

LIC HOUSING FINANCE LIMITED

Industry **BANKING**
 Bloomberg **LICHF IN**
 BSE Code **500253**
 NSE Code **LICHSGFIN**

26 April 2018

RATING	NEUTRAL
CMP	547
Price Target	583
Previous Target	513
Potential Upside	7%

Stock Info

52wk Range H/L	794/477
Mkt Capital (Rs Cr)	27627
Free float (%)	60%
Avg. Vol 1M (,000)	17919
No. of Shares (Crore)	50
Promoters Pledged %	-

Key Highlights

- ✓ LICHSGFIN is the second largest HFC and is consistently growing at CAGR of 16% over the last 4 years. Loan book growth remained in line with past trends at 15-16% YoY, with core home loans growing at 11% YoY. Over the last 7-8 quarters, Non Core portfolio has been the key driver of growth. We expect LICHSGFIN to continue to grow at 15% backed by increasing share on non-core home loan portfolio.
- ✓ Mortgages markets are in hyper competitive mode which is leading to moderation in retail loan segment. Yield has softened with the rising number of public and private sector players.
- ✓ Margin (NIM) has been one of the lowest in the industry due to pricing pressure in core home loan segment. Pricing on the LAP segment also continues to witness pressure. Cost of fund is expected to rise given the sharp rise in G-Sec bond yield. We expect NIM to remain under pressure going forward.
- ✓ Earnings have been muted in FY18 under the strain of continued margin pressure, stagnant growth of 15% in loan book over a period of time and deteriorating assets quality.

4Q FY18 Result:

LICHSGFIN reported a dismal quarter on the back of margin pressure. Net Interest margin (NII) de-grew by 4% yoy backed by lower NIM and stagnant 15% growth of AUM. Operating expenses grown by 14% yoy, while operating profit de-grew at 3% yoy, which led the cost to income (C/I) ratio to rise to 21% vs 18% in the same quarter a year back. Fee income has grown by 63% yoy subject to rise in fee charges in different segment. Provision as a percentage to AUM has decreased this quarter to 7 bps from 26bps corresponding quarter last year. PAT growth was sluggish at 2% yoy.

View and Valuation

LICHSGFIN has shown pressure on margins on the back of intensified competition. Recent hardening of bond yield has exacerbated the pain further with rising cost of borrowing. Loan book growth has been stagnant at 15% since last 10 quarters. However the pace of retail home loan segment has slowed down to 9% CAGR during last 2 years. Asset quality is further a concern for LICHSGFIN with the increase in share of LAP portfolio & Builder's Loan. We expect RoE to decline to 15.5% in FY20 from current 16.7%. **We are NEUTRAL on the stock and roll over our target price on FY20 estimates with valuation multiple of 1.8x BV to arrive at target price of Rs 583.**

Key Risks to our rating and target

- ◆ Loan growth above our expectation led by change on AUM mix.
- ◆ Increase in cost to income ratio.
- ◆ Sharp rise in bond yield will further impact margin.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2944	3645	3701	4105	4580
PPP	2710	3237	3301	3556	3984
PAT	1661	1931	1990	2121	2392
NIM %	2.5	2.7	2.4	2.3	2.2
EPS (Rs)	33	38	39	42	47
EPS growth (%)	19.8	16.3	3.0	6.6	12.7
ROE (%)	19.6	19.1	16.7	15.7	15.6
ROA (%)	1.4	1.4	1.2	1.1	1.1
BV	181	219	251	285	324
P/B (X)	2.7	2.8	2.1	2.0	1.7
P/E (x)	15.0	16.2	13.6	13.4	11.9

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4Q FY 18 Results In line

Steady Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	3,610	3,609	3,687	3,738	3,901	8.1%	4.4%	13,877	14,960	7.8%
Interest Exp.	2,570	2,696	2,771	2,815	2,843	10.6%	1.0%	10,231	11,125	8.7%
NII	1,040	913	917	923	1,058	1.8%	14.6%	3,645	3,835	5.2%
Other Income	52	46	29	29	33	-36.6%	12.5%	204	113	-44.4%
Total Income	1,092	958	946	953	1,091	-0.1%	14.5%	3,942	4,062	3.0%
Ope Exp.	197	135	140	148	224	14.1%	51.8%	612	648	5.8%
PPP	895	823	806	805	867	-3.2%	7.7%	3,237	3,301	2.0%
Provisions	89	104	58	48	28	-68.5%	-41.9%	281	239	-15.1%
PBT	806	718	748	757	839	4.0%	10.9%	2,956	3,062	3.6%
Tax	277	248	259	266	299	8.1%	12.8%	1,025	1,072	4.6%
Extraordinary	-	-	-	-	-					
Net Profit	529	470	489	491	539	1.9%	9.8%	1,931	1,990	3.0%

