Dec 04, 2023

COMPANY UPDATE | Sector: Financials

Repco Home Finance Limited

On-track for further improvement in Growth & Asset Quality

We hosted the Management of Repco Home Finance for Investor Meetings. The company is firmly on track to deliver a well-measured growth acceleration, further reduction in NPLs, improvement in overdue buckets, and a stable & reasonably healthy profitability. We expect 14-15% loan CAGR, 15-16% PAT CAGR and avg. 2.8%/14% RoA/RoE delivery over FY23-26. Notwithstanding the strong price performance in the past seven months, Repco's valuation is still undemanding at 6.1x P/E and 0.9x P/ABV on FY25 estimates. Reiterate BUY with 12m PT of Rs550.

Tangible results of transformative changes; loan growth is picking up

In his 19-month tenor as MD & CEO, Mr. Swaminathan has significantly improved Repco's functioning by tactfully addressing a) Branch Productivity/Sales, b) DSA/DST engagements, c) Salary/Incentive/Commissions structures, d) Balance Transfers (both IN & OUT), e) Processes & Systems for Approvals and Underwriting, f) Mechanisms for early bucket Collections & NPL Recoveries and g) Tech upgradation (new LOS/LMS). The concomitant outcomes are 1) pick-up in portfolio growth with consistent improvement in Disbursement volume and positive net BT activity, 2) substantial reduction in GNPLs and 3) material improvement in RoE with adept margin management as well.

Management expects growth trends to keep improving in the coming quarters and targets 10-12% growth in the current fiscal and 15-20% growth in ensuing years. The drivers of stronger growth in the future would be a) better productivity from recently deployed Sales team in branches, d) planned augmentation of the Sales team and branch coverage (all branches/locations to be covered), c) utilization of current higher margin/spread to competitively price and even tap adjacent customer/market segments, and d) further improvement in asset quality and controlled fwd. flows spurring growth sentiment. It is pertinent to note that Repco has higher repayment rate than peers (which impacts the net portfolio accretion) due to a long period (FY17-22) of weak disbursements and low portfolio growth.

Buckets & NPLs will continue to improve; Credit cost to remain negligible

Asset quality improvement is expected to continue with Management confident even about reducing the OD buckets/Stage-2 substantially over the next couple of years. In the current fiscal, the Stage-2 assets have been coming down by around Rs0.8-1bn per quarter and this pace is expected to largely sustain on the back of a dedicated collection team focused on correcting early bucket delinquencies and sensitizing/educating vintage customers (moulding behaviour). These efforts are also manifested in low slippages (ann. 80 bps) in recent quarters. Better quality of customer onboarding (750+ avg. CIBIL score), improved underwriting/filtration and augmentation of collection efforts is translating into much lesser delinquency creation from disbursements of past 20-22 months (1+ dpd <5% for originations since Jan'22). Stress has already crystallized from the legacy portfolio which was restructured during Covid.

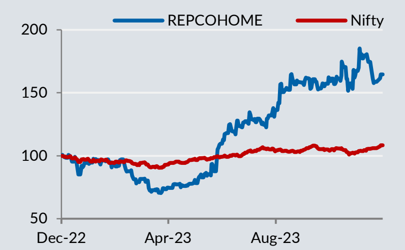
While NPL addition is likely to remain modest, NPL resolution (led by recoveries) is expected to remain strong. Management expects to surpass its GNPL reduction target of Rs1bn for the year. The Stage-3 is targeted at <4% by Mar'24 and <3% by Mar'25. The reduction in NNPL level would continue to be much faster as bulk of the provision releases are retained for enhancing coverage and for addressing future business-as-usual slippages. The envisaged NPL reduction would mean negligible credit cost for many quarters to come. As per management, there are no outright fraud cases within the current NPL stock and hence the principal recoverability is high.

Reco	:	**BUY**
CMP	:	Rs 408
Target Price	:	Rs 550
Potential Return	:	35.0%

Stock data (as on Dec 04, 2023)

Nifty	20,687
52 Week h/l (Rs)	458 / 168
Market cap (Rs/USD mn)	25209 / 302
Outstanding Shares (mn)	63
6m Avg t/o (Rs mn):	112
Div. yield (%):	0.7
Bloomberg code:	REPCO IN
NSE code:	REPCOHOME

Stock performance



	1M	3M	1Y
Absolute return	-0.5%	5.9%	66.6%

Shareholding pattern

Promoter	37.1%
FII+DII	33.7%
Others	29.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	550	550

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	59.1	66.8	72.3
EPS (Old)	59.1	66.8	72.3
% Change	-	-	-

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	6,910	7,903	8,867
PPOP	5,204	5,949	6,627
Net profit	3,700	4,179	4,521
Growth (%)	24.9	12.9	8.2
EPS (Rs)	59.1	66.8	72.3
ABVPS (Rs)	413.8	473.3	535.9
P/E (x)	6.9	6.1	5.6
P/ABV (x)	1.0	0.9	0.8
ROAE (%)	13.8	13.7	13.1
ROAA (%)	2.8	2.8	2.7

