

Nov 11, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

Repco Home Finance Limited

Strong performance continues

Repco delivered 5-6% NII/PPOP and 10% PAT beat on our expectations. While disbursements/loan growth was in-line, the significant performance beat was driven by material margin expansion and substantial improvement in asset quality that drove negligible credit cost. RoA/RoE stood at 3.1%/16%, a multi-quarter high.

Shifting of growth gear from H2 FY24 would be key monitorable

Disbursements stood at Rs8bn (v/s est. Rs8.3bn), marking an acceleration in business activity from Q1 FY24. AUM grew by 2.1% qoq/7.1% yoy, as portfolio reduction was higher than the preceding quarter at annualized 17% (15% in Q1) mainly on account of much higher NPL resolution/recovery. There was no increase in BT Out and it continues to be modest at <Rs0.5bn. Notably, BT IN continue to trend higher than BT Out and stood at Rs0.7bn in Q2 FY24. There were no portfolio buyouts in the quarter.

While the management remains confident about achieving 12% portfolio in FY24, it calls for around 4% qoq in AUM and about 27-30% yoy disbursement growth for the next two quarters. Hence, the growth gear needs to shift in H2 FY24. This is plausible given that benefits will increasingly accrue from the recently established Sales vertical/team at the branches and from the enabling operational changes (process, tech, and HR) implemented over the past few quarters. Repco has aspiration of converging with industry growth in FY25.

Asset quality performance continues to exceed expectations

Repco delivered a substantial reduction of Rs0.58bn in GNPLs during Q2 FY24 versus average reduction of Rs300mn in previous three quarters. Slippages were marginal at Rs230mn (0.7% annualized), and the flows from std. restructured book (Rs5.7bn) moderated. Taking a prudent stance, the management has not been writing back provisions released from NPL recoveries and retaining them for enhancing PCR on remaining NPLs. As a result, the Stage-3 ECL coverage improved significantly from 51% to 57%. Management shared in the Earnings Call that Stage-2 has also witnessed some decline. Hence, overall credit cost in the quarter was negligible at Rs16mn.

Management expects NPL recovery to be higher than initially anticipated Rs1bn in the current year and estimates Stage-2 assets to decline to 10% by March'24. Repco has built a collection team of 80-100 people for containing fwd. flows and slippages. Quality of new originations has been strong with 750+ avg. CIBIL score.

Managed margins well through the cycle

NIM improved by 30 bps qoq, against expectation of 10 bps decline, standing at multi-year high of 5.4%. Portfolio spread expanded by 10 bps qoq to 3.4% notwithstanding a 20 bps rise in CoF. Improvement in Portfolio Yield was sharp at 30 bps qoq, aided by re-pricing of loans portfolio. Repco intends to maintain spread around 3.5%. Blended incr. lending rate is 11.5% comprising of 10% for HL and 13-14% for all non-Housing products (LAP, CRE-R & CRE-C), and incr. CoF is at 8.6%. With the significant reduction in NPLs, Repco is now eligible for NHB refinance and has applied for it.

Earning upgrades continue; valuation to re-rate further on growth uptick

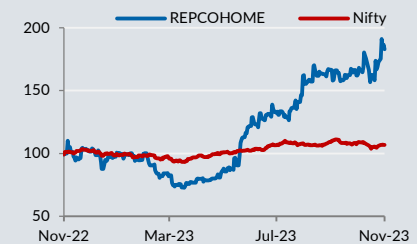
Our earnings/ABV estimates of FY24/25 undergo 4-5%/3-4% upgrades on raising of loan spread and moderation of credit cost assumptions. We expect 14% loan CAGR, 15-16% PAT CAGR and avg. 2.8%/13.5% RoA/RoE delivery over FY23-26. Under the leadership of Mr. Swaminathan, the company has delivered consistent gradual improvement in growth and meaningful improvement in asset quality. With the operational manifestation of all the structural growth enabling changes done by the management, the loan growth is expected to improve at a faster clip from H2 FY24. Notwithstanding the strong price performance in recent months, Repco's valuation is still undemanding at 6.5x P/E and 0.9x P/ABV on FY25 estimates. We retain BUY with substantially raised 12m PT of Rs550.

