

Repco Home Finance Limited

September 24, 2020

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long term bank facilities	8,645 (enhanced from 7,645)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Total Bank Facilities	8,645 (Rs. Eight Thousand Six Hundred and Forty-Five Crore only)		
Non-Convertible Debentures - II	320	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Non-Convertible Debentures - III	500	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE AA; Negative (Double A; Outlook: Negative)
Commercial Paper	800	CARE A1+ (A One Plus)	Reaffirmed
Total instruments	1,620 (Rs. One Thousand Six Hundred and Twenty Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings assigned to the bank facilities and debt instruments of Repco Home Finance Limited (RHFL) factors in the moderation in asset quality parameters of the company with increase in Gross NPA from 2.95% as on March 31, 2019 to 4.33% as on March 31, 2020. Historically, the GNPA level of RHFL has shown seasonality wherein GNPA levels have remained higher in June & December quarter and remained lower during September & March quarter. However, during FY20, GNPA levels continued to remain high at above 4.2% in all the four quarters. It is worthwhile to note that GNPA level which had witnessed notable increase post-demonetization is yet to show improvement and currently the GNPA level has further increased. GNPA, though witnessed some improvement in June 2020 to 4.00%, it continues to be relatively high. GNPA in non-housing segment continues to remain high at 6.65% as on March 31, 2020. With expected fall in real estate prices & slowdown in economic growth due to impact of Covid-19, improvement in asset quality/recovery of bad loans in non-housing segment expected to be delayed. In view of the Reserve Bank of India (RBI)'s allowing banks, NBFCs and HFCs to offer six-month moratorium to borrowers (till Aug 31, 2020), there has been an impact on collections of the company during the moratorium period which may lead to further weakness in asset quality of the company.

The ratings continue to factor 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 are constrained by the regional concentration of loan portfolio and relatively higher exposure to certain riskier borrower segments. The rating also takes note of changes in borrowing mix with bank borrowings constituting major portion of total borrowings.

Key Rating sensitivities:

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

- Significant increase in the scale of operations with improvement in asset quality and geographical diversification

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

- Further moderation in asset quality parameters
- Weakening of profitability and capital adequacy levels

Detailed description of the key rating drivers

Key rating strengths

Experienced senior management and well qualified Board of Directors

The board of directors 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 nine directors of which five, including the chairman are independent and three 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

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

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

Aided by healthy internal accruals and modest growth, RHFL has been able to maintain a comfortable capital adequacy ratio (CAR) of above 20% over the last five years ended March 31, 2020. CAR stood at 25.85% as on March 31, 2020, as against 23.90% as on March 31, 2019. The entire CAR is made up of Tier I capital, thereby providing cushion to raise Tier II capital, if required. Gearing as on March 31, 2020, stood at 5.66 times (PY: 6.09 times). RHFL is comfortably placed in terms of capital requirements to grow the business in the medium term. However, it is to be noted that the market capitalization of RHFL has witnessed continuous fall in the past three years ended March 31, 2020.

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 FY20, the portfolio grew by 7%, whereas disbursements declined by 15% on y-o-y basis. During Q1FY20, loan portfolio grew by 6% y-o-y to Rs. 11,980 crore as on June 30, 2020.

RHFL portfolio is concentrated in South India with five South Indian states constituting around 84% (PY: 85%) as on March 31, 2020. Tamil Nadu (TN) accounted for about 56% (PY: 57%) of the total portfolio outstanding as on March 31, 2020, followed by Karnataka (14%), Maharashtra (9%), 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 South India states, particularly TN over the medium term. The number of branches and satellite units are 147 and 27 respectively as on March 31, 2020.

Healthy profitability; ROTA improved though PBT remained flat in FY20 due to the decrease in tax rates

RHFL has been able to maintain interest spread of around 3% for the last five years ended March 31, 2020. This spread coupled with stable operational expenditure and credit costs helps RHFL in maintaining ROTA over 2% the last few years. NIM remained flat at 4.29% in FY20 (PY: 4.29%). The yield on advances increased from 11.17% in FY19 to 11.55% in FY20 with company increasing lending rates on account of increase in cost of borrowings to 8.51% in FY20 (PY: 8.27%). Opex to average assets remained at 0.93% in FY20 (PY: 0.95%). PPOP increased from Rs.377 crore in FY19 to Rs.420 crore in FY20. Though credit costs increased from 0.16% in FY19 to 0.52% in FY20 with increase in NPAs, ROTA improved from 2.27% in FY19 to 2.44% in FY20 majorly due to decrease in tax rates during FY20.

During Q1FY21, RHFL reported a PAT of Rs.64 crore on a total income of Rs.342 crore.

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, with moderate LTV and increased focus on collections, the ultimate losses have been minimal in the past. As on March 30, 2020, 84% 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, NCD and CP. RHFL has increased the borrowings from the bank since FY19 due to favorable interest rates. Therefore, bank borrowing as a % of total borrowings increased from 54% as on March 31, 2018 to 75% as on March 31, 2020 (excluding Repco bank) and moderation in the borrowings from NCDs from 9% on March 31, 2019 to 6% on March 31, 2020. Borrowings from NHB refinance, and Repco bank stood at 8% and 11% respectively as on March 31, 2020.

