

Repco Home Finance

BUY

Lower disbursements; AUM growth remain subdued

Summary

Repco Home Finance's disbursements de-grew by 12% QoQ led by issues in Karnataka state. Thus, AUM growth slowed to 7% YoY vs 8% YoY (Q2FY25). Further, Management guided for AUM of Rs.146bn by FY25-end, which is lower than the ~Rs.148bn-150bn guidance given in last quarter. NIMs improved QoQ to 5.5% backed by improvement in yields. Company has increased the lending rate by 10bps which supported the margins. Asset quality improved during the quarter with GNPA at 3.9% vs 4.0% QoQ due to better collections. NII grew by 10% YoY led by improvement in NIMs. PAT grew by 7% YoY led by higher operating expenses (up 31% YoY). Thus, RoA declined to 3.1% vs 3.3% QoQ. We revised downwards FY25/FY26 estimates and rolled over to FY27 estimates. We maintain "BUY" rating with new TP of Rs.430 (earlier Rs.595), valuing it at 0.7x P/BV FY27E.

Key Highlights and Investment Rationale

- **Loan book growth declined:** Loan book growth declined to 7% YoY vs 8% YoY (Q2FY25) as disbursements declined. Disbursements de-grew 12% QoQ (flat YoY) led by issues in Karnataka state. AUM growth was supported by 19% YoY growth in LAP portfolio. We expect 12% CAGR (FY25-27) AUM growth.
- **Asset quality improved:** Asset quality improved with GNPA at 3.9% vs 4.0% QoQ as per new RBI norms. Stage 2 asset declined to 10.6% vs 11% QoQ; guided to bring down to 10% level.
- **NIMs improved QoQ:** NIMs improved QoQ to 5.5% led by improvement in yield on advances (up 50bps QoQ) as against rise in cost of funds (up 10bps QoQ). Management has taken 10bps price hike which provide cushion to margins.
- **Outlook:** Management highlighted that the company wants to grow consciously going ahead, without affecting the asset quality. Further, guided disbursement of Rs.35bn for FY25 to maintained, while higher repayments could lead to slight short of Rs.15bn AUM. Valuations remain comfortable at 0.6X FY27E ABV.

TP **Rs.430**
CMP **Rs.357**

Potential upside/downside 20%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(10.5)	(22.9)	(21.5)
Rel to Sensex	(10.3)	(20.9)	(27.9)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	66.5	69.0	73.0
Consensus	68.0	70.3	77.8
% difference	(2.3)	(1.9)	(6.1)

Key Stock Data

Bloomberg/Reuters	REPCO IN / RHFL.BO
Sector	Housing Finance
Shares o/s (mn)	63
Market cap. (Rs mn)	22,353
3-m daily avg Trd value (Rs mn)	9.4
52-week high / low	Rs595 / 348
Sensex / Nifty	76,139 / 23,031

Shareholding Pattern (%)

Promoters	37.1
FII	12.5
DII	19.2
Public	31.2

Financial snapshot

(Rs mn)

Year	FY2023	FY2024	FY2025E	FY2026E	FY2027E
NII	5,827	6,790	7,071	7,766	8,737
Change (yoy, %)	-3%	17%	4%	10%	12%
Net Profit	2,961	3,947	4,160	4,316	4,568
Change (yoy, %)	55%	33%	5%	4%	6%
EPS (Rs)	47.3	63.1	66.5	69.0	73.0
Change (yoy, %)	55%	33%	5%	4%	6%
BV (Rs)	402.2	462.6	526.4	592.7	663.0
PER (x)	7.6	5.7	5.4	5.2	4.9
P/BV (x)	0.9	0.8	0.7	0.6	0.5
ROE (%)	12.5	14.6	13.4	12.3	11.6
ROA (%)	2.4	3.0	2.9	2.7	2.6
GNPA (%)	6.2	4.6	4.0	3.7	3.7
NNPA (%)	3.7	2.2	1.6	1.7	1.7
CAR (%)	35.8	34.0	35.0	35.2	35.1

Source: IDBI Capital Research

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Conference Call Highlights

Operational Performance

- The structural changes that have been in process across the organisation, like delegation of powers, implementation of new softwares, etc., are yielding results.
- The company received loan sanction of Rs.1.5bn from NHB during the quarter, after a gap of 3 years, and the same would be availed in Q4FY25.
- The dip in the profitability QoQ is due to the benefits it had in the last quarter, like dividend income and a reversal of provisions.
- Around ~Rs.288mn have been spent so far in the various software implementation projects.
- The company continues to add workforce who have prior experience in the housing finance industry.
- Around 90% of the liabilities are linked to MCLR and rest to repo or EBLR, and almost entire asset (loan book) is linked to floating rate.

Advances

- Disbursements declined during the quarter due to the issues in Karnataka as well as the company's focus towards growing the home loan portfolio. The company also changed certain underwriting processes which impacted the disbursements as well as AUM.
- In terms of disbursements, DSA contributed 42%, DST contributed 2%, new salesforce contributed 25%, and the rest were from branches.
- Home loans accounted for 64% of the total disbursements, as compared to 60% on QoQ and YoY basis.
- Issues in Karnataka is not resolved completely and there could be some impact on the business in Q4FY25 as well. Impact on disbursement due to Karnataka issue was Rs.500mn in Q3.
- Higher repayment and BT outs is affecting the overall AUM growth for the company. Average monthly BT out and repayments are around ~Rs.1bn. However, BT ins are also happening at the same rate.
- NHB has indicated that growth in home loans need to be higher than non-home loans.

