Repco Home Finance Limited

April 28, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	7,645 (Rs. Seven thousand six forty five crore only)	**CARE AA; Negative (Double A; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable to Negative**
Non-Convertible Debentures-II	700 (Rs. Seven hundred crore only)	**CARE AA; Negative (Double A; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable to Negative**
Non-Convertible Debentures-III	500 (Rs. Five hundred crore only)	**CARE AA; Negative (Double A; Outlook: Negative)**	**Reaffirmed; Outlook revised from Stable to Negative**
Commercial Paper	800 (Rs. Eight hundred crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and various debt instruments of Repco Home Finance Limited (RHFL) 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, 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.

Rating Sensitivities

Positive Factors

- Improvement in geographical diversification along with increase in the size of operations

Negative Factors

- Absence of any significant improvement in GNPA level with overall GNPA remaining above 3% on sustained basis
- Weakening of profitability and capital adequacy levels

Outlook: Negative

The revision in the outlook from Stable to Negative reflects the expectation that the current lockdown due to outbreak of Covid-19 is likely to impact the borrower segments of RHFL and result in increase in delinquency levels and limit the possibility of improvement in asset quality of RHFL in the medium term. Historically, the GNPA level of RHFL has shown seasonality wherein after peaking in June quarter, GNPA level has shown improvement in September quarter (except in Q3FY17, period of demonetization). However, during 9mFY20, GNPA levels continued to remain high at 4.2% in all the three quarters, viz., Q1, Q2 and Q3FY20. Furthermore, it is worthwhile to note that GNPA level which had witnessed notable increase post-demonetization is yet to show improvement though delinquency levels in the softer buckets has shown some improvement in past two fiscals ended March 2019. GNPA in LAP (Loan against property) segment continues to remain high at 5% as on March 31, 2019 and further increased to 6.7% as on December 31, 2019. With expected fall in real estate prices due to impact of Covid-19, improving asset quality in LAP segment remains to be seen. With RHFL providing moratorium to its borrowers as per RBI circular in the near term, GNPA levels may not show increase in the near term. However, bringing back the customers to regular repayments and improving GNPA from present level remain to be seen. The outlook may be revised to stable in the event that the asset quality parameters show improvement.

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

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 wide spectrum of activities ranging from finance, regulatory background, banks and the government service. The managing director, Mr Yashpal Gupta, has an aggregate 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
Aided by healthy internal accruals and modest growth, RHFL has been able to maintain comfortable capital adequacy ratio (CAR) at over 20% over the last five years. CAR stood at 23.90% as on March 31, 2019, as against 23.04% as on March 31, 2018. 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, 2019, stood at 6.07 times (PY: 6.22). CAR stood at 25.4% as on December 31, 2019.
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 one year ended March 31, 2020, with share price falling by 72%. 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.

Healthy profitability
RHFL has been able to maintain interest spread of above 3% for the last few years. This spread coupled with stable operational expenditure and credit costs help RHFL in maintaining ROTA over 2% the last few years.
NIM has declined in FY19 (refers to the period April 1 to March 31) from 4.69% in FY18 to 4.29% in FY19 mainly on the account of decrease on yield on advances with reduction in lending rates. Yield on advances decreased from 11.77% in FY18 to 11.36% in FY19 whereas cost of borrowings stood at 8.27% in FY19 (PY: 8.27%). Opex to average assets increased from 0.84% in FY18 to 0.95% in FY19 on account of addition of new branches and expenses incurred towards SARFAESI proceedings. Though there is decrease in NIM and increase in Opex, ROTA improved from 2.16% in FY18 to 2.27% in FY19, mainly on the account of decrease in credit cost. RHFL continued to maintain interest spread of 2.97% during 9MFY20 with yield of 11.63% and borrowings cost at 8.66%. During 9MFY20, the company reported a PAT of Rs.233 crore on a total income of Rs.980 crore as against PAT of Rs.183 crore on a total income of Rs.863 crore in 9MFY19.

Fairly diversified resource profile; however, reliance on banks increased in FY19
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. Due to increase in interest rates on market borrowings (NCD & CP), RHFL has increased the borrowings from bank in FY19. As a result, bank borrowing as a percentage of total borrowings increased from 54% as on March 31, 2018, to 73% as on March 31, 2019 (excluding Repco bank). Borrowings from NHB refinance, Repco bank and NCDs stood at 9.74%, 8.61%, and 8.90%, respectively, as on March 31, 2019.