NIM continues to remain under pressure

NII has degrown at 4% YOY, backed by stagnant AUM growth of 15% and disbursement growth of 15%. NIM has fallen by 48 bps yoy to 2.49% in 4qfy18. The yield on advances decreased by 58 bps yoy to 10.12% while the cost of funds has fallen by 28 bps yoy to 8.31%. NIM is under pressure with the rise competition in the home loan segment. Decline in yield has outpaced the decline in cost of fund. Recent hardening of bond yield has exacerbated the pain further. Incremental yield in this quarter is at 9.8% for this quarter , Incremental cost is at 7.55%, incremental spreads is decreased by 15 bps to 2.25%.

Operational Efficiency

Cost to income ratio has decreased from 18% to 21% YOY. Operating profit has degrown by 3% YOY while Operating expenses has grown at 14% yoy. This quarter provision as a percentage of AUM is subdued at 7 bps lowest in last three years. Mangement has guided that cost/income ratio to remain in 15-16% range. Mangement is going to open 23 Marketing office in FY19 a single largest opening during the year.

Loan Book Growth hovering around 15% over a period of time.

Loan Book Growth was steady at 15%, while Disbursement growth is 15% yoy .Slow growth of 11% in housing loan segment followed by 47% increase in project loan fueled AUM growth and 31% growth in LAP segment. LICHSFIN is slowly migrating its share in housing portfolio towards high risk products such as LAP which may help in maintaining its margins but deteriotate its asset quality. Share of housing portfolio is at 81% which has fallen from 84% yoy, share of lap portfolio has increased to 14% while project loans has increased to 5%.

Asset Quality

Management is positive about the revival in asset quality. LICHSFIN gnpa number has fallen by 9 bps to 78 bps in 4qfy18 and the provision as a percentage of AUM has decline from 15 bps range to 7 bps in 4qfy18. Provision coverage has also increased from 90% last quarter to 96% in 4qfy18. There is decline in the gnpa in both individual and project segment to 42 bps and 7.9% respectively.

Concall

- * Disbursement of housing is 10838 Cr, LAP is 4298 Cr.
 - * PLR rate has been increased by 20bps in April.
 - * Fee charges has also increased to 0.25% subject to max of 20000 in one group and 50000 in other group.
 - * Planning to open 23 marketing offices for FY19 in region of MP, Chhattisgarh, Bihar & UP. LICHSFIN is investing so as to render home loan growth at par with industry.
 - * Incremental yield for core is 8.7%, builder is 13% and LAP IS 10.7%
 - * 21000 Cr NCD at the rate of 8.4-8.5% is going to mature FY19.
 - * Non performing loan is 525 Cr in home loan and 135 Cr in lap.
- Guidance
- * Opex has spiked to 17%, management has guided for cost/income ratio in 15%-16% range.
 - * Portfolio mix to remain same, project loan may increase by 1-2%.

Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	14.7	14.8	18.0	14.1	14.8	15.5	20.5	2.55	5.04
Empl. Cost/ Tot. Exp. %	43.4	43.7	28.9	39.9	37.1	32.7	28.1	-0.77	-4.58
Other Exp/Tot. Exp.%	21.2	15.7	21.2	58.2	61.2	65.6	70.7	49.50	5.06
Provision/PPP %	3.8	5.6	10.0	12.7	7.2	6.0	3.2	-6.73	-2.77
Tax Rate %	35.0	34.8	34.4	34.6	34.6	35.1	35.7	1.35	0.60
Int Exp./Int Inc. (%)	74.7	73.9	71.2	74.7	75.1	75.3	72.9	1.68	-2.42
Other Inc./NII %	7.1	4.0	5.0	5.0	3.2	3.2	3.1	-1.90	-0.06
PPP/ Net Income %	85.3	85.2	82.0	85.9	85.2	84.5	79.5	-2.55	-5.04
PAT/ Net Income %	53.4	52.5	48.5	49.0	51.7	51.5	49.4	0.97	-2.11
NII Growth % (YoY)	20.7	22.6	26.6	10.7	5.9	0.9	1.8	-24.81	0.89
PPP Growth YoY %	17.3	19.2	22.3	11.2	1.9	(0.7)	(3.2)	-25.52	-2.47
PAT Growth %	20.2	19.2	18.1	15.3	(1.1)	(1.6)	1.9	-16.20	3.56