Asset Quality

- The asset quality performance of the new book is remains satisfactory.
- The company has written off only 10-15 loans so far. It remains conservative on writing off the loan principal value.
- The current NPA book is Rs.5.45bn. In a worst case scenario, the company will have a haircut of 10-15%.
- Write off would be around 8% of the GNPA book.
- The company plans to conduct mega auctions (300 properties) in the current month (February).
- As of Dec 31, 2024, the company holds Rs.4.68bn of restructured portfolio, of which around Rs.1.5bn are in stage 3 and the remaining in stage 1 and 2.

Future Guidance

- The company will focus on improving the growth numbers and a reduction in NPA ratio in Q4FY25.
- With the likely settling of the pending issues and with the additional sales force taking initiation, the company is confident of improved performance in coming quarters.
- The company is likely to surpass annual disbursements of ~Rs.33bn organically, and an AUM of ~Rs.146bn by March 2025. Disbursements is seen at ~Rs.9.5bn-10bn in Q4FY25.
- The company is expanding its branch presence in Karnataka, Andhra Pradesh, Telangana, Maharashtra, and fewer regions of Tamil Nadu. It expects the branch network to touch 235 outlets by March 2025.
- The company would like to maintain a spread of 3.3% in the near term. However, increasing the share of housing loan (low margin vs non-housing loan) may lead to some impact on the yields and spreads.
- The company expects GNPA to be around Rs.5.2bn by March 2025. The company expects net reduction of Rs.0.3bn in Q4FY25.
- The company aims to bring down the stage 2 assets to 10% by March 2025 from 11% currently.
- The company does not expect any additional credit costs in Q4FY25, while it does not expect any major hit on credit costs in FY26.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY25	Q3FY24	Q2FY25	YoY (%)	QoQ (%)
Interest Income	4,359	3,873	4,153	12.6	5.0
Interest Expenses	2,475	2,153	2,396	15.0	3.3
Net Interest Income	1,884	1,720	1,757	9.5	7.2
NIM (%)	5.5	5.3	5.1	20 bps	40 bps
Non-Interest Income	94	59	127	59.2	(26.2)
Operating Income	1,978	1,779	1,884	11.2	5.0
Staff Cost	289	242	284	19.1	1.8
Other Op Exp	246	167	233	47.1	5.5
Total Operating Expenses	535	410	517	30.5	3.4
<i>Cost to Income (%)</i>	<i>27.0</i>	<i>23.0</i>	<i>27.4</i>	<i>401 bps</i>	<i>-40 bps</i>
<i>Cost to AUM (%)</i>	<i>1.5</i>	<i>1.3</i>	<i>1.5</i>	<i>24 bps</i>	<i>0 bps</i>
Operating Profit	1,443	1,370	1,367	5.4	5.6
Provisions	3	29	-160	(88.7)	-
<i>Credit Cost (%)</i>	<i>0.01</i>	<i>0.09</i>	<i>-0.48</i>	<i>-8 bps</i>	<i>-</i>
PBT	1,440	1,341	1,528	7.4	(5.7)
Tax	375	346	403	8.1	(6.9)
<i>-effective tax rate</i>	<i>26.0</i>	<i>25.8</i>	<i>26.3</i>	<i>18 bps</i>	<i>-34 bps</i>
PAT	1,066	994	1,125	7.2	(5.3)
EPS (Rs)	17.0	15.9	18.0	7.2	(5.3)
BV (Rs)	476.4	410.8	494.4	16.0	(3.7)
AUM	1,41,551	1,31,855	1,39,644	7.4	1.4

