

# Repco Home Finance

BSE Sensex 29,443 S&P CNX 9,087

CMP: INR632

TP: INR752 (+19%)

Buy



### Stock Info

Bloomberg	REPCO IN
Equity Shares (m)	62.5
52-Week Range (INR)	891/500
1, 6, 12 Rel. Per (%)	-17/-28/-11
M.Cap. (INR b)	38.6
M.Cap. (USD b)	0.6
Avg Val, INR m	80.0
Free float (%)	62.9

### Financial Snapshot (INR b)

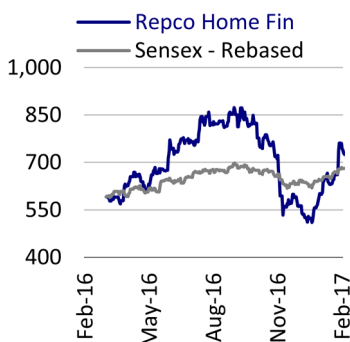
Y/E March	2017E	2018E	2019E
NII	3.6	4.2	5.0
PPP	3.3	3.8	4.4
PAT	1.8	2.1	2.5
EPS (INR)	29.0	34.2	40.5
BV/Sh.INR	179.1	210.3	247.3
RoAA (%)	2.2	2.2	2.1
RoE (%)	17.5	17.5	17.7
Payout (%)	8.7	8.7	8.7
<b>Valuation</b>			
P/E (x)	26.3	21.8	18.5
P/BV (x)	4.1	3.5	3.0
Div. Yld (%)	0.4	0.4	0.5

### Shareholding pattern (%)

As on	Dec-16	Sep-16	Dec-15
Promoter	37.1	37.1	37.2
DII	23.9	21.9	17.5
FII	24.5	27.3	30.2
Others	14.5	13.8	15.2

Note: FII includes depository receipts

### Relative to Index



## Challenging times

### Proactive in addressing asset quality; witnessing recoveries in high ticket LAP

- The impact of demonetization on small businesses has been significant, and it will take a few quarters for things to normalize. We expect loan growth to moderate to 16%/19% for FY17/18.
- The management has been proactive in addressing asset quality issues. REPCO has hired 20 persons exclusively to manage recoveries. The company is also expecting resolution of a few high-ticket LAP NPLs in the quarter.

### Challenges on growth front

4QFY17 has been a challenging quarter so far due to postponement of demand. The High Court ruling barring Gram Panchayats from registering properties continues to impact disbursements (sanctions of INR2b undisbursed in 2Q and INR0.8b undisbursed in 3Q due to this ruling). The management is hopeful of resolution in a court hearing later this month, which could help revive growth in FY18. It reiterated its guidance of high-teens loan growth in FY17 and 20-25% growth in FY18. We, however, take a cautious stance and expect 16%/19% loan growth in FY17/18.

### Focusing on improving asset quality

In lieu of the deteriorating asset quality in the LAP book, the management has taken a number of corrective steps. REPCO did not disburse a single loan greater than INR7.5m in 3QFY17. Additionally, it recruited 20 people to focus exclusively on recoveries. These people would be staffed in branches where asset quality performance has been poor. The management expects to recover a significant amount from GNPLs in the high ticket size LAP book in this quarter.

### Significant benefits on cost of funds

REPCO has been one of the least benefited HFCs with regard to cost of funds due to high share of bank borrowings (>60%). However, with most banks having cut MCLR by 70-90bp in January, it should be one of the largest beneficiaries over the next few quarters. Additionally, the company expects a rating upgrade in FY18, which should reduce cost of funds by ~20bp. Lower cost of funds should offset yield pressure in the home loan and LAP segments, resulting in stable margins over the medium term.

### Valuation and view

REPCO has recorded loan book CAGR of 33% over FY10-16, with equally impressive earnings growth of 24%. Presence in underserved markets, pricing power on asset side, declining cost of funds and expanding reach should support its earnings over the longer term. However, on account of externalities, growth has slowed down and we expect 18-20% loan and PAT growth over the medium term. The company's focus on recoveries is encouraging, though, and bodes well for asset quality over the medium term. We remain positive on its long-term prospects. The recent correction offers a good entry point. Maintain **Buy** with a TP of INR752/share (3x FY19E BV).

