

# LIC Housing Finance

BUY

<b>INDUSTRY</b>	<b>NBFCs</b>
<b>CMP (as on 25 Apr 2018)</b>	<b>Rs 547</b>
<b>Target Price</b>	<b>Rs 636</b>
Nifty	10,571
Sensex	34,501
<b>KEY STOCK DATA</b>	
Bloomberg	LICHF IN
No. of Shares (mn)	505
MCap (Rs bn) / (\$ mn)	276/4,135
6m avg traded value (Rs mn)	1,072
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 794/477</b>
	3M 6M 12M
Absolute (%)	(1.6) (11.6) (18.9)
Relative (%)	2.7 (16.0) (34.1)
<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	40.3
FIs & Local MFs	8.3
FPIs	32.9
Public & Others	18.5
Source : BSE	

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## Eye on margins

In a seasonally strong quarter, LICHF's results were largely uninspiring. Sequential NIM expansion was curtailed (16bps vs. and average of 23bps over FY12-17) despite a 34bps drop in CoF and rising share of higher yielding project loans (4.9% vs 4.0% QoQ) and LAP (14.3% vs. 13.2% QoQ). Asset quality uptick also lacked the usual step up as GNPA's dipped merely 9bps vs. an avg of 14bps (FY12-17). However, the drop sequential drop in provisions (7bps of avg loans vs 13bps in 3Q) and the jump in PCR (45.4%, up 415bps QoQ) were notable positives.

We believe NIMs have bottomed out at this juncture given upward revision of PLR (+20bps in Apr-18) and the rising share of high yielding project loans (4.9% of loans vs. 3.8% YoY). LICHF's will continue to reap the rewards of their reach and well oiled distribution network. The high coverage (~96%) on project NPAs will provide skewed upside once resolutions play out. Maintain BUY with a TP of Rs 636. (2x Mar-20 ABV of Rs 318)

## FINANCIAL SUMMARY

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Interest Income	10,036	10,396	(3.5)	8,976	11.8	37,555	38,350	45,258	53,319
PPOP	8,669	8,954	(3.2)	8,050	7.7	32,371	33,007	39,489	46,660
PAT	5,393	5,292	1.9	4,911	9.8	19,311	19,896	23,770	28,094
EPS (Rs)	10.7	10.5	1.9	9.7	9.8	38.2	39.4	47.1	55.6
ROAE (%)						19.1	16.7	17.4	17.8
ROAA (%)						1.37	1.23	1.28	1.31
Adj. BVPS (Rs)						215	237	275	318
P/ABV (x)						2.54	2.31	1.99	1.72
P/E (x)						14.3	13.9	11.6	9.8

Source: Company, HDFC sec Inst Research

## Highlights of the quarter

- Overall disbursements at Rs 174bn hit an all time high clocking a growth of ~15% YoY. This was primarily driven by robust disbursements in project loans (+84% YoY) while Individual loan disbursements were up ~9% YoY. Consequently, the overall share of project loans grew to ~4.9% of loans against 3.8% YoY. The mgt is increasingly confident of rapid growth given the ramp up in new launches post RERA. We have factored in a AUM growth of 15% over FY18-20E
- Sequential healing in asset quality was restricted (GNPA -9bps to 0.78%) largely due to stalling resolutions in the builder book. Individual loan GNPA's improved 5bps to 0.42% (albeit 2x YoY). With an increased focus on collections the mgt expects these to moderate. Additionally, resolutions in a couple of project loan a/cs will lead the healing process hereon. We have factored in GNPA's of 0.8/0.9 for FY19/20E.
- Near-term outlook:** Volatile interest rates and uncertainty over resolutions will keep the stock in the narrow range.

