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Steady quarter

REPCO reported 1Q15 net profit at ₹248mn, up 11% YoY and in-line with JMFe. Although loan book growth remained strong, spread pressure and asset quality deterioration were key negatives. Key highlights: a) NII grew 25% YoY to ₹530mn (6% below of JMFe) while loan book grew 31% YoY to ₹48.9bn. Disbursements were robust at ₹4.1bn, up 24% YoY. b) Spreads declined 40bps YoY to 2.8% while margins were down 30bps YoY to 4.4% due to interest income reversal on higher slippages and increase in funding cost. c) Asset quality witnessed seasonal deterioration with gross NPLs of 2.5% in 1Q15 vs 2.2% in 1Q14 and 1.5% in 4Q14. Coverage ratio stood at 36% in 1Q15 vs 32% in 1Q14. Provisioning was stable at ₹98mn. We value the stock at 2.9x June'16E BV implying June'15 TP of ₹460. Any weakness in the stock should be used as entry opportunity, in our view.

- Robust loan book growth; expect trend to continue:** REPCO reported loan growth of 31% YoY (5% QoQ) to ₹48.9bn while disbursements grew 24% YoY to ₹4.1bn. Sanctions remained strong at ₹4.8bn, up 35% YoY. Proportion of LAP increased further to 19.2% in 1Q15 (vs. 18.7% in 4Q14 and 15.3% in 1Q14) while proportion of salaried loan remained stable at 45%. Repayment rate (annualized) in 1Q15 stood at 15.8% vs. 16.9% in FY14. We factor loan book CAGR of 27% over FY14-17E.
- Spreads declined due to interest income reversal and increase in funding cost:** In 1Q15, spreads declined 40bps YoY to 2.8% while margins were down 30bps YoY to 4.4% due to a) interest income reversal on higher slippages, b) 38bps increase in funding cost to 9.8%, as last year company had benefit of capital raising. The management expects funding cost to remain in 9.5-9.8% band depending upon base rate movement of the banks (64% of borrowings). We expect 30bps margin decline and 25% CAGR in NII over FY14-17E.
- Marginal deterioration in asset quality:** Asset quality witnessed seasonal deterioration with gross NPLs of 2.5% in 1Q15 vs 2.2% in 1Q14 and 1.5% in 4Q14. Coverage ratio stood at 36% in 1Q15 vs 32% in 1Q14. Non-salaried segment and Kerala witnessed increase in slippages while TN remained sluggish. Provisioning was stable at ₹98mn. We factor credit costs of 53bps/48bps/41bps in FY15/16/17E respectively vs. 55bps in FY14.
- Well capitalized to grow:** We expect 21% CAGR in earnings over FY14-17E driven by robust loan growth, improving cost to assets and stable asset quality trends. With tier I of c.17% in FY17E, REPCO is well capitalized to capture growth and does not need capital for next 3 years. We expect REPCO to deliver ROA of 2.2% and ROE of 19% by FY17E. We value the stock at 2.9x June'16E BV implying June'15 TP of ₹460.

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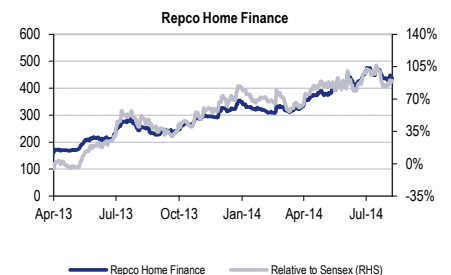
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Key Data

Market cap (bn)	₹ 27.1 / US\$ 0.4
Shares in issue (mn)	62.2
Diluted share (mn)	62.2
3-mon avg daily val (mn)	₹ 123.0/US\$ 2.0
52-week range	₹ 515.0/201.0
Sensex/Nifty	25,329/7,569
₹/US\$	61.3

Daily Performance



%	1M	3M	12M
Absolute	-5.0	15.6	70.9
Relative*	-4.0	2.3	36.1

* To the BSE Sensex

Shareholding Pattern (%)

