

November 15, 2022

RESULT REPORT Q2 FY23 | Sector: Financials

Repco Home Finance Limited

Improvement in growth seems structural

Encouraging growth, NIM and asset quality

Repco delivered 8%/10%/29% NII/PPOP/PAT beat on our estimates driven by:

- Stronger-than-expected disbursements (up 16% qoq and 11% above est.) and loan growth (2% qoq v/s expected flat) despite no portfolio buyout (Rs700mn in Q1).
- Annualized portfolio run-off rate has stabilized at 18% with moderation in BT Out run rate (Rs0.8bn/month now).
- NIM improved by 20 bps qoq, instead of expected decline, with 30 bps expansion in portfolio yield (45 bps rate hike taken in July-August) and only 10 bps increase in CoF (bank loans linked to 6m/1yr MCLR).
- Much lower than estimated credit cost was underpinned by stable GNPLs - significant slippages from the restructured pool (billing commenced between May-July) were mitigated by robust NPL recoveries (focused recovery efforts).

Management expects further improvement in growth and asset quality

Repco expects loan book growth of 7-10% for FY23 without any incremental portfolio buyouts. It estimates disbursements momentum to accelerate in coming quarters on the back of growth enabling changes implemented across locations. Some of them include a) clear policy and communication of incentives, b) decentralization of sanction process for loans up to Rs3.5mn, c) simplification of certain processes which has improved productivity, d) enhanced focus on BT IN and e) calibrated introduction of Top-up Loans. Notably, there has been no change/relaxation in policies related to credit/property underwriting and customer selection/pricing.

Management estimates credit cost in H2 FY23 to be lower than H1 FY23 (Rs425mn), as slippages are estimated to be much lower. Marginal slippages are envisaged from the remaining Std. restructured book (4.5% of loans), of which about 1% is current/O dpd. The repayment behavior of this book has been comforting since the billing started in May-July. Stage-2 assets stood at Rs16bn (13% of loans; ECL cover at Rs1.2bn) v/s ~Rs17bn as of June and ~Rs19bn as of March. It is expected to further decline in coming quarters. Management estimates GNPLs at 5-5.5% (<Rs7bn) by year end v/s 6.5% now.

Upgrade earnings; Reiterate BUY

Our FY23/24 earnings estimates undergo 4-11% upgrade on bettering of growth, NIM and credit cost assumptions. We now expect Repco to deliver loan portfolio and earnings CAGR of 9-12% over FY22-24 with avg. RoA/RoE delivery of 2.4%/12% respectively. Valuation at 0.6x FY24 P/ABV can re-rate significantly on growth progression. Reiterate BUY with increased 12m price target of Rs345.

Exhibit 1: Result table

| (Rs mn) | Q2 FY23 | Q1 FY23 | % qoq | Q2 FY22 | % yoy |
|------------------------|---------|---------|--------|---------|--------|
| Total Operating Income | 3,141 | 3,023 | 3.9 | 3,299 | (4.8) |
| Interest expended | (1,692) | (1,653) | 2.3 | (1,744) | (3.0) |
| Net Interest Income | 1,449 | 1,370 | 5.8 | 1,556 | (6.8) |
| Total Income | 1,484 | 1,417 | 4.7 | 1,602 | (7.3) |
| Operating expenses | (343) | (339) | 1.2 | (283) | 21.1 |
| PPOP | 1,141 | 1,078 | 5.9 | 1,318 | (13.4) |
| Provisions | (188) | (237) | (20.9) | (169) | 10.9 |
| PBT | 954 | 841 | 13.4 | 1,149 | (17.0) |
| Tax | (242) | (220) | 9.9 | (290) | (16.5) |
| PAT | 712 | 621 | 14.6 | 859 | (17.2) |

Source: Company, YES Sec

| | |
|------------------|----------|
| Reco | : BUY |
| CMP | : Rs 249 |
| Target Price | : Rs 345 |
| Potential Return | : 38.4% |

Stock data (as on Nov 15, 2022)

| | |
|-------------------------|-------------|
| Nifty | 18,403 |
| 52 Week h/l (Rs) | 312 / 113 |
| Market cap (Rs/USD mn) | 15578 / 192 |
| Outstanding Shares (mn) | 63 |
| 6m Avg t/o (Rs mn): | 85 |
| Div yield (%): | 1.0 |
| Bloomberg code: | REPCO IN |
| NSE code: | REPCOHOM |

