

Repc Home Finance

Estimate change 

TP change 

Rating change 

CMP: INR503

TP: INR540 (+7%)

Neutral

Focused efforts drive asset quality improvements

NIM contracts ~20bp QoQ; provision write-backs lead to earnings beat

Bloomberg	REPCO IN
Equity Shares (m)	63
M.Cap.(INRb)/(USDb)	31.5 / 0.4
52-Week Range (INR)	543 / 204
1, 6, 12 Rel. Per (%)	7/1/117
12M Avg Val (INR M)	137
Free float (%)	62.9

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	6.5	7.0	7.8
PPP	5.2	5.7	6.3
PAT	3.9	4.4	4.6
EPS (INR)	63.1	69.7	73.8
EPS Gr. (%)	33	10	6
BV/Sh. (INR)	463	529	599

Ratios

NIM (%)	5.2	5.1	5.0
C/I ratio (%)	24.6	25.0	24.7
RoAA (%)	3.0	3.0	2.8
RoE (%)	14.6	14.1	13.1
Payout (%)	4.8	4.7	4.7

Valuation

P/E (x)	8.0	7.2	6.8
P/BV (x)	1.1	1.0	0.8
P/ABV (x)	1.1	1.0	0.8
Div. Yield (%)	0.6	0.7	0.7

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	37.1	37.1	37.1
DII	19.6	19.1	18.0
FII	14.0	13.8	14.6
Others	29.3	30.0	30.3

FII Includes depository receipts

- REPCO's 4QFY24 PAT grew 32% YoY to INR1.1b (8% beat), while FY24 PAT rose ~33% YoY to INR3.95b. NII increased ~11% YoY to ~INR1.6b (in line). Other income was up ~31% YoY at INR141m.
- PPOP grew ~7% YoY but declined ~6% QoQ to INR1.3b (6% miss). REPCO took net provision write-backs of ~INR100m, aided by healthy improvement in asset quality and recoveries of ~INR1b in 4QFY24.
- GNPA improved ~60bp QoQ to 4.1% and NNPA improved ~40bp to ~1.5%. The company increased the PCR on S3 loans by ~5pp QoQ to ~65%. ECL/EAD declined to ~3.8% (~4% in 3Q).
- REPCO has consistently maintained healthy asset quality over the past few quarters, with disbursements showing signs of gaining momentum. However, loan growth remains elusive, with ~9% YoY growth. Home loans grew ~2% YoY, while other mortgage loans (including top-ups, CRE, and LAP) rose ~33% YoY.
- The valuation at 0.8x FY26E P/BV is indeed attractive, but we will continue to monitor the company's ability to: 1) scale up loan growth in core home loans without any significant impact on NIM, and 2) further improve asset quality.
- We raise our FY25/FY26 EPS estimates by 6%/3% to factor in provision write-backs in FY25 and benign credit costs in FY26. We model a CAGR of ~12%/8% in loans/PAT over FY24-FY26E. With RoA/RoE of 2.8%/13% in FY26E, **we reiterate our Neutral rating** on the stock with our revised TP of INR540 (based on 0.9x FY26E BVPS).
- While several process improvements, organizational changes and technology transformations have been implemented, the team is yet to instill confidence in achieving a healthier home loan growth. This would serve as the primary catalyst for the stock.

Trajectory improving but loan growth remains muted

- 4QFY24 disbursements rose 7% YoY to INR8.9b. The run-offs increased, with repayment rates rising ~2pp YoY to ~17% (~15% in 4QFY23).
- The proportion of non-salaried customers remained broadly stable at ~51%, while the proportion of non-mortgage loans rose to ~25% in 4Q.
- The management shared that it plans to add 40 branches/centers in FY25 and strengthen its resources in sales, collection and underwriting verticals to further aid loan growth. We estimate loan growth of 11%/12% in FY25/FY26.

Spreads contract sequentially, driven by lower yields

- Reported yields declined ~20bp to ~11.7% and reported CoF dipped ~10bp to ~8.3%, leading to spreads declining ~10bp QoQ to ~3.3%. Reported NIM contracted ~20bp QoQ to 5.1%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

- The management shared that it is prepared for some spread/margin compression when it prices home loans aggressively in order to target salaried customers. We model NIMs of 5.1%/5.0% for FY25/FY26, primarily driven by compression in yields over the next two years.

