

# Stock Update Repco Home Finance Ltd.

11-June-2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Housing Finance	Rs. 372.7	Buy at LTP and add more on dips to Rs 334-335 band	Rs. 413	Rs. 452	2 quarters

HDFC Scrip Code	REPHOME
BSE Code	535322
NSE Code	REPCOHOM
Bloomberg	REPCO IN
LTP June 10, 2021	372.7
Equity Capital (Rs cr)	62.6
Face Value (Rs)	10
Equity Share O/S (cr)	6.26
Market Cap (Rs cr)	2331.6
Book Value (Rs)	285.6
Avg. 52 Wk Volumes	386584
52 Week High	386.9
52 Week Low	94.9

Share holding Pattern % (Mar 2021)	
Promoters	37.1
Institutions	40.5
Non Institutions	22.4
Total	100.0

## Fundamental Research Analyst

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### Our Take:

Repco Home Finance Ltd (RHFL) is a niche player in the small-ticket housing finance market (median Rs 1.5 mn). It focuses on under-served markets, especially the self-employed in Tier II and III cities. Factors like low mortgage penetration, government's impetus for 'Housing for All' and incentives for affordable housing bode well for the company. Structural story for HFCs remains well intact despite near term disruptions. Lower mortgage rates, narrowing gap between rental yields and mortgage rates and improved housing affordability ratio are key levers for the industry. The company has witnessed a steady growth in the past by increasing its geographical footprint by deepening reach selectively in existing regions and expanding to new regions, continuing focus on under penetrated markets. 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 capitalise on underpenetrated mortgage financing opportunity in the country.

The year gone by was a challenging one for HFCs from both a microeconomic and macroeconomic point of view but the company's financial performance and overall financial health remained strong. The company will continue to maintain the non-housing book at or below 20% with continued focus on small ticket loans and will strike a right balance between salaried and non-salaried loans which help in keeping the balance sheet quality robust. Once the current uncertainty is over, the company will attempt to restart its granular retail growth strategy. Target segment of the company will continue to be small salaried customers employed with MSMEs and SMEs and unsalaried customers running MSMEs, small shops and the like with aspirations to own a house in Tier II and Tier III cities.

On Nov 19, 2020, we had issued [initiating coverage report](#) on Repco Home Finance Ltd with buy at LTP (Rs 238) and add on dips to Rs 221-225 band for base case target of Rs 268 and bull case target of Rs 299. The stock hit a high of Rs 307.8 on Feb 17 and our bull case target was achieved. We are revising the target upwards on the back of attractive valuation, better-than-expected asset quality and comfortable capital position.

### Valuations & Recommendation:

Repco Home Finance Limited has an attractive business model of housing mortgages, which caters to an under-served segment by banks and other NBFCs. The small ticket, non-salaried segment is attractive but entails high cost of acquisitions and requires diligent risk

management framework. We are positive on RHFL's presence in an under-served market and its understanding & track record in the self-employed segment. A robust business model with attractive return ratios makes RHFL a preferred choice in the HFC space. Steady asset quality, sound & stable loan spread, comfortable liquidity position and the management's cautious lending approach are all factors which will lend support to earnings in medium term. Although Repco's decade long experience in the self-employed segment will enable it to capture opportunities that may come in the affordable housing space, we expect the loan book to grow at slower pace. Better portfolio quality, due to tightened underwriting, collection and appraisal initiatives of the company will continue to support healthy profitability. Stable margins and asset quality brings some comfort and also current valuation at 0.95x on FY23E adjusted book makes it inexpensive.

Given that asset quality is under risk in self-employed segment in the current pandemic times, the ability of RHFL to improve asset quality amidst the current environment remains a key monitorable. At such low valuations, Repco Home could be a good acquisition candidate. Though Repco lags its peers in terms of geographical concentration, GNPA, LTV, average ticket size, liquidity profile and capitalisation, the discount in valuation to its peers is unwarranted especially because it scores above its peers in some other parameters like retail mix, pricing power, opex profile and loan book seasoning. **We think the base case fair value of the stock is Rs 413 (1.05x FY23E ABV) and the bull case fair value of the stock is Rs 452 (1.15x FY23E ABV) over the next two quarters. Investors can buy the stock at the LTP and add on dips to Rs. 334-335 band (0.85x FY23E ABV).**

