

LIC Housing Finance

Performance Highlights

| Particulars (₹ cr) | 3QFY16 | 2QFY16 | % chg (qoq) | 3QFY15 | % chg (yoy) |
|--------------------|------------|------------|-------------|------------|-------------|
| NII | 784 | 756 | 3.8 | 581 | 35.0 |
| Pre-prov. profit | 680 | 674 | 0.9 | 528 | 28.8 |
| PAT | 419 | 412 | 1.7 | 344 | 21.7 |

Source: Company, Angel Research

For 3QFY2016, LIC Housing Finance (LICHF) reported an earnings growth of 21.7% yoy with healthy growth of 35.0% yoy in net interest income, led by healthy growth in advances and stable margins.

NII rises yoy; Impressive NIMs

LICHF's loan book grew at a healthy pace of 15.2% yoy to ₹1,17,396cr during 3QFY2016. The individual portfolio, which constitutes 97% of the total loan book, grew by 15% yoy. Loans to the developer segment, which saw a reversal trend from the past quarter, continued its upward momentum growing by 20% yoy to ₹3,091cr. Total disbursements growth was of ~10% yoy. Margins during the quarter were at 2.58% as compared to 2.20% in the corresponding quarter of the previous year. A significant decline in the cost of funds to 9.18% as compared to 9.59% in the corresponding previous year period along with increase in floating rate loans to 40% of the total loan portfolio aided the company in registering a healthy growth in the NIM by 38bp yoy to 2.58%.

On the asset quality front, the Gross NPA ratio came in at 0.58% which declined by 2bp qoq, whereas the Net NPA ratio was stable at 0.32%. Provisions rose to ₹34.4cr compared to ₹6.8cr for 3QFY2015 and ₹30.1cr for 2QFY2016.

Outlook and valuation: For companies like LICHF, the funding environment has eased; thus it will lead to lower cost of borrowing, while outlook for growth in retail housing loans remains positive, going forward. We expect the company to post a healthy loan book CAGR of 18.7% over FY2015-17E, which is likely to reflect in an earnings CAGR of 21.0% over the same period. The stock currently trades at 2.2x its FY2017E ABV. **We maintain our Buy rating on the stock, with a target price of ₹592.**

Key financials (standalone)

| Y/E March (₹ cr) | FY2014 | FY2015 | FY2016E | FY2017E |
|-------------------|--------------|--------------|--------------|--------------|
| NII | 2,019 | 2,349 | 2,945 | 3,570 |
| % chg | 25.8 | 16.4 | 25.3 | 21.2 |
| Net profit | 1,317 | 1,386 | 1,664 | 2,029 |
| % chg | 28.4 | 5.2 | 20.1 | 21.9 |
| NIM (%) | 2.4 | 2.3 | 2.5 | 2.5 |
| EPS (₹) | 26.1 | 27.5 | 33.0 | 40.2 |
| P/E (x) | 17.8 | 16.9 | 14.1 | 11.5 |
| P/ABV (x) | 3.2 | 3.0 | 2.6 | 2.2 |
| RoA (%) | 1.5 | 1.4 | 1.4 | 1.4 |
| RoE (%) | 18.8 | 18.1 | 19.7 | 20.5 |

Source: Company, Angel Research; Note: CMP as of January 18, 2016

BUY

| | |
|--------------|------|
| CMP | ₹463 |
| Target Price | ₹592 |

| | |
|-------------------|-----------|
| Investment Period | 12 months |
|-------------------|-----------|

| Stock Info | |
|--------------------|-----------|
| Sector | HFC |
| Market Cap (₹ cr) | 23,376 |
| Beta | 1.4 |
| 52 Week High / Low | 526/ 389 |
| Avg. Daily Volume | 18,22,713 |
| Face Value (₹) | 2 |
| BSE Sensex | 24,188 |
| Nifty | 7,351 |
| Reuters Code | LICH.BO |
| Bloomberg Code | LICHF@IN |

| Shareholding Pattern (%) | |
|--------------------------|------|
| Promoters | 40.3 |
| MF / Banks / Indian Fls | 7.6 |
| FII / NRIs / OCBs | 35.0 |
| Indian Public / Others | 17.1 |

| Abs. (%) | 3m | 1yr | 3yr |
|----------|--------|--------|------|
| Sensex | (11.1) | (14.0) | 20.7 |
| LICHF | (6.4) | (4.8) | 64.6 |

