

REPCO HOME FINANCE

Growth challenges persist, revival key

India Equity Research | Banking and Financial Services



Repc Home Finance (RHF) reported weaker-than-expected Q3FY19 PAT of INR556mn owing to softer revenue traction and higher provisions. Key highlights: a) Continued softness in disbursements – down 6% QoQ at ~INR73bn – restricted AUM growth to merely 12% YoY. b) However, steady spreads (supported by a hike of 50–60bps in lending rate earlier) cushioned the revenue momentum. c) GNPLs rose in line with the seasonal trend, but the undertones indicate softer recovery at large. We believe current liquidity tightness, systemic risk aversion and sluggish recovery in the home market will continue to impact RHF in the near term. The company's is running tight ALM position this will be an additional challenge given currently tight systemic liquidity. Maintain 'HOLD' with a TP of INR498.

Growth softens in home market; improvement key

Softer disbursements (down 6% QoQ to INR73bn while YoY growth of 12% looks higher on a low base) and greater repayments in high-ticket LAPs continue to restrict AUM growth—up relatively low 12% YoY. This is largely attributable to Tamil Nadu, which grew merely 6% YoY (>60% of book), which indicates slower recovery (land registration issue). On a positive note, the non-home market is gaining traction—Maharashtra up 25% YoY and Gujarat 45% YoY; however, its proportion is minuscule and sustained growth momentum is key. Furthermore, with incremental spread being lower than portfolio spread, we expect NIM to be under pressure indicating sustained revenue pressure.

Seasonal spike hits GNPLs; recovery trend still soft

Tracking the seasonal trend, GNPLs rose to 3.9% (3.6% in Q2FY19). While management has sharpened the focus on recovery (by ramping up the collection team) and refraining from higher-ticket disbursements, the benefits are yet to show up. That said, the recovery trend continues to be soft.

Outlook and valuation: Growth key; maintain 'HOLD'

We are positive on RHF's presence in an under-served market and handle on the self-employed segment. However, current challenges are likely to reset its near-term growth and NIMs, which will render earnings vulnerable. Moreover, RHF is running tight on the ALM mismatch; this will be an additional challenge amid currently tight liquidity. The stock is trading at 1.3x FY20E P/ABV. We maintain 'HOLD/SU'.

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: RHFL.BO, B: REPCO IN)	
CMP	: INR 352
Target Price	: INR 498
52-week range (INR)	: 653 / 293
Share in issue (mn)	: 62.6
M cap (INR bn/USD mn)	: 22 / 310
Avg. Daily Vol.BSE/NSE('000)	: 499.0

SHARE HOLDING PATTERN (%)			
	Current	Q2FY19	Q1FY19
Promoters *	37.1	37.1	37.1
MF's, FI's & BK's	25.4	18.7	21.0
FII's	21.4	29.4	27.5
Others	16.1	14.7	14.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Banks and Financial Services Index
1 month	0.4	(0.3)	1.2
3 months	8.3	4.3	8.4
12 months	(35.8)	(1.8)	(0.8)

Financials		(INR mn)						
Year to March	Q3FY19	Q3FY18	Growth (%)	Q2FY19	Growth (%)	FY18	FY19E	FY20E
Net revenue	1,192	1,125	5.9	1,205	(1.1)	4,594	4,887	5,556
Net profit	556	424	31.2	666	(16.4)	2,061	2,434	2,749
Dil. EPS (INR)						32.9	38.9	43.9
Adj. BV (INR)						198.1	224.2	268.9
Price/Adj book (x)						1.8	1.6	1.3
Price/Earnings (x)						10.7	9.0	8.0

*Note: Q3FY18/Q2FY19/Q3FY19 are as per IND-AS & balance on I-GAAP, so not strictly comparable

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Table 1: Key takeaways from Q3FY19 earnings

