AMSEC
Raising the bar

Asian Markets Securities Pvt. Ltd.

Institutional Research

CMP (Rs)	**745**
Target (Rs)	**825**

Nifty: 8,270; Sensex: 27,047

Key Stock Data	
BSE Code	535322
NSE Code	REPCOHOME
Bloomberg	REPCO IN
Shares O/s mn (FV Rs10)	62.5
Market cap (Rsbn)	46.6
52-week high/low	794/552
3-m daily avg vol.	1,05,762

Rel. Performance

(%)	1m	3m	12m
REPCO	10.9	25.9	26.9
NIFTY	3.8	8.0	1.6
BANKNIFTY	5.3	16.0	0.4

Shareholding Pattern

(%)	Sep15	Dec15	Mar16
Promoter	37.3	37.2	37.1
FII	30.2	30.2	28.4
DII	16.9	17.5	19.2
Others	15.6	15.1	15.3

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Housing Finance Company | **Initiating Coverage**

Repco Home Finance Ltd

Accumulate

Niche player in underserved market

Repco Home Finance Ltd (RFHL) is a niche player in the housing finance market which operates in Tier II, Tier III cities and caters to underserved self employed customers. Southern India (Tamil Nadu, Karnataka, Kerla, AP) accounts for 90% of its business. RHFL's superior and differentiated service proposition to an under-served segment commands higher yield in both product verticals it had 1) Housing loan and 2) LAP. RHFL is able to maintain a spread of 3% and NIM of 4.4%+ led by a well balanced asset mix and an improving liability mix. We believe that RHFL will continue to benefit from its niche business model, lower operating cost, high profitability with improving return ratios, high capitalization, and minimal asset quality concerns backed by well assessed secured loan book. We believes RHFL will be a key beneficiary as outlook for financing to mid-to-low strata housing finance sector is optimistic, given the fact that government's thrust to boosting low cost housing in India. We initiate coverage with Accumulate rating on the stock.

Sizeable Opportunity in a niche segment

RHFL has created a niche for itself by focusing on the self employed class (59% of the book) in Tier II and Tier III cities, which have been largely underpenetrated by large HFCs and banks. The management expects non-salaried loans to remain dominant in the loan book over the next few years as salaried segments remain crowded by many other HFC's and banks. RHFL has also created a niche for itself by focusing on Tier II and Tier III cities in southern states which have been largely underpenetrated by large HFCs and banks. RHFL currently has a concentrated loan book with South India accounting for 90% of loans (TN: 63%). However, it has been gradually expanding its presence to other states Viz. Maharashtra, Gujarat, West Bengal and Orrisa (10%). With deeper penetration in existing markets and wider geographic expansion into newer markets, we believe RHFL is well placed to grow its loan book by ~25% CAGR over FY16–FY18E.

Well balanced asset mix coupled with improving liability mix will help in maintaining spread

RHFL has reduced its reliance on bank borrowings from 100% in FY14 to 94% in FY16. This reduction in bank borrowing share is part of RHFL strategy to tap debt market and diversify overall borrowing mix and lower cost of funding. Further, RHFL has a well balanced asset mix with high share of higher yielding self employed segment (~50bps additional over salaried customers) and rising proportion of high yielding LAP (~15.5%) which is likely to support spreads over the long term. We believe that a well balanced asset mix and an improving liability mix will help RHFL to maintain its current spread of ~3% and NIM of 4.4% over FY16-FY18E.

Higher operating efficiency with low cost branch model

RHFL follows a lean branch model with 3 - 4 employees per branch with local knowledge. RHFL does not have any DSA and hence saving on commission expenses. We expect cost to income ratio to continues being below 20% (as guided by management) with operating assets to cost coming down below 90bps by FY18E.

Robust asset quality despite presence in risky segment

RHFL has maintained robust asset quality despite catering to self employed individuals. RHFL has been able to maintain healthy asset quality on account of its robust credit appraisal practices. RHFL's GNPA are continuously trending below 1.50% and NNPA are below 1%. In FY16 RHFL has made accelerated provisioning to shore up its PCR by 100bps at 63.5%. Management aspires to take its GNPA level below 1% along with improvement in provisioning to take PCR at ~70% level on FY17E.

Outlook and Valuation: We believe that RHFL will continue to benefit from its niche business model, high profitability with ability to improve return ratios, high capitalization, consistent execution, and minimal asset quality risk. We value RHFL at FY18E P/ABV multiple of 4.0x to arrive at target price of Rs 825 and assign Accumulate rating.

Exhibit 1 : Key Financials (Standalone)

Y/E Mar (Rs mn)	FY15	FY16	FY17E	FY18E
NII	2,383	3,038	3,800	4,791
yoy (%)	24.6	27.5	25.1	26.1
Other Income	229	297	342	393
yoy (%)	18.5	29.5	15.0	15.0
Operating Profit	2,065	2,693	3,353	4,217
yoy (%)	20.2	30.4	24.5	25.8
PAT	1,231	1,501	1,865	2,345
yoy (%)	11.8	21.9	24.3	25.8
Net Worth	8,121	9,548	11,230	13,356

Source: Company, AMSEC Research

Exhibit 2: Key Indicators

Y/E Mar	FY15	FY16	FY17E	FY18E
Adj.BV (Rs)	125.5	146.9	173.9	206.5
EPS (Rs)	19.7	24.0	29.8	37.5
Gross NPA (%)	1.3	1.3	1.2	1.2
Net NPA (%)	0.5	0.5	0.4	0.4
NIM Calc. (%)	4.4	4.4	4.4	4.4
P/ABV (x)	5.4	4.6	4.3	3.6
PER (x)	34.5	28.3	24.8	19.7
Avg. RoA (%)	2.3	2.2	2.1	2.1
Avg. RoE (%)	15.9	17.0	17.9	19.1

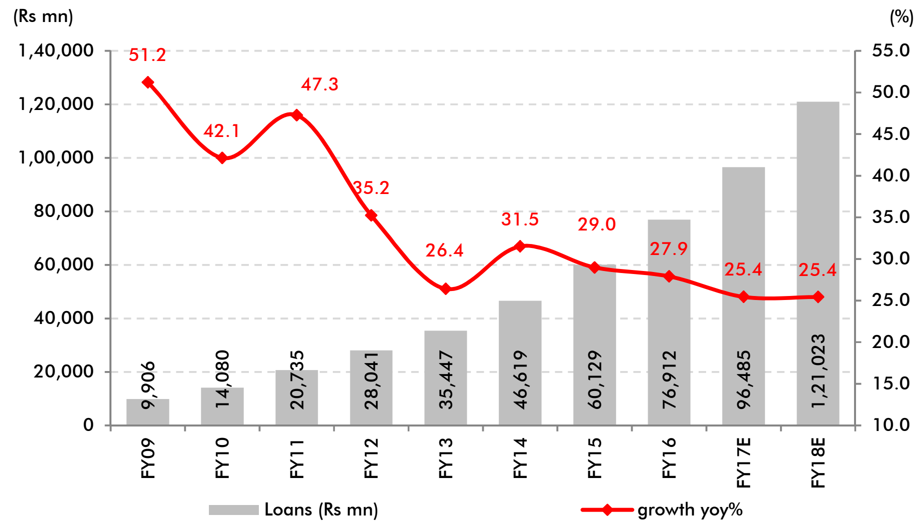
Investment Rationale

Sizeable Opportunity in a Niche Segment

Historically banks and HFCs have largely focused on the salaried class due to the ease in validating income levels. However, RHFL has created a niche for itself by focusing on the self employed class in Tier II and Tier III cities, which have been largely underpenetrated by large HFCs and banks. As of March 2016, 59% of the loans have been advanced to self-employed individuals. The management expects non-salaried loans to remain dominant in the loan book over the next few years as salaried segments remain crowded by many other HFC's and banks.

In last three years RHFL has increased share of self employed customers in its loan book from 53% in FY13 to 59% in FY16. In Self employed category RHFL's customer profile includes Restaurant owners, Hotel owners, Shop owners and other retail traders.

