Date: 11th July, 2013

REPCO HOME FINANCE LTD. (REPCO)

Stock Performance Details

Current Price	**: Rs. 273.05****
Face Value	: Rs. 10 per share
52 wk High / Low	: Rs. 294.0 / Rs. 158.05
Total Traded Volumes	: 6,444 shares
Market Cap	: Rs. 1,697.3 crore**
Sector	: Housing Finance
EPS (FY2012)	: Rs. 14.37 per share
P/E (TTM)	: 21.22 (x)^
P/BV (TTM)	: 2.67 (x)^
Financial Year End	: 1st April – 31st March
BSE Scrip Name	: REPCOHOME
BSE Scrip Code	: 535322

as on 11th July, 2013

Shareholding Details - March 2013

Particulars	Shareholding	
	Nos.	(%)
Promoter & Promoter Group Holding	2,32,30,606	37.37
Total Institutional Holdings (FIIs & DIIs)	1,11,21,136	17.89
Public Holdings	2,78,09,304	44.74
Total	**6,21,61,047**	**100.00**

IPO Objectives

Particulars	Amount (Rs. Million)
Augmentation of Capital Based	722.4
Issue Related Expenses	47.5
Unutilized Amount	1,932.4
Total	**2,703.9**

Background

- Headquartered in Chennai, Tamil Nadu, Repco Home Finance has been promoted by The Repatriates Co-operative Finance and Development Bank Limited (“Repco Bank Limited”), a Government of India owned enterprise in April 2000.
- REPCO is engaged primarily in the business of financing construction and/or purchase of residential and commercial properties including repairs and renovations and loans against properties with majority of revenues driven from operations in South India.
- The company has been registered with the National Housing Bank (NHB) as a Housing Finance Company.
- As on 31st December, 2012 the company had 73 branches and 19 satellite centres located in Tamil Nadu, Karnataka, Andhra Pradesh, Kerala, Maharashtra, Odisha, West Bengal, Gujarat and the Union Territory of Puducherry.
- Of the total branches, majority of them were located in Tier II and Tier III cities and at the peripheries of Tier I cities.
- The company raised funds through the IPO to augment its capital base to meet its future capital adequacy requirements arising out of increased growth in its business.

Financial Snapshot

Particulars	Standalone (Rs. In Million)					
Income Statement	**6M FY2013**	**FY 2012**	**FY 2011**	**FY 2010**	**FY 2009**	**FY 2008**
Total Income	1,888	3,189	2,260	1,642	1,148	714
Y-o-Y Growth (%)		*41.10%*	*37.60%*	*43.00%*	*60.80%*	-
Profit Before Tax	478	877	777	608	353	210
Y-o-Y Growth (%)		*12.90%*	*27.90%*	*72.00%*	*68.50%*	-
PBT Margin (%)	*25.30%*	*27.50%*	*34.40%*	*37.00%*	*30.80%*	*29%*
Net Profit	356	676	566	440	251	151
Y-o-Y Growth (%)		*19.40%*	*28.70%*	*74.90%*	*66.60%*	-
NPM (%)	*18.90%*	*21.20%*	*25.10%*	*26.80%*	*21.90%*	*21.10%*
Balance Sheet						
Total Debt	24,286	22,455	15,668	10,938	8,493	4,973
Net Worth	3,389	3,033	2,416	1,904	1,519	1,327
Balance Sheet Ratios						
Debt / Equity (x)	*7.2 x*	*7.4 x*	*6.5 x*	*5.7 x*	*5.6 x*	*3.7 x*
ROCE (%)	*5.80%*	*10.60%*	*10.20%*	*10.40%*	*9.30%*	*8.70%*
RONW (%)	*10.50%*	*22.30%*	*23.40%*	*23.10%*	*16.60%*	*11.40%*
Capital Adequacy Ratio (%)	*15.90%*	*16.50%*	*18.20%*	*21.10%*	*25.00%*	-
Net Interest Calculations	**6M FY 13**	**FY 12**	**FY 11**	**FY 10**	**FY 09**	**FY 08**
Interest income	1,825	3,056	2,142	1,561	1,099	651.46
Interest expense	1,253	2,016	1,274	900	693	420.77
Net Interest Income	572	1,040	868	661	405	230.69
Net Interest Margin (%)	**3.8%*	*4.20%*	*4.90%*	*5.30%*	*4.60%*	*3.90%*
Yield (%)	**12.4%*	*12.50%*	*12.20%*	*12.80%*	*12.70%*	*11.60%*
Cost of Funds (%)	**9.5%*	*9.30%*	*8.20%*	*8.40%*	*9.60%*	*8.70%*
Spread (%)	**2.9%*	*3.20%*	*4.00%*	*4.40%*	*3.10%*	*2.90%*
Non- Performing Assets (NPAs)	**6MFY13**	**FY12**	**FY 11**	**FY 10**	**FY 09**	**FY 08**
Gross NPAs	656	383	252	174	95	82
Provisions for NPAs	166	118	55	38	26	21
Net NPAs	490	265	197	136	68	62
Gross Loan Portfolio	30,978	28,022	20,735	14,080	9,906	6,551
Net Loan Portfolio	30,812	27,757	20,681	14,042	9,880	6,530
Gross NPAs/Gross Loan Portfolio (%)	2.10%	1.40%	1.20%	1.20%	1.00%	1.30%
Net NPAs/Net Loan portfolio (%)	1.60%	1.00%	1.00%	1.00%	0.70%	0.90%