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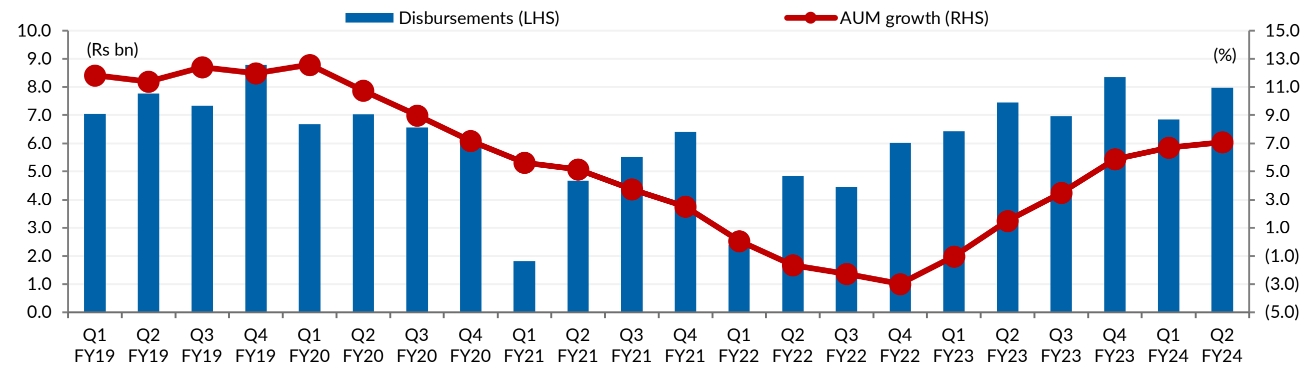
Spread managed well; higher growth would call for some calibration

Repco has managed its spread and margin well in the past five quarters wherein funding cost increased sharply. The portfolio yield increased in line with the funding cost, depicting 1) timely increases of MLR/PLR, 2) migration to 3-month repricing (from 6-month) of loans from April'23, 3) significant reduction of NPLs and 4) right pricing of cases enabled by LMS. Secondly, the extent of funding cost increase for Repco in the context of its high dependence on bank borrowings (87%) was palatable, aided by comfortable capital position, significant reduction of NNPL, and material improvement in RoA/RoE. Having reduced the Net NPLs to a much moderate level, Repco has become eligible for NHB funding and has applied for it. As per Management, incremental funding cost from banks could increase marginally on account of RBI's recent risk weight changes. Basis trends in incremental Spread and the intent to explore adjacent customer/market segments for higher growth, the portfolio NIM/Spread is likely to settle at lower than current levels in the long run.

