

# Repc Home Finance

BUY

CMP Rs139

Target Rs275

Upside 98.0%

## HIGHLIGHTS

- ✓ Repco delivered a material beat of 6-7% on our NII/PPOP estimates in Q4 FY20, mainly driven by better spread/NIM. Annualized PPOP margin stood at 3.8%.
- ✓ Co. utilized strong operating performance to make additional provision of Rs400mn pertaining to likely Covid impact. Overall ECL cover rose to 1.8% of loan book (1.5% in Q3) and Stage-3 coverage increased to 36% (29% in Q3).
- ✓ Spread/NIM was at a multi-quarter high of 3.5%/4.7%, with reduction in funding cost. Banks comprise 75% of borrowings and cost of these funds declined 20 bps qoq. Full impact of MCLR reductions will come through in ensuing quarters. Incremental funding tie-up during April-July was at much cheaper cost.
- ✓ Repco has not sought moratorium from its lenders. Company has ~Rs3bn of cash/FDs, ~Rs20bn of undrawn sanctioned lines and additional funding tie-ups to meet upcoming liability repayments (~Rs12bn in coming 6m).
- ✓ Usual correction in GNPL % during March was precluded by the outbreak of Covid. However, co. reported substantial improvement in Stage-2 % (2.3% v/s 12% as of FY19).
- ✓ Repco collected June EMIs (full) from 68% of its customers, and July has been trending better. Nearly all customers under June moratorium had also taken the first moratorium.
- ✓ The bounce rate stood <5% for non-moratorium customers in June, comparable to pre-Covid era. Repco expects that a normal collection efficiency of 95% on the whole portfolio could be achieved by Oct/Nov if Covid flattens out.

## Our View

- ✓ Repco is a deep value pick with valuation at 0.5x P/ABV and 2.6x P/E on FY22 basis. Apart from high PPOP margin, robust capitalization (Tier-1 26%/DER 6.1x) lend comfort. Negative surprises on NPLs would be contained by zero CF exposure, sustained de-risking of LAP book, improving collection trends and the sharp reduction in Stage-2 %.

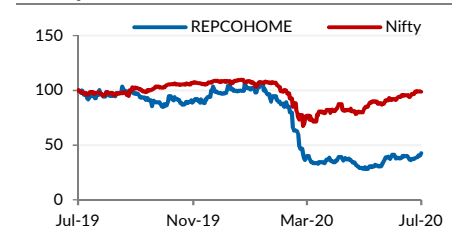
## Risk to our call

- ✓ Prolonged Covid episode and its deeper impact

## Stock data (as on Jul 27, 2020)

Nifty	11,132
52 Week h/l (Rs)	366 / 90
Market cap (Rs/USD mn)	8693 / 116
Outstanding Shares (mn)	63
6m Avg t/o (Rs mn):	39
Div yield (%):	1.8
Bloomberg code:	REPCO IN
NSE code:	REPCOHOM

## Stock performance



	1M	3M	1Y
Absolute return	3.5%	19.0%	-57.0%

## Shareholding pattern

Promoter	37.1%
FII+DII	53.0%
Others	9.8%

## Exhibit 1: Financial Summary

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	4,752	5,261	5,510	5,975
PPOP	3,768	4,196	4,352	4,713
Net profit	2,346	2,804	2,530	3,208
yoy growth (%)	16.7	19.5	(9.7)	26.8
EPS (Rs)	37.5	44.8	40.4	51.3
Adj.BVPS (Rs)	210.9	233.1	232.9	294.8
P/E (x)	3.7	3.1	3.4	2.7
P/adj.BV (x)	0.7	0.6	0.6	0.5
ROE (%)	16.5	16.9	13.3	14.8
ROA (%)	2.3	2.4	2.0	2.4

Source: Company, YES Sec - Research

### RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 22 3347 9635



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in | +91 22 3347 7430

## CON-CALL HIGHLIGHTS

### Collection Efficiency & Bounce rate

- ✓ 68% of customers paid their EMI in June. The collection trend has improved further in July and most likely 75% of customers are expected to pay. Management believes that the normal collection rate of 95% can be achieved by October/November if Covid flattens out.
- ✓ The collection rate is 95%+ for non-moratorium customers (chosen not to opt for June and in cases where company did not find requirement), which is comparable to pre-Covid era. Though the first presentation bounce is slightly higher currently (17-20% v/s 15% before Covid).
- ✓ Almost all customers who opted/given moratorium in June are the ones who were under moratorium in the first moratorium period.

