14 February 2014

India | Banking & Financial Services | Initiating Coverage

Repco Home Finance |

REPCO IN

Price: ₹310

BUY

Target: ₹380 (Mar'15)

JM FINANCIAL

Well placed for profitable growth

Amey Sathe, CFA
amey.sathe@jmfl.com
Tel: (91 22) 6630 3027

Karan Uberoi, CFA, FRM
karan.uberoi@jmfl.com
Tel: (91 22) 6630 3082

Sanketh Godha
sanketh.godha@jmfl.com
Tel: (91 22) 6630 3080

Puneet Gulati
puneet.gulati@jmfl.com
Tel: (91 22) 6630 3072

Promoted by Repco Bank (owns 37%), Repco Home Finance (Repco) is a south India-based housing finance company which has built its niche by focusing on non-salaried segment (55% of loans). With deeper penetration in existing markets and wider geographic expansion into newer markets, we believe Repco is well placed to witness robust loan book CAGR of 29% over FY13-16E. With stable margins, healthy asset quality and strong capitalization level, we expect 31% CAGR in earnings with robust return ratios (ROA of 2.6% and ROE of 19% by FY16E). We value Repco at 2.3x FY16E BV (implied P/E of 13x) and arrive at TP of ₹380.

- **Expect 29% CAGR in loan book over FY13-16E driven by deeper penetration, and geographic expansion:** Repco currently has a concentrated loan book geographically with South India accounting for 92% of loans (TN: 64%). However, it has been gradually expanding its presence to other states like Maharashtra, Gujarat. With deeper penetration in existing markets and wider geographic expansion into newer markets, we believe Repco is well placed to grow its loan book at 29% CAGR over FY13-16E.

- **Rating upgrade to help in diversifying its borrowing profile:** Repco gets its borrowing from banks (65% in 3Q14) and NHB (26% in 3Q14). We believe impact of spread cap on refinancing facility from NHB on funding cost will be manageable. Recent rating upgrade will be used to diversify its funding by issuing NCDs. Due to competitive borrowing cost, focus on self-employed segment and better pricing power, Repco enjoys strong spread and margin of 3.1% and 4.4% respectively and we factor stable margin over FY14-16E.

- **Robust asset quality performance despite focus on self-employed segment:** Despite its focus on self-employed segment which sees erratic cash flows, Repco has demonstrated strong asset quality performance. Total loans written off since inception are 0.07% of total cumulative disbursements. With conservative IIR (50%) and LTV (65%), we expect asset quality to remain healthy with gross NPLs of 1.7% by FY16E. We conservatively factor credit costs of 50bps with net NPA of 0.8% in FY16 (credit cost of 29bps in FY13).

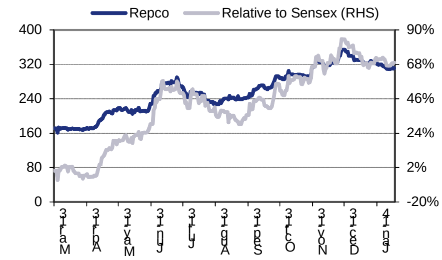
- **Well capitalized for next 5 years; expect 31% CAGR in earnings over FY13-16E:** With tier I of 25%, Repco has enough headroom to grow at 25-30% over the next 5 years. We forecast net profit CAGR of 31% over FY13-16E led by strong loan growth, stable margins, and steady asset quality. We expect improving return ratios with ROA of c.2.6% and ROE of c.19% by FY15E.

- **Initiate with BUY and TP of ₹380:** We value Repco at 2.3x Mar'16 BV (implied P/E of 13x) and arrive at Mar'15 TP of ₹380. **Key risks:** Any sustained liquidity shock, higher than expected delinquencies, and regulatory risks are key downside risks.

Key Data

Market cap	₹19.4 / US$ 0.3
Shares in issue (mn)	62.2
Diluted share (mn)	62.2
3-mon avg daily val (mn)	₹7.2 / US$ 0.1
52-week range	373.3 / 158.0
Sensex/Nifty	20,242/6,012
₹/US$	62.3

Daily Performance



%	1M	3M	12M
Absolute	-5.8	5.2	NA
Relative*	-2.0	6.0	NA

** To the BSE Sensex*

Shareholding Pattern (%)

	4Q FY13	3Q FY14
Promoters	37.37	37.37
FII	5.55	6.38
DII	12.34	12.01
Public / others	44.74	44.24

Exhibit 1. Financial Summary (₹ mn)

Y/E March	FY12	FY13	FY14E	FY15E	FY16E
Net Profit	613	800	1,138	1,455	1,807
Net Profit (YoY %)	5.4%	30.5%	42.3%	27.8%	24.2%
Assets (YoY %)	33.9%	32.9%	25.5%	29.0%	26.9%
ROA (%)	2.46%	2.41%	2.66%	2.67%	2.59%
ROE (%)	22.3%	17.1%	16.6%	18.3%	19.3%
EPS (₹)	13.2	12.9	18.3	23.4	29.1
EPS (YoY %)	5.4%	-2.5%	42.3%	27.8%	24.2%
PE (x)	**23.4**	**24.0**	**16.9**	**13.2**	**10.6**
BV (₹)	65	102	118	138	163
BV (YoY %)	22%	56%	16%	17%	18%
P/BV (x)	**4.73**	**3.03**	**2.61**	**2.24**	**1.90**

Source: Company data, JM Financial. Note: Valuations as of 14/02/2013.

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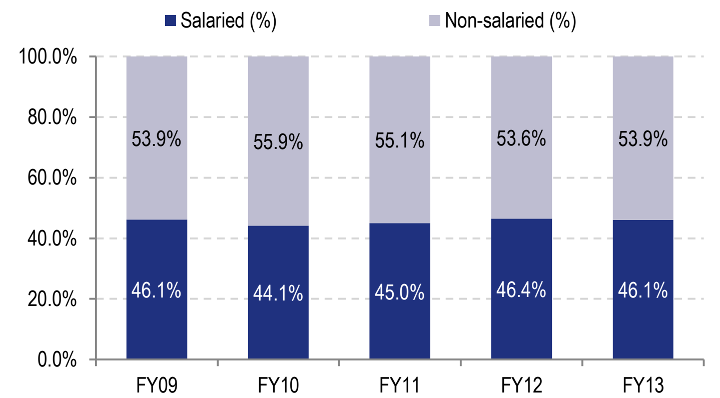
Exhibit 2. Key Financials

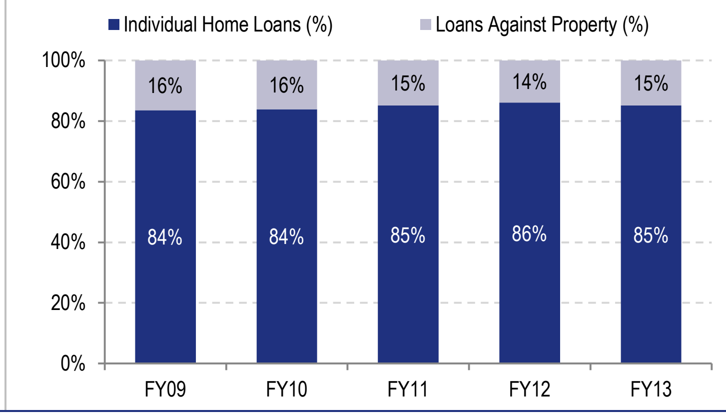
Key Parameters	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E	CAGR (08-13)*	CAGR (13-16)E*
Borrowings (Rs. mn)	**5,789**	**8,593**	**12,725**	**18,272**	**24,860**	**30,647**	**39,289**	**51,587**	**66,263**	**39.6%**	**29.3%**
Loans (Rs. mn)	**6,507**	**9,853**	**13,996**	**20,605**	**28,022**	**35,450**	**46,705**	**60,392**	**76,755**	**40.4%**	**29.4%**
Individuals (Rs. mn)	5,440	8,234	11,735	17,532	24,108	30,170	39,700	50,125	62,939	40.9%	27.8%
LAP (Rs. mn)	1,067	1,619	2,261	3,074	3,914	5,280	7,006	10,267	13,816	37.7%	37.8%
Total Assets (Rs. mn)	**7,244**	**10,279**	**14,914**	**21,300**	**28,527**	**37,924**	**47,588**	**61,398**	**77,941**	**39.2%**	**27.1%**
Assets Growth (%)	62.2%	41.9%	45.1%	42.8%	33.9%	32.9%	25.5%	29.0%	26.9%		
Income statement											
NII (Rs. mn)	226	402	656	864	1,033	1,258	1,889	2,432	3,067	40.9%	34.6%
Core operating profits (Rs.mn)	204	392	644	831	970	1,160	1,723	2,219	2,800	41.6%	34.1%
PAT (Rs. mn)	**156**	**266**	**456**	**582**	**613**	**800**	**1,138**	**1,455**	**1,807**	**38.6%**	**31.2%**
Profitability											
Interest Spread (%)	2.39%	2.88%	4.01%	3.81%	3.05%	2.29%	2.80%	2.99%	3.06%	-0.1%	0.8%
NIM (%)	3.88%	4.60%	5.25%	4.86%	4.20%	3.81%	4.45%	4.50%	4.44%	-0.1%	0.6%
ROA (%)	2.67%	3.04%	3.62%	3.21%	2.46%	2.41%	2.66%	2.67%	2.59%	-0.3%	0.2%
ROE (%)	**22.3%**	**25.5%**	**29.5%**	**26.3%**	**22.3%**	**17.1%**	**16.6%**	**18.3%**	**19.3%**	**-5.2%**	**2.3%**
Asset Quality											
Gross NPL (Rs. mn)	82	95	174	252	383	525	668	945	1,292	44.9%	35.0%
Gross NPL (%)	1.26%	0.96%	1.24%	1.22%	1.36%	1.47%	1.42%	1.55%	1.67%	0.2%	0.2%
Net NPL (Rs. mn)	55	63	130	182	265	349	367	473	581	44.8%	18.6%
Net NPL (%)	0.84%	0.64%	0.93%	0.88%	0.94%	0.98%	0.79%	0.78%	0.76%	0.1%	-0.2%
Loan Loss Charge (Rs. mn) (P/L)	1	12	25	39	49	61	139	199	276	123.3%	65.3%
Coverage (%)	33.5%	33.6%	25.3%	27.7%	30.8%	33.7%	45.0%	50.0%	55.0%	0.2%	21.3%

Source: Company, JM Financial, Note: * Figures for ratios signify change over the specified period.

