Repco Home Finance Limited

March 01, 2019

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
Non-convertible Debenture	500.00	00.00	[ICRA]AA- (Stable); Withdrawn^
Total	**2,800.00**	**2,300.00**	

**Instrument details are provided in Annexure-1*

^ICRA has withdrawn the long-term rating of [ICRA]AA-(Stable) for RHFL's non-convertible debenture (NCD) programmes aggregating Rs. 500.00 crore, at the request of the company, as there is no amount outstanding against these instruments

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, its experienced senior management team and the good growth potential in the affordable housing finance segment. The ratings also take into consideration the company's adequate profitability indicators and comfortable capitalisation profile (gearing of 6.1x and tier I capital of 24.2% as on December 31, 2018), which would support the envisaged growth of 12-15% per annum over the near term. Liquidity remains comfortable, supported by unavailed funding lines from commercial banks and National Housing Bank (NHB).

ICRA takes note of RHFL's subdued asset quality indicators as gross NPAs increased to 2.9% as on March 31, 2018 (3.9% as on December 31, 2018) vis-á-vis 2.6% as on March 31, 2017 (3.7% as on December 31, 2017). The ratings also factor in the company's regionally concentrated portfolio and limited diversity in its funding profile. Going forward, RHFL's ability to profitably scale up operations while improving the asset quality indicators and maintaining adequate liquidity would be crucial from a rating perspective.

Outlook: Stable

ICRA believes RHFL will continue to benefit from its established franchise in South India and its comfortable capitalisation profile, which is expected to support envisaged growth. The outlook may be revised to Positive if RHFL is able to grow its portfolio while improving the asset quality and maintaining an adequate liquidity profile. The outlook may be revised to Negative if the asset quality or profitability indicators deteriorate or if liquidity weakens.

Key rating drivers

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 the non-salaried borrower segments. The company operates through 143 branches and 24 satellite centres spread across 11 states and 1 Union Territory (UT), with Tamil Nadu (TN) accounting for 58% of the total portfolio, as on December 31, 2018. The senior management team, headed by the Managing Director, Mr. Yashpal Gupta, comprises members with adequate experience in their respective functional domains. Mr. Yashpal Gupta was previously the Chief Operating Officer of RHFL and has over two decades of experience in banking and financial services.

Comfortable capitalisation profile – RHFL has a comfortable capitalisation profile with a capital adequacy ratio of 24.2% as on December 31, 2018 (23.7% as on September 30, 2018). The company's gearing improved to 6.2 times as on December 31, 2018 from 6.9 times as on December 31, 2017 as the portfolio grew by a moderate 8% in 9M FY2019 (10% in FY2018). ICRA notes the impact of the transition to Ind AS on the net worth as excess provisions, to the extent of Rs. 130 crore, were moved to the net worth. Gearing, excluding the above adjustment, was estimated at 6.7 times as of December 2018. ICRA expects the company's internal generation to adequately support the envisaged portfolio growth of 12-15% per annum during FY2019-FY2020, without having an adverse impact on its capital structure.

Adequate profitability indicators – The company's profitability remained stable with PAT/AMA of 2.2% in FY2018 (2.2% in FY2017), supported by improved operating efficiencies, while net interest margins remained in the range of 4.4-4.9%. ICRA notes that the company's credit cost increased slightly to 0.8% in FY2018 from 0.6% in FY2017 because of weakening in the asset quality. RHFL reported PAT/AMA of 2.3% (as per Ind AS) in 9M FY2019, supported by lower provision/write-off cost of 0.3% (0.8% for FY2018) as the incremental provisioning requirement under the new accounting policy was estimated to be lower. Going forward, it would be crucial for the company to contain its delinquencies and improve operating efficiencies as the cost of funds increase.