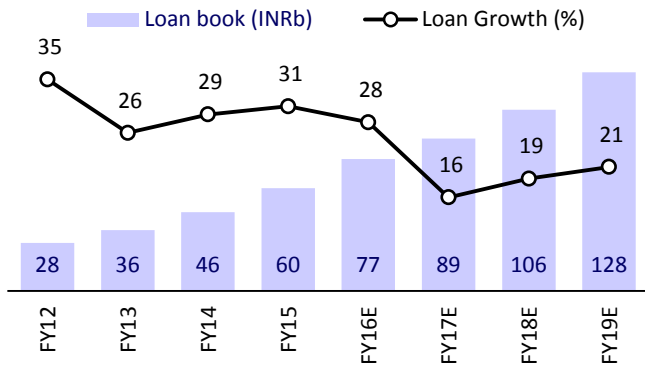
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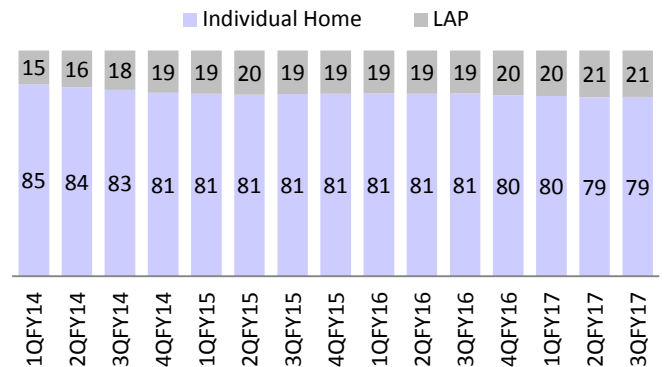
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**Exhibit 1: Loan growth slowing down**



