

Stock Update Repco Home Finance Ltd.

August 22, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
NBFC-HFC	Rs. 402.5	Buy between Rs. 398-407 band & add more on dips to Rs. 353-361 band	Rs. 447	Rs. 491	2-3 quarters

HDFC Scrip Code	REPHOME
BSE Code	535322
NSE Code	REPCOHOM
Bloomberg	REPCO IN
CMP August 21, 2023	402.5
Equity Capital (Rs Cr)	62.6
Face Value (Rs)	10.0
Equity Share O/S (Cr)	6.26
Market Cap (Rs Cr)	2,516
Adjusted Book Value (Rs)	344.3
Avg. 52 Wk Volumes	368400
52 Week High	406.9
52 Week Low	168.3

Share holding Pattern % (June, 2023)	
Promoters	37.13
Institutions	32.96
Non Institutions	29.91
Total	100.00



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

India's low mortgage penetration, favorable demographics and constant government push have already created structural upswing for the affordable housing segment. Moreover, since last few months there has been a revival in demand for housing; a strong inventory absorption was supported by pent up demand, improved affordability, and certain state incentives etc. Repco Home Finance Ltd (RHFL) is one of the affordable housing finance companies that we think is well placed to capture this growth. It is a niche player in the small-ticket housing finance market. It focuses on under-served markets, especially the self-employed in Tier II and III cities. There has been noteworthy improvement in its performance in the past few quarters. New management has drawn down a concrete strategy for growth. Comfortable capital adequacy levels and healthy profitability, balanced portfolio mix, robust risk management systems and processes, strong foothold in south India with an established track record, stable and experienced senior management team bode well to capitalize on underpenetrated mortgage financing opportunity in the country.

We had a stock update report on 12th September, 2022 ([link](#)) on RHFL. Now, again we feel that investors can again enter the stock as growth prospects looks bright and valuation also stands at comfortable level. The stock is currently trading at 0.9x FY25E P/ABV.

Valuation & Recommendation:

The company took various steps to recover in FY23, such as simplification of underwriting process, decentralization of powers, improving employee morale, bringing in a target-oriented culture in terms of sanctions, disbursements, asset quality, etc. Though first quarters are generally weak for the company's business, it has still displayed healthy YoY performance. Its loan book has increased by 6% YoY, while disbursements are up 7% YoY. In terms of profitability, its NII grew by 17% YoY, while PAT grew by 44% YoY.

Its low current valuation provides a buffer for investors. We have envisaged a 12% CAGR in its loan book over FY23-25E, while the NII and PAT are expected to grow at a CAGR of 9% and 10% respectively over the same period. The company is expected to report an RoA of 2.4% by the end of FY25.

We believe that investors can buy the shares of Repco Home Finance Ltd (RHFL) between Rs. 398-407 (0.9x FY25E ABV) and add more on dips to Rs. 353-361 (0.8x FY25E ABV) for the base case fair value of Rs. 447 (1x FY25E ABV) and for the bull case fair value of Rs. 491 (1.1x FY25E ABV) over the next 2-3 quarters.



Financial Summary

	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
NII	155	133	17%	147	5%	545	568	556	584	659
PPP	125	108	16%	120	4%	471	493	452	482	547
PAT	89	62	44%	82	9%	288	192	296	315	359
EPS (Rs)	14.2	9.9	44%	13.1	9%	46.0	30.6	47.3	50.4	57.3
ABVPS						277.2	258.1	344.3	394.2	446.3
P/E (x)						8.76	13.15	8.50	7.98	7.02
P/ABV (x)						1.45	1.56	1.17	1.02	0.90
RoAA (%)						2.4%	1.6%	2.4%	2.4%	2.4%
RoAE (%)						15.0%	8.9%	12.5%	11.8%	12.0%

(Source: Company, HDFC sec)

Recent Developments

Q1FY24 Result Update

The company has reported decent performance in Q1FY24. It earned interest income of Rs. 357 crores, up 20/7% YoY/QoQ. The yield on assets stood at 11.6% up 140/50bps YoY/QoQ, while cost of funds stood at 8.2%, up 120/10bps YoY/QoQ. Hence, the resulting spread is at 3.3%, flat YoY, but up 30bps sequentially. The Net Interest Income was up 17/5% YoY/QoQ, at Rs. 155 crores. The NIM stood at 5.1% for Q1FY24, as against 5% in Q4FY23 and 4.6% in Q1FY23. It incurred opex of Rs. 39 crores, up 16/4%, which resulted in a PPOP of Rs. 125 crores, up 16/4% YoY/QoQ. The Cost-Income ratio stood flat at 23.9% in Q1FY24. Finally, the net profit grew by 9% QoQ and 44% YoY, at Rs. 89 crores, which was aided by 79/37% YoY/QoQ lower provisions. These lower provisions translate to a credit cost of 15bps.

