

Repco Home Finance

BUY

INDUSTRY	NBFCs
CMP (as on 16 Aug 2018)	Rs 609
Target Price	Rs 689
Nifty	11,385
Sensex	37,664

KEY STOCK DATA

Bloomberg	REPCO IN
No. of Shares (mn)	63
MCap (Rsbn) / (\$ mn)	38/542
6m avg traded value (Rsmn)	193

STOCK PERFORMANCE (%)

52 Week high / low	Rs 739/510
	3M 6M 12M
Absolute (%)	2.8 9.7 (12.6)
Relative (%)	(3.2) (0.1) (32.4)

SHAREHOLDING PATTERN (%)

Promoters	37.13
FIs & Local MFs	22.06
FPIs	27.47
Public & Others	13.34

Source : BSE

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Some hits some misses

Post a recovery in the previous quarter, REPCO posted yet another decent set of numbers. While asset quality deteriorated, it was a 1Q phenomenon and lacked the typical spike (GNPAs up 41% QoQ vs ~54% in FY18 and ~75% in FY17). The relatively subdued growth (+12% YoY) was also owing to the conscious decision of slowing down LAP growth (flat sequentially). Though yields remained firm, NIMs dipped 20bps (~4.6%) sequentially as CoF jumped 20bps QoQ.

While the controlled accretion in GNPAs was encouraging, weak recoveries (post a robust 4QFY18) was underwhelming. However, we remain hopeful given the conscious decision of shying away from high ticket LAP loans and large a stock of assets under SARFAESI. We believe growth should certainly improve as REPCO expands into newer geographies and disruptions (registration and sand mining) in its home state subside. We expect RoAAs to improve 13bps (to 2.29%) over FY18-20E. Maintain BUY with a TP of Rs 689 (2.5x Mar-20 ABV of Rs 276).

Financial Summary

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18*	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Interest Income	1185.7	1028.4	15.3	1164	1.9	3,678	4,286	4,818	5,606
PPOP	969.3	901.5	7.5	1009.4	(4.0)	3,320	3,813	4,274	4,957
PAT	608.7	505.9	20.3	565.3	7.7	1,823	2,060	2,490	2,929
EPS (Rs)	9.73	8.09	20.3	9.04	7.7	29.1	32.9	39.8	46.8
ROAE (%)						2.17	2.17	2.30	2.29
ROAA (%)						17.4	16.7	17.3	17.3
Adj. BVPS (Rs)						162	192	232	276
P/ABV (x)						3.76	3.17	2.62	2.21
P/E (x)						20.9	18.5	15.3	13.0

Source: Company, HDFC sec Inst Research; *Numbers for 4QFY18 are as per I GAAP

Highlights of the quarter

- The deterioration in asset quality was largely a 1Q phenomenon as G/NNPAs jumped ~110bps each to ~3.96/2.39%. The jump was across segments as home loan GNPAs jumped 60bps QoQ to ~3% while LAP GNPAs spiked 190bps (to ~6.8%) sequentially. While recoveries through SARFAESI were merely Rs 30mn, the huge residual repossessed stock and the conscious decision of avoiding LAP loans above ~Rs 75mn augurs well for asset quality here on. We have factored in GNPAs of 2.8/2.3% for FY19/20E.
- Loans grew ~12/2% YoY/QoQ primarily driven by (~14/3% YoY/QoQ) home loans. Consequently, the share improved 140bps YoY to ~81.8%. LAP growth remained subdued as REPCO continues to battle asset quality issues in this slice. While the growth is Tamil Nadu remains slightly challenged (owing to various regional issues) the mgt is focussed on achieving growth through geographical expansion. We have factored in a loan CAGR of 18% over FY18-20E
- Near-term outlook:** Tepid growth and the spike in GNPAs should keep the stock under pressure.