### Disbursements

- ✓ Disbursements are now at 50% of pre-Covid level. By end of Q3 FY21, company believes that it can achieve 80-90% of pre-Covid quantum.
- ✓ The initial focus of disbursements would be on better CIBIL score clients.
- ✓ About Rs90bn of the loan book (nearly 80%) is in Tier 2-4 cities. Negligible competition from banks and other HFCs for fresh disbursements; however, most PSU Banks and some private banks have been aggressive in loan takeover from Repco.

### Liquidity position

- ✓ Even in the second moratorium phase, Repco has not availed moratorium from its lenders.
- ✓ Company currently has Rs3bn worth of cash/FDs, about Rs20bn of undrawn sanctioned lines and additional sanctions in the pipeline. Liabilities maturing in coming 3 months is about Rs8bn and coming 6 months is Rs12bn.
- ✓ Incremental cost of borrowing has been coming down at a fast clip. Incremental funding tie-up was at around 7% during the April-July period, but it included liquidity from NHB at lower rate.

### Asset quality and additional provisions

- ✓ The additional covid-related provision of Rs0.4bn made by Repco was based on portfolio assessment on four parameters viz. a) customers' area/location in context of Covid incidence, b) borrower's occupation, c) number of defaults in six months before Covid and d) whether moratorium taken or not taken.
- ✓ These provisions represented management overlay on the ECL requirement and are thus additional provisions spread across Stage 1, 2 and 3 customers (majority attributable to Stage-3). The management intends to make further prudential provision in Q1 FY21.
- ✓ GNPLs in Home Loans segment stood at 3.8% and in LAP at 6.6%. GNPLs for salaried customers was at 1.6% and for self-employed borrowers at 6.7%.
- ✓ Repco expects to reign in GNPL ratio at 4.5% by the end of current fiscal. This expectation stems from a) improving collection trends (morat % coming down and normal collection efficiency in non-morat book), b) significant reduction in Stage-2 assets over FY20 and sustenance at lower level even as of June, c) >90% of loans for self-occupied homes and b) only 5% of home loans representing booking for under-construction apartments in projects of small and large builders.
- ✓ The collection of soft and hard buckets is in-house and only in cases of chronic NPLs (2+ year older) the company seeks support of recovery agencies.

- ✓ Majority of the LAP NPLs represent high-ticket (>Rs10mn) legacy loans. Over the past three years, the average ticket size of the portfolio has been brought down significantly and concentration has been reduced.
- ✓ In FY22, management believes that GNPLs could come down to 3.5% if the macro scenario improves.

## Exhibit 2: Result Table

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
Total Interest Income	3,456	3,400	1.6	3,077	12.3
Interest expended	(2,062)	(2,088)	(1.2)	(1,914)	7.8
Net Interest Income	1,394	1,312	6.2	1,164	19.8
Other income	5	10	(49.0)	4	45.7
Total Income	1,399	1,322	5.8	1,167	19.9
Operating expenses	(307)	(274)	11.9	(277)	10.8
PPOP	1,093	1,048	4.2	890	22.7
Provisions	(403)	(115)	249.6	24	-
PBT	690	933	(26.1)	915	(24.6)
Tax	(213)	(236)	(9.9)	(399)	(46.8)
PAT	477	697	(31.6)	515	(7.4)