	1Q14	1Q15
Promoters	37.37	37.37
FII	6.28	12.19
DII	13.75	11.93
Public / others	42.60	38.51

Exhibit 1. Financial Summary

	(₹ mn)				
Y/E March	FY13	FY14	FY15E	FY16E	FY17E
Net Profit	800	1,101	1,236	1,547	1,953
Net Profit (YoY) (%)	30.5%	37.6%	12.3%	25.1%	26.2%
Assets (YoY) (%)	32.9%	25.0%	29.9%	27.5%	24.9%
ROA (%)	2.41%	2.58%	2.27%	2.21%	2.21%
ROE (%)	17.1%	16.0%	16.0%	17.7%	19.0%
EPS (₹)	12.9	17.7	19.9	24.9	31.4
EPS (YoY) (%)	-2.5%	37.6%	12.3%	25.1%	26.2%
PE (x)	33.6	24.4	21.7	17.4	13.8
BV (₹)	102	119	129	151	179
BV (YoY) (%)	56%	17%	9%	17%	18%
P/BV (x)	4.23	3.62	3.34	2.85	2.41

Source: Company data, JM Financial. Note: Valuations as of 11/08/14.

REPCO – 1Q15 trends

- REPCO reported 1Q15 net profit at ₹248mn, up 11% YoY and in-line with JMFe. Key highlights: a) NII grew 25% YoY to ₹530mn (6% below of JMFe) while loan book grew 31% YoY to ₹48.9bn. Disbursements were robust at ₹4.1bn, up 24% YoY. b) Spreads declined 40bps YoY to 2.8% while margins were down 30bps YoY to 4.4% due to interest income reversal on higher slippages and increase in funding cost. c) Asset quality witnessed seasonal deterioration with gross NPLs of 2.5% in 1Q15 vs 2.2% in 1Q14 and 1.5% in 4Q14. Coverage ratio stood at 36% in 1Q15 vs 32% in 1Q14. Provisioning was stable at ₹98mn.

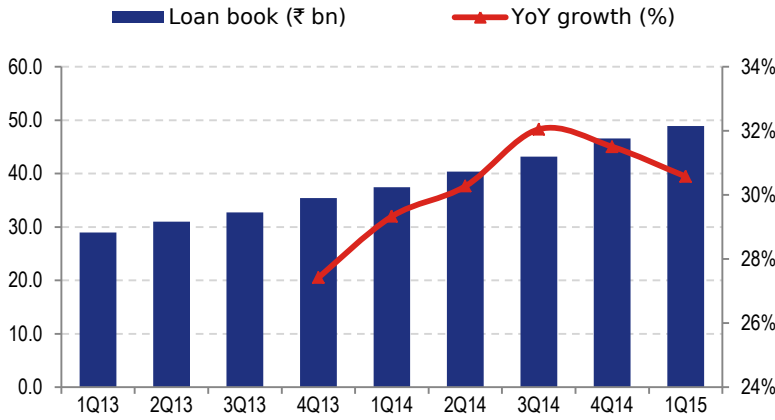
Exhibit 2. REPCO: Actual vs. Estimates		(₹ mn)	
Actual vs Estimates	1Q15E	1Q15A	A/E (%)
Net Interest Income	562	530	-5.6%
Total Non-interest Income	50	55	9.6%
Total Income	612	585	-4.4%
Total Operating Expenses	110	113	2.3%
Operating Profit (PPP)	502	473	-5.9%
Total Provisions	125	98	-21.6%
Reported Profit	249	248	-0.3%

Source: Company, JM Financial.

