

LIC HOUSING FINANCE

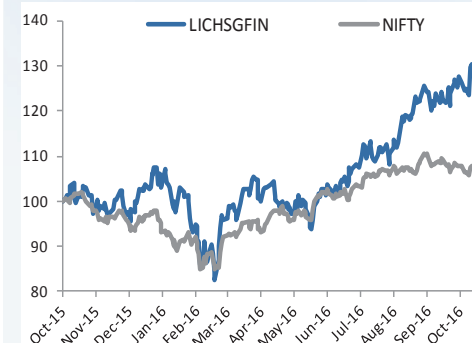
Company Update	BUY
CMP	599
Target Price	705
Previous Target Price	
Upside	18%
Change from Previous	-

Market Data	
BSE Code	500253
NSE Symbol	LICHSGFIN
52wk Range H/L	624/389
Mkt Capital (Rs Cr)	30,262
Av. Volume(,000)	128
Nifty	8693

Stock Performance	1Month	1Year	YTD
Absolute	6.8	26.4	19.8
Rel.to Nifty	7.7	19.1	10.3

Share Holding Pattern-%	2QFY17	1QFY17	4QFY16
Promoters	40%	40%	40%
PUBLIC	60%	60%	60%
Others	0%	0%	0%

Company Vs NIFTY



Results as per expectations

LICHSGFIN has posted a healthy set of numbers as per our estimation with the PAT growth of 20% YoY to Rs 495 Cr led by strong operational performance. Net Interest Income grew by 21% YoY backed by healthy loan growth as well as expansion in NIM. Total net income grew by 19% YoY. However higher operating expenses translated the pre-provisioning growth of 17% YoY. Operating expenses grew by 29% YoY. Provisions were stable YoY at Rs 30 Cr as the assets quality saw some improvement. NIM expanded to 2.68% from 2.56% a year back. Gross NPA declined to 57 bps from 60 bps on 1Q FY16. Loan book grew by 15% YoY whereas disbursement was only 9% YoY.

Margins improved backed by decline in cost

NIM of LICHSGFIN has improved by 12 bps to 2.68% from 2.56% a year back. Cost of fund declined by 32 bps YoY to 8.95% against 9.27% but on the other hand it was offset by 20 bps decline in Yield. Decline in cost of fund was largely led by increase in borrowing through NCDs which now constitute 81% against 75 % a year back of the total borrowing. Bank borrowing has now declined to below 10% of the total borrowing. Incremental borrowing is now happening at 8.45% cost whereas incremental yield is 10.58%. Incremental Yield on project loan is in the range of 13% to 14%. Interest rate declining scenario with the strong home loan demand and good quality of high yield portfolio will further help in NIM expansion. Operating expenses increased by 29% YoY which led the C/I ratio to increase to 14.7% against 13.6% a year back. The increase in opex was due to wage revision under employee expenses.

Loan Growth and Disbursement

Overall loan growth was 15% YoY of which LAP grew by 99% and Project loan book grew by 22% YoY. The growth in Core lending business (Individual Home Loan) was at 9% only. The overall loan growth target given by management is 15%. Due to implementation of 7th Pay Commission management is hopeful of achieving this target with focus on individual home loan. The loan composition of LAP and Developer segment was at 12.5% well within the guided range of 12%-13%. Pure floating rate portfolio has increased significantly to 61% from 35% a year back. The pre-payment ratio has declined by 60 bps sequentially due to focus of management to curb this ratio. Disbursement for the quarter tapered to 9% YoY with retail disbursement growth of 14% YoY.

Improved Assets Quality

GNPA improved marginally by 3 bps to 0.57% against 0.60% a year back. Sequentially it also improved by 2 bps. NNPA improved to 0.28% against 0.32% a year back. GNPA on individual loan segment was 0.32% against 0.33% on 1Q FY16. Calculated GNPA on non-core assets is Rs 382 Cr against Rs 314 Cr on 1QFY16. The provisions made in this quarter was stable YoY to Rs 30 Cr whereas sequentially it declined by 74%. PCR including provisions on teaser loans and standard assets is at 124% of the gross non-performing assets. We expect the assets quality to stabilize at current level due to the focus of company in doing more individual home loan.

