

Repco Home Finance

Estimate change

TP change

Rating change

Bloomberg	REPCO IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	8.7 / 0.1
52-Week Range (INR)	429 / 138
1, 6, 12 Rel. Per (%)	-21/-44/-65
12M Avg Val (INR M)	53
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	5.9	5.8	6.2
PPP	4.9	4.9	5.3
PAT	1.9	2.7	3.1
EPS (INR)	30.6	43.0	50.1
EPS Gr. (%)	-33	41	17
BV/Sh. (INR)	357	397	445

Ratios

NIM (%)	5.1	4.9	4.7
C/I ratio (%)	20.1	21.5	21.5
RoAA (%)	1.6	2.1	2.3
RoE (%)	8.9	11.4	11.9
Payout (%)	8.2	6.4	5.6

Valuation

P/E (x)	4.5	3.2	2.8
P/BV (x)	0.4	0.3	0.3
P/ABV (x)	0.5	0.4	0.3
Div. Yield (%)	1.8	2.0	2.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	37.1	37.1	37.1
DII	19.7	21.0	20.1
FII	17.9	18.0	20.4
Others	25.2	23.9	22.4

FII Includes depository receipts

CMP: INR139
TP: INR155 (+11%)
Neutral

Long road ahead to recovery; downgrade to Neutral

REPCO's operating performance (disbursements/collections/pre-payments) has been disappointing for far too long. While the new management team, led by Mr. Swaminathan as the MD/CEO, offers a different strategy and a new ray of hope, we would now want to see execution and turnaround before we again turn constructive on the stock. While the current valuation of 0.3x FY24E P/BV might look attractive and seems to be pricing in all the concerns around loan growth and asset quality, we believe that the road to recovery will be long and steep. We do not see any catalysts/ triggers for the stock. **Hence, we downgrade the stock to Neutral with a TP of INR155 (premised on 0.35x FY24 P/BV).**

Profitability muted due to elevated credit costs

- REPCO reported a 4QFY22 PAT of INR420m (24% miss), down ~34% YoY, led by credit costs of ~210bp (annualized). FY22 PAT dropped 33% YoY to INR1.92b.
- Performance in 4QFY22 was characterized by: a) NIM that improved 10bp QoQ to 5.1%, and b) ~35% QoQ growth in disbursements that led to a flat AUM QoQ (down 3% YoY). FY22 disbursements dipped 4% YoY to INR17.6b (from INR18.4b in FY21).

Loan growth remains subdued led by elevated run-off in the loan book

- Loan book continued to consolidate, with reported AUM of ~INR117.6b, largely flat QoQ and down 3% YoY. Run-off in the loan book continued to remain elevated at 21% (annualized), suggesting that REPCO has not been able to stem balance transfers as yet.

NIM and spreads are stable sequentially

- Reported spreads in 4QFY22 remained stable QoQ/YoY at 3.8%. Decline in yields was mitigated by improvement in cost of borrowings.
- Reported NIM in 4QFY22 improved ~10bp QoQ and ~30bp YoY to 5.1%.

No improvement in asset quality; credit costs elevated

- GS3 (including the RBI circular) remained sequentially stable at 7% and REPCO increased the PCR by ~180bp QoQ to ~32%. ECL/EAD also rose 40bp QoQ to ~4%.

Key highlights from the management commentary

- The company targets to increase the PCR on Stage 3 to 50% and guided for credit cost of ~INR0.8b-1.0b in FY23E.
- Management guided for disbursements of INR30b/loan growth of 10-11% in FY23E.

Valuation and view

- Spreads/margins were healthy but loan book growth continued to remain muted due to tepid disbursements and elevated levels of balance transfers.