Source: Company, YES Sec – Research

## Exhibit 3: Business Data

(Rs mn)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
<b>AUM</b>	<b>118,261</b>	<b>116,249</b>	<b>1.7</b>	<b>110,368</b>	<b>7.2</b>
Sanctions	6,321	7,331	(13.8)	9,728	(35.0)
Disbursements	6,020	6,557	(8.2)	8,781	(31.4)
<b>Customer Mix*</b>					
Salaried	57,238	54,870	4.3	50,659	13.0
Non-Salaried	61,023	61,379	(0.6)	59,709	2.2
<b>Product Mix*</b>					
HL	96,146	94,627	1.6	90,060	6.8
LAP	22,115	21,622	2.3	20,308	8.9
<b>Geographical Mix*</b>					
Tamil Nadu	66,108	64,867	1.9	62,468	5.8
Non-Tamil Nadu	52,153	51,382	1.5	47,900	8.9
- Karnataka	16,675	16,507	1.0	15,231	9.5
- Maharashtra	10,880	10,462	4.0	9,271	17.4
- Andhra Pradesh	7,332	7,440	(1.4)	7,395	(0.8)
- Telangana	5,440	5,347	1.7	5,077	7.2

Source: Company, YES Sec – Research, \* Computed

## Exhibit 4: Key Ratios

(%)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
NIM	4.7	4.6	0.1	4.3	0.4
Yield	11.8	11.8	0.0	11.3	0.4
Cost of Funds	8.3	8.4	(0.1)	8.4	(0.1)
Spread	3.5	3.3	0.2	2.9	0.6
Cost to Income	21.9	20.7	1.2	23.7	(1.8)
Gross NPA	4.3	4.2	0.1	3.0	1.3
ECL	1.8	1.5	0.3	1.5	0.3
Cum. RoA	2.5	2.7	(0.2)	2.2	0.3
Cum. RoE	18.0	20.2	(2.2)	17.7	0.3

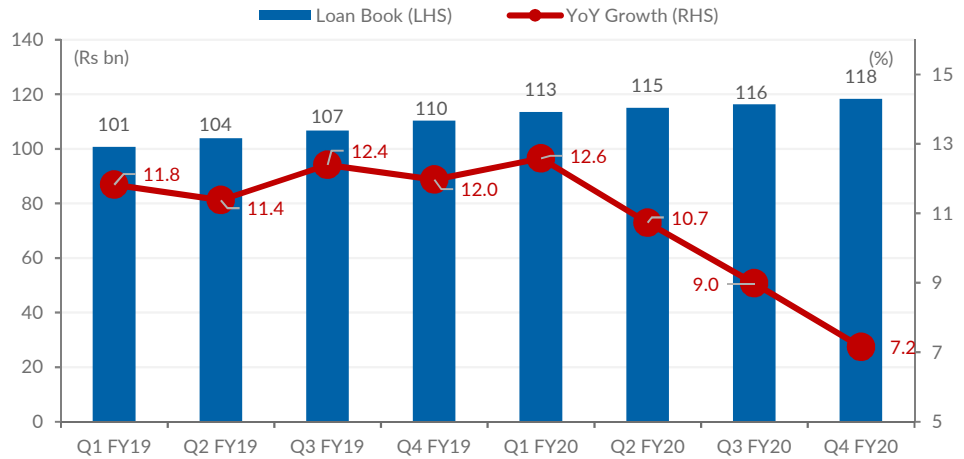
Source: Company, YES Sec - Research

## Exhibit 5: GNPA Mix

(%)	Q4 FY20	Q3 FY20	% qoq	Q4 FY19	% yoy
HL GNPA	3.8	3.6	0.2	2.5	1.3
LAP GNPA	6.6	6.7	(0.1)	5.0	1.6
Salaried GNPA	1.6	1.5	0.1	1.1	0.5
Non-Salaried GNPA	6.7	6.5	0.2	4.5	2.2
Aggregate GNPA	4.3	4.2	0.1	3.0	1.3

