

# Repc Home Finance

Bloomberg	REPCO IN
Equity Shares (m)	63
M.Cap.(INRb)/(USD\$b)	11.4 / 0.1
52-Week Range (INR)	366 / 91
1, 6, 12 Rel. Per (%)	30/-37/-46
12M Avg Val (INR M)	49
Free float (%)	62.9

## Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	4.9	5.2	5.4
PPP	4.2	4.4	4.7
PAT	2.8	2.7	2.8
EPS (INR)	44.8	42.9	45.5
EPS Gr. (%)	19	-4	6
BV/Sh. (INR)	286	326	368
<b>Ratios</b>			
NIM (%)	4.4	4.3	4.4
C/I ratio (%)	20.2	19.7	20.2
RoAA (%)	2.4	2.2	2.2
RoE (%)	16.9	14.0	13.1
Payout (%)	7.0	7.0	7.0
<b>Valuation</b>			
P/E (x)	4.1	4.2	4.0
P/BV (x)	0.6	0.6	0.5
Div. Yield (%)	1.5	1.4	1.5

## Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	37.1	37.1	37.1
DII	18.6	24.3	51.0
FII	26.7	28.8	0.6
Others	17.6	9.8	11.3

FII Includes depository receipts

**CMP: INR182**

**TP: INR290 (+59%)**

**Buy**

## Stable quarter; focus on NPL collections

- Repco Home Finance (REPCO)'s 1QFY21 PAT was largely flat YoY at INR640m. The quarter was characterized by muted business volumes, spread compression, and a focus on NPL collections.
- The company took INR220m provisions in the quarter, roughly half of that in the prior quarter, but up 3x YoY.

## Business volumes muted; pressure on yields

- As anticipated, disbursements were at 30% of run-rate levels in 1QFY21 and have picked up to 50–60% in 2QFY21.
- However, as repayments were low due to moratorium and on account of capitalized interest, the loan book grew 1% QoQ / 6% YoY to INR120b.
- **Yield declined ~50bp QoQ and YoY to 11.3%, while cost of funds was stable on a sequential basis at 8.3%.** While spreads have compressed sequentially to 3%, they are largely in line with their long-term history.

## Lower opex supports PPOP; asset quality improves

- Opex declined 23% QoQ to INR235m. We believe the bulk of the decline in temporary and opex would revert to prior-quarter levels when business volumes pick up. As a result, PPOP was largely in line with the prior quarter at INR1.1b.
- The GNPL ratio improved 30bp QoQ to 4%, driven by a similar improvement in home loans and LAP. The company continues to build on its provision buffer. Over the past two quarters, Stage 3 PCR has increased to 41% from 29%, and the total ECL provision to 2% from 1.5%.
- The moratorium rate in the second phase was at 35%. Collection efficiency in August should be at 65–70%, excluding pre-payments.

## Highlights from management commentary

- Expect 5–8% AUM growth in FY21 and 90% collection efficiency in Sep'20.
- 8.7% of customers by value (6.2% by volume) have not paid a single installment since March.

