Repco Home Finance Limited

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	11,145.00 (Enhanced from 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

Ratings assigned to 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 Tier-II and Tier-III cities, comfortable capital adequacy levels and track record of healthy profitability. Return on total assets (ROTA) improved from 2.42% in FY23 to 3.01% in FY24.

However, ratings are constrained by the regional concentration of loan portfolio, moderate resource profile with reliance on bank borrowings, moderate asset quality and relatively higher exposure to certain riskier borrower segments. GNPA improved from 5.8% as on March 31, 2023, to 4.1% as on March 31, 2024, and stood at 4.3% as on June 30, 2024. Restructured portfolio outstanding was ₹507 crore constituting 3.7% of advances as on June 30, 2024. It is to be noted that 47% of the restructured book is in Stage 2. The company's ability to contain slippages from standard restructured advances remain 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.
- Deterioration in asset quality with GNPA above 5%.

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 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 over two decades in the housing finance business especially in Tier-II and Tier-III cities of South India. RHFL's board 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

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

board of directors comprises nine directors, of which, five are Non-Executive independent directors, three 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

RHFL has been able to maintain a comfortable capital adequacy ratio (CAR) of above 20% in the last few years ended March 31, 2024, on account of healthy internal accruals and modest growth in the loan portfolio. Total CAR stood at 34.00% as on March 31, 2024, as against 35.80% as on March 31, 2023. The Tier-I capital stood at 33.20% as on March 31, 2024, thereby providing a cushion to raise Tier-II capital, if required. CAR remains stable at 34% as on June 30, 2024. Gearing as on March 31, 2024, stood at 3.72x (PY: 3.96x) and 3.66x as on June 30, 2024. RHFL is comfortably placed in terms of capital requirements to grow business in the medium term.

Improvement in profitability in FY24 and Q1FY25

ROTA has remained above 2% consistently over the years, except for FY22, where profitability was impacted due to increase in credit cost. The Profit after Tax (PAT) of the company has improved from ₹296 crore in FY23 to ₹395 crore in FY24 majorly on account of significant reduction in credit cost. In FY24, net interest margin (NIM) stood at 4.96% against 4.67% in FY23. Yield-on-advances improved to 11.49% in FY24 from 10.37% in FY23, whereas cost of borrowing increased to 8.18% in FY24 from 7.13% in FY23. Opex to average assets marginally increased to 1.30% from 1.19% in FY23. The pre-provision operating profit (PPOP) stood at ₹524 crore in FY24 as against ₹452 crore in FY23. Credit cost remained negative in FY24 as against 0.42% in FY23 due to write-back of provisions in FY24 due to recoveries during the year.
ROTA has improved on account of lower credit cost and stood at 3.01% in FY24 as against 2.42% in FY23.

In Q1FY25, RHFL reported a PAT of ₹105 crore on a total income of ₹416 crore. Credit cost stood at 0.04% and ROTA stood at 3.04% in Q1FY25.

Key weaknesses

Relatively higher exposure to certain riskier borrower segments

RHFL is primarily lending towards housing finance needs of relatively riskier borrower segments comprising low and middle-income borrowers in the informal sector. Since this segment is highly susceptible to impact of economic downturns, asset quality is a key monitorable. However, due to lower loan-to value (LTV), lower average ticket size of ₹12 lakh, and increased focus on collections, ultimate losses have been minimal in the past. As on March 31, 2024, 85% of the outstanding portfolio is below 70% of the LTV.

Moderate resource profile with reliance on bank borrowings

Bank borrowings are RHFL's major source of funding, followed by National Housing Bank (NHB) refinance. RHFL has increased share of borrowings from 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 borrowing as a percentage of total borrowings remained at 79% as on March 31, 2024 (excluding Repco Bank) as against 74% as on March 31, 2023. The borrowing from NHB refinances and Repco Bank stood at 11% (PY: 15%) and 10% (PY: 11%), respectively, as on March 31, 2024.

Moderate asset quality parameters

GNPA improved to 4.1% as on March 31, 2024, as against 5.8% as on March 31, 2023, due to lower slippages and higher recoveries. Net NPA (NNPA) decreased to 1.5% as on March 31, 2024 as against 2.99% as on March 31, 2023. In absolute terms, GNPA has decreased from ₹719 crore as on March 31, 2023, to ₹552 crore as on March 31, 2024. GNPA and NNPA as on June

30, 2024, stood at 4.3% and 1.7% respectively. Though the NPAs have improved, it continues to be relatively moderate. Slippage ratio improved from 2.8% in FY23 to 1.7% in FY24. While the GNPA in housing loans stood at 4.2% (PY: 5.02% as on June 30, 2023), the GNPA in non-housing loans stood at 4.4% as on June 30, 2024 (PY: 7.04% as on June 30, 2023). The company's portfolio in stage 2 of the loan book remains high, at 11.65% as on March 31, 2024, and 11.71% as on June 30, 2024. Stringent monitoring of stage 2 book to prevent any slippages remain a key rating monitorable.

