

LIC HOUSING FINANCE

On stable footing

India Equity Research | Banking and Financial Services

LIC Housing Finance (LICHF) reported 17% YoY PAT growth (on a higher base set in Q4FY13) to INR3.7bn – though in line with our expectation was ahead of consensus estimate. NIMs, after declining for three consecutive quarters, expanded sharply to 2.4% (with benefit flowing from 32bps fall in funding cost). Asset quality was stable in non-individual portfolio with no incremental stress or resolution and in individual segment, has come off following seasonality. Modest disbursement growth in FY14 following strategy of profitable growth, coupled with relatively higher prepayment/repayment in Q4FY14, led to moderation in individual loan growth to 18%. Release of provisioning towards dual rate loans and improved visibility on resolution of developer loans in the near term will keep credit cost muted. With banking licence overhang settled, we expect current business model to deliver 18% earnings growth and RoE of 19% over FY15-16E. Valuing at 1.7x FY16E P/ABV, we arrive at a target price of INR333. Maintain 'BUY'.

24bps QoQ margin surge a positive surprise; to sustain at 3.3%

After declining for three consecutive quarters to 2.16% (~30bps in 9mFY14 over Q4FY13), NIMs surprised positively rising 24bps to 2.4%. The improvement was largely on account of easing funding cost (down 32bps QoQ to 9.4%) as LICHF utilised the lower cost borrowing window. Moderating wholesale cost will help maintain funding cost near 9.5-9.7%, while resolution in corporate developer loans will provide support to yield. We expect NIMs to be 2.3% for FY15-16E.

Asset quality stable, no new delinquencies in corporate book

LICHF's GNPLs came in at 0.67% (versus 0.8% in Q3FY14)----more of Q4 phenomenon. Corporate book witnessed no incremental slippage or resolution. Provisioning coverage improved to 42% (37% in Q3FY14). We expect near-term trigger for the stock will be resolution in developer loans (expected in 3-6 months). This, along with release of dual rate loan provisioning, will keep credit cost muted over the next two-three quarters.

Outlook and valuations: Return to steady state; maintain 'BUY'

Now that overhang of the banking license is resolved, current model will ensure steady earnings growth of 18% over FY14-16E and RoEs of 19%. Near term triggers will be moderating wholesale rate, resolution in corporate NPLs and release of provisioning towards teaser loans. Trading at 1.4x FY16E book, we maintain 'BUY/SO'.

Financials

(INR mn)

Year to March	Q4FY14	Q4FY13	% Change	Q3FY14	% Change	FY14	FY15E	FY16E
Net int. inc.	5,331	4,608	15.7	4,577	16.5	18,989	21,924	25,961
Net profit (excl exd)	3,700	3,163	17.0	3,266	13.3	13,172	15,622	18,141
Diluted EPS (INR)	7.3	6.3	16.9	6.5	13.3	26.1	30.9	35.9
Price/ Book (x)						1.9	1.6	1.4
Price/ Earnings (x)						10.5	8.8	7.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: LICH.BO, B: LICHF IN)

CMP	: INR 273
Target Price	: INR 333
52-week range (INR)	: 281 / 152
Share in issue (mn)	: 504.7
M cap (INR bn/USD mn)	: 138/ 2,252
Avg. Daily Vol.BSE/NSE('000)	: 3,614.8

SHARE HOLDING PATTERN (%)

	Current	Q2FY14	Q1FY14
Promoters *	40.3	40.3	40.3
MF's, FI's & BK's	8.1	10.3	13.3
FII's	35.7	33.6	32.0
Others	15.9	15.8	14.4
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	12.3	6.5	17.7
3 months	7.0	5.2	10.3
12 months	4.6	17.7	12.4

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Modest disbursement growth following profitable growth strategy

