Stock Idea

Sector: Banks & Finance

January 11, 2021

Repco Home Finance Limited

Worthy choice in niche spot

Sharekhan
by BNP PARIBAS

Powered by Sharekhan's 3R Research Philosophy

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Repco Home Finance Limited

Worthy choice in niche spot

Banks & Finance	Sharekhan code: REPCOHOME	Initiating Coverage

Summary

- We initiate coverage on Repco Home Finance Ltd (RHFL) with a Buy and PT of Rs. 330.
- Repco is an attractively valued HFC with a niche loan book (salaried & professional class borrowers), stable asset quality, strong ratings and good return ratios.
- With disbursements gaining pace since September, company return to growth in FY2021E itself; collection efficiency at 93% in September.
- Stock has corrected ~72% from highs; multiples have fallen to 0.9x forward ABVPS from 2.5x. Valuation reasonable at 0.9x/0.8x FY22E / FY23E, considering healthy ROE of 14+%; ROA of over 2.3%; easy liquidity and declining cost of funds that will shield NIMs from medium-term risks.

3R MATRIX

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View

Reco:	**Buy**
CMP:	**Rs. 252**
Price Target:	**Rs. 330**

Company details

Market cap:	Rs. 1,574 cr
52-week high/low:	Rs. 366/91
NSE volume: (No of shares)	3.6 lakh
BSE code:	535322
NSE code:	REPCOHOME
Free float: (No of shares)	3.9 cr

Shareholding (%)

Promoters	37.1
FII	19.8
DII	20.1
Others	23.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	26.6	95.6	-22.4
Relative to Sensex	-9.5	5.2	61.3	-39.6

Sharekhan Research, Bloomberg

Repco Home Finance (RHFL) is an attractively valued housing finance company (HFC) with a niche loan book (salaried/professional borrower mix is 48:52, Tamil Nadu forms 56% of loan book) with stable asset quality, strong ratings and good return ratios. The HFC is well capitalised and has a strong business model. Despite the fierce competition in the home loan market, Repco's presence in the niche small-ticket, non-salaried home loan segment has helped it maintain attractive spreads as compared to peers as well as face lesser competition from banks, etc. RHFL has an attractive business model of housing mortgages, which caters to a segment largely under-served by banks and other NBFCs. Small ticket, non-salaried borrowers represent an attractive but challenging business opportunity (granular segment, which requires a player with diligent risk management, deep understanding and high level of servicing). Hence, despite the segment comparatively offering higher yields, banks and large HFCs have found it difficult to penetrate in this space. Industry reports indicate that while housing sales in Chennai fell by 43% in 2020 due to COVID-19 and its impact, the Confederation of Real Estate Developers' Association of India (CREDAI) has indicated that sales have picked up in the past four months. For Repco, however, disbursements have picked up pace since September and the HFC is looking to return to growth in FY2021E itself. In Q3FY21, we expect stable NIMs and near normal disbursements for RHFL. Its collection efficiency for September 2020 stood at 93% with 90+ days per due (dpd) stable at 4%. We believe that developments such as increased pricing changes will help offset for medium term possible credit risks emanating. Moreover, easy funding availability has aided in a fall in cost of funds, and hence we expect NIMs to be protected from risks in the medium term as RHFL substitutes high-cost liabilities with low-cost ones. While NBFC-HFCs operate in the smaller-ticket size housing loan segment, we believe that experience & knowledge are key differentiators for HFCs and this facet makes it difficult banks to compete. This explains why RHFL has been able to maintain its NIMs at ~4.5% despite interest rate cycles and fierce competition in the home loan market. A strong business model, stable ratings and strong historical underwriting, with attractive return ratios make RHFL one of the attractive players in the niche housing finance space, and we believe that the economic recovery, improving demand and a resilient rural economy brighten the growth outlook. We initiate coverage on the stock with a Buy Rating and price target of Rs. 330.

Our Call

Valuation: Repco Home Finance is available at 0.9x/0.8x FY22E / FY23E which we believe is reasonable considering the healthy return ratios (ROE at over 14%; ROA at over 2.3%). Repco has focused on niche, small-ticket, non- salaried home loans, resulting in higher spreads for the company, along with reasonably controlled Asset quality. Going forward, we believe margins to sustain as disbursement growth picks up spreads could moderate given competition and pressure on yields. We expect EPS growth to clock a ~10% CAGR over FY20-23E, with stable asset quality. The stock has corrected by ~72% from highs and valuation multiples too have fallen to 0.9x forward ABVPS from 2.5x earlier. Hence, we believe that the risk-reward is favourable for long-term investors. A strong business model, stable ratings and strong historical underwriting, with attractive return ratios make RHFL among the attractive players in the niche Housing financing space, and we believe that with economic recovery demand along with resilient rural economy brighten the growth outlook. We initiate coverage on the stock with a Buy Rating and price target of Rs. 330.

Key risk

- Delayed recovery in economic activity and an adverse interest rate regimen will affect growth and profitability.
- Stress of migration of performing assets to banks & other HFCs on account of takeovers may impact overall asset quality.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	469.3	520.5	571.0	602.8	670.2
PPOP	376.8	419.6	462.2	486.1	544.7
PAT	234.6	280.4	285.2	334.6	381.1
EPS (Rs)	37.5	44.8	45.6	53.5	60.9
Adj BVPS (Rs)	210.9	233.1	266.6	292.3	323.8
P / EPS (x)	6.7	5.6	5.5	4.7	4.1
P / ABVPS (x)	1.2	1.1	0.9	0.9	0.8
ROA (%)	2.2	2.5	2.2	2.3	2.4
ROE (%)	15.4	15.7	14.4	15.0	15.3

Source: Company, Sharekhan estimates

Executive Summary

3R Research Positioning Summary

- **Right Sector:**

  Encouraging demand recovery, lower funding costs, and improving asset quality trends (high collection efficiency and low restructuring pipeline).

- **Right Quality:**

  Repco Home Finance (RHFL) has an attractive business model, caters to niche under-served segment that has low competition from banks, higher margins; strong underwriting standards.

- **Right Valuation:**

  Repco Home Finance is available at 0.9x/0.8x FY22E / FY23E ABVPS which we believe is reasonable considering the healthy return ratios (ROE at 14+%; ROA at 2.3+%).

Valuation and return potential

- Lowering of AAA and AA NBFC spreads has led to Sector re-rating, but upside potential remain as valuations still reasonable.
- Cost to Income ratio to be ~20-21% range, with RoEs stable at ~15% for FY2022E and FY2023E.
- We initiate coverage with a Buy rating and a price target of Rs 330.

Catalysts

Medium Term Triggers

- Repricing of borrowing book as AAA / AA NBFC 1-year spreads have declined, will be positive for cost of funds.
- Growth to return from Q4 FY2021E;
- Govt sops to boost housing / affordable housing in Union Budget possible.

Long-term triggers

- Rating upgrades potential due to high capitalisation and improved asset quality
- Drop in cost of funds and pickup in demand to boost margins
- Strong GDP recovery to support AUM pick-up in FY2022E and FY2023E

Earnings and Balance sheet highlights

- We expect disbursements to grow by 10% y-o-y in H2FY21, AUMs growth to pick up form FY2022E & FY2023E.
- Asset quality outlook is improving, with September collection efficiency surging to 93% and seeing m-o-m improvement trend continuing.
- Management has indicated ~Rs 300 crores of portfolio can be potentially restructured, which is manageable; and improving cost of funding will be positive for NIMs.
- Company well-capitalized with Tier 1 ratio at 26.8% (provisional) is positive.

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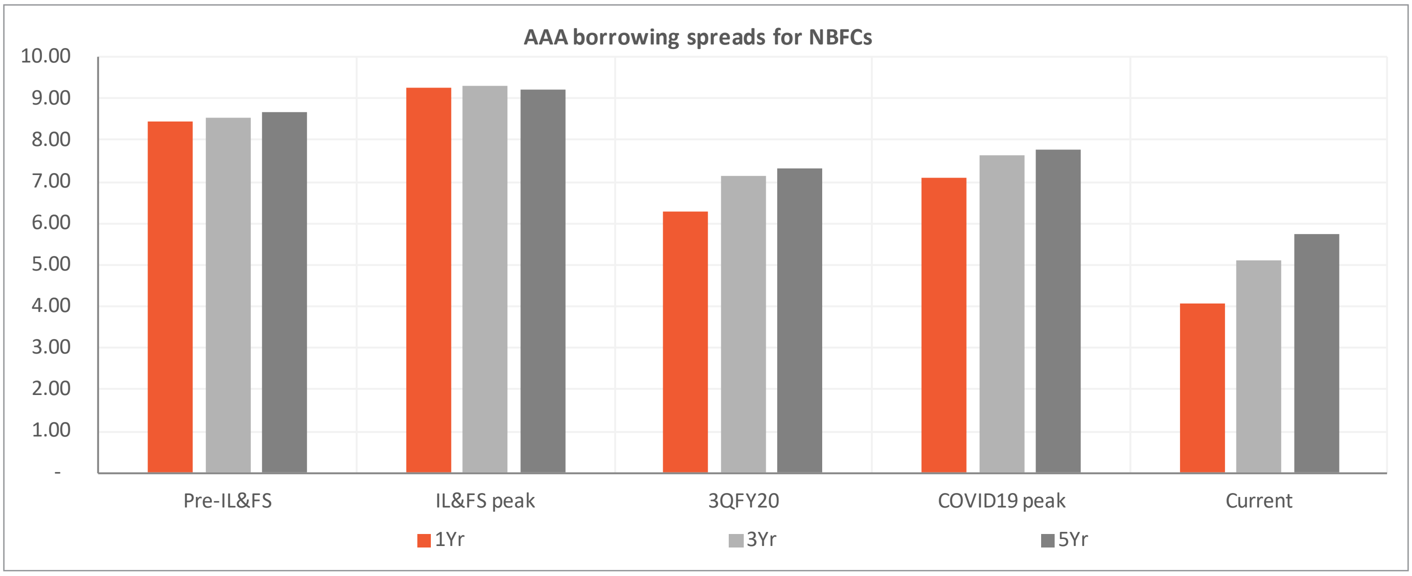
Why we like the Financials (NBFC) sector:

The recovery in the NBFC sector in the past six months has been encouraging, with lower funding costs, improving traction in sales etc. Asset quality trends, too, have improved, driven by high collections efficiency and management's assessment of a narrow pipeline for asset restructuring. As the industry focuses more on collections, we expect loan growth likely to pickup from Q4 FY2021 or early Q1 FY2022. be in mid-single digits. Most HFCs commentary indicate that they do not foresee a major asset quality stress in the Retail Lending segment. The Non-Retail segment however, remains a key monitorable.

