

Repco Home Finance

BUY

Asset quality improved; Loan growth slowed down further

Summary

Repco Home Finance Gross stage 3 assets improved to 3.7% vs 4.3% YoY (4.3% Proforma NPA in Q3FY21); Net NPA declined to 2.3% led by higher PCR at 40% YoY. Restructured assets remains stable at 0.3% for FY21 while need to watch out for Restructuring 2.0. Loan growth was lower at 2% YoY (4% YoY Q3FY21) vs 7% YoY (FY20) led by higher balance transfers by banks as well as lower disbursements (up 6% YoY). NII grew by 6% YoY (down 3% QoQ) led by improvement in NIMs; PPOP grew by 9% YoY led by higher other income (up 41% QoQ). PAT grew strongly by 33% YoY led by lower provisions (down 28% YoY). Despite the lower growth it is able to garner a spread of 3.5% with a comfortable liquidity position. We largely retain the estimates and maintain 'BUY' with a new TP of Rs.470 (earlier Rs.350), valuing it at 1.1x P/BV FY23E (earlier 0.9x) as covid-19 impact has been lower than estimated.

Key Highlights and Investment Rationale

- Loan growth continues to slide down:** Loan book growth was lower at 2% vs 4% YoY (Q3FY21). Higher balance transfers (12%) and lower disbursements resulted in lower growth in AUM. Loan growth in its core TN book (55% of AUM) lowers at 1% vs 4% (Q3FY21), while non-Tamil Nadu book has grown by 1% QoQ. Salaried loans have grown by 2% (7% QoQ) as against 2% for non-salaried. Competitive intensity from banks due to high difference in lending rates resulted in higher balance transfers; need to watch for loan growth in FY22. Management guided disbursement of Rs30bn and double-digit AUM growth if situation improves further.
- NIMs remain higher YoY:** Spreads improved by 30bps YoY to 3.8%, resulted improvement in NIMs by 10bps YoY to 4.8% (all time high 5.1 % in Q3FY21). Yields improved due to better portfolio of lower interest yields repaid the loans. Cost of funds declined sequentially with banks MCLR rate declining during the quarter.
- Asset quality improves; restructuring at 0.3%:** Gross stage 3 improve to 3.7% as against Proforma GNPA of 4.3% sequentially. Most of NPAs were seen from legacy accounts while management guided GNPA would be below 3.25% for FY22. Credit cost would be Rs0.4-0.5bn for FY22. Restructured assets stood at 0.3% of loans but need to watch out for Restructuring 2.0.
- Outlook:** Asset quality impact has been lower although higher concentration of self-employed segment (52%) and restructured assets are being the lowest. Derisking of the book through increasing concentration on salaried segment is a strategy to watch out for. Within salaried segment, they have a lending exposure to the informal sector which attracts limited competition from banks.

TP	Rs470	
CMP	Rs375	
Potential upside / downside	25%	
Previous Rating	BUY	
V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	50.5	52.4
Consensus	51.0	57.2
% difference	(0.9)	(8.4)

Shareholding Pattern (%)

Promoters	37.1
FII	20.4
DII	20.1
Public	22.4

Price Performance (%)

	-1m	-3m	-12m
Absolute	11.3	14.0	179.1
Rel to Sensex	9.1	6.8	129.7

Key Stock Data

Bloomberg / Reuters	REPCO IN / RHFL.BO
Sector	Housing Finance
Shares o/s (mn)	63
Market cap. (Rs mn)	23,439
Market cap. (US\$ mn)	314
3-m daily avg Trd value (Rs mn)	--
52-week high / low	Rs429/114
Sensex / Nifty	52,550 / 15,748

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	4,692	5,204	5,663	5,720	6,170
Net Profit	2,346	2,804	2,876	3,161	3,278
EPS (Rs)	37.5	44.8	45.9	50.5	52.4
ABV (Rs)	210.8	232.9	286.0	329.7	374.5
PER (x)	10.0	8.4	8.2	7.4	7.2
P/ABV (x)	1.8	1.6	1.3	1.1	1.0
ROE (%)	16.5	16.9	15.0	14.3	13.1
ROA (%)	2.3	2.4	2.4	2.5	2.4
GNPA (%)	3.0	4.3	3.7	4.0	4.0
NNPA (%)	1.9	2.8	2.3	2.3	2.3
CAR (%)	23.9	24.5	28.5	31.0	31.8

Source: Company; IDBI Capital Research

Conference Call Highlights

Asset quality-

- In FY21 focused was on recovery from NPA accounts which resulted in a decline in NPA from 4.3% to 3.7% QoQ.
- Large part of Stage 3 is from legacy accounts.
- Credit costs should be around Rs400-500mn in FY22.
- GNPA would be below 3.25% in FY22.

