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Q1FY21 results review
and earnings revision

Financials

Target price Rs248

Earnings revision

%	FY21E	FY22E
NII	↓ 2.6	↓ 1.9
PPP	↓ 2.3	↓ 1.1
PAT	↓ 1.2	↓ 3.1

Target price revision

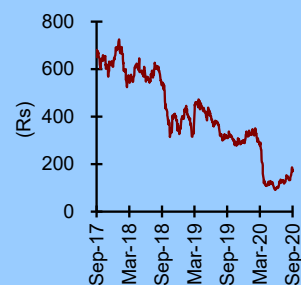
Rs248 from Rs170

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	37.1	37.1	37.1
Institutional investors	53.6	53.1	45.3
MFs and others	24.7	24.2	18.5
Banks & FIs	0.1	0.1	0.1
FIs	28.8	28.8	26.7
Others	9.3	9.8	17.6

Source: BSE

Price chart



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Repc Home Finance

BUY
Maintain

Intrinsic franchise value, low LGD to outweigh
interim risks

Rs182

We upgraded Repco Home Finance (Repc) to a value-BUY in July when the stock was available <0.4x P/BV (stock has since delivered >35% return). Stable Q1FY21 operating profit further vindicates our positive stance though we would not get too excited with the earnings beat. It was primarily due to lower credit cost – merely 12bps further contingency build-up (when we were estimating 120bps credit cost for FY21E – not revising it either). Not much movement in collection efficiency (65-70%) from June to August keeps us guarded on credit cost. However, comfort comes from the data that >93% customers are making partial or full payment (only 8.7% of loans not registering any collection since March). Higher credit cost in the coming quarters will be offset by funding cost benefit, which is yet to be reflected. Given secured lending (60% LTV would cap LGD) and it being a potential acquisition candidate, Repco can command 0.7x P/BV FY22E multiple leading to a revised target price of Rs248 (earlier: Rs170).

- ▶ **Coverage increased to 1.8% of AUMs; much more needed:** Repco has increased LGD and PD, thereby taking coverage to 41% (from 35.8% QoQ) at Rs1.6bn. Besides, it has created Rs150mn contingency buffer (>Rs400mn in Q4FY20). Cumulative provisions now stand at 1.8% of AUM. Lower headline GNPA at 4.0% (down 30bps QoQ) was more due to technically zero slippages. However, we remain wary about ~52% of its customers being non-salaried and ~35% of portfolio being under Morat 2.0. While management is confident of reaching 90% collection efficiency by September-end, there might be some technical delays/deferment requiring higher provisioning. We are building-in credit cost of 1.2%/0.9% for FY21E/FY22E (though LGD will be low on secured collateral and 60% LTV).
- ▶ **Funding cost benefit not reflected; NIMs to normalise:** NIM fell 30bps QoQ during Q1FY21 as 50bps QoQ contraction in yields was not offset by lower cost of funds. Though NHB borrowings (at 5.5%) rose 36% QoQ (10.5% of total borrowings), it was towards the fag end of June; resetting on bank's borrowing too was not fully reflected. The benefits of incremental borrowing cost being lower (by >150bps) will flow in coming quarters. This will stabilise NIMs back to 4.3% (from the reported 4%).
- ▶ **Loanbook growth to be modest:** Disbursements are currently at 50-60% of the earlier run rate and would normalise post Q3FY21. This will be partially offset by a higher repayment run rate post lifting of Morat 2.0. Also, competitive intensity is leading to elevated balance transfer (outward) at 10-12% (vs 9% in FY20). This will cap loan growth in the interim at mid-single digit.
- ▶ **Intrinsic value might drive further rerating:** Growth will be modest and the consolidation phase would continue for some time. However, capital adequacy at 26%, cumulative provisions at 1.8% of AUM and collateralised lending would sufficiently absorb asset quality volatility. Intrinsic value of the franchise and the company being a potential acquisition candidate can drive further rerating. Maintain **BUY**.