Key Charts

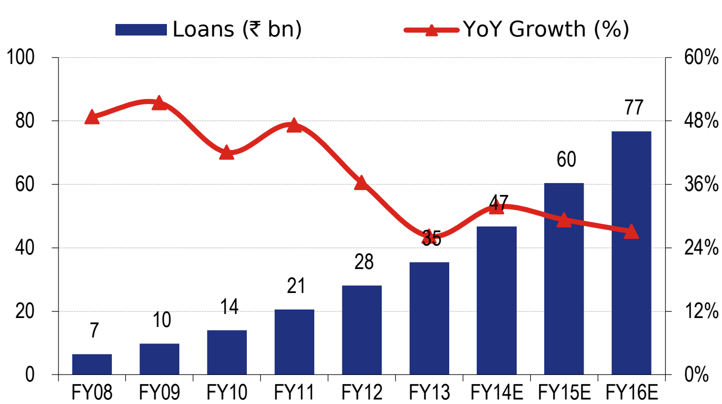
Exhibit 3. Repco: Loan book composition in terms of customer profile and segment (RHS)

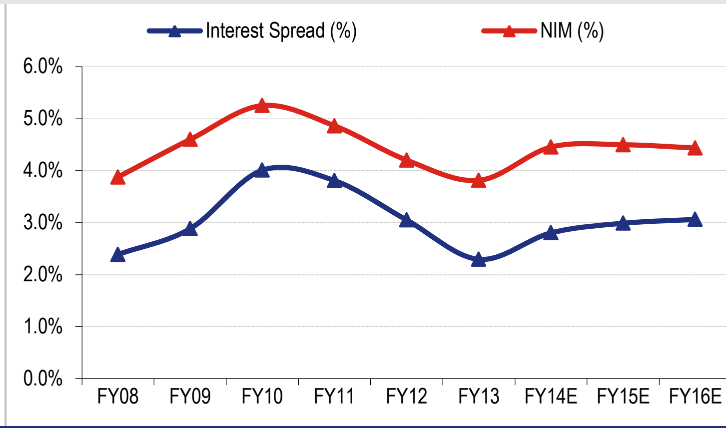




Source: Company, JM Financial.

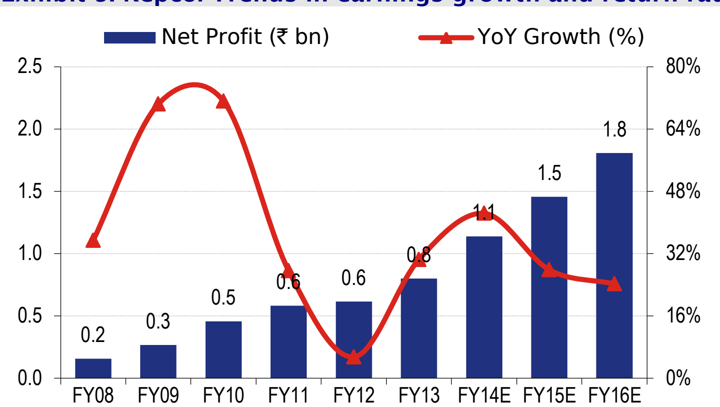
Exhibit 4. Repco: Trends in loan growth and spread/margins

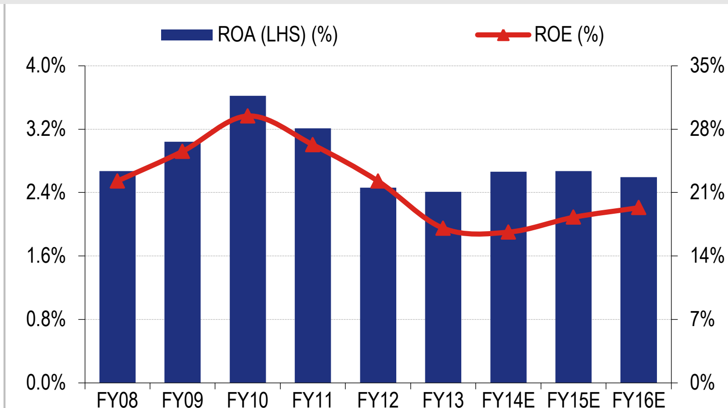




Source: Company, JM Financial.

Exhibit 5. Repco: Trends in earnings growth and return ratios





Source: Company, JM Financial.

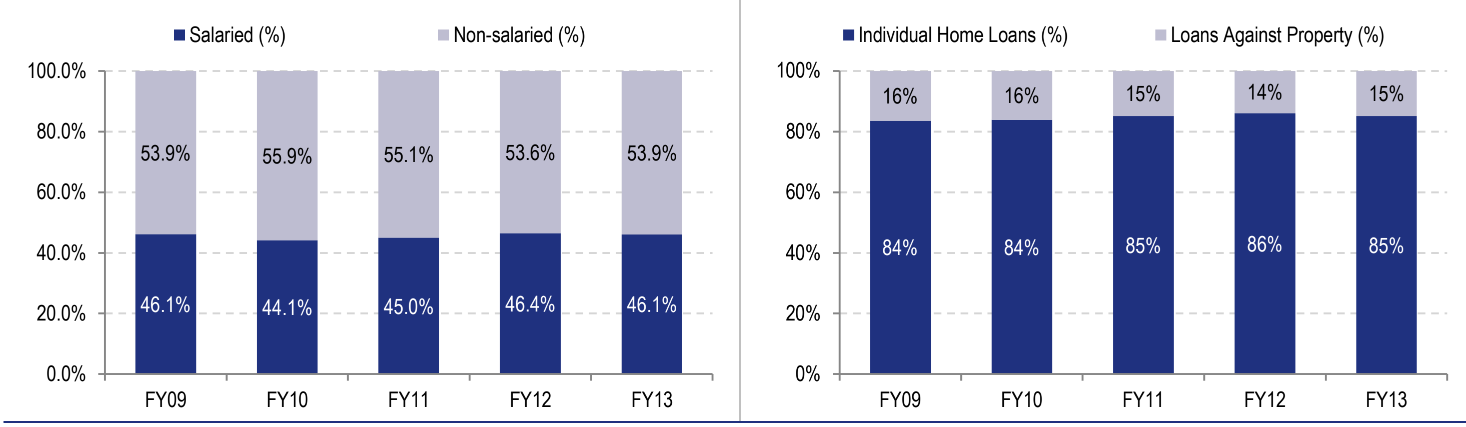
Repco Home Finance (Repco)

Promoted by Repco Bank Limited (owns 37.4%), Repco provides home loans to individual borrowers (no exposure to developer loans). Loan book mix is dominated by non-salaried category accounting for 55% of loan book. The company also offers loans against properties (LAP) (c.18% of loan book). It primarily caters to customers in tier 2 & 3 cities and peripheries of tier 1 cities through branches and satellite centers. Repco currently has a concentrated loan book geographically with South India accounting for 92% of loans (TN: 64%). However, it has been gradually expanding its presence to other states like Maharashtra, Gujarat, West Bengal and Odisha.

- **Focuses on non-salaried individual borrowers**

  Repco focuses on individual borrowers in both salaried and non-salaried (self-employed - professional as well as non-professional) (55% of loan book) segments. Self-employed professionals include doctors, lawyers, and chartered accountants while self-employed non-professionals include kiranas, carpenters, painters etc. It also offers loans against properties (LAP) (c.18% of loan book as of 3Q14) and intends to take LAP proportion to 20% over next 2-3 years. It primarily caters to customers in tier 2 & 3 cities and peripheries of tier 1 cities. Catering to a niche segment has helped Repco enjoy higher spread and margin.

Exhibit 6. Repco: Loan book composition in terms of customer profile and segment (RHS)



Source: Company, JM Financial.

- **Targets under penetrated markets of tier II and tier III cities**

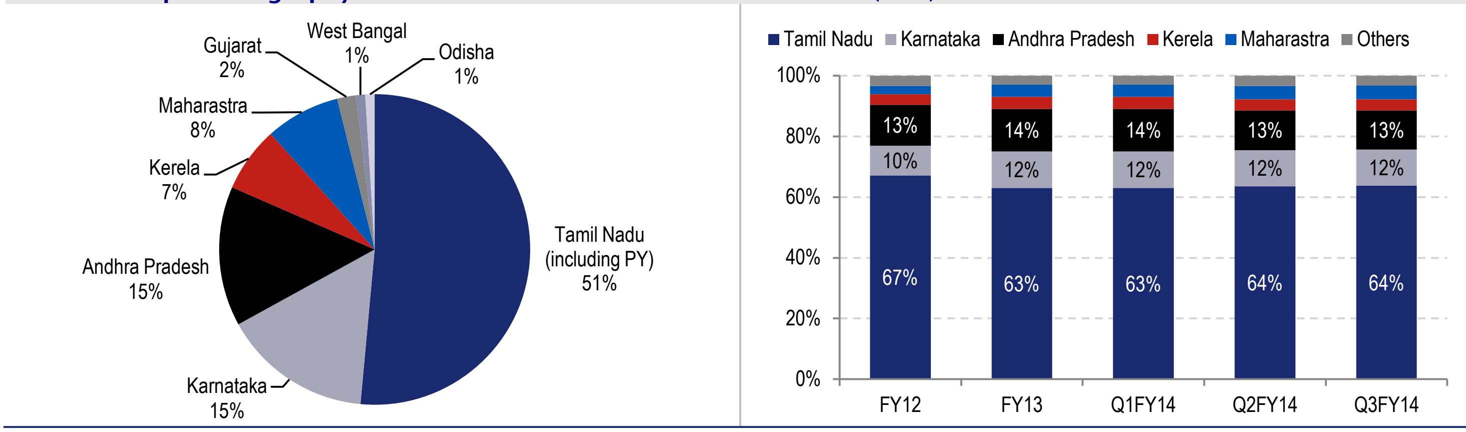
  Repco is consciously targeting markets that are relatively underpenetrated (lower competition, better yields). The key target markets are in tier II and tier III cities and at the peripheral areas of tier I cities. In this market, main competitors for Repco are Dewan Housing, Sundaram Home Finance and local co-operative banks (in category of ₹0.55-2.0mn). As of 3Q14, the company had 82 branches and 21 satellite centres catering to these markets.

- **Loan book concentrated in Tamil Nadu; diversifying in other geographies**

  Repco has established presence in the housing finance market in South India with 88% of its branch network located in this region. The company mainly focuses on Southern India (particularly Tamil Nadu) but is expanding gradually to other states. Currently loan book is concentrated in Tamil Nadu (64%)

followed by Andhra Pradesh (13%) and Karnataka (12%) (South India constitutes 92% of loan book).

Exhibit 7. Repco: Geography-wise distribution network and loan book (RHS)

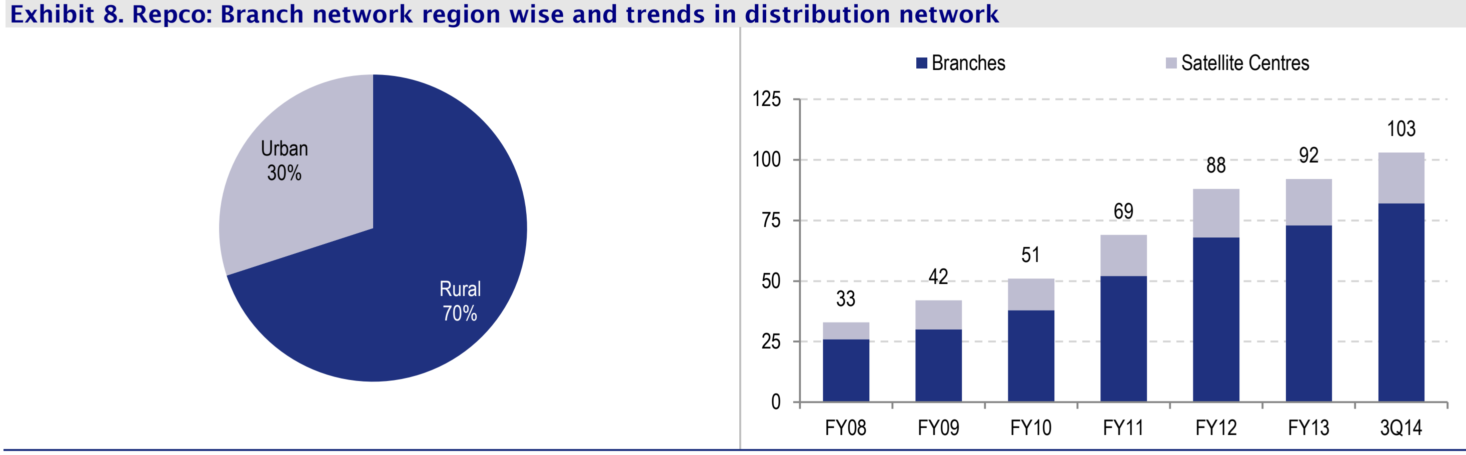


Source: Company, JM Financial.