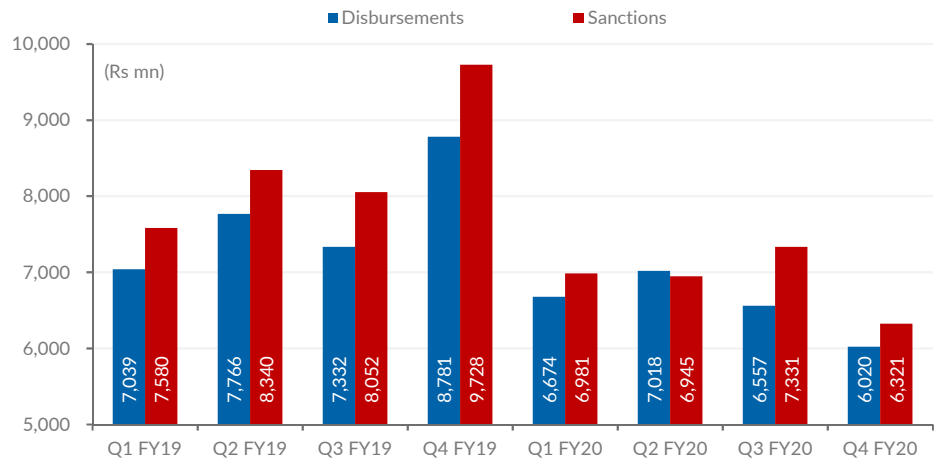
Source: Company, YES Sec - Research

## Exhibit 6: AUM growth decelerates further



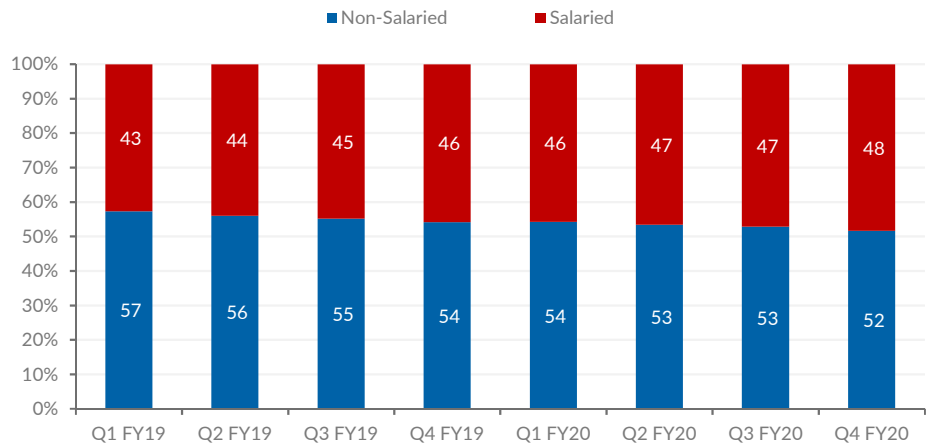
Source: Company, YES Sec - Research

**Exhibit 7: Sanctions and Disbursements impacted by Covid**



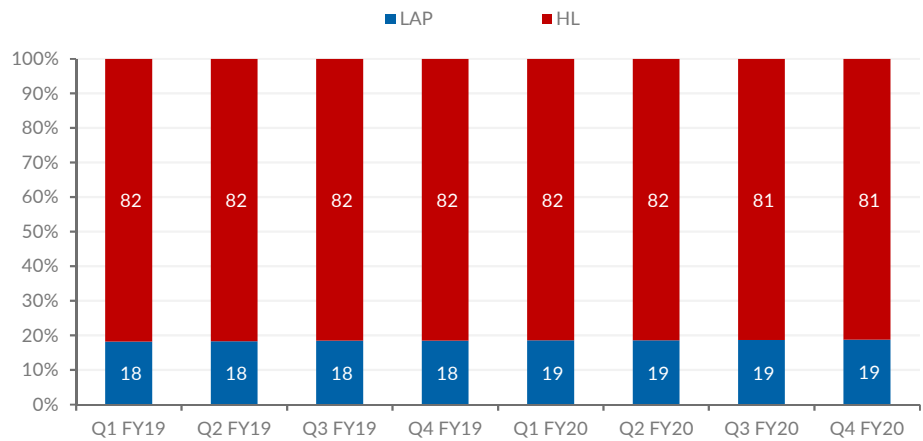
Source: Company, YES Sec - Research

**Exhibit 8: Gradual shift in customer mix towards Salaried segment**



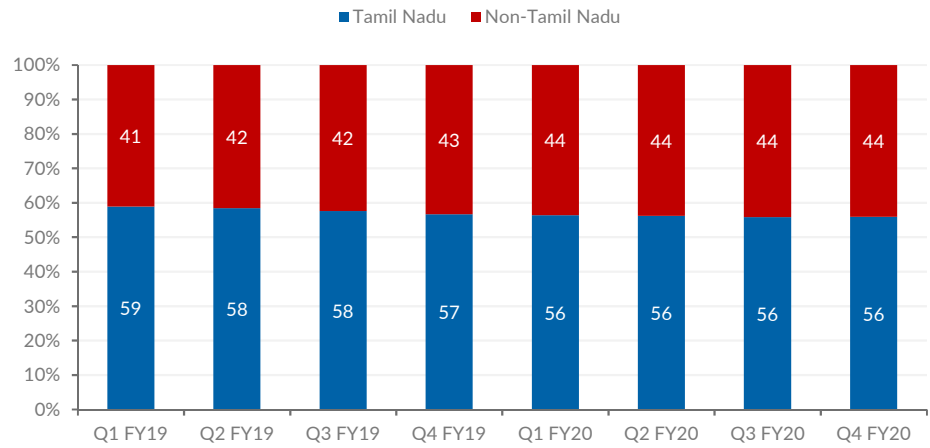
Source: Company, YES Sec - Research

