

Q2FY25 Result Update

Repc Home Finance Limited

'Back on track'

- Repco Home Finance (REPCO) posted steady Q2FY25 earnings with growth in credit by +8%YoY & +2%QoQ to INR13,964cr, aided mainly by increased disbursements as it grew at a robust pace of +9%YoY & +27%QoQ to INR867cr (on a sequential low base as disbursement was muted in Q1FY25). Nevertheless, repayment rate remained elevated at 4.4% v/s avg.4.2% in last eight quarters.
- With its loan book composition staying at 52% Non-salaried & 48% Salaried, its mix has gradually changed in favour of Home Equity to 26% (from 21% in Mar'23) and home loan reducing to 74% (from 79% in Mar'23).
- NII grew 2% YoY while remained stable sequentially at INR176cr (in line with our estimate) as spreads remained steady. The sequential increase in CoF by 21bps to 8.8% was offset by 10bps increase in yields to 12.1%. Overall NIM is reported steady at 5.1% in Q2 (v/s 5.1% in Q1).
- Other income shot up to INR 13cr (+239% YoY & 51% QoQ) against our estimates of INR8cr. The improvement can attributed to increase in insurance comission and income from written off accounts. Thus, beating our estimates on net revenue as it grew by a healthy 7% YoY and 3% QoQ to INR 188cr.
- Opex came in little higher at INR52cr v/s our estimate of INR 45cr due to higher depreciation expense (accounting error in Q1 was compensated by higher depreciation in Q2) , translating to 27% cost-to-income in Q2FY25 v/s 25% in Q1Y25. Thus, PPOP growth remained subdued at +2% YoY and degrew by -1% QoQ to INR137cr (miss on our estimates).
- However, credit cost came in lower at -0.48% (against our estimate at 0.2%) to the extent of write back of INR16cr against provision of INR1cr in last quarter. Thus, catapulting PAT growth by 7% QoQ and 15% YoY (beating our estimate).
- RoA is reported at 3.3% (+20bps QoQ & YoY) and RoE at 16.0% (-30bp QoQ & -10bp YoY).
- Asset quality improved with GNPA/NNPA reported at 4.0%/1.6% (-94bps/-60bps YoY & -34bps/-10bps QoQ). Total stage-2 & 3 assets has improved to 15% in Q2FY25 (from 16% in Q1FY25 & 18% in Q2FY24)
- Improvement in asset quality was seen in both Home Loan/Home Equity with GNPA lowering to 4.0%/3.8% (v/s 4.2%/4.4% last quarter). Similarly, Salary/Self-employed segment stood at 2.1%/5.7% (v/s 2.3%/6.1%).
- Overall, provision coverage stood steady at 59.6% (60.5% in Q1FY25 & 55.1% in Q2FY24). CRAR stood a healthy at 34%.
- We are going with the management's loan growth/NIM guidance of 14–15%/5.1% for FY25. We expect elevated operating cost to be offset by lower or negative provisions which will aid profitability. We retain 'BUY' with a TP of INR610, an upside of 32% from its CMP.

Softening stance but guidance intact

The management has hinted towards the possibility of falling short of advances guidance if repayment rates remain high. Its loan portfolio guidance of INR15,000cr may fall short by ~INR100-200cr. Nevertheless, it is confident of achieving ~INR3,800cr of disbursements in FY25 given the increase in its sales strength in coming quarters. (For the year, INR1,500cr will be an increase in the book, with INR2,000cr of repayment anticipated).

Operating metrics to remain stable

The management guided that NIM will be protected with higher yields as it is resetting its PLR on a quarterly basis. REPCO is hopeful of getting its borrowing sanctioned through NHB as it is meeting all the required criteria. Opex will stay as guided with a C/I ratio of ~24%. It has started expanding its collections team and is guiding at lowering GNPA to INR450cr (from INR580cr QoQ) and Stage-2 to 10% by FY25-end. Credit cost will stay subdued (on additional write backs in coming quarters), thus driving profitability.

Valuation and view

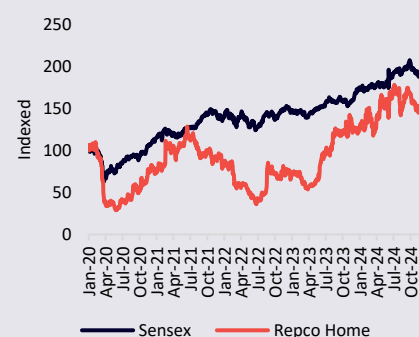
REPCO reported steady credit growth aided by greater disbursements despite a higher repayment. The management has softened its stance on AUM growth but reiterated its operating metrics guidance. We expect minimal to negative credit cost to drive profitability. The franchise is the beneficiary of tailwinds in the housing sector aided by a credit linked subsidy scheme and NHB funding in Budget 2024. We retain 'BUY' with a TP of INR610, an upside of 32% from its CMP.