3-Year Daily Price Chart



Source: Company, Angel Research

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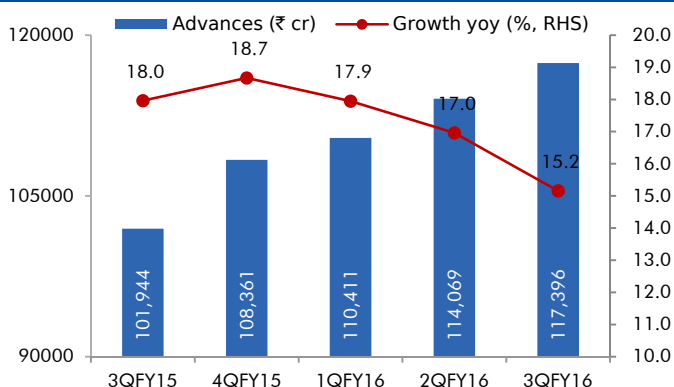
Exhibit 1: 3QFY2016 performance (standalone)

| Particulars (₹ cr) | 3QFY16 | 2QFY16 | % chg (qoq) | 3QFY15 | % chg (yoy) | FY2015 | FY2014 | % chg |
|----------------------------|------------|------------|-------------|------------|-------------|--------------|--------------|-------------|
| Interest earned | 3,139 | 3,065 | 2 | 2,700 | 16 | 10,669 | 9,181 | 16 |
| Interest expenses | 2,355 | 2,309 | 2.0 | 2,119 | 11.1 | 8,310 | 7,174 | 15.8 |
| Net interest income | 784 | 756 | 3.8 | 581 | 35.0 | 2,359 | 2,007 | 17.5 |
| Non-interest income | 17 | 25 | (29.2) | 36 | (50.9) | 129 | 153 | (15.6) |
| Operating income | 802 | 780 | 2.8 | 617 | 30.0 | 2,488 | 2,160 | 15.2 |
| Operating expenses | 121 | 106 | 14.5 | 88 | 37.6 | 379 | 313 | 21.1 |
| Pre-prov. profit | 680 | 674 | 0.9 | 528 | 28.8 | 2,109 | 1,847 | 14.2 |
| Provisions & cont. | 34 | 30 | 14.6 | 7 | 406.0 | 7 | 21 | (66.2) |
| PBT | 646 | 644 | 0.3 | 522 | 23.9 | 2,102 | 1,826 | 15.1 |
| Prov. for taxes | 227 | 233 | (2.3) | 177 | 28.2 | 716 | 508 | 40.8 |
| PAT | 419 | 412 | 1.7 | 344 | 21.7 | 1,386 | 1,317 | 5.2 |
| EPS (₹) | 8.3 | 8.2 | 1.8 | 6.8 | 21.7 | 27.5 | 26.1 | 5.2 |
| Cost-to-income ratio (%) | 15.1 | 13.6 | | 14.3 | | 15.2 | 14.5 | |
| Effective tax rate (%) | 35.2 | 36.1 | | 34.0 | | 34.1 | 27.8 | |
| Net NPA (%) | 0.3 | 0.3 | | 0.3 | | 0.2 | 0.4 | |

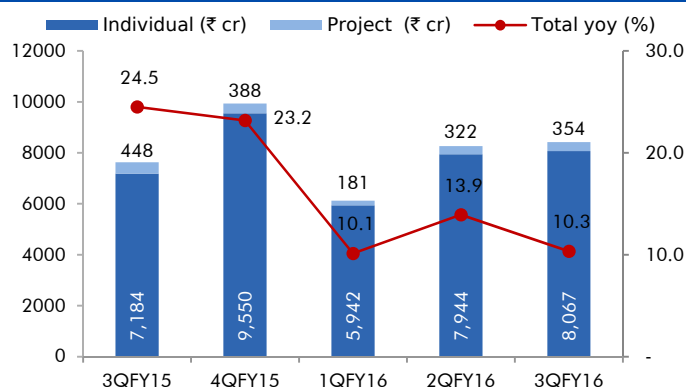
Source: Company, Angel Research

Individual segment loan growth healthy; developer loan book continues its reversal trend

LICHF's loan book grew at a healthy pace of 15.2% yoy to ₹1,17,396cr during 3QFY2016. The individual portfolio, which constitutes 97% of the total loan book, grew by 15% yoy. Loans to the developer segment, which saw a reversal trend from the past quarter, continued its upward momentum growing by 20% yoy to ₹3,091cr. Total disbursements growth was of ~10% yoy. The LAP portfolio constitutes 6.4% of the total loan book for 3QFY2016 as compared to 5.6% of the total loan book for 2QFY2016.

