

LIC Housing Finance

Performance Highlights

Particulars (₹ cr)	3QFY17	2QFY17	% chg (qoq)	3QFY16	% chg (yoy)
Nil	915	866	5.7	747	22.6
Pre-prov. profit	811	791	2.5	680	19.2
PAT	499	495	0.9	419	19.2

Source: Company, Angel Research

LICHF came out with a positive set of results for 3QFY2017 with the PAT growing by 19.2% yoy. While we were expecting moderation in business growth, due to demonetization, better result was possible backed by growth in non-retail segment.

Sluggish growth in retail; non-retail portfolio gained momentum: LICHF's total loan book grew by 15.3% yoy, during 3QFY2017. While LAP grew by 87.7% yoy (up 99% in 2QFY2017); developer loans picked up further momentum, up 45.2% yoy v/s 22.4% in 2QFY2017. However, the core retail loans continued to be sluggish like the previous quarter and grew by only 9.2% yoy. The share of LAP+ developer loans in the books continued to increase and stood at 13.7% v/s 12.5% qoq. LICHF's noncore portfolio has been growing fast, however as percentage to total portfolio, it still remains lower than other HFCs and is not a cause of concern.

Favorable cost of funds helped NIM improvement, marginal pressure expected going ahead: During the quarter, the incremental yield on assets increased to 10.69% up 11 bps qoq, partly backed by high yielding LAP portfolio, while the incremental costs stood at 8.19% down 21 bps qoq. As a result, on a qoq basis, incremental spread improved by 32 bps to 2.50% and NIM improved by 7 bps to 2.75%. With sharp rate cuts by banks there will be competition in the industry and LICHF also will have to face the same, however, we feel volume growth should pick up in the medium term, compensating the same in the quarters to come.

Asset quality remained resilient: While there was initially fear of deterioration in asset quality, post demonetization, the collection levels were not as bad as it was perceived, which is visible from stable GNPA's of 0.56% and NNPA's 0.27%. Contrary to expectations, the asset quality has seen fairly large stability in the last few quarters and we don't expect sharp deterioration in the medium term.

Outlook and valuation: The core retail portfolio continues to be sluggish growing by less than 10%, however, other segments like LAP & Developer loans have been driving the growth for LICHF. With lower interest rates and interest subvention schemes by the Government, we expect growth for housing to rebound in the coming quarters, which should help the company in posting loan book CAGR of 19% over FY2016-18E, translating into earnings CAGR of 18.0% over the same period. The stock currently trades at 2.2x its FY2018E ABV. **We maintain our BUY rating on the stock with a Target Price of ₹630.**

Key financials (standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Nil	2,349	2,944	3,542	4,116
% chg	16.4	25.3	20.3	16.2
Net profit	1,386	1,661	1,968	2,323
% chg	5.2	19.8	18.5	18.0
NIM (%)	2.3	2.6	2.6	2.5
EPS (₹)	27.5	32.9	39.0	46.0
P/E (x)	19.4	16.2	13.7	11.6
P/ABV (x)	3.5	3.0	2.6	2.2
RoA (%)	1.4	1.4	1.4	1.4
RoE (%)	18.1	19.6	19.9	20.1

Source: Company, Angel Research; Note: CMP as of January 17, 2016

BUY

CMP	₹532
Target Price	₹630

Investment Period	12 months
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Stock Info

Sector	Housing Finance
Market Cap (₹ cr)	27,266
Beta	1.5
52 Week High / Low	624/389
Avg. Daily Volume	213,118
Face Value (₹)	2
BSE Sensex	27,236
Nifty	8,398
Reuters Code	LICH.BO
Bloomberg Code	LICHF@IN

Shareholding Pattern (%)

Promoters	40.3
MF / Banks / Indian Fls	21.1
FII / NRIs / OCBs	24.7
Indian Public / Others	13.9

Abs. (%)	3m	1yr	3yr
Sensex	(0.7)	11.8	29.8
LICHF	(7.7)	15.7	156.0

3-Year Daily Price Chart



Source: Company, Angel Research

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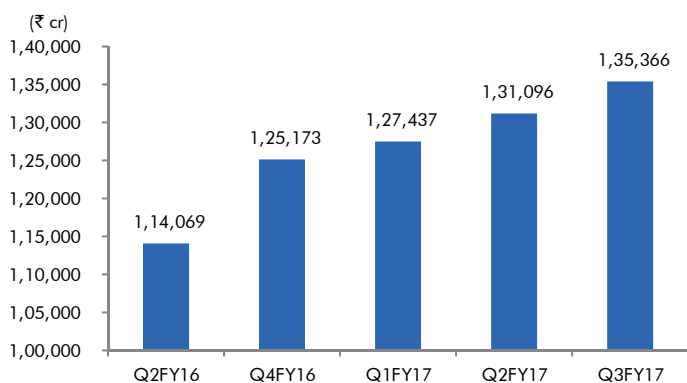
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Exhibit 1: 3QFY2017 performance (standalone)