Key Rating Weaknesses
Modest scale of operations with regional concentration of portfolio
RHFL continues to be a moderate-sized HFC in comparison with its peers. During FY19, the portfolio grew by 12.32%, whereas disbursements grew by 10% during FY19. During 9MFY20, Disbursements decreased by 9% y-o-y, loan portfolio grew by 9% y-o-y from Rs.10,625 crore as on December 31, 2018 to Rs.11,625 crore as on December 31, 2019.
RHFL portfolio is concentrated with five South Indian states constituting around 85% (PY: 87%) of the total portfolio as on March 31, 2019. Tamil Nadu (TN) accounted for about 57% (PY: 60%) of the total portfolio outstanding as on March 31, 2019, followed by Karnataka (14%), Maharashtra (8%), Andhra Pradesh (7%), Telangana (5%), Kerala (4%), Gujarat (3%) and the rest from Pondicherry, Jharkhand, Orissa, West Bengal, 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 company has expanded to the state of Rajasthan during FY20. The number of branches and satellite units increased from 131 and 29 as on March 31, 2018, to 149 and 27 as on December 31, 2019.

Moderate Asset Quality

GNPA (Stage 3 Assets) stood at 2.95% as on March 31, 2019, as against 2.87% as on March 31, 2018. During FY19, 30+ DPD improved from 12.54% as on March 31, 2018 to 10.71% as on March 31, 2019. During 9mFY20, GNPA witnessed significant increase and stood at 4.2% as on December 31, 2019. RHFL has always registered higher NPA in Q1 and Q3 due to the expenditure pattern associated with the self-employed segment of the customers. However, during 9MFY20, GNPA levels continued to remain high at 4.2% as at the end of Q1, Q2 and Q3FY20. Furthermore, NPA on LAP loans have been increasing and stood at 6.7% as on December 31, 2019, as against 5.0% as on March 31, 2019. With expected fall in real estate prices in the immediate term on account of impact of COVID-19, the ability to improve NPA in the LAP segment remains to be seen.

To focus on recovery of the non-performing loans, RHFL has setup a special recovery team at head office. Also two exclusive recovery branches have been set up at Chennai and Bangalore for recovery of these bad loans. The ability of RHFL to improve the asset quality amidst the current environment remains a key rating sensitivity.

Relatively higher exposure to certain riskier borrower segments

RHFL is primarily lending towards the housing finance needs of the relatively riskier asset class consisting 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.

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 March 31, 2020, RHFL has cash and cash equivalents of Rs.352 crore. Considering the unavailed lines of Rs.2,993 crore, RHFL is expected to manage its liquidity.

Analytical approach:

Standalone approach, also factoring in the linkages with 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: 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 December 31, 2019, 37.1% stake was held by the Repco Bank and the rest is held by institutional and retail investors.

RHFL follows a hub-and-spoke model and has presence in twelve States and one Union Territory through its network of 149 branches and 27 satellite centres (sub-branches) as on December 31, 2019. RHFL has an AUM of Rs.11,625 crore as on December 31, 2019, with an average ticket size of Rs. 14.5 lakh, primarily concentrated in South India. The company is concentrating on the Tier II & Tier III cities and has 47% of its portfolio to the salaried segment & the rest towards self-employed segment of the borrowers as on December 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Income	1,110	1,195
PAT	201	235
Interest coverage (times)	1.47	1.50
Total Assets	9,731	10,957
Net NPA Ratio (%)	1.56	1.92
ROTA (%)	2.16	2.27

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2034	7395.00	CARE AA; Negative
Fund-based - LT-Cash Credit		-	-	-	250.00	CARE AA; Negative
Non-Convertible Debentures – II	14-Jun-17	INE612J07137	8.05%	18-May-24	272	CARE AA; Negative
Non-Convertible Debentures – II	15-Jun-17	INE612J07129	8.25%	15-Jun-20	100	CARE AA; Negative
Non-Convertible Debentures – II	03-Jul-17	INE612J07145	8.20%	01-Jun-20	100	CARE AA; Negative
Non-Convertible Debentures – II	04-Aug-17	INE612J07152	8.05%	05-Aug-20	180	CARE AA; Negative
Non-Convertible Debentures – II (Proposed)	-	-	-	-	48	CARE AA; Negative
Non-Convertible Debentures – III (Proposed)	-	-	-	-	500	CARE AA; Negative
Commercial Paper	-	-	-	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	7395.00	CARE AA; Negative	-	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	ST	800.00	CARE A1+	-	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	700.00	CARE AA; Negative	-	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; Negative	-	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	250.00	CARE AA; Negative	-	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)	-

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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