Concall Highlight:

- >> Through continuous effort of communication with customers has helped to curb the prepayment ratio to 10.9% from 11.5% previous quarter.
- >> Assets Quality is on improving side.
- >> Optimism for the growth due to implementation of Pay Commission.
- >> 70% of the disbursement in the individual home loan would be pure floating portfolio.
- >> 45%-50% of the salaried customer would be Government employees.
- >> Incremental yield on builder is 13%-14%. Incremental Yield on LAP is 11.5%.
- >> Rs 3000 Cr has been moved from fixed portfolio to floating portfolio.
- >> Rs 6000 Cr is in pipeline for repricing in FY17.

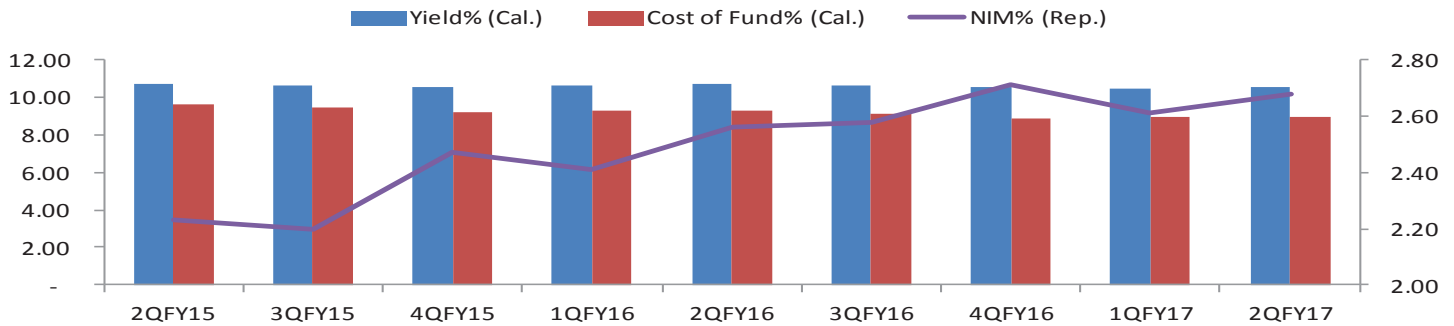
Quarterly Performance										(Rs in Cr)	
Financials	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	YoY Gr %	QoQ Gr %	FY15	FY16	YoY Gr %
Interest Income	2,917	3,026	3,102	3,206	3,326	3,428	13%	3%	10,547	12,396	18%
NII	659	717	747	821	825	866	21%	5%	2,236	3,090	38%
Net Income	707	780	802	890	878	927	19%	6%	2,519	3,196	27%
Operating Expense	84	106	121	158	138	136	29%	-1%	392	474	21%
PPP	623	674	680	732	740	791	17%	7%	2,127	2,722	28%
Provisions	44	30	34	38	116	30	1%	-74%	7	146	1920%
PBT	579	644	646	694	623	761	18%	22%	2,119	2,575	22%
Net Profit	382	412	419	448	408	495	20%	21%	1,396	1,668	19%

(Source: Company/Eastwind)

