

# Repc Home Finance

BUY

CMP Rs303

Target Rs420

Upside 38.5%

## Our view - Asset quality recovery pivotal for valuation re-rating

Though Repco's PPOP performance was in-line with our estimates, a higher credit cost from increase in the stress pool (GNPL + OTR at 9.5%) depressed the earnings. Company restructured 5.2% of the portfolio; primarily accounts which were regular or in Stage-1 on March 31. OTR 2.0 portfolio comprises 85% Home Loans (mainly SE customers) and 15% LAP. The classification of OTR assets in Stage-2 led to increase in this pool from 8-9% as of March to ~11.5% as of June. Stage-3/GNPLs increased from 3.7% to 4.4% on account of slippages from Stage-2 bucket.

The collection efficiency was impacted during the quarter due to the second pandemic wave and a higher impact on Repco's portfolio due to concentration of semi-formal salaried and self-employed customers and the Southern markets which had a prolonged impact. Collection efficiency in June was around 90% (w/o arrears and excl. demand of restructured assets) and it has improved in July. Credit cost in Q1 FY22 was higher due to significant restructuring (mandated 10% provisions) and increase in Stage-3 (ECL cover marginally raised). Management expects incremental provisions of Rs200-250mn in remainder of the fiscal in the absence of third wave.

As we factor lower growth (sluggish disbursement acceleration + persistence of significant BT Out) and build higher credit cost, we revise earnings/BV estimates downwards by 15%/5% for FY22. While anemic growth had been a consistent feature over the past many quarters, the deterioration in asset quality (in the absence of moratorium) could preclude stock's valuation (0.8x FY23 P/ABV) from re-rating materially. Thus, key monitorable will be collection efficiency trends which would reflect upon the performance of the stress pool. Retain BUY, but lower 12m PT to Rs420.

### Exhibit 1: Result table

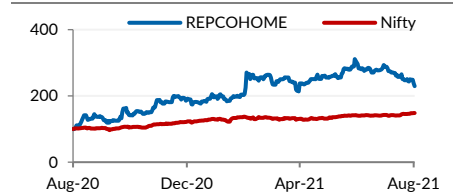
Particulars (Rs mn)	Q1FY22	Q4FY21	yoy%	Q1FY21	qoq%
Total Op. Income	3,201	3,332	(3.9)	3,377	(5.2)
Interest Expenses	(1,757)	(1,855)	(5.2)	(2,104)	(16.5)
Net Interest Income	1,444	1,477	(2.2)	1,273	13.4
Other income	23	72	(68.3)	42	(45.8)
Total Income	1,467	1,549	(5.3)	1,315	11.5
Operating expenses	(246)	(361)	(31.8)	(235)	4.5
PPOP	1,221	1,188	2.7	1,080	13.0
Provisions	(783)	(292)	167.9	(221)	253.8
PBT	437	896	(51.2)	859	(49.1)
Tax	(116)	(264)	(56.0)	(219)	(46.9)
PAT	321	632	(49.2)	640	(49.8)

Source: Company, YES Sec

### Stock data (as on Aug 17, 2021)

Nifty:	16,615
52 Week h/l (Rs)	430 / 131
Market cap (Rs/USD mn)	18925 / 255
Outstanding Shares	63
6m Avg. t/o (Rs mn):	74
Div. yield (%):	0.8
Bloomberg code:	REPCO IN
NSE code:	REPCOHOME

### Stock performance



	1M	3M	1Y
Absolute return	-20.2%	-9.8%	133.9%

### Shareholding pattern

Promoter	37.1%
FII+DII	39.9%
Others	23.0%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	420	475

### Financial Summary

Rs mn	FY22E	FY23E	FY24E
Op. income	5,735	5,867	6,316
PPOP	4,532	4,556	4,887
Net profit	2,524	2,985	3,202
Growth (%)	(12.2)	18.3	7.3
EPS (Rs)	40.3	47.7	51.2
ABVPS (Rs)	314.9	366.8	415.2
P/E (x)	7.5	6.4	5.9
P/ABV (x)	1.0	0.8	0.7
ROAE (%)	11.6	12.3	11.8
ROAA (%)	2.0	2.3	2.3
CAR (%)	31.5	33.5	34.6

### Δ in earnings estimates

	FY22E	FY23E	FY24E
EPS (New)	40.3	47.7	51.2
EPS (Old)	47.7	49.3	51.4
% change	-15.4%	-3.2%	-0.4%