Market Cap	Rs11.4bn/US\$155mn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	RHFL.BO/REPCO IN	NII (Rs mn)	4,487	4,924	5,185	5,452
Shares Outstanding (mn)	62.6	Net Income (Rs mn)	2,344	2,804	2,175	2,550
52-week Range (Rs)	351/92	EPS (Rs)	37.4	44.8	34.8	40.8
Free Float (%)	62.9	% Chg YoY	16.6	19.7	(22.4)	17.2
FII (%)	26.7	P/E (x)	4.9	4.1	5.2	4.5
Daily Volume (US\$/'000)	750	P/BV (x)	0.7	0.6	0.6	0.5
Absolute Return 3m (%)	81.8	Net NPA (%)	1.9	2.8	4.0	3.0
Absolute Return 12m (%)	(42.3)	Dividend Yield (%)	1.4	1.4	1.1	1.2
Sensex Return 3m (%)	12.7	RoA (%)	2.3	2.4	1.8	1.9
Sensex Return 12m (%)	5.0	RoE (%)	16.5	16.9	11.5	12.1

Table 1: Quarterly profit and loss*(Rs mn)*

	Q1FY20	Q4FY20	Q1FY21	YoY%	QoQ%
Income from operations	3,231	3,378	3,358	3.9	(0.6)
Interest expenses	2,015	2,062	2,104	4.4	2.0
Net interest income	1,216	1,317	1,254	3.1	(4.7)
Other income	54	83	61	14.0	(26.3)
Net Operating income	1,270	1,399	1,315	3.6	(6.0)
Employee cost	147	196	169	14.9	(13.8)
Depreciation / Amortization	30	33	35	17.3	8.3
Other expenditure	58	79	32	(46.1)	(60.0)
Operating expenses	235	307	235	0.1	(23.3)
Pre-provisioning profit (PPoP)	1,035	1,093	1,080	4.4	(1.2)
Provisions and loan losses	75	403	221	196.8	(45.1)
PBT	960	690	859	(10.6)	24.5
Tax	336	213	219	(35.0)	2.9
<i>Tax Rate</i>	35.0	30.8	25.5	(27.4)	(17.4)
Extraordinary items					
PAT	624	477	640	2.6	34.2

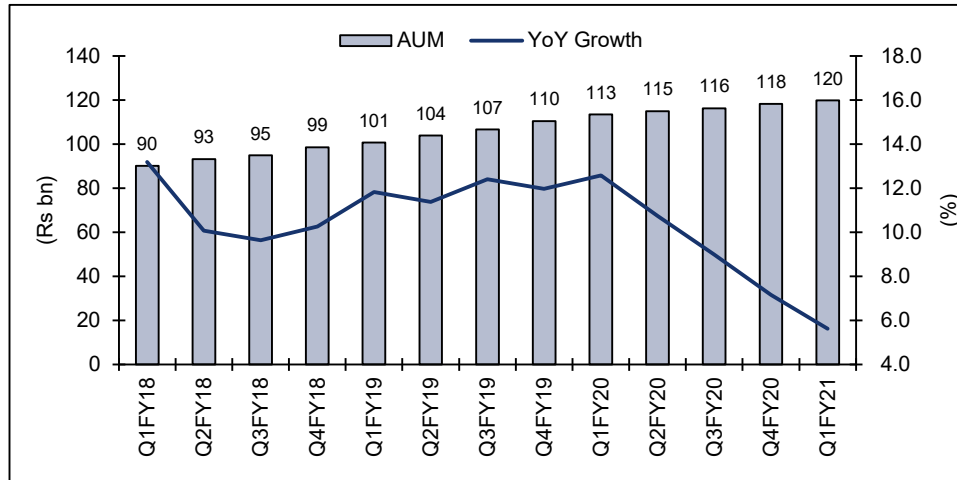
Source: Company data, I-Sec research

Table 2: Key performance indicators*(Rs mn)*

	Q1FY20	Q4FY20	Q1FY21	YoY%	QoQ%
Disbursement	6,674	6,020	1,816	(72.8)	(69.8)
Total AUM	1,13,421	1,18,261	1,19,795	5.6	1.3
-Individual Home Loan (%)	81.5	81.3	81.3	-21bps	0bps
-LAP (%)	18.5	18.7	18.7	20bps	0bps
NIM (Cumulative)	4.5	4.8	4.4	-12bps	-36bps
CAR (%) - Entire Tier 1	24.5	25.9	26.2	170bps	30bps
GNPA (%)	4.2	4.3	4.0	-20bps	-30bps
NNPA (%)	2.9	2.8	2.4	-58bps	-41bps
Provisioning Coverage	30.5	35.8	41.2	1069bps	546bps

