Repco Home Finance – BUY

23 September 2014

To scale up profitably

Repco Home Finance (RHL) will be a key beneficiary of the favourable growth environment for niche housing finance companies. Its plans for balance sheet growth and geographic expansion are well-balanced, with operating and financial leverage targeted to play out simultaneously. RHL's ROA compares well with other HFCs. We believe profitability would remain robust and increasing leverage will drive ROE beyond 20% in the medium term. Re-iterate Buy.

Niche HFCs positioned for rapid growth. Niche Housing Finance Companies (HFCs) would be major beneficiaries of the large home financing opportunity in the country. Chronic under-penetration, low home ownership, and increasing per capita income provide the perfect macro-economic base for growth. Further, company-specific factors such as HFC's ability to penetrate deeper geographies, its diverse product suite, process-driven sourcing infrastructure, successful execution, and high capitalisation complement these macro drivers.

Expansion strategy well thought out. RHL's balance sheet and branch expansion are likely to be well balanced and should complement each other. Loan mix is expected to remain at 80:20 between retail loans and LAP whereas NHB funds in liabilities is likely to increase. Overall loan growth will likely clock 30% Cagr through FY14-17ii. RHL will add ~15 branches per year, with two-thirds of these in the Southern markets. This will allow for better resource allocation to existing branches and greater focus on scaling up the branches.

Financial performance to remain robust, BUY. We estimate 24% EPS Cagr through FY14-17ii driven by faster loan growth, stable margins, and contained costs. RHL is currently over-capitalised with a tier 1 ratio of 23.5%. With leverage, ROE will increase to 20% by FY17ii from 16% in FY14. At 30% loan Cagr, it will take RHL nearly eight years to fully lever the current capital. Sustained high growth, improving profitability and stable management should help sustain premium valuations. Maintain BUY with a target price of Rs480/share.

Company update

CMP	Rs425
12-mth TP (Rs)	480 (13%)
Market cap (US$m)	434
Bloomberg	REPCO IN
Sector	Banks

Shareholding pattern (%)

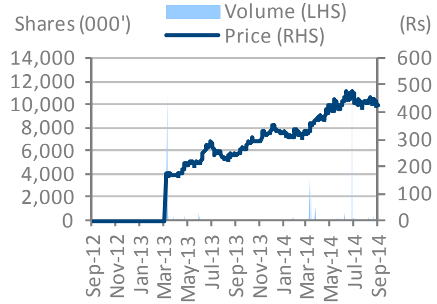
Promoters	37.4
FII	12.2
DII	11.9
Public	38.5

52Wk High/Low (Rs)	515/236
Shares o/s (m)	62
Daily volume (US$ m)	2.2
Dividend yield FY15ii (%)	0.4
Free float (%)	30.0

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(2.1)	(0.3)	78.0
Absolute (US$)	(2.4)	(1.2)	82.7
Rel. to Sensex	(5.1)	(8.7)	43.8
Cagr (%)		**3 yrs**	**5 yrs**
EPS		12.3	20.4

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Parent	FY13A	FY14A	FY15ii	FY16ii	FY17ii
Pre prov. operating inc. (Rs m)	1,160	1,718	2,143	2,674	3,422
Pre-exceptional PAT (Rs m)	800	1,101	1,315	1,635	2,089
Reported PAT (Rs m)	800	1,101	1,315	1,635	2,089
Pre-exceptional EPS (Rs)	12.9	17.7	21.2	26.3	33.6
Growth (%)	(2.7)	37.6	19.5	24.3	27.8
IIFL vs consensus (%)			(3.0)	(4.2)	7.7
PER (x)	33.0	24.0	20.1	16.2	12.6
Book value (Rs)	102	119	131	155	185
PB (x)	**4.2**	**3.6**	**3.2**	**2.7**	**2.3**
CAR (%)	25.5	24.5	21.5	19.4	17.8
ROA (%)	2.4	2.6	2.4	2.3	2.2
ROE (%)	**17.1**	**16.0**	**16.9**	**18.4**	**19.8**

Source: Company, IIFL Research. Priced as on 22 September 2014

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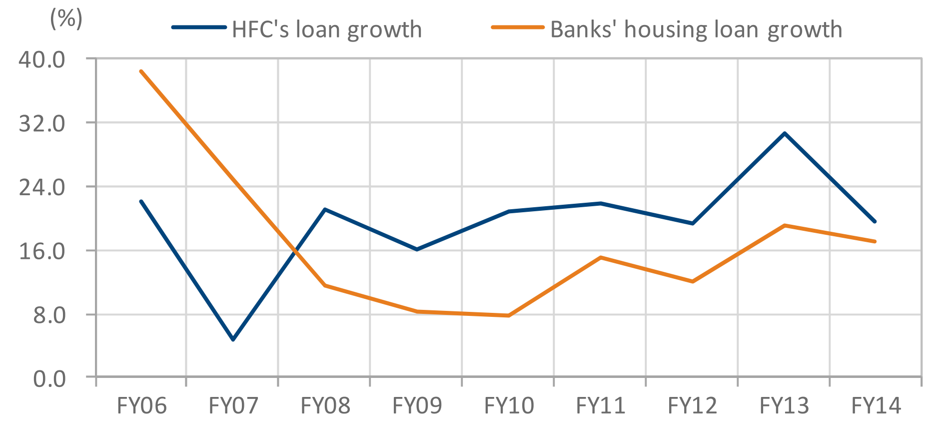
Niche HFCs positioned for rapid growth

Housing finance has increased at 18.9% AUM Cagr over FY05-14 with housing finance companies (HFCs) delivering 19.4% growth and banks delivering 16.8% Cagr. Faster growth in HFC's has been driven by niche focus, nimble geographic expansion, and low-cost structure of feet on the street versus banks. Banks focus on different loan products at different points in the economic cycle and have not developed the delivery infrastructure for retail loans sufficiently. As a result, HFC's have outpaced banks in the last six years and gained market share within the segment.

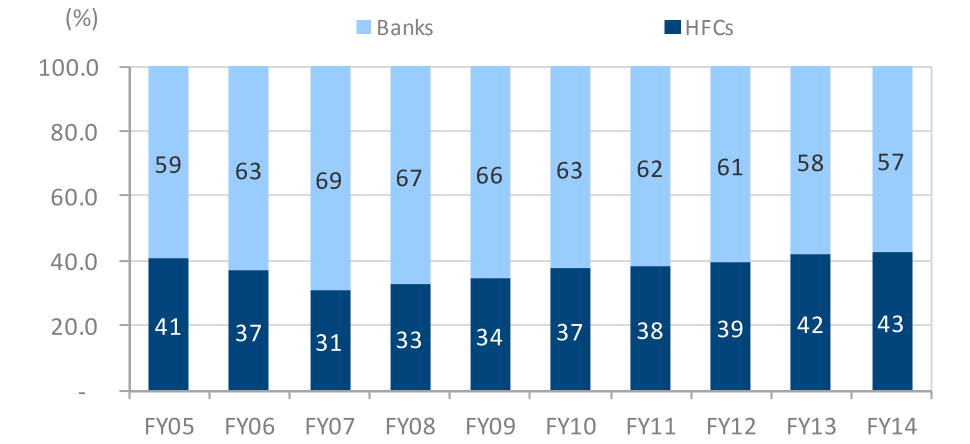
Low home ownership, insufficient penetration of home loans, nuclear families, increased migration of labour, improved per capita income and focus on affordable housing projects have created the opportunity for the home loan market in India to expand rapidly. This is also supplemented by substitution of informal finance with formal finance. Together, these factors provide an ideal condition for growth of housing finance in the long term.