Exhibit 3. REPCO: 1Q15 - Results summary					
Earnings Table (₹ mn)	1Q14	4Q14	1Q15	YoY	QoQ
NII	424	539	530	25.0%	-1.7%
Non-Interest income	49	51	55	12.5%	6.8%
Total Income	473	591	585	23.7%	-0.9%
Employee Cost	41	69	68	66.4%	-0.9%
Depreciation and Amortization	5	7	5	20.0%	-16.9%
Other expenses	32	46	39	21.4%	-14.2%
Total Operating Expenses	78	121	113	45.0%	-6.8%
Operating Profit	396	470	473	19.5%	0.6%
Total Provisions	98	41	98	0.2%	139.0%
PBT	298	429	375	25.8%	-12.6%
Tax	75	114	127	69.6%	11.1%
Reported Profit	223	315	248	11.2%	-21.2%
Loan Book (₹ bn.)					
Disbursements	3.3	5.1	4.1	24.2%	-19.0%
Loans	37.5	46.6	48.9	30.6%	4.9%
Ratio Analysis (%)					
Cost Income Ratio	10.3%	8.7%	9.4%	-0.93%	0.68%
Tax Rate	25.1%	26.6%	33.8%	8.71%	7.21%
Credit Quality					
Gross NPAs (₹. mn.)	834	686	1,218	46.1%	77.6%
Net NPAs (₹. mn.)	566	332	783	38.3%	135.8%
Gross NPA (%)	2.21%	1.46%	2.47%	0.26%	1.01%
Net NPA (%)	1.51%	0.71%	1.60%	0.09%	0.89%
Coverage Ratio (%)	32.1%	51.6%	35.7%	3.6%	-15.9%

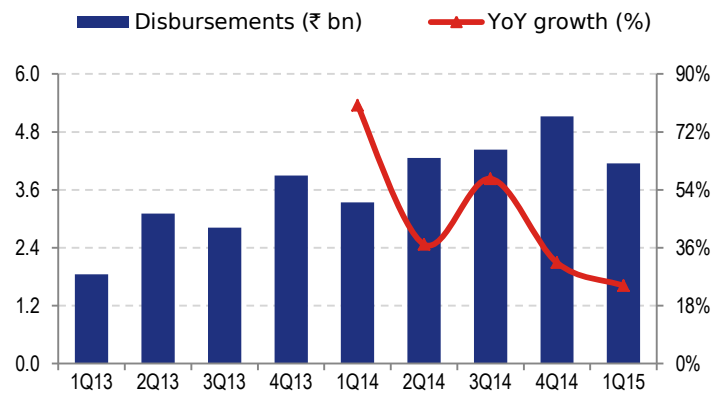
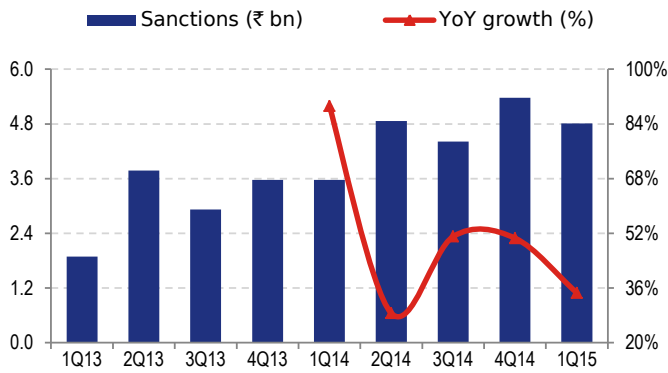
Source: Company, JM Financial.

Exhibit 4. REPCO: Trend in loan book growth (%) (YoY)



