

Repc Home Finance

BUY

INDUSTRY	NBFCs
CMP (as on 16 Nov 2018)	Rs 400
Target Price	Rs 562
Nifty	10,682
Sensex	35,457

KEY STOCK DATA

Bloomberg	REPCO IN
No. of Shares (mn)	63
MCap (Rsbm) / (\$ mn)	25/348
6m avg traded value (Rsmn)	190

STOCK PERFORMANCE (%)

52 Week high / low	Rs 739/293		
	3M	6M	12M
Absolute (%)	(34.2)	(32.6)	(35.6)
Relative (%)	(28.4)	(32.8)	(42.7)

SHAREHOLDING PATTERN (%)

Promoters	37.13
FIs & Local MFs	19.83
FPIs	32.56
Public & Others	10.48

Source : BSE

Near-term challenges persist

Recovery continued into 2Q as expected. Provision reversals and lower G/NNPAs (down ~40bps QoQ each to 3.6%/2% resp.) heralded improving asset quality. Revival in disbursal and sanction growth at ~10% each QoQ was promising. Consequently, the book grew ~11/3%. While PPOP remained flat QoQ at ~Rs 970mn, provision reversals drove PBT to ~Rs1bn (+9% QoQ). Declining yields (11.2%, -20bps) and flat CoF (8.2%) led to a 20bps fall in NIMs (4.4%).

Improving asset quality and geographical diversification of AUM are encouraging. However, the metamorphosis of the borrowing profile (share of bank borrowing increased ~500bps QoQ to ~69% and that of NCDs and NHB loans declined) and its impact on NIMs in the current environment need to be watched. Our ABVs fall by ~4/5% in FY19/20E to factor in tighter liquidity conditions (slower AUM growth and NIM compression). However, the mgt claims to have sufficient funds (~Rs 17bn of unutilised limits and sanctions). Maintain BUY with a TP of Rs 562 (2.0x Sept-20 ABV of Rs 281).

Financial Summary

(Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Interest Income	1153.7	1216.6	(5.2)	1185.7	(2.7)	4,286	4,631	5,141	5,852
PPOP	969.5	1050.7	(7.7)	969.3	0.0	3,813	4,095	4,517	5,134
PAT	662.1	694.4	(4.7)	609.3	8.7	2,060	2,417	2,688	3,072
EPS (Rs)	10.58	11.10	(4.7)	9.74	8.7	32.9	38.6	43.0	49.1
ROAE (%)						2.17	2.27	2.21	2.18
ROAA (%)						16.7	16.8	16.1	15.9
Adj. BVPS (Rs)						192	223	260	302
P/ABV (x)						2.08	1.79	1.54	1.32
P/E (x)						12.1	10.4	9.3	8.1

Source: Company, HDFC sec Inst Research;

Highlights of the quarter

- Asset quality improved QoQ as G/NNPAs dipped ~40bps each to 3.6%/2% in line with seasonal trends. Sequential improvement was led by a 160bps decrease in LAP NPAs to 5.2%, while Home Loan NPAs remained stable at 3%. The stock of repossessed properties at ~Rs 460mn and the fact that ~70% of GNPA's are under various stages of SARFAESI should provide some respite hereon. We have factored in GNPA's of ~2.5% for FY19/20/21E.
- Loan growth at ~11/3% YoY/QoQ was driven by Individual Loans at 13/3% (~82% of total AUM). LAP growth (5% YoY) was muted - a cautious stance. Disbursements and sanctions revived, growing ~10% each QoQ. Geographical growth was consistent with the management's strategy, as growth in TN remained subdued while it picked up across other states (sustainability will be the key). We have factored in a loan CAGR of 15% vs. ~18% earlier over FY18-21E.
- Near-term outlook:** The stock will remain lackluster due to tepid growth and systemic liquidity issues.

