May 17, 2021

Religare Housing Development Finance Corporation Limited: Ratings remain on Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Bank Lines	1,200	1,200	[ICRA]BB@ / [ICRA]A4@; continue to be on watch with negative implications
Short-term Debt Programme	100	100	[ICRA]A4@; continues to be on watch with negative implications
Total	**1,300**	**1,300**	

**Instrument details are provided in Annexure-1; @ On Watch with Negative Implications*

Rationale

Religare Housing Development Finance Corporation Limited (RHDFCL) is an 87.5% subsidiary of Religare Finvest Limited[1] (RFL) which, in turn, is a wholly-owned subsidiary of Religare Enterprises Limited (REL). The ratings factor in RHDFCL's favourable growth potential, given its focus on affordable housing with a granular and secured loan book largely comprising housing loans (~73% of the total portfolio as on December 31, 2020).

The ratings are, however, constrained by RHDFCL's reduced financial flexibility due to the Group-level challenges with its parent (RFL) under the Reserve Bank of India's (RBI) Corrective Action Plan (CAP) since January 2018 and RFL's Debt Resolution Plan (DRP) still under discussion with the lenders. This has led to curtailed business operations for RHDFCL with limited fresh disbursements since FY2019 and a further run-down of the on-balance sheet gross loan book to Rs. 503 crore as on December 31, 2020 from Rs. 596 crore as on March 31, 2020. The ratings are further constrained by RHDFCL's weak asset quality indicators due to high delinquencies, with the gross non-performing advances (GNPA%) at 7.8% as on December 31, 2020 (6.8% as on March 31, 2020). Though the company's collections have been good in the past few months, supported by prepayments and foreclosures, the asset quality profile is expected to remain under pressure over the medium term given the increasing challenges in the operating environment and the localised lockdowns across the country. Moreover, the profitability indicators remain modest (return on average assets (RoA) of 0.2%) due to an increase in the credit costs to 2.6% in 9M FY2021 from 0.9% in FY2020.

The improvement in RHDFCL's credit profile remains contingent on the timely implementation of RFL's DRP and RHDFCL's subsequent ability to resume business operations while maintaining its asset quality. At the same time, a longer-than-expected delay in the implementation of the DRP and hence the subsequent resumption of funding lines for RHDFCL can put further pressure on its already stretched liquidity profile. ICRA would continue to monitor the developments and hence the ratings remain on watch till there is more clarity on the final implementation of the DRP.

Key rating drivers and their description

Credit strengths

Favourable growth potential, given the focus on affordable housing – Home loans accounted for the majority (~73%) of RHDFCL's portfolio mix as on December 31, 2020, with loan against property (LAP) and builder loans accounting for the rest.

[1] Rated [ICRA]D

While the affordable housing segment has good growth opportunity, the inherent risks associated with this segment are also relatively high, given the target borrower profile (self-employed, low income) with credit underwriting largely based on assessed income along with the current challenging operating environment. However, ICRA notes that RHDFCL's loan book is granular in nature and secure; thus, the expected loss in case of default is expected to be low.

Credit challenges

Stretched liquidity profile and curtailed business operations due to reduced financial flexibility – Given the ongoing challenges at the Group level, RHDFCL's financial flexibility has been impacted, which, in turn, has led to curtailed business operations. Negligible disbursements since FY2019 led to a further run-down of the on-balance sheet gross loan book to Rs. 503 crore as on December 31, 2020 from Rs. 596 crore as on March 31, 2020. The company has not been able to raise any fresh funding lines since FY2018 and its liquidity profile also remains stretched owing to mismatches in its Asset-Liability Management (ALM) statement in H2 FY2022. However, during FY2021 the company has managed its cash flows and repaid all the debt obligations on/before time using the inflow from the loan book and liquidity raised through loan sell downs. The company had assigned loans worth Rs. 42 crore and Rs. 18 crore during Q2 FY2021 and Q4 FY2021, respectively, and the funds arranged through assignment were majorly utilised towards servicing the debt obligations and it had prepaid the term loan instalments of ~Rs. 131 crore due during FY2021.

In the current year, the company has prepaid Rs. 31.2 crore out of the total debt of Rs. 41.2 crore due in H1 FY2022 supported by higher prepayments/foreclosures on the loans. ICRA notes that the company has a commitment of Rs. 150 crore equity infusion from the ultimate parent (REL) starting from FY2022, along with a plan to raise some funds through direct assignment/securitisation during July to September 2021. The company expects some funds to be mobilised from National Housing Bank (NHB) as well during FY2022. It would be imperative for the company to raise liquidity through these avenues in order to maintain its credit profile. At the same time, RHDFCL's ability to raise fresh funds and subsequently restart its lending operations would also remain contingent on the timely DRP implementation at the parent level.