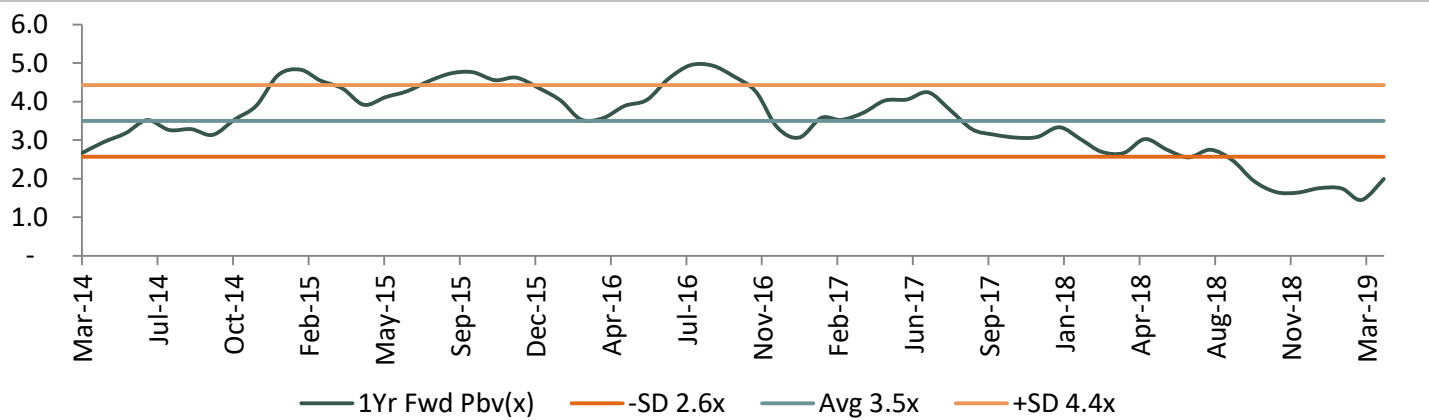
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY23	FY24	FY25E	FY26E	FY27E
NII	4.8	5.2	4.9	4.9	4.9
Fees	0.0	0.0	0.0	0.0	0.0
Other Income	0.1	0.1	0.3	0.3	0.3
Net Revenue	4.9	5.3	5.2	5.2	5.2
Op.Exp	1.2	1.3	1.4	1.4	1.4
Op.Profit	3.7	4.0	3.8	3.8	3.8
Provisions	0.4	(0.0)	(0.1)	0.1	0.4
PBT	3.3	4.0	3.9	3.6	3.4
Tax	0.9	1.0	1.0	0.9	0.9
PAT	2.4	3.0	2.9	2.7	2.6
Leverage (x)	5.2	4.8	4.6	4.5	4.5
ROE	12.5	14.6	13.4	12.3	11.6

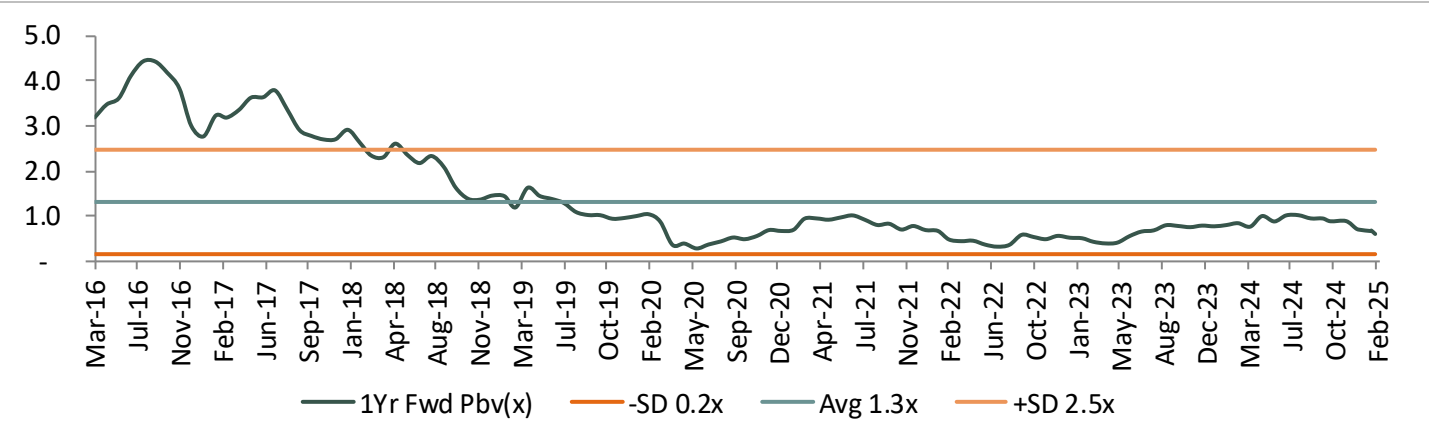
Source: Company; IDBI Capital Research

Exhibit 3: Figure: One-year forward P/BV (FY14-19)



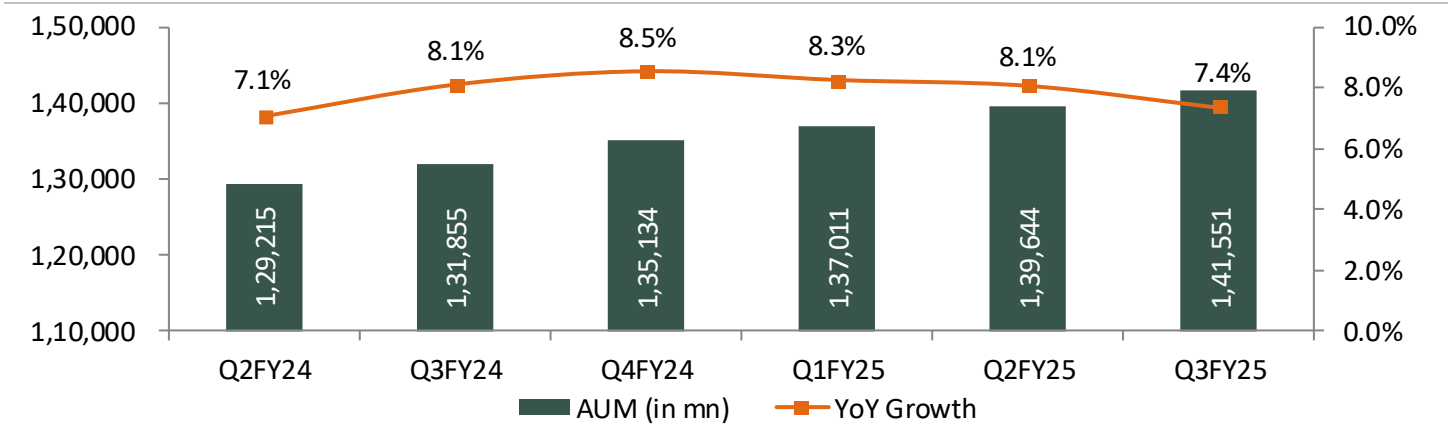
Source: Company; IDBI Capital Research

Exhibit 4: Figure: One-year forward P/BV (FY15-25)



