

# RepcO Home Finance (REPCO IN)

Strong NII and lower opex drives performance

INDIA | NBFCs | Quarterly Update

13 May 2016

## Top takeaways from Q4FY16

- ✓ Repco's operating performance was ahead of our expectation led by higher-than-expected NII growth and lower employee expenses. However, due to higher NPA provisions, PAT was in line.
- ✓ NII growth (29% yoy) was ahead of our expectation, led by strong loan growth (28% yoy), and higher than expected NIM.
- ✓ NIM at 4.6% was flat yoy, while it improved by 14bps sequentially due to decline in cost of funds.
- ✓ Asset quality improved sharply as GNPA ratio declined 98 bps qoq 1.31%, while NNPA ratio declined 88bps qoq to 0.48%, improvement was driven by strong recoveries in the non salaried loan segment.

## Key highlights

- Loan book grew 28% yoy, driven by 27% yoy growth in home loans and 32% growth in LAP, which constituted 20% of total loans while home loans constituted 80%.
- Loan sanctions in Q3 increased 12% yoy, while disbursement grew 20% yoy. Disbursement in LAP was Rs 2.4bn and disbursement in home loan was Rs6.5bn.
- Operating expenses declined (-7% yoy) led by 17% decline in employee expenses as ESOP expenses were not amortized in Q4 and there was a reversal of Rs 15mn in gratuity and leave encashment, leading to higher operating profit.

## Management comments / concall takeaways

- Segment wise, home loans/LAP saw NPAs of 1.15%/1.96%. Customer-wise salaried NPA for Home loan /LAP were 0.68/0.75 and for non-salaried it was 2.23%/1.5%.
- Incremental ticket sizes for home/LAP were Rs 1.5/2.8 mn.
- Yield on home loans was 11.8% and on LAP was 15.50%.
- Funds borrowed from NHB will be deployed for a spread of 3.5%, which will help in maintaining spread.

**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. The immense opportunity in less-competitive rural housing and the company's strong execution skills will accelerate loan book CAGR to +29% over FY16-18, which in turn will drive earnings CAGR of 27%. At CMP, the stock trades at 3.8x/3.2x FY17/18 ABVPS. We maintain Buy with price target of Rs 800, valuing it at 3.9x FY18 ABVPS of Rs 204.

## BUY (Maintain)

CMP RS 662 / TARGET RS 800 (+21%)

### COMPANY DATA

O/S SHARES (MN) :	63
MARKET CAP (RSBN) :	40
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	785 / 570
LIQUIDITY 3M (USDMN) :	0.6
PAR VALUE (RS) :	10

### SHARE HOLDING PATTERN, %

	Sep 15	Jun 15	Mar 15
PROMOTERS :	37.3	37.3	37.3
FII / NRI :	31.7	30.4	30.9
FI / MF :	16.9	16.4	16.0
NON PRO :	5.0	5.5	5.2
PUBLIC & OTHERS :	10.7	12.1	12.2

### 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)	26.5	20.9	16.5
Adj P/BV (x)	4.5	3.8	3.2

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
NII	3.8	4.7	0.6	1.0
PPP	3.3	4.3	2.9	2.7
Core PAT	1.9	2.4	-1.1	0.1
EPS (Rs)	30.3	38.4	-1.0	0.1

