INITIATING COVERAGE

REPCO HOME FINANCE

Scalable model with superior and sustainable returns

India Equity Research| Banking and Financial Services

Repco Home Finance (Repco), a prominent south-India based housing finance player focused on Tier II/III cities with average INR1mn ticket size, has a balanced customer mix of lower risk salaried class (46% of loans) and relatively higher yielding non-salaried class. Over the past decade it has built a lucrative model entailing superior NIMs (4% plus as it caters to under-served high yielding market, plus reaps refinancing benefit from National Housing Bank) and low operational and credit costs. This, along with scope to grow manifold in an under-served market underpinned by sufficient Tier 1 of 25% will sustain loan CAGR of 25% plus and aid it to post an impressive 30% plus PAT CAGR and 2.9% RoA. Hence, we initiate coverage with 'BUY' and TP of INR375 (assigning 2.3x FY16E P/B).

Customised appraisals: Fine asset quality and faster turnaround

Quick turnaround time (2-3 weeks) for disbursements is Repco's key competitive edge. As it eschews direct selling agents, client engagement is higher, further bolstered by personal interview, visits to residential/business premises and employment checks for sanctions. This, coupled with <75% loan to value (LTV)/<60% instalment to income (IIR) ratio and incentivised recovery mechanisms have led to controlled credit costs. Write-offs since inception at 0.08% of cumulative disbursements, even though exposure to lumpy earnings of self-employed class results in tad higher GNPA (1.7% in H1FY14).

Profitable financier: Lucrative NIM of 4%+, lean cost-income of 17%

Given priority status /low ticket loans, 30% of borrowing is from NHB at a low 7.5-9.5% and 63% from banks at finer rates. On assets, given limited competition and healthy mix of loans to self employed and loan against property (LAP), yields are at ~13%, leading to NIMs of 4% plus. Lean cost model with centralised loan processing and lower branch rentals result in 17% cost-Income ratio.

Outlook & valuations: Superior sustainable RoA; initiate with 'BUY'

We like its model for well-balanced loan mix, profitability and most importantly its scalability. We foresee long-term value accretion from the current valuation of 10x P/E and 1.8x P/ABV (FY16E) given loan CAGR of 25% plus, PAT CAGR of 30% plus and sustainable RoA of 2.9%. We value the stock at 2.3x FY16E P/ABV leaving >25% upside. We initiate coverage with **'BUY/Sector Outperformer'** recommendation/rating.

Financials

Year to March	FY13	FY14E	FY15E	FY16E
Net revenues (INR mn)	1,403	2,097	2,588	3,203
Net profit (INR mn)	800	1,162	1,467	1,832
Diluted EPS (INR)	13	18	23	29
EPS growth (%)	(2.8)	45.1	26.3	24.9
Diluted P/E (x)	22.9	15.8	12.5	10.0
P/Adj. book (x)	3.0	2.5	2.2	1.8
ROAE (%)	17.1	16.9	18.2	19.2

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: REPCO.BO, B: REPCO IN)*

CMP	: INR 295
Target Price	: INR 375
52-week range (INR)	: 309 / 158
Share in issue (mn)	: 62.2
M cap (INR bn/USD mn)	: 19 / 295
Avg. Daily Vol.BSE/NSE('000)	: 136.3

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	37.4	37.4	37.4
MF's, FI's &	6.3	13.8	12.3
FII's	12.3	6.3	5.6
Others	44.0	42.5	44.7

** Promoters pledged share (% of share in issue) : Nil*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(2.7)	1.3	4.0
3 months	9.2	27.6	18.4
12 months	9.2	NA	NA

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Investment Rationale

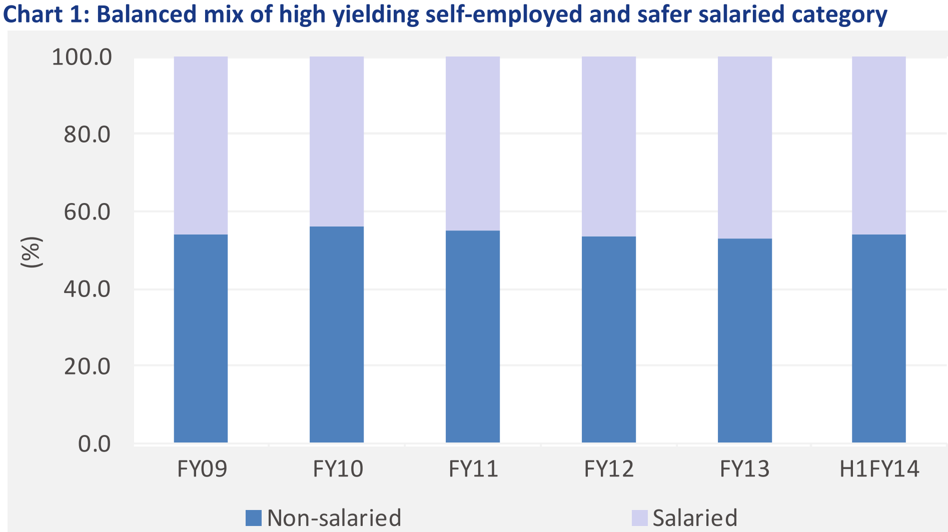
Repco Home Finance (Repco) has created a niche for itself, servicing both salaried and self employed category in Tier-II and Tier-III - a customer segment left under-served by large housing finance companies and banks. We like the company for its differentiated approach, strong risk management practises and most importantly for its scalable business model and superior and sustainable return ratios.

Well-balanced loan composition; strong foothold in SEP segment

Riding on the niche created in evaluating the self employed category's repayment capability

Repco has a very balanced composition of its loan book with exposure to highly competitive salaried segment being restricted at lower levels of 46% (compared to ~85% for LICHF and HDFC, 63% for Gruh). It has also built a strong foothold in lending to self-employed category (forming 54% of its loan book) where it commands adequate pricing power given: i) significant business opportunity – as per National Sample Survey Office, the self-employed category forms half of the total workforce; ii) not the focus area for other HFCs given time and effort involved in customized appraisal along with difficulties in evaluating the volatile income streams. Repco has mastered the skills in evaluating self-employed class given its: 1) direct customer contact and 2) tailored approach and personal evaluation processes which helps assess the credit quality of this segment.

Chart 1: Balanced mix of high yielding self-employed and safer salaried category



Source: Company

Proportion of salaried class lower than peers translating into higher yields

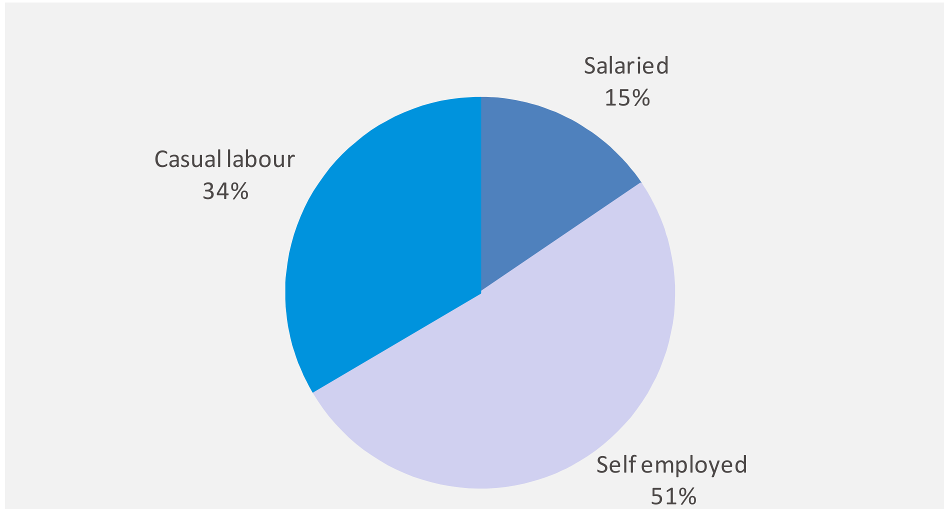
Table 1: Repco Home Finance has lower portion of salaried class vis-a-vis other HFCs

Company	% of salaried
Repco Home Finance	46
HDFC	85
LIC Housing Finance	85
Gruh Finance	63
Dewan Housing	75

Source: Company

Self employed is the dominant category in the workforce and the most under served as well

