Repco Home Finance

17 November 2020

Reuters: RHFL.NS; Bloomberg: REPCO IN

2QFY21 Result Update

Asset quality concerns overshadow improved growth outlook

Repco Home Finance (RHFL) reported NII growth of 12.9% YoY and 9.1% QoQ, driven primarily by NIM expansion (up 30bps YoY and 30bps QoQ) even as advances growth was soft (5.2% YoY, 0.9% QoQ), partially impacted by high balance transfers by banks. Cost of funds improved by 10bps QoQ to 8.2% in 2QFY21 but it is unlikely to come down further. Disbursements during the quarter were up 157.3% QoQ but were still substantially lower than last year (down 33.4% YoY). The trend in disbursals pick-up has been in line with the broader industry trend, though not to the extent that the larger HFCs have witnessed. In 2HFY21, the company expects disbursals to revert back to normal run-rate. With Tamil Nadu (55.7% of the book) clocking a 4% YoY growth, geographical concentration remains a cause for concern. Operating profit growth was 13.1% YoY and 7% QoQ, supported by favorable trends in cost items. Provisions at Rs72mn were lower than 2QFY20-1QFY21 average run-rate, resulting in better profitability (PBT up 6.2% YoY and 26.1% QoQ). Sept'20 collection efficiency at 93% seemed to be on the lower side compared to some of the HFC peers. Asset quality has been stable QoQ but we expect it to deteriorate in the near term given the high-risk customer profile (indicated by historical NPAs) and lower collection efficiency rate. Though the management sounded very confident in terms of maintaining current NPA numbers in 3QFY21, we remain sceptical given that ~Rs8bn of loans have not serviced even a single EMI. One could argue about the stock being ultra-cheap given that it trades at less than book value (0.7x 1HFY23E ABV). However, we would rather stick with better quality franchises which provide higher visibility of earnings growth and better asset quality. In case of RHFL, we believe that the asset quality concerns overshadow the improved growth outlook and hence keep our cautious stance on the stock. We have revised our estimates for FY21/FY22/FY23 and retained Accumulate rating on RHFL, revising our target price (TP) to Rs234 and valuing the stock at 0.7x 1HFY23E P/ABV.

Disbursements pick up but still substantially lower YoY: Despite disbursements witnessing significant sequential improvement (up 1.6x QoQ), the same were substantially lower than last year's level (down 33% YoY) and also lower than the pick-up witnessed by larger HFCs. With Tamil Nadu accounting for ~56% of the total book and growing at 4% YoY, the overall growth rate continued to remain under pressure even as some of the western markets (Maharashtra and Gujarat) saw 13-14% YoY growth. The company expects to deliver 8-10% loan growth in FY21 on the back of pick-up in disbursements. Product-wise, home loans portfolio grew by 5% YoY and LAP portfolio grew by 7% YoY in 2QFY21. High balance transfer activity by banks remains a key monitorable.

NIM expansion led by drop in CoF: NII growth of 12.9% YoY and 9.1% QoQ was driven by NIM expansion even as advances growth was muted. NIM improvement (up 30bps YoY and 30bps QoQ) was driven by both yield improvement (up 30bps QoQ) and drop in CoF (down 30 bps YoY and 10bps QoQ). The share of bank borrowings has declined to 71.7% (down 307bps QoQ) while the share of NHB borrowings has risen by 437bps QoQ to 14.8%.

Collection efficiency rate on the lower side, expect NPAs to increase: At 93%, collection efficiency rate seems to be on the lower side compared to peers. Even though headline NPAs were stable QoQ, we expect them to inch up in the near term given the high-risk customer profile and low collections. For 2QFY21, stage 3 assets stood at 3.95% (down 8bps QoQ) with a coverage ratio of 41% (flat QoQ). Salaried stage 3 assets declined by 20bps QoQ to 1.3% and non-salaried stage 3 assets were flat QoQ. Housing loan stage 3 assets declined by 10bps QoQ to 3.4% and LAP stage 3 assets were down 20bps QoQ at 6.2%.

