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Company update and  
earnings revision

## Financials

Target price Rs210

### Earnings revision

%	FY20E	FY21E	FY22E
NII	↓ 0.1	↓ 1.8	↓ 5.7
PPP	↓ 0.2	↓ 2.1	↓ 6.7
PAT	↓ 6.1	↓ 12.7	↓ 18.0

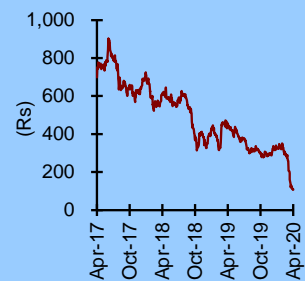
### Target price revision

Rs210 from Rs390

### Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	37.1	37.1	37.1
Institutional investors	51.6	53.0	53.6
MFs and others	25.2	26.1	24.7
Banks & FIs	0.0	0.1	0.1
FII	26.4	26.8	28.8
Others	11.3	9.9	9.3

### Price chart



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INDIA

**ICICI Securities**

## Repro Home Finance

**BUY**

Maintained

Liquidity comfortable; asset quality will be closely monitored **Rs107**

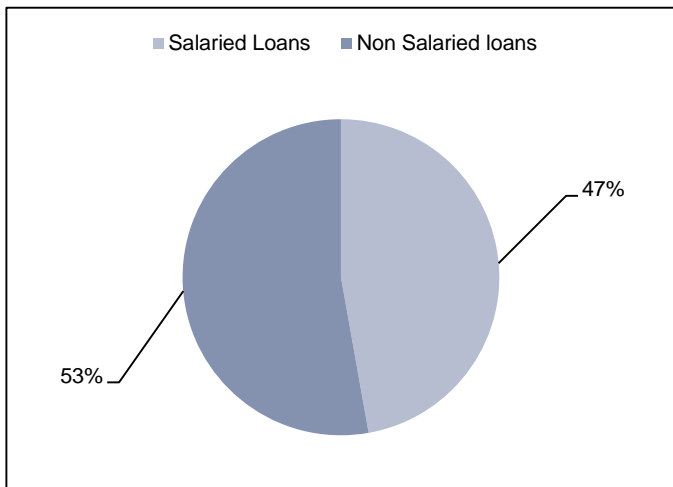
We attended the conference call of Repco Home Finance (Repro) to update investors on the impact of Covid-19 pandemic. Key points: 1) Q4FY20 disbursements could be down ~20% from our estimate of Rs7.9bn because of the complete shutdown in the last 10 days of March; 2) Given that collections and recoveries are mostly back-ended in the last two weeks (which were washed away) of the quarter, we could witness new slippages resulting in elevated GNPA and higher credit costs; 3) liquidity position (including undrawn credit lines) remains strong even with ~95% of customers likely to avail of the repayment moratorium; 4) growth and asset quality outlook for FY21 will be contingent on when the current lockdown in India is lifted. With a target price of Rs210 (0.6x Mar'22 P/BV), we maintain BUY on the stock.

- ▶ **Liquidity position:** Repco has Rs3bn in cash and cash equivalents. It also has undrawn credit lines of Rs40bn (Rs30bn from banks and Rs10bn from NHB). Repco has already discharged liabilities that were due in March and does not plan to avail of moratorium on its term loans from banks (obligation of Rs8bn in principal/interest payments over the next three months). It would instead repay higher-cost liabilities and avail of newer funding lines, which would come in at a lower cost.
- ▶ **AUM growth and disbursements:** Q4FY20 disbursements are expected to be ~20% lower than I-Sec expectation of Rs7.9bn. Given the continuing aggression from banks in Repco's core states, we estimate that balance transfers (BT out) will remain high and we now model an AUM CAGR of ~7% over FY20E-FY22E.
- ▶ **Operating costs:** Repco does not have many cost-reduction levers in its operating structure since most costs are fixed in nature. Of course, in view of the current pandemic, the company will likely not be doing any new recruitment or branch expansions. To that extent, we do not expect any operating cost benefits to accrue keeping cost ratios broadly stable.
- ▶ **Asset quality:** As collections were negligible in the last two weeks of March, Repco will likely report asset quality deterioration in Q4FY20 with higher credit costs to provide for slippages. **Repro, with ~53% of its customers non-salaried, remains susceptible to further deterioration in asset quality, in our view (the non-salaried customer basket contributes ~83% of GNPA). Likewise, its LAP book (~19%) contributes ~30% of the GNPA.** We now model higher credit costs of 0.6%-0.7% (earlier: 0.2% - 0.3%) over FY21E-FY22E.
- ▶ **Valuations and risks:** Current valuations at 0.35x FY21E P/BV appear very attractive, but the muted loan-book growth and the anticipated deterioration in asset quality have led to severe correction in the stock price. **We still expect the company to deliver RoE of 14%-16% over FY21E-FY22E.** Our target multiple of 0.6x (earlier: 1.1x) Mar'22E P/BV leads to a target price of Rs210 (earlier: Rs390). Maintain **BUY**. We continue to identify Repco's past mistakes in the LAP segment and concentration/competition driven growth recovery delays as key risks.