Figure 1: Growth trends in housing finance: Banks versus HFCs



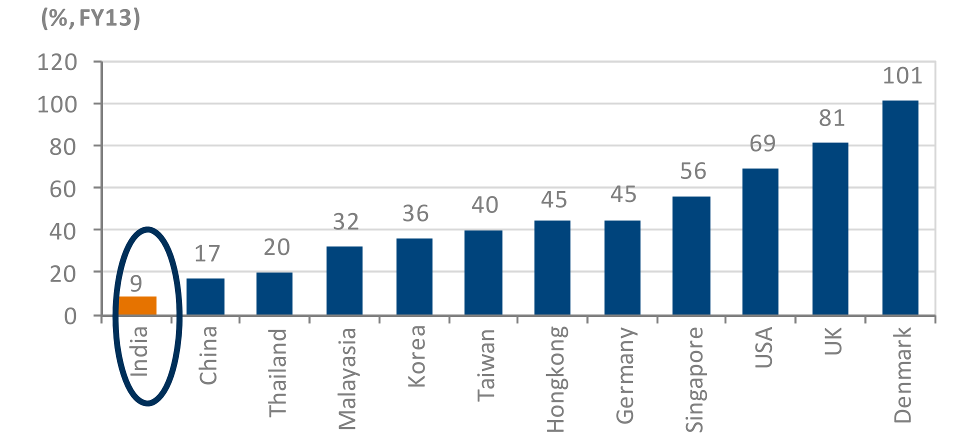
Source: Company, IIFL Research

Figure 2: HFC's continue to gain market share despite banks' opting to grow faster in the home loan segment



Source: RBI, NHB, IIFL Research

Figure 3: Mortgages/GDP in India versus other emerging/developed countries

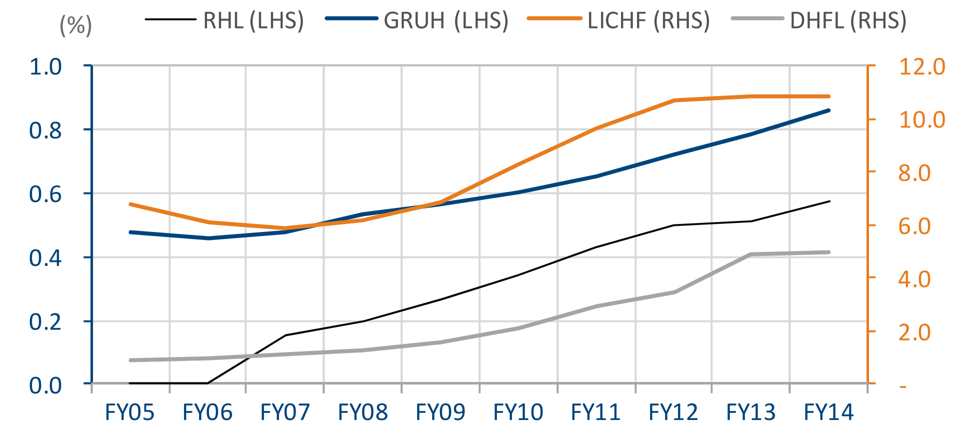


Source: Company, IIFL Research

Within the segment, niche HFCs such as Repco Home Finance (RHL), GRUH Finance (GRUH), CanFin Homes (CanFin) have found adequate space to grow and build scale by funding customers in tier 2 and tier 3 cities who find it difficult to secure bank loans. Typically, these HFCs have higher portion of self-employed customers with unstable cash flows. These rely on the strength of the collateral, their valuation capability and recoverability while funding. On the other hand, larger lenders operating in the higher-ticket segment often base their credit decisions on the stability of cash flows of the borrower with the property as recourse. This excludes a large number of borrowers, especially the self-employed.

Higher risk appetite of lenders such as RHL allows them to acquire customers who have hitherto been outside the formal fold of finance. Their low-cost structures allow them to earn better profitability despite deeper penetration. Niche HFCs have miniscule market shares compared with their larger counterparts (see figure below). Small size and well-established under-writing processes, balanced execution, stable management and large market potential will allow them to grow aggressively in the medium term.

Figure 4: Market shares of HFCs as % of total loans to housing finance (total loans includes bank loans)



Source: Company, RBI, NHB, IIFL Research

Figure 5: Distribution of branch network as of 1QFY15 represents minimum geographic overlap. Limited brand recognition outside of catchment areas helps incumbents protect market share

% of branch network	Repco	GRUH	DHFL	Sundaram
TN	53	4	2	39
AP	13	-	10	27
Karnataka	14	12	16	10
Kerala	5	-	1	15
Maharashtra	7	29	18	4
Gujarat	5	29	7	-
MP	1	14	4	1
UP	-	-	2	-
Rajasthan	-	7	7	-
Haryana	-	-	8	-
Others	2	5	27	4

Source: Company, IIFL Research

Figure 6: Relative positioning of Housing Finance Companies – HFC's are spread across the risk spectrum and operate in different markets

	Risk	Retail	Salaried	ATS	Branches	Presence
HDFC	Low	71	NA	2.3	360	Pan India
LICHF	Low	97	88	1.0	209	Pan India
DHFL	Medium	84	66	1.1	293	Pan India
CanFin Homes	Medium	92	90	1.6	99	TN, AP, Kerala
GRUH	Medium	96	91	0.9	145	Gujarat, Maharashtra, Ktk, MP
RHL	High	80	45	1.1	128	TN, AP, Maharashtra

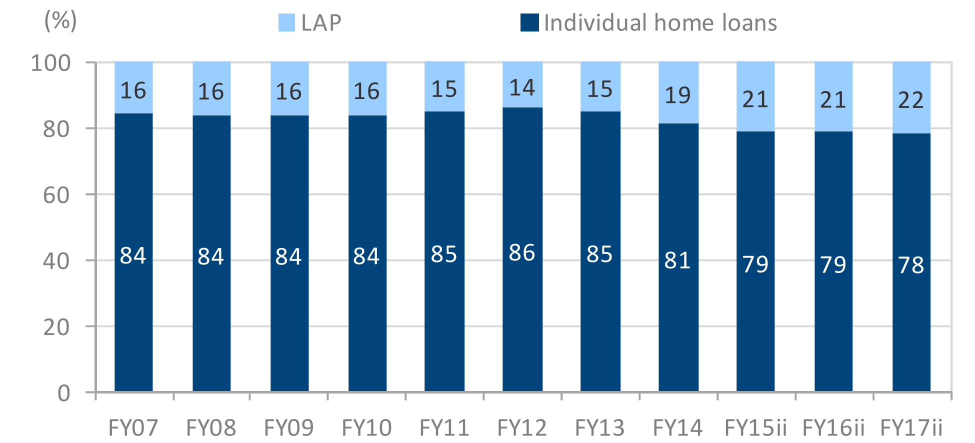
Source: Company, IIFL Research

Expansion strategy is well-thought out

Balanced growth strategy for both assets and liabilities

Despite having a market share of only 0.57% in the housing finance space, RHL will likely restrict its growth to 25-30% in loans as it wants to scale up in a balanced manner. Growth will be uniformly driven by both home loan and loan against property (LAP) with RHL deciding to maintain the mix at 80:20 between the two categories respectively. Management believes this is an optimum portfolio mix with enough demand in both segments to sustain growth.