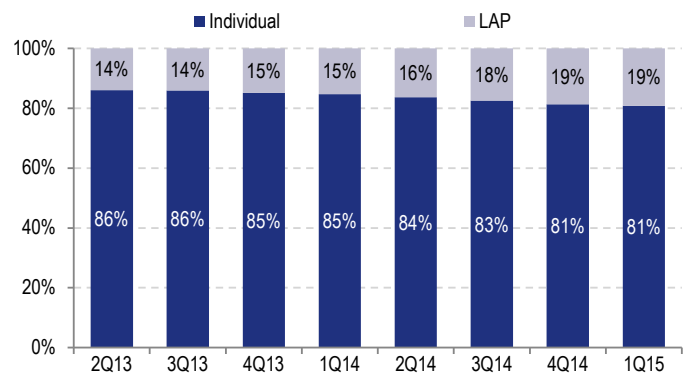
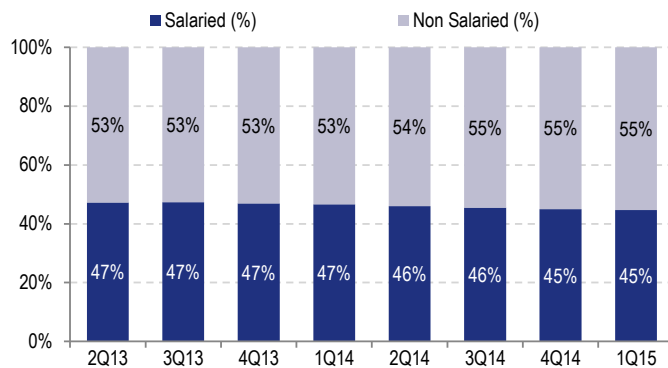
Source: Company, JM Financial.

Exhibit 5. REPCO: Trends in sanctions and disbursements (RHS)



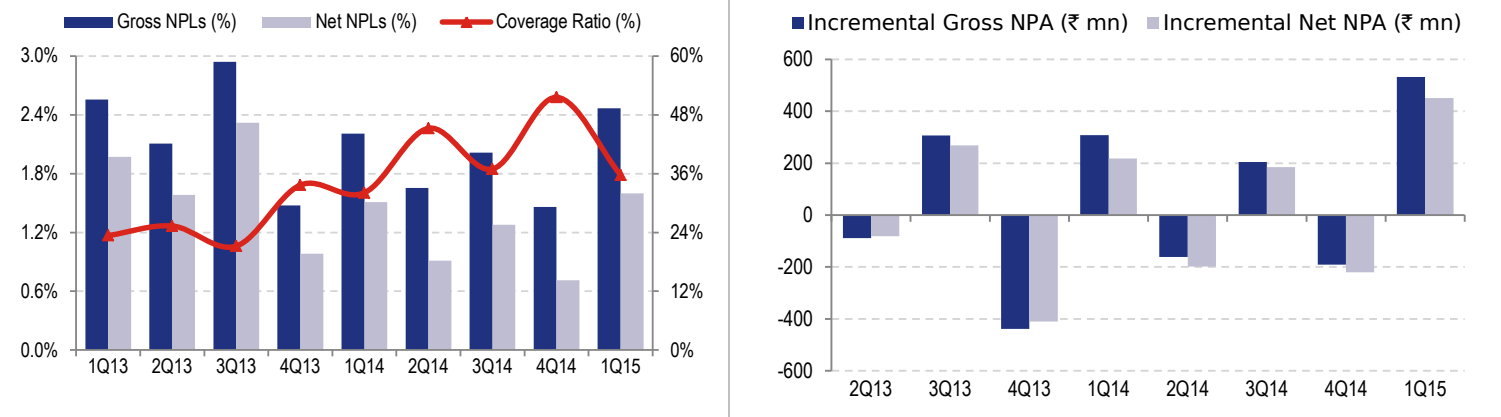
Source: Company, JM Financial.

Exhibit 6. REPCO: Trends in loan composition as per customer profile and segment



Source: Company, JM Financial.

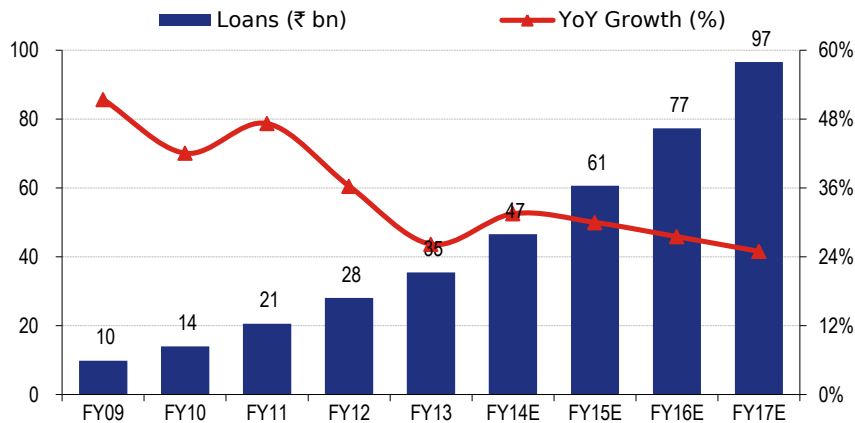
Exhibit 7. REPCO: Trend in asset quality (%)



Source: Company, JM Financial.

