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Q1FY22 result review &  
earnings revision

## Financials

Target price Rs650

### Earnings revision

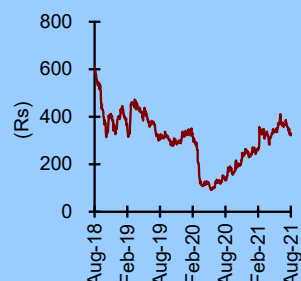
%	FY22E	FY23E
PAT	↑ 1	-

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	37.1	37.1	37.1
Institutional investors	39.9	40.5	39.9
MFs and others	20.0	20.1	22.0
Banks & FIs	0.0	0.0	0.0
FIs	19.9	20.4	17.9
Others	23.0	22.4	23.0

Source: BSE

### Price chart



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## Repco Home Finance

**BUY**  
Maintain

Stress skewed towards restructuring; growth  
lacks momentum

**Rs313**

Repco Home Finance earnings were dragged by higher credit cost of 260bps (<70bps for full year FY21). This was on anticipated lines as dominance towards the self-employed customer segment was expected to reflect elevated stress amid covid disruption. However, the texture of stress was skewed more towards restructuring (5.1% under OTR 2.0) that restricted spike in stage-3 assets to 4.4% (3.7% in FY21). Provisioning towards restructured pool and delinquency buckets of Rs783mn dragged PAT to Rs321mn (down 50% YoY as well as QoQ). Growth momentum lags peers, but superior NIM sustained operating profit trajectory (up 13% YoY). We believe the company's business franchise is currently undervalued - the stock trades below FY23E book and 6x earnings, and is available at <0.2x AUM. Maintain BUY with a target price of Rs650. Key risks: fundamentally weak performance derailing growth, and quality of credit amid covid disruption.

- **Restructuring was elevated (vs peers) at 5.4%...** OTR 2.0 at 5.1% of Repco's portfolio was significantly higher than our estimate. This is over and above the 0.3% restructuring under OTR 1.0. Company stated that of the total borrower base of 110k, ~3k customers were impacted by covid second wave, which resulted in higher restructuring. Performance of the restructured portfolio and movement in it would be a key monitorable going forward. As of now, the company has created 10% provision of OTR 2.0 portfolio, as per the regulatory guidelines.
- **...that restricted rise in stage-3 assets to 4.4%:** Against the expectations of steep rise in stage-3 assets, the pool was contained at 4.4% vs 3.7% QoQ (better than I-Sec estimate). Product-wise, housing loans' stage-3 increased to 3.9% vs 3.2% QoQ while LAP stage-3 inched up to 6.9% from 5.6% QoQ. Based on customer profile, stage-3 for salaried customers rose to 1.8% from 1.4% QoQ, while self-employed portfolio saw a steep uptick in stage-3 assets to 6.9% from 5.8% QoQ. Given that 52% of the overall portfolio is skewed towards non-salaried segment, stress was expected to be higher. Overall stress (stage 3 + OTR 2.0 + ECLGS at 9.5%) was in line with our estimate. Amid the challenging environment, we expect stage-3 pool to peak at 5-5.5% levels in FY22E and then descend in FY23E.
- **Credit cost spikes to 260bps in Q1FY22 from 70bps in FY21:** Credit cost of Rs783mn (260bps) was primarily towards the restructured pool of ~Rs6bn, wherein the company has provided 10%. It dipped into covid buffer in Q1FY22 and now carries management overlay of Rs178mn (~15bps of advances) vs Rs425mn QoQ. Overall, Repco is carrying cumulative provisions of 3.1% against stage-3 assets of 4.4% and total restructuring of 5.4%. We are building-in credit cost of 1.3%/0.5% for FY22E/FY23E respectively.

Market Cap	Rs19.6bn/US\$263mn
Reuters/Bloomberg	RHFL.BO/REPCO IN
Shares Outstanding (mn)	62.6
52-week Range (Rs)	429/130
Free Float (%)	62.9
FII (%)	17.9
Daily Volume (US\$/'000)	1,117
Absolute Return 3m (%)	(4.6)
Absolute Return 12m (%)	147.3
Sensex Return 3m (%)	14.8
Sensex Return 12m (%)	48.3

Year to March	FY20	FY21	FY22E	FY23E
NII (Rs mn)	4,924	5,446	5,576	5,815
Net Income (Rs mn)	2,804	2,876	2,394	3,224
EPS (Rs)	44.8	46.0	38.3	51.5
% Chg YoY	19.7	2.6	(16.8)	34.7
P/E (x)	6.9	6.7	8.0	6.0
P/BV (x)	1.1	0.9	0.8	0.7
Net NPA (%)	2.8	2.2	3.0	2.7
Dividend Yield (%)	0.8	0.8	0.7	0.8
RoA (%)	2.4	2.4	1.9	2.4
RoE (%)	16.9	15.0	11.0	13.2

