ICICI Securities Ltd

Equity Research

November 22, 2016

BSE Sensex: 25765

Financials

Target price Rs920

Shareholding pattern

	Mar '16	Jun '16	Sep '16
Promoters	37.1	37.1	37.1
Institutional investors	47.6	49.0	49.2
MFs and UTI	18.8	22.1	21.5
Banks & FIs	0.4	0.4	0.4
FIIs	28.4	26.5	27.3
Others	15.2	13.9	13.7

Earnings Revision

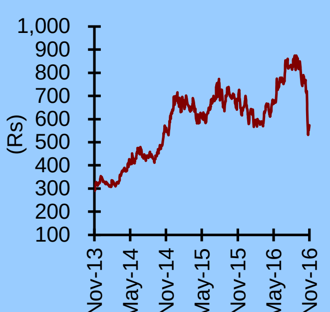
(%)	FY17E	FY18E
NII	↓ 3.4	↓ 6.4
PPP	↑ 3.1	↓ 0.0
PAT	↑ 1.3	↑ 4.0

*Bloomberg

Target price revision

Rs920 from Rs835

Price chart



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INDIA

ICICI Securities

Repco Home Finance

BUY

Maintained

Opportunity from spurious correlation

Rs573

Reason for report: Company update

In the wake of demonetisation, Repco Home Finance stock price has corrected 30%+ along with many other NBFCs and similar sized housing finance companies. To our mind, this represents an opportunity to buy into a safe and high asset growth story at an attractive valuation, with the cherry on top of multiple levers to improvement of capital productivity (RoE). In this news driven shock, it is not surprising that the market has not discriminated wheat from chaff, in a relatively illiquid and small stock name like Repco. Unlike many other sector peers, Repco is not majorly impacted by demonetisation as;

(i) Most of the business is cheque driven and therefore this change does not create an operational challenge

(ii) The LAP portfolio (20.7% of AUM) is low ticket size (Rs 1.6-1.8mn) and builds in a far higher margin of safety in collateral than possible in the highly competitive large ticket Metro markets where most of its peers operate

(iii) Pure mortgage business is hardly impacted (salaried customers)

(iv) Real estate price correction does not pose as much of a threat given low LTVs across products

Given these facts, we stay true to our original thesis on Repco. We feel that existing dominant geographies (South, principally Tamil Nadu) remain low on penetration, assuring the opportunity to remain a high asset growth company. We build in 24.5% loan CAGR over FY16-18E and build up leverage to 8.7x from 8.1x, over the same period. We believe this should happen as credit rating agencies incrementally upgrade the company (AA- current Long Term rating from ICRA) and also allow it to operate with a lower capital buffer (Q1FY17 Tier-1 capital ~20%). This should help it substitute its bank borrowings (~69% of liabilities) with incrementally cheaper NCDs, providing a further tailwind to growth (gains look likely to be passed on). All this combined, we expect ~20% RoE in FY18E and scope for further improvement will remain. Valuations of 2.6x 1-yr fwd P/BVPS (DTL added back) appear attractive in this context. Our 12 month target multiple remains unchanged at 3.5 1-yr fwd P/BVPS (DTL added back) leading to a 12M target price of Rs920 (Rs835 earlier). We maintain our BUY recommendation

- **Multiple levers for enhancing capital productivity still remain:** As Repco maintains its high asset growth, we see multiple levers for its capital productivity (RoE) to inch up by ~130bps in next 2 years and by ~660bps to 25% in 5 years. Apart from bank borrowing substitution by NCDs as ratings improve, the primary driver of RoE will be financial leverage build-up (rating comfort willing) as asset growth far outstrips interim accruals, despite rather modest dividend payouts.
- **Credible business model in high growth phase.** Apart from the conservatism the company has displayed in the LAP segment (lower ticket size, low yields) and its core competence of underwriting self-employed individual home loans, the most telling evidence of its efficiency is perhaps the fact that till FY16, loan losses amount to ~0.04% of total disbursements. With asset prudence assured, the fact that in its core geography of Tamil Nadu (63% of loans), there are only 1,200-1,300 loans outstanding per district, convinces us that they have just scratched the surface of the growth opportunity. Diversification is seemingly not a pre-condition for high growth.

Market Cap	Rs35.8bn/US$526mn
Reuters/Bloomberg	RHFL.BO/REPCO IN
Shares Outstanding (mn)	62.5
52-week Range (Rs)	875/532
Free Float (%)	62.9
FII (%)	27.3
Daily Volume (US$/'000)	1,206
Absolute Return 3m (%)	(31.1)
Absolute Return 12m (%)	(16.5)
Sensex Return 3m (%)	(8.0)
Sensex Return 12m (%)	1.1

Year to March	FY16	FY17E	FY18E	FY19E
NII (Rs mn)	3,039	3,752	4,621	5,690
Net Income (Rs mn)	1,501	2,031	2,551	3,023
EPS (Rs)	24.0	32.4	40.7	48.3
% Chg YoY	21.6	34.9	25.6	18.5
P/E (x)	23.8	17.7	14.1	11.9
P/BV (x)	3.7	3.1	2.6	2.2
Net NPA (%)	0.5	0.4	0.5	0.5
Dividend Yield (%)	0.3	0.4	0.4	0.5
RoA (%)	2.2	2.3	2.4	2.2
RoE (%)	17.0	19.4	20.2	19.9

TABLE OF CONTENT

Demonetisation impact is limited

As we mention in the beginning of the report, Repco is getting somewhat unfairly lumped with many other large ticket LAP based HFCs/ cash collection driven NBFCs in the current market correction. We examine each possible impact point of demonetisation on its business model, to make this assertion.

No incremental operational complexity from demonetisation

Around 85-90% of Repco Home Finance's collections are cheque based. Therefore, unlike some other vehicle finance companies, the company does not need to get involved in some mammoth financial inclusion drive. While Q3FY17 may see some pressure on incremental disbursements the company has not revised its 25% full year loan growth guidance for FY17.

LAP risks are far lower than peers

The home equity loans or LAP (Loan against Property) business as it is called in India has boomed in recent times and been a key growth driver for many NBFCs and housing finance companies. While Repco's deep distribution reach, significant on ground underwriting capabilities and reasonable loan ticket size/ pricing seem to indicate that it is at the low end of the risk spectrum in this product, we do have some concerns about the segment as a whole. **We believe that this sub-segment (size of >US$40bn) of the housing finance industry will suffer the most from demonetization as;**

- **The lending is often to SME promoters who currently face large write-downs in their personal net worth, battle working capital issues in their respective businesses and are in many cases negatively impacted by speculative interests in other properties**
  - *Of this lending done to office premises/ commercial purposes suffers the most as it is the most cash heavy property transaction domain*
- **A property price correction is very likely. With 'real' LTVs having increased aggressively for the LAP segment in the last few years, the margin of collateral safety is really low. It will take an extra-ordinarily brave lender to grow out of the impending asset quality problems through re-valuation driven top-ups etc.**

Our interactions with credit appraisers and decision-makers at various HFCs/NBFCs suggest that they remain wary of the inherent credit risk in the segment due to the following reasons:

- Most lenders remain wary of customer's financial position when they avail this loan in larger ticket sizes. With loan rates at ~13%, apart from the cases where such borrowings are deployed by customers into their own business, the general suspicion remains that the borrower is in some sort of financial emergency.

- Lenders do not like the fact that the ultimate end use of the money is not under their direct control.
- While the collateral may be enforceable in the case of individual LAP loans through SARFAESI, our contacts in credit underwriting businesses feel that the pool defaults are likely to be higher than plain vanilla mortgages. A weak property price and demand environment will throw up further challenges to liquidation.

One rule of thumb we rely on, to gauge the risk inherent in a LAP portfolio, is to focus on ticket size and loan pricing. Obviously, all other things remaining equal, the smaller the better on both counts from a risk perspective. We also believe that LTV in the case of LAP loans is a subjective opinion and should not be accorded the same importance to analysis of portfolio risks, as one would give it for judging an auto or mortgage portfolio. The simple reason is that for the latter cases, valuation of asset is based on a transacted price of the asset and therefore more objective in nature.

