

# Repc Home Finance

**BUY**

## Too little, too late

In spite of an in line 1Q performance (higher but sub-par growth, seasonal NPA spike and higher LLPs) we reduce multiple to 1.5x (from 2x) for REPCO given deteriorating macros. Maintain BUY. Our TP is Rs 443.

### HIGHLIGHTS OF THE QUARTER

- Seasonal Deterioration in Asset Quality:** GNPA's jumped ~48% QoQ to 4.2% (1Q phenomenon), - an occurrence across products and customer profiles (erasing 4QFY19 gains). LAP (6.8%, +180bps QoQ) and non-salaried (5.6%, +110bps) GNPA's remained markedly higher vs. overall. Large ticket loans continued to be a pain point as loans >Rs 10mn were ~25% of GNPA's but ~9% of the book. With some uptick in recoveries, we expect overall GNPA's of ~3.1.5 by FY21E.
- Growth Resurgent:** Even as disbursements were ~5/24% lower, AUM growth accelerated slightly to ~13/3% as repayment rates hit a multi-year low (~13%). The ex-TN book continued to grow faster (+19% YoY, ~43% of AUMs), as guided. Growth remains disappointing (even if it is trending up) on the small base. REPCO is just beginning to benefit from waning competition, so we see these gains as feeble and a little too late. We build AUM growth of ~13.6% over FY19-21E.

### Financial Summary

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	1,267	1,186	6.8	1,164	8.9	4,362	4,434	4,967	5,690	6,509
PPOP	1,035	969	6.7	890	16.2	3,822	3,768	4,255	4,886	5,629
PAT	625	609	2.7	518	20.6	2,010	2,346	2,494	2,865	3,314
EPS (Rs)	10.0	9.7	2.7	8.3	20.6	32.2	37.6	40.0	45.9	53.1
ROAA (%)						2.14	2.28	2.12	2.13	2.16
ROAE (%)						16.5	16.6	15.2	15.2	15.2
Adj. BVPS (Rs)						185	211	242	283	334
P/ABV (x)						1.68	1.47	1.29	1.10	0.93
P/E (x)						9.7	8.3	7.8	6.8	5.8

Source: Company, HDFC sec Inst Research

- Provisions Seesaw:** Under Ind AS, LLPs have witnessed large quarterly variations. FY19 saw writebacks in 2Q and 4Q. As expected, 1Q saw a sharp rise in LLPs (~Rs 75mn, 27bps). We would expect LLPs to mirror longer term PD and LGD trends, rather than asset quality movements. We model LLPs of 40bps over FY20-21E.
- NIMs Expand:** As the QoQ yield increase (+40bps) outpaced CoF growth (+20bps), NIMs were up ~20bps to 4.5%. Income reversals in 4Q magnified the QoQ yield and NIM improvement. Further NIM relief with MCLR cuts is in store (bank loans are ~71% of borrowings). We model NIMs of 4.25% over FY20-21E.

### STANCE

**We downgrade the target multiple for REPCO (from 2x to 1.5x) in view of deteriorating macros. This is in spite of access to adequate funds (from the largest PSB and PVT Bank), signs of improvement in growth with receding competition. However, we believe that the ill-effects of worsening macros are likely to override these positives. Valuations at ~1.1x FY21E remain enticing. A significant pickup in growth can drive up the stock, while further slips on asset quality pose risks.**

INDUSTRY	NBFCs
<b>CMP (as on 16 Aug 2019)</b>	<b>Rs 311</b>
<b>Target Price</b>	<b>Rs 443</b>
Nifty	11,048
Sensex	37,350

### KEY STOCK DATA

Bloomberg	REPCO IN
No. of Shares (mn)	63
MCap (Rsbn) / (\$ mn)	20/274
6m avg traded value (Rsmn)	232

### STOCK PERFORMANCE (%)

	Rs 623/293		
	3M	6M	12M
Absolute (%)	(18.8)	(14.7)	(47.9)
Relative (%)	(18.5)	(18.0)	(46.5)

### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	37.1	37.1
FIs & Local MFs	25.4	25.2
FPIs	23.5	25.8
Public & Others	14.0	11.8
Pledged Shares		

Source : BSE

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**Five Quarters At A Glance**

