

Repco Home Finance Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	6,045 (Rupees Six Thousand Forty Five crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures -I	-	-	Withdrawn
Non-Convertible Debentures-II	800.00 (Rupees Eight hundred crore only)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Non-Convertible Debentures -III	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 ratings assigned to bank facilities and debt instruments 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 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.

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

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 around 24.50% as on June 30, 2019.

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.

Healthy profitability

RHFL has been able to maintain interest spread of above 3% for the last few years. This spread coupled with stable opex and credit costs help RHFL in maintaining ROTA over 2% the last few years.

NIM has declined in FY19 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 FY18 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 3.19% (PY: 3.23%) during Q1FY20 with yield of 11.74% (PY: 11.42%) and borrowings cost at 8.56%. During Q1FY20, the company reported a PAT of Rs.62 crore on a total income of Rs.323 crore as against PAT of Rs.61 crore on a total income of Rs.280 crore in Q1FY19.

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

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 % 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%, 8.90% respectively as on March 31, 2019

Liquidity position- Adequate

RHFL faces cumulative negative mismatches (excluding unavailed lines and prepayments) 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. RHFL has Rs.2,020 crore of debt repayments (principal) in the next one year till June 30, 2020 including working capital borrowings of Rs.130 crore against inflows (principal repayment) of Rs.736 crore. As on June 30, 2019 RHFL has cash and cash equivalents of Rs. 202 crore. Considering the prepayments(Rs.70-80 crore per month)and unavailed lines of Rs.2,147 crore as on September 26, 2019, RHFL is expected to manage its liquidity.

Key Rating Weaknesses***Modest scale of operations with regional concentration of portfolio***

RHFL continues to be a moderate sized HFC in comparison to its peers. During FY19, the portfolio grew by 12.32%, whereas disbursements grew by 10% during FY19. During Q1FY20, Disbursements decreased by 5% y-o-y, loan portfolio grew by 13% y-o-y from Rs. 10,074 crore as on June 30, 2018 to Rs. 11,342 crore as on June 30, 2019.

RHFL portfolio is concentrated in with five South Indian states constituting around 85% (PY: 87%) 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 number of branches and satellite units increased from 131 and 29 as on March 31, 2018 to 147 and 27 as on June 30, 2019

Moderate Asset Quality; however delinquency levels have witnessed improvement over the years

GNPA (Stage 3 Assets) stood at 2.95% as on March 31, 2019 as against 2.87% as on March 31, 2018. The GNPA at 4.24% as on June 30, 2019 as against 3.96% 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.

To focus on recovery of the non-performing loans, RHFL has setup a special recovery team at head office. Also two exclusive recovery braches have been set up at Chennai and Bangalore for recovery of these bad loans.

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. As on June 30, 2019 87% of outstanding portfolio is of below 70% LTV.

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 for Short Term Instruments](#)

[Rating Methodology: 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' (Repc Bank), a Government of India enterprise. RHFL's shares are listed on NSE & BSE post IPO in FY13. As on June 30, 2019, 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 presence in twelve States and one Union Territory through its network of 147 branches and 27 satellite centres (sub-branches) as on June 30, 2019. RHFL has an AUM of Rs. 11,342 crore as on June 30, 2019 with an average ticket size of Rs. 14 lakh, primarily concentrated in South India. The company is concentrating on the Tier II & Tier III cities and has 46% of its portfolio to the salaried segment & the rest towards self-employed segment of borrowers as on June 30, 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
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	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		-	-	March 2034	5795.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	250.00	CARE AA; Stable
Non-Convertible Debentures – I	-	-	-	-	-	Withdrawn
Non-Convertible Debentures – II	05-Oct-16	INE612J07111	8.50%	04-Oct-19	25	CARE AA; Stable
Non-Convertible Debentures – II	05-Oct-16	INE612J07111	8.50%	04-Oct-19	25	CARE AA; Stable
Non-Convertible Debentures – II	05-Oct-16	INE612J07111	8.50%	04-Oct-19	25	CARE AA; Stable
Non-Convertible Debentures – II	05-Oct-16	INE612J07111	8.50%	04-Oct-19	10	CARE AA; Stable
Non-Convertible Debentures – II	05-Oct-16	INE612J07111	8.50%	04-Oct-19	15	CARE AA; Stable
Non-Convertible Debentures – II	14-Jun-17	INE612J07137	8.05%	18-May-24	272	CARE AA; Stable
Non-Convertible Debentures – II	15-Jun-17	INE612J07129	8.25%	15-Jun-20	100	CARE AA; Stable
Non-Convertible Debentures – II	03-Jul-17	INE612J07145	8.20%	01-Jun-20	100	CARE AA; Stable
Non-Convertible Debentures – II	04-Aug-17	INE612J07152	8.05%	05-Aug-20	180	CARE AA; Stable
Non-Convertible Debentures – II (Proposed)	-	-	-	-	48	CARE AA; Stable
Non-Convertible Debentures – III (Proposed)	-	-	-	-	500	CARE AA; Stable
Commercial Paper	-	-	-	7 days to 1 year	800.00	CARE A1+

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	5795.00	CARE AA; Stable	1)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)	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16) 3)CARE AA (06-Apr-16)
2.	Commercial Paper	ST	800.00	CARE A1+	-	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (26-Oct-17) 2)CARE A1+ (04-Oct-17)	1)CARE A1+ (28-Jul-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (05-Oct-18)	1)CARE AA; Stable (04-Oct-17)	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16)
4.	Debentures-Non Convertible Debentures	LT	800.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Oct-18)	1)CARE AA; Stable (04-Oct-17)	1)CARE AA; Stable (14-Mar-17) 2)CARE AA (28-Jul-16)
5.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	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; Stable	1)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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