

Repc Home Finance

Bloomberg	REPCO IN
Equity Shares (m)	63
M.Cap.(INRb)/(USD\$b)	18.5 / 0.2
52-Week Range (INR)	319 / 91
1, 6, 12 Rel. Per (%)	8/90/-27
12M Avg Val (INR M)	75
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
NII	4.9	5.7	5.7
PPP	4.2	4.8	4.8
PAT	2.8	3.1	3.2
EPS (INR)	44.8	49.7	51.3
EPS Gr. (%)	19	11	3
BV/Sh. (INR)	286	332	380

Ratios

NIM (%)	4.4	4.8	4.6
C/I ratio (%)	20.2	18.5	19.7
RoAA (%)	2.4	2.5	2.5
RoE (%)	16.9	16.1	14.4
Payout (%)	7.0	7.0	7.0

Valuation

P/E (x)	6.6	6.0	5.8
P/BV (x)	1.0	0.9	0.8
Div. Yield (%)	0.9	1.0	1.0

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	37.1	37.1	37.1
DII	20.1	20.2	24.8
FII	19.8	19.1	28.8
Others	23.0	23.6	9.3

FII Includes depository receipts

CMP: INR296

TP: INR430 (+45%)

Buy

Stable quarter; asset quality surprises positively

- Repc Home Finance (REPCO)'s PAT grew 14% YoY to INR796m in 3QFY21, 8% above our estimates. The PAT beat was driven by an NII beat, marginally offset by slightly higher provisions. The quarter gone by was characterized by a recovery in disbursements, improvement in margin, and maintenance of asset quality.

Disbursements recover, but loan growth muted; margin surprises

- From 65–70% of YoY levels in 2QFY21, **disbursements improved to ~85% of YoY levels to INR5.5b in the quarter.** The share of Home loans in total disbursements improved 250bp YoY to 80%.
- As repayment rates normalized since this was the first full quarter after the lifting of the moratorium on term loan EMIs, loan growth remained tepid (flat QoQ, +4% YoY).** The loan mix in terms of customer profession as well as type of loans (Home/LAP) remains largely stable.
- Despite a downward trend in Home loan rates across the industry, yields increased 20bp QoQ to 11.8%. This, combined with a 30bp decline in the cost of funds (CoF) to 7.9%, led to record high spreads of 3.9%.**
- On the borrowings side, REPCO paid down all its market liabilities (NCDs and CPs) and continues to increase its dependence on NHB borrowings as they come at a very low rate (6.1%). Over the past year, the share of NHB borrowings has risen to 17% from 9%.

Stable GNPL ratio a positive surprise

- Contrary to our expectation of asset quality worsening, given the lifting of the moratorium on term loan EMIs, pro forma GNPL ratio actually came in flat QoQ at 4%.** In addition, restructured loans amounted to only 0.3% of total loans – better than that reported by most HFCs.
- The total provision buffer increased 20bp QoQ/70bp YoY to 2.2%.
- With business and collections largely reverting to normal, opex grew 13% QoQ. Nevertheless, the C/I ratio is healthy at 18.5%.

Highlights from the management commentary

- Growth has slowed down as banks have become aggressive in lending.
- Stage 2 loans stood at 7%. GNPL ratio will not cross 4.5% in 4QFY21.

Valuation and view

Since the IL&FS crisis, REPCO reduced its dependence on capital market borrowings to nil at present from 20% earlier. It proactively increased its low-cost NHB borrowings at the same time, thus maintaining margin. The management has laid great emphasis on controlling asset quality. While it is still early days, it seems that the impact of the crisis on asset quality is likely to be minimal. Credit costs should normalize to 30-40bp in FY22E. However, growth still remains elusive. While we forecast a pick-up, we expect the company to deliver only 8% loan book growth over FY21-23E. We increase our FY22E/FY23E EPS estimate by 2-4% to factor in higher margin. Maintain Buy with a TP of INR430 per share (1x FY23E BVPS).

