

## REPCO HOME FINANCE

BANKS &amp; FINANCIAL SERVICES

# BUY

Target Price: Rs 740

### Growth accelerates; coverage improves

Repc Home Finance (Repc) delivered an in-line PAT of Rs 348 mn (up 11% YoY) in Q4FY15. We note three key observations from reported numbers: (i) acceleration in growth (Q4 sanctions and disbursements were up 55% YoY and 47% YoY respectively), (ii) provision coverage improved to ~62% from 53% as on FY14 and (iii) company for the first time tapped the money markets to raise resources.

Adjusting for the impact of DTL<sup>^</sup>, PAT growth would be 24% YoY. Moreover, for past book DTL, Repco has adjusted reserves in Q4 itself vs. three year amortization window provided by NHB. GNPA's declined (seasonal phenomenon) and NIM/spreads were stable as fall in yields was offset by decrease in cost of funds. Staff expenses, however, witnessed a sharp rise (+54% YoY) on account of higher ESOP charge.

CMP : Rs 619  
Potential Upside : 19%

#### MARKET DATA

No. of Shares : 62 mn  
Free Float : 63%  
Market Cap : Rs 39 bn  
52-week High / Low : Rs 725 / Rs 369  
Avg. Daily vol. (6mth) : 151,367 shares  
Bloomberg Code : REPCO IB Equity  
Promoters Holding : 37%  
FII / DII : 30% / 17%

**Outlook and valuation:** We remain bullish on low-cost housing financiers given the huge untapped potential; hence, expect Repco to comfortably deliver ~30% loan CAGR over FY15-17. With the company now tapping the money market, we expect cost of funds to decline as they replace high-cost bank borrowings; thus, NIM has room for improvement but increasing leverage can partly negate the impact. Focus on self-employed segment will keep NIM elevated but we will be watchful of asset quality. Provision coverage will increase further as the company's long-term net NPA target is zero.

At CMP of Rs 619, Repco trades at 4.5x FY16E and 3.7x FY17E ABV of Rs 139 and Rs 166 respectively. **Maintain BUY** rating on Repco with a TP of Rs 740 (4.5x FY17E ABV). We are hosting an earnings call with the management on Thursday, 21 May, 2015 at 3 pm IST. Dial in numbers are: +91 22 3938 1075/+91 22 6746 8350.

#### Financial summary (Standalone)

Y/E March	FY14	FY15	FY16E	FY17E
PAT (Rs mn)	1,101	1,231	1,562	1,973
EPS (Rs)	16	18	23	29
EPS chg (%)	27.0	11.5	26.9	26.3
Book value (Rs)	110	121	143	170
Adj. BV (Rs)	107	118	139	166
PE (x)	37.9	34.0	26.8	21.2
P/ABV (x)	5.8	5.2	4.5	3.7
RoE (%)	16.0	15.8	17.5	18.7
RoA (%)	2.6	2.3	2.2	2.2
Net NPA (%)	0.7	0.5	0.5	0.4

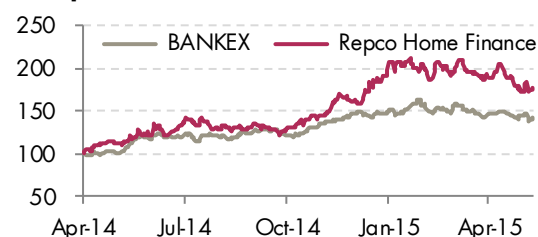
Source: Company, Axis Capital

^ Deferred tax liability

#### Key drivers

(%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Loan growth	30.6	29.8	27.3	29.0
Disb growth	24.2	27.1	7.6	46.6
NIM	4.4	4.5	4.5	4.5
GNPA Ratio	2.5	1.7	2.0	1.3