Moderation in Asset quality during FY20

Asset quality has moderated during FY20 wherein GNPA (Stage 3 assets) and NNPA as on March 31, 2020 increased to 4.33% and 2.82% respectively from 2.95% and 1.92% as on March 31, 2019. In absolute terms, GNPA stood at Rs.511 crore as on March 31, 2020 as against Rs.326 crore as on March 31, 2019. Net NPA to Net worth increased to 18.44% as on March 31, 2020 as against 13.62% as on March 31, 2019. Historically, the GNPA level of RHFL has shown seasonality wherein GNPA levels have remained higher in June & December quarter and remains lower during September & March quarter. However, during FY20, GNPA levels continued to remain high at above 4.2% in all the four quarters. Furthermore, it is worthwhile to note that GNPA level which had witnessed notable increase post-demonetization has not reversed to pre-demonetization level. Within overall portfolio, GNPA in non-housing segment (19% of total loan book as on March 31, 2020) continues to remain high at 6.65% as on March 31, 2020. With expected fall in real estate prices & slowdown in economic growth due to impact of Covid-19, improvement in asset quality/recovery of bad loans in non-housing segment expected to be delayed. GNPA though witnessed

improvement in June 2020 quarter, it stood relatively high at 4.0% as on June 30, 2020. Same could be partly attributed to moratorium benefits given to borrowers.

To focus on recovery of the non-performing loans, RHFL has a special recovery team at head office and two exclusive recovery branches set up at Chennai and Bangalore for recovery of these bad loans. The ability of RHFL to bring back the customers to regular repayments post the moratorium period and improve the asset quality amidst the current environment remains a key rating sensitivity.

Outlook and prospects

The outlook for NBFCs and HFCs has turned negative due to Covid-19 outbreak. The sector which grappled with liability side disruptions could see another wave of challenges, this time in the form of asset quality. Amidst these, funding challenges could mount again, as banks become more selective in extending credit. Mutual funds are expected to shy away from lending to the sector as they witness redemption pressures. Further, Securitization which has been one of the significant sources of funding for NBFCs/HFCs during the last 18 months, could pause as collections remain uncertain during the moratorium. Recent measures announced by the RBI like the Targeted Long Term Repo Operations 2.0 (TLTRO-2) and refinancing from NABARD, SIDBI & NHB could provide some solace to the NBFCs & HFCs. However, the sector continues to stare at asset side challenges which are expected to mount going forward as the moratorium period is over.

Impact of Covid-19

The company has not availed moratorium from its lenders. RHFL has provided moratorium to its customers and reported a collection efficiency of 62% during June 2020 as against 27% during April 2020. RHFL lends primarily lending towards the housing finance needs of the relatively riskier asset class comprising of low/middle-income borrowers in the informal sector and slowdown on account of Covid-19 is expected to negatively impact credit profile of borrowers in this segment. This is expected to have an impact on the asset quality and profitability going forward.

Liquidity: Adequate

RHFL faces cumulative negative mismatches (excluding unavailed lines) in few of the time buckets, which is a characteristic of the HFCs wherein 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. As on June 30, 2020, RHFL has cash and cash equivalents of Rs.300 crore. Considering the unavailed lines of Rs.3,035 crore and the general prepayment pattern, RHFL is expected to manage its liquidity.

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 co-existence 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: Consolidation and 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, 2020, 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 twelve States and one Union Territory through its network of 153 branches and 24 satellite centers (sub-branches) as on March 31, 2020. RHFL has an AUM of Rs. 11,802 crores as on March 31, 2020, 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 48% of its portfolio to the salaried segment & the rest towards the self-employed segment of borrowers as on March 31, 2020.

Financial Performance**(Rs. Cr)**

Brief Financials (Rs. crore)	2019 (A)	2020 (A)
Total Operating Income	32	34
PAT	235	280
Interest Coverage (times)	1.5	1.44
Total Assets	10,955	11,992
Net NPA Ratio	1.92	2.57
ROTA	2.27	2.44

*A – Audited;**Note: Ratios have been computed based on the average of annual opening and closing balances**NIM has been calculated as net interest income/ average annual total assets***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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Sep 2024	8370.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	275.00	CARE AA-; Stable
Non-Convertible Debentures – II	INE612J07137	14-Jun-17	8.05%	18-May-24	272.00	CARE AA-; Stable
Non – Convertible Debentures – II (Proposed)	-	-	-	-	48.00	CARE AA-; Stable
Non – Convertible Debentures – III (Proposed)	-	-	-	-	500.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 1 year	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	8370.00	CARE AA-; Stable	1)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)	1)CARE AA; Stable (04-Oct-17)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	800.00	CARE A1+	1)CARE A1+ (28-Apr-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (26-Oct-17) 2)CARE A1+ (04-Oct-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Oct-19)	1)CARE AA; Stable (05-Oct-18)	1)CARE AA; Stable (04-Oct-17)
4.	Debentures-Non Convertible Debentures	LT	320.00	CARE AA-; Stable	1)CARE AA; Negative (28-Apr-20)	1)CARE AA; Stable (04-Oct-19)	1)CARE AA; Stable (05-Oct-18)	1)CARE AA; Stable (04-Oct-17)
5.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Stable	1)CARE AA; Negative (28-Apr-20)	1)CARE AA; Stable (04-Oct-19)	1)CARE AA; Stable (05-Oct-18)	1)CARE AA; Stable (04-Oct-17)
6.	Fund-based - LT-Cash Credit	LT	275.00	CARE AA-; Stable	1)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.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Cash Credit	Simple
4.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE 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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