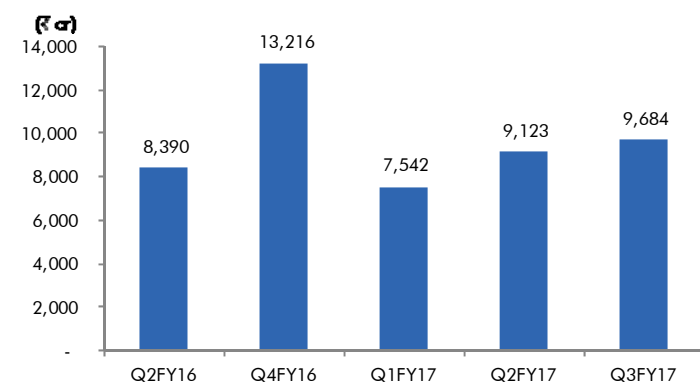
Particulars (₹ cr)	3QFY17	2QFY17	% chg (qoq)	3QFY16	% chg (yoy)	FY2016	FY2015	% chg
Interest earned	3,513	3,428	2.5	3,102	13.2	12,396	10,669	16
Interest expenses	2,597	2,563	1.3	2,355	10.3	9,307	8,310	12.0
Net interest income	915	866	5.7	747	22.6	3,089	2,359	31.0
Non-interest income	36	62	(41.3)	55	(34.1)	89	129	(30.9)
Operating income	952	927	2.6	802	18.7	3,179	2,488	27.7
Operating expenses	141	136	3.2	121	15.9	469	379	23.6
Pre-prov. profit	811	791	2.5	680	19.2	2,710	2,109	28.5
Provisions & cont.	45	30	49.4	34	31.5	146	7	1,920.0
PBT	766	761	0.7	646	18.5	2,564	2,102	22.0
Prov. for taxes	266	266	0.2	227	17.3	903	716	26.1
PAT	499	495	0.9	419	19.2	1,661	1,386	19.8
EPS (₹)	9.9	9.8	0.9	8.3		32.9	27.5	19.8
Cost-to-income ratio (%)	14.8	14.7		15.1		14.7	15.2	
Effective tax rate (%)	34.8	35.0		35.2		35.2	34.1	
Net NPA (%)	0.27	0.28		0.32		0.2	0.2	

Source: Company, Angel Research

Sluggish growth in retail; non-retail portfolio gained momentum: LIC's total loan book grew by 15.3% yoy, during 3QFY2017. While LAP grew by 87.7% yoy (up 99% yoy in 2QFY2017; developer loans picked up further momentum up by 45.2% yoy v/s 22.4% yoy reported in 2QFY2017. However, the core retail loans continued to be sluggish like the previous quarter and grew by only 9.2% yoy. The share of LAP+ developer loans in the books continued to increase and stood at 13.7% v/s 12.5% qoq. LICHF's noncore portfolio has been growing fast, however as percentage to total portfolio, it still remains lower than other HFCs and is not a cause of concern. The management has reiterated now onwards the focus will be on core retail portfolio and it may not aggressively expand its LAP book.

