

LIC HOUSING FINANCE LTD.

HOLD

22-Jun-17

INDUSTRY - HFC
BSE Code - 500253
NSE Code - LICHSFIN
NIFTY - 9634

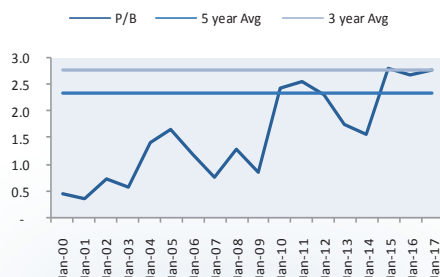
Company Data

CMP	772
Target Price	832
Previous Target Price	
Upside	8%
Change from Previous	
52wk Range H/L	794/466
Mkt Capital (Rs Cr)	38982
Av. Volume (,000)	164

Share Holding Pattern %

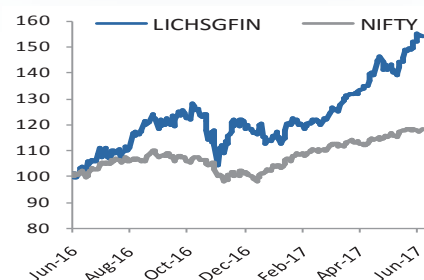
	4QFY17	3QFY17	2QFY17
Promoters	40.3	40.3	40.3
DII	13.0	15.6	19.9
FII	32.9	31.6	24.7
Others	13.8	12.5	15.1

LICHSFIN is trading at its higher P/B range.



Stock Performance %

	1Mn	1Yr	YTD
Absolute	15.4	63.3	46.2
Rel.to Nifty	12.3	45.1	28.1



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Key Highlights of the report:

- ✓ LICHSFIN is the second largest HFC and is consistently growing at CAGR of 17% over the last 4 years.
- ✓ Increase in share of higher yield assets and declining cost of fund will help the company to protect its margins going forward.
- ✓ Focus on salaried segment (45%-50% of customers are Government employee) gives LICHSFIN a great opportunity under Government policy of affordable housing and housing for all by 2022 initiative. Implementation of 7th pay commission also augurs well for it.
- ✓ We expect RoE and RoA of 20% and 1.5% respectively in FY19. Factoring steady loan growth with stable assets quality and improving margin trajectory we value the stock at Rs 832 (2.8x FY19 BV) and recommend HOLD.

Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
NII	2236	2944	3645	4500	5199
PPP	2109	2710	3237	3997	4621
PAT	1386	1661	1931	2411	2788
NIM %	2.2	2.5	2.7	2.9	2.9
EPS (Rs)	27	33	38	48	55
EPS growth (%)	5.2	19.8	16.3	24.9	15.6
ROE (%)	18.1	19.6	19.1	20.3	20.1
ROA (%)	1.3	1.4	1.4	1.5	1.5
BV	155	181	219	251	297
P/B (X)	2.8	2.7	2.8	3.1	2.6
P/E (x)	15.9	15.0	16.2	16.2	14.0

Recent Development : Key Highlights of Result Update

- ✓ Loan book register steady growth of 15% YoY on the back of increase in share of non-core assets. Share of non-core assets increased to 16.4% from 11.5% a year back.
- ✓ New Management, Mr. Vinay Sah has started with positive stance and guided for more than 15% loan book growth going forward.
- ✓ Assets quality remained stable with little improvement. Quality of LAP book gives comfort as it is tilted towards salaried customer with relatively lower LTV of 30%.
- ✓ NIM improved by 26 bps YoY to 2.97% on the back of declining cost and increase in higher yield assets.
- ✓ Company registered healthy growth in top-line, however one-off in provisions due to ageing of NPA led to relatively lower PAT growth.

Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	3,206	3,326	3,428	3,513	3,610	12.6%	2.8%	12,251	13,877	13.3%
Interest Exp.	2,384	2,502	2,563	2,597	2,570	7.8%	-1.0%	9,307	10,231	9.9%
NII	821	825	866	915	1,040	26.6%	13.6%	2,944	3,645	23.8%
Other Income	68	54	62	36	52	-23.4%	44.5%	235	204	-13.2%
Total Income	890	878	927	952	1,092	22.7%	14.8%	3,268	3,942	20.6%
Ope Exp.	158	138	136	141	197	24.6%	39.7%	469	612	30.5%
PPP	732	740	791	811	895	22.3%	10.4%	2,710	3,237	19.4%
Provisions	38	116	30	45	89	137.3%	97.3%	146	281	92.1%
PBT	694	623	761	766	806	16.1%	5.3%	2,564	2,956	15.3%
Tax	246	216	266	266	277	12.5%	4.0%	903	1,025	13.5%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Net Profit	448	408	495	499	529	18%	6.0%	1,661	1,931	16.3%

Higher provisions due to one ageing related NPA in developer segment.

Strong operating performance.

- ✓ Operating profit growth was healthy at 22% YoY backed by strong net interest income growth of 27%. PAT register growth of 18% YoY.
- ✓ Operating expenses were higher due to increase in employee expenses. Cost to income ratio increased to 18% from 15% a quarter back.
- ✓ Provisions increased significantly during the quarter to Rs 89 Cr against Rs 38 Cr a year back due to ageing related NPA.

Margins improved on the back of declining cost.

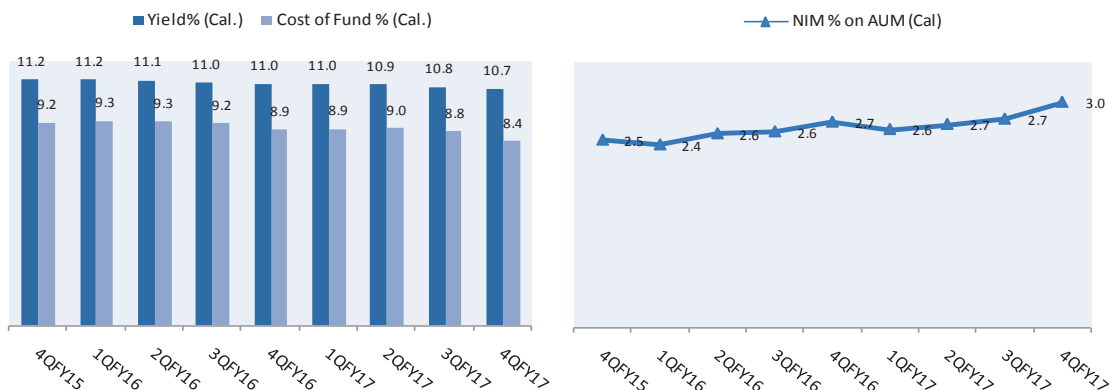
- ✓ NIM improved by 26 bps YoY to 2.97% on the back of declining cost and increase in higher yield assets. Calculated yield declined by 24 bps YoY whereas 52 bps declines in cost led the improvement in NIM.
- ✓ Due to pressure on yield on individual home loan segment, management has increased the share of no-core assets which will support the yield going forward.
- ✓ On the liability side declining G-Sec yield and increase in borrowing through commercial paper (CP) will help in reducing costs further and our analysis shows that LICHSGFIN will be able to protect the spreads going forward.