Chart 2: In total workforce, self-employed is the dominant category

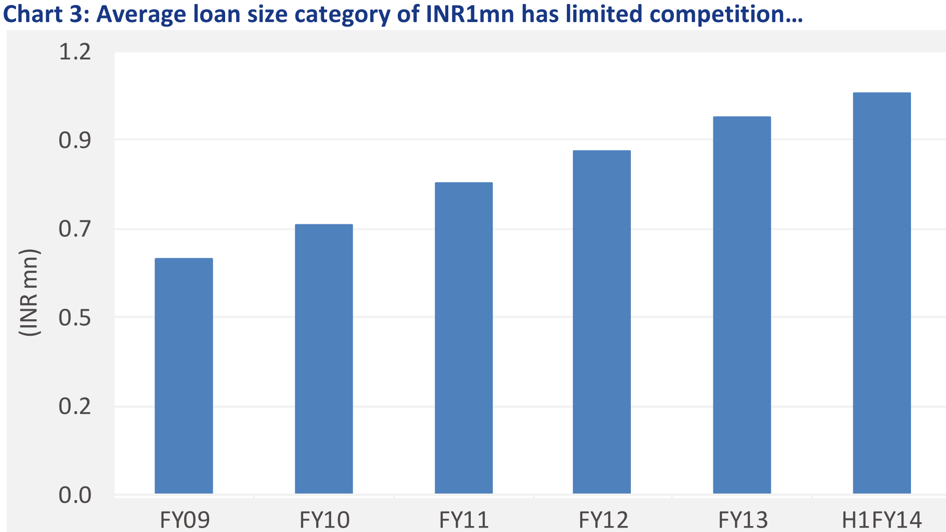


Source: National Sample Survey Office

Running viable operations even with lower ticket size lending

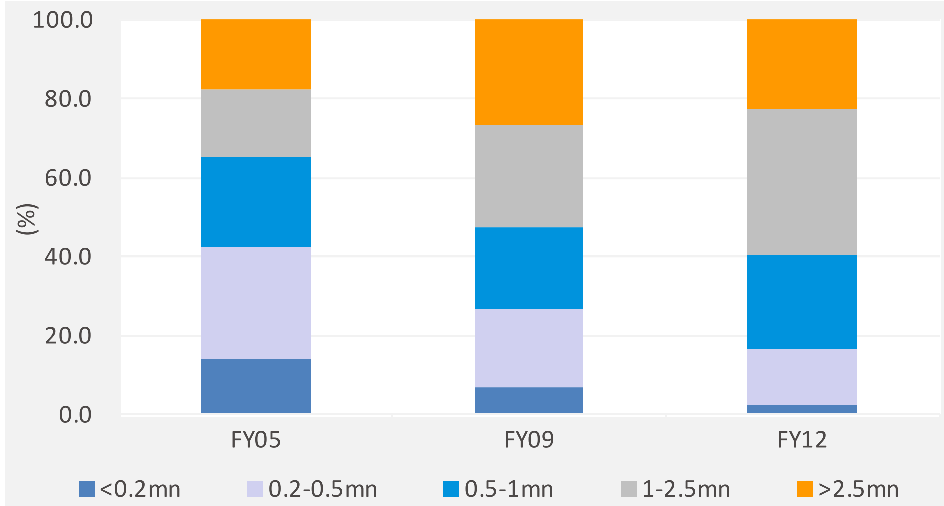
The average ticket size of the outstanding loans is at INR1mn. It has demonstrated viability of operations in this segment on the basis of controlled costs whereas in the loan books of banks low ticket housing loans has seen a steady decline.

Chart 3: Average loan size category of INR1mn has limited competition…



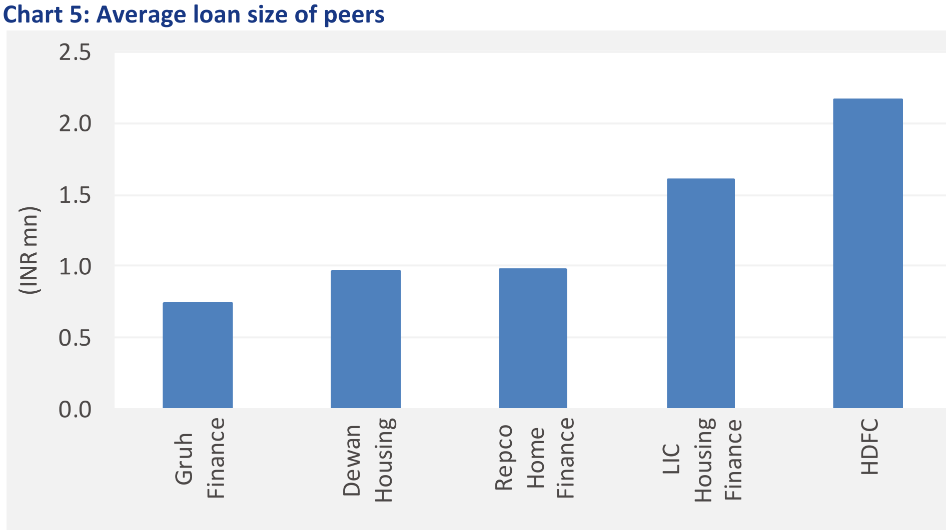
Source: Company

Chart 4: ...as shown by declining proportion of lower ticket loans in bank's book



Source: NHB

Chart 5: Average loan size of peers



Source: Company

Customised appraisal: Fine asset quality and faster turnaround

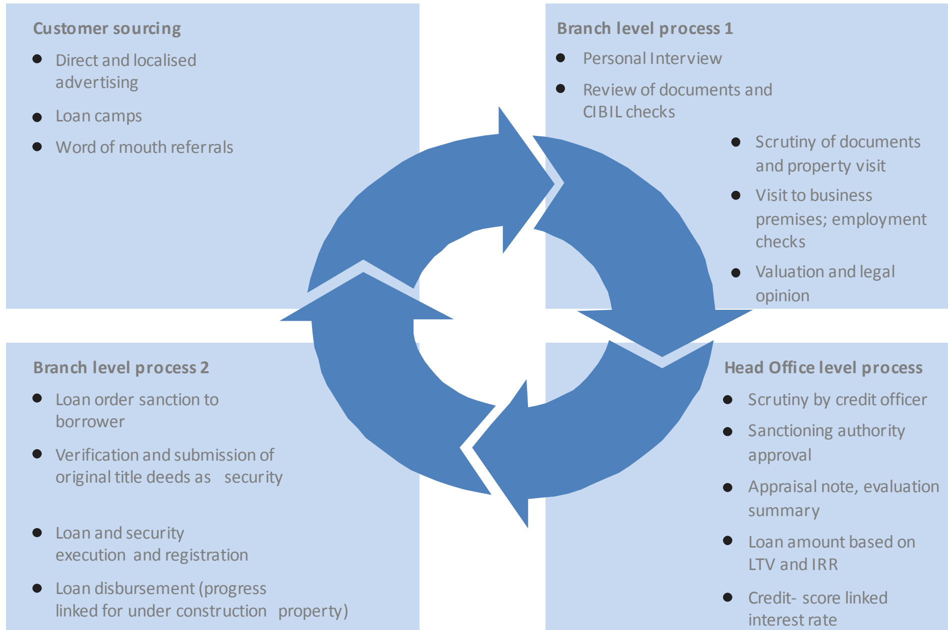
The client engagement level is higher leading to better ownership and monitoring of the account

Repco has been able to flourish in a niche segment – targeting even the non-salaried customer segment vis-à-vis other HFCs that are largely focused on the salaried class (due to ease in validating the income levels and the repayment capabilities of salaried borrower's vis-à-vis self-employed persons). However, despite catering to non-salaried segments at 54% of the loan book (a segment with inherent volatility in customer cash flows), the company has been able to maintain healthy asset quality.

This, we believe, is primarily due to personalised appraisal expertise developed by the company which along with robust risk management systems and processes in place across all areas of operations, namely loan origination, credit appraisal, loan disbursement, and collection and recovery help maintain healthy asset quality. What is also encouraging is that the skill sets developed by the company is not easily replicable by other existing players in the market or by the new entrants.

Tailored approach and personal evaluation: Direct connect with customers has helped company to have tailored approach and put personal evaluation process in place during credit appraisal processes. The process consists of personal interview, visits to residential and business premises and employment checks for loan sanctions. Also, as there is no DSA based business generation, the client engagement level is higher.

Fig. 1: Loan origination and appraisal process-customised at every stage



Source: Company

While the GNPA number optically looks higher due to volatile cash flows of self employed category, cumulative write-offs are lower

Faster turnaround time – key competitive advantage

Company has been able to achieve faster turnaround times owing to its robust loan origination system which allows real time transmission and review of loan applications, all with personalized focus at all points of time. The company also has a centralized depository for storing original loan documents which enables them to release title deeds to borrowers expeditiously upon satisfaction of loan dues. We believe faster turnaround time right from origination (as fast as 2-3 weeks) to release of deed has provided company with much needed competitive edge, which company can leverage to increase its customer base.

Borrowers' cash flow volatility lends variability to NPL profile

Income profile of non-salaried segment tends to be lumpy and seasonal in nature and depending on cash flow availability, customers tend to make lumpy repayments. This not only leads to variability to Repco's NPL profile (higher NPLs in Q1 and Q3 which are more technical in nature) but also run relatively higher NPL level than peers at 1.7% (H1FY14). However, its reported NPL profile is not reflective of true nature of asset quality because if we look at actual write offs the picture looks much better. Since the start of the business, the company has taken cumulative write offs of only INR43mn (0.08% of total disbursement). The collateralized nature of lending, robust risk management and evaluation process with customers psyche not to default on home loans will continue to hold asset quality in good stead.