- **Increasing reach through expanding distribution network**

  Initially Repco focused in South India (primarily Tamil Nadu). However over the last 3-4 years it has been expanding in other states (like Maharashtra (started in FY10), Gujarat (FY12), West Bengal (FY12) and Odisha (FY13)) by opening branches as well as satellite centers. Repco intends to deepen its penetration in southern region markets further and gradually expand in other regions/states. Consequently, it intends to expand its branch network in calibrated manner by opening 10-15 branches every year of which 2/3rd branches will be in South India and 1/3rd in other states.

Exhibit 8. Repco: Branch network region wise and trends in distribution network



Source: Company, JM Financial.

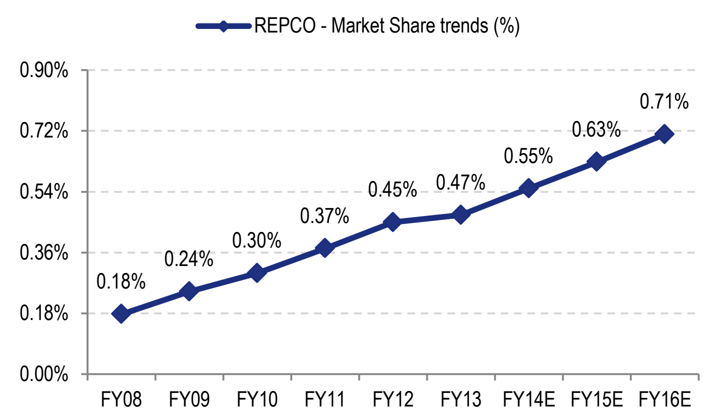
Expect 29% CAGR in loans over FY13-16E driven by deeper penetration and geographic expansion

Repco remains a relatively small player in housing finance market with market share of c.0.5% in FY13. Historically loan book growth was driven by increase in customer additions and increase in average ticket size. Going ahead, we expect customer additions to remain strong driven by **a)** further deepening of its reach through existing branches, and **b)** expanding distribution network to newer geographies. Increasing proportion of LAP to 20% (from current levels of 18%) should also support growth (higher ticket size in LAP vs housing loans). Due to small base (₹43bn of loan book) we expect current growth trends to sustain over next 2-3 years. We forecast c.29% CAGR in loans over FY13-16E.

- **Relatively small player but gaining market share**

  Over last 5 years (FY08-13), Repco has witnessed 40% CAGR in loan book to ₹35.5bn. Repco remains a small player with market share at 0.5% in FY13 (up from 0.3% in FY10). We expect Repco to gain market share to 0.7% by FY16E.

Exhibit 9. Repco: Market share trends



Market Share trends (%)	FY09	FY10	FY11	FY12	FY13
HDFC	13.6%	13.1%	13.3%	14.2%	14.8%
LICHF	6.3%	7.2%	8.4%	9.6%	10.0%
Dewan Housing	2.2%	2.7%	3.3%	3.5%	4.7%
Gruh Finance	0.5%	0.5%	0.5%	0.6%	0.7%
Canfin Homes	0.5%	0.4%	0.4%	0.4%	0.5%
Repco Home Finance	0.2%	0.3%	0.4%	0.4%	0.5%
Total - HFCs	31.4%	32.7%	33.7%	35.6%	38.6%
Total - Banks	68.6%	67.3%	66.3%	64.4%	61.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company, JM Financial.

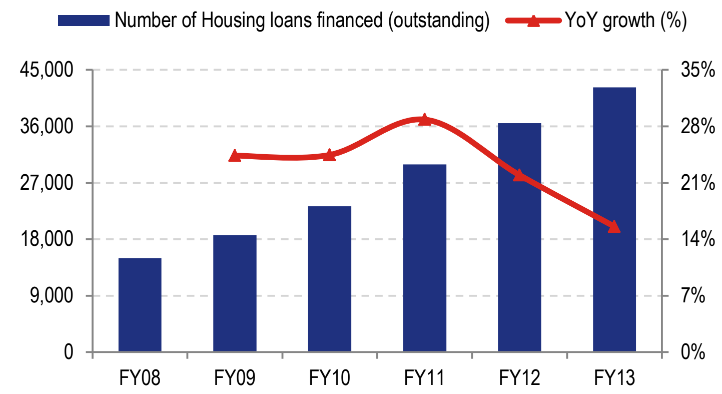
- **Loan sourcing through 'walk-in' or 'referrals'**

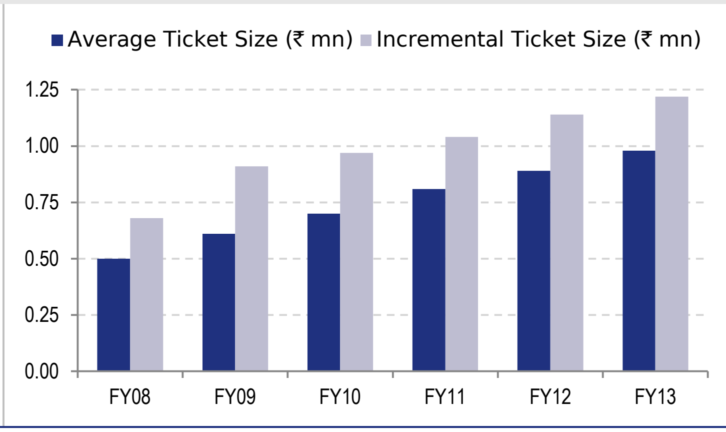
  Repco does loan sourcing mainly through loan camps, local advertising and marketing, and referrals. All branches conduct loan camps once every 2-3 months within a 20-30 km radius of their location. As a result, most customers are either "walk-in" borrowers or referred by existing borrowers (currently c.5% customers are through referrals). The branch offices act as single point of contact for customers. The branches are responsible for sourcing loans, carrying out preliminary checks on the credit worthiness, providing assistance in documentation, disbursing loans and in monitoring repayments and collections. The company does not use DSA model (except Maharashtra where it's been used on experimental basis.) It does not have any loan sourcing arrangement with its parent (parent contributes 2-3% of business).

- **Expect customer additions to remain strong**

Loan growth for Repco has been driven by customer additions along with increase in ticket size. It witnessed 23% CAGR in o/s number of housing loans while incremental ticket size witnessed 12% CAGR over FY08-13. With calibrated branch expansion strategy and further deepening of existing branch network, we expect customer additions to remain strong.

Exhibit 10. Repco: Trends in number of housing loans financed and ticket size





Source: Company, JM Financial.

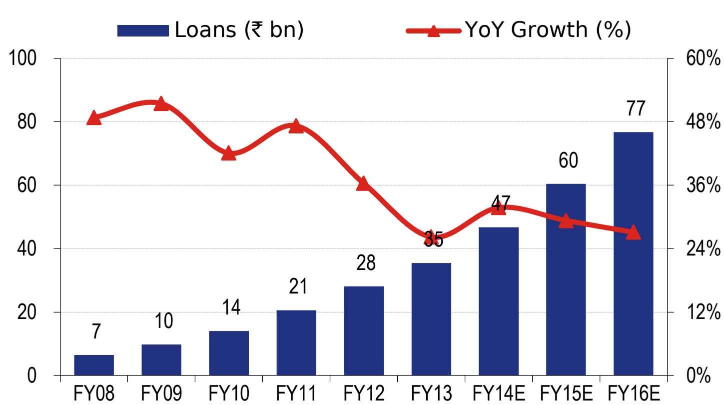
- **Increasing proportion of LAP should support growth**

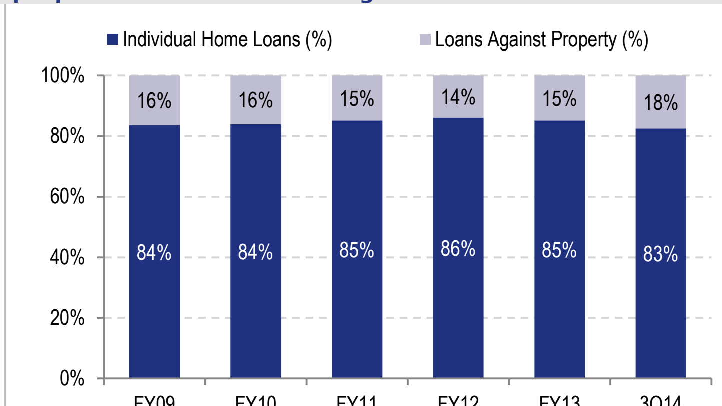
Currently Repco has c.18% loan book consisting of loan against property (LAP). On its LAP portfolio, it has ticket size of ₹1.4-1.5mn while yield on loan is c.15.9%. Due to high yield, LAP portfolio also supports margins for Repco. It intends to increase LAP proportion to 20% of loan book over the next 2-3 years. Thus increase in proportion of higher ticket size LAP portfolio should aid growth further.

- **Low base and deepening penetration to lead to 29% CAGR in loan book over FY13-16E**

We believe Repco is well positioned to deliver 29% CAGR in loan book over FY13-16E driven by **a)** distribution network expansion resulting in growth in customer additions, **b)** further deepening of existing branch network helping improving branch productivity, and **c)** increase in relatively higher ticket size LAP portfolio.

Exhibit 11. Repco: Trends in loan book and YoY growth and proportion of LAP vs housing loans





Source: Company, JM Financial.

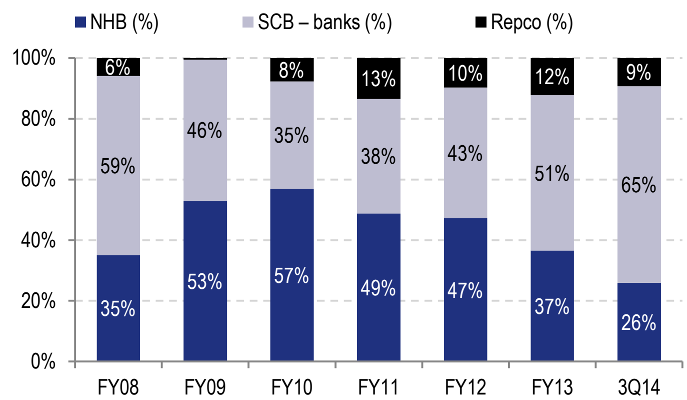
Rating upgrade to help in diversifying its borrowing profile

Repco relies completely on banking sector for its funding requirements (SCBs: 65%, NHB: 26% and Repco Bank: 9%). However recent rating upgrade has opened new avenues for diversifying its funding sources in terms of NCDs and commercial papers. We believe diversifying funding mix will benefit Repco to manage its ALM and product pricing in a better manner. However we expect real benefits to flow only after Repco receives further rating upgrades to AA+ (2 notches more; current rating is AA-).