## Five Quarters At A Glance

(Rs mn)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY Growth	QoQ Growth
Net Interest Income	10,396	9,125	8,875	8,976	10,036	-3.5%	11.8%
Non-interest Income	523	458	586	552	875	67.2%	58.6%
Operating Income	10,919	9,584	9,461	9,528	10,911	-0.1%	14.5%
Operating Expenses	1,965	1,354	1,402	1,477	2,242	14.1%	51.8%
Pre-Provision Profits	8,954	8,230	8,059	8,050	8,669	-3.2%	7.7%
Provisions And Contingencies	893	1,045	578	485	281	-68.5%	-41.9%
PBT	8,061	7,185	7,481	7,566	8,387	4.0%	10.9%
Provision For Tax	2,769	2,484	2,589	2,655	2,994	8.1%	12.8%
PAT	5,292	4,701	4,891	4,911	5,393	1.9%	9.8%
<b>Balance Sheet items</b>							
Disbursements (Rs bn)	87.0	87.0	109.8	123.0	174.0	14.5%	41.5%
Individual (Rs bn)	139.6	82.9	103.7	113.2	151.4	8.4%	33.7%
Projects (Rs bn)	12.3	4.1	6.1	9.8	22.7	83.9%	131.7%
Loan Book (Rs bn)	1,445.3	1,470.5	1,514.2	1,561.8	1,663.6	15.1%	6.5%
Individual (Rs bn)	1,390.2	1,414.4	1,454.9	1,499.9	1,582.7	13.8%	5.5%
Projects (Rs bn)	55.1	56.1	59.3	61.9	80.9	46.9%	30.8%
Borrowings (Rs bn)	1,263.4	1,291.6	1,336.2	1,376.3	1,480.3	17.2%	7.6%
<b>Profitability</b>							
Yield On Advances (%) (Calc.)	10.32	9.90	9.80	9.66	9.54	-77 bps	-11 bps
Cost Of Funds (%) (Calc.)	8.48	8.44	8.43	8.30	7.96	-52 bps	-34 bps
Spreads (%) (Calc.)	1.84	1.46	1.37	1.35	1.58	-26 bps	23 bps
NIM (%)	2.97	2.50	2.38	2.33	2.49	-48 bps	16 bps
Cost-Income Ratio (%)	14.1	14.1	14.8	15.5	20.5	642 bps	504 bps
Tax rate (%)	34.6	34.6	34.6	35.1	35.7	112 bps	60 bps
<b>Asset quality</b>							
Gross NPA (Rsmn)	6,270	10,660	12,110	13,600	13,040	108.0%	-4.1%
Net NPA (Rsmn)	2,050	7,570	6,500	7,990	7,120	247.3%	-10.9%
Gross NPAs (%)	0.43	0.72	0.80	0.87	0.78	35 bps	-9 bps
Net NPAs (%)	0.14	0.59	0.43	0.49	0.43	29 bps	-6 bps
Individual GNPA (%)	0.20	0.42	0.44	0.47	0.42	22 bps	-5 bps
Coverage Ratio (%)	67.3	29.0	46.3	41.3	45.4	-2191 bps	415 bps

Ahead of estimates (~8) driven by loan growth of ~16/6% YoY/QoQ and sequential NIM expansion of ~16bps

Seasonality in expenses continued as other opex jumped ~63% QoQ and staff costs grew ~31% QoQ

About 5% ahead of our estimates

Growth in the core HL book was at ~11% YoY while LAP and project loans grew ~31% and ~47% respectively

The share of project loans grew to ~4.9% vs 4% QoQ and 3.8% YoY

Expansion led by a rising proportion of higher yielding loans (LAP and project loans)

Asset quality deterioration (+35BPS YoY) was led by a 22bps spike in Individual loans GNPA

## Change In Estimates

Rs mn	FY19E			FY20E		
	Old	New	Change	Old	New	Change
NII	44,393.0	45,257.7	1.9	51,451.9	53,319.3	3.6
PPOP	38,538.8	39,489.5	2.5	44,635.6	46,659.8	4.5
PAT	23,186.0	23,769.7	2.5	27,263.7	28,094.4	3.0
Adj. BVPS (Rs)	279.6	274.5	(1.8)	322.8	317.9	(1.5)