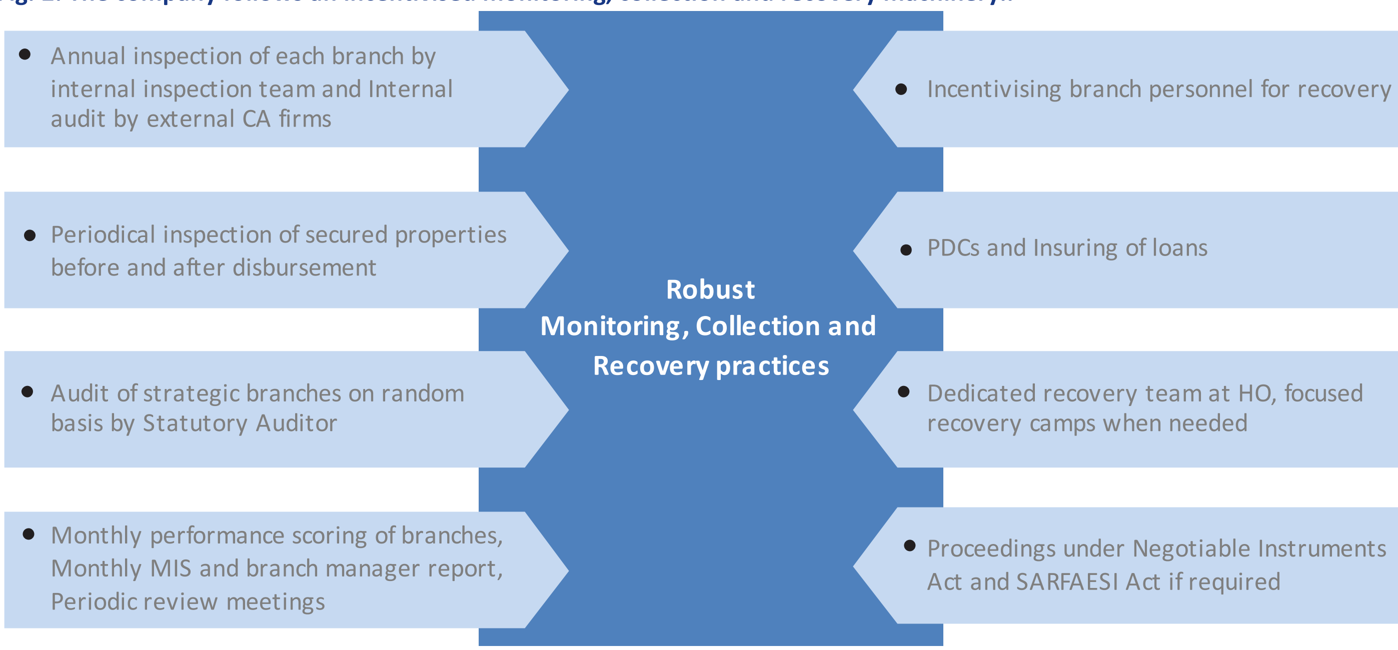
Other strategic decisions by management which lends inherent support to asset quality:

No dependence on marketing intermediaries: Company has intentionally abstained itself from using marketing intermediaries, true to this most customers are walk-in customers or referred by existing customers with branch offices acting as single point of contact for customers. Repco also conducts loan camps to garner leads for home loans. This helps company to have direct control over customer at all times and reduces the probability of default.

No exposure to developer loans: Company has zero exposure to developer/builder loans (a relatively lumpy and riskier segment), helping it maintain asset quality.

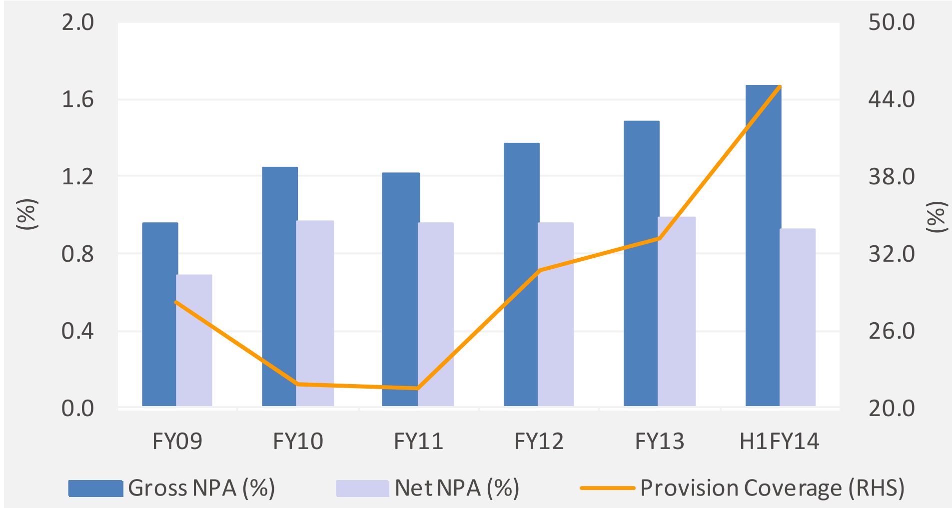
Lower loan-to-value (LTV) and installment-to-income Ratio (IIR): The Company has maintained steady LTV at around 60-65% at all times, providing cushion against fall in asset price. Also a 50% IIR ensures loan servicing on part of the customer.

Fig. 2: The company follows an incentivised monitoring, collection and recovery machinery..



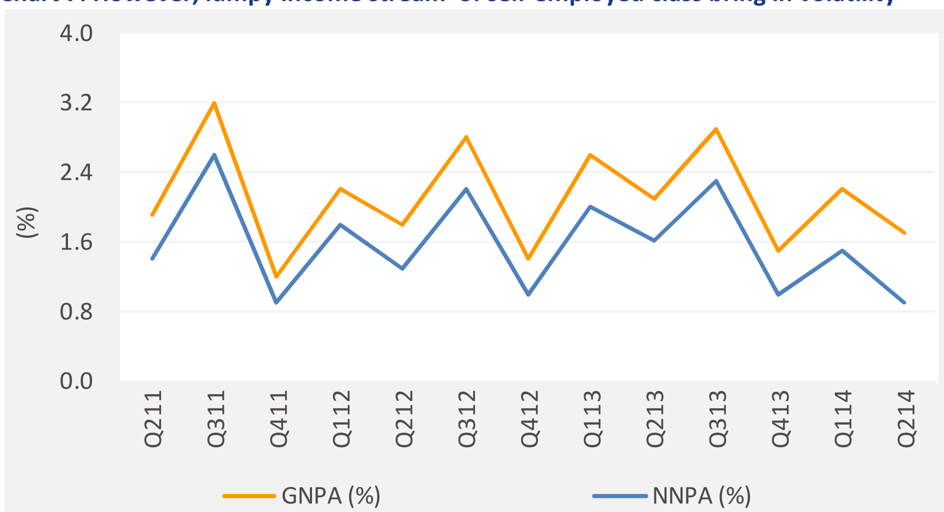
Source: Company

Chart 6: ...as evidenced by controlled asset quality



Source: Company

Chart 7: However, lumpy income stream of self-employed class bring in volatility



Source: Company

Profitable financier: Healthy NIMs, lean cost structure

Given the nature of loans (low ticket size in areas with low population), it gets dual benefit of NHB refinancing facility as well as finer rate from banks giving it access to cheaper avenues of borrowings. On the lending side, balanced mix of loans to self-employed and LAP help it sustain pricing power and better yields, leading to healthy margins. Lean cost model with centralized loan processing and lower branch rentals results in CI ratio of 17%.

Access to cheaper avenues of borrowings; scope to diversify borrowing profile further

1) Refinancing facility from NHB at lower rates of 7.5-9.5% - average cost of 8.12% (as on September 2013) - 30% of borrowing is from NHB; 2) Banks also lends at favorable rates as on-lending is mostly towards priority sector lending (63% borrowing is from banks).

Recently the company has got ratings for convertible debenture and commercial paper which will enable them to diversify borrowings

Additionally, we believe that though Repco currently has high concentration risk, but given its strong ratings it has potential to diversify its funding source (tapping fixed deposits, debt instruments etc). It has been assigned ICRA and CARE rating of AA-/A1+ for its non-convertible debenture/commercial paper.

Loan book composition helps maintain higher sustainable yields without undue risk

Having a well-balanced mix of non-salaried segment where it can charge 50-75bps higher than salaried class, it is able to sustain yields of 12% plus despite operating in competitive mortgage finance space. It has developed a strong foothold in lending to self-employed category – generally low focus area by other HFCs. Also they have optimally leveraged loan against property (16.3% of portfolio) which enables them to earn higher yields without compromising on quality.

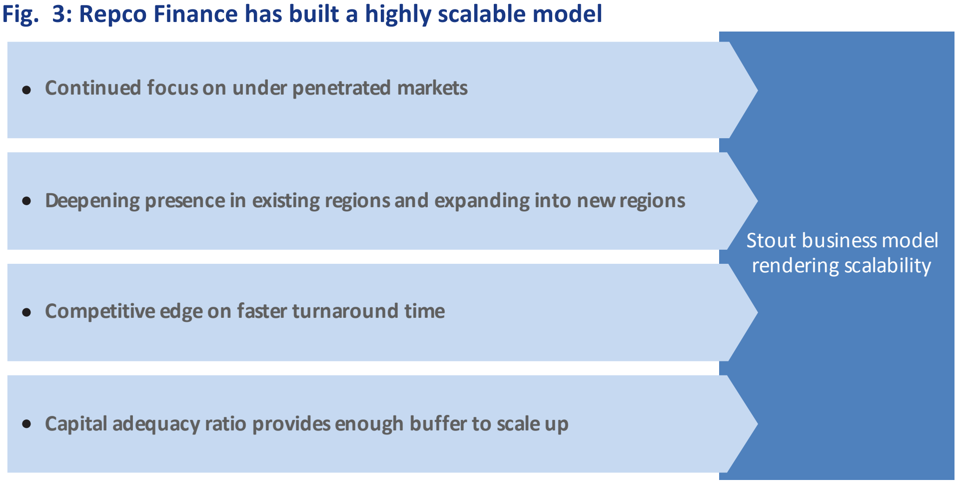
Lower cost operating model aids profitability

Each branch generally consist of three to four local employees yielding dual benefit of: 1) lower cost structure (as no cost of re-location etc.) and 2) possesses good local knowledge and good understanding of customer needs. Additionally, centralized model of credit appraisal helps company to reduce administrative cost thereby enabling them to keep tight leash on cost.

