

LIC HOUSING FINANCE

BANKS & FINANCIAL SERVICES

BUY

Target Price: Rs 790

New leader, strategy continuity

Mr. Vinay Sah, the new MD & CEO of LICHF, reiterated continuity of strategies of (1) focused approach to affordable housing, (2) restraining non-core assets at ~15% of total and (3) pursuing only opportunistic developer finance. Mr. Sah is an industry veteran with 30+ years of experience and has been working at LIC before joining LICHF.

Q4FY17 PAT at ~Rs 5.3 bn (+18% YoY) was in line, led by strong NII growth of ~31% YoY. NIM improved 22 bps QoQ to 2.97% and loan growth was steady at 15.5% YoY. A lumpy provision on a large corporate account led to provisions doubling QoQ. Slower retail home loan disbursements and a seasonal rise in prepayments were minor negatives. Asset quality was pristine (GNPA/NNPA: 0.4%/0.1%)

CMP : Rs 676
Potential Upside : 17%

MARKET DATA

No. of Shares : 505mn
Free Float : 60%
Market Cap : Rs341bn
52-week High / Low : Rs688 / Rs432
Avg. Daily vol. (6mth) : 2.4 mn shares
Bloomberg Code : LICHF IB Equity
Promoters Holding : 40%
FII / DII : 41%/ 5%

Q4FY17 highlights:(1) Loans grew ~15% YoY led by a rising share of LAP (now 12.6% of loans; +260bps QoQ) and developer loans (~3.8%);(2) Retail home loan growth was lower at ~9% YoY, while LAP grew ~65% YoY and developer loans grew ~63% YoY on a small base; (3) PCR improved significantly to 67.4% (up 15.7 ppts QoQ) on the back of the ~Rs 500 mn provision on a lumpy developer account. All developer loans are now fully provided for (upside risks remain from recoveries from collateral which management hinted could be sooner rather than later); (4) It expects ~Rs 120 bn of liabilities to reprice in FY18 (currently costing ~9%, current incremental cost of ~7.6%), aiding the margin.

Maintain BUY with rolled-fwd TP of Rs 790 (vs. Rs 670 earlier; 17% upside from CMP):LICHF is our preferred play on the housing theme in India. The reducing interest rate environment is benign (~79% of borrowings from NCDs, fixed and semi-fixed rate loans at ~39% of total book), tailwinds from favorable government policy towards the sector exist and a healthy share of non-core assets (LAP and developer loans) would keep margin stable. It is well capitalized for growth (Tier 1/CAR at 14%/16.6% as of Sept' 16). We roll forward our estimates to FY19E, valuing LICHF at 2.7x FY19E P/ABV to arrive at a TP of Rs 790. At CMP, the stock trades at 2.3x FY19E P/ABV, implying 17% upside.

Financial summary(Standalone)

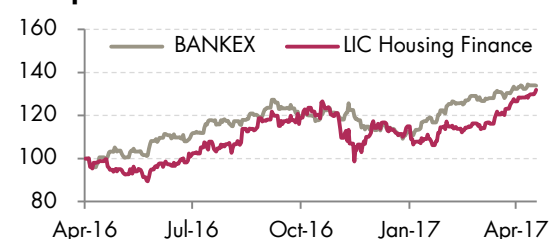
Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	16,608	19,311	22,380	25,744
EPS (Rs)	33	38	44	51
EPS chg (%)	19.8	16.3	15.9	15.0
Book value (Rs)	181	219	256	299
Adj. BV (Rs)	178	217	252	293
PE (x)	20.5	17.7	15.2	13.3
P/ABV (x)	3.8	3.1	2.7	2.3
RoE (%)	19.6	19.1	18.6	18.4
RoA (%)	1.4	1.4	1.4	1.4
Net NPA (%)	0.2	0.1	0.2	0.2

Source: Company, Axis Capital

Key drivers (%)

	Q1'17	Q2'17	Q3'17	Q4'17
Loan growth	15	15	15	15
Disburs. growth	23	10	15	15
NIM	2.6	2.7	2.8	3.0
GNPA Ratio	0.6	0.6	0.6	0.4

