REPCO HOME FINANCE LIMITED.
(Promoted by Repco Bank-Govt. of India Enterprise)
CIN : L65922TN2000PLC044655

RHFL/SE/30/2020-21

September 22, 2020

National Stock Exchange of India Limited,
Exchange Plaza,
Bandra Kurla Complex, Bandra (E)
Mumbai-400 051

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001

Kind Attn: Listing Department

Respected Sir,

Sub: Update - Representation to M/s.CARE Ratings Ltd-Reg.

Further to our letter Ref No. RHFL/SE/29/2020-21 dated September 19, 2020, intimating the revision of rating of Company's Loan facilities and Non-Convertible Debentures to **CARE AA-; Stable** (Double A Minus; Outlook: Stable) from **CARE AA; Negative** (Double A; Outlook: Negative), we hereby inform you that the Company has taken up the matter with M/s.CARE Ratings Ltd to reconsider its decision and the submissions made in this regard vide letter Ref No. RHFL/CARE/CR/2020-21 dated 21 September 2020, a copy of which is enclosed herewith. We undertake to keep the Exchanges posted on developments in this regard.

This is submitted for information and records.

Thanking You,

Yours Faithfully,

Company Secretary

Corporate Office : 3rd Floor, Alexander Square, New No : 2 (Old No. 34 & 35) Sardar Patel Road, Guindy, Chennai - 600 032.
Phone : 044 - 42106650 Fax : 044 - 42106651 E-mail : co@repcohome.com, www.repcohome.com
Registered Office :'REPCO TOWER', No : 33, North Usman Road, T.Nagar, Chennai - 600 017. Phone : 044-28340715 / 4037 / 2845

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RHFL/CARE/CR/2020-21 **21 September 2020**

Mr.P Sudhakar
CARE Ratings Ltd
Unit# O-509/C, Spencer Plaza,
769, Anna Salai
Chennai 600002

Dear Sir,

Sub: Credit rating of bank facilities and debt instruments

This has reference to your letter Ref No. CARE/CRO/RR/2020-21/1066 dated 18 September 2020 (received by us in the early morning of 19 September 2020), communicating the decision of your Rating Committee to review the credit rating of bank facilities and debt instruments of Repco Home Finance Limited (RHFL).

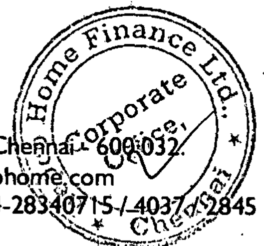
We are grateful to you for giving us an opportunity to offer our comments on the rationale for the rating. We would like to request your Rating Committee to consider our following submissions/clarifications/additional information on the rating rationale before finalisation of the rating decision:

I. Detailed Rationale & Key Rating Drivers

Your letter states that "The revision in the long-term ratings assigned to the bank facilities and debt instruments of Repco Home Finance Limited (RHFL) factors in the moderation in asset quality parameters of the company with increase in Gross NPA from 2.95% as on March 31, 2019 to 4.33% as on March 31, 2020."

Our clarification:

We were aware of increasing GNPAs during the year on account of factors beyond our control, most important being the informal lockdown followed by the national lockdown for



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most part of March 2020. In order to mitigate the risks and provide comfort to lenders we have created the following safety buffers:

1. We have made additional provision of around Rs.40 crore in view of uncertainties caused by Covid-19 and as a result while our GNPA increased by 1.35 percentage points (from 2.95% to 4.33%), our NNPA increased only by 0.65 percentage points (from 1.95% to 2.57%).

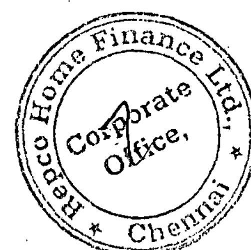
2. Our Capital adequacy ratio and Debt equity ratio net of NPAs (assuming 100% provision on GNPA) has actually improved YoY as given below:

Particulars	**FY2018-19**	**FY2019-20**
Capital adequacy ratio net of NPAs	21.57%	22.28%
Debt equity ratio net of NPAs	7.52	7.50

3. Both our On-Balance sheet liquidity and Off-Balance sheet liquidity has also improved significantly YoY as given below:

Particulars (Rs in crore)	**FY2018-19**	**FY2019-20**
On-Balance sheet liquidity (Cash, FDs in hand)	57.50	324.31
Off-Balance sheet liquidity (undisbursed sanctions)	1007.53	2997.49

