

LIC Housing Finance

NEUTRAL

INDUSTRY	NBFCs
CMP (as on 31 Jul 2017)	Rs 692
Target Price	Rs 706
Nifty	10,077
Sensex	32,515

KEY STOCK DATA

Bloomberg	LICHF IN
No. of Shares (mn)	505
MCap (Rs bn) / (\$ mn)	349/5,438
6m avg traded value (Rs mn)	1,143

STOCK PERFORMANCE (%)

52 Week high / low	Rs 794/468		
	3M	6M	12M
Absolute (%)	3.4	24.9	33.0
Relative (%)	(5.3)	7.4	17.1

SHAREHOLDING PATTERN (%)

Promoters	40.3
FIs & Local MFs	12.2
FPIs	34.9
Public & Others	12.6

Source : BSE

Vishal Rampuria
vishal.rampuria@hdfcsec.com
+91-22-6171-7325

Darpin Shah
darpin.shah@hdfcsec.com
+91-22-6171-7328

Margin pressure

LICHF's 1Q results came in line with expectations, owing to pressure on yield as NIM declined 47bps QoQ (11bps YoY) to 2.5%. Loan book increased 1.7%/15% QoQ/YoY. GNPA shot up QoQ from 0.43% to 0.72%, owing to higher NPAs in the retail book.

NIM pressure was largely owing to yield pressure on advances, which declined 26bps. NII declined almost 10% QoQ (up 13.6% YOY) to Rs 9.4bn. Disbursement growth remained strong at 15% YoY, largely driven by individual book growth of 17%.

PAT moved -11%/+15.3% QoQ/YoY to Rs 4.7bn. This quarter witnessed, lower operating cost QoQ, because the previous quarter had one-off expenses.

We continue to expect competition in the salaried (84% of LICH's borrowers) home loan market to be high. With LIC's marginal yield at 8.35 to 8.5% in response to competition, yield pressure will continue, though COF will also fall. However, management intends to further increase the share of high yielding book (LAP+ developer), which will

FINANCIAL SUMMARY

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY17	FY18E	FY19E
Net Interest Income	9,369	8,245	13.64	10,396	(9.9)	37,555	42,280	46,446
PPOP	8,229	7,398	11.23	8,229	-	32,371	36,668	40,087
PAT	4,700	4,078	15.26	5,292	6.5	19,311	22,212	24,224
EPS (Rs)	9.3	8.1	15.26	8.7	6.5	38.2	44.0	48.0
ROAE (%)						19.1	18.6	17.5
ROAA (%)						1.37	1.39	1.34
Adj. BVPS (Rs)						215.3	250.1	288.4
P/ABV (x)						3.20	2.75	2.39
P/E (x)						18.0	15.7	14.4

Source: Company, HDFC sec Inst Research

support NIM. We change our estimates marginally to build in greater loan book growth and higher share of the high yielding book. We maintain Neutral. Revise the TP to Rs 706. (2.4x Mar-19 ABV)

Highlights of the quarter

- **Disbursements:** Overall growth was 15% YoY, driven by individual loans, which grew by 17%. The individual home loan segment grew 14.4% YoY.
- **Loans:** Overall loan growth was healthy at 15% YoY, of which the core home loan growth was 9.5% YoY, LAP growth was 60.1% YoY and Project loan growth was 49% YoY. Higher share of Projects (3.8% vs. 2.9/3.8% YoY/QoQ) and LAP portfolio (12.9% vs. 9.3/12.6% YoY/QoQ) continued support the overall growth.
- **Opex dips:** Operating cost declined by 2/31.1% YoY/QoQ.
- **Asset quality:** Headline gross NPAs increased sharply from 0.43% to 0.72% QoQ, driven by retail loans.