## Valuation and view

Over the past year, REPCO has reduced its dependence on capital market borrowings – 95% share of borrowings now come from banks and National Housing Bank (NHB). Over the past year, REPCO has increased liquidity on the balance sheet from sub-1% to 3%+ of borrowings. However, issues of the past (sand mining and the registration ban in Tamil Nadu) continue to impact the company's growth. With the gradual lifting of the lockdown, we expect disbursements to pick up over the course of the year. However, loan growth is likely to remain in the mid-single digits in FY21/FY22. Improvement in asset quality is encouraging; however, a clearer picture would emerge toward the end of this fiscal year. We cut our credit costs for FY21 to account for better-than-expected collections, but marginally increase FY22 credit cost estimates. Maintain Buy, with TP of INR290 (0.8x FY22E BVPS).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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Quarterly performance										(INR m)
Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	3,231	3,245	3,320	3,378	3,358	3,375	3,392	3,415	13,174	13,540
Interest Expenses	2,015	2,085	2,088	2,062	2,104	2,104	2,083	2,068	8,250	8,359
<b>Net Income</b>	<b>1,216</b>	<b>1,160</b>	<b>1,232</b>	<b>1,317</b>	<b>1,254</b>	<b>1,271</b>	<b>1,309</b>	<b>1,348</b>	<b>4,924</b>	<b>5,182</b>
YoY Growth (%)	6.4	4.0	8.6	20.8	3.1	9.6	6.3	2.4	9.9	5.2
Other income	54	111	91	83	61	70	90	116	337	337
<b>Total Income</b>	<b>1,270</b>	<b>1,270</b>	<b>1,322</b>	<b>1,399</b>	<b>1,315</b>	<b>1,341</b>	<b>1,399</b>	<b>1,464</b>	<b>5,261</b>	<b>5,519</b>
YoY Growth (%)	6.8	5.4	11.0	19.9	3.6	5.6	5.8	4.6	10.7	4.9
Operating Expenses	235	249	274	307	235	260	280	313	1,065	1,088
YoY Growth (%)	7.3	5.7	8.5	10.8	0.1	4.4	2.1	2.0	8.2	2.2
<b>Operating Profits</b>	<b>1,035</b>	<b>1,021</b>	<b>1,048</b>	<b>1,093</b>	<b>1,080</b>	<b>1,081</b>	<b>1,119</b>	<b>1,151</b>	<b>4,196</b>	<b>4,431</b>
YoY Growth (%)	6.7	5.3	11.6	22.7	4.4	5.9	6.7	5.3	11.4	5.6
Provisions	75	1	115	403	221	200	300	267	594	989
<b>Profit before Tax</b>	<b>960</b>	<b>1,020</b>	<b>933</b>	<b>690</b>	<b>859</b>	<b>881</b>	<b>819</b>	<b>884</b>	<b>3,602</b>	<b>3,442</b>
Tax Provisions	336	14	236	213	219	194	180	165	798	757
<b>Profit after tax</b>	<b>624</b>	<b>1,006</b>	<b>697</b>	<b>477</b>	<b>640</b>	<b>687</b>	<b>639</b>	<b>719</b>	<b>2,804</b>	<b>2,685</b>
YoY Growth (%)	2.4	51.1	25.3	-7.4	2.6	-31.7	-8.4	50.7	19.5	-4.2
Loan growth (%)	12.6	10.7	9.0	7.2	5.6	5.5	4.2	2.9	6.9	5.0
Cost to Income Ratio (%)	18.5	19.6	20.7	21.9	17.9	19.4	20.0	21.4	20.2	19.7
Tax Rate (%)	35.0	1.3	25.3	30.8	25.5	22.0	22.0	18.6	22.2	22.0
<b>Key Parameters (%)</b>										
Yield on loans (Cal)	11.5	11.4	11.5	11.5	11.3					
Cost of funds (Cal)	8.6	8.5	8.4	8.3	8.3					
Spreads (Cal)	3.0	2.9	3.1	3.2	3.0					
NIMs (Reported)	4.5	4.3	4.6	4.7	4.3					
Credit Cost	0.3	0.0	0.4	1.4	0.7					
Cost to Income Ratio	18.5	19.6	20.7	21.9	17.9					
Tax Rate	35.0	1.3	25.3	30.8	25.5					
<b>Balance Sheet</b>										
AUM (INR B)	113	115	116	118	120					
Change YoY (%)	12.6	10.7	9.0	7.2	5.6					
AUM Mix (%)										
Non-Salaried	54.2	53.4	52.8	51.6	51.7					
Salaried	45.8	46.6	47.2	48.4	48.3					
AUM Mix (%)										
Home loans	81.5	81.5	81.4	81.3	81.3					
LAP	18.5	18.5	18.6	18.7	18.7					
Disbursements (INR B)	6.7	7.0	6.6	6.0	1.8					
Change YoY (%)	-5.2	-9.6	-10.6	-31.4	-72.8					
Borrowings (INR B)	95.6	100.3	97.9	100.6	101.5					
Change YoY (%)	14.8	15.1	9.7	8.4	6.2					
Loans/Borrowings (%)	118.7	114.6	118.8	117.6	118.0					
Borrowings Mix (%)										
Banks	70.9	74.5	75.9	75.2	74.8					
NHB	10.9	10.1	9.4	7.8	10.5					
Repco Bank	7.9	7.9	8.0	10.5	10.3					
NCD	8.7	7.5	6.7	6.5	4.5					
CP	1.6	0.0	0.0	0.0	0.0					
<b>Asset Quality</b>										
GS 3 (INR B)	4.8	4.9	4.9	5.1	4.8					
Gross Stage 3 (% on Assets)	4.2	4.2	4.2	4.3	4.0					
NS 3 (INR B)	3.3	3.5	3.5	3.3	2.8					
Net Stage 3 (% on Assets)	3.0	3.1	3.1	2.8	2.4					
PCR (%)	30.5	28.2	28.6	35.8	41.2					
<b>Return Ratios (%)</b>										
ROA (Rep)	2.2	3.5	2.4	1.6	2.2					
ROE (Rep)	17.7	26.1	17.3	11.5	15.0					

