


Repco Home Finance


Ankit Ladhani ankitl@eisec.com 022-61925336

Contents

East India Securities Ltd
Excellent | Investment | Solutions

Repco Home Finance

ACCUMULATE

A niche player in the housing finance business

Recommendation	
CMP(Rs)	296
Target(Rs)	327
Upside %	11

Share Holding (%)	
Promoter	37.4
Public	44.0
FII	6.3
DII	12.3

Key Data	
Average Vol(6m)(000)	60.6
FV	10
Beta	0.5
Mcap (Rs Mn)	18,390
52 week H/L	300 / 158
Bloomberg /Reuters	REPCO IN / RHFL.BO
Group	BSE 500
Sensex / Nifty	20,975 / 6,253

Stock Performance (%)		
Abs(%)	Sensex	Repco
3M	10.8	19.7
1Y	13.2	-

Analyst: **Ankit Ladhani**
Email ID: ankitl@eisec.com
Phone No.: 022-61925336

Repco Home Finance Ltd (Repco) is the 5th largest housing finance company with focus on low to medium ticket size (sub 15 lacs) home loans, predominately focusing on tier 2/3 cities of southern India. Promoted by the state-owned Repco Bank Ltd in 2000, Repco Housing Finance has grown from strength to strength with its loan book clocking 40% CAGR during FY2008-13, with current loan book of Rs 37.5 bn. The Company is well capitalized with a CAR of 25.3% (entirely tier I capital).

Investment Rationale

- Repco focuses on tier II and tier III cities and peripheral areas of tier I cities. This leads to lower competition from banks for Repco leading to higher advances growth vis-a-vis industry average growth of ~15% for last 3 years and better margins.
- Repco has a diversified funding profile which includes NHB, banks (including its parent Repco Bank). NIMs of Repco have remained at elevated levels and currently stand at 3.8% and are expected to remain above 3.5% going ahead.
- Non-salaried class is highly underpenetrated and relatively less competitive and offers better yields. Around 54% of Repco's outstanding credit lies with non-salaried class as against just 15% in the industry. With continued focus on non-salaried class, Repco is expected to maintain higher yields going forward.
- GNPA has increased from 1.24% in FY10 to 1.48% in FY13 and the same is largely due to the company's policy of not writting off any advances. Company has been able to maintain a fairly stable asset quality on a yearly basis in-spite of bank's focus on non- salaried class of customers.

We expect the earnings to grow by 24% CAGR over FY2013-15 led by 23% growth in advances. The stock is currently trading at 2.2x FY2015E BV. We initiate coverage on the stock with an Accumulate rating and a target price of Rs 327 (2.4X FY2015E BV).

Risk & Concern

- 63% of the total advances emanate from Tamil Nadu which leads to geographical concentration risk for the company.
- Aggression from banks/other NBFCs can be a risk as it can impact the advances growth of the company.

Particulars (Rs bn)	NII	PAT	EPS (Rs)	BVPS (Rs)	P/E	P/BV	ROE (%)	ROA (%)
FY12	1,009.3	614.6	13.2	65.3	22.4	4.5	22.3	2.5
FY13	1,219.0	800.2	12.9	102.1	23.0	2.9	17.1	2.4
FY14E	1,536.3	1,038.2	16.7	117.5	17.7	2.5	15.2	2.5
FY15E	1,819.8	1,234.5	19.9	136.0	14.9	2.2	15.7	2.4

Executive Summary

Investment Rational

Huge demand in the low cost housing segment

India's urban population has grown at a CAGR of 2.8% over 2001-2011, resulting in an increase in the urbanization rate from 27.8% to 31.2%. Out of India's 1.2 billion population, 377 million people are urban dwellers. India's urban housing shortage is estimated at nearly 18.78 million households in 2012 with economically weaker sections (EWS, 56%) and low income groups (LIG, 40%) together constitute over 95% of the total housing shortage. This shows a huge demand in the housing finance market in the coming years giving ample of business opportunities to the HFCs such as Repco Home.

Presence in under penetrated market

Repco focuses on the under-served segment of small ticket, non-salaried and self employed segment in tier II and tier III cities and peripheral areas of tier I cities. Approximately two third of the total business of Repco emanates from tier II and tier III cities. Repco has a total of 82 branches and 20 satellite centers majorly located in southern region. The focus of Repco especially in the tier II and tier III cities of southern India gives a huge advantage to Repco as it leads to lower competetion from banks in these towns.

Well recognized brand in south India

Repco Bank which is the promoter of Repco Home Finance and holds 37.37% stake in the company is a well recognized name in south India and has been in operation for more than 40 years. Repco Bank is a state owned bank with 78.7% holding by GOI and other state governments. Repco Home Finance is in operation since April 2000 and gains much recognition due to its parentage.

Focus on self employed individuals offer higher margins

Repco has a diversified mix of borrowers including both salaried and non-salaried segments. Non-salaried class is highly underpenetrated and relatively less competitive. It offers better yield on advances as compared to traditional salaried customers. ~54% of Repco's outstanding credit lies with non-salaried class which includes self employed professionals. Self employed professionals which form ~15% of total advances include doctors, lawyers and CAs.