Restructuring-

- Restructuring remains stable at 0.3%, however, could see some restructuring under 2.0 as the moratorium is not there.

IT systems-

- Company upgrading its hardware and software and re-designing its IT systems. It is building a system wherein from lead generation to disbursement and the entire process would be digital. For that company has appointed IT company.
- Company started implementation and Expect to complete it by December. This complete revamping could cost Rs0.40-0.50bn.

Loan book-

- If each quarter sees normal business, disbursement would be Rs30bn and AUM growth in double-digit for FY22.
- Q1FY22 will not be as good as Q4FY21 and there could be some decline in loan book QoQ.
- Company average loan tenure is 14 years
- LAP book above Rs10mn is Rs1.8bn in percentage terms stands at <2%.
- Company seeing 12% annual runoff from balance transfer and quarterly run rate stand at 3-4%. Banks are acquiring balance transfers in the range of 7-7.5% which makes it difficult for the company to compete.

Borrowing-

- Cost of funds would be lower by 20-30bps while company has the option to raise CPs further.
- **Branches-** Company won't add new branches in FY22.

Exhibit 1: Quarterly Snapshot

(Rs mn)

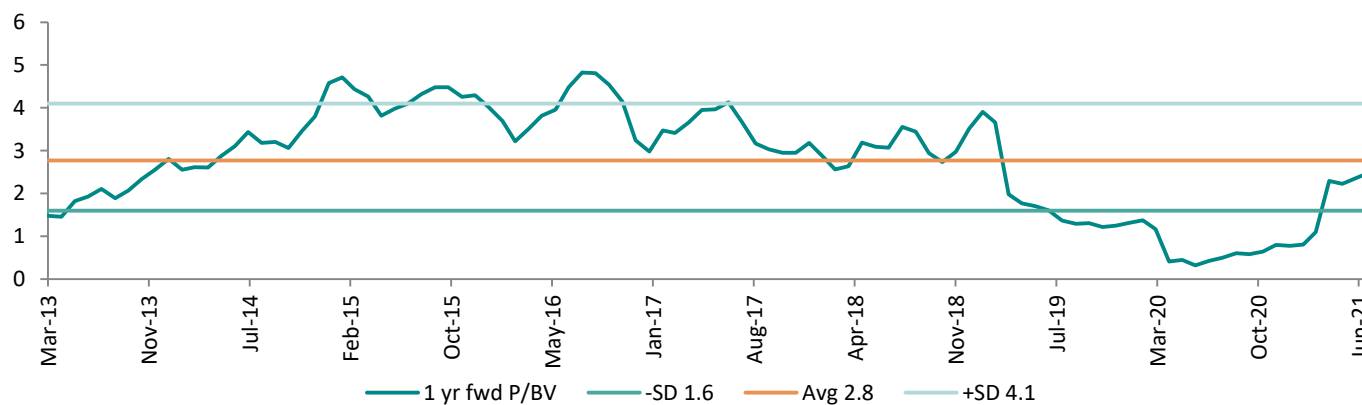
Year-end: March	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)
Interest Income	3,332	3,456	3,546	(3.6)	(6.0)
Interest Expenses	1,855	2,062	2,024	(10.0)	(8.3)
Net Interest Income	1,477	1,394	1,522	6.0	(3.0)
NIM (%)	4.8	4.7	5.1	10 bps	(30 bps)
Non-Interest Income	72	5	51	1,340.0	41.2
Operating Income	1,549	1,399	1,573	10.7	(1.5)
Staff Cost	186	195	186	(4.6)	-
Other Op Exp	175	112	105	56.3	66.7
Total Operating Expenses	361	307	291	17.6	24.1
<i>Cost to Income (%)</i>	<i>23.3</i>	<i>21.9</i>	<i>18.5</i>	<i>136 bps</i>	<i>481 bps</i>
<i>Cost to AUM (%)</i>	<i>1.2</i>	<i>1.1</i>	<i>1.0</i>	<i>15 bps</i>	<i>24 bps</i>
Operating Profit	1,188	1,092	1,282	8.8	(7.3)
Provisions	292	403	222	(27.5)	31.5
<i>Credit Cost (%)</i>	<i>1.0</i>	<i>1.4</i>	<i>0.7</i>	<i>(41 bps)</i>	<i>24 bps</i>
PBT	896	689	1,060	30.0	(15.5)
Tax	264	212	264	24.5	-
<i>-effective tax rate</i>	<i>29.5</i>	<i>30.8</i>	<i>24.9</i>	<i>(130 bps)</i>	<i>456 bps</i>
PAT	632	477	796	32.5	(20.6)
EPS (Rs)	10.1	7.6	12.7	32.5	(20.6)
BV (Rs)	329.0	285.4	299.6	15.2	9.8
Loans	118,356	115,877	120,588	2.1	(1.9)

