

14 May 2014

**BUY**

TP: INR 460.00

▲ 16.1%

# Repc Home Finance

REPCO IN

## Growth continues to remain robust; maintain BUY

**NII beat estimates with a strong 37% YoY uptick driven by 32% YoY growth in the loan book and higher NIMs. Asset quality improved QoQ with GNPLs declining from 2% of gross loans in Q3FY14 to 1.5% during Q4FY14 – in line with seasonal trends. Higher provisions shored up coverage to 51% from 35% in Q3FY14. We raise earnings estimates to factor in the higher loan growth, leading to a new Mar'15 TP of Rs 460 (from Rs 410). Premium valuations are sustainable given the strong earnings trajectory – maintain BUY.**

- ➔ **Loan growth remains strong:** REPCO reported a robust 8% QoQ increase in loan book, driven by higher disbursements. The pace of sanction and disbursement growth remained strong during the quarter at 22% QoQ and 15% QoQ respectively. Growth in loans was largely driven by the LAP segment which saw a 15% QoQ jump. The proportion of LAP within the overall loan mix increased 120bps QoQ from 17.5% during Q3FY14 to 18.7% during Q4FY14. Management continues to maintain its 20% LAP target for FY15 and loan book growth guidance of 25-30% over FY15/FY16.
- ➔ **Asset quality impeccable, higher provisions improve coverage:** Higher opex (up 38% YoY) was largely driven by higher staff costs – due to ESOP provisions. Absolute GNPLs declined ~20% QoQ to Rs 0.7bn. In line with seasonal trends, GNPLs declined from 2% of gross loans during Q3FY14 to 1.5% in Q4FY14. Total provisions were higher at Rs 41mn during Q4FY14 from Rs 35mn in Q3FY14, thus improving the coverage ratio to 51% from 35%.
- ➔ **Premium valuations sustainable, maintain BUY:** The recent outperformance has led to a valuation premium to larger peers (3x FY15E BV). We raise earnings estimates by 1%/4% over FY15/FY16 to factor in higher loan growth. Given the expected 270bps improvement in ROE and 26% earnings CAGR over FY14-FY16, we believe REPCO's premium valuations are sustainable. Maintain BUY with a new Mar'15 TP of Rs 460 as we roll-over to the mean BV between FY15/16, implying a target multiple of 3x.



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PRICE CLOSE (14 May 14)  
INR 396.05

MARKET CAP  
INR 24,619 mln  
USD 412 mln

SHARES O/S  
62.2 mln

FREE FLOAT  
30.0%

3M AVG DAILY VOLUME./VALUE  
0.2 mln/ USD 1.2 mln

52 WK HIGH 52 WK LOW  
INR 417.80 INR 194.00

### Financial Highlights

Y/E 31 Mar	FY12A	FY13A	FY14P	FY15E	FY16E
Net interest income (INR mln)	1,039	1,258	1,908	2,399	2,977
Net revenues (INR mln)	1,166	1,403	2,105	2,653	3,296
Pre-provision profits (INR mln)	972	1,160	1,717	2,234	2,800
Adj. PAT (INR mln)	615	800	1,100	1,413	1,761
Adj. EPS (INR)	13.2	12.9	17.7	22.7	28.3
ROE (%)	22.3	17.1	16.0	17.6	18.7
ROA (%)	2.5	2.5	2.6	2.6	2.5
Gross NPA (%)	1.4	1.5	1.7	1.8	2.1
CAR (%)	15.4	25.5	22.4	20.6	19.4
P/BV (x)	6.1	3.9	3.3	2.9	2.4
P/E (x)	29.9	30.8	22.4	17.4	14.0

Source: Company, Factset, RCML Research

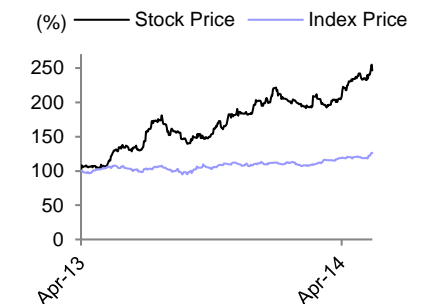




Fig 1 - Actual vs. estimated performance

(Rs mn)	Actual	Estimate	% Variance
Net operating income	539	441	22
PPP	470	413	14
PAT	315	296	6