Normally Q1 is a seasonally weak quarter for the company. In Q1FY24, the loan sanctions stood at Rs. 726 crores, up 5% YoY but down 25% QoQ and disbursements were at Rs. 684 crores, up 7% YoY and down 18% QoQ. In the current quarter, there were no direct assignments, which existed in Q1FY23 to the extent of Rs. 70 crores. When excluded, the disbursements have grown 20% YoY. Total loan book stood at Rs. 12,655 crores, up 6/2% YoY/QoQ. The average ticket size of its loan book stood at ~Rs. 12 lakhs. RoA for Q1FY24 was at 2.8% whereas the RoE was at 15.8% as against 2.7% and 14.4% respectively in Q4FY23. As of Q1FY24, GNPA/NNPA stood at 5.5%/2.8%, v/s 5.8%/3% in Q4FY23 and 6.4%/4.2% in Q1FY23.

The company reported a healthy capital adequacy ratio of 36.1%. It has employed a total of 954 employees and 1.05 lakh active loan accounts. It also has a strong distribution network comprising of 159 branches and 34 satellite centers, with additional two asset recovery branches.



Management Guidance & Comments

- The company has a target to grow its disbursements to Rs. 3,600 crores in FY24 and AUM to Rs.14,000. The management expects the company to gain momentum in terms of disbursements in subsequent quarters.
- It targets to bring the GNPA down to Rs. 100 crores in the next year, as against Rs.695crores as of June 2023.
- The management has guided for NIMs at 4.7-4.8% in FY24, as against current level of 5.1% in Q1FY24.
- In order to achieve the targeted AUM and sanctions growth, the company intends to open 10 branches, and upgrade some satellite centers in FY24. It targets to have a total network of 200 outlets, and wants to maintain its concentration of over 50% of the AUM in Tamil Nadu. It has plans to further open 6-7 satellite centers in Tamil Nadu.
- The management feels that the company has sufficient human resource to achieve the intended growth in AUM except for some new geographies, wherein it might need to get in additional staff.
- Targeted credit costs for FY24 are a maximum of Rs. 25 crores, considering healthy provision coverage ratio and contained slippages.
- During Q1FY24, the company faced BT- outs (Balance Transfer- out) to the extent of Rs. 45-50 crores as against BT-ins of Rs. 78 crores. The management credited its improved customer servicing and attractive pricing for the BT-ins. It has established a dedicated team to monitor and control its BT-outs.
- The management expects the slippages to reduce in the coming quarters, which can lead to provision reversals.
- The company expects good traction in Gujarat and Maharashtra in FY24. In the past, the growth was slow in Gujarat on account of competition, higher attrition rates and lack of brand familiarity.
- The company is undergoing organizational and structural adjustments, with the outcomes expected to become apparent in the upcoming quarters.
- Until now, the company lacked verticalization in its operations, but now, it has established its collection verticals consisting of 85 employees focusing on collections solely. The sales vertical is currently in progress, and it also plans to establish a credit vertical.
- The management feels that there is potential for further improvement in branch productivity. All branches now have dedicated sales staff exclusively for sales activities.

Key Triggers:

Momentum in Loan Book

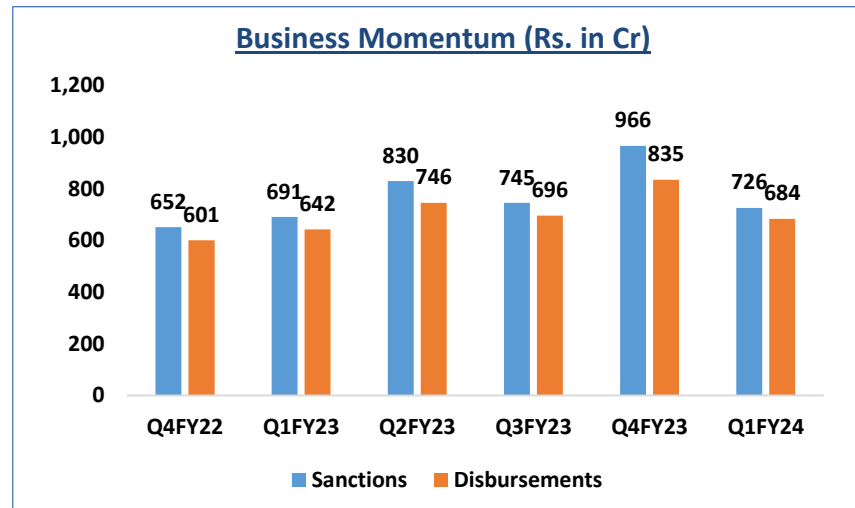
As mentioned above, the loan book of the company has grown by 7/2% YoY/QoQ. The sequential growth of 2% is in line with the sequential growth seen in Q4FY23, and better than sequential growth seen in Q3FY23 (1.1%), Q2FY23 (1.7%) and the growth rates between Q1FY21-Q1FY23 which were mostly flat. The loan sanction stood at Rs. 726 crores, up 5% YoY but down 25% QoQ and disbursements were at Rs. 684 crores, up 7% YoY and down 18% QoQ. The average ticket size of its loan book stood at ~Rs. 12 lakhs. The management believes that its increased focus on containing BT outs, new customer acquisitions, implementation of new technology, improved productivity, will help



it achieve the targeted AUM growth of 12% in FY24. Further, it targets to add 10 branches in FY24 and upgrade its existing satellite centers in order to grow its disbursements by 20% in FY24.

As of June 2023, the company has advanced 51.8% of its loans to non-salaried employees and rest 48.2% to salaried employees. This mix has almost remained same as compared to FY23. Further, the loan book consists of 76.9% home loans and rest home equities as against 79.3% home loans in Q4FY23 and 80.9% home loans in Q1FY23 (rest being home equities). Hence, the home loans book grew 2% YoY and home equities book grew by 28% YoY.

During Q1FY24, the company saw a total of Rs. 45-50 crores of Outward Balance Transfers (BT) and Rs. 78 crores of Inwards Balance Transfers. It is taking active steps to control the BT outs by staying in touch with its customers and by understanding their requirements better. Further, competitive interest rates have helped company achieve the BT ins mentioned above.



(Source: Company, HDFC sec)

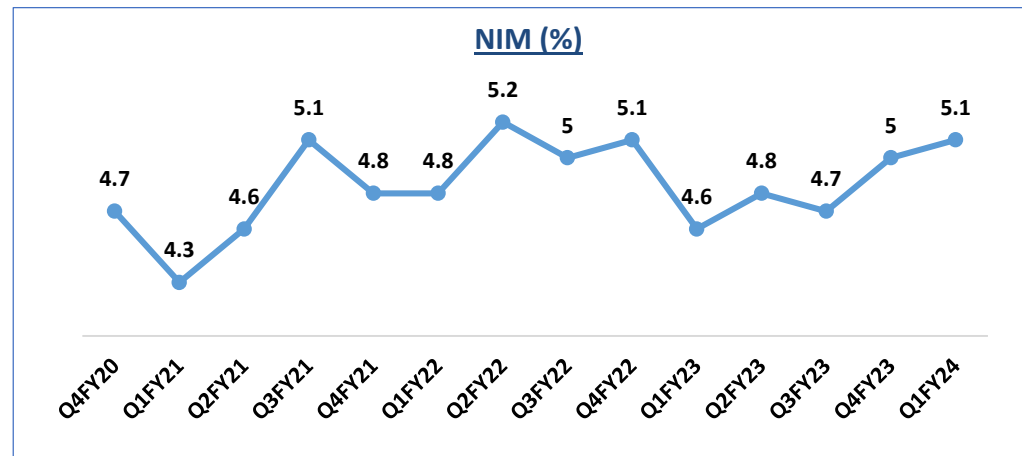
Profitability Picking Up

The company reported NIM for Q4FY23 of 5.1% while the NIM for Q4FY23 stood at 5% and 4.6% for Q1FY23. Further, it was able to maintain a spread of 3.3%, which is above the guided level of 3% by passing on the interest costs to its customers, despite intense competition. The management said that it will continue to monitor the movement in their cost of borrowings and strive to pass the change to customers as well as controlling their other costs. In absolute terms, Net Interest Income for Q1FY24 stood at Rs. 155 crores, up 17/5% YoY/QuQ. From FY24, the company is repricing its loans on a quarterly basis, which should aid the margins as well as NII. The net profit grew 44/9% YoY/QuQ



to Rs. 89 crores during the quarter, driven by stable margins, and it earned an ROA of 2.8% in Q1FY24, as against 2.7% in Q4FY23, and ROE of 15.8% as against 14.4% in the previous quarter.