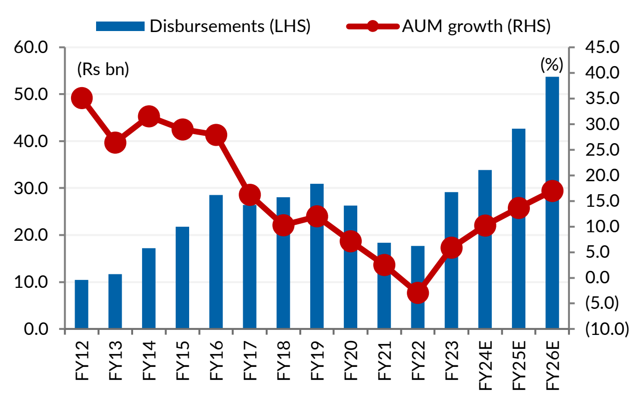
STORY IN CHARTS

Exhibit 1: Pick-up in disbursements upping AUM growth



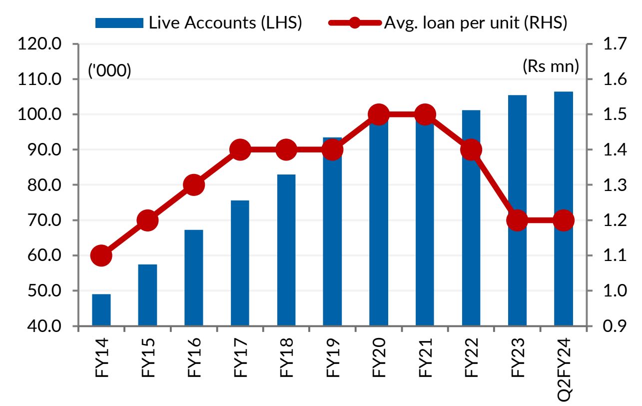
Source: Company, YES Sec

Exhibit 2: AUM growth could improve to 14-16% by FY25



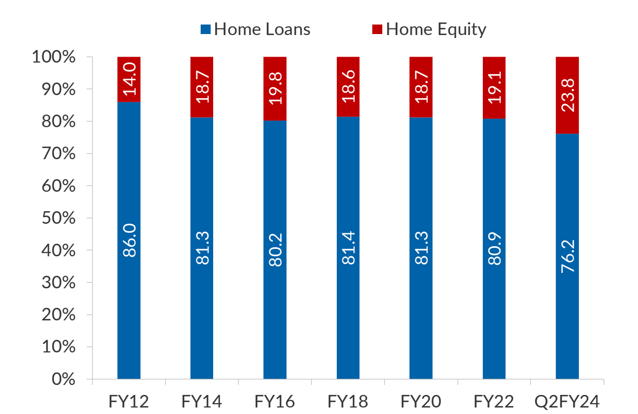
Source: Company, YES Sec

Exhibit 3: Conservative in Ticket Size



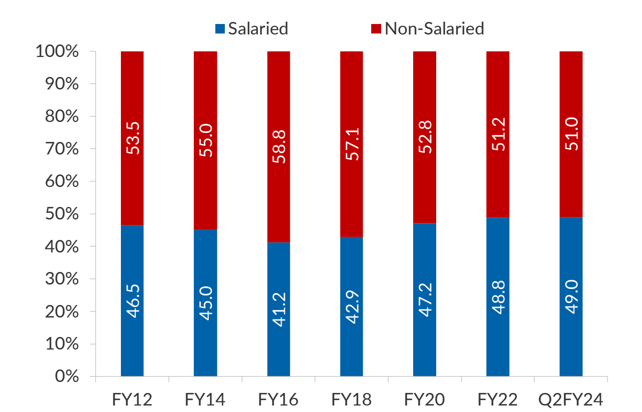
Source: Company, YES Sec

Exhibit 4: Increase in Home Equity with de-bulking



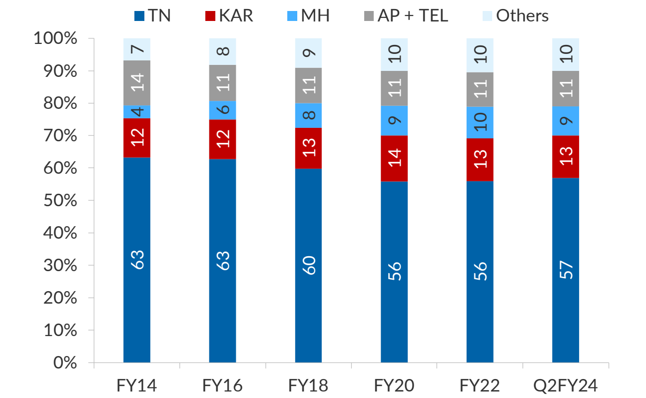
Source: Company, YES Sec

Exhibit 5: Shift towards Salaried profile in recent years



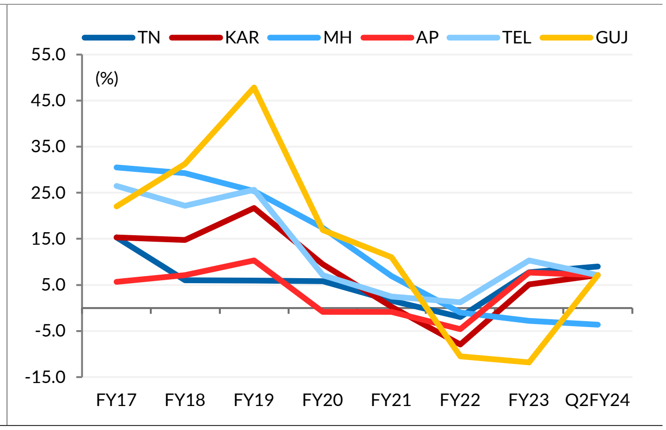
Source: Company, YES Sec