Key highlights from the management commentary

- Guided for AUM of ~INR150b by FY25 and ~INR200b by FY27. It also guided for GNPA to decline to <3% by FY25 and to <2% by FY27.
- REPCO has initiated an IT transformation project and has already invested ~INR220m in FY24. Expects additional spending of ~INR150-180m in FY25.

Valuation and view

- While asset quality continues to improve, we will continue to focus on the management's ability to deliver on the guided metrics of asset quality and loan growth. We expect credit costs to moderate and estimate provision write-backs in FY25.
- We believe that REPCO would want to use some levers on its NIM for stronger loan growth in FY25-FY26. Although the risk-reward appears favorable at the current valuation of ~0.8x FY26E P/BV, we would wait for additional evidence of successful execution in home loan growth before adopting a positive stance on the stock. We reiterate our **Neutral rating with a TP of INR540 (based on 0.9x FY26E BVPS)**.

Quarterly performance

(INR M)

Y/E March	FY23				FY24				FY23	FY24	4QFY24E	Act v/s est(%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	2,980	3,064	3,197	3,330	3,572	3,770	3,787	3,831	12,570	14,960	3,843	0
Interest Expenses	1,653	1,692	1,810	1,856	2,026	2,075	2,153	2,203	7,011	8,456	2,237	-2
Net Income	1,327	1,372	1,387	1,474	1,546	1,695	1,635	1,628	5,560	6,504	1,606	1
YoY Growth (%)	-8.4	-12.1	-7.0	4.9	16.5	23.6	17.8	10.5	-5.8	17.0	9.0	
Other income	90	112	111	108	93	69	145	141	421	448	177	-20
Total Income	1,417	1,484	1,499	1,581	1,639	1,765	1,779	1,769	5,981	6,952	1,783	-1
YoY Growth (%)	-3.4	-7.3	-2.4	1.2	15.7	18.9	18.7	11.9	-3.0	16.2	12.8	
Operating Expenses	339	343	398	378	392	426	410	483	1,458	1,710	416	16
YoY Growth (%)	37.8	21.1	15.8	2.8	15.7	24.4	2.9	27.6	17.5	17.3	9.9	
Operating Profits	1,078	1,141	1,101	1,203	1,247	1,338	1,370	1,287	4,523	5,242	1,368	-6
YoY Growth (%)	-11.7	-13.4	-7.7	0.7	15.7	17.3	24.5	6.9	-8.2	15.9	13.7	
Provisions	237	188	12	79	50	16	29	-100	516	-5	10	-1,066
Profit before Tax	841	954	1,089	1,124	1,198	1,322	1,341	1,387	4,008	5,247	1,357	2
Tax Provisions	220	242	282	303	307	341	346	306	1,047	1,300	357	-14
Profit after tax	621	712	808	821	891	981	994	1,081	2,961	3,947	1,000	8
YoY Growth (%)	93.2	-17.2	156.6	95.3	43.5	37.9	23.1	31.6	54.6	33.3	21.8	
Loan growth (%)	-1.0	1.5	3.5	5.9	6.7	7.1	8.1	8.5	5.9	9.0	8.4	
Cost to Income Ratio (%)	23.9	23.1	26.6	23.9	23.9	24.2	23.0	27.3	24.4	24.6	23.3	
Tax Rate (%)	26.2	25.4	25.8	27.0	25.6	25.8	25.8	22.1	26.1	24.8	26.3	
Key Parameters (%)												
Yield on loans (Cal)	10.1	10.2	10.5	10.8	11.4	11.8	11.6	11.5	10.8	12.0		
Cost of funds (Cal)	7.0	7.1	7.5	7.6	8.2	8.3	8.4	8.4	7.1	8.2		
Spreads (Cal)	3.1	3.1	3.0	3.2	3.2	3.5	3.2	3.1	3.7	3.8		
NIMs (Reported)	4.6	4.8	4.8	5.1	5.1	5.4	5.3	5.1	4.8	5.2		
Credit Cost	0.80	0.63	0.04	0.26	0.16	0.05	0.09	-0.30	0.4	0.0		
Cost to Income Ratio	23.9	23.1	26.6	23.9	23.9	24.2	23.0	27.3	24.4	24.6		
Tax Rate	26.2	25.4	25.8	27.0	25.6	25.8	25.8	22.1	26.1	24.8		
Balance Sheet												
AUM (INR B)	118.6	120.7	122.0	124.5	126.6	129.2	131.9	135.1	124.5	135.1		
Change YoY (%)	-1.0	1.5	3.5	5.9	6.7	7.1	8.1	8.5	5.9	8.5		
AUM Mix (%)												
Non-Salaried	51.2	51.0	50.9	51.6	51.8	51.0	51.3	51.4	51.6	51.8		
Salaried	48.8	49.0	49.1	48.4	48.2	49.0	48.7	48.6	48.4	48.2		
AUM Mix (%)												
Home loans	80.7	80.4	79.9	79.3	76.9	76.2	75.6	74.7	79.3	74.7		
LAP	19.3	19.6	20.1	20.7	23.1	23.8	24.4	25.3	20.7	25.3		
Disbursements (INR B)	6.4	7.5	7.0	8.4	6.8	8.0	7.6	8.9	29.2	31.3		
Change YoY (%)	167.9	54.0	56.8	38.9	6.6	6.9	9.0	7.1	65.0	7.4		
Borrowings (INR B)	93.1	96.4	96.0	99.1	99.1	100.5	103.6	107.0	99	107.0		
Change YoY (%)	-6.9	-2.6	-0.2	2.3	6.4	4.3	7.9	7.9	2.3	7.9		
Loans/Borrowings (%)	127.4	125.2	127.1	125.6	127.8	128.6	127.3	126.3	125.6	126.3		
Borrowings Mix (%)												
Banks	71.0	71.8	72.1	73.8	74.1	75.6	77.7	79.2	73.8	74.1		
NHB	19.3	17.4	16.5	15.1	14.9	13.1	12.0	10.8	15.1	14.9		
Repc Bank	9.8	10.8	11.4	11.1	11.0	11.4	10.3	10.0	11.1	11.0		
NCD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
CP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Asset Quality												
GS 3 (INR B)	7.6	7.9	7.5	7.2	6.9	6.4	6.2	5.5	7.2	5.5		
Gross Stage 3 (% on Assets)	6.4	6.5	6.2	5.8	5.5	4.9	4.7	4.1	5.8	4.1		
NS 3 (INR B)	4.8	4.5	4.0	3.6	3.4	2.7	2.5	1.9	3.6	1.9		
Net Stage 3 (% on Assets)	4.2	3.9	3.5	3.0	2.8	2.2	1.9	1.5	3.0	1.5		
PCR (%)	36.8	43.1	46.2	49.6	51.4	57.4	60.1	65.2	49.6	65.2		
Return Ratios (%)												
ROA (Rep)	2.1	2.4	2.7	2.7	2.8	3.1	3.1	3.2	2.4	3.0		
ROE (Rep)	11.9	13.3	14.7	14.4	15.8	16.1	15.8	16.5	11.8	14.6		

