in geographical and product diversification along with an improvement in asset quality.

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

- Moderation in profitability with return on total assets (ROTA) of less than 1.50% on a sustained basis.
- Weakening of the capital adequacy levels with the capital adequacy ratio (CAR) falling below 20% on a sustained basis.
- Absence of improvement in the stressed assets from the present level.

Detailed description of the key rating drivers

Key rating strengths

Experienced senior management and well-qualified board of directors: The board of RHFL is well diversified and consists of highly qualified directors, who have experience in a broad spectrum of activities ranging from finance, regulatory background, banks, and government services. RHFL's board of directors comprises of 10 directors, of which four, including the Chairman are

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

Non-Executive independent directors, four Non-executive Non-independent directors, one Wholetime director and the Managing director. The Managing Director, K Swaminathan, has over 35 years of experience primarily in the banking sector. RHFL's senior management comprises professionals with significant experience in the related fields and is supported by a pool of trained personnel at the head office and branch offices. In the last AGM, the promoter (Repco Bank) voted against the reappointment of two directors, one of which was a whole-time executive director of the company. However, the earlier whole-time director still continues as the COO in the organisation.

Comfortable capitalisation: RHFL has been able to maintain a comfortable CAR of above 20% over the last few years ended March 31, 2022, on account of the healthy internal accruals and modest growth in the loan portfolio. The total CAR stood at 33.33% as on March 31, 2022, as against 30.72% as on March 31, 2021. The Tier-I capital stood at 32.77%, thereby providing a cushion to raise Tier-II capital, if required. The gearing as on March 31, 2022, stood at 4.35x (PY: 4.97x) and as on June 30, 2022, the gearing stood at 4.07x. RHFL is comfortably placed in terms of capital requirements to grow the business in the medium term.

Moderation in profitability during FY22: During FY22, the net interest margin (NIM) has improved to 4.67% as against 4.47% in FY21, with an improvement in the cost of borrowings. The yield-on-advances reduced to 10.53% in FY22 from 11.30% in FY21, whereas the reduction in the cost of borrowings was relatively higher and stood at 6.93% in FY22 (PY: 7.93%). The opex to average assets remained almost flat, at 1.02% in FY22 (PY: 0.94%). The pre-provision operating profit (PPOP) increased from ₹471 crore in FY21 to ₹493 crore in FY22. However, credit costs increased from 0.66% in FY21 to 1.91% in FY22, owing to higher provisioning on account of an increase in the GNPA due to new IRAC norms and the impact of the COVID-19 pandemic. The ROTA has moderated on account of higher provisioning and stood at 1.57% in FY22 (PY: 2.36%). During Q1FY23, RHFL reported a profit-after-tax (PAT) of ₹62 crore on a total income of ₹307 crore. The credit cost stood at 0.80% and ROTA stood at 2.09% in Q1FY23.

Key rating weaknesses

Relatively higher exposure to certain riskier borrower segments: RHFL is primarily lending towards the housing finance needs of the relatively riskier asset class comprising low and middle-income borrowers in the informal sector. Since this segment is highly susceptible to the impact of economic downturns, asset quality is a key monitorable. However, due to the lower loan-to-value (LTV) and increased focus on collections, the ultimate losses have been minimal in the past. As on March 31, 2022, 85% of the outstanding portfolio is below 70% of the LTV.

Moderate resource profile with reliance on bank borrowings: Bank borrowings are the major source of funding for RHFL, followed by other sources, namely, National Housing Bank (NHB) refinance and commercial papers (CP). RHFL has increased the share of borrowings from the banks since FY19 due to favourable interest rates and relatively longer tenures offered at around 10-15 years as against market borrowings, which are available for a relatively lower tenure. Therefore, bank borrowing as a percentage of total borrowings remained at 68% as on March 31, 2022 (excluding Repco Bank) as against 69% as on March 31, 2021. The borrowing from NHB refinances and Repco bank stood at 21% (PY: 21%) and 11% (PY: 11%), respectively, as on March 31, 2022. A significant proportion of the borrowings are relatively finer at the marginal cost of fund-based lending rate (MCLR).

Weakening of asset quality parameters during FY22: The GNPA increased to 6.97% as on March 31, 2022, as against 3.68% as on March 31, 2021, due to the impact of the COVID-19 pandemic and the implementation of IRACP norms from the December 2021 results. The NNPA increased to 4.90% as on March 31, 2022, as against 2.75% as on March 31, 2021. The GNPA as on June 30, 2022, stood at 6.4%. While the GNPA in housing loans stood at 5.9%, the GNPA in non-housing loans stood at 8.5% as on June 30, 2022. As on June 30, 2022, the gross stressed assets (GNPA + restructured assets) as a percentage of gross advances stood at 12.40% (9.53% as on June 30, 2021). As on June 30, 2022, the delinquencies in the restructured book remained higher than the delinquencies in the overall book. The controlling slippage from the restructured book remains a key monitorable. To focus on the recovery of the non-performing loans, RHFL has formed special teams and strengthened the process and timelines to initiate recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI). The company has also initiated a central tele-calling team for following up with non-performing asset (NPA) customers and also touching base with all customers on periodical intervals. As per the management, cumulative bad debts write-off stood around ₹13 crore until March 31, 2022, on account of the secured nature of the book. While the company has taken various initiatives, the fructification of the same is critical to contain slippages. This, along with the performance of the restructured portfolio, remains key monitorable.