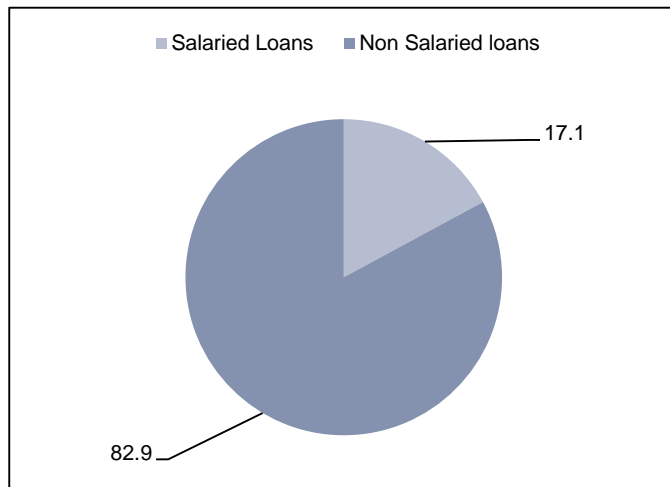
Market Cap	Rs6.7bn/US\$88mn	Year to March	FY19	FY20E	FY21E	FY22E
Reuters/Bloomberg	RHFL.BO/REPCO IN	NII (Rs mn)	4,487	4,885	5,376	5,704
Shares Outstanding (mn)	62.6	Net Income (Rs mn)	2,344	2,872	2,848	2,879
52-week Range (Rs)	459/106	EPS (Rs)	37.4	45.9	45.5	46.0
Free Float (%)	62.9	% Chg YoY	16.6	22.6	(0.8)	1.1
FII (%)	28.8	P/E (x)	2.9	2.4	2.4	2.3
Daily Volume (US\$/'000)	565	P/BV (x)	0.4	0.4	0.3	0.3
Absolute Return 3m (%)	(67.3)	Net NPA (%)	1.9	4.2	4.8	4.6
Absolute Return 12m (%)	(76.2)	Dividend Yield (%)	2.3	2.3	2.3	2.5
Sensex Return 3m (%)	(26.5)	RoA (%)	2.3	2.5	2.3	2.2
Sensex Return 12m (%)	(21.8)	RoE (%)	16.5	17.9	15.8	13.9

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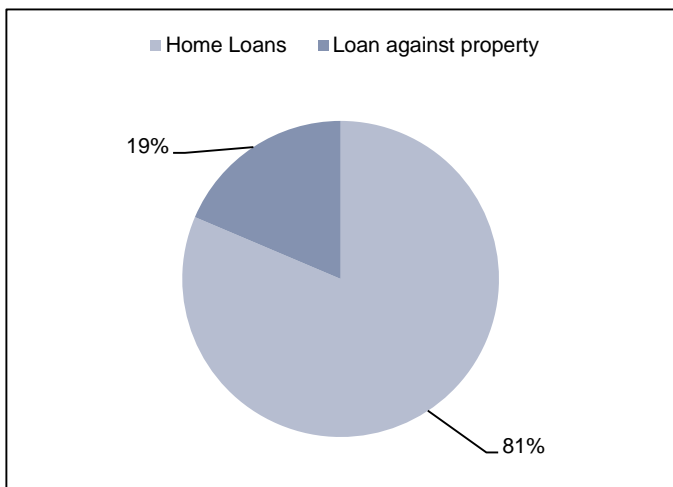
**Chart 1: Non-salaried customers account for ~53% of the AUM mix...**



