Repco Home Finance Ltd

BUY

Sector: Housing Finance/Small Cap | Earnings Update – 4QFY21

1 July 2021

Background: Repco Home Finance Limited (RHFL) is a low to medium ticket size home loan financing company predominately based in tier II / III cities of southern India. Promoted by the State-owned Repco Bank Ltd in 2000, RHFL presently has 153 branches and 24 satellite centers of which ~87% are located in the southern market. Repco has shown robust growth in its loan book clocking 21% CAGR (FY13-FY19) and stood at ₹~121.2bn at the end 4QFY21. RHFL average loan per unit is at ₹1.5mn, with live accounts at 101,153. RHFL maintained a healthy NIM of 4.8%, along with GNPA at 3.7% for 4QFY21.

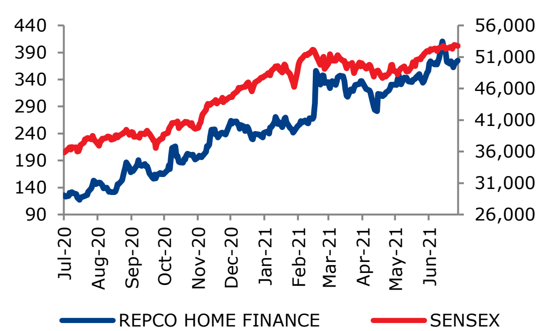
Sensex	52,482
Nifty	15,721
Price	₹ 375
Target Price (12 months)	₹ 432
Recommendation	BUY

52 Week High/Low	₹ 429/114
Bloomberg / Reuters	REPCO IN / RHFL.BO
Equity (shares in mn)	62.5
Mkt. Cap in bn	₹ 23.4/ $ 0.3
Avg. Daily Vol. ('000)	279.6
Avg. Daily Vol. (mn)	₹ 104.8 /$ 1.4

Shareholding	Mar-20	Dec-20	Mar-21
Promoters (%)	37.1	37.1	37.1
FII (%)	28.8	19.8	20.4
DII (%)	24.3	20.1	20.1
Others (%)	9.8	23.0	22.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn) Y/E March	2021	2022E	2023E
Net Interest Inc	5.7	5.9	6.3
Other Inc	0.2	0.2	0.2
Pre Prov Profit	4.7	5.0	5.3
PAT	2.9	3.1	3.4
EPS (₹)	46.0	50.1	54.8
EPS growth (%)	2.6	9.0	9.4
PE (X)	8.2	7.5	6.8
P /ABV (X)	1.3	1.1	0.9
Div Yield (%)	0.7	0.5	0.5
ROA (%)	2.4	2.4	2.4
ROE (%)	16.0	14.3	14.3
Tier 1 CAR (%)	28.5	25.2	25.2

Performance(%)	1M	3M	12M
REPCO HOME FINANCE	6.4	16.8	206.1
SENSEX	1.5	5.4	51.0



Steady quarter: Earnings resilient despite elevated provisioning and higher CSR expenses; Key positives going forward- GNPAs expected to improve from current levels while Management guides for 10% loan growth in FY22

