Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 259**	
Price Target: **Rs. 330**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 1,624 cr
52-week high/low:	Rs. 338/91
NSE volume: (No of shares)	4.6 lakh
BSE code:	535322
NSE code:	REPCOHOME
Free float: (No of shares)	3.9 cr

Shareholding (%)

Promoters	37.1
FII	20.8
DII	22.1
Others	20.1

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	18.8	96.8	-19.9
Relative to Sensex	-8.0	0.0	62.5	-43.9

Sharekhan Research, Bloomberg

Repco Home Finance Limited

Strong performance

Banks & Finance | Sharekhan code: REPCOHOME | Result Update

Stock Update

Summary

- Repco Home Finance Limited (Repco) posted strong performance in Q3FY2021; healthy operational numbers, margin improvement, better collections, and growth in commentary were key positives.
- Healthy business traction with Q3FY2021 disbursement up 18% q-o-q; Encouraging asset-quality performance with reported GS3/proforma GS3 at 3.3%/4.3% (manageable gap), with 97% collection efficiency (up from 93% September levels) and low restructuring.
- Available at 0.9x/0.8x its FY2022E/FY2023E, which we believe is reasonable; a strong business model, stable ratings, and conservative underwriting with attractive return ratios make RHFL attractive.
- Management commentary is positive. We maintain Buy with unchanged PT of Rs. 330.

Repco Home Finance posted a strong performance for Q3FY2021. Operational numbers were healthy. Margin improvement, better collections, and growth commentary are key positives. For the quarter, net interest income (NII) came at Rs. 152.3 crore, up 16% y-o-y and 9.6% q-o-q and PAT at Rs. 79.6 crore was up 14.2% y-o-y, and the performance was strong despite provisions of Rs. 22.2 crore, up 11.5% y-o-y. Healthy business traction continued, with Q3FY2021 disbursement at Rs. 551.7 crore, (up 18% from Q2FY2021 disbursements levels). Asset quality wise, performance was encouraging, with reported GS3/proforma GS 3 at 3.3%/4.3%; we believe the gap is manageable and indicates the asset quality is well under control. Current collection efficiency for December was at 97% (improved from September levels of 93%) and the non-paying non-NPL customer pool has been trending down. Restructured loan assets (Rs. 35.5 crore) which are part of the Pro-forma Stage-3, carry total ECL provision of Rs. 10.6 crore. Pro-forma net stage3 assets 3 (totalling to Rs. 120.3 crore) carry total ECL provision of Rs. 30.8 crore. Total ECL provisions are Rs. 263 crore, of which Rs. 177 crore is for Stage 3 assets and the rest was for standard assets. The company is targeting 13%-15% loan growth for FY2022E and expects to report Rs. 750 crore disbursement for Q4FY2021. Going forward, we believe while there is limited space for cost of borrowings to fall further, due to borrowing book re-pricing benefits, we expect NIMs to hold steady. For the quarter, net interest margin (NIM) improved on a sequential basis, from 4.6% to 5.1%, as the weighted cost of funds declined on downward repricing of borrowings (sharp rise in NHB borrowing with average cost of 6.10%) and lower incremental funding cost, which helped margins, even as the portfolio yield was stable. Management estimates lower credit cost in Q4FY2021 with expectation of further normalisation of credit cost from FY2022E. We maintain our Buy rating with an unchanged PT of Rs. 330.

Key positives

- For the quarter, NIM improved on a sequential basis from 4.6% to 5.1%; even for 9MFY2021, NIM improved to 4.7% from 4.5% in 9MFY2020.
- Incremental improvement in business performance, with Q3FY2021 disbursement improving to Rs. 551.7 crore, up 18% q-o-q and ~2x of Q1FY2021 levels.

Key negatives

- Return on equity for 9MFY2021 declined to 16.9% from 20.2% for 9MFY2020; ROA declined to 2.5% for 9MFY2021 from 2.7% for 9MFY2020.

