

14 October 2016

Company Research

# Repco Home Finance (RHFL.NS)

**India | Banks**
**BUY**

## Weakness provides an opportunity

Repco's share price dropped steeply after the news flow pertaining to CBI's investigation on the senior management. We believe that Repco's business model is resilient and potential outcomes would not have a material impact on the day to day operations of the company. We continue to highlight Repco as a 25% CAGR growth story given the under penetration in affordable housing, government focus on the segment and its current size. It also has levers of increasing share of NCDs/CPs and NHB funding on the liability side which will help in reducing its cost of funding. The stock now trades at 3.1x FY18E P/B which is one stdev above historical mean. We increase our TP to Rs875 (from Rs750) and re-iterate BUY.

- **Recent developments should not impact operations** – The CBI has registered a case against the MD and select senior management of the company based on a private complaint. The allegations pertain to the waiver of pre-payment penalty on a loan account in 2015. Management has stated they are compliant with rules and didn't show undue favour to the borrower.
- **Growth and return story remain intact** – We expect Repco to post 25% CAGR growth in loan book and PAT over FY2016-FY2019E without dilution. The affordable housing segment remains under-penetrated with banks and large HFCs continuing to concentrate on higher ticket size segments. Government's schemes on affordable housing (Pradhan Mantri Awas Yojna) should derive demand which should benefit Repco.
- **Levers on the funding side** – The liquidity in the corporate bond market has improved with cost of funding lower than bank loans by 100bps. Repco has 63% of funding coming from banks which could be replaced by NCDs and CPs. Also, the share of National Housing Bank (NHB) should improve from hereon as the spreads on the rural housing scheme have increased to 3.5% (from 2.0% earlier).
- **Recent dip provides an excellent opportunity** – Repco's share price has dropped ~10% since 7<sup>th</sup> Oct. It trades at 3.1x FY18E P/B and 18x FY18E P/E (adjusted for DTL). We introduce FY19E and marginally tweak estimates. Our excess return on equity model derived TP now moves to Rs875.

 Price: INR749.00  
 Target: INR875.00 (prev: INR750.00)  
 Forecast Total Return: 17.2%

 Market Cap: INR47bn  
 Average daily volume: 101k

[Links to supporting research](#)
[Repco Home Finance: Differentiated](#)

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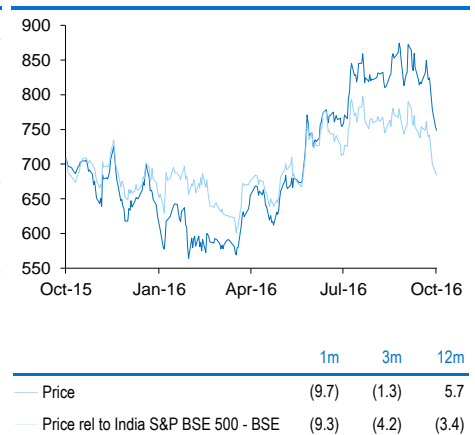
### Financials and valuation

Year end: 31 March

	2015A	2016A	2017E	2018E	2019E
Total operating income (INRm)	2,613	3,335	4,046	4,984	6,184
Operating expenses (INRm)	547	643	759	882	1,027
Impairments (INRm)	203	392	428	493	638
Exceptionals (INRm)	0	0	0	0	0
Profit before tax (reported) (INRm)	1,862	2,301	2,859	3,609	4,520
EPS (reported)	19.7	24.0	30.5	38.5	48.3
DPS (INR)	1.5	1.8	2.4	3.1	3.8
tNAV per share (INR)	139.9	164.5	199.2	241.8	295.0
PE (reported) (x)	37.9	31.2	24.5	19.4	15.5
Dividend yield (%)	0.2	0.2	0.3	0.4	0.5
Price/tNAV (x)	5.4	4.6	3.8	3.1	2.5
Return on equity (reported) (%)	0.2	0.2	0.2	0.2	0.2
Core tier 1 capital ratio (CRD IV "fully loaded") (%)	0.2	0.3	0.2	0.2	0.2
Loans:deposit ratio (%)	n.m.	n.m.	n.m.	n.m.	n.m.