Profitability Metrix	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	17.7	15.7	14.7	14.8	18.0	0.3	3.2	14.7	15.9	1.15
Empl. Cost/ Tot. Exp. %	24.9	49.4	43.4	43.7	28.9	4.0	-14.8	32.1	40.2	8.10
Other Exp/Tot. Exp. %	20.2	18.5	21.2	15.7	21.2	1.0	5.5	67.9	59.8	-8.10
Provision/PPP %	5.1	15.7	3.8	5.6	10.0	4.8	4.4	5.4	8.7	3.29
Tax Rate %	35.5	34.6	35.0	34.8	34.4	-1.1	-0.4	35.2	34.7	-0.55
Int Exp./Int Inc. (%)	74.4	75.2	74.7	73.9	71.2	-3.2	-2.7	76.0	73.7	-2.24
Other Income/NII %	8.3	6.5	7.1	4.0	5.0	-3.3	1.1	8.0	5.6	-2.38
PPP/ Net Income %	82.3	84.3	85.3	85.2	82.0	-0.3	-3.2	85.3	84.1	-1.15
PAT/ Net Income %	50.4	46.4	53.4	52.5	48.5	-1.9	-4.0	52.2	50.2	-2.08
NII Growth % (YoY)	26.4	25.1	20.7	22.6	26.6	0.2	4.0	31.6	23.8	-7.83
PPP Growth YoY %	25.0	18.7	17.3	19.2	22.3	-2.6	3.2	28.5	19.4	-9.04
PAT Growth % YoY	18.5	6.7	20.2	19.2	18.1	-0.3	-1.1	19.8	16.3	-3.54

Margin Performance

Margins improved on the back of declining cost of fund.

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
Aveg Yield (Cal.)	11.0	11.0	10.9	10.8	10.7	-0.24	-0.09	10.5	10.3	-0.20
Avg Cost of Fund (Cal)	8.9	8.9	9.0	8.8	8.4	-0.52	-0.46	9.0	8.6	-0.35
Spread (Cal)	2.1	2.1	2.0	2.0	2.4	0.28	0.37	1.5	1.7	0.15
NIM % on AUM (Cal)	2.7	2.6	2.7	2.7	3.0	0.26	0.22	2.5	2.7	0.18



Steady loan book growth, increase in share of non-core assets.

- ✓ Loan book register steady growth of 15.5% YoY.
- ✓ However the core retail home loan segment once again registers muted growth of 9% only. Whereas non-core loan portfolio increased by 64% YoY. LAP grew by 65% YoY and developer segment grew by 60% YoY.
- ✓ The composition of individual loan segment decreased to 83.6% against 88.5% a year back. Under non-core assets LAP is 12.6% rest is developer.
- ✓ Increase in non-core assets book was mainly due to protect the margins. Management highlighted that going forward loan book composition will be at current levels with more focus on core home loan segment.
- ✓ Disbursement grew by 15% YoY on the back of higher disbursement growth in non-core assets of 30% YoY.
- ✓ LAP disbursement growth was 19% YoY whereas developer segment grew by more than 90% YoY. Growth in individual loan segment was lower of just 7.4% YoY.

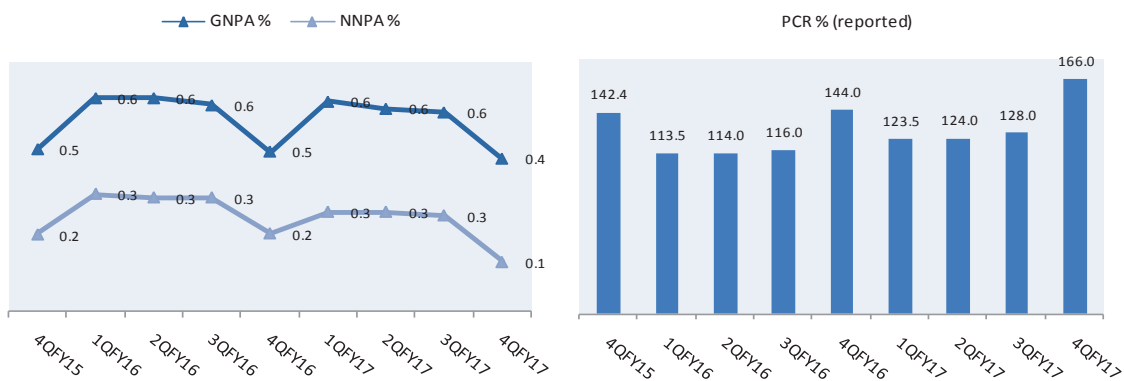
Stable Assets Quality

- ✓ Assets quality was improved marginally during the quarter with GNPA at 43 bps against 45 bps a year back. However it declined by 13 bps QoQ representing seasonal impact.
- ✓ NNPA improved significantly during the quarter and declined by 8 bps YoY due to higher specific PCR of 67% against 52% a quarter back.
- ✓ Higher provision of Rs 50 Cr was made on one developer account which became NPA 3 years back and moved to 100% provisioning bucket during the 4Q FY17.
- ✓ Management highlighted that 100% provisions have been provided on all large developer account and hopeful of recovery in one account very shortly.