(Rs mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY Growth	QoQ Growth
Net Interest Income	1,186	1,154	1,190	1,164	1,267	6.8%	8.9%
Non Interest Income	3	51	2	4	3	11.5%	-17.1%
Operating income	1,188	1,205	1,192	1,167	1,270	6.8%	8.8%
Operating expenses	219	236	253	277	235	7.3%	-15.1%
Pre provision profits	969	970	939	890	1,035	6.7%	16.2%
Provisions and contingencies	47	(35)	182	(24)	75	60.1%	-408.3%
PBT	923	1,004	757	915	960	4.0%	5.0%
Provision for Tax	314	338	201	399	336	7.2%	-15.8%
OCI	(0)	4	2	3	2	-733.3%	-40.6%
Total Comprehensive Income	609	670	558	518	625	2.7%	20.6%
<b>Balance Sheet items</b>							
Sanctions (Rs mn)	7,580	8,340	8,052	9,728	6,981	-7.9%	-28.2%
Disbursements (Rs mn)	7,039	7,766	7,332	8,781	6,674	-5.2%	-24.0%
Loan Book (Rs mn)	1,00,745	1,03,820	1,06,668	1,10,368	1,13,421	12.6%	2.8%
Home Loans (%)	81.8	81.7	81.6	81.6	81.5	30 bps	-10 bps
LAP (%)	18.2	18.3	18.4	18.4	18.5	30 bps	10 bps
<b>Borrowings (Rs mn)</b>	83,236	87,154	89,261	92,790	95,632	14.9%	3.1%
Banks (%)	64.1	69.3	75.0	72.7	70.9	687 bps	-181 bps
NHB (%)	8.8	7.9	7.2	9.7	10.9	218 bps	120 bps
Repco (%)	7.5	7.5	7.9	8.6	7.9	42 bps	-68 bps
NCD (%)	14.9	10.2	9.9	8.9	8.6	-623 bps	-28 bps
CP (%)	4.8	5.2	-	-	1.6	-324 bps	157 bps
<b>Profitability</b>							
Yield on Advances (%)	11.40	11.20	11.40	11.30	11.70	30 bps	40 bps
Cost of Funds (%)	8.20	8.20	8.30	8.40	8.60	40 bps	20 bps
Spreads	3.20	3.00	3.10	2.90	3.10	-10 bps	20 bps
NIM (%)	4.60	4.40	4.50	4.30	4.50	-10 bps	20 bps
Cost-Income ratio (%)	18.4	19.6	21.2	23.7	18.5	8 bps	-521 bps
Tax rate (%)	37.6	33.7	26.5	49.4	38.6	96 bps	-1081 bps
<b>Asset quality</b>							
Gross NPA (Rs mn)	3,987	3,730	4,170	3,260	4,812	20.7%	47.6%
Net NPA (Rs mn)	2,371	3,010	3,270	2,080	3,343	41.0%	60.7%
Gross NPAs (%)	3.96	3.60	3.90	3.00	4.20	24 bps	120 bps
Net NPAs (%)	2.39	2.90	3.07	1.88	2.95	56 bps	106 bps
Coverage ratio (%)	39.6	19.4	21.6	36.2	30.5	-912 bps	-567 bps
Home Loans NPA %	3.00	3.00	3.20	2.50	3.30	30 bps	80 bps
LAP NPA %	6.80	5.20	6.80	5.00	6.80	0 bps	180 bps
Salaried NPA %	1.50	1.70	1.50	1.10	1.50	0 bps	40 bps
Non Salaried NPA %	5.60	4.60	5.80	4.50	5.60	0 bps	110 bps

Led by a ~20bps QoQ increase in NIMs and ~3% AUM growth

Seasonal, as a result of a ~17% dip in other opex and a ~14% dip in staff costs

Provisions remain erratic and appear to mirror quarterly GNPA trends

LAP disbursements (~Rs 1.5bn) were ~29% lower QoQ, while home loan disbursements were ~23% lower

In spite of a sharp fall in disbursements, loan growth was higher QoQ, as repayment rates hit a multi-year low of ~6%

The ex-TN book grew faster, at ~19% YoY (~43% of loans)