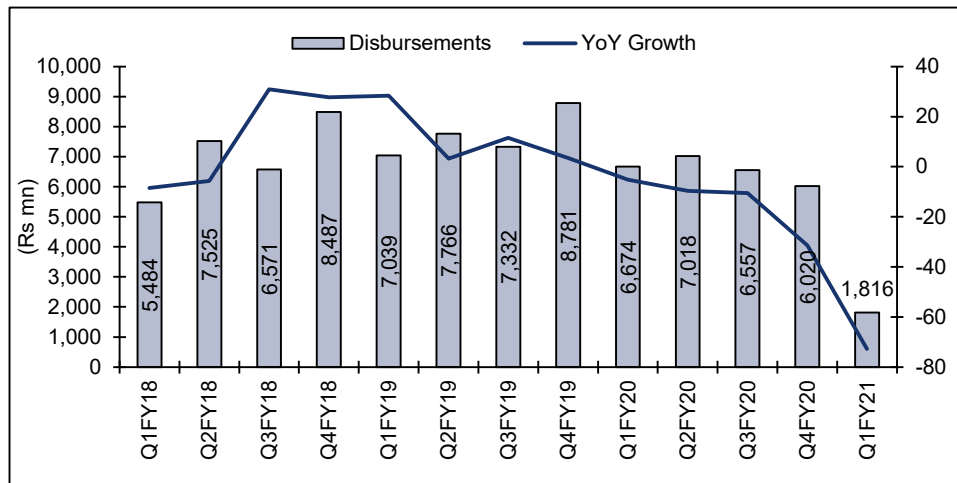
Source: Company data, I-Sec research

Chart 1: AUM growth QoQ was led by interest capitalisation



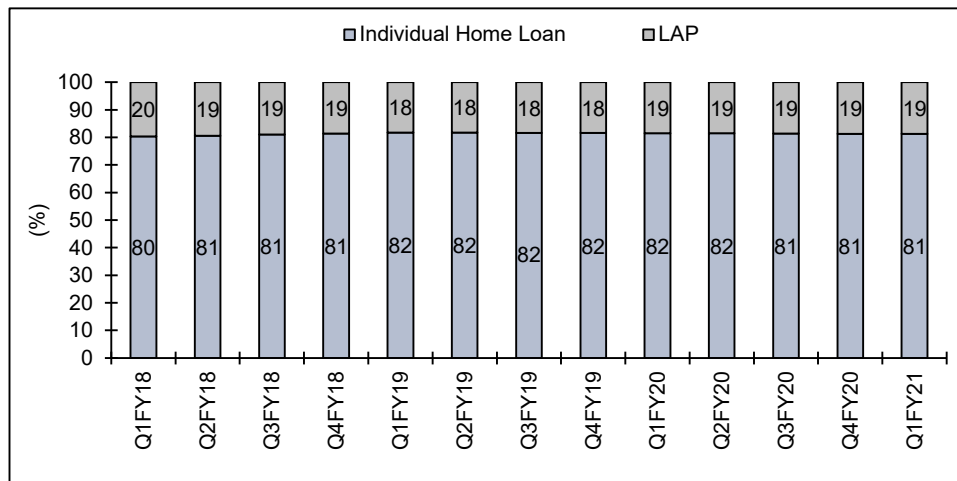
Source: Company data, I-Sec research

Chart 2: Disbursements retracing back to 50-60% of the normalised run-rate



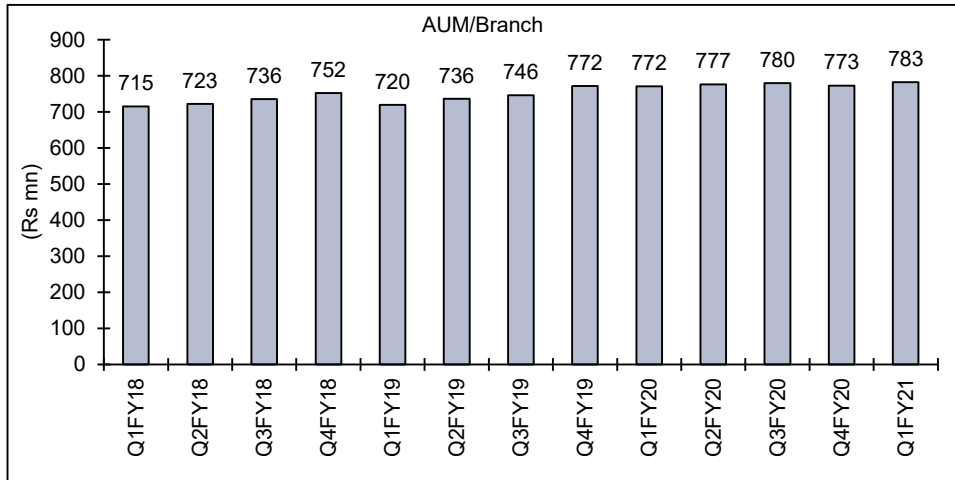
Source: Company data, I-Sec research