Exhibit 6: Share of TN has declined



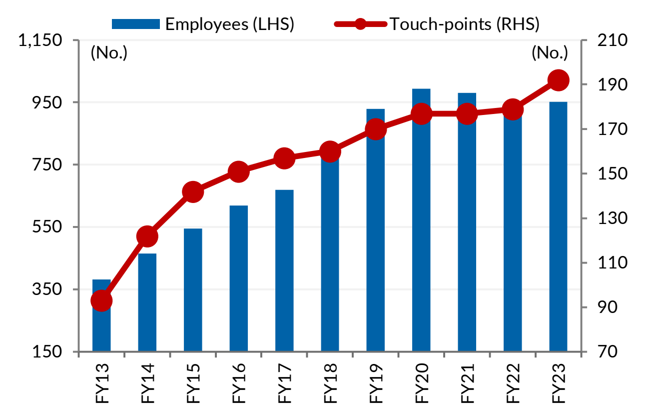
Source: Company, YES Sec

Exhibit 7: AUM growth across geographies is recouping



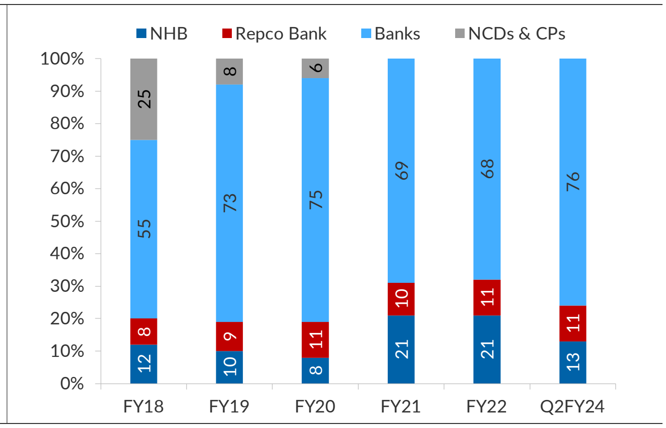
Source: Company, YES Sec

Exhibit 8: Investments in distribution/manpower required



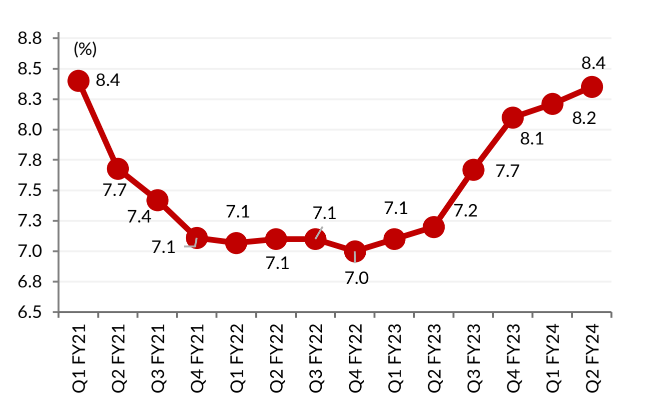
Source: Company, YES Sec

Exhibit 9: Borrowing mix dominated by Banks



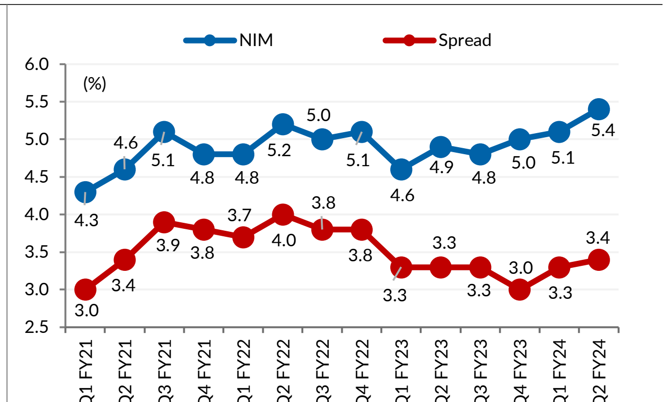
Source: Company, YES Sec

Exhibit 10: Slower pace of increase in borrowing cost



Source: Company, YES Sec

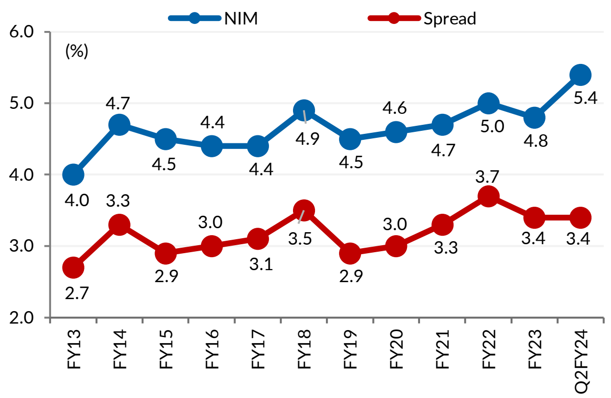
Exhibit 11: NIM/Spread at healthy levels