- **Largely concentrated funding from banks**

  Repco derives significant portion of its funding from banking sources. As of 3Q14, scheduled commercial banks constituted 65% of funding (vs 35% in FY10), while NHB contributed 26% of total borrowings (vs 57% in FY10). Currently reliance on Repco Bank is 9% (vs 8% in FY10). Decline in proportion of NHB funding can be attributed due to change in NHB norms with introduction of spread cap under Rural Housing Fund (RHF). Thus Repco a) took conscious decision of not availing refinancing facility under RHF, b) and also utilized IPO funds to reduce borrowings.

Exhibit 12. Repco: Trends in funding mix

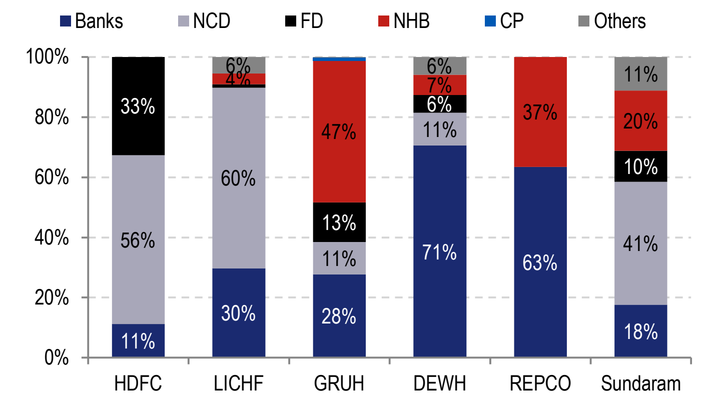


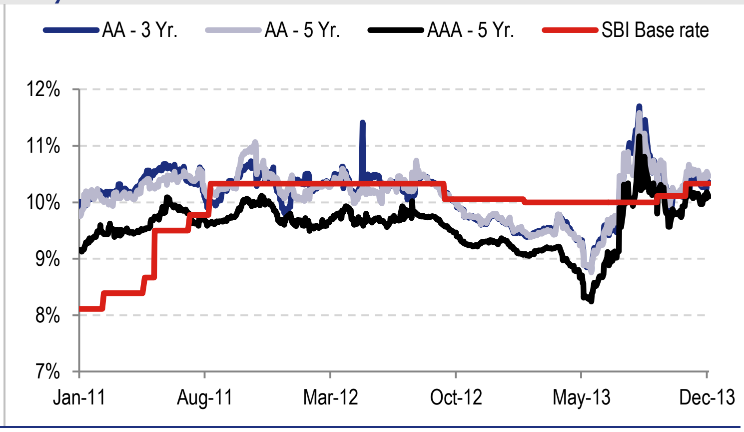
Source: Company, JM Financial.

- **Improvement in credit rating to open new avenues of funding**

  In September 2013, ICRA upgraded long term rating assigned to the Term Loans from Banks (availed by Repco) from [ICRA] A+ to [ICRA] AA- and also assigned AA- to its NCD and A1+ to commercial paper. Rating upgrade by ICRA is expected to open new avenues of funding such as NCDs, CPs. Most of Repco's peers already enjoy benefits of diversifying borrowings mix as indicated below. Options to diversify funding mix will help Repco manage its ALM and price its products in a better way.

Exhibit 13. Repco: Funding profile for peers and trend in bond yields and base rates of banks





Source: Company, JM Financial. * Sundaram Home Finance

- **Spread cap on refinancing under Rural Housing Fund to have manageable impact on operations**

  In September 2013, NHB put up a spread cap of 200bps for refinancing scheme under Rural Housing Fund (RHF) and 275bps for special refinance for Urban Low Income Housing. Currently Repco has c.26% funding from NHB (down from 53% in FY09) of which c.80% funding is eligible for refinancing under RHF i.e. c.22% of total borrowings. With spread cap, it will be difficult for Repco to avail refinancing facility as loans offered are 300-400bps more than refinance rate (vs spread cap of 200bps).

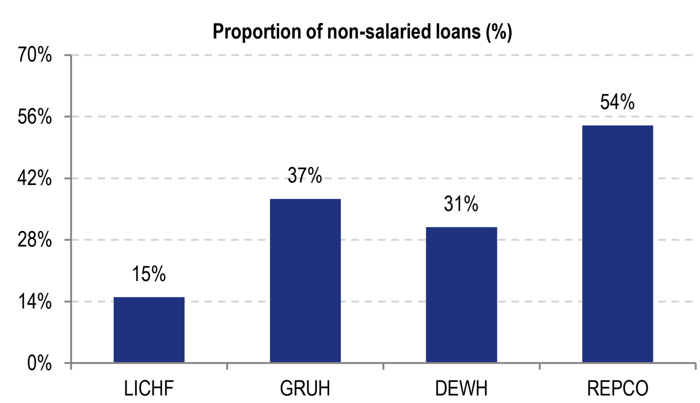
  However we believe impact of this will be minimal and manageable since **a)** spread cap is applicable only for incremental loans (disbursements), proportion of which in total loan book will be minimal, **b)** Repco can utilize refinancing facility available under Golden Jubilee Rural Housing Finance scheme (rate of interest is 8.0%) or Liberalized Refinance Scheme (rate of interest is 9.5%), **c)** lending rates will be tweaked to offset impact of increased in funding cost (not more than 8-10bps), **d)** company intends to increase proportion of LAP portfolio (higher yields compared to home loans) which can absorb impact of funding cost over period of time.

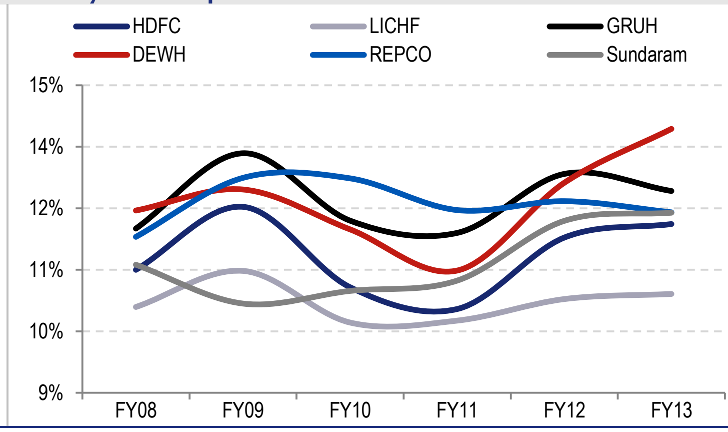
Expect stable spreads leading to 35% CAGR in NII over FY13-16E

- **Enjoys better pricing power due to relatively higher proportion of non-salaried loans**

Repco caters mainly to individuals in non-salaried class which accounts for c.55% of loan book. In case of Repco, proportion of non-salaried loans is higher than its peers as shown below. Due to relatively higher proportion of non-salaried loans (salaried loans segment is highly competitive), Repco enjoys higher yield on loans (yield of 11-11.25% on salaried loans vs 12-12.25% on non-salaried segment). Additionally LAP exposure of c.18% (yield of c.15.9%) and focusing on semi-urban/rural areas enables better pricing power to Repco as compared to its peers.

Exhibit 14. Repco: Proportion of Non-salaried loans for peers and yield comparison



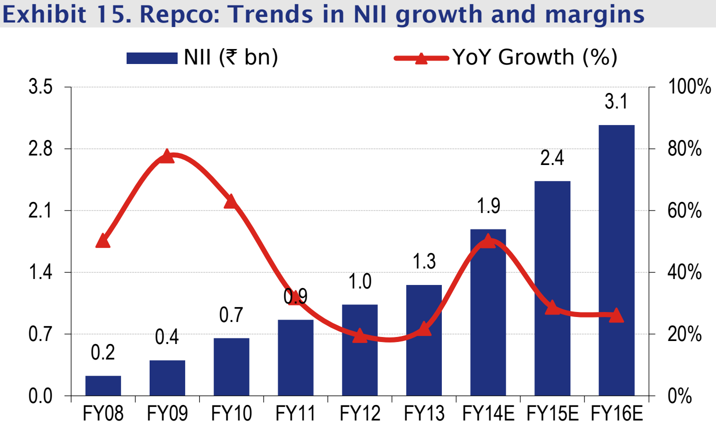


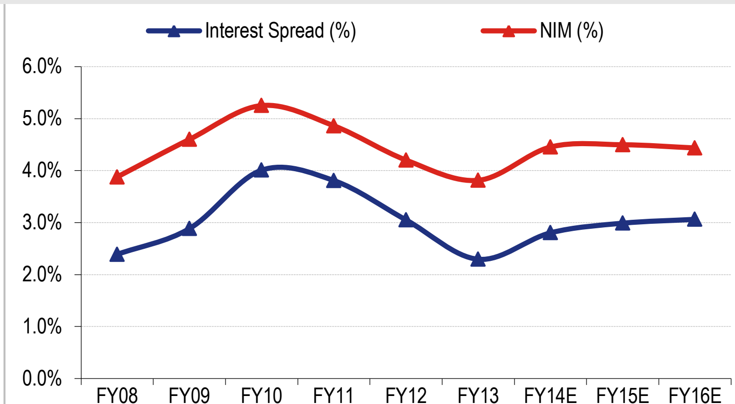
Source: Company, JM Financial.

- **Stable spread/margins to lead to 35% CAGR in NII over FY13-16E**

Funding cost for Repco is expected to move in line with base rate of banks (100% of funding is from banks). Impact of spread cap on refinancing under Rural Housing Fund will be manageable in our view due to better pricing power. Thus we expect spreads as well as margins to remain stable leading to 35% CAGR in NII over FY13-16E.

Exhibit 15. Repco: Trends in NII growth and margins





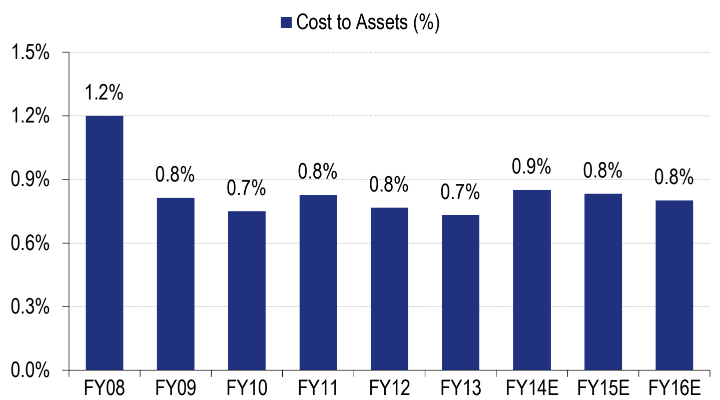
Source: Company, JM Financial.