E: MOFSL Estimates



Highlights from the management commentary

Guidance

- Guided for AUM of ~INR150b by FY25 and ~INR200b by FY27. GNPA will decline to <3% by FY25 and <2% by FY27.
- Plans to strengthen resources in sales, collection and underwriting verticals
- Confident of achieving FY25 disbursements of INR36-38b.
- Guided for NIM in the range of 4.8%-5.2%, C/I ratio of 24%, and RoA/RoE of ~3%/16%
- Guided for disbursements of ~INR36-38b in FY25 (without factoring the tailwinds in form of government incentives).
- Expects GNPA of 4% in home equity and ~2% in home loans.
- REPCO will increase the proportion of salaried customers in the mix and compete on pricing - this might affect NIM and spread.
- Confident of delivering PAT growth of 20-25% and PAT of INR4.5-4.75b in FY25.

Business Update

- Loan book grew 9% YoY to INR13.5b
- PAT for FY24 stood at INR3.9b
- ROA/ROE for 4QFY24 stood at 3.2%/16.5%.
- GNPA of 4.1% with stage 3 PCR of 65% and NNPA of 1.5%.
- **NIM**
- Repco plans to price home loans aggressively by targeting salaried employees. Consequently, spreads and NIMs might get affected.

Liabilities

- Because of an improvement in asset quality, REPCO has again become eligible for NHB funding.

Product mix and ATS

- LAP is ~15% of the loan mix and it plans to maintain housing and non-housing mix of 75:25. Regulatory cap on LAP is 40%, and internally it is capped at 30%.
- Avg ticket size of the new book is INR2m, while the average portfolio ATS is ~INR1.2m.
- **Opex**
- Created provision of INR45m in Mar'24 towards employee incentives and changes in salary structure.
- REPCO has initiated an IT transformation project and has already invested ~INR220m in FY24. Expects additional spending of ~INR150-180m in FY25.
- Expects employee expenses to grow 10-12% YoY in FY25.