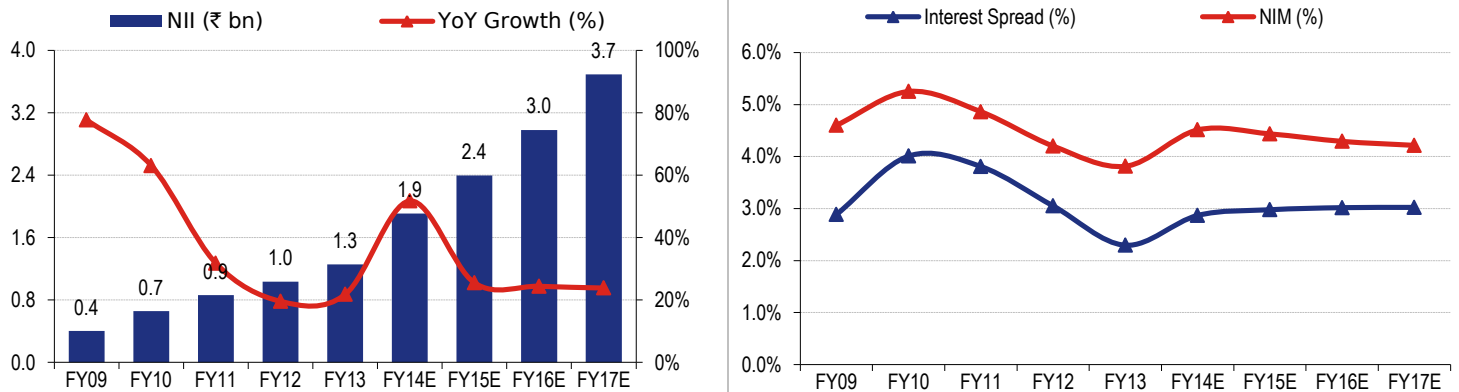
REPCO - Annual Trends

Exhibit 8. REPCO: Trend in loan growth



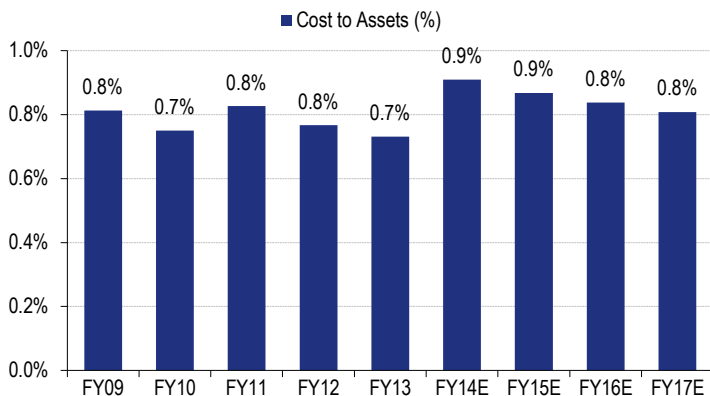
Source: Company, JM Financial.