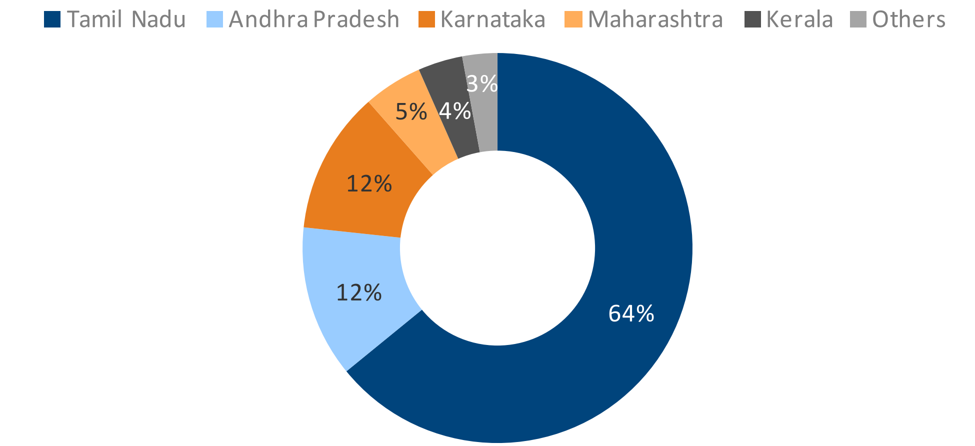
Figure 7: Loan mix unlikely to change much hereon



Source: Company, IIFL Research

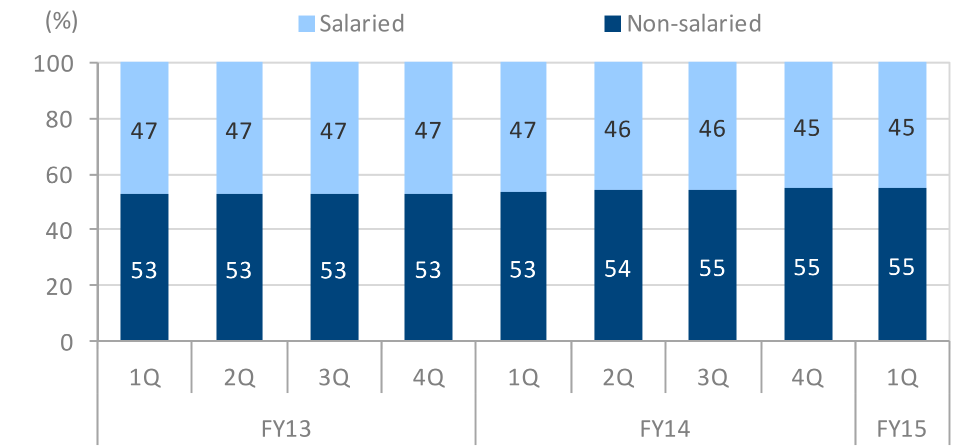
Over FY12-14, LAP grew at a 49% Cagr whereas home loans increased at 25% Cagr. For RHL's loan book, 55% of which comprises self-employed customers, cross-selling LAP for business purposes was a synergistic opportunity. As a result, LAP contribution increased from 14% of loans to 17.5% as of FY14 and 19.2% as of 1QFY15. However, management believes that too much of LAP would increase balance sheet risk and will likely sustain the present loan mix in the medium term. RHL remains averse to funding non-retail segment given higher risks.

Figure 8: Loan spread across States has been fairly stable. Maharashtra has developed as a significant contributor to loan growth



Source: Company, IIFL Research

Figure 9: Loan mix well balanced between salaried and non-salaried segments



Source: Company, IIFL Research

Figure 10: Wide product suite to cater to different customer needs

Loan Product	Product Details
Dream Home Loan	Loans for construction or purchase of a property.
Home Makeover Loan	Loans for 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.
NRI Housing Loan	Loans to NRIs 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 Rs1.5mn with construction cost/estimate not exceeding Rs.2.5mn

Source: Company

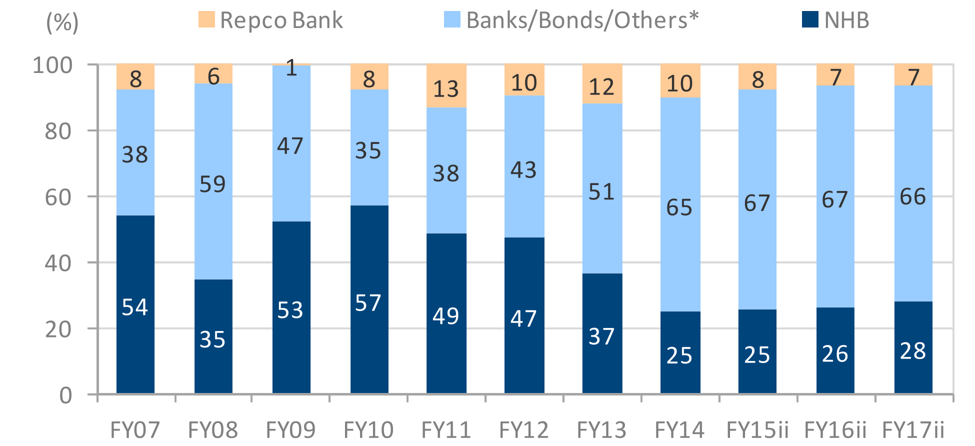
Figure 11: NHB refinance schemes

	Ticket size (Rs mn)	Tenure (years)	Interest Rates (%)	Max. lending rate (%)
Rural Housing Fund	0-1.5	3-7	8-8.75	10.75
Urban Housing Fund	0-1	3-7	8.5-8.75	10.75
GJRHS	0-1.5	0-15	NA	NA
ULIHS	0-1	5-15	8.25-8.5	Refinance rate+2.75%
Refinance Scheme for Women	0-2.5	1-15	NA	< 9.75%

Source: Company, IIFL Research; Note: GJRHS = Golden Jubilee Rural Housing Refinance Scheme, ULIHS = Urban Low Income Housing scheme

In FY14, RHL did not use NHB's lines of funding much due to the spread cap of 2% for on-lending. Lending against NHB funds was less remunerative than ordinary retail spreads of 2.3-2.5%. However, with NHB revising the lending rates, there are opportunities to make a spread of 2.25-2.5% under certain refinance schemes. This is significant as NHB funds have a calculated blended cost of 7.6% as of FY14 (versus 9.8% overall cost of funds). RHL can now rely more on NHB funding. Funding mix will likely shift more towards NHB funding as well.

