

# LIC Housing Finance (LICHF IN)

## Profit miss estimates due to higher provisions

INDIA | FINANCIALS | Quarterly Update

18 July 2016

### Top takeaways from Q1FY17

- ✗ PAT was below expectations due to higher provision (Rs 920 mn provided on project loans due to NPA ageing). NII growth was in line, driven by 15% loan growth and improvement in NIM.
- ✓ NIM improvement was due to an increase in share of higher-yielding loans and decline in costs of funds.
- ✗ Loan growth was moderate (15% yoy) due to weak growth in individual loans (9% yoy) as prepayment rate increased. LAP and project loans grew 123% and 37% yoy respectively.
- ✗ Sequentially asset quality deteriorated with GNPA/NNPA increasing by 14bps/6bps to 0.59% and 0.28%. However, it was lower by 1bps/5bps yoy.

### Key highlights:

- Incremental spread was stable qoq at 2.1% (+36bps yoy) as improvement in incremental yields (8bps qoq to 10.93%) was negated by slightly higher incremental cost of funds (8bps qoq to 8.83%). NIM for the quarter was at 2.71%.
- Share of high-yielding portfolio of LAP and project loans improved to 12.2% (+498bps yoy). Change in portfolio towards high-yielding loans will keep NIM stable.
- Disbursement was Rs 75.4bn (+23% yoy). Individual/LAP/project loan disbursements were 14%/+54/164% respectively.

### Management comments / concall takeaways

- 15% loan growth guidance for FY17, share of LAP and developer loan book to inch up marginally. Home loan portfolio to grow at 15%-17%.
- Higher employee expenses were on account of wage arrears of Rs 200mn and Rs 100 mn due to change in actuarial assumptions.
- 920 mn provided in builder loan portfolio, 100% has been provided in builder loan portfolio, except for one account. Rs 2.2bn has been provided of total Rs 3.3bn builder loan NPAs. Rs 200-300mn worth project loans to turn NPA in next 1-2 years.

**Outlook and valuation:** LICHF is well poised to deliver stable business growth, led by pick up in individual home loans, while maintain high growth in LAP and project loans. NIM have been on an uptrend, we expect there is further scope of expansion in FY17 as it will realise the benefit of lower cost of funds, while yields will continue to remain firm due to increasing share of LAP and project loans.

At CMP, LICHF trades at 2.5x FY17 adj. BV of Rs 207 and 2.1x FY18 adj. BV of Rs 245. Given our expectation of improvement in NIM and strong earnings visibility, we have increased our price target to Rs 610 (previous Rs 570) valuing the stock at 2.5x FY18 adjusted BV.

## BUY (Maintain)

CMP RS 520 / TARGET RS 610 (+17%)

### COMPANY DATA

O/S SHARES (MN) :	505
MARKET CAP (RSBN) :	258
MARKET CAP (USDBN) :	3.8
52 - WK HI/LO (RS) :	533 / 389
LIQUIDITY 3M (USDMMN) :	16
PAR VALUE (RS) :	2

### SHARE HOLDING PATTERN, %

	Mar 16	Dec 15	Sep 15
PROMOTERS :	40.3	40.3	40.3
FII / NRI :	29.0	36.7	35.3
FI / MF :	4.7	6.5	7.3
NON PRO :	18.3	8.9	1.9
PUBLIC & OTHERS :	7.7	7.6	14.8

### Key Financials

Rs mn	FY16	FY17E	FY18E
Pre-prov ROE (%)	31.9	33.1	32.3
Pre-prov ROA (%)	2.2	2.4	2.3
Net Profit	16,608	19,638	23,422
% growth	19.8	18.2	19.3
Adj BVPS (Rs)	175.8	207.0	244.9
ROE (%)	19.6	19.7	20.0
P/E (x)	15.8	13.4	11.2
Adj P/BV (x)	3.0	2.5	2.1
EPS (Rs)	32.9	38.9	46.4

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
NII	35.6	41.1	7.2	6.5
PPP	32.9	37.9	6.6	5.9
Core PAT	19.6	23.4	3.4	6.5
EPS (Rs)	38.9	46.4	3.2	6.4