<u>On both these counts, Repco Home Finance checks out reasonably well. The total portfolio of LAP loans which is greater than Rs7mn in ticket size is ~Rs5bn (6% of AUM) and in that portfolio LTV is as low as 40%.</u>

Table 1: We estimate that ~72.9% of non-LAP loans are below Rs3mn ticket size

(Rs mn)	**FY16**
Total Tier 1 Capital	**7,443**
Tier 1 (%)	20.7
Total Risk Weighted Asset	**35,958**
Non Loans RWA	443
Loan Related RWA	**35,515**
Less: Loan RWA for LAP Portion (Assuming 100% RW)	11,421
Individual Home Loan Related RWA	**24,093**
Total Balance Individual Home Loans o/s on FY15	61,683
Implied Risk Weight on Home Loan category	**39.06**
As on FY16, Risk Weights for loans upto Rs3mn was 35% (LTV<80%) and loans above Rs3mn upto Rs7.5mn is 50% (For LTV>75%)	
Hence, Proportion of non-LAP Loans below Rs3mn (%)	**72.9**

Source: Company data, I-Sec research

Core housing finance business is not impacted much

Repco's two key products are home loans and loan against property (LAP). With a blended ticket size of Rs1.3mn, the focus is obviously on rural/ semi-urban locations and the self employed segment. The company has built considerable under-writing expertise in these relatively higher entry barrier segments.

Table 2: Key products

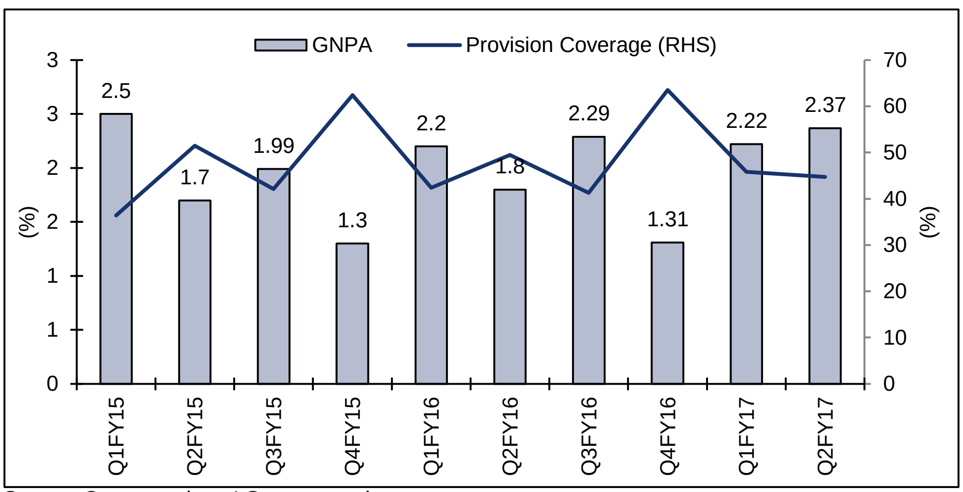
Category	Name of Product	Purpose	Yields	Average Ticket Size	Customer category	Asset Book
Individual Home Loans	Dream Home Loan	Basic home loan for construction or purchase of home	Yields lie at ~11-12%	Average ticket size in the individual home loan category Rs1-1.3mn (As the company mainly focusses on Tier 2 & 3 cities and rural locations)	Around 50% of the customers are salaried class whereas other 50% are non-salaried, self-employed class.	~Rs67bn (Constituting ~80% of the book)
	Home Makeover Loan	Renovation & Repair of existing house				
	Plot Loans	To purchase the land for construction of home				
	Fifty Plus Loan	Home Loan to people above 50 years of age (Secured by their pension income stream)				
	Repco Rural	Home loans for affordable houses to weaker sections (In rural areas)				
	Repco Advantage	Limited period Home Loan scheme for a shorter period at attractive interest rates.				
LAP	Proprietary Loan	Basic product of loan against mortgage of immovable property	Yields lie at ~12-13%	Rs1.6-1.8mn (Incremental ticket size of Rs1.9-2.5mn)	Mostly Non-Salaried Self Employed	~Rs17.5bn (Constituting ~20% of the book)
	New Horizon Loan	Loan for purchase/construction of Non-Residential property				

Source: Company data, I-Sec research

Repco Home Finance has almost no reliance on outsourcing for origination (only some LAP and individual loans in Maharashtra). This is income assessment based lending to the low ticket self employed segment in the individual loans category and not merely based on collateral comfort. The proportion of loans to the self-employed segment stands at about 59% of all loans, with LAP being almost entirely a self-employed category product.

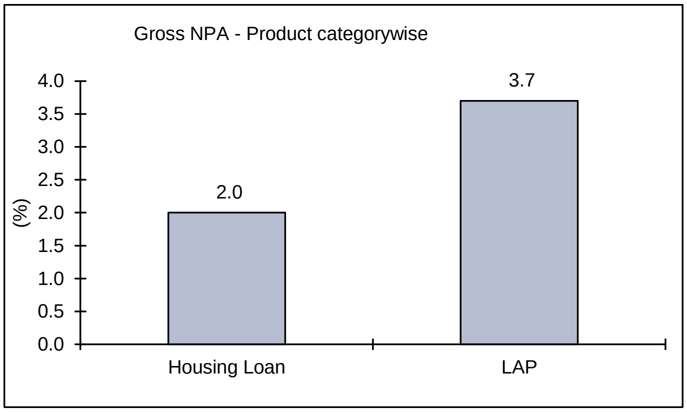
This model of both branch and hub based loan underwriting has stood the company in good stead and it has so far lost only 0.04% of loans disbursed over the last 15 years. We do not expect any major disruption, seasonal vagaries aside.

Chart 1: Asset quality remains stable



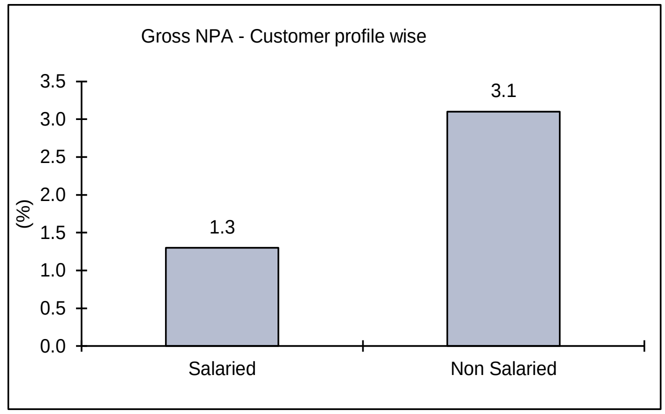
Source: Company data, I-Sec research

Chart 2: Product wise GNPA



Source: I-Sec Research

Chart 3: Customer profile wise GNPA



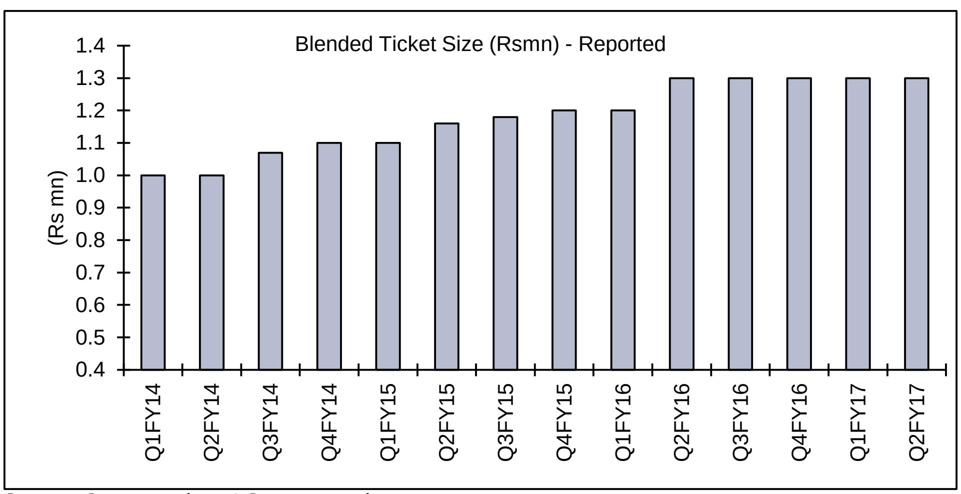
Source :I-Sec Research

As one can see, despite the ticket size related economies, LAP generally seems to do somewhat worse on asset quality. The company is focused on a LAP ticket size of Rs1.6-1.8mn (incremental ticket size of Rs2.0-2.5mn) which is a segment where we do not see as much froth as the higher end of the market. Its reasonable yields also provide the comfort of positive customer self selection.

