January 30, 2023

Repco Home Finance Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan	1,253.04	1,500.00	[ICRA]AA- (Stable); reaffirmed
Long-term unallocated	246.96	-	-
Commercial paper	800.00	800.00	[ICRA]A1+; reaffirmed
Total	**2,300.00**	**2,300.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to take into consideration Repco Home Finance Limited's (RHFL) long track record in the housing finance business and its established franchise in South India, especially in tier II and tier III cities. The ratings also factor in the comfortable capitalisation profile, characterised by a gearing of 4.1x (provisional) and a capital adequacy ratio (provisional) of 34.1% as of September 2022, which is expected to be sufficient to meet the near-term growth requirements. RHFL's net profitability had moderated in FY2022, with PAT/AMA[1] of 1.6% vis-à-vis 2.4% in FY2021, largely impacted by higher credit provisioning costs towards the restructured portfolio. However, the net profitability recovered and stood at 2.2% in H1 FY2023 on account of lower credit provisioning costs compared to FY2022. Going forward, the net profitability is expected to remain stable, as ICRA expects incremental slippages to remain under control.

RHFL's asset quality indicators remain under pressure with the 90+ days past due (dpd) increasing to 5.9% as of September 2022 from 4.9% as of March 2022 on account of slippages from the restructured book[2]. The standard restructured book stood at 4.2% of the portfolio as of September 2022. ICRA expects the overall stressed portfolio (standard restructured + stage 3 assets) to moderate steadily, going forward. RHFL's ability to achieve the same would be crucial from a rating perspective.

The ratings also note the regionally concentrated portfolio with Tamil Nadu accounting for 57.2% of the total portfolio as on September 30, 2022. The ratings are constrained by RHFL's subdued portfolio growth with disbursements declining significantly following the onset of the Covid-19 pandemic. Further, the company continues to face competitive pressure from other larger lenders and its ability to scale up its operations, going forward, would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Established franchise with long track record of operations – RHFL has an established franchise in South India, especially in tier II and tier III cities, and it serves the salaried and self-employed borrower segments. The company operates through 160 branches and 25 satellite centres plus 2 asset recovery branches spread across 12 states and 1 Union Territory (UT), with Tamil Nadu (TN) contributing 57.2% to the total portfolio as of September 30, 2022. RHFL has a diversified twelve-member board consisting of six independent directors. The senior management team comprises members with adequate experience in their respective functional domains.

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[1] *Profit after tax/Average managed advances*

[2] *Slippages from restructured book to 90+ dpd accounted for 1.5% of the portfolio as of September 2022.*

Comfortable capitalisation profile – The capitalisation profile is characterised by a capital adequacy ratio of 34.1% (provisional) as on September 30, 2022 (33.3% as on March 31, 2022). The gearing improved to 4.1x (provisional) as of September 2022 (4.3x as of March 2022) because of the subdued portfolio growth witnessed in the recent past. ICRA expects RHFL's near-term capital profile to remain comfortable, considering its moderate growth estimates.

Adequate profitability, notwithstanding moderation in FY2022 – RHFL's net profitability had moderated in FY2022, with PAT/AMA of 1.6% vis-à-vis 2.4% in FY2021, largely impacted by higher credit provisioning costs towards the restructured portfolio. The net interest margin reduced marginally to 4.5% (provisional) in H1 FY2023 (4.7% in FY2022) on account of the reduction in yields and the stable average cost of funds (6.9% in H1 FY2023 and FY2022). The net profitability, nevertheless, recovered in H1 FY2023 supported by the range-bound operating costs (1.0-1.1% in FY2022 and H1 FY2023) as well as lower credit provisioning costs compared to FY2022. Going forward, it would be crucial for RHFL to undertake effective recoveries and contain incremental slippages to keep the credit cost under control.

Credit challenges

Subdued growth over past few years – RHFL's loan portfolio growth has stagnated over the last three years (Rs. 12,068 crore as of September 2022 vis-à-vis Rs. 11,889 crore as of September 2021) with the company unable to maintain disbursements at the earlier level following the onset of the pandemic. However, disbursements have improved and reached the pre-Covid level in Q2 FY2023 and stood at Rs. 745.5 crore (Rs. 483.9 crore in Q2 FY2022). RHFL is also facing significant prepayments owing to loan takeovers, given the competitive market scenario. Going forward, its ability to retain its customers by providing competitive lending rates and strengthening its sourcing channels would be critical for portfolio growth.

Moderate asset quality; impact of Covid-19-related disruptions remains a monitorable – The company's overall stage 3 increased to 6.5% (as per November 12, 2021 circular of Reserve Bank of India) as of September 2022 from 4.3% as of September 2021 due to the impact of the adoption of regulatory requirements with respect to asset classification, and incremental slippages from the restructured book in H1 FY2023. On a segmental basis, the 90+dpd in the non-housing segment remained high at 8.0% as of September 2022 vis-à-vis 5.4% in the housing segment. Further, the 90+dpd for non-salaried customers was significantly higher at 8.8% vis-à-vis 3.0% for salaried customers, showing the adverse impact of the pandemic on the cash flows of the non-salaried segment. RHFL had a restructured book of 5.6% (standard restructured book of 4.2%) of the total portfolio with provision coverage of 22.7% as of September 2022. Repayments for the restructured accounts started in Q1 FY2023 and the performance of the same would be a key monitorable in the near term.

