



Repc Home Finance Limited

STOCK INFO.
BSE Sensex:19,495

BLOOMBERG
REPCO IN

S&P CNX:5,868

REUTERS CODE
RHFL.BO

08 July 2013

Buy

Initiating Coverage

₹260

(₹)	(₹CRORES)		
Y/E MARCH	FY13	FY14E	FY15E
NII (Rs Cr.)	125	168	214
OP (Rs Cr.)	116	159	203
NP (Rs Cr.)	80	106	136
EPS (Rs)	13	17	22
EPS Growth (%)	-	32	28
ABV/Share (Rs)	102	117	135
P/E (x)	21.0	15.9	12.4
P/ABV (x)	2.6	2.3	2.0
RoE (%)	17	16	17
RoA (%)	2.4	2.6	2.8
Div yld (%)	-	1.5	1.9

STOCK DATA

52-W High/Low Range (Rs) 158/278

Major Shareholders (as of Dec'10)

Promoter	38
Non Promoter Corp Holding	34
Public & Others	28

Average Daily Turnover(3 months)

Volume	101000
Value (Rs Cr)	2.05
1/3 Month Rel. Performance (%)	19/45
1/3 Month Abs. Performance (%)	18/51

KEY FINANCIALS

Shares Outstanding (Cr)	6.22
Market Cap. (Rs Cr)	1,678
Market Cap. (US\$ Mn)	280
Past 3 yrs NII Growth (%)	24
Past 3 yrs NP Growth (%)	22
Dividend Payout (%)	-

Maximum Buy Price : ₹270

We recommend to BUY Repco Home Finance(RHF) with a 12month price target of Rs. 320, valuing it at 19X P/E and 2.75x P/BV on FY14E estimated earnings.

INVESTMENT ARGUMENTS:

Long Term Play on housing finance:

RHF is a long term play on housing finance and housing shortage. According to Gol, urban housing shortage stands at ~19mn units and Rs 65,000 Cr, most of which comes from low income group. RHF's business model caters to affordable housing finance needs in Tier2 & 3 towns (average loan size at Rs 10 lac). Opportunity size is large as loan book stands at Rs 3500 Cr only. **(Look at about the company)**

Presence in under served markets:

RHF is largely focused on providing home loans in tier-II and tier-III cities, which allow a large part of book to qualify as priority sector lending (PSL) for banks. NBFCs operating in PSL segments enjoy competitive advantages, as most private banks have a shortage in meeting their PSL targets. Moreover, these under served markets, have lesser competitive intensity as the model is more collection based rather than EMI based.

Impeccable asset quality, high growth & good return ratios:

RHF has maintained impeccable asset quality (GNPA at ~1.25% & cumulative write off since inception at 8 bps) despite growing loan book at CAGR of 38% during the last 5 years at 42%. The company maintains a very lean operating cost model (OpCost/branch at Rs 25 Lac vs Gruh's Rs 34 Lac), which ensures low breakeven point on a new branch and also helps in maintaining high ROE(pre IPO money ROE for FY13 at 23%).

Reasonable Valuations:

RHF trades at 2.3x/15x of FY14E ABV/EPS, which is at discount of 66% in P/ABV to closest competitor Gruh. We believe there is a high probability of significant rerating of valuations owing to high growth potential (FY13-FY15E PAT CAGR at 30%), long term business potential and niche positioning in underpenetrated segment within housing finance. Recommend BUY with a target of Rs 320 (19x FY14E EPS, 2.75x FY14E ABV) in 12 months. **(Look at Valuation Table)**

About the company:

RHF is a professional housing finance company headquartered in Chennai which was promoted by Repco Bank (Subsidiary of GoI) in year 2000 to cater to housing finance needs of Tier 2 and 3 towns. The company did an IPO in March 2013 to raise Rs 270 Crore at Rs 172 per share. Apart from Repco Bank, which holds 38% of equity, Carlyle also has 18% holding in RHF.

Repco Home Finance	FY09	FY10	FY11	FY12	FY13
LOAN BOOK (RS CR)	991	1409	2076	2807	3550
PROFIT AFTER TAX (RS CR)	25	44	56	62	80
OPCOST/BRANCH (RS LAC)	15	18	22	23	25
GROSS NPA%	1.0%	1.2%	1.2%	1.4%	1.5%
NET NPA%	0.8%	0.9%	0.9%	0.9%	1.0%
NO OF BRANCHES	44	53	71	87	93
DISBURSEMENTS (RS CR)	428	583	916	1042	1167
NON SALARIED LOAN%	54%	56%	55%	53%	53%
SALARIED LOAN%	46%	44%	45%	47%	47%
AVG. TICKET SIZE (RS LAC)	7	7	8	9	10

CONCERNS:**Concentration Risk:**

65% loan book is situated in Tamil Nadu. Any geopolitical risk associated with Tamil Nadu will affect Repco accordingly.