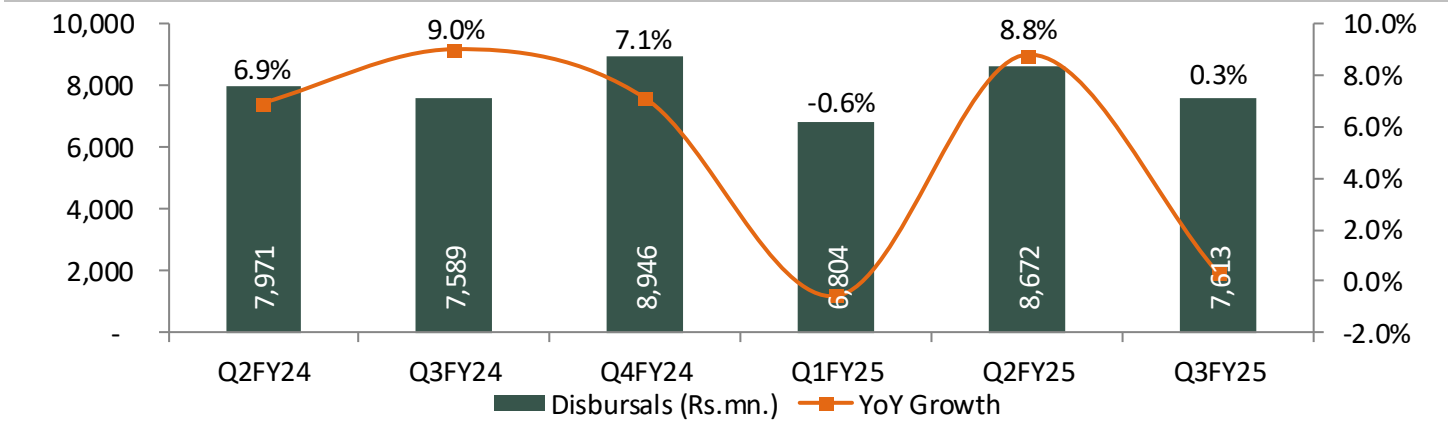
Source: Company; IDBI Capital Research

Exhibit 5: AUM growth slowed down during the quarter



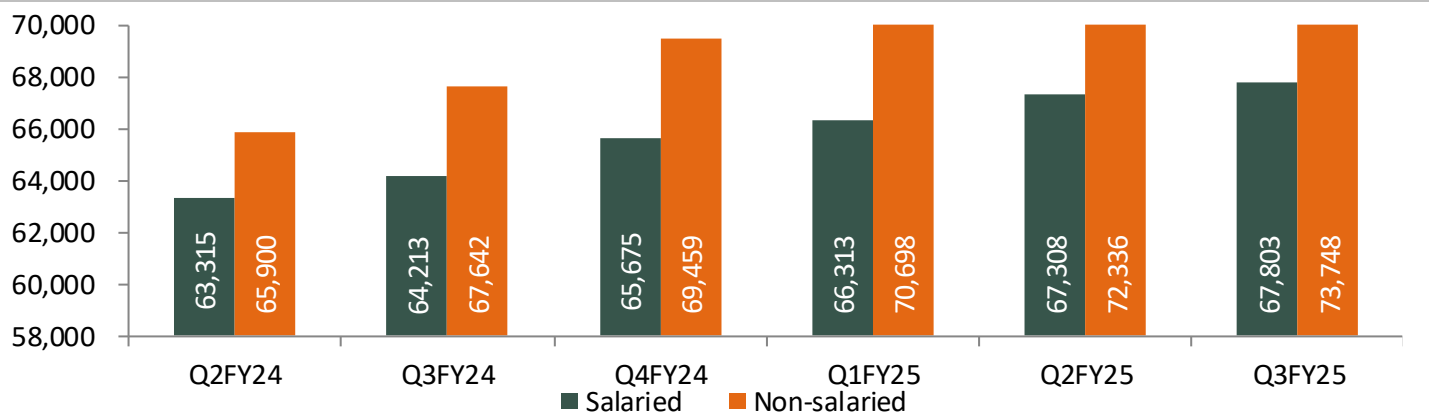
Source: Company; IDBI Capital Research

Exhibit 6: Disbursals remained flat YoY during the quarter



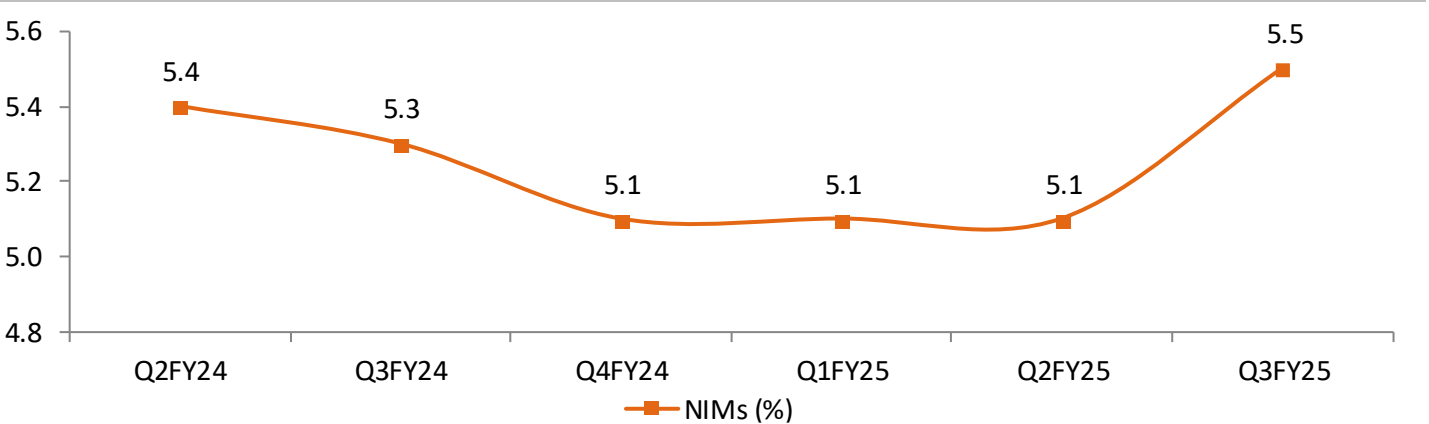
Source: Company; IDBI Capital Research

Exhibit 7: Loan Book Composition by Borrower Type



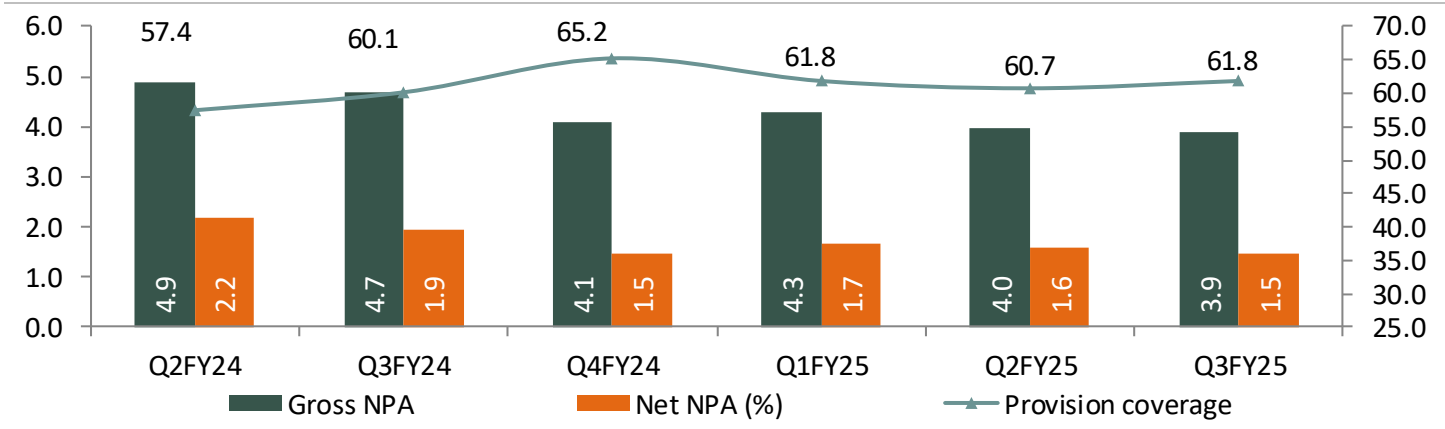