Source: Company, YES Sec

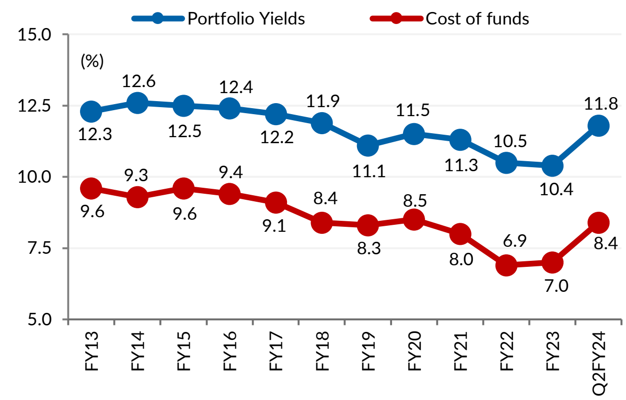
Repco Home Finance Limited

Exhibit 12: NIM/Spread can come back to trend levels



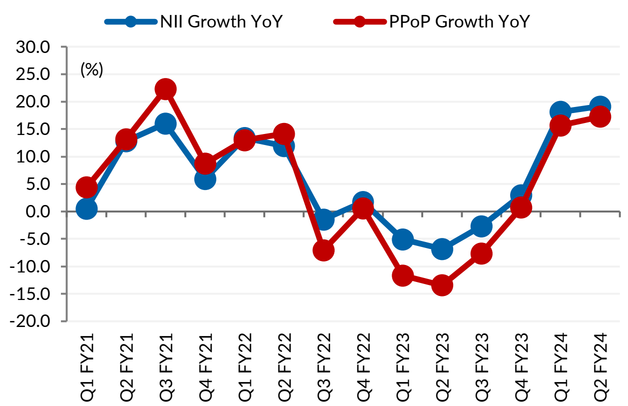
Source: Company, YES Sec

Exhibit 13: Lending spread has been stable over cycles



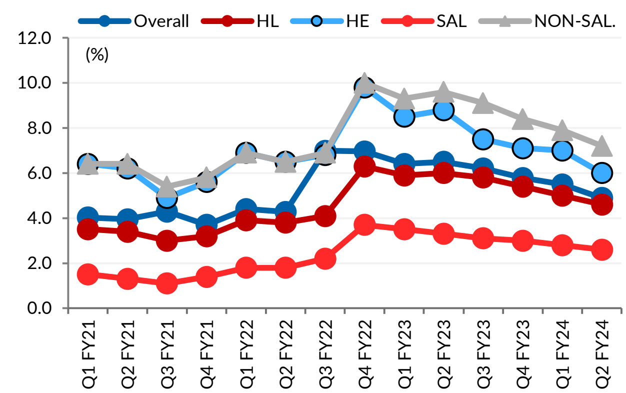
Source: Company, YES Sec

Exhibit 14: NII/PPOP growth has sharply improved



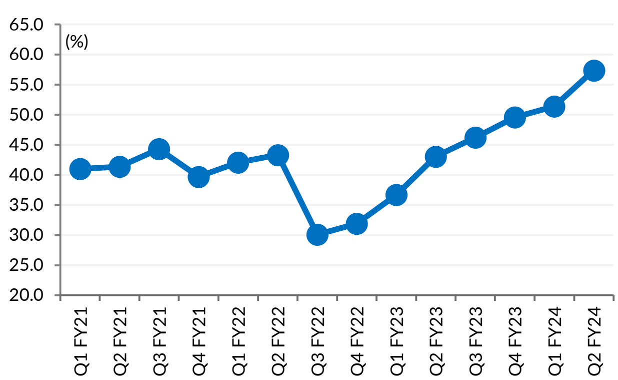
Source: Company, YES Sec

Exhibit 15: NPL reduction has been pervasive



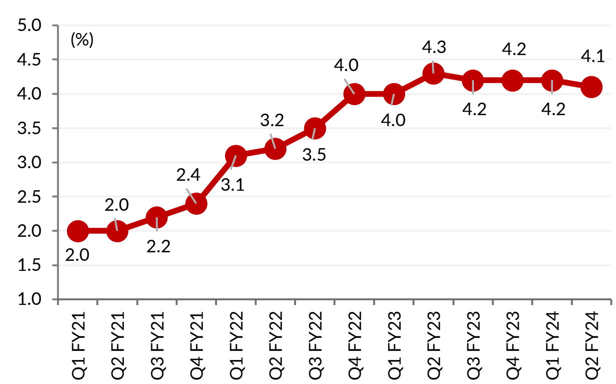
Source: Company, YES Sec

Exhibit 16: Stage-3 coverage being significantly raised



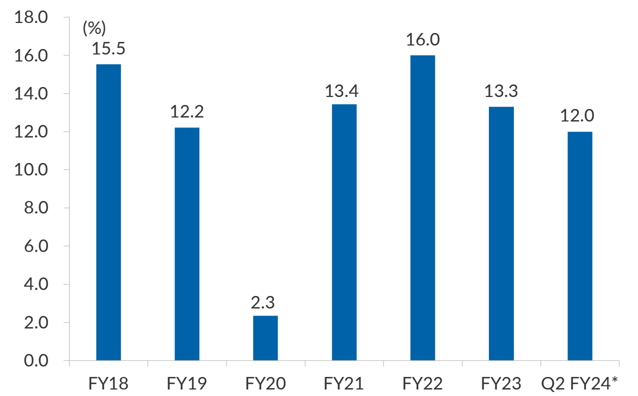
Source: Company, YES Sec

Exhibit 17: Overall ECL level maintained despite improvement in portfolio construct



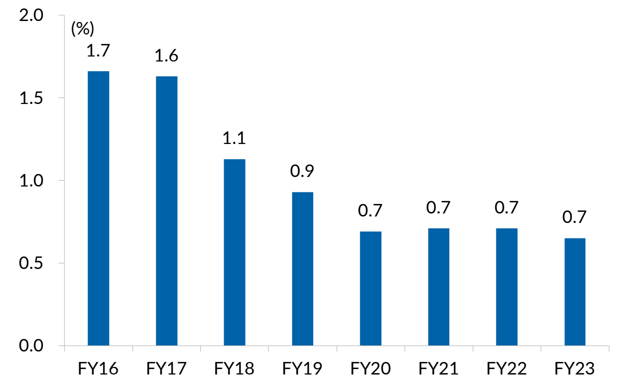
Source: Company, YES Sec

Exhibit 18: Stage-2 assets % on decline



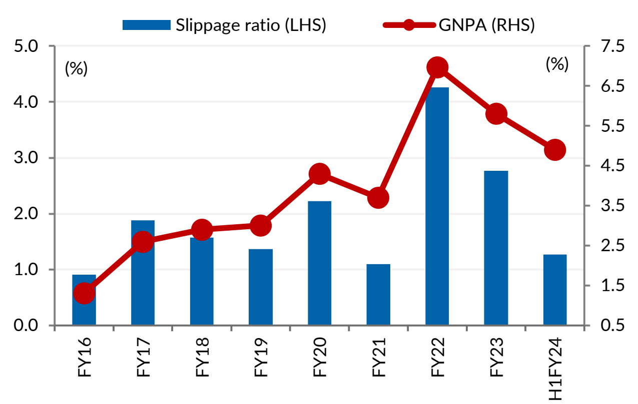
Source: Company, YES Sec, *Note: Q2FY24 S2 is from Q2FY24 Concall. transcript

