

## Religare Housing Development Finance Corporation Limited

	Amount	Rating Action
Long-Term NCD programme	Rs. 100 crore	[ICRA]AA- (Stable)/Reaffirmed
Subordinated Debt programme	Rs. 150 crore	ICRA]AA- (Stable)/Reaffirmed
Long-Term Bank Limits	Rs. 1,000 crore	[ICRA]AA- (Stable)/Reaffirmed
Short-Term Debt programme	Rs. 200 crore	[ICRA]A1+/Reaffirmed
Short-Term Bank Limits	Rs. 200 crore	[ICRA]A1+/Reaffirmed

ICRA has reaffirmed the long-term ratings of [ICRA]AA- (pronounced ICRA double A minus) assigned earlier to the Rs. 100 crore long-term NCD programme, Rs. 150 crore subordinate debt programme and Rs. 1,000 crore long-term bank lines of Religare Housing Development Finance Corporation Limited (RHDFC)<sup>†</sup>. The outlook on the long-term ratings is “Stable”. ICRA also has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 200 crore short-term debt programme and Rs. 200 crore short-term bank limits of RHDFC.

The ratings reaffirmation factors in RHDFC’s parentage in the form of Religare Finvest Limited (RFL; rated [ICRA]AA-(stable)/[ICRA]A1+), which holds 87.5% stake in RHDFC with the balance being held by erstwhile promoters of RHDFC. The ratings continue to take into account the strategic significance of RHDFC’s operations to the group, given the integral nature of the home loan business to the group’s range of financial offerings. RHDFC receives management and infrastructure support from the parent. Any change in the company’s parentage or in the group support could warrant a rating change.

The ratings also factor in the company’s demonstrated ability to increase its business volumes through geographical expansion (disbursements grew by CAGR of 109% over last two years); its adequate profitability (RoA of 2.6%, ROE of 11.4% for FY2016); and its comfortable capitalisation levels for the current scale of operations (CRAR of 32.4% and gearing of 4.3x, as on September 30, 2016). In ICRA’s opinion, the company is adequately capitalised to meet its growth targets over the next two years without any fresh equity infusion. Similar to most other housing finance companies, RHDFC is largely reliant on bank funding, which accounted for 92% of its total borrowings as on September 30, 2016.

The ratings remain constrained by RHDFC’s limited vintage of a large share of its portfolio and its exposure to the more vulnerable affordable housing segment. The ratings are also constrained by the company’s exposure to the relatively higher ticket builder loan book (constituting 19% of its portfolio as on September 30, 2016). ICRA also notes that, with the recent demonetisation, the debt servicing ability of self-employed borrowers (constituting 46% of RHDFC’s total portfolio, as on September 30, 2016) has been adversely impacted and could lead to a weakening of the company’s asset quality. The reduction in property prices and further tightening of liquidity in the real estate market may also have an impact on recoveries going forward.

Over the past two years, RHDFC has realigned its portfolio towards the affordable housing segment, which accounted for 65% of its loan book as on September 30, 2016 (as compared with 52% as on March 31, 2015). While this segment offers good growth potential, the inherent risks are higher. The credit profiles of low income borrowers are volatile on account of the lack of stability in income and the limited cushion available to them to meet unforeseen expenses. Further, the recent demonetization could impact disbursements with RHDFC exercising greater caution while lending based on assessed income.

RHDFC’s profitability moderated with RoA reducing from 3.9% in FY2015 to 2.6% in FY2016, due to lower margins and higher operating expenses. Profitability ratios are likely to moderate further in the medium term, owing to increased operating expenses (4.1% for H1FY2017) as the company increases its geographical footprint. ICRA takes note of the deterioration in the company’s asset quality indicators with gross NPAs increasing from 0.9%, as on March 31, 2016 to 2.2% as on September 30, 2016 (1.9% as on March 31, 2015). The increase is largely on account of slippage in one large ticket builder loan, which the company expects to resolve during H2FY2017. The company’s moderate loan-to-value ratios are likely to support recoveries and minimise loss given default. Nevertheless, given its target borrower segment and their vulnerability to income

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA’s website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.



shocks, ICRA expects the company's delinquency levels to remain volatile. The company's ability to strengthen its systems and processes in line with its growth plans to control fresh slippages would be critical from a rating perspective. Overall, the ability of the company to profitably grow the portfolio while maintaining asset quality would be key rating sensitivities.

### **Company Profile**

RHDFC was incorporated in June 1993 as Maharishi Housing Development Finance Corporation Limited. Religare Enterprises Limited (REL) acquired 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 cost sharing of infrastructure and employees.

The company had a total loan book of Rs. 991 crore as on September 30, 2016 largely comprising home loans (65% of the book), builder funding (19%), LAP (15%) and onward lending (1%), as on September 31, 2016).

### **Recent Results**

For FY2016, RHDFC reported a net profit of Rs. 18.69 crore over an asset base of Rs. 922 crore as compared with a net profit of Rs. 14.95 crore over an asset base of Rs. 514 crore for FY2015. The company reported a gearing of 4.1 times as on March 31, 2016.

For H1FY2017, RHDFC reported a net profit of Rs. 4.09 crore over an asset base of Rs. 1,042 crore. RHDFC reported a capital adequacy of 32%, gross NPAs of 2.2% and net NPAs of 1.7% as on September 30, 2016 (gross NPA% of 0.9% as on March 31, 2016).

### **About Religare Finvest Limited**

Religare Finvest Limited (RFL) was originally incorporated as Skylark Securities Private Limited in 1995. The company was converted into a public limited company by the name Fortis Finvest Limited in 2004. In March 2006, the company changed its name to Religare Finvest Limited.

RFL is a subsidiary of Religare Enterprises Limited (with over 99.99% holding), and is promoted by the erstwhile promoters of Ranbaxy Laboratories Limited, Mr. Malvinder Singh and Mr. Shivinder Singh.

RFL had a total managed portfolio outstanding of Rs.18,814 crore as on March 31, 2016 (Rs. 14,523 crore as on March 31, 2015), comprising SME secured term loans (76% of portfolio as on March 31, 2016); loans against securities (6%); corporate loans (9%); SME unsecured working capital loans (8%) and commercial asset financing. In FY2016, RFL reported a net profit of Rs. 295 crore over an asset base of Rs. 21,049 crore as compared with a net profit of Rs. 257 crore on an asset base of Rs. 17,130 crore for FY2015. The company reported a capital adequacy of 16.7% and a gearing of 6.1 times as on March 31, 2016.

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