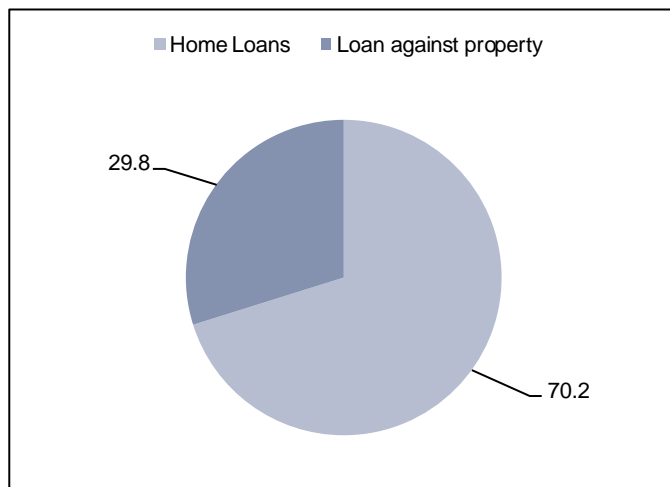
**Chart 2: ...but contribute ~83% to GNPA**



**Chart 3: LAP forms ~19% of the AUM mix...**



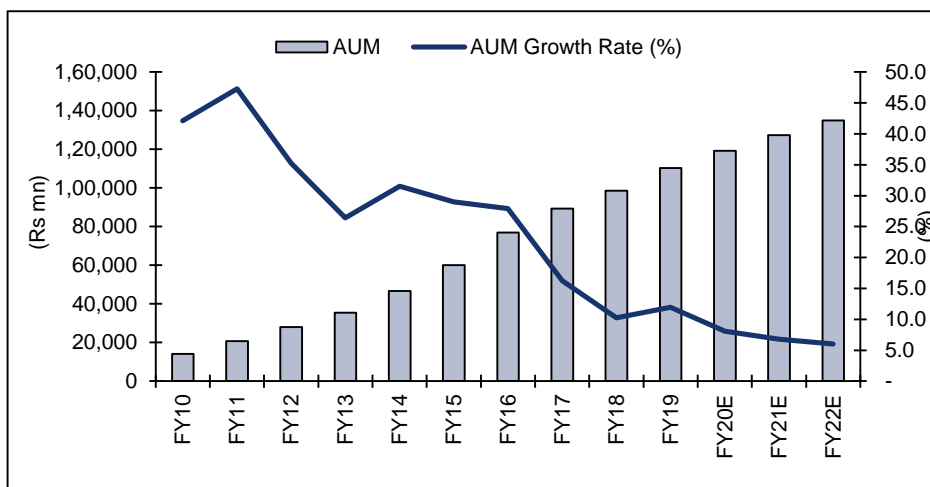
**Chart 4: ...but contributes ~30% to GNPA**



