

## Repco Home Finance Ltd.

**BUY: Rs 255 Target: Rs 307**

Repco Home Finance Ltd (RHFL) is a leading low to medium ticket size home loan financing company predominately based in tier 2/3 cities of southern India. Promoted by the State-owned Repco Bank Ltd in 2000, Repco has grown from strength to strength with its loan book clocking nearly 38 percent CAGR since the last 5 years.

The company has maintained a robust NIM of ~4 percent along with a healthy spread of over 3 percent. We expect, Repco to retain its focus on underpenetrated markets and segment mix to sustain its growth momentum. We initiate coverage on the stock with a 'BUY' rating.

### Investment Rationale

#### Well recognized brand in southern India:

The Company is predominantly based in Southern market with nearly 63 percent of credit outstanding in the state of Tamil Nadu, followed by Andhra Pradesh (14 Percent), Karnataka (12 percent) and rest others. Repco has a strong brand recall since its parent company Repco Bank Ltd. has a presence since last 4.5 decades which helps RHFL to strengthen its foothold.

The company presently has 93 branches and satellite centers of which 83 are located in the Southern market. The company hires employees with knowledge of local language, demography, geography etc which helps in better understanding of clients.

#### Presence in relatively underpenetrated market and segment of borrowers:

Salaried class segment constitutes nearly 80-85 percent of the total outstanding credit of banks and HFC's. The company has a diversified mix of borrowers including both salaried and non-salaried segments. Non-salaried class is highly underpenetrated and relatively less competitive and thus offers better yield on advances than borrowers having formal income sources.

Over 50% of its outstanding credit lies with non-salaried class which primarily includes Self Employed Professional (SEP) and Self Employed Non-Professional (SENP). The company is able to successfully penetrate this segment owing to its customized tailor approach and personal credit appraisal and evaluation process.

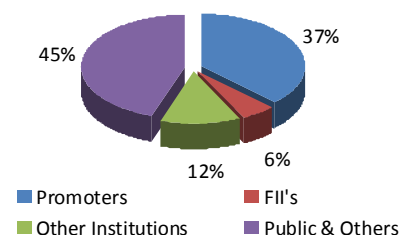
Non-salaried segment would continue to be the focus area and Repco would look at expanding its LAP segment to maintain optimum portfolio mix going ahead, thus leading to further margin expansion.

The company's key target market is tier 2/3 cities of southern India which is a relatively neglected market by big HFC's and Banks due to high cost operation, absence of large salaried class and challenges in valuing the collateral.

#### STOCK DATA

BSE Code	535322
NSE Code	REPCOHOME
Bloomberg Code	REPCO IN
52 Week High / Low (Rs)	278 / 158
Face Value (Rs)	10
Diluted Number of Shares (Crore)	6.22
Market Cap. (Rs Crore)	1588
Avg. Yearly Volume (Units)	206214

#### SHAREHOLDING PATTERN - March 2013 (%)



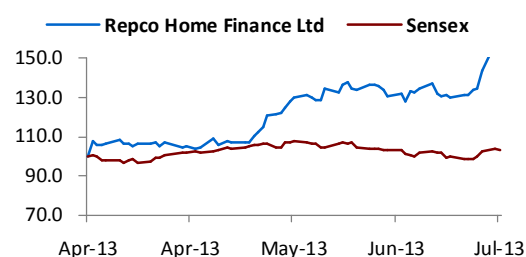
#### RETURNS STATISTICS (%)

	1 M	3 M	6 M	12 M
Repco Home Fin.	16.2	49.9	-	-
Sensex	(2.2)	(2.0)	(3.0)	10.0

#### FINANCIAL SUMMARY

Particulars	2011A	2012A	2013A	2014E	2015E
NII (Rs Cr)	83.7	100.1	125.6	174.2	236.9
PAT (Rs Cr)	58.2	61.5	80.0	109.2	151.9
EPS (Rs)	12.5	13.2	12.9	17.6	24.4
BV (Rs)	53.3	65.3	102.1	118.0	140.7
ABV (Rs)	49.4	59.6	96.5	111.8	134.8
P/BV (x)	4.8	3.9	2.5	2.2	1.8
P/ABV (x)	5.2	4.3	2.6	2.3	1.9
Div Yield (%)	0.4	0.4	0.4	0.5	0.6
ROE (%)	26.3	22.3	17.1	16.0	18.9
ROA (%)	3.2	2.5	2.4	2.5	2.8

