April 30, 2024

Religare Housing Development Finance Corporation Limited: Long-term rating upgraded to [ICRA]BB (Stable); ratings for short term debt programme withdrawn; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term bank lines	400	400	[ICRA]BB (Stable)/ [ICRA]A4; long term rating upgraded from [ICRA]BB- (Stable) and short term reaffirmed
Long-term/Short-term bank lines	800	0	[ICRA]BB (Stable) upgraded from [ICRA]BB- (Stable) and [ICRA]A4 Reaffirmed; ratings withdrawn
Short-term debt programme	100	0	[ICRA]A4; reaffirmed and withdrawn
Total	**1,300**	**400**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the favourable developments at the Religare Group with the completion of a one-time settlement (OTS) by the parent (Religare Finvest Limited; RFL[1]) and the expectation of a subsequent improvement in the Group's overall credit profile. The ratings also factor in Religare Housing Development Finance Corporation Limited's (RHDFCL) adequate capitalisation profile for its current scale of operations, with a net worth of Rs. 213.5 crore and a managed gearing of 0.5 times as on December 31, 2023. In the past, the various challenges faced by the Religare group impacted RHDFCL's financial flexibility and fund flow. Consequently, its new business growth has remained muted. This has led to a declining scale of operations for the company with the loan book falling to Rs. 212.5 crore[2] as on March 31, 2024 and Rs. 239.6 crore as on December 31, 2023 from Rs. 261.8 crore as on March 31, 2023.

ICRA favourably notes that RHDFCL's asset quality indicators have been on an encouraging trajectory in absolute terms with the gross stage 3 (GS3) assets declining to Rs. 9.2 crore as on March 31, 2024 and Rs. 12.0 crore as on December 31, 2023 from Rs. 12.3 crore as on March 31, 2023. This was supported by good collection efficiency (given higher prepayments and foreclosures) and limited fresh slippages. However, in percentage terms, the GS3 stood at 4.3% as on March 31, 2024 vis-à-vis 4.7% as on March 31, 2023. Going forward, RHDFCL's ability to achieve recoveries from the existing delinquent loans and maintain adequate credit underwriting standards for incremental disbursements will be a monitorable.

The ratings also consider the modest profitability indicators with the company reporting a loss in 9M FY2024 due to high operating expenses resulting from shift in business growth strategy to Co-lending model. To cater to the requirements of business growth including Co-lending tie-ups, RHDFCL has been investing on upgrading its technology stack including the loan operating system and loan management systems. RHDFCL is in the affordable housing space, thus growth potential remains good and ICRA expects that the company should be able to grow once funding lines are available. Overall, the company's ability to revive its funding relationships along with meaningful traction on co-lending tie-ups and hence growth of the business volumes would be imperative for improving its credit profile.

[1] RHDFCL is an 87.5%-subsidiary of RFL {rated [ICRA]D (withdrawn)}, which is a wholly-owned subsidiary of REL
[2] Rs. 214.1 crore as per Ind-AS

The Stable outlook reflects ICRA expectation that the company's adequate capitalisation would support the business at the current level.

ICRA has upgraded and withdrawn the long-term rating and reaffirmed and withdrawn the short-term rating assigned to the long-term/short-term bank lines of Rs. 800 crore. It has also reaffirmed and withdrawn the rating assigned to the short-term debt programme of Rs. 100 crore. The ratings were withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings and at the request of the company.

Key rating drivers and their description

Credit strengths

Favourable growth potential, given the focus on affordable housing – RHDFCL is a housing finance company focusing on retail affordable housing finance loans with an average ticket size of about Rs. 11 lakh. Home loans accounted for the majority (~70%) of RHDFCL's AUM, as on December 31, 2023, with loan against property (LAP) and builder loans accounting for the balance (30%). ICRA notes that RHDFCL resumed disbursements from December 2021, though any meaningful scale-up in the business is yet to be seen. While the affordable housing segment has good growth opportunity, the inherent risks associated with this segment are also relatively high, given the target borrower profile (self-employed, low income) with credit underwriting largely based on assessed income, and the competitive operating environment. However, ICRA notes that RHDFCL's loan book is granular in nature and secured; thus, the expected loss in case of default is expected to be low.

Adequate capitalisation – RHDFCL's capitalisation profile is adequate for the current scale of operations with a net worth of Rs. 213.5 crore and a managed gearing of 0.5 times as on December 31, 2023. Going forward, RHDFCL would need fresh funding lines and traction on co-lending tie-ups to grow as per its business plans.

Credit challenges

Moderate scale of operations; portfolio decline impacting reported asset quality indicators – RHDFCL's scale of operations is moderate with the on-balance sheet gross loan book declining to Rs. 212.5 crore[3] as on March 31, 2024 (Rs. 239.6 crore as on December 31, 2023) from Rs. 261.8 crore as on March 31, 2023 (Rs. 724.7 crore as on March 31, 2019) on account of the negligible, albeit improving, disbursements since FY2019. The asset quality indicators improved in FY2023 with GS3 assets of 4.7% as on March 31, 2023 compared to 8.6% as on March 31, 2022 due to the sale of non-performing assets (NPAs) to an asset reconstruction company (ARC) and improved collections. While the GS3 assets weakened marginally to 5.0% as on December 31, 2023 because of the declining loan book, the same is expected to improve to 4.3% as on March 31, 2024. ICRA notes that the increase in the GS3 percentage in 9M FY2024 was on account of the denominator effect due to the declining loan book, while NPAs have been reducing in absolute terms. ICRA notes that RHDFCL has not undertaken restructuring of any loan. Its ability to achieve recoveries from the existing delinquent loans and maintain adequate credit underwriting standards for incremental disbursements will be a key rating monitorable.