- In 4QFY21 RHFL's loan book growth remained muted (0.5%QoQ, 2.5%YoY) and stood at ₹121.2bn. The slowdown in loan book growth was on account of continued aggressive lending by banks and large HFCs. Given competitive intensity and Repco's higher lending rate vs peers have resulted in balance transfer outward which stood at 12% per annum of the opening book. Average tenor of loans stand at ~14 years. The company is facing business growth constraints due to low demand in the sector and interest rate competition from banks. These constraints are expected to ease in FY22. The company is optimistic of achieving 12-15% growth in the next two years while expecting 10% growth for FY22E.
- The loan growth for the quarter was supported by the salaried segment (+5.3% YoY), wherein loan book share increased by 130bps YoY to 48.5% in 4QFY21. Non-salaried segment witnessed flat growth YoY and consequently, the share in overall portfolio declined to 51.5% (from 52.8% in 4QFY20). Meanwhile LAP share stood at 18.7% which was below the long term guidance of keeping non- HL below 20%. The growth in core TN book (55.4% of book) remained stable at 1% YoY while non-TN loan book increased by 3.7% YoY.
- Overall disbursements sustained recovery by 16.1% QoQ to ₹6.4bn and the sanctions stood at ₹6.4bn (flat QoQ). During the call the management guided for disbursals worth ₹30bn in FY22 assuming lesser economic stress from covid waves during the year.
- In 4QFY21 the Net Interest Income increased by 5.9% YoY (down 3% QoQ) to ₹1.4bn. NIMs improved 10bps YoY to 4.8% led by CoF improvement (down 100bps YoY). Cost to income ratio increased to 23.2% during the quarter on account of CSR expenses. NIMs are expected to be stable in the near term at current levels.
- Yield on assets declined by 70bps QoQ but management's stance of not competing based on interest rates is expected to keep yield steady going forward. The borrowing costs came down owing to low interest rate environment and higher proportion of NHB borrowing which stood at 21% in 4QFY21 (vs 17.1% in 3QFY21). The company does not expect any material increase in CoF in near term. Average borrowing rate stood at 7.1% in 4QFY21. This has kept spreads stable at 3.8% during the quarter.
- On a sequential basis asset quality improved, with reported GNPAs (GS-3) at 3.7% (down 60bps QoQ) in 4QFY21. Consistent improvement in collection efficiency (CE) have aided in asset quality improvement. CE stood at 96% in March 2021. Management notes that CE for 1QFY22E stands at 90% currently due to restrictions put in place in April and May and expects CE for 1QFY22 to be lower than 4QFY21. Around 30bps of loan book have been restricted and restructuring is expected going forward. Management is certain that GS-3 will not cross 4.3% in FY22E. On a product/mix basis, the NPAs in Housing loan was stable at 3.2% (down 60bps YoY); in the occupation mix, Salaried improved by 20bps YoY to 1.4%.
- Provisions declined on an annual basis to ₹292mn (down 27.5% YoY) but remained elevated on a sequential basis (up 31.9% QoQ). The increase in provisions was to account expected restructuring for Stage1 & 2 loans. Credit cost guidance stood at ₹0.5bn per year for the coming years. Opex increased driven by higher CSR expenses worth ₹54mn in 4QFY21; ₹69mn for FY21 (vs ₹15mn for FY20). Conservative provisioning, higher CSR expenses and interest on interest refund resulted in a decline in PAT to ₹632mn (down 20.6% QoQ).

Valuation: A robust business model with attractive return ratios makes RHFL favored player in the housing finance space. Steady asset quality, sound loan spread, comfortable liquidity position, declining cost of funds and the management's cautious lending approach are all factors we believe will lend support to earnings in near term. We arrive at a target price of ₹ 432, assigning a P/ABV of 1X FY23E, maintaining our rating as BUY on the stock.

Risks: Slowdown in real estate sector; covid restrictions that impact collection efficiency; increase in slippages and regulatory changes might have an adverse impact on profitability.

Results Summary 4QFY21

Y/E March (₹ mn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
Net Interest Income	1,476.8	1,394.2	5.9%	1,522.6	-3.0%
Other Income	71.9	5.1	1309.8%	51.2	40.4%
Pre Provisioning Profit	1,188.0	1,092.6	8.7%	1,282.3	-7.4%
PAT	632.0	477.0	32.5%	796.0	-20.6%
Cost/Income (%)	23.3	21.9		18.5	
Gross NPA (%)	3.7	4.3		3.3	
Net NPA (%)	2.2	2.8		1.9	
Prov Coverage ratio (%)	40.0	36.0		44.0	
Tier 1 CAR (%)	28.5	25.9		27.4	

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