#### RELATIVE TO SENSEX

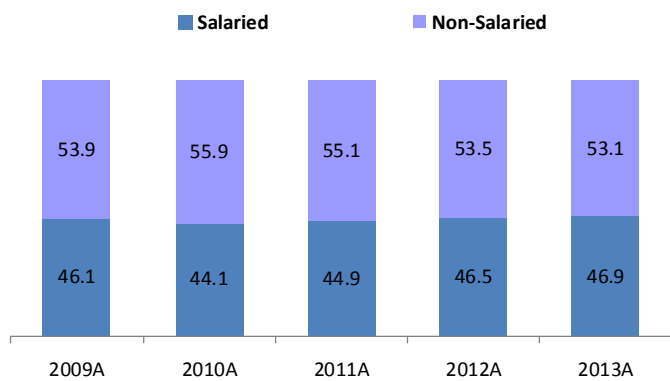


**RAJESH GUPTA** - Research Analyst

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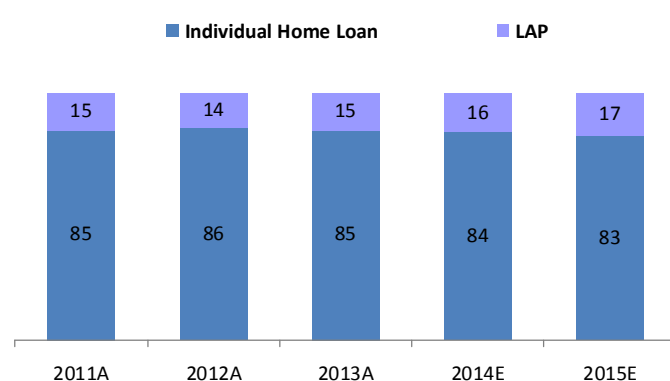
For a list of our branches refer to our website: [www.sbicapsec.com](http://www.sbicapsec.com)

LOAN COMPOSITION (%)



Source: Company

LOAN PORTFOLIO MIX (%)



Source: SSL Research, Company

**Robust risk management and recovery ensures strong credit quality:**

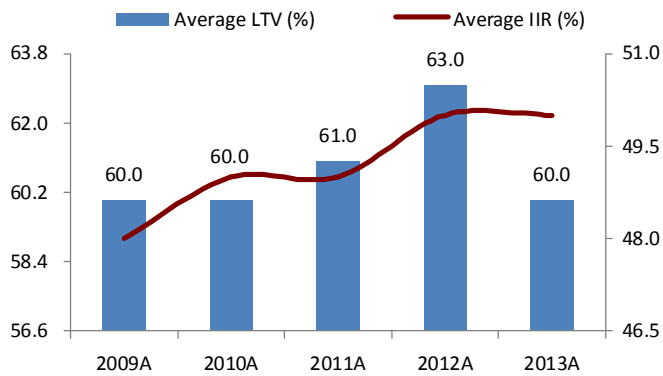
The Company has robust risk management systems and processes in place across all areas of operations, namely loan origination, credit appraisal, loan disbursement and collection & recovery. The average LTV (Loan to Value) ratio is ~60 percent whereas LTV in case of salaried class varies between 60 to 85 percent as compared to 60-65 percent in case of non-salaried class. The LTV ratio for LAP however does not cross 50 percent.

The company also considers IIR (Installment to Income Ratio) while lending and average IIR ratio since the last 5 years stands at 50 percent of the gross monthly income of borrowers. The company has, since inception, written-off merely Rs3.9 crore as bad-debts out of its strong cumulative Rs3500 crore loan book.

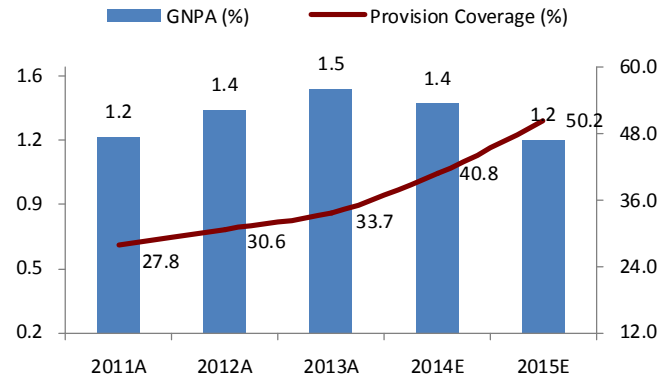
Repco's Gross NPA is pegged at ~1.5 percent whereas the Net NPA is around 1 percent level. The company has fully complied with NHB guideline towards provisioning on both standard & sub-standard assets and has a ~34 percent provisioning coverage which is slated to increase going forward to keep pace with other HFC's.

*~ The introduction of the SARFAESI Act and the subsequent extension of its application to HFCs, the company is allowed to foreclose on collaterals after 60 days' notice to a borrower.*

In addition to the above, following the introduction of the SARFAESI Act and the subsequent extension of its application to HFCs, the company is allowed to foreclose on collaterals after 60 days' notice to a borrower which is classified as nonperforming. This has led to speedy recovery of loan.



Source: Company



Source: SSL Research, Company

**Diversified liability mix and low cost of operation helps in maintaining healthy NIM and spread:**

The company has diversified its sources of funding across three verticals viz refinancing from NHB, Bank loan and loan from Repco Bank Ltd. The cost of financing from NHB stands at ~8 percent and constitutes nearly 40 percent of total borrowings.

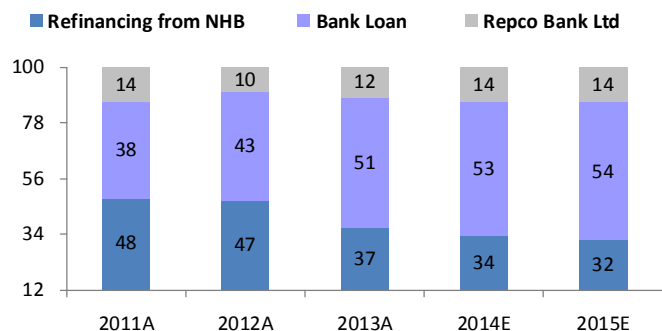
The current rating of the company is A+ from ICRA. Post IPO, the CAR has jumped to over 25 percent. The management expects further rating up-gradation to avail cheap credit from banks and financial institutions.