#### Price performance



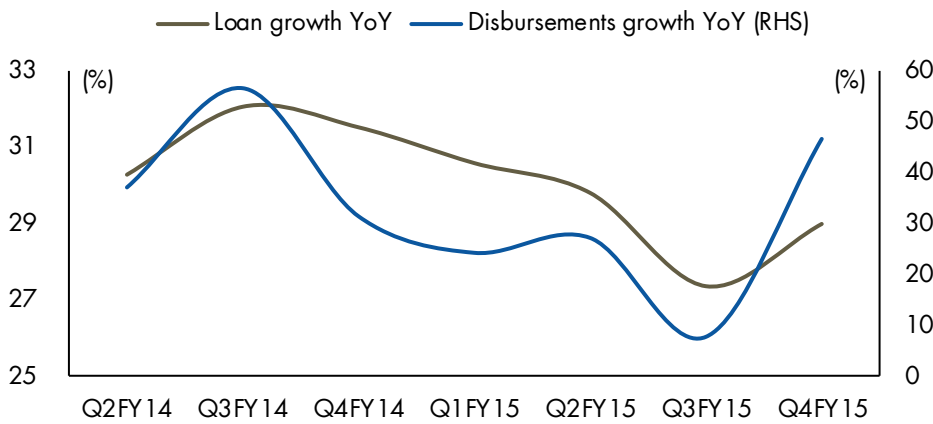
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**Q4 key highlights**

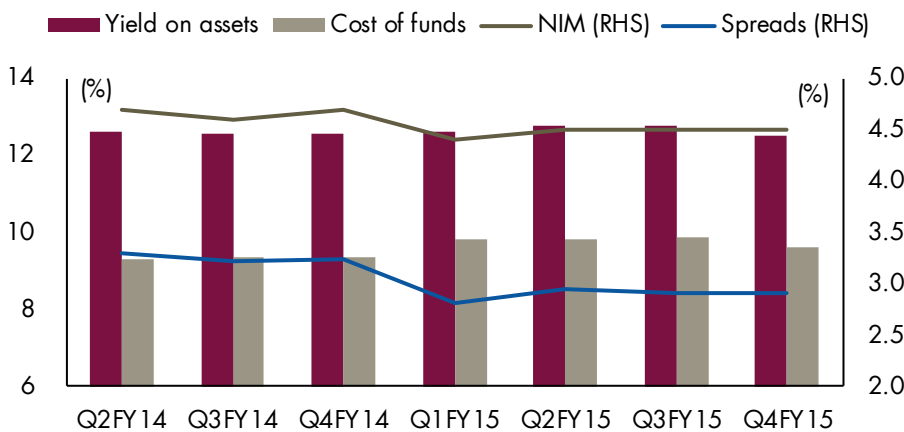
**Exhibit 1: After some moderation, disbursements growth picks up**



Source: Company, Axis Capital

In Q4, Repco witnessed a sharp increase in sanctions and disbursements growth. We expect growth momentum to continue going forward

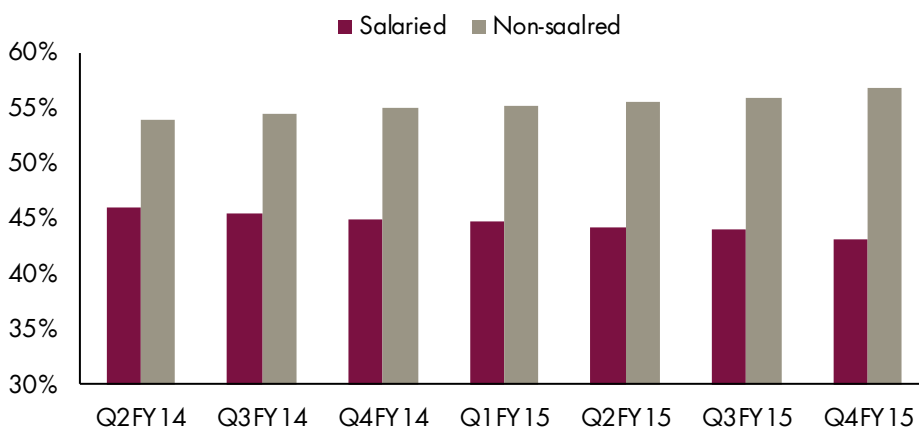
**Exhibit 2: Trends in NIM and spreads**



