

RepcO Home Finance

BUY

CMP Rs297

Target Rs375

Upside 26.3%

Resilient asset quality performance raises confidence – Retain BUY with 12m PT of Rs375

RepcO's Q3 FY21 operating performance was ahead of our expectations with 9-12% beat in NII, PPOP and PAT. This was largely driven by NPLs/w-off accounts recoveries/resolution and consequent income (~Rs100mn) which was reflected in NII line. Reported NIM jumped to 5%+ in Q3 FY21, which otherwise would have improved to a smaller extent based only on funding cost decline. The reported borrowing cost came-off on the back of re-pricing of bank loans and increased share of low-cost NHB borrowings over the past two quarters. Portfolio Yields for Repco remain relatively firm, despite the company having reduced rates by 70-75 bps since April 2020, due to higher quantum of BT Out and semi-annual repricing mechanism.

Portfolio growth (4% yoy) continues to disappoint, even as disbursements improved (Rs5.51bn v/s Rs4.7bn in Q2), due to sustained intense competition in the form of BT Out (was around Rs3.5bn in Q2/Q3). While management's focus and improving housing demand would drive higher disbursements in coming quarters (disbursements targeted at Rs7bn in Q4), sustained elevated loan takeovers from banks could constrict loan growth from materially improving.

Asset quality resilience (Proforma NPL at 4.3%, including 0.3% restructuring) surprised positively and the management is upbeat on pulling back NPL levels in Q4. The confidence stems from collection efficiency (without arrears, advances and pre-closures) recovering to the pre-Covid level of 96-97% (93% in September), much lower-than-expected restructuring, smaller 60-90 bucket (1-1.5% of loans) and encouraging trends in hard bucket recoveries/resolutions. Credit cost in the current quarter is likely to be lower than Q3.

We broadly maintain earnings/ABV estimates, as downward revision in growth and credit cost nullify each other. Strong asset quality performance should raise street's confidence in the management and on the various initiatives taken for mitigating risks over the past couple of years. Stock trades at 0.8x FY23 P/ABV for 2.2-2.3% RoA delivery and an estimated 15% ABV compounding.

Management Commentary

Loan Growth, Disbursements and BT

- ✓ Portfolio growth at 4% due to intense competition from banks – Repco cannot compete with Banks on rates.

Exhibit 1: Financial Summary

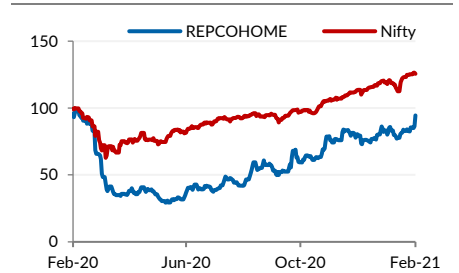
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	5,261	5,770	5,766	6,100
PPOP	4,196	4,686	4,590	4,833
Net profit	2,804	3,011	3,106	3,262
yoy growth (%)	19.5	7.4	3.1	5.0
EPS (Rs)	44.8	48.1	49.6	52.1
Adj.BVPS (Rs)	233.1	280.2	326.9	374.1
P/E (x)	6.6	6.1	6.0	5.7
P/adj.BV (x)	1.3	1.1	0.9	0.8
ROE (%)	16.9	15.6	14.0	13.0
ROA (%)	2.4	2.5	2.4	2.3
CAR (%)	25.9	28.7	30.9	31.7

Source: Company, YES Sec – Research

Stock data (as on February 17, 2021)

Nifty	15,209
52 Week h/l (Rs)	319 / 90
Market cap (Rs/USD mn)	18565 / 255
Outstanding Shares (mn)	63
6m Avg t/o (Rs mn):	96
Div yield (%):	0.8
Bloomberg code:	REPCO IN
NSE code:	REPCOHOM

Stock performance



	1M	3M	1Y
Absolute return	13.5%	19.8%	0.3%

Shareholding pattern

Promoter	37.1%
FII+DII	39.9%
Others	23.0%

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Repro Home Finance

- ✓ BT Out remains high and was around 350cr in Q3 - SBI, BoB and a host of private banks taking over loans.
- ✓ Have about 30% portfolio above Rs4mn+ ticket size which banks are keen to takeover.
- ✓ Not committing on growth but focused on increasing disbursements - Q4 has started better and target is Rs7bn (Rs5.5bn in Q3) - BT Out could remain in the range of Rs3-4bn.
- ✓ No branch expansion planned in Q4 - Next year could be 10-12.
- ✓ Growth in long-run will be much better than the industry - looking to sustain RoA above 2.25%.