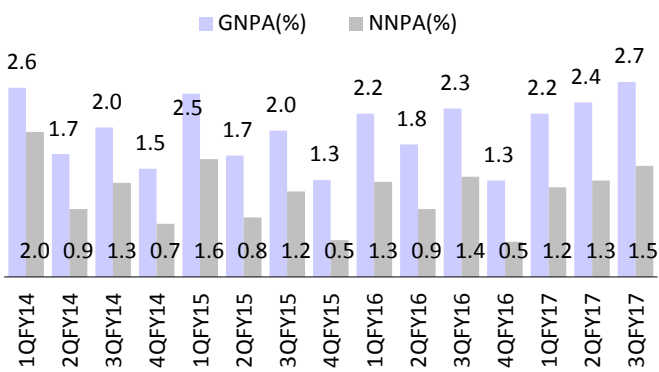
Source: Company, MOSL

**Exhibit 2: Share of LAP has increased over the years...**



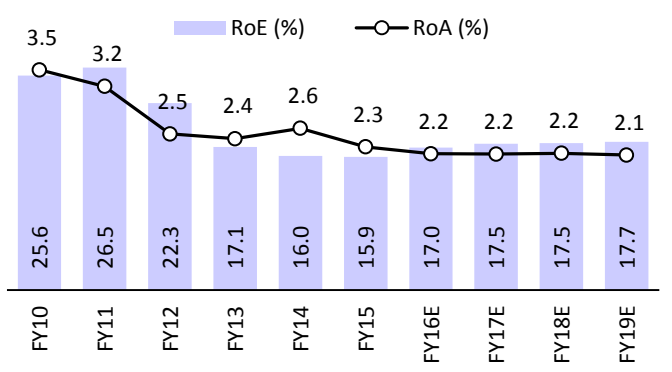
Source: Company, MOSL

**Exhibit 3: ...resulting in slightly higher GNPLs**



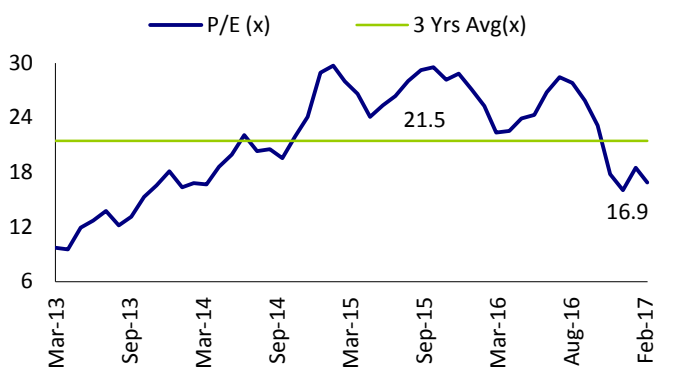
Source: Company, MOSL

**Exhibit 4: Return ratios to stay put**



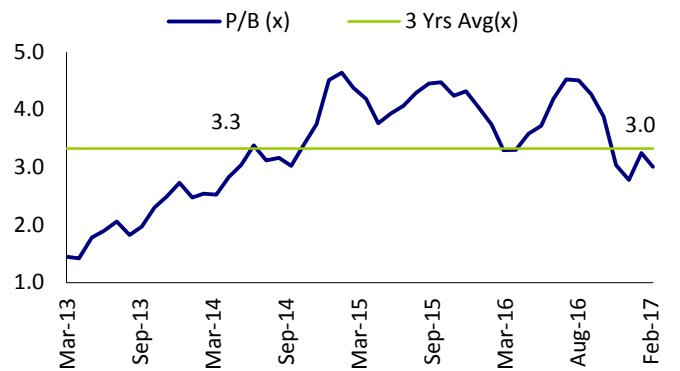
Source: Company, MOSL

**Exhibit 5: P/E ratio (1-year forward)**



Source: Company, MOSL

**Exhibit 6: P/B ratio (1-year forward)**



Source: Company, MOSL

## Financials and Valuations

<b>Income statement</b>		<b>(INR Million)</b>						
<b>Y/E March</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Interest Income	3,055	3,912	5,156	6,695	8,521	10,135	11,693	13,776
Interest Expended	2,023	2,656	3,247	4,317	5,483	6,534	7,486	8,790
<b>Net Interest Income</b>	<b>1,032</b>	<b>1,255</b>	<b>1,908</b>	<b>2,378</b>	<b>3,039</b>	<b>3,600</b>	<b>4,207</b>	<b>4,986</b>
Change (%)	20.1	21.6	52.0	24.6	27.8	18.5	16.9	18.5
Other Operating Income	134	148	194	235	297	326	367	399
<b>Net Income</b>	<b>1,166</b>	<b>1,403</b>	<b>2,102</b>	<b>2,613</b>	<b>3,336</b>	<b>3,926</b>	<b>4,574</b>	<b>5,385</b>
Change (%)	18.9	20.4	49.8	24.3	27.7	17.7	16.5	17.7
Operating Expenses	194	243	388	547	643	638	784	939
<b>Operating Income</b>	<b>972</b>	<b>1,160</b>	<b>1,714</b>	<b>2,065</b>	<b>2,693</b>	<b>3,288</b>	<b>3,790</b>	<b>4,446</b>
Change (%)	16.9	19.4	47.7	20.5	30.4	22.1	15.3	17.3
Provisions/write offs	155	92	226	203	392	520	527	582
<b>PBT</b>	<b>816</b>	<b>1,068</b>	<b>1,488</b>	<b>1,862</b>	<b>2,301</b>	<b>2,768</b>	<b>3,263</b>	<b>3,865</b>
Tax	202	268	390	631	800	955	1,126	1,333
Tax Rate (%)	25	25	26	34	35	35	35	35
<b>Reported PAT</b>	<b>615</b>	<b>800</b>	<b>1,098</b>	<b>1,231</b>	<b>1,501</b>	<b>1,813</b>	<b>2,137</b>	<b>2,531</b>
Change (%)	5.7	30.2	37.2	12.1	21.9	20.8	17.9	18.4

