

# LIC Housing Finance (LICHF IN)

## Managing growth in a competitive environment

INDIA | FINANCIALS | Quarterly Update

20 April 2016

### Top takeaways from Q4FY16

- ✗ PAT was below expectations due to higher operating expenses (higher commission and brokerage). NII growth was in line, driven by 15% loan growth and better NIM.
- ✓ NIM improvement was due to an increase in share of higher-yielding loans and a marginal decline in costs of funds.
- ✗ Loan growth was moderate (15% yoy) due to weak growth in individual loans (10% yoy) and increase in prepayment rate. LAP and project loans grew 122% and 26% yoy.
- ✓ Asset quality improved further with GNPA/NNPA declining by 13bps/10bps to 0.45% and 0.22%.

### 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%.
- High-yielding portfolio of LAP and project loans improved to 11.5% (+444bps yoy). Change in portfolio towards high-yielding loans will keep NIM stable.
- Disbursement was Rs 132bn (+33% yoy). Individual/LAP/project loan disbursements were 7.5%/+215%/65% respectively.

### Management comments / concall takeaways

- Share of LAP and developer loan book to inch up marginally.
- Higher other opex was due to higher commission given to source LAP loans.
- Home loans in FY17 to grow by 15-18%.
- Loans worth Rs 150-180bn will be re-priced in FY17.
- LAP priced 200bps higher than home loans at 11.6%, yield on developer loans at 14%.

**Outlook and valuation:** LICHF is well poised to deliver stable business growth, maintain spreads, and uphold asset quality. However, we believe further improvement in NIM would be difficult as the benefits of lower costs of funds are already reaped and the share of higher yielding loans (LAP and project) will not increase much from here. The competitive landscape in the individual loan book has been intensifying, reflecting in FY16 prepayment rates.

We believe LICHF's yields could come under pressure as it competes and tries to improve its market share, thereby offering less scope of improvement in NIM. At CMP, LICHF trades at 1.9x FY18 adjusted BV of Rs 241. Given our expectation of stable margin and strong earnings visibility, we maintain Buy with price target of Rs 570 (unchanged, 2.3x FY18 adjusted BV).

## BUY (Maintain)

CMP RS 467 / TARGET RS 570 (+22%)

### COMPANY DATA

O/S SHARES (MN) :	505
MARKET CAP (RSBN) :	245
MARKET CAP (USDBN) :	3.7
52 - WK HI/LO (RS) :	526 / 389
LIQUIDITY 3M (USDMN) :	16.1
PAR VALUE (RS) :	2

### SHARE HOLDING PATTERN, %

	Dec 15	Sep 15	Jun 15
PROMOTERS :	40.3	40.3	40.3
FII / NRI :	35.3	35.3	37.2
FI / MF :	7.3	7.3	7.0
NON PRO :	1.9	1.9	1.7
PUBLIC & OTHERS :	14.8	14.8	13.4

### Key Financials

Rs mn	FY16	FY17E	FY18E
Pre-prov ROE (%)	31.9	31.2	30.8
Pre-prov ROA (%)	2.2	2.2	2.2
Net Profit	16,608	19,040	22,031
% growth	19.8	14.6	15.7
Adj BVPS (Rs)	175.8	205.8	241.5
ROE (%)	19.6	19.2	19.0
P/E (x)	14.2	12.4	10.7
Adj P/BV (x)	2.7	2.3	1.9
EPS (Rs)	32.9	37.7	43.6

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
NII	33.2	38.6	0.7	1.6
PPP	30.9	35.8	1.0	2.3
Core PAT	19.0	22.0	-1.3	-0.4
EPS (Rs)	37.7	43.6	-1.6	-0.4