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.9	10.8	10.7	10.4	10.1	9.8	9.9	-0.81	0.17
Cost Of Funds	9.0	8.8	8.4	8.4	8.4	8.3	8.0	-0.33	-0.26
Spreads	2.0	2.0	2.4	1.9	1.7	1.5	1.9	-0.48	0.43
NIM	2.7	2.7	3.0	2.5	2.5	2.4	2.6	-0.35	0.22

Exhibit: Yield and Cost

Decline in yield outpaced decline in cost

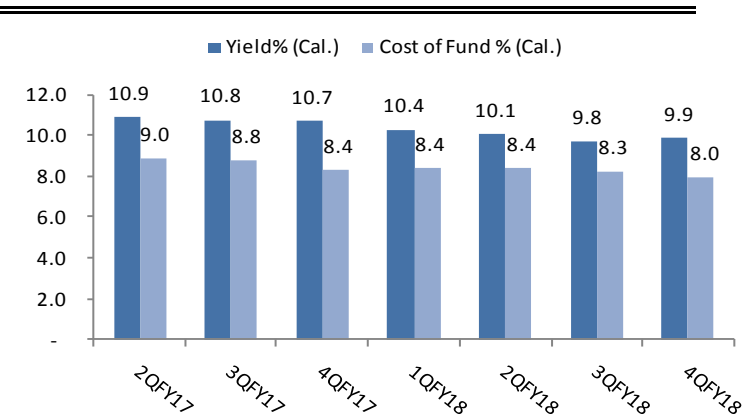
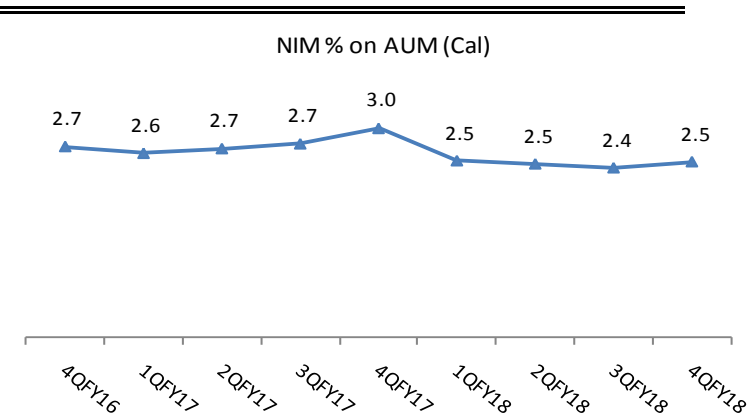


Exhibit: Net Interest Margin

Pressure in NIM



Asset & Borrowings Growth Trend

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Disbursements	13216	7542	9123	9684	15192	8699	10983	12301	17402
Growth YoY %	33	21	9	15	15	15	20	27	15
AUM	125173	127437	131096	135366	144534	147051	151417	156176	166363
Growth YoY %	16	15	15	15	15	15	16	15	15
Borrowings	110936	112960	116083	119428	126335	129163	133622	137629	145339
Growth YoY %	15	16	14	15	14	14	15	15	15

Asset Composition

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Individual Loan Portfolio %	88.5	87.8	87.5	86.3	83.6	83.3	82.9	82.6	80.8
LAP %	8.8	9.3	9.7	10.4	12.6	12.9	13.2	13.2	14.3
Project/Developer loan	2.7	2.9	2.8	3.3	3.8	3.8	3.9	4.2	4.9