Source: Company data, I-Sec research

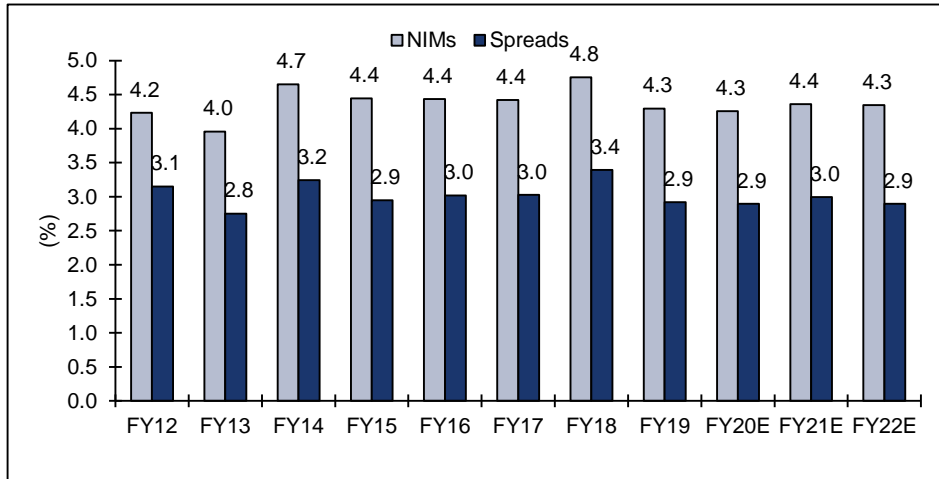
Source: Company data, I-Sec research

**Chart 5: Expect AUM CAGR of ~7% over FY20E-FY22E**



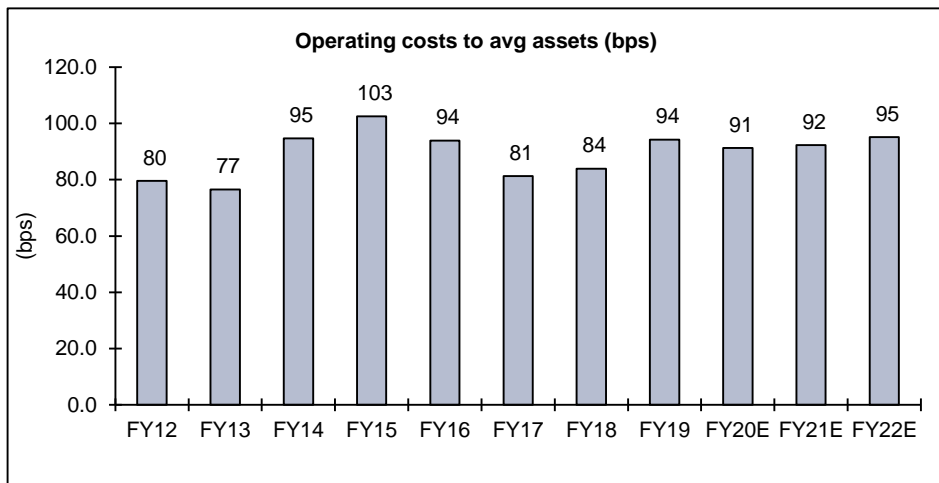
Source: Company data, I-Sec research

**Chart 6: NIM and spreads will remain broadly stable**



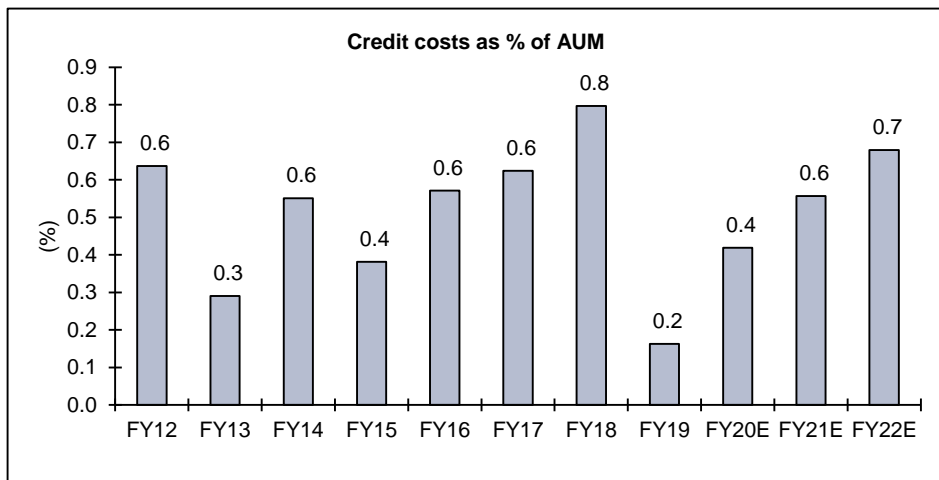
Source: Company data, I-Sec research

**Chart 7: With no real levers for cost reduction, we expect cost ratios to remain stable with an upward bias**



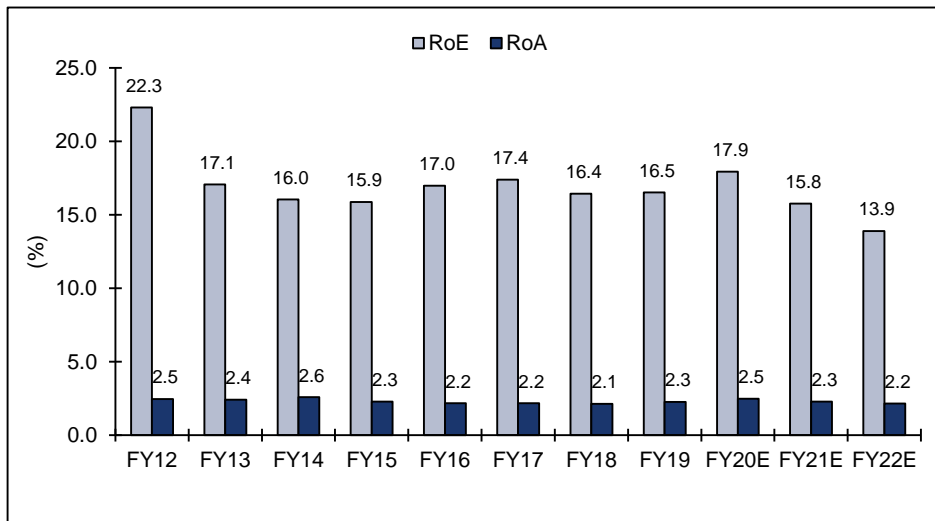
Source: Company data, I-Sec research

**Chart 8: Asset quality will likely deteriorate with higher credit costs over FY21E-FY22E**



Source: Company data, I-Sec research