Outlook & Valuation

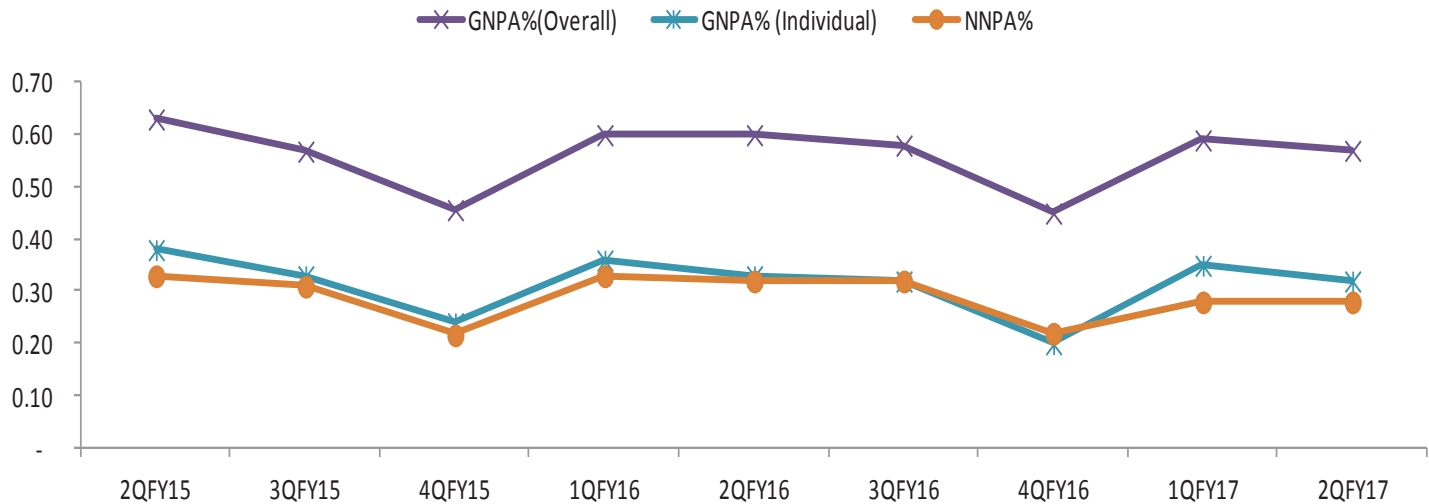
Strong operating profitability with improving assets quality is the key highlights for LICHSGFIN in this quarter. Loan growth remained healthy. Effort of the management to curb the pre-payment ratio has fruitfully resulted. Individual Home loan demand will remain strong as implementation of 7th Pay Commission will provide boost to the demand. Focus of the Government in housing industry will further create demand. Despite of high competition in housing industry we expect NIM to further improve due falling interest rate scenario as 80% of the borrowing of LICHSGFIN comes from NCDs. Combination of high yield portfolio at 12%-13% will also provide some boost to yields. We expect the operating profitability to grow at 20%+ with loan growth of 15% and estimate the RoE at 20% and hence recommend **‘BUY’ with the target price of Rs 705.**

Profitability Metrix	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Yield% (Cal.)	10.71	10.62	10.58	10.61	10.74	10.67	10.53	10.47	10.54
Cost of Fund% (Cal.)	9.65	9.49	9.19	9.30	9.27	9.17	8.88	8.94	8.95
Spread% (Cal)	1.21	1.21	1.46	1.36	1.52	1.55	1.69	1.60	1.59
NIM% (Rep.)	2.23	2.20	2.47	2.41	2.56	2.58	2.71	2.61	2.68
C/I Ratio	16.23	14.31	17.54	11.82	13.58	15.14	17.73	15.74	14.70



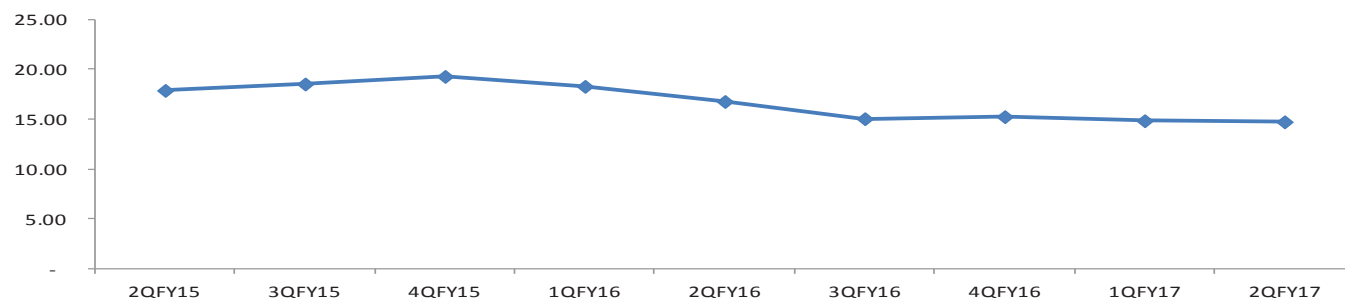
(Rs in Cr)

