

LIC Housing Finance

Performance Highlights

Particulars (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)
NII	866	825	5.0	717	20.7
Pre-prov. profit	791	740	6.9	674	17.3
PAT	495	408	21.3	411	20.2

Source: Company, Angel Research

LIC Housing Finance (LICHF)'s 2QFY17 results remained decent with the PAT growing by 21.3% yoy. Balanced growth in retail as well as in developer portfolio helped in improving the spread, while lower cost of funds helped in NIM improvement.

Balanced growth across retail and non retail portfolio: LIC's total loan book grew by 14.9% yoy, during 2QFY17. While LAP grew by 99% yoy; developer loans witnessed some moderation, up by 22.4% yoy vs 38.7% in 1QFY17. However, the core retail loans continued to be sluggish, up by 9.7% yoy. The share of LAP+ developer loans in the books increased to 12.5% vs 12.2% qoq. We believe there is further scope for LICHF to increase the share of non individual portfolio, but feel the management will increase it in a calibrated manner.

Favorable cost of funds helped NIM improvement: During the quarter, the incremental yield on assets stood at 10.58% down 10 bps while the incremental costs stood at 8.4% down 30 bps. As a result, incremental spread improved by 20 bps to 2.18% and NIM improved by 7 bps to 2.68%. We expect the NIM to remain steady going ahead with a positive bias, drawing support from the increasing exposure to high yielding LAP and developer loans. LICH has been able to reduce its overall cost of funds and we don't expect negative trend for the same in the near term.

Asset quality stabilized during the quarter: In absolute terms, GNPA's declined to ₹750cr vs ₹757cr and GNPA% declined marginally to 0.57% vs 0.59% QoQ. Ageing of two NPA accounts from the developer loans segment had resulted rise in provisions during 1QFY17, which has come back to normalized level during the quarter at ₹30.3cr.

Outlook and valuation: While the core retail portfolio continues to be sluggish growing by less than 10%, other segments like LAP & Developer loans have been driving the growth. However, there is visible sign of pick up in the growth in some pockets for the core retail loans. We expect the company to post a loan book CAGR of 19% over FY16-18E, translating into an earnings CAGR of 18.0% over the same period. The stock currently trades at 2.2x its FY2018E ABV. **We maintain our Buy rating on the stock with a revised target price of ₹630.**

Key financials (standalone)

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
NII	2,349	2,944	3,542	4,116
% chg	16.4	25.3	20.3	16.2
Net profit	1,386	1,661	1,968	2,323
% chg	5.2	19.8	18.5	18.0
NIM (%)	2.3	2.6	2.6	2.5
EPS (₹)	27.5	32.9	39.0	46.0
P/E (x)	19.4	16.2	13.7	11.6
P/ABV (x)	3.5	3.0	2.6	2.2
RoA (%)	1.4	1.4	1.4	1.4
RoE (%)	18.1	19.6	19.9	20.1

Source: Company, Angel Research; Note: CMP as of November 4, 2016

BUY

CMP	₹533
Target Price	₹630

Investment Period	12 months
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Stock Info

Sector	HFC
Market Cap (₹ cr)	26,934
Beta	1.5
52 Week High / Low	624/389
Avg. Daily Volume	2,640,153
Face Value (₹)	2
BSE Sensex	27,274
Nifty	8,434
Reuters Code	LICH.BO
Bloomberg Code	LICHF@IN

Shareholding Pattern (%)

Promoters	40.3
MF / Banks / Indian FIIs	5.2
FII / NRIs / OCBs	39.4
Indian Public / Others	15.1

Abs. (%)	3m	1yr	3yr
Sensex	(1.6)	2.70	30.0
LICHF	13.9	4.2	155.0

3-Year Daily Price Chart



Source: Company, Angel Research

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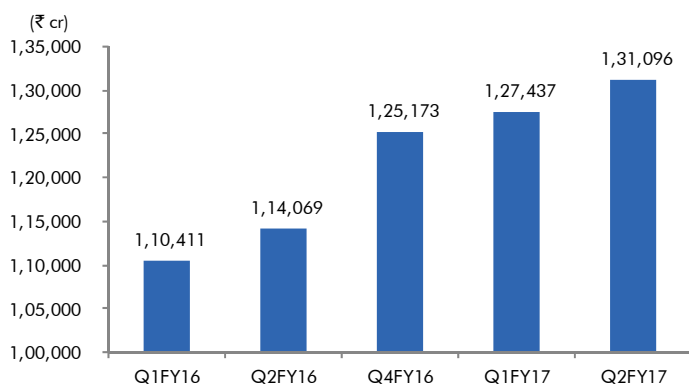
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Exhibit 1: 2QFY2017 performance (standalone)