Please refer to important disclosures at the end of this report

- **Not much momentum building up in disbursements; AUM growth moderates:** Disbursements were down 63% QoQ to Rs2.4bn albeit up 32% YoY (on a lower base). Consequently, loanbook growth was flat YoY and down 1.1% QoQ. Against the guided monthly disbursement run-rate of Rs2.2bn-2.5bn, Q1FY22 disbursements totaled Rs2.4bn as covid second wave stalled business activities for a couple of months. Also, competitive intensity as well as Repco's high lending rates vs peers seems to be resulting in elevated balance transfer (outward), resulting in lower net portfolio accretion. Going forward, we are building-in loan growth of 3% and 6% for FY22E and FY23E respectively.
- **NHB borrowing aids funding cost; benefit being passed gradually to borrowers:** During Q1FY22, Repco added another Rs2bn to NHB low-cost borrowings, which now comprises 23.4% of total borrowings vs 21.0% QoQ and 10.5% a year ago. This has helped Repco completely run down its NCDs and CP exposure to zero. Also, it has supported almost 130bps YoY and 30bps QoQ decline in funding cost to 7.0%. The benefit in funding cost was passed on to the borrowers for Repco to be competitive. It had selectively reset lending rates lower (to prevent balance transfers) and yields too declined 40bps QoQ and 70bps YoY to 10.6%. Spreads therefore fell 10bps QoQ as yields decline of 40bps was partially offset by 30bps decline in cost of funds. Overall, we are building-in flat margins for FY22E and FY23E respectively.

**Table 1: Quarterly profit and loss**

(Rs mn)

	Q1FY21	Q4FY21	Q1FY22	YoY%	QoQ%
Income from operations	3,358	3,275	3,160	(5.9)	(3.5)
Interest expenses	2,104	1,855	1,757	(16.5)	(5.2)
<b>Net interest income</b>	<b>1,254</b>	<b>1,421</b>	<b>1,403</b>	<b>11.8</b>	<b>(1.3)</b>
Other income	61	128	64	4.4	(50.3)
<b>Net Operating income</b>	<b>1,315</b>	<b>1,549</b>	<b>1,467</b>	<b>11.5</b>	<b>(5.3)</b>
Employee cost	169	186	161	(4.3)	(13.2)
Depreciation / Amortization	35	33	31	(12.5)	(7.5)
Other expenditure	32	142	54	71.1	(61.9)
<b>Operating expenses</b>	<b>235</b>	<b>361</b>	<b>246</b>	<b>4.5</b>	<b>(31.8)</b>
<b>Pre-provisioning profit (PPoP)</b>	<b>1,080</b>	<b>1,188</b>	<b>1,221</b>	<b>13.0</b>	<b>2.7</b>
Provisions and loan losses	221	292	783	253.8	167.9
<b>PBT</b>	<b>859</b>	<b>896</b>	<b>437</b>	<b>(49.1)</b>	<b>(51.2)</b>
Tax	219	264	116	(46.9)	(56.0)
<i>Tax Rate</i>	25.5	29.4	26.5	4.2	(9.9)
Extraordinary items					
<b>PAT</b>	<b>640</b>	<b>632</b>	<b>321</b>	<b>(49.8)</b>	<b>(49.2)</b>

Source: Company data, I-Sec research

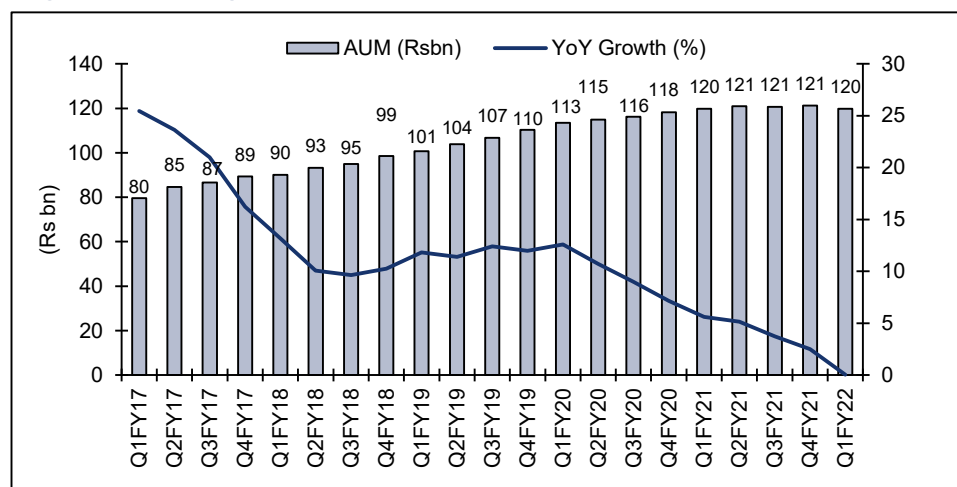
**Table 2: Key performance indicators**

(Rs mn)