Source: RCML Research, Company

Earnings beat led by strong loan book growth and uptick in NIMs

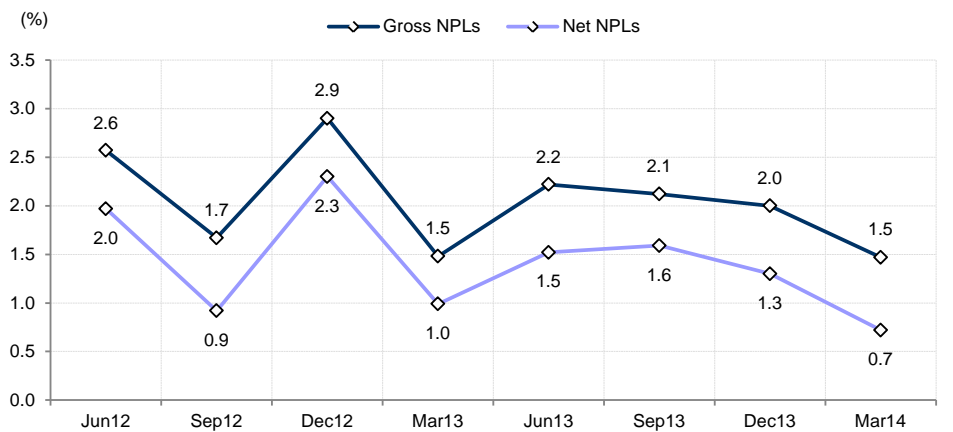
Fig 2 - Quarterly performance

(Rs mn)	Q4FY14	Q4FY13	% Chg YoY	Q3FY14	% Chg QoQ
Interest income	1,447.8	1,093.9	32.4	1,320.8	9.6
Interest expenses	908.6	700.1	29.8	849.1	7.0
<b>Net interest income</b>	<b>539.2</b>	<b>393.8</b>	<b>36.9</b>	<b>471.7</b>	<b>14.3</b>
Other income	51.3	46.3	10.8	41.9	22.4
Net revenues	590.5	440.1	34.2	513.6	15.0
Operating costs	120.7	87.2	38.4	110.4	9.3
<b>PPOP</b>	<b>469.8</b>	<b>352.9</b>	<b>33.1</b>	<b>403.2</b>	<b>16.5</b>
Provisions	41.0	(16.4)	NA	35.0	17.1
PBT	428.8	369.3	16.1	368.2	16.5
Tax	113.9	92.3	23.4	96.8	17.7
<b>PAT</b>	<b>314.9</b>	<b>277.0</b>	<b>13.7</b>	<b>271.4</b>	<b>16.0</b>
Tax rate (%)	26.6	25.0		26.3	
Cost/income (%)	20.4	19.8		21.5	
<b>NIMs (%)</b>	<b>4.8</b>	<b>4.6</b>		<b>4.6</b>	
<b>Loan book (Rs bn)</b>	<b>46.6</b>	<b>35.4</b>	<b>31.5</b>	<b>43.2</b>	<b>7.9</b>
Disbursements (Rs bn)	5.1	3.9	31.4	4.4	15.4
Sanctions (Rs bn)	5.4	4.3	26.3	4.4	21.9
<b>Gross NPA (Rs mn)</b>	<b>685.5</b>	<b>530.0</b>	<b>29.3</b>	<b>877.0</b>	<b>(21.8)</b>

Source: Company, RCML Research

Higher provisions raise the coverage ratio from 35% during Q3FY14 to 51% in Q4FY14