## Financial Summary:

Particulars (Rs cr)	Q3FY21	Q3FY20	YoY-%	Q2FY21	QoQ-%	FY19	FY20	FY21E	FY22E	FY23E
NII	142	123	15.7	135	5.9	443	492	557	571	606
PPOP	128	105	22.3	116	11.0	377	420	484	489	516
PAT	80	70	14.2	81	-1.5	235	280	312	326	347
EPS (Rs)	13	11	14.2	13	-1.5	38	45	50	52	55
P/E (x)						9.9	8.3	7.5	7.1	6.7
P/ABV (x)						1.7	1.5	1.3	1.1	0.9
RoAA (%)						2.3	2.4	2.5	2.5	2.4

(Source: Company, HDFC sec)



## Q3FY21 Result Review:

Repco Home Finance reported better than expected numbers on several fronts – upbeat NIMs (5.1%) aided by lower cost of funds (CoF), recovery in disbursements and maintenance of asset quality. The company reported highest ever margins on back of better pricing power (sequential improvement in yields on assets) and reduced borrowing cost. Net interest income (NII) came in at Rs 142.5cr, up 15.7%/5.9% YoY/QoQ. Operating costs increased 13.4% QoQ as business activities and collections revert to near normal, while cost/income ratio remained healthy at 18.5%. The company reported pre-provisioning operating profit (PPOP) of Rs 128.2cr (up 22.3%/11% YoY/QoQ) aided by sticky asset yields and falling CoF (down 50bps/30bps YoY/QoQ). Loan provisions increased to Rs 22.2cr in Q3FY21, with restructured loans amounting to only 0.3% of total loans (better than most HFCs). PAT for the quarter stood at Rs 79.6cr, +14.2%/-1.5% YoY/QoQ.

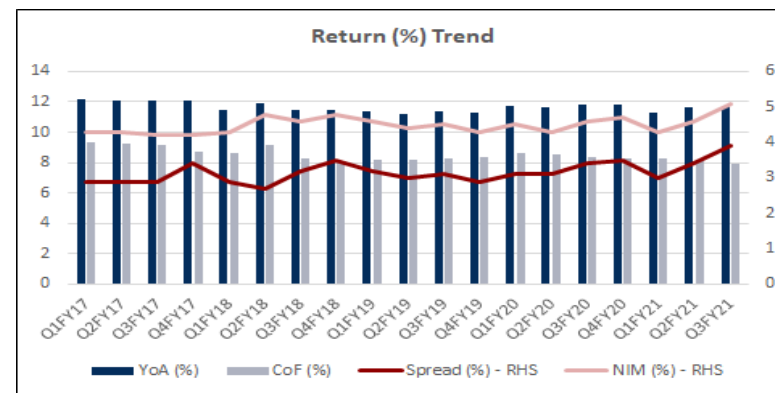
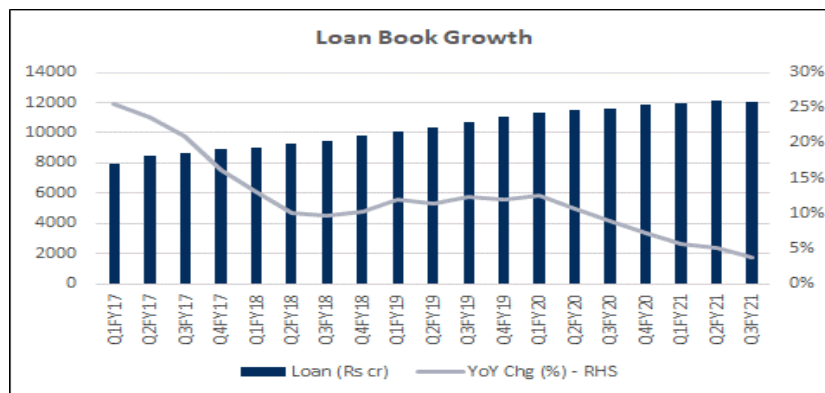
Loan growth slowed to just 3.7% YoY to Rs 12058cr, with core home loan growth slowing to ~3.5% YoY. Disbursement for the quarter was at Rs 551.7cr, improved to ~85% of YoY levels compared to ~65% levels in Q2FY21. The loan mix in terms of customer profession as well as type of loans (Home/LAP) remains largely stable. RHFL paid all its market borrowings (NCDs) and increased its dependence on NHB borrowing on the back of RBI regulatory supportive measures and low rate (6.1%). Pro-forma GNPL ratio came in flat QoQ at 4%. GNPA as a percentage of loan assets improved to 3.3% as against 4.2% as at Dec-2019 (3.95% in Q2FY21). Provision coverage ratio stood at 44% at Dec-end 2020 as compared to 29% in the previous year. The capital adequacy ratio stood provisionally at 27.4% comprising entirely of Tier-1 capital.