Scalability and growth – not a challenge

Repco has been registering healthy loan growth of 40% CAGR over FY08-FY13 – both salaried and self-employed category growing at a similar pace. We expect growth momentum to be robust going forward as well, given its continued focus on underpenetrated markets, deepening presence geographically, further supported by healthy capitalization.

Fig. 3: Repco Finance has built a highly scalable model



Source: Company

Chart 8: Calibrated footprint expansion seen over the past few years

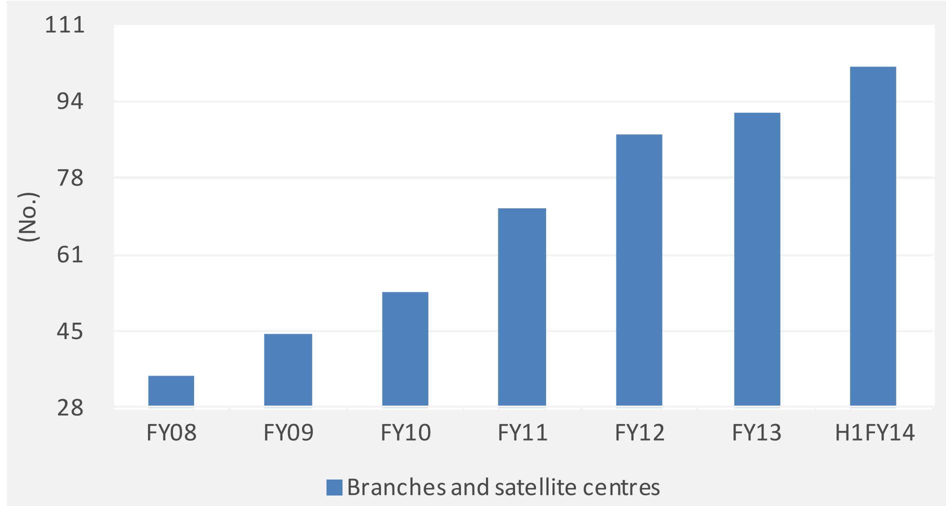


Chart 9: After a slower FY12/FY13, FY14 disbursements are seeing robust growth

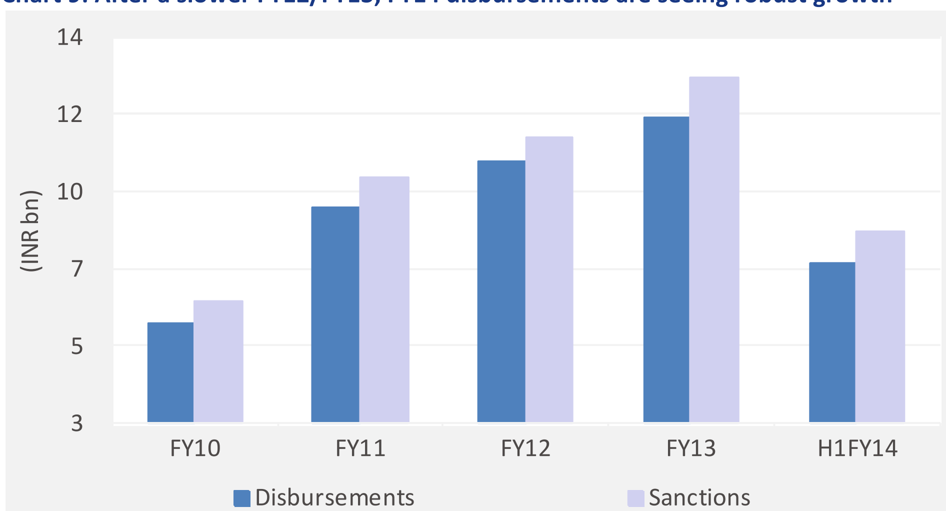
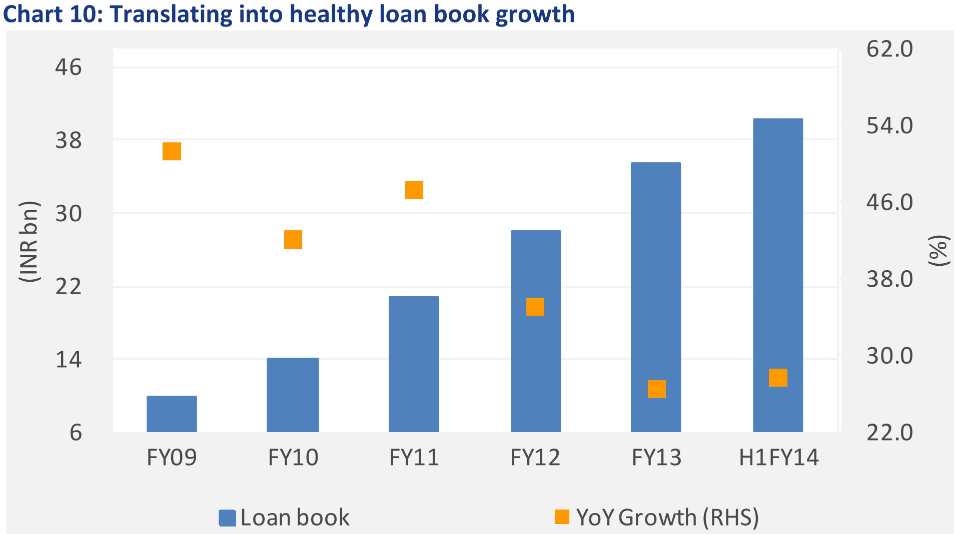


Chart 10: Translating into healthy loan book growth



Source: Company

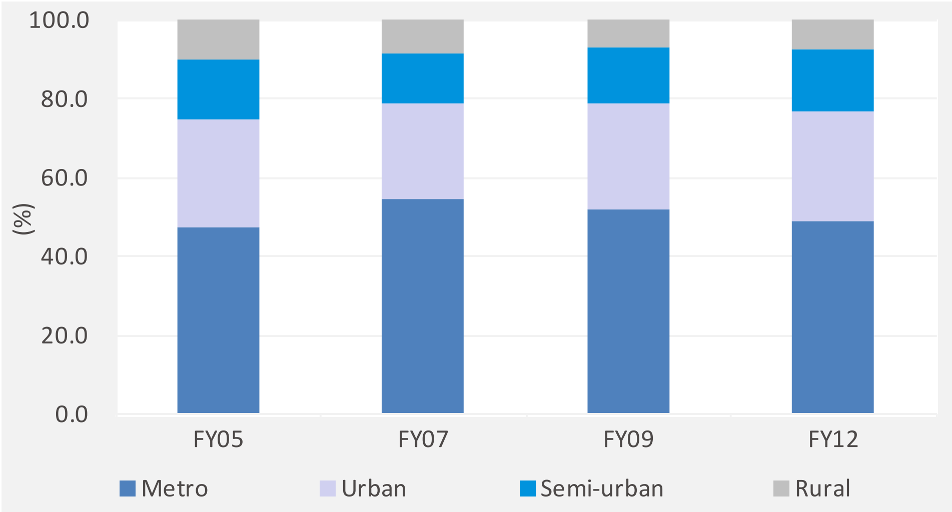
Continued focus on under-penetrated markets

Repco is further strengthening its presence in the under served markets of Tier II/Tier III cities

Repco has since inception focused on under-served and under-penetrated areas in Tier-II and Tier-III cities and peripheral areas of Tier-I cities. We expect the company to continue to expand in these areas giving it first mover advantage. Additionally we believe company to benefit by economic improvement resulting into urbanization and significant development in tier-II and tier-III cities.

Further, historically banks and large HFCs have not been focusing on rural market due to high operational cost in these regions in comparison to the ticket size of the loans and difficulties in credit appraisal. As per CRISIL estimates housing penetration in rural areas stands merely at 8.2% in FY12- this provides a good opportunity to someone like Repco - with lower cost of operation and good understanding of rural markets.

Chart 11: Even while banks home loan portfolio is seeing reduced rural presence



Source: NHB

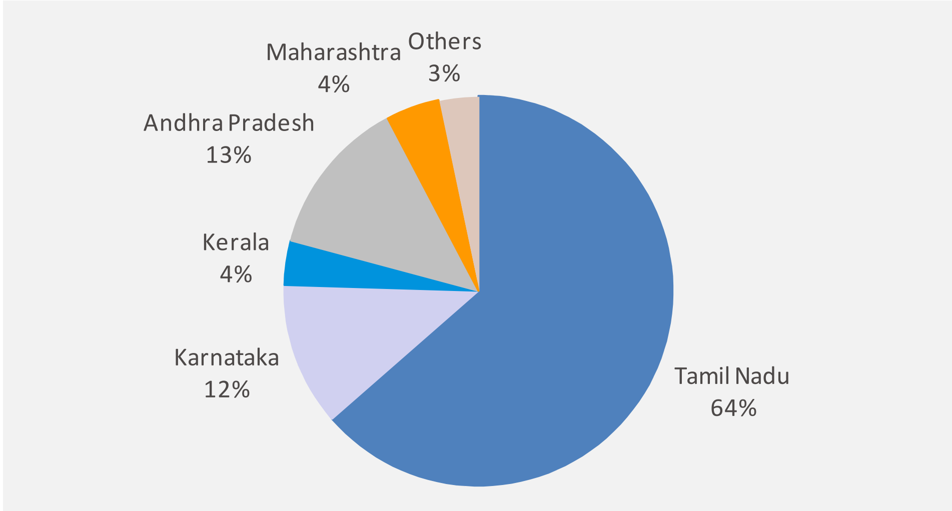
Deepening presence in existing regions and expanding into new regions

The company has strategically planned out a two-pronged strategy to expand its geographical foot prints which in turn will drive loan growth.