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Quarterly performance

INR m

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	3,286	3,322	3,406	3,441	3,384	3,486	3,568	3,451	13,174	13,889
Interest Expenses	2,015	2,085	2,088	2,062	2,104	2,090	2,024	2,007	8,250	8,225
Net Income	1,271	1,237	1,318	1,379	1,280	1,396	1,544	1,444	4,924	5,664
YoY Growth (%)	11.2	3.4	10.8	18.5	0.7	12.9	17.1	4.7	4.9	15.0
Other income	-2	33	4	20	35	16	30	121	337	202
Total Income	1,270	1,270	1,322	1,399	1,315	1,412	1,574	1,566	5,261	5,867
YoY Growth (%)	6.8	5.4	11.0	19.9	3.6	11.2	19.0	11.9	10.7	11.5
Operating Expenses	235	249	274	307	235	257	292	299	1,065	1,083
YoY Growth (%)	7.3	5.7	8.5	10.8	0.1	3.2	6.3	-2.4	8.2	1.7
Operating Profit	1,035	1,021	1,048	1,093	1,080	1,155	1,282	1,266	4,196	4,784
YoY Growth (%)	6.7	5.3	11.6	22.7	4.4	13.1	22.3	15.9	11.4	14.0
Provisions	75	1	115	403	221	72	222	113	594	628
Profit before Tax	960	1,020	933	690	859	1,083	1,061	1,153	3,602	4,156
Tax Provisions	336	14	236	213	219	275	265	289	798	1,047
Profit after tax	624	1,006	697	477	640	808	796	865	2,804	3,109
YoY Growth (%)	2.4	51.1	25.3	-7.4	2.6	-19.7	14.2	81.2	19.5	10.9
Loan growth (%)	12.6	10.7	9.0	7.2	5.6	5.2	3.7	2.8	6.9	4.9
Cost-to-Income Ratio (%)	18.5	19.6	20.7	21.9	17.9	18.2	18.5	19.1	20.2	18.5
Tax Rate (%)	35.0	1.3	25.3	30.8	25.5	25.4	24.9	25.1	22.2	25.2
Key Parameters (%)										
Yield on loans (Cal.)	11.7	11.6	11.8	11.7	11.4	11.6	11.8			
Cost of funds (Cal.)	8.6	8.5	8.4	8.3	8.3	8.2	7.9			
Spreads (Cal.)	3.2	3.1	3.4	3.4	3.0	3.4	3.9			
NIMs (Reported)	4.5	4.3	4.6	4.7	4.3	4.6	5.1			
Credit Cost	0.3	0.0	0.4	1.4	0.7	0.2	0.7			
Cost-to-Income Ratio	18.5	19.6	20.7	21.9	17.9	18.2	18.5			
Tax Rate	35.0	1.3	25.3	30.8	25.5	25.4	24.9			
Balance Sheet										
AUM (INR b)	113	115	116	118	120	121	121			
Change YoY (%)	12.6	10.7	9.0	7.2	5.6	5.2	3.7			
AUM Mix (%)										
Non-Salaried	54.2	53.4	52.8	51.6	51.7	51.7	51.5			
Salaried	45.8	46.6	47.2	48.4	48.3	48.3	48.5			
AUM Mix (%)										
Home loans	81.5	81.5	81.4	81.3	81.3	81.1	81.2			
LAP	18.5	18.5	18.6	18.7	18.7	18.9	18.8			
Disbursements (INR b)	6.7	7.0	6.6	6.0	1.8	4.7	5.5			
Change YoY (%)	-5.2	-9.6	-10.6	-31.4	-72.8	-33.4	-15.9			
Borrowings (INR b)	95.6	100.3	97.9	100.6	101.5	103.0	102.7			
Change YoY (%)	14.8	15.1	9.7	8.4	6.2	2.6	4.9			
Loans/Borrowings (%)	118.7	114.6	118.8	117.6	118.0	117.4	117.4			
Borrowings Mix (%)										
Banks	70.9	74.5	75.9	75.2	74.8	71.7	73.2			
NHB	10.9	10.1	9.4	7.8	10.5	14.8	17.1			
Repc Bank	7.9	7.9	8.0	10.5	10.3	9.9	9.7			
NCD	8.7	7.5	6.7	6.5	4.5	2.6	0.0			
CP	1.6	0.0	0.0	0.0	0.0	1.0	0.0			
Asset Quality										
GS 3 (INR b)	4.8	4.9	4.9	5.1	4.8	4.8	4.0			
Gross Stage 3 (% on Assets)	4.2	4.2	4.2	4.3	4.0	4.0	3.3			
NS 3 (INR b)	3.3	3.5	3.5	3.3	2.8	2.8	2.2			
Net Stage 3 (% on Assets)	3.0	3.1	3.1	2.8	2.4	2.4	1.9			
PCR (%)	30.5	28.2	28.6	35.8	41.2	41.4	44.3			
Return Ratios (%)										
RoA (Rep.)	2.2	3.5	2.4	1.6	2.2	2.7	2.6			
RoE (Rep.)	17.7	26.1	17.3	11.5	15.0	18.3	17.3			

