January 19, 2021

Repco Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	800.00	800.00	[ICRA]A1+; reaffirmed
Long-term Bank Facilities	1,500.00	1,500.00	[ICRA]AA- (Stable); reaffirmed
Total	**2,300.00**	**2,300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Repco Home Finance Limited's (RHFL/ the company) track record in the housing finance business; its established franchise in South India, especially in tier II and tier III cities; and its experienced senior management team. The ratings also consider the comfortable capitalisation profile, characterised by gearing of 5.4x (provisional) as of September 2020, which would be sufficient to meet the near-term growth requirements. The ratings also consider RHFL's stable net profitability indicators, with PAT/AMA[1] of 2.4% (provisional) during FY2020-H1FY2021, and the impact of credit costs on the earnings profile due to Covid-induced stress, which would remain a monitorable.

The ratings are constrained by the subdued asset quality indicators—the gross NPA and the net NPA were 4.0% and 2.0% respectively as of September 30, 2020 (4.3% and 1.9% respectively, as of March 31, 2020). The nationwide lockdown had impacted collections; however, the company's overall collections[2] improved to near pre-covid levels of ~95% during November/December 2020 from ~62% as of June 2020. Going forward, the ability to contain incremental slippages and recoveries from the current overdue accounts would be crucial. The ratings also take note of the regionally concentrated portfolio—Tamil Nadu accounted for 55.7% of the total portfolio as of September 30, 2020. Going forward, RHFL' ability to steadily diversify its funding sources as it scales-up operations and improves its asset quality would be a key from the rating perspective.

Key rating drivers and their description

Credit strengths

Established franchise and experienced senior management team – RHFL has an established franchise in South India, especially in tier II and tier III cities, and it serves the salaried and self-employed borrower segments. The company operates through 153 branches and 24 satellite centres plus two asset recovery branches spread across 12 states and 1 Union Territory (UT), with Tamil Nadu (TN) contributing 55.7% of the total portfolio as of September 30, 2020. RHFL has a diversified eight-member board consisting of five independent directors. The senior management team, headed by Mr. Yashpal Gupta, comprises members with adequate experience in their respective functional domains.

Comfortable capitalisation profile – The capitalisation profile is characterised with a capital adequacy ratio of 26.8% (provisional, Tier-1) as on September 30, 2020 (25.9% as on March 31, 2020). The gearing improved to 5.4x (provisional)

[1] *Profit after Tax/Average Managed Advances*

[2] *Current month collection including arrears but excluding prepayments / current month demand*

as of September 2020 (5.7x as of March 2020) because of moderate portfolio growth over the recent past. ICRA expects RHFL' near-term capital profile to remain comfortable, considering its moderate growth estimates.

Net profitability remains largely stable; impact of credit costs is a monitorable – The net profitability (PAT/AMA) stood at 2.4% (provisional) in H1FY2021 (2.4% in FY2020 and 2.3% in FY2019). The credit cost was higher at 0.5% (provisional) during FY2020-H1 FY2021 when compared to 0.2% in FY2019 largely because of the increased provisions in view of the expected Covid-19 impact. The net interest margin, however, marginally improved to 4.4% (provisional) in H1FY2021 (4.3% in FY2020) supported by the reduction in the weighted average cost of funds. The net profitability also was supported by the range-bound operating costs, at 0.8-0.9%, during FY2020-H1 FY2021. Going forward, it would be crucial for RHFL to undertake effective recoveries and contain incremental slippages to keep the credit cost under control.

Credit challenges

Subdued asset quality; impact of Covid-19 related disruptions remains a monitorable – The gross and net NPA stood at 4.0% and 2.0% respectively, as of September 2020, when compared to 4.2% and 2.7% respectively, as of September 2019 (4.3% and 1.9% respectively, as of March 31, 2020). The 90+ dpd in the non-housing segment remained high at 6.2% as of September 2020, while it was 3.4% in the housing segment. On a segmental basis, the 90+dpd stood at 6.4% and 1.3% for the non-salaried and the salaried classes, respectively. The nationwide pandemic had impacted collections and the company had provided ~Rs. 51 crore as Covid-related provisions during Q4FY2020-H1 FY2021. The overall collection efficiency improved to near pre-Covid levels at ~95% in November/December 2020 from ~62% in June 2020. Restructuring estimates are about 1-1.5% of the total portfolio. ICRA also notes the increase in the overall ECL provisions (2.0% of the AUM as of September 2020 vis-à-vis 1.4% as of September 2019); however, RHFL has a relatively high share of borrowers in the self-employed segment (51.7% of the portfolio as of September 2020), who are vulnerable to adverse economic cycles. While the presence of a collateral cover (About 84% of the portfolio as of March 2020 have an LTV of <70%) on such exposures gives some comfort, the ability to undertake effective recoveries and control incremental slippages would be crucial to keep asset quality under control.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states – Tamil Nadu (55.7% of the portfolio as on September 30, 2020), Karnataka (14.1%), Andhra Pradesh (6.0%), Telangana (4.6%) and Kerala (3.3%). During the last few years, RHFL has expanded its network to other states including Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and West Bengal. This has marginally reduced its exposure to the southern states, however, RHFL is expected to remain a regional player in the medium term.