The management in the concall post Q4FY23 results had specified that the company had changed the periodicity of reset of interest rates on their loan products. Earlier, the interest rate was reset every half year. However, from FY24 onwards, the company will have quarterly reset of interest rates which is expected to help the company in maintaining the NIMs which it has projected for FY24. As a result of this, the company earned the aforementioned NIM of 5.1% during the quarter.



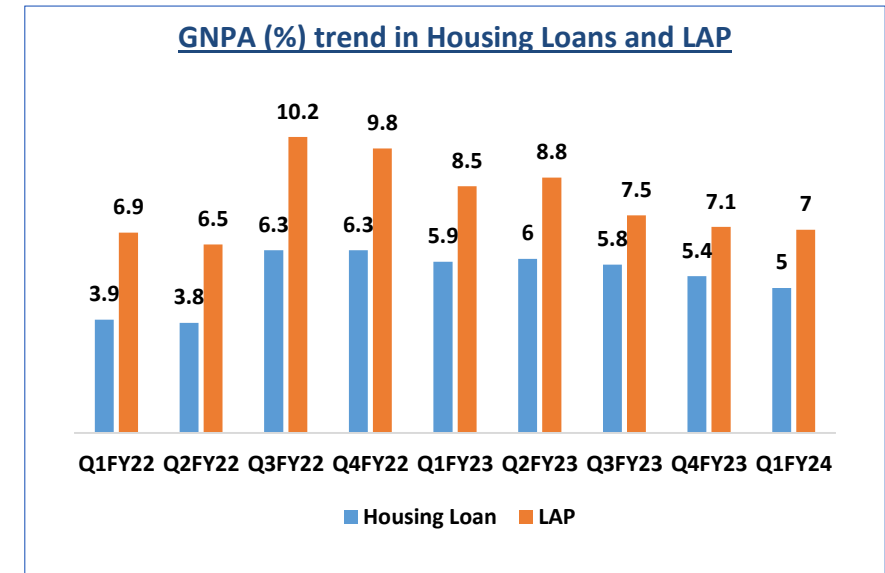
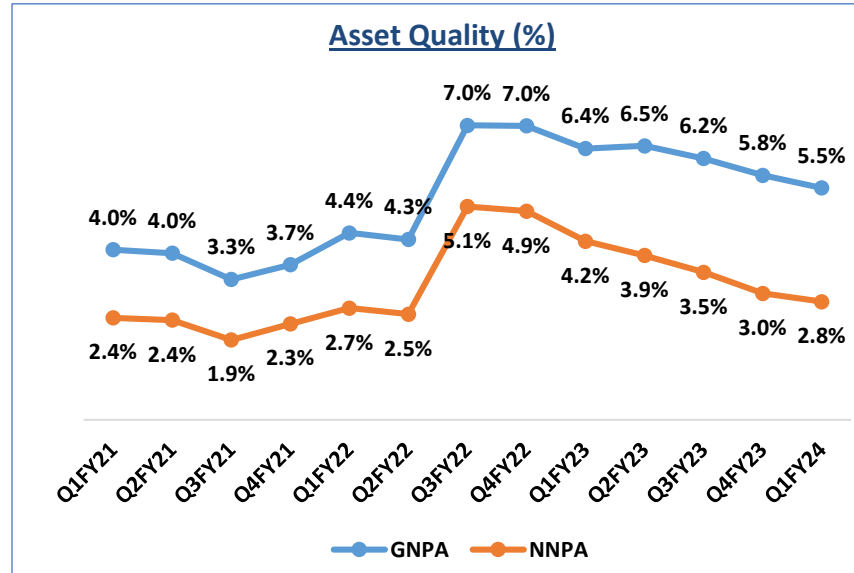
(Source: Company, HDFC sec)