	Q1FY21	Q4FY21	Q1FY22	YoY%	QoQ%
Disbursement	1,816	6,404	2,397	32.0	(62.6)
Total AUM	1,19,795	1,21,215	1,19,855	0.1	(1.1)
-Individual Home Loan (%)	81.3	81.3	81.3	0bps	0bps
-LAP (%)	18.7	18.7	18.7	0bps	0bps
NIM (Cumulative)	4.4	5.1	4.9	44bps	-26bps
CAR (%) - Entire Tier 1	26.2	28.5	31.2	500bps	270bps
GNPA (%)	4.0	3.7	4.4	40bps	70bps
NNPA (%)	2.4	2.2	2.6	19bps	34bps
Provisioning Coverage	41.2	39.7	42.1	83bps	235bps

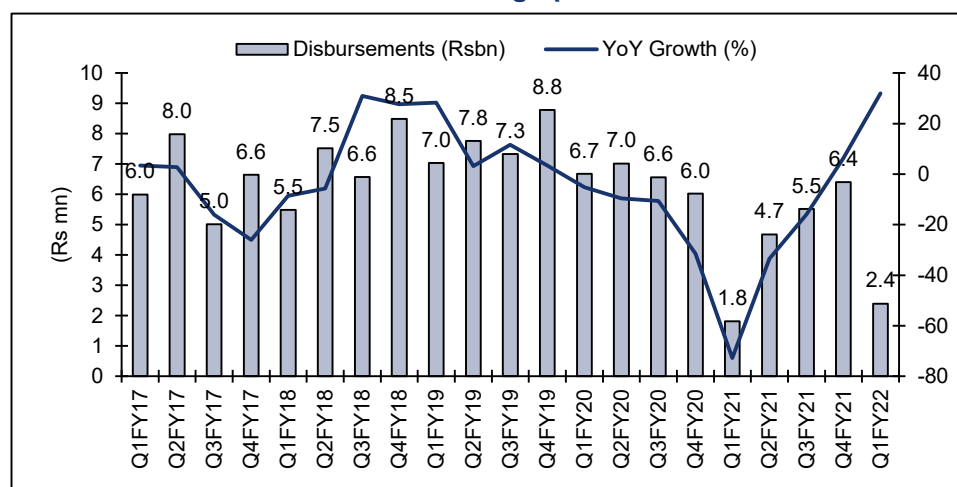
Source: Company data, I-Sec research

**Chart 1: AUM growth moderates – conservative stance in self-employed segment, and higher balance transfer (out) run-rate**