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■ We cut our FY23/FY24 PAT estimates by 16%/10% to factor in lower loan growth, compression in NIM and higher credit costs. While risk-reward appears favorable at valuation of 0.3x FY24E P/BV, we believe that the REPCO franchise now runs the risk of getting marginalized/acquired. **We downgrade the stock to Neutral with a TP of INR155 (based on 0.35x FY24E BVPS) in the absence of any catalysts/triggers.**

Quarterly performance

Y/E March	FY21				FY22				FY21	FY22	4QFY22E	(INR M) Act v/s est(%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	3,384	3,486	3,568	3,297	3,205	3,304	3,211	3,084	13,518	12,804	3,171	-3
Interest Expenses	2,104	2,090	2,024	1,855	1,757	1,744	1,719	1,680	8,072	6,899	1,704	-1
Net Income	1,280	1,396	1,544	1,442	1,448	1,560	1,492	1,405	5,446	5,905	1,467	-4
YoY Growth (%)	0.7	12.9	17.1	4.6	13.1	11.7	-3.4	-2.6	10.6	8.4	1.7	
Other income	35	16	30	107	19	42	44	158	404	262	58	173
Total Income	1,315	1,412	1,574	1,549	1,467	1,602	1,536	1,563	5,850	6,166	1,525	2
YoY Growth (%)	3.6	11.2	19.0	10.7	11.5	13.4	-2.4	0.9	11.2	5.4	-1.6	
Operating Expenses	235	257	292	361	246	283	344	368	1,144	1,241	376	-2
YoY Growth (%)	0.1	3.2	6.3	17.6	4.5	10.2	17.9	2.0	7.5	8.4	4.3	
Operating Profits	1,080	1,155	1,282	1,188	1,221	1,318	1,192	1,195	4,706	4,926	1,148	4
YoY Growth (%)	4.4	13.1	22.3	8.7	13.0	14.1	-7.0	0.6	12.1	4.7	-3.3	
Provisions	221	72	222	292	783	169	765	613	808	2,331	400	53
Profit before Tax	859	1,083	1,061	896	437	1,149	427	582	3,898	2,595	748	-22
Tax Provisions	219	275	265	264	116	290	112	161	1,022	680	197	-18
Profit after tax	640	808	796	632	321	859	315	420	2,876	1,915	551	-24
YoY Growth (%)	2.6	-19.7	14.2	32.5	-49.8	6.3	-60.5	-33.5	2.6	-33.4	-12.8	
Loan growth (%)	5.6	5.2	3.7	2.5	0.1	-1.7	-2.3	-3.0	2.1	-4.6	-2.1	
Cost to Income Ratio (%)	17.9	18.2	18.5	23.3	16.8	17.7	22.4	23.5	19.6	20.1	24.7	
Tax Rate (%)	25.5	25.4	24.9	29.4	26.5	25.2	26.3	27.7	26.2	26.2	26.3	
Key Parameters (%)												
