Repco Home Finance Limited (Revised)

October 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10,145.00	CARE AA-; Stable	Reaffirmed
Commercial paper	800.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 comfortable capital adequacy levels and the track record of healthy profitability with improvement seen in FY23 (FY refers to the period from April 01 to March 31) as compared to moderation in FY22. The return on total assets (ROTA) improved from 1.57% in FY22 to 2.42% in FY23.

The ratings are, however, constrained by the regional concentration of the loan portfolio, the moderate resource profile with reliance on bank borrowings, the moderate asset quality, and the relatively higher exposure to certain riskier borrower segments. Although the gross non-performing assets (GNPA) decreased from 6.97% as on March 31, 2022, to 5.77% as on March 31, 2023, and further to 5.49% as on June 30, 2023, it continues to be high. The standard restructured portfolio outstanding was ₹392 crore, constituting 3.10% of the advances as on June 30, 2023. It is to be noted that 47% of the restructured book is in Stage 2. RHFL has taken various initiatives to control the slippages and improve recovery. However, the ability of the company to contain slippages from the standard restructured advances remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

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 ROTA of less than 1.50% on a sustained basis.
- Weakening of the capitalisation, with overall gearing above 5.5x on a sustained basis.
- Inability of the company to reduce the GNPA to less than 5% in the near term.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of the stable credit profile, with comfortable capitalisation levels and healthy profitability levels.

Detailed description of the key rating drivers

Key strengths

Established track record of operations, especially in South India

RHFL was established in the year 2000 and has a track record of more than two decades in the housing finance business, especially in the Tier-II and Tier-III cities of South India. 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.

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

RHFL's board of directors comprises of 11 directors, of which six are non-executive independent directors, four are non-executive non-independent directors, 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.

Comfortable capitalisation

Over the years, RHFL has been able to maintain a comfortable capital adequacy ratio (CAR). It stood above 20% as on March 31, 2023, on account of the healthy internal accruals and modest growth in the loan portfolio. The total CAR stood at 35.79% as on March 31, 2023, as against 33.33% as on March 31, 2022. The Tier-I capital stood at 35.00% as on March 31, 2023, thereby providing a cushion to raise Tier-II capital, if required. The CAR stood at 36.05% as on June 30, 2023. The overall gearing, as on March 31, 2023, stood at 3.96x (PY: 4.35x) and 3.83x as on June 30, 2023. RHFL is comfortably placed in terms of capital requirements to grow the business in the medium term.

Improvement in profitability during FY23 and Q1FY24

The ROTA has remained above 2% consistently over the years, except for the year FY22, where the profitability was impacted due to the increase in credit cost. The profit-after-tax (PAT) of the company has improved from ₹192 crore during FY22 to ₹296 crore during FY23, mainly on account of the significant reduction in credit cost. During FY23, the net interest margin (NIM) stood at 4.54% as against 4.67% in FY22. The opex-to-average assets slightly increased to 1.19% in FY22 (PY: 1.02%) with the revision in the salary of employees during January 2023. The pre-provision operating profit (PPOP) stood at ₹452 crore in FY23 as against ₹493 crore in FY22. The credit cost decreased from 1.91% in FY22 to 0.42% in FY23 due to an improvement in the asset quality during FY23. The ROTA has improved on account of lower credit cost and stood at 2.42% in FY23 (PY: 1.57%). During Q1FY24, RHFL reported a PAT of ₹86 crore on a total income of ₹363 crore. The credit cost stood at 0.16% and ROTA stood at 3.70% in Q1FY24.

Key weaknesses

Relatively higher exposure to certain riskier borrower segments

RHFL is primarily lending towards the housing finance needs of the relatively riskier borrower segments 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), the lower average ticket size of ₹15 lakh, and the increased focus on collections, the ultimate losses have been minimal in the past. As on March 31, 2023, 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 refinancing from the National Housing Bank (NHB). RHFL has increased the share of borrowings from the banks since FY19 due to favourable interest rates and relatively longer tenures offered as against market borrowings, which are available for a relatively lower tenure. Therefore, bank borrowings, as a percentage of the total borrowings, remained at 74% as on March 31, 2023 (excluding Repatriates Cooperative Finance and Development Bank Limited [Repco Bank]), as against 68% as on March 31, 2022. The borrowings from NHB refinances and Repco Bank stood at 15% (PY: 21%) and 11% (PY: 11%), respectively, as on March 31, 2023. Borrowings from banks (excluding Repco Bank), NHB, and Repco Bank stood at 74%, 15%, and 11%, respectively, as on June 30, 2023.

Moderate asset quality parameters

The GNPA improved to 5.77% as on March 31, 2023, as against 6.97% as on March 31, 2022, due to the diminishing impact of the COVID-19 pandemic. The net non-performing assets (NNPA) decreased to 2.99% as on March 31, 2023, as against 4.86% as on March 31, 2022. The GNPA and NNPA as on June 30, 2023, stood at 5.49% and 2.75%, respectively. While the GNPA in housing loans stood at 5.02%, the GNPA in non-housing loans stood at 7.04% as on June 30, 2023. The portfolio in stage 2 of the loan book remains high for the company, at 13.58% as on March 31, 2023, and 14.21% as on June 30, 2023. Stringent monitoring of the stage 2 book to prevent any slippages remains a key rating monitorable.