In addition to that, Repco is also exploring the other avenues of finance like issuing rated debt paper, NCD, Fixed Deposit and loan from multi-lateral agencies to optimize the cost of funding and strengthen its balance sheet.

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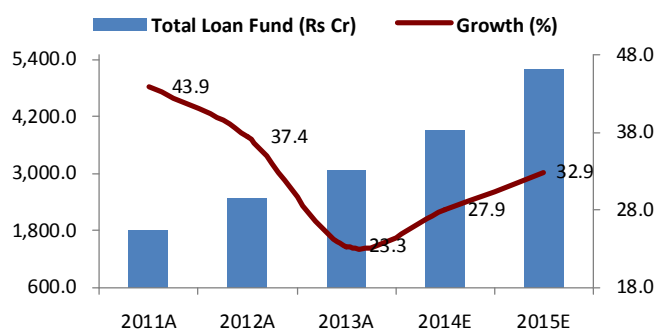
Repco has been able to successfully operate branches in tier 2 and tier 3 cities at low costs ensuring the commercial viability of such branches. The average breakeven period for branches in Tamil Nadu is less than 1 year whereas for others it varies between 18-24 months. With a combination of the above factors, Repco is able to maintain a healthy spread of over 3 percent and NIM of close to 4 percent.

LIABILITY MIX (%)



Source: SSL Research, Company

LOAN GROWTH



Source: SSL Research, Company

**Strong demand in affordable housing leading to foray into newer geographies:**

The housing loan to GDP ratio in India is ~7% which is far below when compared with other emerging economies. The households falling under low income and economically weaker sections category especially from the unorganized work force have no or limited access to housing finance due to seasonal income, lack of collateral, lack of clear title and high transaction cost.

The housing finance market for loan between Rs3-10 Lakh is estimated over Rs1 trillion. Only 20% of the total loan disbursed in FY 2011 were loan in the bracket of 3-10 Lakh. According to the working group of rural housing, for the twelfth five year plan (2012-2017) the estimated shortages of housing is expected to be ~44 million units, nearly 90% of this shortage is with respect to the population below poverty line (BPL)

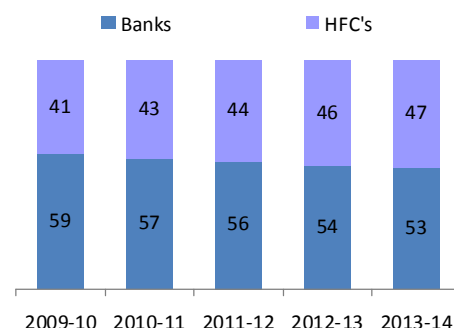
The government has taken various steps to boost rural and urban housing market. The Rural Housing Fund, Urban Housing Fund, Golden Jubilee Rural Housing Finance Scheme, ISHUP, Credit risk guarantee fund etc are some of the key initiatives which have energized the low ticket size housing market.

The above schemes enable HFC's to get cheaper credit from NHB on one hand and borrower gets credit to build home on other hand thus creating a win-win situation for both HFC's and borrowers.

The company, in order to mitigate the geographical concentration risk, has planned to foray into other market especially in Western India like Maharashtra and Gujarat. Gradually, it further looks to expand its reach to other growing states like Rajasthan, MP and Chhattisgarh etc.

According to Crisil, HFC's loan portfolio is slated to continue to grow faster than Banks due to increasing penetration in tier 2/3 cities and stable asset quality and prices etc. Over and above, rising urban population and declining average age of home loan borrowers are some of positive indicators for housing finance market.

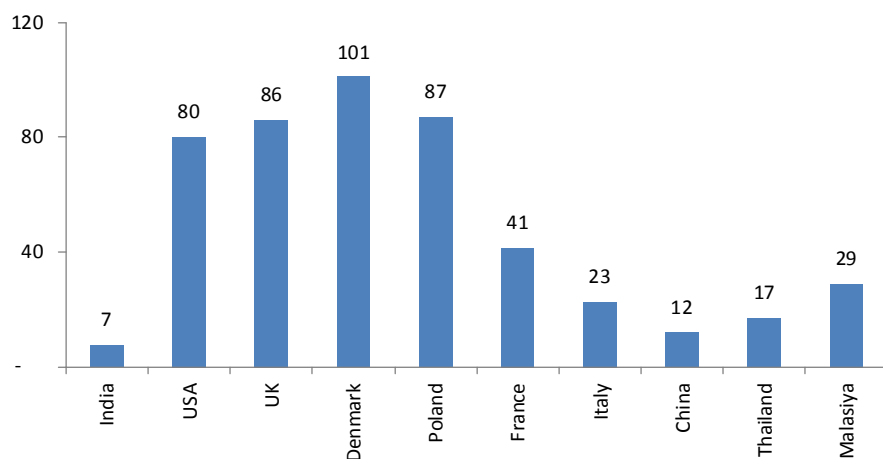
HOUSING FINANCE PENETRATION (%)



Source: Company, Industry

As per BCG/IBA report, the estimated outstanding mortgage in India is set to increase by 8 fold by 2020 to cross nearly 20 percent of India's GDP.