Five Quarters At A Glance

(Rs mn)	2QFY18	3QFY18*	4QFY18*	1QFY19	2QFY19	YoY Growth	QoQ Growth
Net Interest Income	1,217	1,071	1,164	1,186	1,154	-5.2%	-2.7%
Non Interest Income	22	82	59	3	51	139.1%	1876.9%
Operating income	1,238	1,153	1,223	1,188	1,205	-2.7%	1.4%
Operating expenses	187	217	214	219	236	25.7%	7.6%
Pre provision profits	1,051	936	1,009	969	970	-7.7%	0.0%
Provisions and contingencies	(8)	194	144	47	(35)	342.3%	-174.0%
PBT	1,059	742	865	923	1,004	-5.1%	8.8%
Provision for Tax	358	257	300	314	338	-5.6%	7.8%
OCI	6			(0)	4		
PAT (incl. OCI)	706	485	565	609	670	-5.2%	10.0%
Balance Sheet items							
Sanctions (Rs mn)	7,645	7,725	9,225	7,580	8,340	9.1%	10.0%
Disbursements (Rs mn)	7,525	6,571	8,487	7,039	7,766	3.2%	10.3%
Loan Book (Rs mn)	93,212	94,904	98,568	100,745	103,820	11.4%	3.1%
Home Loans (%)	80.6	81.1	81.4	81.8	81.7	110 bps	-10 bps
LAP (%)	19.4	18.9	18.6	18.2	18.3	-110 bps	10 bps
Borrowings (Rs mn)							
Banks (%)	78,131	78,952	81,370	83,236	87,154	11.5%	4.7%
NHB (%)	55.3	55.0	54.5	64.1	69.3	1397 bps	525 bps
Repco (%)	13.5	13.0	11.6	8.8	7.9	-562 bps	-90 bps
NCD (%)	6.4	8.0	7.7	7.5	7.5	112 bps	-1 bps
CP (%)	18.4	18.0	16.4	14.9	10.2	-823 bps	-470 bps
	6.4	7.0	9.8	4.8	5.2	-124 bps	36 bps
Profitability							
Yield on Advances (%)	11.90	11.50	11.50	11.40	11.20	-70 bps	-20 bps
Cost of Funds (%)	9.20	8.30	8.00	8.20	8.20	-100 bps	0 bps
Spreads	2.70	3.20	3.50	3.20	3.00	30 bps	-20 bps
NIM (%)	4.80	4.60	4.80	4.60	4.40	-40 bps	-20 bps
Cost-Income ratio (%)	15.1	18.8	17.5	18.4	19.6	441 bps	112 bps
Tax rate (%)	33.8	34.6	34.7	34.0	33.7	-16 bps	-31 bps
Asset quality							
Gross NPA (Rs mn)	2,983	3,515	2,827	3,987	3,730	24.7%	-6.7%
Net NPA (Rs mn)	1,484	1,915	1,255	2,371	2,130	39.4%	-10.2%
Gross NPAs (%)	3.20	3.70	2.87	3.96	3.60	40 bps	-36 bps
Net NPAs (%)	1.90	2.05	1.29	2.39	2.05	15 bps	-34 bps
Coverage ratio (%)	40.6	45.5	55.1	39.6	43.1	243 bps	341 bps
Home Loans NPA %	3.00	3.20	2.40	3.00	3.00	0 bps	0 bps
LAP NPA %	5.20	5.90	4.90	6.80	5.20	0 bps	-160 bps

In line with expectations, as NIMs dipped 40/20bps YoY/QoQ in spite of a loan growth of 11/3%

Opex continued to grow led by a 56/6% YoY/QoQ growth in other opex and a 9/6% rise in staff costs

PPOP remained sequentially flat, however, PBT grew ~9% QoQ on account of net provision reversals

After falling in 1QFY19, sanction and disbursement growth revived

Loan book growth was led by Home Loans at ~13/3% YoY/QoQ and LAP at 5/4%

The avg. of cost of funds was 8.2%. Share of banks borrowings jumped (high cost-8.4%) while borrowings from the NHB reduced (low cost-7.6%)

NIMs fell sequentially as yields fell 20bps QoQ while the CoF remained flat

On account of lower NII (-5/3% YoY/QoQ) and higher opex (+26/8% YoY/QoQ)