Funding environment has improved, especially for financially strong entities:

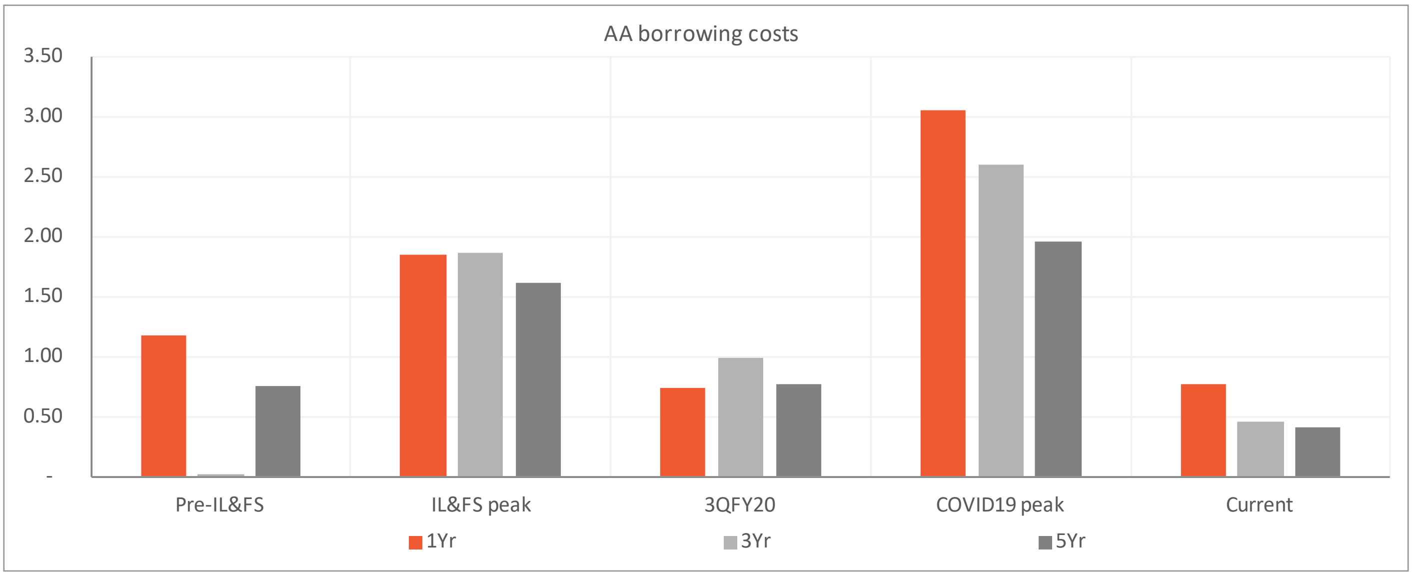
Policy stimulus has resulted in interest rates falling to multi year lows globally, and even in India, due to supportive liquidity stance and the increasing risk perception has led the Indian NBFCs (especially the higher rated ones) to have more comfortable and benign interest rate environment with wide spread credit availability. We believe this will facilitate not only refinancing of existing book, but also healthy growth for companies with strong balance sheets.

Bond Market rates coming down - AAA borrowings costs



Source: Bloomberg, Sharekhan Research

Borrowing costs coming down - AA borrowings costs

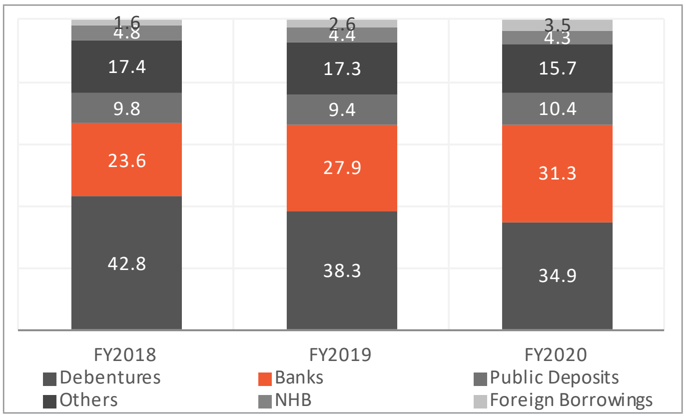


Source: Bloomberg, Sharekhan Research

Since May 2020, the AAA NBFC 1-yr spread has declined by ~180 bps to 77 bps and AA NBFC 1 -year spread has fallen by 145 bps to 196 bps, which has led to a re-rating of the sector.

HFCs predominantly rely on debentures and bank borrowings for funds, constituting around 66 % of total resources. The dependence of HFCs on bank borrowings grew significantly in 2019-20, reflecting rising reliance on long term-resources amidst risk averse market conditions. With the decline in Market borrowing rates, as well as the reducing MCLR based lending rates by banks, HFCs are placed today with a scenario of decreasing Cost of Funds which not only provides them with competitive strength, but also provides margin cushion.

Resources profile of HFCs

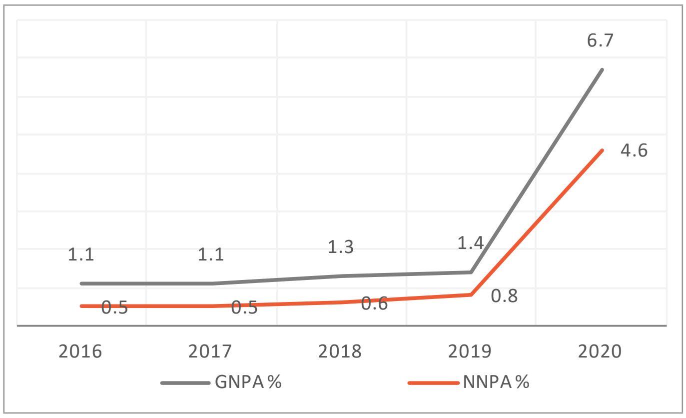


Source: RBI, Sharekhan Research.

Largely stable Asset quality of HFCs, collections efficiency healthy

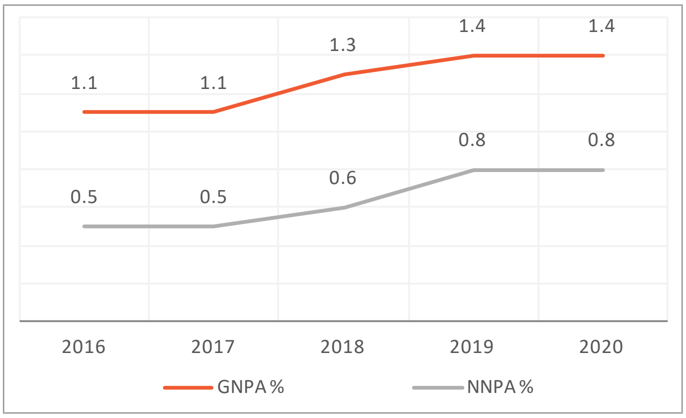
Prima facie, on an overall industry basis, the GNPA and NNPA ratios had increased slightly in 2018-19 but they registered a sharp leap in 2019-20 on account of marked decline in net profit and provisioning. However, this was mainly on account of 2 major HFCs which had seen troubles and had skewed the picture for the entire set.

NPA Ratio of HFCs (Overall)



Source: RBI

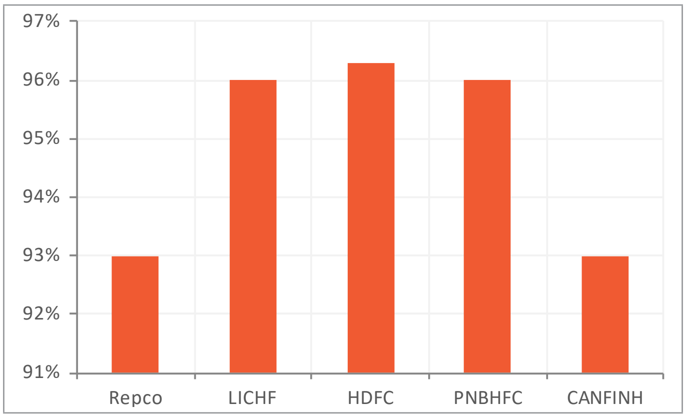
NPA ratios of HFCs (excluding two players) was stable



Source: RBI

Two major HFCs registered a spurt in its GNPA and NNPA ratios in 2019-20. Without considering the aforementioned 2 HFCs the overall asset quality performance was stable. The GNPA and NNPA ratios stood at 1.4 % and 0.8 %, respectively in 2019-20.

