Repco Home Finance Limited

September 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	8,645.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**8,645.00 (Rs. Eight Thousand Six Hundred Forty-Five Crore Only)**		
Commercial Paper	800.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**800.00 (Rs. Eight hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and debt instruments of Repco Home Finance Limited (RHFL) factors in the established track-record of the company in south India, especially in the Tier II & Tier III cities, experienced senior management team, comfortable capital adequacy levels and healthy profitability. The ratings however, are constrained by the regional concentration of loan portfolio, moderate asset quality parameters and relatively higher exposure to certain risker borrower segments. The rating also takes note of changes in borrowing mix with bank borrowings constituting major portion of total borrowings.

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 & product diversification along with improvement in asset quality

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

- Weakening of asset quality parameters with GNPA of above 5% on sustained basis
- Weakening of capital adequacy levels with CAR falling below 20% on sustained basis

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, having experience in a broad spectrum of activities ranging from finance, regulatory background, banks and the government service. RHFL's Board of Directors comprises eleven directors of which six, including the chairman are independent and four are from the board of Repco Bank. The managing director, Mr Yashpal Gupta, has experience of over 30 years primarily in the banking sector. RHFL's senior management comprises professionals with significant experience in 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% over the last five years ended March 31, 2021 on account of healthy internal accruals and modest growth in portfolio. Total CAR stood at 30.72% as on March 31, 2021 as against 25.85% as on March 31, 2020. Tier I Capital stood at 30.29%, thereby providing cushion to raise Tier II capital, if required. Gearing as on March 31, 2021, stood at 4.97 times (PY: 5.68 times). RHFL is comfortably placed in terms of capital requirements to grow the business in the medium term.

Healthy profitability

Despite its moderate growth rate in AUM in the last two financial years, RHFL has been reporting comfortable profitability levels in the last 5 years. During FY21, NIM has improved to 4.47% as against 4.29% in FY20. Yield on advances reduced to 11.30% in FY21 from 11.55% in FY20; whereas reduction in cost of borrowings was relatively higher and stood at 7.93% in FY21 (PY: 8.47%). Opex to average assets remained almost flat at 0.94% in FY21 (PY: 0.93%). PPOP increased from Rs.420 crore in FY20 to Rs.471 crore in FY21. Though credit costs increased from 0.52% in FY20 to 0.66% in FY21, ROTA stood relatively stable at 2.36% in FY21 (PY: 2.44%). During Q1FY22, RHFL reported a PAT of Rs.32 crore on a total income of Rs.322 crore owing to higher provisioning on account of Covid-19 pandemic.

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 of low/middle-income borrowers in the informal sector. Since this segment is highly susceptible to the impact of the economic downturn, asset quality is a key monitorable. However, due to lower LTV and increased focus on collections, the ultimate losses have been minimal in the past. As on March 30, 2021, 85% of the outstanding portfolio is of below 70% LTV.

Moderate resource profile with increased reliance on bank borrowings in the recent past

Bank borrowings is the major source of funding for RHFL, followed by other sources namely NHB Refinance and CP. RHFL has increased the share of borrowings from 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 relatively lower tenure.

Therefore, bank borrowing as a percentage of total borrowings increased from 54% as on March 31, 2018 to 69% as on March 31, 2021 (excluding Repco Bank) and moderation in the borrowings from NCDs from 9% as on March 31, 2019 to NIL as on March 31, 2021. Borrowing from NHB refinance and Repco bank stood at 23% (PY: 8%) and 11% (PY: 11%) respectively as on March 31, 2021.

Moderate Asset quality

GNPA stood at 3.68% as on March 31, 2021 as against 4.32% as on March 31, 2020. Net NPA stood at 2.75% as on March 31, 2021 as against 1.93% as on March 31, 2020. GNPA as on June 30, 2021 stood at 4.43%. During Q1FY22, RHFL has restructured portfolio amounting Rs.609 crore (5% of gross advances) under resolution framework 2.0. As on June 30, 2021, gross stressed assets (GNPA + restructured assets) as a percentage of gross advances stood at 9.53%.

To focus on recovery of the non-performing loans, RHFL has formed special teams and two exclusive recovery branches were also set up at Chennai and Bangalore for recovery of these bad loans. The ability of RHFL to prevent further deterioration in the asset quality and improve the asset quality amidst the current environment remains key rating sensitivity.

