

LIC HOUSING FINANCE

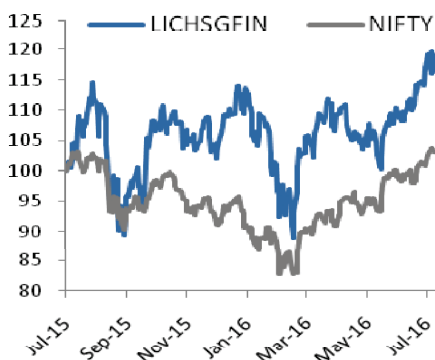
Company Update	BUY
CMP	508
Target Price	590
Previous Target Price	
Upside	16%
Change from Previous	-

Market Data	
BSE Code	500253
NSE Symbol	LICHSGFIN
52wk Range H/L	389/537
Mkt Capital (Rs Cr)	25,626
Av. Volume(,000)	648
Nifty	8528

Stock Performance	1Month	1Year	YTD
Absolute	4.7	9.6	(0.1)
Rel.to Nifty	1.0	10.6	(7.2)

Share Holding Pattern-%	1QFY17	4QFY16	3QFY16
Promoters	40%	40%	40%
PUBLIC	60%	60%	60%
Others	0%	0%	0%

Company Vs NIFTY



Good Operational Performance but hit by provisions and one-offs

LICHSGFIN posted the 1Q FY17 results with healthy 25% YoY growth in its net interest income backed by strong growth in loan portfolio which grew by 15.4% YoY. Operating profit grew by 19% YoY hit by employee expenses which increased by 115% YoY due to wage arrears of Rs 20 Cr and wage revision to employees. Excluding this wage arrears and wage revision, the operating profit would have grown by more than 22% YoY. PAT grew by only 7% YoY due to Rs 92 Cr provisioning on ageing of NPA of project loan segment. NIM has improved by 20 bps to 2.61% from 2.41% a year back. Assets quality was fairly stable with GNPA and NNPA at 0.59% and 0.28% respectively.

NIM Improved

NIM improved by 20 Bps YoY to 2.61% from 2.41% largely due to more than 33 bps decline in cost of fund and offset by fall in yield by 13 Bps. Decline in cost of fund was mainly due to decline in composition of bank funding from 17% to 11% and sourcing the cheaper cost of fund from NCD. Further decline in interest rate and with higher yield portfolio (LAP and Developer, combined composition at 12%-13%) and increased focus on retail loan, management expects the NIM to expand further.

Assets Quality

Assets Quality was fairly stable with marginal improvement in GNPA to 0.59% from 0.60% YoY but the sequentially the GNPA was up from 0.45% reflecting seasonal effect. Individual GNPA also improved from 0.36% to 0.35% YoY. Under the project loan 66% of NPA has been provided for and expects Rs 20-Rs 30 Cr of incremental provision on one developer account. This quarter management done the provisioning of Rs 92 Cr on account of ageing of NPA under project loan and that account has been fully provided. The NNPA was at 0.28% against 0.33% a year back. The PCR excluding teaser loan provision and standard assets provisions improved to 53% against 45% a year back.

Loan Growth and Disbursement

Overall loan growth was 15% YoY of which LAP grew by more than 120% and Project loan book grew by 39% YoY. The growth in Core lending business (Individual Home Loan) was moderate at 9% only but management has targeted to achieve the growth of around 16% in this segment with overall loan growth of 15%. The loan composition of LAP and Developer segment will largely remain same at 12% to 13% of the total book. Disbursement for the quarter grew by 23% YoY with retail disbursement picking up to 14% YoY growth. LAP disbursement grew by 54% YoY.

Operating Expenses Shoots Up

Operating expense has increased by 65% YoY due to spike up in employee expenses by 115%. Employee expenses increased because of wage revision and wage arrears. Wage arrears were Rs 20 Cr which was due from last 5 years. C/I ratio rose to 15.74% from 11.82%.

Concall Highlight:

- > Disbursement in core individual loan segment grew by 14% and growth in same segment in 1Q FY16 was 7%.
- > This Financial year the focus of management is on growing core lending business i.e individual home loan and will not focus much on non core book.
- > Saw pick up in most part of the country specially from southern and northern part.
- > Decline in cost of fund will help further to expand NIM.
- > No change in guidance of overall loan growth of 15% this year but expects individual loan growth to be 15-16 percent and in better case scenario it would be 17-18 percent.
- > In PL provisions there was one off of Rs 92 Cr under project loan on account of ageing of the NPA account. 100% provision has been provided on this account. Recovery process is going on this account. Out of Rs 332 Cr of NPA in project loan Rs 220 Cr has been provided.
- > Under the employee expense Rs 20 Cr was the payment towards arrear of wages and normal wage of the company has also increased.
- > Will borrow Rs 40000 Cr this year of which 80% would be from NCD. Borrowed Rs 9000 Cr in 1Q FY17.

