October 15, 2024

Repco Home Finance Limited: [ICRA]AA- (Stable) assigned to enhanced bank limits; 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	2,000.00	3,000.00	[ICRA]AA- (Stable); reaffirmed/assigned for enhanced portion
Commercial paper	800.00	800.00	[ICRA]A1+; reaffirmed
Non-convertible debentures	500.00	500.00	[ICRA]AA- (Stable); reaffirmed
Total	**3,300.00**	**4,300.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to take into consideration Repco Home Finance Limited's (RHFL) long 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 factor in the comfortable capitalisation profile, characterised by a gearing of 3.6 times (provisional) and a capital adequacy ratio (provisional) of 34.0% as of June 2024, which is expected to be sufficient to meet the near-to-medium-term growth requirements. Further, the ratings consider RHFL's adequate net profitability, with PAT/AMA[1] improving to 2.9% in FY2024 from 2.3% in FY2023 (1.5% in FY2022), largely supported by higher margins and lower credit provisioning costs. It reported PAT/AMA of 2.9% in Q1 FY2025 as well. Going forward, the net profitability is expected to remain stable as incremental slippages are likely to remain under control.

RHFL's asset quality improved with the 90+ days past due (dpd) at 4.2% as of June 2024 vis-à-vis 4.6% as of December 2023 on account of recoveries. The standard restructured book stood at 2.6% as of June 2024 (2.8% in December 2023). ICRA expects the overall stressed portfolio (standard restructured + stage 3 assets) to moderate steadily, going forward. However, RHFL's ability to achieve and sustain the delinquency levels, in line with the pre-Covid-19 pandemic levels, would be crucial from a rating perspective. The ratings also note the regionally concentrated portfolio with Tamil Nadu (TN) accounting for 56.4% of the total portfolio as of June 2024. The ratings are constrained by RHFL's concentrated funding profile, with significant exposure to bank funding. Going forward, the company's ability to diversify its funding profile as it scales up its operations would be a key monitorable.

The Stable outlook considers RHFL's adequate profitability metrics and comfortable capitalisation profile, which will support its growth plans over the medium term.

Key rating drivers and their description

Credit strengths

Established franchise with long track record of operations – 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 181 branches, 42 satellite centres and 2 asset recovery branches spread across 12 states and 1 Union Territory (UT), with TN contributing 56.4% to the total portfolio as of June 2024. RHFL has a diversified nine-member board consisting of five

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

independent directors. The senior management team comprises members with adequate experience in their respective functional domains.

Comfortable capitalisation profile – The capitalisation profile is characterised by a capital adequacy ratio of 34.0% (provisional) as of June 2024 (34.7% as of December 2023). The gearing declined to 3.6 times (provisional) as of June 2024 (3.7 times as of December 2023) because of the improved internal accruals and the moderate portfolio growth witnessed during this period. ICRA notes that the impact of the recent Reserve Bank of India (RBI) circular on higher risk weights for consumer credit extended by non-banking financial companies (NBFCs) and housing finance companies (HFCs) has not been significant for RHFL, given the low share of loan against property in its portfolio. ICRA expects RHFL's near-term capital profile to remain comfortable, notwithstanding the expected improvement in the growth rate. The company's portfolio is expected to register a compound annual growth rate (CAGR) of ~10-15% over the next three fiscals vis-à-vis the CAGR of ~4% in the last three fiscals.

Adequate profitability – RHFL's net profitability increased in FY2024, with PAT/AMA of 2.9% vis-à-vis 2.3% in FY2023 (1.5% in FY2022), largely supported by higher margins and lower credit provisioning costs as the asset quality improved. Further, the profitability was 2.9% in Q1 FY2025. Going forward, the cost of funding could witness an upward trend, in line with the overall interest rate scenario. RHFL's ability to maintain its margins in view of the same is monitorable. Undertaking effective recoveries and restricting incremental slippages would also be critical for keeping the credit costs under control.

Credit challenges

Moderate asset quality, though on an improving trend – The company's overall stage 3 declined to 4.3% (90+ dpd at 4.2%) as of June 2024 from 6.2% (90+ dpd at 5.9%) in December 2022. On a segmental basis, the 90+ dpd in the non-housing segment stood high at 4.3% as of June 2024 vis-à-vis 4.1% in the housing segment. Further, the 90+ dpd for non-salaried customers was significantly higher at 6.0% vis-à-vis 2.3% for salaried customers. RHFL had a restructured book of 3.7% (standard restructured book of 2.6%) of the total portfolio with provision coverage of 37% as of June 2024; the performance of this book would be a key monitorable in the near term.

ICRA also notes the increase in the stage 3 provision coverage ratio to 62% of the loan portfolio as of June 2024 from 46% as of December 2022. However, RHFL has a relatively higher share of borrowers in the self-employed segment (51.6% of the portfolio as of June 2024), who are vulnerable to adverse economic cycles. While the presence of a collateral cover on such exposures gives some comfort, the ability to undertake effective recoveries and control incremental slippages would be crucial from a rating perspective.