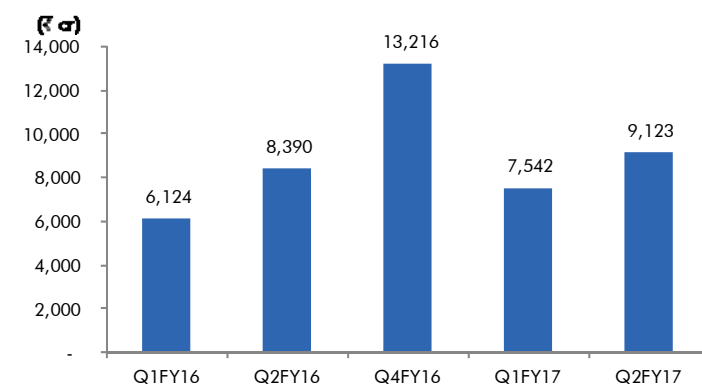
Particulars (₹ cr)	2QFY17	1QFY17	% chg (qoq)	2QFY16	% chg (yoy)	FY2016	FY2015	% chg
Interest earned	3,428	3,326	3.1	3,026	13.3	12,396	10,669	16
Interest expenses	2,563	2,502	2.4	2,309	11.0	9,307	8,310	12.0
Net interest income	866	825	5.0	717	20.7	3,089	2,359	31.0
Non-interest income	62	54	15.1	63	(2.7)	89	129	(30.9)
Operating income	927	878	5.6	780	18.8	3,179	2,488	27.7
Operating expenses	136	138	(1.3)	106	28.7	469	379	23.6
Pre-prov. profit	791	740	6.9	674	17.3	2,710	2,109	28.5
Provisions & cont.	30	116	(74.0)	30	0.8	146	7	1,920.0
PBT	761	623	22.0	644	18.1	2,564	2,102	22.0
Prov. for taxes	266	216	23.3	233	14.4	903	716	26.1
PAT	495	408	21.3	412	20.2	1,661	1,386	19.8
EPS (₹)	9.3	8.1		8.2		32.9	27.5	19.8
Cost-to-income ratio (%)	14.7	15.7		13.6		14.7	15.2	
Effective tax rate (%)	35.0	34.6		36.1		35.2	34.1	
Net NPA (%)	0.28	0.28		0.32		0.2	0.2	

Source: Company, Angel Research

Balanced growth across retail and non retail portfolio: LIC's total loan book grew by 14.9% yoy during 2QFY17. While LAP grew by 99% yoy; developer loans witnessed some moderation, up by 22.4% yoy vs 38.7% in 1QFY17. However, the core retail loans continued to be sluggish up by 9.7% yoy. The share of LAP+ developer loans in the books increased to 12.5% vs 12.2%. We believe there is further scope for LICHF to increase the share of non individual portfolio, but feel the management will increase it in a calibrated manner.

Exhibit 2: Moderate growth in Advances


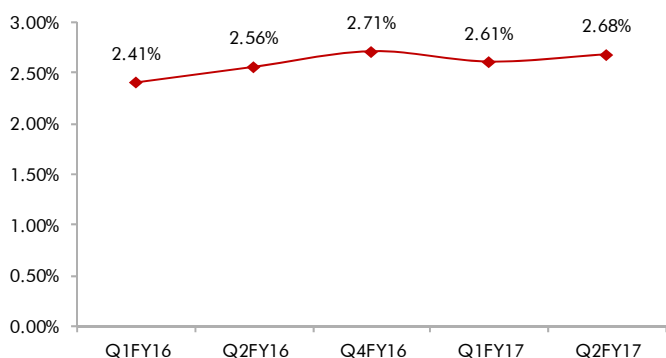
Source: Company, Angel Research

Exhibit 3: Disbursements remained healthy


Source: Company, Angel Research

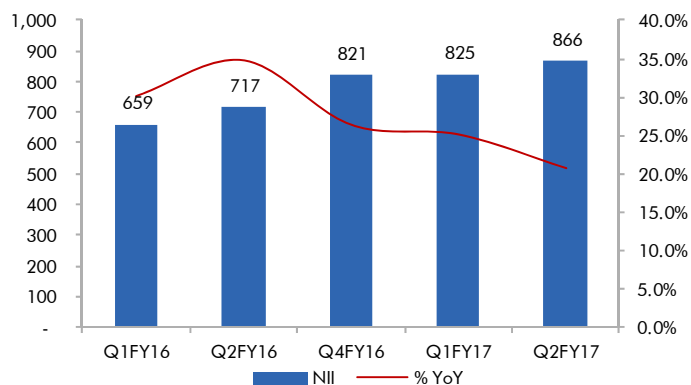
Favorable cost of funds helped NIM improvement: During the quarter, the incremental yield on assets stood at 10.58% down 10 bps while the incremental costs stood at 8.4% down 30 bps. As a result, incremental spread improved by 20 bps to 2.18% and NIM improved by 7 bps to 2.68%. We expect the NIM to remain steady going ahead with a positive bias, drawing support from the increasing exposure to high yielding LAP and developer loans. LICH has been able to reduce its overall cost of funds and we don't expect negative trend for the same in the near term.