Quarterly Performance

(Rs in Cr)

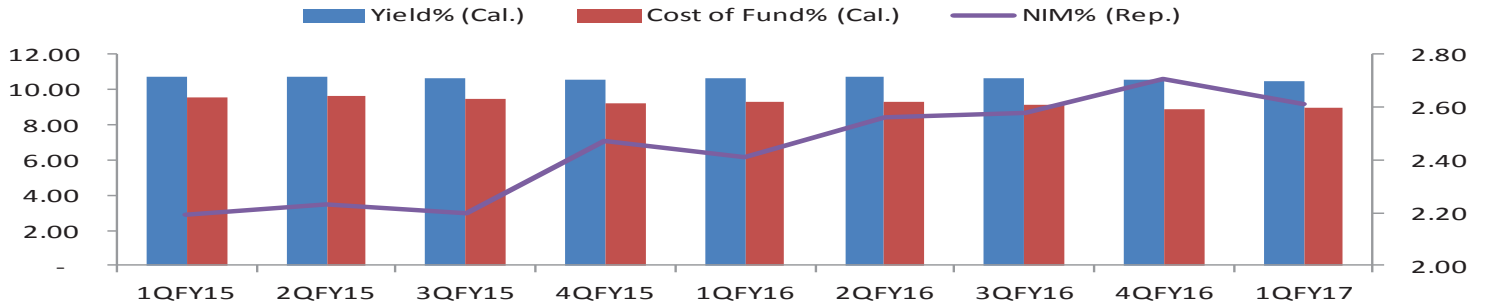
Financials	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Interest Income	2,483	2,596	2,668	2,800	2,917	3,026	3,102	3,206	3,326
NII	506	532	549	650	659	717	747	821	825
Net Income	567	594	617	710	707	780	802	890	878
Operating Expense	70	96	88	125	84	106	121	158	138
PPP	497	498	528	586	623	674	680	732	740
Provisions	9	(19)	7	10	44	30	34	38	116
PBT	166	176	177	197	197	233	227	246	216
Net Profit	322	341	344	378	382	412	419	448	408

(Source: Company/Eastwind)

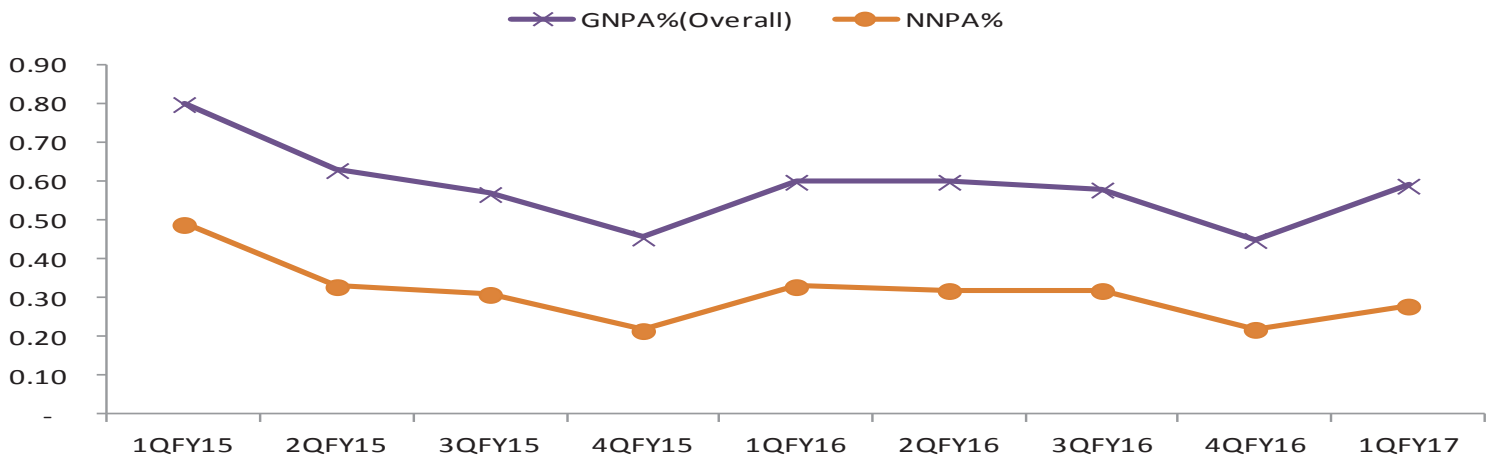
Outlook & Valuation

Core lending business still shows moderate growth rate of 9% but the relief came from 14% YoY disbursement growth. Also management guided for more than 16% growth rate in core lending business with overall growth rate of 15%. LAP and developer portfolio will be maintained at 13% of the book which will provide boost for the NIM due to higher yield in it. Prepayment ratio provided the relief with decline of 40 bps QoQ but will remain under watch with assets quality in project loan segment. NII is expected to grow by more than 20% in FY17 with further decline in cost of fund. With expected healthy operational performance and RoE of 20% we recommend BUY with the target price of Rs 590.

