Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Repco Home Finance Ltd

Muted growth outlook, headwinds to persist

NBFC	Sharekhan code: REPCOHOME

Reco/View: Hold ↓	CMP: Rs. 139	Price Target: Rs. 160 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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		↔	

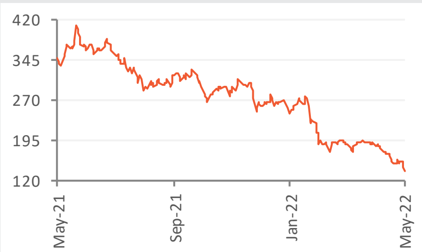
Company details

Market cap:	Rs. 876 cr
52-week high/low:	Rs. 429/139
NSE volume: (No of shares)	1.59 lakh
BSE code:	535322
NSE code:	REPCOHOME
Free float: (No of shares)	3.9 cr

Shareholding (%)

Promoters	37.1
FII	17.9
DII	19.7
Others	25.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-25.6	-25.9	-52.4	-59.2
Relative to Sensex	-20.6	-24.4	-46.5	-65.3

Sharekhan Research, Bloomberg

Summary

- For Q4FY2022, Repco Home Finance recorded dismal performance in business metrics with lower-than-expected disbursement. PAT was below our expectations on account of higher provisioning during the quarter. PAT stood at Rs. 42 crore, down ~34% y-o-y.
- However, NIM improved by 30 bps y-o-y and 9 bps q-o-q. Asset quality remained stable with GNPA flat sequentially in Q4FY2022. Management foresees asset-quality improvement with GNPA ratio declining by 60 bps to 120 bps from H1FY2023 onwards.
- Disbursement stood at Rs. 601 crore, down 6% y-o-y and 35% q-o-q. The company expects its loan book to grow by 10% to 11% in FY2023.
- At the CMP, the stock trades at 0.3x/0.3x its FY2023E/FY2024E P/BV. Although management has formulated strategy and stated guidance for loan book growth, asset quality and credit costs, the delivery on these objectives by the management remains a key. We revise our rating downwards to Hold from Buy with a revised PT of Rs. 160.

Repco Home Finance Limited (Repco) reported PAT of Rs. 42 crore versus our estimate of Rs. 55 crore in Q4FY2022, down ~34% y-o-y (up by 34% q-o-q), on account of higher provisions than expectations. Provisions were at Rs. 61 crore in Q4FY2022 versus Rs. 77 crore in Q3FY2022 versus Rs. 29 crore in Q4FY2021. For FY2022, PAT declined by 33% to Rs. 192 crore. Net interest income (NII) fell by 1% both y-o-y and q-o-q on account of lower assets under management (AUM) growth (down 3% y-o-y). However, other income increased by 23% y-o-y and 26% q-o-q in Q4FY2022. Net interest margin (NIM) expanded by 30 bps y-o-y and 9 bps q-o-q in Q4FY2022. Loan book continued to remain muted with AUM at Rs. 11,759 crore, down 3% y-o-y (flat sequentially). This reflects Repco's inability to stem/contain the balance transfers with prepayment rate (not annualised) at elevated levels (~5%) in Q4FY2022. Spread was stable at 3.8% in Q4FY2022. Yields declined by 10 bps q-o-q, which was mitigated by lower cost of funds (declined by 10 bps q-o-q). Asset quality remained stable with GNPA and NNPA ratio at 7% (flat sequentially) and 4.8% (down by 14 bps q-o-q). Credit cost remains elevated at ~208 bps in Q4FY2022. Disbursements were lower by 6% y-o-y and increased by ~35% q-o-q to Rs. 601 crore.

Key positives

- NIM expanded by 30 bps y-o-y and 9 bps q-o-q in Q4FY2022.
- The decline in yields (fell 10 bps q-o-q) was mitigated by lower cost of funds (declined by 10 bps q-o-q).

Key negatives

- Asset quality did not witness any improvement and credit cost remained elevated at ~208 bps q-o-q in Q4FY2022.
- Loan book continued to remain muted with AUM down by 3% y-o-y (flat sequentially), thereby reflecting Repco's inability to stem/contain the balance transfers with prepayment rates.

Management Commentary

- Management plans to grow its loan book by 10% to 11% in FY2023.
- It guided for higher NIM of current levels for FY2023. NIM stood at 5.1%, up 9 bps q-o-q and 30 bps y-o-y in Q4FY2022.
- Management foresees improvement in asset quality in FY2023 and intends to focus on collections efficiency. It foresees improvement in GNPA ratio by 60 bps to 120 bps from H1FY2023.
- It plans to have dedicated teams for collections going forward. The company intends to increase its PCR to 50% going ahead.