Yield on loans (Cal)	11.4	11.6	11.8	10.9	10.6	11.1	10.8	10.5	11.5	11.1		
Cost of funds (Cal)	8.3	8.2	7.9	7.3	7.0	7.0	7.0	7.0	8.0	6.9		
Spreads (Cal)	3.0	3.4	3.9	3.7	3.7	4.1	3.8	3.5	3.6	4.1		
NIMs (Reported)	4.3	4.6	5.1	4.8	4.8	5.2	5.0	5.1	4.6	5.1		
Credit Cost	0.7	0.2	0.7	1.0	2.6	0.6	2.6	2.1	0.7	2.0		
Cost to Income Ratio	17.9	18.2	18.5	23.3	16.8	17.7	22.4	23.5	19.6	20.1		
Tax Rate	25.5	25.4	24.9	29.4	26.5	25.2	26.3	27.7	26.2	26.2		
Balance Sheet												
AUM (INR B)	119.8	120.9	120.6	121.2	119.9	118.9	117.9	117.6	121.2	117.6		
Change YoY (%)	5.6	5.2	3.7	2.5	0.1	-1.7	-2.3	-3.0	2.5	-3.0		
AUM Mix (%)												
Non-Salaried	51.7	51.7	51.5	51.5	51.5	51.5	51.3	51.2	51.5	51.2		
Salaried	48.3	48.3	48.5	48.5	48.5	48.5	48.7	48.8	48.5	48.8		
AUM Mix (%)												
Home loans	81.3	81.1	81.2	81.3	81.3	81.3	81.2	80.9	81.3	80.9		
LAP	18.7	18.9	18.8	18.7	18.7	18.7	18.8	19.1	18.7	19.1		
Disbursements (INR B)	1.8	4.7	5.5	6.4	2.4	4.8	4.4	6.0	18.4	17.7		
Change YoY (%)	-72.8	-33.4	-15.9	6.4	32.0	3.6	-19.5	-6.1	-29.9	-3.9		
Borrowings (INR B)	101.5	103.0	102.7	101.9	100.0	99.0	96.1	96.9	102	96.9		
Change YoY (%)	6.2	2.6	4.9	1.3	-1.5	-3.9	-6.4	-4.9	1.3	-4.9		
Loans/Borrowings (%)	118.0	117.4	117.4	119.0	119.9	120.2	122.6	121.4	119.0	121.4		
Borrowings Mix (%)												
Banks	74.8	71.7	73.2	68.5	66.0	69.9	69.9	68.1	68.5	68.1		
NHB	10.5	14.8	17.1	21.0	23.4	19.1	19.3	20.7	21.0	20.7		
Repc Bank	10.3	9.9	9.7	10.5	10.7	10.9	10.7	11.2	10.5	11.2		
NCD	4.5	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
CP	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Asset Quality												
GS 3 (INR B)	4.8	4.8	5.2	4.5	5.3	5.1	8.2	8.2	4.5	8.2		
Gross Stage 3 (% on Assets)	4.0	4.0	4.3	3.7	4.4	4.3	7.0	7.0	3.7	7.0		
NS 3 (INR B)	2.8	2.8	3.1	2.7	3.1	2.9	5.8	5.6	2.7	5.6		
Net Stage 3 (% on Assets)	2.4	2.4	2.7	2.3	2.7	2.5	5.1	4.9	2.3	4.9		
PCR (%)	41.2	41.4	40.0	39.7	42.1	43.3	30.1	31.8	39.7	31.8		
Return Ratios (%)												
ROA (Rep)	2.2	2.7	2.6	2.1	1.1	2.9	1.1	1.4	2.3	1.6		
ROE (Rep)	15.0	18.3	17.3	13.3	6.6	17.3	6.2	8.2	14.0	8.6		