Exhibit 9. REPCO: Trend in NII and margins



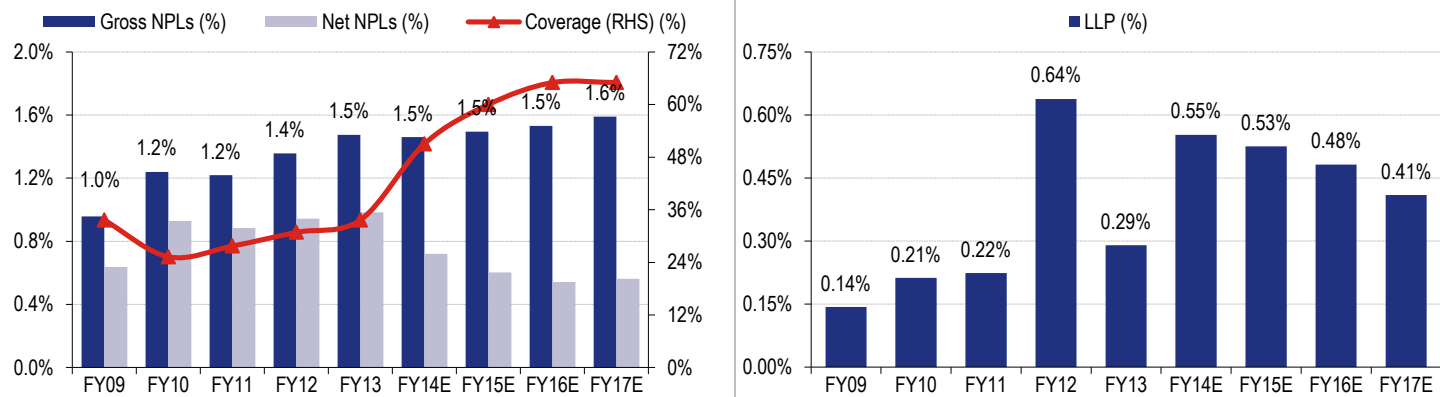
Source: Company, JM Financial.

Exhibit 10. REPCO: Trend in cost to asset



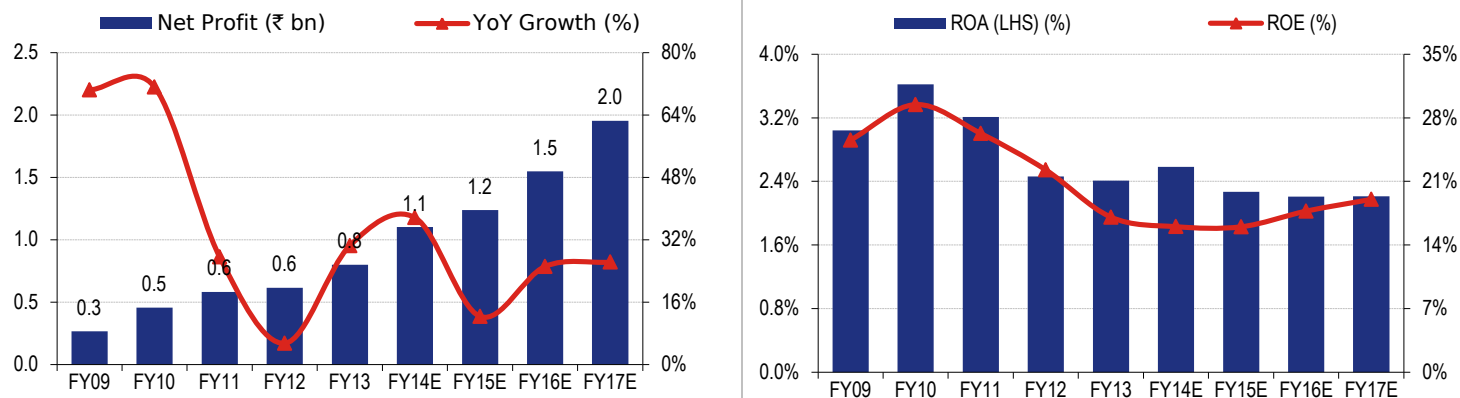
Source: Company, JM Financial.

