January 31, 2022

Repco Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based term loan	705.83	1,253.04	[ICRA]AA- (Stable); reaffirmed
Long-term unallocated	794.17	246.96	[ICRA]AA- (Stable); reaffirmed
Commercial paper	800.00	800.00	[ICRA]A1+; 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) track record in the housing finance business and its established franchise in South India, especially in tier II and tier III cities. The ratings also consider the comfortable capitalisation profile, characterised by a gearing of 4.6x (provisional) as of September 2021, which is expected to be sufficient to meet its near-term growth requirements. RHFL's net profitability had moderated in H1 FY2022, with PAT/AMA[1] of 1.9% (provisional) vis-à-vis 2.4% in FY2021, largely impacted by higher provisioning costs towards the restructured portfolio. Going forward, the net profitability could improve, provided incremental slippages are contained.

The ratings factor in the subdued portfolio growth witnessed over the last two years with disbursements declining significantly following the onset of the Covid-19 pandemic. Further, the company continues face competitive pressure from other larger lenders. RHFL's asset quality indicators remain under pressure with the 90+ days past due (dpd) increasing to 4.3% as of September 2021 from 3.7% as of March 2021 on account of the second wave of the pandemic. Going forward, the ability to contain incremental slippages and undertake recoveries from the current overdue accounts would be crucial. The ratings also take note of the regionally concentrated portfolio with Tamil Nadu accounting for 55.8% of the total portfolio as of September 30, 2021. Going forward, RHFL's ability to scale up its operations and improve its asset quality would be key from a rating perspective.

Key rating drivers and their description

Credit strengths

Established franchise with long track record of operations – RHFL has an established franchise in South India, serving the salaried as well as the self-employed borrower segments, predominantly in tier II and tier III cities. It operates through 153 branches, 24 satellite centres and 2 asset recovery branches spread across 12 states and 1 Union Territory (UT), with Tamil Nadu (TN) contributing 55.8% of the total portfolio as of September 30, 2021. RHFL has a diversified ten-member board consisting of five independent directors. The senior management team comprises members with adequate experience in their respective functional domains.

Comfortable capitalisation profile – The capitalisation profile is comfortable with a capital adequacy ratio of 32.3% (provisional) as on September 30, 2021 (30.7% as on March 31, 2021). The gearing improved to 4.6x (provisional) as of

[1] *Profit after tax/Average managed advances*

September 2021 (5.0x as of March 2021), given the subdued portfolio growth in the recent past. ICRA expects RHFL's near-term capital profile to remain comfortable, considering its moderate growth estimates.

Profitability expected to improve in H2 FY2022, although it moderated in H1 FY2022 due to higher provisions – RHFL's net interest margins remained range-bound at 4.7% (provisional) in H1 FY2022 (4.5% in FY2021) supported by the reduction in the weighted average cost of funds. The net profitability (PAT/AMA), however, declined to 1.9% (provisional) in H1 FY2022 vis-à-vis 2.4% in FY2021, largely due to higher provisioning costs. RHFL restructured close to 6% of its loan portfolio in H1 FY2022 due to the pandemic, necessitating the higher provisioning requirement. Going forward, the net profitability could improve, provided incremental slippages are contained to keep the credit costs under control.

Credit challenges

Subdued growth over the past few years – RHFL's loan portfolio growth has stagnated over the last two years (Rs. 11,889 crore as of September 2021 vis-à-vis Rs. 11,826 crore as of March 2020) with the company unable to maintain disbursements at earlier levels following the onset of the pandemic. Disbursements declined at a compound annual growth rate (CAGR) of around 35% over the last two years. RHFL is also facing significant prepayments owing to loan takeovers resulting from the competitive market scenario. Going forward, its ability to retain its customers by providing competitive lending rates and strengthening the sourcing channels would be critical for portfolio growth.

Moderate asset quality; impact of Covid-19-related disruptions remains a monitorable – The company's overall 90+dpd increased to 4.3% as of September 2021 from 3.7% as of March 2021 due to the impact of the second wave of the pandemic. On a segmental basis, the 90+dpd in the non-housing segment remained high at 6.5% as of September 2021 vis-à-vis 3.8% in the housing segment. Further, the 90+dpd for non-salaried customers was significantly higher at 6.5% vis-à-vis 1.8% for salaried customers, showing the adverse impact of the pandemic on the cash flows of the non-salaried segment. RHFL had restructured about 6% of the total portfolio in H1 FY2022, which, in turn, led to increased provisioning during this period. The moratorium on restructured accounts is set to expire in March-June 2022; the performance of these accounts would be a key monitorable in the near term.