Source: Company, MOFSL, E : MOFSL Estimates



## Highlights from management commentary

### Business updates

- Disbursements are currently at 50–60% of run-rate levels.
- Expect 5–8% AUM growth for the year.
- Balance transfers by banks from REPCO's book have increased from INR700–800m per month to INR1b.
- There have been no comments on the quantum of possible restructuring.
- Housing prices have declined only moderately (~10%). However, this is not a concern for management.

### Asset quality/funding

- The moratorium rate is at 35% in the second phase.
- 8.7% of customers by value (6.2% by volume) have not paid a single installment since March.
- Collection efficiency in August should be at 65–70%, excluding pre-payments.
- Expect the GNPL ratio to reach 4.5% in 3Q, but moderate thereafter on account of restructuring.
- It is too early to comment on collection trends in September, but expect 90% collection efficiency in the month.
- It would keep INR500–600m provisions in excess of the ECL model.

### Liquidity/Funding

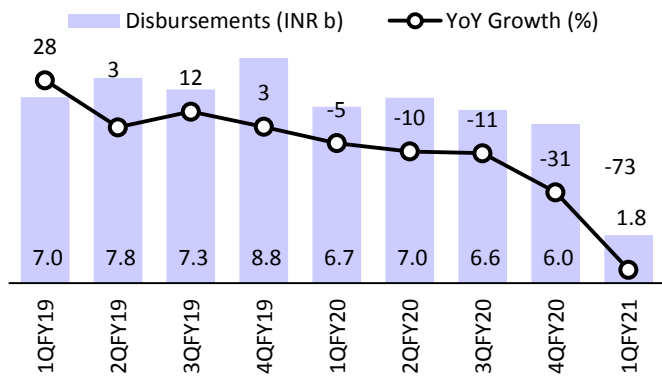
- It borrowed money from NHB during the quarter at ~5% and from banks at ~8%.
- It was able to raise CPs at 6.5–7%.

### Others

- In 2018, the company had purchased a small book of INR400m from Shubham Housing Finance.