Exhibit 11. REPCO: Trend in asset quality and LLP



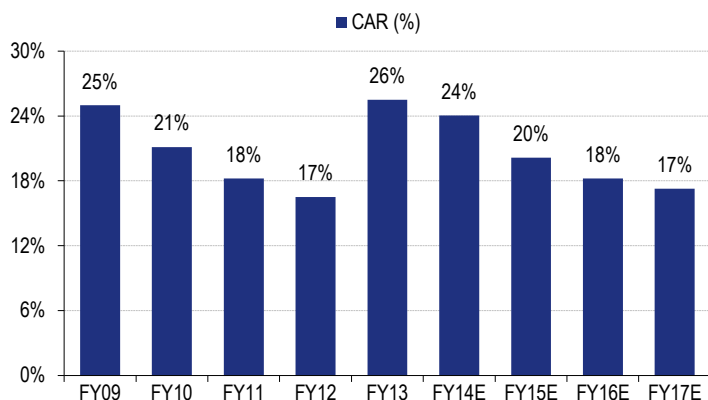
Source: Company, JM Financial.

Exhibit 12. REPCO: Trend in earnings and return ratios



Source: Company, JM Financial.

Exhibit 13. REPCO: Trend in CAR



Source: Company, JM Financial.

Financial Tables (Standalone)

Profit & Loss (₹ Mn)	FY 13	FY 14	FY 15E	FY 16E	FY 17E
Net Interest Income (NII)	1,258	1,908	2,395	2,979	3,689
Non-Interest Income	145	198	227	277	330
Total Income	1,403	2,106	2,622	3,256	4,019
Operating Expenses	243	388	472	587	713
Pre-provisioning Profits	1,160	1,718	2,149	2,669	3,306
Loan Loss Provisions	61	182	226	265	279
Provision for Investments	0	0	0	0	0
Other Provisions	31	45	56	67	77
Total Provisions	92	227	282	332	356
PBT	1,068	1,491	1,868	2,337	2,950
Tax	268	390	631	790	997
PAT (Pre-Extra ordinaries)	800	1,101	1,236	1,547	1,953
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	800	1,101	1,236	1,547	1,953
Dividend	80	87	148	186	234
Retained Profits	720	1,014	1,088	1,361	1,718

Source: Company, JM Financial

Balance Sheet (₹ Mn)	FY 13	FY 14	FY 15E	FY 16E	FY 17E
Equity Capital	622	622	622	622	622
Reserves & Surplus	5,724	6,789	7,428	8,789	10,508
Shareholders' Equity	6,345	7,411	8,050	9,411	11,130
Preference Shares	0	0	0	0	0
Borrowed Funds	30,647	39,020	52,287	67,503	84,952
Current Liabilities	932	959	1,231	1,570	1,961
Total Liabilities	37,924	47,390	61,568	78,483	98,042
Loans	35,450	46,619	60,600	77,276	96,559
Investments	81	124	61	77	97
Cash & Bank Balances	2,101	219	364	464	579
Loans & Advances - CA	0	0	0	0	0
Other Current Assets	136	192	236	274	318
Fixed Assets	45	50	65	83	103
Deferred Tax Asset	112	187	242	309	386
Total Assets	37,924	47,390	61,568	78,483	98,042

Source: Company, JM Financial

Key Ratios (%)	FY 13	FY 14	FY 15E	FY 16E	FY 17E
Growth (YoY) (%)					
Borrowed Funds	23.3%	27.3%	34.0%	29.1%	25.9%
Advances	26.2%	31.5%	30.0%	27.5%	25.0%
Total Assets	32.9%	25.0%	29.9%	27.5%	24.9%
NII	21.8%	51.7%	25.5%	24.4%	23.8%
Non-Interest Income	13.4%	36.1%	14.9%	22.0%	19.3%
Operating Expenses	27.3%	59.6%	21.8%	24.2%	21.6%
Operating Profits	19.6%	48.1%	25.1%	24.2%	23.9%
Core Operating Profits	19.6%	48.1%	25.1%	24.2%	23.9%
Provisions	-40.6%	145.7%	24.2%	17.9%	7.2%
Reported PAT	30.5%	37.6%	12.3%	25.1%	26.2%
Yields / Margins (%)					
Interest Spread (%)	2.29%	2.87%	2.98%	3.02%	3.02%
NIM (%)	3.81%	4.51%	4.44%	4.29%	4.21%
Profitability (%)					
ROA (%)	2.41%	2.58%	2.27%	2.21%	2.21%
ROE (%)	17.06%	16.01%	16.00%	17.72%	19.01%
Cost to Income (%)	17.3%	18.4%	18.0%	18.0%	17.8%
Assets Quality (%)					
Gross NPLs (%)	1.47%	1.46%	1.49%	1.53%	1.59%
LLP (%)	0.28%	0.55%	0.53%	0.48%	0.41%
Capital Adequacy (%)					
Tier I (%)	25.5%	24.1%	20.1%	18.2%	17.3%
CAR (%)	25.5%	24.1%	20.1%	18.2%	17.3%