(INR mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Interest income	3,038	2,743	10.7	2,909	4.4	
Interest expense	1,848	1,621	14.0	1,755	5.3	
Net interest income	1,190	1,122	6.1	1,154	3.1	<i>NII growth came in lower following sustained pressure on loan growth</i>
Non-interest income	2	3	(39.3)	51	(96.7)	
Net revenues	1,192	1,125	5.9	1,205	(1.1)	
Operating expenses	253	218	16.0	236	7.3	
-Staff expense	147	138	6.6	138	6.9	
-Depreciation	12	7	63.5	15	(17.7)	
-Other opex	94	72	29.1	83	12.4	
Operating profit	939	907	3.5	970	(3.2)	
Provisions	182	265	(31.3)	(35)	NA	<i>Credit cost higher than estimates, while GNPL rise is on seasonality the recovery trend continues to be softer</i>
Profit before tax	757	642	17.9	1,004	(24.6)	
Tax expense	201	218	(8.0)	338	(40.7)	
Profit after tax	556	424	31.2	666	(16.4)	
EPS (INR)	8.9	6.8	31.8	10.7	(16.6)	
Key Metrics						
Loan book	1,06,668	94,904	12.4	1,03,820	2.7	<i>Loan growth was lower, as home market continues to be on soft peddle</i>
Individual home loans	87,041	76,967	13.1	84,821	2.6	
Loans against property	19,627	17,937	9.4	18,999	3.3	
Disbursements	7,332	6,571	11.6	7,766	(5.6)	
Sanctions	8,052	7,725	4.2	8,340	(3.5)	
GNPA (%)	3.9	3.7		3.6		<i>GNPLs rise on seasonality</i>
Housing loan	3.2	3.2		2.9		
LAP	6.8	5.9		6.2		

Source: Company, Edelweiss research

Table 2: Higher contribution from non-salaried—RHF's forte

Loan composition (%)	Q218	Q318	Q418	Q119	Q219	Q319
- Non Salaried	60.0	59.2	57.1	57.3	56.0	55.1
- Salaried	40.0	40.8	42.9	42.7	44.0	44.9
Loan mix (%)						
- Individual Home Loans	80.6	81.1	81.4	81.8	81.7	81.6
- Loans against Property	19.4	18.9	18.6	18.2	18.3	18.4

Source: Company

Table 3: NIMs coming in at 4.4%

(%)	Q218	Q318	Q418	Q119	Q219	Q319
Yield on assets	11.9	11.5	11.5	11.4	11.2	11.4
Cost of funds	8.4	8.3	8.0	8.2	8.2	8.4
Spread	3.4	3.2	3.4	3.2	3.0	3.0
NIM	4.8	4.6	4.8	4.6	4.4	4.4

Source: Company

Table 4: Borrowing mix

(%)	Q218	Q318	Q418	Q119	Q219	Q319
Banks	55.3	54.3	54.5	64.1	69.3	75.0
National Housing Bank	13.5	12.6	11.6	8.8	7.9	7.2
Repco Bank	6.4	7.9	7.7	7.5	7.5	7.9
NCDs	18.4	18.2	16.4	14.9	10.2	9.9
CPs	6.4	7.0	9.8	4.8	5.2	-

Source: Company

Banking and Financial Services

Financial snapshot								(INR mn)
Year to March	Q3FY19	Q3FY18	% change	Q2FY19	% change	YTD19	FY19E	FY20E
Interest income	3,038	2,743	10.7	2,909	4.4	8,815	12,045	13,893
Interest exp	1,848	1,621	14.0	1,755	5.3	5,286	7,528	8,800
Net int. inc. (INR mn)	1,190	1,122	6.1	1,154	3.1	3,529	4,516	5,092
Net revenues	1,192	1,125	5.9	1,205	(1.1)	3,585	4,887	5,556
Operating expenses	241	211	14.3	221	9.0	670	882	975
Staff costs	147	138	6.6	138	6.9	415	551	609
Other operating expenses	94	72	29.1	83	12.4	256	296	328
Provisions	182	265	(31.3)	(35)	(627.2)	194	317	416
Depreciation	12	7	63.5	15	(17.7)	37	35	39
Profit before tax	757	642	17.9	1,004	(24.6)	2,684	3,689	4,165
Tax	201	218	(8.0)	338	(40.7)	853	1,254	1,416
PAT	556	424	31.2	666	(16.4)	1,831	2,434	2,749
Diluted EPS (INR)	8.9	6.8	31.8	10.7	(16.6)	29.4	38.9	43.9
(INR mn)								
Loan book	106,668	94,904	12.4	103,820	2.7	106,668	111,204	128,665
Sanctions	8,052	7,725	4.2	8,340	(3.5)	23,972	38,491	48,114
Disbursements	7,332	6,571	11.6	7,766	(5.6)	22,137	30,872	38,589
GNPLs	3.9	3.7		3.6		3.9	3.5	2.9
Valuation metrics								
B/V per share (INR)							248.1	287.7
Adj book value / share							224.2	268.9
Price/ Book (x)							1.4	1.2
Price/ Adj. book (x)							1.6	1.3
Price/ Earnings							9.0	8.0

