

LIC Housing Finance

Strong performance



PhillipCapital (India) Pvt. Ltd.

FINANCIALS: Quarterly Update

22 April 2014

LIC Housing Finance delivered a strong performance in Q4FY14 on all parameters like spreads/NIM expansion, stable business growth, sustained asset quality, declining provisions and improving profitability. PAT at Rs 3.7 bn was above estimates largely due to higher than estimated NII. The only disappointment was delay in resolution of developer NPLs. We believe that there is a further room for NIM expansion and profitability; with limited risks. Hence we maintain our Buy rating on the stock with a revised PT of Rs 320.

Highlights for Q4FY14

NIM improved by 24 bps QoQ due to decline in cost of funds - NII grew by 15.7% YoY to Rs 5.33 bn on the back of advances growth of 17.4% YoY and stable NIM on a YoY basis at 2.4%. However, on a QoQ basis, NIM improved by 24 bps due to a 30 bps decline in cost of funds and owing to stable asset quality. Spreads for Q4FY14 increased by 25 bps QoQ and 3 bps YoY to 1.41%. The management guided for a gradual NIM improvement in FY15E which will be driven by decline in bank borrowings (from 24.6% currently to 20%) and a large repricing of assets in FY16E (Rs 300 bn on repricing largely from Advantage 5).

Retail segment continues to drive advances growth; developer book continues to moderate – Advances increased by 17.4% YoY to Rs 913 bn largely driven by strong growth in retail advances (+17.8% YoY); while developer book grew by 4.4% YoY. As against the expectation of pick up in developer portfolio, the developer book has not gained traction because of the management's cautious approach towards the same. The management has guided for a 20% advances growth in FY15E with a slight change in product mix (90:5:5) for retail:developer:LAP as against current mix of 93:3:4.

Asset quality remains stable; however developer NPL resolution yet to take place – Asset quality improved with GNPA's declining by ~ Rs 1 bn to Rs 6.1 bn and NNPA's declining by ~ Rs 0.9 bn to Rs 3.6 bn. The decline in GNPA's was largely driven by decline in retail NPLs. Resolution of 1 developer book NPL which was expected did not materialize in Q4FY14 and the same is expected to be resolved in the following quarter. Coverage (including standard provisions) improved from 103% in Q3FY14 to 116% in Q4FY14.

Provision reversal on teaser loans improves profitability - In line with expectations, LICHF reversed provisions of Rs 223 mn on teaser rate loans post conversion and currently has outstanding provision of Rs 900 mn which will be reversed in the ensuing quarters.

Outlook & Valuation

We believe LICHF is well poised to deliver stable business growth, healthier spreads, strong asset quality and lower credit costs. We see earnings growing at a CAGR of 19.5% over FY14-16E, resulting in an ROA of 1.5%/1.6% for FY15/FY16. At the CMP, LICHF trades at 1.4x FY16E Adj BV. Given strong earnings visibility and superior return ratios, we expect the stock to revert to mean valuations. We maintain our Buy rating with a revised PT of Rs 320 (1.6x FY16E Adj BV).

BUY

LICHF IN | CMP RS 273

TARGET RS 320(+17%)

Company Data

O/S SHARES (MN) :	505
MARKET CAP (RSBN) :	137
MARKET CAP (USDBN) :	2.3
52 - WK HI/LO (RS) :	281 / 152
LIQUIDITY 3M (USDMN) :	12.3
FACE VALUE (RS) :	2

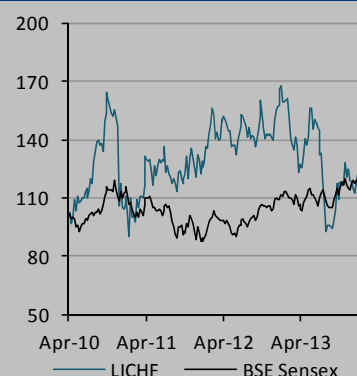
Share Holding Pattern, %

PROMOTERS :	40.3
FII / NRI :	36.8
FI / MF :	7.7
NON PROMOTER CORP. HOLDINGS :	4.0
PUBLIC & OTHERS :	10.7

Price Performance, %

	1mth	3mth	1yr
ABS	21.8	28.6	17.3
REL TO BSE	17.5	20.6	-2.4

Price Vs. Sensex (Rebased values)



Source: Bloomberg, Phillip Capital Research

Other Key Ratios

	FY14E	FY15E	FY16E
Pre-prov ROE (%)	26.4	26.4	27.2
Pre-prov ROA (%)	2.1	2.1	2.2
Net Profit (Rs mn)	13,172	15,644	18,952
% growth	28.7	18.8	21.2
EPS (Rs)	26.1	31.0	37.5
Adj BVPS (Rs)	142.2	167.4	198.6
ROE (%)	18.8	19.1	19.6
P/E (x)	10.5	8.8	7.3
Adj P/BV (x)	1.9	1.6	1.4

