

Repc Home Finance (REPCO IN)

Loan growth moderates

INDIA | Financials | Quarterly Update

9 August 2016

Top takeaways from Q1FY17

- ✗ Repco's operating performance was ahead of our expectation led by lower employee expenses. However NPA provisions were slightly higher than expectation leading to marginal miss in our PBT.
- ✗ NII growth (26.5% yoy) was marginally below our expectation, due to flat NIM yoy against our expectation of marginal improvement, loan growth at 25.5% yoy was tad lower than our expectation.
- ✗ NIM at 4.3% was flat yoy, while it declined 30bps sequentially due to increase in cost of funds.
- ✓ Asset quality remained stable yoy with GNPA at GNPA ratio at 2.22%, while NNPA ratio declined 7bps yoy to 1.22%.

Key highlights

- Loan book grew 25.5% yoy, driven by 33% yoy growth in LAP, home loans grew 24% yoy, LAP constituted 20.1% of total loans while home loans constituted 79.9%. Loans were primarily driven by salaried segment which grew 73% yoy, non-salaried segment declined 10% yoy.
- Loan sanctions and loan disbursement were very weak at 2.5% yoy, and 3.4% yoy respectively.
- Operating expenses declined (4% yoy) contrary to our expectation, primarily due to 3% decline in employee expenses. Q1FY16 included ESOP expenses of approximately 170mn. Other opex also remained flattish, resulting in 34% yoy growth in operating profits.

Management comments / concall takeaways

- Disbursements and sanctions were impacted due to the Tamil Nadu state elections in Q1FY17; consequently there was pressure on loan growth.
- Segment wise, home loans/LAP saw NPAs of 1.9%/3.7%. Customer-wise salaried/non-salaried NPA was 1.2%/2.9%.
- One tranche is yet to be completed for the ESOP scheme.
- Yield on home loans was 11.7% and on LAP was 15.2%.

Outlook and valuation: Repco is a play on the structural growth in the mortgage market with its niche focus on the under-served self-employed segment in smaller towns and cities in India. We expect loan book CAGR to +29% over FY16-18, which in turn will drive earnings CAGR of 27%. At CMP, the stock trades at 4.8x/4.1x FY17/18 ABVPS. Given the recent increase in the stock price, it factors in the broader fundamentals of the company, hence we are downgrading the stock to **Neutral** (Earlier Buy), and maintain the price target of Rs 800 per share valuing it at 3.9x FY18 ABVPS.

Neutral (Downgrade)

CMP RS 829 / TARGET RS 800 (-3%)

COMPANY DATA

O/S SHARES (MN) :	63
MARKET CAP (RSBN) :	53
MARKET CAP (USDBN) :	0.8
52 - WK HI/LO (RS) :	870 / 552
LIQUIDITY 3M (USDMN) :	0.8
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	37.1	37.1	37.2
FII / NRI :	26.5	28.4	30.2
FI / MF :	22.5	19.2	17.5
NON PRO :	3.4	3.7	3.6
PUBLIC & OTHERS :	10.4	11.5	11.6

Key Financials

Rs mn	FY16	FY17E	FY18E
Net Profit	1,501	1,905	2,422
% growth	21.9	26.9	27.1
EPS (Rs)	24.0	30.4	38.5
Adj BVPS (Rs)	146.8	171.9	203.9
ROE (%)	17.0	18.3	19.5
ROA (%)	2.2	2.1	2.1
P/E (x)	34.5	27.2	21.6
Adj P/BV (x)	5.6	4.8	4.1

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
NII	3.8	4.7	0.0	0.0
PPP	3.3	4.3	0.0	0.0
Core PAT	1.9	2.4	0.0	0.0
EPS (Rs)	30.4	38.5	0.0	0.0