O/S bank lines of ~Rs 13bn

QoQ yield improvement due to better pricing power and income reversals in 4QFY19

Broad based deterioration in asset quality, a 1Q phenomenon

Source: HDFC sec Inst Research

**Loan growth was led by LAP at ~14/3% YoY/QoQ and followed by Individual loans at 12/2.6%**

**The mix of Home Loan (81.5%) vs. LAP (18.5%) remained largely stable**

**After a ~10bps QoQ dip in 4Q, yields increased 40bps QoQ to 11.7%**

**Consequently spreads and NIMs expanded by ~20bps each to ~3.1% and 4.5% resp.**

**RepcO suffered some income reversals in 4Q, magnifying the sequential increase in yields**

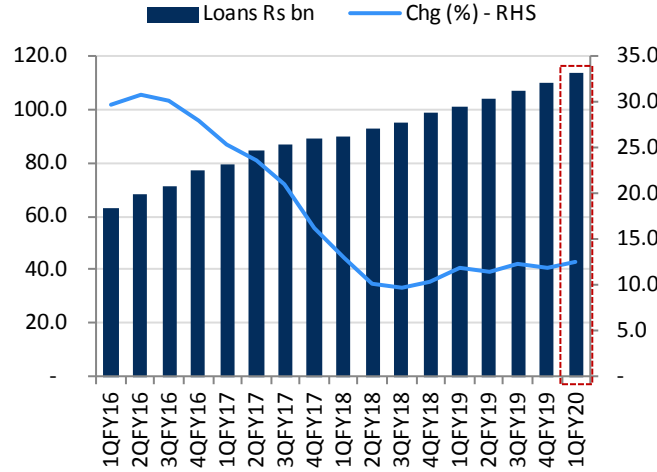
**The average CoF was 8.6%; incremental CoF was ~8.8%**

**NHB borrowings (+43/16%, ~11% of overall borrowings) were the largest incremental source of funds**

**While bank borrowings were flat QoQ, they continued to constitute the largest source of borrowings (~71%); NIMs to face relief as banks cut MCLR**

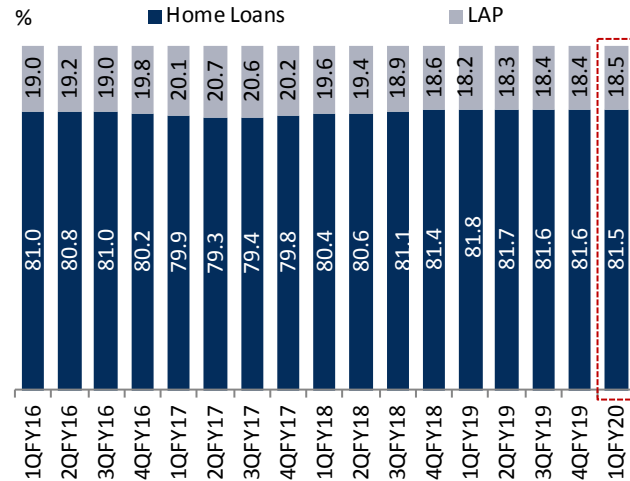
**RepcO has ~Rs 13bn of unused bank lines**