Five Quarters At A Glance

(Rs mn)	1QFY18	2QFY18*	3QFY18*	4QFY18*	1QFY19	YoY Growth	QoQ Growth
Net Interest Income	1,109	1,093	1,071	1,164	1,186	6.9%	1.9%
Non Interest Income	2	95	82	59	3	23.8%	-95.6%
Operating income	1,111	1,188	1,153	1,223	1,188	6.9%	-2.9%
Operating expenses	168	179	217	214	219	30.3%	2.3%
Pre provision profits	943	1,009	936	1,009	969	2.8%	-4.0%
Provisions and contingencies	88	166	194	144	47	-46.9%	-67.6%
PBT	855	843	742	865	923	7.9%	6.6%
Provision for Tax	296	285	257	300	314	6.1%	4.5%
OCI	(4)				(0)		
PAT (incl. OCI)	556	559	485	565	609	9.5%	7.7%
Balance Sheet items							
Sanctions (Rs mn)	6,198	7,645	7,725	9,225	7,580	22.3%	17.8%
Disbursements (Rs mn)	5,484	7,525	6,571	8,487	7,039	28.4%	-17.1%
Loan Book (Rs mn)	89,998	93,212	94,904	98,568	100,745	11.9%	2.2%
Home Loans (%)	80.4	80.6	81.1	81.4	81.8	140 bps	40 bps
LAP (%)	19.6	19.4	18.9	18.6	18.2	-140 bps	-40 bps
Borrowings (Rs mn)							
Banks (%)	59.6	55.3	55.0	54.5	64.1	445 bps	956 bps
NHB (%)	13.9	13.5	13.0	11.6	8.8	-517 bps	-282 bps
Repco (%)	6.5	6.4	8.0	7.7	7.5	97 bps	-14 bps
NCD (%)	15.3	18.4	18.0	16.4	14.9	-43 bps	-157 bps
CP (%)	4.6	6.4	7.0	9.8	4.8	18 bps	-503 bps
Profitability							
Yield on Advances (%)	11.50	11.90	11.50	11.50	11.40	-10 bps	-10 bps
Cost of Funds (%)	8.60	9.20	8.30	8.00	8.20	-40 bps	20 bps
Spreads	2.90	2.70	3.20	3.50	3.20	30 bps	-30 bps
NIM (%)	4.30	4.80	4.60	4.80	4.60	30 bps	-20 bps
Cost-Income ratio (%)	15.1	15.0	18.8	17.5	18.4	330 bps	94 bps
Tax rate (%)	34.6	32.6	34.6	34.7	34.0	-57 bps	-68 bps
Asset quality							
Gross NPA (Rs mn)	3,571	2,983	3,515	2,827	3,987	11.6%	41.0%
Net NPA (Rs mn)	1,974	1,484	1,915	1,255	2,371	20.1%	88.9%
Gross NPAs (%)	3.97	3.20	3.70	2.87	3.96	-1 bps	109 bps
Net NPAs (%)	2.61	1.90	2.05	1.29	2.39	-22 bps	110 bps
Coverage ratio (%)	34.3	40.6	45.5	55.1	39.6	539 bps	-1541 bps
Home Loans NPA %	3.40	3.00	3.20	2.40	3.00	-40 bps	60 bps
LAP NPA %	6.40	5.20	5.90	4.90	6.80	40 bps	190 bps

Slightly ahead of expectations (~4%) driven by decent loan growth of ~11/2% YoY/QoQ

Opex grew at a rapid pace owing to higher business origination and legal (SARFAESI related) expenses

As per I GAAP, total stock of provisions was ~2.1% of loans while the requirement under IND AS is merely 0.7%

No loan disbursed during the quarter was above ~Rs 7.5mn; TN disbursements were ~Rs 3.53bn

The mgt is targeting a loan growth of 18-20% for FY19

The dip is due a sizable repayment of ~Rs 1.65bn (high cost)

Incremental yields are at ~10.3% and CoF is ~8.1%; Average yields on the HL book are at ~10.84% and LAP yields stand at ~14%

The mgt believes that CoF have largely topped out and NIMs should remain stable hereon; Target spread for FY19 is 3%+

Though a chunk of NPAs are under SARFAESI, REPCO has been able to recover merely Rs 30mn

GNPAs in the salaried HL segment were ~1.5% and Non-salaried HL NPAs were ~3.8%

Source: HDFC sec Inst Research; *Numbers for 2QFY18, 3QFY18 and 4QFY18 are as per I GAAP.