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## KEY CON-CALL HIGHLIGHTS

### Asset Quality - NPLs, Restructuring & Provisions

- ✓ Stage-1/Stage-2 at 85%/11.5% as of June v/s 87-88%/8-9% as of March.
- ✓ June collection efficiency at 90% incl. arrears on demand from all customers - collection efficiency in July was higher.
- ✓ OTR 2.0 of 5.2% (Rs6.2bn) classified in Stage-2 and provided at 10% (Rs620mn) in Q1 FY22 - Management expects negligible incremental restructuring.
- ✓ Bulk of OTR 2.0 customers were in Stage-1 bucket as of March - nature of restructuring largely was a 1-year moratorium on the EMI.
- ✓ OTR 2.0 portfolio comprises 85% Home Loans (mainly SE customers) and 15% LAP.
- ✓ OTR 2.0 has been in-line with Management guidance spelled out in Q4 FY21 earnings call - must be looked in the context of 75% portfolio peak moratorium after Covid 1.0 but an eventual GNPL of 4% by the end of FY21.
- ✓ P&L provisions of Rs780mn was a product of a) Rs620mn for OTR 2.0, b) Rs320mn reversal from rollbacks/resolution in Stage-2 and c) net provisioning of Rs500mn on Stage-3 assets.
- ✓ Management expects incremental credit cost for the year to be at Rs200-250mn if there is no third wave - with an underlying aim to reduce GNPL to near 3.5% by March 2022.

### Growth & Margins

- ✓ Repco expects loan growth to resume from Q3 FY22.
- ✓ BT Out is generally Rs900mn per month.
- ✓ Cost of Funds likely to remain benign for next couple of quarters.
- ✓ In normal course, the company would add 15 branches every year.
- ✓ NIM will be maintained in the range of 4.25-4.5% in the longer run and Spread above 3%.
- ✓ Company aspires to double the book (reach Rs240bn) in the next five years.

### Exhibit 2: Key ratios

(%)	Q1 FY22	Q4 FY21	chg qoq	Q1 FY21	chg yoy
NIM	4.8	4.8	-	4.3	0.5
Yield	10.6	11.0	(0.4)	11.3	(0.7)
Cost of Funds	7.0	7.3	(0.3)	8.3	(1.3)
Spread	3.7	3.8	(0.1)	3.0	0.7
Cost to Income	16.8	23.3	(6.5)	17.9	(1.1)
Gross NPA	4.4	3.7	0.7	4.0	0.4
ECL	3.1	2.4	0.7	2.0	1.1
Cum. RoA	1.1	2.4	(1.3)	2.2	(1.1)
Cum. RoE	6.6	16.0	(9.4)	15.0	(8.4)

Source: Company, YES Sec

### Exhibit 3: Business data

(Rs mn)	Q1 FY22	Q4 FY21	% qoq	Q1 FY21	% yoy
AUM	119,855	121,215	(1.1)	119,795	0.1
Sanctions	2,012	6,459	(68.8)	1,615	24.6
Disbursements	2,397	6,404	(62.6)	1,816	32.0
<b>Customer Mix</b>					
Salaried	48.5	48.5	-	48.3	0.2
Non-Salaried	51.5	51.5	-	51.7	(0.2)
<b>Product Mix</b>					
HL	81.3	81.3	-	81.7	(0.4)
LAP	18.7	18.7	-	18.3	0.4
<b>Geographical Mix</b>					
Tamil Nadu	66,759	67,153	(0.6)	66,965	(0.3)
Non-Tamil Nadu	53,096	54,062	(1.8)	52,830	0.5
Karnataka	16,300	16,728	(2.6)	16,891	(3.5)
Maharashtra	11,626	11,637	(0.1)	11,021	5.5
Andhra Pradesh	7,071	7,273	(2.8)	7,307	(3.2)
Telangana	5,633	5,576	1.0	5,511	2.2