Modest scale of operations with a regional concentration of the portfolio

RHFL continues to be a moderate-sized HFC in comparison to its peers. During FY21, the portfolio grew by 3%, whereas disbursements declined by 30% on y-o-y basis. During Q1FY22, loan portfolio witnessed slight decline and stood at Rs. 11,986 crore.

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, 2021 (84% as on March 31, 2020) with Tamil Nadu contributing to 55% of the portfolio as on March 31, 2021 (56% as on March 31, 2020). followed by Karnataka (14%), Maharashtra (10%), Andhra Pradesh (6%), Telangana (5%), Kerala (3%), Gujarat (4%) and the rest from Pondicherry, Jharkhand, Orissa, 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 TN over the medium term. The number of branches and satellite units are 153 and 24 respectively as on March 31, 2021.

Impact of Covid-19

The company has restructured part of its portfolio on account of the pandemic situation (both OTR 1.0 and OTR 2.0). In respect of most of the OTRs, only moratorium was given to the borrowers. The interest accrued during moratorium period will be capitalized with principal. The restructuring was done only for stage 1 and stage 2 classified loan assets. As on June 30, 2021, the total restructured portfolio stood at around 5% of the outstanding loan portfolio.

Liquidity: Adequate

The liquidity profile of RHFL remained adequate with negative mismatch in only one of the time buckets in ALM as on March 31, 2021. Generally, for HFC's, loans extended to clients have long tenures as against comparatively shorter tenure of liabilities owing to lack of availability of equally maturing long-term funds. However, RHFL prefers to take borrowings with a tenure in between 10-15 years. For the company, currently average tenure of borrowings stands at around 9.5 years. As on August 31, 2021, RHFL had cash and fixed deposits amounting to Rs.315 crore. The company also had un-utilized sanctions amounting to Rs. 1,532 crore as on August 31, 2021. The company has total credit facilities of Rs.1,100 crore from its parent Repco Bank which includes working capital facility amounting Rs.300 crore.

Analytical approach:

Standalone approach, also factoring in the linkages with the parent. RHFL receives the support from Repco Bank in the form of management, funding and operational support in terms of coexistence of branches.

Applicable Criteria:

Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios-Financial Sector
Rating Methodology for Housing Finance Companies (HFCs)
Rating Methodology for Short Term Instruments
Rating Methodology: Notching by factoring linkages in Ratings

About the Company

Repco Home Finance Limited (RHFL) is a housing finance company (HFC) registered with National Housing Bank (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. RHFL's shares are listed on NSE & BSE post IPO in FY13. As on March 31, 2021, 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 twelve States and one Union Territory through its network of 153 branches and 24 satellite centres (sub-branches) as on March 31, 2021. RHFL has an AUM of Rs.12,124 crore as on March 31, 2021 with an average ticket size of Rs. 15 lakhs, primarily concentrated in South India. The company is concentrating on the 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, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	1,351	1,392
PAT	280	288
Interest coverage (times)	1.44	1.48
Total Assets	11,992	12,364
Net NPA (%)	1.93	2.75
ROTA (%)	2.44	2.36

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

Complexity level of various instruments rated for this company: Annexure-3

Bank Lender Details: Please refer Annexure-4

Covenants of rated instrument / facility: Not Applicable

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
Fund-based - LT-Term Loan	-	-	March, 2034	8370.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	275.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	800.00	CARE A1+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	8370.00	CARE AA-; Stable	-	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)	1)CARE AA; Stable (06-Dec-18) 2)CARE AA; Stable (05-Oct-18)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	800.00	CARE A1+	-	1)CARE A1+ (24-Sep-20) 2)CARE A1+ (28-Apr-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (05-Oct-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (04-Oct-19)	1)CARE AA; Stable (05-Oct-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (05-Apr-21)	1)CARE AA-; Stable (24-Sep-20) 2)CARE AA; Negative (28-Apr-	1)CARE AA; Stable (04-Oct-19)	1)CARE AA; Stable (05-Oct-18)

						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)	1)CARE AA; Stable (05-Oct-18)
6.	Fund-based - LT-Cash Credit	LT	275.00	CARE AA-; Stable	-	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)	1)CARE AA; Stable (06-Dec-18) 2)CARE AA; Stable (05-Oct-18)

Annexure 3: Complexity level of various instruments rated for this Company

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 4: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE Ratings 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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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.

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