E: MOFSL estimates



Highlights from the management commentary

Business updates

- Spreads in 3QFY21 were the highest ever due to: a) slower passing of the lower CoF benefit to customers, and b) recoveries leading to interest write back.
- Growth has slowed down as banks have become aggressive in lending. The management said it will not compromise on profitability for growth.
- The NBFC will open 10-12 branches annually.
- The management is targeting a RoA of 2.25-2.5%.
- It is targeting disbursements of INR7b in 4QFY21.
- Incremental yields in 3QFY21: Home loans - 10%; LAP - 13.05%, total - 10.62%.

Asset quality

- Stage 2 loans stood at 7%.
- The management said GNPL ratio will not cross 4.5% in 4QFY21.

Funding

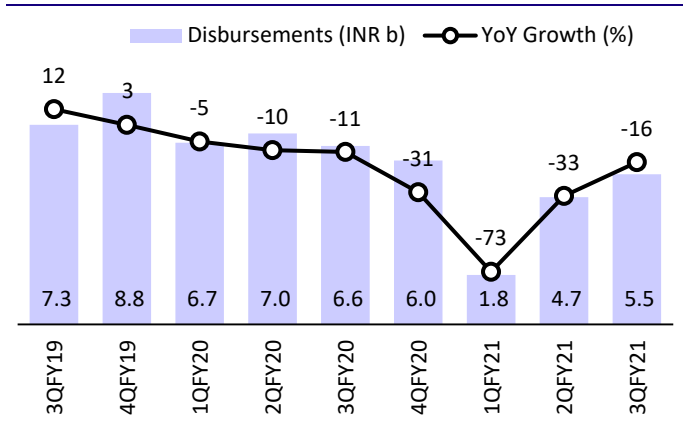
- The NBFC has a liquidity of INR5b on its Balance Sheet.
- The management is targeting spreads between 3% and 3.25% going forward.
- Incremental NHB funding stood at 6.1% in 3QFY21.
- Incremental CoF stood at 7.1% in the quarter gone by.

Others

- Quarterly balance transfers on loans stands at INR3b.
- Around 20-30% of REPCO's book belongs to customers catered to by banks.

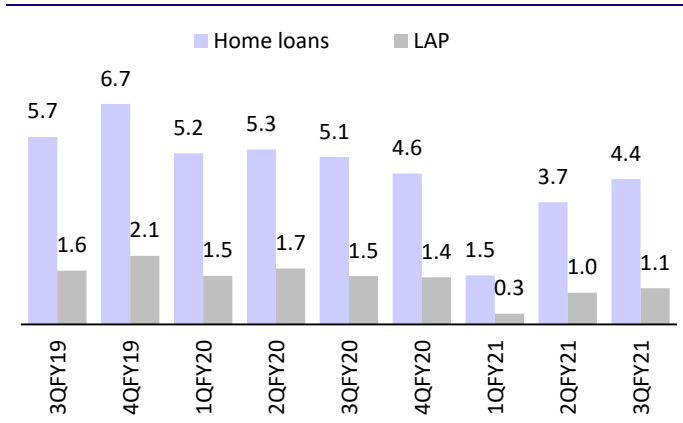
Key exhibits

Exhibit 1: Disbursements recover closer to YoY levels...