Asset Quality

- The management anticipates reduction in GNPA by INR0.6-1b, resulting in provision release of INR0.4-0.5b in FY25. No significant provisions are expected in FY25.
- Although there might be a slight decline in NIM, the advantage of lower credit costs will support the PAT guidance.
- Net credit costs are expected to remain insignificant due to sufficient provisions for potential slippages.

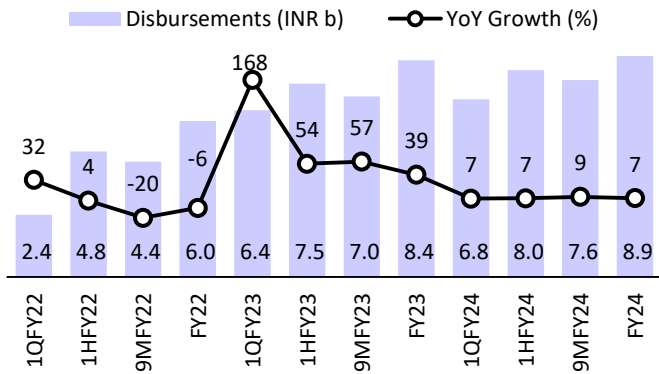
- In FY24, there were recoveries of INR3.16b and ~INR1.5b slippages. In 4QFY24, there were recoveries of ~INR1.01b and slippages of ~INR370m.
- ECL provision on stage 2 is INR940m and stage 1 is on INR640m.
- The management plans to introduce a simplified settlement scheme for customers who are in deep NPA buckets (>1000dpd).

Branches and geographic concentration

- 212 touch points across 12 states and 1 UT, comprising 168 branches and 44 satellite centers. Plans to add 40 outlets during FY25 to take the total to 250. Further, it plans to expand to two more regions in FY25.
- Concentration in TN to come down to 54% (vs. 56% now) and the company intends to increase its exposure in Karnataka, Maharashtra and AP.

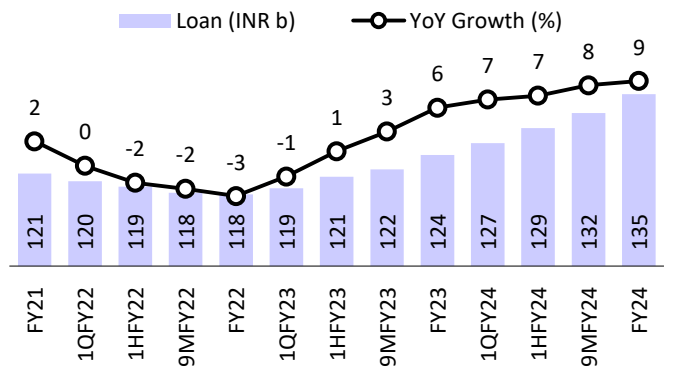
Key exhibits

Exhibit 1: Disbursements grew 7% YoY



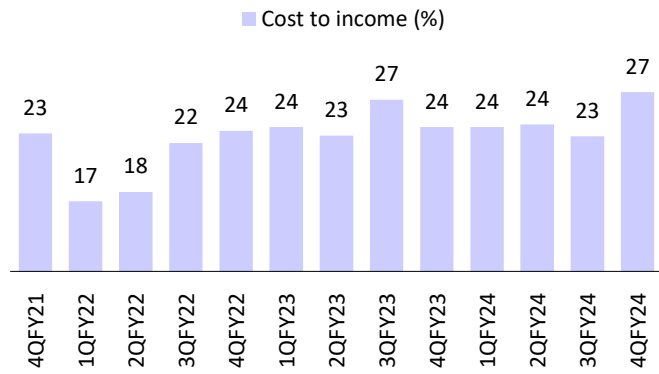
Source: MOFSL, Company

Exhibit 2: Loans grew at 9% YoY



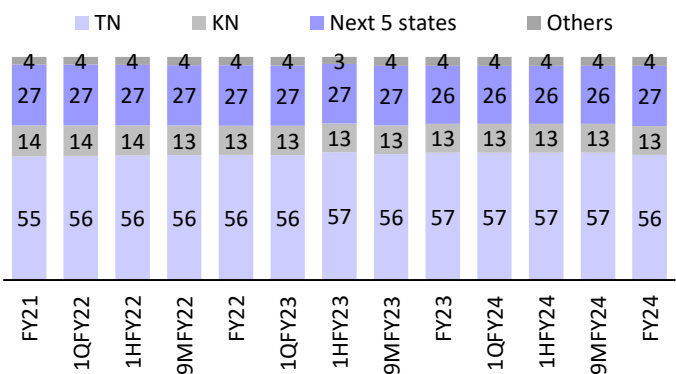
Source: MOFSL, Company;