Loan book grew by ~12/2% YoY/QoQ, led by a ~16% YoY uptick in home loan

Product mix continued to move towards individual loans which now form 81.8% of total loans, up 140bps YoY

The focus on staying away from high ticket LAP is evident as no loan disbursed in 1Q were above Rs 7.5mn

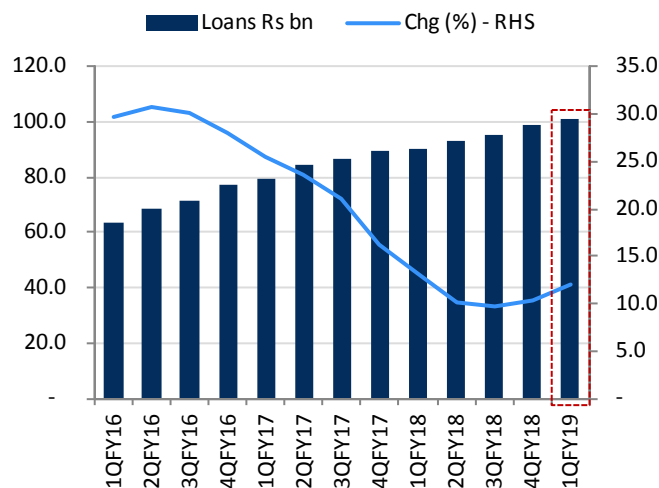
NIMs improved 30bps YoY (down 20bps QoQ, led by ~40bps drop in CoF and a mere 10bps compression in yields

Incremental yields at ~10.3% and CoF at ~8.1% (spreads at ~2.2%)

Avg yields in HL business at ~10.84% and in LAP book at ~14%

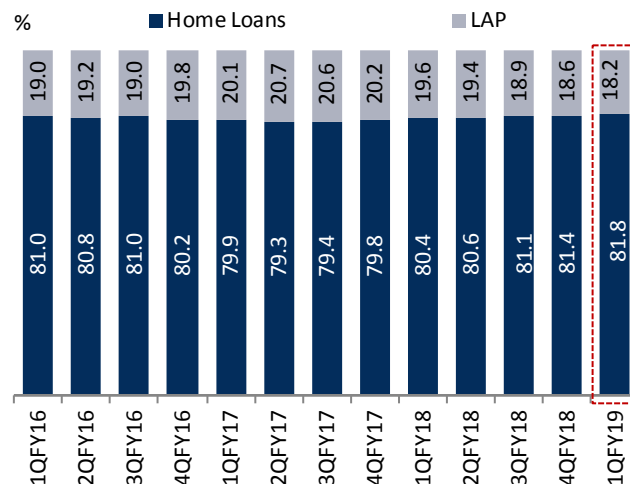
REPCO has increased its minimum lending rate by 40bps to 8.70% w.e.f.Apr-18