Manish Agarwalla, Paresh Jain,
Pradeep Agrawal

(Rs bn)	Q1FY17	Q1FY16	yoy %	Q3FY16	qoq %	vs. expect. %	Comments
Net interest income	840	664	26.5	852	-1.4	-2.0	NII marginally below expectation due to lower than expected loan growth
NIM (%)	4.3	4.3	0	4.6 (30 bps)		(3 bps)	Sequential decline in NIM due to increase in cost of borrowing by 10 bps
Spread (%)	2.9	2.9	5 bps	3.0 (10 bps)			Spread declined 10bps qoq due to increase in cost of borrowing
Disbursement	5997	5801	3.4	8975	-33.2		Sanctions and disbursement was impacted due to recent state elections
Loan	79593	63442	25.5	76912	3.5	-2.0	Growth driven by LAP and Home loans at 33% yoy and 24% yoy respectively
Home loan	63595	51388	23.8	61683	3.1		Non salaried and salaried comprised of 59% and 41% of total loans.
LAP	15998	12054	32.7	15229	5.1		LAP comprised of 20% of loans, home loans comprised of 80% of loans
Borrowings	67696	54308	24.7	65379	3.5		NHB borrowings comprises of 20% and bank borrowing comprises of 70%
Banks(%)	70	77 (642 bps)		80 (955 bps)			
Operating expenses	149	154	-3.5	153	-2.9	-20.8	Employee expenses declined as ESOP expenses were not amortised
cost to income ratio (%)	16.2	21.1 (490 bps)		19.3 (310 bps)		(571 bps)	Cost-income ratio declined due to lower employee expenses
Provision	179	113	59.0	140	28.3	32.8	Provision for NPA (Rs 170 mn), std assets (Rs 8 mn), write-offs (Rs 1mn)
PBT	592	463	27.8	650	-9.0	-4.6	
tax	196	161	22.2	228	-13.8	-8.8	
PAT	395	302	30.8	422	-6.4	-2.4	PAT was marginally lower than estimate due to higher provisions
GNPA %	2.2	2.2	0	1.3	91 bps		Overall asset quality stable yoy, but LAP NPA increased yoy
NNPA %	1.2	1.3 (7 bps)		0.5	154.2		PCR improved to 45.8% from 42.4% in Q1FY16

Q1FY17 results

Rs mn	Q1FY17	Q1FY16	Q4FY16	yoy (%)	qoq (%)
Interest income	2389	1935	2312	23.5	3.3
Interest expenses	1550	1271	1460	21.9	6.1
Net Interest Income	839.7	663.8	851.9	26.5	-1.4
NIM (%)	4.3	4.3	4.6	0.0	-0.3
Other Income	80	66	91	20.9	-12.3
Total Income	920	730	943	26.0	-2.5
Operating Expenses	149	154	153	-3.5	-2.9
Cost/Income (%)	17.7	23.2	18.0	-5.5	-0.3
Pre Provision Profits	771	576	790	33.9	-2.4
Provisions & contingencies	179	113	140	59.0	28.3
Profit before tax	592	463	650	27.8	-9.0
Provision for taxes	196	161	228	22.2	-13.8
<i>% of PBT</i>	33.2	34.7	35.0	-1.5	-1.9
Profit after tax	395.3	302.3	422.2	30.8	-6.4
EPS	6.3	4.9	6.8	30.3	-6.4
Loan Book	79593	63442	76912	25.5	3.5
Borrowings	67696	54308	65379	24.7	3.5
Disbursements	5997	5801	8975	3.4	-33.2
Sanctions	6783	6617	9342	2.5	-27.4
Gross NPAs	1770	1406	1009	25.9	75.5
Gross NPAs (%)	2.22	2.22	1.31	0.00	0.91
Net NPAs	959	810	368	18.4	160.6
Net NPAs (%)	1.22	1.29	0.48	-0.07	0.74

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Interest income	6,695	8,521	10,733	13,719
Interest expenses	4,318	5,483	6,983	9,004
NII	2,377	3,039	3,750	4,715
Other income	235	297	385	500
Total income	2,613	3,336	4,136	5,215
Employee Expenses	335	409	507	618
Other Expenses	212	234	279	332
Operating expenses	547	643	785	949
PPP	2,065	2,693	3,350	4,266
Provisions	203	392	468	601
Pre tax profit	1,862	2,301	2,882	3,665
Tax expense	631	800	977	1,242
PAT	1,231	1,501	1,905	2,422