Exhibit 19: Loan book (Top 20 customers) concentration has come down



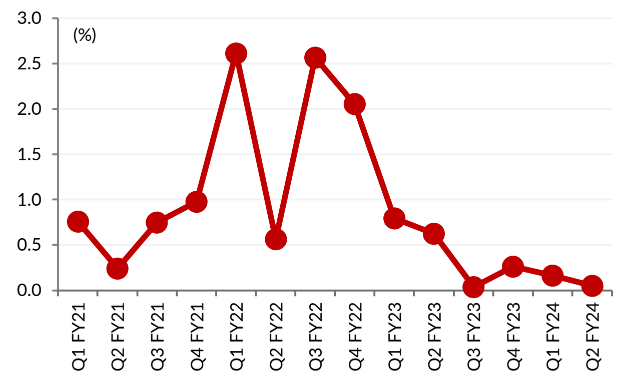
Source: Company, YES Sec

Exhibit 20: Slippages have moderated



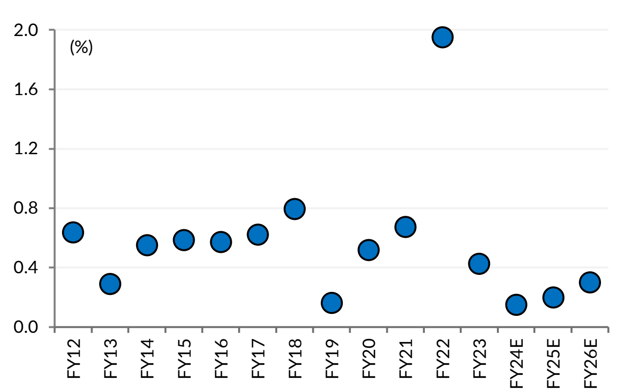
Source: Company, YES Sec

Exhibit 21: Credit cost has improved sharply



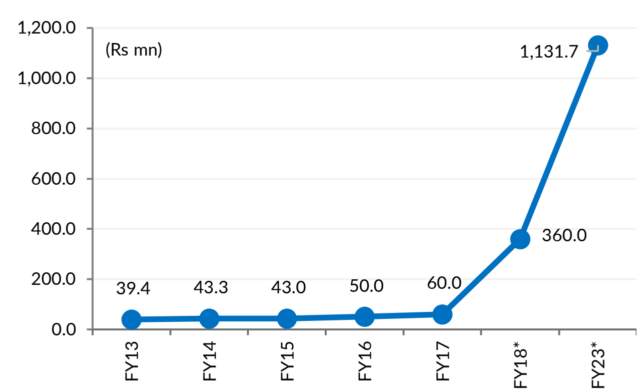
Source: Company, YES Sec

Exhibit 22: Credit cost will remain marginal



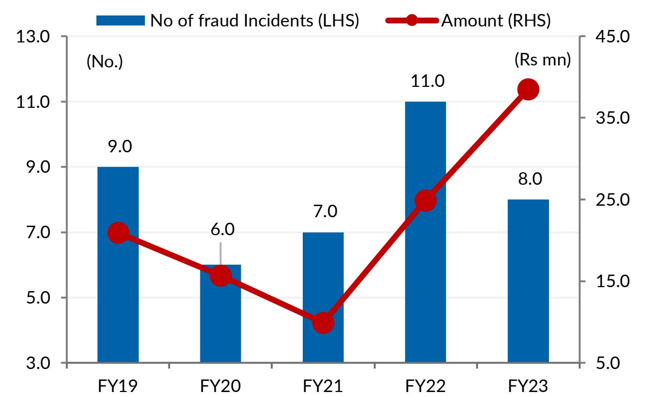
Source: Company, YES Sec

Exhibit 23: Lifetime write-offs at 35 bps of life-time Disbursements



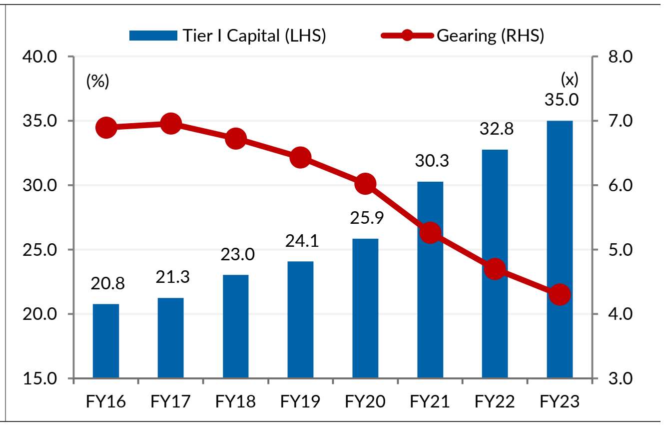
Source: Company, YES Sec, *Note: Figures for FY18 and FY23 are Including TWOs