Exhibit 3: Loan book growth trend



Source: Company, AMSEC Research

Exhibit 4: Salaried and Non Salaried share in loan book

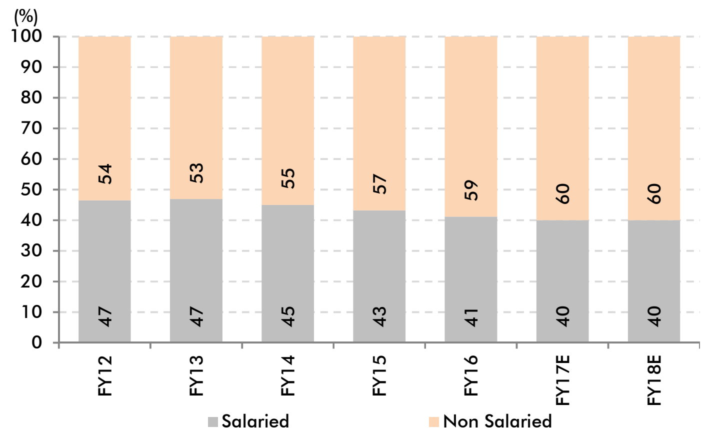
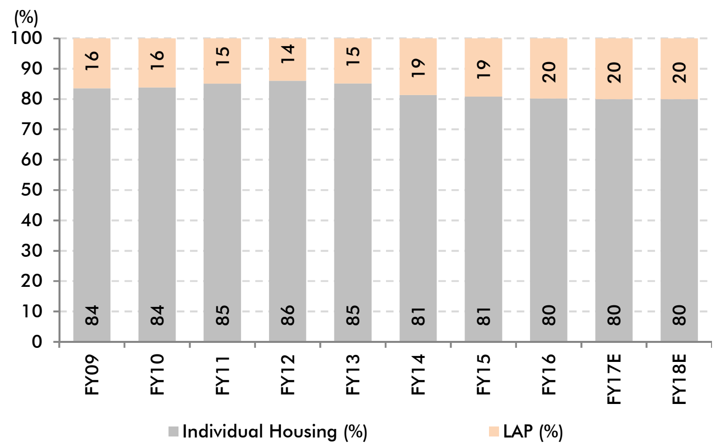


Exhibit 5: Individual Housing and LAP share in loan book



Source: Company, AMSEC Research

Exhibit 6: Sanctioned and disbursement trend

Particulars (Rs mn)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Sanctioned	4,730	6,491	9,918	11,116	12,848	18,225	23,989	30,828	37,302	46,254
yoy %	*45.6*	*60.5*	*37.2*	*52.8*	*12.1*	*15.6*	*41.9*	*31.6*	*28.5*	*21.0*
Disbursements	4,284	5,831	9,156	10,423	11,674	17,153	21,812	28,512	34,956	43,834
yoy %	*42.6*	*55.4*	*36.1*	*57.0*	*13.8*	*12.0*	*46.9*	*27.2*	*30.7*	*22.6*
as % of sanctioned	*90.6*	*89.8*	*92.3*	*93.8*	*90.9*	*94.1*	*90.9*	*92.5*	*93.7*	*94.8*

Source: Company, AMSEC Research

Exhibit 7: Loan book analysis

Loan Book (Rs mn)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Open	6,551	9,906	14,080	20,753	28,041	35,448	46,619	60,129	76,912	96,485
Sanctions	4,730	6,491	9,918	11,116	12,848	18,225	23,989	30,828	37,302	46,254
Disbursement	4,284	5,831	9,156	10,423	11,674	17,153	21,812	28,512	34,956	43,834
% disbursed	90.6	89.8	92.3	93.8	90.9	94.1	90.9	92.5	93.7	94.8
Repayment	929	1,657	2,483	3,135	4,268	5,982	8,302	11,729	15,382	19,297
% of open	14.2	16.7	17.6	15.1	15.2	16.9	17.8	19.5	20.0	20.0
Close	9,906	14,080	20,753	28,041	35,448	46,619	60,129	76,912	96,485	1,21,023
growth yoy %	*51.2*	*42.1*	*47.4*	*35.1*	*26.4*	*31.5*	*29.0*	*27.9*	*25.4*	*25.4*

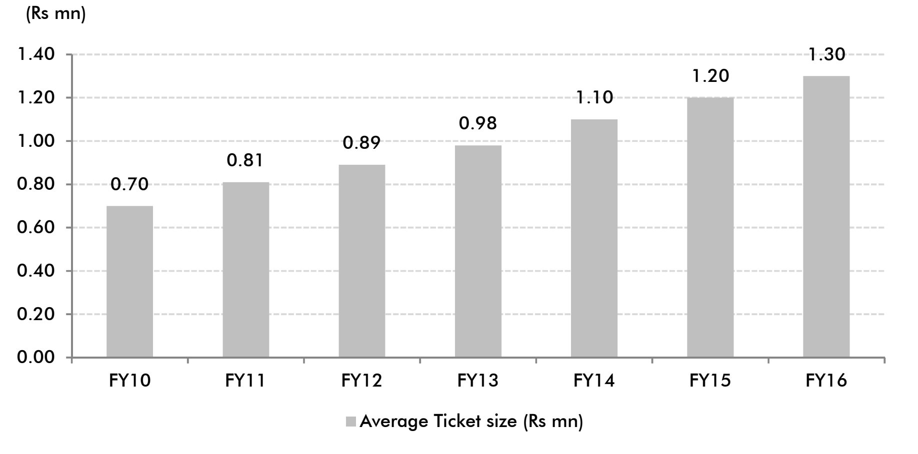
Source: Company, AMSEC Research

RHFL's sanctioned and disbursement has remained strong in last two years backed by robust demand in its respective geographies. However, higher repayment rate has taken toll on overall loan book growth which is growing below 30% from last couple of years. The repayment rate is continues to be elevated level from last 3 years from 15% in FY15 to ~20% in FY16. However, management clarifies that repayment due to takeover is ~8 to 10% and rest is due to prepayment done by existing borrowers as nature of the business.

Cautious effort towards improving average ticket size:

RHFL has cautiously increased average ticket size of loans which is growing by ~10% CAGR in last 3-5 years. Average ticket size for Housing loans are ~1.26 mn and for LAP it is ~Rs 1.7mn. This growth in average ticket size is also due to the fact that LAP portion in overall loan book has increased from 15% in FY13 to 20% in FY16. However, in LAP portfolio RHFL's Incremental ticket size is coming down due to focus on small ticket size loan as risk is lower. RHFL has created niche in LAP book by maintaining granular portfolio to face less competition pressure on yields.

Exhibit 8: Average ticket size growth trend



Source: Company, AMSEC Research

We expect RHFL's loan book CAGR at ~25% over FY16-18E driven by sizable opportunity in niche segment where RHFL operates and expansion in average ticket size.

Deeper penetration in niche geographies

RHFL has also created a niche for itself by focusing on Tier II and Tier III cities in southern states which have been largely underpenetrated by large HFCs and banks. Since inception RHFL has consciously targeted markets that are relatively underserved and underpenetrated. It is focusing on Tier II and Tier III cities and peripheral areas of Tier I cities. The company maintains its dominant share position in the southern state and the management is keen to expand its book in the other states going forward.

RHFL currently has a concentrated loan book with South India accounting for 90% of loans (TN: 63%). However, it has been gradually expanding its presence to other states Viz. Maharashtra, Gujarat, West Bengal and Orrisa (10% non-southern state).

Exhibit 9: Geographic Mix

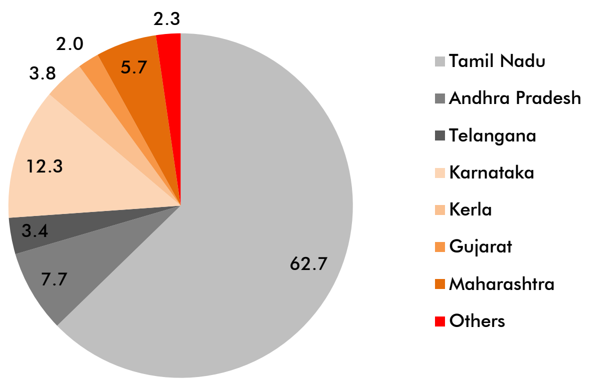
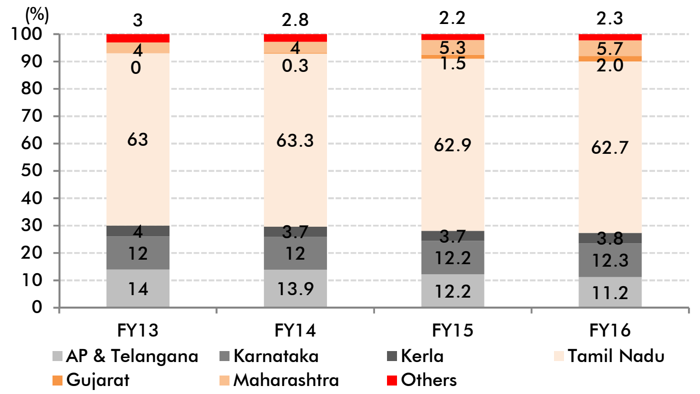
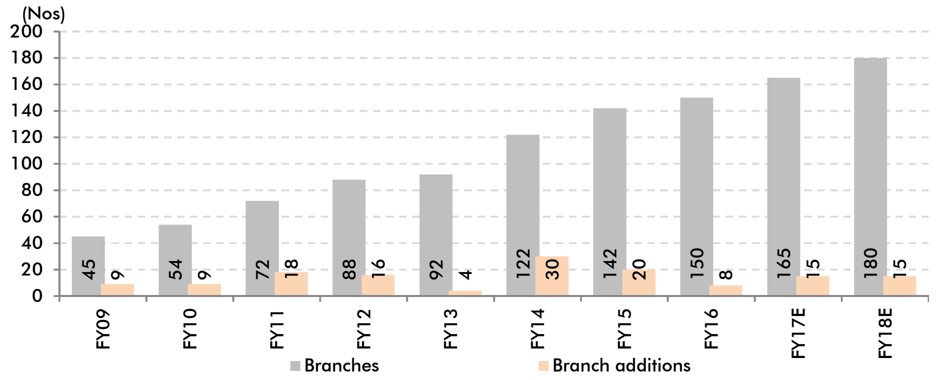


Exhibit 10: State wise loan book exposure trend



Source: Company, AMSEC Research

Exhibit 11: Branch additions trend



Source: Company, AMSEC Research

Given Repco Bank's 46 years of operations and RHFL's own 15 year operating history, RHFL has a enjoys brand recall in the five southern states which are its key business area. RHFL has 150 branches present across 19 states. RHFL plans to add 15 branches per year with 1/3rd in non-southern region and 2/3rd in southern region.