Price performance



New CEO Mr. Vinay Sah

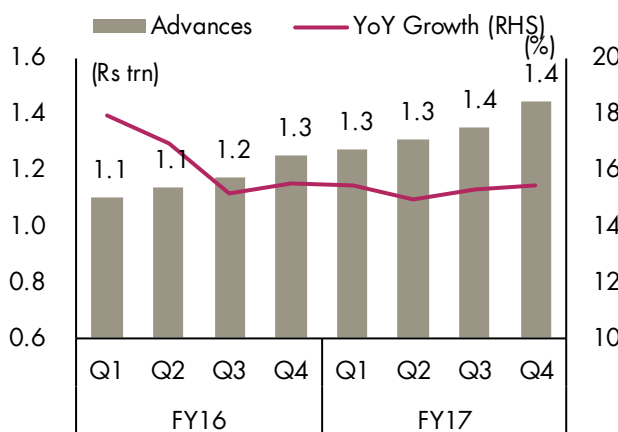
- ◆ Mr. Sah was the Executive Director of Marketing/Product Development with LIC of India before joining LIC Housing Finance
- ◆ He has 30+ years of experience in financial services and holds a Master’s degree (M. Sc.) in Statistics from the Lucknow University

Concall highlights

Growth driven by non-core segment

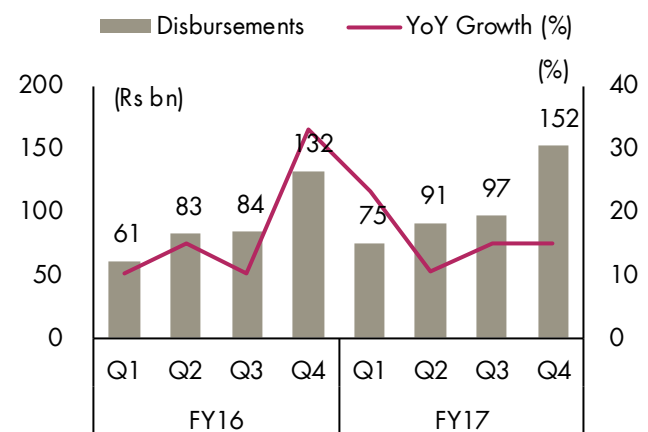
- ◆ Management attributed the slowdown in retail home loan demand to an industry level slowdown rather than market share loss to competition
- ◆ While prepayment rates for Q4 have gone up, the same on a YoY basis have gone down by ~100bps
- ◆ Management hopes to maintain share of non-core loans stable at 15-16%, which would help sustain margin without stressing the asset quality
- ◆ It also stated that it is working to develop new products to cater to the extended affordable housing finance scheme of government of India, which now allows Middle Income Group (MIG) to participate in the scheme

Exhibit 1: Advances growth healthy @ ~15%



Source: Company, Axis Capital

Exhibit 2: Growth in disbursements picked up marginally



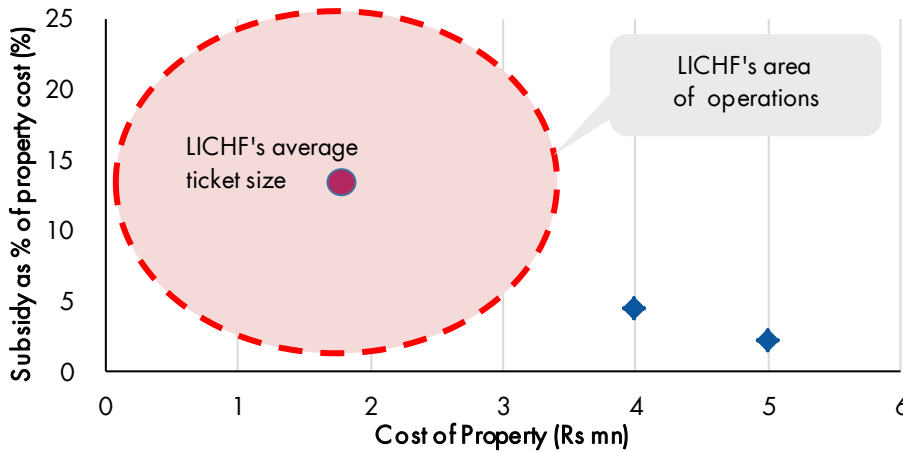
Source: Company, Axis Capital

Exhibit 3: Effectiveness of credit-linked subsidy scheme is highest in affordable housing segment – LICHF’s niche focus area

