Dalal & Broacha
Stock Broking Pvt. Ltd.

Repco Home Finance Ltd.

August 2, 2013

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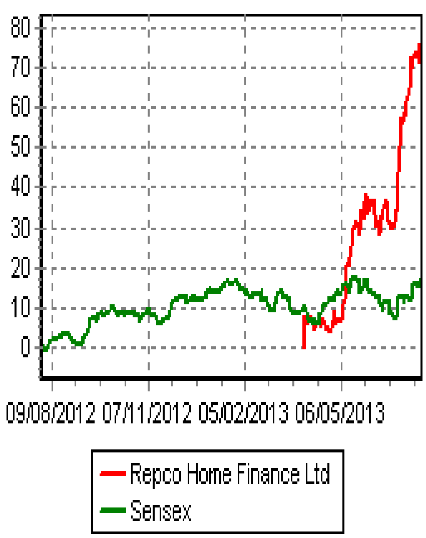
INITIATION - BUY

CMP	244.5
Target	330
52 wk Hi/Low	294/159

KEY SHARE DATA

Mcap (Rs.Cr./$Mn)	1630	$272
Avg. Mthly Vol		135,641
No of Shares O/S		6.22
Face Value		10
BSE / NSE		535322 REPCOHOME
Bloomberg		REPCO IN

Share holding (%)	Jun-13	Mar-13
Promoters	37.37	37.37
FII	6.28	5.55
DII	13.76	12.34
Others	42.59	44.74



Executive Summary

Repco addressing underpenetrated markets and segment: We like Repco Home Finance Ltd. as a well capitalized (25.5% tier1 CRAR) NBFC having strong presence in Southern India, robust asset quality (<1% NNPAs as on FY13) and having a strong business profile of small ticket lending for affordable housing, capturing India's growth story at the grassroots level. The HFC enjoys A+ ratings (with a stable outlook) from ICRA, which we believe should improve going forward as a benefit of being listed and better appreciation of its having a stable and attractive asset quality.

Strong asset quality, negligible credit cost: Repco has over the years, been able to develop robust risk management processes thereby ensuring good asset quality. While Its GNPAs as a % have been rising, we believe that the low NNPAs maintained since last two years indicates prudent management. Also, the fact that till now, the company had to write off Rs <4 Crores of loans till date indicates the strong asset quality managment of the company.

Strong brand in South India, beginning to grow in non South markets too: Owned 37.37% by Repco Bank, RHFL is operating mainly in Southern India since 2000. Out of the 92 branches and satellite centers of RHFL, 83 (90+% of total) customer points are located in Southern India, where it is a well known brand.

However, of late, RHFL has been expanding its footprint outside Southern India, by selectively setting-up new branches in the states of Maharashtra (in FY10), Gujarat & Odisha (in FY12) and West Bengal (in FY13). Presently, ~7% of loan book is from non south-India region, and going forward, the management indicates, the ratio should improve further. We believe this is a positive move and will not only allow RHFL to diversify its revenues; it will also help maintain growth momentum for the company.

Valuation : We believe that RHFL is an interesting business model which enjoy 15+% ROE and 25% loan growth in the next 3-5 years. Using weighted average of two stage DDM and relative valuations we arrive at targe price of Rs 334 for the stock and at 2.1x FY14E ABVPS, we opine due to its unique business profile and strong asset quality, long term investors may BUY the stock.