***Source** : RHP,* Annualized Returns*

From the Research Desk of LKW's Gurukshetra.com

- REPCO is primarily engaged in the business of housing finance. Its loan portfolio grew at a CAGR of 44 per cent since FY 2008 to FY 2012, which was relatively higher than the industry average. The total income too registered a similar growth for the given period. Thus the company's focus on relatively underpenetrated markets and segments appears to have been in line with the management strategy.

- In line with topline growth, the bottomline of the company too registered a CAGR growth of 45 per cent and though the Net Interest Margins (NIMs) remained under pressure since FY 2010, it has been higher when compared to most pure banking institutions as well as some of its listed peers in the housing finance business.

Company Name	NIMs (FY 2012)
REPCO Home Finance	4.2%
HDFC	3.7%
LIC Housing Finance	2.4%
GIC Housing Finance	1.9%
Dewan Housing Finance	2.2%

However, the Gross and Net NPAs as compared to its peers and other banking institutions remained comparatively higher. As per the RHP, the Gross and the Net NPAs for the company in FY 2012 stood at 1.4 per cent and 1 per cent as against gross NPA of 2.1 per cent for GIC Housing Finance, 0.7 per cent for Deewan Housing Finance and close to 0.65 for LIC Housing Finance.

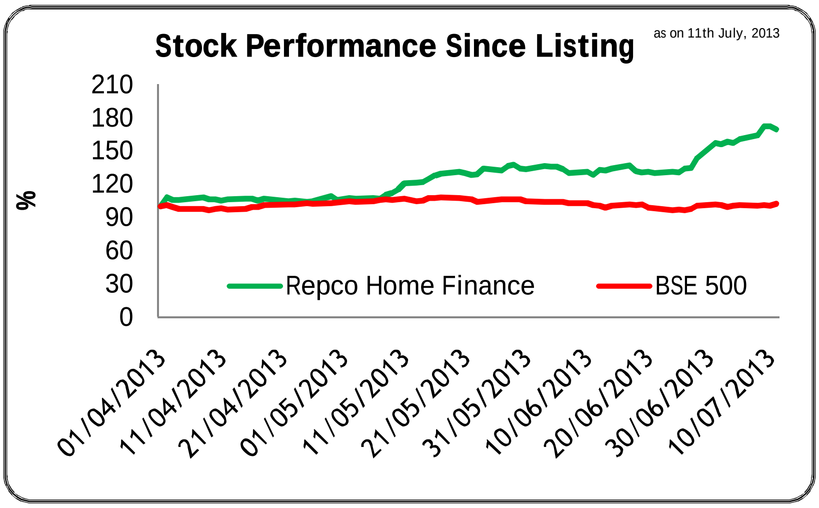
- Going forward, given that there is higher than expected competition in the mortgage loan segment; one could see some moderation in the interest margins which remained subdued since FY 2010. The increase in competition can be attributed to higher focus by banking institutions in the mortgage loan segment as corporate loan disbursements appear to have dried up significantly. The challenging economic environment and expectations of a further decline in interest rates could add pressure. In the event of reducing interest rates, most consumers may opt for re-financing their loans at a lower rate or restructuring their loans to take the benefit of reduced interest cost.