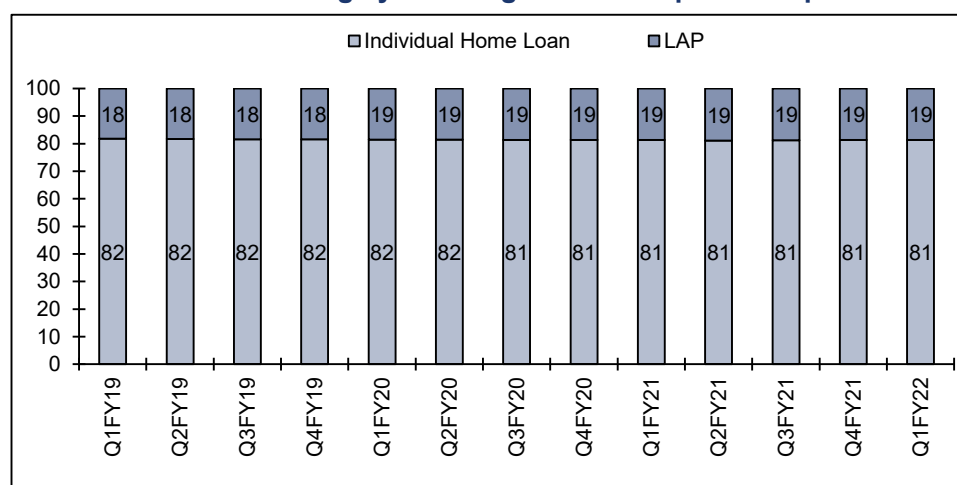
Source: Company data, I-Sec research

**Chart 2: Not much momentum building up in disbursements**

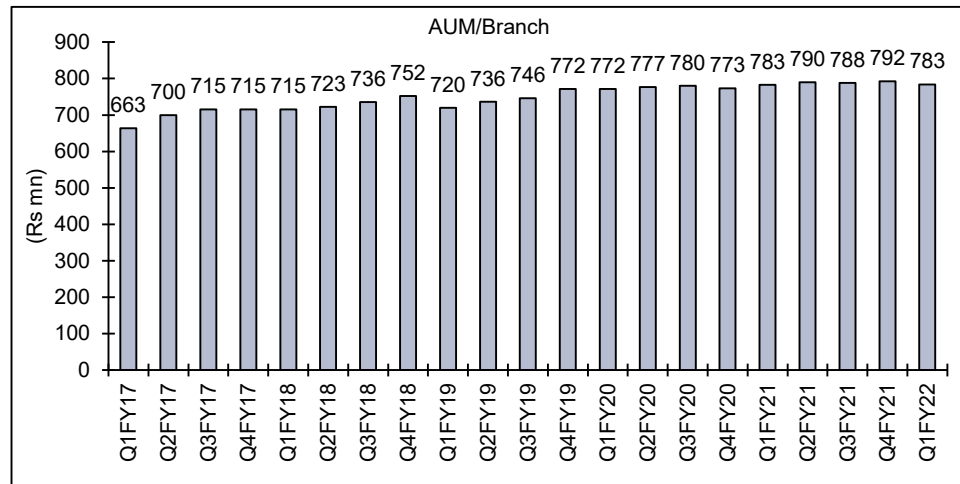


Source: Company data, I-Sec research

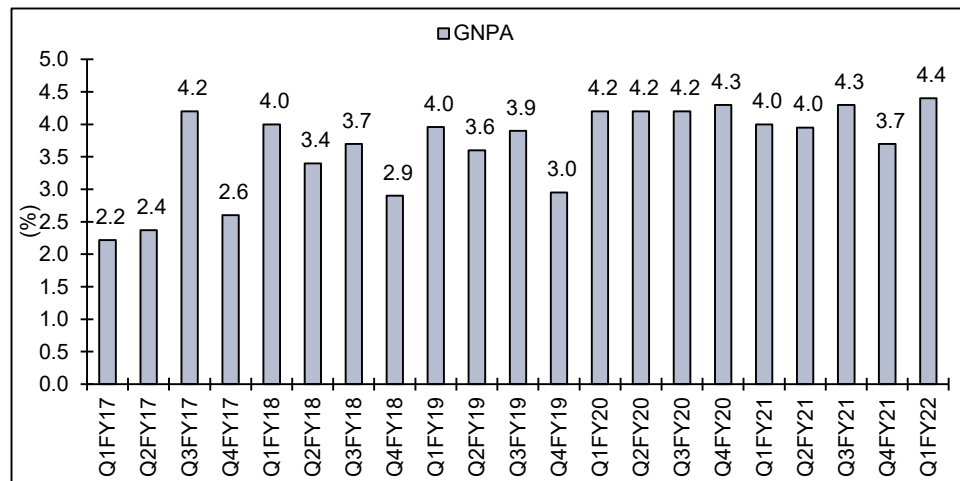
**Chart 3: Portfolio mix largely unchanged over the past few quarters**



