Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

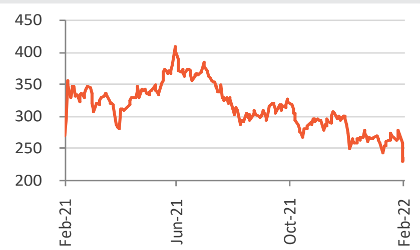
Company details

Market cap:	Rs. 1,490 cr
52-week high/low:	Rs. 429/222
NSE volume: (No of shares)	3.24 lakh
BSE code:	535322
NSE code:	REPCOHOME
Free float: (No of shares)	3.9 cr

Shareholding (%)

Promoters	37.1
FII	18.0
DII	21.0
Others	23.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.5	-20.0	-22.0	-12.9
Relative to Sensex	-7.1	-16.1	-26.3	-24.2

Sharekhan Research, Bloomberg

Repco Home Finance

Growth a laggard

NBFC	Sharekhan code: REPCOHOME	
Reco/View: Buy ↔	CMP: Rs. 237	Price Target: Rs. 275 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- For Q3FY2022, Repco Home Finance recorded dismal performance in business metrics with lower-than-expected disbursement. PAT was below expectations on account of higher provisioning during the quarter.
- NIM witnessed compression and higher operating expenses dented earnings. GNPA deteriorated by 30 bps q-o-q to 4.6%; and after the revised NPA recognition norms by the Reserve Bank of India (RBI), GNPA came in at 7% in Q3FY2022, which was significantly higher than the reported number.
- Disbursement was soft in Q3 and stood at Rs. 444 crores, declined by 20% y-o-y and 8% q-o-q.
- We maintain our Buy rating with a revised PT of Rs. 275.

Repco Home Finance (Repco) reported PAT of Rs. 32 crores in Q3FY2022, down ~60% y-o-y, on account of higher provisions. Provisions stood at Rs. 77 crores in Q3FY2022 versus. Rs. 17 crores in Q2FY2022, primarily on account of incremental GNPAs due to revised NPA recognition norms by the Reserve Bank of India (RBI). Net interest income (NII) declined by 1% y-o-y and 4% q-o-q on account of lower assets under management (AUM) growth. With respect to disbursement, the company was significantly below the guided disbursements of Rs. 1,000 crore per quarter. Disbursements stood at Rs. 444 crores, down 20% y-o-y and 8% q-o-q. This resulted in further moderation in loan growth. AUM fell by 2% y-o-y to Rs. 11,786 crore. Repco's high spreads vis its peers and intense competition may have resulted in higher balance transfers (BT) outs with continued elevated run-off rates at ~4% of the opening AUM in Q3FY2022. Yields came off by 20 bps q-o-q and cost of funds (CoF) rose by 10 bps q-o-q, which resulted in lower spread of 3.8% in Q3FY2022, lower 30 bps q-o-q. Total operating expenses were up ~18% y-o-y and 21% q-o-q due to higher CSR expenses during the quarter. GNPA and NNPA deteriorated by 30 bps q-o-q and 11 bps q-o-q to 4.6% and 2.5%, respectively. After the revised NPA recognition norms by the RBI, GNPA came in at 7% in Q3FY2022, which was significantly higher than the reported number. Consequently, PCR increased by ~200 bps to 45.3%. Both housing loans and LAP witnessed a rise of 30 bps in GNPA. Non-salaried GNPA also saw a 40-bps increase in GNPA. The non-salaried segment constitutes to 51.3% of AUM mix and contributed to ~80% to GNPA. Cumulative ECL provision stood at Rs. 411 crores (~3.5% of AUM).

Key positives

- Although, disbursements for the company were soft for the quarter, but it is seeing rise in logins.

Key negatives

- GNPA deteriorated by 30 bps q-o-q to 4.6%; and after the revised NPA recognition norms by the RBI, GNPA came in at 7% in Q3FY2022, which was significantly higher than the reported number.
- Disbursement was soft in Q3 and declined by 20% y-o-y and 8% q-o-q.

Management Commentary

- The company maintained sustainable net interest margin (NIM) guidance of 4.2% to 4.5% in the long run.
- It has no plans to reverse the excess provisions created in the wake of revised guidelines of NPA recognition.
- The company does not foresee any significant rise in borrowing costs.

Our Call

Valuation: We maintain our Buy rating with a revised PT of Rs. 275. We believe Repco 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, growth strategy and business initiatives would be keenly watched out for with the change in management. The new CEO is expected to join in April 2022. Repco is currently available at 0.6x/0.5x its FY2023E/FY2024E P/BV. We maintain our Buy rating with a revised price target (PT) of Rs. 275.