Source: Company, JM Financial

Du-pont Analysis (%)	FY 13	FY 14	FY 15E	FY 16E	FY 17E
NII / Assets (%)	3.79%	4.47%	4.40%	4.25%	4.18%
Other income / Assets (%)	0.44%	0.46%	0.42%	0.40%	0.37%
Total Income / Assets (%)	4.22%	4.94%	4.81%	4.65%	4.55%
Cost to Assets (%)	0.73%	0.91%	0.87%	0.84%	0.81%
PPP / Assets (%)	3.49%	4.03%	3.95%	3.81%	3.75%
Provisions / Assets (%)	0.28%	0.53%	0.52%	0.47%	0.40%
PBT / Assets (%)	3.21%	3.50%	3.43%	3.34%	3.34%
Tax Rate (%)	25.08%	26.17%	33.80%	33.80%	33.80%
ROA (%)	2.41%	2.58%	2.27%	2.21%	2.21%
Leverage (%)	7.1	6.2	7.0	8.0	8.6
ROE (%)	17.06%	16.01%	16.00%	17.72%	19.01%

Source: Company, JM Financial.

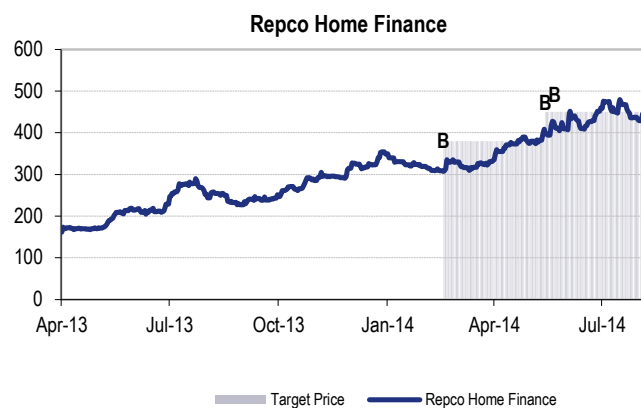
Valuations	FY 13	FY 14	FY 15E	FY 16E	FY 17E
Shares in issue (mn)	62.2	62.2	62.2	62.2	62.2
EPS (Rs.)	12.9	17.7	19.9	24.9	31.4
EPS (YoY) (%)	-2.5%	37.6%	12.3%	25.1%	26.2%
PE (x)	33.6	24.4	21.7	17.4	13.8
BV (Rs.)	102	119	129	151	179
BV (YoY) (%)	56.3%	16.8%	8.6%	16.9%	18.3%
P/BV (x)	4.23	3.62	3.34	2.85	2.41
DPS (Rs.)	1.3	1.4	2.4	3.0	3.8
Div. yield (%)	0.3%	0.3%	0.6%	0.7%	0.9%

Source: Company, JM Financial.

History of earnings estimates and target price

Date	FY15E EPS (₹)	% Chg.	FY16E EPS (₹)	% Chg.	Target Price	% Chg.
17-Feb-14	23.4		29.1		380	
14-May-14	22.6	-3.4	29.2	0.3	450	18.4
22-May-14	22.6	0.0	29.2	0.0	450	0.0

Recommendation history



JM Financial Institutional Securities Limited

(Formerly known as JM Financial Institutional Securities Private Limited)

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