Exhibit 3: C/I ratio increased ~4pp QoQ



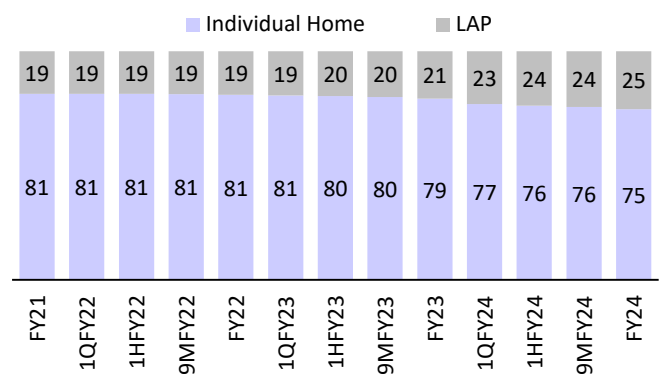
Source: MOFSL, Company

Exhibit 4: Geographical loan mix (%)



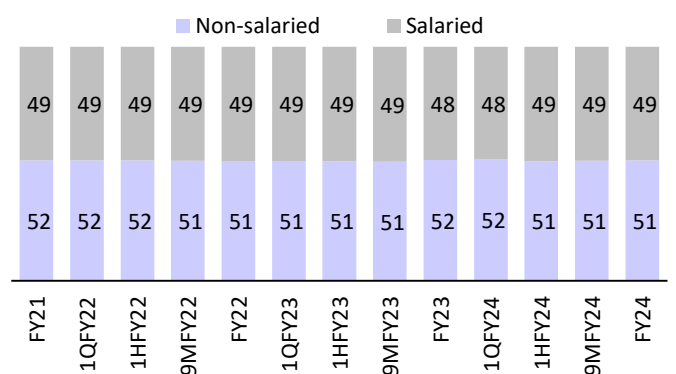
Source: MOFSL, Company

Exhibit 5: Share of home loans in the mix declined QoQ



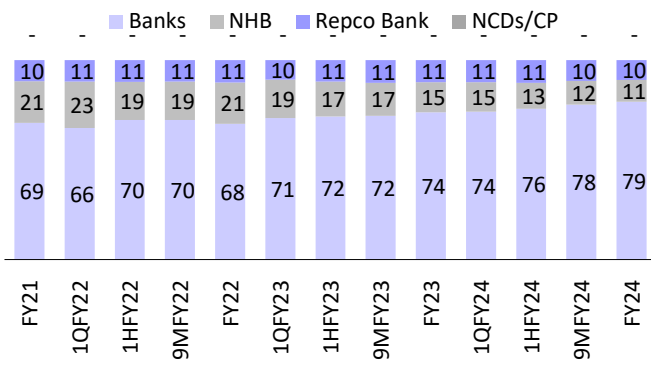
Source: MOFSL, Company

Exhibit 6: Share of salaried customers remained stable (%)



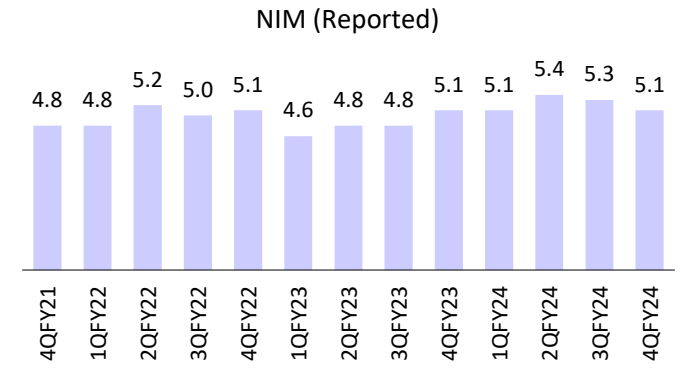
Source: MOFSL, Company

Exhibit 7: Banks borrowing in the mix rose ~2pp QoQ (%)