Exhibit 24: No./Quantum of Frauds have been moderate



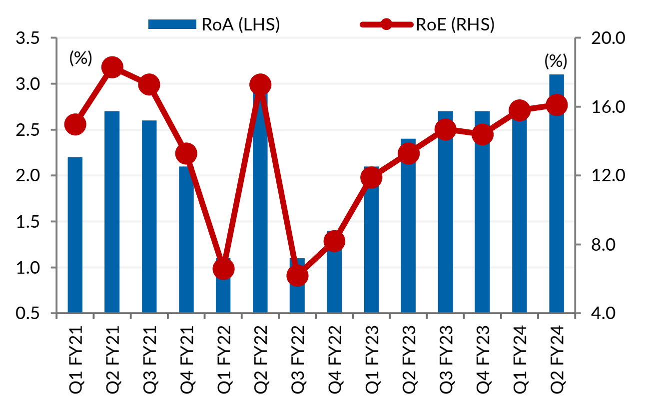
Source: Company, YES Sec

Exhibit 25: Strong capital adequacy can aid faster growth



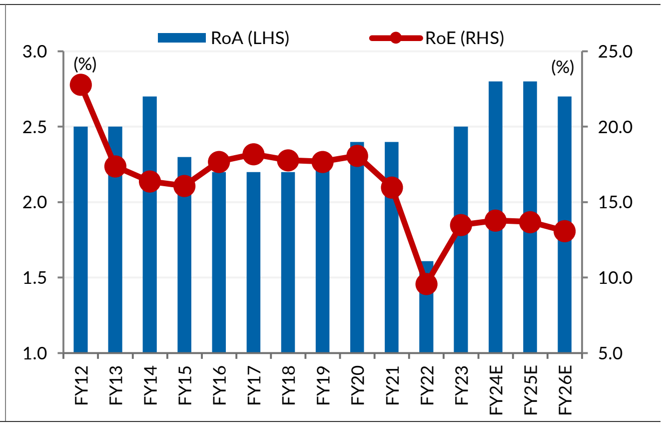
Source: Company, YES Sec

Exhibit 26: Profitability in recovery mode



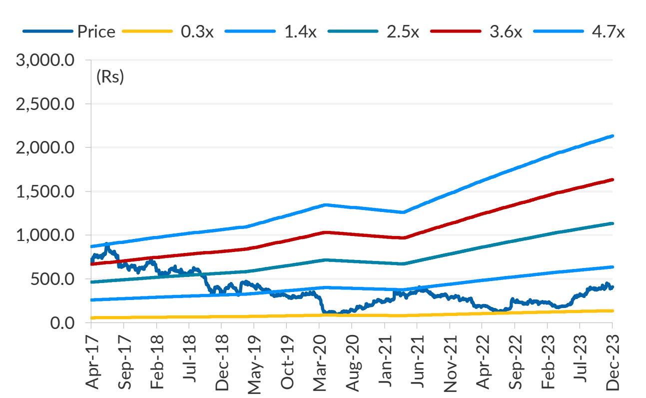
Source: Company, YES Sec

Exhibit 27: Incr. RoE improvement requires stronger growth



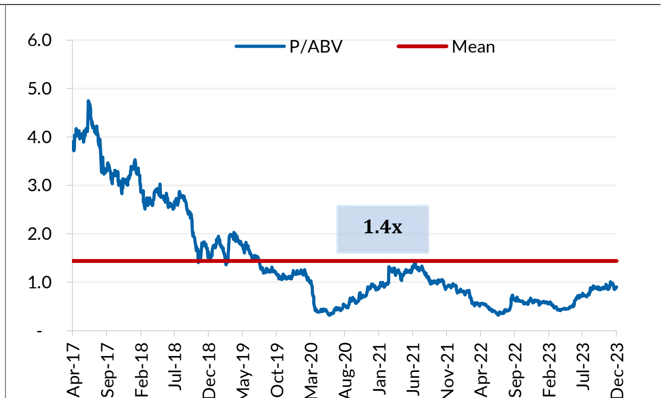
Source: Company, YES Sec

Exhibit 28: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 29: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 30: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	626	626	626	626	626
Reserves	21,730	24,536	27,979	31,865	36,094
Shareholder's funds	**22,356**	**25,162**	**28,605**	**32,491**	**36,719**
Provisions	223	234	234	234	234
Deferred Tax Liabilities	87	194	194	194	194
Total Non-Financial liabilities	**310**	**428**	**428**	**428**	**428**
Debt Securities	0	0	0	0	0
Borrowings (Excl. Debt Sec.)	96,920	99,241	1,08,669	1,23,339	1,45,540
Other Financial Liabilities	388	404	436	471	509
Total Financial liabilities	**97,308**	**99,645**	**1,09,105**	**1,23,810**	**1,46,049**
Total Equities and Liabilities	**1,19,974**	**1,25,234**	**1,38,138**	**1,56,729**	**1,83,196**
Assets					
Cash and Cash Equivalents	6,077	4,544	5,176	5,762	6,695
Loans	1,12,918	1,19,622	1,31,822	1,49,748	1,75,196
Investments in Associates	316	316	316	316	316
Other Financial Assets	124	161	177	195	214
Total Financial assets	**1,19,434**	**1,24,643**	**1,37,491**	**1,56,021**	**1,82,421**
Property, Plant and Equipment	153	157	173	190	209
Other Intangible Assets	48	36	36	36	36
Other Non-Financial Assets	339	398	437	481	529
Total Non-Financial assets	**540**	**591**	**647**	**708**	**775**
Total Assets	**1,19,974**	**1,25,234**	**1,38,138**	**1,56,729**	**1,83,196**