After having established well in the Southern India, the company is looking at Maharashtra, Gujarat and West Bengal for expansion

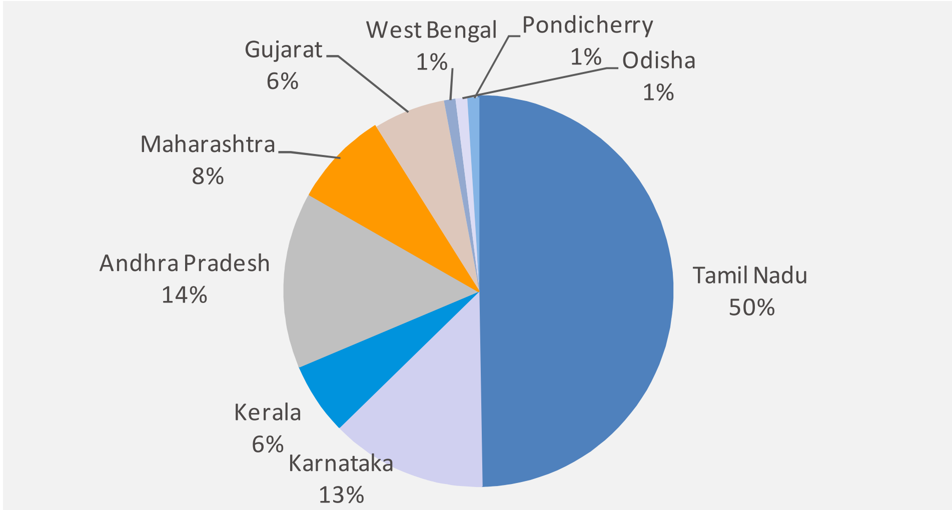
- Company intends to deepen penetration in existing geographies wherein they plan to selectively expand in the adjoining areas of existing branches. This we believe will enable them to leverage on their experience in those regions, and also generate greater brand awareness and word-of-mouth referrals. Leveraging on their familiarity and localised experience, management expects to grow business by tapping into opportunities in those regions.
- On other hand, the company wishes to expand their footprint in a phased manner by selectively setting-up branches in states such as Maharashtra, Gujarat and West Bengal. The growth registered by recently opened branches in area of Maharashtra renders us confidence about the scalability of future branches.

Chart 12: Loan portfolio distribution across states



Source: Company

Chart 13: Branches and satellite centre distribution

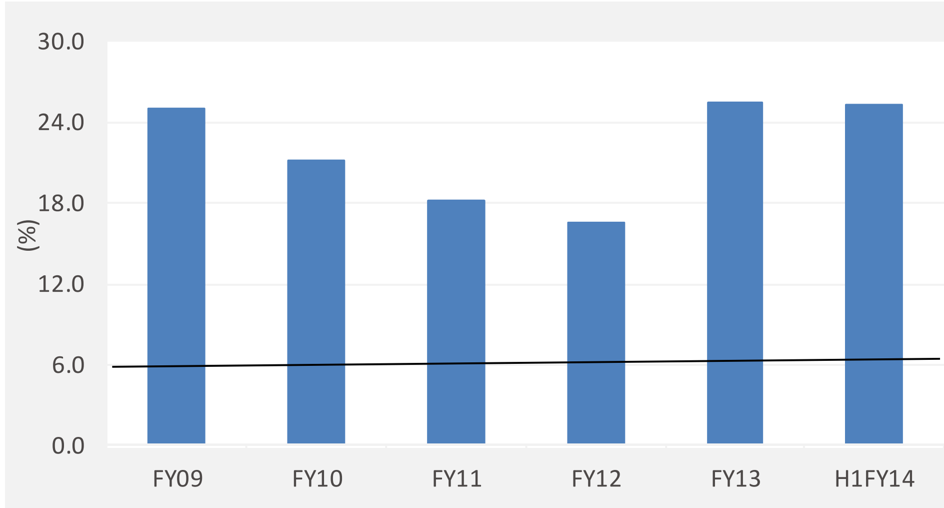


Source: Company

Capital adequacy ratio provides enough buffers to scale up

As per regulatory norms, Repco is required to maintain capital adequacy ratio of 12% (Tier I – 6% and Tier II – 6%). In addition, Tier II cannot exceed Tier I capital. Currently, Repco stands at well capitalized position of 25.5% with all of this entirely coming from Tier 1. It successfully raised INR2.7bn in March, 2013 through primary issue of shares at INR172 per share which increased its capital.

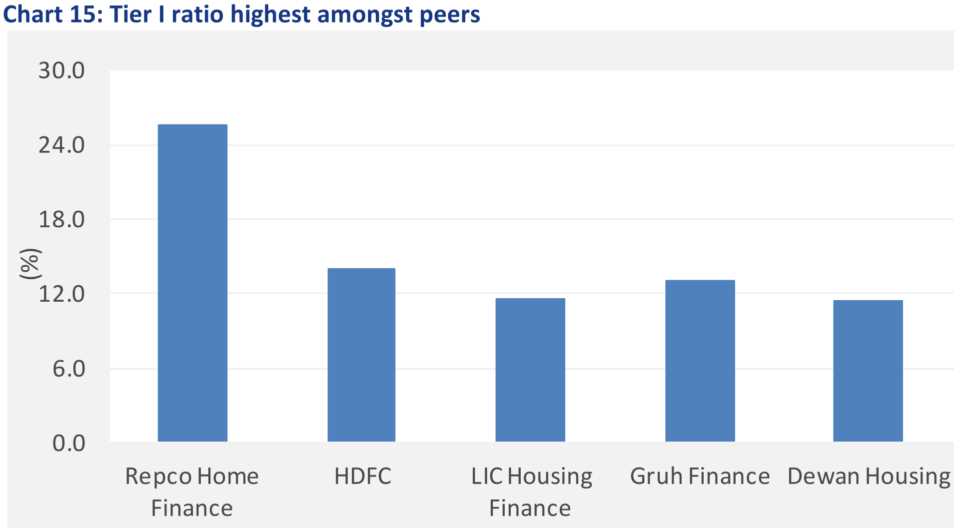
Chart 14: Robust capital levels after recent capital raise



Source: Company

Risk weights are based on loan amount and loan to value ratio. Average loan outstanding per unit is ~INR1mn and average loan to value ratio is 60%. This implies that risk weights assigned on most of the home loans will be around 50-55%. This lower requirement of capital along with RoE in excess of 20% gives Repco leeway to grow without any risk of dilution.

Chart 15: Tier I ratio highest amongst peers



Source: Company

Table 2: Risk weights as recommended by NHB

	LTV		
Loan amount	**<75%**	**75-80%**	**>80%**
<INR2mn	50.0	50.0	50.0
INR2-7.5mn	50.0	50.0	100.0
>INR7.5mn	75.0	100.0	100.0

Source: NHB

Valuation

Over the last decade of its existence, Repco has built a well-balanced, profitable and scalable business model generating superior NIMs as it caters to an under-served higher yielding segment plus reaping CoF benefit from NHB/banks. Operating with lean cost structure and manageable credit costs, it has been consistently operating at RoA profile of 2.5% plus. With visibility of limited risk/challenge to any of this operating metrics in the near term, we expect RoAs to sustain above 2.75% for which current valuation of 1.8x FY16E P/ABV appears cheap. Despite healthy RoA profile, RoEs seem to be optically lower at 17% due to over-capitalization (with recent equity raising) and under-leveraged balance sheet. Given adequate scope of scalability, we foresee consistent loan book accretion (FY13-15E CAGR of 29%) and impressive earnings CAGR of 35% (while the stock trades at 10x FY16 earnings). We, therefore, initiate coverage on the stock with TP of INR375 assigning 2.3x FY16E adjusted book multiple.

Table 3: Peer comparison

				FY13 (%)				FY14E (x)	
Company	CMP (INR)	Mcap (INRbn)	Loans (FY13-INRbn)	CAR	ROA	ROE	GNPA	P/E	P/B
HDFC	807	1,276	1,700	16.2	2.8	22.0	0.7	22.5	4.5
LICHF	202	106	778	16.5	1.5	16.8	0.6	8.1	1.4
Dewan Housing Finance	168	20	361	16.5	1.7	17.9	0.7	4.2	0.6
Gruh Finance	230	42	54	14.6	2.9	33.0	0.3	24.0	6.6
Repco Home Finance	295	18	35	25.5	2.5	17.1	1.5	15.8	2.4
GIC Housing Finance	97	5	45	14.0	1.8	17.1	1.9	5.4	0.8
CanFin Homes	145	3	40	14.7	1.6	14.6	0.4	4.4	0.7

Source: Bloomberg, Edelweiss research

Key Risks

Slowdown in real estate sector

Repco is mainly present in 8 states. Currently, 63.5% of its loan book is coming from Tamil Nadu alone. Any slowdown in real estate sector, especially in Tamil Nadu will have negative impact on growth and earnings. Further, it will also impact the default rates and recoverability in the event of a default.

Regulatory risk

Repco is regulated by National Housing Bank (NHB), a wholly-owned subsidiary of the Reserve Bank of India (RBI). Adverse regulatory change will have negative impact on the growth and profitability of the company. Regulatory changes like increase in risk weights, cap on the interest spread under refinance schemes etc. can also have an impact on the company. Further, change in the terms and eligibility conditions of the refinance schemes provided can also adversely impact the margins.