- ✓ GNPA on individual loan segment remained stable at 20 bps YoY and declined by 12 bps QoQ. GNPA on project loan declined by more than 3% due to higher base effect.
- ✓ Total provision pool including teaser rate and standard assets provisions increased to Rs 1038 Cr representing 166% against 144% a year back.

Assets Quality Performance

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA (Rs in Cr)	568	757	750	759	627	10.4%	-17.4%	568	627	10.4%
GNPA %	0.5	0.6	0.6	0.6	0.4	-0.02	-0.13	0.5	0.4	-0.02
NNPA (Rs in Cr)	270	356	368	361	205	-24.2%	-43.2%	270	205	-24.2%
NNPA %	0.2	0.3	0.3	0.3	0.1	-0.08	-0.13	0.2	0.1	-0.08
PCR % (reported)	144.0	123.5	124.0	128.0	166.0	22.00	38.00	144.0	166.0	22.00
GNPA (Individual)	221	391	367	374	242	9.1%	-35.3%	221	242	9.1%
GNPA% (Individual)	0.2	0.4	0.3	0.3	0.2	0.00	-0.12	0.2	0.2	0.00



Concall Highlights :

- ✓ Management expect low incremental cost and optimal asset mix of high margin assets would give good margin in FY 2018.
- ✓ Management expect same growth rate of loan book to continue going further.
- ✓ Loan book composition will continue to remain at current level with more focus on core home loan segment.
- ✓ Rs 12000 Cr of bond @ 9% will re-price in FY18 at much lower rate.
- ✓ LAP segment is largely with the salaried individuals with low ticket size of about Rs. 12 lakhs with LTVs of less than 30%.
- ✓ In FY17 there was a one-time additional cost of arrear wage revision to the tune of about Rs. 50 crores which had increase the cost to income ratio. Management do not anticipate any such items in financial year 2018.
- ✓ During the year about close to 15% of borrowing has been done through commercial papers about Rs 8,000 crores out of 55,000 odd crores.

View and Valuation

Loan book of LICHSGFIN has been growing at a CAGR of 17% since last 4 years. However the pace of retail home loan segment has slowed down to 9% CAGR during last 2 years. Due to intensified competition in core segment, company has resorted towards non-core assets to protect the margins and growth. Despite tough competition in retail segment, this segment is expected to continue to report healthy growth due to improving affordability of home loan in the country.

We continue to factor 15% loan book growth in FY19 on the back of focus of management on non-core assets. LICHSGFIN has been able to raise fund through NCDs at much lower rate of 7.60%-7.80% and has been able to reduce the average spread to below 90 bps from G-Sec yield. Liability of Rs 12000 Cr @ > 9% will get re-priced in FY18 at much lower rate. Apart from these LICHSGFIN has been actively borrowing short term fund through CP at much lower rate of 6.5%. Thus improved bargaining power with declining G-Sec yield, re-pricing of bonds, actively borrowing through CP and increase in non-core assets, forecast upward margin trajectory for LICHSGFIN. Assets Quality is likely to remain stable. We estimate net profit CAGR of 19%-20% over FY17/FY19.

We expect RoE and RoA of 20% and 1.5% respectively in FY19. Factoring steady loan growth with stable assets quality and improving margin trajectory we value the stock at Rs 832 (2.8x FY19 BV) and recommend HOLD.