<b>Balance sheet</b>		<b>(INR Million)</b>						
<b>Y/E March</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>
Capital	464	622	622	624	625	625	625	625
Reserves & Surplus	2,568	5,724	6,760	7,497	8,923	10,578	12,529	14,840
<b>Net Worth</b>	<b>3,033</b>	<b>6,345</b>	<b>7,381</b>	<b>8,121</b>	<b>9,548</b>	<b>11,203</b>	<b>13,155</b>	<b>15,466</b>
<b>Borrowings</b>	<b>24,860</b>	<b>30,647</b>	<b>39,020</b>	<b>51,044</b>	<b>65,379</b>	<b>75,906</b>	<b>90,452</b>	<b>110,460</b>
Change (%)	37.4	23.3	27.3	30.8	28.1	16.1	19.2	22.1
Other liabilities	634	932	959	1,592	2,705	2,840	2,982	3,131
<b>Total Liabilities</b>	<b>28,527</b>	<b>37,924</b>	<b>47,361</b>	<b>60,757</b>	<b>77,632</b>	<b>89,949</b>	<b>106,589</b>	<b>129,056</b>
<b>Loans</b>	<b>28,090</b>	<b>35,500</b>	<b>45,961</b>	<b>60,129</b>	<b>77,049</b>	<b>89,091</b>	<b>105,792</b>	<b>127,699</b>
Change (%)	35.3	26.4	29.5	30.8	28.1	15.6	18.7	20.7
<b>Investments</b>	<b>81</b>	<b>81</b>	<b>124</b>	<b>124</b>	<b>124</b>	<b>136</b>	<b>150</b>	<b>165</b>
Change (%)	292.7	0.0	54.0	0.0	0.0	10.0	10.0	10.0
Net Fixed Assets	33	45	50	89	93	97	102	107
<b>Total Assets</b>	<b>28,527</b>	<b>37,924</b>	<b>47,361</b>	<b>60,757</b>	<b>77,632</b>	<b>89,949</b>	<b>106,589</b>	<b>129,056</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Spreads Analysis (%)</b>								
<b>Avg Yield on Housing Loans</b>	<b>12.4</b>	<b>12.2</b>	<b>12.5</b>	<b>12.5</b>	<b>12.4</b>	<b>12.2</b>	<b>12.0</b>	<b>11.8</b>
Avg. Yield on Earning Assets	12.5	12.3	12.6	12.6	12.4	12.2	12.0	11.8
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>9.4</b>	<b>9.6</b>	<b>9.3</b>	<b>9.6</b>	<b>9.4</b>	<b>9.3</b>	<b>9.0</b>	<b>8.8</b>
<b>Interest Spread</b>	<b>3.1</b>	<b>2.7</b>	<b>3.3</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>
<b>Net Interest Margin</b>	<b>4.2</b>	<b>3.9</b>	<b>4.7</b>	<b>4.5</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
<b>Profitability Ratios (%)</b>								
RoE	22.3	17.1	16.0	15.9	17.0	17.5	17.5	17.7
RoA	2.48	2.41	2.57	2.28	2.17	2.16	2.17	2.15
Int. Expended/Int.Earned	66.2	67.9	63.0	64.5	64.3	64.5	64.0	63.8
Other Inc./Net Income	11.5	10.5	9.2	9.0	8.9	8.3	8.0	7.4
<b>Efficiency Ratios (%)</b>								
Op. Exps./Net Income	16.7	17.3	18.5	21.0	19.3	16.3	17.1	17.4
Empl. Cost/Op. Exps.	54.1	58.0	54.3	61.2	63.7	63.5	64.6	64.8
<b>Asset Quality (%)</b>								
Gross NPAs	382	525	686	791	1,009	1,587	1,988	2,464
Gross NPAs to Adv.	1.4	1.5	1.5	1.3	1.3	1.8	1.9	1.9
Net NPAs	265	348	333	298	368	636	730	879
Net NPAs to Adv.	0.9	1.0	0.7	0.5	0.5	0.7	0.7	0.7

### VALUATION

Book Value (INR)	65.3	102.1	118.7	130.2	152.7	179.1	210.3	247.3
<b>Price-BV (x)</b>	<b>9.7</b>	<b>6.2</b>	<b>5.3</b>	<b>4.9</b>	<b>4.1</b>	<b>3.5</b>	<b>3.0</b>	<b>2.6</b>
EPS (INR)	13.2	12.9	17.7	19.7	24.0	29.0	34.2	40.5
EPS Growth YoY	5.7	-2.7	37.2	11.8	21.6	20.8	17.9	18.4
<b>Price-Earnings (x)</b>	<b>47.8</b>	<b>49.1</b>	<b>35.8</b>	<b>32.0</b>	<b>26.3</b>	<b>21.8</b>	<b>18.5</b>	<b>15.6</b>
Dividend per share (INR)	1.0	1.3	1.2	1.5	1.8	2.2	2.6	3.0
<b>Dividend yield (%)</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>

E: MOSL Estimates

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#### Repco Home Finance

No  
No

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