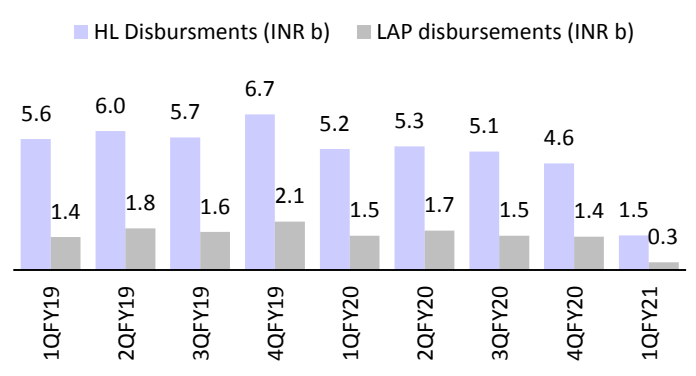
## Key exhibits

**Exhibit 1: Lockdown impacts disbursements**



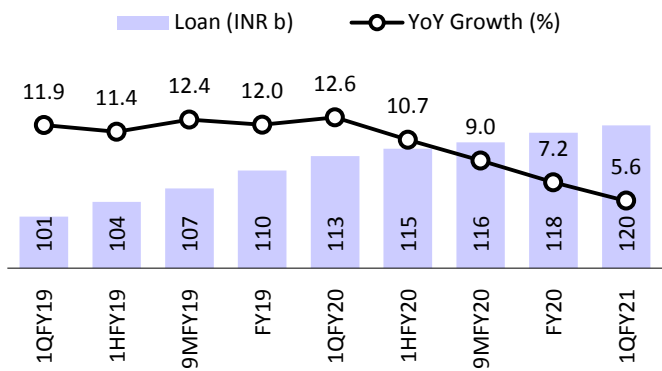
Source: MOFSL, Company

**Exhibit 2: Both products equally impacted**



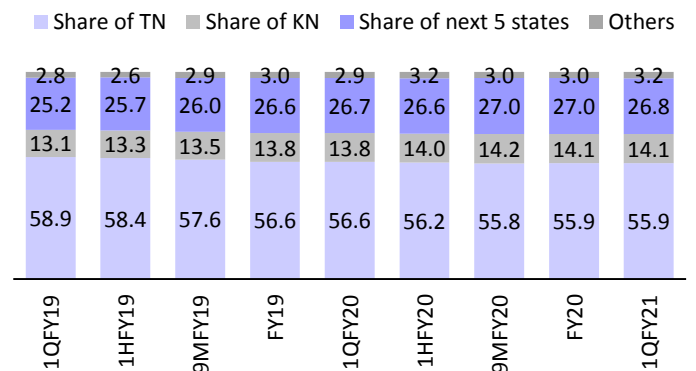
Source: MOFSL, Company

**Exhibit 3: Loan growth continues to slow**



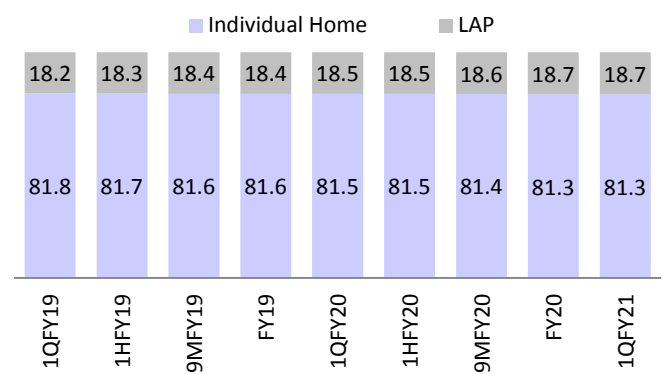
Source: MOFSL, Company

**Exhibit 4: Share of key states stable**



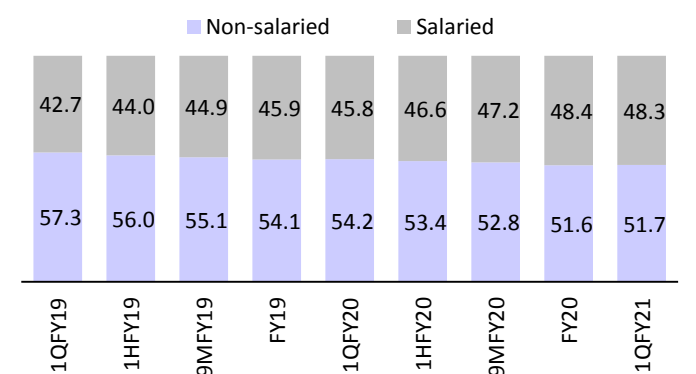
Source: MOFSL, Company

**Exhibit 5: Home loan book stands at ~81%**



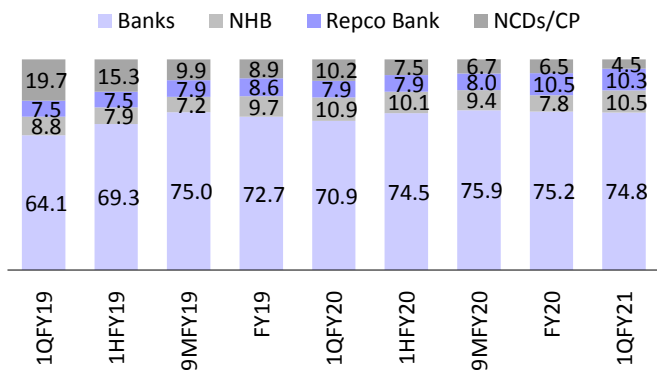
Source: MOFSL, Company

**Exhibit 6: Salaried customer base up 250bp YoY (%)**



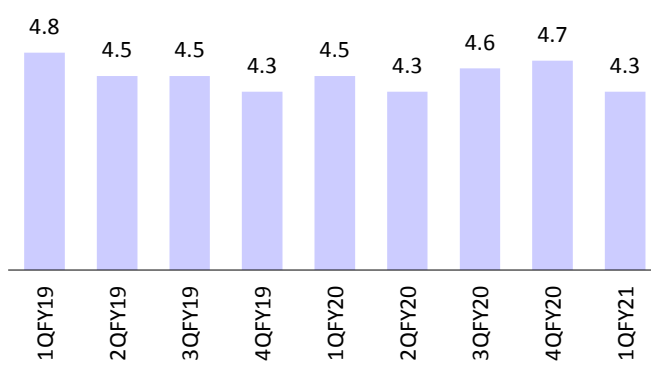
Source: MOFSL, Company

**Exhibit 7: Share of NHB borrowings up ~270bp QoQ (%)**



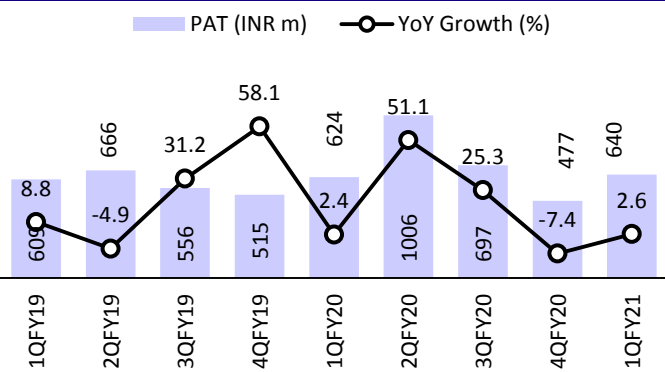
Source: MOFSL, Company

**Exhibit 8: NIMs decline 40bp sequentially**



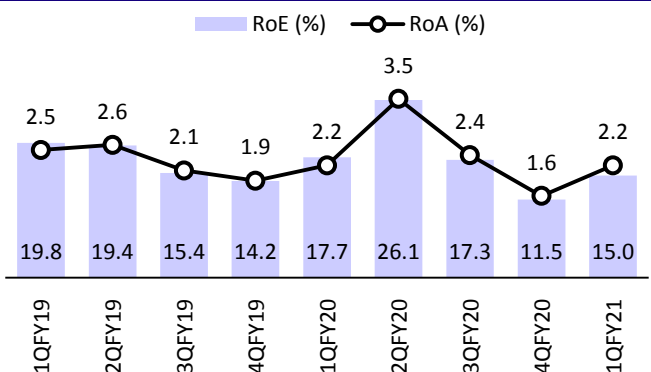
Source: MOFSL, Company, Reported

**Exhibit 9: PAT up ~3% YoY**



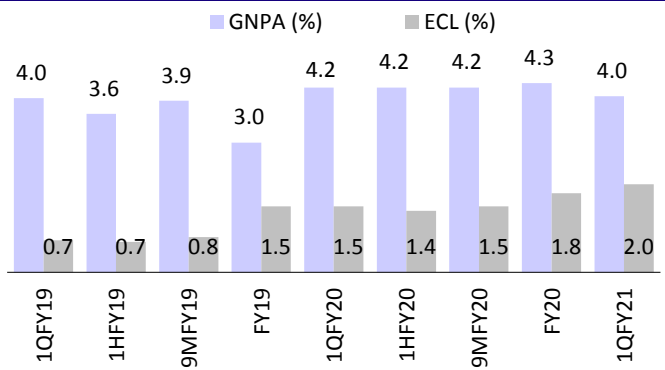
Source: MOFSL, Company

**Exhibit 10: RoE/RoA trend**



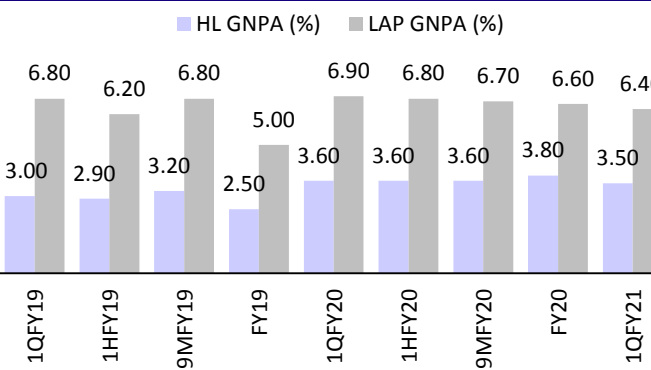
Source: MOFSL, Company