Manish Agarwalla, Paresh Jain  
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(Rs bn)	Q1FY17	Q1FY16	yoy %	Q4FY16	qoq %	vs. expect. %	Comments
Net interest income	8.2	6.6	25.1	8.2	0.4	-0.6	NII growth led by 15% growth in loan book and 20bps yoy expansion in NIM
NIM (%)	2.6	2.4	20 bps	2.7	(10 bps)	11 bps	Decline in cost of funds by 30 bps yoy improved NIM
Spread (%)	1.6	1.5	18 bps	1.8	(15 bps)	164 bps	Incremental spread at 1.98% compared to 1.84% in Q1FY16
Disbursement	75.4	61.2	23.2	132.2	-42.9		Individual disbursement at 14% yoy, LAP disbursement at 54%
Loan	1274.4	1104.1	15.4	1251.7	1.8		Growth driven by LAP and project loans at 123% and 37% respectively
Individual	1118.3	1023.8	9.2	1107.2	1.0		Individual loan comprises of 87.8% of loan book (92.7% in Q1FY16)
LAP	118.5	53.2	122.7	110.2	7.6		LAP comprises of 9.3% of loan book
Project loans	3.7	2.7	36.5	3.4	7.4		Project loan comprises of 2.9% of loan book
Borrowings	1129.6	976.7	15.7	1109.4	1.8		80% of borrowing comprises of NCDs, while bank borrowing comprises 11%
NCD (%)	79.6	73.2	640 bps	77.3	230 bps		Weighted average cost of NCDs are at 8.98%
Operating expenses	1.4	0.8	65.4	1.6	-12.4	0.1	Higher expenses was primarily due to wage arrears
cost to income ratio (%)	4.1	2.8	127 bps	4.8	(73 bps)	1 bps	
Provision	1.2	0.4	162.6	0.4	209.5	142.6	Rs 920 mn provided on project loans due to NPA ageing
PBT	6.2	5.8	7.7	6.9	-10.2	-11.4	
tax	2.2	2.0	9.5	2.5	-12.5	-14.1	
PAT	4.1	3.8	6.7	4.5	-9.0	-9.8	PAT below estimate due to higher provisions
GNPA %	0.6	0.6	(1 bps)	0.5	14 bps		Asset quality improved yoy but deteriorated qoq

**Q4FY16 results**

Rs mn	Q1FY17	Q1FY16	Q4FY16	yoy (%)	qoq (%)
Interest income	33263	29174	32057	14.0	3.8
Interest expenses	25018	22585	23843	10.8	4.9
Net Interest Income	8245.2	6588.7	8214.0	25.1	0.4
NIM (%)	2.6%	2.4%	2.7%	0.2%	-0.1%
Other Income	535	481	683	11.4	-21.6
Total Income	8780	7069	8897	24.2	-1.3
Operating Expenses	1382	835	1578	65.4	-12.4
Cost/Income (%)	15.7%	11.8%	17.7%	33.2	-11.3
Pre Provision Profits	7399	6234	7319	18.7	1.1
Provisions & contingencies	1165	443	376	162.6	209.5
Profit before tax	6234	5790	6943	7.7	-10.2
Provision for taxes	2156	1969	2463	9.5	-12.5
% of PBT	34.6	34.0	35.5	1.7	-2.5
Profit after tax	4078.4	3821.4	4480.1	6.7	-9.0
EPS (Rs)	8.1	7.6	8.9	6.7	-9.0
Advances	1274370	1104110	1251732	15.4	1.8
Disbursements	75420	61240	132160	23.2	-42.9
Gross NPAs	7570	6590	5678	14.9	33.3
Gross NPAs (%)	0.59%	0.60%	0.45%	0.0%	0.1%
Net NPAs	4010	3598	2705	11.5	48.3
Net NPAs (%)	0.28%	0.33%	0.22%	-0.1%	0.1%

Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
Interest on individual housing loans	1,01,876	1,18,780	1,35,409	1,54,704
Interest on developer loans	3,590	3,729	5,220	6,578
Total Interest earned	1,05,467	1,22,509	1,40,889	1,61,582
Interest expended	83,102	93,068	1,05,290	1,20,478
<b>Net Interest Income</b>	<b>22,364</b>	<b>29,441</b>	<b>35,599</b>	<b>41,104</b>
Total non-interest income	2,520	2,346	3,096	3,426
Total Income	24,884	31,787	38,695	44,530
Personnel Expenses	1,293	1,503	2,105	2,421
Other Expenses	2,499	3,183	3,661	4,210
Total Op expenses	3,792	4,687	5,766	6,631
<b>Net Inc (Loss) before prov</b>	<b>21,092</b>	<b>27,100</b>	<b>32,929</b>	<b>37,899</b>
Provision	73	1,465	2,624	1,754
Net Inc (Loss) before tax	21,019	25,636	30,305	36,145
Provision for Income Tax	7,158	9,028	10,667	12,723
<b>Net Profit</b>	<b>13,862</b>	<b>16,608</b>	<b>19,638</b>	<b>23,422</b>