**Chart 9: RoE will moderate and will be in the range of 14%-16% over FY21-FY22**

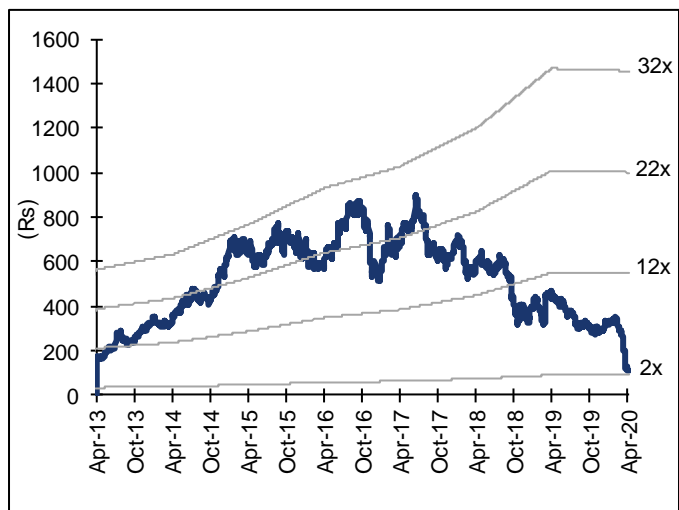


Source: Company data, I-Sec research

## Valuations appear attractive

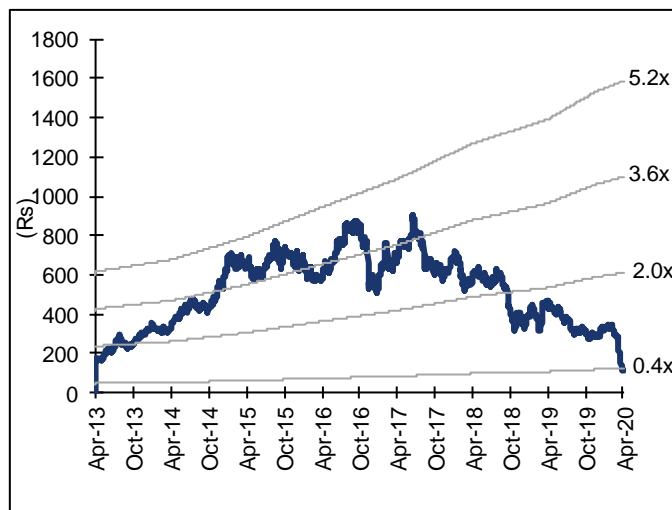
If we look at the trading range of the company in its listed history, we note that current multiples are at the lowest end of its trading band. But, given the growth impediments due to concentration in Tamil Nadu, higher balance transfers given competition from PSBs and likely asset quality deterioration in FY21, any rerating of the stock will come only when there is more confidence in asset quality. **To this end, it will be important to monitor the trends in repayments when the moratorium gets over in May and customer repayments start in June.**