Manish Agarwalla, Paresh Jain,  
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(Rs bn)	Q4FY16	Q4FY15	yoy %	Q3FY16	qoq %	vs. expect. %	Comments
Net interest income	852	662	28.7	780	9.3	5.1	NII driven by 30% growth in loan book and better than expected NIM
NIM (%)	4.6	4.6	0	4.4	20 bps	45 bps	Sequential improvement in NIM was driven by decline in cost of funds
Spread (%)	3.0	2.9	10 bps	3.0	0		Spreads continue to remain healthy at 3%
Disbursement	8975	7505	19.6	5974	50.2		Individual disbursement was weak, while LAP reported strong disbursement
Loan	76912	60128	27.9	71544	7.5	-1.6	Growth driven by LAP and Home loans at 31% yoy and 27% yoy respectively
Home loan	61683	48583	27.0	57951	6.4		Non salaried and salaried comprised of 59% and 41% of total loans respectively
LAP	15229	11545	31.9	13593	12.0		LAP comprised of 19.8% of loans, home loans comprised of 80.2% of loans
Borrowings	65379	51044	28.1	60991	7.2		NHB borrowings comprises of 14% and bank borrowing comprises of 79%
Banks(%)	80	75	453 bps	71	896 bps		
Operating expenses	153	165	-7.1	160	-4.5	-25.2	Employee expenses declined as ESOP expenses were not amortised in Q3FY16
cost to income ratio (%)	19.3	21.0 (170 bps)		20.5 (120 bps)		(598 bps)	Cost-income ratio declined due to lower employee expenses
Provision	140	62	124.8	92	51.5	154.2	Provision for NPA ( Rs 109 mn), std assets (Rs 28 mn), write-offs (Rs 3mn)
PBT	650	520	25.0	591	10.1	0.0	
tax	228	172	32.5	205	11.3	0.9	
PAT	422	348	21.3	386	9.4	-0.6	PAT was in-line with estimate
GNPA %	1.3	1.3 (1 bps)		2.3 (98 bps)			Asset quality improvement driven by recovery in the non-salaried segment
NNPA %	0.5	0.5 (2 bps)		1.4 (88 bps)			PCR improved to 63.5% from 33.3% in Q3FY16

**Q4FY16 results**

Rs mn	Q4FY16	Q4FY15	Q3FY16	yoy (%)	qoq (%)
Interest income	2312	1830	2191	26.3	5.5
Interest expenses	1460	1168	1411	25.0	3.4
<b>Net Interest Income</b>	<b>851.9</b>	<b>662.0</b>	<b>779.5</b>	28.7	9.3
<b>NIM (%)</b>	4.6	4.6	4.5	<b>0.0</b>	<b>0.1</b>
Other Income	91	85	64	7.1	43.0
<b>Total Income</b>	<b>943</b>	<b>747</b>	<b>843</b>	26.2	11.8
Operating Expenses	153	165	160	-7.1	-4.5
Cost/Income (%)	18.0	24.9	20.6	<b>-6.9</b>	<b>-2.6</b>
<b>Pre Provision Profits</b>	<b>790</b>	<b>582</b>	<b>683</b>	35.7	15.7
Provisions & contingencies	140	62	92	124.8	51.5
<b>Profit before tax</b>	<b>650</b>	<b>520</b>	<b>591</b>	25.0	10.1
Provision for taxes	228	172	205	32.5	11.3
<i>% of PBT</i>	35.0	33.1	34.7	<b>2.0</b>	<b>0.4</b>
<b>Profit after tax</b>	<b>422.2</b>	<b>348.1</b>	<b>385.8</b>	21.3	9.4
EPS	6.8	5.6	6.2	21.0	9.2
Loan Book	76912	60128	71544	27.9	7.5
Borrowings	65379	51044	60991	28.1	7.2
Disbursements	8975	7505	5974	19.6	50.2
Sanctions	9342	8346	6290	11.9	48.5
Gross NPAs	1009	791	1639	27.5	-38.5
<b>Gross NPAs (%)</b>	<b>1.31</b>	<b>1.32</b>	<b>2.29</b>	<b>-0.01</b>	<b>-0.98</b>
Net NPAs	368	298	1094	23.5	-66.4
<b>Net NPAs (%)</b>	<b>0.48</b>	<b>0.50</b>	<b>1.36</b>	<b>-0.02</b>	<b>-0.88</b>

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
<b>NII</b>	<b>2,377</b>	<b>3,039</b>	<b>3,750</b>	<b>4,715</b>
Other income	235	297	385	500
Total income	<b>2,613</b>	<b>3,336</b>	<b>4,136</b>	<b>5,215</b>
Employee Expenses	335	409	507	618
Other Expenses	212	234	279	332
Operating expenses	547	643	785	949
<b>PPP</b>	<b>2,065</b>	<b>2,693</b>	<b>3,350</b>	<b>4,266</b>
Provisions	203	392	468	601
<b>Pre tax profit</b>	<b>1,862</b>	<b>2,301</b>	<b>2,882</b>	<b>3,665</b>
Tax expense	631	800	977	1,242
<b>PAT</b>	<b>1,231</b>	<b>1,501</b>	<b>1,905</b>	<b>2,422</b>