Weak asset quality – RHDFCL's asset quality indicators remain weak due to high delinquencies with the GNPA% at 7.8% as on December 31, 2020 (6.8% as on March 31, 2020). About 50% of the total borrowers opted for the moratorium across the six-month period from March 2020 to August 2020. The company's collections have been good in the past few months, supported by prepayments and foreclosures. However, given the increasing challenges in the operating environment and localised lockdowns across the country, the asset quality profile is expected to remain under pressure over the medium term.

Modest profitability indicators – RHDFCL's operating profitability indicators have remained range-bound owing to the stable yield on advances of ~15% on account of the relatively stable monthly collections from its existing loan book. However, due to the curtailment of business operations and the high absolute GNPAs of ~Rs. 40 crore as on December 31, 2020, the credit costs increased to 2.6% in 9M FY2021 from 0.9% in FY2020 resulting in a decline in the overall profitability indicators. The RoA and return on equity (RoE) declined to 0.2% and 0.5%, respectively, in 9M FY2021 from 0.7% and 2.7%, respectively, in FY2020. Given the challenging operating environment and with the asset quality remaining under pressure, the overall profitability indicators are expected to remain modest in FY2022 as well.

Liquidity position: Stretched

RHDFCL's liquidity position is stretched owing to mismatches in its ALM statement in H2 FY2022. As on March 31, 2021, the company has expected debt repayments of ~Rs. 134 crore[2] in the next 12 months compared to expected inflows from advances and cash & liquid investments of ~Rs. 58 crore[1] during the same period reflecting gaps in the ALM. The aforesaid amount of expected inflows is without including foreclosure/prepayments which remain around Rs. 4.5 crore on a monthly basis aggregating to around Rs. 54 crore in a year, however, sustainability of the same is difficult to ascertain. In the current fiscal, RHDFCL has prepaid Rs. 31.2 crore out of the total debt of Rs. 41.2 crore due in H1 FY2022. Nevertheless, there are still some

[2] Considering only scheduled principal repayments and excluding interest and any prepayments/foreclosures

gaps and the company would be dependent on support from its ultimate holding company, REL or will have to raise liquidity through loan sell downs to ensure the timely payment of its debt obligations. ICRA also notes that there is a commitment from REL to infuse RS. 150 crore capital in RHDFCL starting from FY2022.

Rating sensitivities

Positive factors – An improvement in the financial, credit and liquidity profile of the Religare Group, and hence improved capital flow to RHDFCL to support its business operations, could lead to a rating upgrade.

Negative factors – A delay in liquidity support from REL would significantly impact the credit profile of RHDFCL and could lead to a steep downgrade in the ratings. Also, significant deterioration in the company's asset quality or profitability indicators from the current levels may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Housing Finance Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RHDFCL was incorporated in June 1993 as Maharishi Housing Development Finance Corporation Limited. Religare Enterprises Limited (REL) acquired an 87.5% stake in RHDFCL in May 2009, which was later transferred to RFL. The company operates from RFL's branches and has a service-level agreement with the parent for the cost sharing of infrastructure and employees. RHDFCL is a housing finance company registered NHB and it primarily provides housing loans. In FY2020, RHDFCL reported a net profit of Rs. 5.3 crore on an asset base of Rs. 649.1 crore compared to a net profit of Rs. 10.0 crore on an asset base of Rs. 819.1 crore in FY2019. In 9M FY2021, RHDFCL reported a net profit of Rs. 0.8 crore on an asset base of Rs. 554.4 crore. Based on the provisional financials for FY2021, the company reported a net profit of Rs. 11.0 crore on an asset base of Rs. 495 crore.

Key financial indicators

RHDFCL	FY2019	FY2020	9M FY2021
	Audited	Audited	Provisional
Profit after tax (Rs. crore)	10.0	5.3	0.8
Net worth (Rs. crore)	196.9	201.8	202.6
Loan book^ (Rs. crore)	724.7	595.7	502.5
Total assets^ (Rs. crore)	819.1	649.1	554.4
Return on assets (%)	1.1%	0.7%	0.2%
Return on net worth (%)	5.2%	2.7%	0.5%
Gross gearing (times)	3.0	2.1	1.5
Gross NPA (%)	3.2%	6.8%	7.8%
Net NPA (%)	2.1%	3.8%	4.3%
Solvency (Net NPA/Net worth)	7.8%	11.0%	10.2%

