

August 18, 2020

## Religare Housing Development Finance Corporation Limited: Ratings outstanding

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term debt programme	100.00	100.00	[ICRA]A4@, on watch with negative implications; Outstanding [ICRA]BB@ / [ICRA]A4@, on watch with negative implications; Outstanding
Long term/ short term bank lines	1,200.00	1,200.00	
<b>Total</b>	<b>1,300.00</b>	<b>1,300.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

Religare Housing Development Finance Corporation Limited (RHDFC) is a subsidiary of Religare Finvest Limited (RFL), which in turn is a wholly owned subsidiary of Religare Enterprises Limited (REL). The rating factors in the company's granular housing loan book with limited exposure to builder loans, and adequate capitalisation levels for current scale of operations. The rating is however constraint by the group related issues and limited financial flexibility of RHDFC, which has lead to curtailment of RHDFC's operations, with its on-book portfolio reducing from Rs 725 crore, as on March 31, 2019 to Rs 596 crore, as on March 31, 2020. This, along with increased delinquencies also impacted the company's headline asset quality ratios with an increase in the company's gross NPA ratio from 3.2% as on March 31, 2019 to 6.8%, as on March 31, 2020. Consequently, the company's profitability moderated due to compressed margins and higher tax outflows with return on average assets reducing to 0.7% in FY2020 (vs. 1.1% in FY2019). Going forward, RHDFC's ability to grow the business hinges upon the availability of funding lines, which is currently constraint on account of the group related factors as well challenges in the operating environment.

ICRA notes that currently RHDFC has availed moratorium on its debt repayments as per the RBI circular dated 27th March 2020 and 23rd May 2020. However, post August 2020, , the current liquidity available with RHDFC and expected inflow on the loan book (which are likely to be impacted due to the current challenges in the operating environment), would not be sufficient to meet the debt obligations in the subsequent months and the company would have to rely on support from its ultimate holding company, Religare Enterprises Limited (REL) to make timely payment for its debt obligations. ICRA has taken note of REL's stated commitment to provide financial support to RHDFC for timely payment of its debt in FY2021 by extending short term loan facility. REL currently has liquidity from stake sale in its health insurance entity. If timely support from REL is not available to RHDFC, it would be significant negative for the credit profile of RHDFC leading to steep downgrade in the ratings of RHDFC.

In June 2019, REL had announced that it had entered into a binding term sheet with TCG Advisory Services Private Limited, RFL and RHDFC whereby REL was to divest its entire stake in RFL and by virtue of this transaction, stake of RHDFC, to TCG Advisory Services Private Limited or any of its affiliates (Acquirer). However, RBI has rejected the proposal by TCG Advisory to acquire RFL and has asked RFL to submit a revised plan for its revival. ICRA would continue to monitor the developments and hence the ratings continue to be on watch till there is more clarity on

the revised plans of the group to address the current challenges being faced by the group and RHDFC. At the same time, longer than expected delay in resolution of these issues would exert downward pressure on the ratings.

## Key rating drivers and their description

### Credit strengths

**Favourable growth potential, given the focus on affordable housing** – Home loans accounted for the majority (76%) of RHDFC's portfolio mix as on March 31, 2020. While the inherent risks associated with the affordable housing segment are relatively high, given the target borrower profile (self-employed, low income), current challenging operating environment, credit underwriting being largely based on assessed income, etc., ICRA notes that loan book is granular in nature and secured, thus expected loss in case of default is expected to be low. Also, the growth opportunity over the long term remains good given that mortgage penetration in India is currently low.

### Credit challenges

**Stretched liquidity profile; timely support from ultimate parent critical for maintaining credit profile** - RHDFC has availed moratorium on its debt repayments as per the RBI circular dated 27th March 2020 and 23rd May 2020. However, post August 2020, the current liquidity available with RHDFC and expected inflow on the loan book (which are likely to be impacted due to the current challenges in the operating environment), would not be sufficient to meet the debt obligations in the subsequent months and the company would have to rely on support from its ultimate holding company, REL to make timely payment for its debt obligations. ICRA has taken note of REL's stated commitment to provide financial support to RHDFC for timely payment of its debt in FY2021 by extending short term loan facility. REL currently has liquidity from stake sale in its health insurance entity. If timely support from REL is not available to RHDFC, it would be significant negative for the credit profile of RHDFC leading to steep downgrade in the ratings of RHDFC.

**Curtailed business operations following reduced financial flexibility** - Stretched financial flexibility and liquidity profile of REL and RFL has impacted RHDFC's ability to raise incremental funds, leading to curtailment of its business operations. Limited disbursements along with high foreclosures lead to decline in overall portfolio base, with loan book reducing from Rs 725 crore to Rs 596 crore in FY2020. In June 2019, REL had announced that it had entered into a binding term sheet with TCG Advisory Services Private Limited, RFL and RHDFC whereby REL was to divest its entire stake in RFL and by virtue of this transaction, stake of RHDFC, to TCG Advisory Services Private Limited or any of its affiliates (Acquirer). However, RBI rejected the proposal by TCG Advisory to acquire RFL in March 2020 and has asked RFL to submit a revised plan for its revival.