Figure 12:Funding mix to see higher reliance on NHB borrowings given the spread cap has been revised to 2.5%



Source: Company, IIFL Research

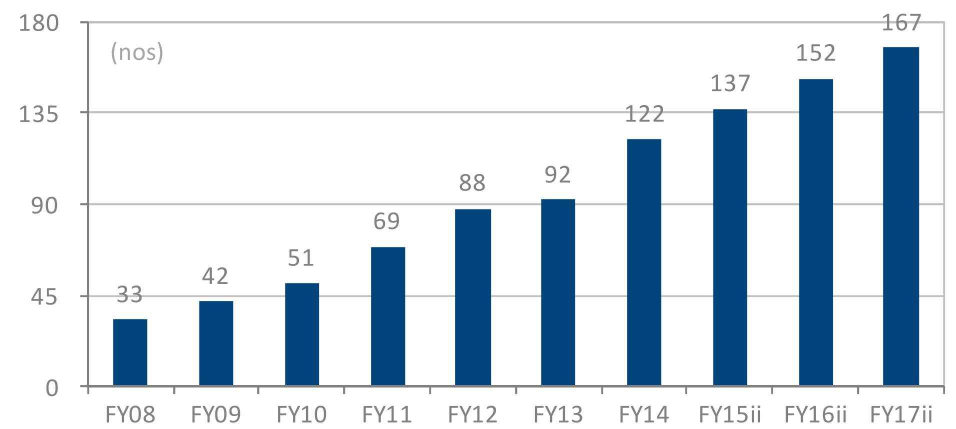
Slow branch addition, cautious expansion in new geographies

RHL's branch addition strategy will remain calibrated even as it looks to expand into new geographies to seek growth. It is looking to add ~15 branches a year to its total branch network of 91 branches and 31 satellite centres. A third of these branches will be in new geographies and the rest in the four Southern states. RHL has a typical hub-and-spoke approach towards branch opening. Satellite centres are low-cost outlets in deeper territories that are upgraded into branches after achieving a certain scale.

RHL's branch presence in credit intensive states like Tamil Nadu and Andhra Pradesh is miniscule compared to the overall geographic area. Moreover, it has opened branches in contiguous states like Orissa, West Bengal and Madhya Pradesh to test waters. Repco suffers from limited brand recall even in its home market, and faces much tougher competition in sourcing manpower, originating clients and building momentum in new geographies. Hence, management is not in favour of adding a large number of branches in these areas. We are likely to see limited addition of branches in new geographies while the bulk of incremental branches will be opened in home markets.

The calibrated branch addition allows for greater focus and management bandwidth to be spent on existing branches and improve their capacity utilisation. The loan mela approach to customer acquisition also requires significant gestation and hence, adding too many branches may pressure the P&L. A slow branch addition strategy is well suited to RHL's growth plans in our view.

Figure 13:Branch strength to increase at a steady pace



Source: Company, IIFL Research

Figure 14: Despite its size, organized housing finance remains an under-penetrated segment, especially in the low income segment. Meaningful existing players could use their expertise to improve market share

(No. of branches/talukas)	RHF	GRUH	DHFL	Sundaram#	Talukas
TN	68	6	6	41	218
AP	16	-	30	28	220*
Karnataka	18	17	46	10	209*
Kerala	7	-	2	16	63
Maharashtra	9	42	52	4	353
Gujarat	6	42	20	-	226
MP	1	21	11	1	263
UP	-	-	6	-	305
Rajasthan	-	10	20	-	243
Haryana	-	-	22	-	67
Others	3	7	78	4	
Total	**128**	**145**	**293**	**104**	**2,167**

*cities/towns, total talukas not available; #As of March 2014; Source: State websites, IIFL Research

Experience in Maharashtra underscores strength of self-origination

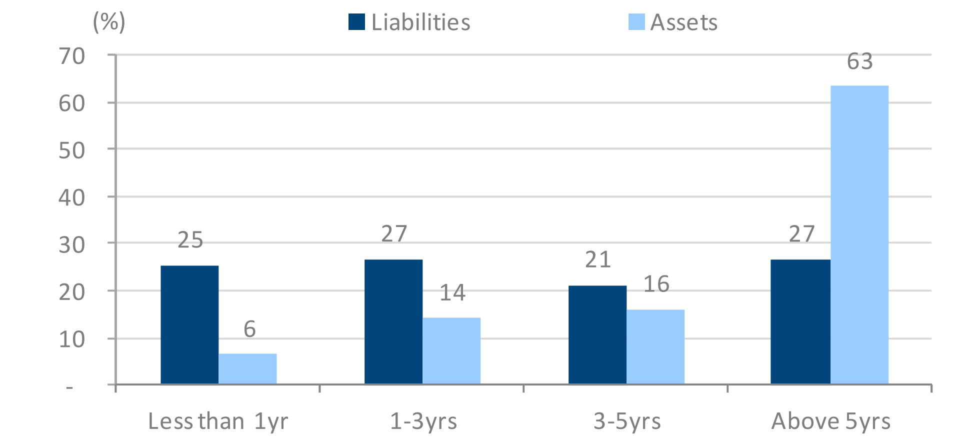
Maharashtra accounts for 4.9% of loans or Rs2.4bn. RHL had experimented with sourcing loans through Direct Sales Agents (DSA) as well as *loan mela* here. However, of the outstanding AUM, direct sales agents (DSA) account for less that 10% of the origination while the rest are sourced through *loan melas* that RHL relies on in home markets as well. This has underscored the strength of their self-origination in new markets as well. Therefore, RHL is sourcing loans through these *melas* in new geographies like Gujarat, MP, Orissa and West Bengal as well. This restricts costs, improves management's control over operations and helps build brand awareness.

Financial performance to remain robust, BUY

Steady loan mix, more NHB funding to improve margins
RHL will likely maintain its loan mix at current levels where Loan against property (LAP) contributes ~20% on a sustained basis. LAP yields at least 3.8-4% higher than Home loans and is margin accretive. Greater proportion of LAP also aids ALM by lowering the duration of assets to match the lower liability duration.

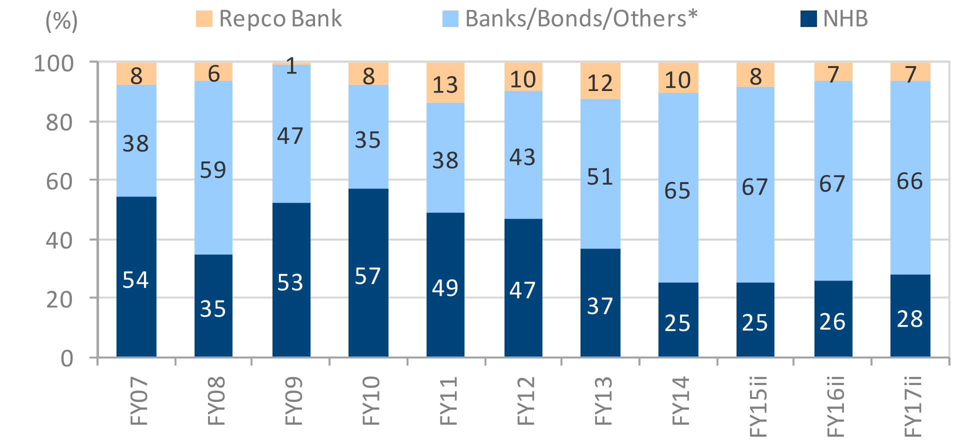
HFC's like HDFC resort to developer funding to manage their ALM and improve spreads. However, HDFC has the expertise to structure loans to developers to minimise risk and to manage resolution in case of distress. Smaller HFCs like Repco do not have the bargaining power with developers and are correctly restricting their products to LAP and home loans. In the absence of short tenor products like developer loans, ALM risk will persist on RHL's balance sheet. However, in an interest rate scenario with downward bias, margins would likely improve as liabilities mature faster than assets. Rising interest rates would be a risk, though.