4. We would also like to submit that we had repossessed loan assets to the tune of about Rs.50 crore as on 31 March 2020 under SAFAESI Act. The same is permitted to be shown as current assets as per Accounting Standards. Had we chosen this option our GNPA and NNPA would have been lower by about 0.7%



II. With expected fall in real estate prices & slowdown in economic growth due to impact of Covid-19, improvement in asset quality/recovery of bad loans in non-housing segment expected to be delayed

Our submissions:

Real estate prices have fallen across the country but the fall is not worrying enough to affect our recoveries. We would like to submit that in 20 years of our existence, the Company has incurred credit cost of only about Rs.10 Crore (waiver of principal) as against total disbursement of over Rs.20,000 crore. This is significantly lower than the credit loss (outstanding provision) of about Rs.213 crore on the book size of Rs.11,826 crore as on 31 March 2020. This is on account of all our loans being fully collateralised. In order to cushion ourselves from the risk of possible fluctuation in real estate prices, we have started calculating the LTV based on the realisable value of securities as against market value of security for last three years. Further almost 40% of loan book is in the nature of self construction finance where land is generally not financed by us but the plot is mortgaged to us along with the house. However, the land value is not taken into account for calculating the LTV. All these factors have been fully taken into account in developing our Expected Credit Loss (ECL) model (validated by M/s. Ernst & Young). This model correctly predicts that while Probability of Default (PD) in our loan book is relatively higher (because of most of our borrowers belong to the self-employed category), the Loss Given Default (LGD) is generally low because of collateral value. This is also demonstrated in the last 12 years data.

III. Reserve Bank of India (RBI)'s allowing banks, NBFCs and HFCs to offer six-month moratorium to borrowers (till Aug 31, 2020), there has been an impact on collections of the company during the moratorium period which may lead to further weakness in asset quality of the company.

Our submissions:

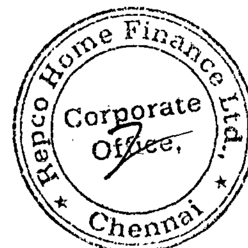
We would like to submit that default in repayment of any loans occur either because of our borrowers' unwillingness to pay and/or because of his/her inability to pay. While the defaults do have an adverse impact on the portfolio quality of the lenders, RBI has correctly

acknowledged that the current default is on account of the inability of the borrowers' to pay due to the unprecedented event and has therefore allowed the lenders to grant moratorium to their customers. We believe that the borrowers, who were not in a position to pay, are more likely to pay off the loan account once their financial conditions improve. This belief of ours, coupled with RBI guidelines and temporary cash flow problems faced by the customers were the main reason behind the moratorium granted by us. In the first moratorium, we covered most of our customers and granted moratorium to about 85% of the customers. As the lockdown was relaxed and we got a better idea of the pandemic, the moratorium was reduced to about 35% in the 2nd phase. However, we created additional buffer by making additional provision of about Rs.40 crore as of 31 March 2020 and about Rs.13 crore as of 30 June 2020. If required, we shall continue to make additional provisions during the remaining part of the financial year. The buffer will safeguard us from the unexpected weakness in asset quality. We are reasonably confident that further weakness (if any) in the portfolio and the asset quality will be well within our control and will not have any major effect on the Company's ability to repay its lenders. This confidence arises out of the improvement in Stage 2 (default between 31-90 days) and Stage 3 (default above 90 days) accounts which constituted 19% of our portfolio as of 31 March 2018, 15% as of 31 March 2019 and 7% as of 31 March 2020.

IV. The ratings are constrained by the regional concentration of loan portfolio and relatively higher exposure to certain riskier borrower segments.

Our submissions:

We would like to submit that in the year 2000, RHFL was set up essentially to do business in Tamilnadu and slowly we expanded to 11 other States. As part of our efforts to diversify regional concentration of our portfolio, we have been gradually expanding to other states. We would like to bring to your notice that our Tamilnadu book share has reduced from 62.9% to 55.9% and South India book share has reduced from 91% to 84% in the last 5 years. Further during the last one year, the share of South India has declined from 85.3% to 84.1%. Thus, there is a clear and visible effort on part of the Company to diversify the portfolio on regional concentration. The share of non-salaried borrowers has also come down from 56.8% as of 31



March 2015 to 51.6% as on 31 March 2020. The non-housing portfolio has also marginally decreased from 19.2% to 18.7% during this period. The outstanding loans above Rs.1 crore have fallen from 8% to 4%. From the above, it is clear that the Company has been making efforts to reduce the exposure to the above segment of borrowers which are considered riskier.

