Repco Home Finance Limited

October 04, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term Bank Facilities	3,045.00 (Rupees Three Thousand Forty Five crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	500.00 (Rupees Five Hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	1,000.00 (Rupees One Thousand crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	500.00 (Rupees Five Hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Commercial Paper	250.00 (Rupees Two hundred and Fifty crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to various debt instruments and long-term bank facilities of Repco Home Finance Limited (RHFL) continues 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, healthy profitability and efforts taken by the company towards diversification of the resource profile. The ratings are constrained by the regional concentration of the loan portfolio, moderation in asset quality parameters during FY17 (refers to the period April 01 to March 31) post demonetisation and the relatively higher exposure to certain riskier borrower segments.

The ability of RHFL to grow its advances portfolio with a focus on geographical diversification, while improving the asset quality and profitability amidst the competitive industry scenario is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Well-qualified & diversified board of directors supported by an experienced senior management team

The director-board of RHFL is well diversified and consists of highly qualified directors, having experience in a wide spectrum of activities ranging from finance, regulatory background, banks and the government service. The managing director, Mr R Varadarajan, has an aggregate experience of over 35 years primarily in the banking sector.

The senior management of RHFL comprises professionals with considerable experience in related fields and is supported by a pool of trained personnel at the head office and branch offices.

Comfortable capitalisation level and liquidity position

RHFL has been maintaining capital adequacy ratio (CAR) at comfortable levels. RHFL’s CAR stood at 21.25% as on March 31, 2017 (20.80% as on March 31, 2016), as against minimum regulatory requirement of 12%. It may be noted that the entire CAR is made up of Tier I capital, thereby providing cushion to raise Tier II capital, if required. The overall gearing was 6.65x times as on March 31, 2017 as against 6.85x times as on March 31, 2016.

RHFL’s liquidity position is characterised by absence of any cumulative negative mismatches in the various time buckets in its ALM and sufficient capital resources to fund its operations.

Healthy growth in the scale of operations

Having commenced operations in 2000, RHFL’s focus on the niche segment of self-employed category in tier-II & tier-III cities in south India has helped the company to grow its portfolio at a healthy rate over the past few years and establish a strong position in the housing finance segment in south India. Loan portfolio grew at a rate of 16% during FY17 (refers to the period April 1 to March 31) from Rs.7,691 crore as on March 31, 2016, to Rs.8,940 crore as on March 31, 2017. Loan portfolio stood at Rs.9,000 crore as on June 30, 2017.

However the growth was constrained by demonetisation, ban on registration of unapproved property by Madras High court and scarcity of sand during H2FY17 *(refers to the period October 01 to March 31)* and Q1FY18*(refers to the period April 01 to June 30* in Tamil Nadu where the company has major presence.

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

Healthy profitability Total Income grew by 19% from Rs.882 crore in FY16 to Rs.1,046 crore in FY17 mainly due to increase in the loan disbursements during the year whereas the net interest income grew by 21% from Rs.304 crore in FY16 to Rs.368 crore in FY17 . Due to the relatively higher yields associated with the non-salaried segment of borrowers, RHFL has been able to earn healthy interest spreads & profitability levels. RHFL's PAT increased from Rs.150 crore in FY16 to Rs.182 crore in FY17 backed by stable operating expenses. During Q1FY18, the company reported a PAT of Rs.45 crore on a total income of Rs.266 crore as against PAT of Rs.40 crore on a total income of Rs.247 crore in Q1FY17.

Diversification in resources profile

RHFL had been primarily resorting to funds in the form of loans from banks, refinance from NHB, and borrowings from Repco Bank in order to support its growth in assets base. As on March 31, 2017, the borrowing is constituted by borrowings from banks (63%), NHB refinance (15%), NCD (11%), borrowings from Repco Bank (7%) and CP(5%). Since FY15, the company has started diversifying the resource profile by borrowing through the Non-Convertible Debenture (NCD) and Commercial Paper (CP) route. As on March 31, 2017, RHFL had an NCD outstanding of Rs.785 crore. The company plans to raise funds through NCDs in FY18 thereby reducing the overall cost of borrowings

Key Rating Weaknesses

Regional concentration of operations

The company has been expanding its geographical presence, in the Tier II and Tier II cities, and has increase in the number of branches and satellite units from 121 and 30 as on March 31, 2016 to 125 and 32 respectively as on March 31, 2017. However, the five south Indian states accounted for 89% of the advances and the state of Tamil Nadu (TN) alone accounted for about 61% of the total portfolio outstanding as on March 31, 2017. 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.