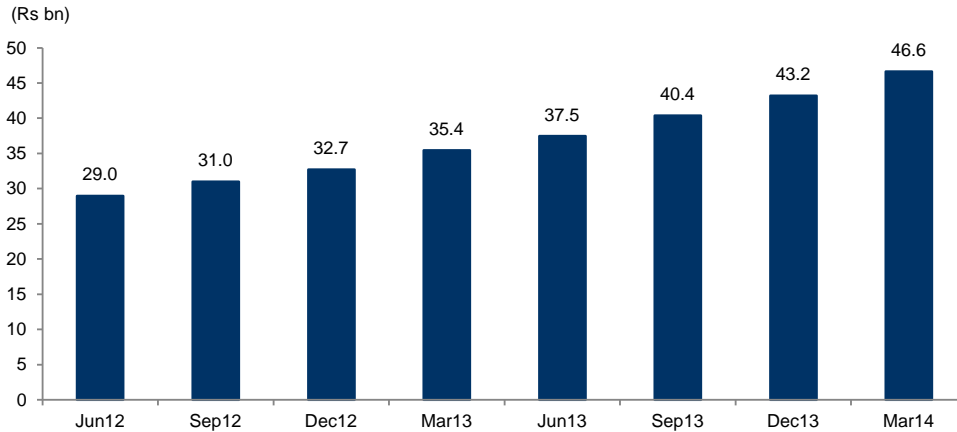
Fig 3 - Asset quality improves in Q4



Source: Company, RCML Research

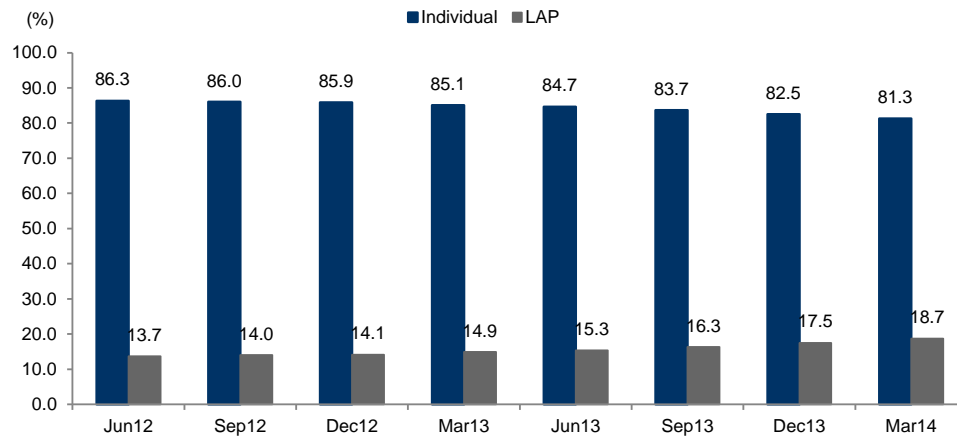


**Fig 4 - Growth in loan book remains strong**



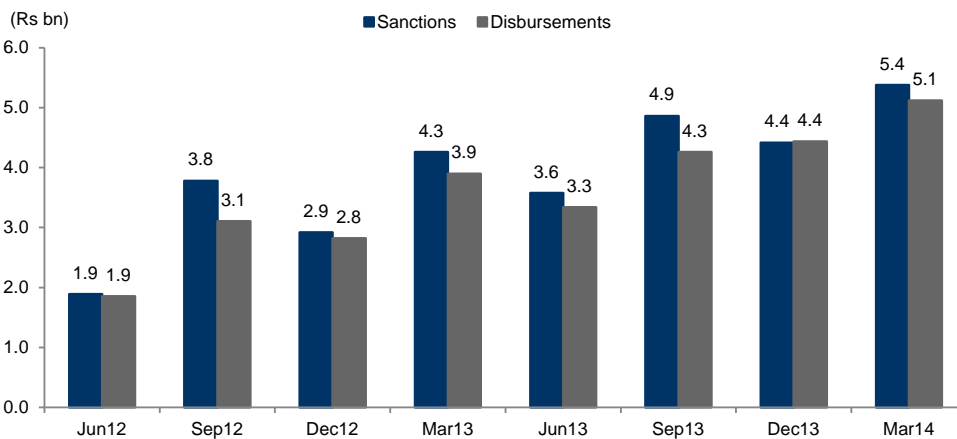
Source: Company, RCML Research

**Fig 5 - Proportion of LAP continues to rise within the overall mix**



Source: Company, RCML Research

**Fig 6 - Strong growth in sanctions and disbursements**



Source: Company, RCML Research



## Disbursements

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14P	FY15E	FY16E
Disbursements	10,420	11,670	17,153	19,647	23,362
Growth (%)	13.8	12.0	47.0	14.5	18.9
AUM/Sanctions	28,090	35,447	46,619	59,641	74,781
Growth (%)	32.9	26.2	31.5	27.9	25.4

## Per Share Data

Y/E 31 Mar (INR)	FY12A	FY13A	FY14P	FY15E	FY16E
Reported EPS	13.2	12.9	17.7	22.7	28.3
Adjusted EPS	13.2	12.9	17.7	22.7	28.3
DPS	1.3	1.3	1.8	2.3	2.8
Book value	65.3	102.1	119.2	138.5	164.0
Adjusted book value	59.6	96.5	112.1	129.2	151.8