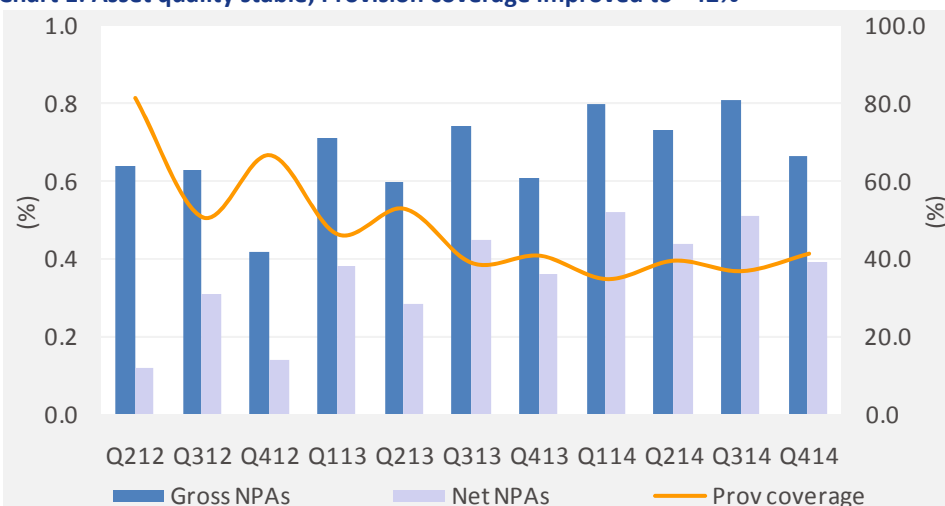
LICHF's disbursement growth in FY14 has been modest following management's strategy of profitably growth and limited scale up in developer loan portfolio. This coupled with relatively higher repayment/prepayment in Q4FY14 led to moderation in loan growth to 17.4% (versus average of 22% growth over past eight quarters) following sub-20% growth in individual loans (first time since FY08). With prevailing stress in the corporate developer segment, management continues to be cautious – loan growth of mere 4.4% YoY; however, as real estate market improves we do expect some traction on this front. Overall, given increasing competition and management stance on quality growth, we expect loan growth to settle at ~17% over FY14-16E.

Table 1: No additional stress in developer book; resolutions expected in the near term

Gross NPLs	INR mn				(%)			
	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Individual	4,113	3,779	3,410	2,458	0.5	0.5	0.4	0.3
Project	2,332	2,332	3,632	3,632	8.8	9.7	14.5	14.1
Total	6,445	6,111	7,042	6,090	0.8	0.7	0.8	0.7

Source: Company

Chart 1: Asset quality stable; Provision coverage improved to ~42%



Source: Company

Table 2: Funding cost declines 32bps QoQ due to back ended borrowing; should reverse in Q1FY15

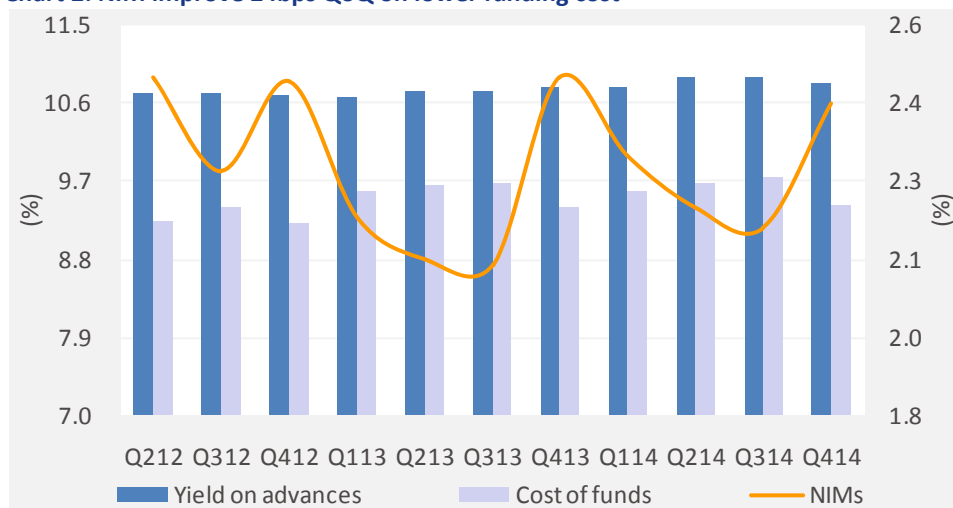
Movement in funding cost	INR mn	Prop (%)	Cost of funds							
			Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Banks	202,410	24.7	10.9	10.8	10.7	10.6	10.6	10.7	10.7	10.6
LIC	2,160	0.3	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
NHB	34,000	4.1	8.3	8.3	8.3	9.0	8.9	9.2	9.2	9.3
NCD	539,789	65.8	9.3	9.3	9.4	8.9	9.3	9.4	9.4	9.0
Subordinate	30,000	3.7	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Deposits	12,000	1.5	9.4	9.3	9.3	9.6	9.6	9.6	9.7	9.7
Misc	41	0.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Cost of funds	820,400	100	9.8	9.7	9.7	9.4	9.6	9.7	9.8	9.4