As on June 30, 2024, the gross stressed assets (GNPA + restructured assets) as a percentage of gross advances stood at 6.8% (8.7% as on June 30, 2023). As on June 30, 2024, delinquencies in the restructured book remained higher than delinquencies in the overall book. Restructured book stood at ₹507 crore as on June 30, 2024, and 47% of the restructured book is in Stage 2. The controlling slippage from restructured book remains a key monitorable. A separate collection vertical was started by the company to follow up on 1-90 DPD. To focus on the recovery of non-performing loans, RHFL formed special teams and strengthened 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 NPA customers and also touching base with all customers on periodical intervals.
The company is also increasing the strength of the collections team. The focus is expected to remain on collections for FY25 as well. While the company has taken various initiatives, the fructification of the same is critical to contain slippages.

Regional concentration of portfolio
Disbursements bounced back in FY23, and momentum continued in FY24 and Q1FY25. Disbursements grew by 7% (Y-o-Y) to ₹3,125 crore in FY24 from ₹2,919 crore in FY23. In FY24, the company's loan portfolio grew by 9% and improved to ₹13,037 crore as on March 31, 2024, against ₹11,962 crore as on March 31, 2023 (₹13,238 crore as on June 30, 2024).

RHFL's portfolio continues to be concentrated in south India, with ~83% of the portfolio concentrated in five south Indian states as on March 31, 2024 (84% as on March 31, 2023). Tamil Nadu contributed to 56% of the portfolio as on March 31, 2024, (57% as on March 31, 2023), followed by Karnataka (13%), Maharashtra (10%), 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 168 and 44, respectively, as on March 31, 2024.

Liquidity: Adequate

The asset liability management (ALM) profile as on June 30, 2024, is at an adequate level, with no cumulative negative mismatches up to one year as per ALM submitted by the company. Generally, for housing finance companies (HFCs), loans extended to clients have long tenures as against 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 banking channels and average tenure of borrowings currently stands at ~8.5 years. As on June 30, 2024, RHFL had cash and cash equivalents amounting to ₹662 crore. The company also had unutilised sanctions amounting to ₹1,745 crore. The company has total credit facilities limit of ₹1,100 crore from its parent, Repco Bank.

Environment, social, and governance (ESG) risks

The company's main line of business is providing housing finance; hence, it is not directly involved in 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 efforts 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. To avoid financial burden on the family in case of tragic circumstances including 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 raising concerns from victimisation. RHFL believes in equal opportunity and ensures that there is no kind of discrimination at work.

Applicable criteria

Definition of Default
Rating Outlook and Rating Watch
Financial Ratios - Financial Sector
Housing Finance Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Housing finance company

RHFL is a housing finance company (HFC) 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. RHFL's shares are listed on NSE and BSE post IPO in FY13. As on June 30, 2024, 37.13% stake was held by Repco Bank and the rest is 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 168 branches and 44 satellite centres (sub-branches) as on March 31, 2024. RHFL has an AUM of ₹13,513 crore as on March 31, 2024, with an average ticket size of ₹12 lakh, primarily concentrated in South India. The company is concentrating on Tier II & Tier III cities and has 49% of its portfolio to the salaried segment & the rest towards self-employed segment of borrowers as on March 31, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total Income	1,299	1,541	416
PAT	296	395	105
Interest coverage (times)	1.57	1.62	2.70
Total Assets	12,520	13,694	14,050
Net NPA (%)	2.99	1.46	1.67
ROTA (%)	2.42	3.01	3.04

A: Audited; UA: Unaudited. Note: These are latest available financial results.
All ratios are per CARE Ratings' calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: 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 and 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	10870.00	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	10870.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Oct-23)	1)CARE AA-; Stable (07-Oct-22) 2)CARE AA-; Stable (21-Sep-22)	1)CARE AA-; Stable (22-Sep-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	800.00	CARE A1+	-	1)CARE A1+ (06-Oct-23)	1)CARE A1+ (07-Oct-22) 2)CARE A1+ (21-Sep-22)	1)CARE A1+ (22-Sep-21)
3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Apr-21)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (05-Apr-21)
5	Fund-based - LT-Cash Credit	LT	275.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Oct-23)	1)CARE AA-; Stable (07-Oct-22) 2)CARE AA-; Stable (21-Sep-22)	1)CARE AA-; Stable (22-Sep-21)

LT: Long term; ST: Short term

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

Not applicable

Annexure-4: Complexity level of 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

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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