Strong asset quality, and negligible credit cost

As Repco has a strong credit line to self employed individuals, the asset quality of Repco is cyclical. However over the years the GNPA and NNPA have remained more or less stable. One of the main reason for higher GNPA due to Repco's policy of not writing off advances. Over the years, Repco has written off a meager amount of Rs 39 million vs a total disbursement of ~ Rs 56 bn over the years.

High growth & good return ratios

Led by a 40% CAGR growth in advances over FY2008-13, the earnings of Repco have grown by 39% over the same period. ROE has remained consistently above 22% during FY2010-12, however the same declined to 17% in FY2013 due to the capital raising done via IPO during the year and is expected to decline further to 15.2% in FY2014. However we expect ROE to increase to 15.7% by FY2015E. ROA of Repco has remained stable at 2.5% over FY2012 and FY2013.

Outlook & Valuation

Strong growth in advances, followed by stable margins and asset quality and lower cost to income ratio is likely to lead to a strong growth in earnings. Post the IPO, the company is adequately capitalized with CAR of 25.3%. The ROA are expected to remain stable whereas the ROE is expected to decline in FY2014 due to the capital raised by the company. We expect the earnings of Repco to grow by 24% CAGR over FY2013-15 led by 23% growth in advances. The stock is currently trading at 2.2x FY2015E BV. We initiate coverage on the stock with an Accumulate rating and a target price of Rs 327 (2.4X FY2015E BV).

Risk & Concern

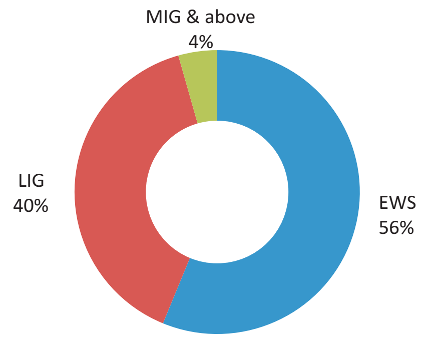
- 63% of the total advances emanate from Tamil Nadu which leads to concentration risks for the company.
- Aggression from banks/other NBFCs can be a risk as it can impact the advances growth of the company.
- With the increase in real estate prices, ticket size of loans are likely to increase which can lead to lower yields as Repco may face competition from other banks and HFCs.

Huge demand in the low cost housing segment

India's urban population has grown at a CAGR of 2.8% over 2001-2011, resulting in an increase in the urbanization rate from 27.8% to 31.2%. Out of India's 1.2 billion population, 377 million people are urban dwellers. The Federation of Indian Chambers of Commerce (FICCI) estimates that by 2050, the country's cities would witness a net increase of 900 million people. Furthermore, over 2012-2050, the pace of urbanization is likely to increase at a CAGR of 2.1% - double than that of China.

According to a report submitted by a technical committee to the Ministry of Housing and Urban Poverty Alleviation (MHUPA), India's urban housing shortage is estimated at nearly 18.78 million households in 2012 with economically weaker sections (EWS) and low income groups (LIG) together constitute over 95% of the total housing shortage. The shortage amongst the middle income groups (MIG) and above is estimated at 4.38%.

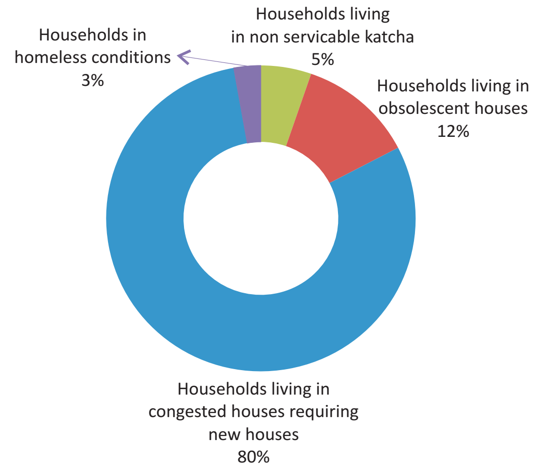
Distribution of housing shortage among different economic categories as on 2012



Source: Ministry of Housing and Urban Poverty Alleviation

Besides those living in obsolescent houses (12% of total 18.78 mn), 80% are living in congested houses and are in requirement of new houses. The report also highlights that nearly one million households are living in non-serviceable katcha houses, while over half a million households are in homeless conditions.