Source: Company accounts/Investec Securities estimates

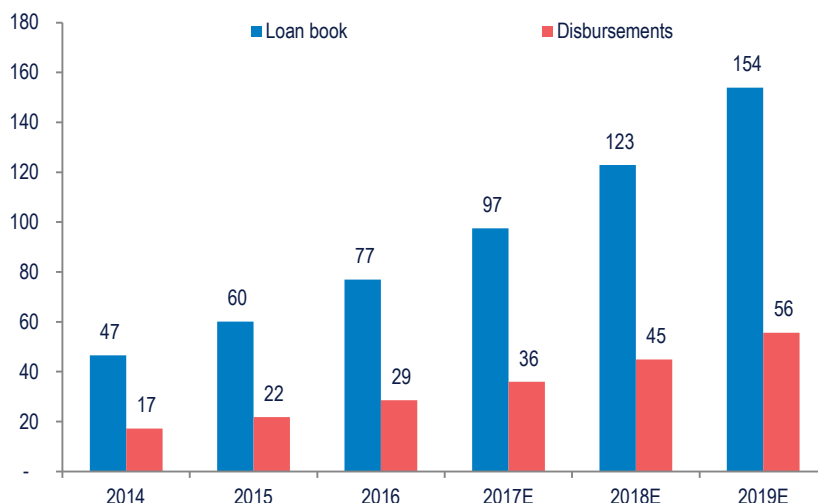
### Price Performance



Source: FactSet

We expect loan book and disbursements to grow at 25% CAGR over FY16 to FY19E.

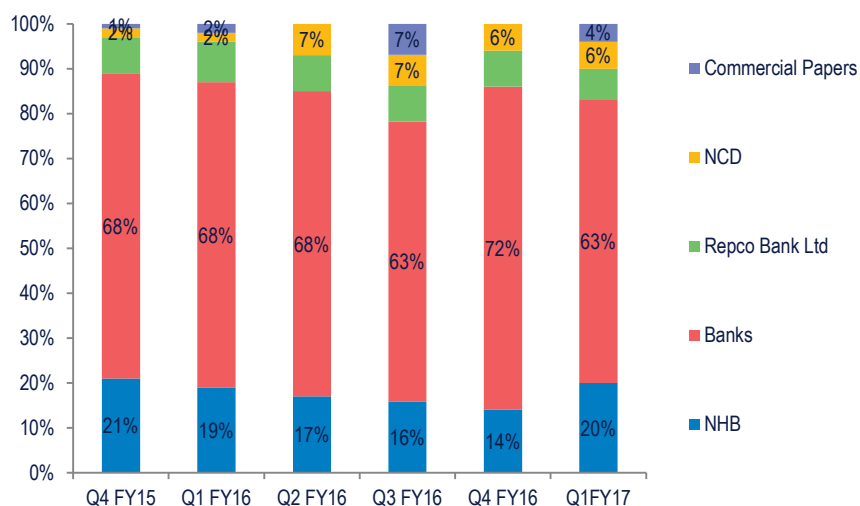
Figure 1: Loan book and disbursements expected to grow at 25% rate (Rs Bn)



Source: Investec Securities estimates

Share of bank loans should reduce helping the company to reduce its cost of borrowings.

Figure 2: Share of bank loans is expect to come down leading to benefit on cost of funds



Source: Investec Securities estimates

We tweak estimates; PAT remains unchanged.

Table 1: Changes in estimates

Rs millions	Old		New		% Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Loan Book	98,604	124,887	97,460	122,889	-1%	-2%
NII	3,667	4,517	3,639	4,478	-1%	-1%
Total Income	4,135	5,084	4,046	4,984	-2%	-2%
Opex	815	989	717	840	-12%	-15%
Pre-provisioning profit	3,320	4,094	3,328	4,143	0%	1%
Provisions	434	455	428	493	-1%	8%
PBT	2,856	3,610	2,859	3,609	0%	0%
PAT	1,897	2,397	1,898	2,396	0%	0%
EPS	30.5	38.5	31	39	0%	0%

Source: Investec Securities estimates

The cost of funding from corporate bonds route has declined.