Chart 3: Portfolio mix largely unchanged over the past few quarters



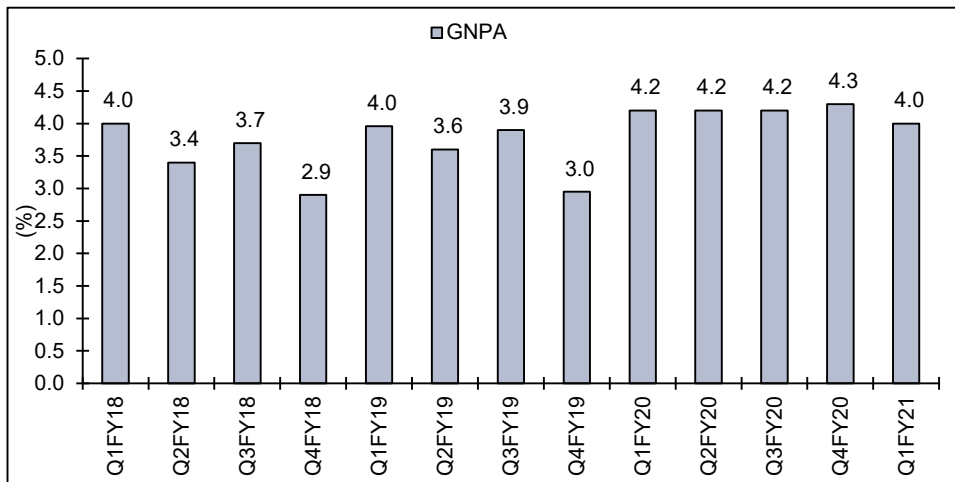
Source: Company data, I-Sec research

Chart 4: AUM per branch in a narrow range



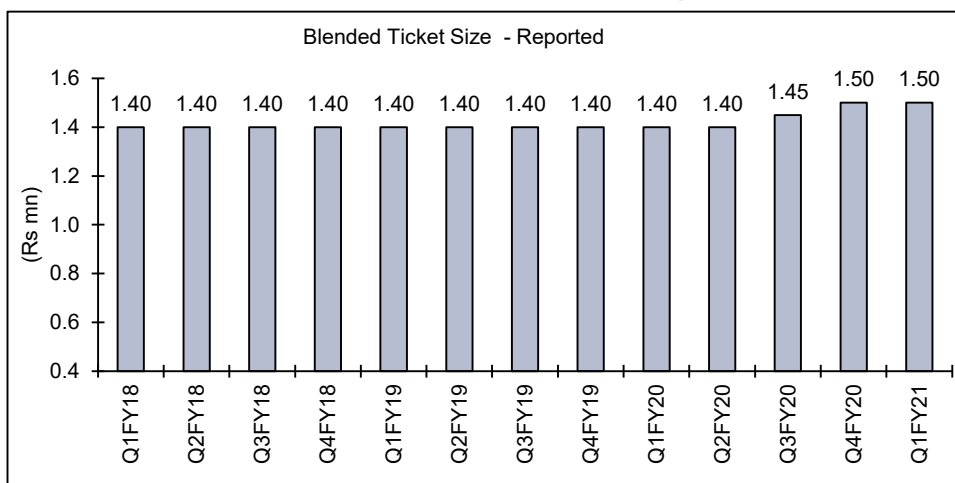
Source: Company data, I-Sec research

Chart 5: Stage 3 GNPA improved due to technically zero slippages; trend to be volatile post moratorium