Moderation in asset quality post demonetisation

During FY17, the asset quality has seen moderation, where GNPA and NNPA moderated to 2.60% and 1.39% as on March 31, 2017 as against 1.31% and 0.48% as on March 31, 2016. Majority of RHFL's company's exposure belongs to the self-employed/businessmen segments, which comprised 60% of the company's portfolio as on March 31, 2017, as against 59% as on March 31, 2016. This leads to relatively high delinquency levels, but mostly technical in nature with the eventual sum written off is very minimal since the company's inception. The asset quality was also moderated mainly due to demonetisation and slippages in few high ticket loans in Non-Housing segment. As on June 30, 2017 the GNPA an NNPA stood at 3.97% and 2.61% respectively. RHFL have always registered higher NPA in Q1 and Q3 due to the expenditure pattern associated with the self-employed segment of customers.

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 economic downturn, asset quality is a key monitorable.

Analytical Approach Followed- Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Ratios-Financial Sector

Rating Methodology – Housing Finance Companies

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. As on March 31, 2017, 37.13% equity stake in RHFL was held by Repco Bank.

The company is concentrating on the tier-II &tier-III cities largely concentrated in South India. Out of RHFL's outstanding loan portfolio of Rs. 8,940 crore as on March 31, 2017, 40% was towards the salaried segment and the rest was towards self-employed segment of borrowers. RHFL had a presence in 11 states and one union territory through its network of 125 branches and 32 satellite centres (sub-branches) as on March 31, 2017, following a hub-and-spoke model.

During FY17, RHFL earned a PAT of Rs.182 crore on a total operating income of Rs.1,046 crore as against a PAT of Rs.150 crore on a total income of Rs.882 crore in FY16. During Q1FY18, RHFL reported a PAT of Rs.45 crore on a total income of Rs.259 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	881	1046

PAT	150	182
Interest coverage (times)	1.42	1.43
Total Assets	7,763	9,046
Net NPA (%)	0.48	1.39
ROTA (%)	2.17	2.17

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-32	3045	CARE AA; Stable
Commercial Paper	-	-	07-364 days	250	CARE A1+
Non-Convertible Debenture	27-Feb-15	9.55%	27-Feb-18	100	CARE AA; Stable
Non-Convertible	22-Jul-15	9.35%	29-Jun-18	100	CARE AA; Stable

Debenture					
Non-Convertible Debenture	1-Sep-15	0% ,Cumulative	28-Aug-18	100	CARE AA; Stable
Non-Convertible Debenture	7-Sep-15	0% ,Cumulative	9-Jun-18	100	CARE AA; Stable
Non-Convertible Debenture	5-Aug-16	8.95%	8-May-19	5	CARE AA; Stable
Non-Convertible Debenture	5-Aug-16	8.95%	15-Mar-19	10	CARE AA; Stable
Non-Convertible Debenture	5-Aug-16	0% ,Cumulative	23-Jul-19	35	CARE AA; Stable
Non-Convertible Debenture	5-Aug-16	8.95%	8-May-19	10	CARE AA; Stable
Non-Convertible Debenture	5-Aug-16	8.95%	15-Mar-19	25	CARE AA; Stable
Non-Convertible Debenture	12-Sep-16	8.72%	9-Dec-18	150	CARE AA; Stable
Non-Convertible Debenture	12-Sep-16	0% ,Cumulative	3-Dec-19	25	CARE AA; Stable
Non-Convertible Debenture	12-Sep-16	0% ,Cumulative	9-Dec-19	25	CARE AA; Stable
Non-Convertible Debenture	5-Oct-16	8.50%	10-Apr-19	25	CARE AA; Stable
Non-Convertible Debenture	5-Oct-16	8.50%	10-Apr-19	25	CARE AA; Stable
Non-Convertible Debenture	5-Oct-16	8.50%	10-Apr-19	25	CARE AA; Stable
Non-Convertible Debenture	5-Oct-16	8.50%	10-Apr-19	10	CARE AA; Stable
Non-Convertible Debenture	5-Oct-16	8.50%	10-Apr-19	15	CARE AA; Stable
Non-Convertible Debenture	14-Jun-17	8.05%	18-Apr-24	272	CARE AA; Stable
Non-Convertible Debenture	15-Jun-17	8.25%	15-Jun-20	100	CARE AA; Stable
Non-Convertible Debenture	3-Jul-17	8.20%	6-Jan-20	100	CARE AA; Stable
Non-Convertible Debenture	4-Aug-17	8.05%	3-Aug-20	180	CARE AA; Stable
Non-Convertible Debenture	27-Feb-15	9.55%	27-Feb-18	100	CARE AA; Stable
Non-Convertible Debenture	22-Jul-15	9.35%	29-Jun-18	100	CARE AA; Stable
Non-Convertible Debenture	-	-	-	500	CARE AA; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	3045.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16) 3)CARE AA	1)CARE AA (30-Sep-15)	1)CARE AA- (13-Aug-14)

						(06-Apr-16)		
2.	Commercial Paper	ST	250.00	CARE A1+	-	1)CARE A1+ (28-Jul-16)	1)CARE A1+ (30-Sep-15)	1)CARE A1+ (13-Aug-14)
3.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16)	1)CARE AA (30-Sep-15)	1)CARE AA- (13-Aug-14)
4.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16)	1)CARE AA (07-Dec-15)	-
5.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691