Source: Company; IDBI Capital Research

Exhibit 8: Net Interest margins improved sequentially during the quarter



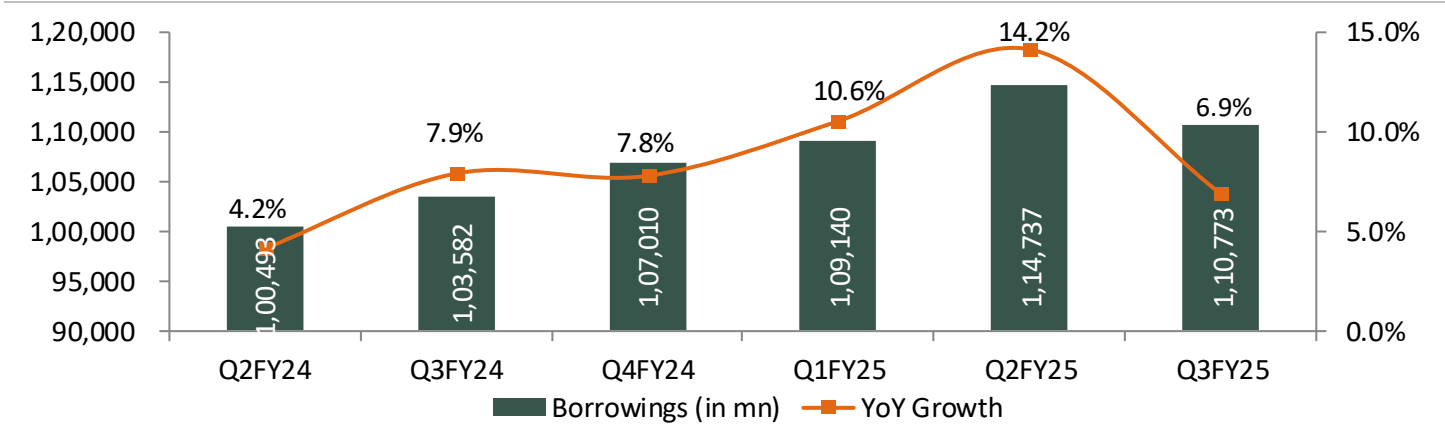
Source: Company; IDBI Capital Research

Exhibit 9: Asset quality witnessed improvement QoQ



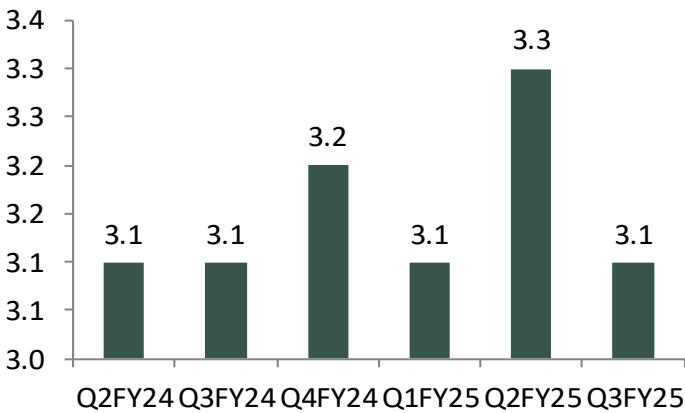
Source: Company; IDBI Capital Research

Exhibit 10: Borrowings declined up on a sequential basis; YoY growth slowed down



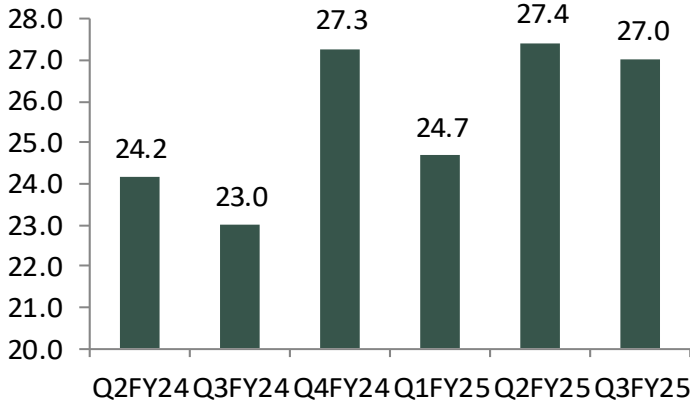