Source: Phillip Capital India Research

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Q4FY14 Results

Rs mn	Q4FY14	Q4FY13	Q3FY14	YoY (%)	QoQ (%)
Interest income	24074	20281	23120	18.7	4.1
Interest expenses	18743	15673	18543	19.6	1.1
Net Interest Income	5331	4608	4577	15.7	16.5
NIM (%)	2.40%	2.45%	2.16%	-0.1%	0.2%
Other Income	705	466	644	51.3	9.5
Total Income	6037	5074	5221	19.0	15.6
Operating Expenses	1043	946	733	10.3	42.4
Cost/Income (%)	17.3%	18.6%	14.0%	-7.3	23.1
Pre Provision Profits	4993	4128	4488	21.0	11.3
Provisions & contingencies	-223	-35	-75	537.8	198.6
Profit before tax	5216	4163	4563	25.3	14.3
Provision for taxes	1516	1002	1297	51.3	16.9
% of PBT	29.1	24.1	28.4	20.8	2.2
Profit after tax	3700	3162	3266	17.0	13.3
EPS	13.3	15.2	14.4	-12.9	-7.8
Advances	913409	778120	864216	17.4	5.7
Disbursements	82974	77250	61296	7.4	35.4
Gross NPAs	6090	4712	7042	29.2	-13.5
Gross NPAs (%)	0.67%	0.61%	0.81%	0.1%	-0.1%
Net NPAs	3536	2759	4419	28.1	-20.0
Net NPAs (%)	0.39%	0.36%	0.51%	0.0%	-0.1%

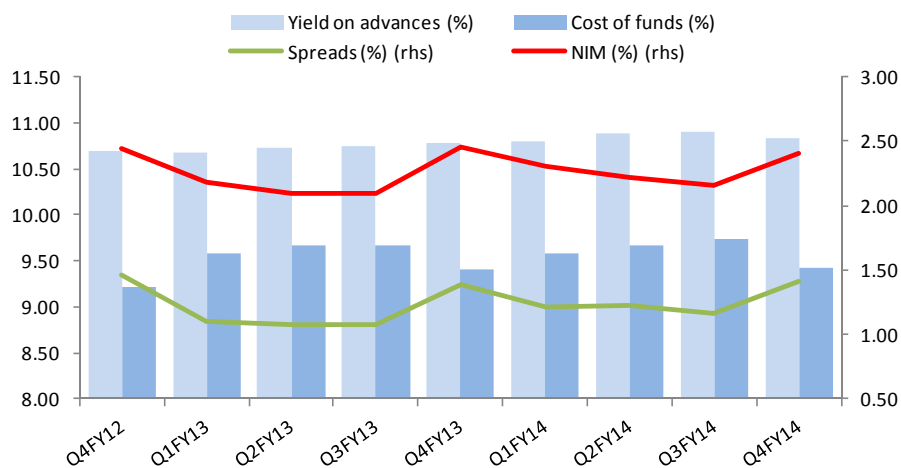
Source: Company, PhillipCapital India Research

Spreads improved by 25 bps QoQ while NIM improved by 24 bps QoQ driven by decline in cost of funds and stable asset quality

Cost of funds declined due to reduction in proportion of high cost bank borrowings

NIMs and spreads were also benefited by stable asset quality as developer NPLs and consequent interest reversals had impacted NIM in previous quarter

Going forward, NIMs will improve further on the back of continued decline in bank borrowings, change in product mix and repricing of assets