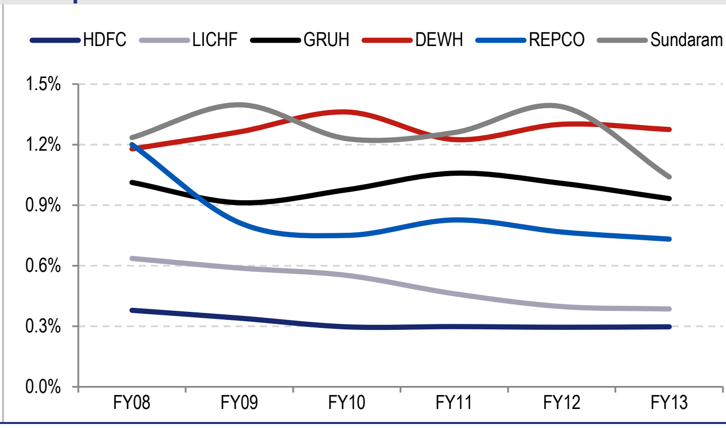
Expect cost to assets of 0.8% by FY16E

- **Factoring in stable cost to assets of 0.8% by FY16E**

Repco has adopted calibrated branch expansion approach where in it adds 10% to its existing branch network (10-15 branches). This has helped it contain operating expenses. According to the company, for every ₹100mn of business, it adds 1 employee. Currently average loan per employee is ₹87mn indicating further scope of improvement. We are factoring in stable cost to assets of 0.8% by FY16E (vs 0.73% in FY13).

Exhibit 16. Repco: Trends in cost to assets and comparison with peers





Source: Company, JM Financial.

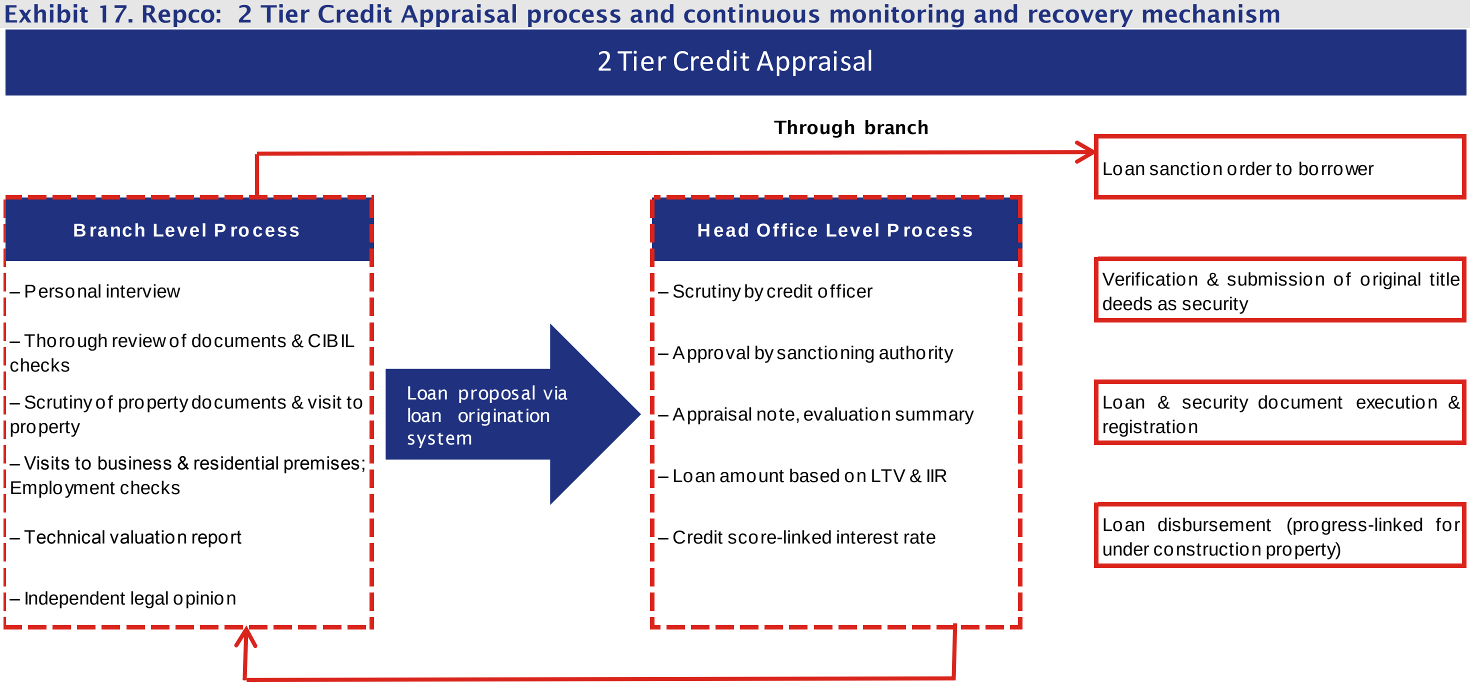
Stable asset quality trends; Factoring credit costs of 50bps

- **Stable asset quality trends due to conservative lending practices**

Repco follows two-tier credit appraisal policy which involves branch as well as head office (HO). Role of branch involves origination of loan, loan disbursements and documentation part of loan while responsibility of HO is credit appraisal, scrutiny by credit officer, credit score-linked interest rate and evaluation. It also follows rigorous monitoring, collection and recovery mechanism (as shown below).

It also has other conservative lending practices such as **a)** LTV of 65% and installment to income ratio (IIR) of 50%, **b)** Repco does not use Direct Sales Agent model which ensures quality of portfolio origination is maintained) (in Maharashtra, the company has adopted DSA model on experimental basis), **c)** No lending to developer/builder loans which are riskier and relatively lumpy in nature. Thus Repco has maintained stable asset quality with gross NPLs of 2.01% and coverage ratio of 37% (as of 3Q13). <u>Total loans written off since inception are 0.07% of total cumulative disbursements.</u>

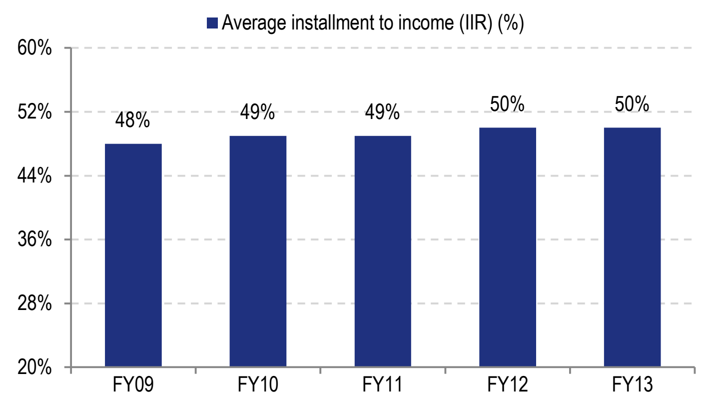
Exhibit 17. Repco: 2 Tier Credit Appraisal process and continuous monitoring and recovery mechanism

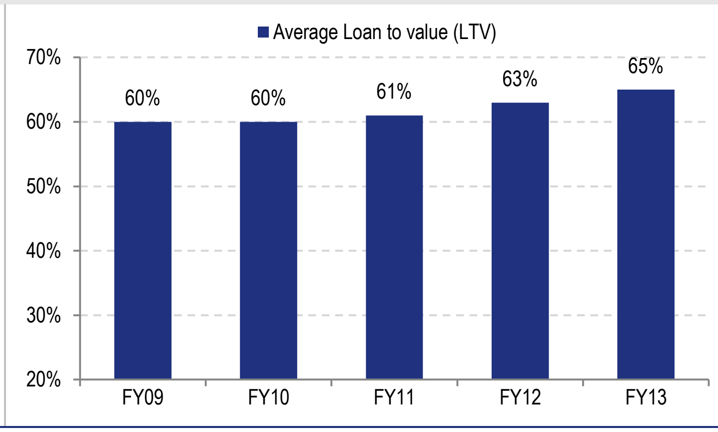


Ongoing Monitoring	Collection & Recovery
Annual inspection of each branch by internal inspection team	Incentivizing branch personnel for timely recovery
Internal audit by external chartered accountant firms	Post-dated cheques
Head office visits during loan camps	Insuring of loans with property insurance
Periodical inspections of secured properties before and after disbursement	Dedicated recovery team at head office, Focused recovery camps when needed
Audit of strategic branches on random basis by Statutory Auditor	Visits by branch personnel
Strong co-ordination between branch and HO a) Monthly performance scoring of branches, b) Monthly MIS and branch manager report, c) Periodic review meetings	Used of SARFAESI Act helping speedy recovery of loans

Source: Company, JM Financial.

Exhibit 18. Repco: Trends in IIR and LTV ratio





Source: Company, JM Financial.

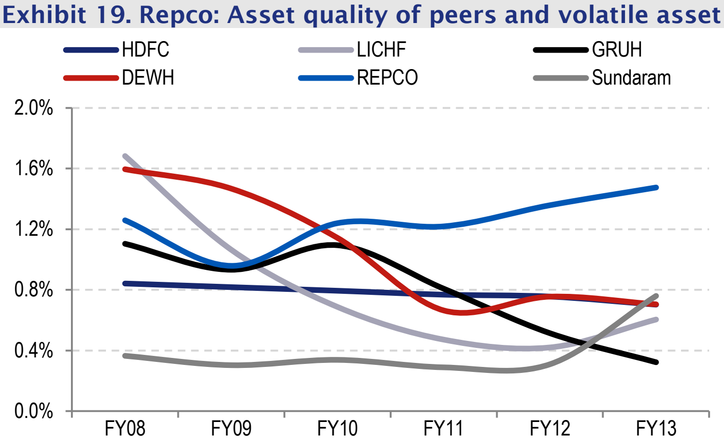
- **However asset quality trends are volatile due to higher proportion of non-salaried loans**

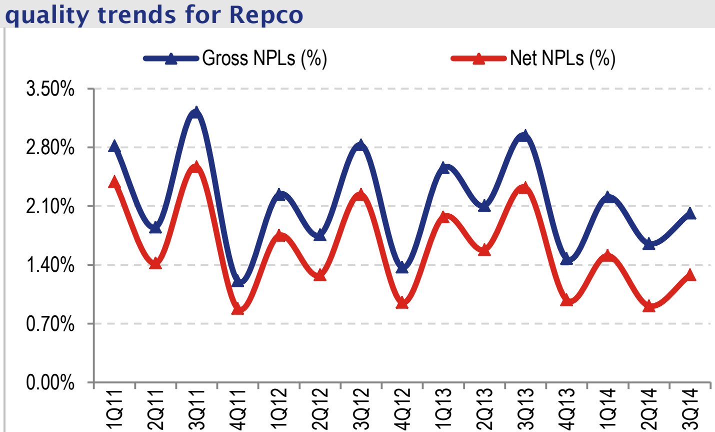
  Repco has c.55% of loan book consisting of non-salaried segment. Generally, Income profile of the non-salaried segment tends to be lumpy which leads to significant variability in NPL profile quarter to quarter (as shown below).

  Repco also has concentrated loan portfolio in Tamil Nadu state (c.64% of portfolio) which has been facing significant power cuts impacting businesses and income of non-salaried class (self-employed professionals). Additionally Andhra Pradesh has witnessed asset quality pressures due to Telangana issue while Kerala is having problems due to Gulf Issue where in people have lost jobs and have been sent back.

  For FY13, in housing loans the company had gross NPLs of 1.4% with gross NPLs of c.0.8% in salaried class – Housing loans and 2.1% in non-salaried class – housing loans. In LAP, the company has gross NPLs of 1.7% with gross of 0.6% in salaried class – LAP and was 0.59% and gross NPLs of 2.1% in non-salaried – LAP.