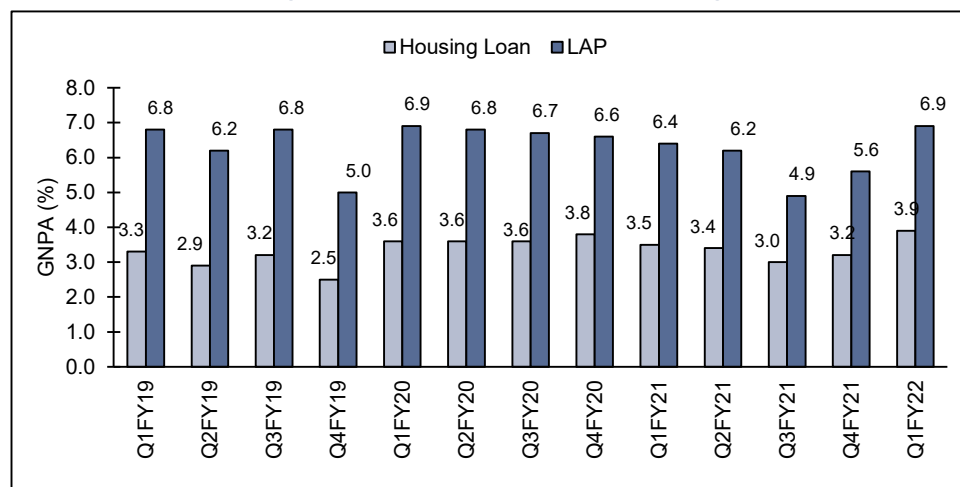
Source: Company data, I-Sec research

**Chart 4: Branch productivity steady to marginally improving**


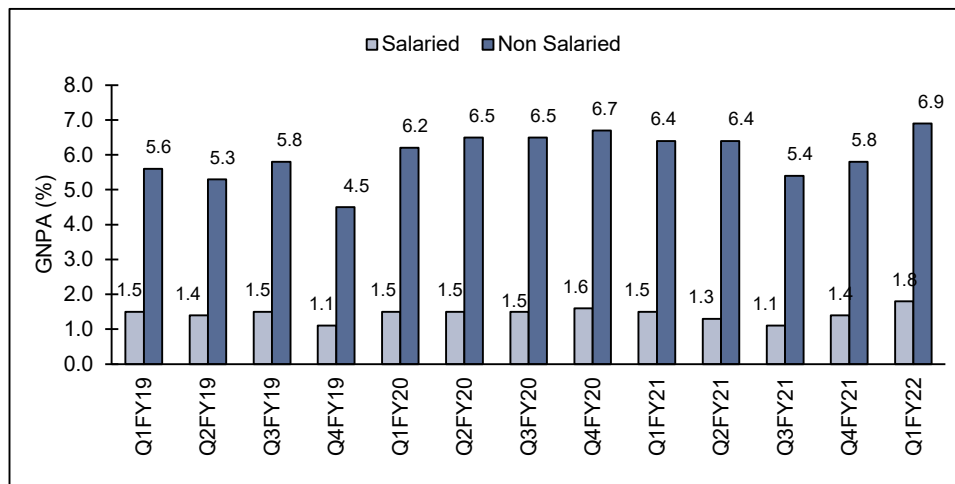
Source: Company data, I-Sec research

**Chart 5: Restructuring was elevated (vs peers) at 5.4% that restricted rise in stage-3 assets to 4.4%**


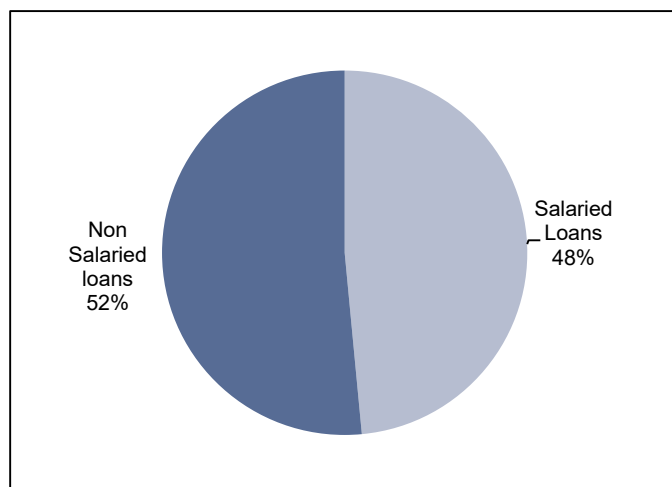
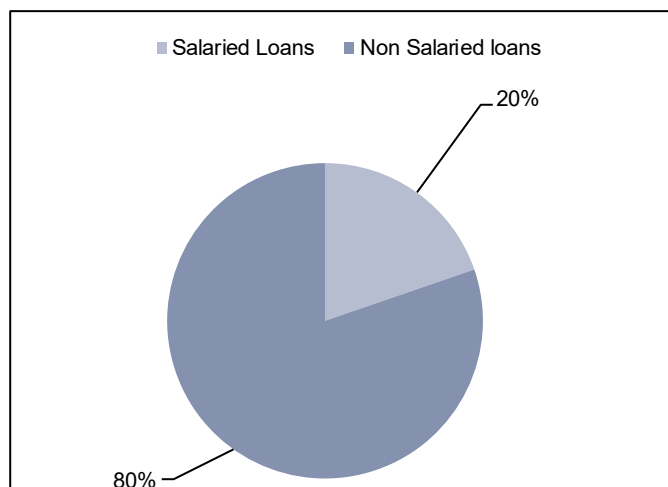
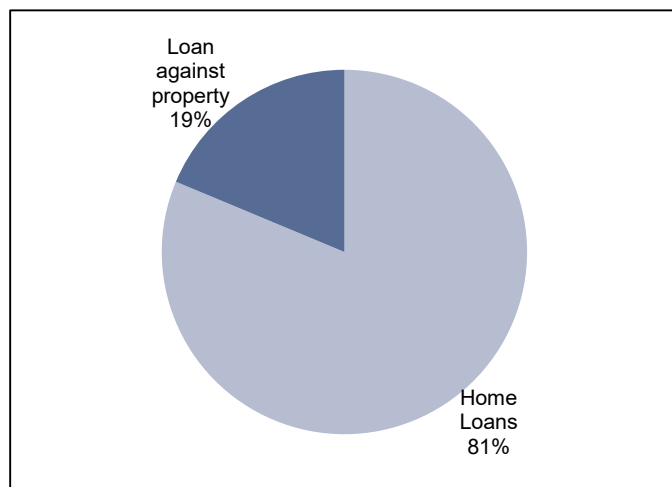
Source: Company data, I-Sec research