## Recent Trend and Concall Key Takeaways:

**AUM to grow in a measured way:** Loan book growth has slowed as banks have become aggressive in lending in the housing space (lending rate – below 7%). Management in the earning call reiterated their focus on maintaining and improving yields and profitability over loan book growth. The company is targeting to disburse Rs 700cr in Q4FY21. RHFL has a strong footing on the non-salaried segment, where it faces limited competition from other HFCs and Banks. Stricter quality screening of client in this segment and over a decade of experience in their strong foothold in South-India, could partially off-set the aggressive lending by banks and help achieve modest loan growth. We have built in an AUM growth of 7.2% CAGR over FY20-23E in our projections.

**Stable Spreads:** Yield on assets increased 10bps QoQ to 11.7% in Q3FY21; despite a declining trend in home loan rates across the industry. A decline in CoF by 30bps QoQ, helped in achieving high spreads of 3.9%. The company could report such high spreads due to delayed passing of lower CoF benefit to its customers coupled with interest write back owing to some recoveries. Going forward there would be

some decline in the spreads as the benefits will be passed-on to quality customers. But management is confident of maintaining spreads in the range of 3-3.25%. Incremental CoF and yields stood at 7.10% and 10.26% respectively. RHFL has been able to maintain interest spread of over 3% and margins over 4% for the last five years. High spreads coupled with stable operational expenditure and credit costs helped RHFL in maintaining RoAA over 2% the last few years.



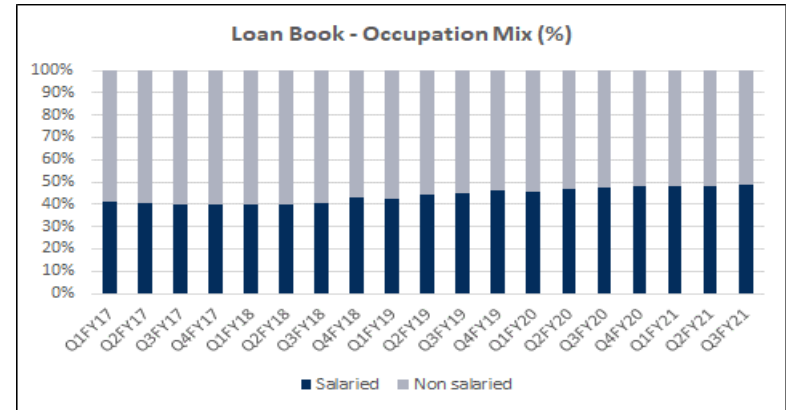
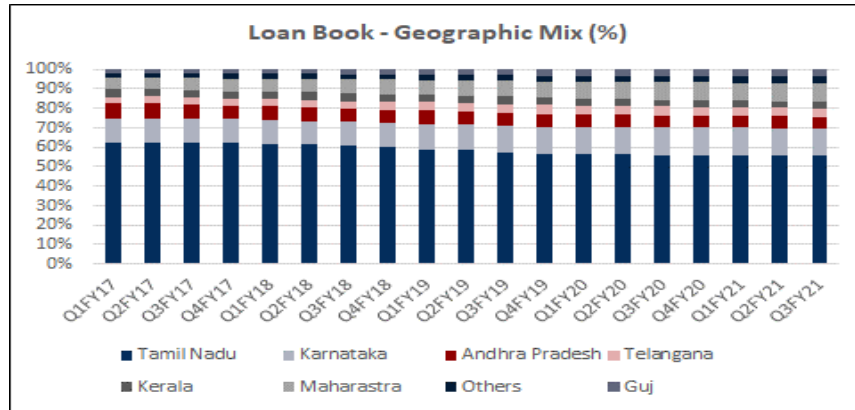
(Source: Company, HDFC sec)