Source: HDFC sec Inst Research

**Overall disbursals grew 42/15% YoY/QoQ led by a 132/84% QoQ/YoY growth in project loans**

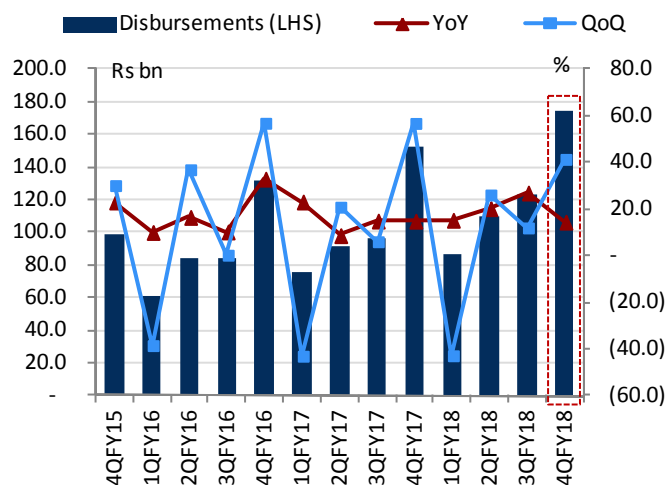
**Individual disbursements grew 34/8% QoQ/YoY.**

**About 12% of incremental disbursals in PMAY/CLSS scheme**

**Individual Loan disbursements include 45% for new sale 30% for resale and 25% of balance transfers**

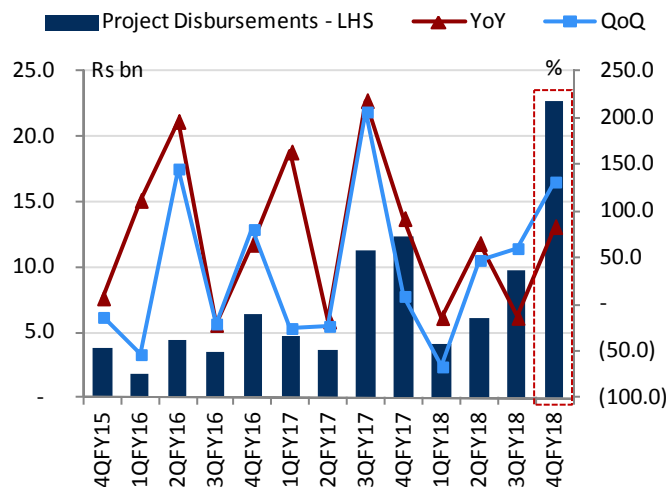
**Project loan disbursements increased substantially 132/84% QoQ/YoY, which led to a 90bps increase the share of project loans to 4.9%.**