**Manish Agarwalla, Paresh Jain**  
**Pradeep Agrawal,**

(Rs bn)	Q4FY16	Q4FY15	yoy %	Q3FY16	qoq %	vs. expect. %	Comments
Net interest income	8.2	6.5	26.4	7.5	10.0	-0.1	NII growth led by 15% growth in loan book and 33bps yoy expansion in NIM
NIM (%)	2.7	2.5	24 bps	2.6	13 bps	11 bps	Lower cost of funds (5bps yoy), increase in yields (28bps yoy) improved NIM
Spread (%)	1.8	1.5	33 bps	1.6	22 bps	179 bps	Incremental spread at 2.1% compared to 1.74% in Q4FY15
Disbursement	132.2	99.4	33.0	84.2	56.9		Individual disbursement was weak, while LAP reported strong disbursement
Loan	1251.7	1083.6	15.5	1174.0	6.6		Growth driven by LAP and project loans at 122% and 26% respectively
Individual	1107.2	1006.6	10.0	1068.0	3.7		Individual loan comprises of 88.5% of loan book (93% in Q4FY15)
LAP	110.2	49.7	121.5	75.0	46.8		LAP comprises of 8.8% of loan book
Project loans	3.4	2.7	26.0	3.1	11.4		Project loan comprises of 2.8% of loan book
Borrowings	1109.4	832.2	33.3	1038.2	6.9		77% of borrowing comprises of NCDs, while bank borrowing comprises 13%
NCD (%)	77.3	72.6	470 bps	76.9	40 bps		Weighted average cost of NCDs are at 9.02%
Operating expenses	1.6	1.2	26.6	1.2	30.0	15.2	Higher expenses was primarily due to higher commissions for sourcing loans
cost to income ratio (%)	4.8	4.4	46 bps	3.8	97 bps	65 bps	Commission on LAP is slightly less than 1% whereas on Individual loan its 0.5%
Provision	0.4	0.1	264.7	0.3	9.3	7.5	High standard asset provision due to strong disbursement in LAP
PBT	6.9	5.8	20.7	6.5	7.5	-2.7	
tax	2.5	2.0	24.9	2.3	8.4	-1.9	Tax rate high due to exclusion of tax benefit on CSR activity
PAT	4.5	3.8	18.5	4.2	6.9	-3.1	PAT below estimate due to higher operating expenses
GNPA %	0.5	0.5	(1 bps)	0.6	(13 bps)		Asset quality improved further.

**Q4FY16 results**

Rs mn	Q4FY16	Q4FY15	Q3FY16	yoy (%)	qoq (%)
Interest income	23843	21504	23091	10.9	3.3
Interest expenses	<b>8214.0</b>	<b>6498.2</b>	<b>7169.4</b>	26.4	14.6
Net Interest Income	2.7%	2.5%	2.6%	0.2%	0.2%
NIM (%)	683	604	633	13.1	7.8
Other Income	<b>8897</b>	<b>7102</b>	<b>7803</b>	<b>25.3</b>	<b>14.0</b>
Total Income	1578	1246	1060	26.6	48.9
Operating Expenses	17.7%	17.5%	13.6%	1.1	30.6
Cost/Income (%)	<b>7319</b>	<b>5856</b>	<b>6743</b>	<b>25.0</b>	<b>8.5</b>
Pre Provision Profits	376	103	301	264.7	25.2
Provisions & contingencies	<b>6943</b>	<b>5753</b>	<b>6442</b>	<b>20.7</b>	<b>7.8</b>
Profit before tax	2463	1971	2325	24.9	5.9
Provision for taxes	35.5	34.3	36.1	3.5	-1.7
% of PBT	<b>4480.1</b>	<b>3781.8</b>	<b>4117.4</b>	<b>18.5</b>	<b>8.8</b>
Profit after tax	8.9	7.5	8.2	18.4	8.81
EPS (Rs)	23843	21504	23091	10.9	3.3
Advances	1251732	1083607	1140690	15.5	9.7
Disbursements	132160	99380	83900	33.0	57.5
Gross NPAs	5678	4947	6830	14.8	-16.9
Gross NPAs (%)	0.45%	0.46%	0.60%	0.0%	-0.2%
Net NPAs	2705	2344	3690	15.4	-26.7
Net NPAs (%)	0.22%	0.22%	0.32%	0.0%	-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	1,33,033	1,52,323
Interest on developer loans	3,590	3,729	4,698	5,920
Total Interest earned	1,05,467	1,22,509	1,37,991	1,58,543
Interest expended	83,102	93,068	1,04,746	1,19,912
<b>Net Interest Income</b>	<b>22,364</b>	<b>29,441</b>	<b>33,246</b>	<b>38,631</b>
Total non-interest income	2,520	2,346	3,096	3,426
Total Income	24,884	31,787	36,342	42,057
Personnel Expenses	1,293	1,503	1,774	2,093
Other Expenses	2,499	3,183	3,661	4,210
Total Op expenses	3,792	4,687	5,435	6,303
<b>Net Inc (Loss) before prov</b>	<b>21,092</b>	<b>27,100</b>	<b>30,907</b>	<b>35,754</b>
Provision	73	1,465	1,524	1,754
Net Inc (Loss) before tax	21,019	25,636	29,383	33,999
Provision for Income Tax	7,158	9,028	10,343	11,968
<b>Net Profit</b>	<b>13,862</b>	<b>16,608</b>	<b>19,040</b>	<b>22,031</b>