Exhibit 2: Advances growth healthy


Source: Company, Angel Research

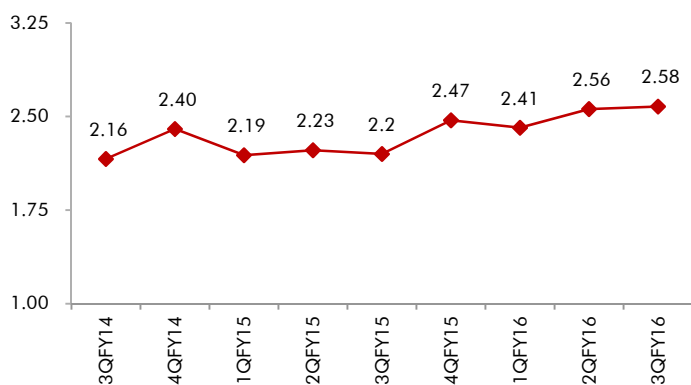
Exhibit 3: Developer disbursements decline yoy


Source: Company, Angel Research

NIM rises 2bp qoq, 38bp yoy

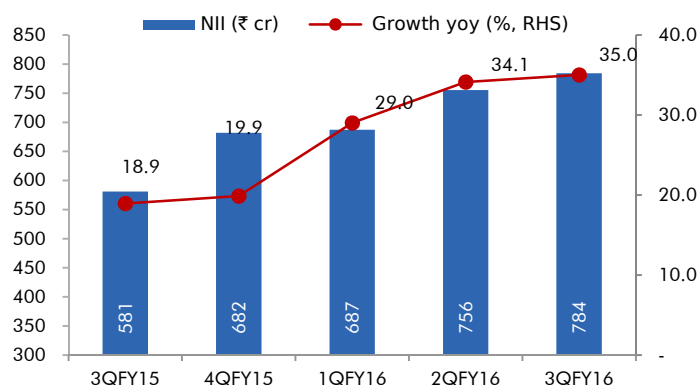
Margins during the quarter were at 2.58% as compared to 2.20% in the corresponding quarter of the previous year. A significant decline in the cost of funds to 9.18% as compared to 9.59% in the corresponding previous year period and 9.29% in the sequential previous quarter coupled with increase in floating rate loans to 40% of the total loan portfolio aided the company in registering a healthy growth in NIM by 38bp yoy to 2.58%. Yields for the company have declined marginally by 2bp yoy and 12bp qoq since the company has taken a PLR cut of 30bp for the quarter under consideration.

Exhibit 4: Healthy Increase in NIM to 2.58%



Source: Company, Angel Research

Exhibit 5: NII growth trend

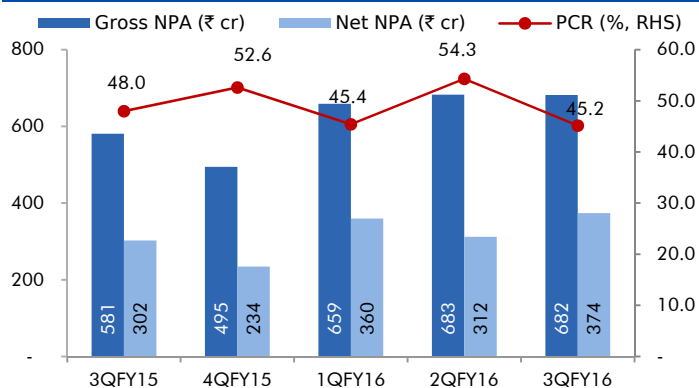


Source: Company, Angel Research

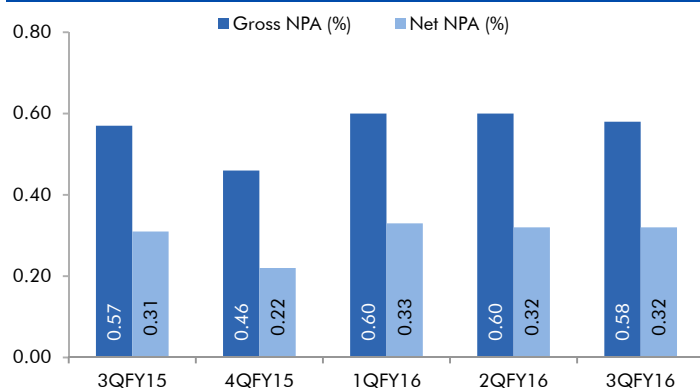
Stable NPA ratios

On the asset quality front, the Gross NPA ratio came in at 0.58% which declined by 2bp qoq whereas the Net NPA ratio was stable at 0.32%. Provisions rose to ₹34.4cr compared to ₹6.8cr for 3QFY2015 and ₹30.1cr for 2QFY2016. Also, the Gross NPA ratio in the individual loan segment declined to 0.32% as compared to 0.33% in 2QFY2016. The gross and net non-performing assets ratios thus improved marginally on a sequential basis.