ACCUMULATE

Sector: NBFC

CMP: Rs245

Target Price: Rs234

Downside: 4%

Raghav Garg, CFA
Research Analyst
raghav.garg@nirmalbang.com
+91-22-6273 8192

Arjun Bagga
Research Associate
arjun.bagga@nirmalbang.com
+91-22-6273 8111

Key Data	
Current Shares O/S (mn)	62.6
Mkt Cap (Rsbn/US$mn)	15.3/206
52 Wk H / L (Rs)	366/90
Daily Vol. (3M NSE Avg.)	674,470

Price Performance (%)

	1 M	6 M	1 Yr
Repco Home	31.4	119.9	(13.5)
Nifty Index	9.5	40.9	8.2

Source: Bloomberg

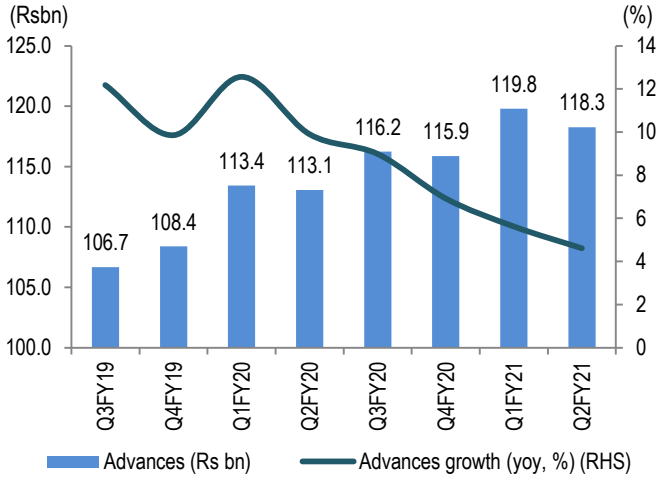
Y/E Mar (Rsmn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)
Interest Income	3,486	3,322	3,384	*4.9*	*3.0*
Interest Expense	2,090	2,085	2,104	*0.2*	*(0.7)*
Net Interest Income	**1,396**	**1,237**	**1,280**	*12.9*	*9.1*
NIM (%)	***4.6***	***4.3***	***4.3***	*30 bps*	*30 bps*
Fee & Other income	16	33	35	*(51.1)*	*(54.0)*
Total Income	**1,412**	**1,270**	**1,315**	*11.2*	*7.4*
Staff Cost	174	156	169	*11.5*	*3.0*
Other Op Exp	83	93	67	*(10.7)*	*25.0*
Total Operating Expenses	257	249	235	*3.2*	*9.3*
Cost to Income (%)	18.2	19.6	17.9	*-141 bps*	*32 bps*
Cost to AUM (%)	*0.9*	*0.9*	*0.8*	*-2 bps*	*6 bps*
Pre-Provisioning Operating Profit	**1,155**	**1,021**	**1,080**	*13.1*	*7.0*
Provisions	72	1	221	*5,050.0*	*(67.4)*
Credit Cost (%)	0.2	0.0	0.8	*24 bps*	*-51 bps*
PBT	**1,083**	**1,020**	**859**	*6.2*	*26.1*
Tax	275	14	219	*1,922.8*	*25.8*
-effective tax rate	25.4	1.3	25.5	*2407 bps*	*-6 bps*
PAT	**808**	**1,006**	**640**	*(19.7)*	*26.3*
Other Comprehensive Income	-2	-2	-2	*(5.3)*	*(5.3)*
Total Comprehensive Income	**806**	**1,004**	**638**	*(19.7)*	*26.3*
EPS (Rs)	12.9	16.1	10.2	*(19.7)*	*26.3*