Exhibit 4: Low cost funds added to NIM



Source: Company, Angel Research

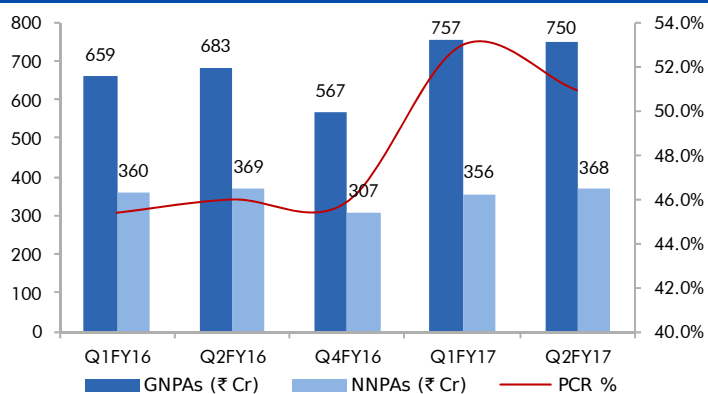
Exhibit 5: NII growth trend



Source: Company, Angel Research

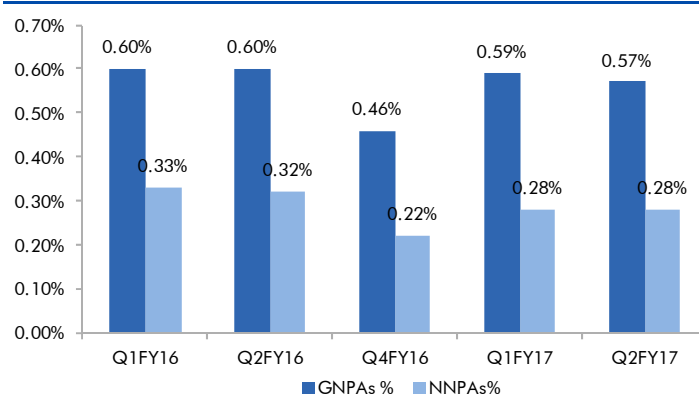
Asset quality stabilized during the quarter: In absolute terms, GNPA's declined to ₹750cr vs ₹757cr and GNPA% declined marginally to 0.57% vs 0.59% QoQ. Ageing of two NPA accounts from the developer loans segment had resulted in a rise in provisions during 1QFY17, which has come back to normalized level during the quarter at ₹30.3cr.

Exhibit 6: Stable Asset quality



Source: Company, Angel Research

Exhibit 7: Gross and Net NPAs remained stable



Source: Company, Angel Research

Outlook and valuation

While the core retail portfolio continues to be sluggish growing by less than 10%, other segments like LAP & Developers loans have been driving the growth. However, there is visible sign of pick up in the growth in some pockets for the core retail loans. We expect the company to post a loan book CAGR of 19% over FY16-18E, translating into an earning CAGR of 18.0% over the same period. The stock currently trades at 2.2x its FY2018E ABV. **We maintain our Buy rating on the stock with a revised target price of ₹630.**

Company Background

LIC Housing Finance (LICHF) is one of the largest specialized mortgage lenders in India, with a balance sheet size of more than ₹1,35,600cr. The credit portfolio for LICHF is ~₹1,31,000cr, of which ~97% is derived from the retail segment. The company has a network of ~245 marketing offices spread across the country and is promoted by the state-owned life insurance behemoth, Life Insurance Corporation of India (LIC), which holds a 40.3% stake in the company.

The company has a low-risk business model as ~82% of the loans are disbursed to salaried customers. Loans to individuals account for 87.5% of the outstanding loan book and the segment is the key focus area of the company. LAP accounts for 9.7% and loans to developers account for 2.8% of the total outstanding loan book. The company's incremental average ticket size of the loans stood at ~₹18.5 lakh while the average cumulative ticket size stood at ~₹12lakh.