As on March 31, 2023, the gross stressed assets (GNPA + restructured assets), as a percentage of the gross advances, stood at 9.17% as against 13.72% as on March 31, 2022. The gross stressed assets improved to 8.67% as on June 30, 2023. As on June 30, 2023, the delinquencies in the restructured book continued to remain higher than the delinquencies in the overall book. The standard restructured book stood at ₹392 crore as on June 30, 2023, and 47% of the restructured book is in Stage 2. The ability of the company to control slippages from the restructured book remains a key monitorable. A separate collection vertical with around 80 members was started by the company to follow up on 1-90 DPD. 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 already sent demand notices for most of the non-performing asset (NPA) accounts. Furthermore, the company has various initiatives like regularisation scheme for the recovery of NPA accounts. While the company has taken various initiatives, the fructification of the same is critical to contain slippages.

Modest scale of operations with a regional concentration of the portfolio

The loan portfolio (net) witnessed a decline of 5% in FY22 from ₹11,834 crore as on March 31, 2021, to ₹11,292 crore as on March 31, 2022, on account of the restrained disbursements due to the pandemic. Disbursements bounced back in FY23 from ₹1,769 crore in FY22 to ₹2,919 crore in FY23. During FY23, the loan portfolio of the company grew by 6% and improved to ₹11,962 crore.

RHFL's portfolio continues to be concentrated xin south India, with around 84% of the portfolio concentrated in five south Indian states as on March 31, 2023 (83% as on March 31, 2022). Tamil Nadu contributed to 57% of the portfolio as on March 31, 2023 (56% as on March 31, 2022), followed by Karnataka (13%), Maharashtra (9%), Andhra Pradesh (6%), Telangana (5%), Kerala (3%), Gujarat (3%), 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 159 and 33, respectively, as on March 31, 2023.

Liquidity: Adequate

The Asset and Liability Management (ALM) profile as on June 30, 2023, is at an adequate level, with no cumulative negative mismatches up to six months. 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 nine years. As on September 21, 2023, RHFL had cash and cash equivalents amounting to ₹350 crore and unutilised sanctions amounting to ₹805 crore. The company has total credit facilities limit of ₹1,100 crore from its parent, Repco Bank, which also supports the liquidity.

Environment, social, and governance (ESG) risks

The company's main line of business is providing housing finance; hence, it is not directly involved in any activities that can have a significant negative impact on the environment. However, as a responsible company, RHFL is mindful of its environmental impact and makes an effort to reduce its greenhouse gas (GHG) emissions, wherever feasible.

The company is dedicated to advancing financial inclusion through financing for affordable housing to families in the economically-weaker section (EWS) and low-income groups (LIGs) to fulfil their dream of owning a home. The Pradhan Mantri Awas Yojana-Credit Linked Subsidy Scheme (PMAY-CLSS), which aims to give subsidies to first-time home buyers from LIGs, has been heavily supported by RHFL. To avoid financial burden on the family in case of tragic circumstances like the death of a borrower, RHFL encourages them to purchase insurance.

The company has created an environment where directors and employees can bring any improper behavior to RHFL's attention without fear through a whistleblower/vigilance process, which enables a variety of stakeholders to voice legitimate concerns about unethical behavior, while also protecting those who raise concerns from victimisation. RHFL believes in equal opportunity and it ensures that there is no kind of discrimination at work and that women and people with disabilities, as well as people from all social, economic, and cultural backgrounds, are welcomed.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Housing Finance Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial services	Finance	Housing finance company

RHFL is a HFC, established in April 2000 as a wholly owned subsidiary of Repco Bank, a Government of India enterprise. RHFL's shares are listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) post its initial public offering (IPO) in FY13. As on June 30, 2023, 37.13% stake was held by Repco Bank and the rest was held by institutional and retails investors.

RHFL follows a hub-and-spoke model and has presence in 12 States and one Union Territory through its network of 159 branches and 33 satellite centres (sub-branches) as on March 31, 2023. RHFL has assets under management (AUM) of ₹12,449 crore as on March 31, 2023, with an average ticket size of ₹15 lakh, primarily concentrated in South India. The company is concentrating on Tier-II and Tier-III cities, and as on March 31, 2023, has 48% of its portfolio to the salaried segment and the rest towards the self-employed segment of borrowers.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total Income	1,307	1,299	363
PAT	192	296	86
Interest coverage (times)	1.38	1.57	1.58
Total Assets	11,993	12,520	12,658
Net NPA (%)	4.86	2.99	2.75
ROTA (%)	1.57	2.42	3.70

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.
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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	800.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	275.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	March, 2034	9870.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	9870.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Oct-22) 2)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)
2	Commercial Paper-Commercial Paper (Standalone)	ST	800.00	CARE A1+	-	1)CARE A1+ (07-Oct-22) 2)CARE A1+ (21-Sep-22)	1)CARE A1+ (22-Sep-21)	1)CARE A1+ (24-Sep-20) 2)CARE A1+ (28-Apr-20)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Stable (24-Sep-20)

								2)CARE AA; Negative (28-Apr-20)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Stable (24-Sep-20) 2)CARE AA; Negative (28-Apr-20)
5	Fund-based - LT-Cash Credit	LT	275.00	CARE AA-; Stable	-	1)CARE AA-; Stable (07-Oct-22) 2)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)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities
Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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