Share of the non-core portfolio (LAP + Project Loan) has increased from 16.4% in FY17 to 16.7% in 1QFY18

Higher share of the non-core portfolio (LAP + Project Loan) resulted in margin expansion despite pressure in the core (home loan) portfolio. Mgt intends to increase it further

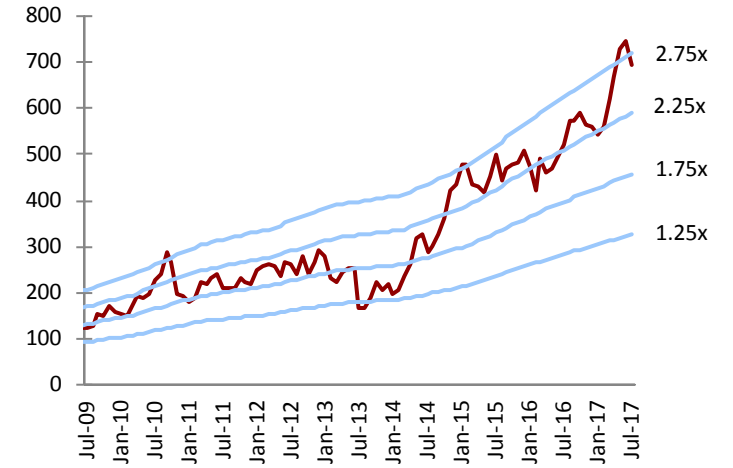
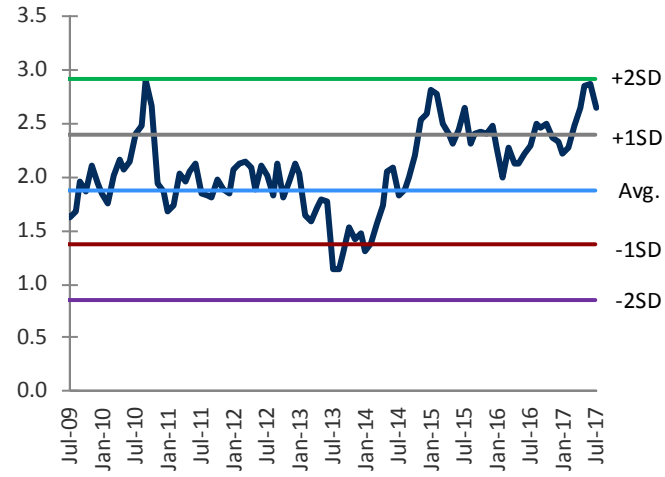
Mgt continues to be hopeful of recovery in the developer loan book by 3QFY18

- **Higher disbursements aided by Individual book:** Overall disbursements grew 15.3%/-42.7% Y-o-Y/QoQ. Individual segment (17.3% YoY) was supported by the LAP segment. Core housing was muted at ~9.5% YoY. Projects disbursements fell by 13.6/66.5% YoY/QoQ
- Overall loan book growth was steady at 15.4/1.7% YoY/QoQ. However, core housing growth remained muted at ~9.5/1.4%. The share of projects was 3.8% vs. 2.9/3.8% YoY/QoQ and LAP was 12.9% vs. 9.3/12.6% YoY/QoQ. Overall, the share of the non-core portfolio has increased to 16.7% in Q1FY18. **The company has now guided for taking it 200bps higher. We build in higher share of non-core book.**
- **Higher repayment rates:** The repayment rate was stable at 4.2% in the individual segment.
- Reported NIMs were at 2.50% vs. 2.97% in 4QFY17. **Given rising competitive pressure in the core housing book, we estimate our calculated NIMs at 2.76/2.73% in FY18/19E as against 2.97% in FY17.**
- **Asset quality** deteriorated, with GNPA's at 0.72% vs. 0.43% QoQ. GNPA's in individual loans increased to 0.42%. For project loans, the reported Gross NPA worsened from 6.3% to 8.4% due to three accounts turning NPA. However, management remains optimistic of solving this issue in a couple of quarters.
- **Incremental home loan rate lower owing to pricing cuts:** Home loans (8.35 to 8.5%), LAP (10.5-11%) and Developer Loans (13-14%). Current yield on the Home loan is 9.4 to 9.6% and therefore, poses yield compression risk.
- **Incremental borrowing cost was ~7.68% in the quarter.** With Rs 120bn/ 150bn of NCDs maturing in FY18E/FY19E, the borrowing cost is expected to drop by 34bps/20bps in FY18/FY19 respectively.
- The borrowing cost of bonds went up in the month of April and May, hence increasing the overall cost of borrowings which also adversely impacted the NIM's. The pressure in NIM's seems to ease since there is a 25-30 bps fall in bond interest rate in June and July.
- Impact of RERA is not visible yet. Sanctions look good. Management foresees a 15% growth in the loan book, going forward.