Figure 15:Repco – Some mismatch in assets and liabilities will sustain as the loan mix lacks lower tenure non-retail loans



Source: Company, IIFL Research

Figure 16:An increase in NHB's spread cap to 2.5% (from 2%) has opened up the line of funding again for RHL. We believe lower cost NHB funds will form larger portion of funds



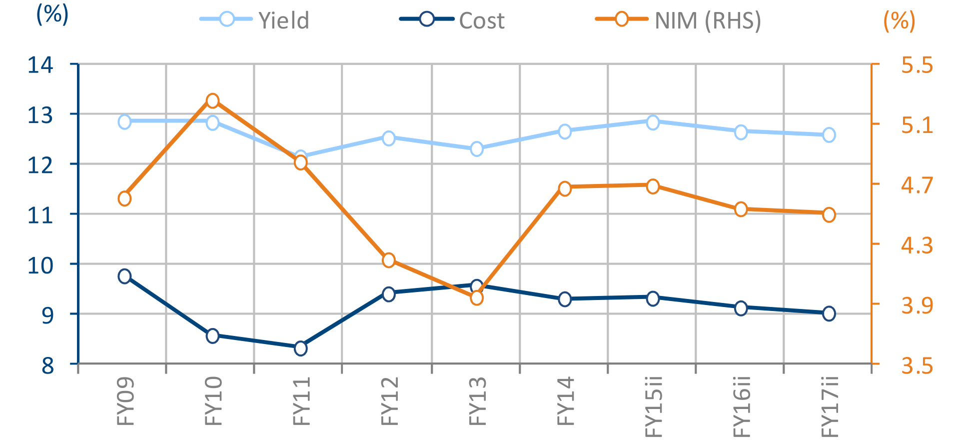
Source: Company, IIFL Research

RHL's funding mix has seen a drastic change with decline in NHB funding from +50% to 25% as of FY14. The decline was primarily to fund the quicker growth in the loan book and also as NHB had restricted the spreads on on-lending under its refinance schemes to 2%. Following this, off-take from respective NHB schemes declined sharply. Hence, NHB recently increased the spread cap to 2.5% which allows niche HFCs like Canfin Homes, RHL, etc. to make healthier RoA on the loans.

Post this, RHL has availed refinance under the Rural Housing Scheme of NHB which will likely continue, and reduce overall funding costs. For RHL, NHB refinance had a blended cost of 7.6% as of FY14. Currently, most refinance is available at 8-8.75 with maximum lending rate capped at 10.75%. Thus, spread on on-lending could be between 2.25-2.5% depending on the segment where loans are given. RHL utilises Rural Housing Fund scheme where weaker sections can be funded up to Rs1.5mn at 8-8.5%.

We believe RHL will make 4.2-4.3% NIMs in the medium term aided by stable asset mix and higher proportion of low cost NHB funds. RHL will likely explore other funding options like borrowing from the money market through non-convertible debentures, external commercial borrowings, etc. in future to manage margins.

Figure 17: While margins will dip marginally, they would remain in a healthy band of 4.4-4.6% as RHL benefits from borrowing from NHB and lower short rates



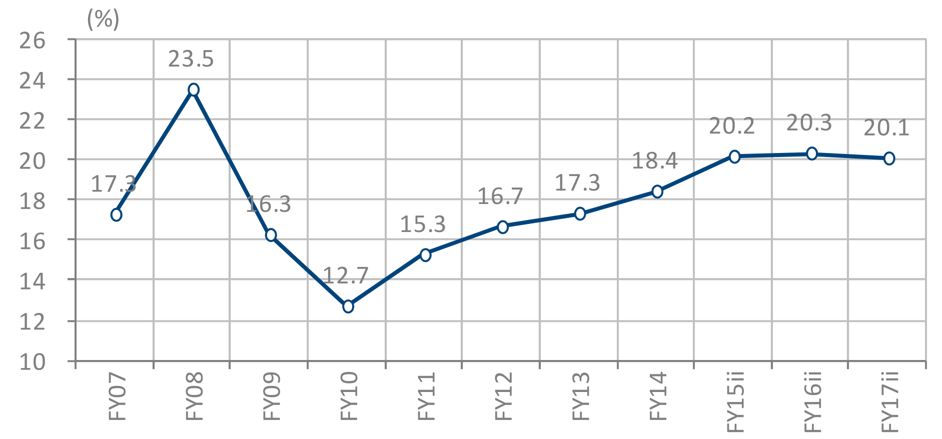
Source: Company, IIFL Research

Stable costs, asset quality to support RoA

Stable branch addition policy, operating efficiencies and productivity gains in branches opened in the last 2-3 years and its low cost structure provide RHL significant competitive advantage over peers. These would allow RHL to manoeuvre through slower revenues as the cost growth would not be excessive. However, there could be some more acceleration in costs due to the employee stock option (ESOP) policy instituted by the management and higher advertising expenses in FY15ii versus FY14. This would increase cost/income ratio to 20% in FY15ii from 18.4% in FY14.

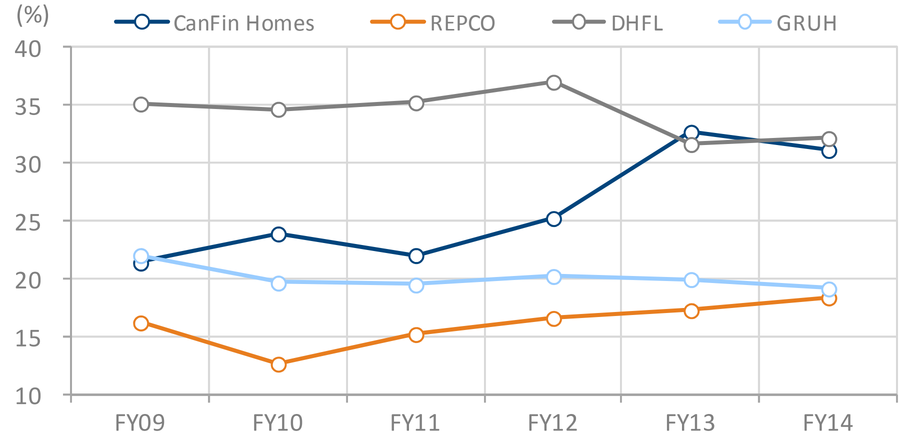
Compared to peers, RHL's cost ratios would still remain best-in-class and enhance its competitiveness versus rest of the niche HFC's. This would also allow RHL to maintain robust profitability through higher RoA.

