

Repc Home Finance Limited

January 30, 2018

Summary of rated instruments

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	1500.00	1500.00	[ICRA]AA- (Stable); reaffirmed
Non-convertible Debentures	500.00	500.00	[ICRA]AA- (Stable); reaffirmed
Total	2800.00	2800.00	

* Instrument details are provided in the Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus)¹ to the Rs. 1,500.00-crore² fund-based bank loan facilities and the Rs. 500.00-crore non-convertible debentures of Repco Home Finance Limited (RHFL). The outlook on the rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 800.00-crore Commercial Paper programme of RHFL.

Rationale

The ratings factor in RHFL's 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 rating also takes into consideration the company's comfortable capitalisation profile (gearing of 6.5x and tier I capital of 22.1% as on September 30, 2017) and healthy profitability indicators.

ICRA nevertheless notes that the company's loan disbursements declined by 12% in H1 FY2018 (as against the 7% decline in FY2017) because of the subdued demand in Tamil Nadu, while its portfolio growth moderated to 10% during H1 FY2018 as compared to 16% in FY2017. ICRA expects RHFL's disbursements to improve in the near to medium term with the streamlining of the property registration process. The rating also takes note of the RHFL's subdued asset quality indicators as the gross NPA ratio stood at 3.4% as on September 30, 2017 as compared to 2.4% as on September 30, 2016 because of slippages in the higher ticket loans in both the housing loan (HL) and the non-housing loan (NHL) segments. The ratings also factor in the company's regionally concentrated portfolio, limited diversity in its earnings (mono-line mortgage lending book) and 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.

Outlook: Stable

The Stable outlook factors in the company's healthy profitability and comfortable capital profile. The outlook may be revised to Positive as asset quality improves and the company steadily diversifies its geographical presence with growth while maintaining a comfortable capital structure. The outlook may be revised to a Negative in case there is significant deterioration in asset quality or profitability indicators.

¹ For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

² 100 lakh = 1 crore = 10 million

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 129 branches and 31 satellite centres spreads across 11 states and 1 Union Territory, with Tamil Nadu (TN) accounting for 47% of the total branches, as on September 30, 2017. The senior management team headed by the managing director, Mr. R. Varadarajan, is adequately experienced in their respective functional domains as Mr. Varadarajan was previously the MD 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 22.1% as on September 30, 2017. The company's gearing improved to 6.5 times as on September 30, 2017 from 6.9 as on March 31, 2016 as the portfolio growth moderated during FY2017 and H1 FY2018. ICRA expects the company's internal generation to adequately support the envisaged portfolio CAGR of about 20-22% per annum over the period FY2018-FY2020, without adversely impacting its capital structure.
- **Healthy profitability indicators, notwithstanding marginal increase in credit cost** – The company's profitability remains stable as the PAT/ATA stood at 2.2% during FY2017 and H1 FY2018 supported by improved operating efficiencies while the NIMs remained range-bound. ICRA notes that the company's credit cost remained largely range bound (0.6%-0.7%) as the provision coverage declined to 44.2% as on Sep 2017, compared to 47% in FY2017 and 64% in FY2016, while its gross NPAs increased from 1.3% as on March 31, 2016 to about 3.4% as on September 30, 2017. Going forward, it would be crucial for the company to improve its asset quality to keep its credit costs under control and improve its provision coverage.

Credit challenges

- **Subdued asset quality indicators** – RHFL's asset quality remained subdued, notwithstanding the improvement in gross NPA levels to 3.4% as on September 30, 2017 from 4.0% as on June 30, 2017. The company's asset quality was impacted because of slippages in the large ticket loans during FY2017, consequently gross NPAs increased to 2.6% in March 2017 vis a vis 1.3% in March 2016. Gross NPAs in the HL segment increased from 1.2% as on March 31, 2016 to 3.0% as on September 30, 2017, while gross NPAs in the NHL segment increased from 2.0% as on March 31, 2016 to 5.2% as on September 30, 2017. Further, with the moderation in its provision coverage, the company's solvency level (net NPAs/net worth) deteriorated to 14.6% as on September 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 September 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, prudent lending and monitoring policies to support its asset quality performance are crucial.
- **Geographically concentrated operations** - The company's loan book remains concentrated in TN (~62% of total portfolio as on September 30, 2017) followed by 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 with the share of the southern region reducing from 91% of the loan book as on March 31, 2015 to 88% as on September 30, 2017. Notwithstanding the initiatives to expand geographically, RHFL is expected to have a regionally concentrated presence over the medium term.