Exhibit 8: Key Operating Indicators

Key Operating Indicators	FY13	FY14	FY15	FY16
Floating Loan Portfolio	49.0	42.0	37.0	47.0
LTV	59.7	54.5	50.9	46.6
Pre Payment Ratio	7.8	9.3	8.4	11.9
Income to Installment Ratio	33.9	34.7	33.9	33.3

Source: Company, Angel Research

Income statement (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Nil	1,605	2,019	2,349	2,944	3,542	4,116
- YoY Growth (%)	8.4	25.8	16.4	25.3	20.3	16.2
Other Income	128	142	139	235	170	178
- YoY Growth (%)	(10.6)	10.5	(1.9)	68.8	(27.6)	4.7
Operating Income	1,733	2,160	2,488	3,179	3,712	4,293
- YoY Growth (%)	6.7	24.6	15.2	27.7	16.8	15.7
Operating Expenses	282	313	379	469	505	588
- YoY Growth (%)	18.9	11.1	21.1	23.6	7.8	16.3
Pre - Provision Profit	1,451	1,847	2,109	2,710	3,207	3,706
- YoY Growth (%)	4.6	27.3	14.2	28.5	18.3	15.6
Prov. & Cont.	79	21	7	146	223	183
- YoY Growth (%)	(49.5)	(72.8)	(66.2)	1,920.0	52.1	(17.8)
Profit Before Tax	1,372	1,826	2,102	2,564	2,984	3,522
- YoY Growth (%)	11.5	33.0	15.1	22.0	16.4	18.0
Prov. for Taxation	347	508	716	903	1,016	1,199
- as a % of PBT	25.3	27.8	34.1	35.2	34.1	34.1
PAT	1,026	1,317	1,386	1,661	1,968	2,323
- YoY Growth (%)	12.2	28.4	5.2	19.8	18.5	18.0

Balance sheet (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Share Capital	101	101	101	101	101	101
Reserve & Surplus	6,380	7,432	7,717	9,016	10,555	12,371
Loan Funds	68,764	81,486	96,532	1,11,509	1,30,465	1,53,917
- Growth (%)	22.6	18.5	18.5	15.5	17.0	18.0
Other Liab. & Prov.	4,407	4,414	5,622	6,409	7,509	8,995
Total Liabilities	79,653	93,432	1,09,972	1,27,035	1,48,631	1,75,384
Investments	185	199	237	274	320	378
Advances	77,813	91,341	1,08,361	1,25,173	1,46,452	1,72,814
- Growth (%)	23.4	17.4	18.6	15.5	17.0	18.0
Fixed Assets	62	76	80	92	108	127
Other Assets	1,593	1,817	1,295	1,496	1,750	2,065
Total Assets	79,653	93,432	1,09,972	1,27,035	1,48,631	1,75,384

Ratio analysis (standalone)

Y/E March	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profitability ratios (%)						
NIMs	2.3	2.4	2.3	2.6	2.6	2.5
Cost to Income Ratio	16.3	14.5	15.2	14.7	13.6	13.7
RoA	1.4	1.5	1.4	1.4	1.4	1.4
RoE	16.9	18.8	18.1	19.6	19.9	20.1
Asset Quality (%)						
Gross NPAs	0.61	0.67	0.46	0.45	0.54	0.50
Net NPAs	0.35	0.39	0.22	0.22	0.24	0.23
Provision Coverage	41.4	41.9	52.6	52.4	55.0	54.0
Per Share Data (₹)						
EPS	20.3	26.1	27.5	32.9	39.0	46.0
ABVPS (75% cover.)	125.2	145.2	152.6	178.0	207.9	243.4
DPS	3.8	4.5	5.0	6.0	7.1	8.4
Valuation Ratios						
PER (x)	26.8	20.4	19.4	16.2	13.7	11.6
P/ABVPS (x)	4.3	3.7	3.5	3.0	2.6	2.2
Dividend Yield	0.8	0.9	1.0	1.2	1.4	1.7
DuPont Analysis						
NII	2.2	2.3	2.3	2.5	2.6	2.5
(-) Prov. Exp.	0.1	0.0	0.0	0.1	0.2	0.1
Adj. NII	2.1	2.3	2.3	2.4	2.4	2.4
Treasury	(0.0)	0.0	0.0	0.0	0.0	0.0
Int. Sens. Inc.	2.1	2.3	2.3	2.4	2.4	2.4
Other Inc.	0.2	0.2	0.1	0.2	0.1	0.1
Op. Inc.	2.3	2.5	2.4	2.6	2.5	2.5
Opex	0.4	0.4	0.4	0.4	0.4	0.4
PBT	1.9	2.1	2.1	2.2	2.2	2.2
Taxes	0.5	0.6	0.7	0.8	0.7	0.7
RoA	1.4	1.5	1.4	1.4	1.4	1.4
Leverage	11.9	12.4	13.2	14.0	13.9	14.0
RoE	16.9	18.8	18.1	19.6	19.9	20.1

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LIC Housing Finance

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)