Profitability Metrix	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Yield% (Cal.)	10.70	10.71	10.62	10.58	10.61	10.74	10.67	10.53	10.47
Cost of Fund% (Cal.)	9.58	9.65	9.49	9.19	9.30	9.27	9.17	8.88	8.94
Spread% (Cal)	1.15	1.21	1.21	1.46	1.36	1.52	1.55	1.69	1.60
NIM% (Rep.)	2.19	2.23	2.20	2.47	2.41	2.56	2.58	2.71	2.61
C/I Ratio	12.32	16.23	14.31	17.54	11.82	13.58	15.14	17.73	15.74

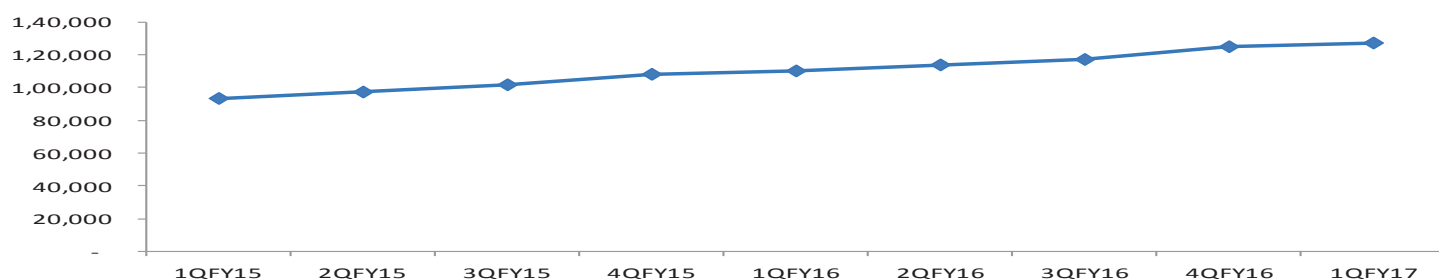


Assets Quality	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
GNPA (Overall) Rs	749	614	580	495	659	683	682	568	757
GNPA (Individual)Rs	364	361	328	254	388	367	366	243	433
NNPA (Overall)Rs	455	318	317	234	360	369	374	270	356
GNPA%(Overall)	0.80	0.63	0.57	0.46	0.60	0.60	0.58	0.45	0.59
GNPA% (Individual)	0.40	0.38	0.33	0.24	0.36	0.33	0.32	0.20	0.35
NNPA%	0.49	0.33	0.31	0.22	0.33	0.32	0.32	0.22	0.28
PCR%	39.30	48.20	45.37	52.62	45.41	45.97	45.16	52.37	52.97



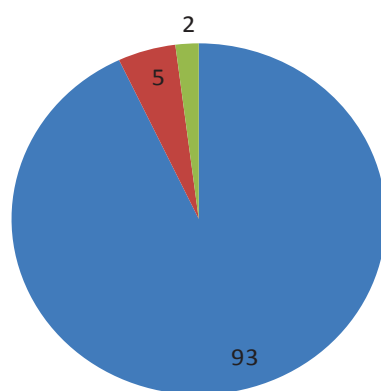
	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Loan Book	93,610	97,529	101,944	108,361	110,412	114,068	117,396	125,173	127,437