**Risk from Commercial Banks:** Mortgage industry has been showing some signs of improvement, but this is mainly because of shift from NBFC to bank. Commercial Banks has been aggressively expanding their housing loan book due to excess liquidity available on account of measures taken by the RBI. Around 20-25% of Repco's loan book belongs to customers which can be catered to by banks, so this increases the risk of balance transfers which have been denting its loan book growth in past couple of quarters. Due to pressure from banks, quarterly balance transfers stood at Rs 300cr. Aggressive increase in non-salaried exposure and/or in Tamil Nadu which remains its key strength would entail high borrowing costs and the ticket size is lower; so management would avoid this route to increase its AUM growth to compromise on profits.

**Loan Book Mix:** The company has seen a decent increase in its salaried loan book over last 3-4 quarters, while non-salaried witnessed subdued growth. The loan growth for the quarter was supported by the salaried segment (6.6% YoY), whose share increased by 130bps YoY to 48.5% in Q3FY21. Non-salaried segment witnessed flat growth of 1.2% YoY and consequently, the share in overall portfolio

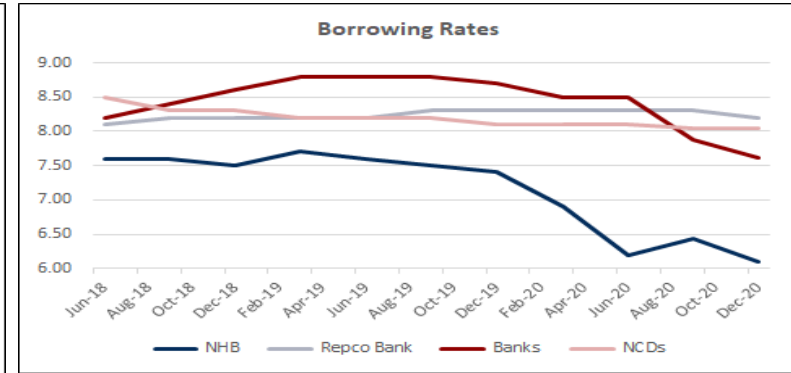
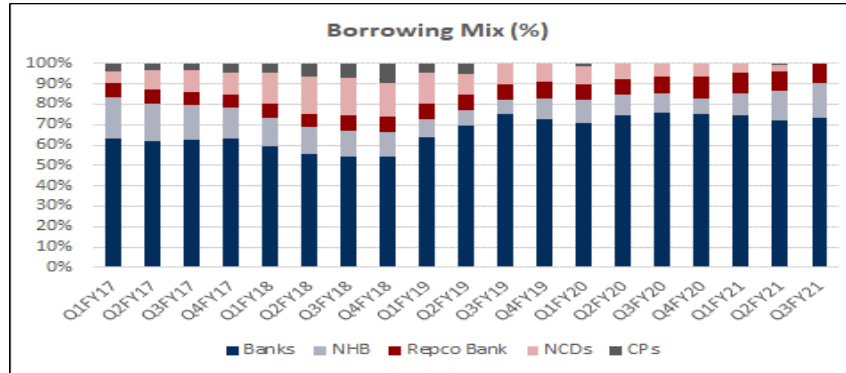


declined to 51.5% (from 52.8% in Q3FY20). The growth in core Tamil Nadu (TN) loan book (55.8%) remained stable at 3.7% YoY while non-TN loan book also increased by 3.7% YoY. Increasing concentration on salaried book and non-Tamil Nadu region is expected to drive growth. The share of Individual Home Loan & LAP segment was at 81.2:18.8. Average ticket size for the loan book stood at Rs 1.5mn, with live accounts at 100,830.