Source: Company, Edelweiss research

Table 3: Yields maintained at 10.8%

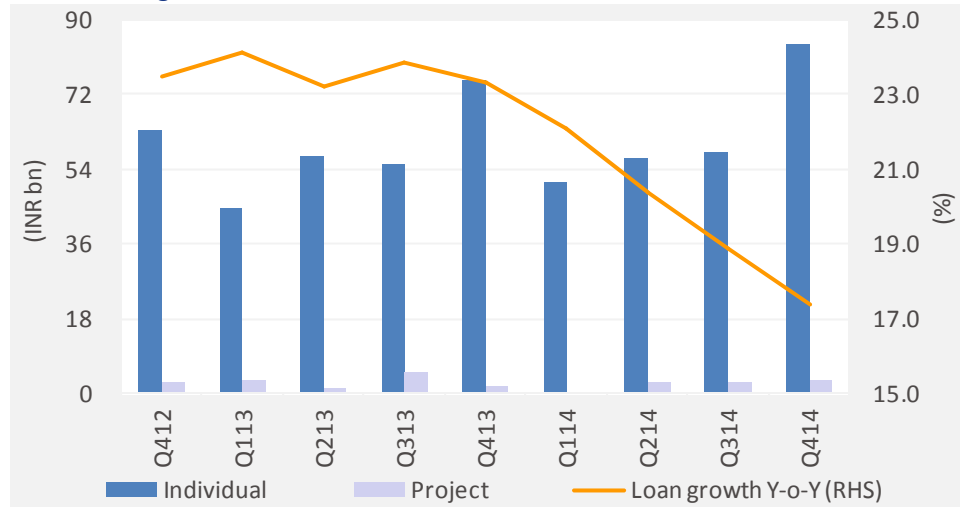
Movement in lending yield	INR mn	Prop (%)	Yield on advances							
			Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14
Fix-O-Floater	125,000	13.7	9.0	9.3	9.3	9.9	10.3	10.5	10.5	10.5
Advantage 5	95,000	10.4	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Freedom	40,000	4.4	10.4	10.4	10.4	10.4	10.2	10.2	10.2	10.2
Other indv floating	625,580	68.5	11.1	11.2	11.3	11.2	11.0	11.2	11.2	11.1
Corporate	27,830	3.0	16.1	15.1	13.8	13.1	14.6	13.3	12.8	12.5
Lending yield	913,410	100.0	10.7	10.7	10.7	10.8	10.8	10.9	10.9	10.8
Yield (individual loans)			10.4	10.5	10.6	10.7	10.7	10.8	10.8	10.8
Yield (corporate loans)			16.1	15.1	13.8	13.1	14.6	13.3	12.8	12.5
Spreads			0.9	1.1	1.1	1.4	1.1	1.2	1.2	1.4