### Balance Sheet

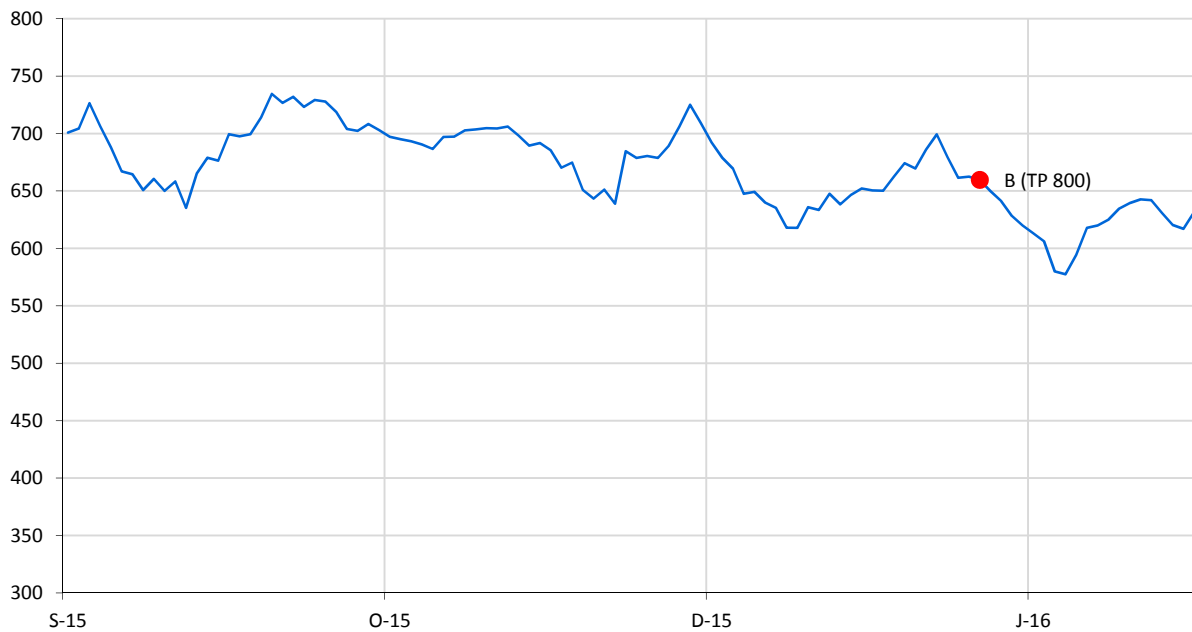
Y/E Mar, Rs mn	FY15	FY16	FY17e	FY18e
Cash & Bank Balances	175	200	243	291
Loans & Advances	60,229	76,912	98,980	1,27,123
Investments	124	124	149	176
Fixed Assets	89	93	116	145
Other Assets	139	303	361	587
<b>Total assets</b>	<b>60,757</b>	<b>77,632</b>	<b>99,849</b>	<b>1,28,321</b>
Share capital	624	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
<b>Total liabilities</b>	<b>60,757</b>	<b>77,632</b>	<b>99,849</b>	<b>1,28,321</b>

### Valuation Ratios

	FY15	FY16	FY17e	FY18e
<b>Per share data</b>				
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
<b>Growth ratios</b>				
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
<b>Margins</b>				
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
<b>Cost ratios</b>				
Cost to income	21.0	19.3	19.0	18.2
Cost to average assets	1.0	0.9	0.9	0.8
<b>Return ratios</b>				
RoA	2.3	2.2	2.1	2.1
RoE	15.9	17.0	18.3	19.5
<b>Valuations</b>				
P/E	32.2	26.5	20.9	16.5
P/Adj BV	5.1	4.3	3.7	3.1
<b>Asset quality &amp; CRAR</b>				
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%.

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