**Chart 6: LAP sees higher stress compared to housing loan**


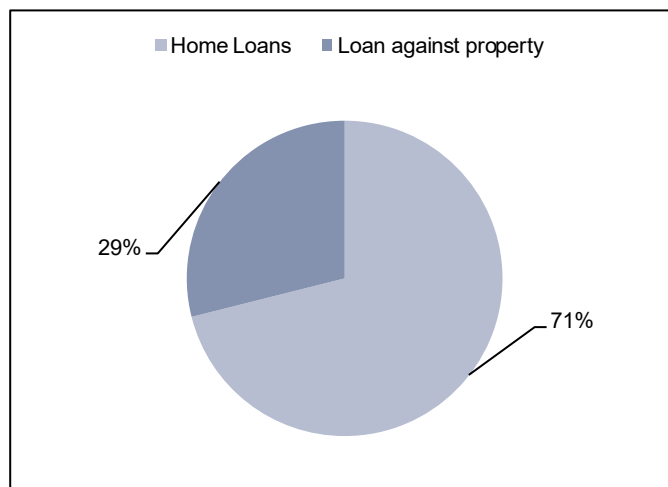
Source: Company data, I-Sec research

**Chart 7: Stress dominance towards the self-employed customer segment**

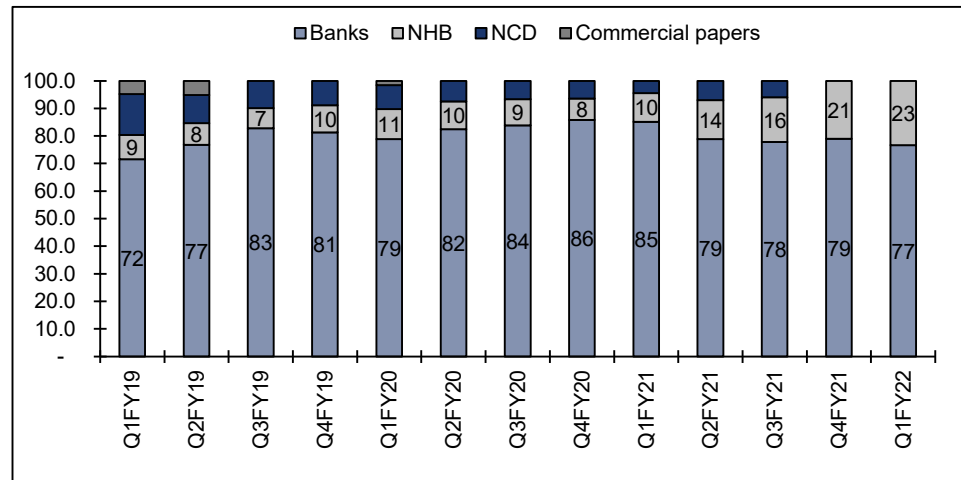
Source: Company data, I-Sec research

**Chart 8: Non-salaried customer segment forms ~52% of the AUM mix...****Chart 9: ...but contributes a huge ~80% to GNPA****Chart 10: LAP forms ~19% of the AUM mix...**