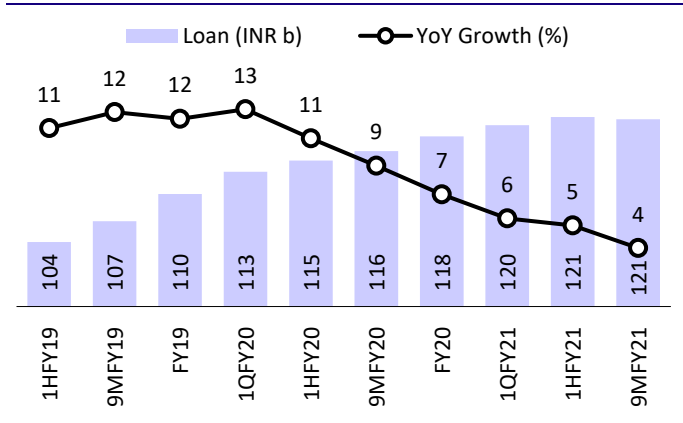
Source: MOFSL, Company

Exhibit 2: ...driven by Home loans and LAP



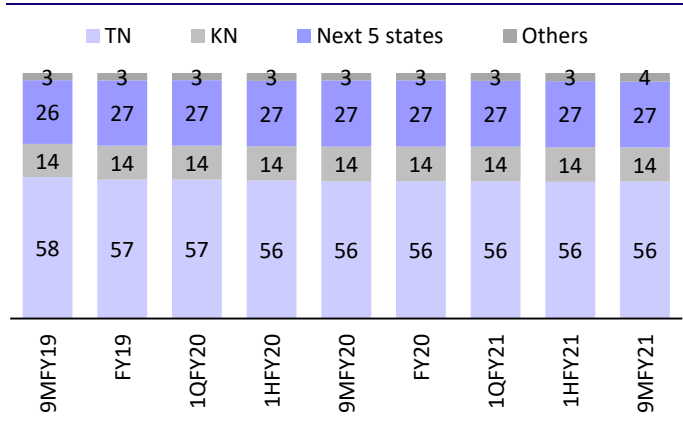
Source: MOFSL, Company

Exhibit 3: Loan growth remains muted



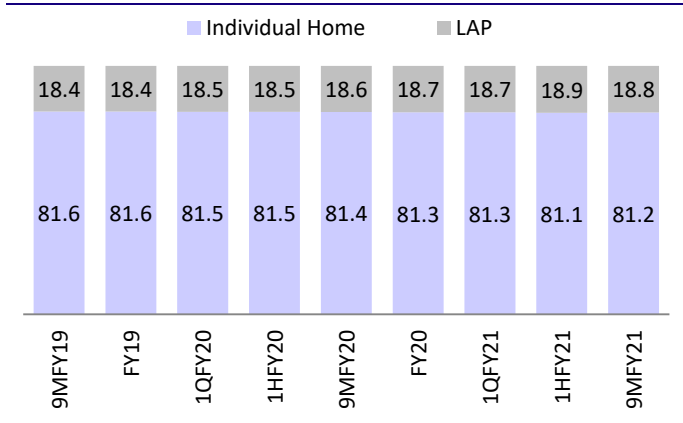
Source: MOFSL, Company

Exhibit 4: Share of key states in total AUM (%)