Key Risks

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

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Net Interest Income (NII)	545	580	636	697
PAT	288	229	342	388
EPS (Rs.)	46.0	36.7	54.7	62.0
BVPS (Rs.)	329.2	356.3	395.9	455.9
P / EPS (x)	5.1	6.4	4.3	3.8
P / BVPS (x)	0.7	0.7	0.6	0.5
ROA (%)	2.4	2.0	2.6	2.7
ROE (%)	15.0	10.8	12.9	12.2

Source: Company; Sharekhan estimates

Results Rs cr

Particulars	Q3FY21	Q2FY22	Q3FY22	y-o-y (%)	q-o-q (%)
Interest Income	345	321	313	(9.3)	(2.4)
Interest expenses	202	174	172	(15.1)	(1.4)
Net interest income	**142**	**146**	**141**	**(1.0)**	**(3.6)**
Other income	15	14	12	(16.1)	(9.2)
Net Operating income	**157**	**160**	**154**	**(2.4)**	**(4.1)**
Employee cost	19	18	21	13.7	15.1
Depreciation	3	3	3	26.0	13.0
Other expenditure	8	7	10	25.1	41.8
Operating expenses	**29**	**28**	**34**	**17.9**	**21.4**
Pre-provisioning profit (PPoP)	**128**	**132**	**119**	**(7.0)**	**(9.6)**
Provisions and loan losses	22	17	77	245.1	352.5
PBT	**106**	**115**	**43**	**(59.7)**	**(62.8)**
Tax	26	29	11	(57.6)	(61.3)
Tax Rate	2.5	2.5	2.6	5.4	4.2
PAT	**80**	**86**	**31**	**(60.5)**	**(63.4)**

Source: Company, Sharekhan Research

Other Key Ratios Rs cr

Particulars	Q3FY21	Q2FY22	Q3FY22	y-o-y (%)	q-o-q (%)
	Dec-20	Sep-21	Dec-21		
Disbursement	552	484	444	(19.5)	(8.3)
Total AUM	12,059	11,889	11,786	(2.3)	(0.9)
-Individual Home Loan (%)	81.2	81.3	81.2	0bps	-10bps
-LAP (%)	18.8	18.7	18.8	0bps	10bps
NIM (%)	5.2	5.4	5.2	-3bps	-18bps
CAR (%) - Entire Tier 1	27.4	32.3	31.3	390bps	-100bps
GNPA (%)	4.3	4.3	4.6	30bps	30bps
NNPA (%)	2.6	2.4	2.5	-6bps	11bps
Provisioning Coverage (%)	40.0	43.3	45.3	530bps	198bps

Source: Company, Sharekhan Research

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. Ruling interest rates are low and several states have given incentive for home buying, which is likely to prop up demand. Continued low borrowing costs 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 off take and loan-to-value (LTV) outlook for HFCs. However, revised NPA recognition guidelines by the RBI are expected to result in higher non-performing loans and higher provisioning there on by the NBFCs. This elevated credit cost is likely to dent earnings of the companies in the medium term. It has to be noted that the 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. NIM witnessed compression and higher operating expenses dented earnings. Asset quality deteriorated and came higher after revised NPA recognition norms by the RBI. Likewise, disbursements were also soft as company was cautious. 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. The new CEO is expected to join in April 2022.

■ Valuation - We maintain our Buy rating with a revised PT of Rs. 275

We believe Repco 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, growth strategy and business initiatives would be keenly watched out for with the change in management. The new CEO is expected to join in April 2022. Repco is currently available at 0.6x/0.5x its FY2023E/FY2024E P/BV. We maintain our Buy rating with a revised PT of Rs. 275.

Peer Comparison

Company	CMP (Rs)	MCAP (Rs cr)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Repco Home Finance	237	1,490	0.7	0.6	6.4	4.3	2.0	2.6	10.8	12.9
LIC Housing Finance	391	21,477	1.0	0.9	12.7	6.5	0.7	1.2	7.6	14.3
Can Fin Homes	617	8,202	2.9	2.4	16.6	14.5	2.0	2.0	18.1	18.1

Source: Company, Sharekhan estimates

About company

Repco, promoted by Repco Bank (holds 37.13% stake), is a housing finance company (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. The company has witnessed steady growth and is increasing its geographical footprint by deepening its reach selectively in existing regions and expanding to new regions, with continuing focus on underpenetrated 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 behaviour in the restructured portfolio.

Additional Data

Key management personnel

Mr. T Karunakaran	COO
Mrs. K Lakshmi	CFO
Mr. K Pandiarajan	CTO
Mr. N Balasubramanian	Chief Devlopment Officer
Mr. Shanthi Srikanth	Chief Risk Officer

Source: Company

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	4.4
4	Invesco Asset Management India	3.5
5	DSP Investment Managers Pvt Ltd	2.9
6	APAX GLOBAL ALOHA LTD	2.6
7	SG Jokaland Holdings	2.1
8	ICICI Prudential Asset Management	1.8
9	Fidelity Asian Values	1.7
10	Somerset Emerg Mkt	1.5

Source: Bloomberg

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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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