

Chennai based Repco Home Finance Ltd. (RHFL) is promoted by The Repatriates Co-operative Finance and Development Bank Ltd. (Repco Bank Ltd.), a Government of India owned enterprise, in April 2000. The Company is regulated by the National Housing Board. RHFL is engaged primarily in the business of financing i) the construction and/or purchase of residential and commercial properties including repairs and renovations (Individual Home Loans); and ii) loans against properties. RHFL focuses on the largely under-penetrated customer segment, both salaried and self employed, which has helped the Company grow profitability. As of December 31, 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. Further, as of December 31, 2012, 77 of its branches and centres were located in tier 2 cities and tier 3 cities, and at the peripheries of tier 1 cities. The company is faced with a deteriorating trend in its profitability and its asset quality indicators over the last two-three financial years. RHFL's profitability indicator nevertheless continues to remain healthy (ROE: 22.3% in fiscal 2012) vis-à-vis industry standards and it currently has a comfortable capitalization profile (gearing 8.3 times in March, 2012). The Company's gross NPA and net NPA as at September 30, 2012 stood at 2.12% and 1.6% respectively. The robustness of the risk management systems is demonstrated by the fact that the total amount of loans written off since inception till September 30, 2012 was only Rs. 3.7 crores (0.08% of its total disbursements of Rs. 4,313 crores for the same period).

At the upper band of the issue price, RHFL is valued at 2.36x – Book Value /share at upper end of the price band which we believe is in line with the industry. With due consideration to factors like a) low cost operations and strong profitability with robust margins, b) favorable housing finance sector outlook, c) established presence in South India (strong brand name), especially in Tier II and Tier III cities, for over a decade focusing on niche customer segment, d) strong asset quality (low NPAs) with robust risk management systems, we recommend investors to "SUBSCRIBE" the issue.

Financial summary

Y/e 31 Mar (Rs. cr)	Sep 12 (6 months)	FY12	FY11	FY10
Net Interest Income	62.1	114.5	96.3	72.4
Operating Income	63.4	116.6	98.1	73.8
Operating Profit	53.6	97.2	83.1	64.3
Provisions and loan losses	5.9	15.5	3.9	3.2
PBT	47.8	81.6	79.3	61.2
PAT	35.6	61.5	58.2	44.4
CRAR (%)	15.94	16.50	18.21	21.13
Yield on Average Earning Assets (%)	12.6	12.9	12.6	13.0
Net Interest Margin (%)	4.1	4.6	5.3	5.7
Cost to Income Ratio (%)	15.4	16.7	15.3	12.8
Profit after Taxes /Avg. Assets (%)	2.4	2.5	3.2	3.5
Diluted EPS (Rs.)	11.45**	14.55	12.19	10.03
Networth (Rs. Cr.)	338.87	303.26	241.64	190.43
RoE (%)	-	22.28	23.43	23.09

Source: RHP, Ajcon Research, Note: ** Annualised EPS on Post IPO equity,

Issue date	March 13 – 15, 2013
Fresh Issue size	Rs. 2,703.4 mn at upper end of the price band
FV	Rs.10
Price Band	Rs. 165 - 172 per share
Lot size	75 Equity Shares and in multiples of 75 Equity Shares thereafter.
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Type of issue	Fresh Issue: 15.72 mn equity shares
Equity shares post issue	62.16 mn equity shares
Post issue market capitalization	Rs. 10,691.5 mn at upper end of the price band
Managing Director of RHFL	Mr. R. Varadarajan
Book Running Lead Managers	SBI Capital Markets Ltd., IDFC Capital Ltd., JM Financial Institutional Securities Pvt. Ltd.
IPO Grading	Grade 3/5 by ICRA indicating average fundamentals
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	50.02	37.37
Carlyle Group	23.75	17.70
WCP Holdings III	13.33	9.96
Creador 1, LLC	9.99	7.45
Others	2.91	2.23
Public – Fresh Issue	-	25.29
Total	100	100

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OBJECTS OF THE ISSUE

The Net Proceeds of the issue will be utilized by the Company towards augmenting its capital base, which will result in an increase in its networth and enable it to meet its future capital adequacy requirements. The Company is in compliance with the capital adequacy norms of the NHB Directions, 2010. The NHB Directions, 2010 require the Company to:

- Maintain a minimum CRAR (consisting of Tier I and Tier II capital) of 12% of its aggregate risk weighted assets and of the risk adjusted value of its off-balance sheet items;
- Maintain a maximum ratio of 100 percent of the total Tier I capital and the total Tier II capital.

RHFL's outstanding loan portfolio has grown by a CAGR of 43.81 percent from Rs. 655.08 crores to Rs. 2,802 crores as on March 2012. As on September 2012, its outstanding loan portfolio stood at Rs. 3,097.8 crores. CRAR stood at 15.94 percent as on September, 2012.

Source: RHP, Ajcon Research

ABOUT THE PROMOTERS

RHFL is promoted by Repco Bank Ltd. (Repco Bank), which currently holds about 50.02 percent equity shareholding in the Company. Repco Bank is a GOI owned Cooperative Bank established in the year 1969 to help and promote the rehabilitation of repatriates from Sri Lanka, Myanmar, Vietnam and other countries. Repco Bank's operations are largely in the four South Indian states and in the Union Territory of Puducherry. During FY12, Repco Bank reported a net profit of Rs. 73 crore on a total asset base of Rs. 4,875 crore vis a vis net profit of Rs. 56 crore on a total asset base of Rs. 3,654 crore in FY11.

During 2007-08, Carlyle Group infused about Rs. 76 crore into the Company in the form of equity and CCPS. The CCPS were converted into equity shares in July, 2009.

Mr. R. Varadarajan is the Managing Director of RHFL and Repco Bank and is actively involved in providing an overall strategic and operational direction to the Company.

PEER ANALYSIS

Company	Consolidated/ Standalone	Year	FV (Rs.)	EPS (Rs.)	Book Value per share (Rs.)	P/BV	RoE (%)
Repco Home Finance Ltd.	Standalone	FY12	10	14.55	72.97*	2.36	22.28
LIC Housing Finance Ltd.	Standalone	FY12	2	19.20	112.59	2.19	16.09
HDFC	Standalone	FY12	2	27.54	128.76	6.47	21.68
GIC Housing Finance Ltd.	Standalone	FY12	10	10.96	92.33	1.31	11.87
Dewan Housing Finance Corporation Ltd.	Standalone	FY12	10	28.67	173.97	1.02	15.07
Gruh Finance Ltd.	Standalone	FY12	10	6.80	21.84	9.48	31.21

Source: RHP, Ajcon Research, * as on Sep. 2012, ** at the upper end of Price band

KEY CONCERNS

Competitive pressure leading to pressure on Financials

The Company's Gross interest spread has been displaying a deteriorating trend in the recent past due to increase in competitive pressures and in the cost of funds of company.

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Regionally concentrated nature of business

The Company has modest and regionally concentrated nature of business (largely in South India), which exposes the Company to competitive pressures; limiting the scope of margin and scale expansion.

Current subdued business environment

In the current scenario of high interest rates, the business environment has remained subdued which could affect the company's business and financial performance.

Sizeable portion of funding to self employed group

A sizeable proportion of the Company's loans are to the self employed segment, which is largely credit untested and could be vulnerable to adverse economic cycles. As a result of this, 30+ delinquencies are relatively high at 14.8 percent as of September, 2012; however 90+ delinquencies remain under control at 2.1 percent.

Concentrated resource/funding profile with 48 percent funding from NHB, 52% from banks





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