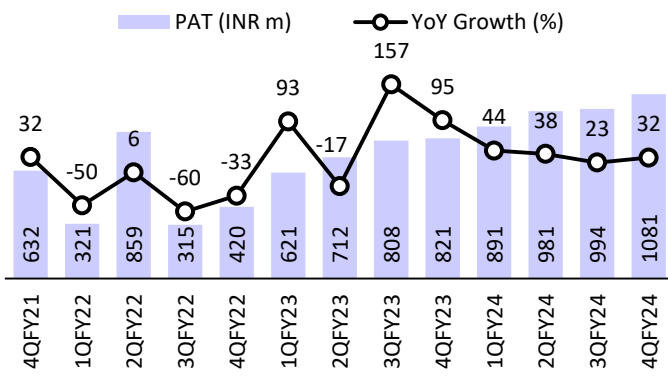
Source: MOFSL, Company

Exhibit 8: NIM (reported) declined ~20bp QoQ to 5.1%



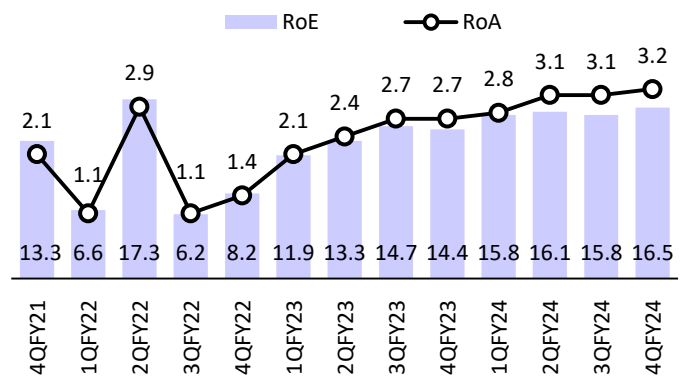
Source: MOFSL, Company, Reported

Exhibit 9: PAT grew 32% YoY to INR1b



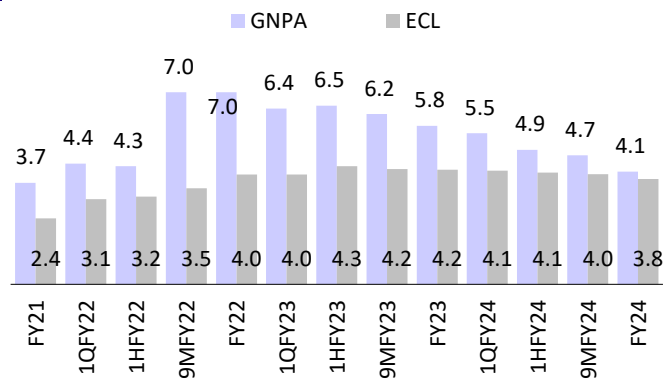
Source: MOFSL, Company

Exhibit 10: RoE/RoA trends (%)



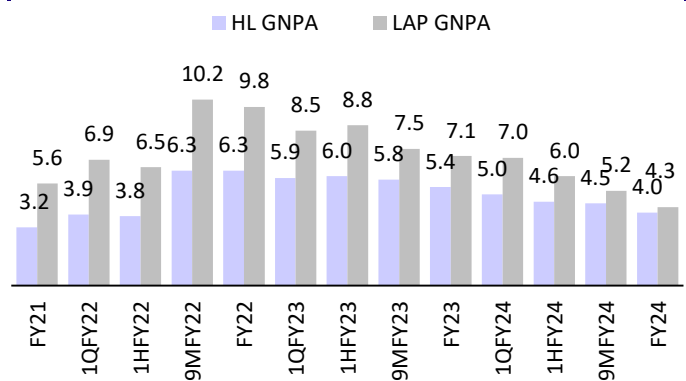
Source: MOFSL, Company

Exhibit 11: GS3 improved sequentially to 4.1%, while ECL/EAD declined ~20bp to 3.8%



Source: MOFSL, Company;

Exhibit 12: Home equity continued to exhibit more stress than home loans (%)



Source: MOFSL, Company;