Among non-southern market, Maharashtra, MP and Orissa has been contributing to the growth, though at slower pace as company has not been very aggressive in these states.

We expect* in the longer term, growth momentum will continue with business kicking in from non-southern states. *We believe that RHFL is well positioned to drive growth through deeper penetration, servicing under-served customers, strong regional brand recall and higher risk-taking capability. With deeper penetration in existing markets and wider geographic expansion into newer markets, we believe RHFL is well placed to grow its loan book by ~25% plus over FY16–FY18E.

Well balanced asset mix coupled with improving liability mix will help in maintaining spread

RHFL has bulk of its borrowing done from bank and NHB which constitutes more than 90% of its total borrowings. However, these portions of bank and NHB borrowing are coming down from last two years from 100% in FY14 to 97% in FY15 and 94% in FY16. This reduction in bank borrowing share is part of RHFL strategy to tap debt market and diversify overall borrowing mix and lower cost of funding. Management has guided that incremental borrowing in FY17E will be done through Bank borrowing and NCD depending on market scenario.

We believe that going ahead RHFL will be more active in tapping alternate source of funding such as capital market which will bring down its high reliance on NHB and other banks for source of funding. We expect NCD portion in RHFL's overall borrowing will be ~8-9% on the back of upgrade in credit rating which is likely to happen (AA- current Long Term rating from ICRA) which will provide cushion to cost of funds.

Earlier, NHB has capped yield to 200bps on home loan to economically weaker sections by providing loan maximum up to 10.75% this has forced RHFL to shift towards higher cost of borrowing sources (banks). As a result of this, proportion of NHB fell to 14% which was lowest since inception (21% in FY15). However, NHB has recently increased this cap from 200bps to 350bps for rural housing loans. We believe that incremental borrowing from NHB is likely to increase going ahead as RHFL has more than ~60% of the loan book in rural segment which will provide further cushion to incremental borrowing cost.

Exhibit 12: Funding Mix (%)

Borrowing Source	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
NHB Refinance	34.7	52.5	56.4	48.8	47.2	36.5	25.0	21.4	13.9	20.0	20.0
Bank Loans	59.4	46.9	35.8	37.7	43.0	51.3	64.8	67.6	72.4	64.0	63.0
Repco Bank	5.9	0.6	7.8	13.5	9.8	12.1	10.2	7.9	7.6	8.0	8.0
NCD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	6.1	8.0	9.0
CP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	0.0	0.0	0.0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Borrowing (Rs bn)	**5.8**	**8.5**	**12.7**	**18.3**	**24.9**	**30.6**	**39.0**	**51.0**	**65.4**	**81.7**	**102.2**

Source: Company, AMSEC Research

However, we believe that RHFL should also explore other source of funding such as CP's which RHFL has raised last year for Rs 5mn at rate of ~8.6%. CP can be another cheap potential source of borrowing which other HFC's are tapping aggressively. RHFL has high rating from most of the rating agencies which will help in issuing CPs and NCD at lower rates. RHFL's NCDs are rated AA by CARE and its commercial paper is rated A1+ by both ICRA and CARE.

Exhibit 13: Yield on advances and Cost of funds trend

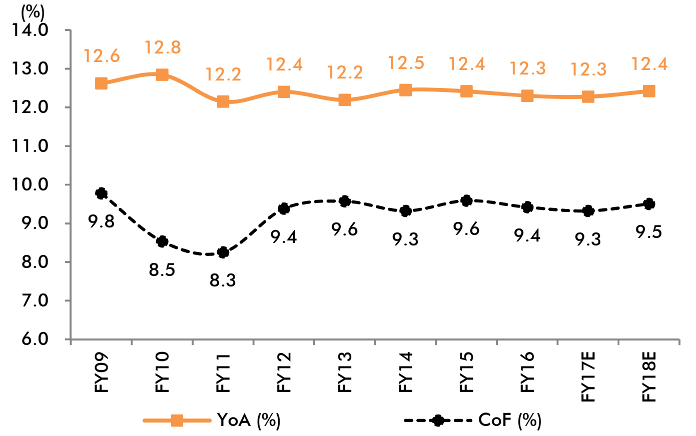
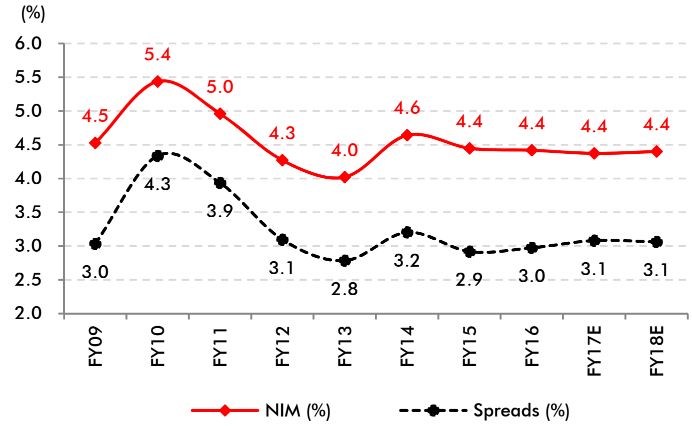


Exhibit 14: NIM and Spread trend



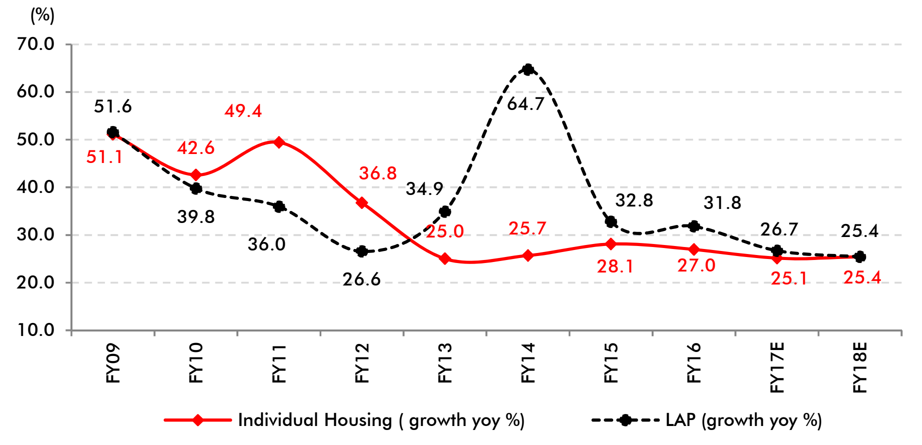
Source: Company, AMSEC Research

Differential business model to support NIM stability

Well balanced asset mix to boost margins: RHFL has well balanced asset mix with high share of higher yielding self employed segment (~50bps additional yield over salaried customers) and rising proportion of high yielding LAP (~15.5% yield) which is likely to support the spreads over long term.

Further, as LAP proportion increases it may drive up yields and thereby helps in sustaining spreads. RHFL's LAP segment saw 38%+ CAGR over FY11-16 to reach 20% of loan book. However, management does not expect its share to increase beyond 20%. Hence, this segment's growth from here should be in line with that of the home loan business.

Exhibit 15: Individual Housing and LAP book growth trend



Source: Company, AMSEC Research

Perfect blend of fixed and floating rate loans: RHFL is having its entire housing loan book at floating rate which makes them more competitive. While in LAP category all its loans are at flat rate of ~15%-15.5% which gives RHFL advantage in falling interest rate scenario.

We believe that with well balanced asset mix and improving liability mix will help RHFL to maintain its current spread of ~3%. With better liability management RHFL can further absorb yield pressure. We expect RHFL to maintain its healthy NIM trajectory of 4.4%+ in years to come.

Higher operating efficiency with low cost branch model

RHFL has low cost branch model, it maintains lean branch model with 3 to 4 employees per branch with local knowledge. This gives them advantage in understanding local market and which in-turn can be transmitted into better business opportunity. This higher efficiency on branch level can be evidently seen from below operating matrix such as profit/branch, business/branch and business/employee, profit/employee which is showing continuous improvement trend.