Our Call

Valuation: We have revised our rating downwards to Hold from Buy with a revised PT of Rs. 160. We believe Repco's focus on niche, small-ticket, non-salaried home loans, resulting in higher spreads for the company is a reflection of weak credit quality of the assets. Further, going forward, given management's formulated strategy and guidance for loan book, credit cost, and improvement in asset quality, we would like to watch out for the delivery/execution of the said objectives. Additionally, asset quality did not witness any improvement and its credit cost remained elevated, which was in complete contrast with respect to other housing finance companies (HFCs). We believe this would remain higher going ahead. We expect its loan book to remain muted at a CAGR of 9% over FY2022 to FY2024E. Repco is currently available at 0.3x/0.3x its FY2023E/FY2024E P/BV. Hence, we revise our rating downwards to Hold from Buy with a revised price target (PT) of Rs. 160.

Key Risks

Delayed recovery in economic activity and an adverse behaviour in the restructured portfolio.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	545	568	568	580
PAT	288	192	219	281
EPS (Rs.)	46.0	30.6	35.0	45.0
BVPS (Rs.)	329.2	357.4	401.0	419.3
P / EPS (x)	3.0	4.5	4.0	3.1
P / BVPS (x)	0.4	0.4	0.3	0.3
ROA (%)	2.4	1.6	1.7	2.0
ROE (%)	15.0	8.9	9.2	11.0

Source: Company; Sharekhan estimates

Results Rs cr

Particulars	Q4FY21	Q4FY22	y-o-y (%)	Q3FY22	q-o-q (%)
Interest Income	328	308	(5.8)	313	(1.4)
Interest expenses	185	168	(9.4)	172	(2.3)
Net interest income	**142**	**140**	**(1.1)**	**141**	**(0.5)**
Other income	13	16	23.3	12	26.4
Net Operating income	**155**	**156**	**0.9**	**154**	**1.7**
Employee cost	19	23	24.1	21	9.2
Depreciation	3	3	2.4	3	0.6
Other expenditure	14	10	(27.1)	10	4.5
Operating expenses	**36**	**37**	**2.0**	**34**	**7.0**
Pre-provisioning profit (PPoP)	**119**	**119**	**0.6**	**119**	**0.2**
Provisions and loan losses	29	61	109.6	77	(19.9)
PBT	**90**	**58**	**(35.1)**	**43**	**36.2**
Tax	26	16	(38.8)	11	43.6
Tax Rate	29.4	27.7	(5.8)	26.3	5.5
PAT	**63**	**42**	**(33.5)**	**31**	**33.6**

Source: Company, Sharekhan Research

Other Key Ratios Rs cr

Particulars	Q4FY21	Q4FY22	y-o-y (%)	Q3FY22	q-o-q (%)
Disbursement	640	601	(6.1)	444	35.4
Total AUM	12,122	11,759	(3.0)	11,786	(0.2)
-Individual Home Loan (%)	81.3	80.9	-40bps	81.2	-30bps
-LAP (%)	18.7	19.1	40bps	18.8	30bps
NIM	4.8	5.1	30bps	5.0	9bps
CAR (%) - Entire Tier 1	28.5	33.6	510bps	31.3	230bps
GNPA (%)	3.7	7.0	330bps	7.0	0bps
NNPA (%)	2.2	4.8	253bps	4.9	-14bps
Provisioning Coverage (%)	39.7	31.8	-786bps	30.1	176bps

Source: Company, Sharekhan Research

Key Conference call takeaways

- **Strong disbursements and sanctions growth:** Overall, business activities have improved significantly during the quarter, which have helped the company to report robust growth in disbursements (increased by 35% q-o-q) and sanctions (rose by 33% q-o-q) in Q4FY2022.
- **Muted loan book growth:** Loan book growth witnessed muted growth on account of prepayments, which remain elevated at 21% (annualised) in Q4FY2021 with balance transfers (BT) out of Rs. 466 crore. For FY2022, the repayments ratio was also elevated at 17.6% on account of intense competition versus 13.1% in FY2021. To contain BT outs, the company intends to renegotiate interest rates with customers of good profile but not at the cost of profitability. Management plans to grow its loan book by 10% to 11% in FY2023. Loan book mix of home loans and LAP stood at 80.9% and 19.1% in FY2022 versus 81.3% and 18.7% in FY2021, respectively.
- **Margin Guidance:** The company guided for higher NIM of current levels for FY2023. NIM stood at 5.1%, up 9 bps q-o-q and 30 bps y-o-y in Q4FY2022. It plans to maintain spreads at current levels despite its intent to renegotiate interest rates with the existing customers. The spread was stable at 3.8% in Q4FY2022. It plans to offer CIBIL score-based products to its customers going ahead.
- **Asset Quality:** Management sounded confident to improve asset quality in FY2023 and intends to focus on collections efficiency. It foresees improvement in GNPA ratio by 60 bps to 120 bps from H1FY2023. GNPA and NNPA ratio stood at 7% (flat sequentially) and 4.8% (down by 14 bps q-o-q). It plans to have dedicated teams/collection lines for collections going forward. The company intends to increase its PCR to 50% going ahead. PCR stood at 31.8% in Q4FY2022 versus 30.1% in Q3FY2022 versus 39.7% in Q4FY2021. ECL provisions stood at 4.01% of the loan book, up 53 bps q-o-q in Q4FY2022. It guided for credit cost of Rs. 80 crore to Rs. 100 crore in FY2023. Restructured book stood at Rs. 550 crore (~5% of the book).
- **Branch expansion plans:** It plans to resume branch expansion from Q2FY2023. The number of branches stood at 155 as of March 2022.
- **Liquidity:** The company has liquidity buffer of Rs. 600 crore of cash and cash equivalents as of March 2022 along with unutilised lines of Rs. 1,900 crore with a liquidity coverage ratio of 238%. It plans to invest in better yielding government securities to reduce the negative carry.
- **Digital transformation:** The process of digitisation is underway and the new system is likely to be in place by September 2022.