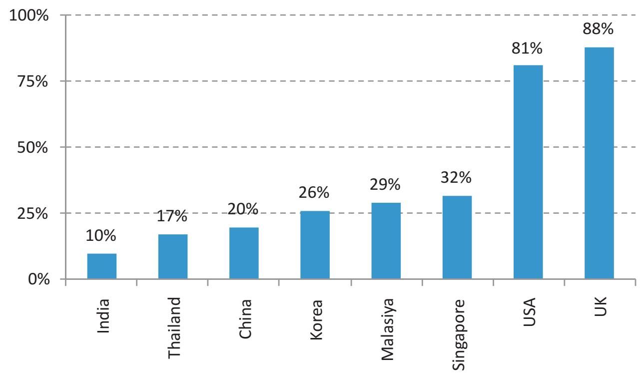
Housing shortage in urban India in 2012



Source: Ministry of Housing and Urban Poverty Alleviation

The housing loan to GDP ratio in India is ~7% which is far below when compared with other emerging economies. The government has taken various steps to boost rural and urban housing market. The Rural Housing Fund, Urban Housing Fund, Golden Jubilee Rural Housing Finance Scheme, ISHUP, Credit risk guarantee fund etc are some of the key initiatives which have energized the low ticket size housing market. As per BCG/IBA report, the estimated outstanding mortgage in India is set to increase by 8 fold by 2020 to cross nearly 20 percent of India's GDP.

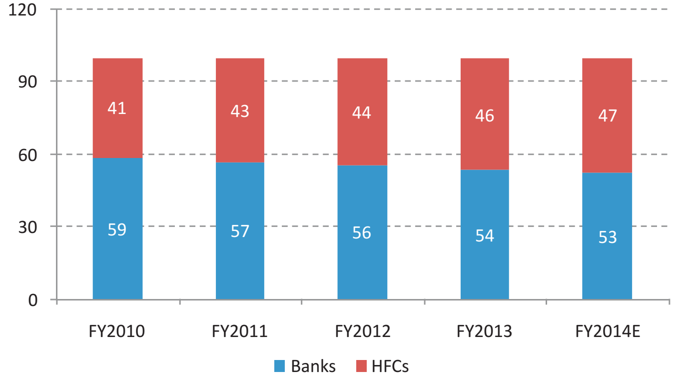
Housing Loans as % of GDP



Source: Company

According to Crisil, HFC's loan portfolio is slated to continue to grow faster than banks due to increasing penetration in tier 2/3 cities and stable asset quality and home prices. Over and above, rising urban population and declining average age of home loan borrowers are some of positive indicators for housing finance market. Over and above the share of HFCs in the total home loan portfolio has been increasing as against banks which also reflects the growing consumer preference in favour of HFCs.

Housing finance penetration

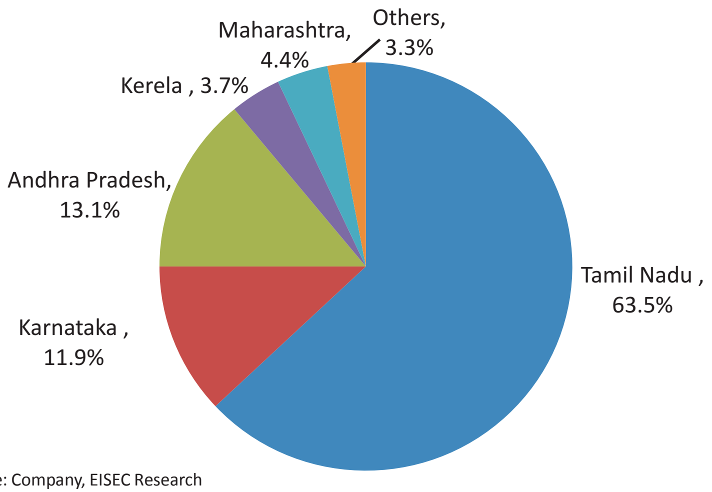


Source: Company

Presence in under penetrated market

Most of the tier I cities are widely catered by banks and number of NBFCs. There is limited room for any new smaller player as the same will not be able to face the intense competition. Repco focuses on the under-served segment of small ticket, non-salaried and self employed segment in tier II and tier III cities and peripheral areas of tier 1 cities. Approximately two third of the total business of Repco emanates from tier II and tier III cities. Repco has a total of 82 branches and 20 satellite centers majorly located in southern region.

Advances breakup (Region- wise)



Source: Company, EISEC Research

Well recognized brand in south India

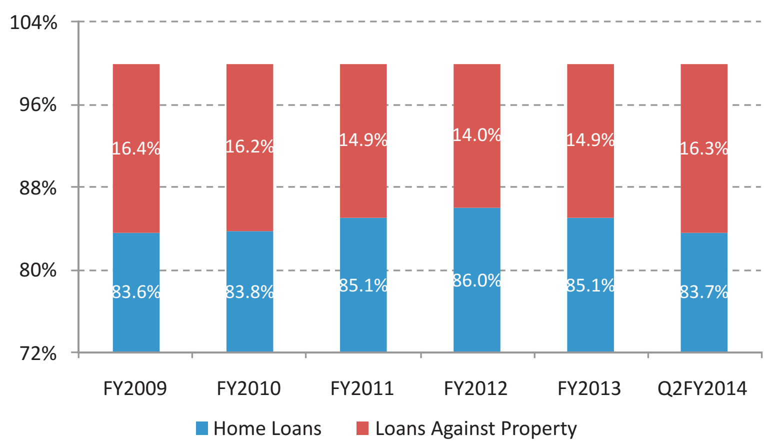
Repco Bank which is the promoter of Repco Home Finance and holds 37.37% stake in the company is a well recognized name in south India and has been in operation for more than 40 years. Repco Bank is a state owned bank with 78.7% holding by GOI and other state governments. Repco Home Finance is in operation since April 2000 and gains much recognition due to its parentage. This leads to favourable consumer confidence in respect to Repco home finance.