Asset Quality Moderates

GNPA/NNPA improved to 5.5%/2.8% compared to 5.8%/3% in last quarter, led by better recovery efforts. The GNPA is at the lowest levels in last six quarters. The salaried segment GNPA and non-salaried segment GNPA were also at 7 quarter low of 2.8% and 7.9% respectively, while the home loans GNPA and LAP GNPA were also at 7 quarter low of 5% and 7% respectively. In absolute terms, the company has categorized Rs. 695 crores and Rs. 338 crores worth of loans as GNPA and NNPA respectively. The Provision Coverage Ratio on Gross Stage 3 assets improved to 51.4% and stood at Rs. 524 crores, compared to 49.6% in Q4FY23 and 36.7% in Q1FY23. The management commentary suggests that the restructured book has come off from its peak of Rs.700 Cr; however, the unwinding of this pool is a key monitorable. The management has guided for credit cost of ~Rs. 25 crores, at the maximum level. The management said that the repayments in the restructured book was healthy and it does not expect this book to have significant impact on the asset quality in FY24. Out of the total restructured book, Rs. 150-200 crores are categorized as stage 2 loans and Rs. 25-30 crores slipped to Stage 3. The company recorded total



slippages worth Rs. 56 crores of which 50% were from restructured book. It has also reported recoveries worth Rs. 24 crores. The company is witnessing accelerated repayments in its restructured book and does not anticipate any material impact of this book on the asset quality in the entire FY24. It has set up a separate collection team consisting of 66 employees to ensure lower flow of assets into Stage 3. The management is confident as repayments on these assets have started, but with a lag.



Implementation of new software expected to aid growth and productivity

The company has started implementing a new software in phases. The Phase 1 has gone live from February, 2023. The loan origination module is fully stabilized, and the company expects the loan management, loan collection, and EGL modules to aid in achieving its guided growth in AUM and sanctions for FY24.

Diversified Liability Profile

As of Q1FY24, the company's total borrowings stood at Rs. 9,906 crores, up 6% YoY and flat sequentially. Within the liability book, the borrowings from NHB stood at Rs. 1,474 crores, down 18% YoY. On the other hand, there has been an increase in the borrowings from banks of 11% YoY, which stands at Rs. 7,305 crores. This constitutes almost 74% of the liability book. The borrowings from the parent Repco Bank also increased 20% YoY, to Rs. 1,092 crores. The cost of borrowings stood at 8/7.7/8.2% for the three months in Q1FY24. A majority of the company's bank borrowings are MCLR linked.



Favourable Macro environment provides long term opportunities

India has favourable demographics, which will keep on aiding sustainable demand for the housing sector. It has a big housing shortage; 95% of which is in LIG and EWS segments. Even if we compare its mortgage penetration to other developing nations, there is a huge gap to fill.

The Government is helping the sector in every possible way i.e., implementation of RERA, reduction in stamp duty at time various time intervals, a dedicated institutional framework to promote affordable housing, etc. The Government, under the initiative of “Housing For All”, came up with the Credit Linked Subsidy Scheme (CLSS) in FY15, in order to improve the affordability of home loans to LIG and EWS groups. In FY21 and FY22, these loans accounted for 4% of the total home loans disbursed in the said years. Even after the scheme was discontinued in FY22, the demand for affordable housing remained resilient. As the expected payouts from the discontinued scheme remains low in FY24 and FY25, we expect strong AUM growth in these years for the company.

Within the Affordable Housing Segment, NBFCs have displayed expertise in small ticket housing finance where banks have displayed aversion on account of asset quality concerns. These Affordable Housing Finance Companies have successfully tapped the underserved and unserved population backed by their deep distribution network, better understanding of the regional demographics, maintaining high quality standards while underwriting loans to self-employed borrowers, etc.

After almost a decade of dull growth, Indian real estate industry saw a healthy growth in sale of housing units in FY-23. The initial reasons for the revival of growth were decadal low interest rates, stable home prices, lower stamp duties, work from home culture during the pandemic, etc. Home sales volume across eight major cities in India jumped significantly in the recent past. According to a report published by Anarock, housing sales in Q2CY23 have surpassed the previous peak of Q1CY23 sales. The bull run in the sector is despite expensive housing loans, global economic headwinds, layoffs, etc. Industry experts believe that it is not only the pent-up demand that will push growth but the country is going through a structural transformation in housing demand. This is because of a combination of first-time homebuyers, and customers moving up the property ladder to shift to larger homes or acquiring a second home in another location. The improved sales momentum has lifted confidence among realty developers who now have new offerings.