### Disbursements Growth Supported By Project Loans



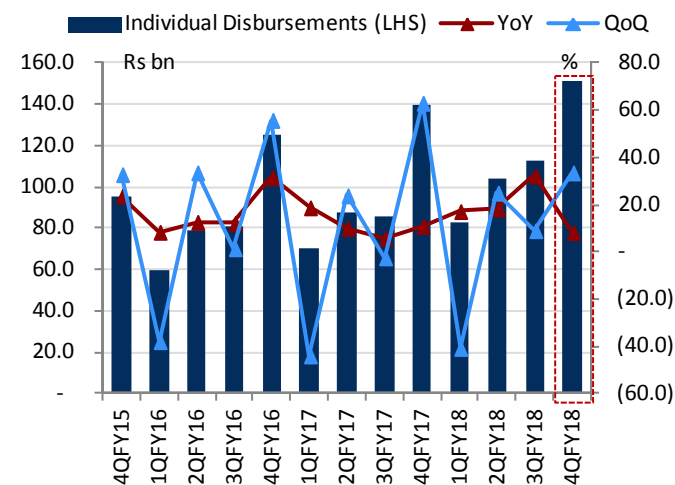
Source: Company

### Project Disbursals Jumped 132% Sequentially



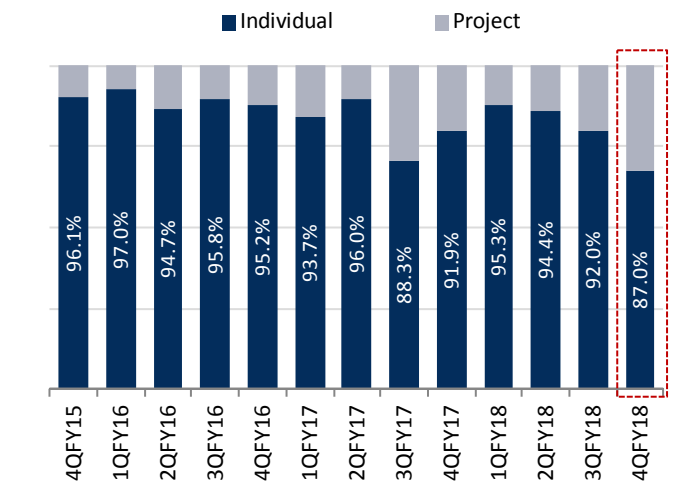
Source: Company

### Individual Disbursements Grew ~34/8% QoQ/YoY



Source: Company

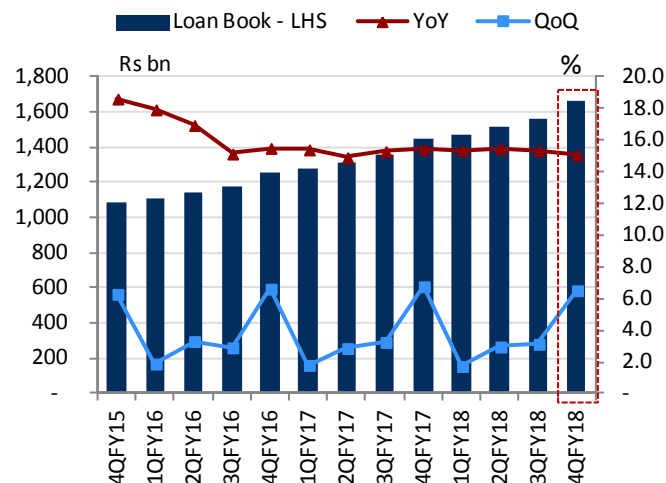
### Disbursals' Break-up



Source: Company

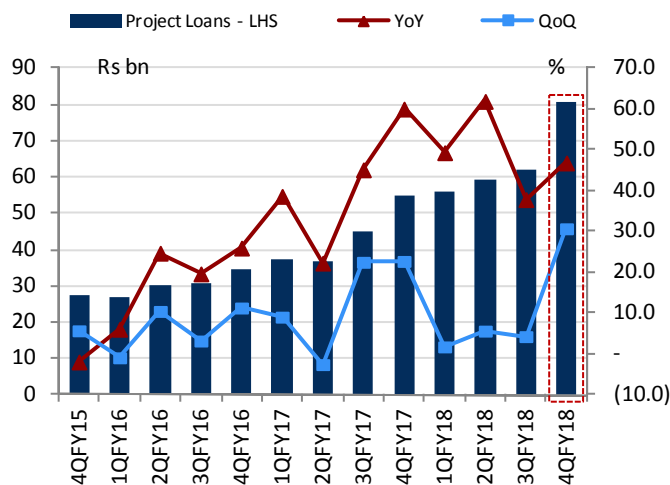
**Loan book grew by 15/7% YoY/QoQ, majorly driven by project loan 47/31% YoY/QoQ.**