Valuation and view

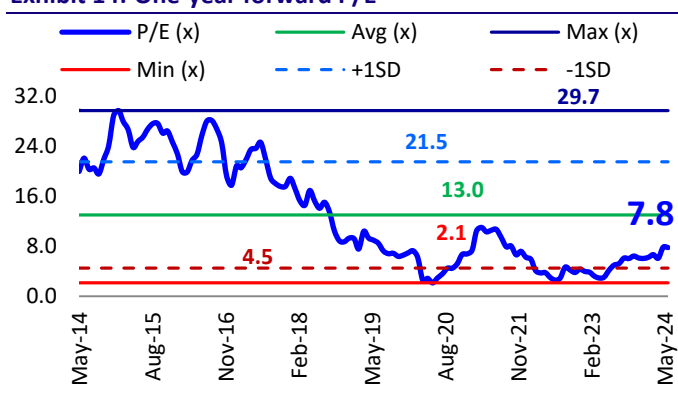
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Exhibit 13: We raise our FY25/FY26 EPS estimate by ~6%/3% to factor in provision write-backs and benign credit costs

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	6.5	7.1	7.8	6.5	7.0	7.8	0.3	-0.1	0.1
Other Income	0.5	0.5	0.6	0.4	0.5	0.6	-7.5	-5.0	-5.0
Total Income	7.0	7.6	8.4	7.0	7.6	8.4	-0.2	-0.4	-0.3
Operating Expenses	1.6	1.8	2.0	1.7	1.9	2.1	4.1	3.1	2.7
Operating Profits	5.3	5.8	6.4	5.2	5.7	6.3	-1.5	-1.5	-1.2
Provisions	0.1	0.2	0.3	0.0	-0.2	0.1	-104.9	-181.9	-59.4
PBT	5.2	5.6	6.1	5.2	5.8	6.2	0.6	4.7	1.7
Tax	1.4	1.4	1.6	1.3	1.5	1.6	-3.8	1.5	-1.4
PAT	3.9	4.1	4.5	3.9	4.4	4.6	2.1	5.8	2.8
Loan book	131	146	164	130	147	165	-0.7	0.7	1.0
NIM (%)	5.1	5.1	5.0	5.2	5.1	5.0			
Spreads (%)	3.7	3.5	3.5	3.8	3.6	3.5			
ROAA (%)	3.0	2.9	2.8	3.0	3.0	2.8			
RoAE (%)	14.3	13.4	12.9	14.6	14.1	13.1			

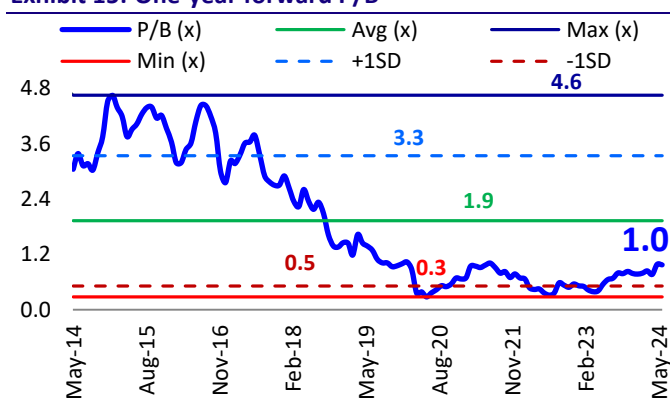
Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Financials and valuations