Figure 18: Cost/income ratio trend



Source: Company, IIFL Research

Figure 19: Cost/income ratios lowest among regional peers

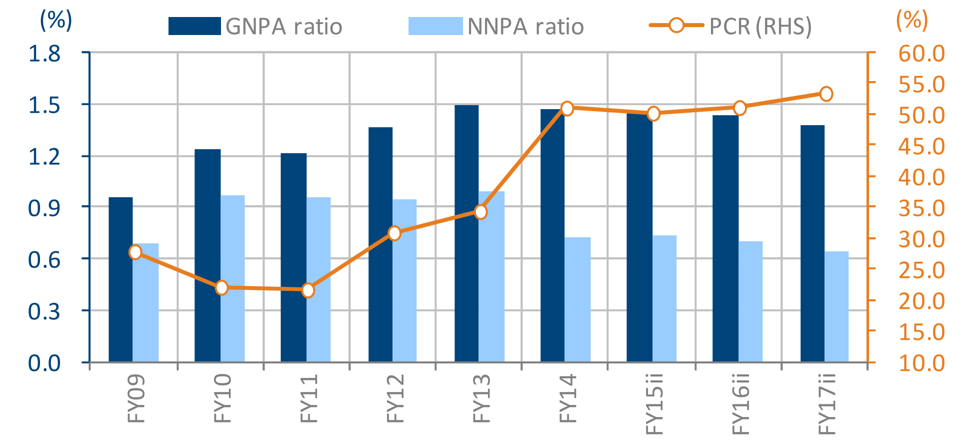


Source: Company, IIFL Research

We believe GNPA ratio will trend lower from the 1.5% levels as of FY14, albeit at a slow pace. RHL operates in riskier segments of the population where customers' cash flows are relatively uncertain and risk of default is higher. It mitigates these risks through pricing, robust valuation and collection processes and maintaining a low cost delivery model to outpace possible credit costs. RHL's board has also approved a policy by which it will look to increase its provision coverage ratio from the ~50% levels as of FY14.

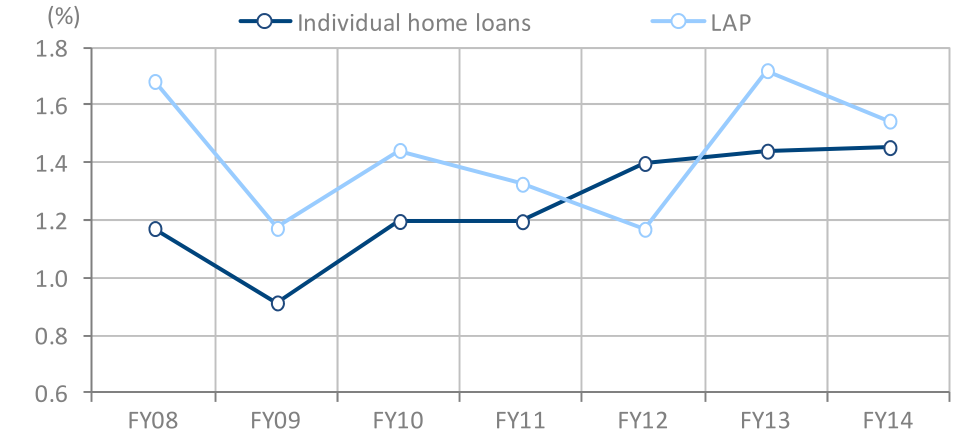
With a high proportion of self-employed borrowers, RHL's asset quality would only improve with a pick-up in economic activity and the trickle down impact in the lower strata of society. Credit costs, thus, should decline in the medium term.

Figure 20: Asset quality to remain stable going ahead, management committed to improving the coverage ratio from



Source: Company, IIFL Research

Figure 21:Asset quality in LAP slightly more stressed than in home loans

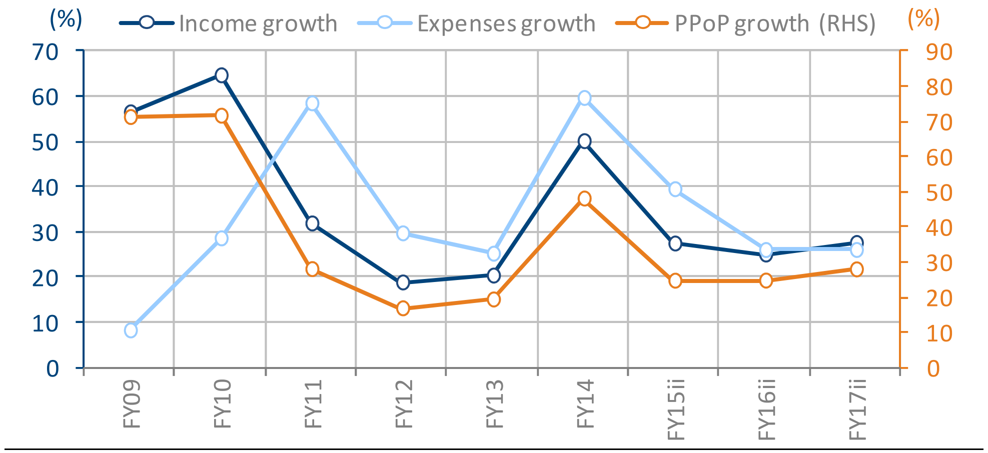


Source: Company, IIFL Research

Improving leverage would drive earnings, valuations

Strong loan growth momentum, better margin outlook and contained cost ratios would be strong drivers of core earnings for RHF in the medium term. Although revenue jaws could narrow from current levels as marketing and distribution expenses increase, operating profit growth will continue to trend at ~26% Cagr over FY14-17ii. Slightly aggressive provisioning could lead to earnings Cagr to 24% over the same period.

Figure 22: Revenue jaws could narrow as expenses inch up



Source: Company, IIFL Research

RHL is significantly under-leverage for a housing finance company. An HFC can typically leverage up to 12-13x given minimum tier 1 requirement of 7.5% before raising capital. With stable execution and steady RoA of 2.2%, RoE should ideally be ~25% on a fully leveraged basis. Compared to this, RHL currently delivers a RoE of 16% given its tier 1 CAR is 23.5%. Even if RHL delivers 30% Cagr in loans for the next 5 years, it may continue to deliver improvement in RoE without requiring significant dilution.

We believe RHF will continue to trade at premium multiples underpinned by its small scale and niche business model, inherently high profitability with the ability to improve return ratios, high capitalisation, and consistent execution. Asset quality overhang would be minimal given a secured loan book. We are confident of RHF being able to deliver on these parameters. Any downward trend in interest rates could also prove to be a trigger for profitability. We would peg a 12-month fair value multiple at 3.1x FY16ii BV or Rs480/share, which yields an upside of 13% from current market price. Maintain BUY.