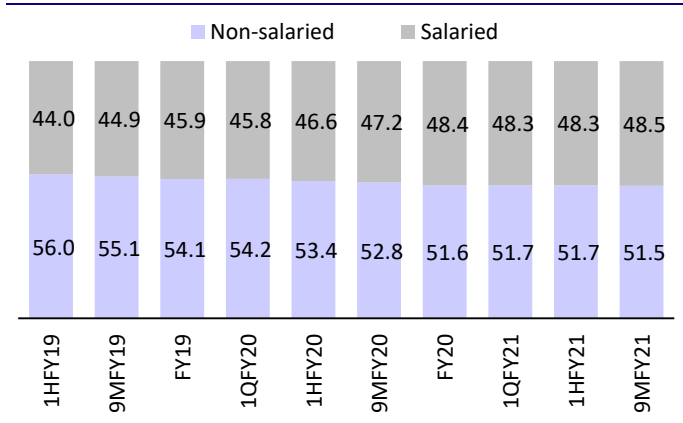
Source: MOFSL, Company

Exhibit 5: Home loan book share ~81%



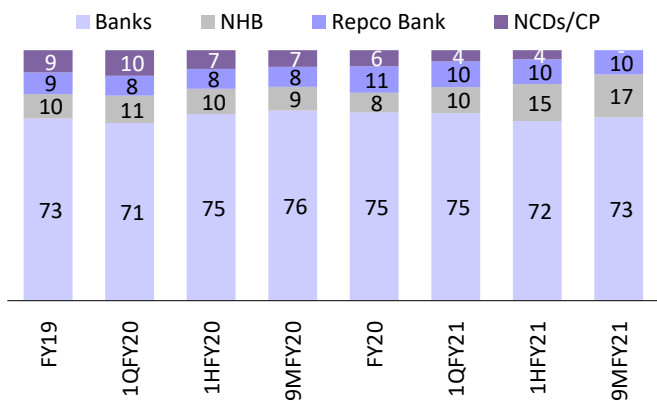
Source: MOFSL, Company

Exhibit 6: Customer mix stable (%)



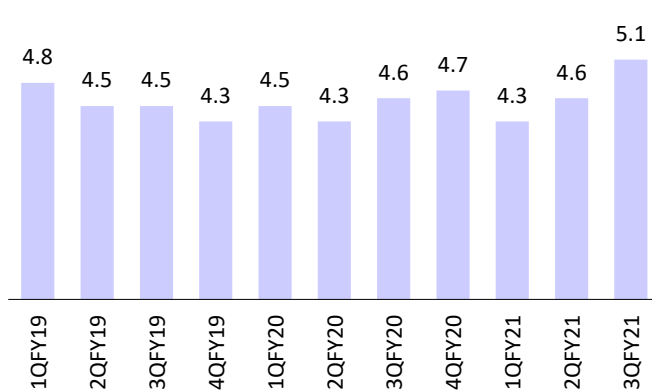
Source: MOFSL, Company

Exhibit 7: Share of NCDs/CPs down to zero (%)