Collection Efficiency of NBFCs

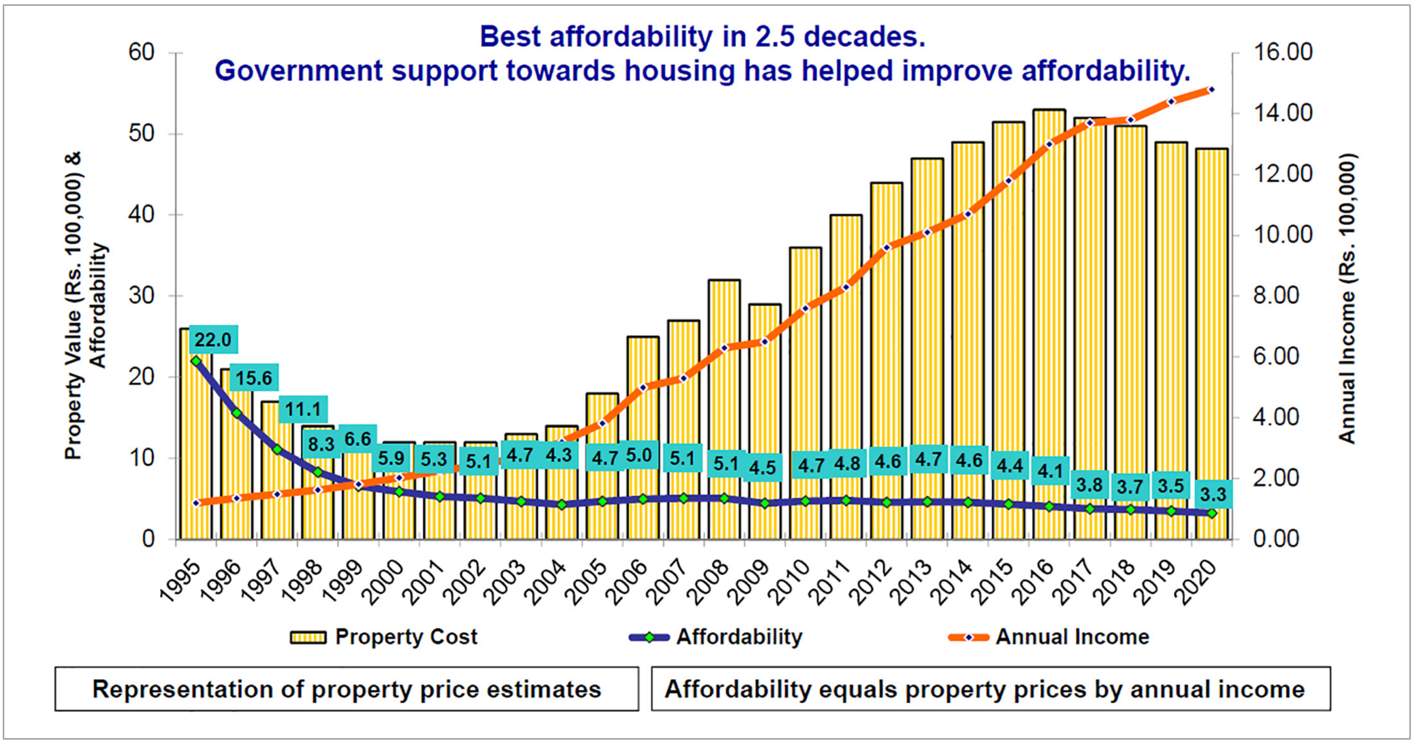


Source: Company, Sharekhan Research

Indian home mortgage sector has long-term tailwinds

The Indian housing loan industry has long-term structural tailwinds to support its growth. Housing has become increasingly affordable over the years due to rising per capita incomes, as well as increasing affordability due to low interest rates. Moreover, easy availability of mortgage products and a young demography are growth drivers.

Improved affordability – Falling property costs versus rising incomes



Source: Company

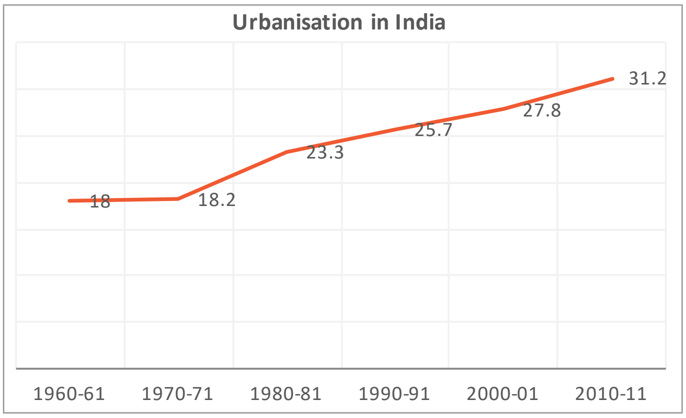
In the past few years, property prices in India have generally not gone up, which we believe will in turn fuel demand for home loans. Income levels have risen and, therefore, the cost of a house as a multiple of annual income of a customer has declined, making homes more affordable.

Housing demand in India is backed by structural, demographic factors

Housing demand is quite robust largely due to the growing population (Growth at about 1% per annum) in India, which is complimented by acute housing shortage of 40 million houses (both urban and rural), favourable demographics, rise in concept of nuclear families, greater migration to urban areas, fiscal benefits, rising income aspirations could lead to a further demand for another 8-10 million houses.

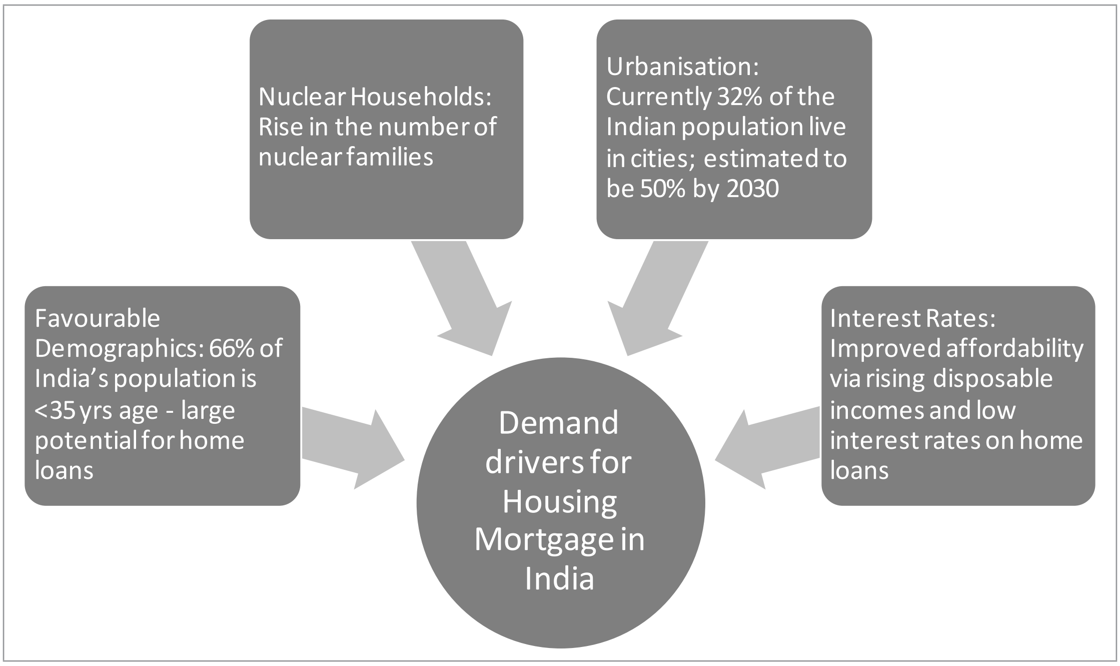
By 2050, `900 million people are estimated will be added to Indian cities. The rapid pace of urbanisation owing to the rural–urban migration is behind a massive urban housing shortage plaguing the country. The shortage, prominent within the EWS (economically weaker sections) and LIG (lower income groups), was estimated at 18.78 million households in 2012.

Growing urbanisation in India



Source: Census data, Sharekhan Research

Demand drivers in place



Source: Sharekhan Research

Healthy pick-up in home sales augurs well for housing mortgage sector

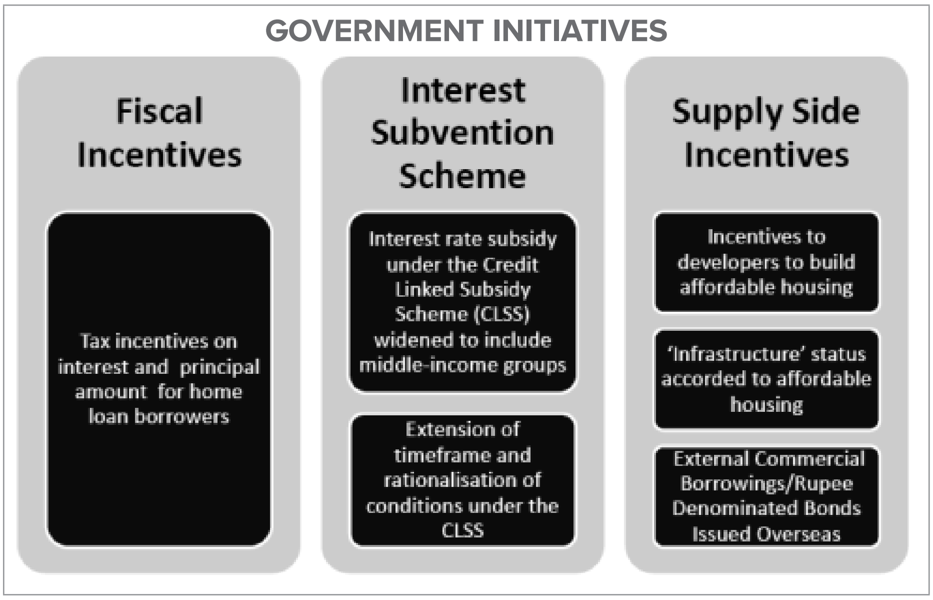
After the severe decline in Q1FY2021, the housing segment recovered in Q2FY2021. Sales across the top eight cities of India rebounded in Q2, indicating some green shoots of normalisation.