Source: Company, Edelweiss research

Chart 2: NIM improve 24bps QoQ on lower funding cost

Source: Company

Chart 3: Loan growth moderation continues



Source: Company

Financial snapshot

(INR mn)

Year to March	Q4FY14	Q4FY13	% change	Q3FY14	% change	FY14	FY15E	FY16E
Interest income	24,074	20,281	18.7	23,120	4.1	90,733	106,783	125,882
Interest exp	18,743	15,673	19.6	18,543	1.1	71,744	84,859	99,921
Net int. inc. (INR mn)	5,331	4,608	15.7	4,577	16.5	18,989	21,924	25,961
Total income	6,037	5,075	18.9	5,221	15.6	21,603	24,833	29,265
Operating expenses	1,043	946	10.3	733	42.4	3,132	3,513	3,952
Non interest income	705	467	50.9	644	9.5	2,614	2,909	3,304
Operating profit	4,993	4,130	20.9	4,488	11.3	18,470	21,320	25,313
Provisions	(223)	(35)	NA	(75)	NA	215	65	632
Profit before tax	5,216	4,164	25.3	4,563	14.3	18,255	21,254	24,681
Provision for taxes	1,516	1,002	51.3	1,297	16.9	5,083	5,632	6,540
PAT	3,700	3,163	17.0	3,266	13.3	13,172	15,622	18,141
Diluted EPS (INR)	7.3	6.3	16.9	6.5	13.3	26.1	30.9	35.9

Ratios

NII/GII (%)	22.1	22.7		19.8		20.9	20.5	20.6
Cost/income (%)	17.3	18.6		14.0		14.5	14.1	13.5
Tax rate (%)	29.1	24.1		28.4		27.8	26.5	26.5

Balance sheet data (INR mn)

Loan book	913,410	778,120	17.4	864,216	5.7	913,410	1,076,742	1,259,313
Disbursements	87,464	77,250	13.2	61,296	42.7	259,500	297,329	341,929

Ratios

Gross NPA	0.7	0.6		0.8		0.7	0.6	0.6
Net NPA	0.4	0.4		0.5		0.4	0.3	0.3

Company Description

LICHF is the fourth-largest mortgage finance company in India. It provides loans for homes, construction activities, and corporate housing schemes. Almost ~97% of the company's loans are to retail customers and the balance ~3% to project developers. The company has loan outstanding of INR 913 bn as at March 31, 2014. It has 7 regional offices, 13 back offices and 181 marketing offices covering over 450 locations. LIC India is its majority shareholder with 40% equity holding, followed by FIIs at ~30%.

Investment Theme

Post muted earnings growth in FY12/FY13 which were marred by NIM compression and developer loan delinquencies, we expect earnings growth to normalise going forward. Release of provisioning towards dual rate loans and improved visibility of resolution in developer loans in the near term will keep credit cost lower than envisaged earlier. With improving NIMs and ~17% loan growth, we estimate 18% earnings CAGR over FY14-16E.

Key Risks

Disbursements losing traction in individual loans.

NIMs may come under pressure if unable to pass on the pressure of increased funding cost.

Further stress in corporate developer segment in tough macro environment.