### AUM Growth Increased To ~13/3%



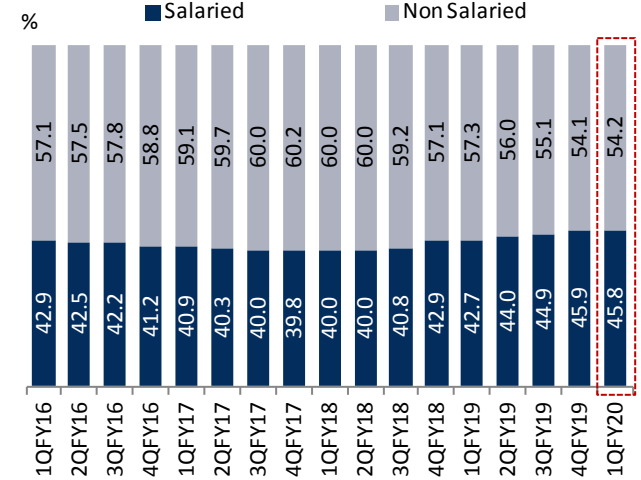
Source: Co and HDFC sec Inst Research

### Slight QoQ Increase In The Share Of LAP



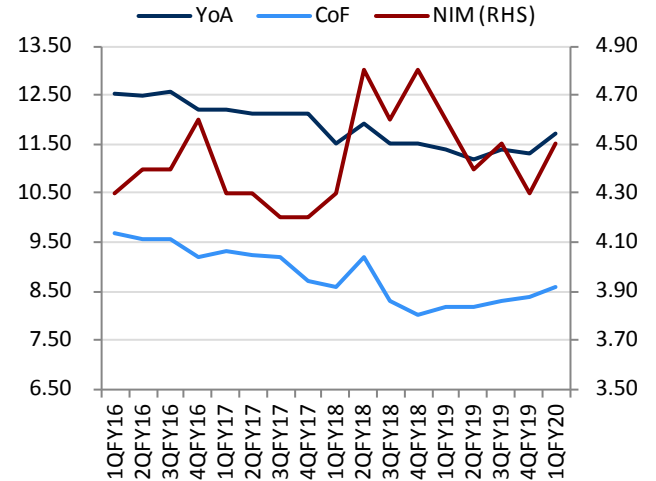
Source: Co and HDFC sec Inst Research

### Loan Mix Stable QoQ



Source: Co and HDFC sec Inst Research

### NIMs Rise ~20bps QoQ to 4.5%



Source: Co and HDFC sec Inst Research

**Overall disbursements and sanctions were down ~28% and 24% QoQ, respectively, a 1Q phenomenon**

**Home Loan disbursements were ~Rs 5.2bn (down ~23% QoQ) while LAP disbursements were ~ Rs 1.5bn (down ~29%)**

**Geographically, loan growth was driven by Maharashtra at ~27/5%, followed by Telangana at ~20/3% YoY/QoQ, and Karnataka at ~19/3%**

**The Gujarat loan book grew ~47/6%, albeit on a smaller base (Rs 39bn, 3.4% of total AUM)**

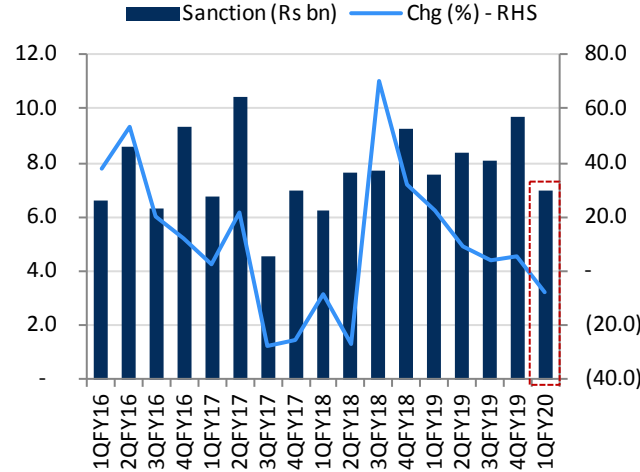
**Faster loan growth outside Tamil Nadu (~11% faster) is in line with the strategy to diversify outside the state**

**However, Tamil Nadu continues to contribute to a majority of the loan book at ~56.6%, followed by Karnataka at ~13.8% and Maharashtra at ~8.6%**

**TN loan book grew at ~8/3%**

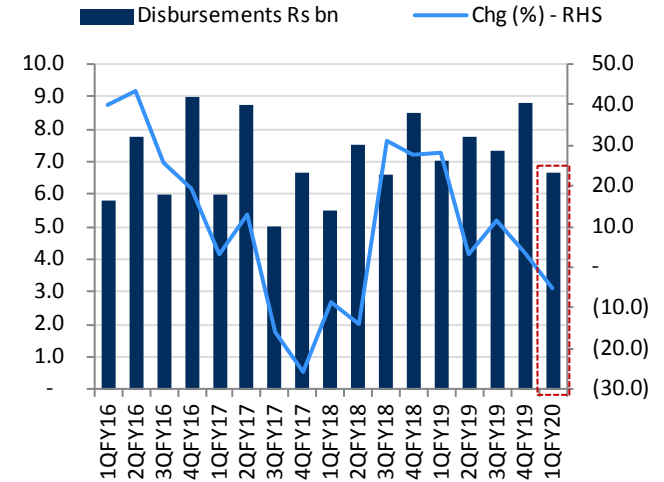
**The mgt guides for book growth of ~13-15% over FY20E, we model book growth of 13.5% over FY20-21E**