Recent improvement was primarily driven by the gradual unlocking of the economy, pent-up demand and improved affordability because of reduced home loan rates and attractive payment schemes/discounts. The uptick in absorption levels during Q2FY2021 has also been driven by the affordable and mid/upper-mid segments, indicating the higher resilience of these segments to demand headwinds currently prevailing in the residential realty market.

Moreover, supportive factors such as stamp duty cut (in Maharashtra) and the government's measures allowing an increase in the differential between the agreement value and circle rate from 10% to 20% have helped improve housing demand.

The industry reacted quite positively towards the move to increase the differential between the agreement value and circle rate, as discounts offered by developers were inching closer to 20% in many geographies. However, this benefit is only available till June 30, 2021, and it is only applicable for the primary sale of residential units of value up to Rs. 2 crore.

Supportive government measures for the housing mortgage sector

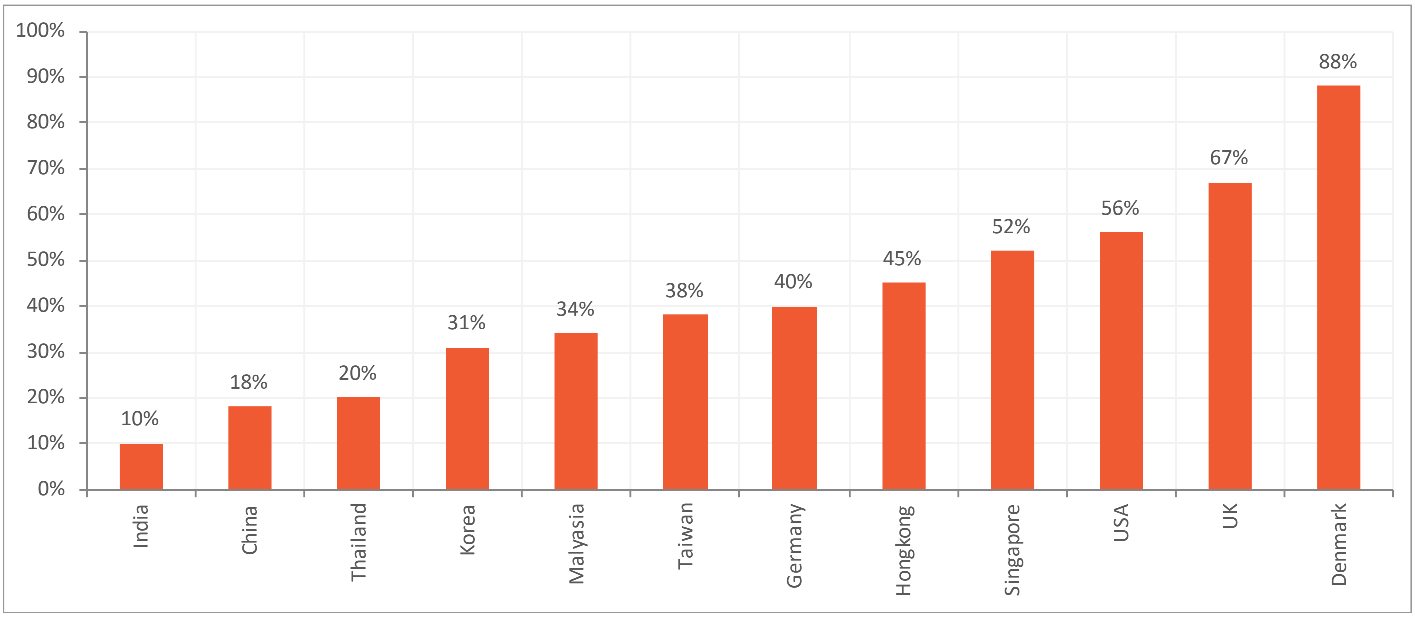


Source: Company, Sharekhan Research

Underpenetrated market in Indian housing mortgage – Provides headroom for growth

Looking at the Indian housing mortgage market, while a lot of growth and penetration has happened in the recent past, comparing the economy with international markets is indicative of the headroom available for growth.

Mortgages as a percent of naminal GDP



Source: Company

Going by the mortgage to GDP ratio metric, India's sub-10% indicates that the Indian mortgage market has low penetration relative to global peers and offers significant and attractive growth prospects going forward.

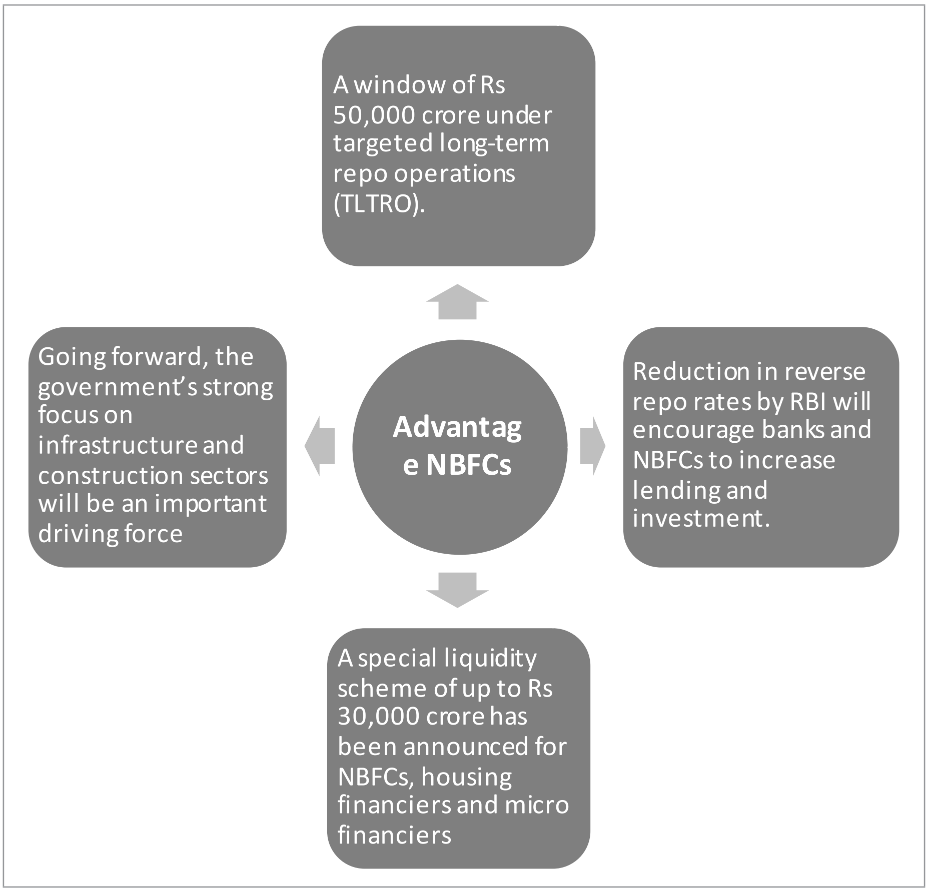
Notwithstanding that growth in population may be decelerating, rapid urbanisation in the country also reflects favourable prospects for the sector. About 67% of our country's population comprises persons who are in the mid-thirties age group and given that house purchase decisions are made roughly during this stage of human life-cycle presents a large opportunity for the sector.

Supportive Regulatory, government steps have improved outlook

A window of Rs 50,000 crore under targeted long-term repo operations (TLTRO) will enable NBFCs to lend to micro segments of each sector in the economy. Reduction in reverse repo rates by 90 bps in March 2020 and further 25 bps in April 2020 to 3.75% is another big step, as it will encourage banks and NBFCs to increase lending and investment. Further, a special liquidity scheme of up to Rs 30,000 crore has been announced for NBFCs, housing financiers and micro-financiers.

Going forward, the government's strong focus on infrastructure and construction sectors will be an important driving force for commercial vehicles in India.

Improved affordability – Falling property costs versus rising incomes



Source: Sharekhan Research

Why we like Repco Home Finance

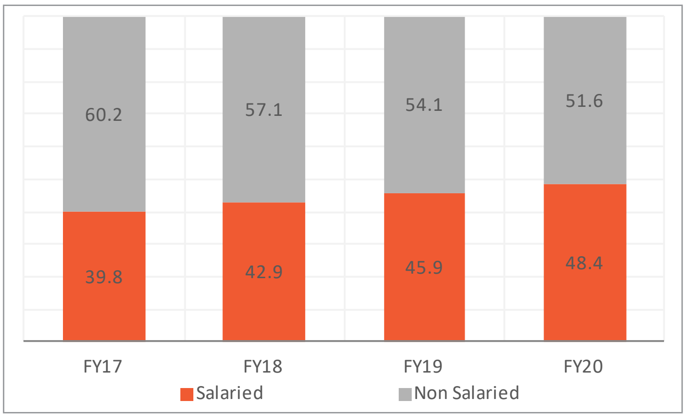
Repco Home Finance Limited (RHFL) has an attractive business model of housing mortgages which caters to an under-served segment by banks and other NBFCs. The small-ticket, non salaried segment is an attractive but a challenging business that requires a player with diligent risk management, deep understanding of the market and focus, which is why there is lesser competitive intensity. Hence, despite the segment comparatively offering higher yields, banks and large HFCs have found it difficult to penetrate in this space. This is because a lower ticket size and close level of servicing required for the segment. Over the last three years, Repco has endeavoured to lower exposure to non-housing loans (LAP) and to bring a balance between salaried and non-salaried loans that has helped keep its balance sheet quality robust. Strong underwriting practices have seen controlled credit costs, which we expect to continue.