Exhibit: AUM Growth %
Stagnant loan book growth

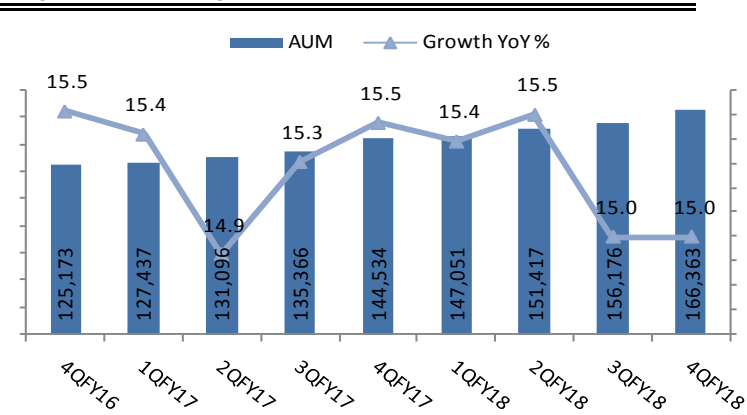
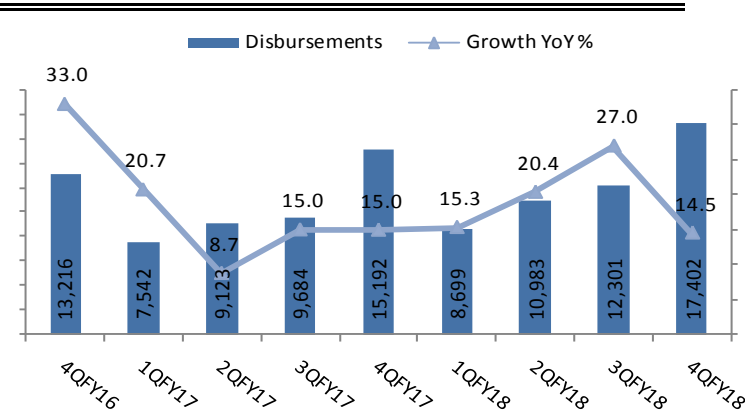


Exhibit: Disbursement Growth %



Borrowing Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Debenture and Securities	77	80	81	81	79	79	79	78	79
Bank Loans	13	11	9	9	9	9	9	10	10
Public Deposits	3	4	4	4	5	5	5	5	5
Others	7	6	6	6	7	7	7	7	6

Disbursement Break up

Core Home Loans	8,806	5,922	7,493	6,955	9,460	6,895	8,483	9,177	10,838
Lap	3,770	1,142	1,262	1,600	4,500	1,391	1,900	2,146	4,298
Corporate Loan	640	478	368	1,129	1,232	413	600	978	2,266
Total	13,216	7,542	9,123	9,684	15,192	8,699	10,983	12,301	17,402

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GMPA (Rs in Cr)	750	759	627	1,066	1,211	1,360	1,304	108%	-4%
GMPA %	0.57	0.56	0.43	0.72	0.80	0.87	0.78	0.35	-0.09
NNPA (Rs in Cr)	368	361	205	553	561	598	592	189%	-1%
NNPA %	0.28	0.27	0.14	0.38	0.43	0.49	0.43	0.29	-0.06
Specific PCR %	124.0	128.0	166.0	107.0	98.0	90.0	96.0	-70.00	6.00

Exhibit: Asset Quality
Increase in Non-performing assets.

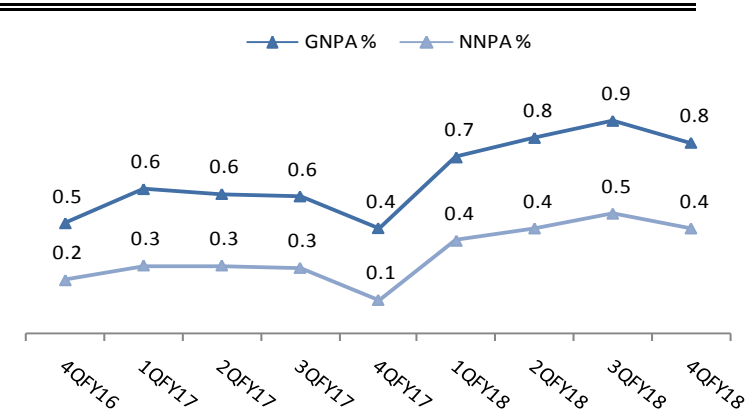
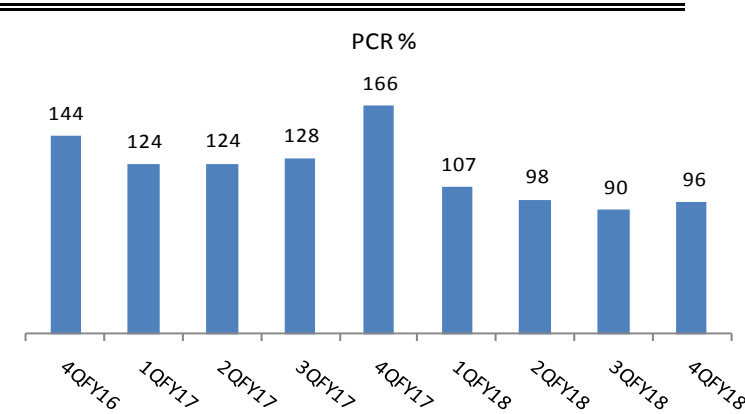