Company Description

RHF is a housing finance company registered with the NHB and headquartered in Chennai, Tamil Nadu. It is promoted by the Government of India-owned The Repatriates Cooperative Finance and Development Bank (Repco Bank) and was incorporated in April 2000. As of December 2018, RHF had 143 branches and 24 satellite centres located in 11 states and 1 Union Territory, including Tamil Nadu, Karnataka, Andhra Pradesh, Kerala, Maharashtra, Odisha, West Bengal, Gujarat, Madhya Pradesh, Jharkhand and the Union Territory of Puducherry. Further, two-thirds of its centres are located in Tier II/III cities. The company's marketing strategy consists of advertising via loan camps and word-of-mouth referrals from existing customers. As a result, most of its customers are walk-ins and the company does not use marketing intermediaries. Branches source loans and carry out the preliminary checks on credit worthiness of the borrower, post which the application is sent to the centralised processing unit for approval. Branches are also responsible for assistance in documentation, disbursing loans and in monitoring repayments and collections.

Investment Theme

We are positive on RHF's presence in the under-served market and understanding of the self employed segment. However, current challenges are likely to reset its near-term growth and NIMs, which will render earnings vulnerable. Moreover, RHF is running tight on ALM mismatch; this will be additional challenge amidst current tight liquidity. We maintain 'HOLD/SP'.

Key Risks

- **Slowdown in real estate sector:** RHF is present in 11 states. Currently, Tamil Nadu contributes over >55% to its loan book. Any further slowdown in the real estate sector, especially in Tamil Nadu, will negatively impact growth and earnings.
- **Regulatory risk:** RHF is regulated by the National Housing Bank (NHB), a wholly-owned subsidiary of the Reserve Bank of India (RBI). Adverse regulatory change will negatively impact growth and profitability of the company

Financial Statements

Key Assumptions

Year to March	FY18	FY19E	FY20E	FY21E
Macro				
GDP(Y-o-Y %)	6.7	7.1	7.1	7.3
Inflation (Avg)	3.6	3.7	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.8	5.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
Sector				
Credit growth	12.0	14.0	17.0	17.0
Bank's base rate (%)	9.0	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	6.5	7.0	7.1	7.1
Company				
Balance sheet assumption (%)				
Yield on advances	11.4	11.5	11.6	11.6
Cost of funds	8.3	8.6	8.7	8.8
Spread	3.1	2.9	2.9	2.8
Employee cost growth	13.1	12.9	10.6	17.2
Other opex growth	25.6	12.9	10.6	17.2
Tax rate (%)	34.4	34.0	34.0	34.0
Dividend payout	6.8	8.0	10.0	10.0
Disbursement growth	6.2	10.0	25.0	24.0
Repayment/prepay. rate	21.1	18.5	19.0	20.0
Gross NPLs	2.9	3.5	2.9	2.5
Net NPLs	1.3	1.9	1.3	0.9

Income statement

(INR mn)

Year to March	FY18	FY19E	FY20E	FY21E
Interest income	10,731	12,045	13,893	16,255
Interest expended	6,484	7,528	8,800	10,401
Net interest income	4,247	4,516	5,092	5,853
- Fee & forex income	347	370	463	512
Net revenues	4,594	4,887	5,556	6,365
Operating expense	781	882	975	1,143
- Employee exp	488	551	609	714
- Depn /amortisation	31	35	39	45
- Other opex	262	296	328	384
Preprovision profit	3,813	4,005	4,580	5,222
Provisions	670	317	416	531
Profit Before Tax	3,143	3,689	4,165	4,691
Less: Provision for Tax	1,082	1,254	1,416	1,595
Profit After Tax	2,061	2,434	2,749	3,096
Reported Profit	2,061	2,434	2,749	3,096
Shares o /s (mn)	63	63	63	63
Basic EPS (INR)	32.9	38.9	43.9	49.5
Diluted shares o/s (mn)	63	63	63	63
Adj. Diluted EPS (INR)	32.9	38.9	43.9	49.5
Dividend per share (DPS)	2.2	3.1	4.4	4.9
Dividend Payout Ratio(%)	6.8	8.0	10.0	10.0

Growth ratios (%)

Year to March	FY18	FY19E	FY20E	FY21E
Revenues	15.0	6.4	13.7	14.6
NII growth	15.3	6.3	12.8	14.9
Opex growth	15.6	12.9	10.6	17.2
PPP growth	14.8	5.0	14.4	14.0
Provisions growth	29.2	(52.7)	31.3	27.9
Adjusted Profit	13.1	18.1	12.9	12.6

Operating ratios

Year to March	FY18	FY19E	FY20E	FY21E
Yield on advances	11.4	11.5	11.6	11.6
Cost of funds	8.3	8.6	8.7	8.8
Net interest margins	4.7	4.4	4.3	4.2
Spread	3.1	2.9	2.9	2.8
Cost-income	17.0	18.0	17.6	18.0
Tax rate	34.4	34.0	34.0	34.0