Source: Company, Axis Capital

NIM and spreads were stable QoQ as decline in yields were offset by decline in cost of funds. We expect NIMs to remain stable as company has now started tapping low cost money market instruments

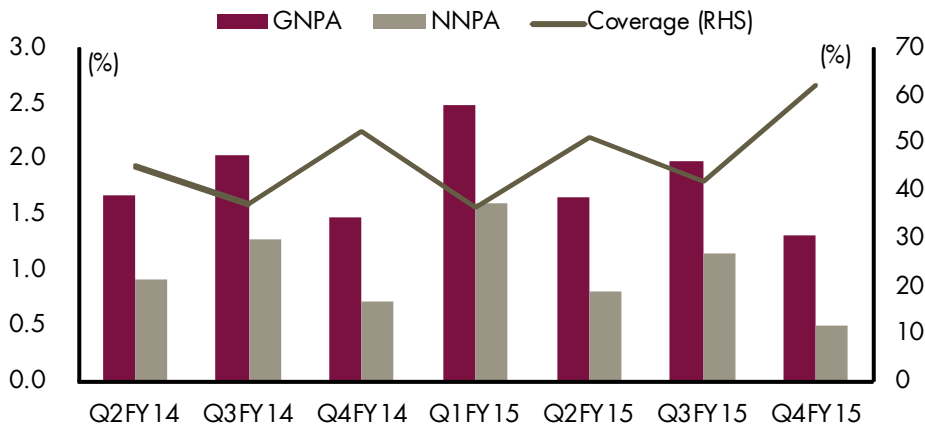
**Exhibit 3: Proportion of high yielding non-salaried segment increases**



Source: Company, Axis Capital

We expect self-employed segment to continue to form major chunk of loan book given the company's strong expertise in this segment

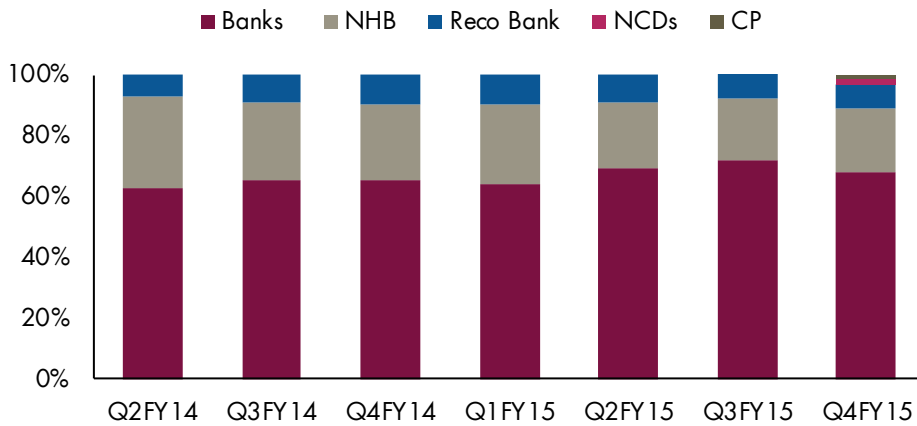
**Exhibit 4: GNPA declines owing to seasonality; however, coverage improves**



Source: Company, Axis Capital

Repco's long-term net NPA target is zero; hence, provisions are likely to increase going forward