Exhibit: Provisions
Decline in PCR



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	101	101	101	101	101	101	101	101
>> Equity Capital	101	101	101	101	101	101	101	101
>> Preference Capital	-	-	-	-	-	-	-	-
Reserves & Surplus	6,380	7,432	7,717	9,045	10,976	12,590	14,300	16,243
Networth	6,481	7,533	7,818	9,146	11,077	12,691	14,401	16,344
Change (%)	14.1	16.2	3.8	17.0	21.1	14.6	13.5	13.5
Total Borrowing	68,764	82,036	96,547	1,10,936	1,26,335	1,45,339	1,67,822	1,91,317
Change (%)	22.6	19.3	17.7	14.9	13.9	15.0	15.5	14.0
Provisions	985	1,077	1,070	1,267	1,139	1,376	1,519	1,731
Other Liability	4,330	5,132	7,110	9,149	12,349	12,446	14,634	16,669
Total Liabilities	80,560	95,777	1,12,545	1,30,498	1,50,901	1,71,852	1,98,376	2,26,062
Investments	185	199	237	277	528	987	1,135	1,294
Loans	77,813	91,341	1,08,361	1,25,173	1,44,534	1,66,363	1,91,317	2,18,102
Change (%)	23.4	17.4	18.6	15.5	15.5	15.1	15.0	14.0
Fixed Assets	62	76	80	92	97	97	107	118
Other Assets	1,035	1,139	934	1,029	1,280	1,452	1,643	1,853
Cash Balances	1,466	3,022	2,933	3,927	4,462	2,953	4,173	4,697
Total Assets	80,560	95,777	1,12,545	1,30,498	1,50,901	1,71,852	1,98,376	2,26,062

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	7,459	9,073	10,547	12,251	13,877	14,826	16,614	18,960
Interest expended	5,925	7,174	8,310	9,307	10,231	11,125	12,509	14,380
Net Interest Income	1,534	1,899	2,236	2,944	3,645	3,701	4,105	4,580
Change (%)	10.3	23.8	17.8	31.6	23.8	1.5	10.9	11.6
Other Income	200	261	252	235	204	247	226	252
Change (%)	(14.0)	30.8	(3.6)	(6.9)	(13.2)	21.3	(8.5)	11.6
Total Net Income	1,734	2,160	2,488	3,179	3,849	3,948	4,331	4,832
Change (%)	7	25	15	28	21	3	10	12
Operating Expenses	282	313	379	469	612	648	775	849
Change (%)	19	11	21	24	31	6	20	10
Employee Expenses	90	104	129	150	246	218	240	268
Change (%)	24.8	14.9	24.5	16.3	63.5	(11.5)	10.5	11.6
Other Expenses	191	209	250	318	366	430	535	581
Pre-provisioning Profit	1,452	1,847	2,109	2,710	3,237	3,301	3,556	3,984
Change (%)	4.7	27.2	14.2	28.5	19.4	2.0	7.7	12.0
Provisions	79	21	7	146	281	239	325	340
Change (%)	(49.5)	(73.4)	(65.5)	1,919.9	92.1	(15.1)	35.9	4.8
PBT	1,374	1,826	2,102	2,564	2,956	3,062	3,232	3,643
Tax	350	508	716	903	1,025	1,072	1,110	1,252
Profit After Tax	1,023	1,318	1,386	1,661	1,931	1,990	2,121	2,392
Change (%)	11.9	28.8	5.2	19.8	16.3	3.0	6.6	12.7
Adjusted Profit	1,023	1,318	1,386	1,661	1,931	1,990	2,121	2,392
Change (%)	11.9	28.8	5.2	19.8	16.3	3.0	6.6	12.7