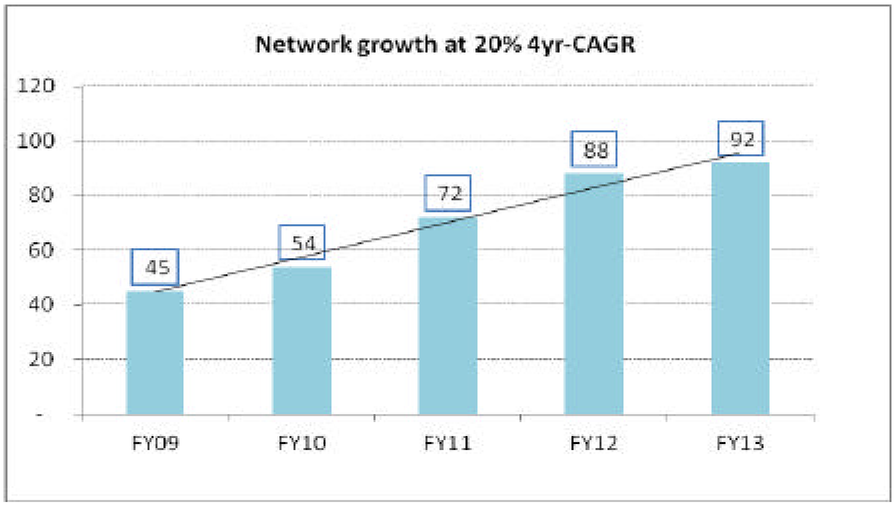
Year	Income	growth	PPP	PPP%	PAT	growth	EPS	PE(x)	BVPS	P/BVPS	RoE%	RoA%
FY12	318.8	41.1%	97.1	30.5%	61.5	8.6%	13.2	NA	65.3	NA	22.6%	2.5%
FY13	405.7	27.3%	115.8	28.5%	80.1	30.4%	12.9	19.0	102.0	2.4	17.1%	2.4%
FY14E	503.8	24.2%	136.3	27.1%	102.4	27.8%	16.5	14.8	115.2	2.1	15.2%	2.4%
FY15E	627.6	24.6%	165.6	26.4%	124.0	21.1%	19.9	12.3	131.2	1.9	16.2%	2.4%

Detailed Investment arguments

Repco addressing underpenetrated markets and segment

We like Repco Home Finance Ltd. as a well capitalized (25.5% tier1 CRAR) NBFC having strong presence in Southern India. RHFL has robust asset quality (<1% NNPAs as on FY13) and has a strong business profile of small ticket lending for affordable housing which we believe, captures India's growth story at the grassroots level.

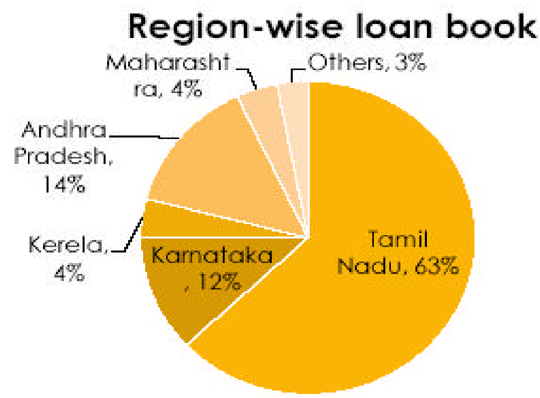
Repco focuses on the under-served segment of small ticket, non-salaried and self employed segment in tier 2 and tier 3 cities and peripheral areas of tier 1 cities. Out of its 92 branches, nearly two-thirds of the branches and satellite centers are located in tier-2 & tier-3 areas. While its branches addition have been strong, at 21% CAGR from FY08, its loan book growth has been even better at 37.5% CAGR.



Source : Company

The average loan size of Rs 0.98 million (USD 16,066 only) is small in comparison to larger banks and HFCs (for example, HDFC's avg. ticket size is double, at Rs 2.16 Million). We believe that the USP of institutions like RHFL is actually not on interest rates but better service quality and credit evaluation methodologies. Also, direct customer contact leads to increased efficiency, faster turnaround times and lower operational costs.

Strong brand in South India, beginning to grow in non South markets too: Owned 37.37% by Repco Bank(which is a Govt. of India enterprise, 82.5% shareholding held by GOI & State Govt.), RHFL has been is operating in Tamil Nadu since 2000 while the parent Repco Bank is older, and has been operating since four decades now . Out of the 92 branches and satellite centers of RHFL, 90+% of such customer touch points are located in Southern India, where it is a well known brand.