Yields, Funding and Spread/NIM

- ✓ CoF had come down by 120 bps over past 12m - incremental CoF from NHB at blended 6.2%.
- ✓ Incremental lending rate in Q3 was 10.6 (10% for HL and 13.1% for LAP) and funding cost was 7.1% (but including NHB borrowings which may always not be available).
- ✓ Since March have reduced lending rates by 75 bps.
- ✓ Going forward, NIM and Spread will decline as most benefits will be passed on to borrowers.
- ✓ Long-term Spread would be closer to 3.2-3.3%.
- ✓ On-BS liquidity at Rs5bn and Off-BS liquidity at Rs20bn.

Asset Quality - Slippages, Restructuring, Credit Cost & Recoveries

- ✓ Proforma NPL at 4.3% - includes 0.3% restructured loans v/s earlier expectation of 1-1.5%.
- ✓ CE (w/o arrears, advances and pre-closures) at 97%+ which is at pre-Covid level - CE was 95% in Dec 2019 and 93% in September 2020.
- ✓ Stage-2 at 3.3% of which 1% in 60-90 bucket - Stage-1 at 92-93% which is higher than past many years - this is the reflection of de-risking, underwriting and collection initiatives taken.
- ✓ Recovered/resolved some NPLs/write-off accounts during Q3 - consequent 11cr income inflated NIM.
- ✓ Proforma GNPL expected to come down to 3.7-3.8% by March - trends in CE and recoveries will sustain.
- ✓ Carrying enough provisions to take care of worst asset quality outcomes.

Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Operating Income	3,546	3,480	1.9	3,400	4.3
Interest expended	(2,024)	(2,090)	(3.2)	(2,088)	(3.1)
Net Interest Income	1,523	1,390	9.6	1,312	16.0
Other income	51	23	127.6	10	412.0
Total Income	1,574	1,412	11.4	1,322	19.0
Operating expenses	(292)	(257)	13.4	(274)	6.3
PPOP	1,282	1,155	11.0	1,048	22.3
Provisions	(222)	(72)	207.5	(115)	92.3
PBT	1,061	1,083	(2.1)	933	13.7
Tax	(265)	(275)	(3.8)	(236)	12.2
PAT	796	808	(1.5)	697	14.2

Source: Company, YES Sec - Research

Exhibit 3: Key ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	5.1	4.6	0.5	4.6	0.5
Yield	11.7	11.6	0.2	11.8	(0.0)
Cost of Funds	7.9	8.2	(0.3)	8.4	(0.5)
Spread	3.9	3.4	0.5	3.3	0.6
Cost to Income	18.5	18.2	0.3	20.7	(2.2)
Gross NPA	3.3	4.0	(0.7)	4.2	(0.9)
ECL	2.2	2.0	0.2	1.5	0.7
Cum. RoA	2.6	2.4	0.2	2.4	0.2
Cum. RoE	17.3	16.7	0.6	17.3	-

Source: Company, YES Sec – Research

Exhibit 4: Business data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
AUM	120,588	120,892	(0.3)	116,249	3.7
Sanctions	6,500	5,277	23.2	7,331	(11.3)
Disbursements	5,517	4,672	18.1	6,557	(15.9)
Customer Mix					
Salaried	49	48	0.4	47	2.8
Non-Salaried	52	52	(0.4)	53	(2.5)
Product Mix					
HL	81	81	0.1	81	(0.2)
LAP	19	19	(0.5)	19	1.1
Geographical Mix					
Tamil Nadu	67,288	67,337	(0.1)	64,867	3.7
Non-Tamil Nadu	53,300	53,555	(0.5)	51,382	3.7
Karnataka	16,762	17,046	(1.7)	16,507	1.5
Maharashtra	11,335	11,243	0.8	10,462	8.3
Andhra Pradesh	7,115	7,254	(1.9)	7,440	(4.4)
Telangana	5,426	5,561	(2.4)	5,347	1.5