Annual Household Income (Rs '000s)	300	600	1,200	1,800	1,800+		
Income category	EWS	LIG	MIG-I	MIG-II	Wealthy		
Cost of property (Rs. mn)	1.0	2.0	3.0	5.0	10.0	20.0	50.0
LTV (%)	80	80	80	80	80	80	80
Loan amount (Rs. mn)	0.8	1.6	2.4	4.0	8.0	16.0	40.0
Loan amount eligible for subsidy (Rs. mn)	0.6	0.6	0.9	1.2	1.2	1.2	1.2
Subsidy rate (%)	6.5	6.5	4.0	3.0	3.0	3.0	3.0
Subsidy tenure (yrs)	20	20	20	20	20	20	20
Subsidy amount (Rs. mn)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Subsidy amount as % of property cost (%)	22.0	11.0	7.3	4.4	2.2	1.1	0.4
Subsidy effectiveness	HIGH	HIGH	MEDIUM	MEDIUM	NEGLECTIBLE		

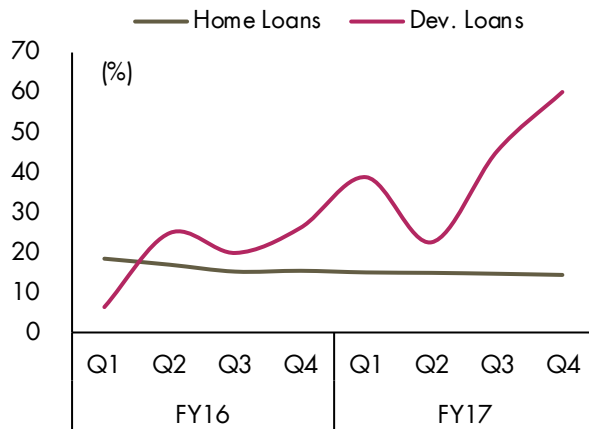
Source: Company, Axis Capital, Media sources (EWS: economically weaker sections, LIG: Low Income Groups, MIG: Middle Income Groups)

Exhibit 4: LICHF is in the sweet spot for growth



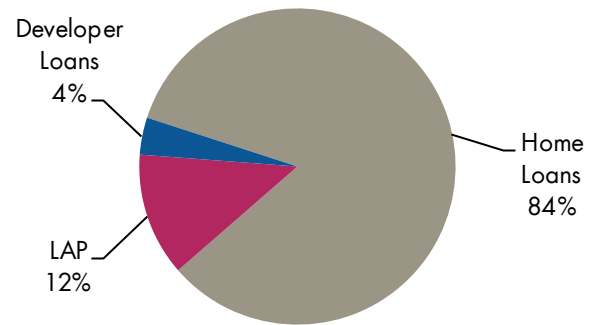
Source: Company, Axis Capital

Exhibit 5: Developer loans growing rapidly, off small base



Source: Company, Axis Capital

Exhibit 6: Non-core loans now ~16% of the book



Source: Company, Axis Capital

Exhibit 7: LICHF's "Happy New Year" scheme targeting affordable housing segment

Purpose	Housing loan available for purchase of ready to move-in or nearing possession flats/housing units (with minimum 85% completion)		
Loan Term	- Maximum Term 30 years (for Resident Indian) - Maximum Term 30 years (for NRI) - For person with Professional Qualification - 20 years - For others - 15 years		
Rate of Interest	Loan Slab	For Women*	For Others
	Rs 10 lakhs - Rs 15 lakhs	8.50% p.a.	8.55% p.a.
	Above Rs 15 lakhs - Rs 20 lakhs	8.55% p.a.	8.60% p.a.
	Above Rs 20 lakhs - Rs 50 lakhs	8.65% p.a.	8.70% p.a.
	*Women has to be either applicant or co applicant in the loan application		
LTV (%)	- For loan amount upto Rs 20 lakhs - 85% of cost of property - For loan amount above Rs 20 lakhs & upto Rs 50 lakhs - 80% of cost of property		