Salaried GNPA's rose 20bps QoQ to ~1.7% while Non-Salaried GNPA's fell 100bps to 4.6%

The PCR improved sequentially in spite of provision reversals as GNPA's dipped significantly

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

Loan growth was led by Home Loans at ~13/3% YoY/QoQ and LAP at 5/4%

YoY growth in both Home Loans and LAP hit a 5 qtr high

The mix of Home Loan vs LAP remained stable QoQ

NIMs fell 20bps QoQ as Yields fell 20bps whereas the CoF was flat

The average cost of borrowings was 8.2%

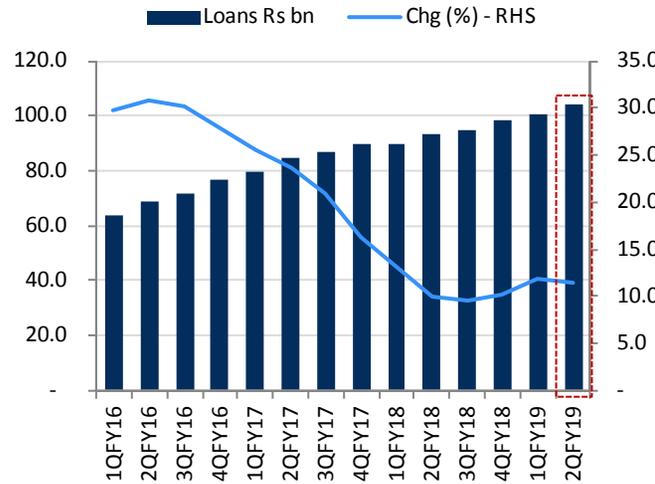
Share of bank borrowings rose by ~500bps QoQ to ~69%, while the share of NCDs fell ~470bps to ~10%

CPs formed merely ~5% of total borrowings (~40bps QoQ)

The management guided for NIMs of ~4.5% through FY19

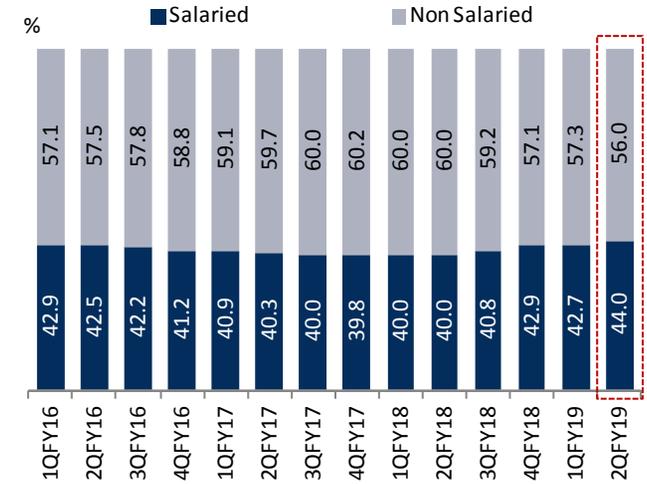
Home Loan yields stood at 10.64% while LAP yields were 13.8%