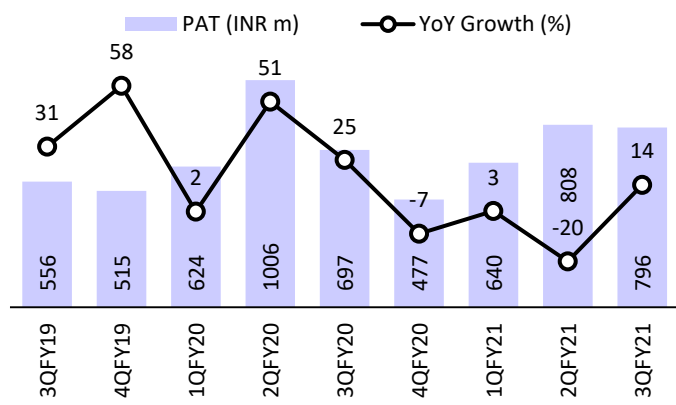
Source: MOFSL, Company

Exhibit 8: NIMs cross 5%



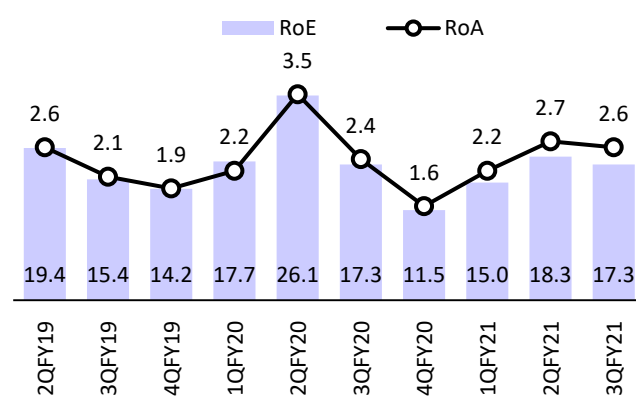
Source: MOFSL, Company, Reported

Exhibit 9: PAT up 14% YoY



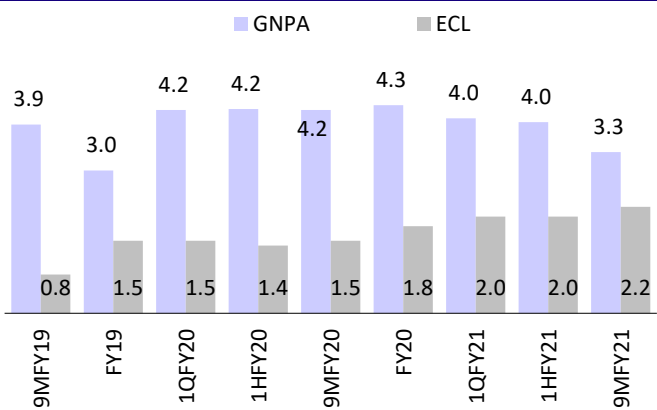
Source: MOFSL, Company

Exhibit 10: RoE/RoA trend (%)



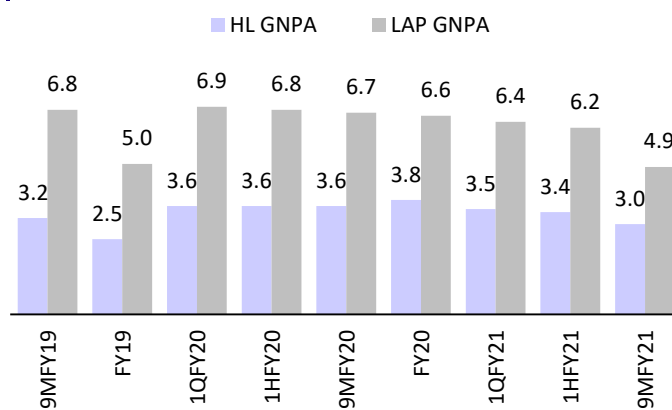
Source: MOFSL, Company

Exhibit 11: ECL at 2.2% (%)



Source: MOFSL, Company; Note: GNPL ratio post SC order

Exhibit 12: GNPL ratio of key segments (%)



Source: MOFSL, Company; Note: GNPL ratio post SC order

Exhibit 13: We increase our FY22E/FY23E EPS estimate by 2-4% to factor in higher topline

INR b	Old estimate			New estimate			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
NII	5.4	5.6	6.2	5.7	5.7	6.2	4.8	2.8	-0.1
Other Income	0.2	0.3	0.3	0.2	0.3	0.3	0.0	0.0	0.0
Total Income	5.6	5.9	6.5	5.9	6.0	6.5	4.6	2.7	-0.1
Operating Expenses	1.1	1.2	1.3	1.1	1.2	1.3	1.4	1.5	1.1
Operating Profit	4.5	4.7	5.2	4.8	4.8	5.2	5.4	3.0	-0.4
Provisions	0.6	0.6	0.6	0.6	0.5	0.5	-2.9	-3.7	-15.2
PBT	3.9	4.1	4.6	4.2	4.3	4.6	6.7	3.9	1.6
Tax	1.0	1.0	1.2	1.0	1.1	1.2	6.7	3.9	1.6
PAT	2.9	3.1	3.4	3.1	3.2	3.5	6.7	3.9	1.6
Loan book	124	133	148	122	129	142	-2.0	-3.0	-3.9
NIM (%)	4.5	4.3	4.4	4.8	4.6	4.5			
Spreads (%)	3.4	3.2	3.2	3.7	3.5	3.4			
RoAA (%)	2.4	2.3	2.4	2.5	2.5	2.5			
RoAE (%)	15.2	14.0	13.7	16.1	14.4	13.7			

Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	Mcap (USDb)	P/E (x)			P/BV (x)			RoA (%)			RoE (%)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
HFCs															
HDFC*	Buy	2,804	67.6	29.9	23.1	17.1	3.4	2.7	2.1	1.8	1.9	1.9	12.5	12.4	13.1
LICHF	Buy	470	3.3	7.8	7.0	6.5	1.2	1.0	0.9	1.4	1.4	1.3	16.1	15.7	14.9
PNBHF	Neutral	432	0.9	6.9	6.1	4.9	0.8	0.7	0.7	1.4	1.5	1.8	12.6	12.8	14.2
AAVAS	Neutral	2,254	2.4	63.7	51.9	40.6	7.4	6.5	5.6	3.3	3.4	3.8	12.4	13.4	14.8
CANFIN	Buy	507	0.9	14.4	14.0	12.6	2.6	2.2	1.9	2.2	2.1	2.1	19.9	17.2	16.4
REPCO	Buy	296	0.2	6.4	6.0	5.4	0.9	0.8	0.7	2.4	2.3	2.4	15.2	14.0	13.7
Vehicle Finance															
SHTF	Buy	1,460	4.6	14.1	11.1	9.7	1.7	1.5	1.3	2.2	2.7	2.8	13.2	14.2	14.3
MMFS	Buy	219	1.9	33.5	22.9	15.0	1.8	1.7	1.5	1.1	1.5	2.1	6.0	7.5	10.7
CIFC	Buy	528	6.0	23.9	18.4	16.2	4.4	3.6	3.0	2.7	3.2	3.4	20.1	21.7	20.3
Diversified															
BAF	Neutral	5,704	47.5	77.9	38.8	30.6	9.4	7.7	6.3	2.6	4.8	5.0	12.8	21.9	22.7
SCUF	Buy	1,479	1.4	10.1	8.1	6.6	1.2	1.1	0.9	3.1	3.7	4.3	12.6	13.9	15.1
LTFH	Buy	98	2.7	20.9	9.1	6.4	1.3	1.1	1.0	0.8	1.9	2.4	6.4	13.5	16.5
INDOSTAR	Neutral	322	0.5	33.8	26.1	18.3	1.0	1.0	0.9	1.1	1.3	1.9	3.5	3.7	5.1
MAS	Buy	848	0.6	32.1	26.2	22.3	4.2	3.8	3.3	3.3	4.2	4.5	13.8	15.2	15.8
Gold Finance															
MUTH	Buy	1,323	7.3	14.2	11.8	10.1	3.6	2.9	2.4	6.6	6.9	7.3	28.7	27.5	26.0
MGFL	Buy	177	2.0	8.5	7.2	6.2	2.1	1.7	1.4	5.6	5.7	5.8	27.0	25.6	24.2
Wholesale															
PIEL	Buy	1,887	5.4	15.8	14.8	12.0	1.3	1.2	1.1	0.0	0.0	0.0	8.6	8.4	9.5
ABCL	Buy	104	3.2	11.2	9.6	4.7	1.1	0.8	0.5	1.6	1.4	1.8	10.6	8.5	10.5
Capital Markets															
IIFL Wealth	Buy	1,223	1.5	29.5	24.8	19.8	4.3	5.3	4.9	22.4	21.5	22.8	13.2	19.1	25.6
ISEC	Buy	417	1.8	13.9	13.8	12.8	9.0	7.5	6.4	0.0	0.0	0.0	71.3	59.3	53.8

Financials and valuations

Income Statement								(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	8,521	10,141	10,851	11,634	13,174	13,889	13,646	14,622
Interest Expended	5,483	6,463	6,489	7,200	8,250	8,225	7,920	8,463
Net Interest Income	3,039	3,678	4,362	4,434	4,924	5,664	5,727	6,158
Change (%)	27.8	21.0	18.6	1.7	11.0	15.0	1.1	7.5
Other Operating Income	297	318	250	318	337	202	283	326
Net Income	3,336	3,996	4,612	4,752	5,261	5,867	6,010	6,484
Change (%)	27.7	19.8	15.4	3.1	10.7	11.5	2.4	7.9
Operating Expenses	643	676	790	984	1,065	1,083	1,185	1,296
Operating Income	2,693	3,320	3,822	3,768	4,196	4,784	4,825	5,188
Change (%)	30.4	23.3	15.1	-1.4	11.4	14.0	0.9	7.5
Provisions/write offs	392	518	748	170	594	628	537	539
PBT	2,301	2,802	3,074	3,598	3,602	4,156	4,288	4,649
Tax	800	979	1,063	1,252	798	1,047	1,081	1,172
Tax Rate (%)	34.8	34.9	34.6	34.8	22.2	25.2	25.2	25.2
PAT	1,501	1,823	2,010	2,346	2,804	3,109	3,207	3,478
Change (%)	21.9	21.4	10.3	16.7	19.5	10.9	3.2	8.4