The surge in provisions was firstly due to increase in standard asset provisions. The company's LAP portfolio has risen from 5.6% in 2QFY2016 to 6.4% in 3QFY2016 of the total loan book which requires higher standard asset provisions at 1% as compared to Individual loans which are at 0.4%. Secondly, increase in provisions is also due to bucket non-performing loans which have moved to the higher category. The Provision Coverage Ratio declined to 45.2% in 3QFY2016 from 54.3% in 2QFY2016.

Exhibit 6: Asset quality improves marginally


Source: Company, Angel Research

Exhibit 7: Gross and Net NPA ratio trends


Source: Company, Angel Research

Outlook and valuation

For companies like LICHF, the funding environment has eased; thus it will lead to lower cost of borrowing, while outlook for growth in retail housing loans remains positive, going forward. We expect the company to post a healthy loan book CAGR of 18.7% over FY2015-17E, which is likely to reflect in an earnings CAGR of 21.0% over the same period. The stock currently trades at 2.2x its FY2017E ABV. **We recommend a Buy rating on the stock, with a target price of ₹592.**

Company Background

LIC Housing Finance (LICHF) is one of the largest specialized mortgage lenders in India, with a balance sheet size of more than ₹1,18,500cr. The credit portfolio for LICHF is ~₹1,17,000cr, of which more than ~97% is derived from the retail segment. The company has a network of ~230 offices spread across the country and is promoted by the state-owned life insurance behemoth, Life Insurance Corporation of India (LIC) which holds a 40.3% stake in the company.

Income statement (standalone)

| Y/E March (₹ cr) | FY2012 | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| NII | 1,481 | 1,605 | 2,019 | 2,349 | 2,945 | 3,570 |
| - YoY Growth (%) | 2.8 | 8.4 | 25.8 | 16.4 | 25.3 | 21.2 |
| Other Income | 143 | 128 | 142 | 139 | 157 | 175 |
| - YoY Growth (%) | (56.7) | (10.6) | 10.5 | (1.9) | 12.6 | 11.8 |
| Operating Income | 1,624 | 1,733 | 2,160 | 2,488 | 3,101 | 3,745 |
| - YoY Growth (%) | (8.3) | 6.7 | 24.6 | 15.2 | 24.6 | 20.8 |
| Operating Expenses | 237 | 282 | 313 | 379 | 442 | 505 |
| - YoY Growth (%) | 9.8 | 18.9 | 11.1 | 21.1 | 16.5 | 14.3 |
| Pre - Provision Profit | 1,387 | 1,451 | 1,847 | 2,109 | 2,659 | 3,240 |
| - YoY Growth (%) | (10.8) | 4.6 | 27.3 | 14.2 | 26.1 | 21.8 |
| Prov. & Cont. | 156 | 79 | 21 | 7 | 136 | 164 |
| - YoY Growth (%) | (40.2) | (49.5) | (72.8) | (66.2) | 1,769.7 | 21.0 |
| Profit Before Tax | 1,231 | 1,372 | 1,826 | 2,102 | 2,524 | 3,076 |
| - YoY Growth (%) | (4.9) | 11.5 | 33.0 | 15.1 | 20.1 | 21.9 |
| Prov. for Taxation | 317 | 347 | 508 | 716 | 859 | 1,047 |
| - as a % of PBT | 25.7 | 25.3 | 27.8 | 34.1 | 34.1 | 34.1 |
| PAT | 914 | 1,026 | 1,317 | 1,386 | 1,664 | 2,029 |
| - YoY Growth (%) | (6.2) | 12.2 | 28.4 | 5.2 | 20.1 | 21.9 |

