January 05, 2024

Repco Home Finance Limited: [ICRA]AA- (Stable) assigned to NCD programme; 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	1,500.00	1,500.00	[ICRA]AA- (Stable); reaffirmed
Commercial paper	800.00	800.00	[ICRA]A1+; reaffirmed
Non-convertible debentures	-	500.00	[ICRA]AA- (Stable); assigned
Total	**2,300.00**	**2,800.00**	

**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 3.7x (provisional) and a capital adequacy ratio (provisional) of 35.8% as of September 2023, which is expected to be sufficient to meet the near-to-medium term growth requirements. Further, the ratings consider RHFL's adequate net profitability, with PAT/AMA[1] improving to 2.3% in FY2023 from 1.5% in FY2022, largely supported by the reduction in credit provisioning costs. The net profitability improved further in H1 FY2024 to 2.8% on account of higher margins and lower credit provisioning costs compared to FY2023. Going forward, the net profitability is expected to remain stable as incremental slippages are likely to remain under control.

RHFL's asset quality improved with the 90+ days past due (dpd) at 4.8% as of September 2023 vis-à-vis 5.9% as of September 2022 on account of recoveries. The standard restructured book stood at 3.0% as of September 2023. ICRA expects the overall stressed portfolio (standard restructured + stage 3 assets) to moderate steadily, going forward. However, RHFL's ability to achieve and sustain the delinquency levels, in line with the pre-Covid-19 pandemic levels, would be crucial from a rating perspective. The ratings also note the regionally concentrated portfolio with Tamil Nadu (TN) accounting for 56.9% of the total portfolio as of September 2023. The ratings are constrained by RHFL's concentrated funding profile, with significant exposure to bank funding. Going forward, the company's ability to diversify its funding profile as it scales up its operations would be a key monitorable.

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 166 branches and 33 satellite centres plus 2 asset recovery branches spread across 12 states and 1 Union Territory (UT), with TN contributing 56.9% to the total portfolio as of September 30, 2023. 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.

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

Comfortable capitalisation profile – The capitalisation profile is characterised by a capital adequacy ratio of 35.8% (provisional) as of September 2023 (34.1% as of September 2022). The gearing declined to 3.7x (provisional) as of September 2023 (3.9x as of March 2023) because of the improved internal accruals and the moderate portfolio growth in the recent past. ICRA notes that the impact of the recent Reserve Bank of India (RBI) circular on higher risk weights for consumer credit extended by non-banking financial companies (NBFCs) and housing finance companies (HFCs) is not expected to be significant for RHFL, given the low share of loan against property in its portfolio. Overall, ICRA expects RHFL's near-term capital profile to remain comfortable, notwithstanding the expected improvement in the growth rate. The company is expected to register a compound annual growth rate (CAGR) of ~15-20 % over the next three fiscals vis-à-vis the CAGR of ~2% in the last three fiscals.

Adequate profitability – RHFL's net profitability increased in FY2023, with PAT/AMA of 2.3% vis-à-vis 1.5% in FY2022, largely supported by lower credit provisioning costs as the asset quality improved. The profitability improved further to 2.8% in H1 FY2024 as the net interest margin improved to 4.9% (provisional) from 4.4% in FY2023 on account of the higher yields along with the increasing share of the higher-yielding home equity segment. Further, the profitability was supported by the improving leverage levels as well as lower credit provisioning costs compared to FY2023. Going forward, the cost of funding could witness an upward trend, in line with the overall interest rate scenario. RHFL's ability to maintain its margins in view of the same is a monitorable. Undertaking effective recoveries and restricting incremental slippages would also be critical for keeping the credit costs under control.

Credit challenges

Moderate asset quality, though on an improving trend – The company's overall stage 3 declined to 4.9% (90+ dpd at 4.8%) as of September 2023 from 6.5% (90+ dpd at 5.9%) as of September 2022. On a segmental basis, the 90+ dpd in the non-housing segment stood high at 5.9% as of September 2023 vis-à-vis 4.5% in the housing segment. Further, the 90+ dpd for non-salaried customers was significantly higher at 7.0% vis-à-vis 2.5% for salaried customers. RHFL had a restructured book of 4.4% (standard restructured book of 3.0%) of the total portfolio with provision coverage of 29.9% as of September 2023; the performance of this book would be a key monitorable in the near term.