### Balance Sheet

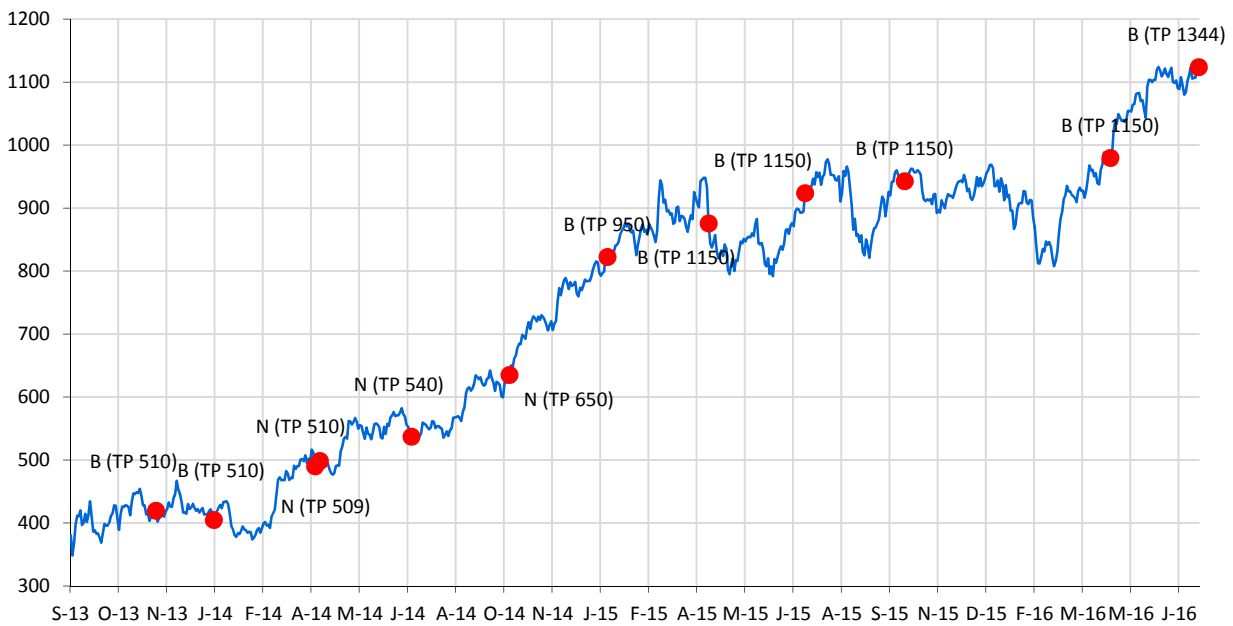
Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
<b>Assets</b>				
Cash & Bal with RBI	30,224	29,331	39,268	45,158
Loans, Adv & Int accrued	9,13,409	10,83,607	12,51,732	14,56,616
Investments	1,993	2,371	2,768	3,143
Fixed Assets (Net)	756	797	920	1,012
Other assets	8,823	9,345	10,289	11,318
<b>Total Assets</b>	<b>9,57,770</b>	<b>11,25,451</b>	<b>13,04,978</b>	<b>15,17,248</b>
<b>Liabilities</b>				
Share capital	1,010	1,010	1,010	1,010
Reserves and Surplus	74,319	77,174	90,450	1,06,543
Subordinated Debt	30,000	29,929	25,515	30,000
Borrowing	7,90,356	9,35,541	10,83,845	12,57,060
Other liabilities	51,319	71,099	91,489	1,07,342
<b>Provision for contingencies</b>	<b>10,766</b>	<b>10,698</b>	<b>12,669</b>	<b>15,293</b>
<b>Total Liabilities</b>	<b>9,57,770</b>	<b>11,25,451</b>	<b>13,04,978</b>	<b>15,17,248</b>

### Valuation Ratios

	FY15	FY16	FY17E	FY18E
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	27.5	31.9	33.1	32.3
RoAE (%)	18.1	19.6	19.7	20.0
Pre-provision Operating ROA (%)	2.0	2.2	2.3	2.3
RoAB (%)	1.3	1.4	1.4	1.4
EPS (Rs.)	27.5	32.9	38.9	46.4
Dividend per share (Rs.)	5.0	5.5	6.0	6.5
Book Value (Rs.)	154.8	181.1	213.0	251.8
Adj BV (Rs.)	150.2	175.8	207.0	244.9
<b>Revenue Analysis</b>				
Interest income on IBA (%)	10.2	10.2	10.1	10.0
Interest cost on IBL (%)	9.3	9.0	8.8	8.7
NIM on IBA / AWF (%)	2.2	2.4	2.5	2.5
Core fee Inc / AWF (%)	0.1	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	5.3	4.3	3.8	3.5
Op.Exp / TI (%)	16.0	15.4	15.5	15.4
Op.Exp / AWF (%)	0.4	0.4	0.4	0.4
Employee exps / Op exps (%)	34.1	32.1	36.5	36.5
Tax / Pre-tax earnings (%)	34.1	35.2	35.2	35.2
<b>Asset Quality</b>				
GNPAs / Gross Adv (%)	0.5	0.5	0.4	0.4
NNPAs / Net Adv (%)	0.2	0.2	0.2	0.2
<b>Growth Ratio</b>				
Loans (%)	18.6	15.5	16.4	15.9
Investments (%)	19.0	16.7	13.5	16.1
Deposits (%)	18.4	15.9	16.0	16.2
Net worth (%)	3.8	17.0	17.6	18.2
Net Int Income (%)	16.7	31.6	20.9	15.5
Non-fund based income (%)	3.1	(6.9)	32.0	10.7
Non-Int Exp (%)	21.1	23.6	23.0	15.0
Profit Before Tax (%)	15.1	22.0	18.2	19.3
Net profit (%)	5.2	19.8	18.2	19.3
<b>Capital Adequacy Ratio:</b>				
Tier I (%)	16.4	15.7	15.4	15.3
Internal Capital Generation rate (%)	12.4	12.3	12.5	12.8
NNPAs to Equity (%)	21.8	24.8	24.8	24.8
	3.0	3.0	2.8	2.7

Source: Company, PhillipCapital India Research Estimates

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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