Highlights from the management commentary

Business operations

- The management expects to sustain margins on the back of volume growth
- The company does not have any fixed rate lending. Nearly 70-74% of the liability side is linked to MCLR while the rest is linked to Repo or EBLR. Assets side loans are re-priced every 6 months while the MCLR is reviewed every month.
- Adequate capital with cash and cash equivalents of INR6b and INR19b of unutilized bank lines. The management plans to start investments in better yielding government securities

Repayments

- Company witnessed total repayments of ~INR6b in 4QFY22 out of which pre-payments amounted to INR4.7b in 4QFY22 against INR2.5b in 4QFY21. Prepayments in previous quarters were INR4.4b in 1QFY22, INR2.1b in 2QFY22 and INR2.9b in 3QFY22.

Guidance

- The management has guided loan growth of 10-11% in FY23. Management expects growth to accelerate post FY23
- NPA expected to decline from 2QFY23 onwards with a targeted reduction of ~60-120bp in FY23. Target to reduce GNPA by ~1-1.5b in FY23.
- The company targets to increase the PCR on Stage 3 to 50% by FY23 from the current levels of 32%
- Credit cost expected to be in the range of ~INR0.8b-1b in FY23
- Company guided for disbursements of INR30b in FY23

Asset quality

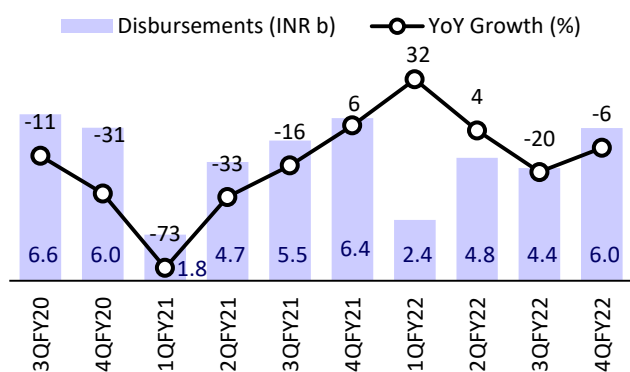
- Slippages were ~INR950m in 1QFY22, INR2,770m in 3QFY22 and the same has reduced to ~INR900m in 4QFY22.
- Overall ECL/EAD increased by 0.5% sequentially to 4% of loan book
- Out of provisions of INR610m, the amount provided towards stage 3 equals INR150m and INR450m towards stage 1 and stage 2
- NPA cycle has peaked and it expects the same to reduce from FY23 onwards
- Restructured portfolio stood at ~INR6.7b

Others

- To deliver better disbursements, the management is looking to increase ticket size and tap larger DSAs going forward.
- The contribution of loans originated through DSA is ~15% and the management plan to increase the same up to ~20-25%.
- The company plans to open ~10-15 branches in FY23
- Yield for 12.8% on LAP loans, 9.7% on home loans with a blended yield of 10.3% on the product mix
- Yield of 9.3% on salaried loans, 10.2% on non-salary loans with a blended yield of 9.7%

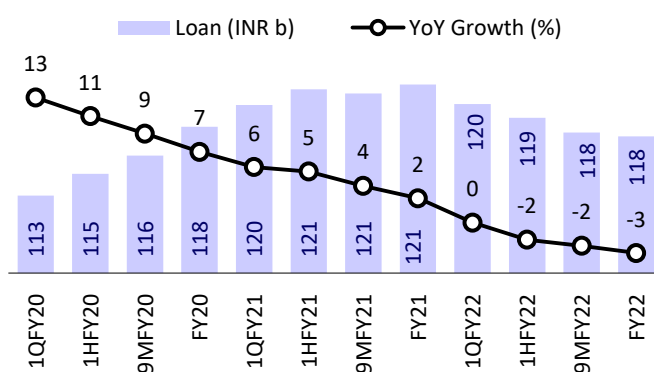
Key exhibits

Exhibit 1: Disbursements fell ~6% YoY



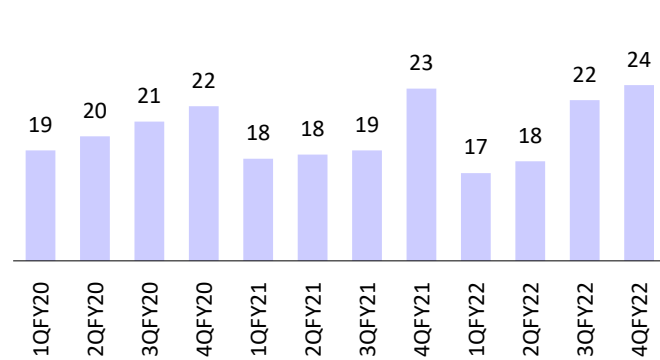
Source: MOFSL, Company

Exhibit 2: Loan growth remains tepid



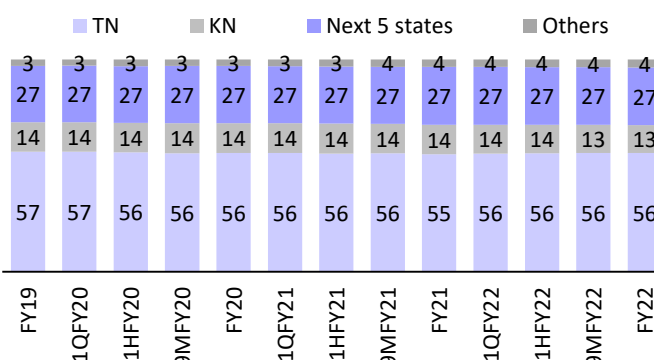
Source: MOFSL, Company;