Modest scale of operations with a regional concentration of the portfolio: RHFL's portfolio continues to be concentrated in south India, with around 83% of the portfolio concentrated in five south Indian states as on March 31, 2022 (83% as on March

31, 2021). Tamil Nadu contributed to 56% of the portfolio as on March 31, 2022 (55% as on March 31, 2021), followed by Karnataka (13%), Maharashtra (10%), Andhra Pradesh (6%), Telangana (5%), Kerala (3%), Gujarat (4%), and the rest from Pondicherry, Rajasthan, Jharkhand, Odisha, West Bengal, and Madhya Pradesh. Although the company has taken initiatives to improve its regional diversification by opening new branches in other states, RHFL's business is expected to remain concentrated in the southern states, particularly Tamil Nadu, over the medium term. The number of branches and satellite units are 155 and 24, respectively, as on March 31, 2022.

Liquidity: Adequate

The ALM profile as on March 31, 2022, is at an adequate level, with no cumulative negative mismatches up to one year. Generally, for housing finance companies (HFCs), loans extended to clients have long tenures as against the comparatively shorter tenure of liabilities, owing to the lack of availability of equally maturing long-term funds. However, RHFL prefers to take borrowings with longer tenures from the banking channels and the average tenure of borrowings currently stands at around eight years. As on August 31, 2022, RHFL had cash and fixed deposits amounting to ₹180 crore. The company also had unutilised sanctions amounting to ₹1,734 crore as on August 31, 2022. The company has total credit facilities of ₹1,085 crore from its parent, Repco Bank, which includes working capital facilities amounting to ₹800 crore.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning outlook and credit watch to credit ratings
CARE Ratings' policy on Default Recognition
Financial ratios – Financial sector
Rating methodology for housing finance companies
Rating methodology for short-term instruments
Rating methodology: Consolidation

About the company

RHFL is a HFC registered with NHB. RHFL was established in April 2000 as a wholly-owned subsidiary of the Repatriates Cooperative Finance and Development Bank Limited (Repco Bank), a Government of India enterprise. The shares of RHFL are listed on the NSE and BSE post its initial public offer (IPO) in FY13. As on June 30, 2022, 37.13% stake was held by Repco Bank, and the rest is held by institutional and retail investors.

RHFL follows a hub-and-spoke model and has a presence in 12 states and one Union Territory through its network of 155 branches and 24 satellite centres (sub-branches) as on March 31, 2022. RHFL has assets under management (AUM) of ₹11,763 crore as on March 31, 2022, with an average ticket size of ₹15 lakh, primarily concentrated in south India. The company concentrates on Tier-II and Tier-III cities and has 49% of its portfolio to the salaried segment and the rest towards the self-employed segment of borrowers as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
TOI	1,392	1,307	307
PAT	288	192	62
Interest coverage (times)	1.48	1.38	1.51
Total assets	12,363	11,993	11,751
Net NPA (%)	2.75	4.90	4.17
ROTA (%)	2.36	1.57	2.09

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

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

Bank lender details for this company: Annexure-5

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	-	-	-	March, 2034	9870.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	275.00	CARE AA-; Stable
Commercial paper-Commercial paper (Standalone) (Proposed)	-	-	-	-	800.00	CARE A1+

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	Fund-based - LT-Term loan	LT	9870.00	CARE AA-; Stable	1)CARE AA-; Stable (21-Sep-22)	1)CARE AA-; Stable (22-Sep-21)	1)CARE AA-; Stable (24-Sep-20) 2)CARE AA; Negative (28-Apr-20)	1)CARE AA; Stable (21-Nov-19) 2)CARE AA; Stable (04-Oct-19) 3)CARE AA; Stable (02-Apr-19)
2	Commercial paper-Commercial paper (standalone)	ST	800.00	CARE A1+	1)CARE A1+ (21-Sep-22)	1)CARE A1+ (22-Sep-21)	1)CARE A1+ (24-Sep-20) 2)CARE A1+ (28-Apr-20)	1)CARE A1+ (04-Oct-19)
3	Debentures-Non-convertible debentures	LT	-	-	-	-	-	1)Withdrawn (04-Oct-19)
4	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Stable	1)CARE AA; Stable (04-Oct-19)

							(24-Sep-20) 2)CARE AA; Negative (28-Apr-20)	
5	Debentures-Non-convertible debentures	LT	-	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Stable (24-Sep-20) 2)CARE AA; Negative (28-Apr-20)	1)CARE AA; Stable (04-Oct-19)
6	Fund-based - LT-Cash credit	LT	275.00	CARE AA-; Stable	1)CARE AA-; Stable (21-Sep-22)	1)CARE AA-; Stable (22-Sep-21)	1)CARE AA-; Stable (24-Sep-20) 2)CARE AA; Negative (28-Apr-20)	1)CARE AA; Stable (21-Nov-19) 2)CARE AA; Stable (04-Oct-19) 3)CARE AA; Stable (02-Apr-19)

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Bank Facilities	Minimum CRAR ratio shall be 20%
	TOL/TNW shall not exceed 6x

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

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash credit	Simple
3	Fund-based - LT-Term loan	Simple

Note on the 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 the bank facilities, please click here.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6837 4424
E-mail: mradul.mishra@careedge.in

Analyst contact 1
Name: P Sudhakar
Phone: +91-44-2850 1000
E-mail: p.sudhakar@careedge.in

Analyst contact 2
Name: Ravi Shankar R
Phone: +91-44-2850 1000
E-mail: ravi.s@careedge.in

Relationship contact
Name: V Pradeep Kumar
Phone: +91-44-2850 1000
E-mail: pradeep.kumar@careedge.in

About us:

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