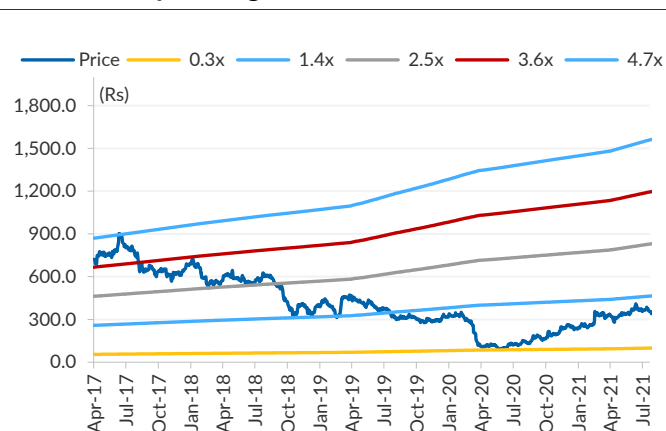
Source: Company, YES Sec

### Exhibit 4: GNPA mix

(%)	Q1 FY22	Q4 FY21	chg qoq	Q1 FY21	chg yoy
HL GNPA %	3.9	3.2	0.7	3.5	0.4
LAP GNPA %	6.9	5.6	1.3	6.4	0.5
Salaried GNPA %	1.8	1.4	0.4	1.5	0.3
Non-Salaried GNPA %	6.9	5.8	1.1	6.4	0.5
<b>Aggregate GNPA</b>	<b>4.4</b>	<b>3.7</b>	<b>0.7</b>	<b>4.0</b>	<b>0.4</b>

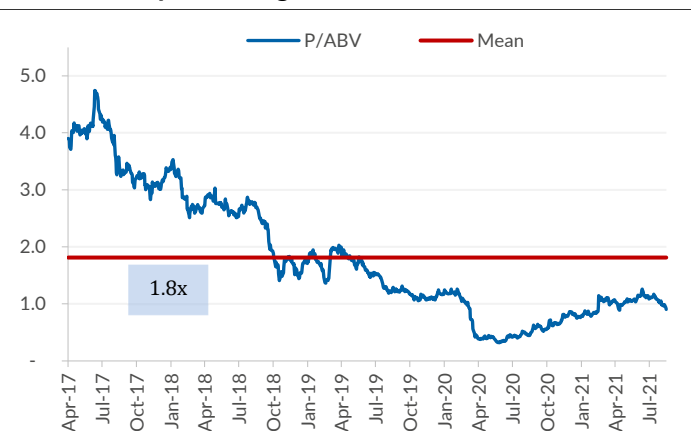
Source: Company, YES Sec

### Exhibit 5: 1-yr rolling P/ABV band



Source: Company, YES Sec

### Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Equity Capital	626	626	626	626	626
Reserves	17,243	19,967	22,308	25,110	28,129
<b>Shareholder's funds</b>	<b>17,869</b>	<b>20,593</b>	<b>22,934</b>	<b>25,735</b>	<b>28,755</b>
Provisions	159	212	212	212	212
Deferred Tax Liabilities	358	397	397	397	397
<b>Total Non-Financial liabilities</b>	<b>518</b>	<b>609</b>	<b>609</b>	<b>609</b>	<b>609</b>
Debt Securities	6,802	0	0	0	0
Borrowings (Excl. Debt Sec.)	94,288	101,974	100,444	104,462	112,297
Other Financial Liabilities	463	484	493	523	573
<b>Total Financial liabilities</b>	<b>101,553</b>	<b>102,458</b>	<b>100,938</b>	<b>104,985</b>	<b>112,869</b>
<b>Total Equities and Liabilities</b>	<b>119,939</b>	<b>123,659</b>	<b>124,480</b>	<b>131,329</b>	<b>142,233</b>
<b>Assets</b>					
Cash and Cash Equivalents	3,243	4,550	4,124	4,361	4,341
Loans	115,877	118,356	119,551	126,106	136,966
Investments in Associates	220	220	220	220	220
Other Financial Assets	101	125	137	151	166
<b>Total Financial assets</b>	<b>119,442</b>	<b>123,250</b>	<b>124,032</b>	<b>130,838</b>	<b>141,694</b>
Property, Plant and Equipment	142	123	135	149	163
Other Intangible Assets	23	16	16	16	16
Other Non-Financial Assets	333	270	297	327	360
<b>Total Non-Financial assets</b>	<b>498</b>	<b>409</b>	<b>448</b>	<b>492</b>	<b>539</b>
<b>Total Assets</b>	<b>119,939</b>	<b>123,659</b>	<b>124,480</b>	<b>131,329</b>	<b>142,233</b>

Source: Company, YES Sec

### Exhibit 8: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22E	FY23E	FY24E
Income from Operations	13,455	13,735	13,028	13,406	14,406
Interest expense	(8,250)	(8,072)	(7,414)	(7,659)	(8,211)
<b>Net interest income</b>	<b>5,205</b>	<b>5,662</b>	<b>5,615</b>	<b>5,747</b>	<b>6,196</b>
Non-interest income	56	188	120	120	120
Total op income	5,261	5,850	5,735	5,867	6,316
Total op expenses	(1,065)	(1,144)	(1,203)	(1,310)	(1,428)
<b>PPoP</b>	<b>4,196</b>	<b>4,706</b>	<b>4,532</b>	<b>4,556</b>	<b>4,887</b>
Provisions	(594)	(808)	(1,157)	(566)	(606)
Profit before tax	3,602	3,898	3,374	3,990	4,281
Taxes	(798)	(1,022)	(850)	(1,006)	(1,079)
<b>Net profit</b>	<b>2,804</b>	<b>2,876</b>	<b>2,524</b>	<b>2,985</b>	<b>3,202</b>