**HOUSING LOAN AS % OF GDP**



Source: NHB/Industry

**Valuation:**

While comparing Repco with its closest peers, the company is available slightly at premium on p/BV but looking at the higher NIM along with better spread and ROA we believe the current valuation is fair. Over and above, the unique business model, presence in under-penetrated market and high growth potential due to lower base offers wider scope for growth.

At current price of Rs255, the stock is currently trading 14.5x and 10.4x of its FY14E and FY15E earnings respectively whereas on P/BV, the same is available at 2.2x and 1.8x respectively. We recommend a buy on the stock with price target of Rs307 valuing 2.6x of its FY14E BVPS thus providing an upside potential of 20 percent.

## Company Background & Business Model:

Repco Home Finance Ltd (RHFL) was promoted by state owned Repco Bank Ltd in the year 2000. The company is a leading low to medium ticket size home loan financing company predominately based in tier 2/3 cities of southern India. The company as on 31st March 2013 has 93 branches and satellite centers of which nearly 90 percent are located in southern India.

Repco provides individual housing loans to both salaried and non-salaried class although traditional house finance market is dominated by salaried class owing to a formal income source and stable cash flow. Therefore, individual housing loans under non-salaried categories are underpenetrated due to seasonal income and lack of proper documentation. Apart from individual housing loan, RHFL also lend against property (LAP) which offers better yield than individual housing loan.

Within southern market, nearly 2/3rd (63 percent) of loans are outstanding in the state of Tamil Nadu followed by Andhra Pradesh, Karnataka and other states. The company is further looking to expand in other high growing states to register pan India presence going forward. The company has certain innovative products across different categories of borrowers.

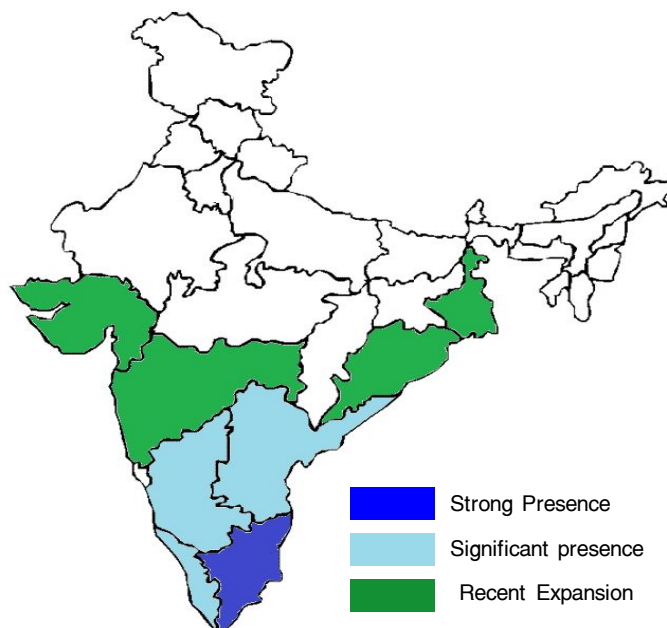
The company's loan book has grown at ~38 percent CAGR since the last 5 years from Rs983 crore in 2009 to Rs3550 crore in 2013. The total operating income on the other hand clocked 35 percent CAGR to Rs406 crore for the same period. The company operating out of its 93 existing branches and satellites is further looking to add 10-15 branches every year to establish a strong foothold in the existing territories while at the same time, expanding to other high growing tier 2/3 cities.

### LOAN PRODUCTS

Product	Product Details
Dream Home Loan	Loan for Construction and Purchase of property
Home Makeover Loan	Loans for repairs, renovation and extension of property
Plot Loan	Loans for outright purchase of plot for cons. Of house
Super Loan	Loans for construction on land owned by borrower's parents
Fifty Plus Loan	Loans for borrowers above 50 yrs, repayment and addition is structure around retirement and pension income of borrowers
NRI Housing Loan	Loans to NRI for purchase and construction of house in India
Prosperity Loan	Loans against mortgage of immovable property
New Horizon Loan	Loans for purchase and construction of non-residential and commercial property