Further, RHFL branches have lower branch rentals as they are operating in tier 2 and tier 3 cities because of which breakeven time for branches is less than a year. RHFL has some branches in tier 1 cities and these branches are also operates on low cost on account of lower administrative costs due to centralized credit approval mechanism. RHFL has strategy to open satellite branch first where cost of setting up branch is minimal with minimum staff strength and once that satellite branch matures then it can be converted into full fledge branch. This gives them advantage of keeping initial cost at low level to achieves faster breakeven and maintain high operating efficiency.

Direct business sourcing: RHFL does not have any DSA or agency model, their entire business is coming from branches or loan mela or loan camp set up by branch people only. Due to this direct business sourcing there are no commission expenses for RHFL and hence cost per loan is minimal.

Exhibit 16: Business / employee and profit / employee

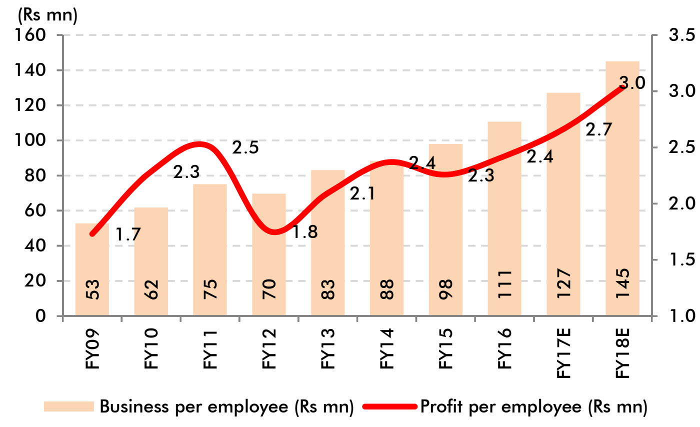
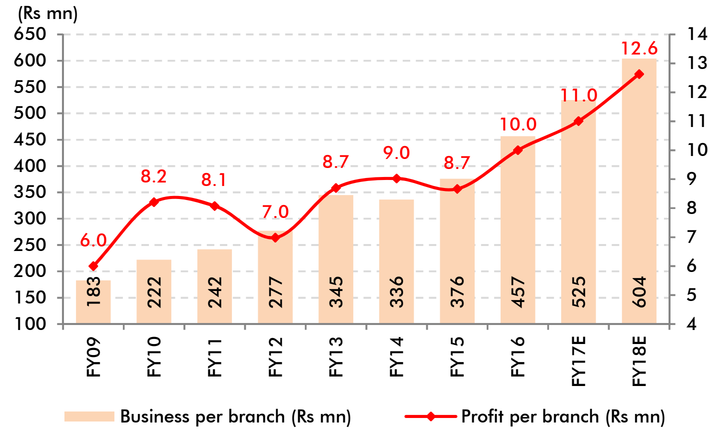
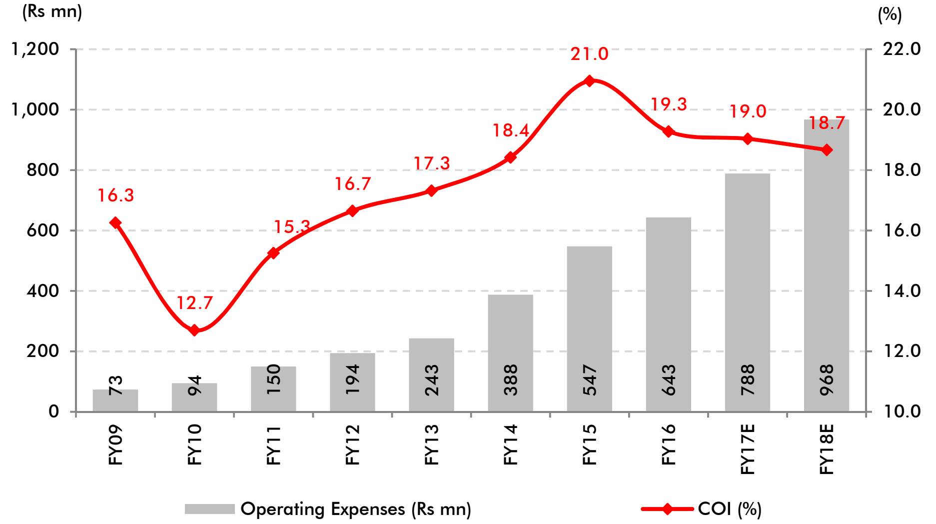


Exhibit 17: Business/branch and profit / branch



Source: Company, AMSEC Research

Exhibit 18: Operating expenses and Cost to income ratio trend



Source: Company, AMSEC Research

Exhibit 19: Operating cost to asset break-up

(%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Employee expense	0.39	0.38	0.40	0.42	0.42	0.49	0.62	0.59	0.58	0.58
Other expense	0.43	0.37	0.43	0.36	0.31	0.42	0.39	0.34	0.32	0.30
Total	**0.82**	**0.74**	**0.83**	**0.78**	**0.73**	**0.91**	**1.01**	**0.93**	**0.90**	**0.88**

Source: Company, AMSEC Research

We believe that with RHFL operating cost to asset trajectory remains volatile in recent past due to higher employee expenses on account of ESOP charges. However, in FY16 overall cost along with employee cost came down. Further, management clarifies that there is new ESOP policy is framed by management which will restrict any major volatility in employee expenses.

RHFL to benefit from lower risk weight-age by NHB: RHFL would also benefit from capital conservation as with recent relief from NHB to maintain low risk weight of 35% for loans below Rs 30mn (from earlier 50%). We expect that RHFL would be biggest beneficiary as majority of the loan book remains in small ticket. However LAP book continues to attract higher risk weight of ~75%.

Exhibit 20: Capital adequacy ratio and Tier I trend

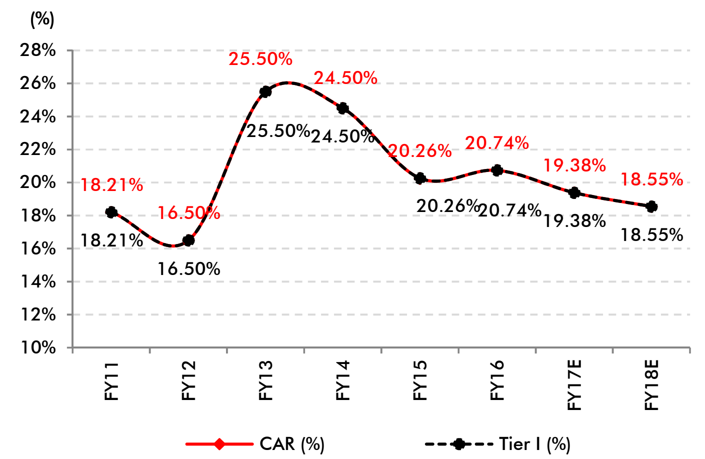
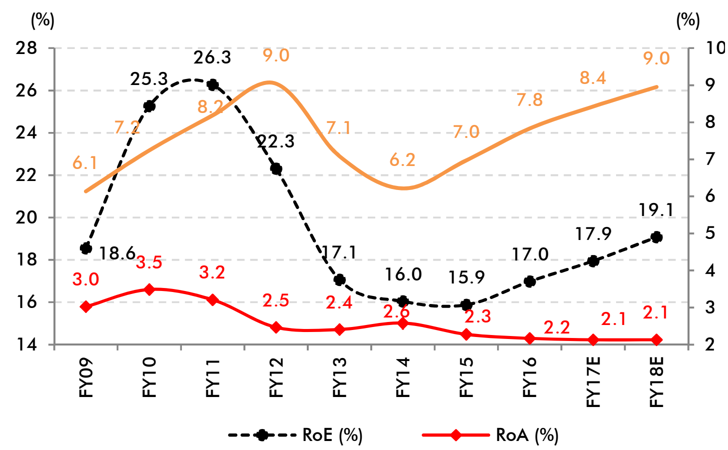


Exhibit 21: ROA, ROE and Leverage trend



Source: Company, AMSEC Research

We believe that RHFL will continue to benefit from low cost branch model to keep its operating cost under check. Further, higher profit and business per employee will drive operating efficiency. We expect RHFL's cost to income ratio continues to remain below 20% as guided by management. We expect cost to income ratio of ~19% in FY18E with operating assets to cost coming down below 90bps at 88bps by FY18E. Further, with stable operating costs and rising financing leverage, ROE is likely to improve to ~19% by FY18E from 17% currently.

Robust asset quality despite presence in risky segment

RHFL has maintained robust asset quality despite catering to self employed individuals (59% of loan book) where understanding of cash flow is difficult, cash flows are volatile and credit appraisal process is difficult. Historically RHFL's GNPAs remains in the range of 1.5% to 2%. RHFL's GNPA are continuously trending below 1.50% and NNPA are below 1%. ***Management aspires to take its GNPA level below 1% along with improvement provisioning by taking PCR at ~70% level by FY17E.***

RHFL has been able to maintain healthy asset quality on account of its robust credit appraisal practices, followed by continuous monitoring and strong collection along with stringent recovery mechanism employed by the company. The robustness of the risk management systems of RHFL is demonstrated by the fact that the total amount of loans written off since inception (~Rs 53mn) was only 0.5% of the total cumulative disbursements as of FY16.