Assets Quality	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
GNPA (Overall) Rs	614	580	495	659	683	682	568	757	750
GNPA (Individual)Rs	361	328	254	388	367	366	243	433	408
NNPA (Overall)Rs	318	317	234	360	369	374	270	356	368
GNPA%(Overall)	0.63	0.57	0.46	0.60	0.60	0.58	0.45	0.59	0.57
GNPA% (Individual)	0.38	0.33	0.24	0.36	0.33	0.32	0.20	0.35	0.32
NNPA%	0.33	0.31	0.22	0.33	0.32	0.32	0.22	0.28	0.28
Specific PCR%	48.20	45.37	52.62	45.41	45.97	45.16	52.37	52.97	50.93



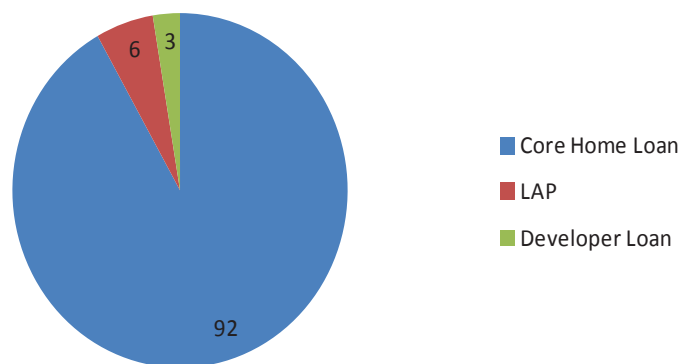
	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17
Loan Book Growth%	17.88	18.52	19.28	18.28	16.76	15.04	15.24	14.83	14.73

Loan Book Growth%

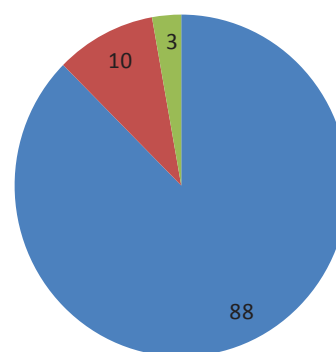


Loan Portfolio Category

2Q FY16



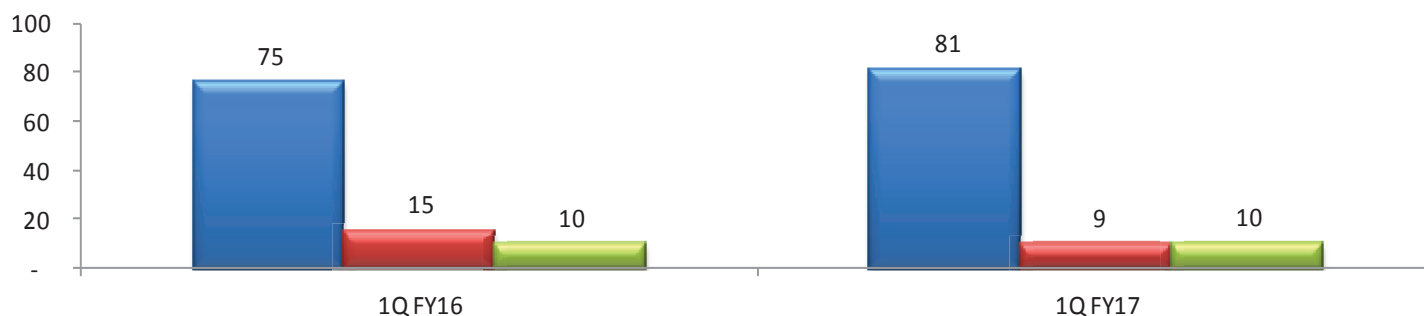
2Q FY17



Borrowing Profile

Decline in bank borrowing from 15% in 1Q FY16 to 10% in 2Q FY17 has helped to reduce the cost of fund further, whereas the composition of NCD has increased to 81% from 75% on 2Q FY16. Incrementally the management plans to raise 80% of borrowing through NCDs only.

Borrowing Profile



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	#####	#####
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	#####

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 1,31,000 Cr with 88% in core individual loan. It provides loan to LAP, developer segment and individual retail segment.

Chairman VK
Managing Director Sunita Sharma