Source: Company; IDBI Capital Research

Exhibit 11: Return on Assets decreased sequentially



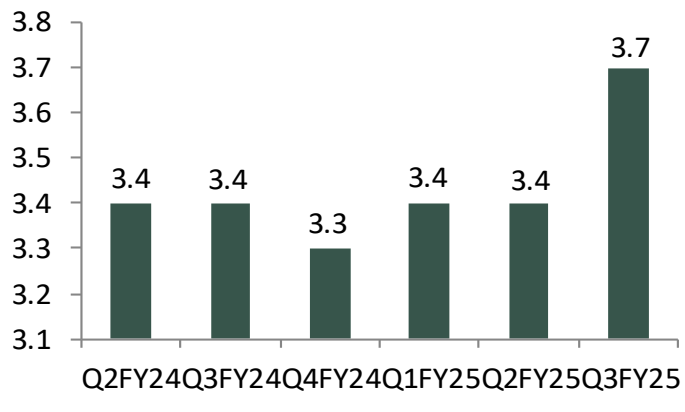
Source: Company; IDBI Capital Research

Exhibit 12: Cost to Income Ratio were stable QoQ



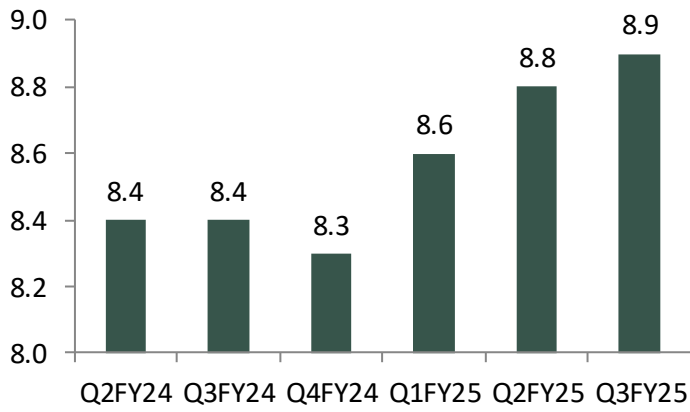
Source: Company; IDBI Capital Research

Exhibit 13: Spreads improved during the qtr

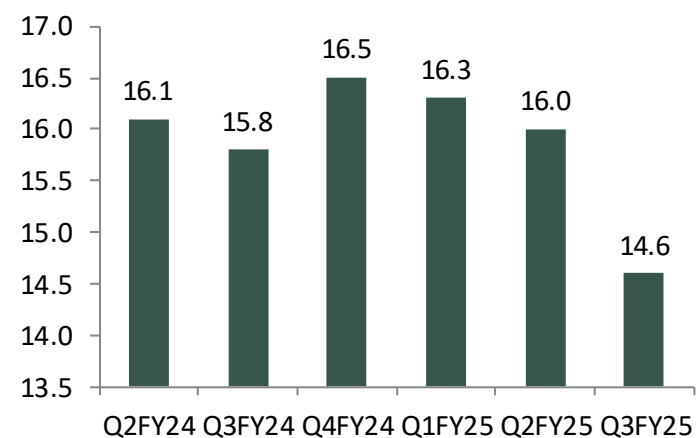


Source: Company; IDBI Capital Research

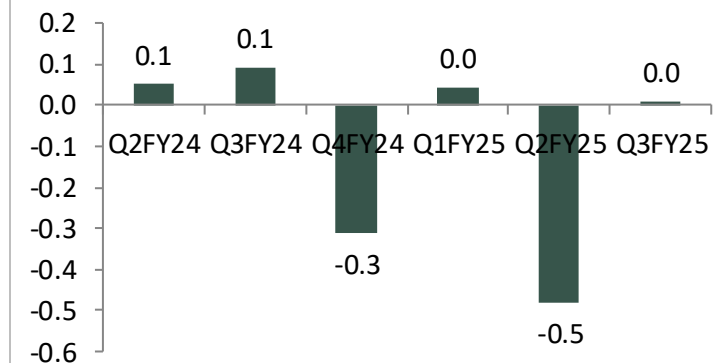