Moderation In Margins:

Low cost housing finance players enjoy high margins (Gruh at 3%+, Repco at 2.75%. vs HDFC spread of ~2.5%, SBI's probable spread at 2%+) even after they enjoy funding facilities from Banks. SBI and other banks' push to reach out of traditional urban home loan markets will hamper margins of players like Repco in the long term. Huge size of opportunity will provide volume growth for everyone, which will mute the impact of lower margins in the longer term.

VALUATION TABLE					
VALUATIONS	P/E	P/ABV	ROE	EPS CAGR	EPS CAGR
	FY14E	FY14E	FY13	FY07-13	FY13-15E
HDFC	24.0	4.5	28%	17%	18%
LIC HSG FIN	10.5	1.7	17%	21%	21%
DEWAN HSG FIN	3.6	0.6	17%	26%	24%
GRUH FIN	25.3	6.7	34%	29%	14%
CANFIN HOMES	4.3	0.6	14%	10%	22%
REPCO	15.0	2.3	17%	38%	30%

Financials and Valuation

Income statement

(₹ Cr)

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Interest Income	214	306	391	498	615
Interest Expenses	128	203	266	331	402
Net Interest Income	86	103	125	168	214
Change (%)	32	20	21	34	27
Non Interest Income	12	14	15	19	23
Net Income	98	117	140	186	236
Change (%)	32	20	20	33	27
Operating Expenses	15	19	24	28	33
Pre - Provision Profits	83	97	116	159	203
Change (%)	28	18	19	37	28
Provisions (excl tax)	5	16	9	12	14
PBT	77	82	107	147	188
Tax	21	20	27	41	53
Tax Rate (%)	27	25	25	28	28
Profit for Equity Sh	56	62	80	106	136
Change (%)	27	10	30	32	28
Equity Dividend (Incl tax)	-	-	-	16	20
Core (PPP*)	83	97	116	159	203
Change (%)	28	18	19	37	28

Expect NII CAGR of
30% OVER FY 13-15

FY13-15 PAT CAGR of 30%

Balance Sheet

(₹ Cr)

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Equity Share Capital	46	46	62	62	62
Reserves & Surplus	195	257	572	662	778
Net Worth	242	303	635	724	840
Borrowings	1,834	2,514	3,113	3,669	4,572
Change (%)	46	37	24	18	25
Other Liabilities	-	-	-	-	-
Total Liabilities	2,076	2,818	3,748	4,394	5,412
Loans Given	2,076	2,807	3,550	4,406	5,439
Fixed Assets	3	3	4	5	6
Investments	2	8	8	8	8
Net Current Assets	(8)	(9)	174	(25)	(41)
Total Assets	2,073	2,810	3,737	4,394	5,412

Expect 24% loan CAGR over
FY13-15

Ratio

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Spread Analysis (%)					
Avg. Yield on loans	12.3%	12.5%	12.3%	12.5%	12.5%
Avg. Cost of Deposits	8.3%	9.3%	9.5%	9.8%	9.8%
Spread	4.0	3.2	2.9	2.8	2.8
Profitability Ratios (%)					
RoE	26.0	22.6	17.1	15.6	17.3
RoTA	3.2	2.5	2.4	2.6	2.8
Int. Expense/Int. Income	60	66	68	66	65
Non Int. Inc./Net Income	12	12	11	10	10
Efficiency Ratios (%)					
Cost Income ratio	20.9%	29.9%	24.0%	21.2%	20.3%
Emp. Cost / Operating Expenses	35%	30%	42%	40%	39%
Loan Losses to Net income	0.98%	0.00%	0.16%	0.21%	0.21%
Loan Losses to Advances	0.05%	0.00%	0.01%	0.01%	0.01%
Asset-Liability Profile (%)					
Loans / Borrowing Ratio	1.13	1.12	1.14	1.20	1.19
CAR	-	-	-	20.2	19.1
Asset Quality					
GNPA	25	38	53	66	82
NNPA	18	27	35	37	38
GNPA % to GrossAdvances	1.21%	1.36%	1.48%	1.50%	1.50%
NNPA % to Net Advances	0.88%	0.95%	0.99%	0.84%	0.70%

Asset quality to remain
stable

Valuation*Reasonable Valuations*

Y/E March	FY11	FY12	FY13	FY14E	FY15E
Adj Book Value (₹)	48	60	95	111	129
Change (%)	17	24	59	17	17
Price-ABV (x)	-	-	2.9	2.4	2.1
EPS (₹)	-	-	13	17	22
Change (%)	-	-	-	32	28
Price-Earnings (x)	-	-	21.0	15.9	12.4
Dividend Per Share (₹)	-	-	-	4.0	5.0
Dividend Yield (%)	-	-	-	1.5	1.9



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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