Unique and niche business space

RHFL has an attractive business model of housing mortgages which caters to an under-served segment by banks and other NBFCs. The small-ticket, non salaried segment is an attractive but very challenging business that requires a player with diligent risk management, deep understanding of the market and focus. RHFL operates with two products – individual home loans and loans against property (LAP). The company extends all of its loans to retail clients.

RHFL due to its focus on underpenetrated small ticket non-salaried segment (51% of book) in tier-2 and -3 cities has helped Repco sustain higher yields as compared to peers. Going forward, as the book expands, and also due to management's strategic vision of having a more balanced mix, is likely to result in an even mix.

Loan book break-up



Source: Company, Sharekhan Research

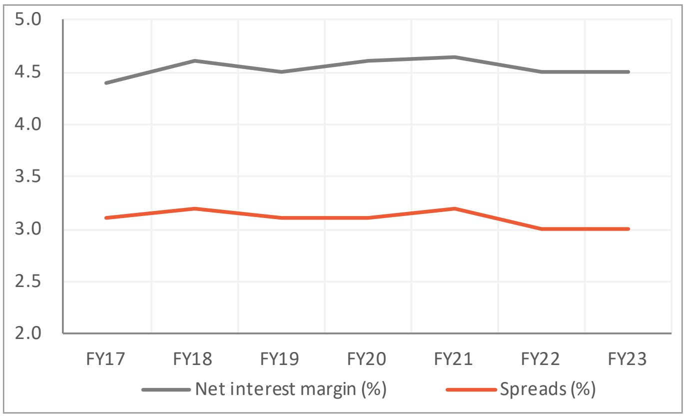
However, for RHFL, the salaried segment is not exactly the 'ubiquitous' salaried segment (as is the target with banks, etc). Most salaried class borrowers have a mix of income sources, apart from the usual salary income. Around 50% of their income may be from salary (not high ranking job profile), which is augmented by a source of second income as well (ex. do tuition, do mechanic job etc) which makes them more unique and which are therefore below radar of competition from most banks, etc.

Stable spreads, driven by business mix and falling cost of funds

Hence, despite it being a comparatively higher yield segment, banks and large HFCs have found it difficult to penetrate because of the lower ticket size and close level of servicing required.

Self-occupied residential real estate is an attractive segment because immovable collateral is considered relatively safe. While NBFC-HFCs do have presence in the smaller ticket size housing loan to below-the-radar segment, we believe that experience and knowledge are key differentiators for HFCs and difficult to be challenged by banks. This explains RHFL being able to maintain NIMs of 4-4.7% since last 5 years despite interest rate cycles and fierce competition for home loan markets.

Stable NIMs and spreads across cycles

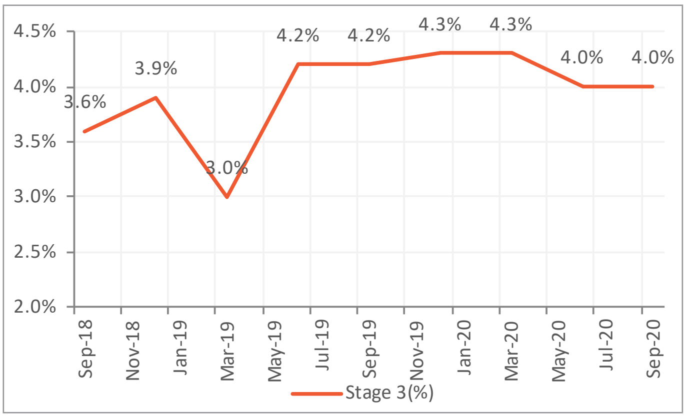


Source: Company, Sharekhan Research

We believe that a moderation in funding costs could cushion the impact on spreads from a business mix perspective. We expect spreads to be at around 3% in FY2021E-FY2023E with NIMs at 4.5-4.6% for the same period.

Stable asset quality balanced by higher/prudent provisions:

RHFL saw rise in Stage-3 (NPAs) assets, which were higher than its earlier run-rate. However, mitigating factors are provisioning has also been higher and conservative.



Source: Company

The company has adequate cushion in provisions as seen from the historically observed loss given default (LGD) and hence has comfortable asset coverage.

Conservative provisions on Stage-3 assets (as of FY2020)

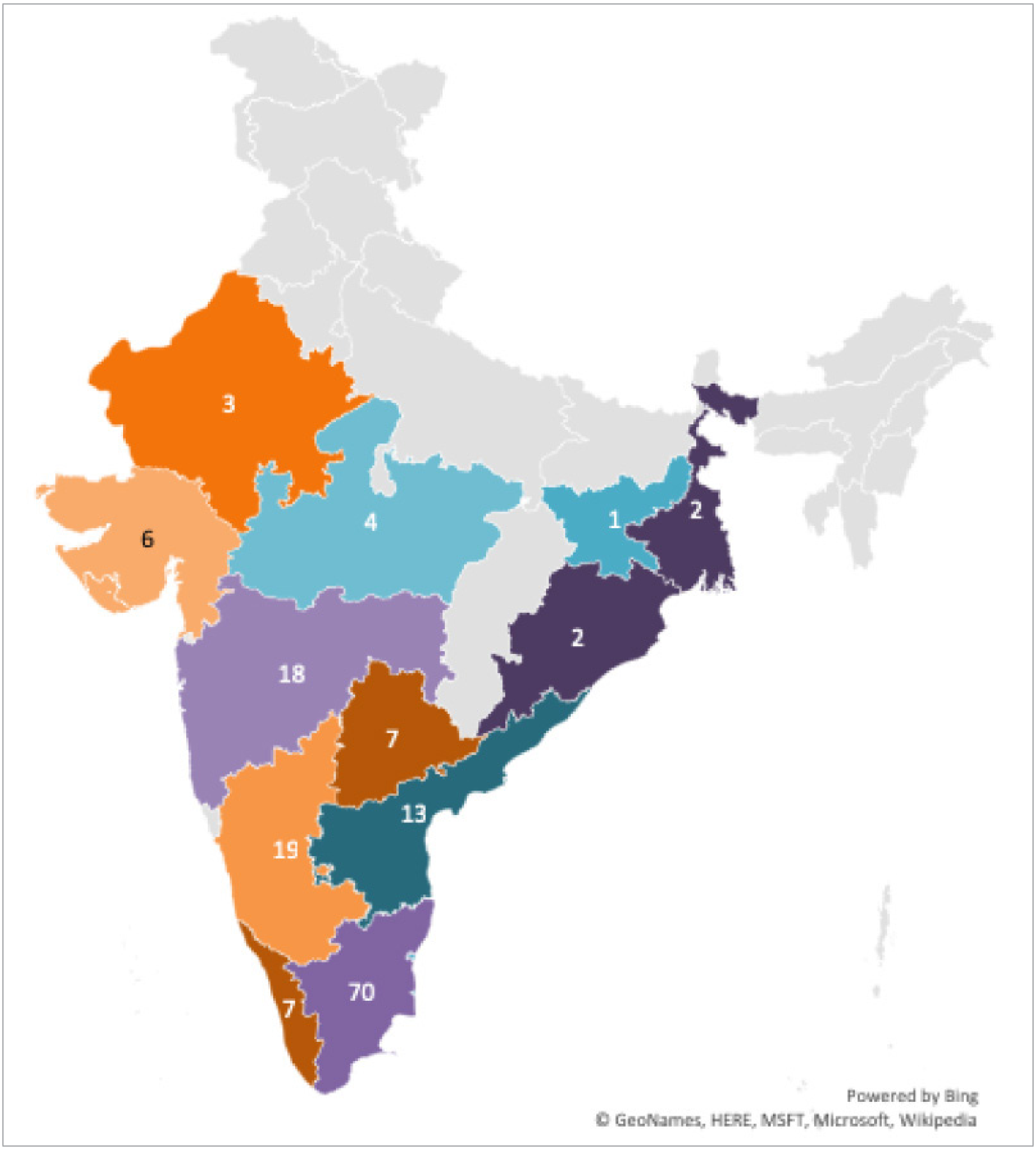
NPA/Stage 3 ageing	Average LTV	NPA amount (Rs Crs)	Provision (Rs Crs)	Provision cover
Less than 1 year	46%	238	60	25%
1-2 years	49%	110	31	28%
2-3 years	49%	86	30	35%
Beyond 3 years	49%	76	62	82%
Grand Total	47%	512	183	36%

Source: Company

While near-term asset quality may be volatile mainly as a result of the impact of migration of performing assets to banks & other HFCs on account of takeovers that may impact overall asset quality. However, with pickup in disbursements and seen on a yearly basis, we believe that asset quality trends will smoothen out.

Concentration in Tamil Nadu is diversifying now

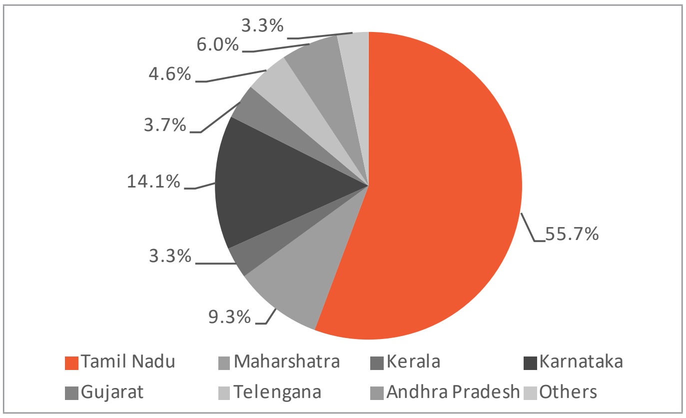
South India accounts for 89% of RHFL's loan book. Tamil Nadu represents almost 62% of its loan book. Presence outside South is mainly in West Bengal, Odisha, Maharashtra, Gujarat, Madhya Pradesh and Jharkhand.