P/ABV multiple is at near the peak level

Given earnings growth estimates, we don't find upside

P/ABV Band Chart



Source: HDFC sec Inst Research

Five Quarters At A Glance

(Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY Growth	QoQ Growth
Net Interest Income	8,245	8,657	9,154	10,396	9,370	13.6%	-9.9%
Non-interest Income	535	616	362	523	214	-60.0%	-59.1%
Operating Income	8,780	9,273	9,516	10,919	9,583	9.1%	-12.2%
Operating Expenses	1,382	1,364	1,407	1,965	1,354	-2.0%	-31.1%
Pre-Provision Profits	7,399	7,909	8,109	8,954	8,229	11.2%	-8.1%
Provisions And Contingencies	1,165	303	453	893	1,045	-10.3%	17.0%
PBT	6,234	7,606	7,656	8,061	7,185	15.2%	-10.9%
Provision For Tax	2,156	2,659	2,663	2,769	2,484	15.2%	-10.3%
PAT	4,078	4,948	4,993	5,292	4,701	15.3%	-11.2%
Balance Sheet items							
Disbursements (Rs bn)	75.4	91.2	96.8	151.9	87.0	15.3%	-42.0%
<i>Individual (Rs bn)</i>	70.6	87.6	85.6	139.6	82.9	17.3%	-40.6%
<i>Projects (Rs bn)</i>	4.8	3.7	11.3	12.3	4.1	-13.6%	-66.5%
Loan Book (Rs bn)	1,274.4	1,311.0	1,353.7	1,445.3	1,470.5	15.4%	0.0%
<i>Individual (Rs bn)</i>	1,236.8	1,274.3	1,308.8	1,390.2	1,414.4	14.4%	1.7%
<i>Projects (Rs bn)</i>	37.6	36.6	44.9	55.1	56.1	49.4%	1.8%
Borrowings (Rs bn)	1,129.6	1,160.8	1,160.8	1,263.4	1,291.6	14.3%	2.2%
Profitability							
Yield On Advances (%)	10.72	10.67	10.63	10.32	9.97	-75 bps	-35 bps
Cost Of Funds (%)	9.08	8.94	8.80	8.48	8.44	-64 bps	-4 bps
Spreads	1.64	1.73	1.83	1.84	1.53	-11 bps	-31 bps
NIM (%)	2.61	2.68	2.75	2.97	2.50	-11 bps	-47 bps
Cost-Income Ratio (%)	15.7	14.7	14.8	14.1	14.1	-161 bps	0 bps
Tax rate (%)	34.6	35.0	34.8	34.6	34.6	-1 bps	0 bps
Asset quality							
Gross NPA (Rsmn)	7,570	7,500	7,590	6,270	10,660	40.8%	70.0%
Net NPA (Rsmn)	3,560	3,680	3,610	2,050	7,570	112.6%	269.3%
Gross NPAs (%)	0.59	0.57	0.56	0.43	0.72	13 bps	29 bps
Net NPAs (%)	0.28	0.28	0.27	0.14	0.59	31 bps	45 bps
Individual Gross NPAs (%)	0.35	0.32	0.32	0.20	0.42	7 bps	22 bps
Coverage Ratio (%)	53.0	50.9	52.4	67.3	29.0	-2399 bps	-3832 bps

Led by loan growth of 15.5% and NIM improvement of ~26bps

Higher NPA in a seasonally weak quarter was led by retail

Change In Estimates

Rs mn	FY18E			FY19E		
	Old	New	Change	Old	New	Change
NII	40,552	42,280	4.3	44,689	46,446	3.9
PPOP	34,813	36,668	5.3	38,227	40,087	4.9
PAT	21,009	22,212	5.7	23,032	24,224	5.2
Adj. BVPS (Rs)	248.3	250.1	0.7	284.8	288.4	1.3