Loan Book grew by ~12/2% YoY/QoQ



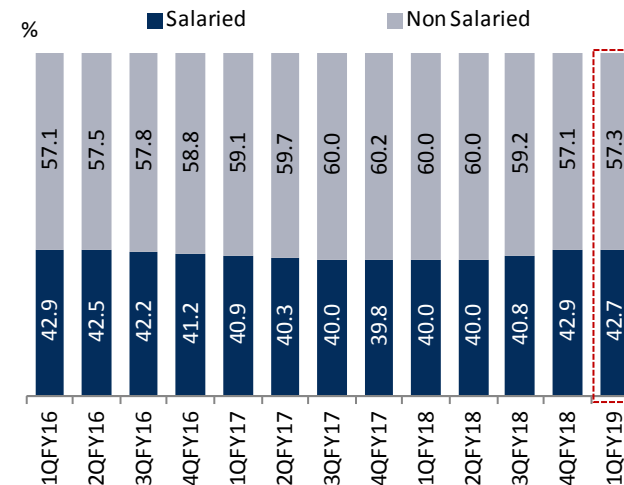
Source: Bank, HDFC sec Inst Research

Home Loan Mix Improved ~40bps QoQ



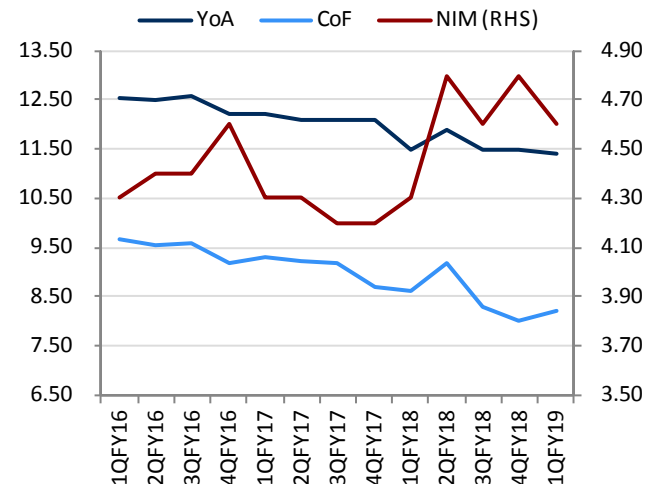
Source: Bank, HDFC sec Inst Research

Share Of Salaried Loans Stable Sequentially



Source: Bank, HDFC sec Inst Research

NIMs Dip ~20bps QoQ to ~4.6%



Source: Bank, HDFC sec Inst Research

Sanctions increased ~22% YoY (down ~18% QoQ)

Disbursements increased ~28% YoY (down ~17%QoQ)

Salaried Disbursals at Rs 3.83bn and non salaried at ~Rs 3.81bn

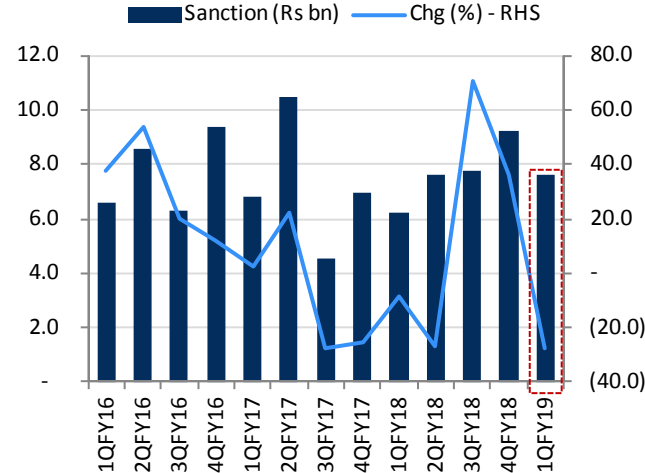
The management is targeting a disbursements of Rs 40-42bn i.e ~45-50% growth for FY19

Incrementally, disbursements growth will be faster in non-TN regions as the mgt looks to increase diversification

Share of south India dipped to ~87% vs. 87.4% QoQ

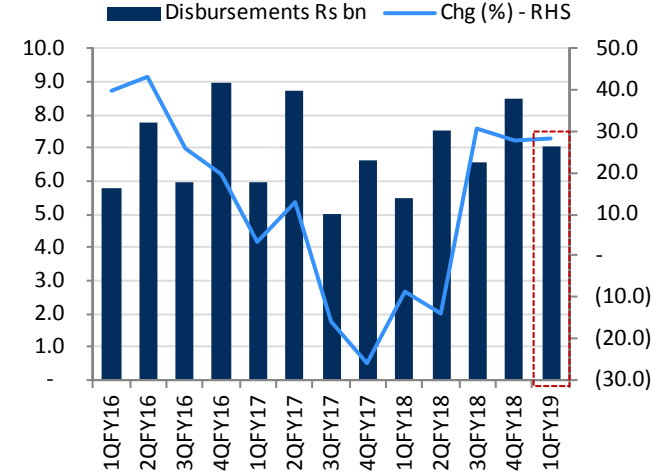
TN book grew a mere 7% YoY; The mgt expects ~10-15% growth in TN book for FY19