Source: Company, Axis Capital

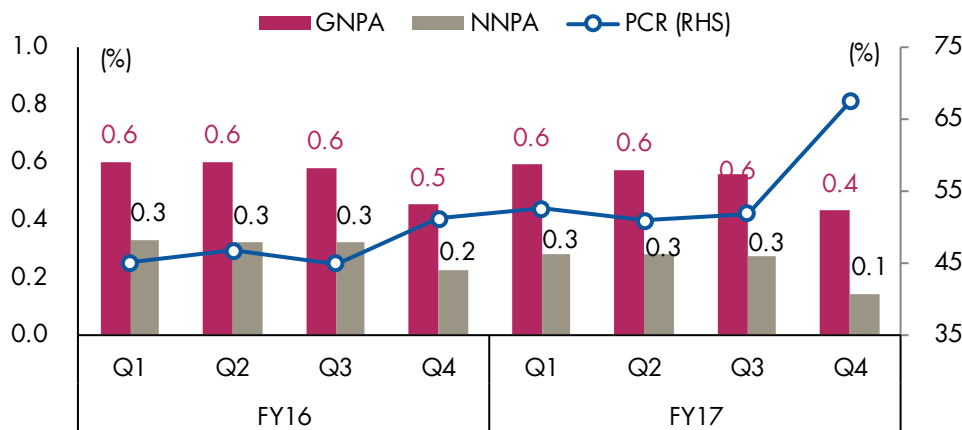
Margin better than our expectations

- ◆ Management stated that NIM would be stable during FY18 with some positive bias on the back of:
 - **High cost bondswill retire** in FY18 (costing ~9%) – Rs 120 bn (incremental cost of funds at ~7.7%; has been able to borrow 5-yr NCDs at 7.2% and raise bulk deposits at 7%)
 - **~Rs 50 bn of assets will get repriced** in FY18 (incremental yield on loans at ~10%)
 - **Constant share of high-yield non-core loans** (15-16% of total loans; of which 3.8% is developer loans and remaining is salaried LAP with an average ticket size of Rs 1.2 mn)
- ◆ It stated that ~Rs 80 bn of ~Rs 550 bn incremental borrowing during the year was through CPs, which lowersthe cost of funds but do not necessarily remain on the balance sheet by the end of the year. Benefits visible on NIM
- ◆ LICHF has fully drawn down NHB’s current refinance limit. However, NHB has come up with some new refinance schemes recently wherein LICHF intends to reapply for additional resources

Asset quality at its best

- ◆ GNPA’s were at 0.4% and retail home loans GNPA’s at all-time low of 0.2%
- ◆ Incremental LTV on home loans were ~44% and ~30% in LAP, keeping risk low
- ◆ PCR improved significantly to 67.4% (up 15.7 ppts QoQ) on the back of the ~Rs 500 mn provision on a lumpy developer account
- ◆ All developer loans are now fully provided for (upside risks remain from recoveries from collateral which management hinted could be sooner rather than later)

Exhibit 8: GNPA’s at comfortable levelsof 0.4%, retail home loan GNPA’s improve to best ever of 0.2%



Source: Company, Axis Capital

Cost to income to remain at current level

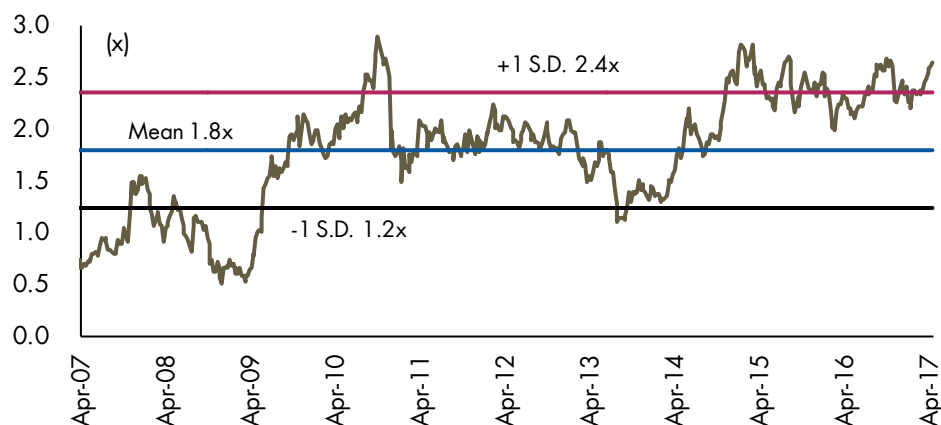
- ◆ Employee expenses for FY17 included a one-off of Rs 500 mn towards provisioning for salary arrears. However, the company plans to continue hiring for growth and wage revisions in FY17 on the stock may keep employee costs elevated
- ◆ Commission expenses grew 16%, ahead of loan growth, due to higher commission% in non-core loans, which grew faster than home loans
- ◆ LICHF has opened 2 new regional offices in Bhopal and Patna during the year, which have added to costs but are necessary investments for growth