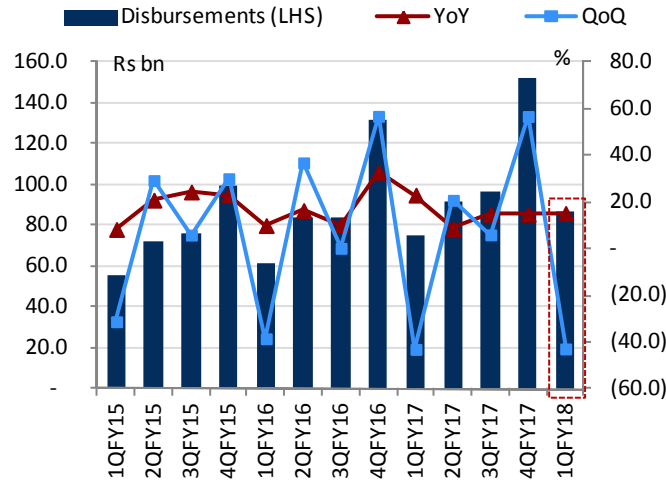
Source: HDFC sec Inst Research

Overall disbursement grew by 15% YoY

Individual disbursement were up 17.3% YoY

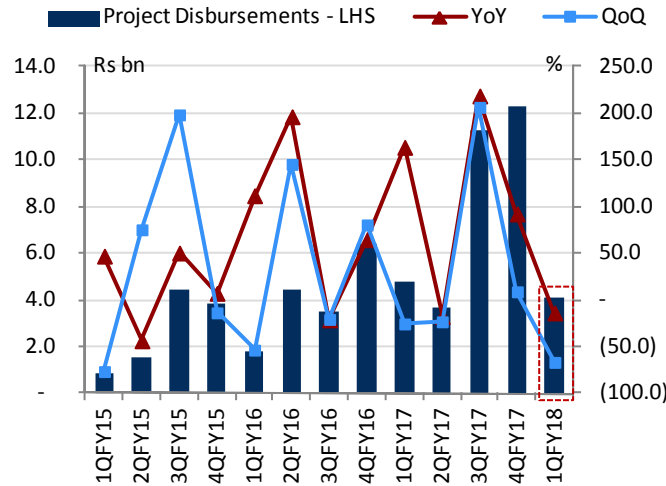
Disbursements for project loans were down 13.6% YoY