Sanctions Grew ~22% YoY, Albeit Down ~37% QoQ



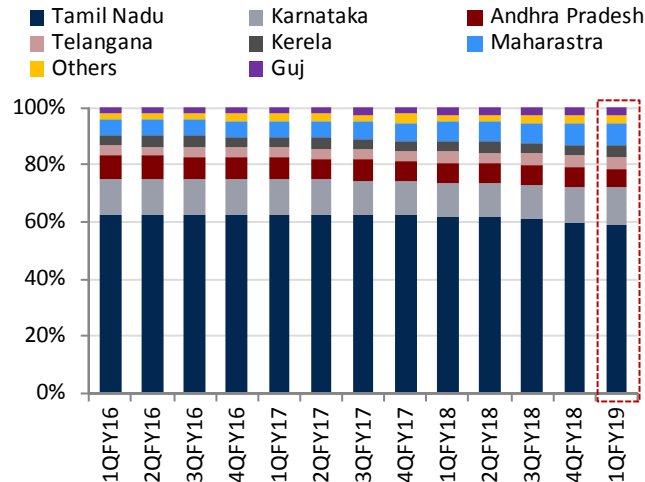
Source: Bank, HDFC sec Inst Research

Disbursements Jumped ~28% YoY



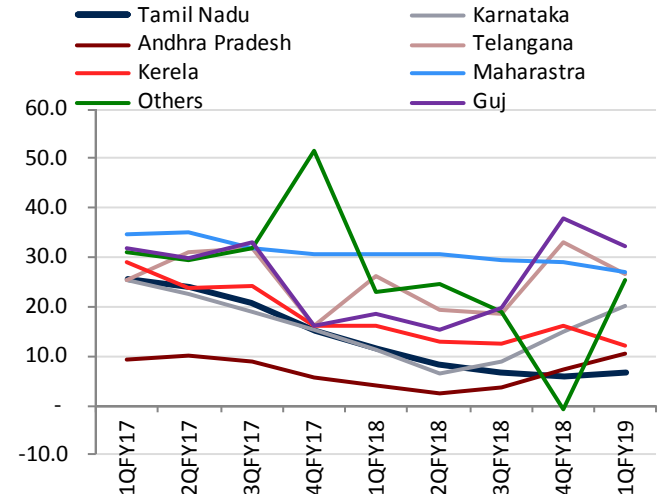
Source: Bank, HDFC sec Inst Research

State-wise Mix Top 3 States Contribute ~ 91%



Source: Bank, HDFC sec Inst Research

State-wise Loan Book Growth



Source: Bank, HDFC sec Inst Research

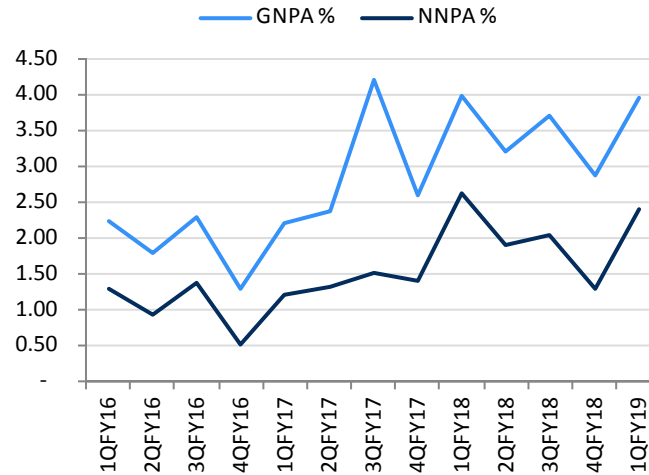
Overall GNPA's dipped by 110bps sequentially at 3.96%.

Home loan GNPA jumped ~60bps sequentially to 3%.

LAP GNPA jumped ~190bps sequentially to 6.80%.