ICRA also notes the increase in the overall expected credit loss (ECL) provisions (3.2% of the assets under management (AUM) as of September 2021 vis-à-vis 2.0% as of September 2020. However, RHFL has a relatively high share of borrowers in the self-employed segment (51.5% of the portfolio as of September 2021), who are vulnerable to adverse economic cycles. While the presence of a collateral cover (about 85% of the portfolio as of March 2021 had a loan-to-value (LTV) of <70%) on such exposures gives some comfort, the ability to undertake effective recoveries and control incremental slippages would be crucial to keep the asset quality under control.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states – Tamil Nadu (55.8% of the portfolio as on September 30, 2021), Karnataka (13.5%), Andhra Pradesh (5.9%), Telangana (4.7%) and Kerala (3.1%). 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, though RHFL is expected to remain a regional player in the medium term.

Liquidity position: Adequate

RHFL had on-book liquidity of ~Rs. 385 crore and sanctioned bank lines of over Rs. 2,062 crore as of December 31, 2021 against total outflows (including debt obligations and operating expenses) of ~Rs. 1,457 crore during January to March 2022. Around Rs. 731 crore of the scheduled outflows comprise overdraft limits of Repco Bank Limited (RBL), which are expected to be rolled over on maturity, providing further liquidity support. Overall, ICRA expects RHFL's liquidity to remain adequate, considering the improvement in collections and the access to undrawn credit lines. RHFL's funding continues to be largely from banks, which accounted for 70% of the total borrowings as of September 2021, followed by National Housing Bank (NHB) and RBL at

19% and 11%, respectively. Going forward, the ability to secure funding at competitive rates would be crucial as the business expands.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if the company is able to profitably scale up its operations and bring down the 90+ dpd to less than 2% on a sustained basis.

Negative factors – Pressure on the ratings could arise in case of sustained weakening in the asset quality profile (90+ dpd increasing beyond 5%), which would adversely impact the earnings profile. A deterioration in the liquidity profile could also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

Repco Home Finance Limited (RHFL) was incorporated in May 2000 as a subsidiary of RBL, with its corporate office in Chennai. As on September 30, 2021, RBL held a 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, 2021, it had a network of 153 branches, 24 satellite centres and 2 asset recovery branches across 12 states and 1 UT.

In FY2021, RHFL reported a net profit of Rs. 287.6 crore on a total asset base of Rs. 12,366.0 crore compared with a net profit of Rs. 280.4 crore on a total asset base of Rs. 11,993.9 crore in FY2020. In H1 FY2022, the company reported a net profit of Rs. 118.0 crore on a total asset base of Rs. 12,217.4 crore.

Key financial indicators (IndAS)

Standalone	FY2020	FY2021	H1 FY2022
Total income (Rs. crore)	1,351.1	1,392.2	656.9
Profit after tax (Rs. crore)	280.4	287.6	118.0
Net worth (Rs. crore)	1,786.9	2,059.3	2,162.0
Loan book (Rs. crore)	11,587.7	11,835.6	11,517.1
Total managed assets (Rs. crore)	11,993.9	12,366.0	12,217.4
Return on managed assets (%)	2.4%	2.4%	1.9%
Return on net worth (%)	16.9%	15.0%	11.2%
Managed gearing (times)	5.7	5.0	4.6
Gross stage 3 (%)	4.3%	3.7%	4.3%
Net stage 3 (%)	2.6%	2.2%	2.4%
Solvency (Net stage 3/Net worth)	18.4%	13.1%	13.3%
CRAR (%)	25.9%	30.7%	32.3%

Source: *Company, ICRA Research; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 31, 2022	Jan 19, 2021	Mar 16, 2020	Mar 01, 2019
1	Long-term fund based term loan	Long Term	1,253.04	1,253.04	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term unallocated	Long Term	246.96	246.96	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	CP	Short Term	800.00	800.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based term loan	Simple
Long-term unallocated	Simple
CP	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	CP*	NA	NA	NA	800.00	[ICRA]A1+
NA	Term loan 1	Nov 2017	NA	Dec 2027	299.79	[ICRA]AA- (Stable)
NA	Term loan 2	Jun 2018	NA	Aug 2023	123.25	[ICRA]AA- (Stable)
NA	Term loan 3	Dec 2019	NA	Dec 2024	30.00	[ICRA]AA- (Stable)
NA	Term loan 4	Dec 2021	NA	Dec 2030	500.00	[ICRA]AA- (Stable)
NA	Term loan 5	Sep 2021	NA	Mar 2032	300.00	[ICRA]AA- (Stable)
NA	Long-term unallocated	-	NA	_	246.96	[ICRA]AA- (Stable)

Source: *Company*

**Not placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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