**Exhibit 9: LAP continues to contribute less than 20% of the book**



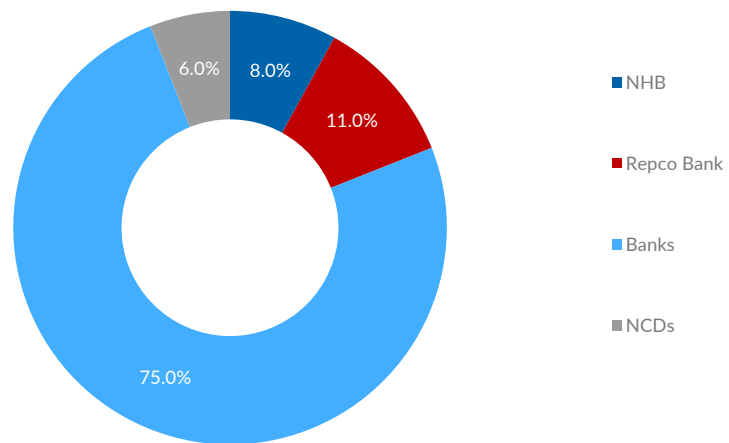
Source: Company, YES Sec - Research

**Exhibit 10: Geographic mix nearly static over past few quarters**



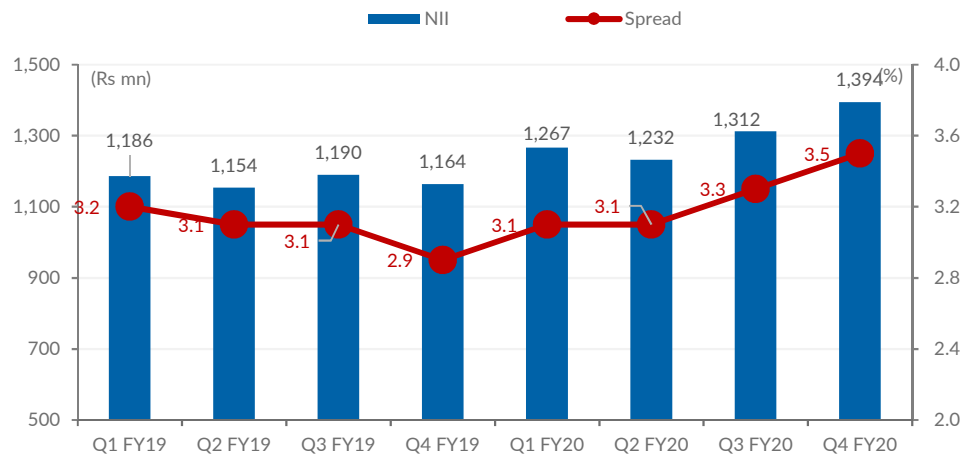
Source: Company, YES Sec – Research

**Exhibit 11: Bank borrowings comprise 86% of total borrowings**



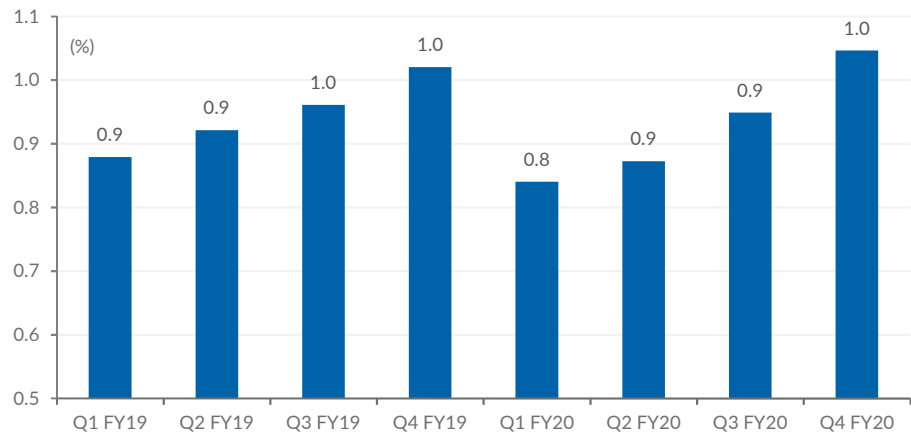
Source: Company, YES Sec – Research