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	77,813	91,341	1,08,361	1,25,173	1,44,534	1,66,363	1,91,317	2,18,102
Off Book AUM	-	-	-	-	-	-	-	-
AUM Growth (%)	23.4	17.4	18.6	15.5	15.5	15.1	15.0	14.0
Borrowing Growth (%)	22.6	19.3	17.7	14.9	13.9	15.0	15.5	14.0
Loan to Borrowing Ratio (%)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Disbursement	24,359	25,271	30,326	36,273	41,541	49,385	55,084	61,880
Disbursement Growth	20	20	20	20	15	19	12	12
CRAR (%)	16.5	16.4	15.3	17.0	15.6	16.3	15.8	15.7
>> Tier 1 (%)	11.5	12.2	11.8	13.9	13.4	13.9	13.7	13.6
>> Tier 2 (%)	5.0	4.2	3.5	3.2	2.3	2.4	2.1	2.1
Debt-Equity ratio	10.6	10.9	12.3	12.1	11.4	11.5	11.7	11.7

Assets Quality Metrics

Gross NPA	471	609	495	568	627	1,304	1,531	1,854
Gross NAP (%)	0.6	0.7	0.5	0.5	0.4	0.8	0.8	0.9
Net NPA	276	354	234	270	205	712	765	890
Net NPA (%)	0.4	0.4	0.2	0.2	0.1	0.4	0.4	0.4
Specific Provision Coverage (%)	41.4	41.9	52.6	52.4	67.3	45.4	50.0	52.0
Provision/Average Advances (%)	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2

Margin Metrics

Yield On Aum (%)	10.6	10.7	10.6	10.5	10.3	9.5	9.3	9.3
Cost Of Funds (%)	9.5	9.5	9.3	9.0	8.6	8.2	8.0	8.0
Spread (%)	1.1	1.2	1.3	1.5	1.7	1.3	1.3	1.3
NIM (%)	2.2	2.2	2.2	2.5	2.7	2.4	2.3	2.2

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	79	79	79	76	74	75	75	76
Other Income/NII (%)	13	14	11	8	6	7	6	6
Operating Profit/ Net Income (%)	84	85	85	85	84	84	82	82
Net Profit/Net Income (%)	59	61	56	52	50	50	49	49
Cost to Income (%)	16	15	15	15	16	16	18	18
Employee Exp/ Net Income (%)	5	5	5	5	6	6	6	6
Cost on Average Assets (%)	0	0	0	0	0	0	0	0
Provisions/PPP (%)	5	1	0	5	9	7	9	9
Tax Rate (%)	26	28	34	35	35	35	34	34

Valuation Ratio Metrics

EPS (Rs)	20	26	27	33	38	39	42	47
Change (%)	11.9	28.8	5.2	19.8	16.3	3.0	6.6	12.7
ROAE (%)	16.8	18.8	18.1	19.6	19.1	16.7	15.7	15.6
ROAA (%)	1.4	1.5	1.3	1.4	1.4	1.2	1.1	1.1
Dividend Payout (%)	18.7	17.2	18.2	16.7	16.2	17.2	17.6	16.9
Dividend yield (%)	1.5	2.1	1.4	1.2	1.2	1.3	1.3	1.4
Dividend Per Share	3.8	4.5	5.0	5.5	6.2	6.8	7.4	8.0
Book Value (Rs)	128	149	155	181	219	251	285	324
Change (%)	14.1	16.2	3.8	17.0	21.1	14.6	13.5	13.5
P/B (X)	1.7	1.6	2.8	2.7	2.8	2.1	2.0	1.7
P/E (X)	11.0	9.0	15.9	15.0	16.2	13.6	13.4	11.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	10.3	10.1	10.1	9.9	9.2	9.0	8.9
Interest expended	8.1	8.0	7.7	7.3	6.9	6.8	6.8
Net Interest Income	2.2	2.1	2.4	2.6	2.3	2.2	2.2
Other Income	0.3	0.2	0.2	0.1	0.2	0.1	0.1
Total Income	2.5	2.4	2.6	2.7	2.4	2.3	2.3
Total Operating Expenses	0.4	0.4	0.4	0.4	0.4	0.4	0.4
>> Employee Expenses	0.1	0.1	0.1	0.2	0.1	0.1	0.1
>> Other Expenses	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Operating Profit	2.1	2.0	2.2	2.3	2.0	1.9	1.9
Provisions	0.0	0.0	0.1	0.2	0.1	0.2	0.2
Others	-	-	-	-	-	-	-
PBT	2.1	2.0	2.1	2.1	1.9	1.7	1.7
Tax	0.6	0.7	0.7	0.7	0.7	0.6	0.6
PAT/RoA	1.5	1.3	1.4	1.4	1.2	1.1	1.1
>> Equity Multiplier (x)	12.6	13.6	14.3	13.9	13.6	13.7	13.8
RoE	18.8	18.1	19.6	19.1	16.7	15.7	15.6



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