Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Repco Home Finance Limited

Strong player, attractive valuation

Banks & Finance | Sharekhan code: REPCOHOME | Company Update

Stock 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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 296**	
Price Target: **Rs. 400**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 1,624 cr
52-week high/low:	Rs. 339/91
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	3.6	9.2	95.8	-13.3
Relative to Sensex	-2.5	-7.4	62.0	-38.8

Sharekhan Research, Bloomberg

Summary

- Repco Home Finance Limited (RHFL) is an attractive HFC with a niche loan book (salaried and professional class borrowers), stable asset quality, strong ratings, and good return ratios.
- With disbursements gaining pace the company seeing improved growth; Encouraging asset-quality performance with manageable gap between reported / proforma GS3, with 97% collection efficiency (up from 93% September levels) and low restructuring.
- Available at reasonable 1.0x/0.9x its FY2022E/FY2023E ABVPS; a strong business model, stable ratings, and conservative underwriting with attractive return ratios make RHFL attractive.
- We believe with economic recovery, demand along with resilient economy would brighten the growth outlook; hence, we have revised our target multiple. We maintain our Buy rating with a PT of Rs. 400.

Repco Home Finance Limited (RHFL) is an attractive housing finance company (HFC) with a niche loan book (salaried/professional borrower mix is 48:52, Tamil Nadu forms 56% of loan book), stable asset quality, strong ratings, and good return ratios. The HFC is well capitalised and has a strong business model. Industry reports indicate that COVID-19 and its impact are waning and sales have picked up in the past four months, which augur well for HFCs, including RHFL. Despite the fierce competition in the home loan market, RHFL's presence in the niche small-ticket, non-salaried home loan segment has helped it maintain attractive spreads as compared to peers as well as face lesser competition from banks, etc. RHFL continued to see healthy business traction, with Q3FY2021 disbursement up 18% q-o-q; and asset-quality wise too, performance is encouraging, with reported GS3/proforma GS3 at 3.3%/4.3%. We believe the gap is manageable and indicates asset quality is well under control. Current collection efficiency for December was at 97% (improved from September levels of 93%) and non-paying, non-NPL customer pool has been trending down. 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 NIM 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 stable credit cost in Q4FY2021 with expectation of further normalisation of credit cost from FY2022E. We have tweaked our target multiple, given improving growth and asset-quality outlook. We maintain our Buy rating with a revised PT of Rs. 400.

Our Call

Valuation: RHFL is available at 1.0x/0.9x its FY2022E/FY2023E ABVPS, which we believe is reasonable considering healthy return ratios (ROE at over 14%; ROA at over 2.3%). RHFL is 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 robust 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 with economic recovery, demand along with resilient rural economy would brighten the growth outlook. Hence, we have revised our target multiple. We maintain our Buy rating on RHFL with a PT of Rs. 400.

Key risk

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)	7.89	6.61	6.59	5.68	4.95
P / ABVPS (x)	1.40	1.27	1.11	1.02	0.92
ROA (%)	2.2	2.5	2.2	2.3	2.4
ROE (%)	15.4	15.7	14.2	14.7	15.0

Source: Company; Sharekhan estimates

Key Conference call takeaways

- **Competitive scenario:** Credit demand will see revival in next few months, which will see lower competition from banks. Repco is already doing mutlple initiatives to fuel growth. As Bank's disbursement channels pick up, the competition will come down.
- **NIM guidance:** Will pass on the price reductions to customers, but expect NIMs to benefit from reducing liquidity drag as well. Long term guidance for NIMs remains at 3-3.5%.
- **Focus areas:** Made lot of effort on risk management, asset quality etc. Holding high liquidity on balance sheet, which the company will be shedding as situation improves. Still lot to be done on collections, markets etc and operations improvement are focus for management.
- **Guidance on growth:** RHFL expects ~15% growth on compounded basis for next 3-5 years in Housing Loan book. But it will be dependent on marketing and other operational aspects. Can grow 2-3% higher than system growth levels.
- **Near term oulook:** Growth of 6%-7% in the coming quarters. Asset quality is likely to remain good. ROAs are expected to remain at 2.0%-2.5%. Aspiration to increase book to Rs. 15,000 crore within a span of three years on account structural advantage of real estate market. The company expects growth for Q4 in disbursements, and the amount to be ~Rs. 750 crore, and FY2022E is expected to see credit growth of 13%-15%.
- **Restricted growth:** Although the housing finance segment grew substantially mainly driven by growth by commercial bank due to excess liquidity available on account of measures taken the Reserve Bank of India (RBI).
- **Branch Expansion:** Management has planned to set up 10-12 branches in FY2022 based on prevailing market conditions.
- **Sufficient Liquidity:** The company carries sufficient liquidity on the balance sheet worth Rs. 500 crore. Going forward, with improving economic scenario and liquidity, the company will be looking to bring down its liquidity surplus, which will be positive for margins.
- **Stage 2 loans:** Stage 2 loans constitute 7% of total advances and the company believes it is well covered on the provisions side. The company believes its provisions have peaked. Management expects Rs. 6 crore-8 crore per quarter going forward.
- **Spread:** The company has negative credit cost, wherein the spread remains at 3%-3.2%. Incremental lending for housing loan is 10%, while housing equity is 13.02%. Cost of funds stands at 7.1%, including borrowing from NHB.
- **Balance Transfer:** Balance transfer constitutes 25% of book. The company is not looking to acquire loans from other players, but it can explore on opportunity basis.
- **Disbursement:** Management expects disbursement to be Rs. 700 crore for Q4FY2021 and within that Rs. 300 crore-400 crore would be takeover financing.
- **Restructuring:** Restructure account stood at 0.3% due to prudent measures by the company.
- **Performa NPA:** Performa NPA stood at Rs. 517 crore, while net performa NPA stood at Rs. 171 crore.