Balance Sheet								(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Capital	625	626	626	626	626	626	626	626
Reserves and Surplus	8,923	10,747	12,459	14,648	17,243	20,135	23,119	26,355
Net Worth	9,548	11,372	13,085	15,274	17,869	20,761	23,745	26,980
Borrowings	65,379	75,604	81,343	92,774	1,01,090	1,04,523	1,09,525	1,19,212
Change (%)	28.1	15.6	7.6	14.1	9.0	3.4	4.8	8.8
Other liabilities	2,705	3,457	2,882	1,522	980	1,098	1,230	1,377
Total Liabilities	77,632	90,433	97,310	1,09,570	1,19,939	1,26,381	1,34,500	1,47,569
Loans	77,049	89,578	96,492	1,08,379	1,15,877	1,21,538	1,28,853	1,41,919
Change (%)	28.1	16.3	7.7	12.3	6.9	4.9	6.0	10.1
Investments	124	156	239	363	321	369	424	488
Change (%)	0.0	25.8	53.5	51.5	-11.5	15.0	15.0	15.0
Net Fixed Assets	93	91	135	155	372	391	410	431
Other assets	366	609	443	673	3,369	4,083	4,812	4,732
Total Assets	77,632	90,433	97,310	1,09,570	1,19,939	1,26,381	1,34,500	1,47,569

E: MOFSL estimates

Financials and valuations

Ratios	(%)							
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Spreads Analysis (%)								
Avg. Yield on Loans	12.4	12.2	11.6	11.4	11.7	11.7	10.9	10.8
Avg. Cost of Borrowings	9.4	9.2	8.3	8.3	8.5	8.0	7.4	7.4
Interest Spread	3.0	3.0	3.4	3.1	3.2	3.7	3.5	3.4
Net Interest Margin	4.4	4.4	4.7	4.3	4.4	4.8	4.6	4.5
Profitability Ratios (%)								
RoE	17.0	17.4	16.4	16.5	16.9	16.1	14.4	13.7
RoA	2.2	2.2	2.1	2.3	2.4	2.5	2.5	2.5
Int. Expended/Int. Earned	64.3	63.7	59.8	61.9	62.6	59.2	58.0	57.9
Other Inc./Net Income	8.9	8.0	5.4	6.7	6.4	3.5	4.7	5.0
Efficiency Ratios (%)								
Op. Exps./Net Income	19.3	16.9	17.1	20.7	20.2	18.5	19.7	20.0
Empl. Cost/Op. Exps.	63.7	63.8	62.6	59.5	62.4	66.2	66.6	67.0
Asset Quality (%)								
Gross NPAs	1,009	2,328	2,827	3,258	5,117	5,696	6,912	6,912
Gross NPAs to Adv.	1.3	2.6	2.9	3.0	4.3	4.6	5.2	4.7
Net NPAs	368	1,227	1,255	1,507	2,988	2,968	3,682	3,209
Net NPAs to Adv.	0.5	1.4	1.3	1.4	2.6	2.4	2.9	2.3
Valuation								
Book Value (INR)	152.7	181.8	209.2	244.1	285.6	331.9	379.6	431.3
Price-to-BV (x)					1.0	0.9	0.8	0.7
EPS (INR)	24.0	29.1	32.1	37.5	44.8	49.7	51.3	55.6
EPS growth (YoY)	21.6	21.4	10.3	16.7	19.5	10.9	3.2	8.4
Price-to-earnings (x)					6.6	6.0	5.8	5.3
Dividend per share (INR)	1.8	2.0	2.2	2.3	2.7	3.0	3.1	3.3
Dividend yield (%)					0.9	1.0	1.0	1.1

E: MOFSL estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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