Disbursements Growth Supported By LAP/Project



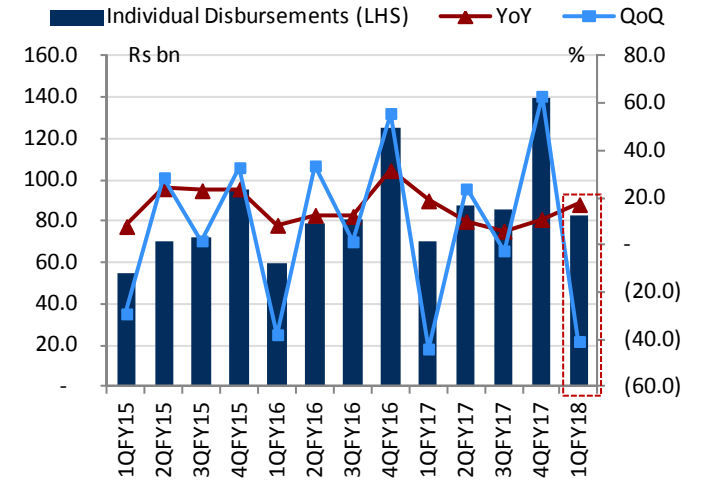
Source: Company

Project Disb. Sharply Up Owing To Earlier Sanctions



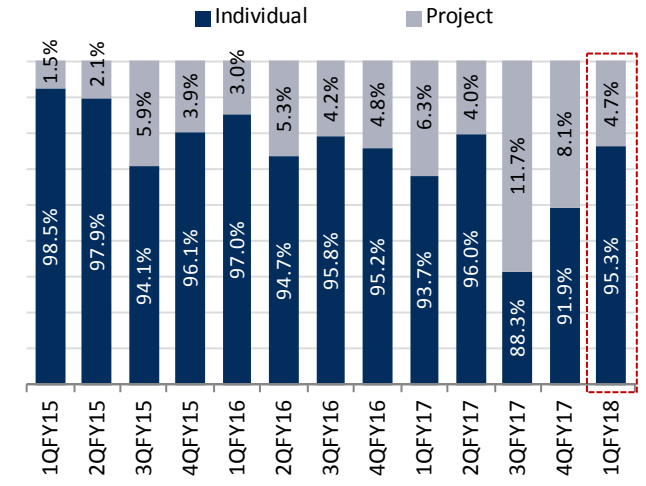
Source: Company

Individual Disbursements: Driven By LAP Book



Source: Company

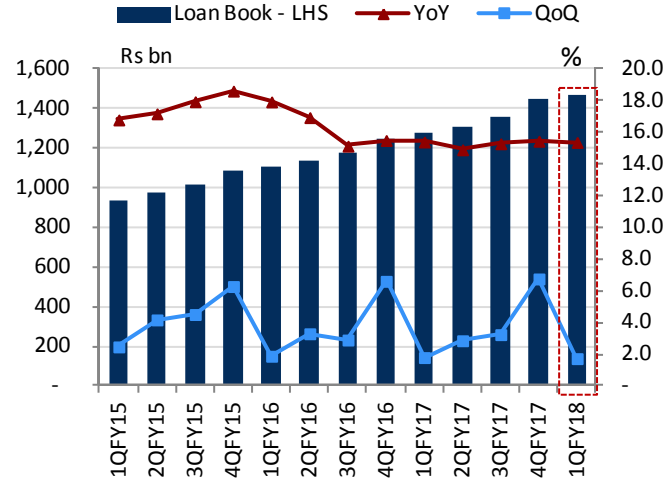
Disbursals Break-up



Source: Company

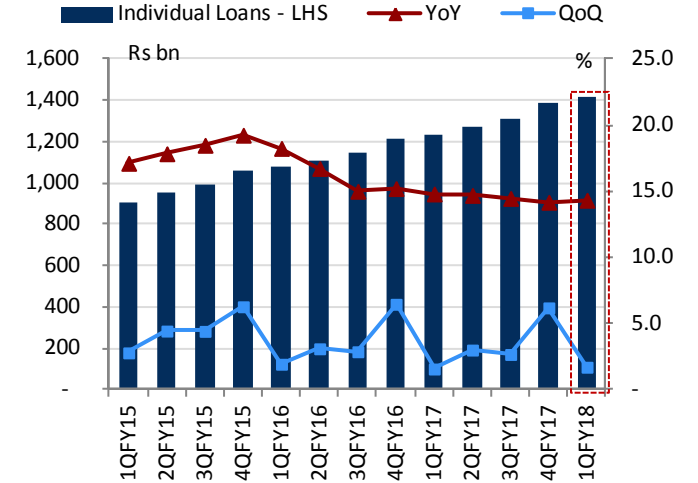
Headline growth was 15.5% YoY, driven by LAP and project loans