**Exhibit 11: ECL at 2.0%, up 10bp sequentially**



Source: MOFSL, Company

**Exhibit 12: HL GNPA improves by 30bp QoQ (%)**



Source: MOFSL, Company

### Valuation and view

- REPCO has established a strong presence in the southern states and is steadily expanding to other geographies.
- Given its low dependence on the capital markets for borrowings, REPCO has been less impacted by the liquidity crisis. **95% share of the company's borrowings comes from banks and NHB.** Over the past year, it has increased liquidity on the balance sheet from sub-1% to 3%+ of borrowings.
- Spreads have also been largely intact. The company has maintained steady RoA/RoE at ~2.2%/17% over the past four years.

- However, even today, over half the loan book comes from TN, where the ground situation is still bleak. **Issues of the past (sand mining and the registration ban in TN) continue to impact the company's growth. Despite the gradual opening up of the economy, we expect mid-single-digit loan growth in FY21 and FY22.**
- We are positively surprised by the fact that only ~9% of REPCO's customer base has not paid a single installment since March. Hence, we cut our credit cost estimates for FY21 meaningfully. However, as the company may restructure some loans, the eventual credit cost impact, if any, would come in FY22. Hence, we modestly increase FY22 estimates as well.
- Hence, our FY21E EPS estimates are upgraded by 22%, off a low base, while our FY22E EPS estimates have been cut by 4%.
- Maintain Buy, with TP of INR290 (0.8x FY22E BVPS).

**Exhibit 13: We increase our FY21 EPS estimates, but cut our FY22 estimates**

INR b	Old Est.		New Est.		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
NII	5.1	5.4	5.2	5.4	0.8	0.8
Other Income	0.4	0.4	0.3	0.4	-7.4	2.9
<b>Total Income</b>	<b>5.5</b>	<b>5.8</b>	<b>5.5</b>	<b>5.8</b>	<b>0.2</b>	<b>0.9</b>
Operating Expenses	1.1	1.2	1.1	1.2	-5.2	-4.0
<b>Operating Profits</b>	<b>4.4</b>	<b>4.6</b>	<b>4.4</b>	<b>4.7</b>	<b>1.7</b>	<b>2.3</b>
Provisions	1.5	0.8	1.0	1.0	-36.1	32.1
<b>PBT</b>	<b>2.8</b>	<b>3.8</b>	<b>3.4</b>	<b>3.6</b>	<b>22.4</b>	<b>-3.8</b>
Tax	0.6	0.8	0.8	0.8	22.4	-3.8
<b>PAT</b>	<b>2.2</b>	<b>3.0</b>	<b>2.7</b>	<b>2.8</b>	<b>22.4</b>	<b>-3.8</b>
Loan book	118	126	122	127	3.1	0.6
NIM (%)	4.4	4.4	4.3	4.4		
Spreads (%)	3.3	3.3	3.3	3.2		
<b>ROAA (%)</b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>		
<b>RoAE (%)</b>	<b>11.6</b>	<b>13.9</b>	<b>14.0</b>	<b>13.1</b>		