Pandemic also came in as a blessing in disguise for the real estate sector as it has brought in renewed focus on owning a house, especially for the millennials who were earlier in favour of rented houses. As mobility was restricted, people started searching for homes that accommodated entertainment, exercise and recreational area.



Risks & Concerns

Rules and regulatory policies

Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the company.

Regional Concentration

The company has modest scale of operations with a high regional concentration. Majority of the branches are located in South India with five South Indian states constituting around 84% of loan book as of Q1FY24. Tamil Nadu accounted being the major contributor with 57% exposure. The company has been trying to expand the presence beyond South and has opened branches in West Bengal, Orissa, Maharashtra, Gujarat, Madhya Pradesh & Rajasthan. However, even after the geographic diversification efforts, it still is exposed to concentration risk.

	Region-wise Loan Book
Kerala	3%
Others	4%
Gujarat	3%
Telangana	5%
Andhra Pradesh	6%
Maharashtra	9%
Karnataka	13%
Tamil Nadu	57%
Total	100%

Relatively higher exposure to riskier borrower segments

RHFL lends primarily towards the housing finance needs of the relatively riskier asset class comprising of low/middle-income borrowers in the informal sector. The non-salaried borrowers accounts for 51.8% of total loan book. This could impact the asset quality and profitability in the event of economic slowdown. However, with moderate LTV (loan-to-value) and increased focus on collections, the ultimate losses could be restricted to a large extent.