Stock performance



Shareholding pattern

| | |
|----------|-------|
| Promoter | 37.1% |
| FII+DII | 33.0% |
| Others | 27.2% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-----|-----|
| Rating | BUY | BUY |
| Target Price | 345 | 300 |

Δ in earnings estimates

| | FY22 | FY23e | FY24e |
|-----------|------|-------|-------|
| EPS (New) | - | 46.5 | 52.4 |
| EPS (Old) | - | 41.9 | 50.5 |
| % Change | - | 11.0% | 3.7% |

Financial Summary

| (Rs mn) | FY22 | FY23E | FY24E |
|------------|--------|-------|-------|
| Op. income | 6,166 | 6,110 | 6,809 |
| PPOP | 4,926 | 4,670 | 5,107 |
| Net profit | 1,915 | 2,907 | 3,277 |
| Growth (%) | (33.4) | 51.8 | 12.7 |
| EPS (Rs) | 30.6 | 46.5 | 52.4 |
| ABVPS (Rs) | 268.0 | 331.3 | 382.9 |
| P/E (x) | 8.1 | 5.4 | 4.8 |
| P/ABV (x) | 0.9 | 0.8 | 0.7 |
| ROAE (%) | 8.9 | 12.3 | 12.3 |
| ROAA (%) | 1.6 | 2.4 | 2.5 |

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KEY CON-CALL HIGHLIGHTS

Disbursements & Growth

- BT Out has been moderating and the run-rate is around Rs0.8bn per month versus Rs1bn+ some months before – reduction driven by relatively competitive rates (difference with larger players declined) and introduction of Top-up loan product (calibrated loan limit and customer eligibility).
- Enhanced focus and relatively rate competitiveness has increased the run-rate of BT IN to Rs0.3bn per month.
- Top-up loans are now being offered to customers with good credit profile/CIBIL score for up to 20% of the loan outstanding – generally used to retain customers coming up with BT Out requests and seeking additional loan.
- Growth momentum has come back without any shift in property and customer segment focus and without any relaxation of lending policy - annualized growth for Q2 FY23 was 7%.
- Loan book estimated between Rs125-130bn by end FY23 (6-10% yoy) without any loan takeovers – Disbursements and run-off in H2 estimated at Rs16bn and Rs10bn.
- Growth momentum is being driven by enabling operational changes which include a) clear policy and communication of business incentive for the Branches, b) decentralization of sanction process (ROs can sanction up to 35 lacs) which has improved TAT, and c) simplification of certain processes which has improved business productivity - growth enabling changes have been implemented across all locations now.

Asset Quality & Credit Cost

- Stage-2 assets at Rs16bn (13% of loans; ECL cover at Rs1.2bn) v/s ~Rs17bn as of June and ~Rs19bn as of March - Stage-2 expected to reduce further in coming quarters.
- Management expects Credit Cost in H2 FY23 to be lower than H1 FY23 (Rs425mn), as slippages are estimated to be much lower.
- Marginal slippages are likely from the remaining Std. restructured book (4.5% of loans) within which about 1% is current/0 dpd - the book has witnessed billing of 3-5 months.
- No one-off or lumpiness in the robust NPL collections during the quarter - the outcome was driven by focused efforts towards recovery as multiple SARFAESI notices were sent, and BMs engaged with NPL customers.
- Strong collection trend even reflected in only Rs200mn slippage from the non-restructured Std. pool.
- GNPL could be 5-5.5% (<Rs7bn) by March-end v/s 6.5% now - the denominator growth will have its limited role.

NIM, CoF & Opex

- Blended incremental yield was 10.1% (9.8% in Q1) with HL at 9.4% (9%) and LAP at 11.8% (11.8%).
- Portfolio yield stands at 10.3% with HL at 9.7% and LAP at 12.7%.
- Company had raised rates by 45 bps in Q2 FY23 over two hikes and has further increased its MLR by 20 bps in October.
- Fixed-rate book is miniscule at around 5% (which are older loans).
- NIM likely to further inch-up in Q3 FY23 with further re-pricing of assets and slower re-pricing of borrowings.