Loan Book

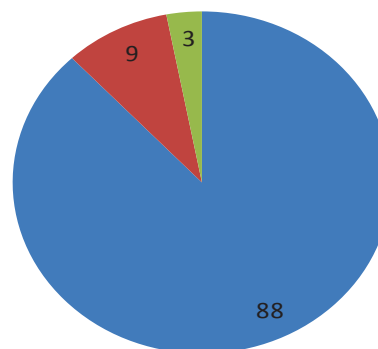


Loan Portfolio Category

1Q FY16

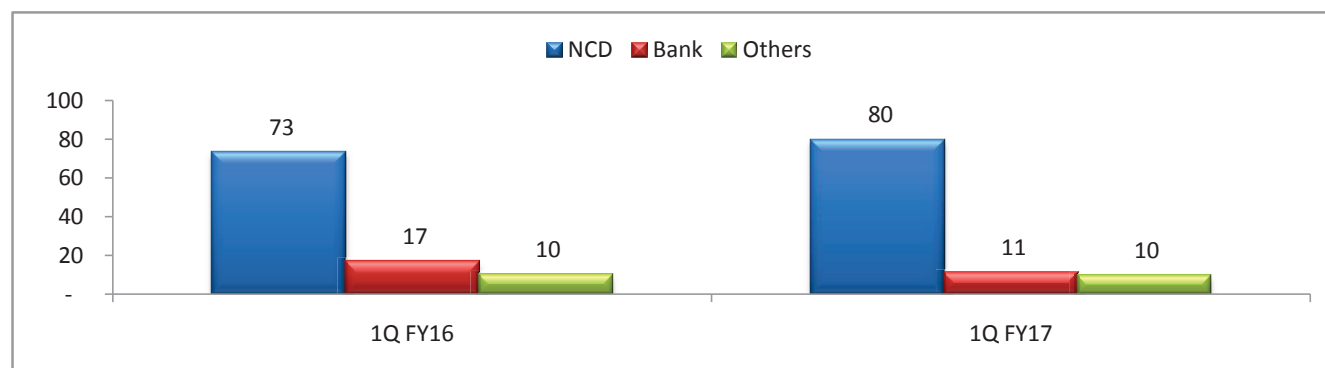


1Q FY17



Borrowing Profile

Decline in bank borrowing from 17% in 1Q FY16 to 11% in 1Q FY17 has helped to reduce the cost of fund further, whereas the composition of NCD has increased to 80% from 73% on 1Q FY16. Incrementally the management plans to raise 80% of borrowing through NCDs only.



Financials Snap Shot

INCOME STATEMENT (Consolidated)

	FY14	FY15	FY16	FY17E
Interest Income	9,073	10,547	12,396	13,876
Interest Expenses	7,174	8,310	9,307	10,338
Net Interest Income	1,899	2,236	3,090	3,538
Net Income	2,199	2,519	3,196	3,795
Establishment and Other Expenses	223	243	300	381
Employee Benefits Expense	113	139	165	208
Operating Expenses	343	392	474	601
Pre Provisioning Profit	1,855	2,127	2,722	3,194
Provisions / Write offs (Net)	21	7	146	242
PROFIT BEFORE TAX	1,834	2,119	2,575	2,953
TOTAL TAX	512	722	907	1,042
Reported PAT	1,318	1,396	1,668	1,911

Source: Eastwind/Company

RATIOS

Spreads Analysis (%)	FY13	FY14	FY15	FY16
Yield on Overall Loan Portfolio %	10.7	10.9	10.7	10.7
Cost Of Borrowing %	9.6	9.6	9.5	9.2
Spread %	1.2	1.3	1.3	1.5
Profitability Ratios (%)				
NIM %	2.2	2.3	2.3	2.6
ROA %	1.5	1.6	1.4	1.4
ROE %	16.8	18.8	18.1	19.6
EPS (Rs)	20.3	26.1	27.5	32.9
Cost to Income Ratio %	17.8	15.6	15.6	14.8
Asset-Liability Profile				
Loans/Borrowings (X)	1.1	1.1	1.1	1.1
Debt/Equity (x)	9.0	9.4	10.6	10.4
Provision Coverage Ratio	41	42	53	52
Gross NPAs (Rs cr)	471	609	495	568
Gross NPAs %	0.61	0.67	0.46	0.45
Net NPAs (Rs cr)	276	354	234	270
Net NPAs %	0.36	0.39	0.22	0.22
CRAR	16.5	16.4	15.3	17.0

BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	101	101	101	101
Reserves	7485	7779	9,114	10,670
Net Worth	7586	7880	9,215	10,771
Long term Debt	67712	80519	90,658	102,075
Short term Debt	3738	2698	5,440	7,254
Total Borrowing	71450	83217	96,099	109,328
Long Term Provision	706	697	807	847
Other Liability	16,117	20,837	24,467	28,511
Total Liability	95860	112630	130,587	149,457
Fixed Assets	86	90	102	108
Non-current investments	192	229	264	297
Current investments	2	13	17	17
Loans	91341	108361	125,173	143,949
Cash & Bank Balances	3074	2993	3,987	3,940
Other Assets	1,165	945	1,044	1,146
Total Assets	95860	112630	130587	149457

Source: Eastwind/Company

Loan Mix %

Individual Loan	97	97	97	97
Project Loan	3	3	3	3
Total Loan (Rs in Cr)	77813	91341	108361	125173

Borrowing Mix %

NCD	61	66	73	77
Bank	30	25	18	13
Others	10	9	10	10
OS Borrowings (Rs in Cr)	68764	82036	90572	110936

About the Company

Incorporated in 1990, LIC Housing Finance is one of the largest player in Housing Finance Industry with 245 marketing offices, promoted by LIC. It has a Loan book of Rs 1,27,000 Cr with 88% in core individual loan. It provides loan to LAP, developer segment and individual retail segment.

Chairman SK ROY
Managing Director Sunita Sharma