Source: MOFSL, Company

## Valuation matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>HFCs</b>											
LICHF	Buy	294	2.0	5.3	5.6	0.7	0.7	1.2	1.1	14.7	12.6
PNBHF	Neutral	300	0.7	6.7	5.0	0.6	0.5	1.0	1.3	9.1	11.3
<b>Vehicle fin.</b>											
SHTF	Buy	688	2.1	9.7	6.0	0.8	0.7	1.5	2.3	9.2	12.9
MMFS	Buy	133	1.2	18.0	14.8	1.1	1.0	1.2	1.5	6.8	7.0
CIFC	Buy	226	2.6	15.7	11.5	2.1	1.8	1.8	2.2	13.8	16.6
<b>Diversified</b>											
BAF	Neutral	3,504	29.4	47.4	29.0	5.8	4.9	2.5	3.6	12.9	18.3
SCUF	Buy	942	0.9	8.2	6.8	0.8	0.7	2.5	3.0	10.0	11.0
LTFH	Buy	64	1.8	12.9	6.7	0.8	0.8	0.9	1.7	6.7	12.0
MUTH	Neutral	1,094	6.1	12.9	11.0	3.1	2.5	6.5	6.9	26.4	25.2
MAS	Buy	830	0.6	26.9	22.5	4.1	3.6	3.7	4.0	16.0	16.9

## Financials and valuations

Income statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	8,521	10,141	10,851	11,634	13,174	13,540	13,919	14,817
Interest Expended	5,483	6,463	6,489	7,200	8,250	8,359	8,475	8,941
<b>Net Interest Income</b>	<b>3,039</b>	<b>3,678</b>	<b>4,362</b>	<b>4,434</b>	<b>4,924</b>	<b>5,182</b>	<b>5,444</b>	<b>5,876</b>
Change (%)	27.8	21.0	18.6	1.7	11.0	5.2	5.1	7.9
Other Operating Income	297	318	250	318	337	337	405	437
<b>Net Income</b>	<b>3,336</b>	<b>3,996</b>	<b>4,612</b>	<b>4,752</b>	<b>5,261</b>	<b>5,519</b>	<b>5,849</b>	<b>6,313</b>
Change (%)	27.7	19.8	15.4	3.1	10.7	4.9	6.0	7.9
Operating Expenses	643	676	790	984	1,065	1,088	1,180	1,275
<b>Operating Income</b>	<b>2,693</b>	<b>3,320</b>	<b>3,822</b>	<b>3,768</b>	<b>4,196</b>	<b>4,431</b>	<b>4,669</b>	<b>5,038</b>
Change (%)	30.4	23.3	15.1	-1.4	11.4	5.6	5.4	7.9
Provisions/write offs	392	518	748	170	594	989	1,020	517
<b>PBT</b>	<b>2,301</b>	<b>2,802</b>	<b>3,074</b>	<b>3,598</b>	<b>3,602</b>	<b>3,442</b>	<b>3,649</b>	<b>4,521</b>
Tax	800	979	1,063	1,252	798	757	803	995
Tax Rate (%)	34.8	34.9	34.6	34.8	22.2	22.0	22.0	22.0
<b>PAT</b>	<b>1,501</b>	<b>1,823</b>	<b>2,010</b>	<b>2,346</b>	<b>2,804</b>	<b>2,685</b>	<b>2,846</b>	<b>3,526</b>
Change (%)	21.9	21.4	10.3	16.7	19.5	-4.2	6.0	23.9