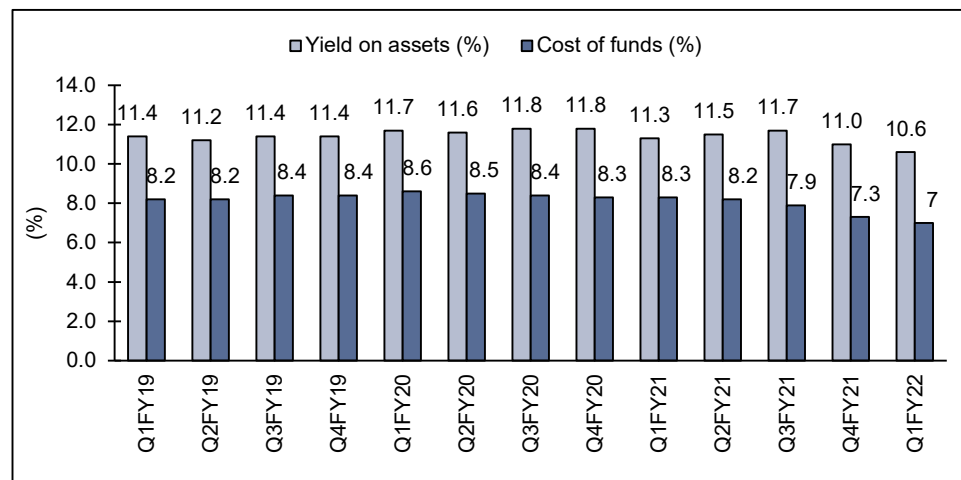
Source: Company data, I-Sec research

**Chart 11: ...but contributes ~29% to stage-3**

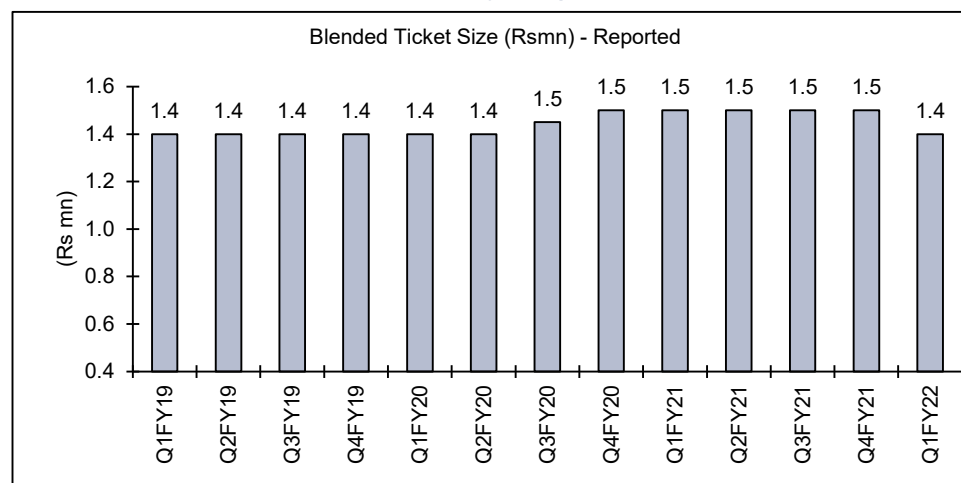
Source: Company data, I-Sec research

**Chart 12: Increased reliance on NHB; company repaid debt market borrowing**


Source: Company data, I-Sec research

**Chart 13: Funding cost benefit passed on to customers**


Source: Company data, I-Sec research

**Chart 14: Blended ticket size broadly range-bound**


Source: Company data, I-Sec research

## Financials

**Table 3: Profit and Loss statement**

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Interest earned	11,688	13,174	13,518	12,628	12,912
Interest expended	7,201	8,250	8,072	7,052	7,097
<b>Net interest income</b>	<b>4,487</b>	<b>4,924</b>	<b>5,446</b>	<b>5,576</b>	<b>5,815</b>
<b>Other income</b>	<b>264</b>	<b>337</b>	<b>404</b>	<b>362</b>	<b>408</b>
Staff cost	586	664	714	745	821
Depreciation	50	129	130	129	145
Other operating expenses	349	271	301	236	251
<b>Total operating cost</b>	<b>985</b>	<b>1,065</b>	<b>1,144</b>	<b>1,110</b>	<b>1,217</b>
<b>Pre-provisioning op profit</b>	<b>3,766</b>	<b>4,196</b>	<b>4,706</b>	<b>4,828</b>	<b>5,006</b>
Provisions & contingencies	170	594	808	1,620	695
<b>Profit before tax</b>	<b>3,596</b>	<b>3,602</b>	<b>3,898</b>	<b>3,208</b>	<b>4,310</b>
Income taxes	1,252	798	1,022	814	1,086
<b>PAT</b>	<b>2,344</b>	<b>2,804</b>	<b>2,876</b>	<b>2,394</b>	<b>3,224</b>

Source: Company data, I-Sec research

**Table 4: Balance sheet**

(Rs mn, year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
Capital	626	626	626	626	626
Reserves & surplus	14,648	17,243	19,967	22,196	25,233
<b>Net worth</b>	<b>15,274</b>	<b>17,869</b>	<b>20,593</b>	<b>22,822</b>	<b>25,858</b>
<b>Total borrowings</b>	<b>92,790</b>	<b>94,288</b>	<b>1,01,974</b>	<b>1,04,333</b>	<b>1,08,743</b>
	520	358	358	358	358
Provisions	120	159	159	184	224
Other Liabilities	866	7,265	(188)	1,590	1,655
<b>Total liabilities &amp; stockholders' equity</b>	<b>1,09,570</b>	<b>1,19,939</b>	<b>1,22,896</b>	<b>1,29,287</b>	<b>1,36,838</b>
<b>Loans &amp; advances</b>	<b>1,08,522</b>	<b>1,18,261</b>	<b>1,21,215</b>	<b>1,24,828</b>	<b>1,32,189</b>
Investments	220	220	248	271	293
Fixed Assets	155	372	387	403	420
Current & other assets (Including Cash & Bank)	673	1086	1046	3786	3937
<b>Total Assets</b>	<b>1,09,570</b>	<b>1,19,939</b>	<b>1,22,896</b>	<b>1,29,287</b>	<b>1,36,838</b>

Source: Company data, I-Sec research

**Table 5: Key ratios**

(Year ending March 31)

