Repco Home Finance

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| From | : | 03-03-2015 |
| To | : | 21-02-2017 |
| Performance | : | 0% |
| Recommendation | : | CLOSED |

# Background & Business

Incorporated in 2000 as wholly owned subsidiary of Repco Bank, Repco is registered as Housing Finance Co under National Housing Bank. It was listed on stock exchanges in April, 2013 Repco offers 2 types of loans – **Individual Home Loans** (IHL; 80% of loan book as per Q3FY17 Investor Presentation) & **Loans against Properties** (LAP; 20%). Within IHL category, it offers loans for purchase of home / plot, construction, repairs / renovation, etc. In LAP category, Repco offers Loans against mortgage of immovable property & loan for purchase &/or construction of non-residential & commercial property.

# Investment Thesis

Repco is smaller than peers such as DHFL, HDFC, LICHF, etc. and has created a niche for itself on back of its unique positioning, management pedigree & customer base.

a) **Focus on niche low-ticket, non-salaried segment in Rural / Semi-urban areas** (one of the most under-served segments, but also one that generates genuine demand due to need-based buying),
b) **Lowering cost of funds** (Repco has actively begun to tap low-cost funds; viz., CPs, NCDs, whose proportion to total borrowing mix has grown from NIL two years back to 11% as on 31st December, 2016).
c) **Structural drivers in place** (various Govt initiatives such as "Housing for All by 2022", "Development of 100 smart cities" provide tremendous growth opportunity for HFCs in general).

While the structural drivers for the Housing Finance sector are largely in place, there are some pressing concerns which have reduced Repco's attractiveness versus peers and have in fact, put it at a disadvantage w.r.t. peers. These are

a) **Sharp deterioration in asset quality** (Repco has seen a sudden dip in asset quality over past four quarters. While some slippage was expected in Q3FY17 owing to the demonetization phenomenon playing out, the effect has been especially severe for Repco. Given that its other peers like DHFL, Indiabulls Housing, Gruh Finance have all reported strong performance with no slippage in asset quality, we think this situation for Repco is concerning.
b) **Steeply valued versus peers** (Repco trades at 4.2xs P/BV as against DHFL which is at 1.75xs P/BV and Indiabulls Housing Finance at 3.2xs. Given sluggish performance of Repco against peers along with slippages in asset quality, the stock is at highest risk of witnessing Multiple De-Rating. Risk-reward at current levels is not favorable.)


# Outlook

Repco has a differentiated business model with major focus on non-salaried segments in Tier – II & III areas. This has helped the company grow its loan book at a healthy rate of 30% CAGR over past three and five years. Sanctions and Disbursements too have grown at more than 25% CAGR each over FY11-16 and 25% CaGR over FY13-16. However, the current situation (deteriorating asset quality and steep valuations) puts Repco in a perilous position. Management commentary w.r.t. asset quality, too, is not very convincing. **To summarize, Significant slippages in asset quality and sluggish performance in comparison to its peers puts the stock at risk of witnessing multiple-de-rating especially since the stock is trading at steep premium to peers.** Hence, we prefer to EXIT the stock.