Diversified loan book

Loan book of Repco is diversified into home loans and LAP. Home loans contribute the major share of the total advances portfolio, ~ 84% and the balance is contributed by LAP. Yields on LAP portfolio are between 15.5-16% whereas that for home loan portfolio at close to 12%. Repco has planned to increase the share of high yielding LAP portfolio to 20% in the next 2 years supporting the overall yields.

Repco focuses on non salaried individuals as yields earned by them are 50-100 bps higher as compared to traditional salary based individuals. From a security prospective, LTV of loans to non salaried individuals is lower at 60% as compared to 85% for salaried individuals. Loan book of Repco has grown by 36% CAGR over FY2010-13. Repco expects its advances growth to be driven by both salaried as well as non salaried customers. We expect the advances to grow by 23% CAGR over FY2013-15.

Loan book breakup



Source: Company, EISEC Research

Focus on self employed individuals offer higher margins

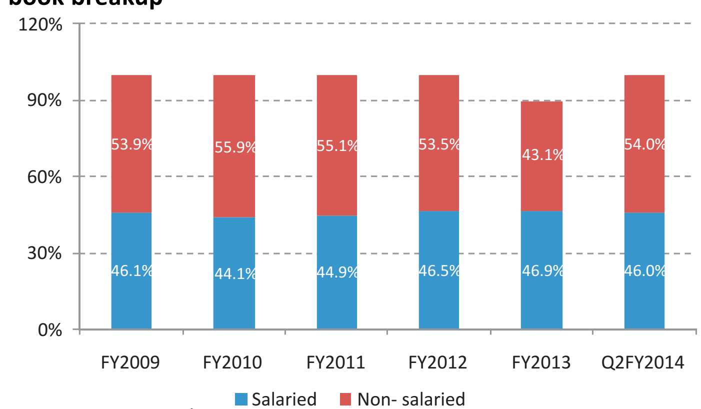
Traditionally salaried class segment constitutes ~85% of the total outstanding credit of banks and HFC's. The main underlying reason is that salaried employees have a continuous and stable source of income which leads to higher security for the lenders.

However Repco has a diversified mix of borrowers including both salaried and non-salaried segments. Non-salaried class is highly underpenetrated and relatively less competitive. It offers better yield on advances as compared to traditional salaried customers.

~54% of Repco's outstanding credit lies with non-salaried class which includes self employed professionals. Self employed professionals which form ~15% of total advances include doctors, lawyers and CAs. As non salaried borrowers are not easily offered loans from banks and other HFCs, loan to non-salaried borrowers contribute higher yields (50-100 bps higher) as compared to other housing loans.

Non-salaried segment would continue to be the focus area and Repco would look at expanding its LAP segment to maintain optimum portfolio mix going ahead, thus leading to further margin expansion.

Loan book breakup



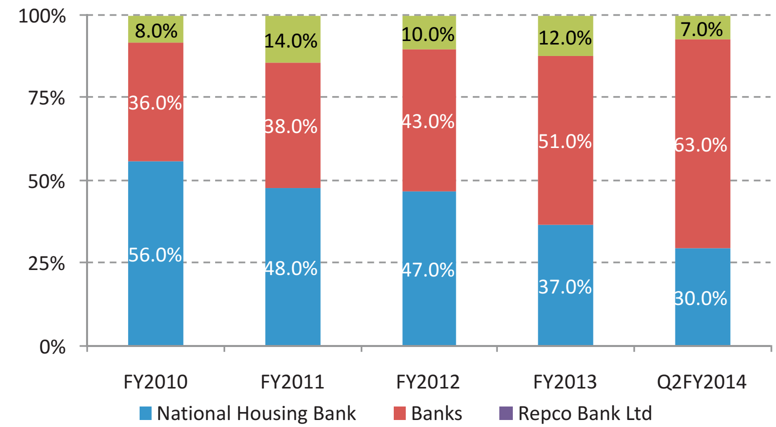
Source: Company, EISEC Research

Diversified liability mix help in maintaining NIMs healthy

The company has diversified its sources of funding across three verticals viz refinancing from NHB, Bank loan and loan from Repco Bank (parent bank). The cost of financing from NHB stands at ~8% and constitutes nearly 30% of total borrowings whereas the borrowings from Repco bank and other banks currently cost ~10.25% -10.5%

Post IPO, the CAR has jumped to over 25%. Repco has AA- rating for NCD issue from Care and ICRA and is exploring to raise funds of upto Rs 5 bn from NCD to optimize the cost of funding and strengthen its balance sheet.

