

November 13, 2017

Repro Home Finance Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore ¹)	Rating Action
Commercial paper	800.00 (enhanced from 250.00)	[ICRA]A1+; assigned/outstanding
Non-convertible debentures	500.00	[ICRA]AA-(Stable); outstanding
Long-term bank facilities	1,500.00	[ICRA]AA-(Stable); outstanding
Total	2800.00	

*Instrument details are provided in the Annexure-1

Rating action

ICRA has assigned an [ICRA]A1+ (pronounced ICRA A one plus)² rating to the Rs. 800.00 crore (enhanced from Rs. 250.00 crore) commercial paper programme of Repco Home Finance Limited (RHFL).

ICRA has [ICRA]AA- ratings outstanding on the company's Rs. 500.00 crore non-convertible debenture (NCD) programme and the Rs. 1,500.00 crore long term bank facilities. The outlook on the long term ratings is Stable.

Rationale

The ratings factor in RHFL's track record in housing finance, its established franchise in South India especially in tier II and tier III cities and its experienced senior management team. The rating also considers the company's comfortable capitalisation profile (gearing of 6.5x and tier I capital of 21.4% as on June 30, 2017) and healthy profitability indicators.

ICRA nevertheless notes that the company's disbursements declined by 8% in FY2017 (as against a 31% growth in FY2016) because of the subdued demand in Tamil Nadu, while its portfolio growth moderated to 16% in FY2017 from 28% in FY2016. Disbursements declined by 17%, on a yoy basis during Q1FY2018. The rating also takes note of the sharp deterioration in RHFL's asset quality with its gross NPAs increasing to 4.0% as on June 30, 2017 from 2.2 % as on June 30, 2016 because of slippages in the higher ticket loans in both housing loans (HL) and non-housing loan (NHL) segments. The ratings also factor in the company's regionally concentrated portfolio in the South, the lack of diversity in its earnings (monoline mortgage lending book), and the moderate credit profile of its borrowers (60% of the borrowers are self-employed). The ratings also takes cognisance of the initiatives taken by RHFL to diversify its funding profile; however, ICRA notes that bank funding continues to account for a significant share in the overall borrowings. Going forward, the company's ability to improve its asset quality would be critical from a rating perspective.

¹ Rs. 1 crore = Rs. 10 million = Rs. 100 Lakh

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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 serves both the salaried and non-salaried segments. The company operates through its 126 branches and 31 satellite centres spreads across 11 states and 1 union territory, with Tamil Nadu (TN) accounting for 48% of the total branches, as on June 30, 2017. The company is gradually expanding its area of operations to new geographies. The senior management team headed by the managing director, Mr. R.Varadarajan, is adequately experienced in their respective functional domains. Mr.Varadarajan was previously the managing director of Repco Bank and has over three decades of experience in retail lending.
- **Comfortable capitalisation profile** - RHFL has a comfortable capitalisation profile with a capital adequacy ratio of 21.4% as on June 30, 2017. The company's gearing improved to 6.5 times as on June 30, 2017 from 6.9 as on March 31, 2016 as the portfolio growth moderated during FY2017 and Q1FY2018. ICRA expects the company's internal generation to adequately support the envisaged portfolio growth of 18-20% per annum over the next two years, without adversely impacting its capital structure.
- **Healthy profitability indicators, notwithstanding some moderation in Q1FY2018** – The company's profitability remained stable with PAT/ATA of 2.2% in FY2017 (2.2% in FY2016) supported by improved operating efficiencies and a reduction in credit costs, while NIMs remained range bound. ICRA notes that the company's credit cost moderated as its provision cover declined to 47% in FY2017 from 64% in FY2016, while its gross NPAs increased from 1.3 % as on March 31, 2016 to about 2.6% as on March 31, 2017. ICRA takes note of the moderation in RHFL's net profitability in Q1FY2018 to 2.0% (annualised) because of the compression in business spreads. Going forward, it would be crucial for the company to maintain an adequate business spread and to keep its credit costs under control while improving its provision cover.