Reco	: BUY
CMP	: Rs 434
Target Price	: Rs 550
Potential Return	: 26.8%

Stock data (as on Nov 10, 2023)

Nifty	19,425
52 Week h/l (Rs)	458 / 168
Market cap (Rs/USD mn)	27655 / 332
Outstanding Shares (mn)	63
6m Avg t/o (Rs mn):	109
Div. yield (%):	0.7
Bloomberg code:	REPCO IN
NSE code:	REPCOHOM

Stock performance



	1M	3M	1Y
Absolute return	11.8	17.6%	82.9%

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	450

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	59.1	66.8	72.3
EPS (Old)	56.1	64.5	-
% Change	5.4%	3.6%	-

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)	7.3	6.5	6.0
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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Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Operating Income	3,802	3,645	4.3	3,141	21.0
Interest expended	(2,075)	(2,026)	2.4	(1,692)	22.6
Net Interest Income	1,727	1,619	6.7	1,449	19.2
Other Income	38	20	85.6	35	8.4
Total Income	1,765	1,639	7.7	1,484	18.9
Operating expenses	(426)	(392)	8.8	(343)	24.4
PPOP	1,338	1,247	7.3	1,141	17.3
Provisions	(16)	(50)	(67.8)	(188)	(91.5)
PBT	1,322	1,198	10.4	954	38.7
Tax	(341)	(307)	11.3	(242)	40.9
Reported PAT	981	891	10.1	712	37.9

Source: Company, YES Sec

Exhibit 2: Key ratios

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
NIM	5.4	5.1	0.3	4.9	0.5
Yield	11.9	11.6	0.3	10.5	1.4
Cost of Funds	8.4	8.2	0.2	7.2	1.2
Spread	3.4	3.3	0.1	3.3	0.1
Cost to Income	24.2	23.9	0.3	23.1	1.1
Gross NPA	4.9	5.5	(0.6)	6.5	(1.6)
ECL	4.1	4.2	(0.1)	4.3	(0.2)
Cum. RoA	3.1	2.8	0.3	2.4	0.7
Cum. RoE	16.1	15.8	0.3	13.3	2.8

Source: Company, YES Sec

Exhibit 3: Business data

(Rs mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
AUM	1,29,215	1,26,554	2.1	1,20,677	7.1
Sanctions	8,597	7,258	18.4	8,295	3.6
Disbursements	7,971	6,843	16.5	7,455	6.9
Customer Mix - (%)					
Salaried	49.0	48.0	1.7	49.0	-
Non-Salaried	51.0	52.0	(1.5)	51.0	-
Product Mix - (%)					
HL	76.0	77.0	(0.7)	80.0	(4.2)
LAP	24.0	23.0	0.7	20.0	4.2
Geographical Mix					
Tamil Nadu	73,653	72,136	2.1	67,579	9.0
Non-Tamil Nadu	55,562	54,418	2.1	53,098	4.6
Karnataka	16,798	16,452	2.1	15,688	7.1
Maharashtra	11,629	11,390	2.1	12,068	(3.6)
Andhra Pradesh	7,753	7,593	2.1	7,241	7.1
Telangana	6,461	6,328	2.1	6,034	7.1

Source: Company, YES Sec

Exhibit 4: GNPA mix

(%)	Q2 FY24	Q1 FY24	chg qoq	Q2 FY23	chg yoy
HL GNPA %	4.6	5.0	(0.4)	6.0	(1.4)
LAP GNPA %	6.0	7.0	(1.0)	8.8	(2.8)
Salaried GNPA %	2.6	2.8	(0.2)	3.3	(0.7)
Non-Salaried GNPA %	7.2	7.9	(0.7)	9.6	(2.4)
Aggregate GNPA	4.9	5.5	(0.6)	6.5	(1.6)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

Disbursements & Loan Growth

- Management confident about delivering guided 12% growth in loan portfolio in the year - H2 is generally much stronger than H1 and the co. will also benefit from the Sales vertical established recently.
- Will revisit disbursement growth guidance of 20% after Q3's performance - can resort to portfolio buy-out, if required.
- BT Out in Q2 FY24 was only Rs.380mn and BT IN was Rs.680mn - BT Out has not been an issue for Repco.
- Competition for new loans is with HFCs and for BT Out is with Banks.
- The pace of portfolio run-down has been higher due to legacy portfolio - besides BT Out, there is also regular pre-payments of ~Rs500mn every quarter - Avg tenor of HL is 8 years.
- Break of the loan portfolio is 78% HL, 14% LAP, 8% CRE-R and 1-2% CRE-C.
- Incr. ATS is Rs1.7mn, which has been stable.
- Share of DSA in sourcing at 33%, which has increased from 30%.