### Sanctions Down 24% QoQ



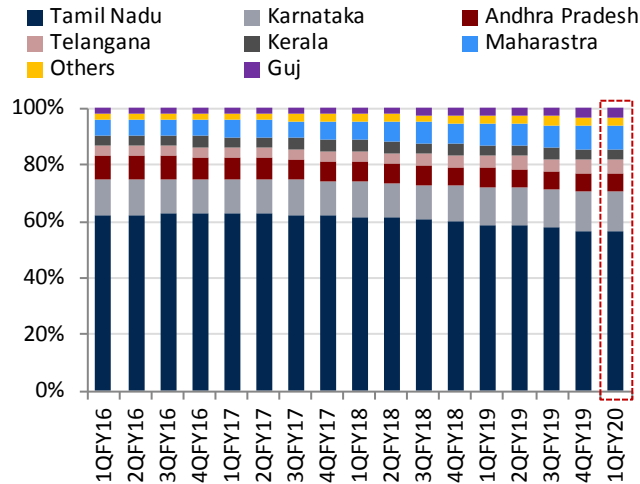
Source: Co and HDFC sec Inst Research

### Disbursements, Too, Down ~28% QoQ



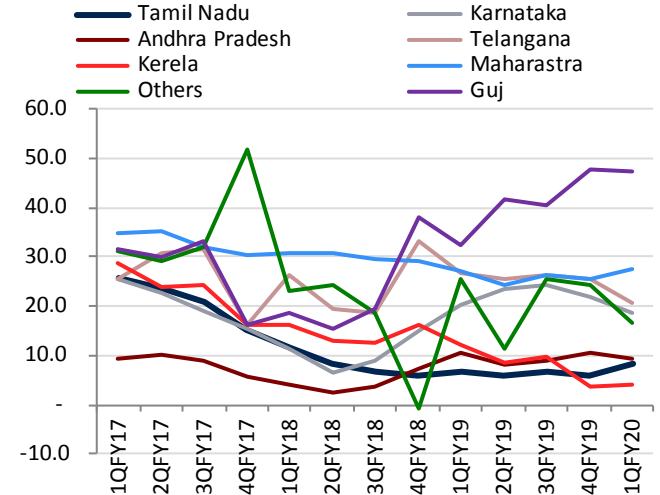
Source: Co and HDFC sec Inst Research

### State-wise Mix: Top 3 States Contribute ~79%



Source: Co and HDFC sec Inst Research

### State-wise Loan Book Growth



Source: Co and HDFC sec Inst Research

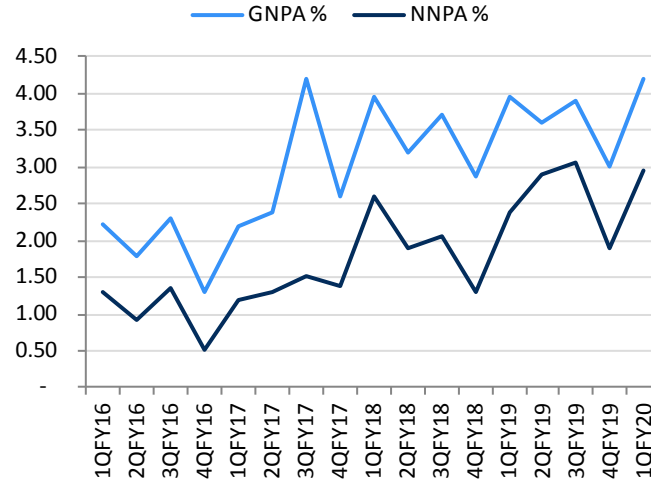
**Broad-based asset quality deterioration, as GNPA's increased ~120bps QoQ to 4.2% (a 1Q phenomenon)**

**GNPA split:**  
**Home loan: 3.3% vs. 2.5% QoQ**  
**LAP: 6.8% vs. 5%**  
**Salaried: 1.5% vs. 1.1%**  
**Non-Salaried: 5.6% vs. 4.5% QoQ**

**Tamil Nadu a/c for ~57% of the loan book and about ~70% of GNPA's**

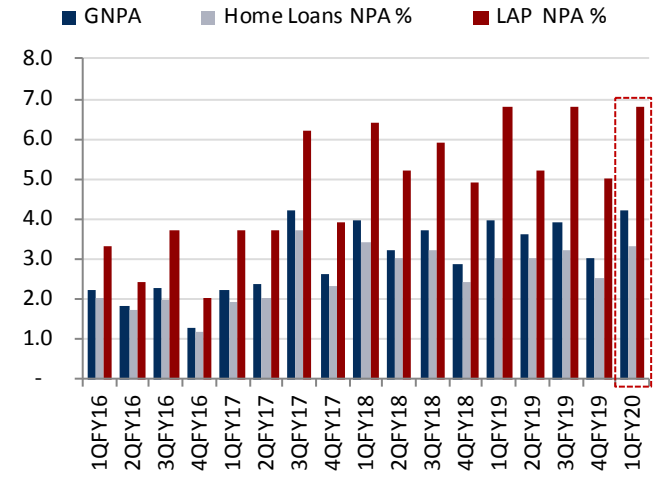
**Trouble in large ticket loans is evident as they form ~9% of the book and ~25% of GNPA's**