Housing price correction will demonstrate that small is beautiful

A housing price correction of 15-20% is widely expected due to demonetisation. Liquidation pressure from repossessions on high ticket size LAP loans is likely to contribute in a major manner. It is clear that this will affect metro markets and the luxury segment the most. While small ticket rural and semi urban self-employed will also see some transient pressure, these are not customers who have significant departures from due taxes with annual incomes mostly in the less than Rs0.4mn category. We expect the asset quality pressures to be much less in this segment. This will be further helped by the RBI's decision to extend 60 days of forbearance on asset quality recognition to all lenders.

Chart 4: Average ticket size (reported) has remained stable over the past year



Source: Company data, I-Sec research

Multiple levers for enhancing capital productivity still remain

Somewhat surprisingly for a company of Repco's vintage, long term asset track record and size; multiple levers remain for further optimisation of capital productivity. The three major sources of this capital productivity headroom, with significant interplay between each other, are;

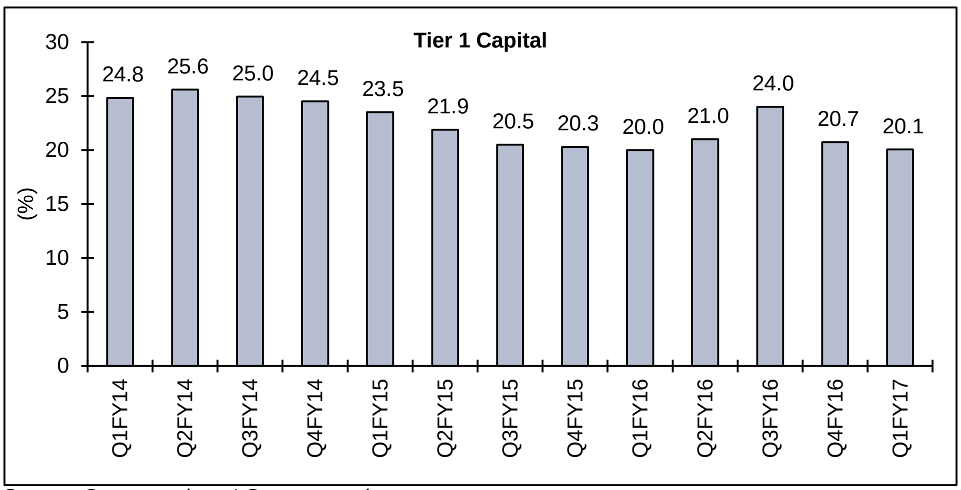
- Financial leverage
- Borrowing cost & mix
- Some amount of operating leverage

We elucidate below, how these factors (especially the first two) can provide significant aid to capital productivity in coming years.

Financial leverage headroom is significant

Repco Home Finance had one of the highest possible Tier-1 capital releases amongst the housing finance companies when NHB mandated that loans with ticket size of less than Rs3mn would attract a risk weight of 35% only (50% earlier).

Chart 5: A high Tier-1 capital leaves enough headroom for increasing leverage



Source: Company data, I-Sec research

Given that Repco Home Finance is unlikely to deviate significantly from its target customer segment in its medium term product strategy, we expect that a high proportion of loans will remain below the Rs3mn watermark. This implies that Tier-1 capital levels will remain far higher than the regulatory watermark of 6% and is getting capped due to other considerations.

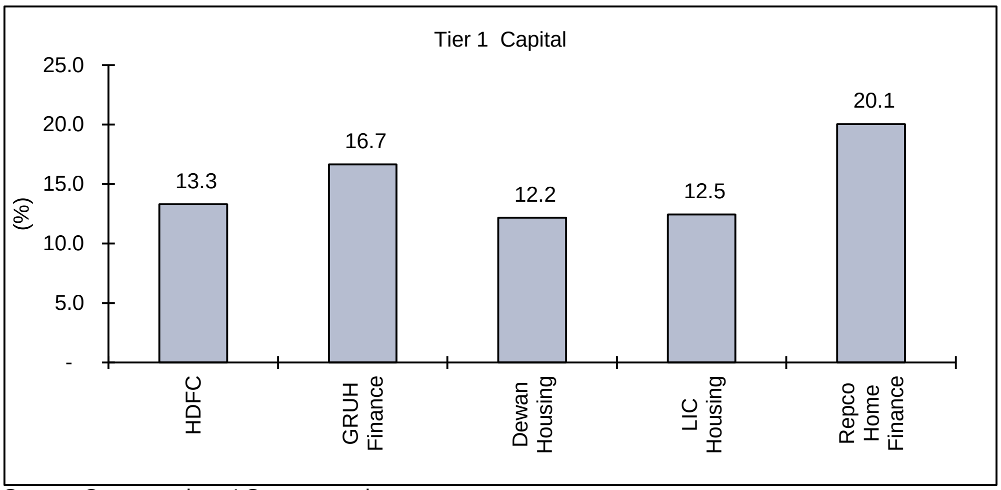
The chief of these other considerations seem to be its credit rating. Despite a recent slew of upgrades, the company's credit rating lags that of peers of similar vintage or success by 1-2 notches. Remember, this lag is despite the company maintaining a significantly higher capital buffer.

Table 3: Credit rating below peers

	CRISIL		ICRA		CARE	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
HDFC	AAA	A1+	AAA	A1+	AAA	A1+
GRUH Finance	AAA	A1+	AAA	A1+	-	-
Dewan Housing	-	A1+	-	A1+	AAA	-
LIC Housing	AAA	A1+	-	-	AAA	-
Repco Home Finance	**-**	**-**	**AA-**	**A1+**	**AA**	**A1+**

Source: Company data, I-Sec research

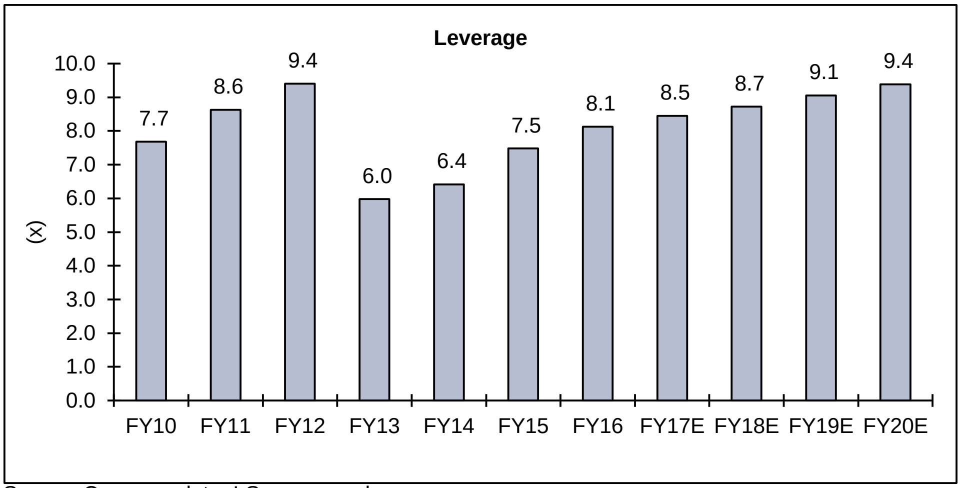
Chart 6: Relatively much higher Tier 1 capital than peers



Source: Company data, I-Sec research

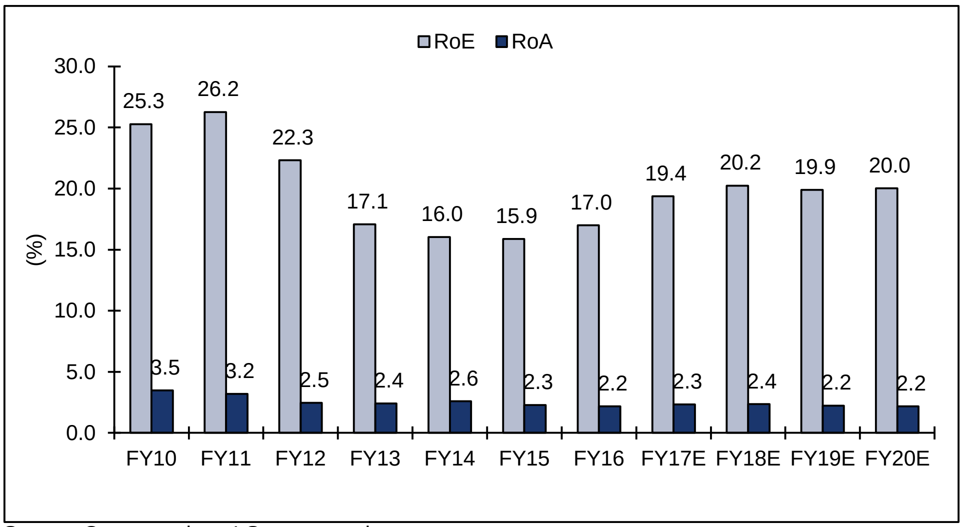
The chief worry of rating agencies seems to be that of the parentage of Repco Bank (which is a co-operative society and not a co-operative bank, with residual ownership stake of 37.14% and comprising 7.6% of Repco Home Finance's borrowings). We believe that in continuation of the current trend, this concern will gradually abate and the company's credit rating will catch up with peers and the leverage leeway that rating agencies are willing to offer it will also go up. While we build in some leverage headroom from current levels, the increase can be much more drastic and rating event driven.