Source: Company, Nirmal Bang Institutional Equities Research

Conference Call Highlights

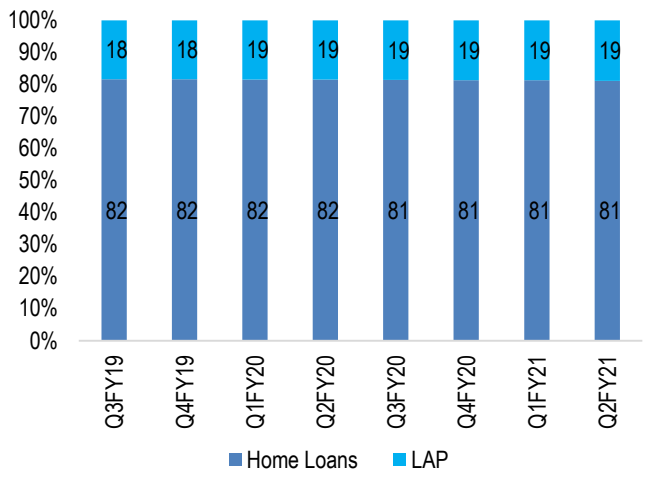
- Business is expected to reach pre-covid levels in a few months' time. The company expects to deliver 8-10% loan growth in FY21 on the back of pick-up in disbursements. Disbursements target for 3QFY21 stand at Rs7-8bn and for 4QFY21 at Rs9bn.
- Margin expectation is ~4.2-4.3% in FY21.
- Sept'20 collection efficiency (current month billing only) stands at 93% and is expected to improve further. Despite Rs3-4bn worth of stage-1/2 loans not servicing even a single EMI so far, the company expects Dec'20 NPAs to remain equal to or lower than Sept'20 level. Also, the company has not received any restructuring requests so far but the same could be Rs2-3bn at the maximum.
    - Total value of loans that hasn't serviced even a single EMI: Rs7.65bn (4,700 accounts). Out of this, Rs3.8bn is classified as stage-3.
- Balance transfers by banks have been aggressive (at 12% compared to 9% last year). Balance transfers during the quarter were ~Rs4bn and are expected to remain elevated in 3QFY21 as well.
- Liquidity is comfortable. The company does not expect any material improvement in CoF.
- The asset yields were higher (QoQ) during the quarter on account of high-quality, low-rate customers being taken over by the banks. Incremental yields during the quarter: home loans 10.39% (vs. 10.46% in 1QFY21), LAP 13.22% (vs. 13.15% in 1QFY21). Non-salaried customers are usually charged 1% risk premium.

Exhibit 1: Advances (Rsbn) & advances growth (YoY, %)



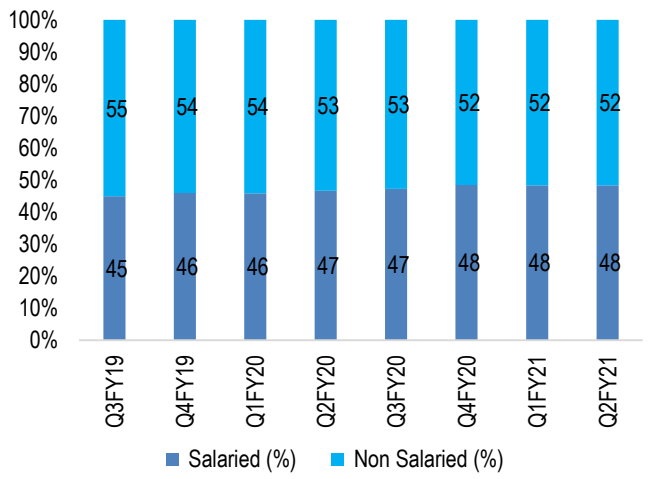
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Product wise advances mix (%)