Source: Company

As of now, the company has 179 points of presence, comprising 153 business branches, two asset recovery branches and 24 satellite centers; presence in 12 states and a union territory; greater focus on direct sourcing. The retail network is now spread across states of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Kerala, Maharashtra, Odisha, West Bengal, Gujarat, Madhya Pradesh, Jharkhand, Rajasthan and the Union Territory of Puducherry.

Geographical loan book spread



Source: Company, Sharekhan Research

Repco has been diversifying its footprint to non-southern states. From ~61% of business coming from Tamil Nadu, it has now reduced its exposure to Tamil Nadu to ~56%.

Diversifying exposure

States	Exposure			YoY Growth	QoQ Growth
	Sep-19	June-20	Sep-20		
Andhra Pradesh	6.4%	6.1%	6.0%	-2%	-3.00%
Telangana	4.6%	4.6%	4.6%	5%	3.00%
Gujrat	3.4%	3.6%	3.7%	14%	10.00%
Karnataka	14.0%	14.1%	14.1%	6%	2.00%
Kerala	3.5%	3.3%	3.3%	-1%	0.00%
Maharashtra	8.7%	9.2%	9.3%	13%	8.00%
Tamil Nadu	56.2%	55.9%	55.7%	4%	2.00%
Others	3.2%	3.2%	3.3%	7%	16.00%
	100.0%	100.0%	100.0%	5.0%	3.0%

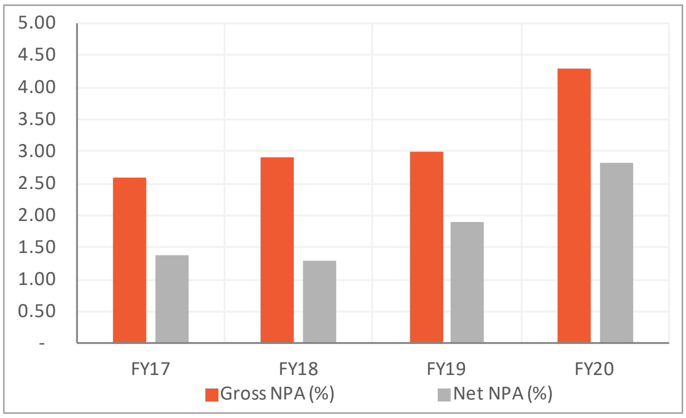
Source: Company, Sharekhan Research

Also, the focus on tier-II and tier-III cities and peripheral areas of tier-I cities results in lesser competition from banks and other HFCs, leading to a possibility of high growth in advances.

Strong underwriting standards – provides comfort on book Quality

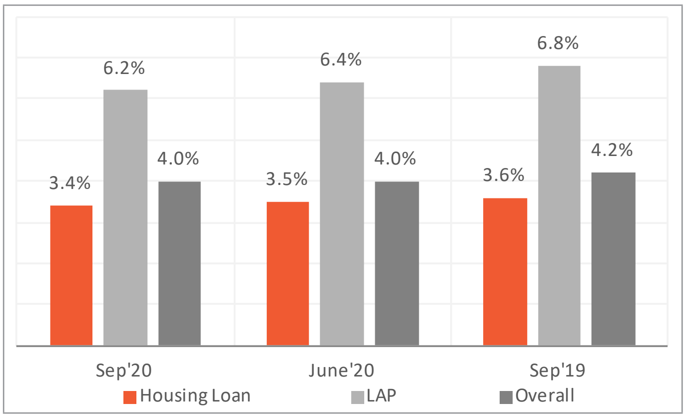
RHFL, has over the years, gained significant insights in underwriting risks involved in lending to non-salaried class, which is highly underpenetrated, relatively less competitive and offers higher yields.

Asset quality over the years



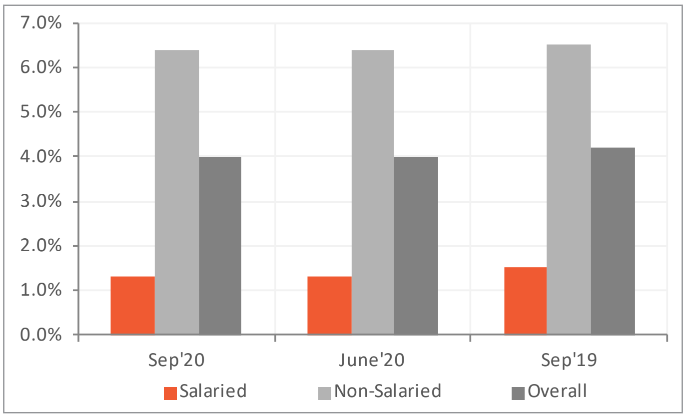
Source: Company, Sharekhan Research

Segment wise NPA mix – trending for improvement



Source: Company, Sharekhan Research

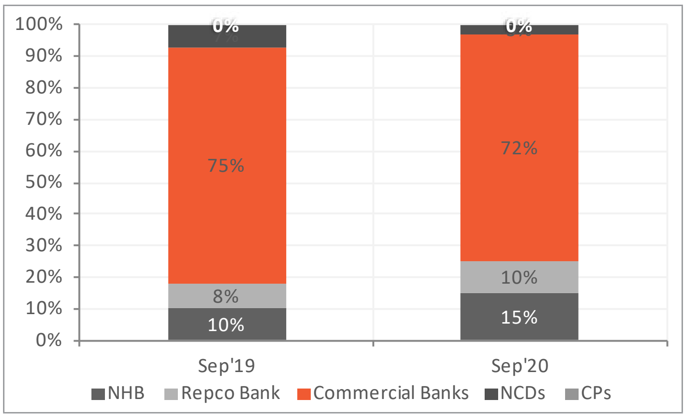
Occupation wise NPA mix – trending for improvement



Source: Company, Sharekhan Research

Lowering borrowing cost – falling G-sec spreads, high capitalization provide for margin lever in long term

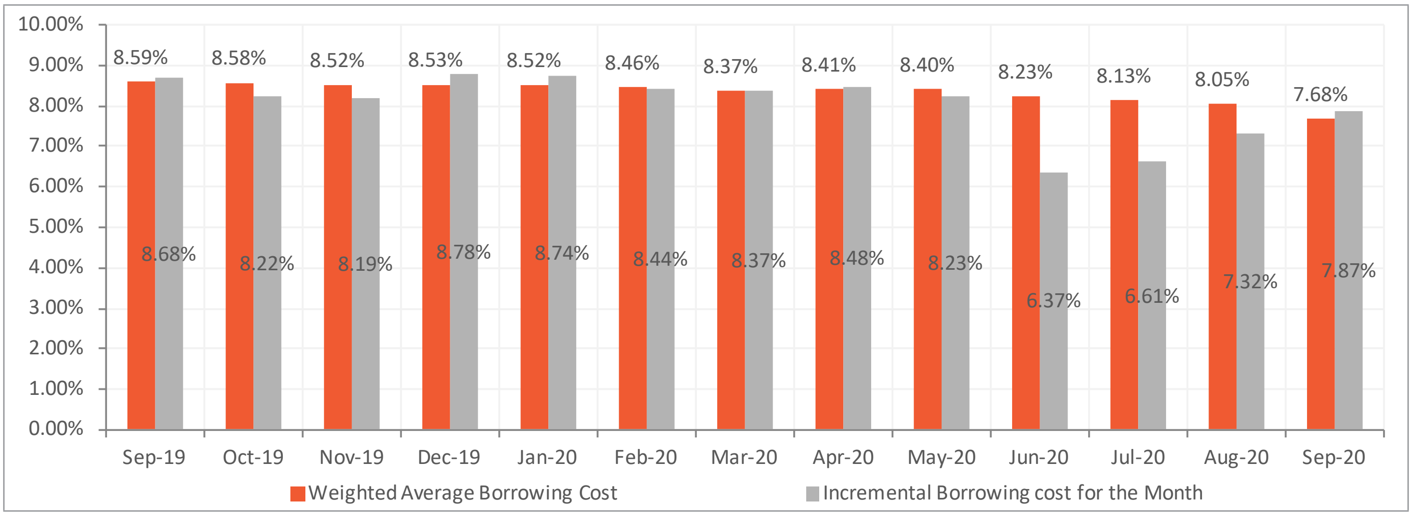
Borrowing Profile



Source: Company, Sharekhan Research

Bank funding is the key funding source for RHFL. With a fall in cost of funds and the reduction of MCLR rates for the banking space, cost of Funds for the HFC has also been improving.

Weighted average borrowing costs movement

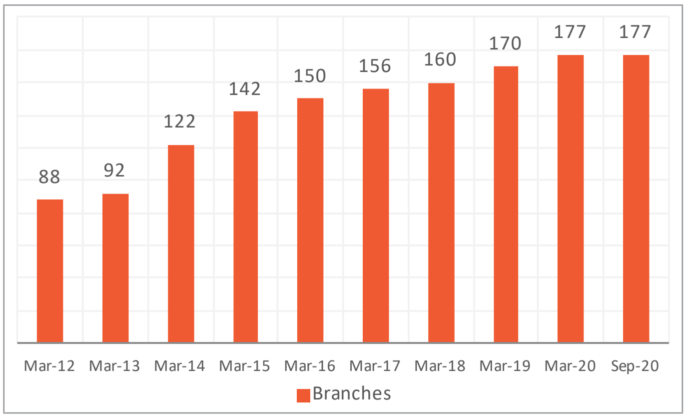


Source: Company, Sharekhan Research

While the average weighted cost of funds coming down, yield of new incremental disbursement yields is also improving, due to repricing. Hence we believe that the outlook on NIMs is likely to be stable with a positive bias.