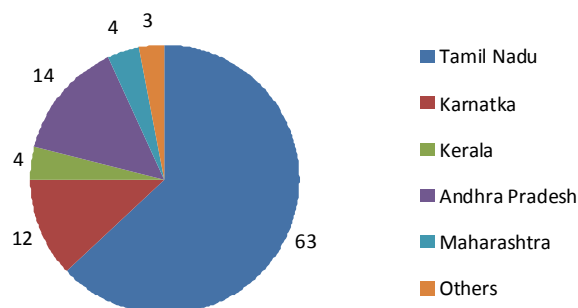
Source: Company

### STRONG BASE IN SOUTH INDIA



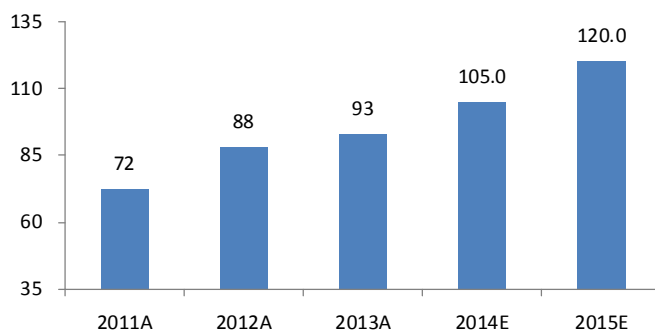
Source: SSL Research, Company

### % OF LOAN BOOK



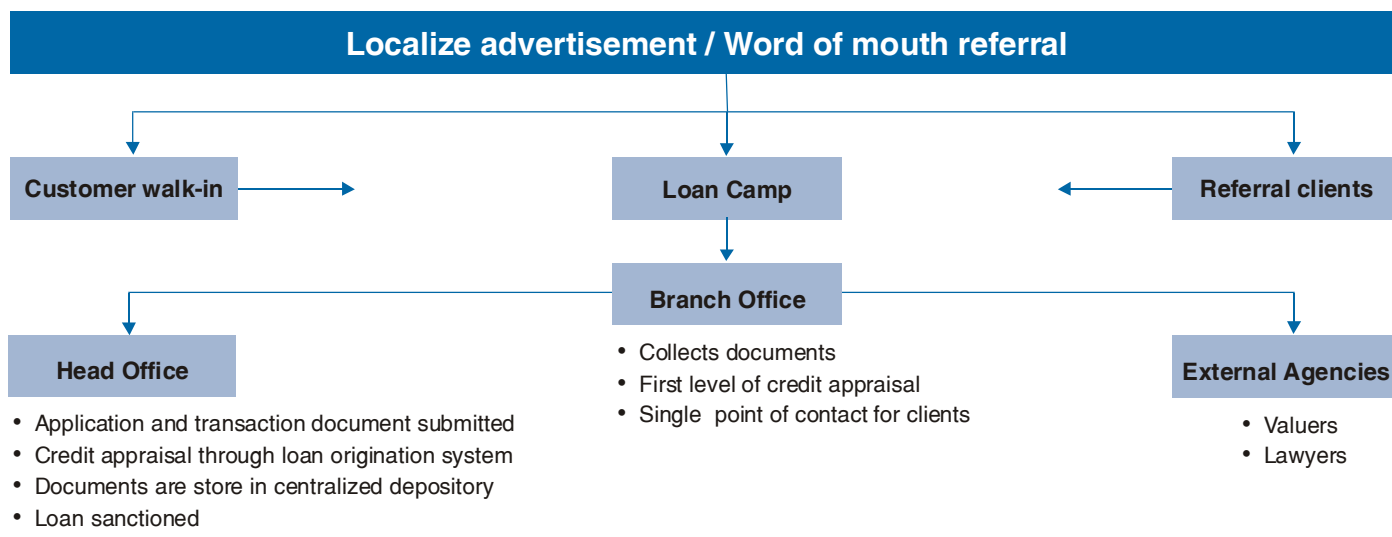
Source: Company

### NO. OF BRANCHES



Source: SSL Research, Company

**Business Flow Chart**



The marketing strategy is focused on direct and localized advertising through loan camps and word of mouth referrals. As a result customers are either "walk-in" borrowers or referred by existing borrowers. The Company, does not use marketing intermediaries to communicate with or service its customers.

The branches are responsible for sourcing loans, carrying out preliminary checks on the credit worthiness of the prospective customers, providing assistance in documentation, disbursing loans and in monitoring repayments and collections. This approach allows Repco to have direct contact with the customers at all times and enables it to provide personalized service to customers resulting in a satisfied customer base, increased customer connect and loyalty.

The branch offices coordinate with both the head office and external agencies such as independent empanelled lawyers and valuers during the credit appraisal process. The head office, after the requisite credit appraisal, sanctions loan to respective clients. The Company also has a centralized depository for storing original loan documents, and this enables Repco to release the title deeds to the borrower expeditiously upon satisfaction of loan dues.

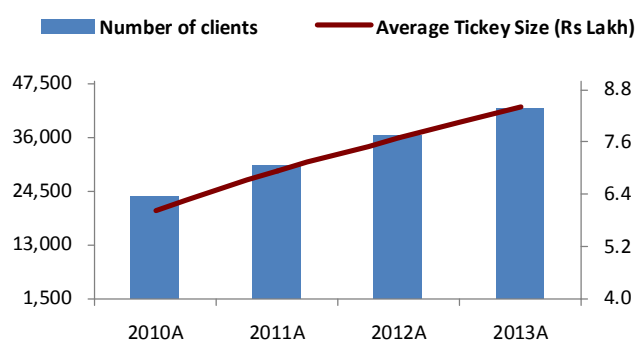
**Client base**

The average ticket size of loan is pegged at Rs9.8 Lakh (Based on loan sanctioned) whereas the incremental loan ticket size is over Rs13 lakh per client. The client base of the company has clocked a growth rate of 22 percent CAGR from 23244 to 42211 clients since the last 3 years. The company looks to expand its loan book by adding more clients rather than jacking up the loan size.

**Credit criteria**

As the company lends to salaried and non -salaried class, LTV to salaried class ranges between 60-85 percent as compared to non-salaried segment which does not cross 65 percent in case of individual housing loan. The LTV under LAP segment however does not cross 50 percent. There is no specific minimum or maximum limit in credit disbursement. The company maintains bare minimum IIR (Installment to Income Ratio) of 50 percent of gross salary / Income while granting loan.