Chart 7: Financial leverage should increase significantly



Source: Company data, I-Sec research

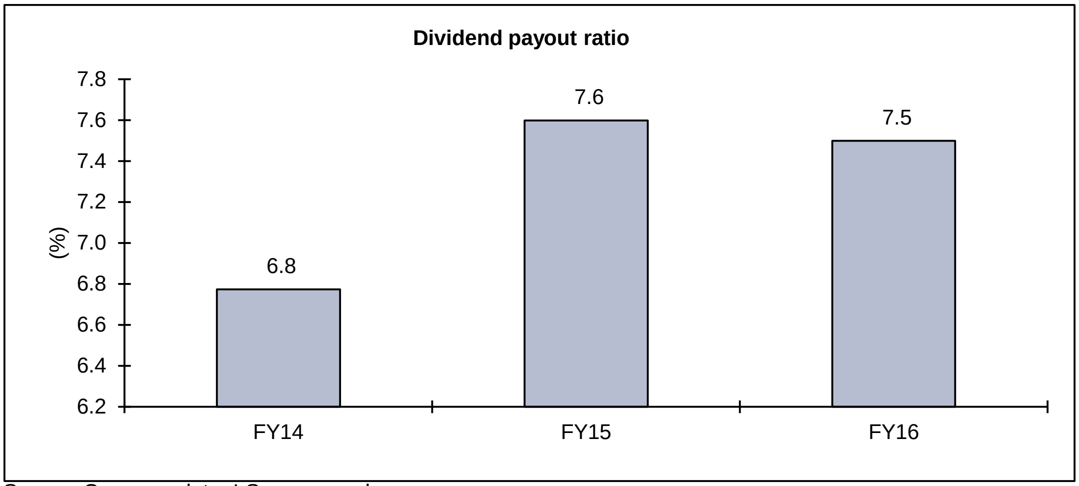
Chart 8: Multiple levers will support a ~20% RoE for the company by FY18



Source: Company data, I-Sec research

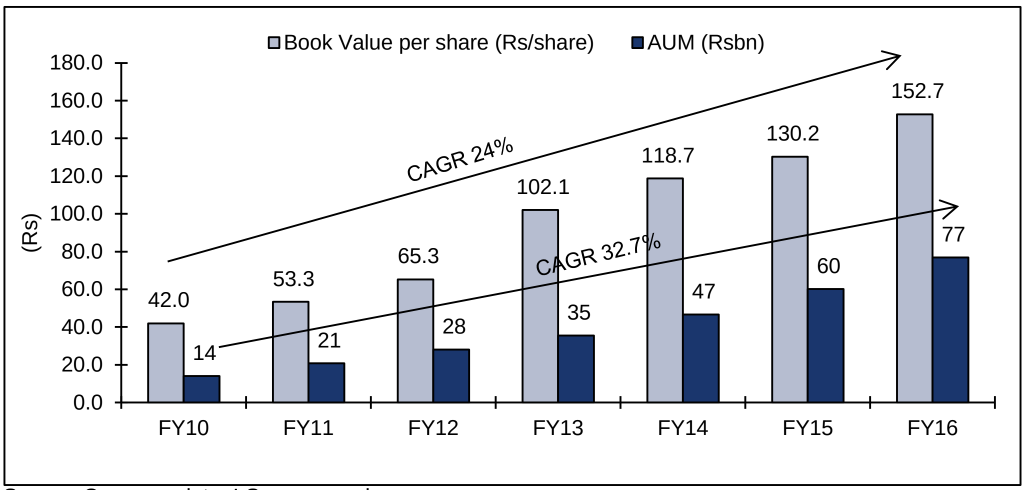
In the case of an easing on behalf of rating agencies, a strong case remains for the company to re-look at its dividend payouts. Even a one-time dividend can also be considered to lean out its capital structure. Of course, all this will be a function of its asset growth plans at that point.

Chart 9: Dividend payouts remain modest…



Source: Company data, I-Sec research

Chart 10:…but justified by asset growth outpacing accruals

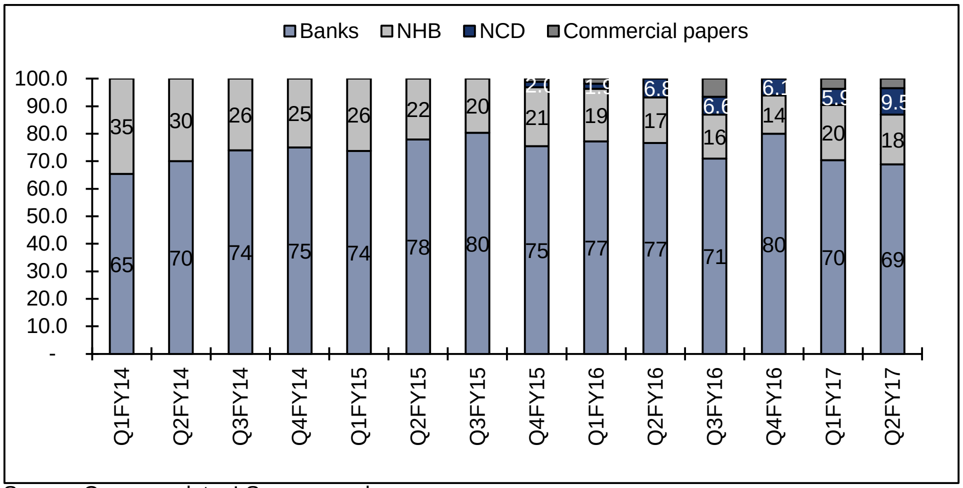


Source: Company data, I-Sec research

Borrowing mix – a lot of scope for optimisation remains

Another direct impact of the company's credit rating is its competitiveness in the bulk borrowing (NCD) markets. With its Long Term credit rating at AA- (by ICRA), bulk borrowing costs can indeed be higher than its bank borrowing costs with none of the flexibility that bank borrowings offer. This has meant that the company has remained largely bank financed.

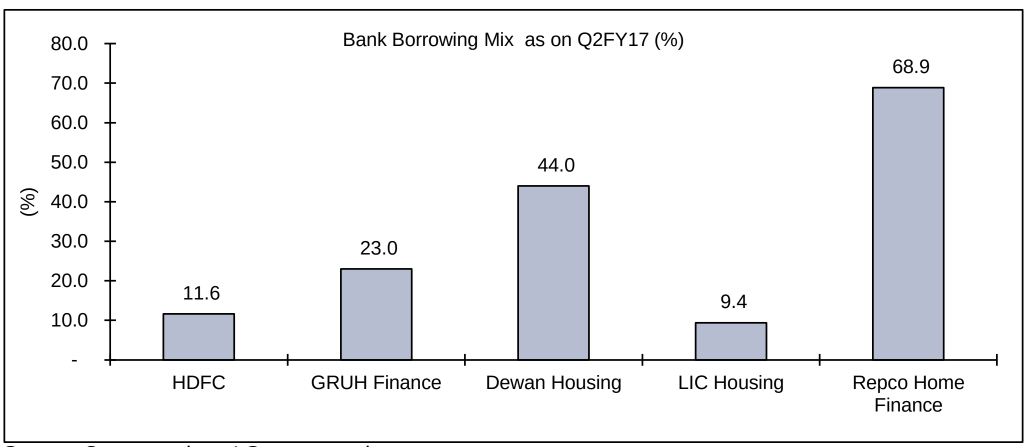
Chart 11: Proportion of NCD remains low mainly due to credit rating hurdle



Source: Company data, I-Sec research

With the recent upgrade, the company is testing the waters in the bulk borrowing market, a liability resource that we feel would be crucial to competitiveness in coming times. The fact remains that if the company can procure another notch of rating upgrade its borrowing costs in the bulk market will improve by 50-60bps while a two notch upgrade will improve the borrowing cost in the NCD market by 100bps. In both cases, these rates will be lower than bank borrowing costs by 10-20 and 50-60bps, respectively. **This will be a key boost to margins/ competitiveness, depending on the extent the company passes on the benefits of a structural borrowing cost reduction.** With NCDs at 9.5% of current borrowings, the headroom for substituting bank borrowings also remains high. The company's peers have all been actively working on reducing bank borrowing dependence.