Balance Sheet

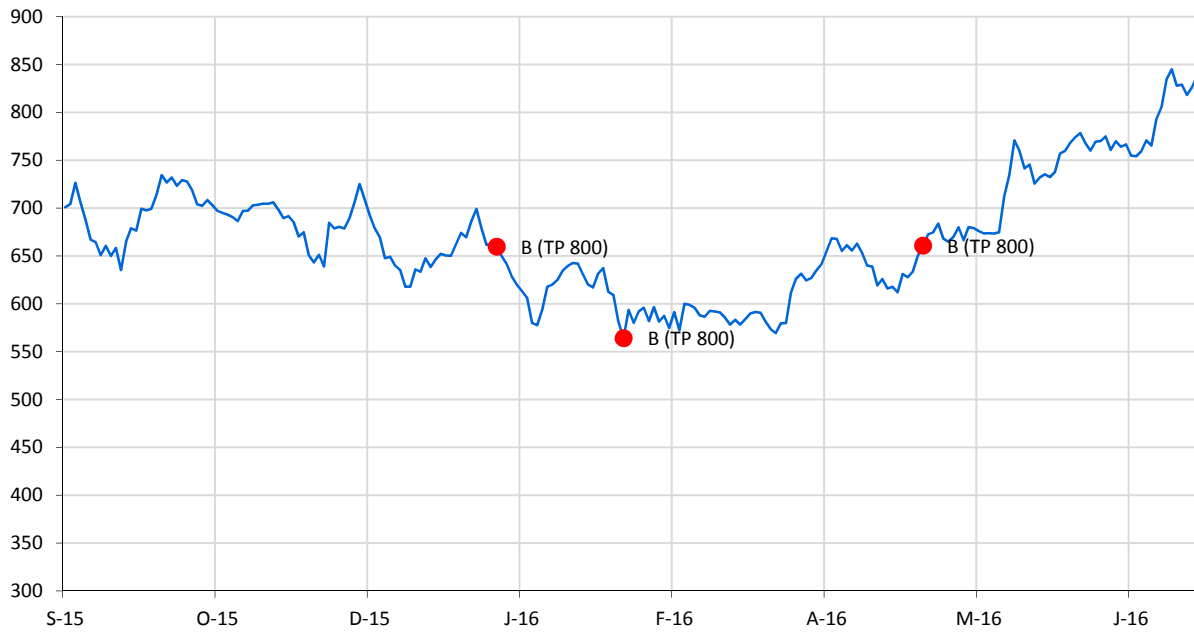
Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & Bank Balances	175	200	243	291
Loans & Advances	60,229	76,912	98,980	1,27,123
Investments	124	124	149	176
Fixed Assets	89	93	116	145
Other Assets	139	303	361	587
Total assets	60,757	77,632	99,849	1,28,321
Share capital	624	625	627	630
Reserves & Surplus	7,497	8,923	10,669	12,908
Networth	8,121	9,548	11,296	13,538
Borrowings	51,044	65,379	85,576	1,11,114
Other liabilities	724	1,488	1,577	2,129
Provision	867	1,217	1,400	1,540
Total liabilities	60,757	77,632	99,849	1,28,321

Valuation Ratios

	FY15	FY16	FY17e	FY18e
Per share data				
No. of shares	62.4	62.5	62.7	63.0
EPS	19.7	24.0	30.4	38.5
BV	130.2	152.7	180.1	214.9
Adj BVPS	125.5	146.8	171.9	203.9
DPS	1.5	1.8	2.1	2.4
Growth ratios				
Advances	29.0	27.7	28.7	28.4
Borrowings	30.8	28.1	30.9	29.8
NII	24.1	27.8	23.4	25.7
PPP	20.2	30.4	24.4	27.3
PAT	11.8	21.9	26.9	27.1
Margins				
Yield on funds	12.5	12.4	12.2	12.1
Cost of deposits	9.6	9.4	9.3	9.2
Spreads	3.0	3.0	3.0	3.0
NIMs	4.5	4.4	4.3	4.2
Cost ratios				
Cost to income	21.0	19.3	19.0	18.2
Cost to average assets	1.0	0.9	0.9	0.8
Return ratios				
RoA	2.3	2.2	2.1	2.1
RoE	15.9	17.0	18.3	19.5
Valuations				
P/E	32.2	26.5	20.9	16.5
P/Adj BV	5.1	4.3	3.7	3.1
Asset quality & CRAR				
GNPA	1.3	1.3	1.5	1.7
NNPA	0.5	0.5	0.5	0.5
Provision coverage Ratio	62.4	63.2	65.8	67.4
CRAR	20.3	20.7	18.2	17.0