- **Scope to improve diversification in funding profile** - RHFL's funding continues to be largely in the form of bank term loans, which accounted for 62% of the total borrowings as on September 30, 2017 (63% as on June 30, 2016), followed by NCDs and CPs (25%) and from the National Housing Bank (NHB, 13%). 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 as the portfolio expands. 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 ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking 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 September 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. It has a network of 129 branches and 31 satellite centres across 11 states and 1 Union Territory as on September 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. 7,763 crore in FY2016. The company's gross and net NPAs stood at 2.6% and 1.4% respectively as on March 31, 2017.

For H1 FY2018, the company reported a net profit of Rs. 101 crore on a loan portfolio of Rs. 9,321 crore. The company reported gross NPAs of 3.4% and net NPAs of 1.9% as on September 30, 2017.

Key financial indicators

	FY 2016	FY 2017	H1FY2017	H1FY2018#
Total Income	882	1046	507	547
Profit After Tax	150	182	85	101
Net Worth	955	1,137	1,040	1,223
Total Managed Portfolio	7,691	8,940	8,469	9,321
Total Managed Assets	7,763	9,043	8,551	9,440
% Return on Managed assets^	2.2%	2.2%	2.1%	2.2%
% Return on Equity^	17.0%	17.4%	17.1%	17.1%
Gearing (times)	6.9	6.7	7.0	6.5
% Gross NPA	1.3%	2.6%	2.4%	3.4%
% Net NPA	0.5%	1.4%	1.3%	1.9%
% Net NPA/ Net Worth	3.8%	10.8%	10.6%	14.6%
% CAR	20.7%	21.3%	20.3%	22.1%

- provisional, ^ - annualized

Source: RHFL and ICRA research, amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Jan 2018	Nov 2017	Dec 2016	Oct 2015	Oct 2014
1 Commercial Paper Programme	Short term	800.00	800.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Non-Convertible Debentures	Long term	500.00	500.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[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)	[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
INE612J07012	Non-convertible Debentures	27-Feb-2015	9.55%	27-Feb-2018	100.00	[ICRA]AA- (Stable)
INE612J07020	Non-convertible Debentures	22-Jul-2015	9.35%	29-Jun-2018	100.00	[ICRA]AA- (Stable)
INE612J07038	Non-convertible Debentures	1-Sep-2015	0.00%	28-Aug-2018	100.00	[ICRA]AA- (Stable)
INE612J07046	Non-convertible Debentures	7-Sep-2015	0.00%	6-Sep-2018	100.00	[ICRA]AA- (Stable)
Unallocated	Non-convertible Debentures	NA	NA	-	100.00	[ICRA]AA- (Stable)
-	Commercial Paper	-	NA	7-365 days	800.00	[ICRA]A1+
-	Term Loan 1	17-Nov-2017	NA	11-Dec-2024	20.00	[ICRA]AA- (Stable)
-	Term Loan 2	4-Sep-2017	NA	1-Sep-2025	154.92	[ICRA]AA- (Stable)
-	Term Loan 3	18-Nov-2017	NA	30-Sep-2027	120.00	[ICRA]AA- (Stable)
-	Term Loan 4	27-Mar-2013	NA	22-Apr-2023	67.47	[ICRA]AA- (Stable)
-	Term Loan 5	24-Jun-2014	NA	9-Sep-2024	69.99	[ICRA]AA- (Stable)
-	Term Loan 6	26-Mar-2015	NA	1-Dec-2026	116.65	[ICRA]AA- (Stable)
-	Term Loan 7	30-Sep-2016	NA	30-Sep-2031	80.64	[ICRA]AA- (Stable)
-	Term Loan 8	22-Mar-2017	NA	30-Mar-2027	268.67	[ICRA]AA- (Stable)
-	Term Loan 9	13-Nov-2017	NA	30-Dec-2027	85.00	[ICRA]AA- (Stable)
-	Term Loan 10	27-Jan-2014	NA	27-Jan-2024	65.00	[ICRA]AA- (Stable)
-	Term Loan 11	31-Dec-2014	NA	31-Dec-2023	87.50	[ICRA]AA- (Stable)
-	Term Loan 12	8-Sep-2017	NA	31-Oct-2025	50.00	[ICRA]AA- (Stable)
-	Term Loan 13	29-Jun-2015	NA	31-Jan-2022	34.16	[ICRA]AA- (Stable)
-	Term Loan 14	26-Jul-2017	NA	28-Aug-2024	40.00	[ICRA]AA- (Stable)
-	Term Loan 15	19-Oct-2017	NA	6-May-2027	85.00	[ICRA]AA- (Stable)
-	Term Loan 16	5-Dec-2017	NA	15-Dec-2025	100.00	[ICRA]AA- (Stable)
-	Term Loan 17	5-Dec-2017	NA	31-Dec-2027	40.00	[ICRA]AA- (Stable)
-	Proposed Term Loan	NA	NA	NA	15.00	[ICRA]AA- (Stable)

Source: RHFL

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