

LIC Housing Finance (LICHF IN)

Strong business growth

INDIA | BANKING | Quarterly Update

20 April 2014

LIC Housing Finance's (LICHF) was in-line with our estimates. Operating profit grew 17.3% YoY to Rs 5.86 bn. However due to creation of DTL on special reserve during current fiscal, tax liability increased to 34.3% vs. 29.1% last year. Consequently, PAT grew by 2.2% YoY to Rs 3.8 bn. NII grew at a healthy pace owing to robust growth in loan portfolio coupled by improvement in NIM which was driven by decline in cost of funds. Operating expenses increased slightly ahead of our estimates owing to higher growth in non-staff expenses. Asset quality showed further improvement with GNPA and NNPA ratio declining on a sequential basis. We believe LICHF is in a sweet spot as it will benefit from lower cost of funds due to shift in the borrowing mix towards NCDs from bank borrowings. Further the LAP and project loan book is gaining traction which will enable LICHF to show improvement in NIM in FY16 over FY15.

Highlights for Q4FY15

NIM improvement driven by decline in cost of fund - NII grew by 21.9% YoY to Rs 6.5 bn on the back of loan book growth of 18.6% YoY and a 7 bps YoY increase in NIM to 2.47%. On a QoQ basis, NIMs improved by 27 bps, while spread improved by 20bps to 1.74%. The improvement in spreads and NIM on a YoY basis was mainly driven by 23 bps YoY decline in cost of fund to 9.19%. The improvement was primarily driven by shift in funding from bank borrowings to NCDs. Going forward NIM expansion will be largely driven by change in asset mix in favor of LAP & builder portfolio from current ratio of 93:5:3 (retail:LAP:Builder).

Retail segment continues to drive advances growth; developer book gaining momentum – Advances increased by 18.6% YoY to Rs 1083 bn largely driven by strong growth in retail advances (+17.3% YoY) & LAP (+81.6% YoY). Project loan book declined 1.8% YoY, although sequentially it grew 5.8%. Disbursal growth during the quarter was at 23.2% YoY to Rs99bn.

Asset quality stable – Asset quality improved with GNPLs declining on a QoQ basis by 11 bps to 0.46%, and NNPA declining by 9bps QoQ to 0.22%. PCR improved on a sequential basis by 656 bps QoQ to 52.2%. The undisbursed sanctions in builder loan segment remains upwards of Rs30bn.

Outlook & Valuation

We believe LICHF is well poised to deliver stable business growth, healthier spreads, strong asset quality and lower credit costs. Declining interest rate and change in liability mix more towards NCDs to bring down funding cost. Although declining interest rate scenario will lead to rate cut in lending side, we believe that judicious loan mix in favor of high yielding builder and LAP segment will enable LICHF improve its NIMs in medium term. We see earnings growing at a CAGR of 18% over FY15-17E, resulting in an ROA of 1.3% for FY16/FY17 and healthy ROE of 19%. At the CMP, LICHF trades at 2.1x FY17E Adj BV of Rs207. Given strong earnings visibility and superior return ratios, we maintain our Buy rating with a revised PT of Rs 520 (2.5x FY17E Adj BV).

BUY (Maintain)

CMP RS 442

TARGET RS 520 (+18%)

COMPANY DATA

O/S SHARES (MN) :	505
MARKET CAP (RSBN) :	222
MARKET CAP (USDBN) :	3.5
52 - WK HI/LO (RS) :	509 / 254
LIQUIDITY 3M (USDMN) :	23.3
PAR VALUE (RS) :	2

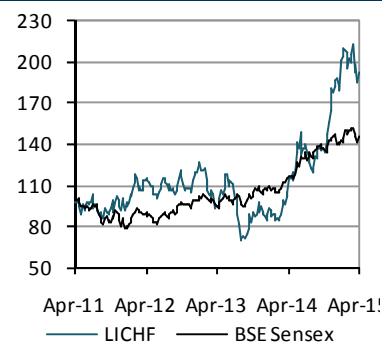
SHARE HOLDING PATTERN, %

PROMOTERS :	40.3
FII / NRI :	39.7
FI / MF :	5.9
NON PROMOTER CORP. HOLDINGS :	4.6
PUBLIC & OTHERS :	9.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-4.1	-10.0	64.2
REL TO BSE	-2.8	-6.9	41.0

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Pre-prov ROE (%)	27.5	29.7	30.1
Pre-prov ROA (%)	2.0	2.1	2.0
Net Profit (Rs mn)	13,862	16,280	19,248
% growth	5.2	17.4	18.2
EPS (Rs)	27.5	32.2	38.1
Adj BVPS (Rs)	150.2	175.8	206.6
ROE (%)	18.1	19.2	19.4
P/E (x)	16.1	13.7	11.6
Adj P/BV (x)	2.9	2.5	2.1

Source: PhillipCapital India Research Est.