Breakup of funding profile



Source: Company, EISEC Research

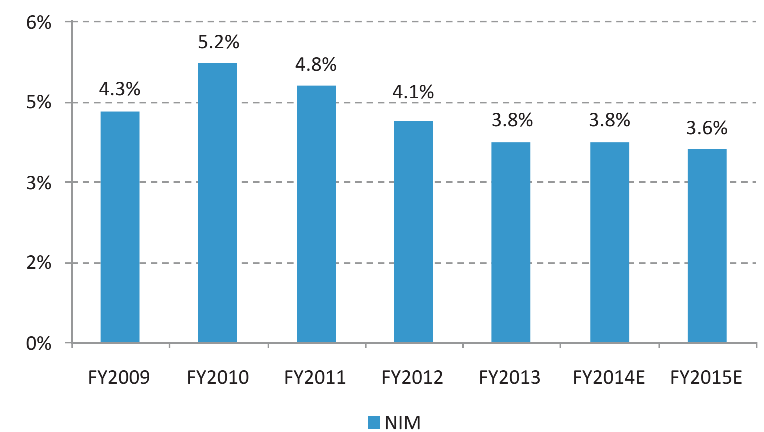
Credit Ratings

Category	ICRA Rating	CARE Rating
Term loans from banks	AA-	AA-
Non convertible debenture	AA-	AA-
Commercial paper	A1+	A1+

The share of NHB funding has declined over the years. It has gone down from 56% in FY10 to 30% in Q2FY14. Refinancing from NHB under the Rural Housing Finance route entails the cap of 200 bps in interest spread. Repco is consciously reducing its dependence on NHB as it wants to protect its interest spreads and margins.

NIMs of the bank have declined over the years as the growth in loans from NHB has been lower as compared to other loans. However an increase in the high yielding LAP portfolio is likely to protect margins of Repco. Going ahead though Repco expects NIM to be above 4% in FY14, we have factored in lower margins.

NIMs



Source: Company, EISEC Research

Strong asset quality

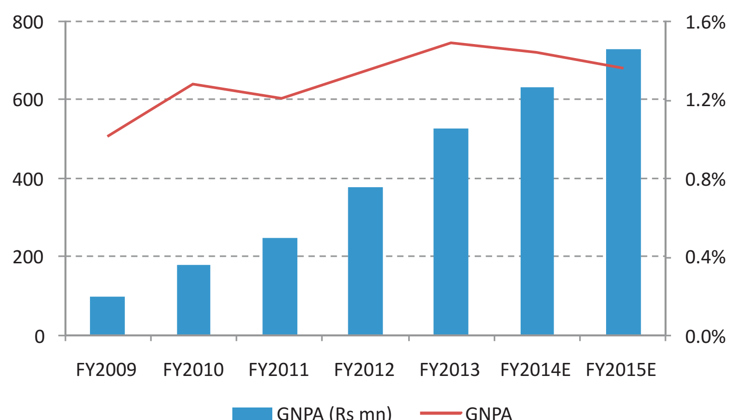
Over the years, Repco has developed robust risk management in all its areas of operations like loan origination, credit appraisal, loan disbursement and collection & recovery. Repco maintains a conservative LTV ratio for the loans disbursed especially for disbursements to self employed individuals.

The whole process of loan disbursals is streamlined in such a manner that the loans are originated at the branches wherein all the documents of the borrower are collected and sent to the credit officer along with the recommendations of the branch manager post his discussions with the borrower.

As Repco has a strong credit line to self employed individuals, the asset quality of Repco is cyclical. In Q1 and Q3, Repco witnesses an increase in GNPA and NNPA whereas they come down in Q2 & Q4. As on Q2FY14 GNPA and NNPA stood at 1.7% and 0.9% respectively up from 1.5% and 1% in FY2013. However on a yearly basis GNPA and NNPA have remained more or less stable.

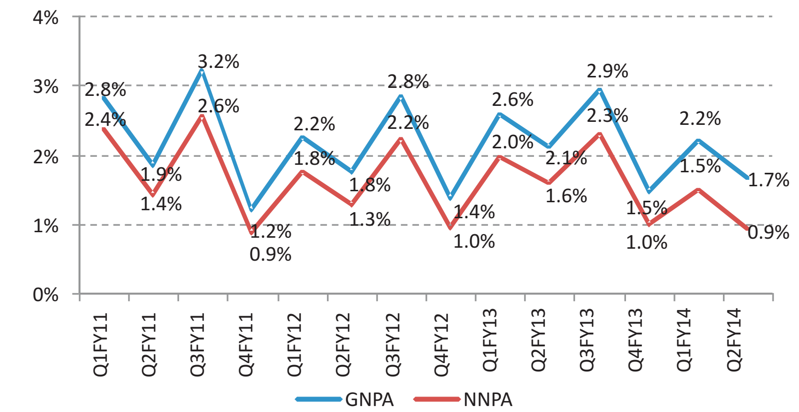
One of the main reasons for higher GNPA is Repco's policy of not writing off advances. Over the years, Repco has written off a meager amount of Rs 39 million vs a total disbursement of ~ Rs 56 bn over the years.