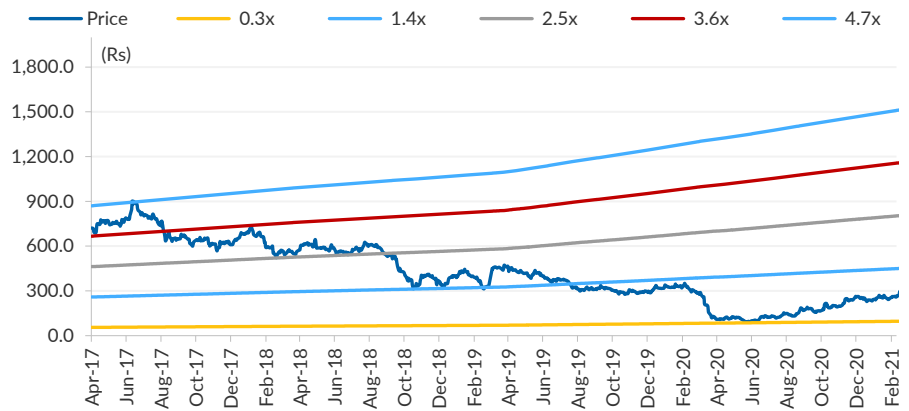
Source: Company, YES Sec – Research

Exhibit 5: GNPA mix

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
HL GNPA %	3.0	3.4	(0.4)	3.6	(0.6)
LAP GNPA %	4.9	6.2	(1.3)	6.7	(1.8)
Salaried GNPA %	1.1	1.3	(0.2)	1.5	(0.4)
Non-Salaried GNPA %	5.4	6.4	(1.0)	6.5	(1.1)
Aggregate GNPA	3.3	4.0	(0.7)	4.2	(0.9)

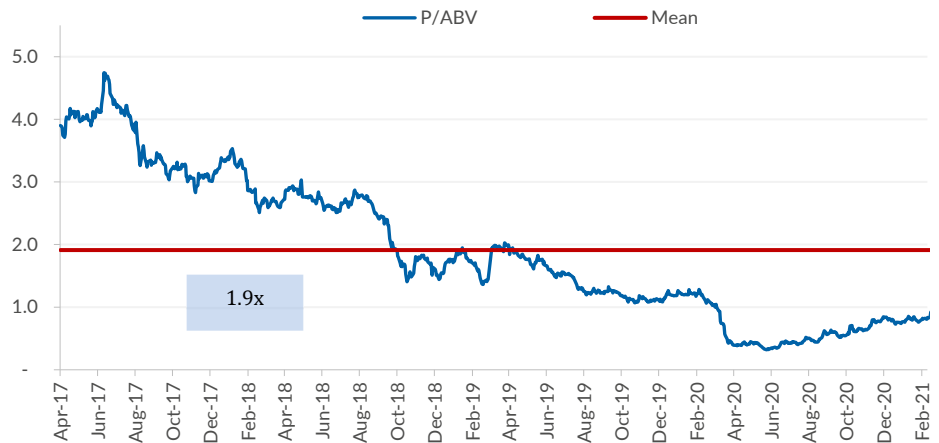
Source: Company, YES Sec – Research

Exhibit 6: 1-year rolling P/ABV band



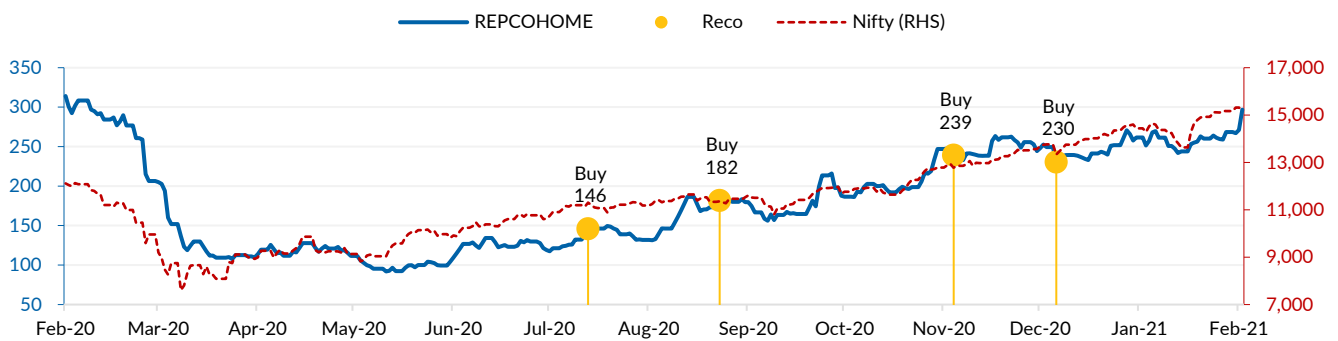
Source: Company, YES Sec – Research

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

Recommendation Tracker



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