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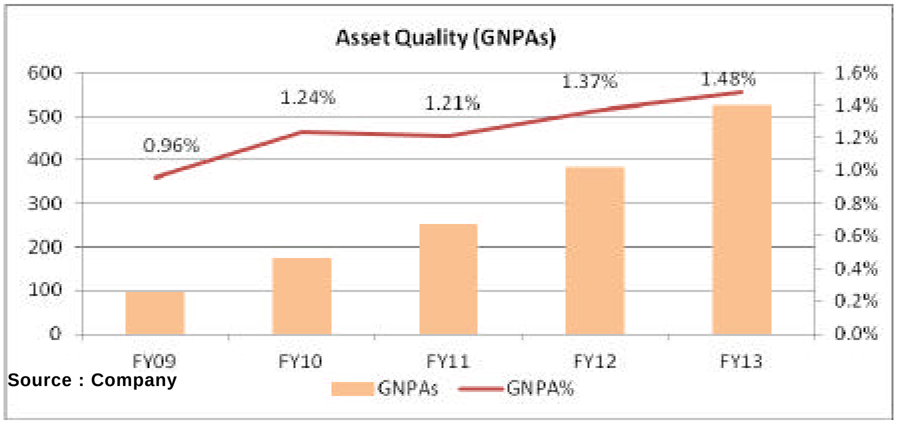
However, of late, RHFL has been expanding its footprint outside Southern India, by selectively setting-up new branches in the states of Maharashtra (in FY10), Gujarat & Odisha (in FY12) and West Bengal (in FY13).

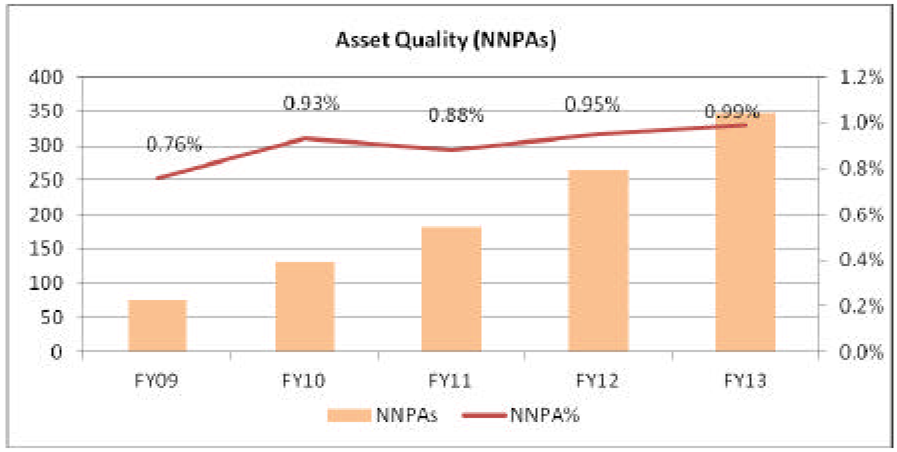
Presently, nearly 7% of loan book is from non south India region, which going forward, the management indicates, the ratio should improve further. We believe this is a positive move and will not only allow RHFL to diversify its revenues; it will also help maintain growth momentum for the company.

Strong asset quality (<1% NNPAs), conservative risk management lends comfort:
Repco has over the years, been able to develop robust risk management processes which are reflected in its good asset quality. While Its GNPAs as a % have been rising, it has been able to maintain <1% NNPAs since last two years.