Figure 23: Earnings revision summary

	FY15ii	FY16ii	FY16ii
Net profit (Rs m) - Old	1,277	1,572	1,927
Net profit (Rs m) - New	1,315	1,635	2,089
% change	3.0	4.0	8.4
EPS (Rs.) - Old	20.5	25.3	31.0
EPS (Rs.) - New	21.2	26.3	33.6
% change	3.0	4.0	8.4
ROE (%) - Old	16.4	17.8	18.6
ROE (%) - New	16.9	18.4	19.8
Change in bps	46	57	121

Source: Company, IIFL Research

Figure 24: Key earnings drivers

(%)	FY13	FY14	FY15ii	FY16ii	FY17ii
Loan growth	26.4	31.5	30.8	30.5	30.3
Net interest margin	3.7	4.4	4.4	4.3	4.2
Net int income growth	21.4	53.6	29.0	26.1	28.8
Core fee income growth	6.2	53.0	10.0	10.0	10.0
Non-int inc as % of total	13.3	11.2	10.2	9.4	8.5
Operating costs growth	25.2	59.6	39.5	26.0	26.0
Cost/income ratio	17.3	18.4	20.2	20.3	20.1
Gross NPAs as % of loans	1.5	1.5	1.5	1.4	1.4
Total provision charges as % of loans	0.3	0.6	0.3	0.3	0.3
Tax rate	25.1	26.2	33.5	33.5	33.5
Net NPL % of net worth	5.5	4.5	5.4	5.8	5.8

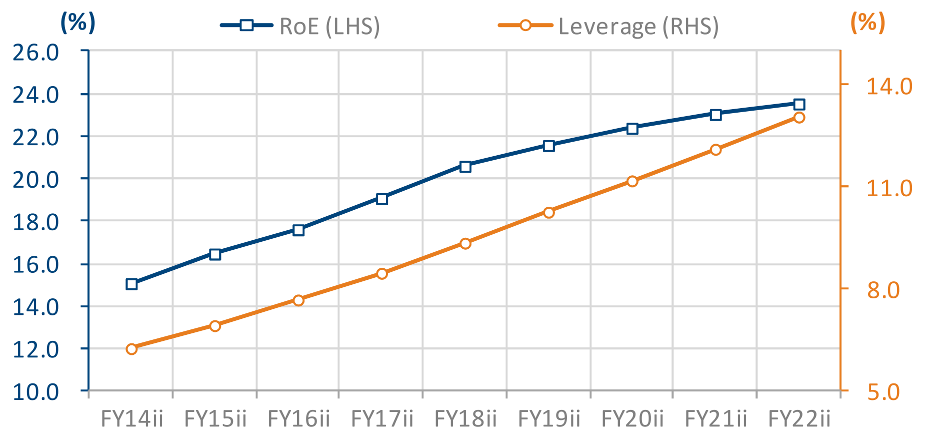
Source: Company, IIFL Research

Figure 25:RoE decomposition

Y/e 31 Mar	FY13	FY14	FY15ii	FY16ii	FY17ii
Interest income	11.7	12.0	12.2	12.0	11.9
Interest expense	8.0	7.6	7.8	7.7	7.7
Net interest income	**3.7**	**4.4**	**4.4**	**4.2**	**4.2**
Processing fees	0.4	0.4	0.4	0.3	0.3
Penal interest	0.1	0.1	0.1	0.1	0.1
Non-interest income	**0.6**	**0.6**	**0.5**	**0.4**	**0.4**
Total operating income	**4.2**	**4.9**	**4.9**	**4.7**	**4.6**
Total operating expenses	**0.7**	**0.9**	**1.0**	**1.0**	**0.9**
Pre provision operating profit	**3.5**	**4.0**	**3.9**	**3.7**	**3.7**
Provisions for loan losses	0.3	0.5	0.3	0.3	0.3
Other provisions	0.0	0.0	0.0	0.0	0.0
Profit before tax	**3.2**	**3.5**	**3.6**	**3.4**	**3.4**
Taxes	0.8	0.9	1.2	1.2	1.1
Net profit	**2.4**	**2.6**	**2.4**	**2.3**	**2.2**
Leverage	7.1	6.2	7.0	8.1	8.8
RoE	**17.1**	**16.0**	**16.9**	**18.4**	**19.8**

Source: Company, IIFL Research

Figure 26:RHF would take 4-5 years to achieve an ROE of 20% and about eight years to fully lever the current capital at 30% loan Cagr



Source: Company, IIFL Research

Figure 27:Comparison with peers

	NIM		C/I ratio		GNPA		PCR		Tier 1 Ratio	
	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii
RHFL	4.4	4.3	20.2	20.3	1.5	1.4	50	51	21.5	19.4
DHFL*	2.8	2.9	28.7	27.6	0.9	0.8	100	100	NA	NA
GRUH*	4.7	4.6	17.6	17.4	0.4	0.4	100	100	NA	NA
LICHF	2.2	2.2	14.0	14.1	0.7	0.7	41	40	12.6	12.6
HDFC	3.7	3.8	7.0	6.8	0.7	0.7	30	30	15.5	15.0

*Bloomberg estimates; Source: Company, IIFL Research

Figure 28: Comparison with peers

	RoA		RoE		Leverage		P/BV		P/E	
	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii	FY15ii	FY16ii
RHFL	2.4	2.3	16.9	18.4	7.0	8.1	3.2	2.7	20.1	16.2
DHFL*	1.4	1.5	16.9	17.8	12.1	12.1	1.0	0.9	6.7	5.4
GRUH*	2.9	2.7	30.3	29.3	10.3	11.0	9.0	7.2	32.7	26.8
LICHF	1.5	1.4	18.4	18.3	12.7	12.7	1.8	1.6	10.7	9.3
HDFC	2.8	2.8	22.1	24.8	8.0	8.7	5.8	5.2	26.8	22.1

*Bloomberg estimates; Source: Company, IIFL Research

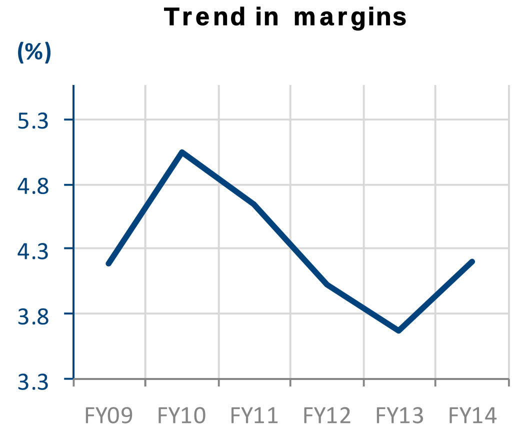
Figure 29:P/BV trend

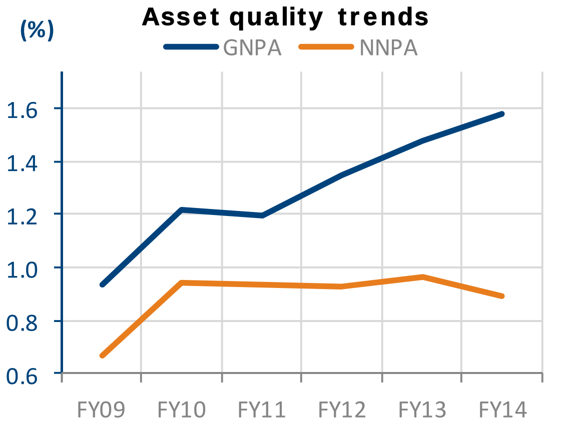
Source: Company, IIFL Research

Background: Repco Home Finance Ltd (RHFL) promoted by Repco Bank is a housing finance company headquartered in Chennai. It provides individual home loans and LAP in Tier II/III cities and peripheral areas of Tier I cities. Of the Rs49bn outstanding loan portfolio as on June 2014, 80.8% is accounted by individual home loans and balance 19.2% by LAP. Loans to salaried and non-salaried borrowers constitute 45% and 55% of loan book. It has a distribution network of 91 branches and 37 satellite centres with ~85% of them located in Southern India. However, it is gradually expanding its footprint in other states like Maharashtra, Gujarat, Odisha and West Bengal. It operates at relatively lower cost owing to its lean branch model, centralized credit appraisal system and direct business sourcing.