Shift in loan book

The share of loans outstanding with ticket size below INR2mn has gone down from 73.4% in FY10 to 68% as on September 2013. Any further drop in the ratio needs to be watched closely. While this may be a reflection of increase in the property prices given the inflationary economy this could also imply potential change in target client segment. Higher a company moves up the value chain, the greater is the competition. So, there could be an impact on profitability.

Presence in self-employed category with inherently volatile income streams

Repco with dominant part of the loan book from self-employed category is susceptible to the volatile income stream of this borrower segment. This is already reflected in the relatively higher GNPAs of 1.7% vis-à-vis peers. Further the provision coverage now stands at 45% (H1FY14) which might not adequately shield the earnings in case GNPAs rise further.

Company Description

Repco is a housing finance company registered with the NHB and headquartered in Chennai, Tamil Nadu. It is promoted by the Government of India-owned The Repatriates Cooperative Finance and Development Bank (Repco Bank) and was incorporated in April 2000. Key point to highlight is that the promoter is a registered co-operative society.

It primarily finances the construction and/or purchase of residential and commercial properties (individual home loans and loans against properties). As of September 2013, RHF had 102 branches and satellite centres located in Tamil Nadu, Karnataka, Andhra Pradesh, Kerala, Maharashtra, Odisha, West Bengal, Gujarat and the Union Territory of Puducherry.

Further, two thirds of its centres are located in Tier 2 and Tier 3 cities. The company's marketing strategy consists of advertising via loan camps and word of mouth referrals from existing customers. As a result, most of its customers are walk-ins and the company does not use marketing intermediaries. Branches source loans and carry out the preliminary checks on credit worthiness of the borrower, post which the application is sent to the centralised processing unit for approval. Branches are also responsible for assistance in documentation, disbursing loans and in monitoring repayments and collections.

Fig. 4: Growth timeline

2000	• Incorporated as Repco Home Finance Ltd.
2002	• Received certificate of registration from NHB
2003	• Loan book crossed INR1bn
2007	• Investment by Carlyle in a 25 branches strong RHFL with INR5bn worth of loans
2009	• 1st branch outside of southern India opened in Pune. Loan book crossed INR10bn
2013	• IPO and listing of shares on NSE and BSE. Rating Upgrade by ICRA to AA-; rates NCD (AA-) and CP (A1 +)
H1 FY14	• Loan book of INR40bn as on September, 2013 with 82 branches and 20 satellite centres

Source: Company

Financial Outlook

Margins to sustain the 4% mark

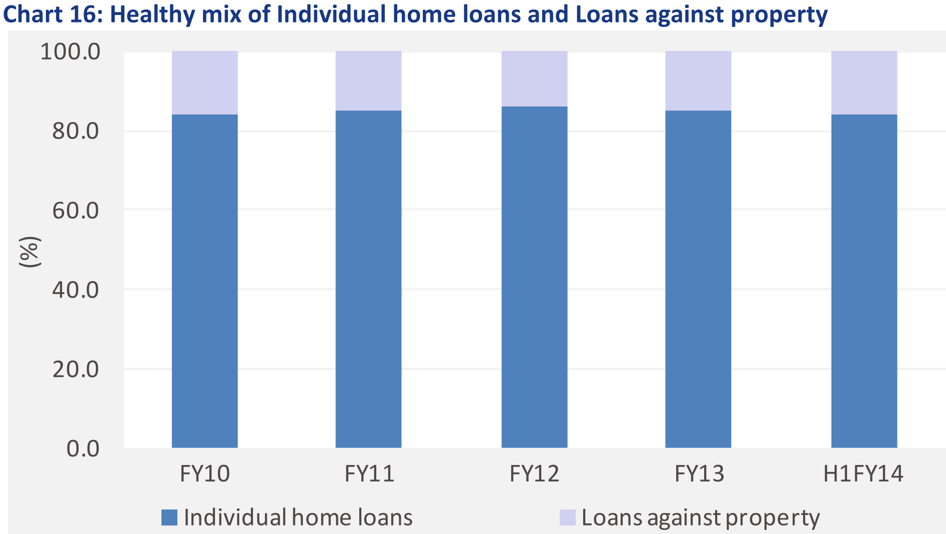
Repco has consistently delivered superior and sustainable RoAs of 2.5% plus driven by healthy net interest margins (NIMs), controlled credit cost and lean cost structure. Given the nature of loans (low ticket size in areas with low population), it gets dual benefit of NHB refinancing facility as well as finer rate from banks giving it access to cheaper avenues of borrowings. On the lending side, balanced mix of loans to self-employed and LAP help it sustain pricing power and better yields, leading to healthy margins (NIMs have steadily remained above the company's target rate of 4%). Lean cost model with centralized loan processing and lower branch rentals results in CI ratio of 17%.

NIMs are healthy given both self employed and LAP driven higher yields and cost of funds benefit from NHB

Loan book composition helps maintain higher sustainable yields without undue risk

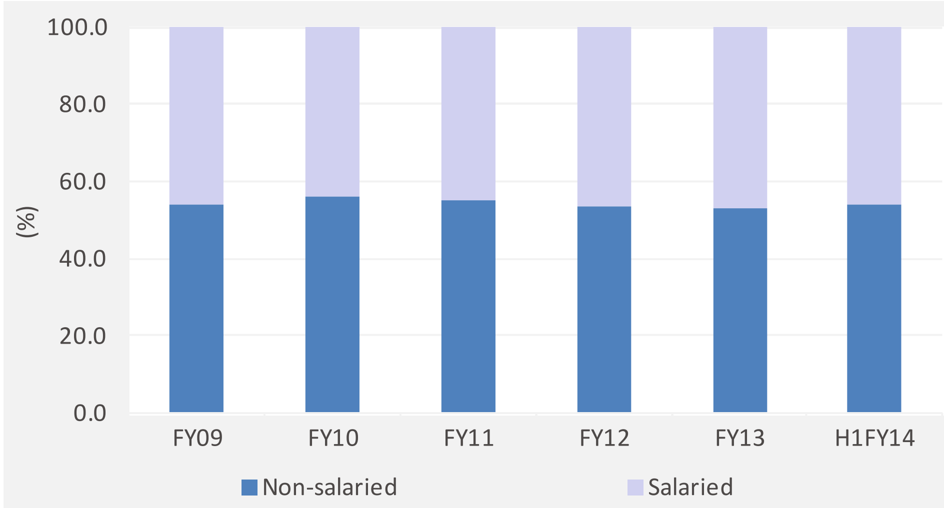
Having a well-balanced mix of non-salaried segment where it can charge 50-75bps higher than salaried class, it is able to sustain yields of 12% plus despite operating in competitive mortgage finance space. It has developed a strong foothold in lending to self-employed category – generally low focus area by other HFCs. Also they have optimally leveraged loan against property (16.3% of portfolio) which enables them to earn higher yields without compromising on quality.

Chart 16: Healthy mix of Individual home loans and Loans against property



Source: Company

Chart 17: Healthy mix of self-employed and salaried class



Source: Company

It enjoys finer lending rates from banks as most of its loans qualify as priority sector lending

Access to cheaper avenues of borrowings; scope to diversify borrowing profile further

Managing funding cost is a critical element for housing financier to price loans that will help them to be competitive in the market. Given the nature of loans (low ticket size in areas with low population), it gets dual benefit giving it access to cheaper avenues of borrowings: 1) Refinancing facility from NHB at lower rates of 7.5-9.5% - average cost of 8.12% (As on September 2013) - 30% of borrowing is from NHB and 2) Bank also lends at favorable rates as on-lending is mostly towards priority sector lending (63% borrowing is from banks).

Additionally, we believe that though Repco currently has high concentration risk, but given to its strong ratings it has potential to diversify its funding source (tapping fixed deposits, debt instruments etc) which will enable them to further optimize sources of funding. The company has already started looking at rated debt instruments and has been assigned ICRA rating of AA-/A1+ for its non-convertible debenture/commercial paper.

The funding proportion from NHB has seen a decline from 56% of FY10 to 30% as on H1FY14. Further, post a regulation change by NHB in September 2013 whereby it capped spreads at 2% vis-à-vis the current 3%+ of Repco under the “Special Rural Housing Refinance Scheme” 20% of the borrowings got impacted. But given limited competition in the markets and segments catered to by Repco we believe that it will be able to maintain its spreads and hence the margins even after resorting to relatively higher cost funds from NHB under other refinance schemes or from the other sources of borrowing.