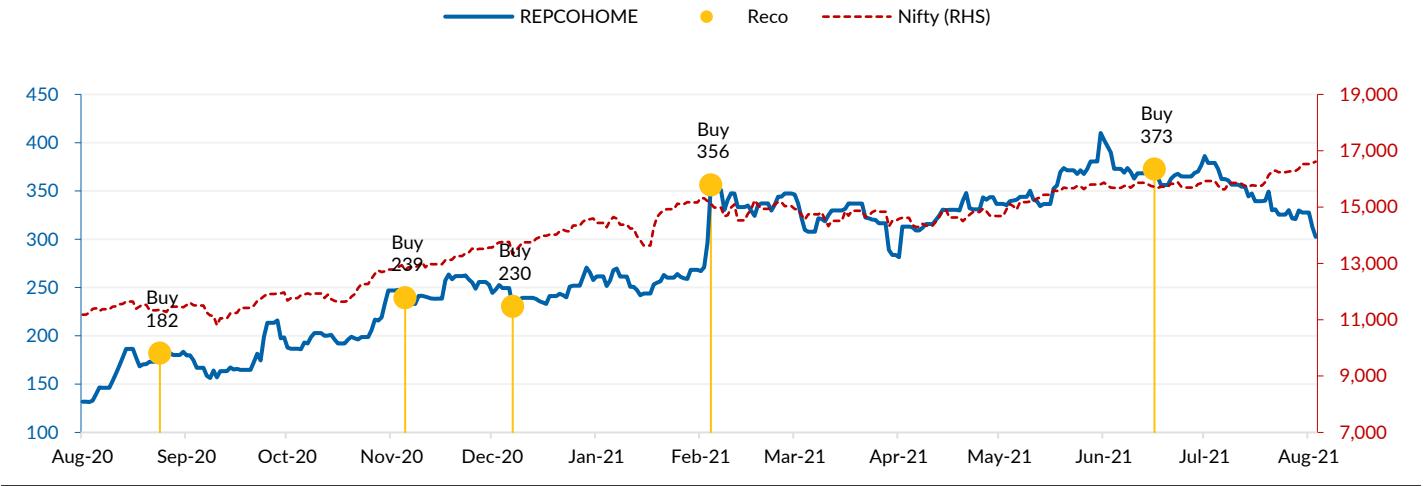
Source: Company, YES Sec

## Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
<b>Growth matrix (%)</b>					
Net interest income	10.9	8.8	(0.8)	2.4	7.8
Total op income	10.7	11.2	(2.0)	2.3	7.7
Op profit (pre-provision)	11.4	12.1	(3.7)	0.5	7.3
Net profit	19.5	2.6	(12.2)	18.3	7.3
Loans	6.9	2.1	1.0	5.5	8.6
Borrowings + Debt	8.1	0.9	(1.5)	4.0	7.5
Total assets	9.5	3.1	0.7	5.5	8.3
<b>Profitability Ratios (%)</b>					
NIM	4.6	4.7	4.6	4.6	4.6
Non-interest income /Total income	1.1	3.2	2.1	2.0	1.9
Return on Avg. Equity	16.9	15.0	11.6	12.3	11.8
Return on Avg. Assets	2.4	2.4	2.0	2.3	2.3
<b>Per share ratios (Rs)</b>					
EPS	44.8	46.0	40.3	47.7	51.2
Adj. BVPS	233.1	286.2	314.9	366.8	415.2
DPS	2.5	2.5	2.5	2.5	2.5
<b>Other key ratios (%)</b>					
Loans/Borrowings	114.6	116.1	119.0	120.7	122.0
Cost/Income	20.2	19.6	21.0	22.3	22.6
CAR	25.9	28.5	31.5	33.5	34.6
Gross Stage 3	4.3	3.7	4.4	3.6	3.3
Credit Cost	0.5	0.7	1.0	0.5	0.5
Tax rate	22.2	26.2	25.2	25.2	25.2

Source: Company, YES Sec

## Recommendation Tracker



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