Repco Home Finance Limited

Instrument Rated	Amount (In Rs crore) [1]	Rating Action
Non-convertible debentures	500.00	[ICRA]AA-(Stable); reaffirmed
Long term bank limits	1,500.00	[ICRA]AA-(Stable); reaffirmed
Commercial paper	250.00	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the [ICRA]AA- (pronounced ICRA double A minus) [2] rating for the Rs.1,500.00 crore long term bank facilities of Repco Home Finance Limited (RHFL). ICRA has also reaffirmed the [ICRA]AA- rating for the Rs.500.00 crore non-convertible debenture programme of the company. The outlook on the long term ratings is stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating for the Rs.250.00 crore commercial paper programme of RHFL.

The ratings reaffirmation factors in RHFL's track record in housing finance, its established franchise and presence in South India, especially in tier II and tier III cities, its experienced senior management team, comfortable capitalisation (gearing of 6.9 times and Tier-I capital of 20.7% as on March 31, 2016) and good overall profitability indicators (PAT/ATA[3] of 2.1% in FY2016). ICRA however expects the company's capitalisation profile to moderate from the current levels given its envisaged growth of 20-25% over the next three years with an internal generation of around 13-15%. RHFL's gross NPAs increased to 2.4% as on September 30, 2016 (1.8 % as on September 30, 2015 and 1.7% as on September 30, 2014) with a few large slippages in the non-housing segment. The company intends to focus on smaller ticket sizes (less than Rs. 0.5 crore) in the non-housing segment going forward. ICRA notes that the share of loans over Rs. 0.5 crore as on March 31 2016 was about 10% and 41% in the housing and non-housing segments respectively. Nevertheless, moderate loan to value (LTV) ratios and the company's recovery initiatives are likely to result in low eventual losses from the NPA accounts. As on March 31, 2016, share of portfolio with LTV over 70% stood at 13% and 2% for the housing and non-housing segments respectively.

The ratings continues to factor in the lack of diversity in the company's earnings (monoline mortgage lending book) and the moderate credit profile of the company's clients, which results in higher delinquencies in softer buckets (30+ dpd at 12.3% as on March 31, 2016 and 14.7% as on September 30, 2016). ICRA notes that the company is experiencing higher delinquencies in some of its new geographies; its exposures to these states are however low and the company's portfolio continues to remain concentrated in Tamil Nadu (63 % of the total portfolio as in September 30, 2016). The company's ability to grow and diversify its portfolio without adversely impacting its asset quality would be a key rating sensitivity going forward.

The ratings also take cognisance of the initiatives taken by RHFL to diversify its funding profile, by securing funds at competitive rates through debentures and commercial paper issuances during the current year. ICRA however notes that the company continues to be dependent on bank funding, which accounted for close to 61% of the total borrowings as on September 30, 2016. The company has funding relationships with 25 banks and financial institutions, which along with the long term nature (7-10 years) of the funding from a majority of these sources provides a favourable view of its overall liquidity position. Going forward, the company's ability to further diversify its funding profile to secure funding at competitive rates and keeping its credit costs under control would be critical for incremental profitability.

ICRA takes note of the impact of demonetisation on the company's disbursement and collections, with around 60% of its borrowers being self-employed. ICRA will closely monitor RHFL's near-term collection performance, which will be a key rating sensitivity.

[1] Rs.1 crore= Rs. 10 million= Rs.100 lakh
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[3] ATA= Average Total Assets

Company Profile

Repco Home Finance Limited (RHFL) was incorporated in May 2000 as a wholly owned subsidiary of Repco Bank Limited (RBL), with its corporate office in Chennai. RBL currently holds a 37.1% stake in RHFL and the balance is held by other institutional (domestic and overseas) and retail investors. RHFL is a housing finance company (HFC) extending housing loans and mortgage loans, primarily to individuals. RHFL had a network of 121 branches and 32 satellite centres across 11 states and 1 union territory as on September 30, 2016. The branches and satellite centres are primarily located in tier -II cities and tier-III cities, and at the peripheries of tier- I cities, which are the key target markets of the company.

Recent Results

For FY2016, RHFL reported a net profit of Rs. 150.1 crore on a total asset base of Rs.7,763 crore as compared with a net profit of Rs. 123.1 crore on a total asset base of Rs. 6,076 crore in FY2015. The company's gross NPAs and net NPAs stood at 1.3% and 0.5% respectively as on March 31, 2016.
For H1 FY2016 the company reported a net profit of Rs. 85.2 crore on a loan portfolio of Rs. 8,469 crore. The company reported gross NPAs of 2.4% and net NPAs of 1.3% as on September 30, 2016.

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