**LOAN TICKET SIZE (AVERAGE OF OUTSTANDING LOAN)**



Source: Company

## Financials & Valuations:

Repc would continue to strengthen its foothold in the southern market by entering into under penetrated market. The demand for affordable housing unit across India is robust and stable property prices in southern market coupled with entry into newer geographies is projected to drive the overall loan book. We expect the loan book to grow at 32 percent CAGR for next two years and is all set to double in next 3 years from current Rs~3500 crore

The net interest income (NII) of the company is expected to grow at 37 percent CAGR between 2013A and 2015E from Rs126 crore to Rs237 crore in respectively. The company, due to its presence in under-penetrated Tier 2/3 cities and non-salaried class, the interest spread and NIM would continue to remain healthy at 3 and 4 percent respectively.

Over and above, the diversified liability mix and improvement in CAR post IPO would lead to rating up-gradation. The company further intends to raise money through NCD/FD and other tradable instruments to optimize the cost of fund and boost its margins.

Net profit is estimated to grow at 38 percent CAGR to Rs152 crore in FY15E from Rs80 crore in FY13A due to stable cost to income ratio at ~6 percent and lower effective tax rate owing to tax deduction of 20% from income on long term housing loan. We are not expecting major deterioration in asset quality due to a strong credit appraisal mechanism. Though the current provisioning coverage is at 33 percent, we expect, the Company may likely to enhance to nearly 50 percent level in next two years.

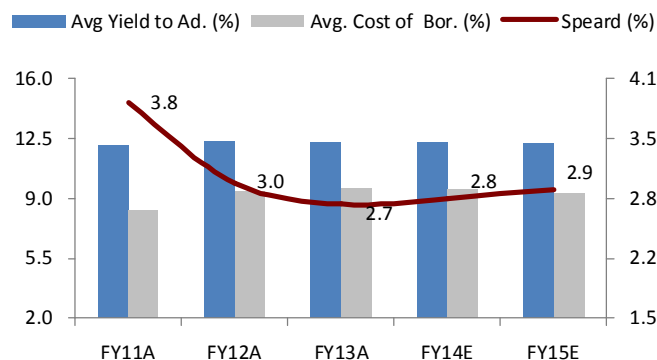
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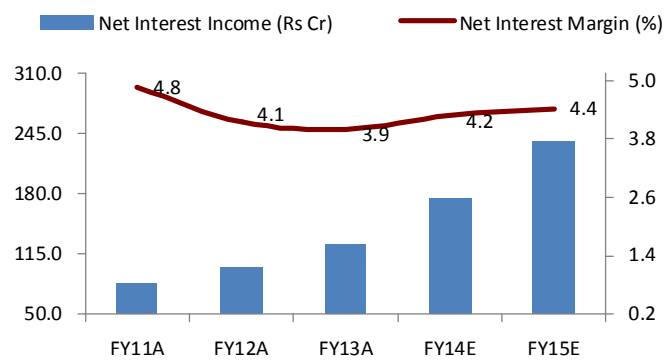
### RELATIVE VALUATIONS

Particulars	RFHL	GIC HF	DHFL
<b>CMP (Rs)</b>	<b>255</b>	<b>111</b>	<b>154</b>
NIM (%)	3.9	5.3	3.1
ROA (%)	2.4	1.8	1.3
ROE (%)	17.1	15.4	17.9
Spread (%)	2.7	1.2	2.4
PE (x)	19.8	7.1	4.5
P/BV (X)	2.6	1.1	0.6
GNPA (%)	1.5	1.9	0.7
NNPA (%)	1.0	Nil	Nil

Valuations are based on FY13 earnings



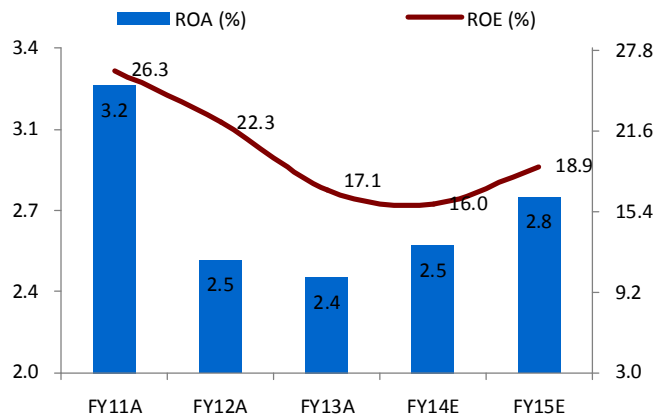
Source: SSL Research



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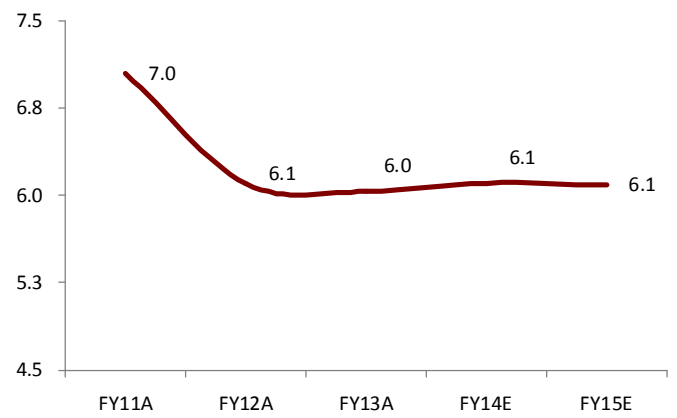


ROA & ROE (%)