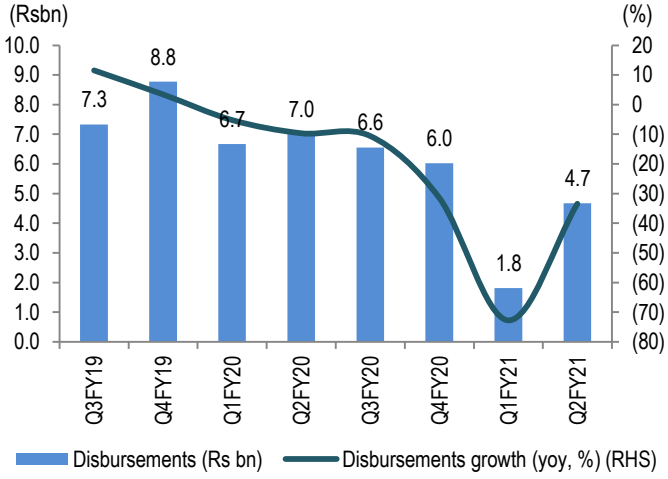
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Customer wise advances mix (%)



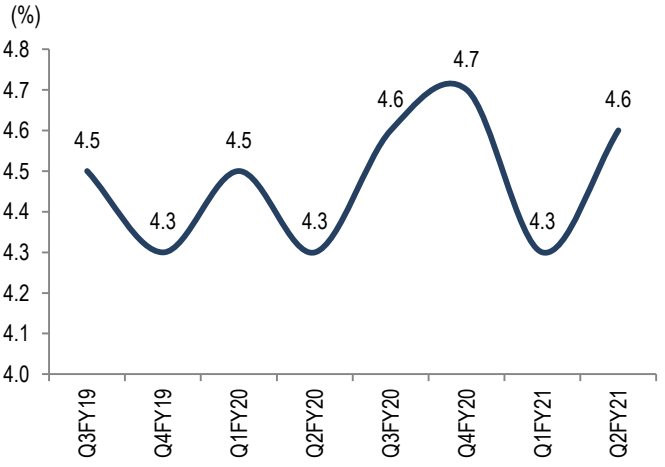
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Disbursements (Rsbn) & disbursements growth (YoY, %)



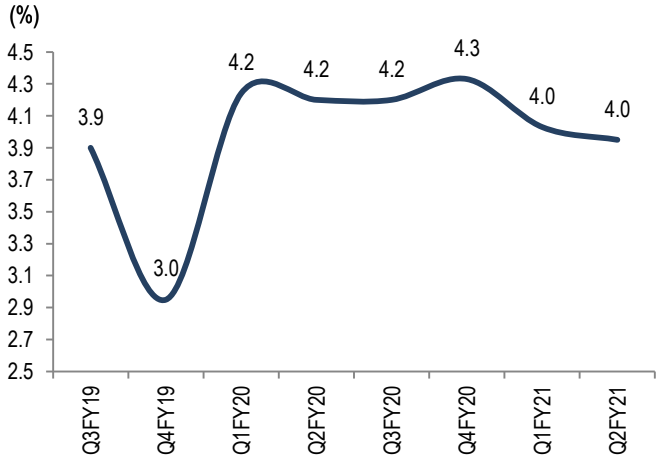
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Reported NIM (%)



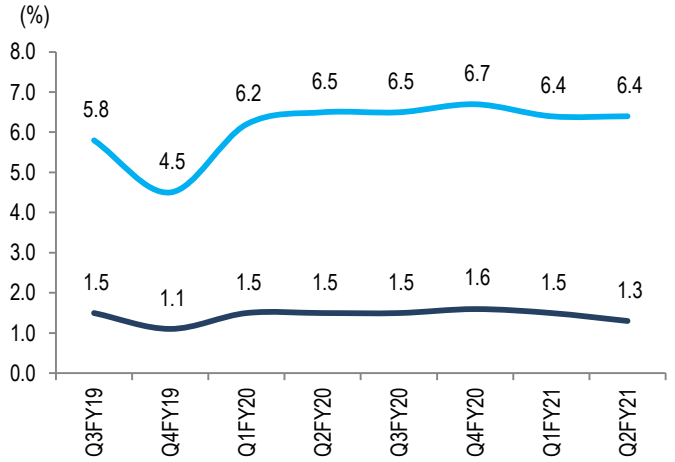
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Gross stage 3 assets (%)