Credit challenges

Subdued asset quality – RHFL's gross NPAs increased to 2.6% in March 2017 and further to 2.9% in March 2018 from 1.3% in March 2016, largely because of increased slippages in the non-housing loan (NHL) segment. The GNPA stood at 3.9% in December 2018 (3.7% in December 2017). The NPAs in the NHL segment increased to 6.8% in December 31, 2018 from 5.9% in December 31, 2017 while NPAs in the housing loan segment remained high at 3.2% during this period. The company has established two asset recovery centres, one in Chennai and the other in Bengaluru, which focus exclusively on recoveries from NPA accounts. RHFL has also repossessed the properties of NPA accounts amounting to about Rs. 45 crore as of December 2018. ICRA notes that the cash flows of RHFL's borrowers in the self-employed segment (55% of the total portfolio as on December 31, 2018) are vulnerable to adverse economic cycles. The company expects to continue with the existing borrower mix going forward as well, as yields from the self-employed segment are higher. Thus, it would be crucial to maintain adequate control on loan originations and undertake effective recoveries from overdue accounts to keep the asset quality under control as the business expands.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states of TN (58% of the portfolio as on December 31, 2018), Karnataka (14%), Andhra Pradesh (7%), and Telangana (5%). During the last few years, RHFL has expanded its network to other states including Maharashtra, Gujarat, Odisha, Madhya Pradesh and West Bengal. Consequently, the share of the southern states has reduced to 86% as on December 31, 2018 from 91% of the loan book as on March 31, 2015. Notwithstanding the initiatives to expand geographically, RHFL is likely to continue to have a regionally concentrated presence over the medium term.

Liquidity position

RHFL's funding continues to be largely from banks, which accounted for 75% of the total borrowings as on December 31, 2018 (54% as on December 31, 2017), followed by NCDs (10%), Repco Bank (8%) and NHB (7%). Going forward, funding diversification will be crucial for maintaining a comfortable liquidity profile as the business expands.

As of February 2019, RHFL had unavailed funding lines totalling about Rs. 1,250 crore from banks and NHB. Moreover, it has funding proposals of Rs. 2,000 crore with different banks, which are in various stages of approval/sanction.

During January-December 2019, the total debt repayment (excluding the repayment of working capital facilities, a large portion of which is from Repco Bank and is expected to be rolled over) is ~Rs. 1,400 crore while scheduled advance maturities (excluding prepayments) are about Rs. 550-600 crore. The monthly prepayments, which used to be about Rs. 90-100 crore in H1 FY2019, moderated to Rs. 70-75 crore in Q3 FY2019. ICRA expects RHFL's liquidity to remain adequate considering the expected inflows (including prepayments) and the unavailed funding lines.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Housing Finance Companies
Parent/Group Support	NA
Consolidation/Standalone	The rating is 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 holds a 37.1% stake (as on December 31, 2018) 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. It has a network of 143 branches and 24 satellite centres across 11 states and 1 UT, as on December 31, 2018.

For FY2018, RHFL reported a net profit of Rs. 206.12 crore on a total asset base of Rs. 9,974.7 crore compared with a net profit of Rs. 182.3 crore on a total asset base of Rs. 9,043 crore in FY2017.

For 9M FY2019, the company reported a net profit of Rs. 183.1 crore on a loan portfolio of Rs. 10,667 crore. It reported gross NPAs of 3.9% as on December 31, 2018.

Key financial indicators (audited)

	FY2017	FY2018
Net Interest Income (Rs. crore)	392.3	452.2
Profit before Tax (Rs. crore)	280.2	314.3
Profit after Tax (Rs. crore)	182.3	206.1
Gross Advances (Rs. crore)		
Total Assets (Rs. crore)	9,043.3	9,974.7
Total Debt/TNW (times)	6.7	6.2
% Tier 1	21.3%	23.0%
% CRAR	21.3%	23.0%
Gearing	6.7	6.1
% Net Profit/Average Managed Assets	2.2%	2.2%
% Return on Net Worth	17.4%	16.7%
% Gross NPA	2.6%	2.9%
% Net NPA	1.4%	1.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 January 2018	Date & Rating in FY2017 November 2017	Date & Rating in FY2016 October 2015
1	Commercial Paper Programme	Short Term	800.00	800.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debentures	Long Term	500.00	0.00	**[ICRA]AA- (Stable); withdrawn**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Long-term Bank Facilities	Long Term	1,500.00	1,500.00	**[ICRA]AA- (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	NA	800.00	[ICRA]A1+
NA	Term Loan 1	Nov-2017	NA	Dec-2024	17.14	[ICRA]AA- (Stable)
NA	Term Loan 2	Sep-2017	NA	Sep-2025	123.06	[ICRA]AA- (Stable)
NA	Term Loan 3	Nov-2017	NA	Mar-2025	249.9	[ICRA]AA- (Stable)
NA	Term Loan 4	Mar-2017	NA	Mar-2027	158.61	[ICRA]AA- (Stable)
NA	Term Loan 5	Nov-2017	NA	Dec-2027	449.96	[ICRA]AA- (Stable)
NA	Term Loan 6	Jun-2018	NA	Aug-2023	449.92	[ICRA]AA- (Stable)
NA	Proposed limits	-	NA	-	51.41	[ICRA]AA- (Stable)

Source: RHFL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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About ICRA Limited:

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