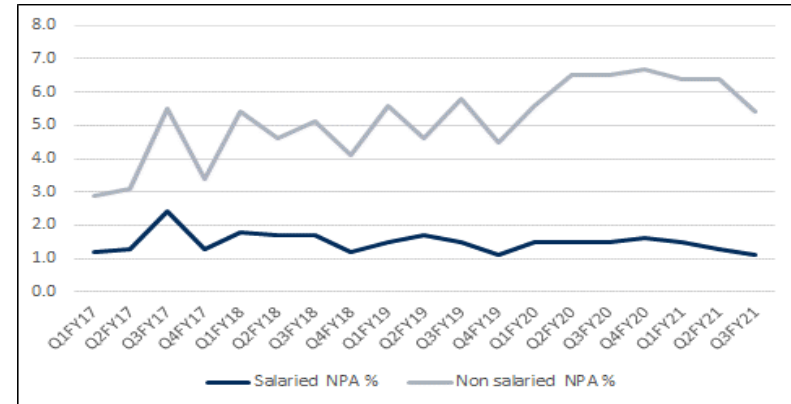
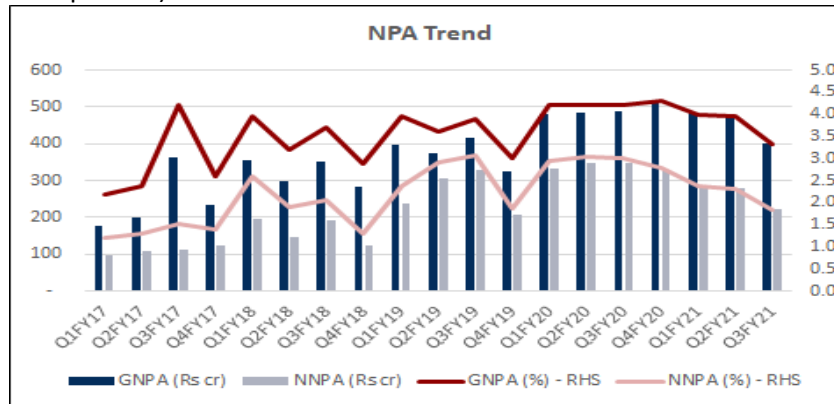
(Source: Company, HDFC sec)

**Borrowings rejigged to lower its costs:** The company over the past year has been taken conscious steps to reduce its borrowing costs. The share of NHB borrowings has risen to 17% in Q3FY21 from 9.4% a year ago. RHFL paid all its market borrowings (NCDs) and increased its dependence on NHB borrowing due to cheaper borrowing rates.



(Source: Company, HDFC sec)

**Provisions in check:** Pro-forma GNPL ratio actually came in flat QoQ at 4%. In addition, restructured loans amounted to only 0.3% of total loans. Asset quality improved on a sequential basis with reported GNPA at 3.33% down 62bps QoQ. GNPL ratio may not cross 4.5% in Q4FY21 based on management commentary. On a product/mix basis, the NPAs in Housing loan was stable at 3% (down 40bps QoQ) while in case of occupation mix, NPA for salaried saw improvement of 20bps QoQ to 1.1% and NPA for non-salaried came in at 5.4% (down 100bps QoQ).



(Source: Company, HDFC sec)

**Comfortable Capital Position:** RHFL's capital adequacy ratio (CAR) as at Dec 31, 2020 was 27.4% consisting entirely of Tier-1 capital. The company has been able to maintain a comfortable CAR of above 20% over the last five years, aided by healthy accruals and modest growth. The entire CAR is made up of Tier I capital, thereby providing cushion to raise Tier II capital, if required. The leverage of the company at ~5.4x (Sep 2020) is lower than other HFCs which leaves enough scope for growth without much dilution in the near term.

**Strong Liquidity:** The company has comfortable liquidity to the tune of Rs 500cr to support loan book growth and provides confidence to lenders in uncertain times. But this liquidity is causing some negative carry impact. Going forward, with improving economic scenario and liquidity, the company will be looking to bring down its liquidity surplus, which will be positive for margins.

**Branch Expansion:** Repco Home Finance has plans to add 10-12 branches in this fiscal.

**Others:** The management is targeting to achieve RoA of 2.25-2.5%. Collection efficiency has improved to 97% to near pre-covid levels in Dec 2020 (93% in Sep 2020) and company has adequately provided for any increase in NPA. Repco has one of the top 3 AUM/Branch and AUM/Employee in the sector.