Growth Despite Weak Increase In Core book



Source: Company

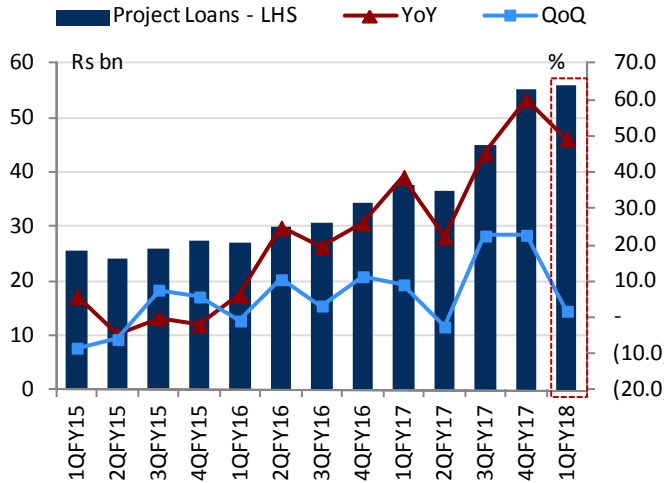
Individual Loans Growth Led By LAP



Source: Company

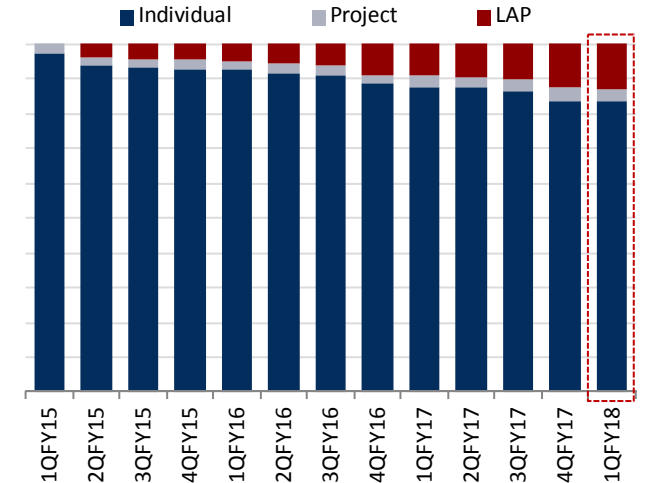
Share of the non-core portfolio further increased by 270bps to 16.4% YoY

Project Loans Grew 1.8% Q-o-Q



Source: Company

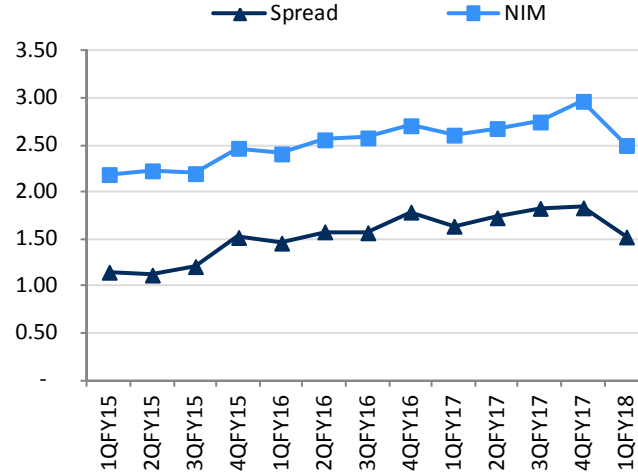
Loan Break Up: Project & LAP Rise Further