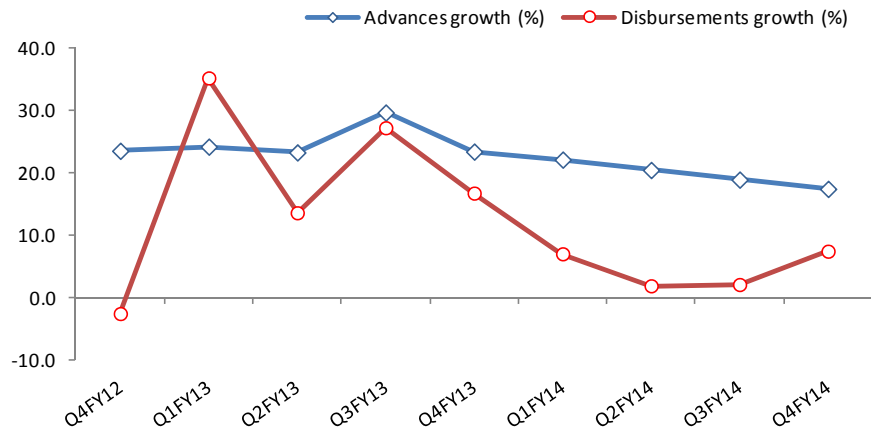
Trends in NIM and spreads

Source: Company, PhillipCapital India Research

Disbursements growth continued to witness moderation

Loan book growth was however stable driven by strong growth in retail book

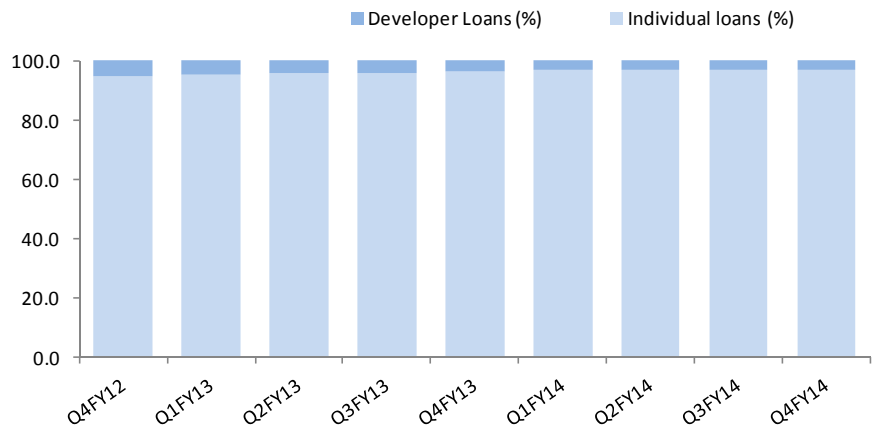
Trends in disbursements and advances growth



Source: Company, PhillipCapital India Research

Going forward, LICHF aims to increase the developer + LAP book to 10% of the total book by FY15E from ~ 6% currently

Proportion of retail and developer loans



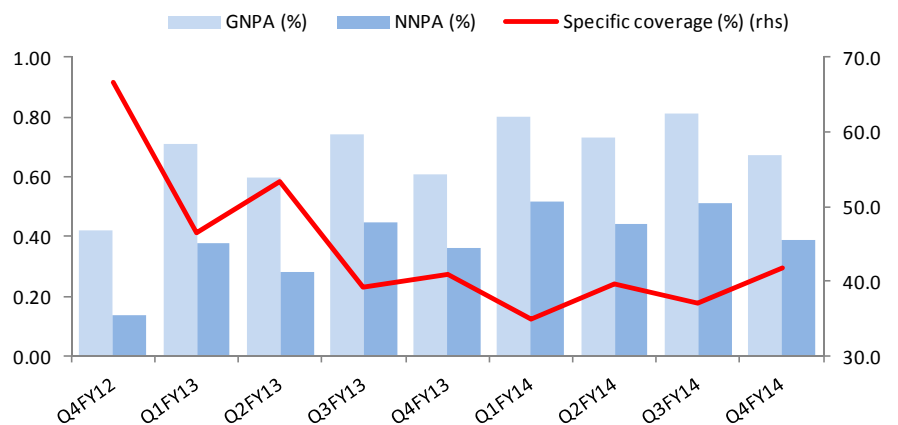
Source: Company, PhillipCapital India Research

GNPA decline was largely driven by decline in retail NPLs

Resolution of developer NPLs delayed

Coverage ratio has improved

Movement in asset quality



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Interest on individual housing loans	70,414	87,338	99,566	113,505
Interest on project loans	4,177	3,395	5,772	9,524
Total Interest earned	74,709	90,733	105,337	123,028
Interest expended	59,246	71,745	82,904	95,406
Net Interest Income	15,463	18,989	22,433	27,622
Total non interest income	1,880	2,613	2,772	2,969
Total Income	17,343	21,602	25,206	30,591
Personnel Expenses	904	1,038	1,246	1,495
Other Expenses	1,914	2,094	2,330	2,734
Total Op expenses	2,818	3,132	3,576	4,229
Net Inc (Loss) before prov	14,524	18,470	21,630	26,362
Provision for NPAs	789	93	200	400
Net Inc (Loss) before tax	13,736	18,255	21,430	25,962
Provision for Income Tax	3,504	5,083	5,786	7,010
Net Profit	10,232	13,172	15,644	18,952