Exhibit 19. Repco: Asset quality of peers and volatile asset quality trends for Repco



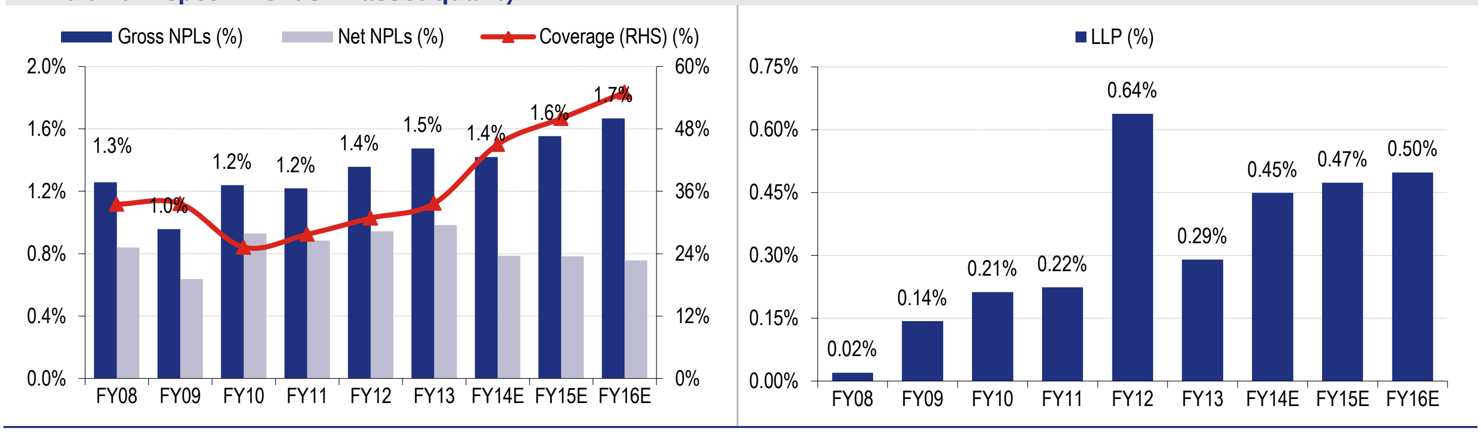


Source: Company, JM Financial.

- **Expect asset quality trends to remain stable; Factoring 50bps credit costs over next 3 years**

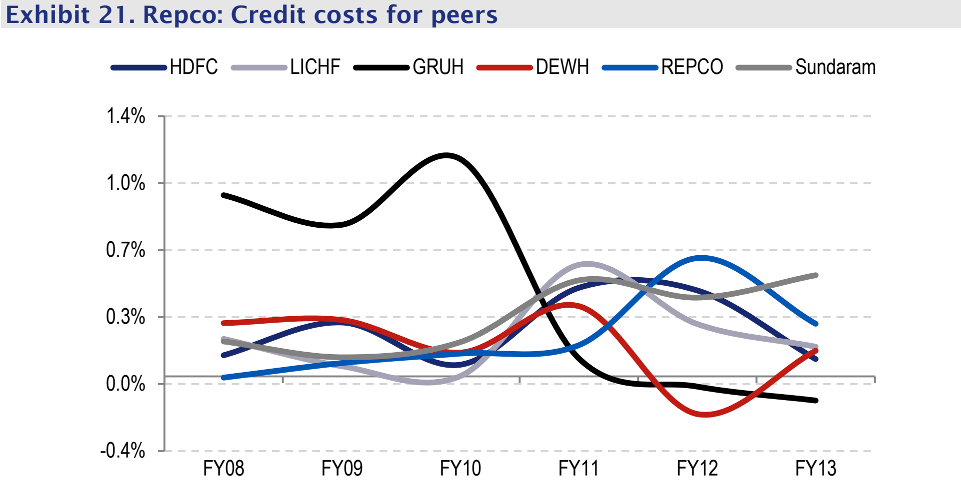
  Going forward, we expect asset quality trends to remain stable for Repco driven by 2 tier credit appraisal policy, continuous monitoring and recovery mechanism, comfortable levels of IIR and LTV. We model in gross NPLs of 1.7% by FY16 and improving coverage ratio of 55% by FY16 (from 37% in 3Q14). Consequently we factor 45bps/47bps/50bps credit costs over next 3 years.

Exhibit 20. Repco: Trends in asset quality



Source: Company, JM Financial.

Exhibit 21. Repco: Credit costs for peers



Source: Company, JM Financial.

Well capitalized for next 5 years of growth

- **With tier I of c.25% and lower RWA to total assets, the company is well positioned for next 5 years of growth**

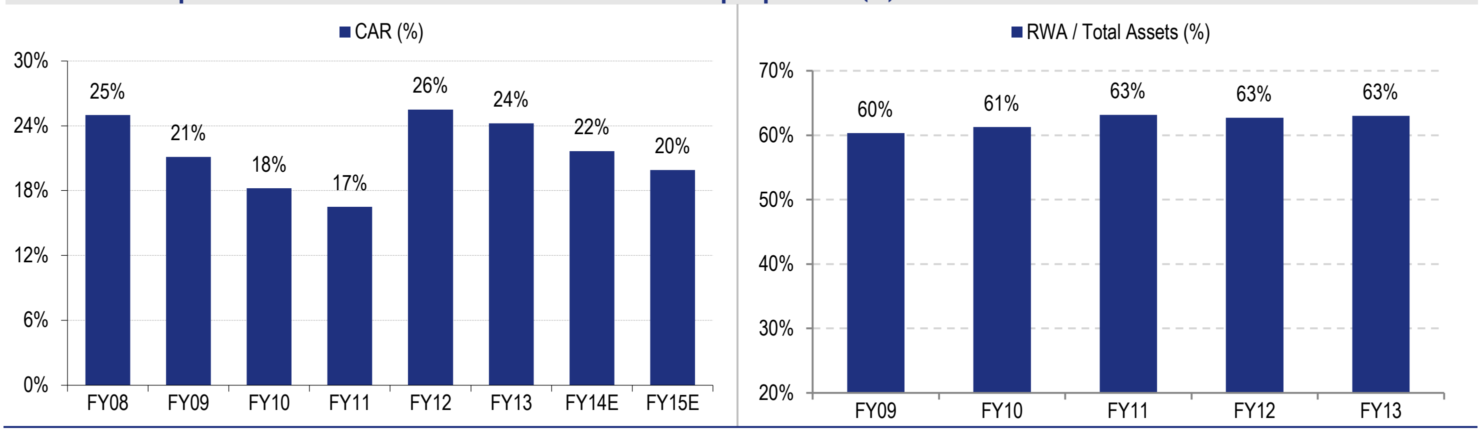
Due to lower loan ticket sizes (less than ₹2mn is 70%), risk weights on Repco's loan book are lower, implying less capital consumption. Currently, Repco has tier 1 capital of 25% and we believe it is well capitalized for at least 5 years of growth.

Exhibit 22. Repco: Trends in CAR and RWA to total assets proportion (%)

Type of Loan	Sanctioned to	Ticket Size	LTV	Risk Weight
Housing	Individuals	Upto Rs2.0mn	= or < 90%	50%
Housing	Individuals	Rs2.0mn to Rs7.5mn	= or < 80%	50%
Housing	Individuals	Above Rs7.5mn	= or < 75%	75%
Commercial Real Estate	Residential Housing	NA	NA	75%
Commercial Real Estate	Others	NA	NA	100%
Restructured Housing Loans	NA	NA	NA	25%

Source: NHB, JM Financial.

Exhibit 23. Repco: Trends in CAR and RWA to total assets proportion (%)

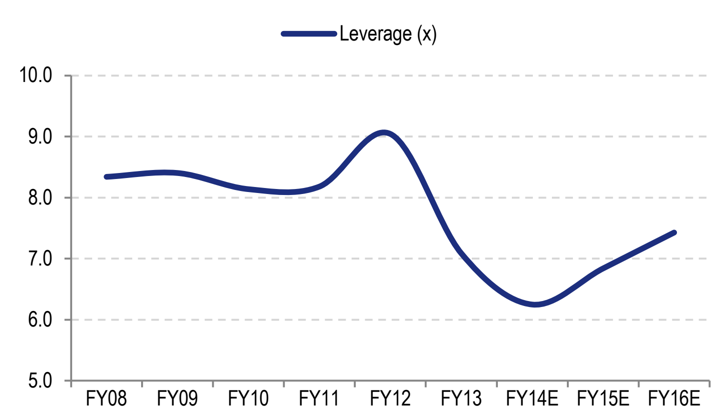


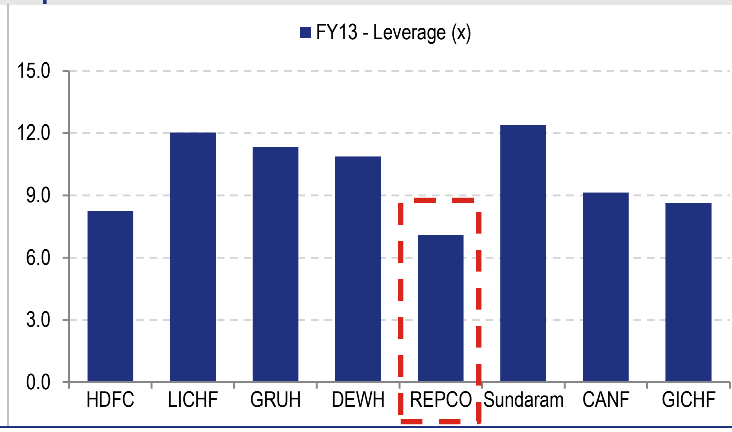
Source: Company, JM Financial.

- **Management does not intend to lever more than 8x**

Post IPO, we expect leverage of Repco to fall to 6.2x in FY14E vs 9.0x in FY12. However, in order to maintain rating, management does not intend to lever more than 8x. Post which, the company needs to either raise capital or securitise its loan portfolio to reduce leverage. Our estimates assume leverage of 7.5x by FY16E.

Exhibit 24. Repco: Trends in leverage and current leverage of peers





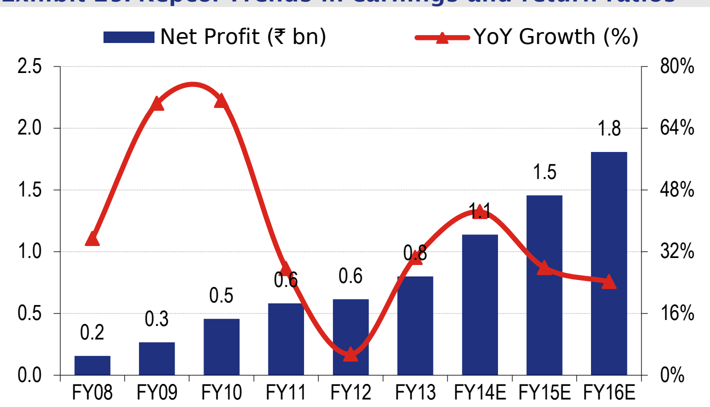
Source: Company, JM Financial.