GNPA



Source: Company, EISEC Research

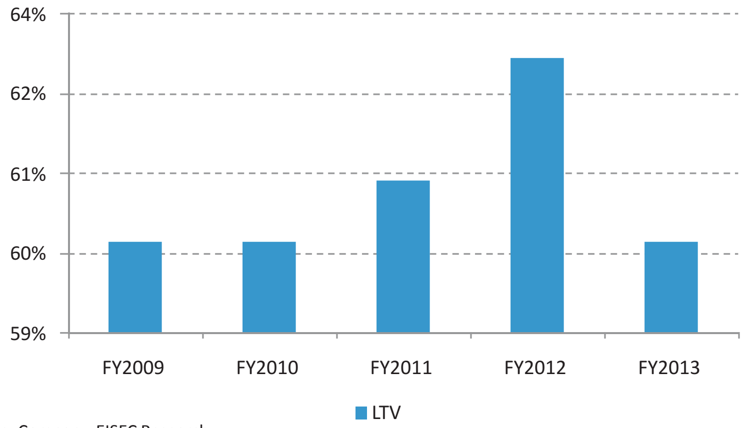
Quarterly volatility in asset quality



Source: Company, EISEC Research

Repco maintains a conservative LTV ratio for the loans. Home loans to salaried individuals have an LTV of 85% of agreement value, whereas the loan to self employed individuals is 60% of the agreement value and the average ticket size is Rs 1 mn. LAP loans have an LTV of 50% and the average ticket size is Rs 1-1.2 mn. The average LTV of the whole portfolio is 60-65% and the company has adequate security in case of any NPAs.

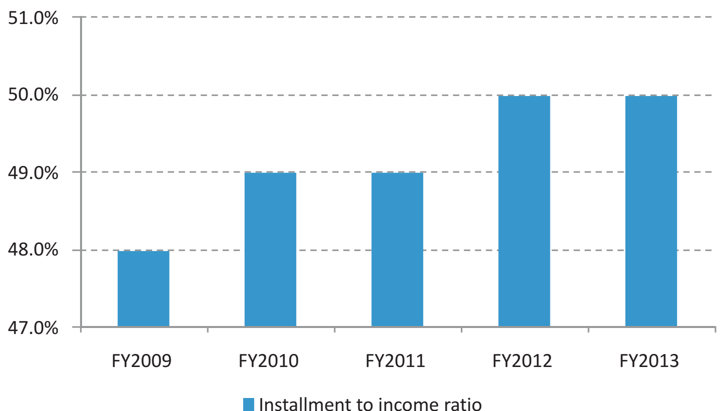
Average LTV



Source: Company, EISEC Research

Repco also looks into the installment to income ratio while assessing the repayment capacity of the borrower. While calculating the installment payable, installments of all the loans being serviced by the borrower are taken into account. The ratio varies between 40% - 60% depending on the income of the borrower.

Installment to income ratio

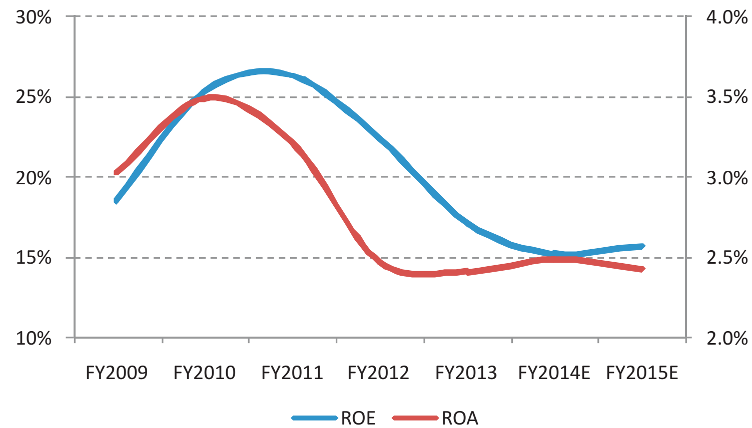


Source: Company, EISEC Research

Return ratios continue to be strong

Led by a strong growth in advances and strong margins, return ratios of Repco remain strong. Led by a 40% CAGR growth in advances over FY2008-13, the earnings of Repco have grown by 39% over the period. ROE has remained consistently above 22% over FY2010-12, however the same declined to 17% in FY2013 due to the capital raising done via IPO during the year and is expected to decline to 15.2% in FY2014. However we expect ROE to increase to 15.7% by FY2015E. ROA of Repco has remained stable at 2.5% over FY2012 and FY2013. Going ahead we expect ROA to remain stable at 2.4%-2.5% in FY2014 and FY2015.