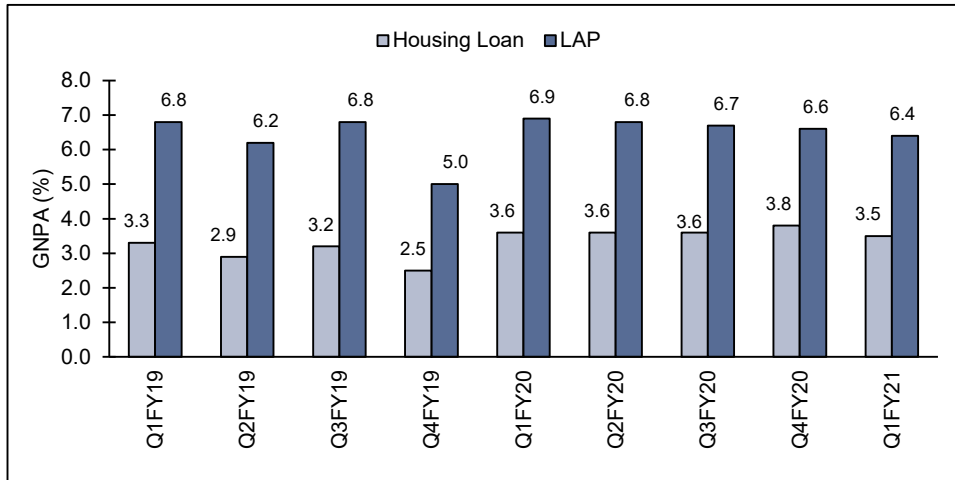
Source: Company data, I-Sec research

Chart 6: Blended ticket size is able to sustain at higher levels



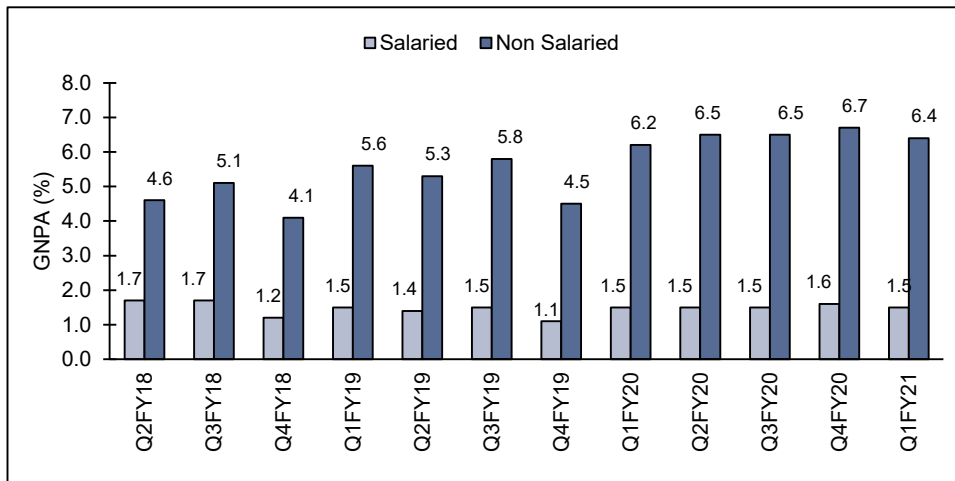
Source: Company data, I-Sec research

Chart 7: Improving NPL trend both for home loan as well as LAP segments



Source: Company data, I-Sec research

Chart 8: Non-salaried segment GNPA fell due to DPD freeze moratorium, can inch up going forward



Source: Company data, I-Sec research

Chart 9: Non-salaried customer segment forms ~52% of the AUM mix...