### Balance Sheet

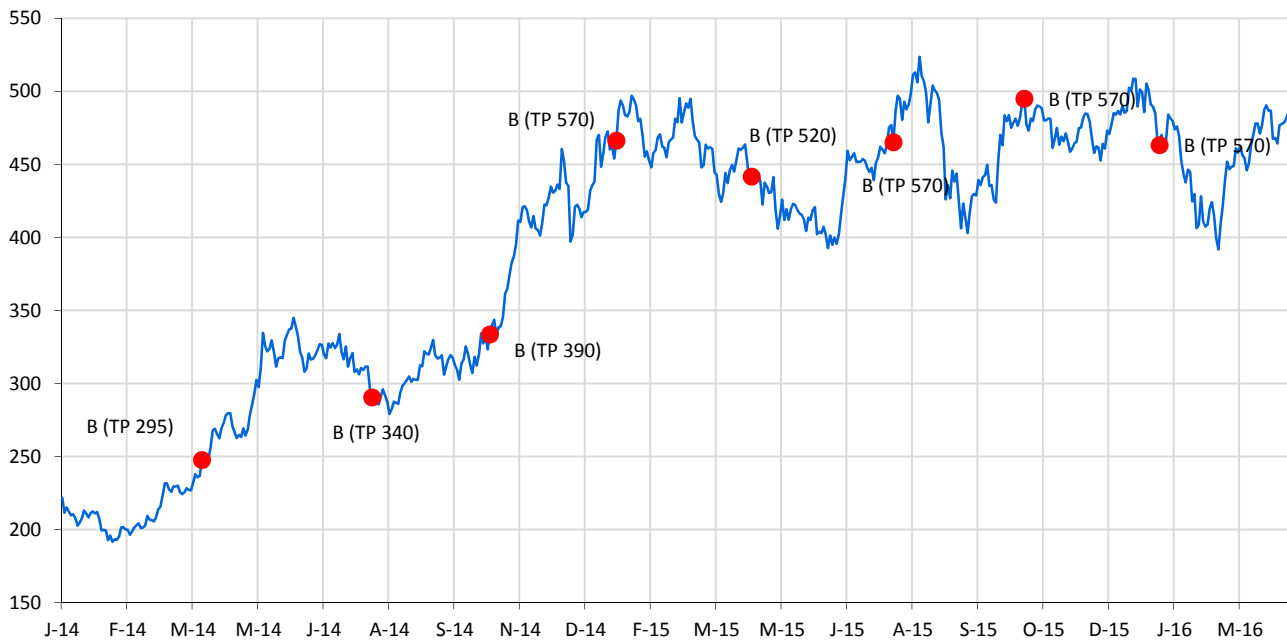
Y/E Mar, Rs mn	FY15	FY16	FY17E	FY18E
<b>Assets</b>				
Cash & Bal with RBI	29,331	39,268	45,158	51,579
Loans, Adv & Int accrued	10,83,607	12,51,732	14,56,616	16,87,491
Investments	2,371	2,768	3,143	3,650
Fixed Assets (Net)	797	920	1,012	1,113
Other assets	9,345	10,289	11,318	12,450
<b>Total Assets</b>	<b>11,25,451</b>	<b>13,04,978</b>	<b>15,17,248</b>	<b>17,56,282</b>
<b>Liabilities</b>				
Share capital	1,010	1,010	1,010	1,010
Reserves and Surplus	77,174	90,450	1,05,945	1,24,432
Subordinated Debt	29,929	25,515	30,000	35,000
Borrowing	9,35,541	10,83,845	12,57,060	14,60,889
Other liabilities	71,099	91,489	1,09,040	1,19,005
<b>Provision for contingencies</b>	<b>10,698</b>	<b>12,669</b>	<b>14,193</b>	<b>15,947</b>
<b>Total Liabilities</b>	<b>11,25,451</b>	<b>13,04,978</b>	<b>15,17,248</b>	<b>17,56,282</b>