V. Comfortable capitalisation

It is to be noted that the market capitalization of RHFL has witnessed continuous fall in the past three years ended March 31, 2020.

<u>Our submissions:</u>

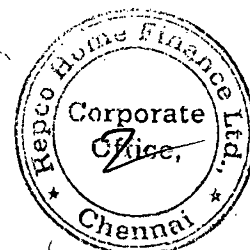
The market capitalisation is a combination of various factors apart from financial position of the Company. We are well aware that share prices of certain companies are deliberately increased or decreased by the traders for financial gains. Several such instances have come to the notice in the past. We assume that the above mentioned point has not been considered by the Rating Committee while reviewing the rating.

VI. Relatively higher exposure to certain riskier borrower segments

As on March 30, 2020, 84% of the outstanding portfolio is of below 70% LTV.

<u>Our submission:</u>

We are of the view that large portion of our portfolio is having below 70% LTV is a sign of strength, particularly in view of the explanations given earlier. We would also like to highlight that as per Regulatory guidelines we are permitted to go upto 90% of LTV for housing loans upto Rs.30 lakhs (75% of our housing loan portfolio of as 31 March 2020)



VII. Moderate resource profile with increased reliance on bank borrowings in the recent past

Our submission:

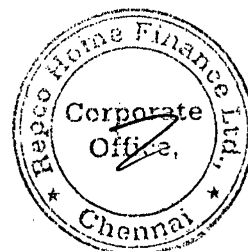
We acknowledge the fact that the bank borrowings have increased from 54% as on 31 March 2018 to 75% as on 31 March 2020. However at the same time the number of banks as our lenders has increased from 19 to 20. These banks include some of the largest and prominent banks in India in both public and private sectors. Even during recent months while we granted moratorium to our customers, we did not avail moratorium from our lenders. In fact we prepaid some of the high cost borrowings from few banks. The National Housing Bank and some of the other banks have shown their willingness to finance RHFL even during these uncertain times at competitive rate of interest. This demonstrates our strong credit standing among the bankers. The main reason for us to not rely too much on other sources of borrowings like NCDs, CPs and FDs etc., is higher cost. In view of the above we would like to submit that while our borrowing portfolio is concentrated among banks, it is well diversified within banks. Further our debt equity ratio and capital adequacy ratio are quite comfortable and give us significant cushion to borrow from other borrowers as and when required.

VIII. Outlook and prospects

The sector continues to stare at asset side challenges which are expected to mount going forward as the moratorium period is over.

Our submission:

We would agree with CARE's broad assessment of the sectorial challenges. However, in our view it would be little unfair to place every Company in the same bracket. As we have already highlighted, RHFL is in a stronger position as compared to most of its peers on all the key parameters. We would like to therefore request the Rating Committee to reconsider its decision to review the rating downwards on account of sectorial challenges.



IX. Impact of Covid-19

RHFL lends primarily towards the housing finance needs of the relatively riskier asset class comprising of low/middle-income borrowers in the informal sector and slowdown on account of Covid-19 is expected to negatively impact credit profile of borrowers in this segment.

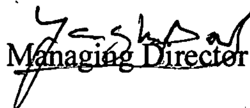
Our submission:

RHFL's business model is to lend loans to lower/middle income borrowers in the sector, which is considered to be credit starved sector. We are able to earn a reasonable spread (more than 3%) and margin (more than 4.4%). As we have already pointed out the credit loss has been maintained at 0.05% of cumulative disbursements in the last 20 years. Our profit during the year has increased by 19% and we have additional cushion by way of high capital adequacy ratio and lower debt equity ratio. On the strength of this cushion we are trying to diversify our asset base both in geographical terms and types of customers. Hence we would request you to reconsider your observations that this is expected to have an impact on the asset quality and profitability going forward.

We humbly request you to place our submissions to the Rating Committee to reconsider and to have a relook at the rating rationale. We are of the view that given our strength and facts presented above, our credit rating deserves to be revised upwards rather than downwards. We hope that the Rating Committee will reconsider its decision.

Thanking you,

Yours faithfully,



Managing Director