Repco Home Finance Limited

- Most bank loans linked to 6m/12m MCLR – Co. is also better negotiating cost with its lenders incl. Repco Bank.
- Medium-term NIM/Spread guidance is 4.5-4.7%/3.2-3.5%.
- Repco plans to open 5-6 centers more Branches/Satellite Offices in remainder of the year - intends to accelerate distribution addition next year.

Exhibit 2: Key ratios

| (%) | Q2 FY23 | Q1 FY23 | chg qoq | Q2 FY22 | chg yoy |
|----------------|---------|---------|---------|---------|---------|
| NIM | 4.8 | 4.6 | 0.2 | 5.2 | (0.4) |
| Yield | 10.5 | 10.2 | 0.3 | 11.1 | (0.6) |
| Cost of Funds | 7.1 | 7.0 | 0.1 | 7.0 | 0.1 |
| Spread | 3.4 | 3.3 | 0.1 | 4.0 | (0.6) |
| Cost to Income | 23.1 | 23.9 | (0.8) | 17.7 | 5.4 |
| Gross NPA | 6.5 | 6.4 | 0.1 | 4.3 | 2.2 |
| ECL | 4.3 | 4.0 | 0.3 | 3.2 | 1.2 |
| Cum. RoA | 2.4 | 2.1 | 0.3 | 2.9 | (0.5) |
| Cum. RoE | 13.3 | 11.9 | 1.4 | 17.3 | (4.0) |

Source: Company, YES Sec

Exhibit 3: Business data

| (Rs mn) | Q2 FY23 | Q1 FY23 | % qoq | Q2 FY22 | % yoy |
|---------------------------|---------|---------|-------|---------|-------|
| AUM | 120,677 | 118,619 | 1.7 | 118,894 | 1.5 |
| Sanctions | 8,295 | 6,909 | 20.1 | 5,239 | 58.3 |
| Disbursements | 7,455 | 6,422 | 16.1 | 4,839 | 54.1 |
| Customer Mix – (%) | | | | | |
| Salaried | 49 | 49 | 0.4 | 49 | 1.0 |
| Non-Salaried | 51 | 51 | (0.4) | 52 | (1.0) |
| Product Mix – (%) | | | | | |
| HL | 80 | 81 | (0.3) | 81 | (0.9) |
| LAP | 20 | 19 | 0.2 | 19 | 0.9 |
| Geographical Mix | | | | | |
| Tamil Nadu | 69,027 | 66,308 | 4.1 | 66,343 | 4.0 |
| Non-Tamil Nadu | 51,650 | 52,311 | (1.3) | 52,551 | (1.7) |
| Karnataka | 15,567 | 15,658 | (0.6) | 16,051 | (3.0) |
| Maharashtra | 11,585 | 11,625 | (0.3) | 11,533 | 0.5 |
| Andhra Pradesh | 7,120 | 6,880 | 3.5 | 7,015 | 1.5 |
| Telangana | 5,913 | 5,812 | 1.7 | 5,588 | 5.8 |

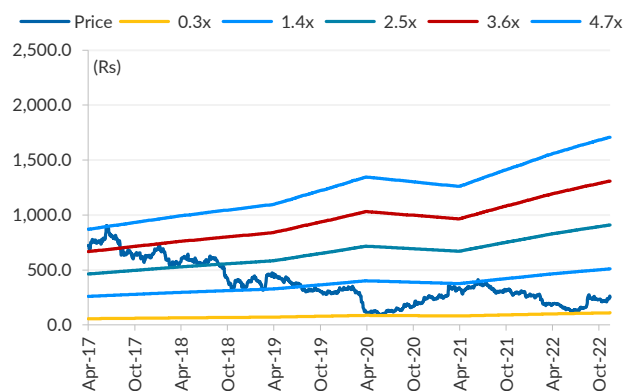
Source: Company, YES Sec

Exhibit 4: GNPA mix

| (%) | Q2 FY23 | Q1 FY23 | chg qoq | Q2 FY22 | chg yoy |
|---------------------|---------|---------|---------|---------|---------|
| HL GNPA % | 6.0 | 5.9 | 0.1 | 3.8 | 2.2 |
| LAP GNPA % | 8.8 | 8.5 | 0.3 | 6.5 | 2.3 |
| Salaried GNPA % | 3.3 | 3.5 | (0.2) | 1.8 | 1.5 |
| Non-Salaried GNPA % | 9.6 | 9.3 | 0.3 | 6.5 | 3.1 |
| Aggregate GNPA | 6.5 | 6.4 | 0.1 | 4.3 | 2.2 |