Our Call

Repco is available at 0.9x/0.8x its FY2022E/FY2023E, which we believe is reasonable considering 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 expect margins to sustain as disbursement growth picks up and repricing benefits offset competition and pressure on yields. We expect EPS growth to post a ~10% CAGR over FY2020-FY2023E, with stable asset quality. The stock has corrected by ~24% from its highs and valuation multiples have fallen to 0.9x forward ABVPS from 2.5x earlier. Hence, we believe 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. We believe that with economic recovery, demand along with resilient rural economy would brighten the growth outlook. We maintain our Buy rating with a PT of Rs. 330.

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 and other HFCs due to takeovers may impact overall asset quality.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	469.3	520.5	565.8	592.1	661.4
PPOP	376.8	419.6	457.1	475.3	536.0
PAT	234.6	280.4	281.2	326.2	374.3
EPS (Rs.)	37.5	44.8	44.9	52.1	59.8
Adj BVPS (Rs.)	210.9	233.1	266.3	291.5	322.4
P / EPS (x)	6.88	5.76	5.74	4.95	4.31
P / ABVPS (x)	1.22	1.11	0.97	0.89	0.80
ROA (%)	2.2	2.5	2.2	2.3	2.35
ROE (%)	15.4	15.7	14.2	14.7	15.0

Source: Company; Sharekhan estimates

Results Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Interest income	354.6	340.0	4.3	347.9	1.9
Interest expense	202.4	208.8	-3.1	209.0	-3.2
Net interest income	152.3	131.2	16.0	138.9	9.6
Non-interest income	5.1	1.0	412.0	2.3	127.6
Net total income	157.4	132.2	19.0	141.2	11.5
Operating expenses	29.2	27.4	6.3	25.7	13.4
Employees benefit Expenses	18.6	16.7	11.5	17.4	6.9
Depreciation & Amortization	2.7	3.5	-23.1	3.4	-21.8
Other Expenditure	7.9	7.3	8.7	4.9	61.2
Pre-provisioning profit	128.2	104.8	22.3	115.5	11.1
Provisions	22.2	11.5	92.3	7.2	207.5
Profit before tax	106.1	93.3	13.7	108.3	-2.0
Tax	26.5	23.6	12.2	27.5	-3.9
Profit after tax	79.6	69.7	14.2	80.7	-1.4

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Improved outlook for HFCs and 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. The recent fall in borrowing costs, especially beneficial for high-rated NBFCs, is another positive in their 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, and are 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 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.

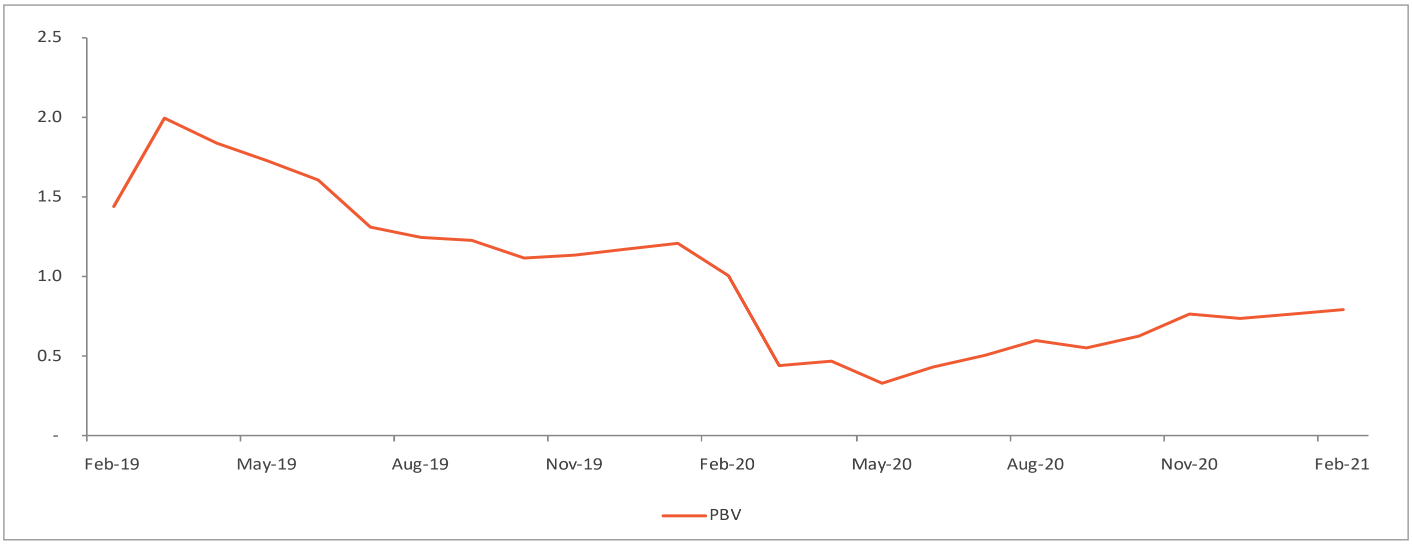
■ Company outlook - Strong fundamentals, with improving growth outlook, resilient margins