Exhibit 2: Decent Growth in Advances


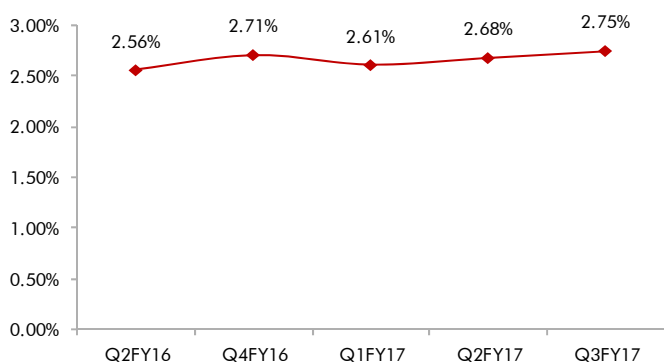
Source: Company, Angel Research

Exhibit 3: Disbursements remained healthy


Source: Company, Angel Research

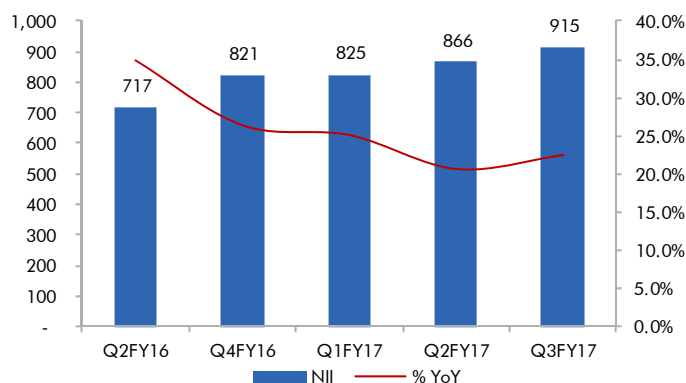
Favorable cost of funds helped NIM improvement, marginal pressure expected going ahead: During the quarter, the incremental yield on assets increased to 10.69% up 11 bps sequentially partly backed by high yielding LAP portfolio, while the incremental costs stood at 8.19% down 21 bps sequentially. As a result, on a qoq basis, incremental spread improved by 32 bps to 2.50% and NIM improved by 7 bps to 2.75%. With sharp rate cuts by banks there will be competition in the industry and LICHF also will have to face the same, however we feel volume growth should pick up in the medium term, compensating the same in the quarters to come.

Exhibit 4: Low cost funds added to NIM



Source: Company, Angel Research

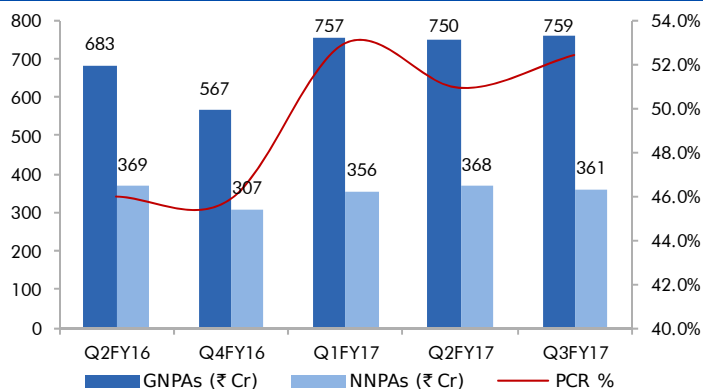
Exhibit 5: NII growth trend



Source: Company, Angel Research

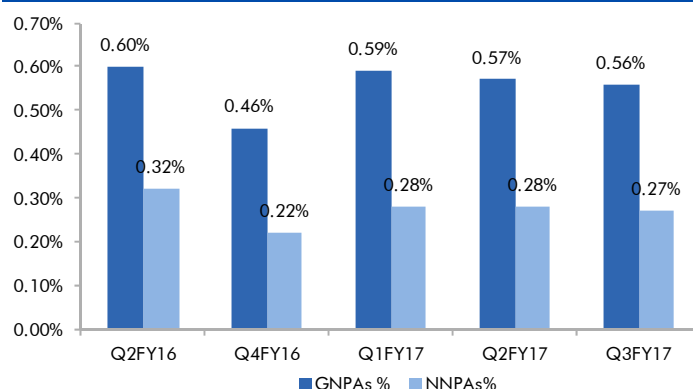
Asset quality remained resilient: While there was initially fear of deterioration in asset quality, post demonetization, the collection levels were not as bad as it was perceived, which is visible from stable GNPA's of 0.56% and NNPA's 0.27%. Contrary to expectations, the asset quality has seen fairly large stability in the last few quarters and we don't expect sharp deterioration in the medium term.

Exhibit 6: Stable Asset quality



Source: Company, Angel Research

Exhibit 7: Gross and Net NPAs remained stable



Source: Company, Angel Research

Outlook and valuation

Outlook and valuation: The core retail portfolio continues to be sluggish growing by less than 10%, however, other segments like LAP & Developer loans have been driving the growth for LICHF. With lower interest rates and interest subvention schemes by the Government we expect growth for housing to rebound in the coming quarters, which should help the company in posting loan book CAGR of 19% over FY2016-18E, translating into an earnings CAGR of 18.0% over the same period. The stock currently trades at 2.2x its FY2018E ABV. **We maintain our BUY rating on the stock with a Target Price of ₹630.**

Company Background

LIC Housing Finance (LICHF) is one of the largest specialized mortgage lenders in India, with a loan book size of ~ ₹1,35,00cr, of which ~97% is derived from the retail segment. The company has a network of ~245 marketing 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.

The company has a low-risk business model as ~82% of the loans are disbursed to salaried customers. Loans to individuals account for 87.5% of the outstanding loan book and the segment is the key focus area of the company. LAP accounts for 10.4% and loans to developers account for 3.3% of the total outstanding loan book. The company's incremental average ticket size of the loans stood at ~₹20 lakh while the average cumulative ticket size stood at ~₹12lakh.