Low financial flexibility; ability to raise fresh debt imperative for business growth – RHDFCL's financial flexibility has been impacted by the challenges at the Religare Group level, which curtailed its business operations. The company has not been able to raise any external fresh funding lines since FY2018. In the past, RHDFCL had repaid all its debt obligations on/before time using the inflow from the loan book, liquidity raised through loan sell-downs, and liquidity support from REL. ICRA also notes that the company has entered into co-lending partnerships to grow its business volumes, with meaningful traction on this front expected over the medium term. Going forward, RHDFCL's ability to raise fresh funds, post the completion of the OTS at the RFL level, and restart its lending operations will remain a key monitorable.

[3] *Rs. 214.1 crore as per Ind-AS*

Modest profitability indicators – RHDFCL's net interest margin (NIM) remained stable at 9.5% in 9M FY2024 and FY2023, increasing from 7.5% in FY2022 due to the reduction in the overall borrowings. At the same time, the operating expenses ratio increased to 12.8% in 9M FY2024 from 9.4% in FY2023 (6.8% in FY2022) due to the rundown of the portfolio. Overall, the profitability indicators have weakened with a return on managed assets (RoMA) and a return on net worth (RoNW) of -1.2% and -2.0%, respectively, in 9M FY2024 compared with 0.5% and 1.0%, respectively, in FY2023 (0.8% and 1.9%, respectively, in FY2022). The company's ability to grow its business volumes profitably while keeping its asset quality under control will remain a monitorable, going forward.

Liquidity position: Adequate

As on March 31, 2024, RHDFCL had unencumbered cash and liquid investments of Rs. 7.1 crore along with expected principal inflows from performing advances of Rs. 3.2 crore and interest of Rs. 7.8 crore over the next three months against scheduled external principal debt obligations of Rs. 1.1 crore and interest payments of Rs. 0.02 crore over the next six months. Further, it is dependent on support from its ultimate holding company, REL, to grow its business until the sanction of any external fresh funding lines. RHDFCL has a sanctioned credit line of Rs. 100 crore from REL, which, along with inflows from sell-downs and prepayments, supports its overall liquidity profile. However, expanding its lender base would be crucial, going forward.

Rating sensitivities

Positive factors – A significant improvement in the scale of operations while maintaining the asset quality and generating adequate profitability could lead to a rating upgrade. An improvement in the credit profile of the Religare Group could also be a credit positive.

Negative factors – Further weakening of the liquidity profile or a delay in liquidity support from REL would significantly impact RHDFCL's credit profile and could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

RHDFCL was incorporated in June 1993 as Maharishi Housing Development Finance Corporation Limited. Religare Enterprises Limited (REL) acquired an 87.5% stake in RHDFCL in May 2009, which was later transferred to RFL. The remaining stake (12.5%) is held by Maharishi Housing Development Trust and others. RHDFCL is a housing finance company registered with National Housing Bank (NHB) and it primarily provides housing loans.

RHDFCL reported a profit after tax (PAT) of Rs. 2.1 crore in FY2023 on total managed assets of Rs. 357.7 crore as on March 31, 2023 compared to a PAT of Rs. 4.1 crore in FY2022 on total managed assets of Rs. 443.7 crore as on March 31, 2022. The company reported a net loss of Rs. 3.2 crore in 9M FY2024 on total managed assets of Rs. 338.8 crore as on December 31, 2023. Its net worth stood at Rs. 213.5 crore as on December 31, 2023, based on provisional financials (Rs. 216.8 crore as on March 31, 2023 and Rs. 214.8 crore as on March 31, 2022). Its gross stage 3 and net stage 3 stood at 5.0% and 2.9%, respectively, as on December 31, 2023, compared with 4.7% and 2.7%, respectively, as on March 31, 2023 (8.6% and 3.6%, respectively, as on March 31, 2022).

Key financial indicators

	FY2021	FY2022	FY2023	9M FY2024*
Total income	82.5	61.0	52.0	31.7
PAT	9.1	4.1	2.1	(3.2)
Total managed assets	588.3	443.7	357.7	338.8
Return on managed assets	1.4%	0.8%	0.5%	-1.2%
Reported gearing (times)	1.3	0.7	0.2	0.2
Managed gearing (times)	1.6	0.9	0.5	0.5
Gross stage 3	10.7%	8.6%	4.7%	5.0%
CRAR	68.3%	94.4%	124.6%	117.3%

*Source: RHDFCL, ICRA Research; Amount in Rs. crore; All figures and ratios as per ICRA's calculations; * Based on provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Apr 30, 2024	Aug 08, 2023	Apr 03, 2023	Apr 04, 2022	May 17, 2021
1	Long-term/Short-term bank lines	LT/ST	400	0	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]B+ (Negative)/ [ICRA]A4	[ICRA]BB@/ [ICRA]A4@
2	Long-term/Short-term bank lines	LT/ST	800	0	[ICRA]BB (Stable)/ [ICRA]A4; withdrawn	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]B+ (Negative)/ [ICRA]A4	[ICRA]BB@/ [ICRA]A4@
3	Short-term debt programme	ST	100	0	[ICRA]A4; withdrawn	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4@

Source: ICRA Research

*ST – Short term, LT – Long term; * As on April 30, 2024; @ On Watch with Negative Implications*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term bank lines	Simple
Short-term debt programme	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 (as on April 30, 2024)

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Proposed	**Long-term/Short-term bank lines**	NA	NA	NA	400	[ICRA]BB (Stable)/ [ICRA]A4
Proposed	**Long-term/Short-term bank lines**	NA	NA	NA	800	[ICRA]BB (Stable)/ [ICRA]A4; withdrawn
Yet to be placed	**Short-term debt programme**	NA	NA	7-365 days	100	[ICRA]A4; withdrawn

Source: RHDFCL, ICRA Research

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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