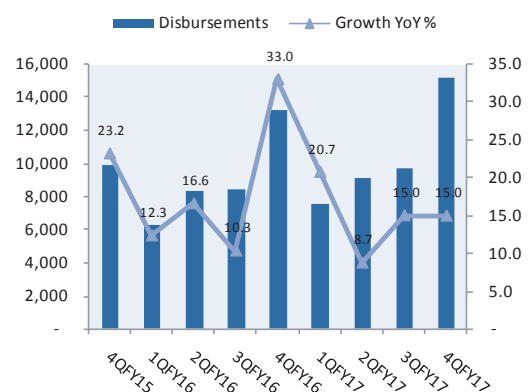
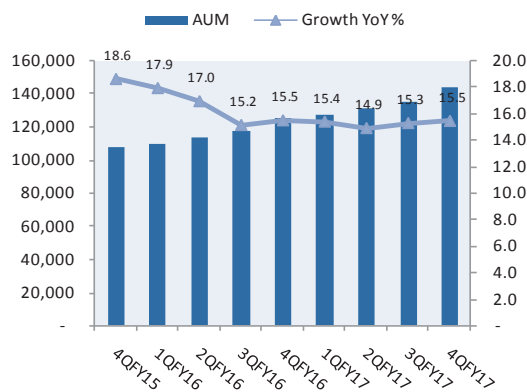
Performance in Charts and Graphs

Business Analysis (Rs in Cr)

	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Disbursements	9,938	6,247	8,389	8,421	13,216	7,542	9,123	9,684	15,192
>> Growth YoY %	23.2	12.3	16.6	10.3	33.0	20.7	8.7	15.0	15.0
AUM	1,08,361	1,10,412	1,14,068	1,17,396	1,25,173	1,27,437	1,31,096	1,35,366	1,44,534
>> Growth YoY %	18.6	17.9	17.0	15.2	15.5	15.4	14.9	15.3	15.5
Borrowings	96,547	97,667	1,01,640	1,03,816	1,10,936	1,12,960	1,16,083	1,19,428	1,26,335
>> Growth YoY %	17.7	17.8	15.3	14.6	14.9	15.7	14.2	15.0	13.9

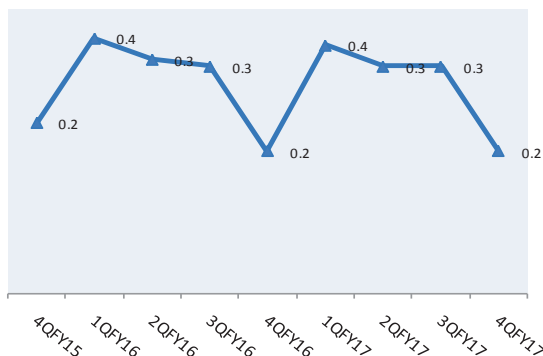
AUM Composition %

Individual Loan Port.	93.0	92.7	91.8	91.0	88.5	87.8	87.5	86.3	83.6
LAP	4.5	4.8	5.6	6.4	8.8	9.3	9.7	10.4	12.6
Project loan port.	2.5	2.5	2.6	2.6	2.7	2.9	2.8	3.3	3.8



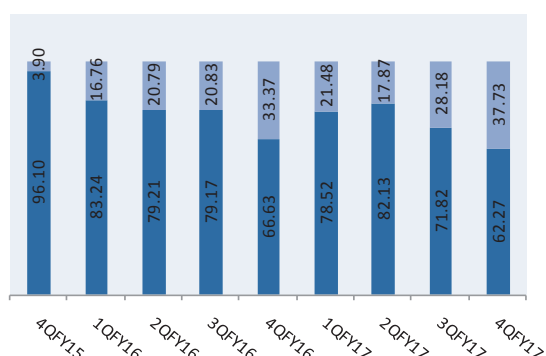
Stable Core home loan assets quality

Gross NPA% (Individual)