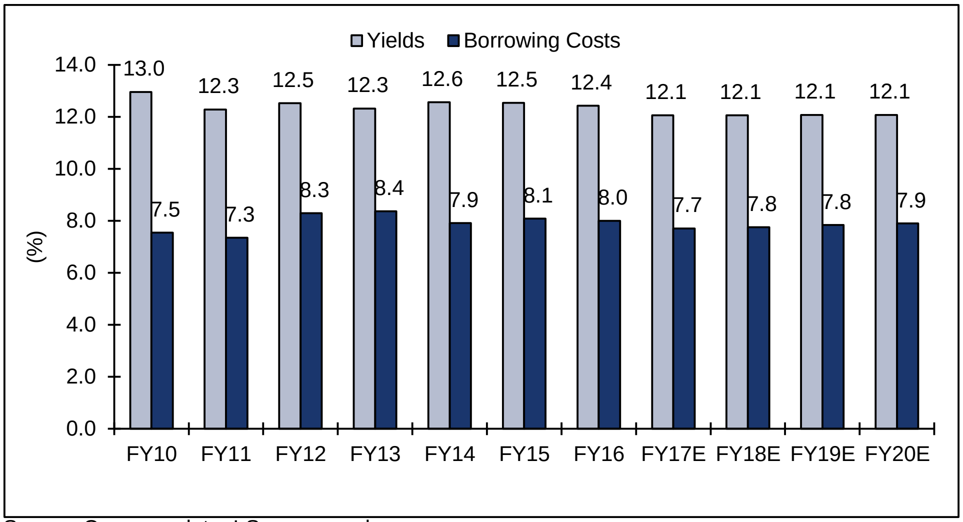
Chart 12: Proportion of bank borrowings remains very high compared to peers



Source: Company data, I-Sec research

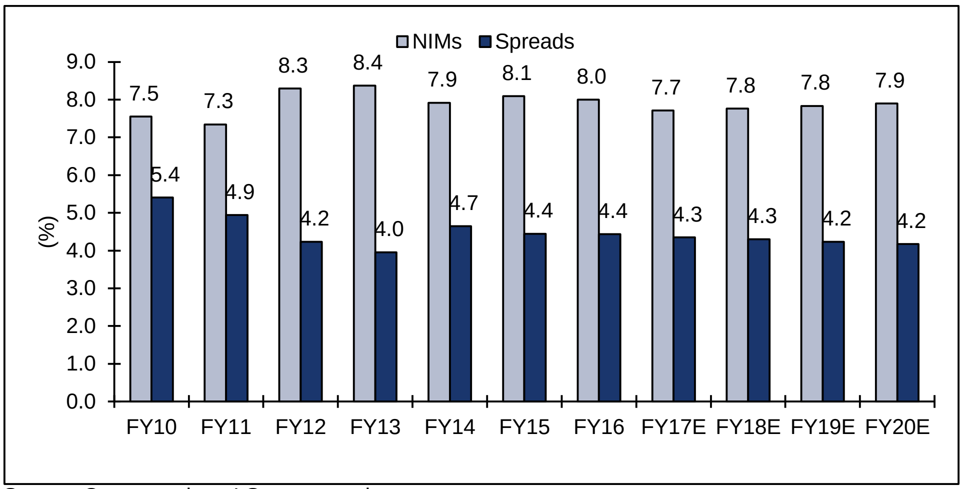
We do not build in too much margin boost from this avenue in the next 2 years, expecting gains to be passed along given high asset growth aspirations.

Chart 13: Cost advantage would likely have growth rather than margin ramification



Source: Company data, I-Sec research

Chart 14: NIMs to be supported by higher leverage

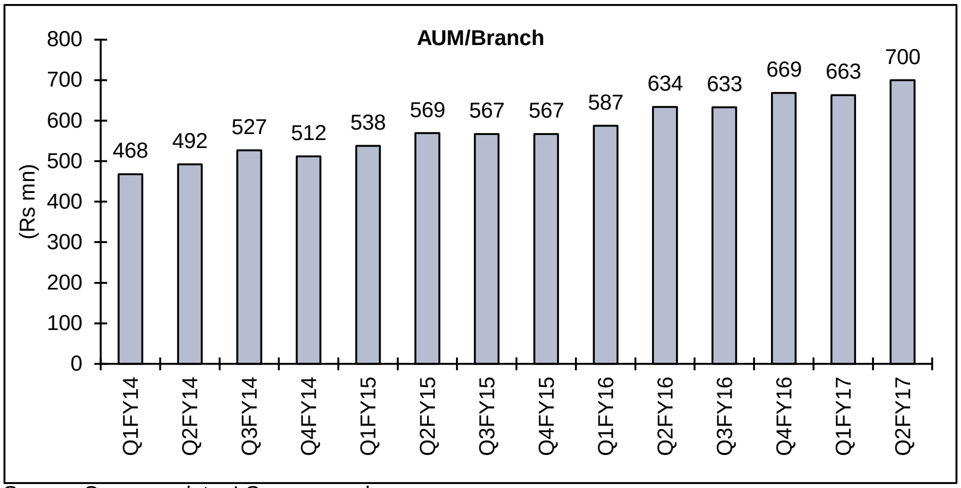


Source: Company data, I-Sec research

Operating leverage – some scope remains but not a lot

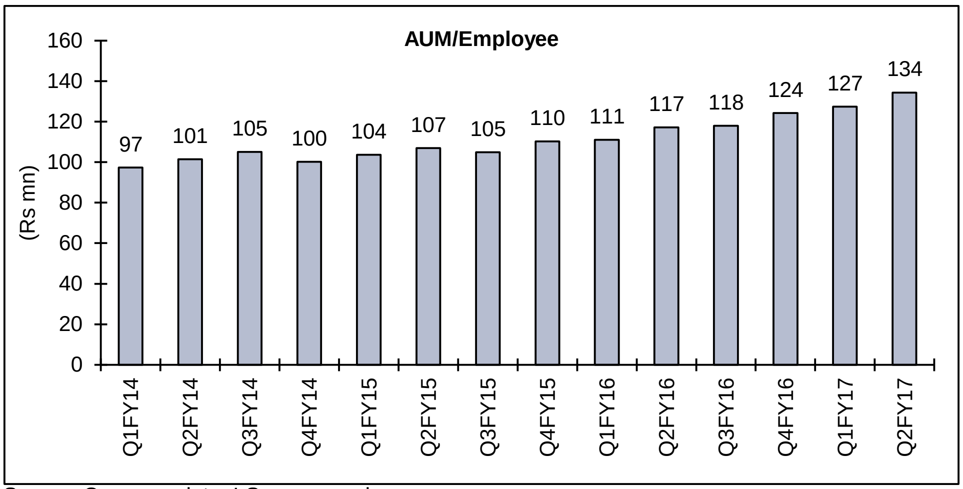
Much like the rural housing finance sector leader GRUH Finance, the company's reach expansion strategy has always been one of geographical contiguity. Also, branch expansion has generally not out-paced AUM growth *(even adjusting for build out of the larger ticket size LAP book)*.