## Valuation Ratios

Y/E 31 Mar (x)	FY12A	FY13A	FY14P	FY15E	FY16E
P/E	29.9	30.8	22.4	17.4	14.0
P/BV	6.1	3.9	3.3	2.9	2.4
P/ABV	6.7	4.1	3.5	3.1	2.6

## Financial Ratios

Y/E 31 Mar (%)	FY12A	FY13A	FY14P	FY15E	FY16E
<b>Spread Analysis</b>					
Interest spreads	3.2	2.5	3.1	3.0	3.0
Yield on advances	10.1	12.4	12.3	12.5	12.8
Yield on assets	8.8	9.4	9.4	9.6	9.7
Cost of funds	9.3	9.6	9.3	9.5	9.3
NIMs	4.3	3.9	4.6	4.5	4.3
<b>Operating Ratios</b>					
Operating cost to income	16.7	17.3	18.4	15.8	15.1
Operating expenses / Avg assets	0.8	0.7	0.9	0.8	0.7
<b>Asset Quality and Capital</b>					
Gross NPA	1.4	1.5	1.7	1.8	2.1
Net NPA	1.0	1.0	0.9	1.0	1.0
CAR	15.4	25.5	22.4	20.6	19.4
<b>Growth Ratios</b>					
Net interest income	20.3	21.0	51.7	25.8	24.1
Non-interest income	8.1	15.3	35.8	28.2	26.0
Pre-provisioning profit	16.9	19.4	48.0	30.1	25.3
Net profit	5.7	30.2	37.5	28.4	24.6
Assets	33.9	32.9	24.4	33.7	26.8
Advances	32.9	26.4	31.7	27.9	25.4
Book value	22.4	56.3	16.8	16.2	18.4
EPS	5.7	(2.7)	37.5	28.4	24.6

## DuPont Analysis

Y/E 31 Mar (%)	FY12A	FY13A	FY14P	FY15E	FY16E
Net interest income / Assets	4.3	3.9	4.6	4.4	4.3
Non-interest income / Assets	0.5	0.5	0.5	0.5	0.5
Operating expenses / Assets	0.8	0.8	0.9	0.8	0.7
Provisions / Assets	0.6	0.3	0.5	0.6	0.6
Taxes / Assets	0.8	0.8	0.9	0.9	0.9
ROA	2.5	2.5	2.6	2.6	2.5
Equity / Assets	11.3	14.5	16.5	14.8	13.5
<b>ROAE</b>	<b>22.3</b>	<b>17.1</b>	<b>16.0</b>	<b>17.6</b>	<b>18.7</b>



## Income Statement

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14P	FY15E	FY16E
Interest income	3,055	3,912	5,155	6,781	8,589
Interest expense	(2,016)	(2,654)	(3,248)	(4,382)	(5,612)
Net interest income	1,039	1,258	1,908	2,399	2,977
Non-interest income	126	146	198	253	319
Net revenue	1,166	1,403	2,105	2,653	3,296
Operating expenses	(194)	(243)	(388)	(419)	(497)
Pre-provisioning profits	972	1,160	1,717	2,234	2,800
Provisions & contingencies	(155)	(92)	(227)	(322)	(407)
PBT	816	1,068	1,491	1,912	2,393
Extraordinaries	0	0	0	0	0
Income tax	(202)	(268)	(390)	(499)	(632)
Reported PAT	615	800	1,100	1,413	1,761
<b>Adj. net profit</b>	<b>615</b>	<b>800</b>	<b>1,100</b>	<b>1,413</b>	<b>1,761</b>

## Balance Sheet

Y/E 31 Mar (INR mln)	FY12A	FY13A	FY14P	FY15E	FY16E
Advances	28,090	35,500	46,680	59,641	74,781
Investments	81	81	124	124	124
Current assets	244	2,187	131	2,996	4,727
Net block (inc CWIP)	33	45	50	82	111
Goodwill	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total Assets</b>	<b>28,527</b>	<b>37,924</b>	<b>47,171</b>	<b>63,048</b>	<b>79,969</b>
Share capital	464	622	622	622	622
Options/warrants/others	0	0	0	0	0
Reserves & surplus	599	3,034	3,034	3,034	3,034
Net worth	3,033	6,345	7,411	8,608	10,192
Total borrowings	24,860	30,647	39,020	52,920	67,706
Current liabilities	307	485	91	567	737
Provisions	327	447	649	954	1,333
Deferred tax liabilities	0	0	0	0	0
Other liabilities	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>28,527</b>	<b>37,924</b>	<b>47,171</b>	<b>63,048</b>	<b>79,969</b>

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