Source: Company, YES Sec

Exhibit 5: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

| Y/e 31 Mar (Rs m) | FY20 | FY21 | FY22 | FY23E | FY24E |
|--|----------------|----------------|----------------|----------------|----------------|
| Equity Capital | 626 | 626 | 626 | 626 | 626 |
| Reserves | 17,243 | 19,967 | 21,730 | 24,454 | 27,548 |
| Shareholder's funds | 17,869 | 20,593 | 22,356 | 25,080 | 28,174 |
| Provisions | 159 | 198 | 223 | 223 | 223 |
| Deferred Tax Liabilities | 358 | 397 | 87 | 87 | 87 |
| Total Non-Financial liabilities | 518 | 595 | 310 | 310 | 310 |
| Debt Securities | 6,802 | 0 | 0 | 0 | 0 |
| Borrowings (Excl. Debt Sec.) | 94,288 | 101,974 | 96,920 | 100,797 | 111,884 |
| Other Financial Liabilities | 463 | 484 | 388 | 411 | 444 |
| Total Financial liabilities | 101,553 | 102,458 | 97,308 | 101,208 | 112,328 |
| Total Equities and Liabilities | 119,939 | 123,645 | 119,974 | 126,598 | 140,812 |
| Assets | | | | | |
| Cash and Cash Equivalents | 3,243 | 4,550 | 6,077 | 4,373 | 4,660 |
| Loans | 115,877 | 118,342 | 112,918 | 121,184 | 135,043 |
| Investments in Associates | 220 | 220 | 316 | 316 | 316 |
| Other Financial Assets | 101 | 125 | 124 | 136 | 150 |
| Total Financial assets | 119,442 | 123,236 | 119,434 | 126,009 | 140,169 |
| Property, Plant and Equipment | 142 | 123 | 153 | 168 | 185 |
| Other Intangible Assets | 23 | 16 | 48 | 48 | 48 |
| Other Non-Financial Assets | 333 | 270 | 339 | 373 | 410 |
| Total Non-Financial assets | 498 | 409 | 540 | 589 | 643 |
| Total Assets | 119,939 | 123,645 | 119,974 | 126,598 | 140,812 |

Source: Company, YES Sec

Exhibit 8: Income statement

| Y/e 31 Mar (Rs m) | FY20 | FY21 | FY22 | FY23E | FY24E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Income from Operations | 13,455 | 13,735 | 12,902 | 13,155 | 14,844 |
| Interest expense | (8,250) | (8,072) | (6,899) | (7,209) | (8,198) |
| Net interest income | 5,205 | 5,662 | 6,003 | 5,946 | 6,645 |
| Non-interest income | 56 | 188 | 164 | 164 | 164 |
| Total op income | 5,261 | 5,850 | 6,166 | 6,110 | 6,809 |
| Total op expenses | (1,065) | (1,144) | (1,241) | (1,440) | (1,702) |
| PPoP | 4,196 | 4,706 | 4,926 | 4,670 | 5,107 |
| Provisions | (594) | (808) | (2,331) | (731) | (667) |
| Profit before tax | 3,602 | 3,898 | 2,595 | 3,938 | 4,440 |
| Taxes | (798) | (1,022) | (680) | (1,031) | (1,163) |
| Net profit | 2,804 | 2,876 | 1,915 | 2,907 | 3,277 |