### Sectoral Triggers:

Structural story for HFCs remains well intact despite near term disruptions on account of lower mortgage rates, narrowing gap between rental yields and mortgage rates and improved housing affordability ratio. Rapid urbanisation, increasing income levels, emerging nuclearisation of families and growing aspirations continue to be the key growth drivers of the housing sector. Indian housing finance market is severely underpenetrated (sub 10% of GDP) vis-à-vis peers and given the high housing shortage, housing penetration is bound to improve. On the back of the fundamental factors, mortgage penetration is likely to reach mid-teens in the next 3-4 years; benefitting NBFCs & HFCs catering to this space. The rising migration to urban and semi-urban centres has provided a large catchment area for HFCs to disburse loans. As this trend is likely to continue more demand will come from the bottom of the pyramid segment - which includes the economically weaker sections, low-income groups, and middle-income groups.

Repco Home Finance Ltd has traditionally focused on the niche non-salaried segment, especially in tier 2 and tier 3 cities, which has allowed it to realise higher yields on its loans (which are 75-100bps higher than those of the salaried class), owing to challenges in the underwriting process for this class of borrowers which is largely based on 'assessed income'. Strong credit appraisal process, and a deep understanding of client segments and geographies, helped the company to establish its position in this low penetrated segment over the





last decade. Also, competition from banks and big HFCs is low, especially in the self-employed segment, due to income assessment-related challenges.

The affordable housing finance sector holds prominence in India's financial sector. Affordable housing HFCs have grown faster than the industry in the past five years. Government initiatives towards boosting affordable housing and vision of Housing for All bode well from long term stand point. The company is a key beneficiary as it caters to the need of the underserved such as the non-salaried segment, MSMEs, blue collared employees and others.

### Concerns:

**Concentration in South India:** RHFL portfolio is concentrated in South India with five South Indian states constituting around 83.3% as on Dec-end 2020. Tamil Nadu (TN) accounted for about 55.8% of the total portfolio outstanding, followed by Karnataka (~14%), Maharashtra (9.4%), Andhra Pradesh (~6%), Telangana (4.5%), Kerala (3.2%), Gujarat (3.8%) and the rest from Pondicherry, Jharkhand, Orissa, West Bengal and Madhya Pradesh. The company has brought down South India exposure from 91% to 84% in last five years. The company plans to add 10-12 branches annually which will gradually reduce geographic concentration.

**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 and slowdown on account of Covid-19 is expected to negatively impact credit profile of borrowers in this segment. This is expected to have an impact on the asset quality and profitability going forward. However, with moderate LTV (loan-to-value) and increased focus on collections, the ultimate losses could be restricted to a large extent. As on March 30, 2020, 84% of the outstanding portfolio is of below 70% LTV which is comforting.

**Slowdown in Real-estate Sector:** The ongoing health crisis has cast a shadow of doubt on near term demand for housing and housing finance sector. Prolonged covid-19 led slow-down might impact negatively on multiple fronts i.e. liquidity, asset quality, loan growth etc. Over the last 2-3 years, housing sector has seen an inventory pile up situation in India. Increasing stress in non-retail loans and continued slowdown in real estate sector could make it difficult for RHFL to grow its loan book.

**Competition from Banks:** Higher stress in corporate books has resulted in banks looking to lend to relatively safer assets like housing. Banks are likely to aggressively lend to housing, thereby increasing competition for RHFL. Banks also have an advantage of low cost funds.

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 Profile:

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 in Repco Home Finance is 37.13%. The company offers mainly two products – individual home loans (81%) and loans against property (LAP) (19%) 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.

RHFL follows a hub-and-spoke model and has a presence in 12 States and 1 Union Territory through its network of 153 branches and 24 satellite centers (sub-branches) as on Dec 31, 2020. RHFL has an AUM of Rs. 12,058.8cr as on Dec 31, 2020, with an average ticket size of Rs. 15 lakhs, primarily concentrated in South India. The company's focus is on under-penetrated markets in Tier 2 & Tier 3 cities and has 48.5% of its portfolio to the salaried segment & the rest towards the self-employed segment of borrowers. RHFL's greater focus is on direct sourcing of acquisition – are loan camps (35% of incremental originations), customer walk-ins, referrals; the company also employs direct selling agent and sales team for customer acquisition. It is well recognized brand in south India with an established track record, stable and experienced senior management team.