**Exhibit 12: Notable improvement in NII growth and Spread**



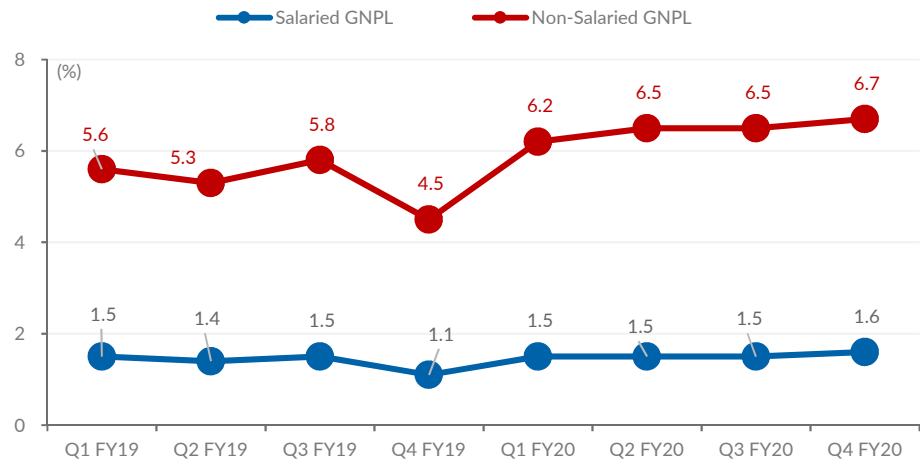
Source: Company, YES Sec – Research

**Exhibit 13: Slight worsening of Opex/Avg. AUM; yet at low levels**



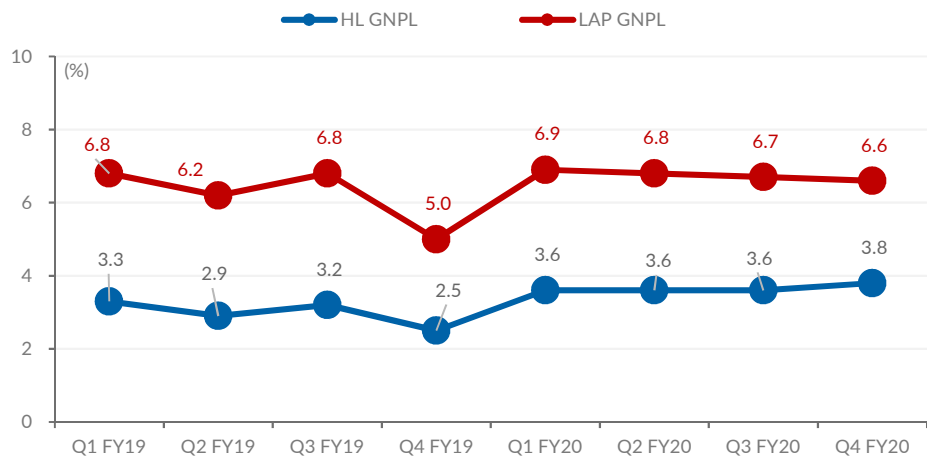
Source: Company, YES Sec - Research

**Exhibit 14: Non-Salaried NPLs continue to be high**



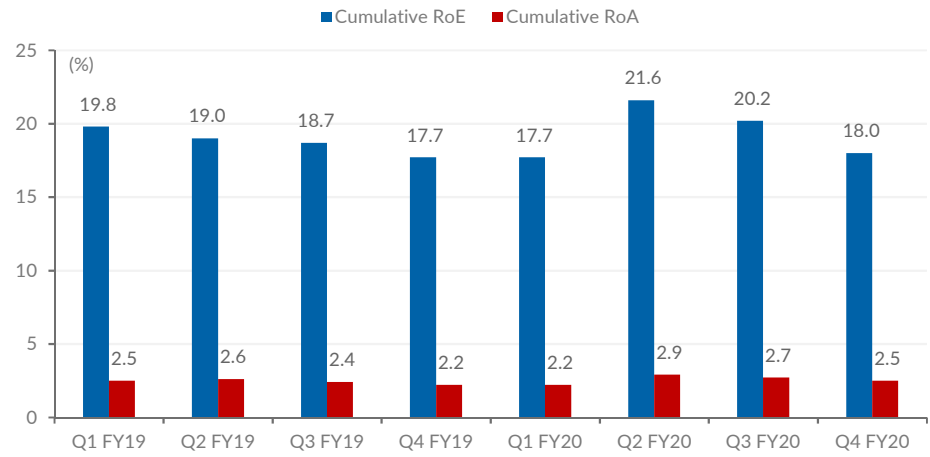
Source: Company, YES Sec - Research

**Exhibit 15: Some increase in HL NPLs**



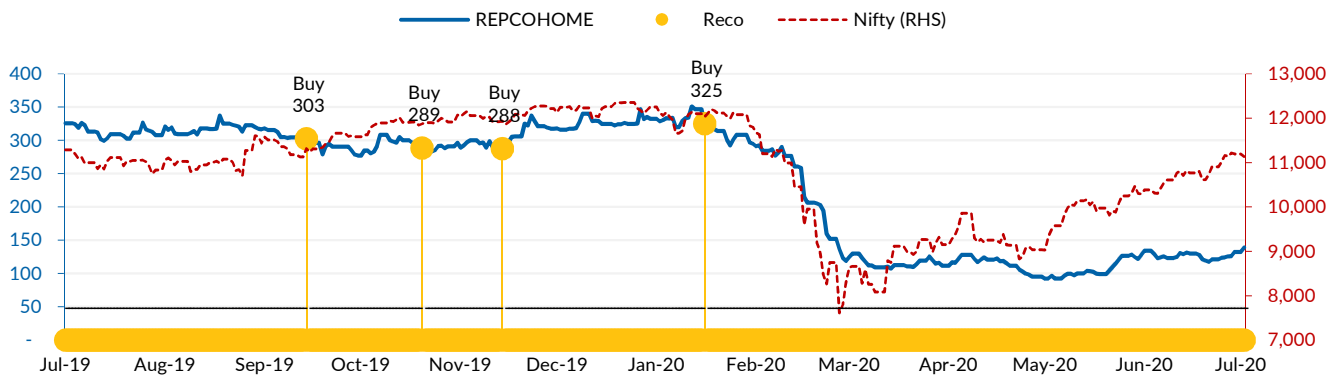
Source: Company, YES Sec - Research

**Exhibit 16: Consistently robust profitability metrics**



Source: Company, YES Sec - Research

## Recommendation Tracker





## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Contact Details: +91-22-71123123  
Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338

**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

#### ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited (“YSL”) is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.