

Background & Business

Incorporated in 2000 as a wholly owned subsidiary of the Repatriates Co-operative Finance and Development Bank Limited (Repco Bank Limited), Repco Home Finance (Repco) is registered as a Housing Finance Company (HFC) under the National Housing Bank (NHB). It was listed on the stock exchanges – BSE/NSE in April, 2013 with an IPO worth Rs. 2.7bn. Against its issue price of Rs. 172/- the stock price performance has been staggering with a CaGR close to 50% since its listing; a demonstration of the strong fundamentals of its business and its unique competitive positioning.

Investment Thesis

- Gross NPAs which stood at 1.3% as on Mar-31-2016 has continuously inched up this fiscal, closing at 2.6% as on Dec-31-2016. The management has explained that the same is because of LAP portfolio and also due to a higher share of non-salaried borrowers in the total mix. As per the management, they are targeting to bring Gross NPAs down to 1.5% on Mar-31-2017.
- Over the past few years, Repco has seen stellar growth in its loan book, sanctions and disbursements. It has maintained superior NIMs of 4.30% versus 3% for DHFL. At the same time, NPAs have been maintained at steady levels. However, in the recent quarters, the company exhibited issues regarding Loan Book growth and higher NPAs during the quarter.
- Given that all of Repco's peers in the segment have been able to successfully navigate this curveball and report strong performance with no slippages in asset quality, Repco's deteriorating asset quality seems to be a grave concern and could prove to be a roadblock to its long term growth story.

Outlook

Repco trades at 4.2xs TTM P/BV as against Dewan Housing which is at 1.75xs P/BV and Indiabulls Housing Finance trading at 3.2xs P/BV. Given the sluggish performance as against the peer-set along with slippages in asset quality, the stock is at highest risk of witnessing Multiple De-Rating especially since the stock is trading at a steep premium to peers. Risk-reward at current levels is not favorable. Hence , we feel it is prudent to dilute our holdings in the stock and move on to other compelling stories.