**Deteriorating asset quality:** Declining portfolio base along with increased delinquencies have led to steep rise in headline asset quality ratios with gross NPA ratio increasing from 3.2% as on March 31, 2019 to 6.8%, as on March 31, 2020. ICRA notes that company's retail loan portfolio's asset quality remained modest with GNPA of 3.0%, as on December 31, 2019. Given the underlying borrower profile which would have got impacted by the current challenges in the operating environment and company's inability to grow the business volumes, the asset quality indicators for the company are likely to remain volatile.

**Moderation in profitability:** RHDFC's profitability metrics deteriorated with Return on average assets of 0.7% in FY2020 (vs. 1.1% in FY2019) due to lower NIMs and higher tax outflows. Operating expenses though moderated, continued to remain high at 4.0% of average assets while credit costs also increased to 0.9% of average assets in

FY2020. Overall, considering RHDFC's muted business volumes, higher provision on account of Pandemic impact (COVID-19) and the current challenging operating environment, the profitability is expected to remain subdued in the near term.

### Liquidity position: Stretched

The company, on a standalone basis, is having sufficient cash & liquid investments to repay its debt obligations for the month of August 2020. Post August 2020, company will have to rely on support from its ultimate holding company, REL to repay its debt obligations.

Against Rs 61 crore of inflows for the months of August to December 2020 (includes Rs 34 cr of cash & bank balances, as on July 31, 2020 and Rs 27 cr of expected inflows from loan portfolio between August to December 2020), RHDFC has Rs 100 crore of debt obligations due over the same period. Thus, company is dependent on support from its ultimate holding company, REL to make timely payment for its debt obligations.

### Rating sensitivities

**Positive triggers** – Improvement in the financial and liquidity profile of Religare Group, and hence improved capital flow to RHDFC to support its business operations could lead to improvement in ratings for the company

**Negative triggers** – Delay in liquidity support from REL would significantly impact the credit profile of RHDFC and could lead to steep downgrade in ratings, Also, significant deterioration in company's asset quality from current levels and profitability indicators may lead to downgrade of the rating.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Housing Finance Companies</a> <a href="#">Impact of Parent/Group support on credit rating</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

### About the company

RHDFC was incorporated in June 1993 as Maharishi Housing Development Finance Corporation Limited. Religare Enterprises Limited (REL) acquired an 87.5% stake in RHDFC 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. RHDFC reported a net profit of Rs. 5 crore in FY2020 on an asset base of Rs. 649 crore compared to a net profit of Rs. 10 crore in FY2019 on an asset base of Rs. 819 crore.

### Key financial indicators (audited)

	FY2018	FY2019	FY2020
Total Income	147	130	102
PAT	11	10	5
Net worth	187	197	202
Total portfolio	884	725	596
RoA (Return on average assets)	1.1%	1.1%	0.7%
RoE (Return on average equity)	5.8%	5.2%	2.7%
Gearing	3.9	3.0	2.1
Gross NPA%	3.7%	3.2%	6.8%
Net NPA %	2.7%	2.1%	3.7%
Net NPA/ Net worth	13.0%	7.8%	11.0%
% CRAR	36.1%	43.5%	57.0%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Rating	FY2021	FY2020		FY2019	FY2018			
				August 18, 2020	April 8, 2020	Jul 19, 2019	May 17, 2019	Oct 4, 2018	Jan 18, 2018	Dec 5, 2017	Sep 11, 2017	Jul 15, 2017
Short-term Debt Programme	Short Term	100	-	[ICRA]A4@	[ICRA]A4@	[ICRA]A4@	[ICRA]A4@	[ICRA] A3 @	[ICRA] A3 @	[ICRA] A1&	[ICRA] A+&	[ICRA] A1
Bank Limits	Long Term/ Short Term	1,200	419.5	[ICRA]BB/ [ICRA]A4@	[ICRA]BB/ [ICRA]A4@	[ICRA]BB/ [ICRA]A4@	[ICRA]BB/ [ICRA]A4@	[ICRA] BBB- @ / [ICRA] A3 @	[ICRA] BBB @ / [ICRA] A3@	[ICRA]A&/ [ICRA] A1	[ICRA]A+&/ [ICRA] A1	[ICRA] A+&/ [ICRA] A1

\* \* Principal Outstanding as on 31-Jul-2020 includes interest capitalized on account of moratorium granted by the banks to the Company as per RBI Circular dated 27th March 2020 and 23rd May 2020

### 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 [click here](http://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	Short term debt programme	NA	NA	7-365 days	100	[ICRA]A4 @
NA	Long term/ Short term bank lines	NA	NA	NA	1,200	[ICRA]BB @/A4 @

Source: RHDFC

## Analyst Contacts

Karthik Srinivasan  
+91-22-6114 3444  
[karthiks@icraindia.com](mailto:karthiks@icraindia.com)

Manushree Saggar  
+91-124-4545316  
[manushrees@icraindia.com](mailto:manushrees@icraindia.com)

Neha Kadiyan  
+91-124-4545321  
[Neha.kadiyan@icraindia.com](mailto:Neha.kadiyan@icraindia.com)

Deep Inder Singh  
91-124-4545830  
[Deep.singh@icraindia.comz](mailto:Deep.singh@icraindia.comz)

## Relationship Contact

L. Shivakumar  
+91-22- 61143406  
[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)

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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.

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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

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