Chart 18: Average loan ticket size now stands at INR1mn

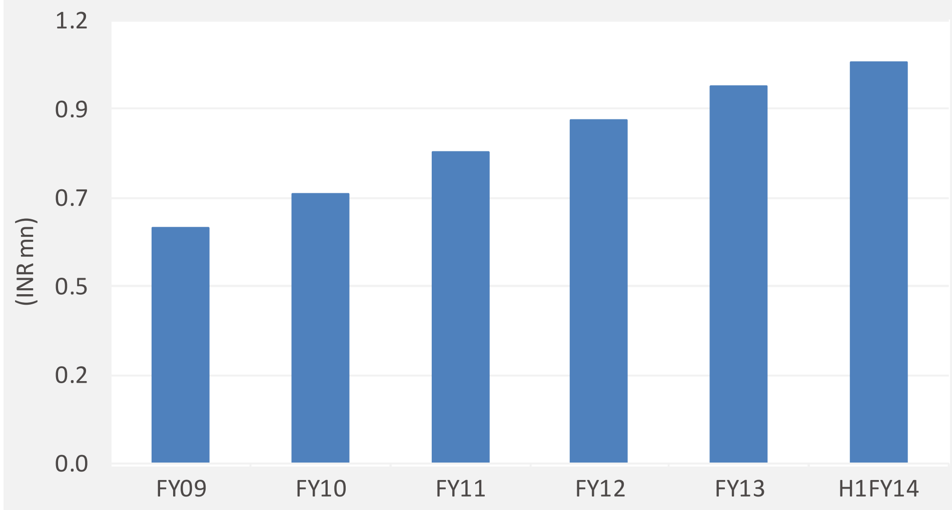


Chart 19: Borrowings have a high chunk of bank funding currently

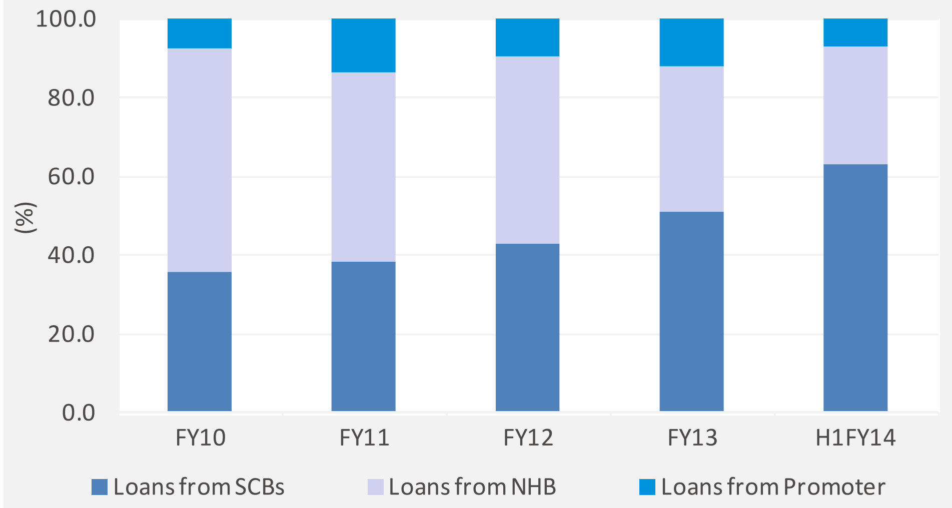
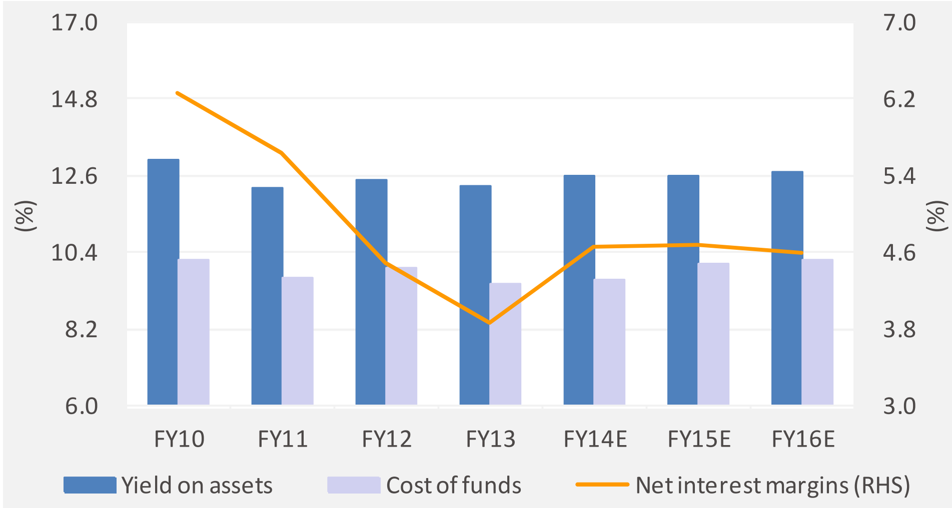


Chart 20: Higher yields and lower costs translates into lucrative NIMs



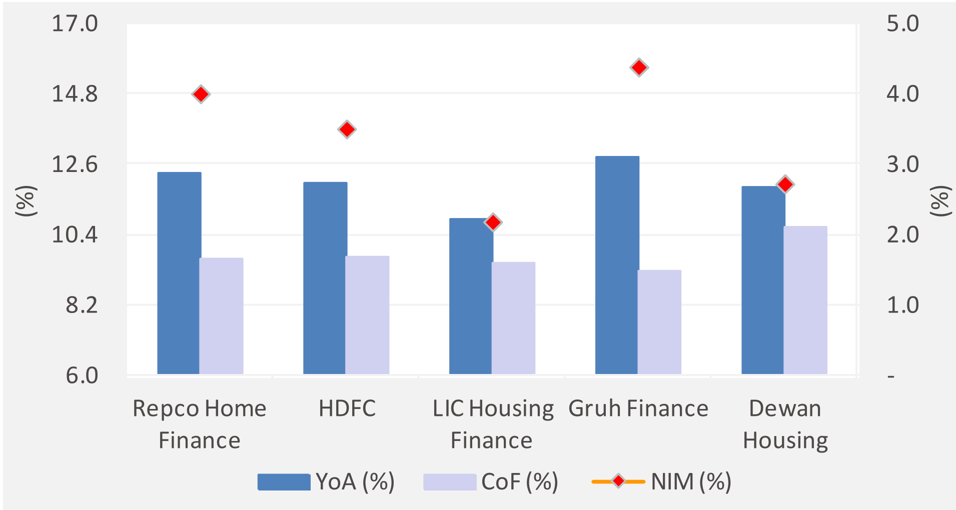
Source: Company, Edelweiss research

Table 4: Rating assigned by CARE

Sources (As on 30 September, 2013)	ICRA Rating	CARE Rating
Term loans from banks	AA-	AA-
Non convertible debenture	AA-	AA-
Commercial paper	A1+	A1+

Source: Company

Chart 21: NIM comparison across peer set shows healthy NIMs enjoyed by Repco



Source:Company, Edelweiss research

Table 5: Borrowing profile of peers (FY13)

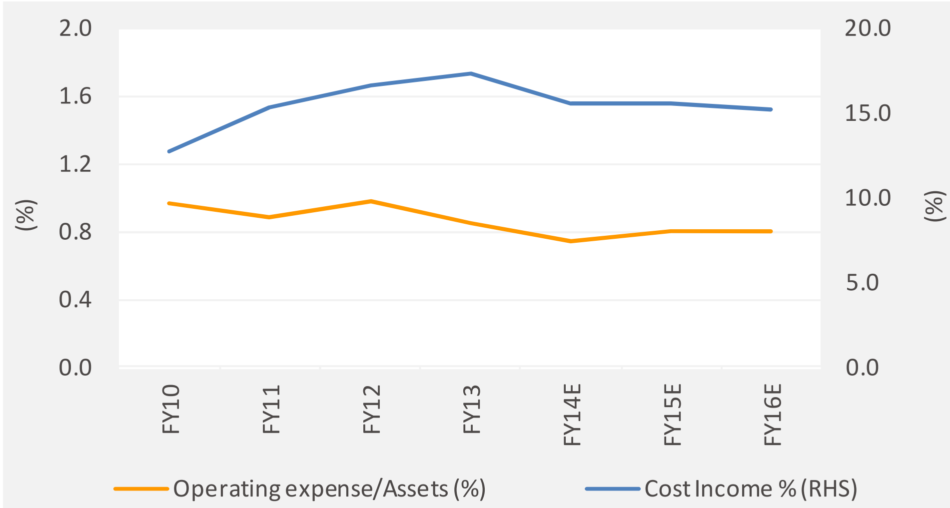
Funding proportion (%)	NHB	Banks	Debt	Deposits	Other
Repco Home Finance	37	51			12
HDFC	1	11	56	33	
LIC Housing Finance	4	30	61	1	5
Gruh Finance	47	28	12	13	-
Dewan Housing	7	71	11		11

Source: Company

Lower cost operating model aids profitability

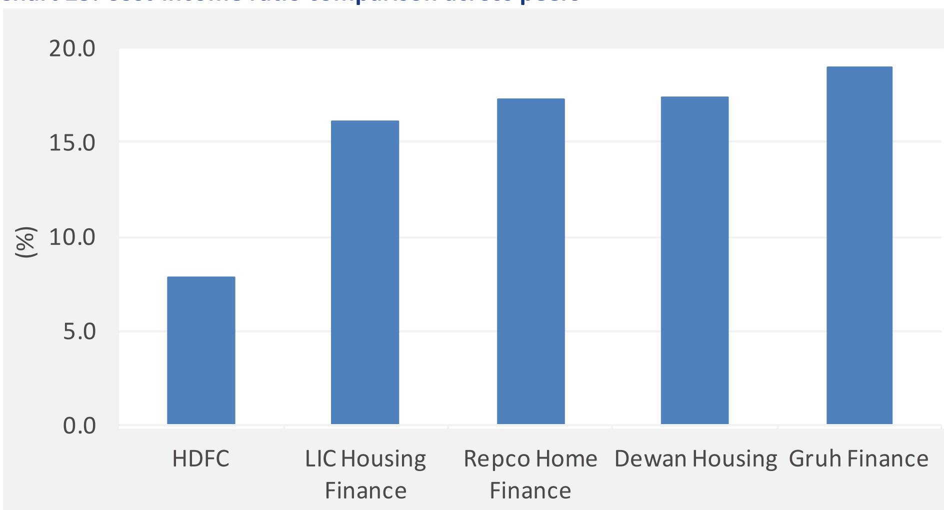
Repco has been able to efficiently operate in Tier-II and Tier-III keeping costs well under control. Each branch generally consist of three to four local employees yielding dual benefit of: 1) lower cost structure (as no cost of re-location etc.) and 2) possesses good local knowledge and good understanding of customer needs. Additionally, centralized model of credit appraisal helps company to reduce administrative cost thereby enabling them to keep tight leash on cost. True to this Repco’s operating cost as % of total asset stands at 0.75% and cost-to-income ratio has remained low at 17.3% in FY13.