Chart 10: P/E band chart



Source: Company data, I-Sec research

Chart 11: P/B band chart



Source: Company data, I-Sec research

## Annexure 1: Financials

**Table 4: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E	FY22E
Interest earned	10,960	11,688	13,181	13,947	14,604
Interest expended	6,490	7,201	8,295	8,572	8,900
<b>Net interest income</b>	<b>4,470</b>	<b>4,487</b>	<b>4,885</b>	<b>5,376</b>	<b>5,704</b>
<b>Other income</b>	<b>140</b>	<b>264</b>	<b>292</b>	<b>257</b>	<b>285</b>
Staff cost	494	586	651	683	722
Depreciation	31	50	133	161	188
Other operating expenses	264	349	263	295	339
<b>Total operating cost</b>	<b>789</b>	<b>985</b>	<b>1,047</b>	<b>1,138</b>	<b>1,249</b>
<b>Pre-provisioning op profit</b>	<b>3,821</b>	<b>3,766</b>	<b>4,130</b>	<b>4,494</b>	<b>4,741</b>
Provisions & contingencies	749	170	481	686	892
<b>Profit before tax</b>	<b>3,072</b>	<b>3,596</b>	<b>3,649</b>	<b>3,807</b>	<b>3,849</b>
Income taxes	1,062	1,252	777	959	970
<b>PAT</b>	<b>2,010</b>	<b>2,344</b>	<b>2,872</b>	<b>2,848</b>	<b>2,879</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E	FY22E
Capital	626	626	626	626	626
Reserves & surplus	12,459	14,648	16,108	18,768	21,445
<b>Networth</b>	<b>13,085</b>	<b>15,274</b>	<b>16,733</b>	<b>19,394</b>	<b>22,070</b>
<b>Total borrowings</b>	<b>81,370</b>	<b>92,790</b>	<b>1,00,479</b>	<b>1,05,698</b>	<b>1,10,399</b>
	280	520			
Provisions	128	120	149	181	220
Other Liabilities	2,447	866	3,078	3,464	3,899
<b>Total liabilities &amp; stockholders' equity</b>	<b>97,310</b>	<b>1,09,570</b>	<b>1,20,440</b>	<b>1,28,737</b>	<b>1,36,589</b>
<b>Loans &amp; advances</b>	<b>96,575</b>	<b>1,08,522</b>	<b>1,19,259</b>	<b>1,27,363</b>	<b>1,34,997</b>
Investments	156	220	231	250	271
Fixed Assets	135	155	365	411	463
Current & other assets (Including Cash & Bank)	444	673	1030	1159	1305
<b>Total Assets</b>	<b>97,310</b>	<b>1,09,570</b>	<b>1,20,886</b>	<b>1,29,183</b>	<b>1,37,035</b>

Source: Company data, I-Sec research

**Table 6: Key ratios**

(Year ending March 31)