**Table 2: Recent bond issuances by Repco Home Finance**

Name	Coupon	Maturity	Announce	Issued Amount (Rs Mn)
REPCO	8.5	04-Oct-2019	05-Oct-2016	1,000
REPCO	8.95	15-Mar-2019	05-Aug-2016	350
REPCO	0	23-Jul-2019	05-Aug-2016	350
REPCO	8.95	05-Aug-2019	05-Aug-2016	150
REPCO	0	06-Sep-2018	07-Sep-2015	1,000
REPCO	0	28-Aug-2018	01-Sep-2015	1,000
REPCO	9.35	29-Jul-2018	22-Jul-2015	1,000
REPCO	9.55	27-Feb-2018	27-Feb-2015	1,000

Source: Investec Securities estimates

**Table 3: We expect RoEs to increase to 19% in FY18E**

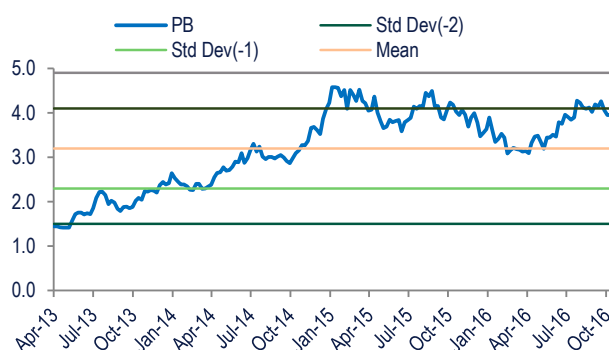
DuPont	2012	2013	2014	2015	2016	2017E	2018E	2019E
NII	4.1%	3.7%	4.5%	4.3%	4.5%	4.2%	4.1%	3.9%
Fee Income and Other	0.7%	0.6%	0.6%	0.6%	0.4%	0.5%	0.5%	0.5%
Total Income	4.8%	4.3%	5.0%	4.9%	4.9%	4.7%	4.5%	4.4%
Employee costs	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%	0.6%	0.5%
Operating costs	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%
Operating profit	4.1%	3.6%	4.2%	3.9%	4.0%	3.9%	3.7%	3.6%
Credit costs	0.6%	0.3%	0.5%	0.4%	0.6%	0.5%	0.4%	0.5%
PBT	3.4%	3.3%	3.6%	3.6%	3.5%	3.4%	3.3%	3.2%
PAT (before DTL)	2.5%	2.5%	2.6%	2.6%	2.3%	2.4%	2.4%	2.3%
<b>RoE (before DTL)</b>	<b>22.3%</b>	<b>17.1%</b>	<b>16.0%</b>	<b>17.0%</b>	<b>16.4%</b>	<b>18.4%</b>	<b>19.2%</b>	<b>19.1%</b>
Leverage (x)	8.8	6.9	6.1	6.6	7.1	7.6	8.0	8.3

Source: Investec Securities estimates

## Valuations

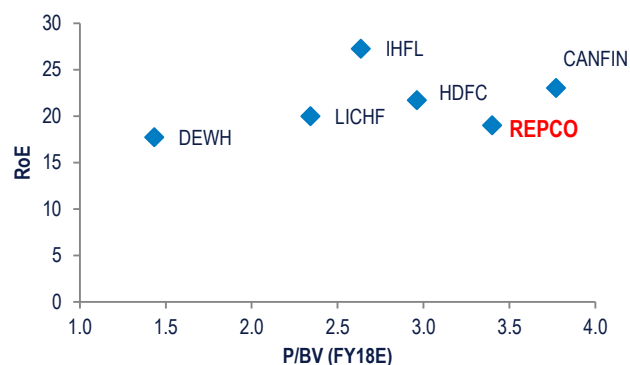
We value Repco Home finance using two stage excess return on equity model with cost of equity of 12%. At our target price, Repco is valued at 3.6x FY18E P/B. Repco Home finance trades at 3.1x FY18E P/B and 18x FY18E P/E. On P/B bands, the stock trades at one standard deviation above mean valuations.

**Figure 3: Repco is trading near one std above mean valuations**



Source: Investec Securities estimates

**Figure 4: RoE vs. P/B (FY18E) for HFCs**



Source: Investec Securities estimates

## Risk to investment case

- An adverse impact on the CBI investigation could lead to a further drop in share price of the company.
- Increasing competition in the housing finance segment could pose risk to our estimates.