Source: Company

NIM declined 47bps to 2.5 QoQ

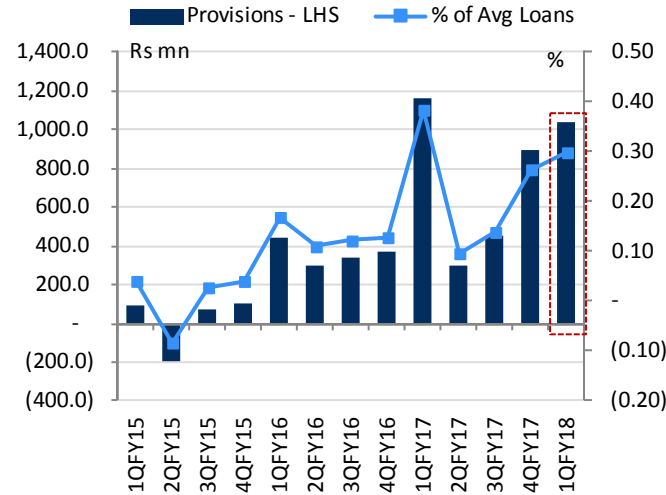
NIM: Pressure in the quarter



Source: Company

Provisions were high due to higher NPA

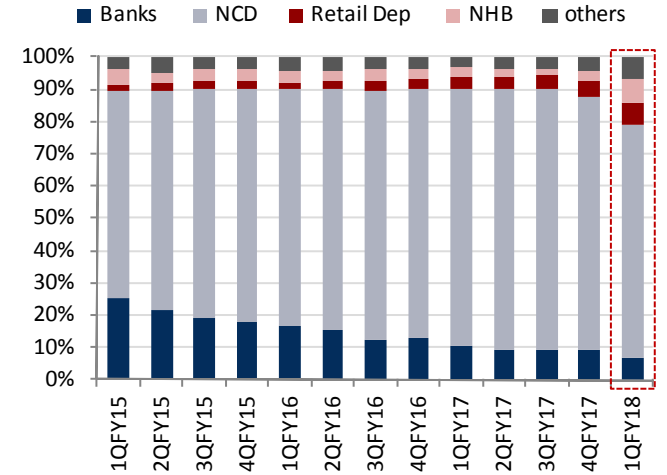
Provisions Increased QoQ



Source: Company

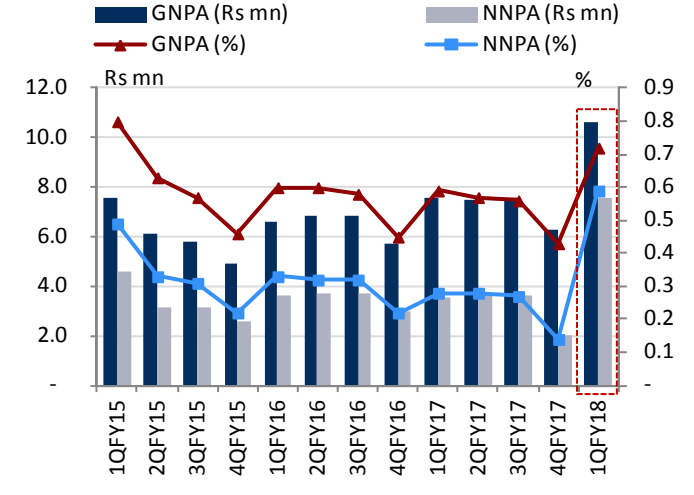
Individual GNPA improved QoQ to 0.2% from 0.32%

Borrowing: Market Borrowing Further Improves



Source: Company

Asset Quality: Slight Blip in the quarter



Source: Company

Project loan NPAs increased 2.6% QoQ to Rs 4.7bn

Peer Valuations

NBFC/HFC	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY16P	FY17E	FY18E
LICHF	349	692	NEU	706	215	248	285	18.0	15.7	14.4	3.20	2.75	2.39	19.1	18.6	17.5	1.37	1.39	1.34
MMFS	227	401	BUY	374	86	94	115	55.5	33.8	24.8	4.55	4.19	3.43	6.4	9.8	12.2	0.94	1.34	1.59
CIFC	188	1,200	BUY	1,296	206	268	344	26.1	21.4	16.7	5.82	4.48	3.48	18.0	18.7	20.2	2.45	2.59	2.76
REPCO	47	745	BUY	865	162	207	254	25.4	20.9	16.7	4.60	3.59	2.93	17.6	18.0	18.9	2.19	2.27	2.37

Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Interest Earned	106,693	123,961	139,869	153,484	169,157
Interest Expended	83,102	93,068	102,315	111,204	122,712
Net Interest Income	23,591	30,894	37,555	42,280	46,446
Other Income	1,293	893	934	968	1,103
Total Income	24,884	31,787	38,489	43,248	47,549
Total Operating Exp	3,792	4,687	6,118	6,580	7,462
<i>Employee Expense</i>	<i>1,293</i>	<i>1,503</i>	<i>2,458</i>	<i>2,447</i>	<i>2,762</i>
PPOP	21,092	27,100	32,371	36,668	40,087
Provisions	73	1,465	2,813	2,600	2,934
PBT	21,019	25,636	29,558	34,068	37,153
Provision For Tax	7,158	9,028	10,247	11,856	12,929
PAT	13,862	16,608	19,311	22,212	24,224

Source: Bank, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	1,010	1,010	1,010	1,010	1,010
Reserves And Surplus	77,174	90,450	109,760	127,583	147,164
Shareholders' Funds	78,184	91,460	110,770	128,592	148,174
Total Borrowings	965,319	1,109,360	1,263,350	1,421,696	1,619,720
Other Liab, Provisions	81,947	104,158	134,886	131,485	152,552
Total Liabilities	1,125,451	1,304,978	1,509,006	1,681,773	1,920,446
APPLICATION OF FUNDS					
Advances	1,085,117	1,253,213	1,445,340	1,613,625	1,838,382
Investments	2,371	2,768	5,270	3,497	3,998
Fixed assets	797	920	965	1,014	1,064
Other Assets	37,166	48,077	57,430	63,638	77,001
Total Assets	1,125,451	1,304,978	1,509,005	1,681,773	1,920,446