	FY18	FY19	FY20E	FY21E	FY22E
<b>Growth (%):</b>					
AUM	10.3	12.0	8.1	6.8	6.0
Disbursements	9.5	10.2	(13.5)	(3.8)	9.8
Loan book (on balance sheet)	10.3	12.0	8.1	6.8	6.0
Net Interest Income (NII)	21.5	0.4	8.9	10.0	6.1
Non-interest income	(55.8)	88.8	10.5	(12.2)	11.2
Pre provisioning operating profits (PPoP)	15.1	(1.4)	9.7	8.8	5.5
PAT	10.4	16.6	22.5	(0.8)	1.1
EPS	10.4	16.6	22.6	(0.8)	1.1
<b>Yields, interest costs and spreads (%)</b>					
NIM	4.8	4.3	4.3	4.4	4.3
Yield on loan assets (on-book)	11.7	11.2	11.5	11.3	11.1
Average cost of funds	8.3	8.3	8.6	8.3	8.2
Interest Spread on loan assets (on-book)	3.4	2.9	2.9	3.0	2.9
<b>Operating efficiencies</b>					
Non-interest income as % of net income	3.0	5.6	5.6	4.6	4.8
Cost to income ratio (%)	17.1	20.7	20.2	20.2	20.8
Op.costs/avg AUM (%)	0.8	0.94	0.91	0.92	0.95
No of employees (including off rolls)	785	929	970	1,006	1,056
Average annual salary (Rs mn)	0.6	0.6	0.7	0.7	0.7
Annual inflation in average salary(%)	(2.2)	0.2	6.4	1.1	0.7
Salaries as % of non-interest costs (%)	62.6	59.5	62.1	60.0	57.8
NII /employee (Rs mn)	5.7	4.8	5.0	5.3	5.4
AUM/employee(Rs mn)	125.6	118.8	122.9	126.6	127.8
<b>Capital Structure</b>					
Debt-Equity ratio	6.2	6.1	6.0	5.5	5.0
Leverage (x)	7.4	7.2	7.2	6.7	6.2
CAR (%)	23.0	23.9	23.4	25.7	27.9
Tier 1 CAR (%)	23.0	23.9	23.4	25.7	27.9
Tier 2 CAR (%)	-	-	-	-	-
<b>Asset quality and provisioning</b>					
GNPA (% of AUM)	2.9	3.0	5.6	6.4	6.3
NNPA (% of AUM)	1.3	1.9	4.2	4.8	4.6
GNPA (Rs mn)	2,830	3,260	6,679	8,151	8,505
NNPA (Rs mn)	1,255	2,082	5,009	6,113	6,210
Coverage ratio (%)	55.7	36.1	25.0	25.0	27.0
Credit costs as % of average AUM	0.8	0.2	0.4	0.6	0.7
<b>Return ratios &amp; capital management</b>					
RoAA (%)	2.1	2.3	2.5	2.3	2.2
RoAE (%)	16.4	16.5	17.9	15.8	13.9
Payout ratio (%)	6.8	6.7	5.4	5.5	5.9
<b>Valuation Ratios</b>					
EPS (Rs)	32.1	37.4	45.9	45.5	46.0
Price to Earnings	3.4	2.9	2.4	2.4	2.3
BVPS (Rs)	209.0	244.0	267.5	310.0	352.8
Price to Book	0.5	0.4	0.4	0.3	0.3
Dividend yield (%)	2.0	2.3	2.3	2.3	2.5

Source: Company data, I-Sec research

**Table 7: Du Pont analysis**

	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Interest earned	11.7	11.3	11.4	11.2	11.0
Interest expended	6.9	7.0	7.2	6.9	6.7
<b>Gross Interest Spread</b>	<b>4.8</b>	<b>4.3</b>	<b>4.2</b>	<b>4.3</b>	<b>4.3</b>
Credit cost	0.8	0.2	0.4	0.5	0.7
<b>Net Interest Spread</b>	<b>4.0</b>	<b>4.2</b>	<b>3.8</b>	<b>3.8</b>	<b>3.6</b>
Operating cost	0.8	1.0	0.9	0.9	0.9
<b>Lending spread</b>	<b>3.1</b>	<b>3.2</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>
Non- interest income	0.1	0.3	0.3	0.2	0.2
<b>Final spread</b>	<b>3.3</b>	<b>3.5</b>	<b>3.2</b>	<b>3.0</b>	<b>2.9</b>
<i>Tax rate (%)</i>	<i>34.6</i>	<i>34.8</i>	<i>21.3</i>	<i>25.2</i>	<i>25.2</i>
<b>ROAAUM</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.3</b>	<b>2.2</b>
Effective leverage (AAUM/ AE)	7.7	7.3	7.2	6.9	6.4
<b>RoAE</b>	<b>16.4</b>	<b>16.5</b>	<b>17.9</b>	<b>15.8</b>	<b>13.9</b>

Source: Company data, I-Sec research



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