**G/NNPAs Deteriorate QoQ (In Part Seasonal)**



Source: Co and HDFC sec Inst Research

**Asset Quality Deteriorates Across Segments**



Source: Co and HDFC sec Inst Research

**Peer Set Comparison**

NBFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
LICHF	243	481	NEU	554	281	304	355	10.0	9.2	7.8	1.71	1.58	1.35	15.9	15.2	15.9	1.31	1.21	1.25
SHTF	234	1,033	BUY	1,375	449	581	743	9.1	8.4	7.6	2.30	1.78	1.39	17.4	16.4	15.8	2.53	2.49	2.45
CIFC	208	265	BUY	372	72	84	101	17.4	14.7	12.4	3.69	3.16	2.64	21.1	20.7	20.4	2.34	2.26	2.32
MMFS#	196	320	BUY	398	124	142	164	11.9	15.1	11.8	2.43	2.13	1.84	15.2	10.8	12.7	2.60	1.73	1.99
INDOSTAR	26	277	BUY	506	272	297	346	10.6	7.3	4.6	1.02	0.93	0.80	9.5	11.0	15.4	1.96	2.45	2.82
<b>REPCO</b>	<b>20</b>	<b>311</b>	<b>BUY</b>	<b>443</b>	<b>211</b>	<b>242</b>	<b>283</b>	<b>8.3</b>	<b>7.8</b>	<b>6.8</b>	<b>1.47</b>	<b>1.29</b>	<b>1.10</b>	<b>16.6</b>	<b>15.2</b>	<b>15.2</b>	<b>2.28</b>	<b>2.12</b>	<b>2.13</b>

Source: Company, HDFC sec Inst Research; # adjusted for subs

## Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	10,851	11,634	13,436	14,990	16,891
Interest Expended	6,489	7,200	8,469	9,299	10,383
<b>Net Interest Income</b>	<b>4,362</b>	<b>4,434</b>	<b>4,967</b>	<b>5,690</b>	<b>6,509</b>
Other Income	250	318	360	413	475
<b>Total Income</b>	<b>4,612</b>	<b>4,752</b>	<b>5,327</b>	<b>6,104</b>	<b>6,984</b>
Total Operating Exp	790	984	1,071	1,218	1,355
<b>PPOP</b>	<b>3,822</b>	<b>3,768</b>	<b>4,255</b>	<b>4,886</b>	<b>5,629</b>
Provisions & Contingencies	748	170	431	493	547
<b>PBT</b>	<b>3,074</b>	<b>3,598</b>	<b>3,824</b>	<b>4,393</b>	<b>5,081</b>
Provision for Tax	1,064	1,252	1,330	1,528	1,768
<b>PAT</b>	<b>2,010</b>	<b>2,346</b>	<b>2,494</b>	<b>2,865</b>	<b>3,314</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	626	626	626	626	626
Reserves	12,459	14,648	16,953	19,621	22,738
Net worth	13,085	15,274	17,578	20,246	23,364
Borrowings	81,343	92,774	106,492	120,316	136,046
Other Liabilities	2,882	1,522	2,437	3,171	4,038
<b>Total liabilities</b>	<b>97,310</b>	<b>109,570</b>	<b>126,507</b>	<b>143,733</b>	<b>163,447</b>
<b>APPLICATION OF FUNDS</b>					
Advances	96,492	108,379	125,285	142,386	161,960
Investments	156	220	242	266	293
Fixed assets	135	155	160	164	169
Other Assets	527	815	821	917	1,026
<b>Total assets</b>	<b>97,310</b>	<b>109,570</b>	<b>126,507</b>	<b>143,733</b>	<b>163,447</b>