Seasonality in NPA cycle: RHFL's asset quality shows unique trend in NPA seasonality. After analyzing its quarterly result for last 6-7 years, we found that in every 1st and 3rd quarter its NPA gets spiked. Management explains this trend arises due to "Change of priority" for borrowers or due to expenditure pattern of borrowers. In every Q1, a borrower has other priorities to address such as paying school fees, tax payment, sowing season etc. Similarly, in Q3 borrower has priority related to festive season expenditure. Since, RHFL loan book is dominated by this tier II, tier III cities customer we find these peculiar trend in its asset quality. However, Q2 and Q4 is always strong quarter for RHFL, especially in Q4 there is massive traction is seen. For example in Q3FY16 RFHL's GNPA jumped from 1.81% to 2.3% and in Q4 RHFL manage to pull back to below 1.5% at 1.31% as per their guidance.

Exhibit 22: Cyclical trend in asset quality

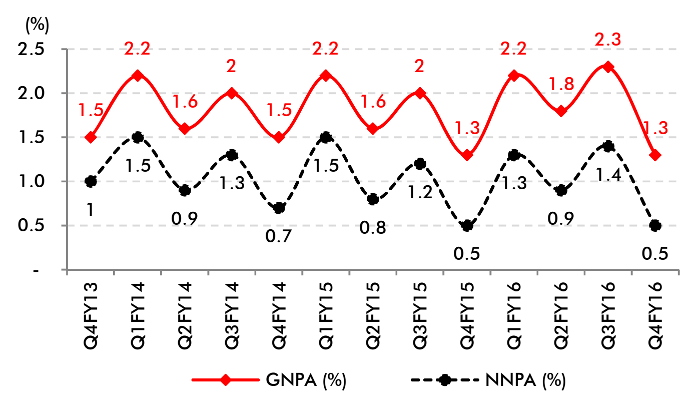
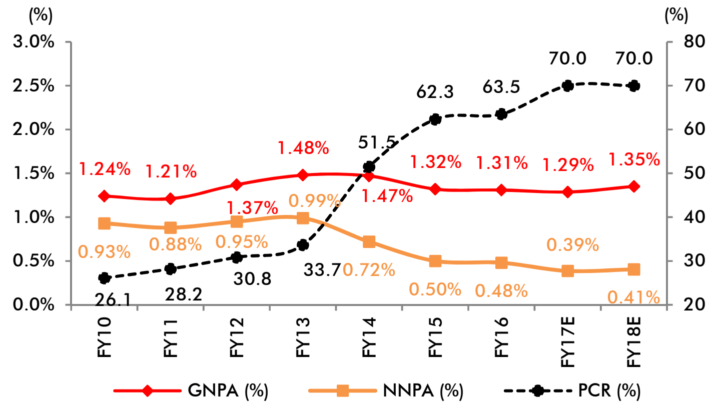


Exhibit 23: Asset Quality yearly trend



Source: Company, AMSEC Research

Accelerated provisioning to shore up PCR; a prudent measure

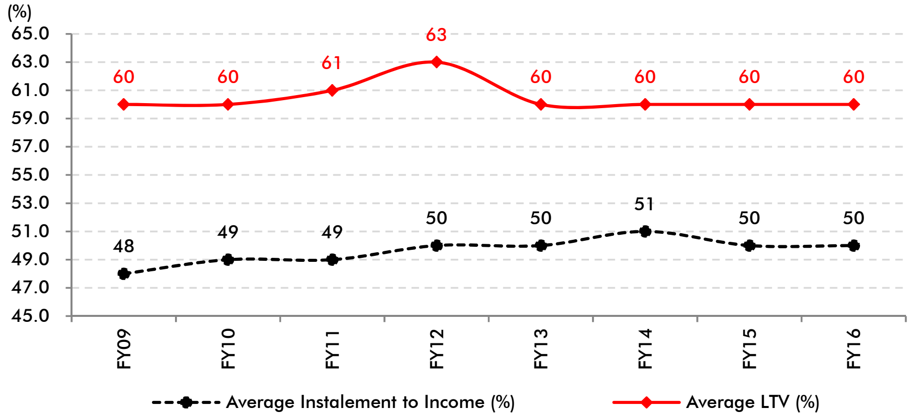
To shore up the PCR, RHFL has decided to provide 40% for all substandard assets as opposed to the regulatory provisioning requirement of only 15%. This decision is expected to result in an even better recovery performance. As on FY16 RHFL has Rs 610mn is substandard and Rs 390mn doubtful assets taking total NPA at Rs 1bn. This Rs 390mn includes D1, D2, D3 and RHFL maintains 100% provisioning on all doubtful category loans. These decision results in a meaningful spike in provisions, however this has resulted into 100bps increase in PCR at 63.5%.

Higher LTV for LAP loans: LAP has higher NPAs at 1.96% compared to Housing loan segment at 1.15%. This is due to the fact that higher portion of self employed customers in LAP who has NPA of more than 2% in LAP book.

However, RHFL maintains a conservative loan to value ratio (LTV) ~50% in case of self employed individuals, while loans to salaried individuals have LTV of 80-85% of agreement value.

LAP has LTV value of 50% and self employed customers in housing loan has LTV of ~50-60% resulting into an average LTV of 60-65% for the portfolio. RHFL's superior credit quality is largely due to granular loan book with low ticket size, conservative LTV, a strong credit appraisal and monitoring.

Exhibit 24: Avg. Installment to Income ratio and Average LTV trend



Source: Company, AMSEC Research

Exhibit 25: GNPA (%)	FY16	FY15	FY14
Housing Loan	**1.15%**	**1.22%**	**1.44%**
Salaried	0.68%		
Non Salaried	1.50%		
LAP	**1.96%**	**1.71%**	**1.55%**
Salaried	0.77%		
Non Salaried	2.23%		

Source: Company, AMSEC Research

We believe that RHFL has maintained its robust asset quality on account of well understanding of local market coupled with better assessment of customer profiles. Further, management's continuous focus to improve asset quality, improve provisioning (aspire to take it to 100%) will make asset quality more robust. We expect RHFL's GNPA continues to trend below ~1.4% and NNPA below ~0.5% over FY16-FY18E.

Strong Credit Process – Appraisal, Monitoring, Collection

RHFL follows stringent credit appraisal system. The robust credit appraisal and risk management process employed by RHFL has resulted in keeping NPAs under control.

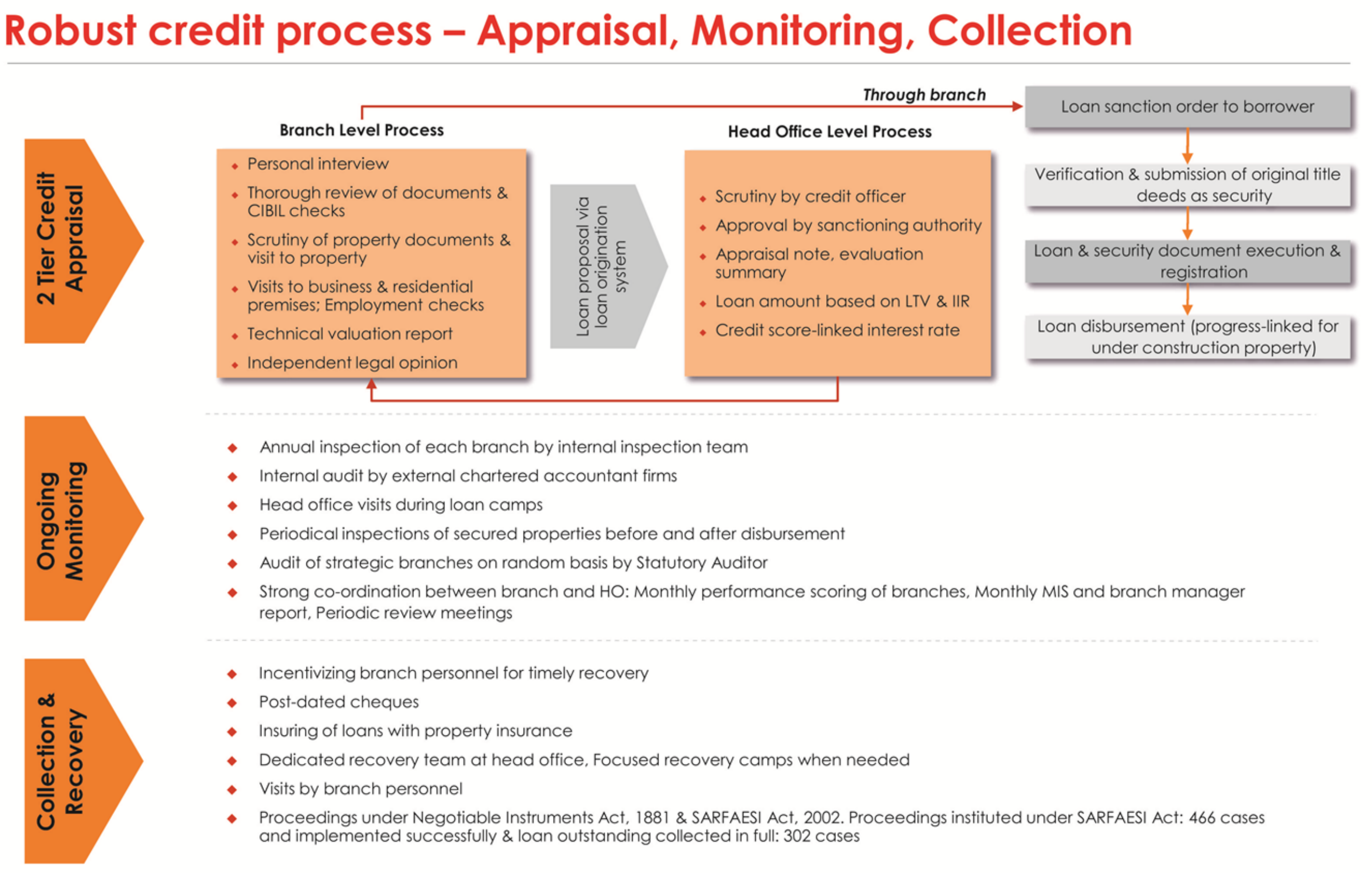
In case of loans to self employed or non-salaried, it is mandatory for the branch officer to visit the premises of the borrower on multiple occasions to ascertain the business' health, cash flows, viability, etc. and then arrive at a credit score for the borrower. This is where RHFL differentiates itself from competition and is able to maintain robust credit quality inspite of lending to a riskier segment. RHFL has developed a self-reliant model for appraisal, monitoring and collection of loans.