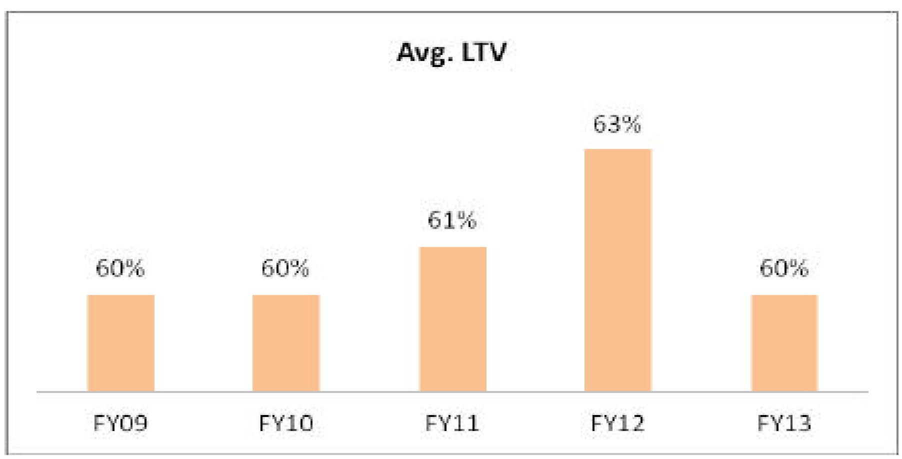
Source : Company

Also, the fact that till now, the company had to write off less than Rs 40 million of loans till date indicates the strong asset quality managment of the company.



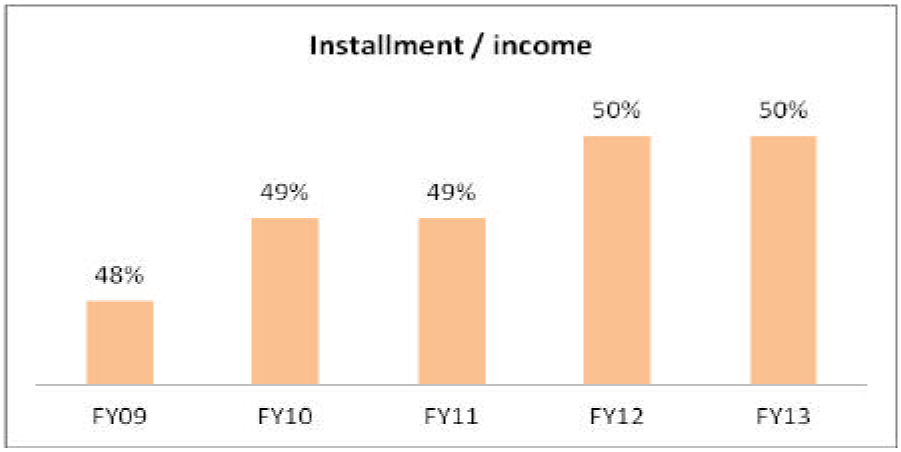
Source : Company

By virtue of its lending practices RHFL has been able to keep its LTV at ~65% and Installment to income conservatively low. Its installment to income is at 50% as on Mar-2013, and despite being present in the low ticket segment, which is perceived to be a risky segment, the fact that total loans written off since inception was Rs. 3.9 crores, representing 0.08% of total disbursements also indicates strong quality of management.



Source : Company

The HFC enjoys A+ ratings (with a stable outlook) from ICRA, which we believe should improve going forward as a benefit of being listed and better appreciation of its having a stable and attractive asset quality.