Source: Company, HDFC sec Inst Research

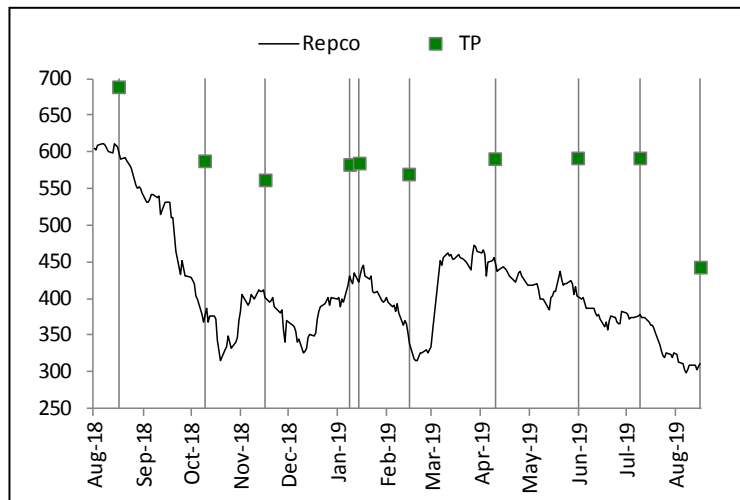
## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratios</b>					
EPS	32.2	37.6	40.0	45.9	53.1
Earnings Growth (%)	10.3	16.7	6.3	14.9	15.7
BVPS	209	244	281	324	373
Adj. BVPS (100% cover)	185	211	242	283	334
DPS (Rs)	2.5	2.5	2.7	2.8	2.8
RoAA (%)	2.14	2.28	2.12	2.13	2.16
ROAE (%)	16.5	16.6	15.2	15.2	15.2
P/E (x)	9.7	8.3	7.8	6.8	5.8
P/ABV (x)	1.68	1.47	1.29	1.10	0.93
P/PPOP (x)	5.1	5.2	4.6	4.0	3.5
Dividend Yield (%)	0.8	0.8	0.9	0.9	0.9
<b>Profitability</b>					
Yield on Advances (%)	11.66	11.36	11.50	11.20	11.10
Cost of Funds (%)	8.27	8.27	8.50	8.20	8.10
Core Spread (%)	3.39	3.09	3.00	3.00	3.00
NIM (%)	4.69	4.33	4.25	4.25	4.28
<b>Operating Efficiency</b>					
Cost/Avg. Asset Ratio (%)	0.8	1.0	0.9	0.9	0.9
Cost-Income Ratio (%)	17.1	20.7	20.1	19.9	19.4
<b>Balance Sheet Structure Ratios</b>					
Loan Growth (%)	10.3	12.0	13.5	13.6	13.7
Borrowing Growth (%)	7.6	14.1	14.8	13.0	13.1
Equity/Assets (%)	13.4	13.9	13.9	14.1	14.3
Equity/Loans (%)	13.6	14.1	14.0	14.2	14.4
CAR (%)	23.0	23.9	23.4	22.8	22.2

	FY18	FY19	FY20E	FY21E	FY22E
<b>Asset Quality</b>					
Gross NPLs (Rs.mn)	2,827	3,260	4,013	4,482	4,900
Net NPLs (Rs.mn)	1,510	2,080	2,469	2,514	2,462
Gross NPLs (%)	2.87	3.00	3.20	3.15	3.03
Net NPLs (%)	1.56	1.92	1.97	1.77	1.52
Coverage Ratio (%)	46.6	36.2	38.5	43.9	49.7
Provision/Avg. AUM (%)	0.8	0.2	0.4	0.4	0.4
<b>RoAA Tree</b>					
Net Interest Income	4.65%	4.29%	4.21%	4.21%	4.24%
Non Interest Income	0.27%	0.31%	0.30%	0.31%	0.31%
Operating Cost	0.84%	0.95%	0.91%	0.90%	0.88%
Provisions	0.80%	0.16%	0.37%	0.36%	0.36%
Tax	1.13%	1.21%	1.13%	1.13%	1.15%
ROAA	2.14%	2.27%	2.11%	2.12%	2.16%
Leverage (x)	7.7	7.3	7.2	7.1	7.0
ROAE	16.4%	16.5%	15.2%	15.1%	15.2%

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
17-Aug-18	609	BUY	689
9-Oct-18	377	BUY	588
17-Nov-18	400	BUY	562
8-Jan-19	418	BUY	583
15-Jan-19	420	BUY	585
15-Feb-19	338	BUY	570
9-Apr-19	450	BUY	591
1-Jun-19	403	BUY	592
9-Jul-19	375	BUY	592
17-Aug-19	311	BUY	443

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**INSTITUTIONAL RESEARCH**
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**Any holding in stock –No**

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