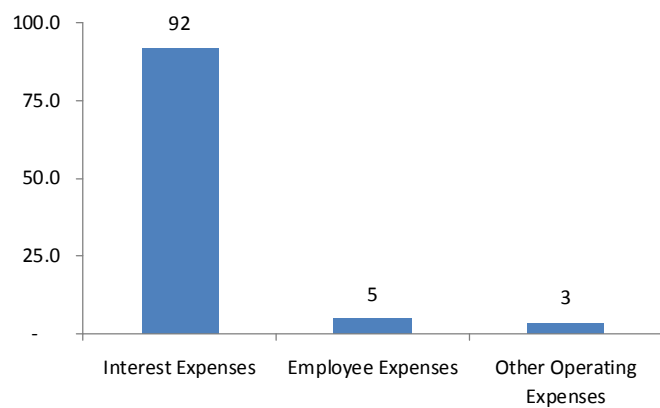
Source: SSL Research

COST TO INCOME RATIO (%)



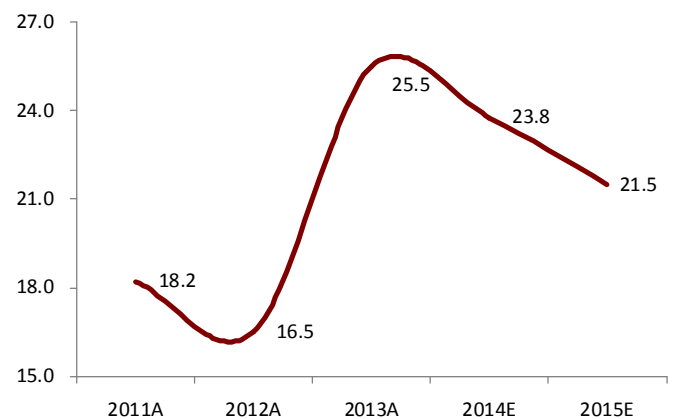
Source: SSL Research

COST COMPOSITION (%)



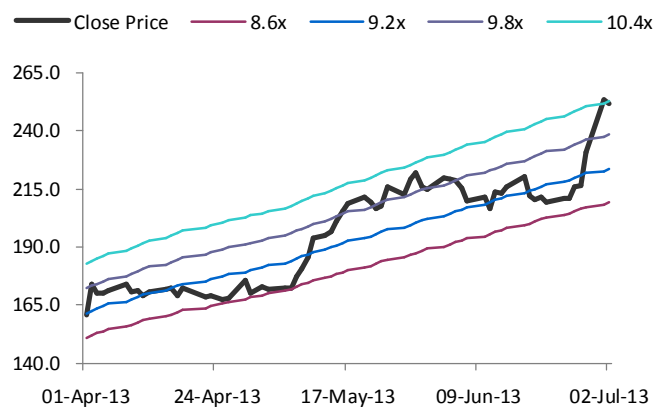
Source: SSL Research

CAR (%)



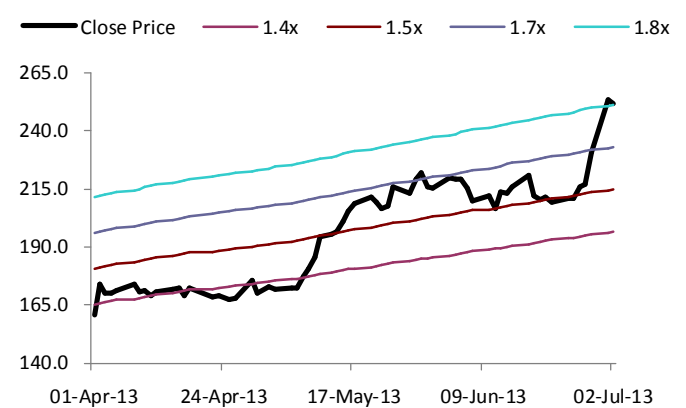
Source: SSL Research

1 YEAR ROLLING FORWARD PE



Source: SSL Research

1 YEAR ROLLING FORWARD P/BV



Source: SSL Research

## Financial Statements (Consolidated):

### Income Statement

Figures in Cr.