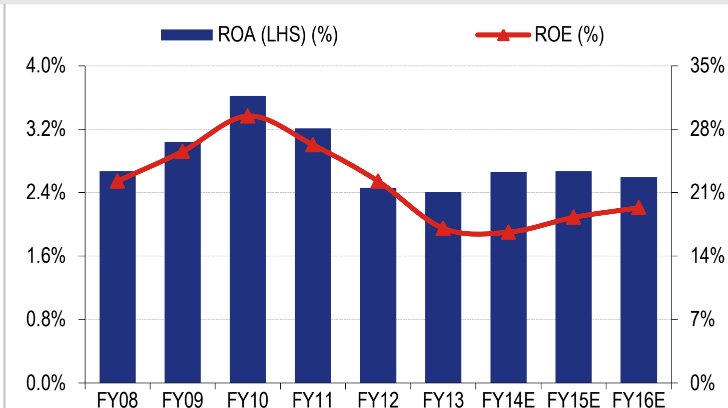
Earnings CAGR of 31% over FY13-16E

- **Expect earnings CAGR at c.31% over FY13-16E driven by strong loan growth, steady margins, and stable credit costs**

  We forecast net profit to witness c.31% CAGR over FY13-16E driven by strong loan CAGR (29%), steady margins and stable credit costs (50bps over next 3 years). We expect Repco to report ROA of c.2.6% and ROE of c.19% by FY16E.

Exhibit 25. Repco: Trends in earnings and return ratios





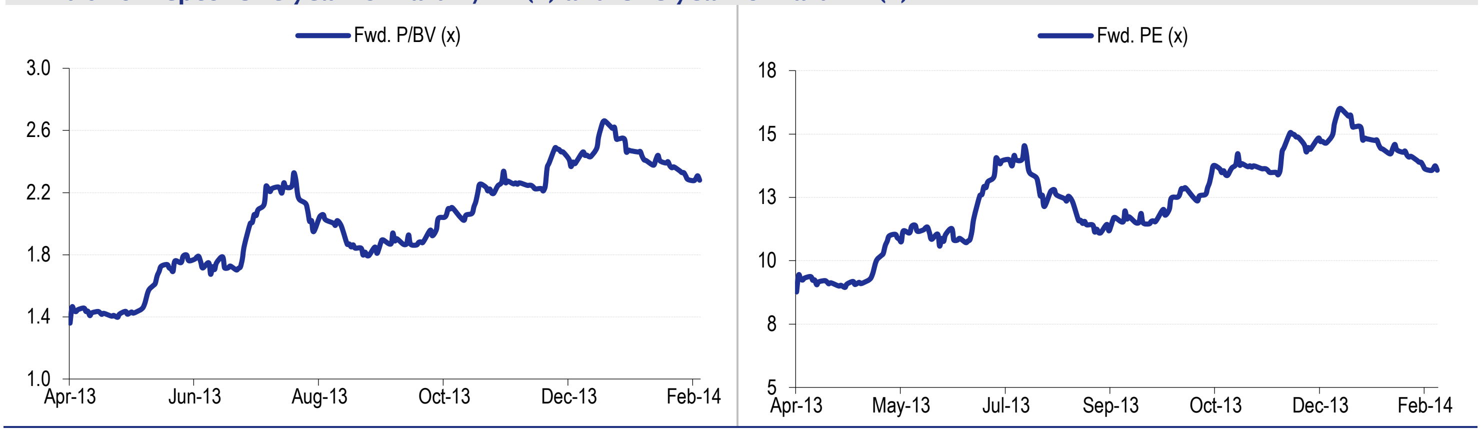
Source: Company, JM Financial.

Initiate coverage with BUY and TP of ₹380

- **Initiate coverage with BUY and TP of ₹380**

  We value Repco at 2.3x Mar'16 BV (implied P/E of 13x), implying Mar'15 target price of ₹380.

Exhibit 26. Repco: One-year forward P/BV (x) and One-year forward PE (x)



Source: Bloomberg, Company, JM Financial.

Exhibit 27. Repco: Peer Comparable: Valuation table

HFCs	ROA (%)			ROE (%)			P/B (x)			P/E (x)		
Comps	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
HDFC	2.43%	2.41%	2.39%	19.5%	20.2%	20.6%	4.27	3.81	3.36	23.0	19.9	17.3
LICHF	1.43%	1.48%	1.48%	18.0%	18.9%	19.1%	1.34	1.16	0.99	8.0	6.6	5.6
GRHF	2.84%	2.79%	2.77%	33.6%	34.3%	34.5%	7.63	6.13	4.89	25.1	19.8	15.8
DEWH	1.45%	1.50%	1.70%	16.2%	17.3%	18.8%	0.72	0.62	0.55	5.2	4.6	3.1
REPCO	2.66%	2.67%	2.59%	16.6%	18.3%	19.3%	2.64	2.26	1.92	17.0	13.3	10.7

Source: Bloomberg, Company, JM Financial. DEWH numbers are Bloomberg consensus estimates

Repco: ROE Tree

- **Healthy return ratios:** We expect Repco to generate ROA of c.2.6% and ROE of c.19% by FY16E driven by strong loan growth, steady margins and stable credit costs.

Exhibit 28. Repco - Normalised earnings (%)

	FY10	FY11E	FY12E	FY13	FY14E	FY15E	FY16E
Net Margin (as % of avg. IEA)	**5.25%**	**4.86%**	**4.20%**	**3.81%**	**4.45%**	**4.50%**	**4.44%**
NIM (as % of avg. Assets)	5.20%	4.77%	4.15%	3.79%	4.42%	4.46%	4.40%
Core Non-IR/Asset	0.66%	0.65%	0.51%	0.44%	0.46%	0.44%	0.42%
Core Non-IR/Revenues	**11.2%**	**11.9%**	**11.0%**	**10.3%**	**9.4%**	**9.0%**	**8.7%**
Core Revenue / Assets	**5.86%**	**5.42%**	**4.66%**	**4.22%**	**4.88%**	**4.90%**	**4.82%**
Cost/ Core Income	12.8%	15.3%	16.5%	17.3%	17.4%	17.0%	16.6%
Cost/Assets	**0.75%**	**0.83%**	**0.77%**	**0.73%**	**0.85%**	**0.83%**	**0.80%**
Core operating Profits	**5.11%**	**4.59%**	**3.89%**	**3.49%**	**4.03%**	**4.07%**	**4.02%**
LLP/Loans	**0.21%**	**0.22%**	**0.64%**	**0.29%**	**0.45%**	**0.47%**	**0.50%**
Loans/Assets	94.7%	95.5%	97.7%	95.6%	96.1%	98.3%	98.4%
Profits/Provisions on Sect.	-0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Pre-Tax	4.95%	4.38%	3.27%	3.21%	3.60%	3.61%	3.53%
Effective Tax Rate	26.9%	26.6%	24.7%	25.1%	26.0%	26.0%	26.5%
ROA	3.62%	3.21%	2.46%	2.41%	2.66%	2.67%	2.59%
Equity / Assets	12.29%	12.23%	11.06%	14.11%	16.01%	14.62%	13.42%
RoE	**29.5%**	**26.3%**	**22.3%**	**17.1%**	**16.6%**	**18.3%**	**19.3%**

Source: Company, JM Financial

Key risks

- **Higher than expected loan loss charges:** While we have factored higher delinquencies and consequently higher loan loss charges of c.50bps over the next 3 years, higher than expected loan loss charges (due to significant increase in delinquencies) is risk to our estimates.
- **Significant tightening of liquidity:** Significant tightening of liquidity could impact spreads and margins negatively and is a risk to our estimates.
- **Regulatory risks:** Repco is governed by National Housing Bank (NHB) and is subject to rules and regulations of NHB. Adverse regulatory changes can have negative impact on business model resulting in pressure on profitability and growth. Regulatory changes include **a)** interest rate cap on refinancing facility, **b)** change in eligibility criteria under refinancing facility, **c)** change in risk weights, **d)** change in criteria for bank loans to HFCs for on-lending to be eligible for PSL.

Company background

- Repco Home Finance is a HFC registered with NHB, with a network of 82 branches and 21 satellite units (sub-branches) as on December 31, 2013 which spread across Tamil Nadu, Karnataka, Andhra Pradesh, Kerala, Maharashtra, Gujarat, Odisha and Pondicherry. Established in April 2000 as a wholly owned subsidiary of the 'Repatriates Cooperative Finance and Development Bank Limited' (Repco Bank), a Government of India enterprise, Repco is a medium-sized HFC operating in a hub-and-spoke model. As on December 31, 2013, it had a loan portfolio outstanding of ₹43bn, primarily concentrated in South India (Tamil Nadu accounts for c.64% of loan book). The Carlyle Group (a private equity investor), which infused funds in RHFL in December 2007, remained the second-largest shareholder in RHFL with a stake of 17.74%, and major stake of 37.37% being held by the promoter, Repco Bank as of 3Q14.
- **Other associate entities: RIDCL and Repco MSME**

  Repco Infrastructure Development Company Limited (RIDCL) was incorporated on July 18, 2008 under the Companies Act as a public limited company. It is engaged in the business of carrying out repairs and renovation in relation to existing infrastructure. Repco owns 49% of the company while Repco Bank owns 51%.

  Repco MSME Development & Finance Limited (Repco MSME) is registered with RBI as a non-banking financial institution company, not accepting public deposits. It is engaged in the business of extending credit assistance with focused attention on micro credit and on the medium and small enterprises sectors. Repco owns 44% of the company while Repco Bank owns 56%.

Details of management

- **Experienced senior management team**

  The management team led by Mr. R. Varadarajan, Managing Director and assisted by 2 executive directors (Mr. V Raghu and Mr. P. Natarajan). Currently Mr. Varadarajan is also Managing Director of Repco Bank (the parent of Repco Home Finance). Employees own c.1.5% of ESOPs with an exercise price of ₹75.

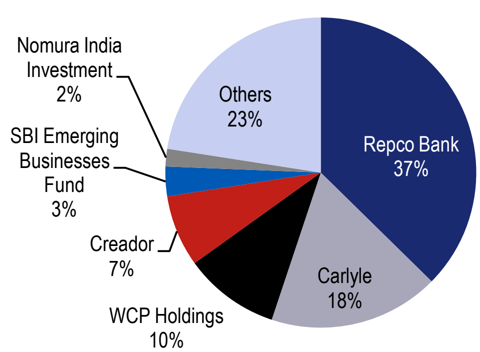
Exhibit 29. Repco: Management Profile

Name	Designation	Experience
R Varadarajan	Managing Director	Over 35 years of experience in banking
V Raghu	Executive Director	Over 32 years of experience. Earlier worked as GM with NHB and also with RBI and SBI
P Natarajan	Executive Director	Over 30 years of experience in banking and financial services. Earlier worked at Repco Bank as General Manager.
K Ashok	Chief GM, Credit	♦ Over 24 years' experience in the banking industry; been with Company since 2005 ♦ Earlier worked at Syndicate Bank at its regional offices & branches
T Karunakaran	Deputy GM, Accounts	♦ Over 20 years' experience in the housing finance industry; been with Company since 2004 ♦ Worked for 14 years with the Housing and Urban Development Corporation and Ind Bank Housing
Poonam Sen	Deputy GM, Planning, BD, HR	♦ Over 12 years' experience in the housing finance industry; been with Company since 2006 ♦ Worked for 7.5 years with the NHB across corporate planning, refinance, market research & training
G Ramanujam	Assistant GM, Legal	♦ Over 32 years' experience in banking & legal matters; been with Company since 2005 ♦ Worked for 22 years with Syndicate Bank including as legal officer

Source: Company, JM Financial.