### Valuation Ratios

	FY15	FY16	FY17E	FY18E
<b>Earnings and Valuation Ratios</b>				
Pre-provision Operating RoAE (%)	27.5	31.9	31.2	30.8
RoAE (%)	18.1	19.6	19.2	19.0
Pre-provision Operating ROA (%)	2.0	2.2	2.2	2.2
RoAB (%)	1.3	1.4	1.4	1.4
EPS (Rs.)	27.5	32.9	37.7	43.6
Dividend per share (Rs.)	5.0	5.5	6.0	6.0
Book Value (Rs.)	154.8	181.1	211.8	248.4
Adj BV (Rs.)	150.2	175.8	205.8	241.5
<b>Revenue Analysis</b>				
Interest income on IBA (%)	10.2	10.2	9.9	9.8
Interest cost on IBL (%)	9.3	9.0	8.7	8.6
NIM on IBA / AWF (%)	2.2	2.4	2.4	2.4
Core fee Inc / AWF (%)	0.1	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	5.3	4.3	4.0	3.7
Op.Exp / TI (%)	16.0	15.4	15.6	15.5
Op.Exp / AWF (%)	0.4	0.4	0.4	0.4
Employee exps / Op exps (%)	34.1	32.1	32.6	33.2
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	16.9	17.3
Net Int Income (%)	16.7	31.6	12.9	16.2
Non-fund based income (%)	3.1	(6.9)	32.0	10.7
Non-Int Exp (%)	21.1	23.6	16.0	16.0
Profit Before Tax (%)	15.1	22.0	14.6	15.7
Net profit (%)	5.2	19.8	14.6	15.7
<b>Capital Adequacy Ratio:</b>				
Tier I (%)	16.4	15.7	15.3	15.1
Internal Capital Generation rate (%)	12.4	12.3	12.4	12.6
NNPAs to Equity (%)	21.8	24.8	24.1	23.4
	3.0	3.0	2.8	2.8

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	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

**Management**

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

**Research**
**Automobiles**

Dhawal Doshi	(9122) 6667 9769
Nitesh Sharma, CFA	(9122) 6667 9965

**Banking, NBFCs**

Manish Agarwalla	(9122) 6667 9962
Pradeep Agrawal	(9122) 6667 9953
Paresh Jain	(9122) 6667 9948

**Consumer & Retail**

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Jubil Jain	(9122) 6667 9766
Preeyam Tolia	(9122) 6667 9950

**Cement**

Vaibhav Agarwal	(9122) 6667 9967
-----------------	------------------

**Economics**

Anjali Verma	(9122) 6667 9969
--------------	------------------

**Engineering, Capital Goods**

Jonas Bhutta	(9122) 6667 9759
Hrishikesh Bhagat	(9122) 6667 9986

**Sales & Distribution**

Ashvin Patil	(9122) 6667 9991
Shubhangi Agrawal	(9122) 6667 9964
Kishor Binwal	(9122) 6667 9989
Bhavin Shah	(9122) 6667 9974
Ashka Mehta Gulati	(9122) 6667 9934
Archan Vyasa	(9122) 6667 9785

