

Repco Home Finance

15 November 2019

Reuters: RHFL.NS; Bloomberg: REPCO IN

Lower growth due to lack of demand and competition from banks

Repco Home Finance (RHFL) has reported its 2QFY20 results with the key pointers being: (1) Lack of demand and high competition from banks were the key reasons for subdued growth (2) We sense signs of pricing/margin pressure (3) GNPA's remain unchanged QoQ at 4.2% with uptick in the self-employed/non-salaried segment. (See detailed conference call takeaways on page 2 for significant incremental colour). Per se, on the key P&L items, RHFL posted NII growth of 11% YoY at Rs1,237mn, PPOP growth of 5% YoY at Rs1,021mn and PAT growth of 51% YoY at Rs1,006mn. We have revised our estimates for FY20/FY21/FY22 and retained Buy rating on RHFL, revising our target price to Rs389 (from Rs430 earlier) and valuing the stock at 1.1x H1FY22E P/BV.

Lack of demand and high competition from banks were the key reasons for subdued growth: Given the natural advantage for banks, in terms of cost of funds, the rate competition continued to be high during the quarter, resulting in disbursements of Rs. 7 bn which were down 9.6% YoY (+5.2% QoQ). Apart from this, the run down on the book, as a result of repayment and prepayments, was also high, at ~19%. As a result of both these factors, loan book growth was weak at 10.7% YoY/1.4% QoQ. For the full year FY20, the company has guided for loan book growth of 12-15%. Geographically, growth from rest of India (ex-TN/Pondicherry) was higher at 17% YoY. Growth in TN/Pondicherry was 6% YoY. The share of DSA-sourcing has increased by 400 bps YoY to 18% with most of this channel approach being adopted in western states of Gujarat and Maharashtra. Though sand-mining issues, which were a hindrance till a couple of quarters ago, have mostly subsided, we believe that continued slowdown in key manufacturing sectors such as auto remains a key constraint to improvement in demand/growth. Consequently, we envisage subdued growth in Tamil Nadu, which accounts for 56.2% of the overall loan book. In terms of funding, the company had Rs. 100.3 bn worth of borrowings outstanding as of Q2FY20, up 15% YoY/5% QoQ. Over the last one year, share of bank funding has increased considerably (75% vs. 69% YoY) while CPs have completely run off. Share of NCDs has come down by ~300 bps YoY to 7%. The company was able to obtain bank sanctions worth Rs 30 bn at competitive rates during the quarter, of which Rs 28 bn were unutilized as of Q2FY20. Cash/equivalents on the balance sheet as of Q2FY20 were to the tune of >Rs. 5 bn as against ~Rs. 0.6 bn as of Q4FY19, implying higher liquidity. Management stated this was to provide comfort to rating agencies and banks.

We sense pricing/margin pressure: Besides mentioning that the banks have been aggressive by way of offering lower interest rates, the company also mentioned that it reduced rates in some cases in order to retain/acquire customers. Reported blended yields were down 10 bps QoQ to 11.6%. However, on incremental basis, yields on home loans were up 10 bps QoQ at 10.7% while that on LAP loans were up 40 bps QoQ at 13.7%. As against this, cost of funds was reported at 8.6%, unchanged YoY/+30 bps QoQ. As a result, NIMs were reported at 4.3% for the quarter, down ~20 bps YoY/QoQ.

GNPAs remain unchanged QoQ at 4.2% with uptick in the self-employed/non-salaried segment: GNPA's in self-employed/non-salaried segment increased by 30 bps sequentially to 6.5% while salaried segment GNPA's were stable at 1.5%. Management has cited cash flow issues as the main reason behind the self-employed segment not being able to service loans. Product wise, LAP GNPA's were 6.8% (-10 bps QoQ) while housing loans GNPA's were 3.6% (flat QoQ). Write offs during the quarter were Rs. 93.2 mn. The company has retained its guidance of 3% GNPA's by the end of FY20.

Valuation and outlook: We have revised our NII estimates by -3.0%/ -5.0%/ -1.8%, PPOP estimates by -3.7%/ -6.2%/ -2.2%, and PAT estimates by 1.0%/ -6.9%/ -2.5% for FY20/FY21/FY22, respectively. We have retained Buy rating on RHFL, revising our target price to Rs389 (from Rs430 earlier) and valuing the stock at 1.1x H1FY22E P/BV.