**Exhibit 5: Borrowing mix – Repco taps money market for first time**



Source: Company, Axis Capital

A well-diversified borrowing mix augurs well for NIM improvement

**Exhibit 6: Results update**

(Rs mn)	Quarter ended					12 months ended		
	Mar-15	Mar-14	% Chg	Dec-14	% Chg	FY16E	FY15	% Chg
Interest income	1,830	1,448	26	1,708	7	8,598	6,691	29
Interest expended	1,168	909	29	1,120	4	5,600	4,318	30
<b>Net interest income</b>	<b>662</b>	<b>539</b>	<b>23</b>	<b>588</b>	<b>13</b>	<b>2,998</b>	<b>1,214</b>	<b>147</b>
Non-interest income	85	51	66	49	74	277	239	16
<b>Net income</b>	<b>747</b>	<b>591</b>	<b>27</b>	<b>637</b>	<b>17</b>	<b>3,276</b>	<b>2,613</b>	<b>25</b>
Operating expenses	165	121	37	142	16	649	547	19
<b>Operating profit</b>	<b>582</b>	<b>470</b>	<b>24</b>	<b>495</b>	<b>18</b>	<b>2,626</b>	<b>2,065</b>	<b>27</b>
Provision & Contingencies	62	41	52	26	137	260	203	28
<b>PBT</b>	<b>520</b>	<b>429</b>	<b>21</b>	<b>469</b>	<b>11</b>	<b>2,366</b>	<b>1,862</b>	<b>27</b>
Tax	172	114	51	161	7	805	631	28
<b>Net profit</b>	<b>348</b>	<b>315</b>	<b>11</b>	<b>307</b>	<b>13</b>	<b>1,562</b>	<b>1,231</b>	<b>27</b>
<b>Yields &amp; Margins (%)</b>								
Yield on assets	12.50	12.57	(7)bps	12.76	(26)bps	12.48	12.54	(6)bps
Cost of funds	9.60	9.32	28 bps	9.85	(25)bps	9.55	9.59	(4)bps
Net interest margin	4.5	4.7	(20)bps	4.5	0 bps	4.35	4.45	(9)bps
Cost to income	22.1	20.4	163 bps	22.3	(21)bps	19.82	20.95	(114)bps
<b>Asset quality</b>								
Gross NPAs (Rs mn)	791	699	13	1,094	(28)	1,066	794	34
Gross NPAs (%)	1.3	1.5	(15)bps	2.0	(67)bps	1.4	1.3	5 bps
Net NPAs (Rs mn)	298	332	(10)	634	(53)	373	298	25
Net NPAs (%)	0.5	0.7	(22)bps	1.2	(66)bps	0.5	0.5	(1)bps
Provisioning coverage (%)	62	53	981 bps	42	2,029 bps	65	63	250 bps
<b>Balance sheet (Rs bn)</b>								
Loans outstanding	60	47	29	55	9	78	60	29

Source: Company, Axis Capital

## Financial summary (Standalone)

### Profit & loss (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
Interest earned	5,109	6,691	8,598	11,049
Interest expended	(3,247)	(4,318)	(5,600)	(7,201)
<b>Net interest income</b>	<b>1,861</b>	<b>2,373</b>	<b>2,998</b>	<b>3,848</b>
Non interest income	244	239	277	306
<b>Net income</b>	<b>2,106</b>	<b>2,613</b>	<b>3,276</b>	<b>4,154</b>
<b>Operating expenses</b>	<b>(388)</b>	<b>(547)</b>	<b>(649)</b>	<b>(802)</b>
Staff expenses	(211)	(335)	(421)	(511)
Other operating expenses	(177)	(212)	(228)	(291)
<b>Operating profit</b>	<b>1,718</b>	<b>2,065</b>	<b>2,626</b>	<b>3,352</b>
Provisions & contingencies	(227)	(203)	(260)	(363)
<b>Pre-tax profit</b>	<b>1,491</b>	<b>1,862</b>	<b>2,366</b>	<b>2,989</b>
Tax expense	(390)	(631)	(805)	(1,016)
<b>Profit after tax</b>	<b>1,101</b>	<b>1,231</b>	<b>1,562</b>	<b>1,973</b>
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
<b>Adj. PAT</b>	<b>1,101</b>	<b>1,231</b>	<b>1,562</b>	<b>1,973</b>

### Balance sheet (Rs mn)

Y/E March	FY14	FY15	FY16E	FY17E
<b>Total assets</b>	<b>47,390</b>	<b>60,757</b>	<b>78,379</b>	<b>101,377</b>
Cash & Balances with RBI	-	-	-	-
Investments	125	124	149	179
Advances	46,619	60,129	77,661	100,543
Fixed assets	50	89	109	126
Other assets	411	414	460	529
<b>Total liabilities</b>	<b>47,390</b>	<b>60,757</b>	<b>78,379</b>	<b>101,377</b>
Equity capital	622	624	624	624
Preference capital	-	-	-	-
Reserves & surplus	6,737	7,502	8,972	10,830
Networth	7,411	8,177	9,648	11,505
Borrowings	39,015	51,044	66,228	85,369
Deposits	-	-	-	-
Other liabilities & prov.	965	1,536	2,504	4,503