Key financials

Year to March	FY23	FY24	FY25E	FY26E
Net revenue (INR cr)	598	695	753	849
Net profit (INR cr)	296	395	447	480
Basic EPS (INR cr)	51	67	74	80
P/E ratio (x)	9.2	7.0	6.2	5.8
Adjusted BPS	393	471	538	612
P/ABV (x)	1.2	1.0	0.9	0.8

CMP: INR463
Rating: BUY
Target price: INR610
Upside: 32%
 Date: November 13, 2024

Bloomberg:	REPCO:IN
52-week range (INR):	365/594
M-cap (INR cr):	2,898
Promoter holding (%)	37.13



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Q2FY25 result highlights

INR cr	Q2FY25	Q2FY24	% change	Q1FY25	% change
Interest income	415	380	9%	408	2%
Interest expenses	240	207	15%	233	3%
Net interest income	176	173	2%	175	0%
Other Income	13	4	239%	8	51%
Net revenue	188	176	7%	183	3%
Operating expenses	52	43	21%	45	14%
Operating Profit	137	134	2%	138	-1%
Provisions & Contingencies	(16)	2	NA	1	NA
PBT	153	132	16%	137	12%
Tax	40	34	18%	31	29%
PAT	113	98	15%	105	7%
Equity capital	40	34	18%	31	29%
Adj. EPS (INR)	28.0	28.8	-3%	33.8	-17%
Ratio					
C/I Ratio	27.4	24.2	327bps	24.7	275bps
Yield on advances	12.1	11.8	30bps	12.0	10bps
Cost of funds	8.8	8.4	40bps	8.6	21bps
Spread	3.3	3.4	-10bps	3.4	-11bps
NIM	5.1	5.4	-30bps	5.1	bps
Balance Sheet					
Loans & Advances	13,964	12,921	8%	13,701	2%
Disbursements	867	797	9%	680	27%
Borrowings	11,463	10,047	14%	10,914	5%
Asset Quality					
GNPA (%)	4.0	4.9	-94bps	4.3	-34bps
NNPA (%)	1.6	2.2	-60bps	1.7	-10bps
PCR	59.6	55.1	449bps	60.5	-87bps