**Table 4: Valuation Ratios**

Valuation Metrics	2015	2016	2017E	2018E	2019E
P/E*	34.1	30.1	22.3	17.7	14.1
P/BV*	5.4	4.6	3.8	3.1	2.5
ROA	2.6%	2.3%	2.4%	2.4%	2.4%
ROE	17.0%	16.4%	18.4%	19.2%	19.8%
Dividend Yield	0.2%	0.2%	0.3%	0.4%	0.5%
BV	130	153	184	223	271
Diluted EPS (Rs)	20	24	31	39	48
<b>Implied Valuation Ratios</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
P/E	39.7	35.1	26.1	20.7	16.5
P/BV	6.3	5.3	4.4	3.6	3.0

\* adjusted for DTL, Source: Investec Securities estimates

**Table 5: Repco Home Finance – Financial Summary**

P&L Summary	2015	2016	2017E	2018E	2019E
Net Interest Income	2,310	3,038	3,639	4,478	5,560
Fee Income	231	286	395	494	613
Other Income	72	12	12	12	12
<b>Total Income</b>	<b>2,613</b>	<b>3,335</b>	<b>4,046</b>	<b>4,984</b>	<b>6,184</b>
<b>Operating expenses</b>	<b>518</b>	<b>601</b>	<b>717</b>	<b>840</b>	<b>985</b>
Operating Costs	183	192	217	246	280
Employee Costs	335	409	500	594	706
<b>Pre Provisioning Profit</b>	<b>2,095</b>	<b>2,734</b>	<b>3,328</b>	<b>4,143</b>	<b>5,199</b>
Provisions	203	392	428	493	638
<b>Operating Profit</b>	<b>1,891</b>	<b>2,342</b>	<b>2,900</b>	<b>3,650</b>	<b>4,561</b>
Depreciation	29	41	41	41	41
<b>PBT</b>	<b>1,862</b>	<b>2,301</b>	<b>2,859</b>	<b>3,609</b>	<b>4,520</b>
Less:Tax	489	742	772	974	1,220
<b>PAT before DTL</b>	<b>1,373</b>	<b>1,558</b>	<b>2,087</b>	<b>2,634</b>	<b>3,299</b>
DTL	142	58	189	238	298
<b>PAT after DTL</b>	<b>1,231</b>	<b>1,501</b>	<b>1,898</b>	<b>2,396</b>	<b>3,001</b>
Basic EPS (Rs)	20	24	31	39	48
Diluted EPS (Rs)	20	24	31	39	48
Dividend per share(Rs)	1.5	1.8	2.4	3.1	3.8
<b>Balance Sheet Summary</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Networth	8,121	9,548	11,454	13,860	16,874
Deferred tax liability	600	741	930	1,168	1,466
Borrowings	51,044	65,379	84,762	107,785	135,905
<b>Total Sources of funds</b>	<b>59,765</b>	<b>75,668</b>	<b>97,146</b>	<b>122,813</b>	<b>154,244</b>
Loan Book	60,129	76,912	97,460	122,889	154,022
Investments	124	124	124	124	124
Fixed Assets	89	93	93	93	93
Other Assets	257	341	341	341	341
Net working Capital	(835)	(1,802)	(1,802)	(1,802)	(1,802)
<b>Total Application of funds</b>	<b>59,765</b>	<b>75,668</b>	<b>97,146</b>	<b>122,813</b>	<b>154,244</b>