Concentrated borrowing profile – RHFL's funding continues to be largely from commercial banks, which accounted for 80% of the total borrowings as of June 2024, followed by National Housing Bank (NHB) and Repco Bank at 11% and 9%, respectively. The company has increased its share of commercial bank borrowings over the last few years, given the longer tenors and better borrowing rates from these banks. Nevertheless, as RHFL scales up its loan portfolio, it would be important for it to diversify its funding sources.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states – TN (56.4% of the portfolio as of June 2024), Karnataka (12.9%), Andhra Pradesh (6.1%), Telangana (5.3%) and Kerala (2.5%). During the last few years, RHFL has expanded its network to other states including Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, and West Bengal. While this has marginally reduced its exposure to the southern states in the recent past, the company is expected to remain a regional player in the medium term.

Environmental and social risks

While financial institutions like RHFL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If RHFL's customers face any disruption in their cash flows because of physical climate adversities, the same could translate into credit risks for the company. However, such risk is not material for RHFL as it benefits from the diversified customer segment.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as material lapses could be detrimental to their reputation and invite regulatory censure. RHFL has not faced such lapses over the years, which highlights its sensitivity to such risks. Customer preferences are increasingly shifting towards digital credit, which provides the opportunity to reduce the operating costs. To minimise the risks arising from the same, RHFL may be required to make necessary investments to enhance its digital interface with its customers.

Liquidity position: Adequate

RHFL had on-book liquidity of Rs. 663 crore and sanctioned but unutilised bank lines of over Rs. 286 crore as of June 2024 against total debt obligations (including interest) of Rs. 1,803 crore during July 2024 to December 2024. ICRA expects RHFL's liquidity to remain adequate, considering the on-book liquidity and its access to undrawn credit lines.

Rating sensitivities

Positive factors – A sustained scale-up of the operations while maintaining the profitability and keeping the 90+ dpd below 2% on a sustained basis could positively impact the rating.

Negative factors – Pressure on the ratings could arise in case of a 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

RHFL was incorporated in May 2000 as a subsidiary of Repco Bank, with its corporate office in Chennai. As on June 30, 2024, Repco Bank held a 37.1% stake in RHFL while other institutional (domestic and overseas) and retail investors held the balance. The company extends housing loans and mortgage loans to salaried and self-employed individuals. As on June 30, 2024, it had a network of 181 branches, 42 satellite centres and 2 asset recovery branches across 12 states and 1 UT.

In FY2024, RHFL reported a net profit of Rs. 394.7 crore on a total asset base of Rs. 14,223.1 crore compared with a net profit of Rs. 296.1 crore on a total asset base of Rs. 13,042.4 crore in FY2023. The company reported a net profit of Rs. 105.4 crore on a total asset base of Rs. 14,582.4 crore in Q1 FY2025.

Key financial indicators (IndAS)

Standalone	FY2023	FY2024	Q1 FY2025 (P)
Total income	1,299.2	1,540.8	416.3
Profit after tax	296.1	394.7	105.4
Total managed assets	13,042.4	14,223.1	14,582.4
Return on managed assets	2.3%	2.9%	2.9%
Managed gearing (times)	3.9	3.7	3.6
Gross stage 3	5.8%	4.1%	4.3%
CRAR	35.8%	34.0%	34.0%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; P – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**15-OCT-2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long-term term loan – Fund based	Long term	3,000.00	[ICRA]AA- (Stable)	05-JAN-2024	[ICRA]AA- (Stable)	30-JAN-2023	[ICRA]AA- (Stable)	31-JAN-2022	[ICRA]AA- (Stable)
				21-MAR-2024	[ICRA]AA- (Stable)	-	-	-	-
Commercial paper	Short term	800.00	[ICRA]A1+	05-JAN-2024	[ICRA]A1+	30-JAN-2023	[ICRA]A1+	31-JAN-2022	[ICRA]A1+
				21-MAR-2024	[ICRA]A1+	-	-	-	-
NCD	Long term	500.00	[ICRA]AA- (Stable)	05-JAN-2024	[ICRA]AA- (Stable)	-	-	-	-
				21-MAR-2024	[ICRA]AA- (Stable)	-	-	-	-
Long-term unallocated	Long term	0.00	-	-	-	-	-	31-JAN-2022	[ICRA]AA- (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Commercial paper	Very Simple
Non-convertible debenture	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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan 1**	Nov-13- 2017	NA	Jul-01-2027	174.77	[ICRA]AA- (Stable)
NA	**Term loan 2**	Mar-27-2023	NA	Feb-28-2031	406.25	[ICRA]AA- (Stable)
NA	**Term loan 3**	Dec-21-2019	NA	Nov-30-2024	5.00	[ICRA]AA- (Stable)
NA	**Term loan 4**	Dec-07-2021	NA	Dec-30-2030	361.07	[ICRA]AA- (Stable)
NA	**Term loan 5**	Sep-24-2021	NA	Jun-30-2031	213.03	[ICRA]AA- (Stable)
NA	**Term loan 6**	Aug-05-2024	NA	May-31-2031	750.00	[ICRA]AA- (Stable)
NA	**Term loan 7**	Sep-24-2024	NA	Sep-30-2031	500.00	[ICRA]AA- (Stable)
NA	**Long-term term loans – Unallocated**	–	NA	–	589.88	[ICRA]AA- (Stable)
NA	**Commercial paper***	-	-	-	800.00	[ICRA]A1+
NA	**NCD***	-	-	-	500.00	[ICRA]AA- (Stable)

Source: Company

**Not placed*

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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