Dual level credit appraisal mechanism: A two level credit appraisal system has been followed in RHFL. The **first level is at branch** where various credit check are done like CIBIL check, review of documents, Scrutiny of property & visit to property, Visits to business & residential premises; Employment checks, checking technical valuation report and independent legal opinion, etc. At **next level** which is done from **Head office**, processes like scrutiny from credit officer, appraisal note, evaluation summary, approval by sanctioning authority, loan amount based on LTV & IRR are handled.

Ongoing Monitoring: RHFL does annual inspection of each branch from its internal inspection team. Also, RHFL does periodical inspections of secured properties before and after disbursement. There is Strong co-ordination between branch and HO.

Stronger recovery practice: RHFL has dedicated recovery team at head office. The company is insuring loans with property insurance company. RHFL is also incentivizing branch personnel for timely recovery.

***Exhibit 26: RHFL's* credit appraisal process**



Source: Company, AMSEC Research

Financial Performance Improvement trend

Exhibit 27: NII growth trend

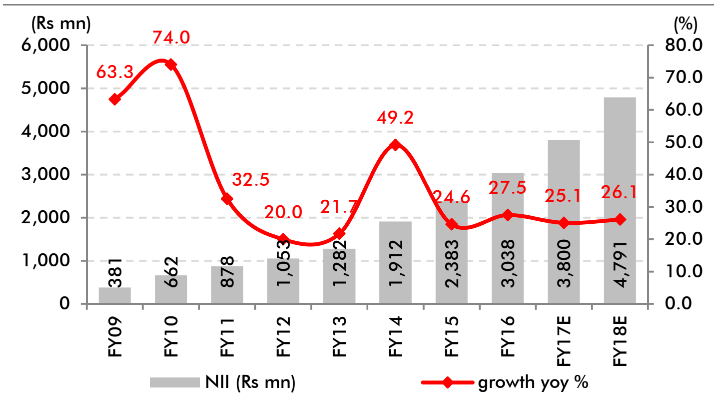


Exhibit 28: PPoP Growth trend

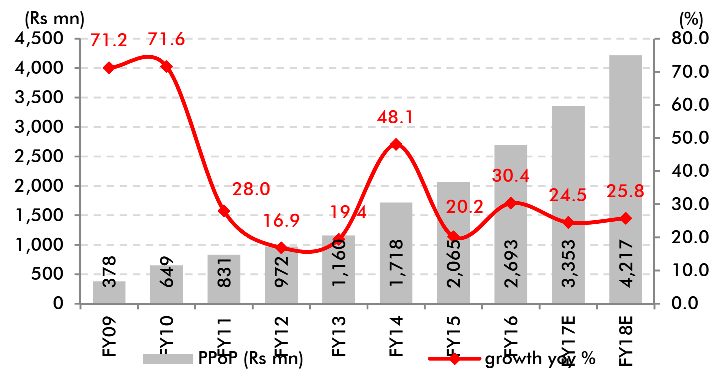


Exhibit 29: Profit growth trend

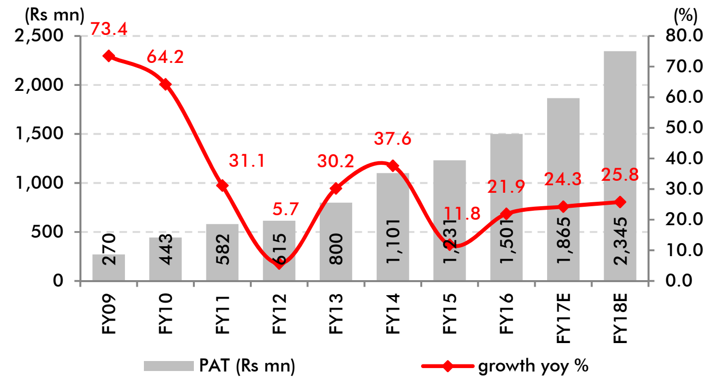


Exhibit 30: ROA/ROE trend

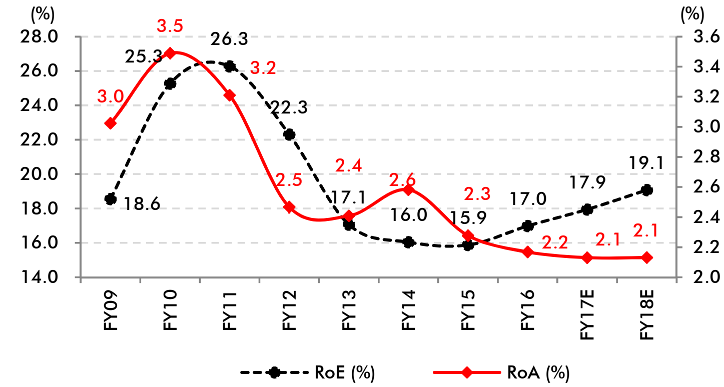


Exhibit 31: Fee income growth

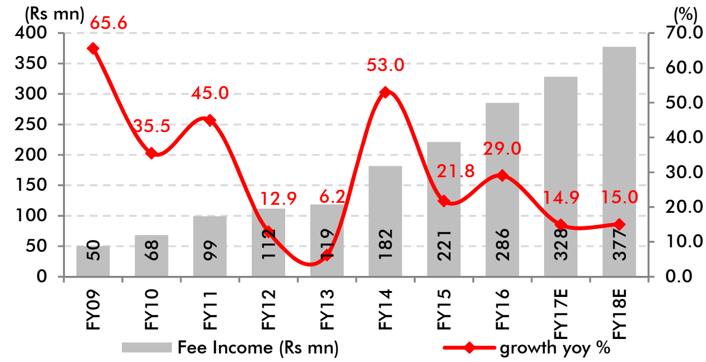


Exhibit 32: loan and borrowing growth

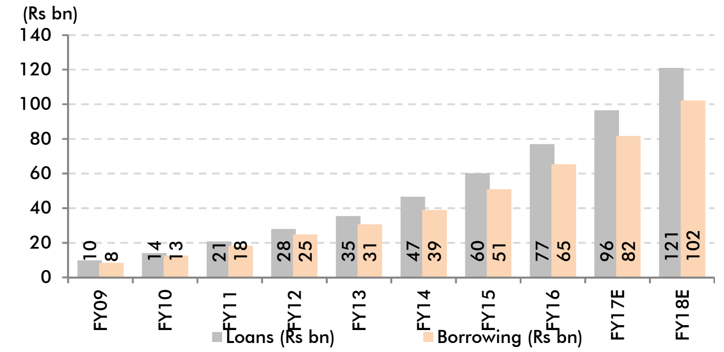


Exhibit 33: Capital adequacy ratio and Tier I trend

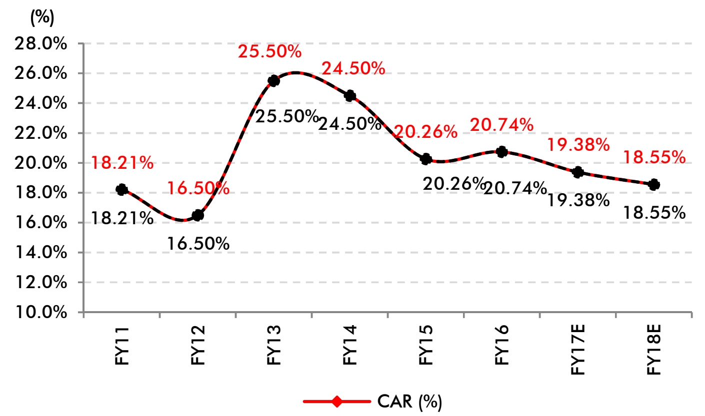
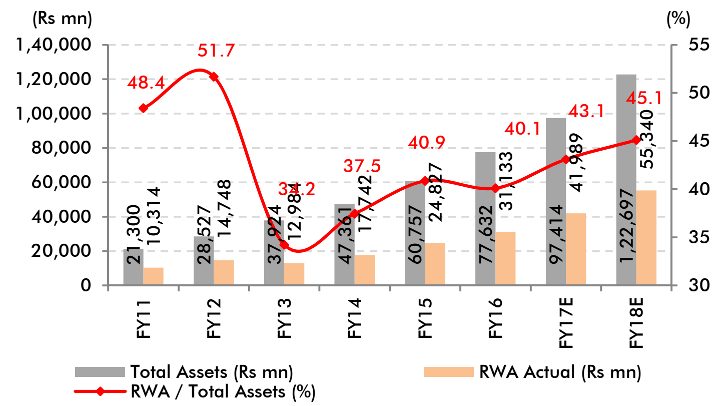


Exhibit 34: RWA to total assets trend

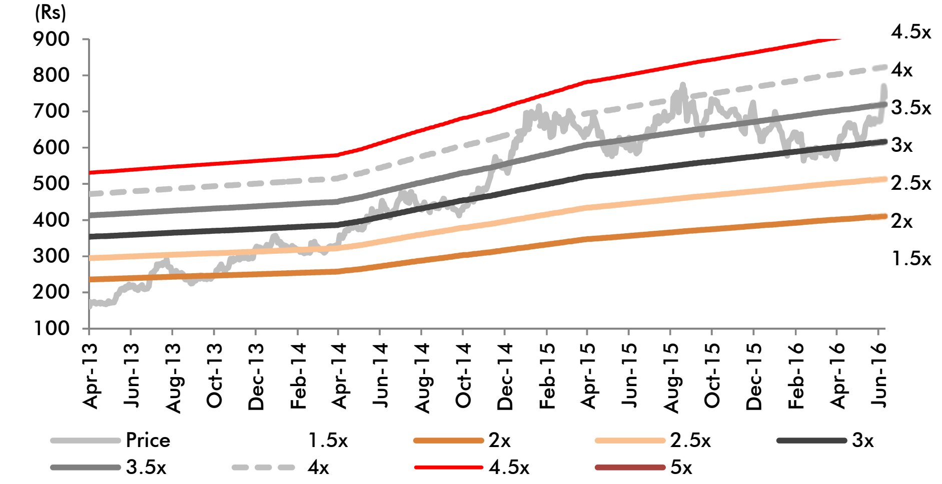


Source: Company, AMSEC Research

Valuation and Outlook

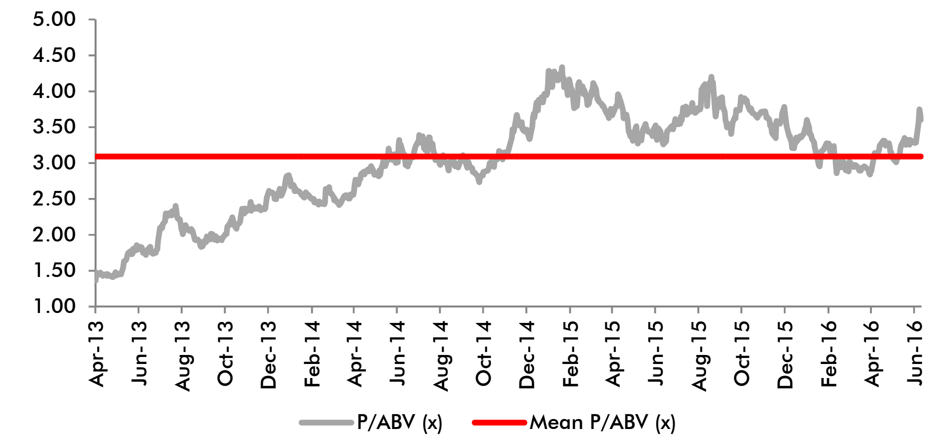
We believe that RHFL will continue to trade at premium multiple led by its niche business model, inherently high profitability with the ability to improve return ratios, high capitalization, consistent execution, and minimal asset quality overhang given a secured loan book. Further, downward trend in interest rates could also prove to be a trigger for profitability. We believes RHFL will be key beneficiary as outlook for the housing finance sector is optimistic, given the fact that government's thrust to boost housing market in India. At CMP the stock trades at 5.0x its FY16 ABV and 4.3x/ 3.6x FY17/FY18E P/ABV respectively**. *We value RHFL at FY18E P/ABV multiple of 4.0x to arrive at target price of Rs 825 and assign Accumulate rating.***

Exhibit 35: RHFL's 1 year forward P/ABV chart