Exhibit 3: C/I ratio increased by 200bp QoQ



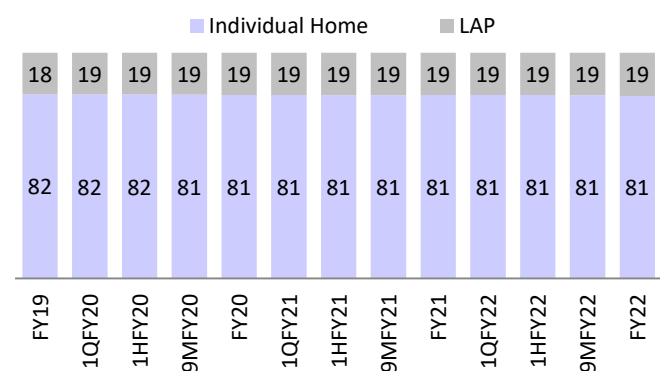
Source: MOFSL, Company

Exhibit 4: Geographical split of the loan book remains fairly stable (%)



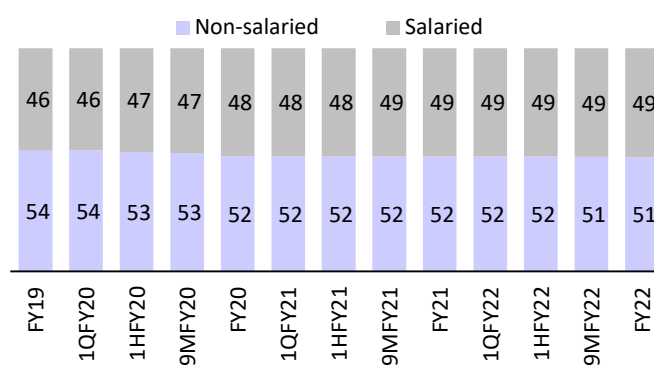
Source: MOFSL, Company

Exhibit 5: Share of Home loan book ~81%

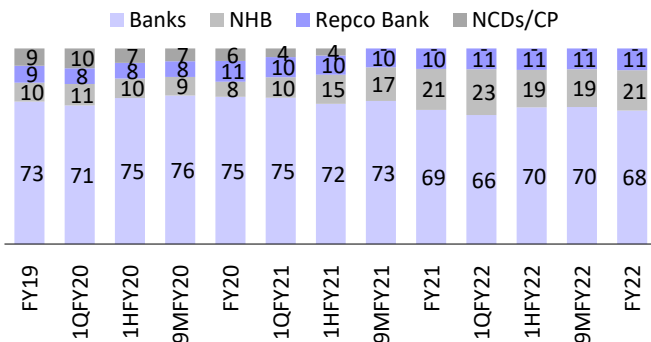


Source: MOFSL, Company

Exhibit 6: Customer mix based on occupation remains stable (%)



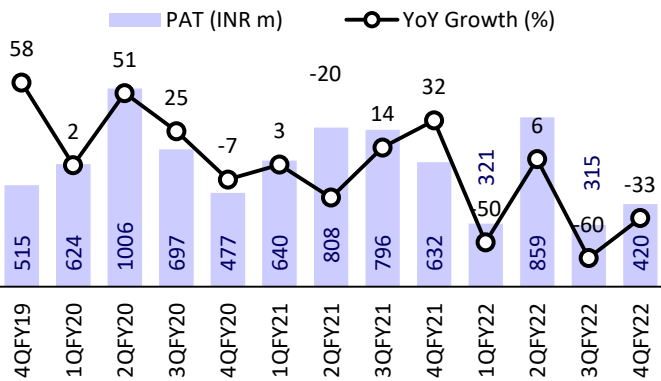
Source: MOFSL, Company

Exhibit 7: Proportion of NHB borrowings ~21%. Expect it to improve over the next two quarters

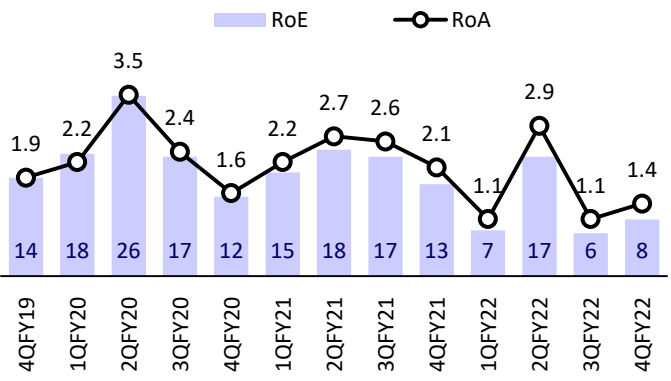
Source: MOFSL, Company

Exhibit 8: NIM improved sequentially by 10bp (%)