Income statement								(INR M)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Interest Income	11,634	13,174	13,518	12,804	12,570	14,960	16,427	18,346
Interest Expended	7,200	8,250	8,072	6,899	7,011	8,456	9,380	10,556
Net Interest Income	4,434	4,924	5,446	5,905	5,560	6,504	7,047	7,790
Change (%)	1.7	11.0	10.6	8.4	-5.8	17.0	8.3	10.5
Other Operating Income	318	337	404	262	421	448	515	577
Net Income	4,752	5,261	5,850	6,166	5,981	6,952	7,563	8,368
Change (%)	3.1	10.7	11.2	5.4	-3.0	16.2	8.8	10.6
Operating Expenses	984	1,065	1,144	1,241	1,458	1,710	1,890	2,069
Operating Income	3,768	4,196	4,706	4,926	4,523	5,242	5,672	6,299
Change (%)	-1.4	11.4	12.1	4.7	-8.2	15.9	8.2	11.1
Provisions/write offs	170	594	808	2,331	516	-5	-157	125
PBT	3,598	3,602	3,898	2,595	4,008	5,247	5,829	6,174
Extraordinary Items	0	0	0	0	0	0	0	0
PBT after EO	3,598	3,602	3,898	2,595	4,008	5,247	5,829	6,174
Tax	1,252	798	1,022	680	1,047	1,300	1,469	1,556
Tax Rate (%)	34.8	22.2	26.2	26.2	26.1	24.8	25.2	25.2
DTL on Special Reserve								
PAT	2,346	2,804	2,876	1,915	2,961	3,947	4,360	4,618
Change (%)	16.7	19.5	2.6	-33.4	54.6	33.3	10.5	5.9
PAT adjusted for EO	2,346	2,804	2,876	1,915	2,961	3,947	4,360	4,618
Change (%)	16.7	19.5	2.6	-33.4	54.6	33.3	10.5	5.9
Proposed Dividend	181	181	156	157	169	188	206	219
Balance sheet								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	626	626	626	626	626	626	626	626
Reserves & Surplus	14,648	17,243	19,967	21,730	24,536	28,314	32,468	36,867
Net Worth	15,274	17,869	20,593	22,356	25,162	28,940	33,093	37,493
Loans from Banks	0	0	0	0	0	0	0	0
Bonds/Debentures	0	0	0	0	0	0	0	0
Borrowings	92,774	1,01,090	1,01,974	96,920	99,241	1,07,010	1,19,561	1,34,795
Borrowings	92,774	1,01,090	1,01,974	96,920	99,241	1,07,010	1,19,561	1,34,795
Change (%)	14.1	9.0	0.9	-5.0	2.4	7.8	11.7	12.7
Other liabilities	1,522	987	1,093	698	832	1,103	1,378	1,585
Total Liabilities	1,09,570	1,19,946	1,23,659	1,19,974	1,25,234	1,37,053	1,54,033	1,73,873
Loans	1,08,379	1,15,884	1,18,356	1,12,918	1,19,622	1,30,371	1,46,881	1,65,393
Change (%)	12.3	6.9	2.1	-4.6	5.9	9.0	12.7	12.6
Investments	363	321	345	440	477	494	568	653
Change (%)	51.5	-11.6	7.4	27.7	8.4	3.4	15.0	15.0
Net Fixed Assets	155	372	314	353	396	576	691	774
Other assets	673	3,369	4,645	6,263	4,740	5,612	5,893	7,054
Total Assets	1,09,570	1,19,946	1,23,659	1,19,974	1,25,234	1,37,053	1,54,033	1,73,873

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Avg Yield on Loans	11.4	11.7	11.5	11.1	10.8	12.0	11.9	11.8
Avg. Cost of Borrowings	8.3	8.5	8.0	6.9	7.1	8.2	8.3	8.3
Interest Spread	3.1	3.2	3.6	4.1	3.6	3.7	3.5	3.4
Net Interest Margin	4.3	4.4	4.6	5.1	4.8	5.2	5.1	5.0
Profitability Ratios (%)								
RoE	16.5	16.9	15.0	8.9	12.5	14.6	14.1	13.1
RoA	2.3	2.4	2.4	1.6	2.4	3.0	3.0	2.8
Int. Expended/Int.Earned	61.9	62.6	59.7	53.9	55.8	56.5	57.1	57.5
Other Inc./Net Income	6.7	6.4	6.9	4.2	7.0	6.4	6.8	6.9
Efficiency Ratios (%)								
Op. Exps./Net Income	20.7	20.2	19.6	20.1	24.4	24.6	25.0	24.7
Empl. Cost/Op. Exps.	59.5	62.4	62.3	63.4	60.3	59.7	60.0	60.3
Asset Quality (%)								
Gross NPAs	3,258	5,117	4,485	8,198	7,187	5,516	4,995	4,701
Gross NPAs to Adv.	3.0	4.3	3.7	7.0	5.8	4.1	3.3	2.8
Net NPAs	1,507	3,287	2,714	5,587	3,621	1,919	1,598	1,410
Net NPAs to Adv.	1.4	2.8	2.3	4.9	3.0	1.5	1.1	0.9
Valuation								
Book Value (INR)	244.1	285.6	329.2	357.1	402.2	462.6	529.0	599.3
Price-BV (x)		1.8	1.5	1.4	1.3	1.1	1.0	0.8
EPS (INR)	37.5	44.8	46.0	30.6	47.3	63.1	69.7	73.8
EPS Growth YoY	16.7	19.5	2.6	-33.4	54.7	33.3	10.5	5.9
Price-Earnings (x)		11.2	10.9	16.4	10.6	8.0	7.2	6.8
Dividend per share (INR)	2.5	2.5	2.5	2.5	2.7	3.0	3.3	3.5
Dividend yield (%)		0.5	0.5	0.5	0.5	0.6	0.7	0.7

E: MOFSL Estimates

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