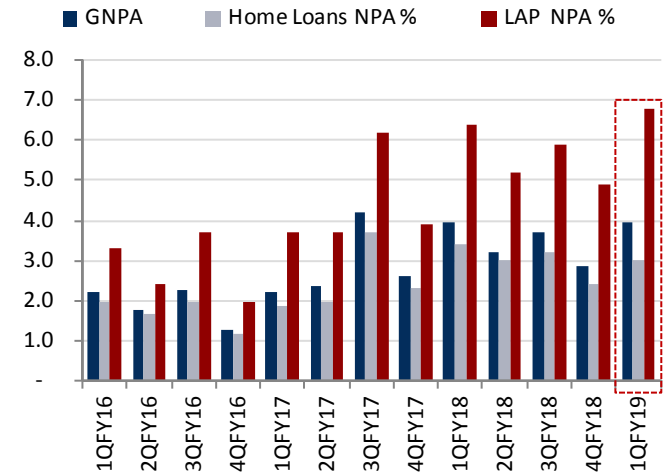
REPCO has reposed assets worth Rs 400mn; of which recovered Rs 30mn in 1Q

Asset Quality Improved GNPA/NNPA 83/76bps



Source: Bank, HDFC sec Inst Research

Housing/LAP GNPA jumped Sequentially



Source: Bank, HDFC sec Inst Research

Peer Set Comparison

NBFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
MMFS #	311	505	BUY	590	119	142	163	33.6	21.1	17.5	4.08	3.44	2.98	11.3	14.5	15.8	1.78	2.39	2.44
SHTF	299	1,320	BUY	1,773	499	601	709	19.1	12.5	10.2	2.65	2.19	1.86	12.7	16.7	17.7	1.92	2.51	2.63
LICHF	278	551	BUY	636	237	275	318	14.0	11.7	9.9	2.32	2.01	1.73	16.7	17.4	17.8	1.23	1.29	1.33
CIFC	229	1,465	BUY	1,764	287	355	441	23.5	18.4	15.1	5.10	4.13	3.32	20.6	21.8	22.0	2.77	2.85	2.91
SCUF	131	1,987	BUY	2,254	702	845	1,002	19.7	14.7	11.5	2.83	2.35	1.98	12.5	15.0	16.8	2.48	2.80	3.04
REPCO	38.1	609	BUY	689	192	232	276	18.5	15.3	13.0	3.17	2.62	2.21	16.7	17.3	17.3	2.17	2.30	2.29

Source: Company, HDFC sec Inst Research; # adjusted for subs

Income Statement

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Interest Earned	8,521	10,141	10,770	12,273	14,600
Interest Expended	5,483	6,463	6,484	7,455	8,994
Net Interest Income	3,039	3,678	4,286	4,818	5,606
Other Income	297	318	308	332	380
Total Income	3,336	3,996	4,594	5,150	5,986
Total Operating Exp	643	676	781	876	1,029
PPOP	2,693	3,320	3,813	4,274	4,957
Provisions & Contingencies	392	518	671	477	490
PBT	2,301	2,802	3,142	3,797	4,467
Provision for Tax	800	979	1,082	1,308	1,538
PAT	1,501	1,823	2,060	2,490	2,929

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	625	626	626	626	626
Reserves	8,923	10,747	12,657	14,942	17,633
Net worth	9,548	11,372	13,283	15,567	18,258
Borrowings	65,379	75,604	81,370	95,385	114,135
Other Liabilities	2,305	3,018	4,597	5,375	6,691
Total liabilities	77,232	89,994	99,249	116,327	139,085
APPLICATION OF FUNDS					
Advances	77,049	89,578	98,659	114,921	137,512
Investments	124	156	156	172	189
Fixed assets	93	91	135	139	142
Other Assets	366	609	797	1,096	1,241
Total assets	77,632	90,433	99,747	116,327	139,085