ROE and ROA



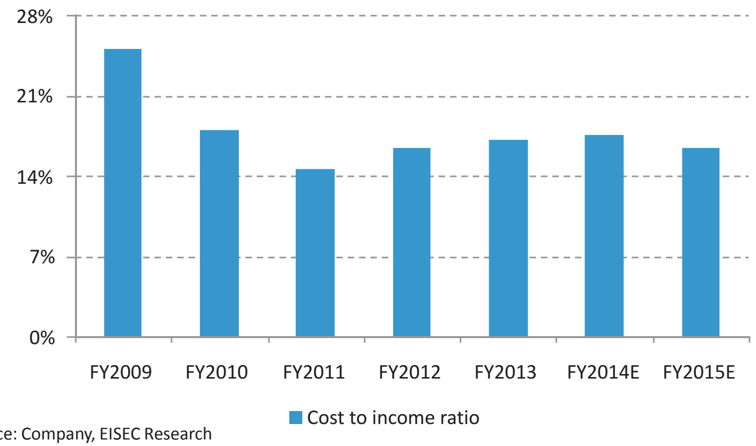
Source: Company, EISEC Research

Cost to income ratio supports earnings growth

Cost to income ratio of Repco at 17.6% for FY2013 remains amongst the lowest in the industry. The company follows very strict control on operating expenses. Repco operates through the branch and satellite network model wherein each branch has 4-5 employees whereas each satellite center is manned by just 1 employee. The entire branch and satellite center staff is on the company payroll and the company does not operate through commission agents. Initially the company opens a branch in the city and the branch manager takes the call of opening a satellite center within the city. The branch breakeven at a business of close to Rs 80-100 mn which the company achieves within a period of 12-16 months. Satellite centers are converted into branches if its total business crossed Rs 80-90 mn.

The branches conduct regular camps wherein documents are collected and sent to head office for further processing. As the company continues its focus on generating business through its conservative business model, we expect the lower operating expenses to continue to support the earnings growth for the company.

Cost to income ratio

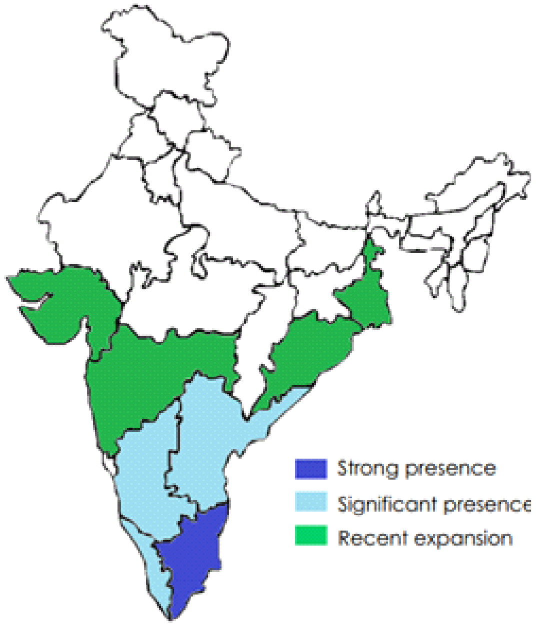


Source: Company, EISEC Research

Branch Network

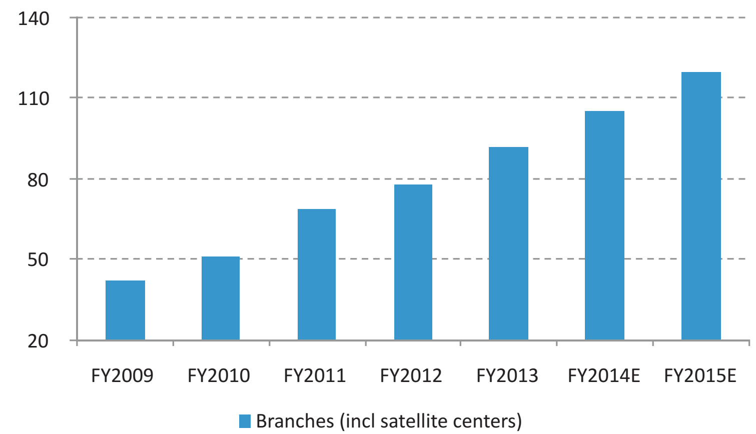
Repco has a total network of 82 branches and 20 satellite centers. 90% of the network is based in southern part of India. Major focus of Repco continues to be under penetrated market and the company focuses in tier II and tier III cities. Repco plans to expand its footprint outside the southern states. It has already begun its process of increasing the branch network in the states of Maharashtra, Gujrat, West Bengal and Orissa. Repco plans to expand its branch network to 120 by FY2015.

Branch network



Source: Company

Branch Network (growth)



Source: Company, EISEC Research

Branch Network (table)

Particulars	Nos
Tamil Nadu	52
Karnataka	16
Andhra Pradesh	15
Kerela	7
Maharastra	8
Gujarat	2
West Bengal	1
Odisha	1

Outlook and Valuation

Strong growth in advances, followed by stable margins and asset quality and lower cost to income ratio is likely to lead to a strong growth in earnings. Post the IPO, the company is adequately capitalized with CAR of 25.3%. The ROA are expected to remain stable whereas the ROE is expected to decline in FY2014 due to the capital raised by the company. We expect the earnings of Repco to grow by 24% CAGR over FY2013-15 led by 23% growth in advances. The stock is currently trading at 2.2x FY2015E BV. We initiate coverage on the stock with an Accumulate rating and a target price of Rs 327 (2.4X FY2015E BV).