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY19	FY20	FY21	FY22E	FY23E
NII	4.54	4.53	4.65	4.52	4.54
Fees	0.00	0.00	0.00	0.00	0.00
Other Income	0.06	0.05	0.15	0.06	0.06
Net Revenue	4.59	4.58	4.80	4.58	4.60
Op.Exp	0.95	0.93	0.94	0.94	0.95
Op.Profit	3.64	3.66	3.86	3.64	3.65
Provisions	0.16	0.52	0.66	0.30	0.43
PBT	3.48	3.14	3.20	3.34	3.23
Tax	1.21	0.70	0.84	0.84	0.81
PAT	2.27	2.44	2.36	2.50	2.41
Leverage (x)	7.30	6.92	6.33	5.73	5.42
ROE	16.55	16.92	14.96	14.33	13.07

Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/ABV


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net interest income	5,204	5,663	5,720	6,170
Non-Interest Income	56	188	73	80
Operating Income	5,260	5,851	5,794	6,250
Operating expenses	(1,064)	(1,145)	(1,186)	(1,287)
Employee expenses	(664)	(714)	(735)	(798)
Other expenses	(400)	(431)	(451)	(489)
Pre-Provision Profit	4,196	4,706	4,608	4,963
Provision	(594)	(808)	(384)	(583)
PBT	3,602	3,898	4,224	4,380
Taxes	(798)	(1,022)	(1,063)	(1,102)
Net profit	2,804	2,876	3,161	3,278

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	626	626	626	626
Reserves	17,243	19,967	22,903	25,992
Networth	17,869	20,593	23,529	26,618
Borrowings	101,090	101,974	104,621	114,043
Total Liab. & Equity	119,939	123,660	129,334	142,232
Cash	3,243	4,550	1,900	2,090
Investments	220	220	220	220
Advances	115,877	118,356	126,641	139,305
Other Assets	434	395	434	478
Total assets	119,939	123,660	129,334	142,232

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
Growth				
Advances	6.9	2.1	7.0	10.0
NII	10.9	8.8	1.0	7.9
Pre-Provision Profit	11.4	12.2	(2.1)	7.7
Net Profit	19.5	2.6	9.9	3.7
Spreads				
Yield on Assets	12.0	11.7	11.5	11.3
Cost of Funds	8.5	8.0	8.1	8.1
NIM	4.6	4.8	4.7	4.6
Operating Efficiency				
Cost-to-Income	20.2	19.6	20.5	20.6
Cost-to-Assets	0.9	0.9	0.9	0.9
Asset Quality				
GNPA	4.3	3.7	4.0	4.0
NNPA	2.8	2.3	2.3	2.3
Provision Coverage	35.8	39.7	43.0	43.0
Credit Cost	0.5	0.7	0.3	0.4
Capital Adequacy				
CAR	24.5	28.5	31.0	31.8
Tier I	24.5	28.5	31.0	31.8
Valuation				
EPS	44.8	45.9	50.5	52.4
ABV	232.9	286.0	329.7	374.5
P/E	8.4	8.2	7.4	7.2
P/ABV	1.6	1.3	1.1	1.0
ROE	16.9	15.0	14.3	13.1
ROA	2.4	2.4	2.5	2.4
RORWA	4.2	4.1	4.3	4.1

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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