Financial story in charts

Exhibit 1: Improvement in disbursements for Q2

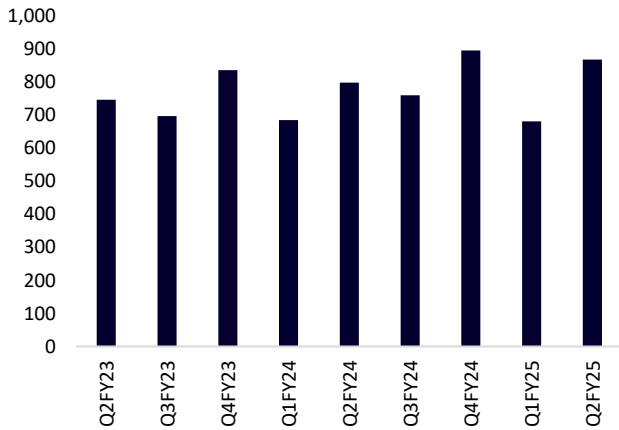


Exhibit 2: Repayment rate remains range bound

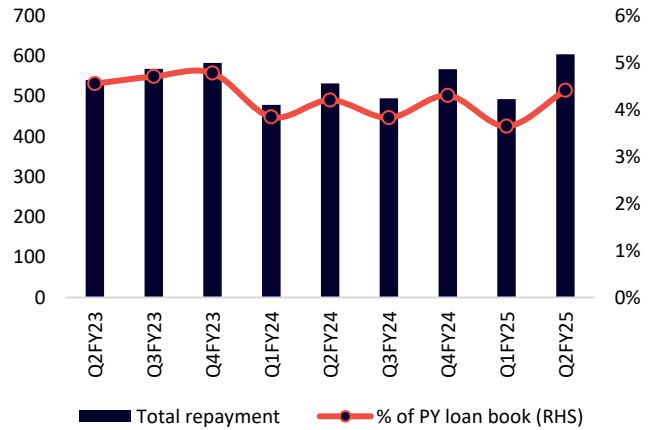


Exhibit 3: Portfolio gradually skewing towards home equity

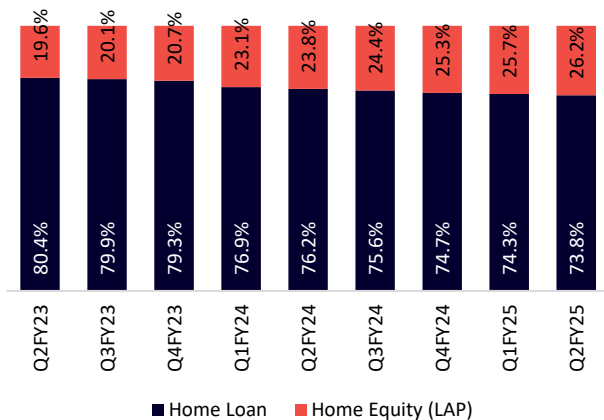


Exhibit 4: Spreads maintained sequentially

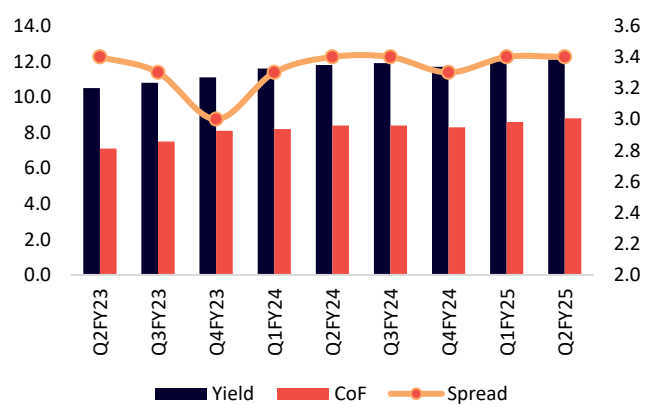


Exhibit 5: Lower credit cost to drive profitability

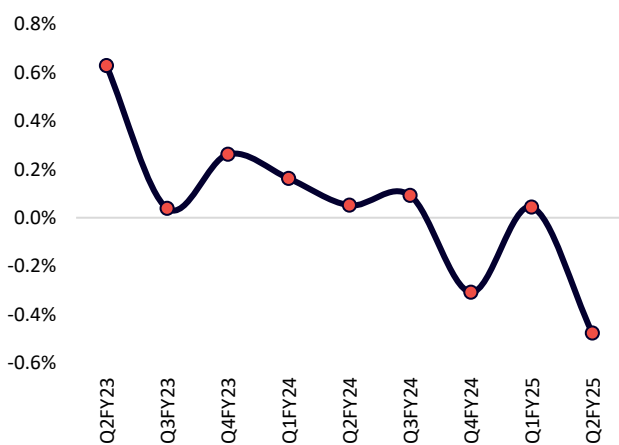
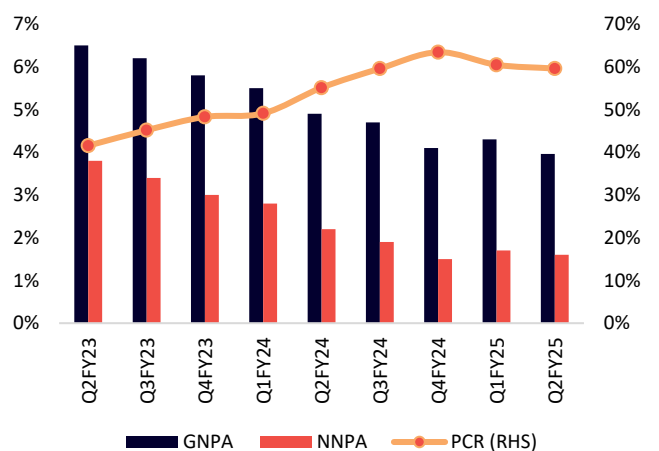


Exhibit 6: Asset Quality on an improving trend



Source: Nuvama Wealth Research

Previous outlook

Q1FY25: REPCO reported steady credit growth aided by a lower repayment rate despite slower disbursement in a soft business quarter. The management reiterated its AUM guidance, with stable NIM. We expect minimal to negative credit cost to drive profitability. The franchise is the beneficiary of tailwinds in the housing sector aided by a credit linked subsidy scheme and NHB funding in Budget 2024. We retain 'BUY' with a TP of INR610, an upside of 21% from its CMP.

Q4FY24: REPCO reported its highest ever disbursement, leading to a healthy credit growth in Q4FY24. The marginal compression in NIM and one-off cost in opex resulted in an operational miss. Write back of provisions offset the compression in NIM and higher opex led to an improved return profile. The management reiterated its AUM guidance, with a compression in NIM to 4.8–5.2%. We expect minimal to negative credit cost to drive profitability. We retain 'BUY' with a revised TP of INR610, an upside of 20% from its CMP.



Company profile

REPCO, a niche player in the housing finance industry, focuses on the under-penetrated segment in Tier II, III, and IV cities. Its portfolio mix consists of home loans and home equity (non-housing), which comprises loans against property, commercial real estate loans, and other products. Its borrower profile includes self-employed non-professionals (52%) and salaried individuals (48% of total loans, mostly low risk). It caters to the small ticket-size segment (average ticket size of ~INR12lk). It operates through 168 branches and 44 satellite centres across 12 states and one Union Territory. It has two asset recovery branches. A significant share of its loan book is South based, with Tamil Nadu (56%) and Karnataka (13%) accounting for ~70% of total exposure.