Management

Name	Designation
T. S. Krishna Murthy	Chairman
R Varadarajan	Managing Director
V. Raghu	Executive Director

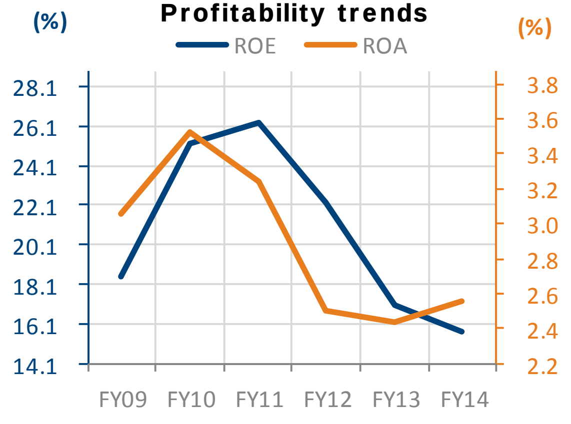




Key earnings drivers

Y/e 31 Mar, Parent	FY10	FY11	FY12	FY13	FY14
Loan Growth (%)	42.0	47.2	35.3	26.4	31.5
Net Interest Margin (%)	5.1	4.7	4.0	3.7	4.4
Net int income growth (%)	71.7	31.0	19.2	21.4	53.6
Core fee income growth (%)	35.5	45.0	12.9	6.2	53.0
Non-int inc/total inc (%)	13.7	14.3	14.0	13.3	11.2
Operating costs growth (%)	28.6	58.4	29.7	25.2	59.6
Cost/income ratio (%)	12.7	15.3	16.7	17.3	18.4
Gross NPLs ratio (%)	1.2	1.2	1.4	1.5	1.5
Total Prov/avg loans (%)	0.3	0.2	0.6	0.3	0.6

Source: Company data, IIFL Research



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Parent	FY13A	FY14A	FY15ii	FY16ii	FY17ii
Net interest income	1,217	1,869	2,411	3,041	3,916
Fee Income	119	182	200	220	242
Portfolio gains	0	0	0	0	0
Others	68	55	74	95	123
Non-interest income	187	237	273	315	365
Total operating income	1,403	2,106	2,684	3,356	4,281
Total operating expenses	243	388	541	682	859
Pre provision operating profit	**1,160**	**1,718**	**2,143**	**2,674**	**3,422**
Provisions for loan losses	92	226	165	215	280
Other provisions	0	1	0	0	0
Profit before tax	1,068	1,491	1,978	2,459	3,142
Taxes	268	390	663	824	1,052
Net profit	**800**	**1,101**	**1,315**	**1,635**	**2,089**

Balance sheet summary (Rs m)

Y/e 31 Mar, Parent	FY13A	FY14A	FY15ii	FY16ii	FY17ii
Net loans & advances	35,447	46,619	60,993	79,612	103,764
Placements to other banks	53	62	65	68	71
Cash & equivalents	2,187	350	783	698	573
Other interest-earning assets	81	124	149	186	233
Total interest-earning assets	**37,768**	**47,154**	**61,989**	**80,564**	**104,640**
Fixed assets	45	50	62	81	105
Other assets	112	187	233	303	394
Total assets	**37,924**	**47,390**	**62,285**	**80,948**	**105,140**
Customer deposits	0	0	0	0	0
Other interest-bearing liabilities	30,647	39,020	52,339	68,830	90,110
Total interest-bearing liabilities	30,647	39,020	52,339	68,830	90,110
Non-interest-bearing liabilities	932	959	1,792	2,509	3,513
Total liabilities	**31,579**	**39,980**	**54,131**	**71,339**	**93,623**
Total Shareholder's equity	**6,345**	**7,411**	**8,154**	**9,609**	**11,517**
Total liabilities & equity	**37,924**	**47,390**	**62,285**	**80,948**	**105,140**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY13A	FY14A	FY15ii	FY16ii	FY17ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	0.0	0.0	0.0	0.0	0.0
Loan Growth	26.4	31.5	30.8	30.5	30.3
Growth in Deposits	0.0	0.0	0.0	0.0	0.0
Growth in Total Assets (%)	32.9	25.0	31.4	30.0	29.9
Profitability Ratios					
Net Interest Margin	3.7	4.4	4.4	4.3	4.2
ROA	2.4	2.6	2.4	2.3	2.2
ROE	17.1	16.0	16.9	18.4	19.8
Non-Int Income as % of Total Income	13.3	11.2	10.2	9.4	8.5
Net Profit Growth	30.2	37.6	19.5	24.3	27.8
FDEPS Growth	(2.7)	37.6	19.5	24.3	27.8
Efficiency Ratios (%)					
Cost to Income Ratio	17.3	18.4	20.2	20.3	20.1
Salaries as % of Non-Interest costs	58.0	54.3	57.6	57.1	56.7

Ratio analysis - II

Y/e 31 Mar, Parent	FY13A	FY14A	FY15ii	FY16ii	FY17ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	1.5	1.5	1.5	1.4	1.4
NPL coverage ratio	34.3	51.0	50.2	51.1	53.4
Total prov charges as % avg loans	0.3	0.6	0.3	0.3	0.3
Net NPLs as % of net loans	1.0	0.7	0.7	0.7	0.6
Capital Adequacy Ratios (%)					
Total CAR	25.5	24.5	21.5	19.4	17.8
Tier I capital ratio	25.5	24.5	21.5	19.4	17.8

Source: Company data, IIFL Research

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Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

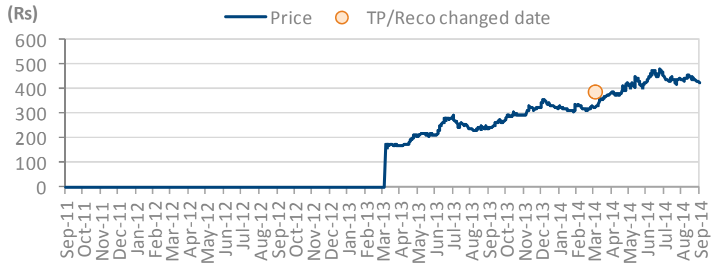
Add - Stock expected to give a return of 0-10% over the hurdle rate, i.e. a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, i.e. return of less than 10%.

Distribution of Ratings: Out of 182 stocks rated in the IIFL coverage universe, 106 have BUY ratings, 5 have SELL ratings, 35 have ADD ratings, 1 have NR and 35 have REDUCE ratings.

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

Repco Home Finance: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
25 Mar 2014	323	390	BUY