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Q4FY15 Results

Rs mn	Q4FY15	Q4FY14	Q3FY14	YoY (%)	QoQ (%)
Interest income	28002	24074	26678	16.3	5.0
Interest expenses	21504	18743	21192	14.7	1.5
Net Interest Income	6498.2	5331.3	5485.6	21.9	18.5
NIM (%)	2.5%	2.4%	2.2%	0.1%	0.3%
Other Income	604	705	680	-14.4	-11.2
Total Income	7102	6037	6165	17.6	15.2
Operating Expenses	1246	1043	882	19.4	41.2
Cost/Income (%)	17.5%	17.3%	14.3%	1.5	22.6
Pre Provision Profits	5856	4993	5283	17.3	10.8
Provisions & contingencies	103	-223	68	-146.4	51.7
Profit before tax	5753	5216	5215	10.3	10.3
Provision for taxes	1971	1516	1772	30.1	11.3
% of PBT	34.3	29.1	34.0	17.9	0.9
Profit after tax	3781.8	3700.3	3443.4	2.2	9.8
EPS (Rs)	7.5	7.3	6.8	2.2	9.83
Advances	1083607	913409	1019440	18.6	6.3
Disbursements	99380	80684	76320	23.2	30.2
Gross NPAs	4947	6090	5795	-18.8	-14.6
Gross NPAs (%)	0.46%	0.67%	0.57%	-0.2%	-0.1%
Net NPAs	2344	3540	3160	-33.8	-25.8
Net NPAs (%)	0.22%	0.39%	0.31%	-0.2%	-0.1%

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16E	FY17E
Interest on individual housing loans	87,338	101,876	117,412	138,253
Interest on project loans	3,395	3,590	4,129	5,781
Total Interest earned	90,903	105,467	121,771	144,264
Interest expended	71,744	83,102	94,786	111,956
Net Interest Income	19,158	22,364	26,985	32,308
Total non-interest income	2,444	2,520	2,718	2,883
Total Income	21,602	24,884	29,703	35,191
Personnel Expenses	1,038	1,293	1,552	1,862
Other Expenses	2,094	2,499	2,966	3,522
Total Op expenses	3,133	3,792	4,518	5,384
Net Inc (Loss) before prov	18,470	21,092	25,186	29,807
Provision	93	73	519	644
Net Inc (Loss) before tax	18,255	21,019	24,667	29,163
Provision for Income Tax	5,083	7,158	8,387	9,915
Net Profit	13,172	13,862	16,280	19,248

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16E	FY17E
Assets				
Cash & Bal with RBI	30,224	29,331	33,730	38,790
Loans, Adv & Int accrued	913,409	1,083,607	1,291,056	1,548,784
Investments	1,993	2,371	2,716	3,143
Fixed Assets (Net)	756	797	876	964
Other assets	8,823	9,345	10,279	11,307
Total Assets	957,770	1,125,451	1,338,657	1,602,988
Liabilities				
Share capital	1,010	1,010	1,010	1,010
Reserves and Surplus	74,319	77,174	90,205	105,908
Subordinated Debt	30,000	29,929	35,000	35,000
Borrowing	790,356	935,541	1,127,495	1,373,355
Other liabilities	51,319	71,099	73,731	75,854
Provision for contingencies	10,766	10,698	11,216	11,861
Total Liabilities	957,770	1,125,451	1,338,657	1,602,988

Valuation Ratios

	FY14	FY15	FY16E	FY17E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	26.4	27.5	29.7	30.1
RoAE (%)	18.8	18.1	19.2	19.4
Pre-provision Operating ROA (%)	2.1	2.0	2.0	2.0
RoAB (%)	1.5	1.3	1.3	1.3
EPS (Rs.)	26.1	27.5	32.2	38.1
Dividend per share (Rs.)	4.5	5.0	5.5	6.0
Book Value (Rs.)	149.2	154.8	180.6	211.7
Adj BV (Rs.)	142.2	150.2	175.8	206.6
Revenue Analysis				
Interest income on IBA (%)	10.4	10.2	10.0	9.9
Interest cost on IBL (%)	9.5	9.3	8.9	8.7
NIM on IBA / AWF (%)	2.2	2.2	2.2	2.2
Core fee Inc / AWF (%)	0.1	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	4.9	5.3	4.6	3.8
Op.Exp / TI (%)	15.2	16.0	15.9	15.9
Op.Exp / AWF (%)	0.4	0.4	0.4	0.4
Employee exps / Op exps (%)	33.1	34.1	34.3	34.6
Tax / Pre-tax earnings (%)	27.8	34.1	34.0	34.0
Asset Quality				
GNPAs / Gross Adv (%)	0.7	0.5	0.4	0.3
NNPAs / Net Adv (%)	0.4	0.2	0.2	0.2
Growth Ratio				
Loans (%)	17.4	18.6	19.1	20.0
Investments (%)	8.0	19.0	14.5	15.7
Deposits (%)	20.2	18.4	20.5	21.8
Net worth (%)	16.2	3.8	16.7	17.2
Net Int Income (%)	23.9	16.7	20.7	19.7
Non-fund based income (%)	30.0	3.1	7.9	6.1
Non-Int Exp (%)	11.1	21.1	19.1	19.2
Profit Before Tax (%)	32.9	15.1	17.4	18.2
Net profit (%)	28.7	5.2	17.4	18.2
Capital Adequacy Ratio:				
Tier I (%)	16.4	16.4	15.3	14.5
Internal Capital Generation rate (%)	12.2	12.4	12.0	11.7
NNPAs to Equity (%)	23.8	21.8	24.4	24.4
	4.7	3.0	2.7	2.4

Source: Company, PhillipCapital India Research

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