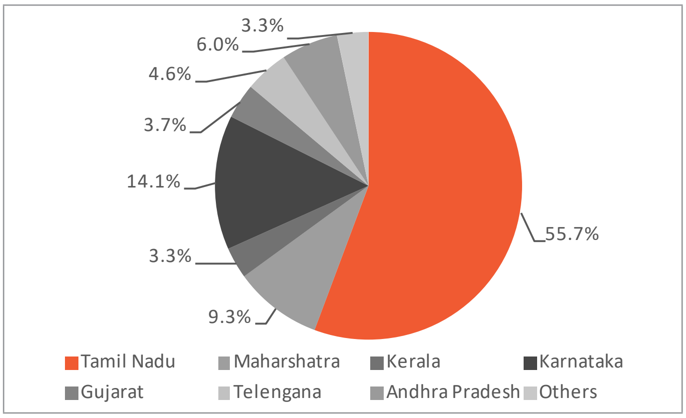
Financials in charts

Network expansion



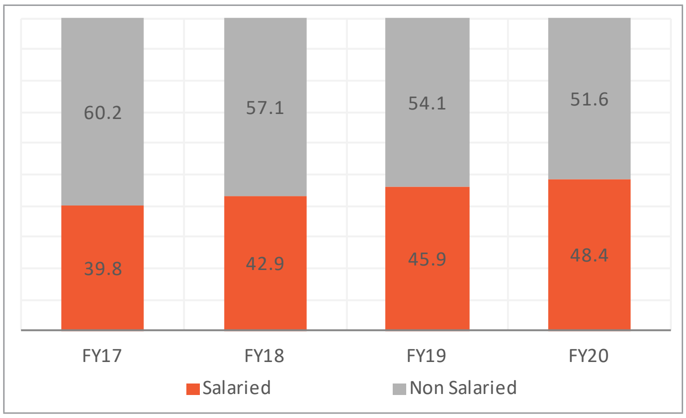
Source: Company, Sharekhan Research

Region wise Loan Book



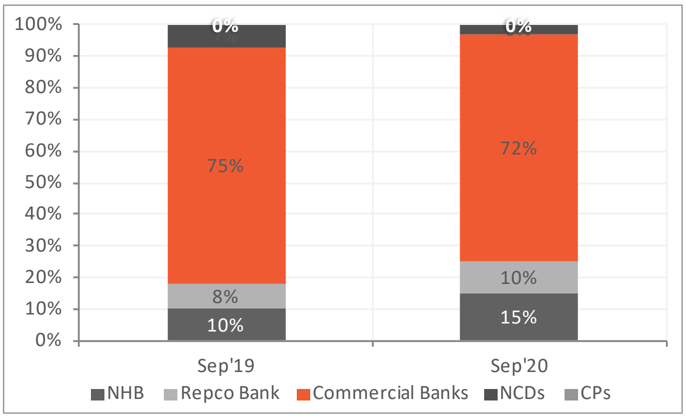
Source: Company, Sharekhan Research

Loan Book composition



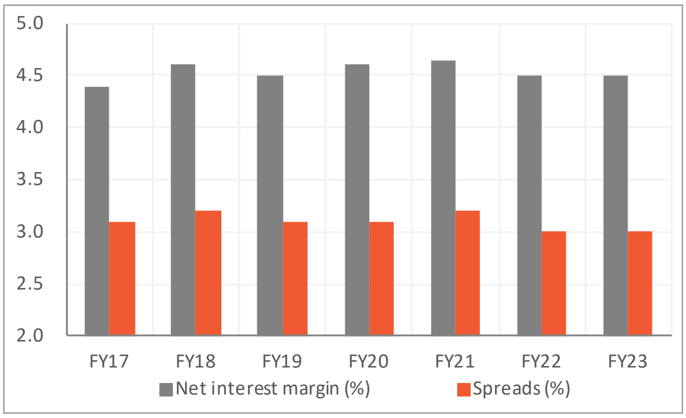
Source: Company, Sharekhan Research

Borrowing profile



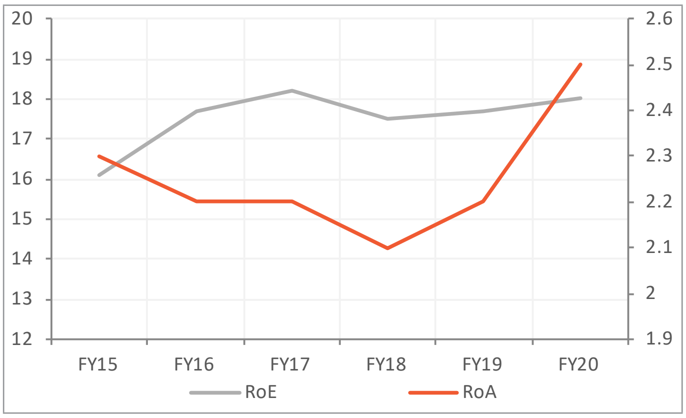
Source: Company, Sharekhan Research

NIMs and Spreads



Source: Company, Sharekhan Research

Return on Equity, Return on Assets



Source: Company, Sharekhan Research

REPCO HOME FINANCE LTD

Rs cr

P&L Account	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations	-					
Interest income	1,085.1	1,163.4	1,317.4	1,377.5	1,475.2	1,638.2
Other loan related income	22.1	25.9	28.1	30.3	33.4	37.4
Total revenue from operations	**1,107.2**	**1,189.3**	**1,345.5**	**1,407.9**	**1,508.6**	**1,675.5**
Other income	2.9	5.9	5.6	6.1	6.7	7.5
Total income	**1,110.1**	**1,195.2**	**1,351.1**	**1,413.9**	**1,515.3**	**1,683.1**
Net Interest Income	**458.3**	**469.3**	**520.5**	**565.8**	**592.1**	**658.3**
Finance costs	648.9	720.0	825.0	842.0	916.5	1,017.3
Employee benefits expenses	49.5	58.5	66.4	71.1	75.8	80.5
Depreciation, amortisation and impairment	3.1	5.0	12.9	13.8	14.8	15.7
Others expenses	26.4	34.9	27.1	29.9	32.9	36.9
Pre Provision Operating Profits	**382.2**	**376.8**	**419.6**	**457.1**	**475.3**	**532.8**
Provisions and write-offs	74.8	17.0	59.4	95.8	56.2	55.1
Profit before tax	**307.4**	**359.8**	**360.2**	**361.3**	**419.1**	**477.7**
Tax expense:	106.4	125.2	79.8	80.1	92.9	105.9
Profit for the year	**201.0**	**234.6**	**280.4**	**281.2**	**326.2**	**371.8**

Source: Company; Sharekhan Research

Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	FY23E
Assets						
Financial Assets						
Cash and cash equivalents	25.8	57.5	324.3	149.5	137.6	105.0
Bank balances other than cash and cash equivalents	0.1	0.1	0.0	0.0	0.0	0.0
Loans	9,649.2	10,837.9	11,587.7	12,772.2	14,049.4	15,635.0
Other financial assets	8.3	9.6	10.1	11.1	12.1	13.1
Investment in associate	15.6	22.0	22.0	22.0	22.0	22.0
Non-financial Assets						
Property, plant and equipment	12.3	13.6	14.2	15.2	16.2	17.2
Other intangible assets	1.2	1.9	2.3	3.3	4.3	5.3
Right-of-use (ROU) assets	-	-	20.7	20.7	20.7	20.7
Other non-financial assets	18.4	14.3	12.6	12.6	12.6	12.6
Total Assets	**10,957.0**	**10,957.0**	**11,993.9**	**12,880.6**	**14,139.8**	**15,830.9**
Liabilities and equity						
Financial Liabilities						
Debt securities	2,134.3	876.0	680.2	340.1	170.1	85.0
Borrowings (other than debt securities)	6,000.0	8,472.7	9,428.8	10,600.9	11,801.5	13,178.0
Other financial liabilities	247.4	16.9	46.3	23.1	11.6	5.8
Non-financial Liabilities						
Current Tax Liablity (Net)		-	-	-	-	-
Provisions	12.8	12.0	15.9	19.1	22.9	27.5
Deferred tax liabilities (net)	28.0	52.0	35.8	39.4	43.4	47.7
Total liabilities	**8,422.5**	**9,429.6**	**10,207.1**	**11,022.7**	**12,049.4**	**13,344.0**
Equity						
Equity share capital	62.6	62.6	62.6	62.6	62.6	62.6
Other equity	1,245.9	1,464.8	1,724.3	1,921.4	2,162.9	2,424.3
Total equity	**1,308.5**	**1,527.4**	**1,786.9**	**1,983.9**	**2,225.5**	**2,486.9**
Total liabilities and equity	**9,731.0**	**10,957.0**	**11,993.9**	**13,006.6**	**14,274.9**	**15,830.9**

Source: Company; Sharekhan Research

Valuation	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	458.3	469.3	520.5	565.8	592.1	658.3
PPOP	382.2	376.8	419.6	457.1	475.3	532.8
PAT	201.0	234.6	280.4	281.2	326.2	371.8
EPS (Rs)	32.1	37.5	44.8	44.9	52.1	59.4
BVPS (Rs)	209.2	244.1	285.6	317.1	355.7	397.5
Adj BVPS (Rs)	189.1	210.9	233.1	266.3	291.5	322.3
P / EPS (x)	7.8	6.72	5.62	5.61	4.83	4.24
P / BVPS (x)	1.2	1.03	0.88	0.79	0.71	0.63
P / ABVPS (x)	1.3	1.19	1.08	0.95	0.86	0.78
ROA (%)	2.1	2.2	2.5	2.2	2.3	2.4
ROE (%)	17.5	15.4	15.7	14.2	14.7	15.0

Per Share Ratios	FY19	FY19	FY20	FY21E	FY22E	FY23E
EPS (Rs)	32.13	37.5	44.8	44.9	52.1	59.4
BVPS (Rs)	209.15	244.1	285.6	317.1	355.7	397.5
Adj BVPS (Rs)	189.09	210.9	233.1	266.3	291.5	322.3
P / EPS (x)	7.84	6.7	5.6	5.6	4.8	4.2
P / BVPS (x)	1.20	1.03	0.88	0.79	0.71	0.63
P / ABVPS (x)	1.33	1.19	1.08	0.95	0.86	0.78

Outlook and Valuation

■ Sector view - Outlook improves for NBFCs

Long-term structural indicators remain strong for housing and mortgages in India. Ruling interest rates are low and several states have given incentive for home-buying, which is likely to prop up demand. With the recent fall in borrowing costs, which was steep for high-rated NBFCs, is another positive in its favour. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake and loan-to-value (LTV) outlook for HFCs. India has a young population and government schemes such as credit-linked subsidy scheme (CLSS) etc, which will facilitate even the affordable housing segments, are also enablers along with low penetration levels of mortgages in India (at 10% of GDP, against 18% in China and 56% in the US). We believe that the economic recovery is also gaining momentum and stimulus/supportive measures by the government and the Reserve Bank of India (RBI) will further aid to the same. We believe the outlook has turned positive on the NBFC sector in general and HFCs in particular.