Risk & Concern

- 63% of the total advances emanate from Tamil Nadu which leads to concentration risks for the company.
- Aggression from banks/other NBFCs can be a risk as it can impact the advances growth of the company.
- With the increase in real estate prices, ticket size of loans are likely to increase which can lead to lower yields as Repco may face competition from other banks and HFCs.

East India Securities Ltd
Excellent | Investment | Solutions

Financials

Profit & Loss A/c (Rs mn)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Interest Income	2,119.2	3,025.1	3,873.2	4,847.3	5,920.1
Interest Expenses	1,274.4	2,015.9	2,654.2	3,311.0	4,100.3
Net Interest Inome	**844.8**	**1,009.3**	**1,219.0**	**1,536.3**	**1,819.8**
Other Interest Income	140.3	163.7	186.5	213.7	246.0
Total Income	985.1	1,173.0	1,405.5	1,750.0	2,065.8
Operating Expenses	163.5	201.7	247.6	288.3	336.4
Employee Expenses	72.4	105.0	140.9	168.9	202.7
Other Operating Expenses	91.1	96.7	106.6	119.4	133.7
Pre Provisioniong Profit	**821.6**	**971.3**	**1,158.0**	**1,461.6**	**1,729.3**
Provision Expenses	29.1	155.0	90.0	77.3	83.4
PBT	792.5	816.3	1,068.0	1,384.3	1,646.0
Tax	211.0	201.7	267.8	346.1	411.5
PAT	**581.5**	**614.6**	**800.2**	**1,038.2**	**1,234.5**

Balance Sheet (Rs mn)	FY2011	FY2012	FY2013	FY2014E	FY2015E
Liabilities					
Share Capital	464	464	622	622	622
Reserves & Surplus	2,013	2,568	5,724	6,681	7,835
Net Worth	2,477	3,033	6,345	7,303	8,456
Borrowings	18,272	24,860	30,647	37,308	46,384
Other Liabilities & Provisions	550	634	932	1,033	1,140
Total Liabilities	**21,300**	**28,527**	**37,924**	**45,644**	**55,980**
Assets					
Fixed Assets	30	33	45	49	54
Non-Current Investments	21	81	81	81	81
Loans & Advances	20,627	28,090	35,500	43,706	53,812
Cash & Bank Balances	85	175	2,101	1,607	1,768
Other Current Assets	539	148	197	201	266
Total Assets	**21,300**	**28,527**	**37,924**	**45,644**	**55,980**

Key Ratios	FY2011	FY2012	FY2013	FY2014E	FY2015E
Per share Data					
EPS	12.5	13.2	12.9	16.7	19.9
DPS	1.16	1.28	1.29	1.30	1.30
BV	53.3	65.3	102.1	117.5	136.0
ABV	49.3	59.7	96.4	110.8	128.5
Spreads (%)					
Yield on Advances	12.2	12.4	12.2	12.3	12.2
Cost of Borrowings	8.2	9.3	9.6	9.7	9.8
Net interest margins	4.8	4.1	3.8	3.8	3.6
Operating ratios (%)					
Cost to income	16.6	17.2	17.6	16.5	16.3
Non interest income / Total income	14.2	14.0	13.3	12.2	11.9
Return ratios (%)					
RoE	26.3	22.3	17.1	15.2	15.7
RoA	3.2	2.5	2.4	2.5	2.4
Asset Quality ratios (%)					
Gross NPA	1.2	1.3	1.5	1.4	1.4
Net NPA	1.0	0.9	1.0	0.9	0.9
Growth Ratios (%)					
Net interest income	30.5	19.5	20.8	26.0	18.5
PPP	28.7	18.2	19.2	26.2	18.3
PAT	31.1	5.7	30.2	29.8	18.9
Advances	47.3	36.2	26.4	23.1	23.1
Borrowings	43.6	36.1	23.3	21.7	24.3
Valuation ratios					
P/E	23.6	22.4	23.0	17.7	14.9
P/BV	5.5	4.5	2.9	2.5	2.2
P/ABV	6.0	5.0	3.1	2.7	2.3

Stock rating (1 year target scale)

<0%	-	**Sell**
0-10%	-	**Reduce**
10-30%	-	**Accumulate**
>30%	-	**Buy**

DISCLAIMER

East India Securities Ltd
Excellent | Investment | Solutions

Corporate Office : 6A, 32 Corporate Avenue, Near Paper box factory, Off Mahakali caves road, Andheri E, Mumbai 400093 Tel: 91 22 61925339
Head Office : DA-14, Salt Lake City, Sector-I, Kolkata-700064 Tel: +91 33 40205901
Web: www.eisec.com