## Peer Comparison:

	Mcap (Rs cr)	NII				PPOP				PAT			
		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Repco Home Finance	2,332	492	557	571	606	420	484	489	516	280	312	326	347
AAVAS Financiers	19,455	431	518	677	802	317	390	538	649	249	289	356	423

	RoAA (%)				P/ABV			
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Repco Home Finance	2.4	2.5	2.5	2.4	1.5	1.3	1.1	0.9
AAVAS Financiers	3.8	3.5	3.6	3.6	9.3	8.3	7.3	6.3

(Source: Company, HDFC sec)

# RepcO Home Finance Ltd.

## Income statement

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	1,163	1,317	1,385	1,438	1,544
Interest Expenses	720	825	828	867	938
<b>Net Interest Income</b>	<b>443</b>	<b>492</b>	<b>557</b>	<b>571</b>	<b>606</b>
Non interest income	32	34	35	38	42
<b>Operating Income</b>	<b>475</b>	<b>526</b>	<b>592</b>	<b>609</b>	<b>648</b>
Operating Expenses	98	107	108	120	132
<b>PPoP</b>	<b>377</b>	<b>420</b>	<b>484</b>	<b>489</b>	<b>516</b>
Prov & Cont	17	59	67	53	53
Profit Before Tax	360	360	417	436	463
Tax	125	80	105	110	117
<b>PAT</b>	<b>235</b>	<b>280</b>	<b>312</b>	<b>326</b>	<b>347</b>

## Balance Sheet

(Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	63	63	63	63	63
Reserves & Surplus	1,465	1,724	2,024	2,336	2,667
<b>Shareholder funds</b>	<b>1,527</b>	<b>1,787</b>	<b>2,087</b>	<b>2,399</b>	<b>2,730</b>
Borrowings	9,349	10,109	10,453	11,095	12,057
Other Liab & Prov.	81	98	118	49	17
<b>SOURCES OF FUNDS</b>	<b>10,957</b>	<b>11,994</b>	<b>12,657</b>	<b>13,543</b>	<b>14,804</b>
Fixed Assets	16	17	16	20	23
Investment	22	22	22	26	26
Cash & Bank Balance	58	324	390	392	428
Advances	10,838	11,588	12,183	13,054	14,269
Other Assets	24	43	47	52	57
<b>TOTAL ASSETS</b>	<b>10,957</b>	<b>11,994</b>	<b>12,657</b>	<b>13,543</b>	<b>14,804</b>

(Source: Company, HDFC sec)

## Ratio Analysis

As at March (Rs cr)	FY19	FY20	FY21E	FY22E	FY23E
<b>Return Ratios (%)</b>					
Calc. Yield on adv	11.4	11.7	11.7	11.4	11.3
Calc. Cost of borr	8.2	8.5	8.1	8.1	8.1
Calc. NIM	4.3	4.4	4.7	4.5	4.4
RoAE	16.6	16.9	16.1	14.5	13.5
RoAA	2.3	2.4	2.5	2.5	2.4
<b>Asset Quality Ratios (%)</b>					
GNPA	3.0	4.3	5.2	5.3	5.0
NNPA	1.4	1.9	2.3	2.3	1.8
<b>Growth Ratios (%)</b>					
Advances	12.0	7.2	3.0	7.1	9.3
Borrowings	14.9	8.1	3.4	6.1	8.7
NII	1.7	11.0	13.1	2.5	6.1
PPoP	-1.4	11.4	15.3	1.0	5.6
PAT	16.7	19.5	11.4	4.5	6.2
<b>Valuation Ratios</b>					
EPS (Rs)	37.6	44.8	49.9	52.2	55.4
P/E (x)	9.9	8.3	7.5	7.1	6.7
Adj. BVPS (Rs)	220.1	249.9	287.9	336.2	394.2
P/ABV (x)	1.7	1.5	1.3	1.1	0.9
Dividend per share (Rs)	2.5	2.5	2.0	2.3	2.5
Dividend Yield (%)	0.7	0.7	0.5	0.6	0.7
<b>Other Ratios</b>					
Cost-Income (%)	21	20	18	20	20
Leverage (x)	7.3	6.9	6.4	5.8	5.5

598.71	685.65	685.65	685.65	203.88	118.92	118.92
(-2.11)	(-14.5)	(-7.74)	(-1.05)	(-11.5)	(-11.5)	(-11.5)
142.09	167.22	154.12	393.13	-62.95	-187.58	-42.88
(-35.1)	(-17.4)	(-7.84)	(-7.58)	(-11.5)	(-11.5)	(-11.5)

One Year Price Chart



(Source: Company, HDFC sec)