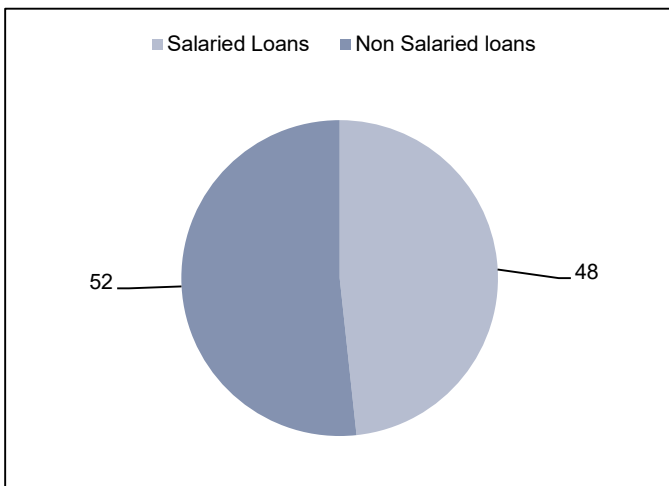


Chart 10: ...but contributes a sizeable ~82% to GNPA

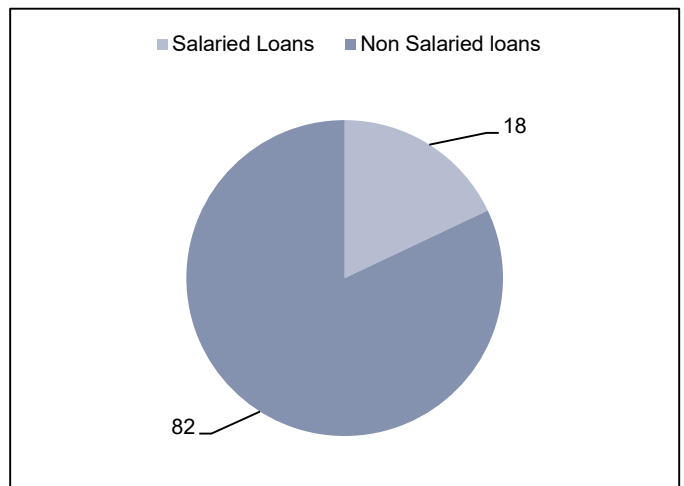
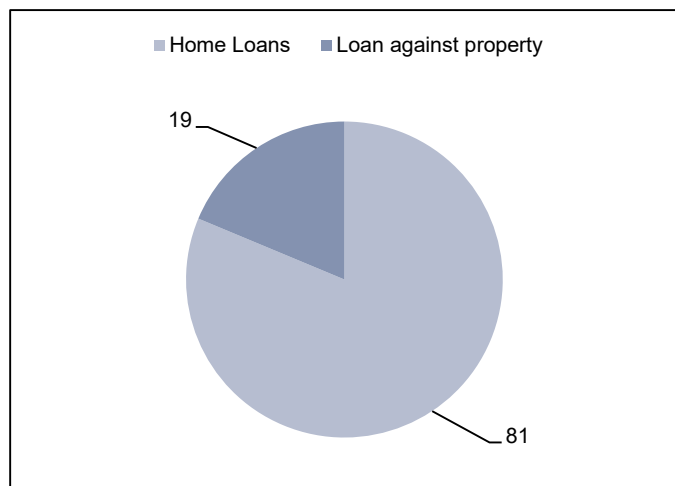
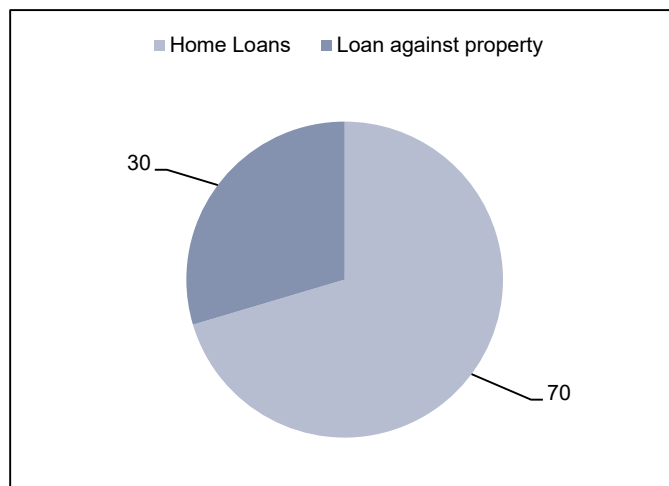


Chart 11: LAP forms ~19% of the AUM mix...