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19E	FY20E	FY21E	
Share capital	626	626	626	626	
Reserves & Surplus	12,657	14,897	17,371	20,157	
Shareholders' funds	13,283	15,522	17,996	20,783	
Long term borrowings	62,044	71,547	82,611	96,918	
Short term borrowings	19,326	22,285	25,732	30,188	
Total Borrowings	81,370	93,832	108,343	127,106	
Long Term Liabilities	2,381	1,068	1,235	1,448	
Def. Tax Liability (net)	497	730	997	1,300	
Sources of funds	97,531	111,153	128,572	150,636	
Gross Block	179	179	179	179	
Net Block	104	104	104	104	
Intangible Assets	31	31	31	31	
Total Fixed Assets	135	135	135	135	
Non current investments	156	81	81	81	
Cash and Equivalents	259	445	515	603	
Loans & Advances	98,568	111,204	128,665	150,783	
Other Current Liab	1,587	712	823	965	
Total Current Liab	1,587	712	823	965	
Net Curr Assets-ex cash	(1,587)	(712)	(823)	(965)	
Uses of funds	97,531	111,153	128,572	150,636	
BVPS (INR)	212.3	248.1	287.7	332.2	

RoE decomposition (%)					
Year to March	FY18	FY19E	FY20E	FY21E	
Net int. income/assets	4.7	4.4	4.3	4.2	
Net revenues/assets	5.0	4.8	4.7	4.6	
Operating expense/assets	0.9	0.9	0.8	0.8	
Provisions/assets	0.7	0.3	0.4	0.4	
Taxes/assets	1.2	1.2	1.2	1.2	
Total costs/assets	2.8	2.4	2.4	2.4	
ROA	2.3	2.4	2.3	2.2	
Equity/assets	13.5	14.1	14.1	14.0	
ROAE (%)	16.7	16.9	16.4	16.0	

Valuation parameters					
Year to March	FY18	FY19E	FY20E	FY21E	
Adj. Diluted EPS (INR)	32.9	38.9	43.9	49.5	
Y-o-Y growth (%)	13.1	18.1	12.9	12.6	
BV per share (INR)	212.3	248.1	287.7	332.2	
Adj. BV per share (INR)	198.1	224.2	268.9	332.2	
Diluted P/E (x)	10.7	9.1	8.0	7.1	
P/B (x)	1.7	1.4	1.2	1.1	
Price/ Adj. BV (x)	1.8	1.6	1.3	1.1	
Dividend Yield (%)	0.6	0.9	1.2	1.4	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Repco Home Finance	310	9.1	8.0	1.6	1.3	16.9	16.4
Dewan Housing Finance	564	3.2	4.0	0.4	0.4	14.1	10.3
HDFC	45,956	34.0	29.2	3.1	2.5	14.8	16.0
Indiabulls Housing Finance	3,945	7.1	6.6	1.9	1.7	28.4	26.4
LIC Housing Finance	3,173	10.9	9.5	1.6	1.5	17.3	17.1
Mahindra & Mahindra Financial Services	3,380	17.6	14.9	2.7	2.5	14.0	15.0
Manappuram Finance	1,280	11.7	10.6	2.3	2.0	20.1	20.0
Muthoot Finance	2,968	11.4	10.2	2.4	2.1	21.8	20.8
Rural Electrification Corporation	3,344	4.7	4.7	0.9	0.8	14.8	14.6
Shriram City Union Finance	1,447	9.9	8.5	1.8	1.5	17.3	17.4
Shriram Transport Finance	3,339	9.5	8.2	1.8	1.5	18.2	18.2
Median	-	9.9	8.5	1.8	1.5	17.3	17.1
AVERAGE	-	11.7	10.4	1.9	1.6	18.0	17.5

Source: Edelweiss research

Additional Data

Directors Data

T.S. KrishnaMurthy	Chairman	Yashpal Gupta	Managing Director
G.R. Sundaravadivel	Director	V. Nadasabapathy	Director
L. Munishwar Ganesan	Director	R.S. Isabella	Director
Dinesh Ponraj Oliver	Director	K.Sridhar	Director

Auditors - R. Subramanian and Company LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Aditya Birla Sun Life Asset Management	7.25	HDFC Asset Management Co	6.67
Franklin Templeton Asset Management	6.18	India Capital Fund	5.51
AXA Sa	5.01	DSP Investment Managers Pvt Ltd	4.95
Pabrai Inv	4.31	Alliancebernstein Lp	4.31
Apax Global Aloha	2.12	Dimensional Fund Advisors	1.77