ICRA also notes the increase in the overall expected credit loss (ECL) provisions (4.2% of the loan portfolio as of September 2022 vis-à-vis 3.2% as of September 2021). However, RHFL has a relatively high share of borrowers in the self-employed segment (51.0% of the portfolio as of September 2022), who are vulnerable to adverse economic cycles. While the presence of a collateral cover (about 84% of the portfolio as of September 2022 had a loan-to-value (LTV) of <70%) on such exposures gives some comfort, the ability to undertake effective recoveries and control incremental slippages would be crucial from a rating perspective.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states – Tamil Nadu (57.2% of the portfolio as on September 30, 2022), Karnataka (12.9%), Andhra Pradesh (5.9%), Telangana (4.9%) and Kerala (2.9%). During the last few years, RHFL has expanded its network to other states including Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, and West Bengal. While this has marginally reduced its exposure to the southern states in the recent past, RHFL is expected to remain a regional player in the medium term.

Environmental and social risks

While financial institutions like RHFL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If RHFL's customers face any disruption in their cash flows because of physical climate adversities, the same could translate into credit risks for the company. However, such risk is not material for RHFL as it benefits from the diversified customer segment. Also, the company ensures that the housing projects are environmentally safe and secure by obtaining expert opinion while taking exposures.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as any material lapses could be detrimental to their reputation and invite regulatory censure. RHFL has not faced such lapses over the years, which highlights its sensitivity to such risks. Customer preferences are increasingly shifting towards digital banking, a phenomenon that provides the opportunity to reduce operating costs. To minimise the risks arising from the same, RHFL may be required to make necessary investments to enhance its digital interface with its customers.

Liquidity position: Adequate

RHFL had on-book liquidity of Rs. 310.3 crore and sanctioned but unutilised bank lines of over Rs. 1,077 crore as on October 31, 2022 against total debt obligations (including interest) of ~Rs. 1091 crore during November 2022 to April 2023. ICRA expects RHFL's liquidity to remain adequate, considering the improvement in its collection efficiency and its access to undrawn credit lines. The company's funding continues to be largely from banks, which accounted 72% of the total borrowings as of September 2022, followed by National Housing Bank (NHB) and Repco Bank at 17% and 11%, respectively. Going forward, the ability to secure funding at competitive rates would be crucial as the business expands.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if the company is able to scale up its operations profitably and bring down the 90+dpd to less than 2% on a sustained basis.

Negative factors – Pressure on the ratings could arise in case of a sustained weakening in the asset quality profile (90+dpd increasing beyond 5%), which would adversely impact the earnings profile. A deterioration in the liquidity profile could also negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

RHFL was incorporated in May 2000 as a subsidiary of Repco Bank, with its corporate office in Chennai. As on September 30, 2022, Repco Bank held a 37.1% stake in RHFL and the balance is held by other institutional (domestic and overseas) and retail investors. RHFL extends housing loans and mortgage loans to salaried and self-employed individuals. As on September 30, 2022, it had a network of 160 branches, 25 satellite centres and 2 asset recovery branches across 12 states and 1 UT.

In FY2022, RHFL reported a net profit of Rs. 191.5 crore on a total asset base of Rs. 11,997.4 crore compared with a net profit of Rs. 287.6 crore on a total asset base of Rs. 12,364.5 crore in FY2021. In H1 FY2023, the company reported a net profit of Rs. 133.2 crore on a total asset base of Rs. 12,101.5 crore.

Key financial indicators (IndAS)

Standalone	FY2021	FY2022	H1 FY2023 (P)
Total income	1,392.2	1,306.6	624.6
Profit after tax	287.6	191.5	133.2
Net worth	2,059.3	2,235.6	2,353.5
Loan book	12,121.5	11,759.0	12,067.7
Total managed assets	12,364.5	11,997.4	12,101.5
Return on managed assets	2.4%	1.6%	2.2%
Return on net worth	15.0%	8.9%	11.6%
Managed gearing (times)	5.0	4.3	4.1
Gross stage 3	3.7%	7.0%	6.5%
Net stage 3	2.2%	4.9%	3.8%
Solvency (Net stage 3/Net worth)	13.1%	27.1%	20.7%
CRAR	30.7%	33.3%	34.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 30, 2023	Jan 31, 2022	Jan 19, 2021	Mar 16, 2020
1	Long-term fund-based term loan	Long term	1,500.00	985.87	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Long-term unallocated	Long term	0.00	0.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Commercial paper	Short term	800.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of 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 2027	249.79	[ICRA]AA- (Stable)
NA	**Term loan 2**	Jun 2018	NA	Aug 2023	3.24	[ICRA]AA- (Stable)
NA	**Term loan 3**	Dec 2019	NA	Dec 2024	20.00	[ICRA]AA- (Stable)
NA	**Term loan 4**	Dec 2021	NA	Dec 2030	444.62	[ICRA]AA- (Stable)
NA	**Term loan 5**	Sep 2021	NA	Mar 2032	268.22	[ICRA]AA- (Stable)
NA	**Long-term term loans – Unallocated**	–	NA	–	514.13	[ICRA]AA- (Stable)

Source: Company

**Not placed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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