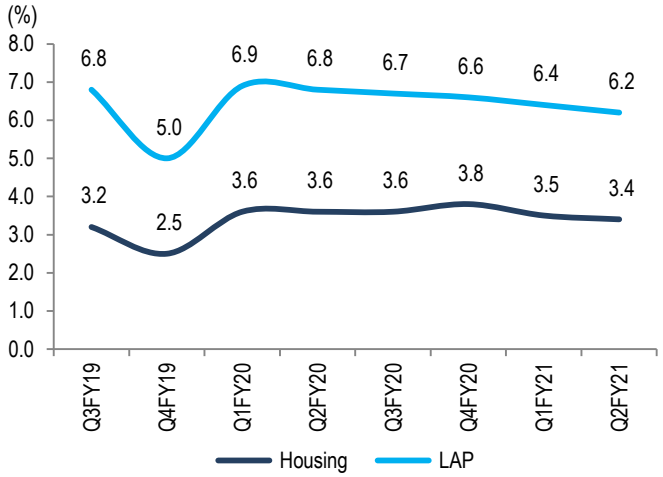
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Customer wise gross stage 3 assets (%)



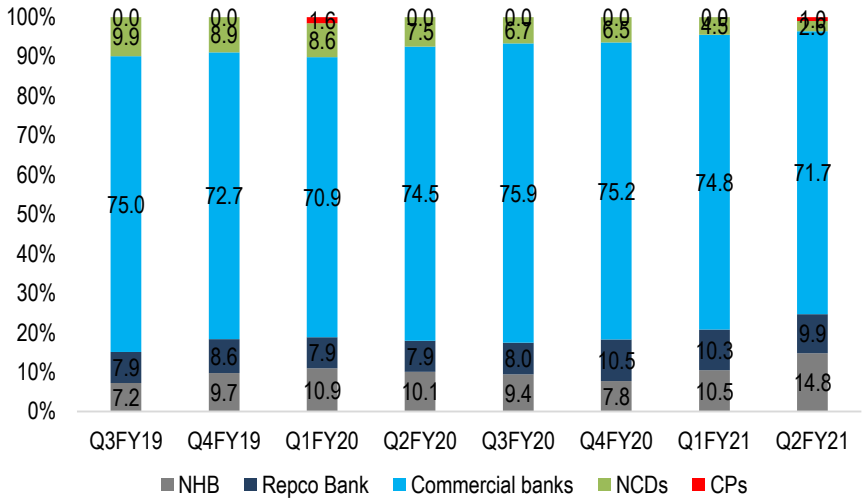
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Product wise gross stage 3 assets (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Borrowings mix (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	4,434	4,924	5,242	5,483	5,978
Pre-provisioning operating profit	3,768	4,196	4,304	4,467	4,883
PAT	2,346	2,804	2,781	2,995	3,281
EPS (Rs)	37.5	44.8	44.5	47.9	52.4
BV (Rs)	244.1	285.6	327.1	371.9	421.4
P/E (x)	6.5	5.5	5.5	5.1	4.7
P/BV (x)	1.0	0.9	0.7	0.7	0.6
Gross NPAs (%)	*3.3*	*4.8*	*4.7*	*4.5*	*4.1*
Net NPAs (%)	*2.2*	*3.3*	*2.7*	*2.2*	*1.7*
RoA (%)	*2.3*	*2.4*	*2.3*	*2.3*	*2.4*
RoE (%)	*16.5*	*16.9*	*14.5*	*13.7*	*13.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Actual performance versus our estimates

(Rsmn)	Q2FY21	Q2FY20	Q1FY21	*YoY (%)*	*QoQ (%)*	Q2FY21E	*Devi. (%)*
Net interest income	1,396	1,237	1,280	*12.9*	*9.1*	1,336	*4.5*
Pre-Provisioning Operating Profit	1,155	1,021	1,080	*13.1*	*7.0*	1,091	*5.9*
PAT	808	1,006	640	*(19.7)*	*26.3*	636	*26.9*