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles	IT Services	Pharma & Speciality Chem
Dhawal Doshi (9122) 6667 9769	Vibhor Singhal (9122) 6667 9949	Surya Patra (9122) 6667 9768
Nitesh Sharma, CFA (9122) 6667 9965	Shyamal Dhruve (9122) 6667 9992	Mehul Sheth (9122) 6667 9996
Banking, NBFCs	Infrastructure	Strategy
Manish Agarwalla (9122) 6667 9962	Vibhor Singhal (9122) 6667 9949	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Pradeep Agrawal (9122) 6667 9953	Deepak Agarwal (9122) 6667 9944	Anindya Bhowmik (9122) 6667 9764
Paresh Jain (9122) 6667 9948	Logistics, Transportation & Midcap	Telecom
Consumer & Retail	Vikram Suryavanshi (9122) 6667 9951	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Naveen Kulkarni, CFA, FRM (9122) 6667 9947	Media	Manoj Behera (9122) 6667 9973
Jubil Jain (9122) 6667 9766	Manoj Behera (9122) 6667 9973	Technicals
Preeyam Tolia (9122) 6667 9950	Metals	Subodh Gupta, CMT (9122) 6667 9762
Cement	Dhawal Doshi (9122) 6667 9769	Production Manager
Vaibhav Agarwal (9122) 6667 9967	Yash Doshi (9122) 6667 9987	Ganesh Deorukhkar (9122) 6667 9966
Economics	Midcap	Editor
Anjali Verma (9122) 6667 9969	Amol Rao (9122) 6667 9952	Roshan Sony 98199 72726
Engineering, Capital Goods	Mid-Caps & Database Manager	Sr. Manager – Equities Support
Jonas Bhutta (9122) 6667 9759	Deepak Agarwal (9122) 6667 9944	Rosie Ferns (9122) 6667 9971
Vikram Rawat (9122) 6667 9986	Oil & Gas	
Sales & Distribution	Sabri Hazarika (9122) 6667 9756	
Ashvin Patil (9122) 6667 9991	Sales Trader	
Shubhangi Agrawal (9122) 6667 9964	Dilesh Doshi (9122) 6667 9747	
Kishor Binwal (9122) 6667 9989	Suniil Pandit (9122) 6667 9745	
Bhavin Shah (9122) 6667 9974	Execution	
Ashka Mehta Gulati (9122) 6667 9934	Mayur Shah (9122) 6667 9945	
Archan Vyas (9122) 6667 9785		

Contact Information (Regional Member Companies)

SINGAPORE: Phillip Securities Pte Ltd 250 North Bridge Road, #06-00 RafflesCityTower, Singapore 179101 Tel : (65) 6533 6001 Fax: (65) 6535 3834 www.phillip.com.sg	MALAYSIA: Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3, Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel (60) 3 2162 8841 Fax (60) 3 2166 5099 www.poems.com.my	HONG KONG: Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel (852) 2277 6600 Fax: (852) 2868 5307 www.phillip.com.hk
JAPAN: Phillip Securities Japan, Ltd 4-2 Nihonbashi Kabutocho, Chuo-ku Tokyo 103-0026 Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141 www.phillip.co.jp	INDONESIA: PT Phillip Securities Indonesia ANZTower Level 23B, Jl Jend Sudirman Kav 33A, Jakarta 10220, Indonesia Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809 www.phillip.co.id	CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd. No 550 Yan An East Road, OceanTower Unit 2318 Shanghai 200 001 Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940 www.phillip.com.cn
THAILAND: Phillip Securities (Thailand) Public Co. Ltd. 15th Floor, VorawatBuilding, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921 www.phillip.co.th	FRANCE: King & Shaxson Capital Ltd. 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017 www.kingandshaxson.com	UNITED KINGDOM: King & Shaxson Ltd. 6th Floor, Candlewick House, 120 Cannon Street London, EC4N 6AS Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835 www.kingandshaxson.com
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Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013