Rating Rationale

September 21, 2016 | Mumbai

Mahindra Rural Housing Finance Limited

Rating upgraded to 'CRISIL AA+/Stable'

Total Bank Loan Facilities Rated	**Rs.12.50 Billion**
Long Term Rating	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA-/Stable')**

(Refer to Annexure 1 for Facility-wise details)

Rs.1.5 Billion Commercial Paper Programme	**CRISIL A1+ (Reaffirmed)**

CRISIL has upgraded its rating on long-term debt instruments of Mahindra Rural Housing Finance Limited (MRHFL) to **'CRISIL AA+/Stable'** from 'CRISIL AA-/Stable'. The rating on the commercial paper programme is reaffirmed at 'CRISIL A1+'.

The upgrade in rating primarily reflects increased strategic importance of MRHFL to its majority owner, Mahindra & Mahindra Financial Services Ltd (Mahindra Finance; rated 'CRISIL AA+/FAAA/Stable/CRISIL A1+'). MRHFL's share in total assets and advances of its parent has grown steadily, over the years, and is expected to cross 10% over the medium term. The increase in strategic importance of MRHFL to the parent is also reflected in Mahindra Finance's strategy of focus on rural customers and continuous strategic oversight over MRHFL. This is in addition to regular capital infusion, ongoing management integration and assistance. Mahindra Finance's support to MRHFL is also demonstrated in it furnishing a document highlighting its intention to maintain majority shareholding in MRHFL, continue management control and support MRHFL in having adequate resource raising and Asset Liability Management program to ensure that MRHFL meets its financial obligations in a timely manner. MRHFL's operations would remain significant to Mahindra Finance, given the healthy growth prospects of the rural housing finance segment and MRHFL's ability to enhance overall footprint of Mahindra Finance, in rural and semi-urban areas. Moreover, pressure on asset quality is likely to subside in the near term, given the expected improvement in credit profile of borrowers and good monsoons in key markets.

MRHFL benefits significantly from managerial and operational integration with Mahindra Finance, and access to branch network of the parent entity. CRISIL's ratings also factor in the adequate resource profile and capitalisation. These rating strengths, however, are partially offset by the modest, though growing, scale of operations and weak asset quality.

Resource profile and capitalisation are expected to remain adequate, owing to the association with Mahindra Finance. MRHFL's resource profile benefits from Mahindra Finances' expertise in raising funds from the market. Mahindra Finance provides funding support to MRHFL through inter corporate deposits (ICDs). Besides, MRHFL also have access to refinance facility from National Housing Bank (NHB). This enables MRHFL to raise funds at competitive rates; cost of borrowings, at 9.7% for fiscal 2016, was comparable with peers. Tier-I capital adequacy ratio (CAR) of 18.3%, as on March 31, 2016 (14.3% as on March 31, 2015), reflects adequate capitalisation. Since inception, Mahindra Finance and NHB have together infused Rs 1.36 billion as equity, which also includes Rs 0.4 billion infused in fiscal 2016. Absolute networth and gearing stood at Rs 2.76 billion (Rs 1.73 billion as on March 31, 2015), and 9.7 times (9.9 times), respectively, as on March 31, 2016. Gearing is expected to remain around 10 times on a steady state basis.

Scale of operations, although small, has been improving over past few years. Advances have recorded a compounded annual growth rate (CAGR) of 57% over fiscals 2012 to 2016. The outstanding loan book stood at Rs 32.6 billion as on March 31, 2016, as against Rs 21.0 billion, in the previous year. Disbursements also registered healthy growth of 57% y-o-y to Rs 15.5 billion during fiscal 2016, as against Rs 9.9 billion in the previous year. CRISIL expects growth to sustain over the medium term, aided by plans to increase presence in the semi-urban segment, limited competition in key product segment and expected improvement in the rural economy. Nevertheless, MRHFL will remain a small player in the domestic housing finance market.

Asset quality remains susceptible to seasonality in cash flows of its borrowers, who are primarily engaged in agriculture and related activities, and have relatively weaker credit profiles. Furthermore, the company is present in markets where risks related to documentation of property are significantly high. Hence, asset quality remains weaker than peers and has weakened significantly over past few years, with gross non-performing assets (NPAs) increasing to 7.3% as on March 31, 2016 (5.8% as on March 31, 2015). Deterioration has been primarily led by sub-normal monsoons for the last two years and challenges confronted in few southern markets. With monsoons expected to be above-normal in key operating states and the rural economy likely to recover, asset quality may improve from current levels. However, given the customer profile and fairly unseasoned loan portfolio, collection efficiency and overall asset quality will remain key rating sensitivity factors.

Outlook: Stable

CRISIL believes that MRHFL's strategic importance to Mahindra Finance has increased, in line with growth in scale of operations. Mahindra Finance will maintain its majority equity stake in MRHFL and continue to provide operational, managerial, and financial support. The outlook may be revised to 'Positive' if there is a revision in CRISIL's rating outlook on Mahindra Finance. The outlook may be revised to 'Negative' if there is a revision in CRISIL's rating outlook on Mahindra Finance, or there is significant deterioration in MRHFL's credit risk profile, or in case of significant change in ownership structure of, or decline in support from, Mahindra Finance.

About the Company

MRHFL was established as a wholly-owned subsidiary of Mahindra Finance in April 2007. Being one of the pioneers in the rural housing finance business in India, the company intends to leverage its understanding and experience of rural markets, by providing housing loans to untapped semi-urban and rural segments. In fiscal 2009, NHB acquired 12.5% stake in MRHFL. The loan portfolio stood at Rs 35.6 billion as on June 30, 2016 (Rs 23.6 billion as on June 30, 2015).

MRHFL reported a profit after tax (PAT) of Rs 81 million on a total income of Rs 1, 437 million for the quarter ended June 30, 2016, as against a PAT of Rs 68 million on a total income of Rs 996 million for the corresponding period of the previous year. For fiscal 2016, MRHFL reported PAT of Rs 627 million on a total income of Rs 4,954 million, as against Rs 442 million and Rs 3,284 million, respectively, reported in the previous year.

Annexure 1 - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Billion)	Rating	Facility	Amount (Rs.Billion)	Rating
Long Term Bank Facility	11.00	CRISIL AA+/Stable	Long Term Bank Facility	11000	CRISIL AA-/Stable
Working Capital Demand Loan	1.50	CRISIL AA+/Stable	Working Capital Demand Loan	11.00	CRISIL AA-/Stable
Total	12.50	--	Total	12.50	--

Links to related criteria
Rating Criteria for Finance Companies
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
Tanuja Abhinandan Media Relations **CRISIL Limited** D: +91 22 3342 1818 M: +91 98 192 48980 B: +91 22 3342 3000 tanuja.abhinandan@crisil.com **Jyoti Parmar** Media Relations **CRISIL Limited** D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com	**Krishnan Sitaraman** Senior Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 8070 krishnan.sitaraman@crisil.com **Rajat Bahl** Director - CRISIL Ratings **CRISIL Limited** D:+91 22 3342 8274 rajat.bahl@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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