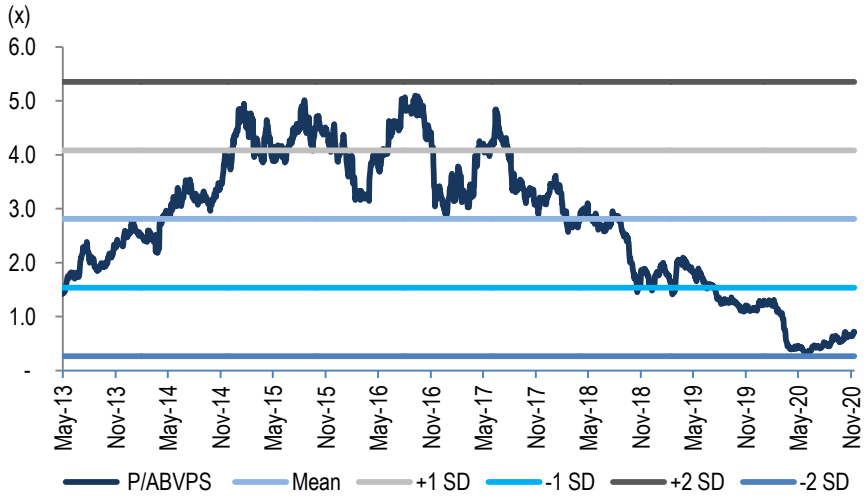
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Change in our estimates

	Revised Estimate			Earlier Estimate			*% Revision*		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	*FY21E*	*FY22E*	*FY23E*
Net Interest Income (Rs mn)	5,242	5,483	5,978	*5,006*	*5,304*	*5,752*	*4.7*	*3.4*	*3.9*
Net Interest Margin (%)	*4.4*	*4.4*	*4.4*	*4.3*	*4.4*	*4.4*	*13 bps*	*1 bps*	*3 bps*
Operating Profit (Rs mn)	4,304	4,467	4,883	*4,005*	*4,138*	*4,453*	*7.5*	*8.0*	*9.7*
Profit after tax (Rs mn)	2,781	2,995	3,281	*2,510*	*2,760*	*2,971*	*10.8*	*8.5*	*10.5*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 14: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Interest income	11,634	13,174	13,849	14,443	15,538
Interest expenses	7,200	8,250	8,606	8,960	9,560
Net interest income	**4,434**	**4,924**	**5,242**	**5,483**	**5,978**
Non-interest income	318	337	121	128	141
Net revenues	**4,752**	**5,261**	**5,363**	**5,611**	**6,119**
Operating expenses	984	1,065	1,060	1,144	1,236
-Employee expenses	585	664	691	746	806
-Other expenses	399	401	369	398	430
Pre-provisioning operating profit	**3,768**	**4,196**	**4,304**	**4,467**	**4,883**
Provisions	170	594	590	468	503
PBT	3,598	3,602	3,713	3,999	4,381
Tax	1,252	798	932	1,004	1,100
PAT	**2,346**	**2,804**	**2,781**	**2,995**	**3,281**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
Net interest income	1.7	11.0	6.5	4.6	9.0
Operating profit	-1.4	11.4	2.6	3.8	9.3
Profit after tax	16.7	19.5	-0.8	7.7	9.5
Business (%)					
Advances growth	12.3	6.9	4.3	6.0	10.0
Spread (%)					
Yield on loans	11.3	11.7	11.7	11.6	11.5
Cost of borrowings	8.3	8.5	8.5	8.5	8.5
Spread	3.1	3.2	3.2	3.0	3.0
NIM	4.3	4.4	4.4	4.4	4.4
Operational efficiency (%)					
Cost- to-income	20.7	20.2	19.8	20.4	20.2
Cost-to-AUM	1.0	0.9	0.9	0.9	0.9
CRAR (%)					
Tier I	24.1	25.9	25.3	25.2	25.0
Tier II	0.0	0.0	0.0	0.0	0.0
Total	24.1	25.9	25.3	25.2	25.0
Asset quality (%)					
Gross NPAs	3.3	4.8	4.7	4.5	4.1
Net NPAs	2.2	3.3	2.7	2.2	1.7
Provision coverage	33.1	32.6	42.6	50.1	58.7
Credit cost (excluding std. asset)	0.2	0.5	0.2	0.3	0.3
Credit cost (including std. asset)	0.2	0.5	0.5	0.4	0.4
Return ratios (%)					
RoE	16.5	16.9	14.5	13.7	13.2
RoA	2.3	2.4	2.3	2.3	2.4
Per share (%)					
EPS	37.5	44.8	44.5	47.9	52.4
BV	244.1	285.6	327.1	371.9	421.4
ABV	206.1	225.3	275.0	326.0	383.3
Valuation (x)					
P/E	6.5	5.5	5.5	5.1	4.7
P/BV	1.0	0.9	0.7	0.7	0.6
P/ABV	1.2	1.1	0.9	0.8	0.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