### Loans grew ~15/7% YoY/QoQ



Source: Company

### Project Loans Grew 47/31% YoY/QoQ

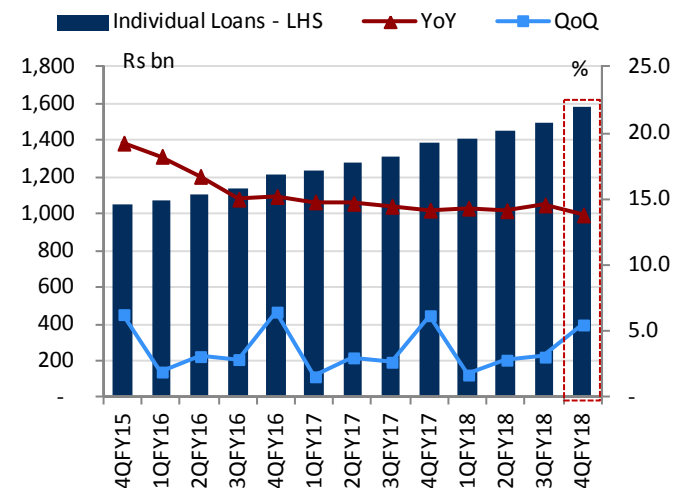


Source: Company

**Share of the non-core (LAP+ Developer) portfolio grew 200bps sequentially to ~19.2% of loans**

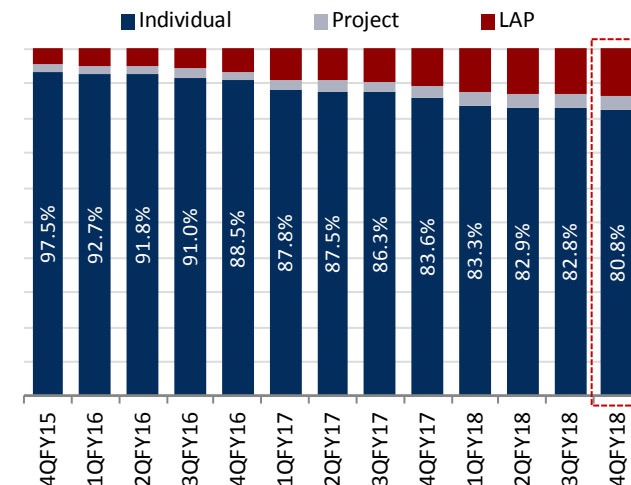
**The core HL book share was at 80.8% vs 82.8% QoQ and 83.6% YoY**

### Individual Loan Growth Stood At ~14/6% YoY/QoQ



Source: Company

### Loan Break Up: Share of Project and LAP Inched Up



Source: Company

**Calc. NIM improved 16bps to 2.49% QoQ, albeit dipped 48bps YoY due to a drop in yields.**

**No substantial change in borrowing mix.**

**NCDs remain the largest source at ~79%**

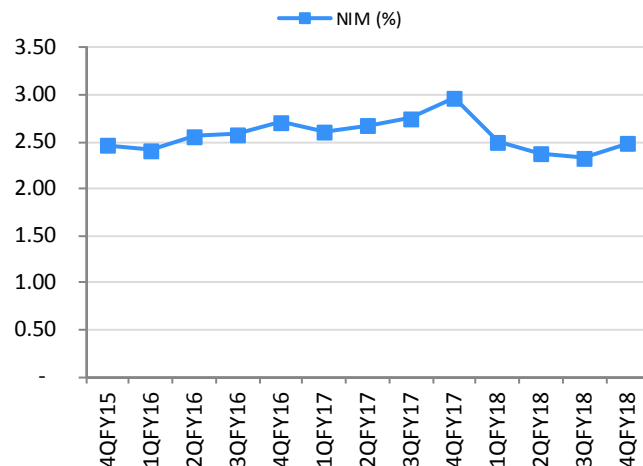
**Within individual GNPA: ~Rs 5.35bn are towards HL and ~Rs 1.35bn for LAP**

**Provisions declined ~69/42% YoY/QoQ to 7bps of avg loans (vs 13bps QoQ and 27bps YoY)**

**PCR improved by 415 bps sequentially to 45.4%.**

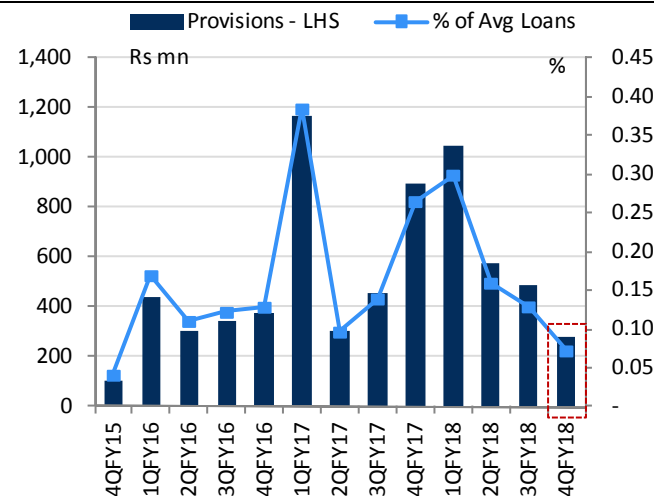
**PCR on project finance loans is at ~96%**

### NIM: Improved 16bps QoQ



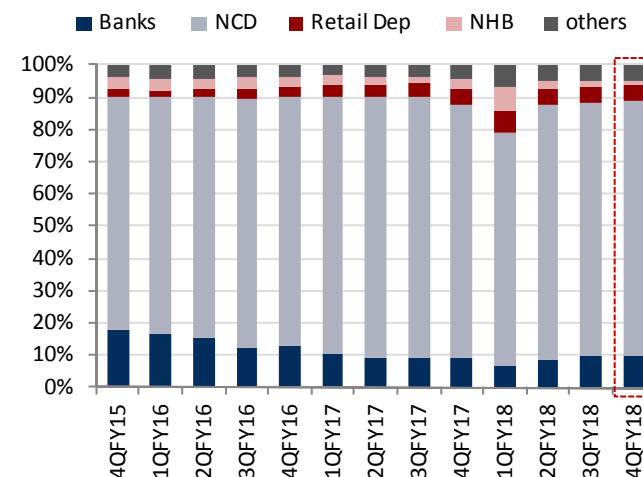
Source: Company

### Provisions Declined ~42% QoQ



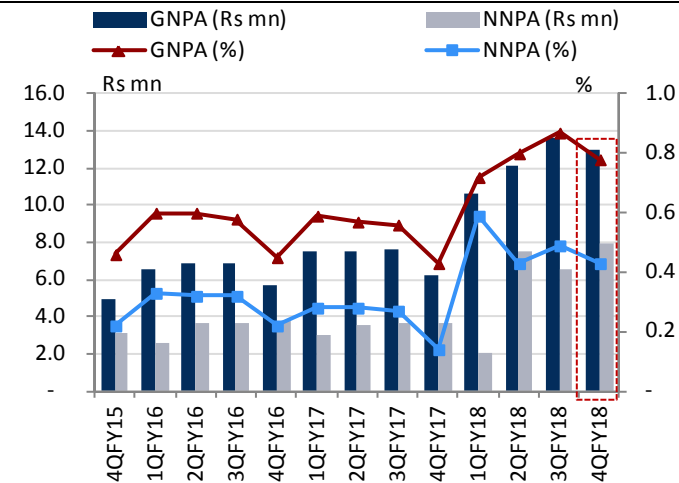
Source: Company

### Borrowing Mix Largely Stable



Source: Company

### Asset Quality Deteriorates YoY



Source: Company

## Peer Valuations

NBFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
SHTF	366	1613	BUY	1738	442	532	632	22.3	17.3	13.8	3.65	3.03	2.55	13.8	15.8	17.3	2.06	2.29	2.42
MMFS #	312	507	BUY	548	116	132	151	37.5	28.3	23.1	4.22	3.71	3.23	10.2	11.1	12.5	1.61	1.84	1.94
<b>LICHF</b>	<b>276</b>	<b>547</b>	<b>BUY</b>	<b>636</b>	<b>237</b>	<b>280</b>	<b>323</b>	<b>14.1</b>	<b>11.9</b>	<b>10.1</b>	<b>2.31</b>	<b>1.96</b>	<b>1.69</b>	<b>16.6</b>	<b>17.1</b>	<b>17.4</b>	<b>1.21</b>	<b>1.24</b>	<b>1.25</b>
CIFC	264	1686	BUY	1767	284	353	442	27.1	21.3	17.3	5.94	4.78	3.82	20.6	21.8	22.1	2.77	2.85	2.92
DHFL	191	609	BUY	700	260	286	319	17.6	14.4	11.2	2.34	2.13	1.91	13.0	14.6	16.9	1.30	1.28	1.40
SCUF	154	2342	BUY	2536	738	863	1,014	22.4	17.2	13.7	3.17	2.71	2.31	13.0	15.0	16.4	2.63	2.96	3.19
REPCO	37	596	BUY	750	199	243	278	18.5	16.0	13.3	2.99	2.45	2.15	16.4	16.4	16.9	2.11	2.14	2.18

Source: Company, HDFC sec Inst Research;

### Income Statement

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Earned	123,961	139,869	149,597	175,044	204,072
Interest Expended	93,068	102,315	111,247	129,787	150,752
<b>Net Interest Income</b>	<b>30,894</b>	<b>37,555</b>	<b>38,350</b>	<b>45,258</b>	<b>53,319</b>
Other Income	893	934	1,132	1,524	1,979
<b>Total Income</b>	<b>31,787</b>	<b>38,489</b>	<b>39,483</b>	<b>46,781</b>	<b>55,298</b>
Total Operating Exp	4,687	6,118	6,475	7,292	8,639
Employee Expense	1,503	2,458	2,175	2,676	3,283
<b>PPOP</b>	<b>27,100</b>	<b>32,371</b>	<b>33,007</b>	<b>39,489</b>	<b>46,660</b>
Provisions	1,465	2,813	2,389	3,033	3,898
<b>PBT</b>	<b>25,636</b>	<b>29,558</b>	<b>30,619</b>	<b>36,457</b>	<b>42,762</b>
Provision For Tax	9,028	10,247	10,723	12,687	14,667
<b>PAT</b>	<b>16,608</b>	<b>19,311</b>	<b>19,896</b>	<b>23,770</b>	<b>28,094</b>

Source: Bank, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,010	1,010	1,010	1,010	1,010
Reserves And Surplus	90,450	109,760	125,897	145,101	167,798
<b>Shareholders' Funds</b>	<b>91,460</b>	<b>110,770</b>	<b>126,907</b>	<b>146,111</b>	<b>168,808</b>
Total Borrowings	1,094,139	1,263,350	1,453,390	1,677,883	1,937,411
Other Liab, Provisions	114,774	134,885	138,223	167,559	199,326
<b>Total Liabilities</b>	<b>1,300,373</b>	<b>1,509,006</b>	<b>1,718,520</b>	<b>1,991,552</b>	<b>2,305,545</b>
<b>APPLICATION OF FUNDS</b>					
Advances	1,253,213	1,447,565	1,663,630	1,904,397	2,198,961
Investments	2,768	5,270	9,868	4,162	4,818
Fixed assets	920	965	971	1,020	1,071
Cash & Bank Balance	34,665	44,633	29,535	68,045	84,433
Other Assets	8,807	10,572	14,516	13,928	16,262
<b>Total assets</b>	<b>1,300,373</b>	<b>1,509,006</b>	<b>1,718,520</b>	<b>1,991,552</b>	<b>2,305,545</b>

Source: Bank, HDFC sec Inst Research

## Key Ratios

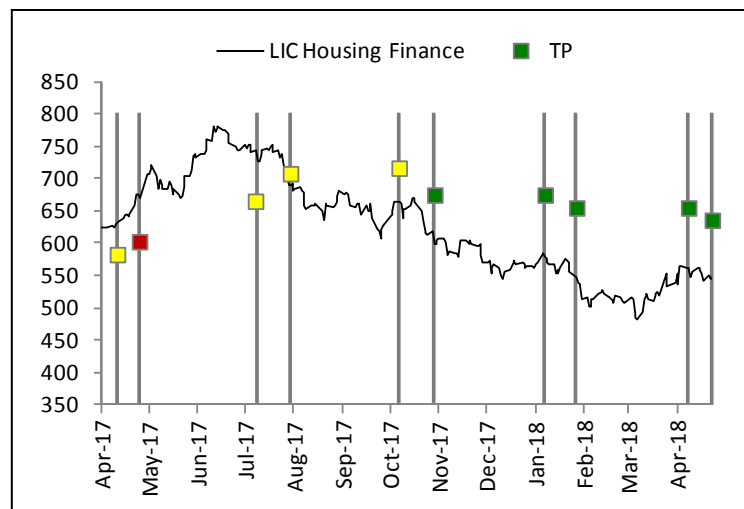
	FY16	FY17	FY18P	FY19E	FY20E
<b>VALUATION RATIOS</b>					
EPS (Rs.)	32.9	38.2	39.4	47.1	55.6
Earnings Growth (%)	19.8	16.3	3.0	19.5	18.2
BVPS (Rs.)	181.1	219.4	251.3	289.3	334.3
Adj. BVPS (100% cover) (Rs.)	175.3	215.1	237.2	274.5	317.9
ROAA (%)	1.4	1.37	1.23	1.28	1.31
ROAE (%)	19.6	19.1	16.7	17.4	17.8
P/E (x)	16.6	14.3	13.9	11.6	9.8
P/ABV (x)	3.12	2.54	2.31	1.99	1.72
P/PPOP (x)	10.2	8.5	8.4	7.0	5.9
Dividend Yield (%)	1.0	1.2	1.2	1.4	1.6
<b>PROFITABILITY</b>					
Yield On Advances (%)	10.60	10.36	9.62	9.81	9.95
Cost Of Funds (%)	9.04	8.68	8.19	8.29	8.34
Spread (%)	1.56	1.68	1.43	1.52	1.61
NIM (%)	2.64	2.78	2.47	2.54	2.60
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	0.39	0.44	0.40	0.39	0.40
Cost-Income Ratio	14.74	15.89	16.40	15.59	15.62
<b>BALANCE SHEET STRUCTURE RATIOS</b>					
Loan Growth (%)	15.49	15.51	14.93	14.47	15.47
Borrowing Growth (%)	13.34	15.47	15.04	15.45	15.47
Equity/Assets (%)	7.03	7.34	7.38	7.34	7.32
Equity/Loans (%)	7.30	7.65	7.63	7.67	7.68
Total CRAR (%)	17.04	16.64	16.39	15.98	15.68
Tier I (%)	13.86	13.99	14.07	13.97	13.95

	FY16	FY17	FY18P	FY19E	FY20E
<b>ASSET QUALITY</b>					
Gross NPLs (Rs mn)	5,678	6,271	13,040	15,212	18,333
Net NPLs (Rs mn)	2,925	2,134	7,120	7,472	8,254
Gross NPLs (%)	0.45	0.45	0.78	0.80	0.8
Net NPLs (%)	0.22	0.15	0.43	0.39	0.4
Coverage Ratio (%)	48.5	66.0	45.4	50.9	55.0
Provision/Avg. Loans (%)	0.13	0.45	0.29	0.17	0.19
<b>RoAA TREE (%)</b>					
Net Interest Income	2.55%	2.67%	2.38%	2.44%	2.48%
Non Interest Income	0.07%	0.07%	0.07%	0.08%	0.09%
Operating Cost	0.39%	0.44%	0.40%	0.39%	0.40%
Provisions	0.12%	0.20%	0.15%	0.16%	0.18%
Tax	0.74%	0.73%	0.66%	0.68%	0.68%
ROAA	1.37%	1.37%	1.23%	1.28%	1.31%
Leverage (x)	14.3	13.9	13.6	13.6	13.6
ROAE	19.6%	19.1%	16.7%	17.4%	17.8%

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
13-Apr-17	630	NEU	582
27-Apr-17	676	SELL	600
10-Jul-17	741	NEU	665
1-Aug-17	692	NEU	706
9-Oct-17	663	NEU	714
31-Oct-17	599	BUY	675
9-Jan-18	571	BUY	675
29-Jan-18	548	BUY	655
10-Apr-18	561	BUY	655
25-Apr-18	547	BUY	636

### Rating Definitions

**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**Disclosure:**

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