Chart 15: AUM per branch has grown steadily



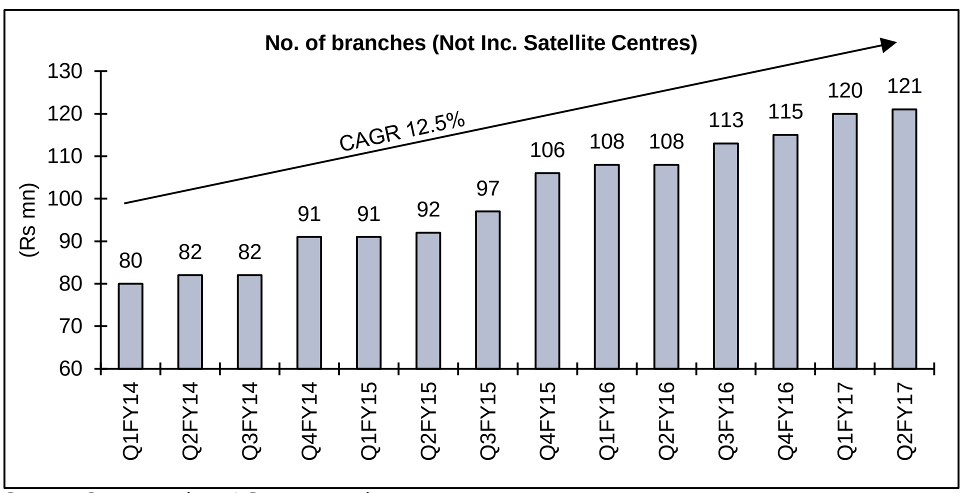
Source: Company data, I-Sec research

Chart 16: AUM/employee has grown at a good pace



Source: Company data, I-Sec research

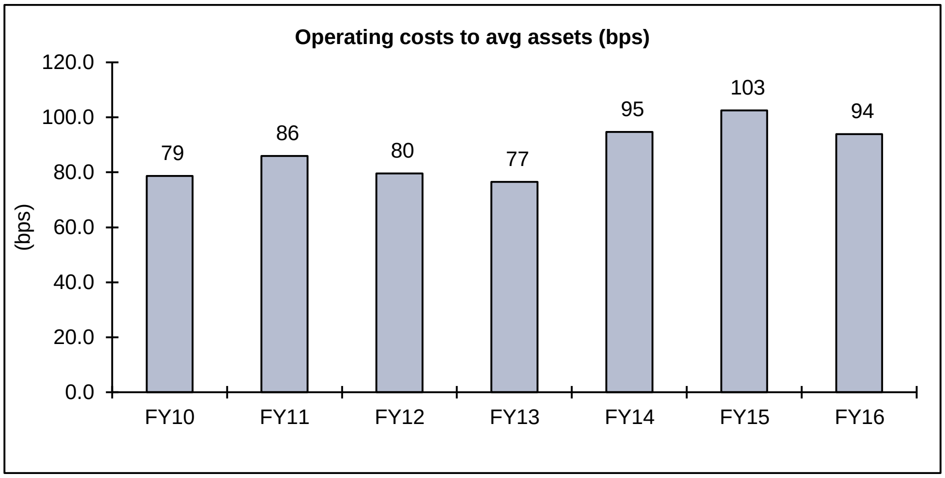
Chart 17: Branch expansion has been supporting the AUM growth



Source: Company data, I-Sec research

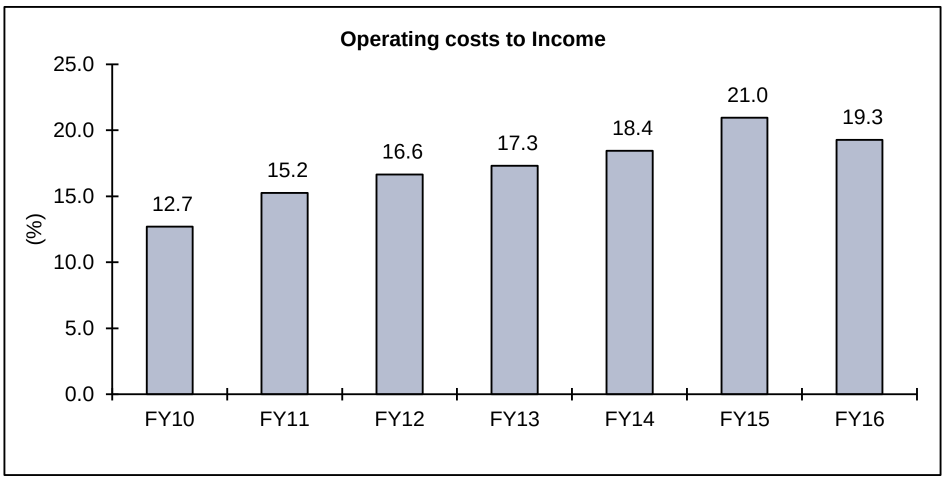
We expect that given the size of the business, its capital position and current margins, the company would in the medium term focus more on asset growth than focus on extracting the last bit of operating leverage juice from its existing distribution set up. Accordingly, while some operating leverage can be expected from overheads etc. getting shared over a larger base, it is unlikely to be very significant given regular employee and branch additions (albeit measured).

Chart 18: Operating costs have dropped slightly off late



Source: Company data, I-Sec research

Chart 19: Cost to Income has reduced slightly too

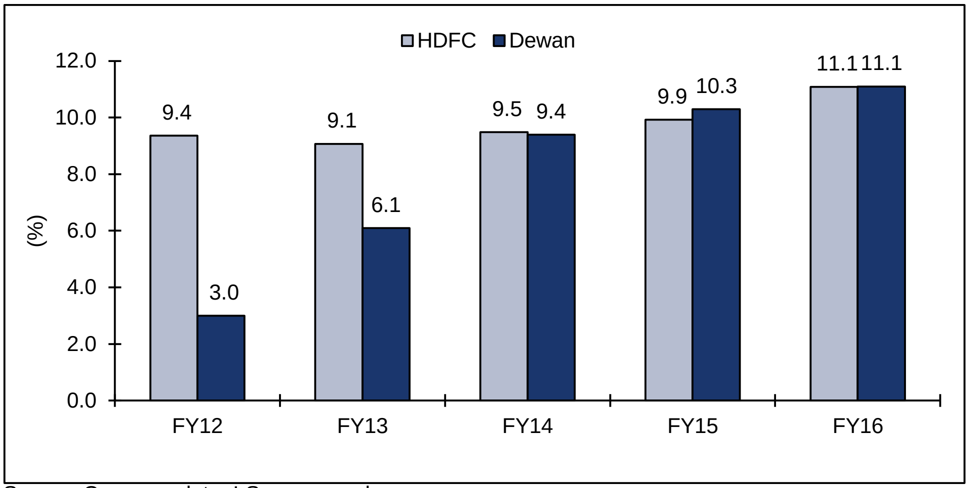


Source: Company data, I-Sec research

Securitisation can be a further fillip

The securitisation route has proved to be a growth and margin driver for many large NBFCs with the lead being taken by commercial vehicle financiers. The housing finance market is much larger than the commercial vehicle finance market and, being an asset class with much less cyclicality in delinquencies and longer duration of assets, RMBS (residential mortgage-based securities) issuance should have outpaced CV loans securitisation or any other similar asset class. The only drawback we can see is more prevalence of pre-payments, but the end security may be structured easily to take care of the same through accelerated principal repayments. The truth however remains that the RMBS market is still miniscule in India. Amongst our coverage companies, HDFC and Dewan remain the largest exponents.

Chart 20: Amongst our coverage HDFC and Dewan are biggest users of securitization/ sell-downs (as a proportion of total AUM)



Source: Company data, I-Sec research

The company has still not used the securitisation route and especially given unfavorable borrowing rates in the bulk debt markets, RMBS may be a lucrative and value enhancing opportunity.