Key risks

- Geographic concentration risk.
- Higher than expected slippages from early buckets.

Financials

Income Statement						(INR cr)
Particulars	FY22	FY23	FY24	FY25E	FY26E	
Interest income	1,258	1,257	1,496	1,623	1,820	
Interest charges	690	701	846	921	1030	
Net interest income	568	556	650	702	790	
Fee and other income	48	42	45	51	59	
Net revenue	617	598	695	753	849	
Operating expense	124	146	171	179	193	
- Employee expense	79	88	102	107	115	
- Other opex	45	58	69	72	77	
Pre-provision profit	493	452	524	574	657	
Provisions	233	52	-1	-15	25	
PBT	260	401	525	589	631	
Taxes	68	105	130	141	151	
PAT	192	296	395	447	480	
Share from associates	3	20	22	18	19	
Adjusted PAT	194	316	416	465	499	
Basic number of shares (cr)	63	63	63	63	63	
Basic EPS (INR)	31	51	67	74	80	
Diluted number of shares (cr)	63	63	63	63	63	
Diluted EPS (INR)	31	51	67	74	80	

Balance Sheet						(INR cr)
Year to March	FY22	FY23	FY24	FY25E	FY26E	
Paid capital	63	63	63	63	63	
Reserves and surplus	2,227	2,527	2,923	3,352	3,811	
Shareholders' fund	2,290	2,589	2,985	3,414	3,874	
Total borrowings	9,692	9,924	10,701	12,316	14,094	
Other liabilities	70	83	110	500	530	
Total liabilities	12,052	12,596	13,797	16,230	18,497	
Cash and bank balance	63	66	73	85	97	
Investment	24	25	28	33	37	
Loans and advances	11,292	11,962	13,037	14,838	16,981	
Net fixed assets	18	18	18	18	18	
Other assets	654	525	641	1,255	1,364	
Total assets	12,052	12,596	13,797	16,230	18,497	

Growth ratios (%)					
Year to March	FY22	FY23	FY24	FY25E	FY26E
Growth in NII	4.3	-2.2	17.0	7.9	12.5
Growth in net revenue	5.4	-3.0	16.2	8.3	12.8
Growth in opex	8.4	17.5	17.3	4.7	7.7
Growth in PPP	4.7	-8.2	15.9	9.5	14.4
Growth in provisions	188.6	-77.9	-101.0	na	na
Growth in PAT	-35.3	62.9	31.6	11.8	7.2

Operating ratios (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Yield on advances	10.4	10.3	11.5	11.2	11.0
Cost of funds	6.9	7.1	8.2	8.0	7.8
Spread	3.5	3.2	3.3	3.2	3.2
Net interest margin	4.7	4.6	5.2	5.1	5.1
Cost-to-income ratio	20.1	24.4	24.6	23.8	22.7
Tax rate	26.2	26.1	24.8	24.0	24.0

Balance Sheet ratios (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Loan growth	-4.6	5.9	9.0	13.8	14.4
EA growth	-4.6	5.9	9.0	13.8	14.4
Gross NPA ratio	7.0	5.8	4.1	3.5	3.0
Net NPA ratio	4.9	3.0	1.5	1.1	0.9
Provision coverage	30%	48%	63%	68%	69%

RoE decomposition (%)

	FY22	FY23	FY24	FY25E	FY26E
Net interest income/Assets	4.7	4.6	5.0	4.8	4.8
Other Income/Assets	0.4	0.3	0.3	0.4	0.4
Net revenues/Assets	5.1	4.9	5.4	5.2	5.1
Operating expense/Assets	1.0	1.2	1.3	1.2	1.2
Provisions/Assets	1.9	0.4	0.0	-0.1	0.2
Taxes/Assets	0.6	0.9	1.0	1.0	0.9
Total costs/Assets	3.5	2.5	2.3	2.1	2.2
ROA	1.6	2.4	3.0	3.1	2.9
Equity/Assets	18.9	21.3	23.0	23.6	23.4
ROAE	8.7	12.1	14.2	14.0	13.2

Valuation metrics

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	31	51	67	74	80
EPS growth (%)	-35.3	62.9	31.6	11.8	7.2
Book Value	366	414	477	546	619
Adjusted Book Value	336	393	471	538	612
Price/Earnings (x)	14.9	9.2	7.0	6.2	5.8
Price/Book Value (x)	1.3	1.1	1.0	0.8	0.7
Price/ Adj. Book Value (x)	1.4	1.2	1.0	0.9	0.8

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