Balance sheet (standalone)

| Y/E March (₹ cr) | FY2012 | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|--------------------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| Share Capital | 101 | 101 | 101 | 101 | 101 | 101 |
| Reserve & Surplus | 5,581 | 6,380 | 7,432 | 7,717 | 9,019 | 10,605 |
| Loan Funds | 56,087 | 68,764 | 81,486 | 96,532 | 1,14,390 | 1,36,124 |
| - Growth (%) | 24.2 | 22.6 | 18.5 | 18.5 | 18.5 | 19.0 |
| Other Liab. & Prov. | 2,786 | 4,407 | 4,414 | 5,622 | 6,807 | 8,247 |
| Total Liabilities | 64,556 | 79,653 | 93,432 | 1,09,972 | 1,30,317 | 1,55,078 |
| Investments | 164 | 185 | 199 | 237 | 281 | 334 |
| Advances | 63,080 | 77,813 | 91,341 | 1,08,361 | 1,28,407 | 1,52,805 |
| - Growth (%) | 23.5 | 23.4 | 17.4 | 18.6 | 18.5 | 19.0 |
| Fixed Assets | 62 | 62 | 76 | 80 | 94 | 112 |
| Other Assets | 1,249 | 1,593 | 1,817 | 1,295 | 1,534 | 1,826 |
| Total Assets | 64,556 | 79,653 | 93,432 | 1,09,972 | 1,30,317 | 1,55,078 |

Ratio analysis (standalone)

| Y/E March | FY2012 | FY2013 | FY2014 | FY2015 | FY2016E | FY2017E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Profitability ratios (%) | | | | | | |
| NIMs | 2.6 | 2.3 | 2.4 | 2.3 | 2.5 | 2.5 |
| Cost to Income Ratio | 14.6 | 16.3 | 14.5 | 15.2 | 14.2 | 13.5 |
| RoA | 1.6 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 |
| RoE | 18.6 | 16.9 | 18.8 | 18.1 | 19.7 | 20.5 |
| Asset Quality (%) | | | | | | |
| Gross NPAs | 0.42 | 0.61 | 0.67 | 0.46 | 0.51 | 0.48 |
| Net NPAs | 0.13 | 0.35 | 0.39 | 0.22 | 0.28 | 0.26 |
| Provision Coverage | 68.0 | 41.4 | 41.9 | 52.6 | 44.5 | 44.5 |
| Per Share Data (₹) | | | | | | |
| EPS | 18.1 | 20.3 | 26.1 | 27.5 | 33.0 | 40.2 |
| ABVPS (75% cover.) | 112.2 | 125.2 | 145.2 | 152.6 | 176.7 | 207.6 |
| DPS | 3.6 | 3.8 | 4.5 | 5.0 | 6.0 | 7.3 |
| Valuation Ratios | | | | | | |
| PER (x) | 25.6 | 22.8 | 17.8 | 16.9 | 14.1 | 11.5 |
| P/ABVPS (x) | 4.1 | 3.7 | 3.2 | 3.0 | 2.6 | 2.2 |
| Dividend Yield | 0.8 | 0.8 | 1.0 | 1.1 | 1.3 | 1.6 |
| DuPont Analysis | | | | | | |
| NII | 2.5 | 2.2 | 2.3 | 2.3 | 2.5 | 2.5 |
| (-) Prov. Exp. | 0.3 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 |
| Adj. NII | 2.3 | 2.1 | 2.3 | 2.3 | 2.3 | 2.4 |
| Treasury | (0.0) | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Int. Sens. Inc. | 2.3 | 2.1 | 2.3 | 2.3 | 2.3 | 2.4 |
| Other Inc. | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Op. Inc. | 2.5 | 2.3 | 2.5 | 2.4 | 2.5 | 2.5 |
| Opex | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| PBT | 2.1 | 1.9 | 2.1 | 2.1 | 2.1 | 2.2 |
| Taxes | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 |
| RoA | 1.6 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 |
| Leverage | 11.9 | 11.9 | 12.4 | 13.2 | 14.2 | 14.4 |
| RoE | 18.6 | 16.9 | 18.8 | 18.1 | 19.7 | 20.5 |

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| Disclosure of Interest Statement | LIC Housing Finance |
|--|---------------------|
| 1. Analyst ownership of the stock | No |
| 2. Angel and its Group companies ownership of the stock | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered | No |

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

| | | | |
|--|-------------|--|------------------------------------|
| Ratings (Based on expected returns over 12 months investment period): | Buy (> 15%) | Accumulate (5% to 15%) Reduce (-5% to -15%) | Neutral (-5 to 5%) Sell (< -15) |
|--|-------------|--|------------------------------------|