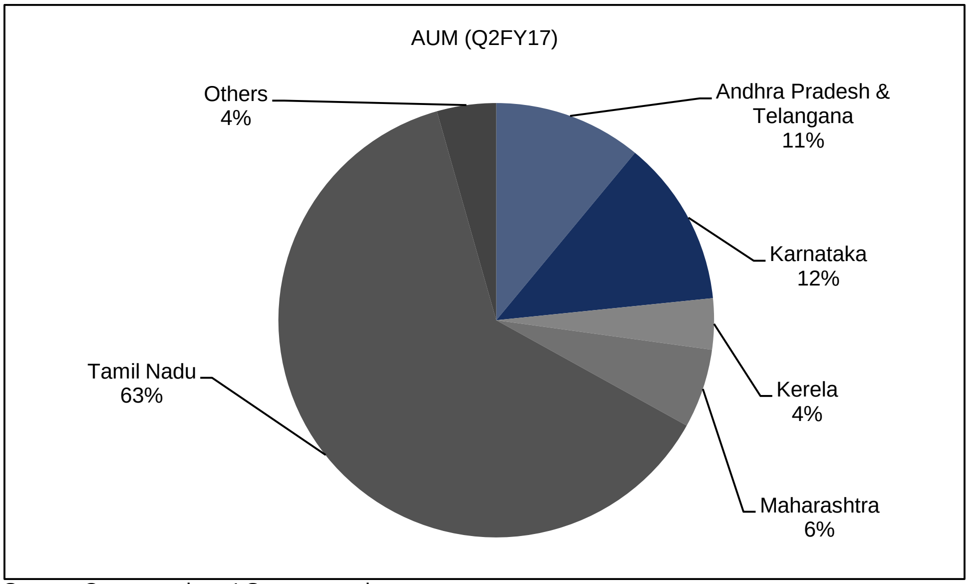
Credible business model in high growth phase

Repco Home Finance, incorporated in April 2000 with Repco Bank (a co-operative based financial institution and not a co-operative bank) as promoter, is present in Tamil Nadu, Andhra Pradesh, Jharkhand, Kerala, Karnataka, Maharashtra, Madhya Pradesh, Gujarat, Odisha, West Bengal and Puducherry. Their presence is supported by 121 branches and 32 satellite centers.

Geographical distribution is South heavy – especially Tamil Nadu

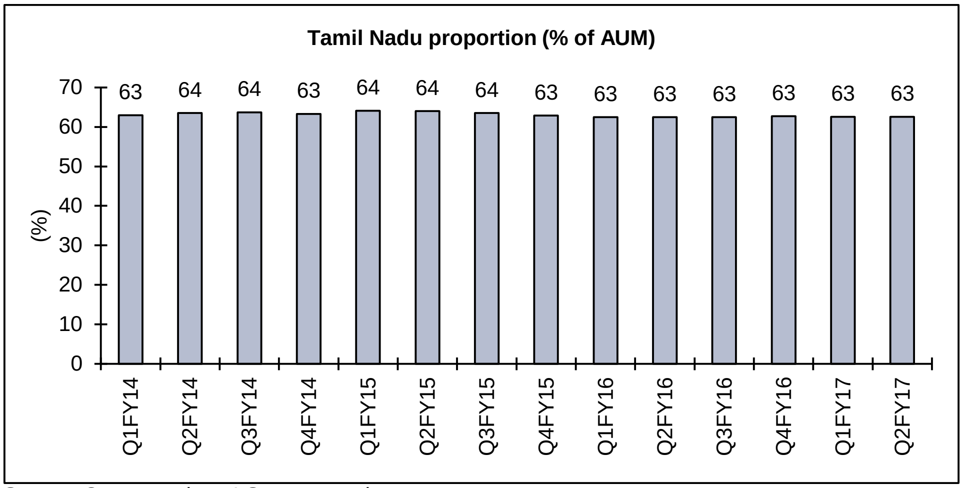
The dominant geography, without a shred of doubt remains Tamil Nadu, and despite high growth its overall contribution to the loan book has remained constant (in proportion).

Chart 21: A South heavy geographical distribution



Source: Company data, I-Sec research

Chart 22: Proportion of Tamil Nadu has been constant ~63%



Source: Company data, I-Sec research

We see a lot of growth headroom in existing geographies

While diversification efforts will remain regular and measured in the medium term, we expect that existing strong geographies still have much to contribute. The following analysis demonstrates how even the dominant geography of Tamil Nadu with FY15 AUM per branch of Rs525mn (24% above national average), has compounded overall AUM for the state at 27.8% over FY14-16. **However, the fact remains that even today total loans outstanding for the company per district of Tamil Nadu is still only ~Rs1.5bn (roughly 1,200-1,300 loans per district), a miniscule number in relation to the opportunity size in the space.**

Table 4: State-wise AUM/branch and growth rates for FY15

	FY14			FY15			AUM/Branch growth (%)
	AUM (Rsmn)	No. of Branches	AUM/Branch	AUM (Rsmn)	No. of Branches	AUM/Branch	FY14-15
Tamil Nadu	29,510	63	468	37,821	72	525	12.1
Karnataka	5,594	18	311	7,336	18	408	31.1
AP & Telangana	6,480	15	432	7,276	18	404	(6.4)
Others	5,035	26	194	7,697	34	226	16.9
Total	**46,619**	**122**	**382**	**60,129**	**142**	**423**	**10.8**

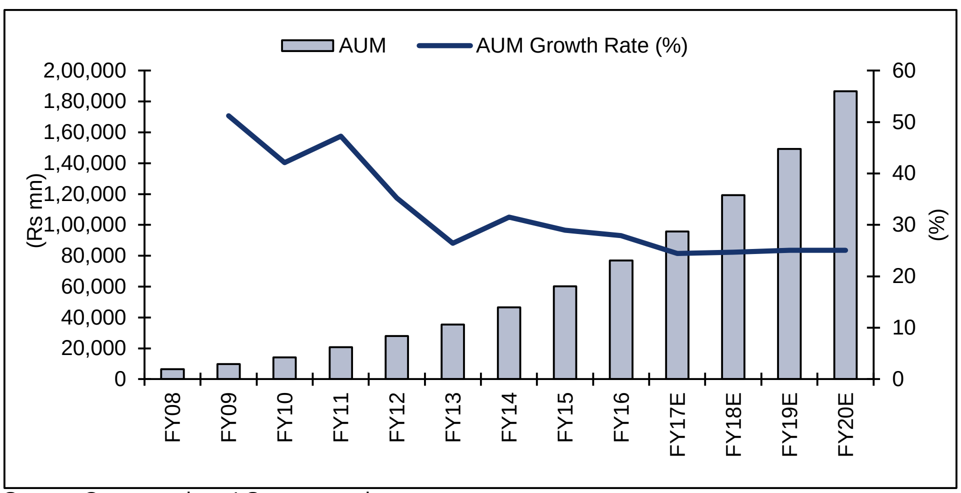
Source: Company data, I-Sec research

Table 5: State-wise AUM CAGR (FY14-16)

AUM CAGR (FY14-FY16)	AUM (FY14)	AUM (FY16)	CAGR (FY14-16) (%)
Andhra Pradesh & Telangana	6,480	8,614	15
Karnataka	5,594	9,460	30
Kerala	1,725	2,923	30
Maharashtra	1,865	4,384	53
Tamil Nadu	29,510	48,224	28
Others	1,445	3,307	51

Source: Company data, I-Sec research

Chart 23: We expect ~25% AUM CAGR over FY16-19E

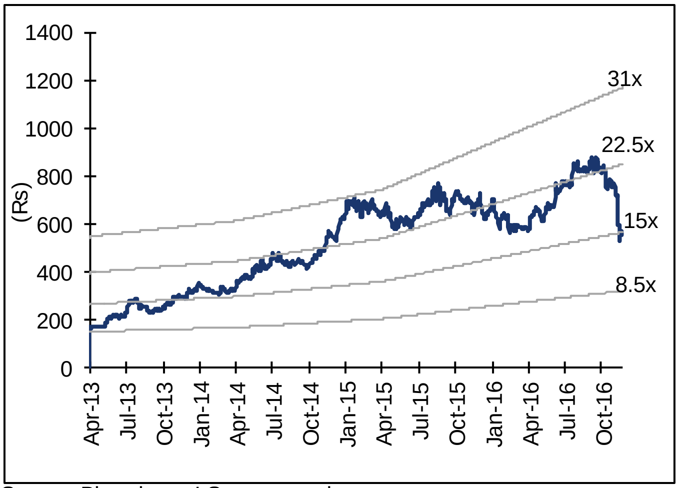


Source: Company data, I-Sec research

Trading at very attractive valuations

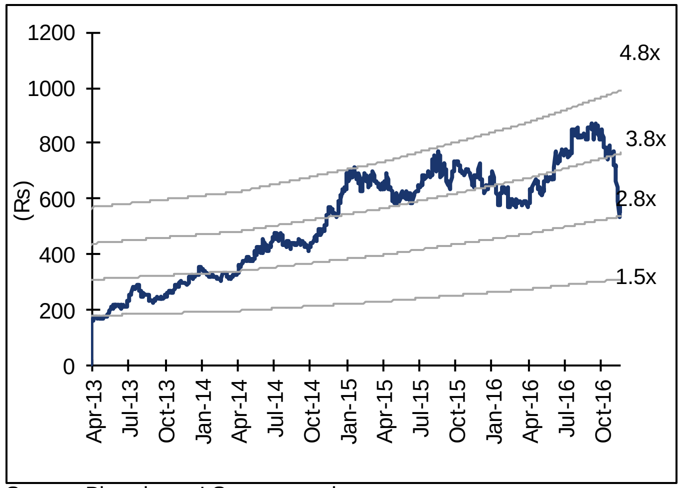
Post the recent correction in the prices, the valuations look very attractive. With levers to enhance capital productivity intact, these valuations give an opportunity of making a handsome return.