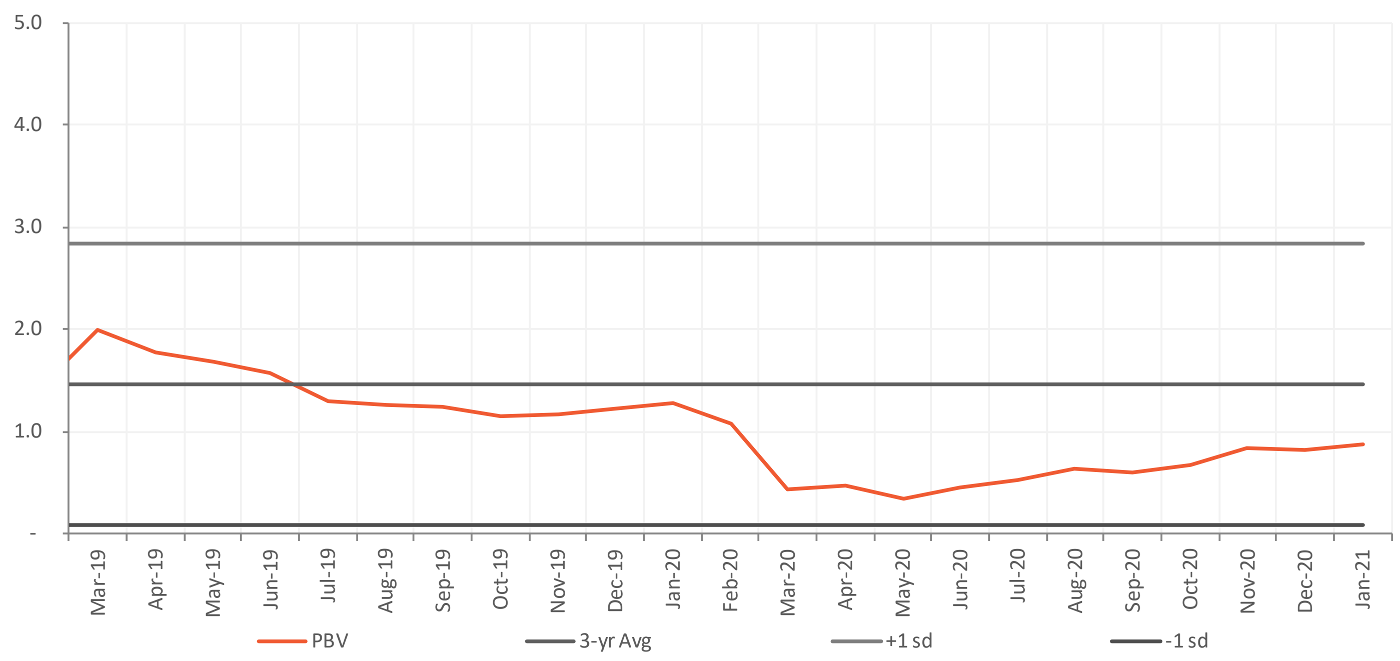
■ Company outlook - Strong fundamentals, with improving growth outlook, resilient margins

RHFL is well-placed in terms of liquidity management and falling interest would certainly augur well for the company in the coming quarters. During the quarter, RHFL witnessed improved loan disbursement and stable NIM, indicating a recovering traction post the lockdown and slower economic activity due to COVID-19 pandemic. RHFL has comfortable access to liquidity and enjoys stable credit ratings, which due to its high capitalisation and improving asset quality outlook have a potential to improve. Even though competitive intensity is present in the home loan segment, we believe that the niche segment in which RHFL operates, there is ample growth opportunity, lower competitive intensity and hence stable margin prospects. We expect margin outlook to be stable (with a positive bias) due to its declining cost of funds and improving disbursement traction. We believe asset-quality outlook and well-managed costs of borrowings are positives in its favour.

■ Valuation - Initiate coverage with a Buy and price target of Rs. 330.

Repco Home Finance is available at 0.9x/0.8x FY22E / FY23E which we believe is reasonable considering the healthy return ratios (ROE at over 14%; ROA at over 2.3%). Repco has focused on niche, small-ticket, non- salaried home loans, resulting in higher spreads for the company, along with reasonably controlled Asset quality. Going forward, we believe margins to sustain as disbursement growth picks up spreads could moderate given competition and pressure on yields. We expect EPS growth to clock a ~10% CAGR over FY20-23E, with stable asset quality. The stock has corrected by ~72% from highs and valuation multiples too have fallen to 0.9x forward ABVPS from 2.5x earlier. Hence, we believe that the risk-reward is favourable for long-term investors. A strong business model, stable ratings and strong historical underwriting, with attractive return ratios make RHFL among the attractive players in the niche Housing financing space, and we believe that with economic recovery demand along with resilient rural economy brighten the growth outlook. We initiate coverage on the stock with a Buy Rating and price target of Rs. 330.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP	P/BV(x)			P/E(x)			RoA (%)			RoE (%)		
	Rs/ Share	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Repco Home Finance	252.0	0.9	0.9	0.8	5.5	4.7	4.2	2.2	2.3	2.4	14.4	15.0	15.0
HDFC Ltd	2653	4.6	4.3	4.0	44.0	38.1	33.3	1.9	2.0	2.1	11.7	12.3	12.9
LICHF	409.4	1.0	0.9	0.8	8.7	7.2	6.1	1.0	1.2	1.3	12.2	13.3	13.9
PNBHF	361.5	0.7	0.7	0.6	8.1	6.8	5.8	1.0	1.2	1.3	8.9	10.4	11.14

Source: Company, Sharekhan research

About company

Repco Home Finance (RHFL), is promoted by Repco Bank (holds 37.13% stake), is a housing finance company (HFC) with strong concentration in south India, especially Tamil Nadu incorporated in April 2000. As at the end of Sep 2020, RHFL is operating through 153 branches and 24 satellite centres in Tamil Nadu, Andhra Pradesh, Jharkhand, Kerala, Karnataka, Maharashtra, Madhya Pradesh, Gujarat, Odisha, West Bengal and Puducherry. The NBFC operates in Housing Finance with innovative loan products, direct customer contact and customer ownership, focus on quality customer servicing, transparency and speed of operations, focus on relatively under-penetrated markets and balanced portfolio mix, robust risk management systems and processes, low cost operations, well recognized brand in south India with an established track record, stable and experienced senior management team. The Company's products have been developed to suit the needs of different customers.

Investment theme

Repco Home Finance (RHFL) is an attractive HFC with a niche loan book (salaried, non-salaried) with stable asset quality, stable Ratings and attractive return ratios. The HFC is backed by strong capitalization, and despite the competitive intensity in the home loan segment, due to its presence in niche small ticket, non-salaried Housing loan segment Repco has attractive spreads as compared to peers. Repco Home Finance (RHFL) has an attractive business model of housing mortgages which caters to an under-served segment by banks and other NBFCs. The small ticket, non-salaried segment is an attractive but very challenging business that requires a player with diligent risk management, deep understanding of the market and focus. The company has witnessed a steady growth and is increasing its geographical footprint by deepening its reach selectively in existing regions and expanding to new regions, with continuing focus on under penetrated markets, focus on risk management, accessing low cost and diversified sources of funds, and maintaining low operating costs. The company has a sound risk management system in place.

Key Risks

- Delayed recovery in economic activity and an adverse interest rate regimen will affect growth and profitability.
- Stress of migration of performing assets to banks & other HFCs on account of takeovers may impact overall asset quality.

Additional Data

Key management personnel

Mr Yaspal Gupta	MD & CEO
Mr T Karunkaran	CFO
Mr K Pandiarajan	CTO
Mr Arun Mishra	Chief Devlopment Officer
Mr Shanthi Srikanth	Chief Risk Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	India Capital Fund Ltd	7.4
2	Aditya Birla Sun Life Asset Management Co Ltd	6.5
3	Aditya Birla Sun Life Trustee Co Ltd	6.1
4	HDFC Company Ltd	6.1
5	HDFC Asset Management Co ltd	6.1
6	DSP Investment Managers Pvt Ltd	4.4
7	Fidelity Funds SICAV	2.9
8	FIL Ltd	2.8
9	ICICI Prudential Asset Management Co Ltd	2.4
10	APAX Global ALOHA Ltd	2.1

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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