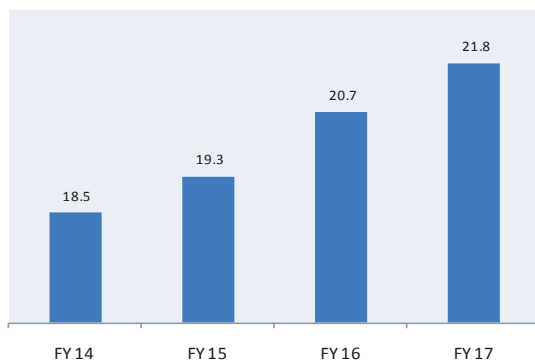
Trend in disbursal mix

Individual Home Loan % Non-core assets %



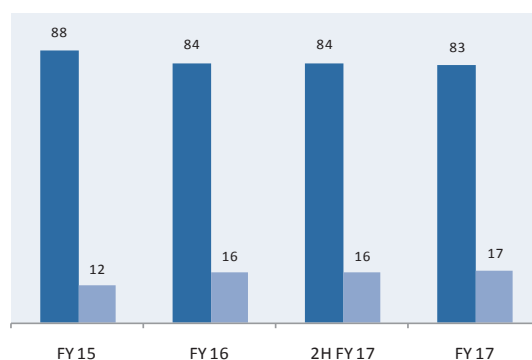
Gradual increase in Average Ticket

Incremental Average Ticket Size (Rs in Lakh)



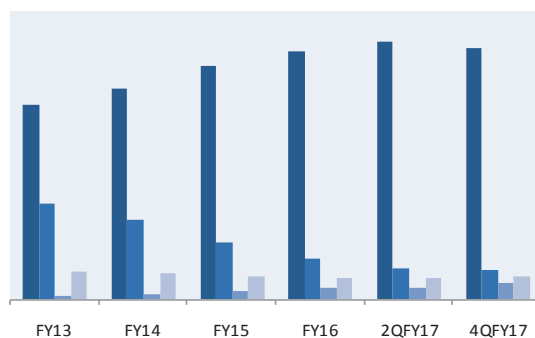
Stable customer profile

Salaried Self Employed & others



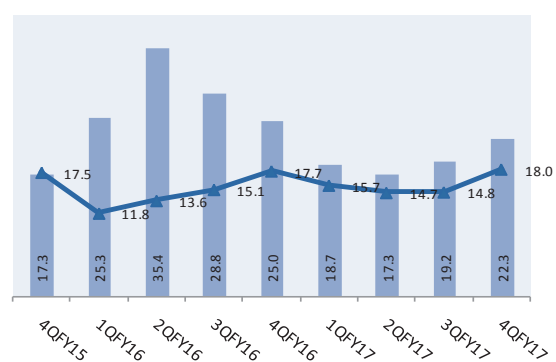
Borrowing Mix trend

NCDs Banks Public deposits Others



C/I ratio trend

Operating Profit Growth YoY% C/I Ratio %



Financials Snap Shot

Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	101	101	101	101
>> <i>Equity Capital</i>	101	101	101	101
>> <i>Preference Capital</i>	-	-	-	-
Reserves & Surplus	9,045	10,976	12,588	14,892
Networth	9,146	11,077	12,689	14,993
<i>Change (%)</i>	17.0	21.1	14.5	18.2
Total Borrowing	1,10,936	1,26,335	1,45,165	1,66,214
<i>Change (%)</i>	14.9	13.9	14.9	14.5
Provisions	1267	1139	1309	1499
Other Liability	9,149	12,349	14,179	16,266
Total Liabilities	1,30,498	1,50,901	1,73,342	1,98,972
Assets Side				
Investments	277	528	607	698
Loans	1,25,173	1,44,534	1,66,214	1,91,146
<i>Change (%)</i>	15.5	15.5	15.0	15.0
Fixed Assets	92	97	106	117
Other Assets	1,029	1,280	1,454	1,655
Cash Balance	3,927	4,462	4,961	5,357
Total Assets	1,30,498	1,50,901	1,73,342	1,98,972

Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Interest income	12,251	13,877	15,535	17,805
Interest expended	9,307	10,231	11,035	12,606
Net Interest Income	2,944	3,645	4,500	5,199
<i>Change (%)</i>	31.6	23.8	23.5	15.5
Other Income	235	204	225	260
<i>Change (%)</i>	(6.9)	(13.2)	10.5	15.5
Total Net Income	3,179	3,849	4,725	5,459
<i>Change (%)</i>	28	21	23	16
Operating Expenses	469	612	728	838
<i>Change (%)</i>	23.6	30.5	19.0	15.2
> Employee Expenses	150	246	295	341
<i>Change (%)</i>	16.3	63.5	20.0	15.6
> Other Expenses	318	366	433	497
Pre-provisioning Profit	2,710	3,237	3,997	4,621
<i>Change (%)</i>	28.5	19.4	23.5	15.6
Provisions	146	281	325	373
<i>Change (%)</i>	1,919.9	92.1	15.4	15.0
PBT	2,564	2,956	3,673	4,247
Tax	903	1,025	1,262	1,459
Profit After Tax	1,661	1,931	2,411	2,788
<i>Change (%)</i>	19.8	16.3	24.9	15.6
Adjusted PAT	1,661	1,931	2,411	2,788
<i>Change (%)</i>	19.8	16.3	24.9	15.6

Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Balance Sheet Metrics				
AUM	1,25,173	1,44,534	1,66,214	1,91,146
> Off-Book AUM	-	-	-	-
AUM Growth (%)	15.5	15.5	15.0	15.0
Borrowing Growth (%)	14.9	13.9	14.9	14.5
Loan/Borrowing Ratio	1.1	1.1	1.1	1.2
Disbursement (Rs Cr)	36,273	41,541	47,772	54,938
<i>Disbursement Growth (%)</i>	19.6	14.5	15.0	15.0
CRAR (%)	17.0	17.3	16.2	16.3
>> Tier 1 (%)	13.9	14.5	13.9	14.3
>> Tier 2 (%)	3.2	2.8	2.3	2.0
Debt/Equity (x)	12.1	11.4	11.4	11.1

Assets Quality Metrics

Gross NPA (Rs)	568	627	681	765
Gross NPA (%)	0.45	0.43	0.41	0.40
Net NPA (Rs)	270	205	211	229
Net NPA (%)	0.22	0.14	0.13	0.12
Specific Prov. Coverage (%)	52.4	67.3	69.0	70.0
Prov. Exp/Average Loan (%)	0.1	0.2	0.2	0.2

Margin Metrics

Yield On Advances (%)	10.5	10.3	10.0	10.0
Cost Of Funds (%)	9.0	8.6	8.1	8.1
Spread (%)	1.5	1.7	1.9	1.9
NIM (%)	2.5	2.7	2.9	2.9

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	76.0	73.7	71.0	70.8
Other Income/NII (%)	8.0	5.6	5.0	5.0
Op. Profit/ Net Income (%)	85.3	84.1	84.6	84.6
Net Profit/Net Income (%)	52.2	50.2	51.0	51.1
Cost to Income (%)	14.7	15.9	15.4	15.4
Employee Exp/ Net Income (%)	4.7	6.4	6.2	6.2
Cost on Average Assets (%)	0.4	0.4	0.4	0.5
Provisions/PPP (%)	5.4	8.7	8.1	8.1
Tax Rate (%)	35.2	34.7	34.4	34.4

Valuation Ratio Metrics

EPS (Rs)	32.9	38.3	47.8	55.3
<i>Change (%)</i>	19.8	16.3	24.9	15.6
ROAE (%)	19.6	19.1	20.3	20.1
ROAA (%)	1.4	1.4	1.5	1.5
Dividend Payout (%)	16.7	16.2	14.7	14.5
Dividend yield (%)	1.2	1.2	0.9	1.0
DPS	5.5	6.2	7.0	8.0
Book Value (Rs)	181	219	251	297
<i>Change (%)</i>	17.0	21.1	14.5	18.2
P/B (X)	2.7	2.8	3.1	2.6
P/E (X)	15.0	16.2	16.2	14.0