Exhibit 14: Cost of funds increased sequentially



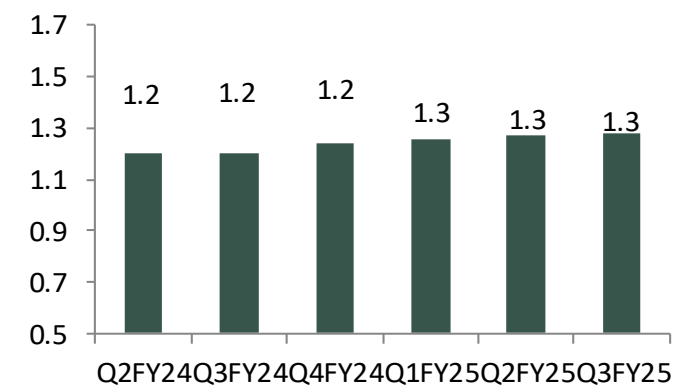
Source: Company; IDBI Capital Research

Exhibit 15: Return on Equity moderated during the quarter

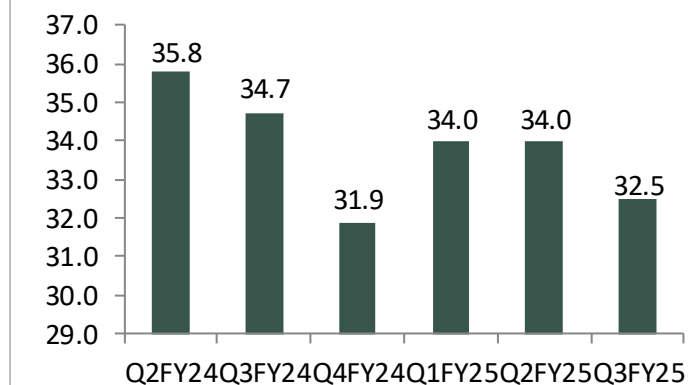
Source: Company; IDBI Capital Research

Exhibit 16: Credit Cost remained stable in the quarter

Source: Company; IDBI Capital Research

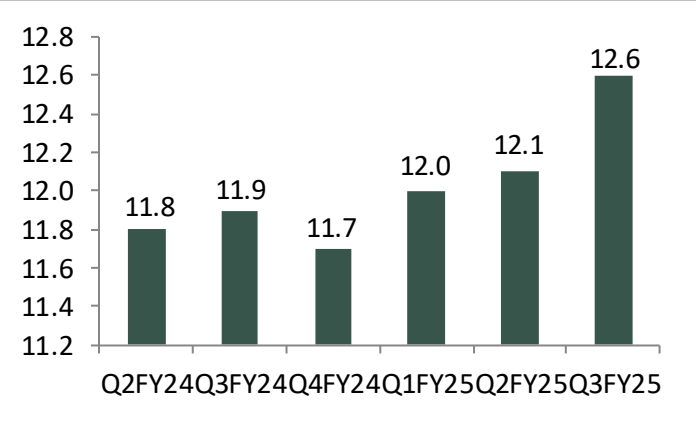
Exhibit 17: Average Ticket Size (In Mn) remained stable QoQ