ICRA also notes the increase in the stage 3 provision coverage ratio to 57% of the loan portfolio as of September 2023 from 43% as of September 2022. However, RHFL has a relatively high share of borrowers in the self-employed segment (51.0% of the portfolio as of September 2023), who are vulnerable to adverse economic cycles. While the presence of a collateral cover on such exposures gives some comfort, the ability to undertake effective recoveries and control incremental slippages would be crucial from a rating perspective.

Concentrated borrowing profile – RHFL's funding continues to be largely from commercial banks, which accounted for 76% of the total borrowings as of September 2023, followed by National Housing Bank (NHB) and Repco Bank at 13% and 11%, respectively. The company has increased its share of bank borrowings over the last few years, given the longer tenors and better borrowing rates it has received from banks. Nevertheless, as RHFL scales up its loan portfolio, it would be important for it to diversify its funding sources.

Geographically concentrated operations – The company's loan book remains concentrated in the southern states – Tamil Nadu (56.9% of the portfolio as of September 2023), Karnataka (13.0%), Andhra Pradesh (6.0%), Telangana (5.1%) and Kerala (2.6%). 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, the company 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.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for financial institutions as 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 credit, 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. 350.1 crore and sanctioned but unutilised bank lines of over Rs. 333.7 crore as on September 30, 2023 against total debt obligations (including interest) of Rs. 1,392.6 crore during October 2023 to March 2024. ICRA expects RHFL's liquidity to remain adequate, considering the improvement in its collection efficiency and its access to undrawn credit lines.

Rating sensitivities

Positive factors – The sustained scale-up of the operations while maintaining the profitability and keeping the 90+ dpd below 2% on a sustained basis could positively impact the rating.

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, 2023, Repco Bank held a 37.1% stake in RHFL while other institutional (domestic and overseas) and retail investors held the balance. The company extends housing loans and mortgage loans to salaried and self-employed individuals. As on September 30, 2023, it had a network of 166 branches, 33 satellite centres and 2 asset recovery branches across 12 states and 1 UT.

RHFL reported a net profit of Rs. 296.1 crore in FY2023 on a total asset base of Rs. 13,042.4 crore compared with Rs. 191.5 crore and Rs. 12,469.0 crore, respectively, in FY2022. The company reported a net profit of Rs. 187.2 crore in H1 FY2024 on a total asset base of Rs. 13,377.7 crore.

Key financial indicators (IndAS)

Standalone	FY2022	FY2023	H1 FY2024 (P)
Total income	1,306.6	1,299.2	750.4
Profit after tax	191.5	296.1	187.2
Net worth	2,235.6	2,516.2	2,686.4
Loan book	11,759.0	12,449.2	12,921.5
Total managed assets	12,469.0	13,042.4	13,377.7
Return on managed assets	1.5%	2.3%	2.8%
Return on net worth	8.9%	12.5%	14.4%
Managed gearing (times)	4.3	3.9	3.7
Gross stage 3	7.0%	5.8%	4.9%
Net stage 3	4.9%	3.0%	2.2%
Solvency (Net stage 3/Net worth)	27.1%	14.4%	10.1%
CRAR	33.3%	35.8%	35.8%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 05, 2024	Jan 30, 2023	Jan 31, 2022	Jan 19, 2021
1	Long-term fund-based term loan	Long term	1,500.00	1,369.72	[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)
3	Commercial paper	Short term	800.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	NCD	Long term	500.00	0.00	[ICRA]AA- (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple
Commercial paper	Very Simple
Non-convertible debenture	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	224.79	[ICRA]AA- (Stable)
NA	Term loan 2	March 2023	NA	March 2031	468.75	[ICRA]AA- (Stable)
NA	Term loan 3	Dec 2019	NA	Dec 2024	15.00	[ICRA]AA- (Stable)
NA	Term loan 4	Dec 2021	NA	Dec 2030	416.64	[ICRA]AA- (Stable)
NA	Term loan 5	Sep 2021	NA	Mar 2032	244.54	[ICRA]AA- (Stable)
NA	Long-term term loans – Unallocated	_	NA	_	130.28	[ICRA]AA- (Stable)
NA	NCD*	-	-	-	500.00	[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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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