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30 Nov 2018	THE PABRAI INVESTMENT FUND IV LP	SELL	684000	338.17
29 Nov 2018	THE PABRAI INVESTMENT FUND IV LP	SELL	948535	335.92
30 Oct 2018	ALLIANCEBERNSTEIN INDIA GROWTH (MAURITIUS) LIMITED	SELL	1113379	347.30
30 Oct 2018	AB SICAV I - INDIA GROWTH PORTFOLIO	BUY	1113379	347.30

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	BUY	SO	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	HOLD	SP	M	Bajaj Finserv	HOLD	SP	L
Bank of Baroda	BUY	SP	M	Bharat Financial Inclusion	BUY	SO	L
Capital First	BUY	SP	M	DCB Bank	HOLD	SP	M
Dewan Housing Finance	BUY	SP	H	Equitas Holdings Ltd.	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	BUY	SO	L
HDFC Bank	BUY	SO	L	ICICI Bank	BUY	SO	L
IDFC Bank	BUY	SP	L	Indiabulls Housing Finance	BUY	SP	M
IndusInd Bank	BUY	SO	L	Karnataka Bank	BUY	SP	M
Kotak Mahindra Bank	BUY	SP	M	L&T FINANCE HOLDINGS LTD	BUY	SO	M
LIC Housing Finance	BUY	SP	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Manappuram Finance	BUY	SO	H
Max Financial Services	BUY	SO	L	Multi Commodity Exchange of India	HOLD	SU	M
Muthoot Finance	BUY	SO	M	Power Finance Corp	BUY	SO	M
Punjab National Bank	REDUCE	SU	M	Reliance Capital	BUY	SP	M
Repco Home Finance	HOLD	SU	M	Rural Electrification Corporation	BUY	SP	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	M
South Indian Bank	BUY	SO	M	State Bank of India	BUY	SO	L
Union Bank Of India	HOLD	SU	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings

Buy
Hold
Reduce

Expected absolute returns over 12 months

More than 15%
Between 15% and - 5%
Less than -5%

RELATIVE RETURNS RATING

Ratings

Sector Outperformer (SO)
Sector Performer (SP)
Sector Underperformer (SU)

Criteria

Stock return > 1.25 x Sector return
Stock return > 0.75 x Sector return
Stock return < 1.25 x Sector return
Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Low (L)
Medium (M)
High (H)

Criteria

Bottom 1/3rd percentile in the sector
Middle 1/3rd percentile in the sector
Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Overweight (OW)
Equalweight (EW)
Underweight (UW)

Criteria

Sector return > 1.25 x Nifty return
Sector return > 0.75 x Nifty return
Sector return < 1.25 x Nifty return
Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Aavas Financiers, Aditya Birla Capital, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
11-Feb-19	Max Financial Services	Core steady; sustained performance to drive rerating; <i>Result Update</i>	377	Buy
08-Feb-19	Rural Electrification Corporation	Core steady; merger a wild card; <i>Result Update</i>	119	Buy
07-Feb-19	BFSI	Risk weights harmonised for banks' lending; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

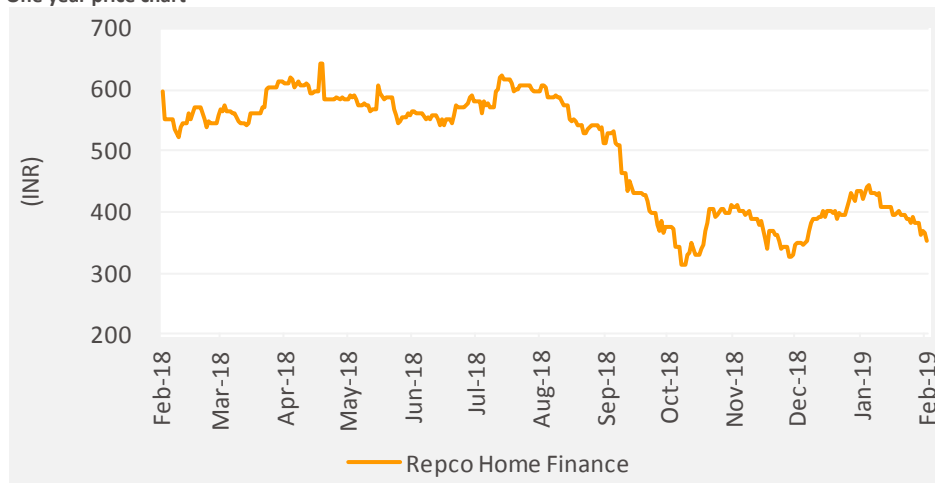
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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