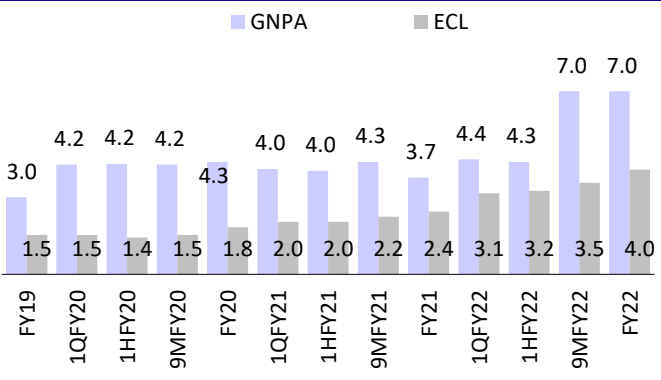
Source: MOFSL, Company, Reported

Exhibit 9: Higher credit costs led to a 33% YoY decline in PAT

Source: MOFSL, Company

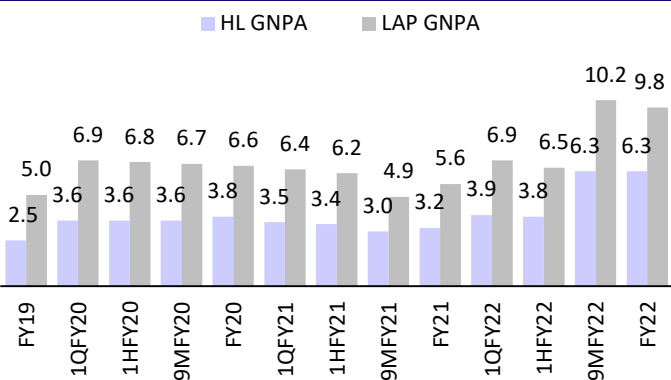
Exhibit 10: RoE/RoA trends (%)

Source: MOFSL, Company

Exhibit 11: GS3 stable sequentially at 7% and ECL/EAD improved to 4%

Source: MOFSL, Company;

Note: 9MFY21 GNPA ratio is pro forma; 9M/FY22 based on RBI circular

Exhibit 12: LAP continues to show more stress than Home loans (%)

Source: MOFSL, Company;

Note: 9MFY21 numbers are not pro forma; 9M/FY22 based on RBI circular

Valuation and view

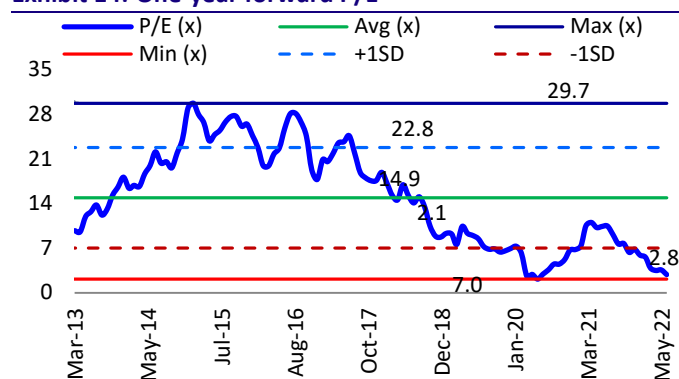
- Spreads/margins were healthy but loan book growth continued to remain muted due to tepid disbursements and elevated levels of balance transfers.
- We cut our FY23/FY24 PAT estimates by 16%/10% to factor in lower loan growth, compression in NIM and higher credit costs. While risk-reward appears favorable at valuation of 0.3x FY24E P/BV, we believe that the REPCO franchise now runs the risk of getting marginalized/acquired. **We downgrade the stock to Neutral with a TP of INR155 (based on 0.35x FY24E BVPS) in the absence of any catalysts/triggers.**