Chart 24: P/E band



Source: Bloomberg, I-Sec research

Chart 25: P/BV band



Source: Bloomberg, I-Sec research

Table 6: Peer comparison valuation matrix

	P/B		P/E		RoE (%)		EPS CAGR (%)
Company	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**(FY16-19E)**
Repco Home Finance	3.2x	2.7x	17.7x	14.1x	19.4	20.2	26.2
HDFC	4.4x	3.9x	26.1x	21.6x	20.0	20.7	15.2
LIC Housing Finance	2.2x	1.8x	13.1x	11.0x	19.4	19.9	18.5
GRUH Finance	9.5x	7.7x	35.1x	29.2x	32.7	32.6	22.2
Dewan Housing	1.2x	1.0x	8.2x	6.1x	15.6	17.8	22.8
Indiabulls Housing Finance	2.3x	2.1x	9.4x	7.8x	25.4	27.4	19.3

Source: I-Sec Research, Bloomberg (Based on prices as on November 3, 2016)

Annexure 1: Financials

Table 7: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E	FY19E
Interest earned	6,691	8,521	10,407	12,965	16,216
Interest expended	4,318	5,483	6,655	8,344	10,526
Net interest income	**2,373**	**3,039**	**3,752**	**4,621**	**5,690**
Other income	**239**	**297**	**376**	**442**	**556**
Staff cost	335	409	428	571	767
Depreciation	29	41	34	38	42
Other operating expenses	183	193	240	336	420
Total operating cost	**547**	**643**	**703**	**946**	**1,230**
Pre-provisioning op profit	**2,065**	**2,692**	**3,425**	**4,117**	**5,016**
Provisions & contingencies	203	391	308	193	366
Profit before tax	**1,862**	**2,301**	**3,116**	**3,924**	**4,650**
Income taxes	631	800	1,085	1,373	1,628
PAT	**1,231**	**1,501**	**2,031**	**2,551**	**3,023**

Source: Company data, I-Sec research

Table 8: Balance Sheet

(Rs mn, year ending March 31)

	FY15	FY16	FY17E	FY18E	FY19E
Capital	624	625	626	626	626
Reserves & surplus	7,497	8,923	10,797	13,167	15,980
Networth	**8,121**	**9,548**	**11,423**	**13,794**	**16,606**
Total borrowings	**51,044**	**65,380**	**81,571**	**1,02,519**	**1,29,282**
Provisions	748	991	1,282	1,468	1,826
Other Liabilities	843	1,705	2,291	2,553	2,700
Total liabilities & stockholders' equity	**60,757**	**77,624**	**96,567**	**1,20,334**	**1,50,413**
Loans & advances	**60,129**	**76,912**	**95,693**	**1,19,351**	**1,49,306**
Investments	124	124	132	148	167
Fixed Assets	89	92	89	101	113
Current & other assets (Including Cash & Bank)	414	495	653	735	827
Total Assets	**60,757**	**77,624**	**96,567**	**1,20,334**	**1,50,413**

Source: Company data, I-Sec research

Table 9: Key Ratios

(Year ending March 31)

	FY15	FY16	FY17E	FY18E	FY19E
Growth (%):					
AUM	29.0	27.9	24.4	24.7	25.1
Disbursements	27.2	30.7	16.7	30.0	25.9
Loan book (on balance sheet)	29.0	27.9	24.4	24.7	25.1
Net Interest Income (NII)	24.4	28.0	23.5	23.1	23.1
Non-interest income	21.1	24.2	26.4	17.6	25.9
Pre provisioning operating profits (PPoP)	20.2	30.4	27.2	20.2	21.9
PAT	11.8	22.0	35.3	25.6	18.5
EPS	11.7	21.6	34.9	25.6	18.5
Yields, interest costs and spreads (%)					
NIM	8.1	8.0	7.7	7.8	7.8
Yield on loan assets (on -book)	12.5	12.4	12.1	12.1	12.1
Average cost of funds	8.1	8.0	7.7	7.8	7.8
Interest Spread on loan assets (on -book)	4.4	4.4	4.3	4.3	4.2
Operating efficiencies					
Non-interest income as % of net income	9.2	8.9	9.1	8.7	8.9
Cost to income ratio (%)	21.0	19.3	17.0	18.7	19.7
Op.costs/avg AUM (%)	1.0	0.9	0.8	0.9	0.9
No of employees (including off rolls)	545	619	681	795	928
Average annual salary (Rsmn)	0.6	0.7	0.6	0.7	0.8
Annual inflation in average salary (%)	35.8	7.6	(4.8)	14.3	15.0
Salaries as % of non-interest costs (%)	61.2	63.6	60.9	60.4	62.4
NII /employee (Rsmn)	4.4	4.9	5.5	5.8	6.1
AUM/employee(Rsmn)	110.3	124.3	140.5	150.1	160.9
Capital Structure					
Debt-Equity ratio	6.3	6.8	7.1	7.4	7.8
Leverage (x)	7.5	8.1	8.5	8.7	9.1
CAR (%)	20.3	20.8	17.8	17.8	17.5
Tier 1 CAR (%)	20.3	20.8	17.8	17.8	17.5
Tier 2 CAR (%)	-	-	-	-	-
Asset quality and provisioning					
GNPA (% of AUM)	1.3	1.3	1.3	1.3	1.3
NNPA (% of AUM)	0.5	0.5	0.4	0.5	0.5
GNPA (Rsmn)	791	1,009	1,244	1,552	1,941
NNPA (Rsmn)	298	368	383	597	747
Coverage ratio (%)	62.4	63.5	69.2	61.5	61.5
Credit costs as % of average AUM	0.4	0.6	0.4	0.2	0.3
Return ratios & capital management					
RoAA (%)	2.3	2.2	2.3	2.4	2.2
RoAE (%)	15.9	17.0	19.4	20.2	19.9
Payout ratio (%)	7.6	7.5	6.5	5.9	5.8
Valuation Ratios					
EPS (Rs)	19.8	24.0	32.4	40.7	48.3
Price to Earnings	29.0	23.8	17.7	14.1	11.9
BVPS (Rs)	130.2	153.0	182.5	220.3	265.2
Price to Book	4.4	3.7	3.1	2.6	2.2
Dividend yield (%)	0.3	0.3	0.4	0.4	0.5

Source: Company data, I-Sec research

Table 10: Du Pont Analysis

	FY15	FY16	FY17E	FY18E	FY19E
Interest earned	12.5	12.4	12.1	12.1	12.1
Interest expended	8.1	8.0	7.7	7.8	7.8
Gross Interest Spread	**4.4**	**4.4**	**4.3**	**4.3**	**4.2**
Credit cost	0.4	0.6	0.4	0.2	0.3
Net Interest Spread	**4.1**	**3.9**	**4.0**	**4.1**	**4.0**
Operating cost	1.0	0.9	0.8	0.9	0.9
Lending spread	**3.0**	**2.9**	**3.2**	**3.2**	**3.0**
Non- interest income	0.4	0.4	0.4	0.4	0.4
Final spread	**3.5**	**3.4**	**3.6**	**3.6**	**3.5**
Tax rate (%)	*33.9*	*34.8*	*34.8*	*35.0*	*35.0*
ROAAUM	**2.3**	**2.2**	**2.4**	**2.4**	**2.3**
Effective leverage (AAUM/ AE)	6.9	7.8	8.2	8.5	8.8
RoAE	**15.9**	**17.0**	**19.4**	**20.2**	**19.9**

Source: Company data, I-Sec research

Index of tables and charts

Tables

Charts

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