Source: Company, YES Sec

Exhibit 31: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	12,902	12,837	15,479	16,700	18,529
Interest expense	(6,899)	(7,011)	(8,661)	(8,898)	(9,774)
Net interest income	**6,003**	**5,827**	**6,817**	**7,802**	**8,755**
Non-interest income	164	154	93	102	112
Total op income	6,166	5,981	6,910	7,903	8,867
Total op expenses	(1,241)	(1,458)	(1,706)	(1,955)	(2,240)
PPoP	**4,926**	**4,523**	**5,204**	**5,949**	**6,627**
Provisions	(2,331)	(516)	(196)	(293)	(507)
Profit before tax	2,595	4,008	5,007	5,656	6,120
Taxes	(680)	(1,047)	(1,308)	(1,477)	(1,599)
Net profit	**1,915**	**2,961**	**3,700**	**4,179**	**4,521**

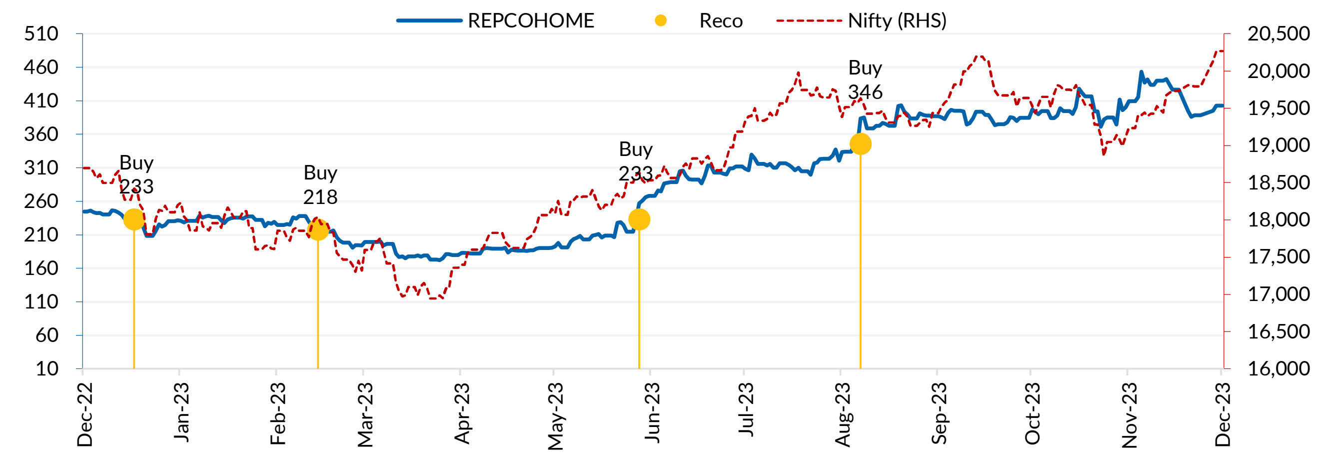
Source: Company, YES Sec

Exhibit 32: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.0	(2.9)	17.0	14.4	12.2
Total op income	5.4	(3.0)	15.5	14.4	12.2
Op profit (pre-provision)	4.7	(8.2)	15.0	14.3	11.4
Net profit	(33.4)	54.6	24.9	12.9	8.2
Loans	(4.6)	5.9	10.2	13.6	17.0
Borrowings + Debt	(5.0)	2.4	9.5	13.5	18.0
Total assets	(3.0)	4.4	10.3	13.5	16.9
Profitability Ratios (%)					
NIM	5.0	4.8	5.2	5.3	5.2
Non-interest income /Total income	2.7	2.6	1.3	1.3	1.3
Return on Avg. Equity	8.9	12.5	13.8	13.7	13.1
Return on Avg. Assets	1.6	2.4	2.8	2.8	2.7
Per share ratios (Rs)					
EPS	30.6	47.3	59.1	66.8	72.3
Adj. BVPS	268.0	344.3	413.8	473.3	535.9
DPS	2.5	2.7	3.5	4.0	4.0
Other key ratios (%)					
Loans/Borrowings	116.5	120.5	121.3	121.4	120.4
Cost/Income	20.1	24.4	24.7	24.7	25.3
CAR	33.6	35.8	36.9	36.9	35.7
Gross Stage 3	7.0	5.8	4.4	3.7	3.5
Credit Cost	2.0	0.4	0.2	0.2	0.3
Tax rate	26.2	26.1	26.1	26.1	26.1

Source: Company, YES Sec

Recommendation Tracker



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