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, 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 RBI will further aid to the same. We believe the outlook has turned positive on the NBFC sector in general and HFCs in particular.

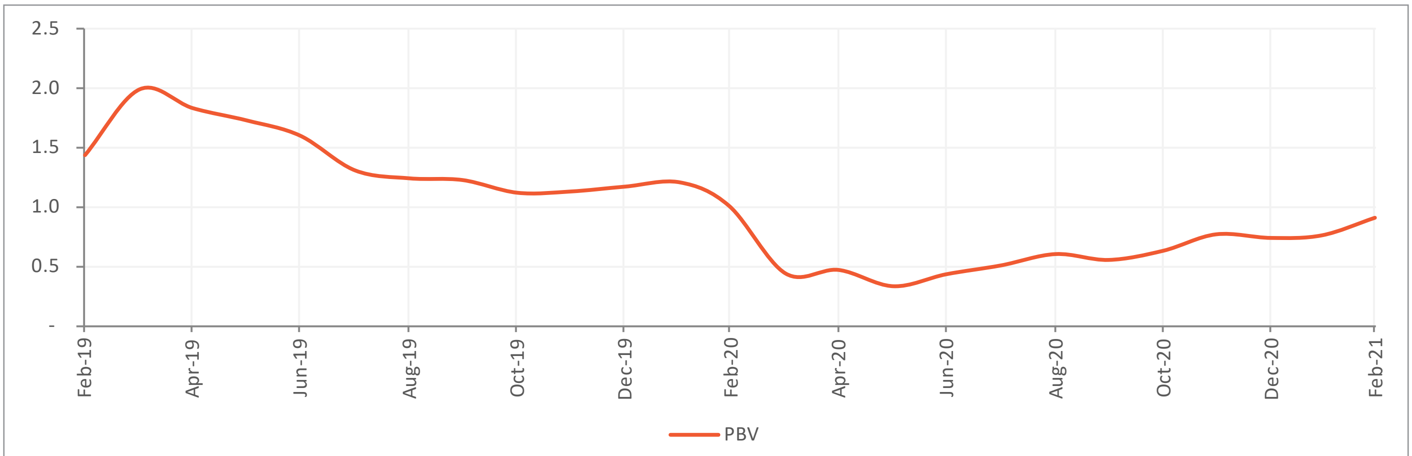
Company Outlook – Strong fundamentals, with improving growth outlook, resilient margins

RHFL 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, RHFL witnessed improved loan disbursement and NIM expansion, indicating recovering traction and benefits of lower cost of borrowing. RHFL 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 RHFL 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. 400

RHFL is available at 1.0x/0.9x its FY2022E/FY2023E ABVPS, which we believe is reasonable considering healthy return ratios (ROE at over 14%; ROA at over 2.3%). RHFL focuses 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 robust 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 with economic recovery, demand along with resilient rural economy would brighten the growth outlook. Hence, we have revised our target multiple. We maintain our Buy rating on RHFL with a PT of Rs. 400.

One-year forward P/BV (x) band



Source: 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	296	0.9	0.8	6.5	5.5	2.2	2.4	14.4	15.0
LICHF	470	1.2	1.1	9.6	8.2	1.1	1.2	12.6	13.5
PNBHF	432	0.8	0.8	9.5	8.2	1.0	1.1	9.3	10.1

Source: Bloomberg, Sharekhan Research

About company

RHFL, promoted by Repco Bank (holds 37.13% stake), is a housing finance company (HFC) with strong concentration in south India, especially Tamil Nadu. RHFL was incorporated in April 2000. At the end of December 2020, RHFL 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, 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

RHFL is an attractive HFC with a niche loan book (salaried, non-salaried) and 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, RHFL has attractive spreads as compared to peers. RHFL 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 in 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: Company Website

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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