Exhibit 13: Cut our FY23/FY24 PAT estimates by 16%/10% to factor in higher credit costs, lower loan growth and compression in NIM

INR b	Old Est.			New Est.			Change (%)		
	FY22E	FY23E	FY24E	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E
NII	6.0	6.0	6.4	5.9	5.8	6.2	-1.0	-3.3	-2.2
Other Income	0.2	0.3	0.4	0.3	0.4	0.5	62.0	44.0	13.3
Total Income	6.1	6.3	6.8	6.2	6.2	6.7	0.6	-1.1	-1.2
Operating Expenses	1.2	1.4	1.5	1.2	1.3	1.4	-0.7	-3.8	-3.9
Operating Profits	4.9	4.9	5.3	4.9	4.9	5.3	0.9	-0.3	-0.4
Provisions	2.1	0.6	0.6	2.3	1.2	1.0	10.0	118.4	76.2
PBT	2.8	4.3	4.7	2.6	3.6	4.3	-6.0	-15.9	-9.8
Tax	0.7	1.1	1.2	0.7	1.0	1.1	-5.0	-14.9	-8.8
PAT	2.0	3.2	3.5	1.9	2.7	3.1	-6.4	-16.2	-10.1
Loan book	116	122	134	113	125	136	-2.5	2.0	1.2
NIM (%)	5.1	5.0	4.9	5.1	4.9	4.7			
Spreads (%)	4.0	3.9	3.8	4.1	3.8	3.7			
ROAA (%)	1.7	2.6	2.6	1.6	2.1	2.3			
RoAE (%)	9.5	13.4	12.9	8.9	11.4	11.9			

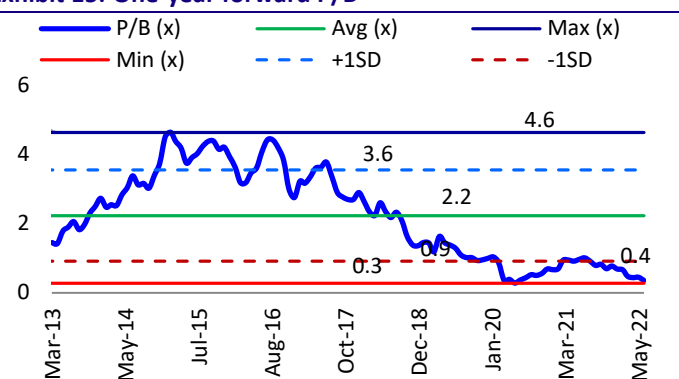
Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income statement								(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	8,521	10,141	10,851	11,634	13,174	13,518	12,804	13,450	14,891
Interest Expended	5,483	6,463	6,489	7,200	8,250	8,072	6,899	7,646	8,680
Net Interest Income	3,039	3,678	4,362	4,434	4,924	5,446	5,905	5,804	6,212
Change (%)	27.8	21.0	18.6	1.7	11.0	10.6	8.4	-1.7	7.0
Other Operating Income	297	318	250	318	337	404	262	419	494
Net Income	3,336	3,996	4,612	4,752	5,261	5,850	6,166	6,223	6,706
Change (%)	27.7	19.8	15.4	3.1	10.7	11.2	5.4	0.9	7.8
Operating Expenses	643	676	790	984	1,065	1,144	1,241	1,335	1,442
Operating Income	2,693	3,320	3,822	3,768	4,196	4,706	4,926	4,887	5,264
Change (%)	30.4	23.3	15.1	-1.4	11.4	12.1	4.7	-0.8	7.7
Provisions/write offs	392	518	748	170	594	808	2,331	1,240	1,011
PBT	2,301	2,802	3,074	3,598	3,602	3,898	2,595	3,647	4,253
Tax	800	979	1,063	1,252	798	1,022	680	955	1,114
Tax Rate (%)	34.8	34.9	34.6	34.8	22.2	26.2	26.2	26.2	26.2
PAT	1,501	1,823	2,010	2,346	2,804	2,876	1,915	2,692	3,139
Change (%)	21.9	21.4	10.3	16.7	19.5	2.6	-33.4	40.5	16.6