- While the company is a relatively known brand across tier II and tier III cities in the southern Indian states, it is yet to make any significant breakthrough in the Tier I cities in the same region. Against better known competitors like LIC Housing Finance, HDFC and others, the company is likely to face stiff competition in newer markets. Moreover, increased focus by commercial banks in the mortgage lending business could further add to the woes of the company as they are in a better position to offer a better bargain to their customers.

- Notably, demand for housing loans is dependent on the demand for housing and commercial properties. Thus any slack in the same too could impact its growth in the future. The continuous surge in the property prices across the country has already resulted into decline in the growth of number of loans disbursed. However, due to a rise in the ticket size per loan, there has been a significant growth in the loan book of the companies catering to the demand of the industry.

- Other important factors which merit attention is the ability of the company to maintain its Net Interest Margins. As increased competition, reducing interest rates, larger asset base and rationalizing of yields could lead to pressure on the same going forward. Further, risks associated with geographic concentration (South India market) too could impact the operations of the company going forward.

Performance on the Bourses



Peer Comparison

The below mentioned table provides a snapshot of the financial performance of Repco Housing Finance (RHFL) for period ended FY 2012 as against some of the larger and well established peers such as HDFC, LIC Housing Finance (LHF), GIC Housing Finance (GHF) and Dewan Housing Finance (DHF).

(in Rs. Million)

Particulars	RHFL	HDFC	LHF	GHF	DHF
Interest Income	3,056	1,61,549	59,930	4234	21980
Net Interest Income	572	50,619	14,070	1282	3988
PBT Margins (%)	27.2	32.77	19.92	18.14	16.32
PAT Margins (%)	21.5	23.76	14.71	13.44	12.4
Net NPAs/Net Advances	2.1%	0.0%	0.14%	0.0%	0.0%
P/E (x)**	NA	25.97	12.29	6.68	4.54
P/BV (x)**	NA	6.61	1.88	0.98	0.82

Source : RHP; Capitaline

About the Industry

India's housing finance industry shows the presence of both a formal segment as well as an informal segment. India's formal housing finance industry mainly consists of banks and Housing Finance Companies (HFCs) while, the informal segment comprises of community based organizations, self help groups etc. The National Housing Bank (NHB) is the primary agency for promoting, regulating and providing financial support to HFCs at local and regional levels.

Since the inception of formal housing finance, the housing finance industry was dominated by HFCs. However, towards the end of the 1990s, the scheduled commercial banks became very active in lending to the housing sector due to lower interest rates, rising disposable incomes, stable property prices and fiscal incentives by the government.

Intense competition in the housing finance industry has led to the introduction of new mortgage products in the market, such as variable interest rate loans, loan for repairs and renovation, and customised products with features like ballooning EMI, depending on the need and eligibility of the borrowers concerned.

Historically banks and HFCs have largely focused on the salaried class. The reason these institutions are more inclined in lending to the salaried class is due to the ease in ascertaining the income levels and the repayment capabilities of salaried borrowers as compared to any other segment. Lenders have always viewed the salaried segment as one with stable cash flows thus making them relatively less risky to lend to.

The housing finance disbursements are estimated to have grown by around 16.1% in FY12 and over the next 5 years it is expected to grow at a CAGR of 16% to Rs. 4,269 billion in FY17. Increased transaction volumes, rise in property prices and higher loan to value (LTV) ratios are some of the key drivers behind growth in disbursements in HFCs. At the same time, outstanding loans which are impacted by disbursements, repayments, pre-payments etc has grown by 19% y-o-y in FY12 and on a CAGR basis the same it expected to grow to Rs. 13,602.8 billion which is a 17% growth by FY17.

However, one of the most important challenges for any HFC remains is the management of NPAs of default in payments. Thus in a rising interest rate environment, the chances of a default are higher and vice – versa. This can be witnessed currently where interest rates have remained at an elevated level. Another important aspect to consider is the cost of funds for pure HFCs which are not banks.