Source: Investec Securities estimates

## Summary Financials (INRm)

Year end: 31 March

Income Statement	2015	2016	2017E	2018E	2019E
Net interest income	2,310	3,038	3,639	4,478	5,560
Other operating income	303	297	407	506	624
<b>Total operating income</b>	<b>2,613</b>	<b>3,335</b>	<b>4,046</b>	<b>4,984</b>	<b>6,184</b>
Net insurance claims	0	0	0	0	0
<b>Net operating income pre impairments</b>	<b>2,065</b>	<b>2,693</b>	<b>3,287</b>	<b>4,102</b>	<b>5,158</b>
Impairments	203	392	428	493	638
<b>Net operating income</b>	<b>2,269</b>	<b>3,085</b>	<b>3,715</b>	<b>4,595</b>	<b>5,796</b>
Expenses	547	643	759	882	1,027
<b>Operating income</b>	<b>2,816</b>	<b>3,727</b>	<b>4,474</b>	<b>5,477</b>	<b>6,823</b>
JVs and associates	0	0	0	0	0
<b>Profit before tax pre-exceptionals</b>	<b>1,862</b>	<b>2,301</b>	<b>2,859</b>	<b>3,609</b>	<b>4,520</b>
Exceptionals	0	0	0	0	0
<b>Profit before tax</b>	<b>1,862</b>	<b>2,301</b>	<b>2,859</b>	<b>3,609</b>	<b>4,520</b>
Tax	631	800	961	1,213	1,519
Profit after tax	1,231	1,501	1,898	2,396	3,001
Minorities/Preference dividends					
Profit attributable	1,231	1,501	1,898	2,396	3,001
EPS (reported)	19.7	24.0	30.5	38.5	48.3
DPS (INR)	1.5	1.8	2.4	3.1	3.8
Average number of group shares (m)	62	63	62	62	62
Total number of shares in issue (m)	62	63	62	62	62
Balance sheet	2015	2016	2017E	2018E	2019E
Customer loans	60,129	76,912	97,460	122,889	154,022
Customer deposits	0	0	0	0	0
RWAs	18,380	24,883	30,247	43,044	49,539
Core tier 1 capital ratio (%)	0.2	0.3	0.2	0.2	0.2

Source: Company accounts, Investec Securities estimates

## Target Price Basis

Excess return on equity

## Key Risks

Correction in real estate prices; Competition

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	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 10%	188	60%	84	45%
Hold	0% to 10%	90	29%	5	6%
Sell	less than 0%	35	11%	1	3%

Source: Investec Securities estimates

#### Stock ratings for Indian stocks

#### Stock ratings for research produced by Investec Bank plc

	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 15%	53	62%	0	0%
Hold	5% to 15%	20	24%	0	0%
Sell	less than 5%	12	14%	0	0%

Source: Investec Securities estimates

#### Stock ratings for African\* stocks

#### Stock ratings for research produced by Investec Securities Limited

	Expected total return	Count	All stocks	Corporate stocks	
	12m performance		% of total	Count	% of total
Buy	greater than 15%	30	39%	6	20%
Hold	5% to 15%	21	28%	1	5%
Sell	less than 5%	25	33%	3	12%

Source: Investec Securities estimates

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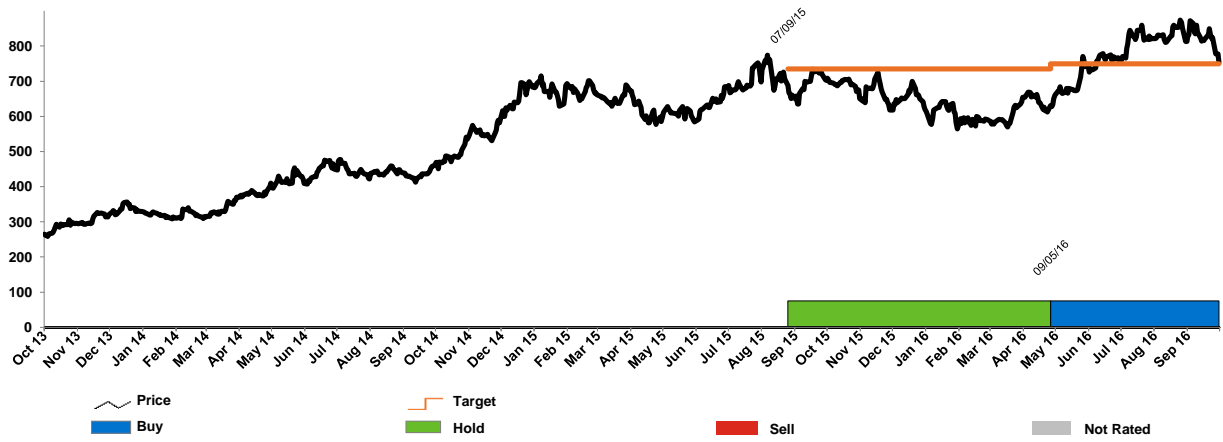
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## Recommendation history (for the last 3 years to previous day's close)

Repc Home Finance (RHFL.NS) – Rating Plotter as at 14 Oct 2016



Source: Investec Securities / FactSet

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