Source: Company, YES Sec

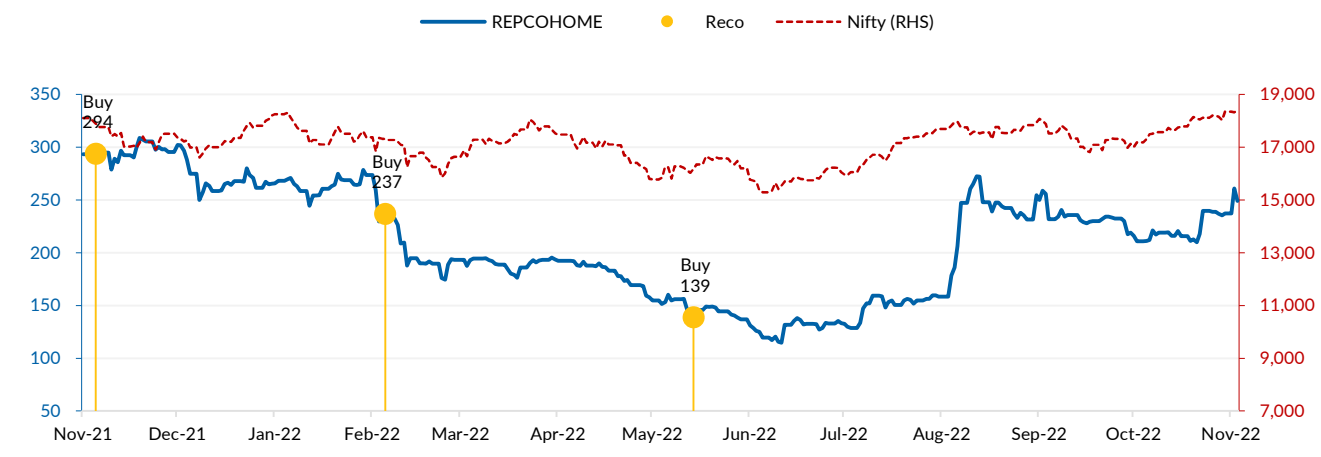
Exhibit 9: Growth and Ratio matrix

| Y/e 31 Mar | FY20 | FY21 | FY22 | FY23E | FY24E |
|-----------------------------------|-------|-------|--------|-------|-------|
| Growth matrix (%) | | | | | |
| Net interest income | 10.9 | 8.8 | 6.0 | (0.9) | 11.8 |
| Total op income | 10.7 | 11.2 | 5.4 | (0.9) | 11.4 |
| Op profit (pre-provision) | 11.4 | 12.1 | 4.7 | (5.2) | 9.4 |
| Net profit | 19.5 | 2.6 | (33.4) | 51.8 | 12.7 |
| Loans | 6.9 | 2.1 | (4.6) | 7.3 | 11.4 |
| Borrowings + Debt | 8.1 | 0.9 | (5.0) | 4.0 | 11.0 |
| Total assets | 9.5 | 3.1 | (3.0) | 5.5 | 11.2 |
| Profitability Ratios (%) | | | | | |
| NIM | 4.6 | 4.7 | 5.0 | 4.9 | 5.0 |
| Non-interest income /Total income | 1.1 | 3.2 | 2.7 | 2.7 | 2.4 |
| Return on Avg. Equity | 16.9 | 15.0 | 8.9 | 12.3 | 12.3 |
| Return on Avg. Assets | 2.4 | 2.4 | 1.6 | 2.4 | 2.5 |
| Per share ratios (Rs) | | | | | |
| EPS | 44.8 | 46.0 | 30.6 | 46.5 | 52.4 |
| Adj. BVPS | 233.1 | 286.2 | 268.0 | 331.3 | 382.9 |
| DPS | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Other key ratios (%) | | | | | |
| Loans/Borrowings | 114.6 | 116.1 | 116.5 | 120.2 | 120.7 |
| Cost/Income | 20.2 | 19.6 | 20.1 | 23.6 | 25.0 |
| CAR | 25.9 | 28.5 | 33.6 | 35.7 | 36.1 |
| Gross Stage 3 | 4.3 | 3.7 | 7.0 | 5.8 | 5.0 |
| Credit Cost | 0.5 | 0.7 | 2.0 | 0.6 | 0.5 |
| Tax rate | 22.2 | 26.2 | 26.2 | 26.2 | 26.2 |

Source: Company, YES Sec

Repco Home Finance Limited

Recommendation Tracker



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