Source: Bank, HDFC sec Inst Research

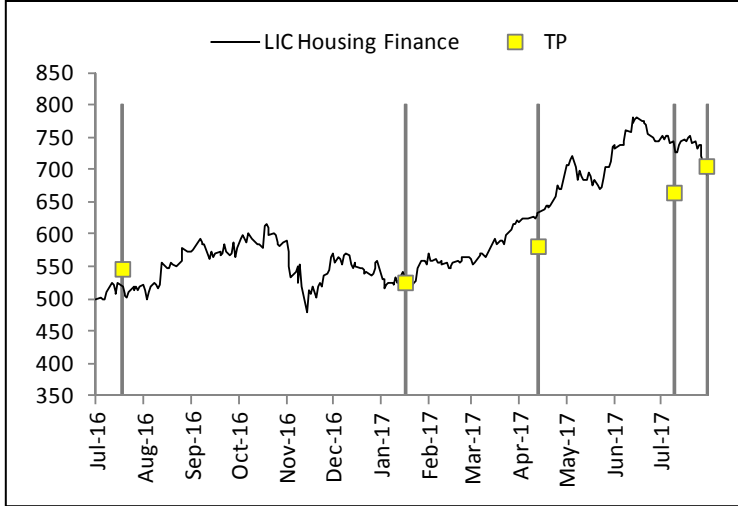
Key Ratios

	FY15	FY16	FY17	FY18E	FY19E
VALUATION RATIOS					
EPS (Rs.)	27.5	32.9	38.2	44.0	48.0
Earnings Growth (%)	5.2	19.8	16.3	15.0	9.1
BVPS (Rs.)	154.8	181.1	219.4	254.6	293.4
Adj. BVPS (100% cover) (Rs.)	150.2	175.2	215.3	250.1	288.4
ROAA (%)	1.3	1.4	1.37	1.39	1.34
ROAE (%)	18.1	19.6	19.1	18.6	17.5
P/E (x)	25.1	20.9	18.0	15.7	14.4
P/ABV (x)	4.6	3.9	3.2	2.75	2.39
P/PPOP (x)	16.5	12.8	10.7	9.5	8.7
Dividend Yield (%)	0.7	0.8	0.9	1.1	1.1
PROFITABILITY					
Yield On Advances (%)	10.7	10.6	10.4	10.0	9.8
Cost Of Funds (%)	9.3	9.0	8.6	8.3	8.1
Spread (%)	1.36	1.63	1.74	1.75	1.73
NIM (%)	2.36	2.64	2.78	2.76	2.69
OPERATING EFFICIENCY					
Cost/Avg. Asset Ratio (%)	0.4	0.4	0.4	0.4	0.4
Cost-Income Ratio	15.2	14.7	15.9	15.2	15.7
BALANCE SHEET STRUCTURE RATIOS					
Loan Growth (%)	18.6	15.5	15.3	11.6	13.9
Borrowing Growth (%)	17.7	14.9	13.9	12.5	13.9
Equity/Assets (%)	6.9	7.0	7.3	7.6	7.7
Equity/Loans (%)	7.2	7.3	7.7	8.0	8.1
Total CRAR (%)	15.3	17.0	16.6	15.5	15.4
Tier I (%)	11.8	13.9	14.0	13.2	13.3

	FY15	FY16	FY17	FY18E	FY19E
ASSET QUALITY					
Gross NPLs (Rs mn)	4,947	5,680	6,270	8,059	10,099
Net NPLs (Rs mn)	2,344	2,973	2,050	2,279	2,559
Gross NPLs (%)	0.46	0.45	0.45	0.50	0.55
Net NPLs (%)	0.22	0.22	0.14	0.14	0.14
Coverage Ratio (%)	52.6	47.7	67.3	71.7	74.7
Provision/Avg. Loans (%)	0.01	0.13	0.21	0.17	0.17
RoAA TREE (%)					
Net Interest Income	2.26%	2.54%	2.67%	2.65%	2.58%
Non Interest Income	0.12%	0.07%	0.07%	0.06%	0.06%
Operating Cost	0.36%	0.39%	0.43%	0.41%	0.41%
Provisions	0.01%	0.12%	0.20%	0.16%	0.16%
Tax	0.69%	0.74%	0.73%	0.74%	0.72%
ROAA	1.33%	1.37%	1.37%	1.39%	1.34%
Leverage (x)	13.6	14.3	13.9	13.3	13.0
ROAE	18.1%	19.6%	19.1%	18.6%	17.5%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
19-Jul-16	520	NEU	547
18-Jan-17	532	NEU	526
13-Apr-17	630	NEU	582
10-Jul-17	741	NEU	665
1-Aug-17	692	NEU	706

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board : +91-22-6171 7330 www.hdfcsec.com