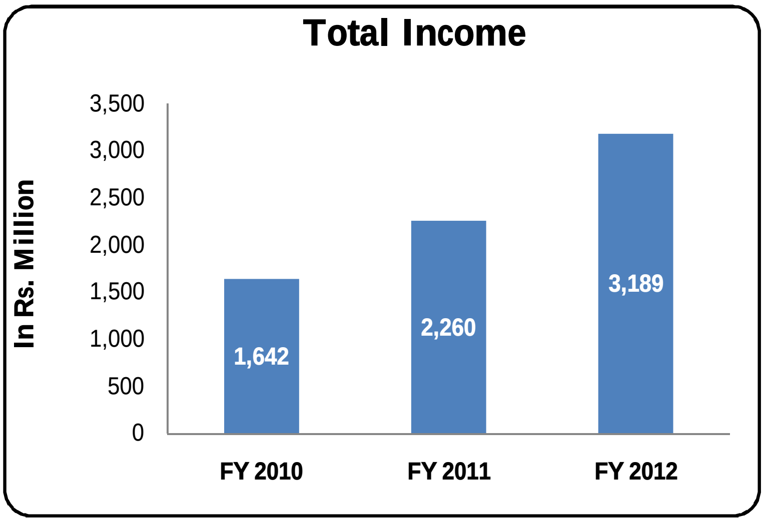
Outlook

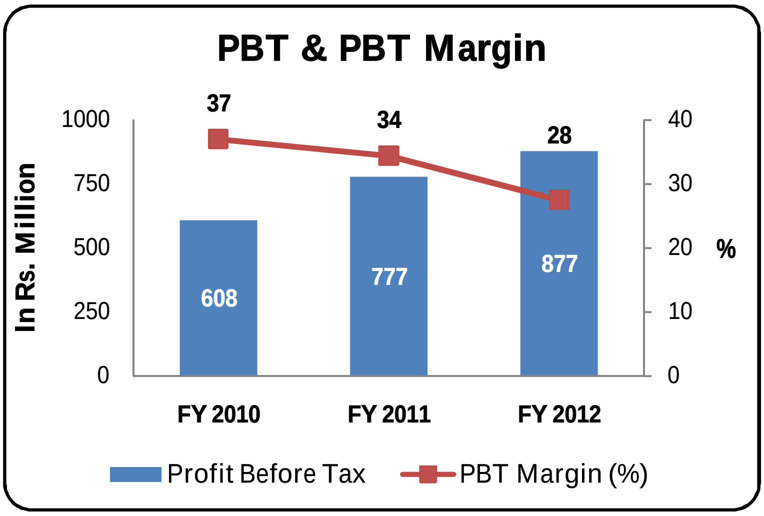
The outstanding housing loans in the country have steadily increased to account for nearly 7% of GDP, which is still very low as compared to some of the comparable emerging economies.

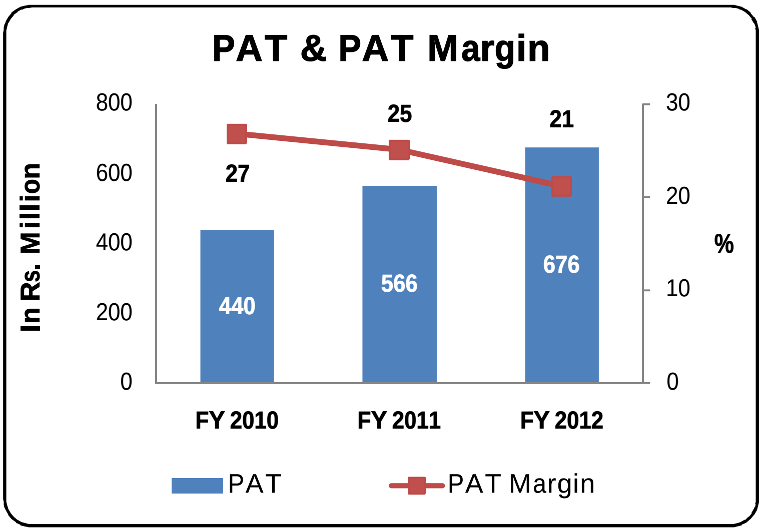
The market conditions show improved affordability riding on rising disposable incomes. Housing loans are also given tax incentives by the government as the interest and principal repayments deductible from the total taxable income. All these factors show scope for growth in the housing finance space.

The housing finance industry is also seeing growth due to increasing urbanization and may continue to see the same as only 31% of Indian population is urban as of today. There is a shortage in urban housing which is estimated to be around 26.53 million units. However exponential increase in prices in Tier I cities may dampen demand.

Financial Graphs







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Each member of the team involved in the preparation of this report, hereby affirms that there exists no conflict of interest.

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