

March 16, 2020

## 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
<b>Total</b>	<b>2,300.00</b>	<b>2,300.00</b>	

\*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, 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 improvement in the profitability indicators and the comfortable capitalisation profile (gearing of 6.0x (provisional) and tier-1 capital of 25.4% (provisional) as on December 31, 2019), which would support the envisaged growth rate of 12-15% per annum over the next two fiscals.

ICRA also takes note of the company's subdued asset quality, with a 90+ dpd of 4.2% in December 2019, and the regionally concentrated portfolio. Going forward, RHFL's ability to steadily diversify its funding sources, as it scales up its operations, and improve its asset quality would be crucial from a 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 149 branches and 27 satellite centres spread across 12 states and 1 Union Territory (UT), with Tamil Nadu (TN) contributing 56% to the total portfolio as on December 31, 2019. RHFL has a diversified nine-member board consisting of five independent non-executive 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 comfortable with a capital adequacy ratio of 25.4% (provisional) as on December 31, 2019 (24.2% as on December 31, 2018). The company's gearing improved to 6.1x in March 2019 from 6.3x in March 2018 due to the moderate portfolio growth (10% on a YoY basis). The gearing stood at 6.0x (provisional) in 9M FY2020. ICRA expects the leverage to remain under 7x over the next 2 two years as the internal generation would be adequate for the envisaged portfolio growth of 12-15% per annum.

**Improvement in profitability indicators supported by lower tax rate** – The net interest margins stood at 4.2% in H1 FY2020 compared to 4.3% in FY2019 partly due to an increase in the cost of funds (8.4% in H1 FY2020 vis-à-vis 8.2% in FY2019). This could also be attributed to the excess liquidity (cash and liquid assets of 4.2% of the total assets as of September 30, 2019 compared to 0.5% as of March 2019) maintained by the company. The pre-provision operating profitability was stable at 3.6%, supported by a decline in the operating costs (0.8% in H1 FY2020 from 1.0% in FY2019).

The credit cost remained low and range bound at 0.1-0.2%. Overall, the net profitability improved to 2.9% in H1 FY2020 (prior three-year average of 2.2%), supported by a reduction in the corporate tax rate. The company's PAT/average AUM for 9M FY2020 was ~2.8% vis-à-vis 2.9% in H1 FY2020 and 2.3% in FY2019. Going forward, it would be crucial for RHFL to undertake recoveries and contain incremental slippages to keep the credit costs under control.

## Credit challenges

**Subdued asset quality** – The 90+ dpd stood at 4.2% in December 2019 (3.9% in December 2018). The 90+dpd in the non-housing segment remained high at 6.7% in December 2019 while it stood at 3.6% in the housing loan segment. On a segmental basis, the 90+dpd for the salaried and self-employed segments stood at 1.5% and 6.5%, respectively, in December 2019. ICRA notes that the cash flows of RHFL's borrowers in the self-employed segment (53% of the portfolio) are vulnerable to adverse economic cycles. The company is targeting a borrower mix of 50:50 (salaried: self-employed) in the near term. ICRA also notes that the gross NPA generation rate<sup>1</sup> remained high at 5.4% (annualised) in Q3 FY2020 (4.9% in Q3 FY2019). Going forward, containing incremental slippages and undertaking effective recoveries from the overdue accounts would be critical to keep the asset quality under control.

**Geographically concentrated operations** – The company's loan book remains concentrated in the southern states – Tamil Nadu (56% of the portfolio as on December 31, 2019), Karnataka (14%), Andhra Pradesh (6%), Telangana (5%) and Kerala (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 to 84% in December 2019 from 86% in December 2018. RHFL is expected to remain a regional player in the medium term.

## Liquidity position: Adequate

RHFL has debt repayments of about Rs. 2,200 crore during January to December 2020, against which scheduled inflows (advance maturities including estimated prepayments) are about Rs. 1,669 crore. In addition, the company had Rs. 181 crores as cash and cash equivalents as on December 31, 2019. As of February 2020, the company had sanctioned and unavailed funding lines totalling about Rs. 2,300 crore from various banks. ICRA expects RHFL's liquidity to remain adequate, considering the expected inflows and unavailed funding lines.