Source: *RHDFCL, ICRA research; All ratios as per ICRA calculations; ^Gross value*

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 in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
				May 17, 2021	Aug 18, 2020	Apr 08, 2020	Jul 19, 2019	May 17, 2019	Oct 4, 2018
Short-term Debt Programme	Short Term	100	-	**[ICRA]A4@**	**[ICRA]A4 @**	**[ICRA]A4@**	**[ICRA]A4 @**	**[ICRA]A4 @**	**[ICRA] A3 @**
Bank Lines	Long Term/ Short Term	1,200	307.7*	**[ICRA]BB@/ [ICRA]A4@**	**[ICRA]BB @/ [ICRA]A4 @**	**[ICRA]BB@/ [ICRA]A4@**	**[ICRA]BB @/ [ICRA]A4 @**	**[ICRA]BB @/ [ICRA]A4 @**	**[ICRA] BBB- @ / [ICRA] A3 @**

*@ On Watch with Negative Implications; *As on December 31, 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term Bank Lines	Simple
Short-term Debt Programme	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 Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term Bank Lines	NA	NA	NA	1,200	[ICRA]BB@ / [ICRA]A4@
NA	Short-term Debt Programme	Not placed	NA	7-365 days	100	[ICRA]A4@

Source: *RHDFCL; @ On Watch with Negative Implications*

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

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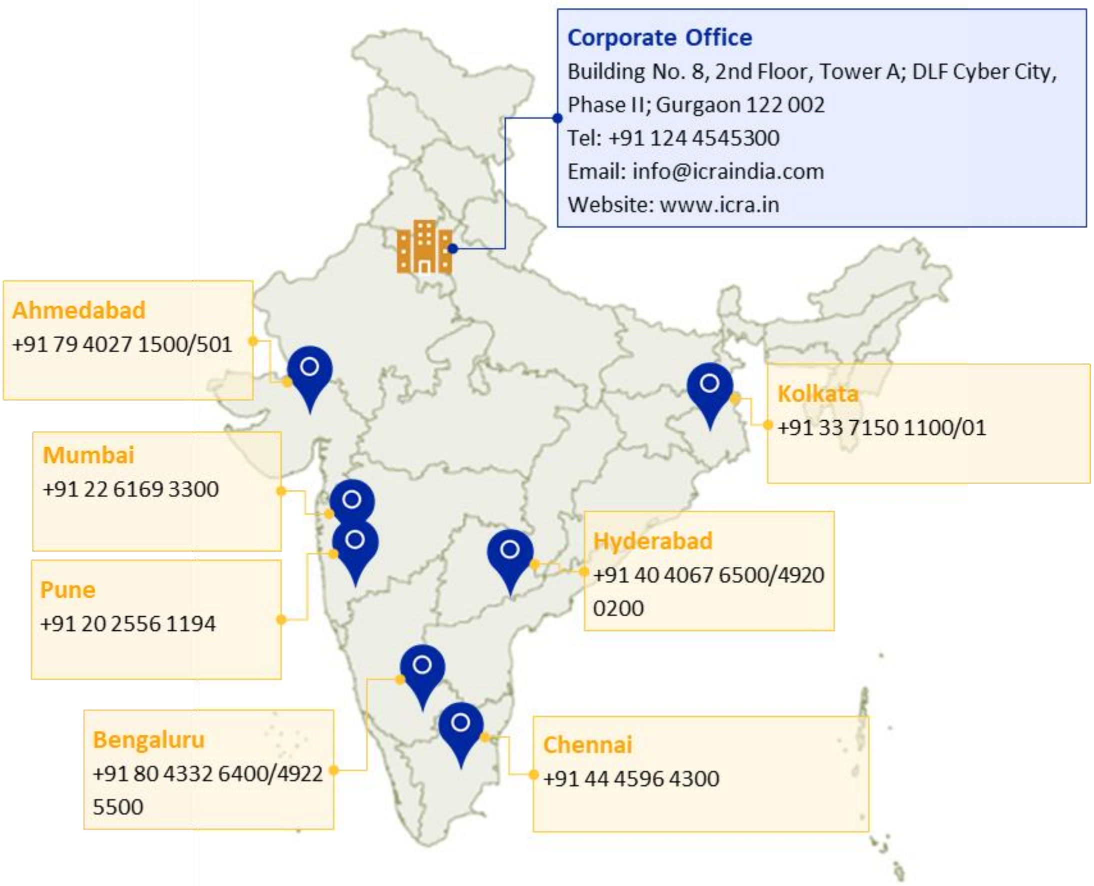

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