Source: Company, HDFC sec Inst Research

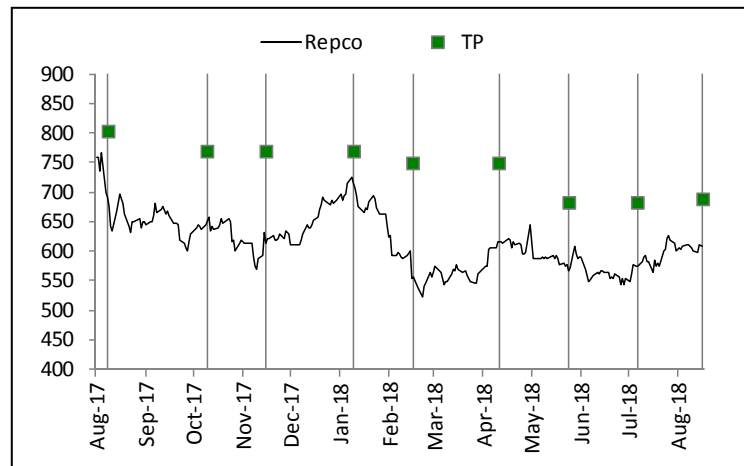
Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
Valuation Ratios					
EPS	24.0	29.1	32.9	39.8	46.8
Earnings Growth (%)	21.9	21.4	13.0	20.9	17.6
BVPS	153	182	212	249	292
Adj. BVPS (100% cover)	147	162	192	232	276
DPS (Rs)	1.8	2.0	2.5	2.8	3.3
RoAA (%)	2.17	2.17	2.17	2.30	2.29
ROAE (%)	17.0	17.4	16.7	17.3	17.3
P/E (x)	25.4	20.9	18.5	15.3	13.0
P/ABV (x)	4.15	3.76	3.17	2.62	2.21
P/PPOP (x)	14.1	11.5	10.0	8.9	7.7
Dividend Yield (%)	0.30	0.33	0.41	0.46	0.53
Profitability					
Yield on Advances (%)	12.42	12.17	11.44	11.49	11.57
Cost of Funds (%)	9.42	9.17	8.26	8.44	8.59
Core Spread (%)	3.00	3.00	3.18	3.06	2.98
NIM (%)	4.43	4.41	4.55	4.51	4.44
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	0.9	0.8	0.8	0.8	0.8
Cost-Income Ratio (%)	19.3	16.9	17.0	17.0	17.2
Balance Sheet Structure Ratios					
Loan Growth (%)	27.9	16.3	10.1	16.5	19.7
Borrowing Growth (%)	28.1	15.6	7.6	17.2	19.7
Equity/Assets (%)	12.4	12.6	13.4	13.4	13.1
Equity/Loans (%)	12.4	12.7	13.5	13.5	13.3
CAR (%)	20.8	21.3	20.7	20.8	20.4

	FY16	FY17	FY18	FY19E	FY20E
Asset Quality					
Gross NPLs (Rs.mn)	1,009	2,328	2,827	2,660	2,663
Net NPLs (Rs.mn)	368	1,227	1,255	1,024	1,010
Gross NPLs (%)	1.3	2.6	2.9	2.8	2.3
Net NPLs (%)	0.5	1.4	1.3	0.9	0.7
Coverage Ratio (%)	63.5	47.3	55.6	61.5	62.1
Provision/Avg. AUM (%)	0.6	0.6	0.7	0.4	0.4
RoAA Tree					
Net Interest Income	4.39%	4.38%	4.51%	4.46%	4.39%
Non Interest Income	0.43%	0.38%	0.32%	0.31%	0.30%
Operating Cost	0.93%	0.80%	0.82%	0.81%	0.81%
Provisions	0.57%	0.62%	0.71%	0.44%	0.38%
Tax	1.16%	1.17%	1.14%	1.21%	1.20%
ROAA	2.17%	2.17%	2.17%	2.30%	2.29%
Leverage (x)	7.8	8.0	7.7	7.5	7.6
ROAE	16.9%	17.3%	16.6%	17.2%	17.3%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Aug-17	690	BUY	804
9-Oct-17	637	BUY	770
16-Nov-17	614	BUY	770
9-Jan-18	715	BUY	770
16-Feb-18	555	BUY	750
10-Apr-18	617	BUY	750
24-May-18	567	BUY	683
6-Jul-18	575	BUY	683
17-Aug-18	609	BUY	689

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