Chart 22: Controlled Opex



Source:Company, Edelweiss research

Chart 23: Cost-income ratio comparison across peers

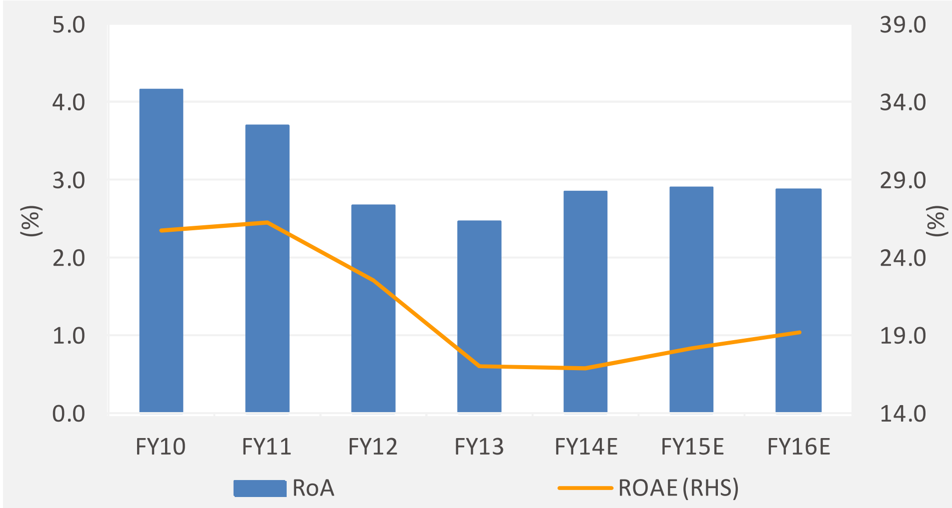


Source: Company

Strong and sustainable return ratios

During the last four years, Repco has consistently exhibited strong return ratios owing to its effective pricing power (operating in niche segment with low competition) and efficient borrowing profile which has enabled them to maintain strong margins >4%. Additionally aided by management's strong focus in keeping costs under control (opex/asset <0.8%, cost-income ratio < 18%) coupled with controlled credit cots (below 0.5% at all time) Repco has been able to deliver ROAs > 2.5% and ROEs > 20%. We expect RHFs to maintain strong ROAs of 2.9% by FY16E and ROEs of 19% (given high capitalization) by FY16E.

Chart 24: RoA expected to maintain the 2.8-2.9% mark



Source: Company, Edelweiss research

Financial Statements

Assumptions

	FY13	FY14E	FY15E	FY16E
GDP(Y-o-Y %)	5.0	4.8	6.0	6.5
Inflation (Avg)	7.4	6.0	6.0	6.0
Repo rate (exit rate)	7.5	7.8	7.0	6.0
USD/INR (Avg)	54.5	62.0	60.0	60.0
Credit growth (%)	14.7	15.0	16.0	16.0
Bank's base rate (%)	9.7	9.5	9.3	9.0
Wholesale borrowing cost (%)	8.9	8.7	8.5	8.5
G-sec yield (%)	7.8	7.6	7.5	7.0
Operating metric assumptions (%)				
Yield on advances	12.3	12.6	12.6	12.7
Cost of funds	9.5	9.6	10.1	10.2
Spread	2.8	3.0	2.5	2.5
Employee cost growth	34.3	33.9	23.6	21.1
Other opex growth	19.2	33.9	23.6	21.1
Tax rate	25.1	26.0	26.0	26.0
Dividend payout	5.8	10.0	10.0	10.0
Balance sheet assumption (%)				
Disbursement growth	12.0	40.0	20.0	20.0
Repayment/prepayment rate	15.1	15.5	15.5	15.5
Gross NPLs	1.5	1.6	1.7	1.7
Net NPLs	1.0	0.9	0.8	0.7
Provisioning coverage	0.3	0.5	0.5	0.6

Income statement (INR mn)

Year to March	FY13	FY14E	FY15E	FY16E
Interest income	3,914	5,170	6,653	8,440
Interest charges	2,657	3,270	4,300	5,519
Net interest income	1,258	1,901	2,353	2,921
Fee & other income	146	196	235	282
Net revenues	1,403	2,097	2,588	3,203
Operating expense	243	325	402	487
- Employee exp	141	189	233	283
- Depreciation /amortisation	15	20	25	30
- Other opex	87	116	144	174
Preprovision profit	1,160	1,771	2,186	2,716
Provisions	92	202	204	241
PBT	1,068	1,570	1,983	2,476
Taxes	268	408	516	644
PAT	800	1,162	1,467	1,832
Reported PAT	800	1,162	1,467	1,832
Basic number of shares (mn)	62.2	62.2	62.2	62.2
Basic EPS (INR)	12.7	18.7	23.6	29.5
Diluted number of shares (mn)	63.1	63.1	63.1	63.1
Diluted EPS (INR)	12.7	18.4	23.3	29.0
DPS (INR)	0.7	1.8	2.3	2.9
Payout ratio (%)	5.8	10.0	10.0	10.0

Growth ratios (%)

Year to March	FY13	FY14E	FY15E	FY16E
Operating income growth	21.8	51.1	23.8	24.1
Net revenues growth	20.4	49.4	23.5	23.7
Opex growth	25.3	33.9	23.6	21.1
PPP growth	19.4	52.7	23.4	24.2
Provisions growth	(40.6)	118.6	1.0	18.1
PAT growth	30.2	45.2	26.3	24.9

Operating ratios (%)

Year to March	FY13	FY14E	FY15E	FY16E
Yield on advances	12.3	12.6	12.6	12.7
Cost of funds	9.5	9.6	10.1	10.2
Spread	2.8	3.0	2.5	2.5
Net interest margins	3.9	4.7	4.7	4.6
Cost-income	17.3	15.5	15.5	15.2
Tax rate	25.1	26.0	26.0	26.0

Balance Sheet (INR mn)

As on 31st March	FY13	FY14E	FY15E	FY16E
Share capital	622	622	622	622
Revenue and surplus	5,724	6,769	8,089	9,738
Shareholder fund	6,345	7,391	8,711	10,360
Long term borrowings	21,792	26,172	33,739	42,434
Short term borrowings	9,190	11,038	14,229	17,896
Loan funds	30,982	37,210	47,968	60,330
Deferred tax liability/asset	(112)	(162)	(187)	(212)
Sources of funds	**37,215**	**44,439**	**56,492**	**70,478**
Total net fixed assets	45	45	45	45
Non current investments	81	81	81	81
Cash and cash equivalents	1,471	195	248	310
Loans & advances	35,586	46,475	59,116	73,783
Other assets	630	84	106	133
Total current assets (ex cash)	37,687	46,753	59,471	74,226
Other current liabilities and pr	597	2,440	3,104	3,874
Total current liabilities & provi	597	2,440	3,104	3,874
Net current assets (ex cash)	37,090	44,313	56,367	70,353
Application of funds	**37,215**	**44,439**	**56,492**	**70,478**

RoE decomposition (%)

Year to March	FY13	FY14E	FY15E	FY16E
Net interest income/Assets	3.9	4.7	4.7	4.6
Other Income/Assets	0.4	0.5	0.5	0.4
Net revenues/Assets	4.3	5.1	5.1	5.0
Operating expense/Assets	0.7	0.8	0.8	0.8
Provisions/Assets	0.3	0.5	0.4	0.4
Taxes/Assets	0.8	1.0	1.0	1.0
Total costs/Assets	1.9	2.3	2.2	2.2
ROA	2.5	2.8	2.9	2.9
Equity/Assets	14.4	16.8	16.0	15.0
ROAE	17.1	16.9	18.2	19.2

Valuation metrics

Year to March	FY13	FY14E	FY15E	FY16E
Diluted EPS (INR)	12.7	18.4	23.3	29.0
EPS growth (%)	*(2.8)*	*45.1*	*26.3*	*24.9*
Book value per share (INR)	102.1	118.9	140.1	166.7
Adjusted book value per share	98.2	114.3	134.6	160.5
Diluted P/E (x)	22.9	15.8	12.5	10.0
Price/ BV (x)	2.9	2.4	2.1	1.7
Price/ Adj. BV (x)	3.0	2.5	2.2	1.8
Dividend yield (%)	0.3	0.6	0.8	1.0

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	M
IndusInd Bank	BUY	SP	L	IDFC	BUY	SO	L
ING Vysya	BUY	SO	L	Karnataka Bank	BUY	SO	M
Kotak Mahindra Bank	REDUCE	SU	M	LIC Housing Finance	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SP	H
Multi Commodity Exchange of India	BUY	SO	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	BUY	SO	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	HOLD	SU	M	Reliance Capital	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	HOLD	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	BUY	SO	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Nov-13	**Banking**	All's not lost for PSU banks: NIM starting to stabilise; *Sector Update*		
19-Nov-13	**Banking**	PSU banks earnings disappoint, NIMs the only bright spot; *Sector Update*		
14-Nov-13	**MCX**	Top management change renders limited visibility; *Result Update*	438	Under Review

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	127	44	8	180

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	112	54	14

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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