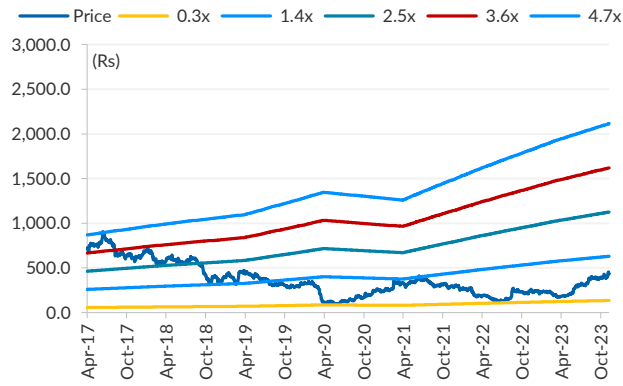
NIM & Opex

- Portfolio yield improvement was aided by residual repricing of the portfolio - interest recovery from NPLs was marginal.
- Blended incr. lending rate is 11.5% comprising of 10% for HL and 13-14% for all non-Housing products (LAP, CRE-R & CRE-C) - incr. CoF at 8.6%, so incr. spread around 3%.
- The company plans to pass on any increase in CoF to customers without compromising on growth.
- With the significant reduction in NPLs, Repco is now eligible for NHB refinance and has applied for it.
- Company intends to maintain spread around 3.5%.
- C/I ratio will be maintained around 23-24% despite the ongoing investments on tech upgradation.
- Cost of tech changes (Software & Hardware) is budgeted at Rs400-500mn, and the company has spent Rs200mn so far under the first phase (second phase to be commenced soon).

Asset Quality & Credit Cost

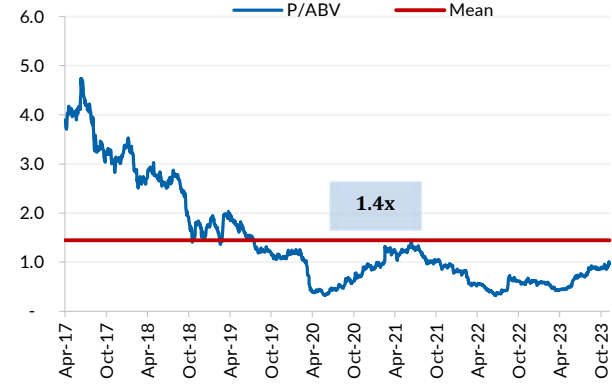
- NPL recovery will be higher than Rs1bn initially guided in the current year.
- Will keep on retaining further provisioning releases from NPL resolutions till March'24 - would evaluate taking incremental provisioning releases to P&L in FY25.
- Flows from Restructured Book have not been alarming - overall slippages were only Rs230mn in Q2.
- Quality of new originations has been strong - of about Rs57bn loans disbursed in past two years, NPLs are <Rs100mn.
- 750+ avg. CIBIL score for new cases - underwriting is more rigorous after process and tech changes - co. confident of low slippages in coming quarters.
- Stage-2 is steadily coming down and currently near 12% - management expects to be around 10% by end of the year.
- Have built a collection team of 80-100 people for containing the slippages and forward flows.

Exhibit 5: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 7: 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 8: 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

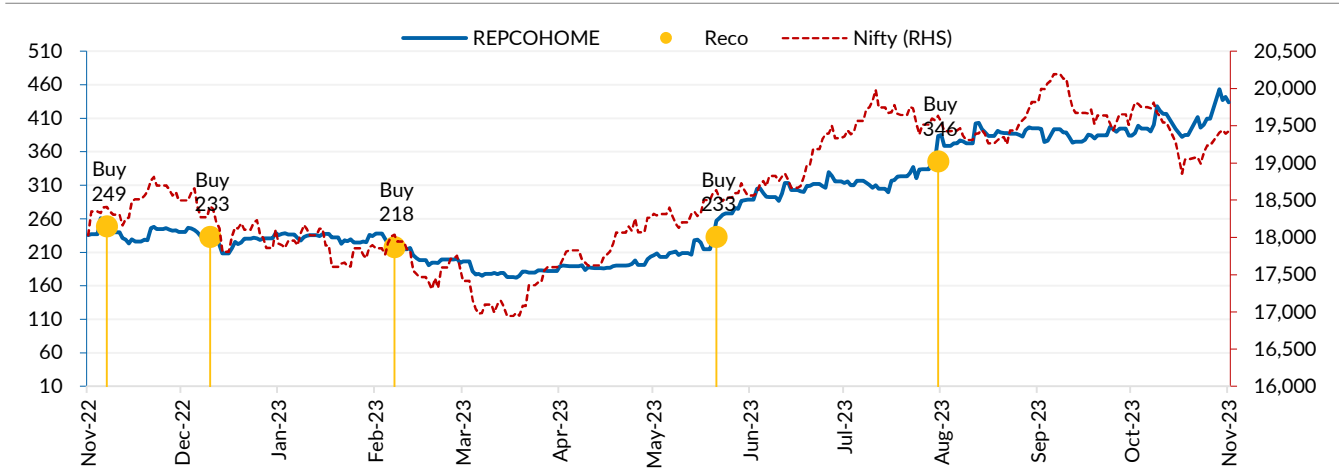
Source: Company, YES Sec

Exhibit 9: 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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