Competition

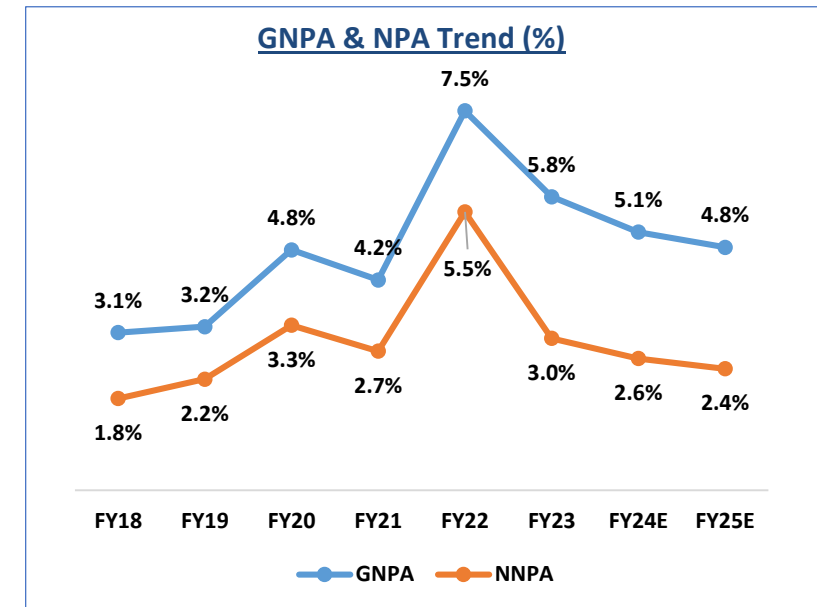
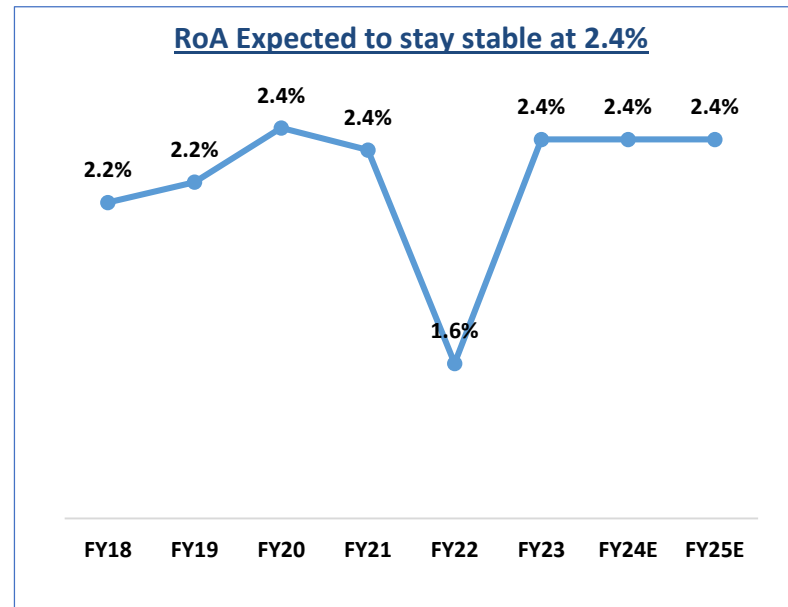
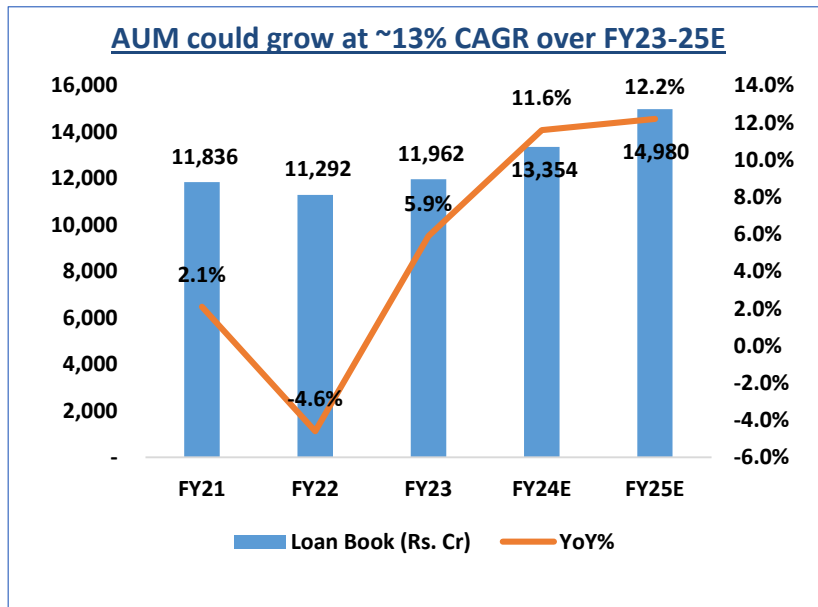
The housing finance industry is highly competitive. It has always faced competition from small finance banks, banks and other HFCs. Banks with wider branch and distribution network and cheaper cost of funds have greater competitive advantage. The stiff competition from banks may pose increasing challenges by way of lower-than-expected loan growth and lower NIM.



There is risk of balance transfers as it may no longer be meaningful for customers to pay a higher interest rate when they could get the loan refinanced at a much lower rate from Banks. Inability to retain customers for longer periods impacts profitability as acquisition costs are usually higher for such customers.

Company Background:

Repco Home Finance Limited (RHFL) is a housing finance company (HFC) registered with National Housing Bank (NHB). RHFL was established in April 2000 as a wholly-owned subsidiary of the ‘Repatriates Cooperative Finance and Development Bank Limited’ (Repco Bank), a Government of India enterprise. The current stake of the promoter is 37.13%. The company offers mainly two products – individual home loans (77%) and loans against property (LAP) (23%) in low ticket sizes. The company provides a variety of tailor-made home loan products to individual borrowers in both salaried and non-salaried (self-employed professional and self-employed non-professional) classes to suit various requirements. As of Q1FY24, the Company has presence in 12 states and 1 Union Territory with 159 branches and 34 satellite centers. RHFL has a loan book of Rs. 12,655 Cr as on June, 2023, with an average ticket size of Rs.12 lakhs, primarily concentrated in Southern India.