Particulars	2011A	2012A	2013A	2014E	2015E
<b>Interest Income</b>	<b>211.5</b>	<b>302.4</b>	<b>391.2</b>	<b>506.0</b>	<b>661.4</b>
Total Finance Cost	127.9	202.3	265.6	331.8	424.5
<b>Net Interest Income</b>	<b>83.7</b>	<b>100.1</b>	<b>125.6</b>	<b>174.2</b>	<b>236.9</b>
Fee & Other Income	14.4	16.4	14.8	19.1	26.6
<b>Net Revenue</b>	<b>98.1</b>	<b>116.6</b>	<b>140.3</b>	<b>193.3</b>	<b>263.5</b>
Total Finance Cost	127.9	202.3	265.6	331.8	424.5
<b>Net Revenue</b>	<b>98.1</b>	<b>116.6</b>	<b>140.3</b>	<b>193.3</b>	<b>263.5</b>
<b>Total Expenditure</b>	<b>15.9</b>	<b>19.4</b>	<b>24.5</b>	<b>32.1</b>	<b>41.9</b>
Employee Cost	7.2	10.5	14.1	18.2	23.8
As % of Net Revenue	7.4%	9.0%	10.0%	9.4%	9.0%
Other Operating Cost	8.7	8.9	10.4	13.8	18.1
As % of Net Revenue	8.9	7.7	7.4	7.2	6.9
<b>Operating Profit Before Prov.</b>	<b>82.2</b>	<b>97.1</b>	<b>115.8</b>	<b>161.2</b>	<b>221.6</b>
Provisioning	2.9	15.5	9.0	13.6	16.4
<b>PBT</b>	<b>79.3</b>	<b>81.6</b>	<b>106.8</b>	<b>147.6</b>	<b>205.2</b>
Tax	21.1	20.2	26.8	38.4	53.4
<b>Net Profit</b>	<b>58.2</b>	<b>61.5</b>	<b>80.0</b>	<b>109.2</b>	<b>151.9</b>
<b>Equity</b>	<b>46.4</b>	<b>46.4</b>	<b>62.2</b>	<b>62.2</b>	<b>62.2</b>
<b>EPS</b>	<b>12.5</b>	<b>13.2</b>	<b>12.9</b>	<b>17.6</b>	<b>24.4</b>
<b>Cash EPS</b>	<b>12.9</b>	<b>13.6</b>	<b>13.1</b>	<b>17.9</b>	<b>24.9</b>
<b>FV</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
<b>BVPS</b>	<b>53.3</b>	<b>65.3</b>	<b>102.1</b>	<b>118.0</b>	<b>140.7</b>

### Balance Sheet

Figures in Cr.

Particulars	2011A	2012A	2013A	2014E	2015E
<b>Equities &amp; Liabilities</b>					
Equity Share Capital	46.4	46.4	62.2	62.2	62.2
Reserves and surplus	201.3	256.8	572.4	671.5	812.5
<b>Total Shareholder's Fund</b>	<b>247.7</b>	<b>303.3</b>	<b>634.5</b>	<b>733.6</b>	<b>874.7</b>
<b>Non-current liabilities</b>					
Long-term borrowings	1,306.4	1,770.2	2,177.2	2,673.4	3,441.9
Other Non-Current Liabilities	8.8	24.6	33.5	47.1	63.5
<b>Current liabilities</b>	<b>534.3</b>	<b>752.7</b>	<b>947.2</b>	<b>1,323.8</b>	<b>1,864.7</b>
<b>Total Liabilities</b>	<b>2,097.3</b>	<b>2,850.8</b>	<b>3,792.4</b>	<b>4,778.0</b>	<b>6,244.8</b>
<b>Assets</b>					
Net Fixed Assets	3.0	3.3	4.5	5.7	7.2
Non-current investments	2.1	8.1	8.1	8.1	8.1
Def. Tax Assets (Net)	2.8	7.9	11.2	15.2	19.8
Long-term loans and advances	1,934.0	2,629.1	3,320.5	4,371.8	5,761.9
<b>Total Non-Current Assets</b>	<b>1,941.8</b>	<b>2,648.4</b>	<b>3,339.7</b>	<b>4,395.0</b>	<b>5,789.8</b>
<b>Current assets</b>					
Current Investment	-	-	-	-	-
Cash and bank balances	8.5	17.5	210.1	60.2	29.9
Short-term loans and advances	141.9	178.0	229.5	306.0	403.3
Other Current Assets	5.2	6.9	8.6	11.1	14.6
<b>Total Current Assets</b>	<b>155.5</b>	<b>202.4</b>	<b>448.2</b>	<b>377.3</b>	<b>447.8</b>
<b>Total Assets</b>	<b>2,097.3</b>	<b>2,850.8</b>	<b>3,792.4</b>	<b>4,778.0</b>	<b>6,244.8</b>

### Important Ratios:

Return Ratios	2011A	2012A	2013A	2014E	2015E
ROE (%)	26.3	22.3	17.1	16.0	18.9
ROA (%)	3.2	2.5	2.4	2.5	2.8
NIM (%)	4.8	4.1	3.9	4.2	4.4
Op. Profit Margin (%)	83.8	83.3	82.5	83.4	84.1
PAT to Interest Income (%)	27.5	20.3	20.5	21.6	23.0
Cost to Income (%)	7.0	6.1	6.0	6.1	6.1
<b>Earning Ratios</b>					
Yield on Advances (%)	12.2	12.4	12.3	12.3	12.2
Cost of Borrowing (%)	8.3	9.4	9.6	9.5	9.3
Spread (%)	3.8	3.0	2.7	2.8	2.9
<b>CAR</b>					
Tier-I (%)	18.2	16.5	25.5	23.8	21.5
Tier-II (%)	-	-	-	-	-
Total (%)	18.2	16.5	25.5	23.8	21.5
Leverage (Asset / Net Worth)	8.5	9.4	6.0	6.5	7.1
<b>Asset Quality</b>					
GNPA (Rs Cr)	25.2	38.2	52.5	65.5	74.0
GNPA (%)	1.2	1.4	1.5	1.4	1.2
Provisioning (%)	27.8	30.6	33.7	40.8	50.2
<b>Valuation Ratios</b>					
PE (x)	20.4	19.3	19.8	14.5	10.4
P/BV (x)	4.8	3.9	2.5	2.2	1.8
P/ABV (x)	5.2	4.3	2.6	2.3	1.9
Div. Yield (%)	0.4	0.4	0.4	0.5	0.6

Source: SSL Research

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