Balance sheet								(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	625	626	626	626	626	626	626	626	626
Reserves & Surplus	8,923	10,747	12,459	14,648	17,243	19,967	21,730	24,249	27,214
Net Worth	9,548	11,372	13,085	15,274	17,869	20,593	22,356	24,875	27,840
Borrowings	65,379	75,604	81,343	92,774	1,01,090	1,01,974	96,920	1,07,259	1,17,022
Change (%)	28.1	15.6	7.6	14.1	9.0	0.9	-5.0	10.7	9.1
Other liabilities	2,705	3,457	2,882	1,522	987	1,093	698	768	845
Total Liabilities	77,632	90,433	97,310	1,09,570	1,19,946	1,23,659	1,19,974	1,32,902	1,45,706
Loans	77,049	89,578	96,492	1,08,379	1,15,884	1,18,356	1,12,918	1,24,720	1,36,072
Change (%)	28.1	16.3	7.7	12.3	6.9	2.1	-4.6	10.5	9.1
Investments	124	156	239	363	321	345	440	506	582
Change (%)	0.0	25.8	53.5	51.5	-11.6	7.4	27.7	15.0	15.0
Net Fixed Assets	93	91	135	155	372	314	353	371	389
Other assets	366	609	443	673	3,369	4,645	6,263	7,306	8,663
Total Assets	77,632	90,433	97,310	1,09,570	1,19,946	1,23,659	1,19,974	1,32,902	1,45,706

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Avg Yield on Loans	12.4	12.2	11.6	11.4	11.7	11.5	11.1	11.3	11.4
Avg. Cost of Borrowings	9.4	9.2	8.3	8.3	8.5	8.0	6.9	7.5	7.7
Interest Spread	3.0	3.0	3.4	3.1	3.2	3.6	4.1	3.8	3.6
Net Interest Margin	4.4	4.4	4.7	4.3	4.4	4.6	5.1	4.9	4.7
Profitability Ratios (%)									
RoE	17.0	17.4	16.4	16.5	16.9	15.0	8.9	11.4	11.9
RoA	2.2	2.2	2.1	2.3	2.4	2.4	1.6	2.1	2.3
Int. Expended/Int. Earned	64.3	63.7	59.8	61.9	62.6	59.7	53.9	56.9	58.3
Other Inc./Net Income	8.9	8.0	5.4	6.7	6.4	6.9	4.2	6.7	7.4
Efficiency Ratios (%)									
Op. Exps./Net Income	19.3	16.9	17.1	20.7	20.2	19.6	20.1	21.5	21.5
Empl. Cost/Op. Exps.	63.7	63.8	62.6	59.5	62.4	62.3	63.4	63.0	63.6
Asset Quality (%)									
Gross NPAs	1,009	2,328	2,827	3,258	5,117	4,485	8,198	7,520	6,859
Gross NPAs to Adv.	1.3	2.6	2.9	3.0	4.3	3.7	7.0	6.0	5.0
Net NPAs	368	1,227	1,255	1,507	3,287	2,714	5,587	4,362	3,567
Net NPAs to Adv.	0.5	1.4	1.3	1.4	2.8	2.3	4.9	3.5	2.6
VALUATION									
Book Value (INR)	152.7	181.8	209.2	244.1	285.6	329.2	357.1	397.4	444.7
Price-BV (x)					0.5	0.4	0.4	0.3	0.3
EPS (INR)	24.0	29.1	32.1	37.5	44.8	46.0	30.6	43.0	50.1
EPS Growth YoY	21.6	21.4	10.3	16.7	19.5	2.6	-33.4	40.5	16.6
Price-Earnings (x)					3.1	3.0	4.5	3.2	2.8
Dividend per share (INR)	1.8	2.0	2.2	2.5	2.5	2.5	2.5	2.8	2.8
Dividend yield (%)					1.8	1.8	1.8	2.0	2.0

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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