Source: Company, Axis Capital

### Key ratios

Y/E March	FY14	FY15	FY16E	FY17E
<b>Per share data</b>				
FDEPS (Rs.)	16	18	23	29
BV (Rs.)	110	121	143	170
Adj. BV (Rs.)	107	118	139	166
DPS (Rs.)	1	1	1	1
Dividend payout (%)	7	6	5	5
<b>Yields &amp; Margins (%)</b>				
Yield on advances	12.5	12.5	12.5	12.4
Cost of deposit	-	-	-	-
Net interest margin	4.5	4.4	4.4	4.3
<b>Asset quality (%)</b>				
Gross NPAs	1.5	1.3	1.4	1.4
Net NPAs	0.7	0.5	0.5	0.4
Credit cost	0.6	0.4	0.4	0.4
Provisioning coverage	51.5	62.5	65.0	70.0
<b>Capital (%)</b>				
Tier-I	24.5	22.3	20.5	18.9
CAR	24.5	22.3	20.5	18.9
<b>Efficiency (%)</b>				
ROA	2.6	2.3	2.2	2.2
ROE	16.0	15.8	17.5	18.7
Cost to income	18	21	20	19
CASA	-	-	-	-
Effective tax rate	26	34	34	34
<b>Growth (%)</b>				
Net interest income	53	27	26	28
Fee income	-	-	-	-
Operating expenses	60	41	19	24
Profit after tax	38	12	27	26
Advances	32	29	29	29
Deposits	-	-	-	-
Total assets	25	28	29	29

Source: Company, Axis Capital

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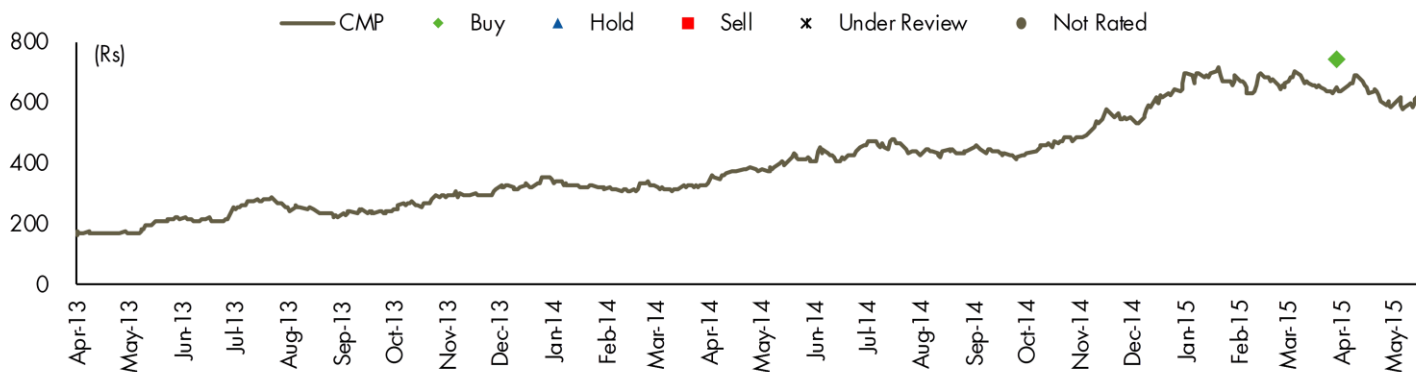
#### DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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1. The analyst(s) declares that neither he/ his relatives have a Beneficial or Actual ownership of > 1% of equity of subject company/ companies
2. The analyst(s) declares that he has no material conflict of interest with the subject company/ companies of this report

#### RepcO Home Finance (REPCO.BO, REPCO IN) Price Chart and Recommendation History



Date	Target Price	Reco
30-Mar-15	740	Buy

Source: Axis Capital

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