Repco Home Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Interest earned	1352	1258	1257	1383	1566
Interest expended	807	690	701	799	907
Net interest income	545	568	556	584	659
Other income	40	48	42	50	59
Total income	585	617	598	635	718
Operating expenditure	114	124	146	152	171
Pre-provisioning operating profit	471	493	452	482	547
Non-tax provisions	81	233	52	61	67
Profit before tax	390	260	401	422	480
Tax expenditure	102	68	105	106	121
Profit after tax	288	192	296	315	359

Key Ratio

Particulars	FY21	FY22	FY23	FY24E	FY25E
Return Ratios					
Calc. Yield on adv	11.30%	10.50%	10.30%	10.50%	10.60%
Calc. Cost of funds	8.00%	6.90%	7.10%	7.50%	7.50%
NIM	4.40%	4.50%	4.40%	4.20%	4.20%
RoAE	15.00%	8.90%	12.50%	11.80%	12.00%
RoAA	2.40%	1.60%	2.40%	2.40%	2.40%
Asset Quality Ratios					
GNPA	4.20%	7.50%	5.80%	5.10%	4.80%
NNPA	2.70%	5.50%	3.00%	2.60%	2.40%
PCR	35.50%	29.60%	49.60%	51.50%	52.00%
Growth Ratios					
Advances	2.10%	-4.60%	5.90%	11.60%	12.20%
Borrowing	0.90%	-5.00%	2.40%	14.30%	12.80%
NII	10.60%	4.30%	-2.20%	5.10%	12.80%
PAT	2.60%	-33.40%	54.60%	6.60%	13.70%

Balance Sheet

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Share capital	63	63	63	63	63
Reserves and surplus	1997	2173	2454	2748	3085
Net worth	2059	2236	2516	2811	3148
Borrowings	10197	9692	9924	11339	12786
Other liabilities and provisions	109	70	83	134	150
Total equity and liabilities	12366	11997	12523	14284	16084
Cash and cash equivalents	455	608	454	672	818
Investments	22	32	32	165	181
Advances	11836	11292	11962	13354	14980
Fixed assets	31	36	43	50	57
Other assets	22	31	32	43	48
Total assets	12366	11997	12523	14284	16084

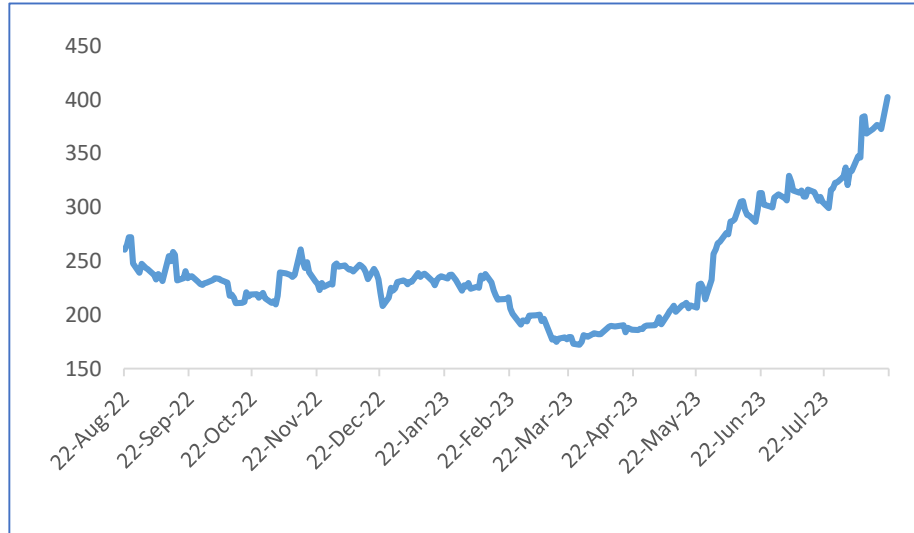
(Source: Company, HDFC sec)

Key Ratio

Particulars	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratios					
EPS	46	30.6	47.3	50.4	57.3
P/E	8.8	13.1	8.5	8.0	7.0
Adj. BVPS	277.2	258.1	344.3	394.2	446.3
P/ABV	1.45	1.56	1.17	1.02	0.90
Dividend Yield	0.60%	0.60%	0.70%	0.80%	0.90%
Other Ratios					
Cost-Income	19.60%	20.10%	24.40%	24.00%	23.90%
CAR	28.50%	33.30%	35.80%	33.90%	33.70%
Tier 1	28.50%	32.80%	34.60%	33.90%	33.70%
Cost-Avg AUM	1.00%	1.00%	1.20%	1.20%	1.20%



One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long-term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise, their stock prices can take a severe beating. Overall, these stocks offer high risk high return opportunities.

Disclosure:

I, **Varun Nitin Manek**, Research Analyst, (ACA), authors and the names subscribed to this report, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Repco Home Finance Ltd.



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