Liquidity position: Adequate

RHFL had on-book liquidity of ~Rs. 475 crore and sanctioned bank lines of over ~Rs. 1,760 crore as of December 31, 2020 as against total outflows (including debt obligations and operating expenses) of ~Rs. 585 crore for the period January to March 2021. RHFL had extended moratorium benefits to its customers as part of the RBI's COVID-19 Regulatory Package, however, it did not avail moratorium from any of its lenders. ICRA expects RHFL's liquidity to remain adequate, considering the improvement in collection efficiency and the access to undrawn credit lines.

RHFL's funding continues to be largely from banks, which accounted 72% of the total borrowings as of September 2020, followed by NHB and Repco Bank comprising 15% and 10% respectively and NCD & CP (3%). Going forward, the ability to diversify the funding profile and secure funding at competitive rates would be crucial as business expands.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the company is able to profitably scale-up its operations, diversify its borrowing profile and reduce the 90+ dpd to less than 2% on a sustained basis.

Negative triggers – Pressure on the ratings could arise if a sustained weakening in the asset quality profile (90+ dpd increasing beyond 5%) adversely impacts the company's earnings profile. A deterioration in the liquidity profile could also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the issuer

About the company

Repco Home Finance Limited (RHFL) was incorporated in May 2000 as a subsidiary of Repco Bank Limited (RBL), with its corporate office in Chennai. As on December 31, 2020, RBL held 37.1% stake in RHFL and the balance is held by other institutional (domestic and overseas) and retail investors. RHFL extends housing loans and mortgage loans to salaried and self-employed individuals. As of September 30, 2020, it had a network of 153 branches and 24 satellite centres plus two asset recovery branches across 12 states and 1 UT.

In FY2020, RHFL reported a net profit of Rs. 280.4 crore on a total asset base of Rs. 11,993.9 crore, compared with a net profit of Rs. 234.6 crore on a total asset base of Rs. 10, 956.9 crore.

In H1 FY2020, the company reported a net profit of Rs. 144.8 crore on a total asset base of Rs. 12,379.7 crore.

Key financial indicators (Ind-AS)

	FY2019	FY2020	H1 FY2021 (P)
Total Income	1,195.2	1,351.1	692.1
Profit after Tax	234.6	280.4	144.8
Net Worth	1,527.4	1,786.9	1,915.7
Managed Portfolio	10,813.5	11,560.5	11,826.7
Total Managed Assets	10,956.9	11,993.9	12,379.7
Return on Managed Assets	2.3%	2.4%	2.4%
Return on Net Worth	16.5%	16.9%	15.6%
Gearing (times)	6.1	5.7	5.4
Gross NPA %	3.0%	4.3%	4.0%
Net NPA%	1.4%	1.9%	2.0%
CRAR%	24.1%	25.9%	26.8%

Amount in Rs. crore; As per Ind-AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)				Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating Jan-19-2021	FY2020 Mar-16-2020	FY2019 Mar-01-2019	FY2018 Jan-30-2018
1	Commercial Paper Programme	Short Term	800.00	800.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Long-term Fund based TL Long-term unallocated	Long Term Long Term	705.83 794.17	705.83 794.17	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	NA	800.00	[ICRA]A1+
NA	Term Loan 1	Nov-2017	NA	Dec-2024	11.35	[ICRA]AA- (Stable)
NA	Term Loan 2	Sep-2017	NA	Sep-2025	10.91	[ICRA]AA- (Stable)
NA	Term Loan 3	Nov-2017	NA	Mar-2025	19.79	[ICRA]AA- (Stable)
NA	Term Loan 4	Nov-2017	NA	Dec-2027	349.82	[ICRA]AA- (Stable)
NA	Term Loan 6	Jun-2018	NA	Aug-2023	273.96	[ICRA]AA- (Stable)
NA	Term Loan 7	Dec-2019	NA	Dec-2024	40.00	[ICRA]AA-(Stable)
NA	Unallocated/ Proposed limits	-	NA	-	794.17	[ICRA]AA- (Stable)

Source: RHFL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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