Source: Company, AMSEC Research

Exhibit 36: RHFL's 1 year forward P/ABV Vs. Mean P/ABV chart



Source: Company, AMSEC Research

Key Risk

- Slowdown in real estate sector, especially in southern states where it has larger presence will impact growth and earnings of company.
- Any adverse regulatory change will have negative impact on its growth and profitability.
- Increase in borrowing cost may dampen the growth and margin
- Higher concentration in south (90% of business)
- Rising competition in Housing loan segment
- Any adverse impact from politics, economic downturn, or natural calamities poses a risk to its business growth and asset quality

Financials

(Rs mn)

Profit and Loss Statement

Y/E March	FY15	FY16	FY17E	FY18E
Interest Earned	6,701	8,521	10,644	13,511
Interest Expended	4,318	5,483	6,844	8,719
Net interest income	**2,383**	**3,038**	**3,800**	**4,791**
Non-interest income	229	297	342	393
Fee Income	221	286	328	377
Others	8	12	14	16
Net total income	**2,613**	**3,336**	**4,141**	**5,184**
Operating expenses	547	643	788	968
Employee expense	335	409	512	640
Other expenses	212	234	277	328
Pre- prov profit (PPoP)	**2,065**	**2,693**	**3,353**	**4,217**
Provision & Contingency	203	392	528	663
PBT	1,862	2,301	2,825	3,553
Tax	631	800	961	1,208
PAT	**1,231**	**1,501**	**1,865**	**2,345**

Balance Sheet

Y/E March	FY15	FY16	FY17E	FY18E
Liabilities				
Equity Capital	624	625	625	625
Reserves	7,497	8,923	10,557	12,611
Net-worth	8,121	9,548	11,182	13,236
Borrowings	38,797	50,252	62,927	78,659
Other Liabilities & Provisions	13,838	17,832	23,305	30,802
Total Liabilities	**60,757**	**77,632**	**97,414**	**122,697**
Assets				
Current assets	4,265	5,385	6,815	8,675
Investments	124	124	130	143
Advances	56,279	72,030	90,361	113,761
Fixed Assets	89	93	107	117
Total Assets	**60,757**	**77,632**	**97,414**	**122,697**

Growth matrix P&L

Y/E March	FY15	FY16	FY17E	FY18E
Interest Earned	29.9	27.2	24.9	26.9
Interest expended	33.0	27.0	24.8	27.4
Net interest income	**24.6**	**27.5**	**25.1**	**26.1**
Non-interest income	18.5	29.5	15.0	15.0
Fee Income	21.8	29.0	14.9	15.0
Others	(31.2)	41.9	16.8	15.0
Net total income	24.1	27.7	24.2	25.2
Operating expenses	41.1	17.5	22.6	22.8
Employee expense	59.1	22.2	25.0	25.0
Other expenses	19.7	10.1	18.4	18.7
Pre- prov. profit (PPoP)	**20.2**	**30.4**	**24.5**	**25.8**
Provision & Contingency	(10.3)	92.7	34.6	25.7
PBT	24.8	23.6	22.8	25.8
Tax	61.7	26.8	20.1	25.8
PAT	**11.8**	**21.9**	**24.3**	**25.8**

Growth matrix Balance Sheet

Y/E March	FY15	FY16	FY17E	FY18E
Net-worth	10.0	17.6	17.6	18.9
Borrowings	33.3	29.5	25.2	25.0
Advances	29.0	28.0	25.4	25.9

Ratios

Capital Adequacy Ratios (%)	FY15	FY16	FY17E	FY18E
CRAR (%)	20.3	20.7	19.4	18.6
Tier I (%)	20.3	20.7	19.4	18.6
RWA / Total Assets (%)	41	40	43	45