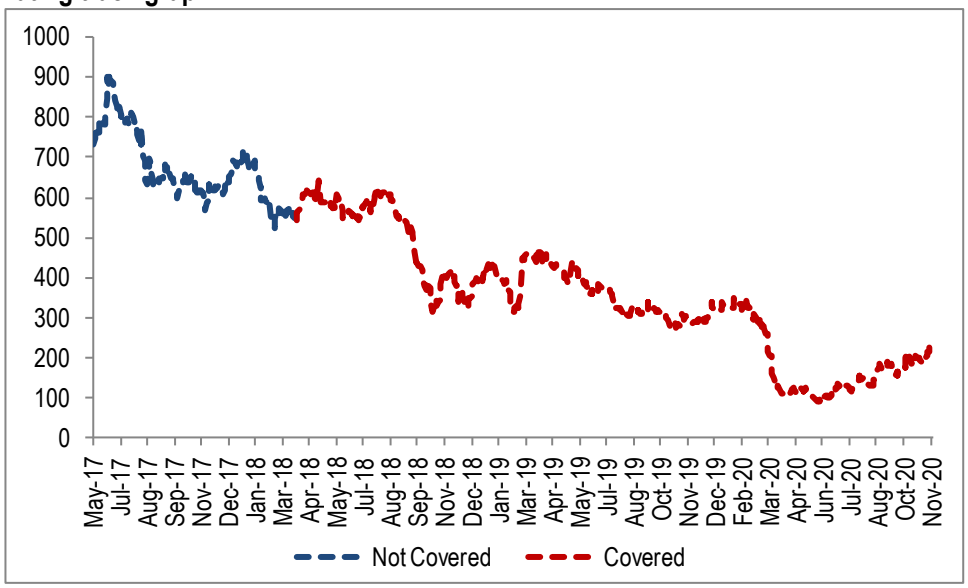
Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	626	626	626	626	626
Reserves & surplus	14,648	17,243	19,836	22,643	25,736
Net worth	**15,274**	**17,869**	**20,462**	**23,269**	**26,362**
Borrowings	92,774	1,01,090	1,02,607	1,07,224	1,16,660
Other liability & provisions	1,522	980	998	996	855
Total liabilities	**1,09,570**	**1,19,939**	**1,24,067**	**1,31,489**	**1,43,876**
Fixed assets	155	165	167	168	170
Investments	220	220	224	229	233
Loans	1,08,379	1,15,877	1,20,804	1,28,053	1,40,858
Cash	576	3,243	2,416	2,561	2,113
Other assets	239	434	455	478	502
Total assets	**1,09,570**	**1,19,939**	**1,24,067**	**1,31,489**	**1,43,876**

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
8 January 2020	Buy	329	394
11 February 2020	Buy	323	399
27 March 2020	Accumulate	131	132
9 April 2020	Accumulate	107	132
28 July 2020	Accumulate	138	135
8 September 2020	Accumulate	182	175
23 September 2020	Accumulate	158	174
7 October 2020	Accumulate	181	174
17 November 2020	Accumulate	245	234

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010