Loans grew by ~11/3% YoY/QoQ



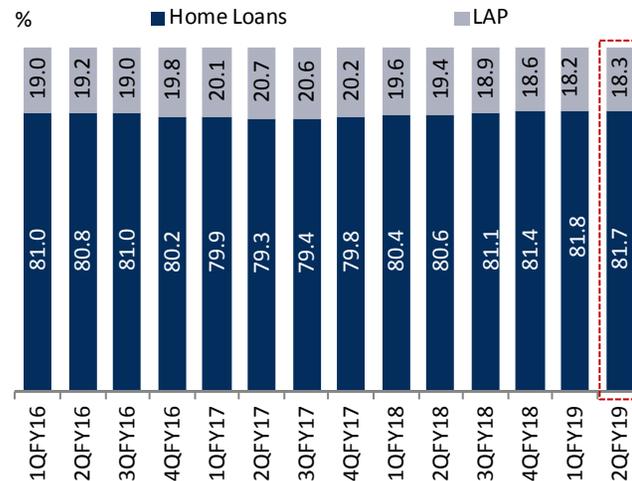
Source: Bank, HDFC sec Inst Research

Share of Salaried Loans Increased QoQ



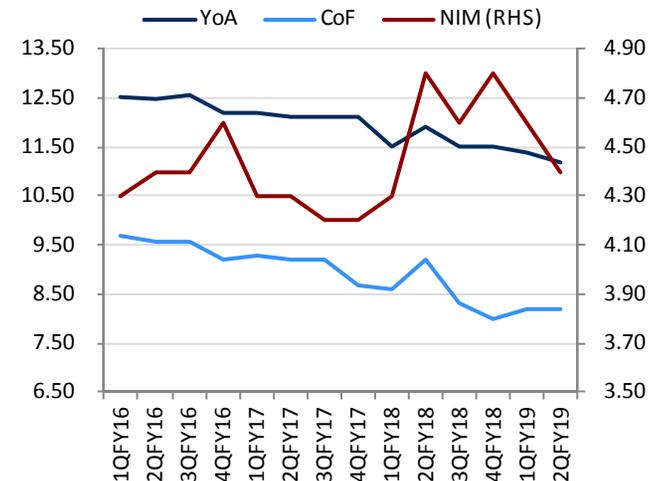
Source: Bank, HDFC sec Inst Research

Home Loan vs LAP Mix Remained Stable QoQ



Source: Bank, HDFC sec Inst Research

NIMs Dip ~20bps QoQ to ~4.4%



Source: Bank, HDFC sec Inst Research

Home Loan sanctions amounted to ~Rs 6.36bn while LAP sanctions were ~Rs 1.98bn

Home Loan disbursals stood at ~Rs 5.98bn while LAP disbursals were ~Rs 1.79bn

Disbursals in Tamil Nadu amounted to ~Rs 4.2bn while disbursals in other states amounted to ~Rs 3.6bn

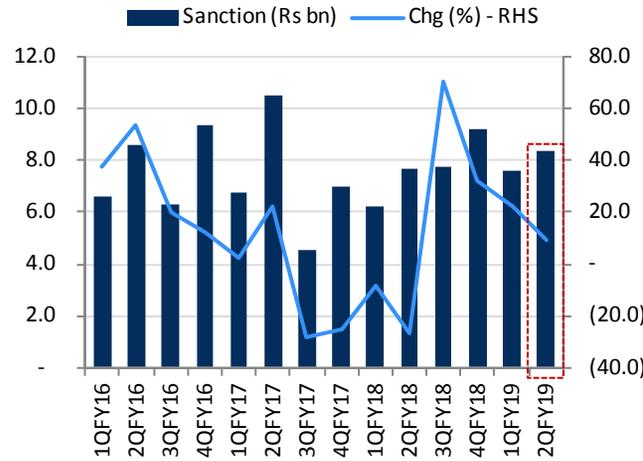
Geographically, loan growth was driven by Telangana at ~26/5% YoY/QoQ, followed by Maharashtra at ~24/6% and Karnataka at ~23/5%

The Gujarat loan book grew ~42/11%, albeit on a smaller base

The loan growth outside Tamil Nadu is indicative of the management's strategy to diversify the book. The sustainability of this growth is the key

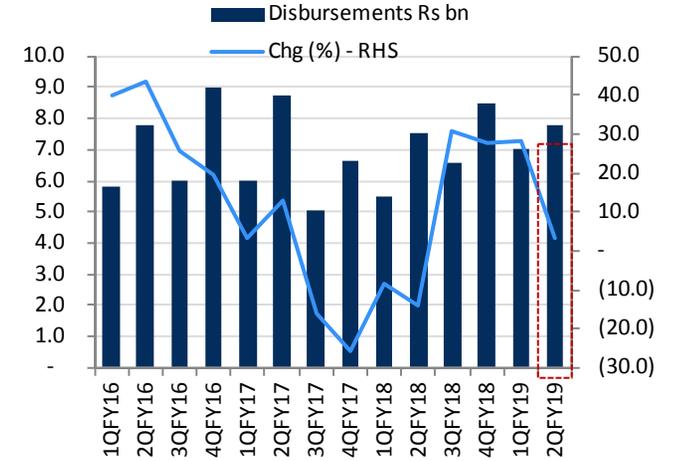
However, Tamil Nadu continues to contribute to a majority of the loan book at ~58%, followed by Karnataka at ~13% and Maharashtra at ~8%

Sanctions Grew ~9/10% YoY/QoQ



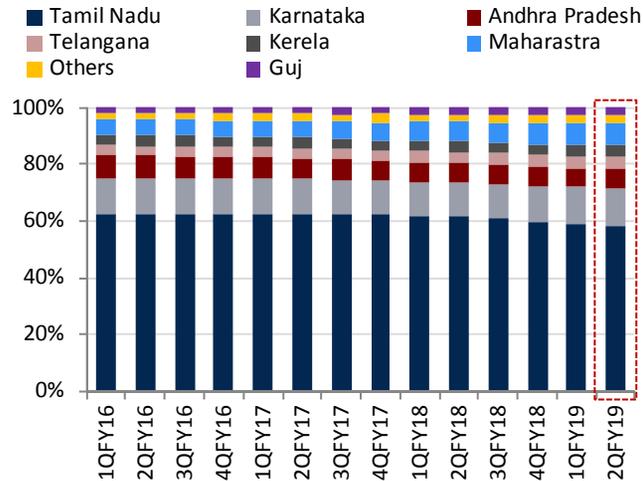
Source: Bank, HDFC sec Inst Research

Disbursements Grew ~3/10% YoY/QoQ



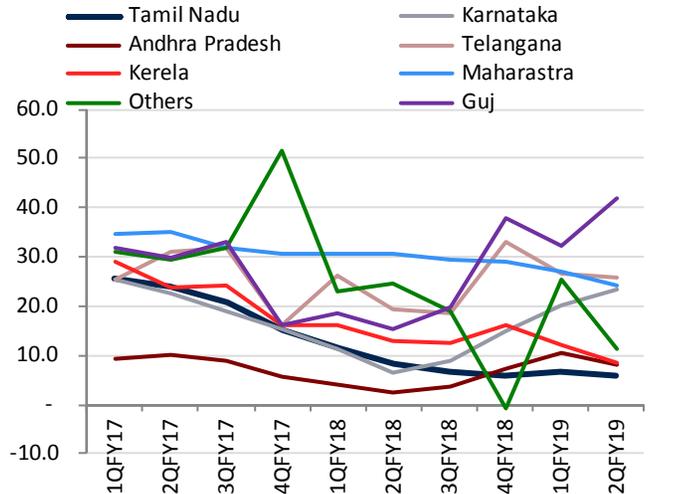
Source: Bank, HDFC sec Inst Research

State-wise Mix: Top 3 States Contribute ~ 80%



Source: Bank, HDFC sec Inst Research

State-wise Loan Book Growth



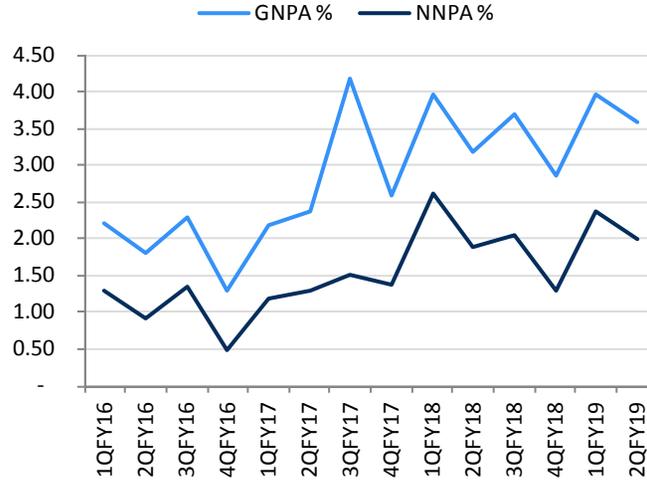
Source: Bank, HDFC sec Inst Research

Overall GNPA's improved sequentially by ~40bps to 3.60%; however, YoY GNPA's deteriorated by 40bps

Home Loan GNPA's remained sequentially flat at 3% while LAP GNPA's dipped 160bps QoQ to 5.2%

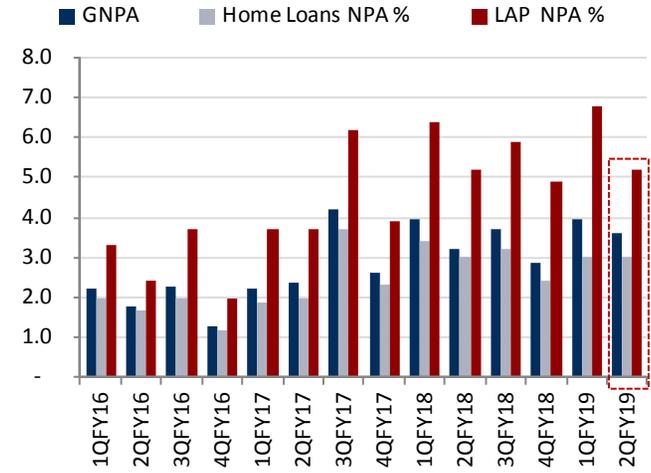
Salaried GNPA's increased 20bps QoQ to 1.7% while Non Salaried GNPA's dipped 100bps to 4.6%

GNPA/NNPAs Improved Sequentially



Source: Bank, HDFC sec Inst Research

LAP GNPA's Dipped 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 (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
MMFS #	269	438	BUY	487	141	162	180	18.2	14.9	12.7	2.97	2.60	2.44	14.5	16.0	17.4	2.39	2.46	2.53
SHTF	280	1,235	BUY	1,544	604	711	832	11.9	9.9	8.5	2.05	1.74	1.48	16.3	17.1	17.3	2.47	2.56	2.51
LICHF	229	453	BUY	515	273	318	369	9.6	8.6	7.5	1.66	1.42	1.23	17.5	16.9	16.9	1.30	1.26	1.24
CIFC	196	1,256	BUY	1,553	354	433	522	16.4	13.5	11.2	3.55	2.90	2.40	21.1	21.4	21.4	2.73	2.78	2.85
REPCO	25	400	BUY	562	223	260	302	10.4	9.3	8.1	1.79	1.54	1.32	16.8	16.1	15.9	2.27	2.21	2.18

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

Income Statement

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Interest Earned	10,141	10,770	12,092	13,940	16,230
Interest Expended	6,463	6,484	7,461	8,799	10,379
Net Interest Income	3,678	4,286	4,631	5,141	5,852
Other Income	318	308	327	358	416
Total Income	3,996	4,594	4,958	5,499	6,268
Total Operating Exp	676	781	863	982	1,134
PPOP	3,320	3,813	4,095	4,517	5,134
Provisions & Contingencies	518	671	408	416	448
PBT	2,802	3,142	3,687	4,101	4,686
Provision for Tax	979	1,082	1,270	1,412	1,614
PAT	1,823	2,060	2,417	2,688	3,072

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	626	626	626	626	626
Reserves	10,747	12,657	14,869	17,338	20,155
Net worth	11,372	13,283	15,495	17,964	20,780
Borrowings	75,604	81,370	95,001	108,784	126,813
Other Liabilities	3,457	5,094	2,662	3,524	4,180
Total liabilities	90,433	99,747	113,157	130,272	151,774
APPLICATION OF FUNDS					
Advances	89,578	98,659	111,766	128,739	150,074
Investments	156	156	172	189	208
Fixed assets	91	135	139	142	146
Other Assets	609	797	1,081	1,202	1,345
Total assets	90,433	99,747	113,157	130,272	151,774

Source: Company, HDFC sec Inst Research

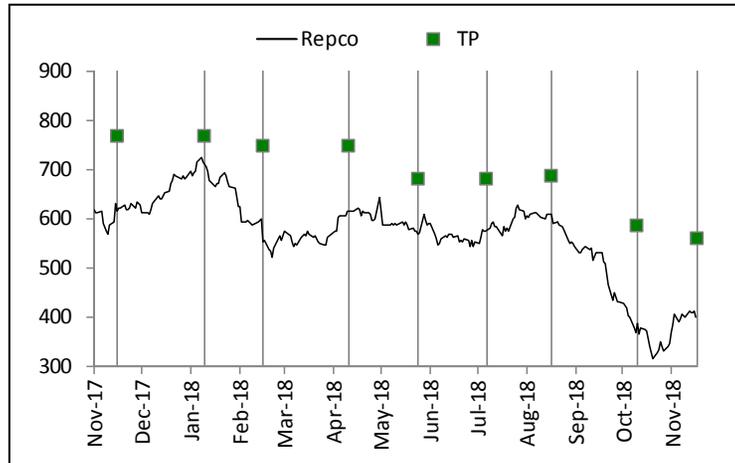
Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
Valuation Ratios					
EPS	29.1	32.9	38.6	43.0	49.1
Earnings Growth (%)	21.4	13.0	17.3	11.2	14.3
BVPS	182	212	248	287	332
Adj. BVPS (100% cover)	162	192	223	260	302
DPS (Rs)					
RoAA (%)	2.17	2.17	2.27	2.21	2.18
ROAE (%)	17.4	16.7	16.8	16.1	15.9
P/E (x)	13.7	12.1	10.4	9.3	8.1
P/ABV (x)	2.47	2.08	1.79	1.54	1.32
P/PPOP (x)	7.5	6.6	6.1	5.5	4.9
Dividend Yield (%)	0.50	0.63	0.70	0.75	0.88
Profitability					
Yield on Advances (%)	12.17	11.44	11.49	11.59	11.64
Cost of Funds (%)	9.17	8.26	8.46	8.64	8.81
Core Spread (%)	3.00	3.18	3.03	2.96	2.83
NIM (%)	4.41	4.55	4.40	4.28	4.20
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	0.8	0.8	0.8	0.8	0.8
Cost-Income Ratio (%)	16.9	17.0	17.4	17.9	18.1
Balance Sheet Structure Ratios					
Loan Growth (%)	16.3	10.1	13.3	15.2	16.6
Borrowing Growth (%)	15.6	7.6	16.8	14.5	16.6
Equity/Assets (%)	12.6	13.3	13.7	13.8	13.7
Equity/Loans (%)	12.7	13.5	13.9	14.0	13.8
CAR (%)	21.3	23.0	21.3	21.5	21.3

	FY17	FY18	FY19E	FY20E	FY21E
Asset Quality					
Gross NPLs (Rs.mn)	2,328	2,827	3,097	3,232	3,358
Net NPLs (Rs.mn)	1,227	1,255	1,517	1,686	1,871
Gross NPLs (%)	2.6	2.9	2.8	2.5	2.2
Net NPLs (%)	1.4	1.3	1.4	1.3	1.2
Coverage Ratio (%)	47.3	55.6	51.0	47.8	44.3
Provision/Avg. AUM (%)	0.6	0.7	0.4	0.3	0.3
RoAA Tree					
Net Interest Income	4.38%	4.51%	4.35%	4.22%	4.15%
Non Interest Income	0.38%	0.32%	0.31%	0.29%	0.30%
Operating Cost	0.80%	0.82%	0.81%	0.81%	0.80%
Provisions	0.62%	0.71%	0.38%	0.34%	0.32%
Tax	1.17%	1.14%	1.19%	1.16%	1.14%
ROAA	2.17%	2.17%	2.27%	2.21%	2.18%
Leverage (x)	8.0	7.7	7.4	7.3	7.3
ROAE	17.4%	16.7%	16.8%	16.1%	15.9%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
9-Oct-18	377	BUY	588
17-Nov-18	400	BUY	562

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

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