Source : Company

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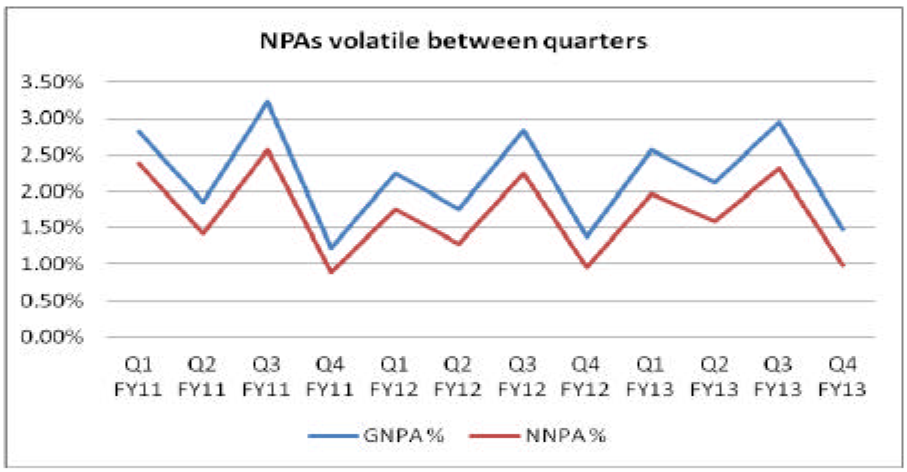
Quarterly variation in asset quality; but stable on year basis

The company focuses on providing Individual Home Loans and Loan against Property (LAP) to segments which are generally under-served by larger HFCs & banks. Loans to salaried and non-salaried borrowers constitute 46.9% and 53.1 % of loan book as on March 31, 2013.

By nature, the income profile of the non-salaried segment tends to be lumpy, and so it results in significant variability in NPA profile on a quarter to quarter basis.

As seen below, the NPA levels are pretty lumpy and tend to alternate between rise and fall between quarters, which may throw a volatile asset picture sequentially. However, we believe that year-on-year comparison is better as the volatility gets smoothed out.



Source : Company

We believe that the quarterly variability in NPA profile is not accurately representative of the real asset quality of RHFL.

On the contrary, our interpretation would be that even though qoq fluctuations are seen in the above mentioned chart, we believe that the performance is indicative of the conservative underwriting policies of the Company due to which Repco have been able to rein in the asset quality pressure over the last 2 years.

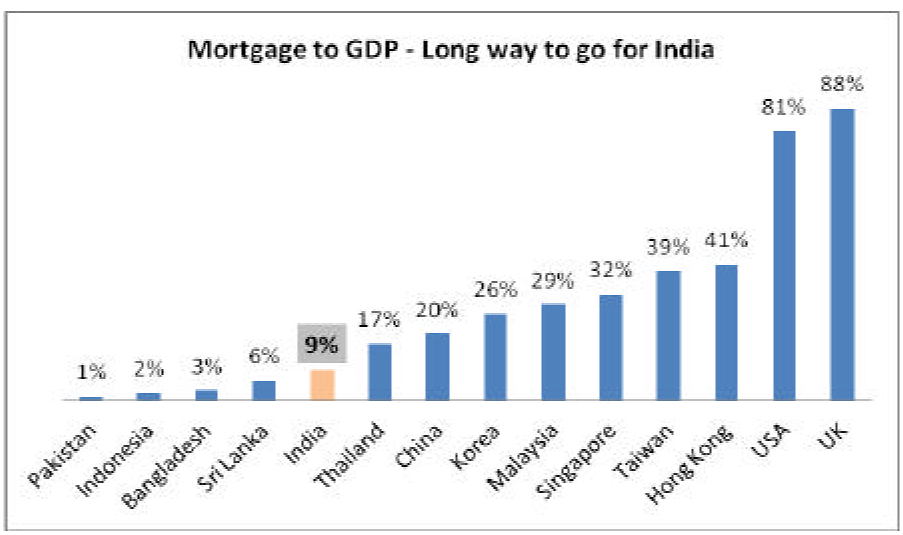
Industry Scenario

We believe that for an efficient player, with good systems and process Rural Housing finance market should be an attractive & promising market to operate in. In FY13, the profitability of HFCs did come under pressure due to few of the regulatory changes made by the National Housing Bank (NHB).

While some of the regulatory changes such as disallowing imposition of pre-payment penalty and increase in the provisioning of NPAs may be termed as strict on HFCs, we believe that they are positive and prudent for the Industry on the long run. However introduction of Standard Asset provisioning for standard home loan assets of 0.4% on Home loans and 1% on other loans assets not only impacted Profit margins, they also have caused structural changes in the revenue statements of HFCs.