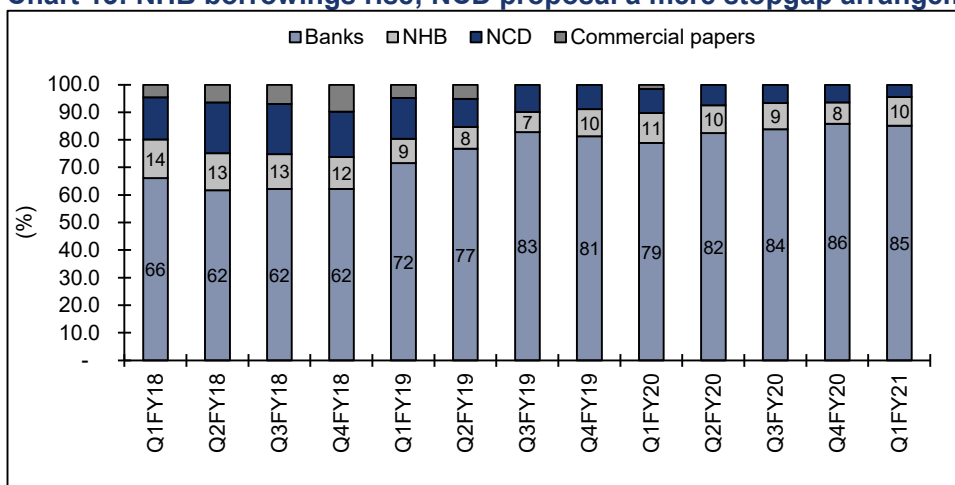
Source: Company data, I-Sec research

Chart 12: ...but contributes ~30% to GNPA



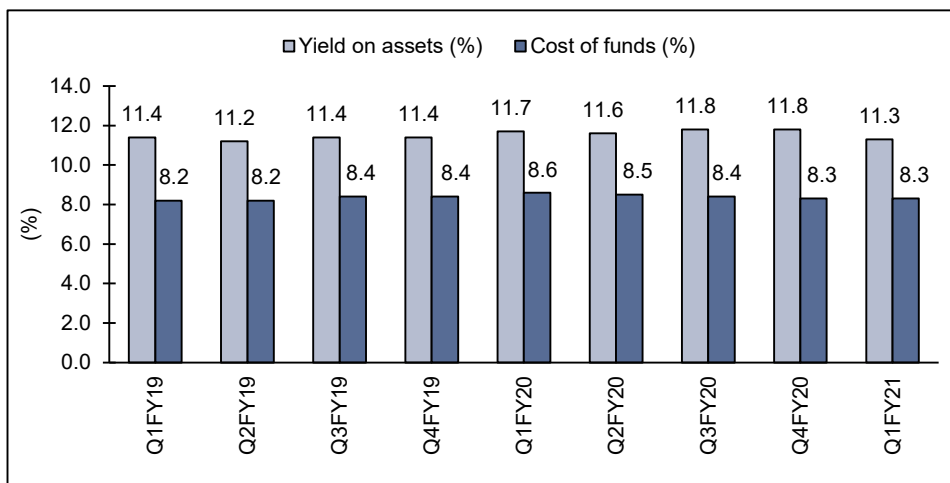
Source: Company data, I-Sec research

Chart 13: NHB borrowings rise; NCD proposal a mere stopgap arrangement



Source: Company data, I-Sec research

Chart 14: Yields decline; funding cost benefit yet to be reflected



Source: Company data, I-Sec research

Financials

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Interest earned	10,960	11,688	13,174	13,344	13,535
Interest expended	6,490	7,201	8,250	8,159	8,083
Net interest income	4,470	4,487	4,924	5,185	5,452
Other income	140	264	337	292	392
Staff cost	494	586	664	716	757
Depreciation	31	50	129	149	175
Other operating expenses	264	349	271	250	302
Total operating cost	789	985	1,065	1,116	1,235
Pre-provisioning op profit	3,821	3,766	4,196	4,361	4,610
Provisions & contingencies	749	170	594	1,450	1,200
Profit before tax	3,072	3,596	3,602	2,911	3,409
Income taxes	1,062	1,252	798	736	859
PAT	2,010	2,344	2,804	2,175	2,550

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20	FY21E	FY22E
Capital	626	626	626	626	626
Reserves & surplus	12,459	14,648	17,243	19,268	21,661
Net worth	13,085	15,274	17,869	19,894	22,286
Total borrowings	81,370	92,790	94,288	1,04,316	1,08,107
	280	520	358	358	358
Provisions	128	120	159	184	224
Other Liabilities	2,447	866	7,265	3,782	4,257
Total liabilities & stockholders' equity	97,310	1,09,570	1,19,939	1,28,535	1,35,233
Loans & advances	96,575	1,08,522	1,18,261	1,24,002	1,30,174
Investments	156	220	220	240	260
Fixed Assets	135	155	372	387	403
Current & other assets (Including Cash & Bank)	444	673	1086	3905	4395
Total Assets	97,310	1,09,570	1,19,939	1,28,535	1,35,233