Asset quality (%)	FY15	FY16	FY17E	FY18E
GNPA	1.3	1.3	1.3	1.4
NNPA	0.5	0.5	0.4	0.4
Slippage Ratio	0.2	0.4	0.5	0.6
PCR (ex tech write offs)	62.3	63.5	70.0	70.0
Credit Costs	0.4	0.6	0.7	0.7
Provisioning / avg assets	0.4	0.6	0.6	0.6
Provisioning / NPA additions	192.8	179.8	137.2	114.6

Other operating indicators (%)	FY15	FY16	FY17E	FY18E
Yield on advances	12.4	12.3	12.3	12.4
Yield on int earning assets	12.5	12.4	12.2	12.4
Cost of Funds	9.6	9.4	9.3	9.5
NIM	4.4	4.4	4.4	4.4
Spread	2.9	3.0	3.1	3.1
Cost to Income	21.0	19.3	19.0	18.7
Interest income/total income	91.2	91.1	91.7	92.4
other income/total income	8.8	8.9	8.3	7.6
Debt Equity Ratio (X)	4.8	5.3	5.6	5.9
Tax Rate (%)	33.9	34.8	34.0	34.0

Valuation Table

Net profit (Rs mn)	1,231	1,501	1,816	2,273
Shares in issue (bn)	62.4	62.5	62.5	62.5
EPS (Rs)	19.7	24.0	29.1	36.4
EPS growth (%)	11.4	21.6	21.1	25.2
PE (x)	34.5	28.3	23.4	18.7
P/PPP (x)	20.5	15.8	12.8	10.2
Book value (Rs/share)	130.2	152.8	178.9	211.8
P/BV (x)	5.2	4.5	3.8	3.2
Adj book value (Rs/share)	125.5	146.9	172.9	203.9
P/ABV (x)	5.4	4.6	3.9	3.3
ROAA (%)	2.3	2.2	2.1	2.1
ROE (%)	15.9	17.0	17.5	18.6
Dividend Yield (%)	0.2	0.3	0.4	0.4
DPS (Rs)	1.5	1.8	2.5	3.0

Du pont Decomposition (%)

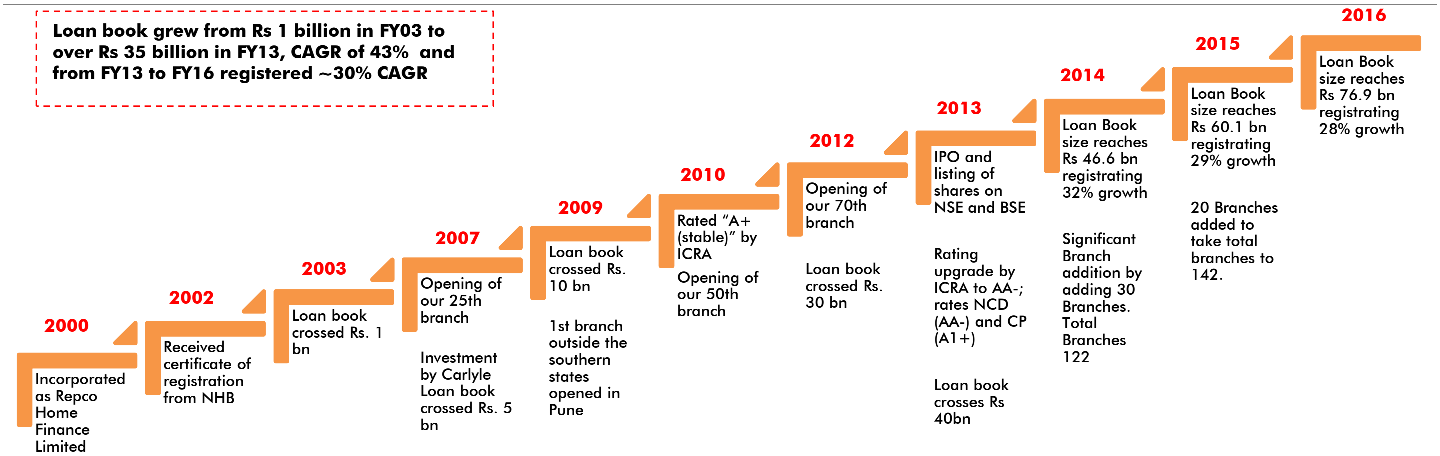
Yield on Assets	12.4	12.3	12.2	12.3
Less: Cost of Assets	8.0	7.9	7.8	7.9
Net Interest Income	4.4	4.4	4.3	4.4
Other Income	0.4	0.4	0.4	0.4
Less: Operating Exp	1.0	0.9	0.9	0.9
Less: Provisions	0.4	0.6	0.6	0.6
Less: Tax	1.2	1.2	1.1	1.1
RoAA	**2.3**	**2.2**	**2.1**	**2.1**
Leverage	7.0	7.8	8.4	9.0
RoE (Inc. Revaluation)	**15.9**	**17.0**	**17.9**	**19.1**

Source: Company, AMSEC Research

About the company

- Repco Home Finance Ltd (RHFL) is a National Housing Bank (NHB) registered housing finance company headquartered in Chennai, Tamil Nadu. It was incorporated in April 2000 as a wholly owned subsidiary of the Repatriates Co-operative Finance and Development Bank Limited (Repco Bank Limited), a Government of India enterprise, to tap the growth potential of the housing finance market.
- RHFL is a well recognized brand in south India with an established track record and a stable and experienced senior management team.
- The company primarily provides loans to individuals for the purchase and/or construction of residential or commercial properties (individual home loans and loans against property).
- The company focuses on Tier II and Tier III cities and peripheral areas of Tier I cities, areas which are relatively under penetrated.
- As on December 2014, RHFL is operating through 97 branches and 40 satellite centres in Tamil Nadu, Andhra Pradesh, Telangana, Jharkhand, Kerala, Karnataka, Maharashtra, Madhya Pradesh, Gujarat, Odisha, West Bengal and Pondicherry.
- It sources its clients directly through local advertising, loan camps and word of mouth referrals. RHFL does not employ any DSAs resulting in most of the customers owned by the company.
- RHFL has a strong credit appraisal and risk management process with centralized processing leading to costs remaining under control.

Exhibit 37: RHFL's Milestone



Source: Company, AMSEC Research

Name of loan Product	Product details
Dream Home Loan	Loans for the purpose of construction or purchase of a property.
Home Makeover Loan	Loans for the purpose of repairs, renovation, and / or extension of a property.
Plot Loans	Loans for outright purchase of plots for construction of a house.
Super Loan	Loans for construction (including extensions and additions to existing property) on land owned by borrower's parents
Fifty Plus Loan	Loans to persons above 50 years where loan repayments and disbursements are structured around the retirement /pension income stream of the borrowers.
NRI Housing Loan	Loans to non-resident Indians for the construction and purchase of houses in India.
Prosperity Loan	Loans against mortgage of immovable property for such purposes as may be desired by the borrower.
New Horizon Loan	Loans for purchase and / or construction of non-residential and commercial property.
Repco Rural	Loans to Individuals under "Weaker Section" Category in Rural areas for Purchase/Construction/Repairs/ renovation/upgradation of house with loan amount Up to Rs.1.5mn with construction cost/estimate not exceeding Rs.2.5mn
Repco Premium	A New loan scheme offered at customized pricing to our borrowers based on their risk profiles

Source: Company, AMSEC Research

Board of Directors

T.S. KrishnaMurthy	Chairman
R.Varadarajan	MD
Thomas Paul Diamond	Director
G.R.Sundaravadivel	Director
Smt. SanjeevaneeKutty,	Director
L.MunishwarGanesan	Director
V. Nadanasabapathy	Director
Dilip Kumar	Director

Top Executives & Management

R.Varadarajan	MD
V.Raghu	ED
T.Karunakaran	CFO
K. Prabhu	Company Secretary

Statutory Auditors

R Subramanian & Co	Chartered Accountants, Door No: 6 (old No 36), Krishnaswamy Avenue LUZ, Mylapore, Chennai – 600 004.

Holding Top 10

Franklin Templeton Indiaprima Fund	4.30%
Birla Sun Life Balanced 95 Fund	4.00%
SBI Magnum Multiplier Fund	3.90%
Parvest Equity India	3.80%
India Capital Fund Limited	2.70%
Goldman Sachs India Fund Limited	2.60%
DSP Blackrock Micro Cap Fund	2.50%
Nomura India Investment Mother Fund	2.20%
TVF Fund Ltd	2.10%
GMO Emerging Domestic Opportunities Fund	1.20%
Wasatch Emerging Markets Small Cap Fund	1.20%
California Public Employees Retirement System	1.00%

Recommendation rationale

Buy: Potential upside of	>+15% (absolute returns)
Accumulate:	>+5 to +15%
Reduce:	+5 to -5%
Sell:	< -5%
Not Rated (NR):	No investment opinion on the stock

Sector rating

Overweight:	The sector is expected to outperform relative to the Sensex.
Underweight:	The sector is expected to underperform relative to the Sensex.
Neutral:	The sector is expected to perform in line with the Sensex.

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