Credit weaknesses

- **Deterioration in asset quality** – RHFL's asset quality weakened with its gross NPAs increasing to 4.0% as on June 30, 2017 from 2.6% as on March 31, 2017 and 1.3% as on March 31, 2016, because of increased slippages in the large ticket loans. Gross NPAs in the HL segment increased from 1.2% as on March 31, 2016 to 3.4% as on June 30, 2017, while gross NPAs in the NHL segment increased from 2.0% as on March 31, 2016 to 6.4% as on June 30, 2017. Further, with the moderation in its provision coverage, the company's solvency level (net NPAs/net worth) deteriorated to 19.6% as on June 30, 2017 from 3.8% as on March 31, 2016. ICRA notes that the company is focusing incrementally on lower ticket loans and strengthening its loan appraisal process. Going forward, it would be critical for RHFL to undertake effective recoveries and contain incremental slippages.
- **Exposure to relatively risky borrower segment** – Cash flows of RHFL's borrowers in the self-employed segment (60% of the total portfolio as on June 30, 2017) are vulnerable to adverse economic cycles. The company expects to continue with the existing borrower mix going forward as well, as the yields from this segment are higher than from the salaried segment, where the competition is more intensive. Therefore, it is crucial for the company to demonstrate good asset quality performance in this segment.
- **High regional concentration** - The company's loan book remains concentrated in the southern states of TN (62% of portfolio as on June 30, 2017) Karnataka (12%), Andhra Pradesh (7%), and Telangana (4%). Over the last two years, RHFL has expanded its network in other states including Maharashtra, Gujarat, Orissa, Madhya Pradesh and West Bengal and the share of southern region has reduced from 91% of the loan book as on March 31, 2015 to 89% as on March 31, 2017. Notwithstanding the initiatives to expand geographically, RHFL is likely to continue to have a regionally concentrated presence over the medium term.

- Concentrated funding profile** - RHFL's funding continues to be largely in the form of bank term loans, which accounted for 60% of the total borrowings as on June 30, 2017 (63% as on June 30, 2016), followed by NCDs and CPs (20%) and from National Housing Bank (NHB, 14%). ICRA takes note of the increase in the share of funding through NCDs and CPs from 3% in March 2015 to current levels. Going forward, ICRA expects the diversification in RHFL's funding profile to improve further, with lower dependence on bank borrowings. RHFL has funding relationships with a large number of banks and a majority of its bank borrowings are of a longer tenure (about 7-10 years). The company also has funding lines of about Rs. 500 crore from Repco Bank, which supports its overall liquidity profile.

Analytical approach: For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[ICRA's Credit Rating Methodology for Housing Finance Companies](#)

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 currently holds a 37.1% stake (as on June 30, 2017) 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. RHFL had a network of 126 branches and 31 satellite centres across 11 states and 1 union territory as on June 30, 2017.

For FY2017, RHFL reported a net profit of Rs. 182.3 crore on a total asset base of Rs. 9,043 crore as compared with a net profit of Rs. 150.1 crore on a total asset base of Rs. 7763 crore in FY2016. The company's gross and net NPAs stood at 2.6% and 1.4% respectively as on March 31, 2017.

For Q1FY2018, the company reported a net profit of Rs. 45.2 crore on a loan portfolio of Rs. 9,000 crore. The company reported gross NPAs of 4.0% and net NPAs of 2.6% as on June 30, 2017.

Key financial ratios:

	FY2016	FY2017	Q1FY2017	Q1FY2018
Total income	881	1046	247	266
Profit before tax	230	280	59	69
Profit after tax	150	182	39	45
Total managed portfolio	7,691	8,940	7,959	9,000
Total managed assets	7,763	9,043	8,044	9,109
% Tier 1	20.7%	21.3%	20.0%	21.4%
% CAR	20.7%	21.3%	20.0%	21.4%
Gearing (times)	6.9	6.7	6.9	6.5
% Return on managed assets	2.2%	2.2%	2.0%	2.0%
% Return on net worth	17.0%	17.4%	16.2%	15.6%
% Gross NPA	1.3%	2.6%	2.2%	4.0%
% Net NPA	0.5%	1.4%	1.2%	2.6%
% Net NPA/ Net worth	3.8%	10.8%	9.6%	19.6%

Source: RHFL's investor presentation and ICRA research; Rs. in crores

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Nov 2017	FY2017	FY2016	FY2015
					Dec 2016	Oct 2015	Oct 2014
1	Commercial Paper Programme	Short term	800.00 (enhanced from 250.00)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-Convertible Debentures	Long term	500.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Long-term Bank Facilities	Long term	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
Instruments Details**

Instrument	ISIN Details	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount (Rs. crore)	Current Rating and Outlook
Non-Convertible Debentures	INE612J07012	27-Feb-2015	9.55%	27-Feb-2018	100.00	[ICRA]AA-(Stable)
	INE612J07020	22-Jul-2015	9.35%	29-Jun-2018	100.00	[ICRA]AA-(Stable)
Non-Convertible Debentures	INE612J07038	1-Sep-2015	0.00%	28-Aug 2018	100.00	[ICRA]AA-(Stable)
	INE612J07046	7-Sep-2015	0.00%	6-Sep-2018	100.00	[ICRA]AA-(Stable)
Commercial Paper	-	-	-	7-365 days	800.00 (enhanced from 250.00)	[ICRA]A1+
Term Loan	-	-	-	-	1500.00	[ICRA]AA-(Stable)

Source: RHFL

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About ICRA Limited:

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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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