Repco Home Finance Limited

November 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	7,645 (enhanced from Rs 6,045 crore)	CARE AA; Stable (Double A; Outlook: Stable)	**Reaffirmed**
Total Instruments	**7,645 (Rupees Seven Thousand Six Hundred and Forty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to 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 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.

Rating Sensitivities

Positive factors

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

Negative factors

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

Credit Risk Assessment

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 capitalization

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 25.1% as on September 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 FY19 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 3.10% during H1FY20 with yield of 11.60% and borrowings cost at 8.49%. During H1FY20, the company reported a PAT of Rs.163 crore on a total income of Rs.664 crore as against PAT of Rs.128 crore on a total income of Rs.583 crore in H1FY19.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and 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%, 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 to its peers. During FY19, the portfolio grew by 12.32%, whereas disbursements grew by 10% during FY19. During H1FY20, Disbursements decreased by 8% y-o-y, loan portfolio grew by 11% y-o-y from Rs.10,382 crore as on September 30, 2018 to Rs.11,496 crore as on September 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 148 and 27 as on September 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. GNPA stood at 4.2% as on September 30, 2019. 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.

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 September 30, 2019, RHFL has cash and cash equivalents of Rs. 503 crore. Considering the prepayments and unavailed lines of Rs.2,806 crore as on Nov 01, 2019, 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

Background

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 September 30, 2019, 37.13% stake was held by Repco Bank and the rest is held by institutional and retails investors.
RHFL follows a hub-and-spoke model and has presence in twelve States and one Union Territory through its network of 148 branches and 27 satellite centers (sub-branches) as on September 30, 2019. RHFL has an AUM of Rs. 11,496 crore as on September 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 47% of its portfolio to the salaried segment & the rest towards self-employed segment of borrowers as on September 30, 2019.

(Rs. crore)

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

Note: a). A – Audited;
b). Ratios have been computed based on average of annual opening and closing balances
C). 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

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 2034	7395.00	CARE AA; Stable
Fund-based - LT-Cash Credit	-	-	-	250.00	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 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	7395.00	CARE AA; Stable	1)CARE AA; Stable (04-Oct-19) 2)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+ (04-Oct-19)	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)Withdrawn (04-Oct-19)	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 (04-Oct-19)	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 (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; Stable	1)CARE AA; Stable (04-Oct-19) 2)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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