Source: Company; IDBI Capital Research

Exhibit 18: Capital adequacy ratio remained stable QoQ

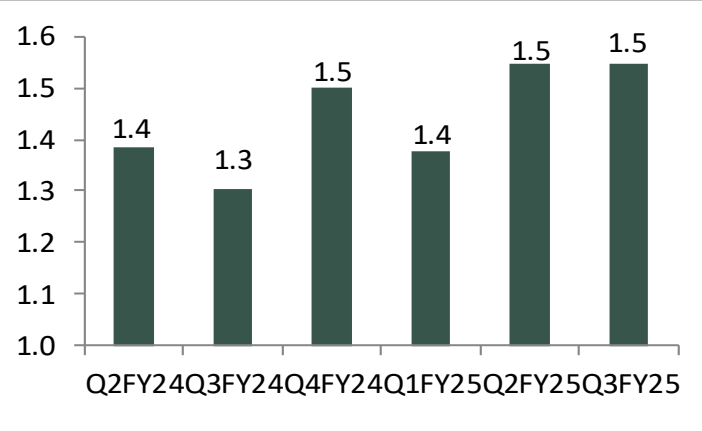
Source: Company; IDBI Capital Research

Exhibit 19: Yield on Advances witnessed uptick sequentially



Source: Company; IDBI Capital Research

Exhibit 20: Costs to AUM remained stable during the quarter



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	6,003	5,827	6,790	7,071	7,766	8,737
<i>Change (yoy, %)</i>	6%	-3%	17%	4%	10%	12%
Non-Interest Income	164	154	163	407	448	501
Operating Income	6,166	5,981	6,952	7,477	8,214	9,238
Operating expenses	1,241	1,458	1,710	2,020	2,224	2,491
Employee expenses	786	879	1,022	1,152	1,269	1,421
Other expenses	454	579	688	868	955	1,070
Pre-Provision Profit	4,926	4,523	5,242	5,457	5,990	6,748
<i>Change (yoy, %)</i>	5%	-8%	16%	4%	10%	13%
Provision	2,331	516	-5	-103	222	643
PBT	2,595	4,008	5,247	5,560	5,768	6,105
Taxes	680	1,047	1,300	1,399	1,452	1,537
<i>Effective tax rate (%)</i>	26%	26%	25%	25%	25%	25%
Net profit	1,915	2,961	3,947	4,160	4,316	4,568
<i>Change (yoy, %)</i>	-33%	55%	33%	5%	4%	6%
EPS	30.6	47.3	63.1	66.5	69.0	73.0
Return on Equity (%)	8.9	12.5	14.6	13.4	12.3	11.6
Return on Assets (%)	1.6	2.4	3.0	2.9	2.7	2.6

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	626	626	626	626	626	626
Reserves	21,730	24,536	28,314	32,305	36,453	40,852
Networth	22,356	25,162	28,940	32,931	37,078	41,477
Borrowings	96,920	99,241	1,07,010	1,16,397	1,29,914	1,45,053
Other liabilities	698	832	1,103	430	339	638
Total Liab. & Equity	1,19,974	1,25,234	1,37,053	1,49,758	1,67,331	1,87,168
Cash	6,077	4,544	5,080	5,773	6,308	7,065
Advances	1,12,918	1,19,622	1,30,371	1,40,800	1,57,697	1,76,620
Investments	316	316	316	1,763	1,763	1,763
Fixed Assets	204	233	366	410	451	496
Other Assets	459	520	921	1,013	1,114	1,225
Total assets	1,19,974	1,25,234	1,37,053	1,49,758	1,67,331	1,87,168

Financial Ratios

(%)

Year-end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth						
Advances	(4.6)	5.9	9.0	8.0	12.0	12.0
NII	6.0	(2.9)	16.5	4.1	9.8	12.5
Pre-Provision Profit	4.7	(8.2)	15.9	4.1	9.8	12.6
Net Profit	(33.4)	54.6	33.3	5.4	3.7	5.8
Spreads						
Yield on Assets	11.2	11.0	12.2	12.3	12.3	12.3
Cost of Funds	6.9	7.1	8.2	8.6	8.6	8.6
NIM	5.2	5.0	5.4	5.2	5.2	5.2
Operating Efficiency						
Cost-to-Income	20.1	24.4	24.6	27.0	27.1	27.0
Cost-to-Assets	1.0	1.2	1.3	1.4	1.4	1.4
Asset Quality						
GNPA	7.2	6.2	4.6	4.0	3.7	3.7
NNPA	5.5	3.7	2.2	1.6	1.7	1.7
Provision Coverage	29.6	44.7	55.4	60.0	55.0	55.0
Credit Cost	2.0	0.4	(0.0)	(0.1)	0.1	0.4
Capital Adequacy						
CAR	33.3	35.8	34.0	35.0	35.2	35.1
Tier I	32.8	35.0	33.2	35.0	35.2	35.1
Valuation						
EPS	30.6	47.3	63.1	66.5	69.0	73.0
BV	357.4	402.2	462.6	526.4	592.7	663.0
P/E	11.7	7.6	5.7	5.4	5.2	4.9
P/BV	1.0	0.9	0.8	0.7	0.6	0.5
ROE	8.9	12.5	14.6	13.4	12.3	11.6
ROA	1.6	2.4	3.0	2.9	2.7	2.6
RORWA	2.8	4.2	5.0	4.6	4.3	4.1

Source: Company; IDBI Capital Research

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