BUY

Sector: NBFC

CMP: Rs288

Target Price: Rs389

Upside: 35%

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Key Data

Current Shares O/S (mn)	62.6
Mkt Cap (Rsbn/US\$m)	18.0/250.8
52 Wk H / L (Rs)	482/269
Daily Vol. (3M NSE Avg.)	103,496

Price Performance (%)

	1 M	6 M	1 Yr
Repc Home	3.4	(28.0)	(29.6)
Nifty Index	4.7	5.8	12.3

Source: Bloomberg

Y/E Mar (Rsmn)	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)
Interest Income	3,322	2,870	3,286	15.8	1.1
Interest Expense	2,085	1,755	2,015	18.8	3.5
Net Interest Income	1,237	1,115	1,271	10.9	(2.7)
NIM (%)	4.3	4.5	4.5	-20 bps	-20 bps
Fee & Other income	33	90	(2)	(63.2)	(2,306.7)
Total Income	1,270	1,205	1,270	5.4	0.0
Staff Cost	156	138	147	12.8	6.2
Other Op Exp	93	98	88	(4.7)	5.7
Total Operating Expenses	249	236	235	5.6	6.0
Cost to Income (%)	19.6	19.6	18.5	3 bps	110 bps
Cost to AUM (%)	0.9	0.9	0.8	-5 bps	3 bps
Pre-Provisioning Operating Profit	1,021	969	1,035	5.4	(1.3)
Provisions	1	(35)	75	(104.0)	(98.1)
Credit Cost (%)	0.0	(0.1)	0.3	14 bps	-26 bps
PBT	1,020	1,004	960	1.6	6.2
Tax	14	338	336	(96.0)	(96.0)
-effective tax rate	1.3	33.7	35.0	-3233 bps	-3371 bps
PAT	1,006	666	624	51.1	61.3
Other Comprehensive Income	-2	4	2	(151.4)	(200.0)
Total Comprehensive Income	1,004	670	625	49.9	60.6
EPS (Rs)	16.1	10.6	10.0	51.1	61.3

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Comprehensive Conference Call Takeaways

Asset Quality

- The company expects to reduce GNPA's to below 3% by end of FY20.
- As per the company, it provided Rs0.8-0.9bn in excess of what was required as per the ECL norms.
- The company ruled out the write off route to achieve its guidance of 3% GNPA's.
- During the quarter, write-offs were Rs93.2mn, emanating mainly from cases which were 2-3 years old and nearly 100% provided for.
- The company expects to have higher collections from non-salaried and LAP segments going forward.
- As per the company, more than 50% of its GNPA accounts are still paying partially.

Business and Loan Growth

- While the company's core expertise would continue to be in doing loans to the non-salaried segment, it is aiming for a share of 50% for the salaried class. In the salaried segment, the company is chasing customers working at good companies and earning about Rs 50,000-70,000 per month.
- As per the company, it is facing challenges due to low demand and rate competition from banks (both private and public). The competition is mainly in the higher ticket size loans (>Rs 3 mn). Also, competition from HFCs has reduced considerably.
- Repayment rate (prepayment + normal repayment rate) during the quarter stood at 19%. As per the company, FY19 was the worst in terms of prepayment and it expects a repayment rate (prepayment + normal repayment rate) of ~20% over the next 6 months.
- The company has guided for a credit growth of 12-15% for FY20.
- As per the company, sand mining and land registration issues in Tamil Nadu are majorly over now.
- The rejection ratio at proposal finalization stage is ~10%. The company estimates rejection rate at lead generation stage at ~35-40%. As per the company, the rate is in line with HFC industry average and has been broadly stable at this level.
- As per the company, the ratio of actual income taken into assessment to documented income has shrunk in last 6 months.
- Disbursements through DSAs stood at 18% during the quarter, up 400 bps YoY.
- The company has reduced its reliance on loans with ticket size over Rs10mn.
- As per the company DSAs are mostly used in the western states of Gujarat and Maharashtra.