**IT Services**

Vibhor Singhal	(9122) 6667 9949
Shyamal Dhruve	(9122) 6667 9992

**Infrastructure**

Vibhor Singhal	(9122) 6667 9949
Deepak Agarwal	(9122) 6667 9944

**Logistics, Transportation & Midcap**

Vikram Suryavanshi	(9122) 6667 9951
--------------------	------------------

**Media**

Manoj Behera	(9122) 6667 9973
--------------	------------------

**Metals**

Dhawal Doshi	(9122) 6667 9769
Yash Doshi	(9122) 6667 9987

**Midcap**

Amol Rao	(9122) 6667 9952
----------	------------------

**Mid-Caps & Database Manager**

Deepak Agarwal	(9122) 6667 9944
----------------	------------------

**Oil & Gas**

Sabri Hazarika	(9122) 6667 9756
----------------	------------------

**Sales Trader**

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

**Execution**

Mayur Shah	(9122) 6667 9945
------------	------------------

**Pharma & Speciality Chem**

Surya Patra	(9122) 6667 9768
Mehul Sheth	(9122) 6667 9996

**Strategy**

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Anindya Bhowmik	(9122) 6667 9764

**Telecom**

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Manoj Behera	(9122) 6667 9973

**Technicals**

Subodh Gupta, CMT	(9122) 6667 9762
-------------------	------------------

**Production Manager**

Ganesh Deorukhkar	(9122) 6667 9966
-------------------	------------------

**Editor**

Roshan Sony	98199 72726
-------------	-------------

**Sr. Manager – Equities Support**

Rosie Ferns	(9122) 6667 9971
-------------	------------------

**Corporate Communications**

Zarine Damania	(9122) 6667 9976
----------------	------------------

**Contact Information (Regional Member Companies)**

**SINGAPORE: Phillip Securities Pte Ltd**  
250 North Bridge Road, #06-00 Raffles City Tower,  
Singapore 179101  
Tel : (65) 6533 6001 Fax: (65) 6535 3834  
[www.phillip.com.sg](http://www.phillip.com.sg)

**JAPAN: Phillip Securities Japan, Ltd**  
4-2 Nihonbashi Kabutocho, Chuo-ku  
Tokyo 103-0026  
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141  
[www.phillip.co.jp](http://www.phillip.co.jp)

**THAILAND: Phillip Securities (Thailand) Public Co. Ltd.**  
15th Floor, Vorawat Building, 849 Silom Road,  
Silom, Bangrak, Bangkok 10500 Thailand  
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921  
[www.phillip.co.th](http://www.phillip.co.th)

**UNITED STATES: Phillip Futures Inc.**  
141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

**MALAYSIA: Phillip Capital Management Sdn Bhd**  
B-3-6 Block B Level 3, Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur  
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099  
[www.poems.com.my](http://www.poems.com.my)

**INDONESIA: PT Phillip Securities Indonesia**  
ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,  
Jakarta 10220, Indonesia  
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809  
[www.phillip.co.id](http://www.phillip.co.id)

**FRANCE: King & Shaxson Capital Ltd.**  
3rd Floor, 35 Rue de la Bienfaisance  
75008 Paris France  
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**AUSTRALIA: PhillipCapital Australia**  
Level 37, 530 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309  
[www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**INDIA: PhillipCapital (India) Private Limited**

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013  
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 [www.phillipcapital.in](http://www.phillipcapital.in)

**HONG KONG: Phillip Securities (HK) Ltd**  
11/F United Centre 95 Queensway Hong Kong  
Tel (852) 2277 6600 Fax: (852) 2868 5307  
[www.phillip.com.hk](http://www.phillip.com.hk)

**CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd.**  
No 550 Yan An East Road, Ocean Tower Unit 2318  
Shanghai 200 001  
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940  
[www.phillip.com.cn](http://www.phillip.com.cn)

**UNITED KINGDOM: King & Shaxson Ltd.**  
6th Floor, Candlewick House, 120 Cannon Street  
London, EC4N 6AS  
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835  
[www.kingandshaxson.com](http://www.kingandshaxson.com)

**SRI LANKA: Asha Phillip Securities Limited**  
Level 4, Millennium House, 46/58 Navam Mawatha,  
Colombo 2, Sri Lanka  
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199  
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**Registered office:** No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013