However, we believe, that the above changes should be positive for the asset quality in the long term for HFCs. The NHB (and the Government of India) has stated at various platforms that their focus is to promote Housing finance in India. Measures like, keeping Housing loans upto Rs. 2.5 million (Rs 25 Lakhs) to be treated as Priority Sector Lending indicate this intent..

Demographically, India has a large requirement for housing as not only, 60% of India's population is below 30 years of age, there is a rapid rise in new households again generating need for new houses.



Source : NHB Website

The low penetration of Mortgage to GDP in India, presents a big opportunity for the sector to grow. Both the Technical group on Urban housing 2012-17, as well as the XIIth Plan documents indicates that there is significant dearth of Housing in India, especially in the Economically Weaker Segment (EWS).

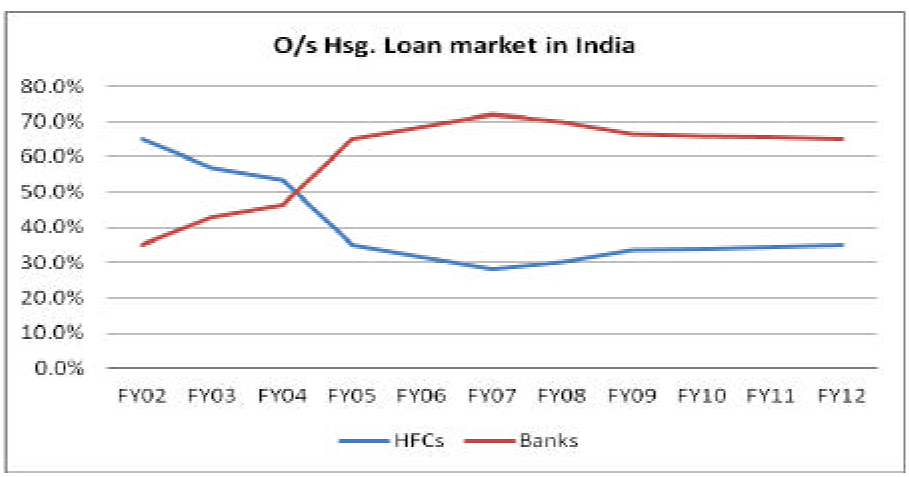
Housing shortage estimates in India **Technical Group on Urban Housing Shortage during 2012-17** **Category**	**Shortage in Mn Units**	**Percentage**
EWS	10.6	56.2%
LIG	7.4	39.5%
MIG	0.8	4.4%
Total	**18.8**	**100%**

Source : NHB

Housing shortage estimates in India **Rural Housing shortage at the end of Xith Five Year Plan (i.e. 2012)** **Category**	**Shortage in Mn Units**	**Percentage**
Below Poverty Line	39.3	90.0%
Shortage above Poverty Line	4.4	10.0%
Total	**43.7**	**100%**

Source : NHB

So far, HFCs have been growing and have recovered market share since FY07. Their share in outstanding Housing Loans market in India, had earlier declined from 68% in FY02 to 29% in FY07.



Source : RBI

However, the HFCs staged a comeback since FY07 and have been gradually been increasing their market share from Banks. Even now, HFCs have been steadily gaining market share from banks, as seen till FY12. We believe that going forward the niche market HFCs like RHFL should continue to see profitable growth.

Risks:

" Absence of Clear land titles as in metros and urban centers can be an impediment
" Appraisal is both easier and more reliable of salaried borrowers against self-employed clients
" Aggression from banks/other NBFCs can be a risk
" The rural economy still is largely dependent on Monsoons and other seasonal factors

Valuations

We believe that RHFL is an NBFC which should be evaluated on its basis of growth and business profitably. We have used a two model valuation approach taking both Dividend Discounting method and relative valuations.