Balance Sheet

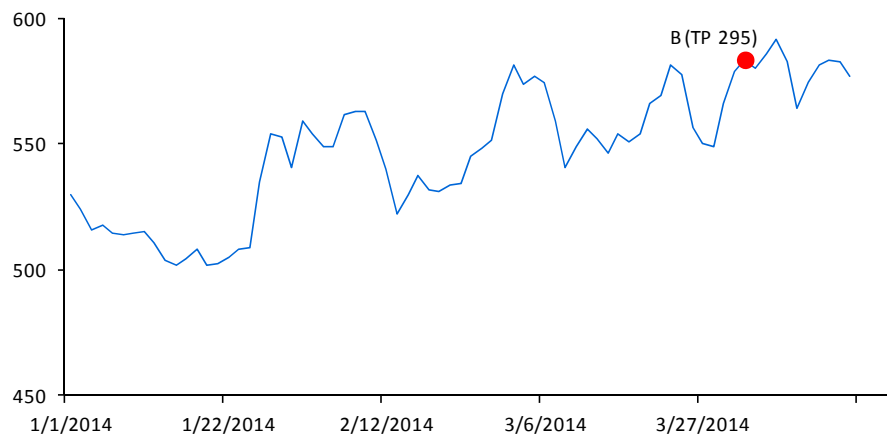
Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Assets				
Cash & Bal with RBI	14,656	30,224	34,757	39,971
Loans, Adv & Int accrued	778,127	913,409	1,076,765	1,275,062
Investments	1,846	1,993	2,357	2,723
Fixed Assets (Net)	624	756	869	956
Other assets	7,861	8,823	9,800	10,780
DTA	2,489	2,566	2,822	3,105
Total Assets	805,602	957,770	1,127,370	1,332,596
Liabilities				
Share capital	1,010	1,010	1,010	1,010
Reserves and Surplus	63,803	74,319	87,600	104,071
Subordinated Debt	30,000	30,000	30,000	30,000
Borrowing	657,641	793,742	942,129	1,121,820
Other liabilities	43,303	47,933	55,666	64,330
Provision for contingencies	9,844	10,766	10,966	11,366
Total Liabilities	805,602	957,770	1,127,370	1,332,596

Valuation Ratios

	FY13	FY14E	FY15E	FY16E
Earnings and Valuation Ratios				
Pre-provision Operating RoAE (%)	23.9	26.4	26.4	27.2
RoAE (%)	16.8	18.8	19.1	19.6
Pre-provision Operating ROA (%)	2.0	2.1	2.1	2.1
RoAB (%)	1.4	1.5	1.5	1.6
EPS (Rs.)	20.3	26.1	31.0	37.5
Dividend per share (Rs.)	3.8	4.0	4.0	4.2
Book Value (Rs.)	128.3	149.2	175.5	208.1
Adj BV (Rs.)	122.9	142.2	167.4	198.6
Revenue Analysis				
Interest income on IBA (%)	10.4	10.4	10.2	10.1
Interest cost on IBL (%)	9.5	9.5	9.2	9.0
NIM on IBA / AWF (%)	2.1	2.2	2.2	2.3
Core fee Inc / AWF (%)	0.2	0.1	0.1	0.1
Portfolio gains / Total Inc (%)	3.5	6.1	5.2	4.3
Op.Exp / TI (%)	16.8	15.4	14.9	14.4
Op.Exp / AWF (%)	0.4	0.4	0.3	0.3
Employee exps / Op exps (%)	32.1	33.1	34.8	35.4
Tax / Pre-tax earnings (%)	25.5	27.8	27.0	27.0
Asset Quality				
GNPAs / Gross Adv (%)	0.6	0.7	0.7	0.7
NNPAs / Net Adv (%)	0.4	0.4	0.4	0.4
Growth Ratio				
Loans (%)	23.4	17.4	17.9	18.4
Investments (%)	(86.6)	8.0	18.3	15.5
Deposits (%)	23.9	20.7	18.7	19.1
Net worth (%)	14.1	16.2	17.6	18.6
Net Int Income (%)	10.3	22.8	18.1	23.1
Non-fund based income (%)	(15.3)	39.0	6.1	7.1
Non-Int Exp (%)	18.9	11.1	14.2	18.3
Profit Before Tax (%)	11.6	32.9	17.4	21.2
Net profit (%)	11.9	28.7	18.8	21.2
Capital Adequacy Ratio:				
Tier I (%)	16.5	17.7	16.6	15.8
Internal Capital Generation rate (%)	11.5	12.6	12.4	12.2
Internal Capital Generation rate (%)	21.4	23.4	23.4	23.8
NNPAs to Equity (%)	4.3	4.7	4.6	4.6

Source: Company, PhillipCapital India Research

Recommendation History



Source: PhillipCapital India Research

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