RHFL's funding continues to be largely from banks, which accounted for 76% of the total borrowings as of December 2019, followed by NHB refinance (9%), Repco Bank (8%) and NCDs (7%). Going forward, improvement in funding diversification would be crucial for maintaining a comfortable liquidity profile and for securing funds at competitive rates as the 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 in case of a sustained weakening in the asset quality profile (90+ dpd increasing beyond 5%), adversely impacting the company's earnings profile. A deterioration in the liquidity profile could also negatively impact the ratings.

---

<sup>1</sup> Fresh additions/ standard advances

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Housing Finance Companies</a>
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 wholly-owned subsidiary of Repco Bank Limited (RBL), with its corporate office in Chennai. RBL had a 37.1% stake as on December 31, 2019 in RHFL and the balance is held by other institutional (domestic and overseas) and retail investors. RHFL is a housing finance company extending housing loans and mortgage loans to salaried and self-employed individuals. As on December 31, 2019, it had a network of 149 branches and 27 satellite centres across 12 states and 1 UT.

For FY2019, RHFL reported a net profit of Rs. 234.6 crore on a total asset base of Rs. 10,956.9 crore compared with a net profit of Rs. 201.0 crore on a total asset base of Rs. 9,730.9 crore in FY2018.

In H1 FY2020, the company reported a net profit of Rs. 162.9 crore on a total asset base of Rs. 11,913.0 crore.

## Key financial indicators (audited)

	FY2018	FY2019	H1 FY2020
	Ind-AS	Ind-AS	Ind-AS
Total Income	1,110.1	1,195.2	663.9
Profit after Tax	201.0	234.6	162.9
Net Worth	1,308.5	1,527.4	1,670.1
Managed Portfolio	9,627.9	10,813.5	11,305.6
Total Managed Assets	9,730.9	10,956.9	11,913.0
Return on Managed Assets	2.2%	2.3%	2.9%
Return on Net Worth	16.5%	16.5%	20.4%
Gearing (times)	6.3	6.1	6.1
Gross NPA %	2.9%	3.0%	4.2%
Net NPA%	1.3%	1.4%	2.7%
CRAR%	23.0%	24.1%	24.9%

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 (FY2020)					Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 16 March 2020	Date & Rating in FY2019 01 March 2019	Date & Rating in FY2018 30 January 2018	Date & Rating in FY2017 13 November 2017
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	1,175.97	1,175.97	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
	Long-term unallocated	Long Term	324.03	324.03				

## 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](http://www.icra.in)

## Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	Jun-2021	800.00	[ICRA]A1+
NA	Term Loan 1	Nov-2017	NA	Dec-2024	14.26	[ICRA]AA- (Stable)
NA	Term Loan 2	Sep-2017	NA	Sep-2025	90.23	[ICRA]AA- (Stable)
NA	Term Loan 3	Nov-2017	NA	Mar-2025	188.44	[ICRA]AA- (Stable)
NA	Term Loan 4	Mar-2017	NA	Mar-2027	83.56	[ICRA]AA- (Stable)
NA	Term Loan 5	Nov-2017	NA	Dec-2027	399.94	[ICRA]AA- (Stable)
NA	Term Loan 6	Jun-2018	NA	Aug-2023	349.54	[ICRA]AA- (Stable)
NA	Term Loan 7	Dec-2019	NA	Dec-2024	50.00	[ICRA]AA-(Stable)
NA	Unallocated/ Proposed limits	-	NA	-	324.03	[ICRA]AA- (Stable)

Source: RHFL

## Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

## Analyst Contacts

**Karthik Srinivasan**

+91-22-6114 3444

[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

**A M Karthik**

+91-44-4596 4308

[a.karthik@icraindia.com](mailto:a.karthik@icraindia.com)

**Subhashree Ravi**

+91-44-4297 4324

[subhashree.ravi@icraindia.com](mailto:subhashree.ravi@icraindia.com)

## Relationship Contact

**Mr. L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents