

Repco Home Finance

BUY

Still on low gear

A slight uptick in growth, and improvement in asset quality (seasonal) made for a steady 4Q at Repco. With attractive valuations (1.36x FY21E), we maintain **BUY** with a TP of Rs 592 (2.0x Mar 21E ABV of Rs 296).

HIGHLIGHTS OF THE QUARTER

- **Seasonal Improvement in Asset Quality:** Broad based improvement was visible (GNPAs ~3%, -90bps QoQ), with a ~180bps decline in LAP NPAs (5%) and a ~70bps decline in Home Loan NPAs (~2.5%). The improvement played out across segments, too, with a decline in salaried (-40bps) and non-salaried (-130bps) NPAs. Caution on large ticket LAP is welcome. We have factored in GNPAs of ~2.8% over FY19-21E. LAP recoveries remain a crucial monitorable.
- **Seasonal Uptick in Growth:** Disbursals grew ~4/20% to ~Rs 8.8bn led by LAP (+28%). AUM growth was contained at ~12/4%, as repayment rates increased ~180bps QoQ to 19%, surprisingly. A sustained increase in salaried loans in the mix (45.9%, +300/100bps) augurs well for asset quality. Geographical diversification of the book continues in

line with guidance. We expect AUM growth of ~13% over FY19-21E, as ex-TN growth picks up. Nevertheless, our growth estimates are unexciting (given the small base).

- **NIMs Compress:** At ~4.3%, NIMs fell ~20bps QoQ, as yields dipped ~10bps and CoF moved up ~10bps. Repco actually raised lending rates by ~60bps in FY19. Income reversal of ~Rs 130mn on delinquent loans hit reported yields (puzzling). Adjusted yields rose ~25bps and NIMs were ~4.8%. We have factored in stable NIMs of 4.3% over FY19-21E.
- **Near-term outlook:** Sectoral headwinds will cap gains in spite of a dip in GNPAs and uptick in growth.

STANCE

Sluggish growth in TN and the avoidance of risky (big ticket) LAP will stunt REPCO's growth. Margins will also be constrained (yields and CoF should move in tandem). Recoveries in LAP may help asset quality improvement. REPCO's RoAE of ~16% justifies our target multiple of 2x, despite tepid growth. At its size, Repco should be growing faster, but sadly isn't.

Financial Summary

| (Rs mn) | 4QFY19 | 4QFY18 | YoY (%) | 3QFY19 | QoQ (%) | FY18 | FY19P | FY20E | FY21E |
|---------------------|--------|--------|---------|--------|---------|-------|-------|-------|-------|
| Net Interest Income | 1,164 | 1,135 | 2.5 | 1,190 | (2.2) | 4,362 | 4,434 | 5,068 | 5,804 |
| PPOP | 890 | 921 | (3.4) | 939 | (5.2) | 3,822 | 3,768 | 4,382 | 5,032 |
| PAT | 518 | 327 | 58.8 | 558 | (7.1) | 2,010 | 2,346 | 2,593 | 2,997 |
| EPS (Rs) | 8.3 | 5.2 | 58.8 | 8.9 | (7.1) | 32.2 | 37.6 | 41.6 | 48.0 |
| ROAA (%) | | | | | | 2.14 | 2.28 | 2.21 | 2.24 |
| ROAE (%) | | | | | | 16.5 | 16.6 | 15.8 | 15.8 |
| Adj. BVPS (Rs) | | | | | | 185 | 211 | 250 | 296 |
| P/ABV (x) | | | | | | 2.18 | 1.91 | 1.61 | 1.36 |
| P/E (x) | | | | | | 12.5 | 10.7 | 9.7 | 8.4 |

Source: Company, HDFC sec Inst Research

| | |
|--------------------------------|---------------|
| INDUSTRY | NBFCs |
| CMP (as on 31 May 2019) | Rs 403 |
| Target Price | Rs 592 |
| Nifty | 11,923 |
| Sensex | 39,714 |

| | |
|----------------------------|----------|
| KEY STOCK DATA | |
| Bloomberg | REPCO IN |
| No. of Shares (mn) | 63 |
| MCap (Rsbn) / (\$ mn) | 25/360 |
| 6m avg traded value (Rsmn) | 336 |

| | |
|------------------------------|-------------------|
| STOCK PERFORMANCE (%) | |
| 52 Week high / low | Rs 648/293 |
| | 3M 6M 12M |
| Absolute (%) | 20.3 8.9 (31.8) |
| Relative (%) | 9.5 (0.8) (44.2) |

| | |
|---------------------------------|---------------|
| SHAREHOLDING PATTERN (%) | |
| | Dec-18 Mar-19 |
| Promoters | 37.1 37.1 |
| FIs & Local MFs | 19.8 25.4 |
| FPIs | 32.6 23.5 |
| Public & Others | 10.5 14.0 |
| Pledged Shares | |

Source : BSE

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Five Quarters At A Glance

| (Rs mn) | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | YoY Growth | QoQ Growth |
|------------------------------|--------|---------|---------|---------|---------|------------|------------|
| Net Interest Income | 1,135 | 1,186 | 1,154 | 1,190 | 1,164 | 2.5% | -2.2% |
| Non Interest Income | 2 | 3 | 51 | 2 | 4 | 52.2% | 105.9% |
| Operating income | 1,138 | 1,188 | 1,205 | 1,192 | 1,167 | 2.6% | -2.1% |
| Operating expenses | 216 | 219 | 236 | 253 | 277 | 28.0% | 9.5% |
| Pre provision profits | 921 | 969 | 970 | 939 | 890 | -3.4% | -5.2% |
| Provisions and contingencies | 404 | 47 | (35) | 182 | (24) | NA | NA |
| PBT | 517 | 923 | 1,004 | 757 | 915 | 76.7% | 20.8% |
| Provision for Tax | 192 | 314 | 338 | 201 | 399 | 108.5% | 99.1% |
| OCI | 1 | (0) | 4 | 2 | 3 | 433.3% | 77.8% |
| PAT (incl. OCI) | 327 | 609 | 670 | 558 | 518 | 58.8% | -7.1% |
| Balance Sheet items | | | | | | | |
| Sanctions (Rs mn) | 9,225 | 7,580 | 8,340 | 8,052 | 9,728 | 5.5% | 20.8% |
| Disbursements (Rs mn) | 8,487 | 7,039 | 7,766 | 7,332 | 8,781 | 3.5% | 19.8% |
| Loan Book (Rs mn) | 98,568 | 100,745 | 103,820 | 106,668 | 110,368 | 12.0% | 3.5% |
| Home Loans (%) | 81.4 | 81.8 | 81.7 | 81.6 | 81.6 | 20 bps | 0 bps |
| LAP (%) | 18.6 | 18.2 | 18.3 | 18.4 | 18.4 | -20 bps | 0 bps |
| Borrowings (Rs mn) | 81,370 | 83,236 | 87,154 | 89,261 | 92,790 | 14.0% | 4.0% |
| Banks (%) | 54.5 | 64.1 | 69.3 | 75.0 | 72.7 | 1824 bps | -221 bps |
| NHB (%) | 11.6 | 8.8 | 7.9 | 7.2 | 9.7 | -184 bps | 249 bps |
| Repco (%) | 7.7 | 7.5 | 7.5 | 7.9 | 8.6 | 95 bps | 75 bps |
| NCD (%) | 16.4 | 14.9 | 10.2 | 9.9 | 8.9 | -752 bps | -102 bps |
| CP (%) | 9.8 | 4.8 | 5.2 | - | - | -983 bps | 0 bps |
| Profitability | | | | | | | |
| Yield on Advances (%) | 11.50 | 11.40 | 11.20 | 11.40 | 11.30 | -20 bps | -10 bps |
| Cost of Funds (%) | 8.00 | 8.20 | 8.20 | 8.30 | 8.40 | 40 bps | 10 bps |
| Spreads | 3.50 | 3.20 | 3.00 | 3.10 | 2.90 | -60 bps | -20 bps |
| NIM (%) | 4.80 | 4.60 | 4.40 | 4.50 | 4.30 | -50 bps | -20 bps |
| Cost-Income ratio (%) | 19.0 | 18.4 | 19.6 | 21.2 | 23.7 | 470 bps | 250 bps |
| Tax rate (%) | 37.0 | 34.0 | 33.7 | 26.5 | 43.7 | 665 bps | 1716 bps |
| Asset quality # | | | | | | | |
| Gross NPA (Rs mn) | 2,827 | 3,987 | 3,730 | 4,170 | 3,260 | 15.3% | -21.8% |
| Net NPA (Rs mn) | 1,255 | 2,371 | 3,010 | 3,270 | 2,080 | 65.7% | -36.4% |
| Gross NPAs (%) | 2.87 | 3.96 | 3.60 | 3.90 | 3.00 | 13 bps | -90 bps |
| Net NPAs (%) | 1.29 | 2.39 | 2.90 | 3.07 | 1.88 | 60 bps | -119 bps |
| Coverage ratio (%) | 55.1 | 39.6 | 19.4 | 21.6 | 36.2 | -1886 bps | 1461 bps |
| Home Loans NPA % | 2.40 | 3.00 | 3.00 | 3.20 | 2.50 | 10 bps | -70 bps |
| LAP NPA % | 4.90 | 6.80 | 5.20 | 6.80 | 5.00 | 10 bps | -180 bps |
| Salaried NPA % | 1.20 | 1.50 | 1.70 | 1.50 | 1.10 | -10 bps | -40 bps |
| Non Salaried NPA % | 4.10 | 5.60 | 4.60 | 5.80 | 4.50 | 40 bps | -130 bps |

Led by a 20bps QoQ drop in NIMs and a 3.5% AUM growth

Staff costs were ~40/16% higher as the co was required to provide additionally for retirement benefits; other opex was flat

We believe significant recoveries & upgrades contributed to provision reversals in 4Q even as Repco provided 100% on certain exposures

The sequential jump in sanctions and disbursements was a 4Q phenomenon; As repayment rates increased ~180bps QoQ, loan growth was contained

Ex-Tamil Nadu growth was ~22% YoY, constituting ~41% of the overall book

The dip in yields was due to income reversals of ~Rs 130mn on delinquent loans; ex-reversals yields and NIMs were ~11.8% and 4.8%; Repco raised lending rates by 60bps in FY19

Sharp jump due to a sequential rise in costs and income reversals

Broad based improvement in asset quality, a 4Q phenomenon

Source: HDFC sec Inst Research

Loan growth was led by Home Loans at ~12/3.5% YoY/QoQ and LAP at 11/3.5%

The mix of Home Loan (81.6%) vs. LAP (18.4%) remained largely stable

After a ~10bps QoQ rise in 3Q, NIMs dipped 20bps as Yields dipped ~10bps while the CoF rose ~10bps

Repco has increased rates by ~60bps over FY19

Income reversals of ~Rs 130mn resulted in a dip in yields and NIMs

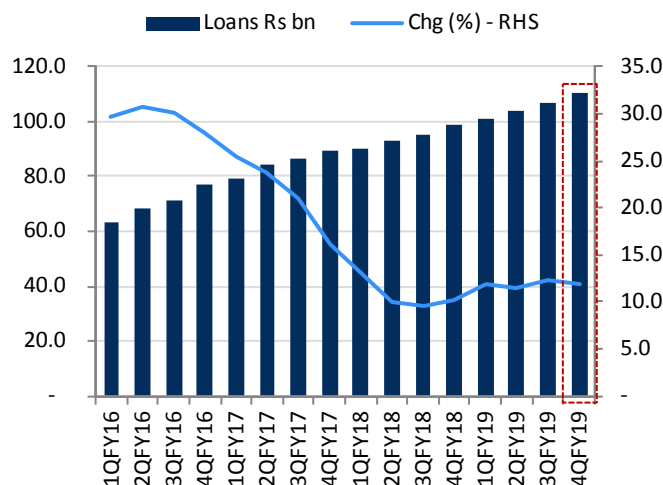
Ex-reversals, yields and NIMs were ~11.8/4.8%

The average CoF was 8.4%

NHB and Repco Bank borrowings jumped ~40/14% QoQ to form ~9.7/8.6% vs. 7.2/7.9% QoQ

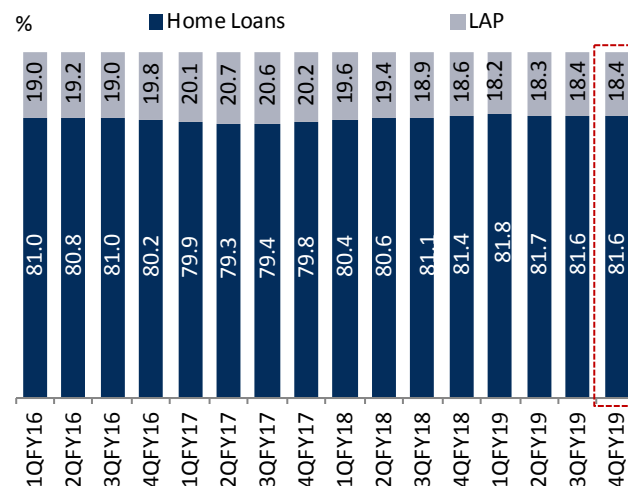
Bank borrowings were flat QoQ; contributing ~73% of the total borrowings vs. 75% QoQ

AUM Growth Steady At ~12/3% YoY/QoQ



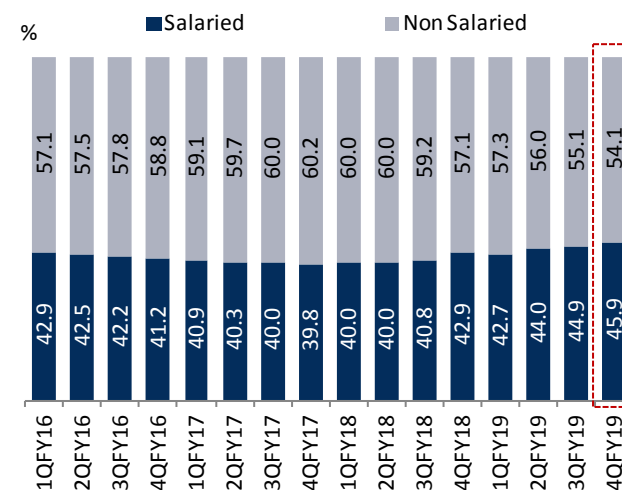
Source: Co and HDFC sec Inst Research

Home Loan vs LAP Mix Remained Stable QoQ



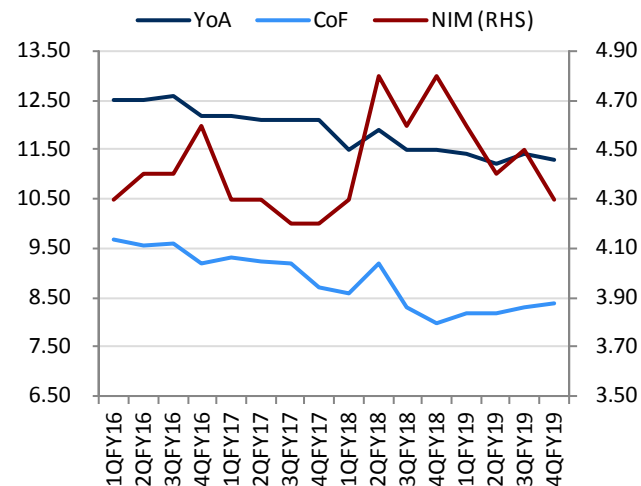
Source: Co and HDFC sec Inst Research

Share of Salaried Loans Continues to Rise



Source: Co and HDFC sec Inst Research

NIMs Dipped ~20bps QoQ to ~4.3%



Source: Co and HDFC sec Inst Research

Home Loan disbursements were ~Rs 6.7bn (+18% QoQ) while LAP disbursements were ~ Rs 2.1bn (+28% QoQ)

Geographically, loan growth was driven by Telangana at ~26/6%, followed by Maharashtra at ~25/7% YoY/QoQ, and Karnataka at ~22/6%

The Gujarat loan book grew ~48/14%, albeit on a smaller base (Rs 36bn, 3.3% of total AUM)

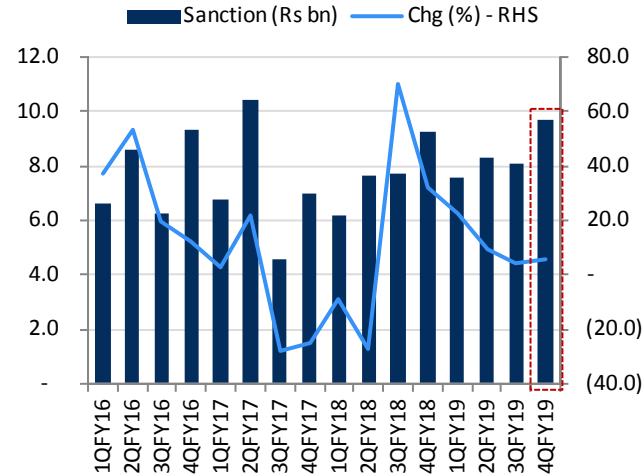
The loan growth outside Tamil Nadu is indicative of the management's strategy to diversify the book

However, Tamil Nadu continues to contribute to a majority of the loan book at ~56.6%, followed by Karnataka at ~13.8% and Maharashtra at ~8.4%

TN loan book grew a mere 6/1%

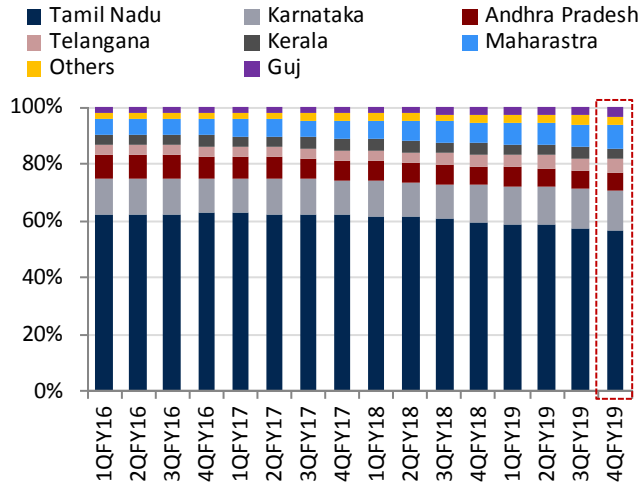
Repco expanded into Rajasthan and MP

Sactions + 21% QoQ



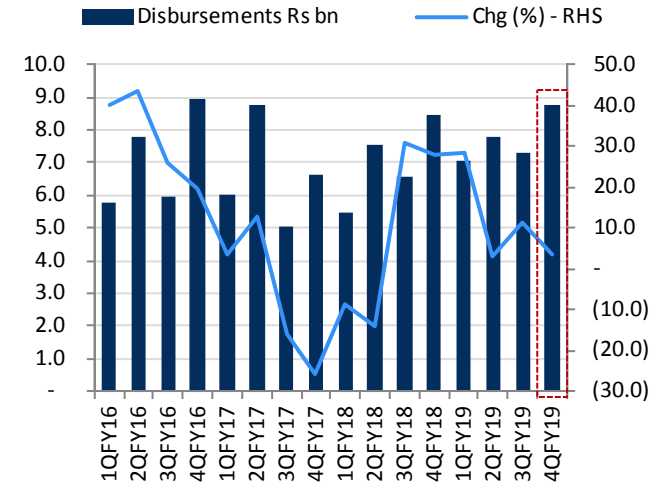
Source: Co and HDFC sec Inst Research

State-wise Mix: Top 3 States Contribute ~79%



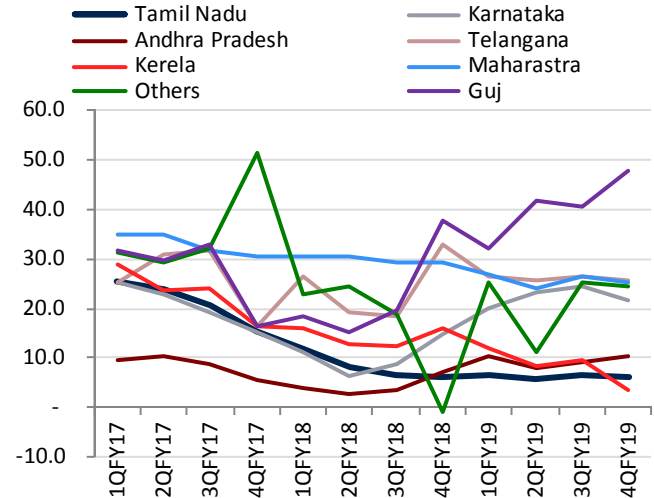
Source: Co and HDFC sec Inst Research

Disbursements, Too, Jumped ~20% QoQ



Source: Co and HDFC sec Inst Research

State-wise Loan Book Growth



Source: Co and HDFC sec Inst Research

Overall Asset quality improved QoQ with GNPA's down ~90bps QoQ to 3% (a 4Q phenomenon)

GNPA split:

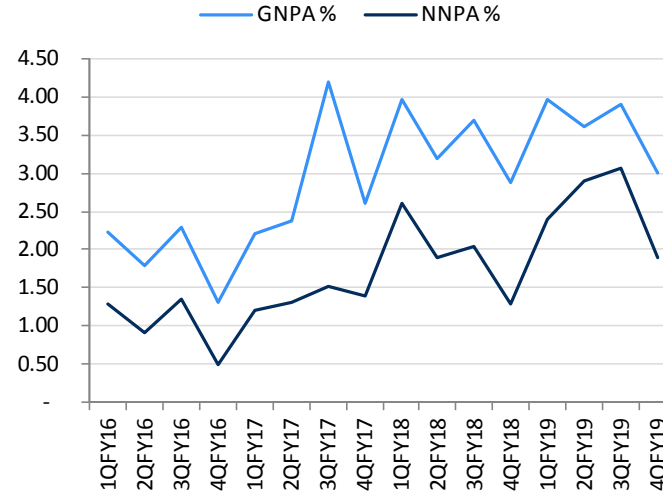
Home loan: 2.5% vs. 3.2% QoQ

LAP: 5% vs. 6.8%

Salaried: 1.1% vs. 1.5%

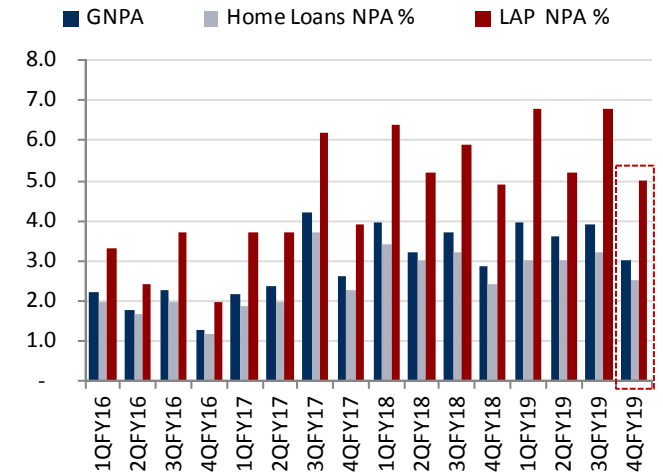
Non-Salaried: 4.5% vs. 5.8% QoQ

G/NNPAs Improve Sequentially, A 4Q Phenomenon



Source: Co and HDFC sec Inst Research

Asset Quality Improves Across Segments



Source: Co and 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 (%) | | |
|--------------|-----------------|-------------|------------|------------|------------|------------|------------|-------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | | FY19P | FY20E | FY21E | FY19P | FY20E | FY21E | FY19P | FY20E | FY21E | FY19P | FY20E | FY21E | FY19P | FY20E | FY21E |
| LICHF | 281 | 557 | NEU | 471 | 281 | 326 | 377 | 11.6 | 10.2 | 9.0 | 1.98 | 1.71 | 1.48 | 15.9 | 15.9 | 15.8 | 1.31 | 1.28 | 1.26 |
| SHTF | 263 | 1,160 | BUY | 1,308 | 449 | 590 | 747 | 10.3 | 9.5 | 8.5 | 2.59 | 1.97 | 1.55 | 17.4 | 16.3 | 15.8 | 2.53 | 2.47 | 2.45 |
| MMFS# | 259 | 422 | BUY | 504 | 124 | 152 | 177 | 16.0 | 13.7 | 12.2 | 3.26 | 2.66 | 2.28 | 15.2 | 15.7 | 15.8 | 2.60 | 2.54 | 2.49 |
| CIFC | 240 | 1,534 | BUY | 1,799 | 355 | 422 | 514 | 20.2 | 17.2 | 14.7 | 4.32 | 3.64 | 2.98 | 21.1 | 20.5 | 20.1 | 2.34 | 2.26 | 2.33 |
| INDOSTAR | 36 | 393 | BUY | 520 | 272 | 297 | 346 | 15.1 | 10.4 | 6.5 | 1.45 | 1.32 | 1.14 | 9.5 | 11.0 | 15.4 | 1.96 | 2.45 | 2.82 |
| REPCO | 25 | 403 | BUY | 592 | 211 | 250 | 296 | 10.7 | 9.7 | 8.4 | 1.91 | 1.61 | 1.36 | 16.6 | 15.8 | 15.8 | 2.28 | 2.21 | 2.24 |

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

Income Statement

| (Rs mn) | FY17 | FY18 | FY19P | FY20E | FY21E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Earned | 10,141 | 10,851 | 11,634 | 13,400 | 15,424 |
| Interest Expended | 6,463 | 6,489 | 7,200 | 8,332 | 9,620 |
| Net Interest Income | 3,678 | 4,362 | 4,434 | 5,068 | 5,804 |
| Other Income | 318 | 250 | 318 | 359 | 411 |
| Total Income | 3,996 | 4,612 | 4,752 | 5,427 | 6,215 |
| Total Operating Exp | 676 | 790 | 984 | 1,044 | 1,183 |
| PPOP | 3,320 | 3,822 | 3,768 | 4,382 | 5,032 |
| Provisions & Contingencies | 518 | 748 | 170 | 405 | 437 |
| PBT | 2,802 | 3,074 | 3,598 | 3,977 | 4,595 |
| Provision for Tax | 979 | 1,064 | 1,252 | 1,384 | 1,599 |
| PAT | 1,823 | 2,010 | 2,346 | 2,593 | 2,997 |

Source: Company, HDFC sec Inst Research

Balance Sheet

| (Rs mn) | FY17 | FY18 | FY19P | FY20E | FY21E |
|-----------------------------|---------------|---------------|----------------|----------------|----------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital | 626 | 626 | 626 | 626 | 626 |
| Reserves | 10,747 | 12,459 | 14,648 | 17,052 | 19,852 |
| Net worth | 11,372 | 13,085 | 15,274 | 17,678 | 20,478 |
| Borrowings | 75,604 | 81,343 | 92,774 | 103,972 | 117,948 |
| Other Liabilities | 3,457 | 2,882 | 1,522 | 4,086 | 4,171 |
| Total liabilities | 90,433 | 97,310 | 109,570 | 125,736 | 142,597 |
| APPLICATION OF FUNDS | | | | | |
| Advances | 89,578 | 96,492 | 108,379 | 124,517 | 141,255 |
| Investments | 156 | 156 | 220 | 242 | 266 |
| Fixed assets | 91 | 135 | 155 | 160 | 164 |
| Other Assets | 609 | 527 | 815 | 817 | 912 |
| Total assets | 90,433 | 97,310 | 109,570 | 125,736 | 142,597 |

Source: Company, HDFC sec Inst Research

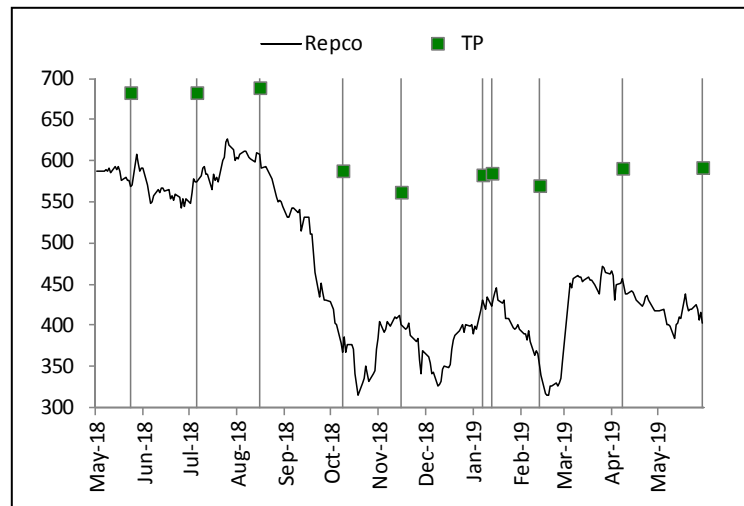
Key Ratios

| | FY17 | FY18 | FY19P | FY20E | FY21E |
|---------------------------------------|-------|-------|-------|-------|-------|
| Valuation Ratios | | | | | |
| EPS | 29.1 | 32.2 | 37.6 | 41.6 | 48.0 |
| Earnings Growth (%) | 21.4 | 10.3 | 16.7 | 10.5 | 15.6 |
| BVPS | 182 | 209 | 244 | 283 | 327 |
| Adj. BVPS (100% cover) | 162 | 185 | 211 | 250 | 296 |
| DPS (Rs) | 2.0 | 2.5 | 2.5 | 2.7 | 2.8 |
| RoAA (%) | 2.17 | 2.14 | 2.28 | 2.21 | 2.24 |
| ROAE (%) | 17.4 | 16.5 | 16.6 | 15.8 | 15.8 |
| P/E (x) | 13.8 | 12.5 | 10.7 | 9.7 | 8.4 |
| P/ABV (x) | 2.49 | 2.18 | 1.91 | 1.61 | 1.36 |
| P/PPOP (x) | 7.6 | 6.6 | 6.7 | 5.8 | 5.0 |
| Dividend Yield (%) | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 |
| Profitability | | | | | |
| Yield on Advances (%) | 12.17 | 11.66 | 11.36 | 11.51 | 11.61 |
| Cost of Funds (%) | 9.17 | 8.27 | 8.27 | 8.47 | 8.67 |
| Core Spread (%) | 3.00 | 3.39 | 3.09 | 3.04 | 2.94 |
| NIM (%) | 4.41 | 4.69 | 4.33 | 4.35 | 4.37 |
| Operating Efficiency | | | | | |
| Cost/Avg. Asset Ratio (%) | 0.8 | 0.8 | 1.0 | 0.9 | 0.9 |
| Cost-Income Ratio (%) | 16.9 | 17.1 | 20.7 | 19.2 | 19.0 |
| Balance Sheet Structure Ratios | | | | | |
| Loan Growth (%) | 16.0 | 10.3 | 12.0 | 12.8 | 13.4 |
| Borrowing Growth (%) | 15.6 | 7.6 | 14.1 | 12.1 | 13.4 |
| Equity/Assets (%) | 12.6 | 13.4 | 13.9 | 14.1 | 14.4 |
| Equity/Loans (%) | 12.7 | 13.6 | 14.1 | 14.2 | 14.5 |
| CAR (%) | 21.3 | 23.0 | 23.9 | 23.7 | 23.2 |

| | FY17 | FY18 | FY19P | FY20E | FY21E |
|------------------------|-------|-------|-------|-------|-------|
| Asset Quality | | | | | |
| Gross NPLs (Rs.mn) | 2,328 | 2,827 | 3,260 | 3,558 | 3,844 |
| Net NPLs (Rs.mn) | 1,227 | 1,510 | 2,080 | 2,037 | 1,953 |
| Gross NPLs (%) | 2.6 | 2.9 | 3.0 | 2.9 | 2.7 |
| Net NPLs (%) | 1.4 | 1.6 | 1.9 | 1.6 | 1.4 |
| Coverage Ratio (%) | 47.3 | 46.6 | 36.2 | 42.7 | 49.2 |
| Provision/Avg. AUM (%) | 0.6 | 0.8 | 0.2 | 0.3 | 0.3 |
| RoAA Tree | | | | | |
| Net Interest Income | 4.38% | 4.65% | 4.29% | 4.31% | 4.33% |
| Non Interest Income | 0.38% | 0.27% | 0.31% | 0.30% | 0.31% |
| Operating Cost | 0.80% | 0.84% | 0.95% | 0.89% | 0.88% |
| Provisions | 0.62% | 0.80% | 0.16% | 0.34% | 0.33% |
| Tax | 1.17% | 1.13% | 1.21% | 1.18% | 1.19% |
| ROAA | 2.17% | 2.14% | 2.27% | 2.20% | 2.23% |
| Leverage (x) | 8.0 | 7.7 | 7.3 | 7.1 | 7.0 |
| ROAE | 17.4% | 16.4% | 16.5% | 15.7% | 15.7% |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



| Date | CMP | Reco | Target |
|-----------|-----|------|--------|
| 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 |
| 8-Jan-19 | 418 | BUY | 583 |
| 15-Jan-19 | 420 | BUY | 585 |
| 15-Feb-19 | 338 | BUY | 570 |
| 9-Apr-19 | 450 | BUY | 591 |
| 1-Jun-19 | 403 | BUY | 592 |

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:

We, **Aakash Dattani, ACA & Darpin Shah, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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