Balance sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	625	626	626	626	626	626	626	626
Reserves & Surplus	8,923	10,747	12,459	14,648	17,243	19,741	22,389	25,670
<b>Net Worth</b>	<b>9,548</b>	<b>11,372</b>	<b>13,085</b>	<b>15,274</b>	<b>17,869</b>	<b>20,367</b>	<b>23,015</b>	<b>26,295</b>
<b>Borrowings</b>	<b>65,379</b>	<b>75,604</b>	<b>81,343</b>	<b>92,774</b>	<b>1,01,090</b>	<b>1,04,029</b>	<b>1,07,855</b>	<b>1,15,663</b>
Change (%)	28.1	15.6	7.6	14.1	9.0	2.9	3.7	7.2
Other liabilities	2,705	3,457	2,882	1,522	980	1,098	1,230	1,377
<b>Total Liabilities</b>	<b>77,632</b>	<b>90,433</b>	<b>97,310</b>	<b>1,09,570</b>	<b>1,19,939</b>	<b>1,25,493</b>	<b>1,32,099</b>	<b>1,43,335</b>
<b>Loans</b>	<b>77,049</b>	<b>89,578</b>	<b>96,492</b>	<b>1,08,379</b>	<b>1,15,877</b>	<b>1,21,671</b>	<b>1,26,888</b>	<b>1,37,694</b>
Change (%)	28.1	16.3	7.7	12.3	6.9	5.0	4.3	8.5
<b>Investments</b>	<b>124</b>	<b>156</b>	<b>239</b>	<b>363</b>	<b>321</b>	<b>369</b>	<b>424</b>	<b>488</b>
Change (%)	0.0	25.8	53.5	51.5	-11.5	15.0	15.0	15.0
Net Fixed Assets	93	91	135	155	372	391	410	431
Other assets	366	609	443	673	3,369	3,062	4,376	4,722
<b>Total Assets</b>	<b>77,632</b>	<b>90,433</b>	<b>97,310</b>	<b>1,09,570</b>	<b>1,19,939</b>	<b>1,25,493</b>	<b>1,32,099</b>	<b>1,43,335</b>

E: MOFSL Estimates

## Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Spreads Analysis (%)</b>								
Avg Yield on Loans	12.4	12.2	11.6	11.4	11.7	11.4	11.2	11.2
Avg. Cost of Borrowings	9.4	9.2	8.3	8.3	8.5	8.2	8.0	8.0
Interest Spread	3.0	3.0	3.4	3.1	3.2	3.2	3.2	3.2
Net Interest Margin	4.4	4.4	4.7	4.3	4.4	4.3	4.4	4.4
<b>Profitability Ratios (%)</b>								
RoE	17.0	17.4	16.4	16.5	16.9	14.0	13.1	14.3
RoA	2.2	2.2	2.1	2.3	2.4	2.2	2.2	2.6
Int. Expended/Int.Earned	64.3	63.7	59.8	61.9	62.6	61.7	60.9	60.3
Other Inc./Net Income	8.9	8.0	5.4	6.7	6.4	6.1	6.9	6.9
<b>Efficiency Ratios (%)</b>								
Op. Exps./Net Income	19.3	16.9	17.1	20.7	20.2	19.7	20.2	20.2
Empl. Cost/Op. Exps.	63.7	63.8	62.6	59.5	62.4	65.9	65.1	65.0
<b>Asset Quality (%)</b>								
Gross NPAs	1,009	2,328	2,827	3,258	5,117	5,696	6,913	6,913
Gross NPAs to Adv.	1.3	2.6	2.9	3.0	4.3	4.6	5.3	4.9
Net NPAs	368	1,227	1,255	1,507	2,988	2,608	2,830	2,367
Net NPAs to Adv.	0.5	1.4	1.3	1.4	2.6	2.1	2.2	1.7
<b>VALUATION</b>								
Book Value (INR)	152.7	181.8	209.2	244.1	285.6	325.6	367.9	420.3
<b>Price-BV (x)</b>					<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>
EPS (INR)	24.0	29.1	32.1	37.5	44.8	42.9	45.5	56.4
EPS Growth YoY	21.6	21.4	10.3	16.7	19.5	-4.2	6.0	23.9
<b>Price-Earnings (x)</b>					<b>-0.9</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.7</b>
Dividend per share (INR)	1.8	2.0	2.2	2.3	2.7	2.6	2.7	3.4
<b>Dividend yield (%)</b>					<b>1.5</b>	<b>1.4</b>	<b>1.5</b>	<b>1.9</b>

E: MOFSL Estimates



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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