Repco Home Finance Limited

October 05, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long-term Bank Facilities	3,045 (Rupees Three Thousand Forty Five crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	85 (Rupees Eighty Five 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)	Reaffirmed
Commercial Paper	800.00 (Rupees Eight hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in 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 fairly diversified resource profile . The ratings are constrained by the regional concentration of the loan portfolio, moderate asset quality parameters 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 board of directors 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 and he was previously the MD of Repco bank. 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 level and liquidity position

RHFL has been maintaining comfortable capital adequacy ratio (CAR) at over 20%. RHFL's CAR stood at 23.04% as on March 31, 2018 (PY: 21.25%) as against the minimum regulatory requirement of 12%. As on June 30, 2018, CAR stood at 23.24%.

RHFL is comfortably placed in terms of capital requirements to grow the business in the medium term. 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 6.13x times as on March 31, 2018 compared to 6.65x as on March 31, 2017.

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.

Moderate growth in loan portfolio during FY18

During FY18, loan portfolio grew by 10% from Rs. 8,940 crore as on March 31, 2017 to Rs. 9,857 crore as on March 31, 2018 whereas disbursements grew by 6% y-o-y during FY18. Disbursements and portfolio witnessed moderate growth

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

because of tepid growth of 6% in Tamil Nadu. Portfolio witnessed slower growth due to ban on registration of unapproved property by Madras high court and scarcity of sand in Tamil Nadu. With improvement in the availability of sand and regularisation on registration of unapproved layouts, the disbursement started picking up from Q3FY18. During Q1FY19, the portfolio grew to Rs. 10,075 crore as on March 31, 2018 from Rs. 9,857 crore as on March 31, 2017 whereas disbursements grew by 22% from Rs.548 crore in Q1FY18 to Rs.704 crore in Q1FY19

Healthy profitability

Yield on advances has declined from 12.19% in FY17 to 11.46% in FY18 in line with decrease in cost of borrowings from 9.17% in FY17 to 8.26% in FY18. Aided by decrease in cost of borrowings, NIM marginally improved to 4.51% in FY18 from 4.38% in FY17. Operating expenses to average of total assets remained stable at 0.82% in FY18 against 0.80% in FY17. Credit costs slightly increased from 0.55% in FY17 to 0.66% in FY18. ROTA stood at 2.17% in FY18 (PY: 2.17%).
During Q1FY19, the company reported a PAT of Rs.61 crore on a total income of Rs.287 crore as against PAT of Rs.56 crore on a total income of Rs.274 crore in Q1FY18.

Fairly diversified resource 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. Borrowings from banks, NCDs, NHB refinance and CP stood at 72%, 15%, 9% and 5% respectively as on June 30, 2018.

Key rating weaknesses

Regional concentration of operations

The portfolio grew at a CAGR of 130% from Rs.196 crore as on March 31, 2016 to Rs.529 crore as on March 31, 2018. The company has been expanding its geographical presence, in the Tier II and Tier III cities. The number of branches and satellite units increased from 157 (including 32 satellite units) as on March 31, 2017 to 163 (including 23 satellite units) as on June 30, 2018. RHFL's portfolio is concentrated in five south indian states constituting around 87% (PY: 89%) as on March 31, 2018. Tamil Nadu (TN) accounted for about 60% (PY:61%) of the total portfolio outstanding as on March 31, 2018 followed by Karnataka (13%), Maharashtra (7%), Andhra Pradesh(7%), Telangana (4%), Kerala (4%), Gujarat (2.48%) 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.

Moderate Asset Quality

RHFL has reported GNPA and NNPA of 2.87% and 1.29% as on March 31, 2018 as against 2.60% and 1.39% as on March 31, 2017. The moderation in the asset quality is mainly due to slippages from few large ticket accounts in non-housing portfolio post demonetisation.
RHFL has set up a special recovery team at HO with designated people for collections at all branches. Also RHFL initiated SARFAESI process to recover these loans, and these loans are in various stages of recovery. Though the NPAs are high, ultimate credit losses are minimal since the company's inception as the loans are backed by adequate collateral.
As on June 30, 2018, GNPA and NNPA stood at 3.96% and 2.39% respectively as against 3.97% and 2.61% as on June 30, 2017. Expected credit loss as per Ind AS stood at 0.73% as on June 30, 2018. 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. However, with moderate LTV and increased focus on collections, the ultimate losses are minimal.

Analytical approach: 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. RHFL's shares are listed on NSE & BSE post IPO in FY13. As on June 30, 2018, 37.13% stake was held by Repco Bank.
As on June 30, 2018, RHFL had a loan portfolio outstanding of Rs. 10,075 crore with an average ticket size of Rs. 14 lakh, primarily concentrated in South India. RHFL has presence in eleven States and one Union Territory through its network of 140 branches and 23 satellite centers (sub-branches) as on June 30, 2018 and follows a hub-and-spoke model. The company is concentrating on the Tier II & Tier III cities and has 44% of its portfolio to the salaried segment & the rest towards self-employed segment of borrowers as on June 30, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY8 (A)
Total Income	1,046	1,108
PAT	182	206
Interest coverage(times)	1.43	1.48
Total Assets	9,042	9,975
Net NPA (%)	1.39	1.29
ROTA (%)	2.17	2.17

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

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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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	-	-	May 2027	3,045	CARE AA; Stable
Commercial Paper	-	-	7 days to 1 yeat	800	CARE A1+
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 (Proposed)	-	-	-	48	CARE AA; Stable
Non-Convertible Debenture (Proposed)	-	-	-	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2895.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-17)	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16) 3)CARE AA (06-Apr-16)	1)CARE AA (30-Sep-15)
2.	Commercial Paper	ST	800.00	CARE A1+	-	1)CARE A1+ (26-Oct-17) 2)CARE A1+ (04-Oct-17)	1)CARE A1+ (28-Jul-16)	1)CARE A1+ (30-Sep-15)
3.	Debentures-Non Convertible Debentures	LT	85.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-17)	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16)	1)CARE AA (30-Sep-15)
4.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-17)	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	-	1)CARE AA; Stable (04-Oct-17)	-	-
6.	Fund-based - LT-Cash Credit	LT	150.00	CARE AA; Stable	-	-	-	-

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