Repco is well placed in terms of liquidity management and falling interest, which would certainly augur well for the company in the coming quarters. During the quarter, Repco witnessed improved loan disbursement and expansion in NIM, indicating a recovering traction and benefits of lower cost of borrowing. Repco 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 the niche segment, in which Repco operates, has ample growth opportunity, lower competitive intensity, and 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 - Maintain Buy with an unchanged PT of Rs. 330

Repco is available at 0.9x/0.8x its FY2022E/FY2023E, which we believe is reasonable, considering 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 expect margins to sustain as disbursement growth picks up, and repricing benefits offset competition and pressure on yields. We expect EPS growth to post a ~10% CAGR over FY2020-FY2023E, with stable asset quality. The stock has corrected by ~24% from its highs and valuation multiples have fallen to 0.9x forward ABVPS from 2.5x earlier. Hence, we believe 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. We believe economic recovery demand along with resilient rural economy would brighten the growth outlook. We maintain our Buy rating and PT of Rs. 330.

One-year forward P/BV (x) band



Source: Bloomberg, Sharekhan Research

Peer valuation

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Repco Home Finance	260.0	1.0	0.9	5.7	4.9	2.2	2.4	14.4	15.0
HDFC Ltd	2759	4.8	4.5	46.1	39.8	1.9	2.0	11.6	12.3
LICHF	434.35	1.1	1.0	8.9	7.5	1.1	1.2	12.6	13.5
PNBHF	357.6	0.7	0.6	7.9	6.8	1.0	1.1	9.3	10.1

Source: Bloomberg, Sharekhan Research

About company

Repco, promoted by Repco Bank (holds 37.13% stake), is a housing finance company (HFC) with strong concentration in south India, especially Tamil Nadu, and was incorporated in April 2000. As at the end of December 2020, Repco was 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, customer ownership, focus on quality customer servicing, transparency and speed of operations, focus on relatively under-penetrated markets, balanced portfolio mix, robust risk management systems and processes, low-cost operations, well-recognised brand in south India with an established track record, and stable and experienced senior management team. The company's products have been developed to suit the needs of different customers.

Investment theme

Repco 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 capitalisation, 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 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 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 and other HFCs due to 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: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aditya Birla Sun Life Asset Manage	6.5
2	Aditya Birla Sun Life Trustee Co P	6.1
3	HDFC COMPANY LTD	6.1
4	HDFC Asset Management Co Ltd	6.1
5	DSP Investment Managers Pvt Ltd	4.4
6	FIL Ltd	4.3
7	Fidelity Funds SICAV	2.9
8	ICICI Prudential Asset Management	2.4
9	APAX GLOBAL ALOHA LTD	2.1
10	SG JOKALAND HOLDINGS	1.8

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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