Margin, Liabilities and Liquidity

- During the quarter, the company was sanctioned over Rs30bn from multiple banks.
- The incremental yields during the quarter were as follows:
 - Home loans: 10.7% (vs 10.6% qoq)
 - LAP: 13.7% (vs 13.3% qoq)
 - Weighted average: 11.3% (vs 11.2% qoq)
- In some cases, the company has reduced interest rates in order to retain customers. This, to some extent, has impacted NIMs.
- The company is likely to maintain relatively higher liquidity in the near future.

Operating Expenses

- The whole benefit of Rs152.1mn accruing from DTL remeasurement was taken during the quarter.
- The company expects to have a tax rate of ~25.1% going forward.
- The company generally adds 10-15 branches per year and expects the trend to continue. 5 branches have already been opened in H1FY20.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net interest income	4,362	4,434	4,786	5,554	6,667
Pre-provisioning operating profit	3,822	3,768	3,780	4,453	5,437
PAT	2,010	2,346	2,730	3,016	3,703
EPS (Rs)	32.1	37.5	43.6	45.9	56.4
BV (Rs)	209.2	244.1	284.8	343.4	396.7
P/E (x)	9.0	7.7	6.6	6.3	5.1
P/BV (x)	1.4	1.2	1.0	0.8	0.7
Gross NPAs (%)	3.2	3.3	3.0	2.9	2.8
Net NPAs (%)	1.8	2.2	1.8	1.5	1.3
RoA (%)	2.2	2.3	2.4	2.3	2.5
RoE (%)	16.4	16.5	16.5	14.9	15.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Q2FY20E	Devi. (%)
Net interest income	1,237	1,115	1,271	10.9	(2.7)	1,290	(4.1)
Pre-provisioning operating profit	1,021	969	1,035	5.4	(1.3)	1,033	(1.1)
PAT	1,006	666	624	51.1	61.3	748	34.5

Source: Company, Nirmal Bang Institutional Equities Research N.B. We were expecting a net DTA addition of Rs51mn and an adjusted PAT of Rs799mn.

Exhibit 3: Change in our estimates

	Revised Estimate			Earlier Estimate			% Revision		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income (Rs mn)	4,786	5,554	6,667	4,932	5,846	6,790	(3.0)	(5.0)	(1.8)
Net Interest Margin (%)	4.2	4.3	4.5	4.3	4.5	4.6	-13 bps	-23 bps	-8 bps
Operating Profit (Rs mn)	3,780	4,453	5,437	3,927	4,746	5,560	(3.7)	(6.2)	(2.2)
Profit after tax (Rs mn)	2,730	3,016	3,703	2,702	3,239	3,800	1.0	(6.9)	(2.5)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Interest income	10,851	11,634	13,088	14,785	17,088
Interest expenses	6,489	7,200	8,302	9,232	10,421
Net interest income	4,362	4,434	4,786	5,554	6,667
Non-interest income	250	318	61	97	111
Net revenues	4,612	4,752	4,846	5,650	6,778
Operating expenses	790	984	1,066	1,197	1,341
-Employee expenses	495	585	595	656	718
-Other expenses	295	399	471	541	623
Pre-provisioning operating profit	3,822	3,768	3,780	4,453	5,437
Provisions	748	170	324	427	493
PBT	3,074	3,598	3,456	4,026	4,944
Tax	1,064	1,252	726	1,011	1,241
PAT	2,010	2,346	2,730	3,016	3,703

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	626	626	626	657	657
Reserves & surplus	12,459	14,648	17,190	21,898	25,404
Net worth	13,085	15,274	17,816	22,555	26,060
Borrowings	81,343	92,774	102,577	114,637	130,559
Other liability & provisions	2,882	1,522	1,816	2,072	3,471
Total liabilities	97,310	109,570	122,209	139,264	160,090
Fixed assets	135	155	157	158	160
Investments	156	220	242	266	293
Loans	96,492	108,379	121,185	138,151	158,874
Cash	259	576	364	414	477
Other assets	268	239	261	274	287
Total assets	97,310	109,570	122,209	139,264	160,090