Weghted average Target price	**Target price**	**Weights**	**Weighted avg. price**	**Comments**
Methodologies				
Target price using DDM	348	50%	174	based on 2-stage DDM
Target price using P/adj. BV	308	50%	154	based on avg. P/ABVPS of peers
Weighted avg. price target			**328**	
Current Price			245	
Potential Upside			34.3%	

Keeping equal weights, we arrive at the target price of Rs 330 and we opine due to its unique business profile and strong asset quality, long term investors may BUY the stock.

Two stage DDM Valuation

	High growth period (HGP)					Transition stage (TS)					Terminal Value
Year	**FY14 E**	**FY15 E**	**FY16 E**	**FY17 E**	**FY18 E**	**FY19 E**	**FY20 E**	**FY21 E**	**FY22 E**	**FY23 E**	
Expected Growth	27.8%	21.1%	25.0%	25.0%	25.0%	20.0%	20.0%	20.0%	20.0%	20.0%	5.0%
EPS	16	20	25	31	39	47	56	67	81	97	**102**
Payout (inc. tax)	8.6%	8.6%	15.0%	15.0%	15.0%	25.0%	25.0%	25.0%	25.0%	25.0%	72%
Div. Per share	1.42	1.72	3.74	4.67	5.84	11.69	14.02	16.83	20.19	24.23	73.50
Cost of Equity	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
PV	1.3	1.3	2.6	2.9	3.2	5.7	6.0	6.4	6.8	7.3	318.7
Terminal Value											942
Cost of Equity											
Ke	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%
Risk Free	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Beta	0.8	0.8	0.8	0.8	0.8	0.80	0.80	0.80	0.80	0.80	0.80
MRP	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

PV of Div. in HGP	8
PV of Div. in TS1	21
PV of Terminal Value	319
Total Value of stock	348

Assumptions	**RoE**	**Retention Ratio**
HGP	17.1%	88.2%
TS	18.0%	75.0%
Terminal Value	18.0%	27.8%

Relative Valuation

		EPS (Rs.)		BVPS (Rs.)		PER (x)		P/BV (x)	
	CMP	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**
HDFC	807	36.7	43.1	182.6	206.4	22.0	18.7	4.4	3.9
DHFL	135	42.0	53.5	274.9	325.3	3.2	2.5	0.5	0.4
LICHFCL	164	26.1	31.4	149.8	174.5	6.3	5.2	1.1	0.9
L&T Financial holdings	60	3.5	4.6	31.0	35.7	17.4	13.1	1.9	1.7
Gruh Finance	205	9.2	11.6	34.4	42.6	22.3	17.6	6.0	4.8
Peer Group Average									**2.4**
1-yr fwd BV multiple (x)	2.4								
FY15 E BVPS	131								
Target Price	**308**								
CMP	245								
Upside	26.2%								

Repco Home Finance Ltd. (Rs. Crores)

P&L Account	FY12	FY13	FY14E	FY15E
Revenue from operations	305.5	391.2	487.2	609.0
Other Income	13.3	14.5	16.5	18.5
Total Income	**318.8**	**405.7**	**503.8**	**627.6**
Interest Expenses	202.3	265.6	336.2	424.7
Net Op. Income	**116.5**	**140.1**	**167.5**	**202.9**
Employee benefit exp	10.5	14.1	19.1	23.1
Dep. & amortzn exp	1.6	1.5	1.7	1.7
Other expenses	7.3	8.7	10.4	12.5
Pre-Provision Profits	**97.1**	**115.8**	**136.3**	**165.6**
Other Income	0.1	0.3	0.2	0.2
Total Provision	15.5	9.2	11.6	14.5
PBT	**81.7**	**106.8**	**124.9**	**151.3**
Tax expense:	20.2	26.7	22.5	27.2
PAT	61.5	80.1	102.4	124.0