Shareholding Pattern

Exhibit 30. Repco: 3Q14 Shareholding pattern



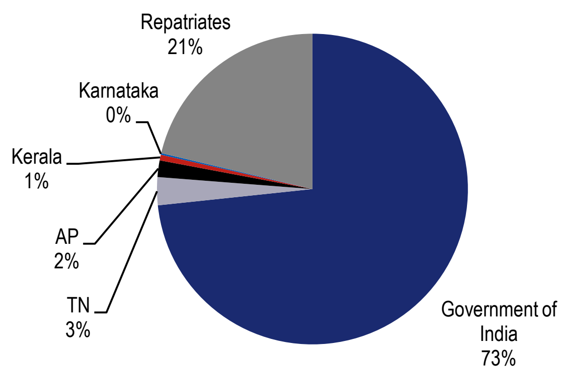
Source: Company, JM Financial.

About Promoter – Repco Bank

- **Promoted by The Repatriates Co-operative Finance and Development Bank Limited**

Repco was promoted by The Repatriates Co-operative Finance and Development Bank Limited (Repco Bank), a Government of India owned enterprise, in April 2000. The operations of Repco Bank extend to the states of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala and the Union Territory of Pondicherry. It was established to help and promote the rehabilitation of repatriates from Sri Lanka, Myanmar, Vietnam and other countries. The Bank is under the administrative control of FFR Division, Ministry of Home Affairs, and Government of India. Constitutionally, the bank is a Multi-State Cooperative Society. The bank was promoted by Government of India, Ministry of Home Affairs in association with the State Governments of Tamil Nadu, Kerala, Karnataka and Andhra Pradesh.

Exhibit 31. Repco bank: Ownership details



Source: Company, JM Financial.

Exhibit 32. Repco bank: Key financial details

Rs. Mn	FY09	FY10	FY11	FY12	FY13
Net Profit	300	438	562	727	860
Net Profit (YoY) (%)	99.9%	45.7%	28.3%	29.3%	18.4%
Assets (YoY) (%)	39.2%	34.0%	29.9%	33.4%	22.7%
ROA (%)	1.67%	1.78%	1.74%	1.70%	1.58%
ROE (%)	39.8%	32.0%	26.3%	25.8%	24.1%
Interest Spread (%)	3.3%	3.0%	3.0%	2.8%	2.9%
NIM (%)	4.0%	3.9%	3.9%	3.9%	4.0%
Cost to Income (%)	31.6%	30.0%	28.7%	31.3%	30.2%
Cost to Assets (%)	1.5%	1.5%	1.2%	1.3%	1.3%
Gross NPAs (%)	3.40%	3.95%	3.28%	1.62%	1.56%
Net NPAs (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Provision Coverage (%)	100%	100%	100%	100%	100%

Source: Company, JM Financial.

Lock in period details

- As per SEBI guidelines, being a promoter of the company, there will be lock in period of 3 years for 20% stake of Repco Bank while remaining 17.37% stake will have 1 year lock in period. As shown below, lock in period of 74.7% of total shareholding will expire on 31st March 2014.

Exhibit 33. Repco: Details of Locked-in Shares

No.	Name of the Shareholder	No. of Shares	Locked-in Shares as % of total
1	Repco Bank	23,230,606	37.37%
2	First Carlyle Growth VI	11,027,721	17.74%
3	WCP Holdings III	6,192,100	9.96%
4	Creador I, LLC	4,639,434	7.46%
5	Mixon Holdings Pvt Ltd	448,400	0.72%
6	Shardul Securities Ltd	150,000	0.24%
7	Rohit Kothari	128,200	0.21%
8	Panna Lal C Kothari HUF	128,000	0.21%
9	GCIL Finance Ltd	100,000	0.16%
10	Visaria Securities Pvt Ltd	100,000	0.16%
11	Ashwin Kumar Kothari (Smaller)HUF	94,500	0.15%
12	Madhava Menon Shankar Narayanan	55,139	0.09%
13	Merit Credit Corporation Ltd	50,000	0.08%
14	Antique Stock Broking Ltd	50,000	0.08%
15	Tejal R Kothari	40,000	0.06%
16	Nikhil Mohta	2,205	0.00%
17	Manish Gaur	2,205	0.00%
18	Mahesh Parasuraman	2,205	0.00%
19	M Lakshminarayanan	10	0.00%
20	T.E Thiruvengadam	10	0.00%
21	V Sivaiah	10	0.00%
22	M Balasubramanian	10	0.00%
23	P Venugopal	10	0.00%
24	A Vijayaraghavan	10	0.00%
25	M Balasubramanian	10	0.00%
	Total	**46,440,785**	**74.69%**

Source: BSE, JM Financial. Marked in red are unlikely to exit post expiry of lock-in period.

- **Power of attorney by Carlyle in favor of Repco Bank:** Carlyle has agreed to give the Promoter i.e. Repco Bank voting rights which will ensure that the Promoter and any Government Authorities or entities owned or controlled by Government Authorities are entitled to exercise voting rights to the extent of 51% of the total voting rights of the Company after the listing. A power of attorney has been executed by Carlyle in favour of Repco Bank, authorizing to exercise voting rights at any general meeting to be held after the date of listing of the Equity Shares at a recognised stock exchange in respect of 8,980,669 Equity Shares except for except for certain matters which, among others include, (a) any change of rights in relation to the Equity Shares; (b) modification of the authorized/issued share capital of the Company; and (c) any proposal of merger.

Repco Home Finance – Financial Tables (Standalone)

Profit & Loss (₹ Mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Interest Income (NII)	**1,033**	**1,258**	**1,889**	**2,432**	**3,067**
Non-Interest Income	**128**	**145**	**197**	**241**	**291**
Total Income	**1,161**	**1,403**	**2,086**	**2,673**	**3,358**
Operating Expenses	191	243	364	453	558
Pre-provisioning Profits	**970**	**1,160**	**1,723**	**2,219**	**2,800**
Loan Loss Provisions	49	61	139	199	276
Provision for Investments	0	0	0	0	0
Other Provisions	107	31	45	55	65
Total Provisions	**155**	**92**	**184**	**253**	**341**
PBT	**814**	**1,068**	**1,538**	**1,966**	**2,458**
Tax	201	268	400	511	651
PAT (Pre-Extra ordinaries)	**613**	**800**	**1,138**	**1,455**	**1,807**
Extra ordinaries (Net of Tax)	0	0	0	0	0
Reported Profits	**613**	**800**	**1,138**	**1,455**	**1,807**
Dividend	59	80	137	218	271
Retained Profits	**554**	**720**	**1,002**	**1,237**	**1,536**

Source: Company, JM Financial

Balance Sheet (₹ Mn)	FY12	FY13	FY14E	FY15E	FY16E
Equity Capital	464	622	622	622	622
Reserves & Surplus	2,568	5,724	6,725	7,962	9,498
Shareholders' Equity	**3,033**	**6,345**	**7,347**	**8,583**	**10,119**
Preference Shares	0	0	0	0	0
Borrowed Funds	24,860	30,647	39,289	51,587	66,263
Current Liabilities	634	932	952	1,228	1,559
Total Liabilities	**28,527**	**37,924**	**47,588**	**61,398**	**77,941**
Loans	28,090	35,450	46,705	60,392	76,755
Investments	81	81	47	60	77
Cash & Bank Balances	175	2,101	467	483	537
Loans & Advances - CA	0	0	0	0	0
Other Current Assets	69	136	172	210	251
Fixed Assets	33	45	56	72	92
Deferred Tax Asset	79	112	140	181	230
Total Assets	**28,527**	**37,924**	**47,588**	**61,398**	**77,941**

Source: Company, JM Financial

Key Ratios (%)	FY12	FY13	FY14E	FY15E	FY16E
Growth (YoY) (%)					
Borrowed Funds	36.1%	23.3%	28.2%	31.3%	28.5%
Advances	36.3%	26.2%	31.8%	29.3%	27.1%
Total Assets	33.9%	32.9%	25.5%	29.0%	26.9%
NII	19.6%	21.8%	50.2%	28.7%	26.1%
Non-Interest Income	9.3%	13.4%	35.7%	22.2%	20.8%
Operating Expenses	27.6%	27.3%	49.7%	24.6%	23.2%
Operating Profits	16.7%	19.6%	48.5%	28.8%	26.1%
Core Operating Profits	16.7%	19.6%	48.5%	28.8%	26.1%
Provisions	301.6%	-40.6%	99.9%	37.4%	34.7%
Reported PAT	5.4%	30.5%	42.3%	27.8%	24.2%
Yields / Margins (%)					
Interest Spread (%)	3.05%	2.29%	2.80%	2.99%	3.06%
NIM (%)	4.20%	3.81%	4.45%	4.50%	4.44%
Profitability (%)					
ROA (%)	2.46%	2.41%	2.66%	2.67%	2.59%
ROE (%)	22.25%	17.06%	16.63%	18.26%	19.32%
Cost to Income (%)	16.5%	17.3%	17.4%	17.0%	16.6%
Assets Quality (%)					
Gross NPLs (%)	1.36%	1.47%	1.42%	1.55%	1.67%
LLP (%)	0.64%	0.28%	0.45%	0.47%	0.50%
Capital Adequacy (%)					
Tier I (%)	16.5%	25.5%	23.8%	21.6%	19.8%
CAR (%)	16.5%	25.5%	23.8%	21.6%	19.8%

Source: Company, JM Financial

Du-pont Analysis (%)	FY12	FY13	FY14E	FY15E	FY16E
NII / Assets (%)	4.15%	3.79%	4.42%	4.46%	4.40%
Other income / Assets (%)	0.51%	0.44%	0.46%	0.44%	0.42%
Total Income / Assets (%)	4.66%	4.22%	4.88%	4.90%	4.82%
Cost to Assets (%)	0.77%	0.73%	0.85%	0.83%	0.80%
PPP / Assets (%)	3.89%	3.49%	4.03%	4.07%	4.02%
Provisions / Assets (%)	0.62%	0.28%	0.43%	0.47%	0.49%
PBT / Assets (%)	3.27%	3.21%	3.60%	3.61%	3.53%
Tax Rate (%)	24.72%	25.08%	26.00%	26.00%	26.50%
ROA (%)	2.46%	2.41%	2.66%	2.67%	2.59%
Leverage (%)	9.0	7.1	6.2	6.8	7.5
ROE (%)	22.25%	17.06%	16.63%	18.26%	19.32%

Source: Company, JM Financial

Valuations	FY12	FY13	FY14E	FY15E	FY16E
Shares in issue (mn)	46.4	62.2	62.2	62.2	62.2
EPS (Rs.)	13.2	12.9	18.3	23.4	29.1
EPS (YoY) (%)	5.4%	-2.5%	42.3%	27.8%	24.2%
PE (x)	23.4	24.0	16.9	13.2	10.6
BV (Rs.)	65	102	118	138	163
BV (YoY) (%)	22.4%	56.3%	15.8%	16.8%	17.9%
P/BV (x)	4.73	3.03	2.61	2.24	1.90
DPS (Rs.)	1.3	1.3	2.2	3.5	4.4
Div. yield (%)	0.4%	0.4%	0.7%	1.1%	1.4%

Source: Company, JM Financial

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SEBI Registration Nos.: BSE - INB011296630 & INF011296630, NSE - INB231296634 & INF231296634
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

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