Exhibit 8: Key Operating Indicators

Key Operating Indicators	FY13	FY14	FY15	FY16
Floating Loan Portfolio	49.0	42.0	37.0	47.0
LTV	59.7	54.5	50.9	46.6
Pre Payment Ratio	7.8	9.3	8.4	11.9
Income to Installment Ratio	33.9	34.7	33.9	33.3

Source: Company, Angel Research

Income statement (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Nil	1,605	2,019	2,349	2,944	3,542	4,116
- YoY Growth (%)	8.4	25.8	16.4	25.3	20.3	16.2
Other Income	128	142	139	235	170	178
- YoY Growth (%)	(10.6)	10.5	(1.9)	68.8	(27.6)	4.7
Operating Income	1,733	2,160	2,488	3,179	3,712	4,293
- YoY Growth (%)	6.7	24.6	15.2	27.7	16.8	15.7
Operating Expenses	282	313	379	469	505	588
- YoY Growth (%)	18.9	11.1	21.1	23.6	7.8	16.3
Pre - Provision Profit	1,451	1,847	2,109	2,710	3,207	3,706
- YoY Growth (%)	4.6	27.3	14.2	28.5	18.3	15.6
Prov. & Cont.	79	21	7	146	223	183
- YoY Growth (%)	(49.5)	(72.8)	(66.2)	1,920.0	52.1	(17.8)
Profit Before Tax	1,372	1,826	2,102	2,564	2,984	3,522
- YoY Growth (%)	11.5	33.0	15.1	22.0	16.4	18.0
Prov. for Taxation	347	508	716	903	1,016	1,199
- as a % of PBT	25.3	27.8	34.1	35.2	34.1	34.1
PAT	1,026	1,317	1,386	1,661	1,968	2,323
- YoY Growth (%)	12.2	28.4	5.2	19.8	18.5	18.0

Balance sheet (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Share Capital	101	101	101	101	101	101
Reserve & Surplus	6,380	7,432	7,717	9,016	10,555	12,371
Loan Funds	68,764	81,486	96,532	1,11,509	1,30,465	1,53,917
- Growth (%)	22.6	18.5	18.5	15.5	17.0	18.0
Other Liab. & Prov.	4,407	4,414	5,622	6,409	7,509	8,995
Total Liabilities	79,653	93,432	1,09,972	1,27,035	1,48,631	1,75,384
Investments	185	199	237	274	320	378
Advances	77,813	91,341	1,08,361	1,25,173	1,46,452	1,72,814
- Growth (%)	23.4	17.4	18.6	15.5	17.0	18.0
Fixed Assets	62	76	80	92	108	127
Other Assets	1,593	1,817	1,295	1,496	1,750	2,065
Total Assets	79,653	93,432	1,09,972	1,27,035	1,48,631	1,75,384

Ratio analysis (standalone)

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profitability ratios (%)						
NIMs	2.3	2.4	2.3	2.6	2.6	2.5
Cost to Income Ratio	16.3	14.5	15.2	14.7	13.6	13.7
RoA	1.4	1.5	1.4	1.4	1.4	1.4
RoE	16.9	18.8	18.1	19.6	19.9	20.1
Asset Quality (%)						
Gross NPAs	0.61	0.67	0.46	0.45	0.54	0.50
Net NPAs	0.35	0.39	0.22	0.22	0.24	0.23
Provision Coverage	41.4	41.9	52.6	52.4	55.0	54.0
Per Share Data (₹)						
EPS	20.3	26.1	27.5	32.9	39.0	46.0
ABVPS (75% cover.)	125.2	145.2	152.6	178.0	207.9	243.4
DPS	3.8	4.5	5.0	6.0	7.1	8.4
Valuation Ratios						
PER (x)	26.8	20.4	19.4	16.2	13.7	11.6
P/ABVPS (x)	4.3	3.7	3.5	3.0	2.6	2.2
Dividend Yield	0.8	0.9	1.0	1.2	1.4	1.7
DuPont Analysis						
NII	2.2	2.3	2.3	2.5	2.6	2.5
(-) Prov. Exp.	0.1	0.0	0.0	0.1	0.2	0.1
Adj. NII	2.1	2.3	2.3	2.4	2.4	2.4
Treasury	(0.0)	0.0	0.0	0.0	0.0	0.0
Int. Sens. Inc.	2.1	2.3	2.3	2.4	2.4	2.4
Other Inc.	0.2	0.2	0.1	0.2	0.1	0.1
Op. Inc.	2.3	2.5	2.4	2.6	2.5	2.5
Opex	0.4	0.4	0.4	0.4	0.4	0.4
PBT	1.9	2.1	2.1	2.2	2.2	2.2
Taxes	0.5	0.6	0.7	0.8	0.7	0.7
RoA	1.4	1.5	1.4	1.4	1.4	1.4
Leverage	11.9	12.4	13.2	14.0	13.9	14.0
RoE	16.9	18.8	18.1	19.6	19.9	20.1

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LIC Housing Finance

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

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)