	FY19	FY20	FY21	FY22E	FY23E
<b>Growth (%):</b>					
AUM	12.0	7.2	2.5	3.0	5.9
Disbursements	10.2	(15.0)	(29.9)	25.9	20.0
Loan book (on balance sheet)	12.0	7.2	2.5	3.0	5.9
Net Interest Income (NII)	0.4	9.7	10.6	2.4	4.3
Non-interest income	88.8	27.7	19.8	(10.4)	12.6
Pre provisioning operating profits (PPoP)	(1.4)	11.4	12.1	2.6	3.7
PAT	16.6	19.6	2.6	(16.8)	34.7
EPS	16.6	19.7	2.6	(16.8)	34.7
<b>Yields, interest costs and spreads (%)</b>					
NIM	4.3	4.3	4.5	4.5	4.5
Yield on loan assets (on-book)	11.2	11.5	11.3	10.3	10.0
Average cost of funds	8.3	8.8	8.2	6.8	6.7
Interest Spread on loan assets (on -book)	2.9	2.7	3.1	3.4	3.4
<b>Operating efficiencies</b>					
Non-interest income as % of net income	5.6	6.4	6.9	6.1	6.6
Cost to income ratio (%)	20.7	20.2	19.6	18.7	19.6
Op.costs/avg AUM (%)	0.94	0.93	0.96	0.90	0.95
No of employees (including off rolls)	929	994	980	1,034	1,044
Average annual salary (Rs mn)	0.6	0.7	0.7	0.7	0.8
Annual inflation in average salary(%)	0.2	5.9	8.9	(1.0)	9.1
Salaries as % of non-interest costs (%)	59.5	62.4	62.3	67.1	67.4
NII /employee (Rs mn)	4.8	5.0	5.6	5.4	5.6
AUM/employee(Rs mn)	118.8	119.0	123.7	120.7	126.6
<b>Capital Structure</b>					
Debt-Equity ratio	6.1	5.3	5.0	4.6	4.2
Leverage (x)	7.2	6.7	6.0	5.7	5.3
CAR (%)	23.9	21.9	24.3	26.1	28.4
Tier 1 CAR (%)	23.9	21.9	24.3	26.1	28.4
Tier 2 CAR (%)	-	-	-	-	-
<b>Asset quality and provisioning</b>					
GNPA (% of AUM)	3.0	4.3	3.7	5.2	4.6
NNPA (% of AUM)	1.9	2.8	2.2	3.0	2.7
GNPA (Rs mn)	3,260	5,117	4,461	6,531	6,123
NNPA (Rs mn)	2,082	3,287	2,690	3,778	3,505
Coverage ratio (%)	36.1	35.8	39.7	42.2	42.8
Credit costs as % of average AUM	0.2	0.5	0.7	1.3	0.5
<b>Return ratios &amp; capital management</b>					
RoAA (%)	2.3	2.4	2.4	1.9	2.4
RoAE (%)	16.5	16.9	15.0	11.0	13.2
Payout ratio (%)	6.7	5.6	5.4	5.7	4.9
<b>Valuation Ratios</b>					
EPS (Rs)	37.4	44.8	46.0	38.3	51.5
Price to Earnings	8.2	6.9	6.7	8.0	6.0
BVPS (Rs)	244.0	285.6	329.2	364.8	413.3
Price to Book	1.3	1.1	0.9	0.8	0.7
Dividend yield (%)	0.8	0.8	0.8	0.7	0.8

Source: Company data, I-Sec research



**Table 6: DuPont analysis**

(%)	FY19	FY20	FY21	FY22E	FY23E
Interest earned	11.3	11.5	11.1	10.0	9.7
Interest expended	7.0	7.2	6.6	5.6	5.3
<b>Gross Interest Spread</b>	<b>4.3</b>	<b>4.3</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>
Credit cost	0.2	0.5	0.7	1.3	0.5
<b>Net Interest Spread</b>	<b>4.2</b>	<b>3.8</b>	<b>3.8</b>	<b>3.1</b>	<b>3.8</b>
Operating cost	1.0	0.9	0.9	0.9	0.9
<b>Lending spread</b>	<b>3.2</b>	<b>2.8</b>	<b>2.9</b>	<b>2.3</b>	<b>2.9</b>
Non- interest income	0.3	0.3	0.3	0.3	0.3
<b>Final spread</b>	<b>3.5</b>	<b>3.1</b>	<b>3.2</b>	<b>2.5</b>	<b>3.2</b>
<i>Tax rate (%)</i>	<i>34.8</i>	<i>22.2</i>	<i>26.2</i>	<i>25.4</i>	<i>25.2</i>
<b>ROAAUM</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>1.9</b>	<b>2.4</b>
Effective leverage (AAUM/ AE)	7.3	6.9	6.3	5.8	5.5
<b>RoAE</b>	<b>16.5</b>	<b>16.9</b>	<b>15.0</b>	<b>11.0</b>	<b>13.2</b>

Source: Company data, I-Sec research

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