Source: Company data, I-Sec research

Table 5: Key ratios*(Year ending March 31)*

	FY18	FY19	FY20	FY21E	FY22E
Growth (%):					
AUM	10.3	12.0	7.2	4.9	5.0
Disbursements	9.5	10.2	(15.0)	(28.2)	43.0
Loan book (on balance sheet)	10.3	12.0	7.2	4.9	5.0
Net Interest Income (NII)	21.5	0.4	9.7	5.3	5.2
Non-interest income	(55.8)	88.8	27.7	(13.3)	34.1
Pre provisioning operating profits (PPoP)	15.1	(1.4)	11.4	3.9	5.7
PAT	10.4	16.6	19.6	(22.4)	17.2
EPS	10.4	16.6	19.7	(22.4)	17.2
Yields, interest costs and spreads (%)					
NIM	4.8	4.3	4.3	4.3	4.3
Yield on loan assets (on -book)	11.7	11.2	11.5	11.0	10.7
Average cost of funds	8.3	8.3	8.8	8.2	7.6
Interest Spread on loan assets (on -book)	3.4	2.9	2.7	2.8	3.0
Operating efficiencies					
Non-interest income as % of net income	3.0	5.6	6.4	5.3	6.7
Cost to income ratio (%)	17.1	20.7	20.2	20.4	21.1
Op.costs/avg AUM (%)	0.8	0.94	0.93	0.92	0.97
No of employees (including off rolls)	785	929	994	1,026	1,076
Average annual salary (Rs mn)	0.6	0.6	0.7	0.7	0.7
Annual inflation in average salary(%)	(2.2)	0.2	5.9	4.5	0.8
Salaries as % of non-interest costs (%)	62.6	59.5	62.4	64.2	61.3
NII /employee (Rs mn)	5.7	4.8	5.0	5.1	5.1
AUM/employee(Rs mn)	125.6	118.8	119.0	120.9	121.0
Capital Structure					
Debt-Equity ratio	6.2	6.1	5.3	5.2	4.9
Leverage (x)	7.4	7.2	6.7	6.5	6.1
CAR (%)	23.0	23.9	21.9	22.5	24.4
Tier 1 CAR (%)	23.0	23.9	21.9	22.5	24.4
Tier 2 CAR (%)	-	-	-	-	-
Asset quality and provisioning					
GNPA (% of AUM)	2.9	3.0	4.3	6.5	5.5
NNPA (% of AUM)	1.3	1.9	2.8	4.0	3.0
GNPA (Rs mn)	2,830	3,260	5,117	8,060	7,160
NNPA (Rs mn)	1,255	2,082	3,287	4,997	3,938
Coverage ratio (%)	55.7	36.1	35.8	38.0	45.0
Credit costs as % of average AUM	0.8	0.2	0.5	1.2	0.9
Return ratios & capital management					
RoAA (%)	2.1	2.3	2.4	1.8	1.9
RoAE (%)	16.4	16.5	16.9	11.5	12.1
Payout ratio (%)	6.8	6.7	5.6	5.8	5.2
Valuation Ratios					
EPS (Rs)	32.1	37.4	44.8	34.8	40.8
Price to Earnings	5.7	4.9	4.1	5.2	4.5
BVPS (Rs)	209.0	244.0	285.6	318.0	356.2
Price to Book	0.9	0.7	0.6	0.6	0.5
Dividend yield (%)	1.2	1.4	1.4	1.1	1.2

Source: Company data, I-Sec research

Table 6: DuPont analysis

(%)	FY18	FY19	FY20E	FY21E	FY22E
Interest earned	11.7	11.3	11.5	10.7	10.3
Interest expended	6.9	7.0	7.2	6.6	6.1
Gross Interest Spread	4.8	4.3	4.3	4.2	4.1
Credit cost	0.8	0.2	0.5	1.2	0.9
Net Interest Spread	4.0	4.2	3.8	3.0	3.2
Operating cost	0.8	1.0	0.9	0.9	0.9
Lending spread	3.1	3.2	2.8	2.1	2.3
Non- interest income	0.1	0.3	0.3	0.2	0.3
Final spread	3.3	3.5	3.1	2.3	2.6
<i>Tax rate (%)</i>	<i>34.6</i>	<i>34.8</i>	<i>22.2</i>	<i>25.3</i>	<i>25.2</i>
ROAAUM	2.1	2.3	2.4	1.8	1.9
Effective leverage (AAUM/ AE)	7.7	7.3	6.9	6.6	6.3
RoAE	16.4	16.5	16.9	11.5	12.1

Source: Company data, I-Sec research

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