Exhibit 9: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	Mar-18E	Mar-17	% Chg
Interest income	36,429	32,057	14	35,279	3	157,331	138,155	14
Interest expended	25,699	23,843	8	25,972	(1)	116,534	102,315	14
Net interest income	10,729	8,214	31	9,308	15	40,797	35,840	14
Non-interest income	190	683	(72)	208	(9)	3,104	2,649	17
Net income	10,919	8,897	23	9,516	15	43,901	38,489	14
Operating expenses	1,965	1,578	25	1,407	40	7,344	6,118	20
Operating profit	8,954	7,319	22	8,109	10	36,557	32,371	13
Provision & Contingencies	893	376	137	453	97	2,648	2,813	(6)
PBT	8,061	6,943	16	7,656	5	33,909	29,558	15
Tax	2,769	2,463	12	2,663	4	11,529	10,247	13
Net profit	5,292	4,480	18	4,993	6	22,380	19,311	16
Yields & Margins (%)								
Net interest margin	3.0	2.7	26 bps	2.8	22 bps	2.6	2.7	(4)bps
Cost to income	18.0	17.7	27 bps	14.8	321 bps	16.7	15.9	83 bps
Asset quality								
Gross NPAs (%)	0.4	0.5	(2)bps	0.6	(13)bps	0.5	0.4	9 bps
Net NPAs (%)	0.1	0.2	(8)bps	0.3	(13)bps	0.2	0.1	4 bps
Provisioning coverage (%)	67	52	1,508 bps	52	1,566 bps	65.0	67.4	(240)bps
Balance sheet (Rs bn)								
Loans outstanding	1,445	1,252	15	1,354	7	1,670	1,445	16

Source: Company, Axis Capital

Exhibit 10: 10 years P/ABV movement



Source: Bloomberg, Axis Capital

Financial summary (Standalone)

Profit & loss (bn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	123	138	157	180
Interest expended	(93)	(102)	(117)	(133)
Net interest income	29	36	41	47
Non interest income	2	3	3	4
Net income	32	38	44	50
Operating expenses	(5)	(6)	(7)	(9)
Staff expenses	(2)	(2)	(3)	(3)
Other operating expenses	(3)	(4)	(4)	(5)
Operating profit	27	32	37	42
Provisions & contingencies	(1)	(3)	(3)	(3)
Pre-tax profit	26	30	34	39
Tax expense	(9)	(10)	(12)	(13)
Profit after tax	17	19	22	26
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	17	19	22	26

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	1,305	1,509	1,741	2,002
Cash & Balances with RBI	-	-	-	-
Investments	3	5	6	6
Advances	1,252	1,445	1,670	1,924
Fixed assets	1	1	1	1
Other assets	50	57	64	70
Total liabilities	1,305	1,509	1,741	2,002
Equity capital	1	1	1	1
Preference capital	-	-	-	-
Reserves & surplus	90	110	128	150
Networth	91	111	129	151
Borrowings	1,109	1,263	1,465	1,678
Deposits	-	-	-	-
Other liabilities & prov.	104	135	146	173

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	33	38	44	51
BV (Rs.)	181	219	256	299
Adj. BV (Rs.)	178	217	252	293
DPS (Rs.)	5	6	7	7
Dividend payout (%)	17	16	15	14
Yields & Margins (%)				
Yield on advances	10.5	10.2	10.1	10.0
Cost of deposit	-	-	-	-
Net interest margin	2.5	2.7	2.6	2.6
Asset quality (%)				
Gross NPAs	0.5	0.4	0.5	0.6
Net NPAs	0.2	0.1	0.2	0.2
Credit cost	0.1	0.2	0.2	0.2
Provisioning coverage	52.4	67.4	65.0	63.0
Capital (%)				
Tier-I	12.5	14*	11.4	10.8
CAR	15.5	16.6*	13.7	12.8
Efficiency (%)				
ROA	1.4	1.4	1.4	1.4
ROE	19.6	19.1	18.6	18.4
Cost to income	15	16	17	17
CASA	-	-	-	-
Effective tax rate	35	35	34	34
Growth (%)				
Net interest income	32	22	14	15
Fee income	-	-	-	-
Operating expenses	24	31	20	16
Profit after tax	20	16	16	15
Advances	16	15	16	15
Deposits	-	-	-	-
Total assets	16	16	15	15

Source: Company, Axis Capital

*As of Q2FY17

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India’s largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Bunty Chawla	Research Analyst	bunty.chawla@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808/022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkarMarg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.