Outlook and Valuation

■ Sector View – Medium-term speed-breaks for HFCs and NBFCs

Long-term structural indicators remain strong for housing and mortgages in India. While interest rates were seen moving up but at the same time revival in housing demand is also being witnessed across most cities. Overall, unsold inventory across the country declined marginally by 1% in Q1 2022, as demand improved for seven consecutive quarters. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake and loan-to-value (LTV) outlook for HFCs. However, revised NPA recognition guidelines by the Reserve Bank of India (RBI) are expected to result in higher non-performing loans and higher provisioning there on by NBFCs. This elevated credit cost is likely to dent earnings of the companies in the medium term. It has to be noted that implementation timeline has been extended by September 2022 from earlier deadline of March 2022.

■ Company Outlook – Headwinds in the medium term

Repco is well placed in terms of liquidity management and falling interest, which would certainly augur well for the company in the long term. During the quarter, the company posted dismal performance on its business metrics. PAT was below expectations on account of higher provisioning during the quarter. Asset quality remained stable but did not witness improvement during Q4FY2022 with elevated credit cost. Intensive competition and higher pricing by the company resulted in higher BT outs. Going forward, we believe growth strategy and business initiatives would be keenly watched out for with the change in management.

■ Valuation – We have revised our rating downwards to Hold from Buy with a revised PT of Rs. 160

We believe Repco's focus on niche, small-ticket, non-salaried home loans, resulting in higher spreads for the company is a reflection of weak credit quality of the assets. Further, going forward, given management's formulated strategy and guidance for loan book, credit cost, and improvement in asset quality, we would like to watch out for the delivery/execution of the said objectives. Additionally, asset quality did not witness any improvement and its credit cost remained elevated, which was in complete contrast with respect to other HFCs. We believe this would remain higher going ahead. We expect its loan book to remain muted at a CAGR of 9% over FY2022 to FY2024E. Repco is currently available at 0.3x/0.3x its FY2023E/FY2024E P/BV. Hence, we revise our rating downwards to Hold from Buy with a revised PT of Rs. 160.

Peer Comparison

Company	CMP (Rs)	MCAP (Rs cr)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Repco Home Finance	139	876	0.3	0.3	3.7	2.8	1.6	1.8	8.9	9.8
LIC Housing Finance	378	20,754	0.8	0.7	6.1	5.2	1.3	1.3	13.1	13.6
Can Fin Homes	465	6,207	1.7	1.5	11.9	10.4	1.7	1.7	15.7	15.4

Source: Company, Sharekhan estimates

About company

Repco, promoted by Repco Bank (holds 37.13% stake), is an HFC with strong concentration in south India, especially Tamil Nadu, and was incorporated in April 2000. At the end of December 2021, Repco was operating through 155 branches and 22 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 underpenetrated markets, balanced portfolio mix, robust risk management systems and processes, and low-cost operations. It is a 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 underserved 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. However, with the new management team and its strategies on loan book growth, asset quality and credit costs needs to be monitored closely for its commensuration.

Key Risks

Delayed recovery in economic activity and an adverse behaviour in the restructured portfolio.

Additional Data

Key management personnel

Mr. K. Swaminathan	MD & CEO
Mr.T Karunakaran	CFO
Mr. K Pandiarajan	CTO
Mr. N. Balasubramanian	Chief Devlopment Officer
Mr. Shanthi Srikanth	Chief Risk Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	6.7
2	Aditya Birla Sun Life Trustee Co P	5.7
3	FIL Ltd	5.0
4	Fidelity Funds SICAV	3.5
5	DSP Investment Managers Pvt Ltd	2.4
6	APAX GLOBAL ALOHA LTD	2.1
7	SG Jokaland Holdings	1.8
8	Invesco Asset Management India	1.8
9	Fidelity Asian Values	1.5
10	ICICI Prudential Asset Management	1.5

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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