Balance Sheet (Sch. VI format)	FY12	FY13	FY14E	FY15E
EQUITY AND LIABILITIES:				
Share Capital	46.4	62.2	62.2	62.2
Reserves and Surplus	256.8	572.4	654.3	753.6
Total Networth	**303.2**	**634.6**	**716.5**	**815.8**
Non-Current Liabilities	1,794.8	2,210.7	2,766.4	3,461.0
Current Liabilities	754.6	947.2	1,186.2	1,483.7
Total Liabilities	**2,852.6**	**3,792.5**	**4,669.1**	**5,760.4**
ASSETS:				
Non-current assets	2,648.3	3,344.3	4,177.1	5,217.7
Tangible assets	3.2	4.4	5.4	6.4
Intangible assets	0.2	0.1	0.1	0.1
Non-curr. investments	8.1	8.1	9.7	11.7
Deferred tax assets (net)	7.9	11.2	11.2	11.2
LT loans and advances	2,628.9	3,320.5	4,150.6	5,188.3
Current assets	204.3	448.2	492.0	542.8
Current Investment	-	-	-	-
Cash and Bank Balances	17.5	210.1	194.4	170.7
LT loans and advances	179.9	229.5	286.9	358.6
Other current assets	6.9	8.6	10.8	13.4
Total Assets	**2,852.6**	**3,792.5**	**4,669.1**	**5,760.4**

1 Crores = 10 Million

Other parameters	FY12	FY13	FY14E	FY15E
GNPAs	38.2	52.5	67.9	87.6
GNPA (%)	1.4%	1.5%	1.5%	1.6%
NNPA (Rs. Cr.)	26.5	34.8	44.4	55.5
NNPA (%)	1.0%	1.0%	1.0%	1.0%

Growth	FY12	FY13	FY14E	FY15E
Total Loan Book	2,808.8	3,550.0	4,437.5	5,546.9
Loan Book Growth	***35.3%***	***26.4%***	***25.0%***	***25.0%***
Total Borrowing Fund	2,516.8	3,113.2	3,891.5	4,864.4
Borrowings Growth	***37.2%***	***23.7%***	***25.0%***	***25.0%***

Calculated Ratios	Mar-12	Mar-13	FY14E	FY15E
YOA	12.5%	12.3%	12.2%	12.2%
COF	9.3%	9.4%	9.6%	9.7%
NIM	4.2%	3.9%	3.8%	3.7%

Ratios	FY12	FY13	FY14E	FY15E
Interest Exp./Int.Income	66.2%	67.9%	69.0%	69.7%
Cost / Op. Income	15.3%	16.3%	17.6%	17.5%
Tax / PBT	24.7%	25.0%	18.0%	18.0%
ROE	22.6%	17.1%	15.2%	16.2%
ROA	2.5%	2.4%	2.4%	2.4%
EPS	13.2	12.9	16.5	19.9
BVPS	65.3	102.0	115.2	131.2
P/EPS	18.5	19.0	14.8	12.3
P/BVPS	3.7	2.4	2.1	1.9

RoA Tree	FY12	FY13	FY14E	FY15E
ROE	20.3%	12.6%	14.3%	15.2%
EQ M'PLIER (TOT. Assets % EQ.)	9.41	5.98	6.52	7.06
ROTA	2.2%	2.1%	2.2%	2.2%
EQ. M'plier X ROTA	20.3%	12.6%	14.3%	15.2%
NII as % of Assets	3.6%	3.3%	3.2%	3.2%
NON INT. as % Assets	0.5%	0.4%	0.4%	0.3%
NON OP. INC. as % of Assets	0.0%	0.0%	0.0%	0.0%
TOT INCOME as % of Assets	**4.1%**	**3.7%**	**3.6%**	**3.5%**
Less: Op COST as % of ASS	0.7%	0.6%	0.7%	0.6%
Less: Loan loss as % of ASS	0.5%	0.2%	0.2%	0.3%
Less: TAX as % of ASS	0.7%	0.7%	0.5%	0.5%
ROA	2.2%	2.1%	2.2%	2.2%

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