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

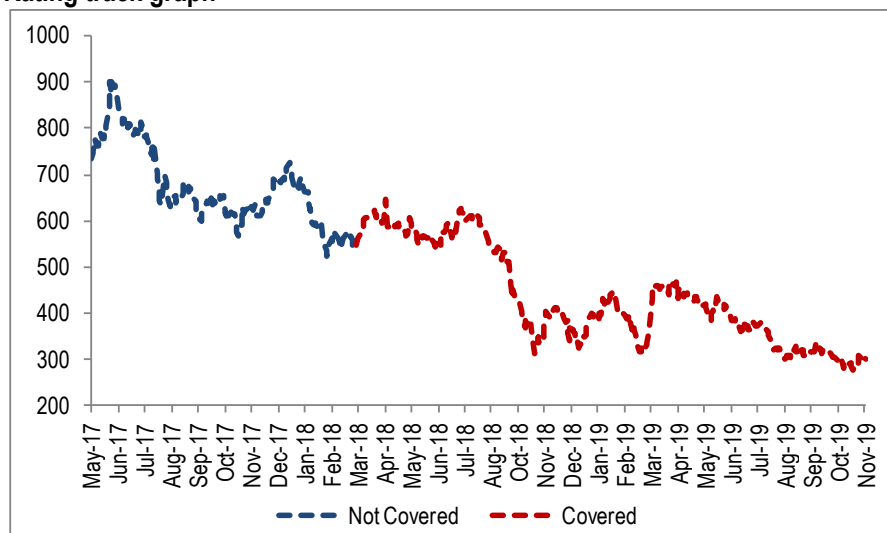
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Net interest income	21.0	1.7	7.9	16.1	20.0
Operating profit	19.8	-1.4	0.3	17.8	22.1
Profit after tax	13.0	16.7	16.4	10.4	22.8
Business (%)					
Advances growth	9.8	12.3	11.8	14.0	15.0
Spread (%)					
Yield on loans	11.8	11.3	11.4	11.4	11.5
Cost of borrowings	8.3	8.3	8.5	8.5	8.5
Spread	3.5	3.1	2.9	2.9	3.0
NIM	4.7	4.3	4.2	4.3	4.5
Operational efficiency (%)					
Cost- to-income	17.1	20.7	22.0	21.2	19.8
Cost-to-AUM	0.9	1.0	0.9	0.9	0.9
Productivity (Rsmn)					
Loan per branch	603.1	637.5	700.0	730.0	766.5
Loan per employee	122.9	116.7	127.3	132.7	139.4
Employee per branch	4.9	5.5	5.5	5.5	5.5
CRAR (%)					
Tier I	23.0	24.1	24.1	25.9	25.2
Tier II	0.0	0.0	0.0	0.0	0.0
Total	23.0	24.1	24.1	25.9	25.2
Asset quality (%)					
Gross NPAs	3.2	3.3	3.0	2.9	2.8
Net NPAs	1.8	2.2	1.8	1.5	1.3
Provision coverage	43.0	33.1	41.3	48.1	54.5
Credit cost (excluding std. asset)	0.8	0.2	0.2	0.2	0.2
Credit cost (including std. asset)	0.8	0.2	0.3	0.3	0.3
Return ratios (%)					
RoE	16.4	16.5	16.5	14.9	15.2
RoA	2.2	2.3	2.4	2.3	2.5
Per share (%)					
EPS	32.1	37.5	43.6	45.9	56.4
BV	209.2	244.1	284.8	343.4	396.7
ABV	181.2	206.1	250.7	311.7	365.9
Valuation (x)					
P/E	9.0	7.7	6.6	6.3	5.1
P/BV	1.4	1.2	1.0	0.8	0.7
P/ABV	1.6	1.4	1.1	0.9	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	549	684
25 May 2018	Buy	567	724
14 August 2018	Buy	598	721
9 October 2018	Buy	378	588
19 November 2018	Buy	401	558
18 February 2019	Buy	338	456
8 April 2019	Buy	450	523
3 June 2019	Buy	403	498
8 July 2019	Buy	374	495
19 August 2019	Buy	311	424
23 September 2019	Buy	320	445
7 October 2019	Buy	304	430
15 November 2019	Buy	288	389

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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