Financial Statements

Key Assumptions

Year to March	FY13	FY14	FY15E	FY16E
Macro				
GDP(Y-o-Y %)	5.0	4.8	5.4	6.3
Inflation (Avg)	7.4	6.2	5.5	6.0
Repo rate (exit rate)	7.5	8.0	7.8	7.3
USD/INR (Avg)	54.5	62.0	60.0	58.0
Sector				
Credit growth	14.7	15.0	16.0	18.0
Borrowings growth (%)	13.5	15.0	16.0	18.0
Bank's base rate (%)	9.7	9.5	9.3	9.2
Wholesale borrowing cost (%)	8.9	8.7	8.5	8.3
G-sec yield	7.8	7.6	7.5	7.4
Company				
Operating metric assumptions (%)				
Yield on advances	9.9	9.9	9.9	9.9
Yield on investments	8.0	8.0	8.0	8.0
Net interest margins	2.2	2.3	2.3	2.3
Cost of funds	9.5	9.6	9.5	9.5
Employee cost growth	15.0	10.0	10.0	10.0
Other opex growth	15.0	10.0	13.0	13.0
Tax rate (%)	25.5	27.8	26.5	26.5
Balance sheet assumption (%)				
Provision coverage	41.4	41.9	45.0	45.0
Disbursement growth	21.6	6.5	14.6	15.0
Disbursement to sanction ratio	92.0	90.0	90.0	90.0
Incremental slippage	1.3	1.3	1.3	1.3
Repayment/prepayment rate	15.3	14.9	14.7	14.8
Individual loans/total loans	95.8	96.2	95.8	95.8
Gross NPLs	0.6	0.7	0.6	0.6
Net NPLs	0.4	0.4	0.3	0.3

Income statement

(INR mn)

Year to March	FY13	FY14	FY15E	FY16E
Interest income	74,591	90,733	106,783	125,882
Interest expended	59,246	71,744	84,859	99,921
Net interest income	15,345	18,989	21,924	25,961
Non interest income	2,159	2,284	2,559	2,904
- Fee & forex income	1,413	1,450	1,635	1,881
- Misc. income	746	834	924	1,024
Income from operations	17,504	21,273	24,483	28,865
Other income	49	330	350	400
Net revenues	17,553	21,603	24,833	29,265
Operating expense	2,819	3,132	3,513	3,952
- Employee exp	904	1,038	1,134	1,272
- Depreciation /amortisation	75	76	99	103
- Other opex	1,840	2,018	2,280	2,577
Preprovision profit	14,734	18,470	21,320	25,313
Provisions	998	215	65	632
Profit before tax	13,736	18,255	21,254	24,681
Provision for tax	3,504	5,083	5,632	6,540
Profit After Tax	10,232	13,172	15,622	18,141
Reported PAT	10,232	13,172	15,622	18,141
Basic EPS (INR)	20.3	26.1	30.9	35.9
Shares outstanding (mn)	505	505	505	505
Diluted EPS (INR)	20.3	26.1	30.9	35.9
Dividend per share (INR)	3.8	4.7	5.6	6.5
Dividend payout (%)	21.8	21.1	21.1	21.1

Growth ratios (%)

Year to March	FY13	FY14	FY15E	FY16E
Revenues	8.1	23.1	15.0	17.8
NII growth	10.3	23.7	15.5	18.4
Opex growth	18.9	11.1	12.1	12.5
PPP growth	6.2	25.4	15.4	18.7
Provisions growth	95.5	(78.5)	(69.6)	867.4
Net profit	3.0	28.7	18.6	16.1

Operating ratios

Year to March	FY13	FY14	FY15E	FY16E
Yield on advances	9.9	9.9	9.9	9.9
Yield on assets	10.9	11.1	11.0	11.0
Net interest margins	2.2	2.3	2.3	2.3
Cost of funds	9.5	9.6	9.5	9.5
Spread	0.4	0.3	0.3	0.4
Cost-income	16.1	14.5	14.1	13.5
Tax rate	25.5	27.8	26.5	26.5

Balance sheet (INR mn)				
As on 31st March	FY13	FY14	FY15E	FY16E
Equity capital	1,010	1,010	1,010	1,010
Reserves & surplus	63,802	74,200	86,532	100,853
Shareholders funds	64,812	75,210	87,542	101,863
Short term debt	137,532	162,700	192,802	226,439
Long term debt	550,128	650,798	771,207	905,756
Borrowings	687,660	813,498	964,009	1,132,195
Deferred tax liability	(1,000)	(1,305)	(1,643)	(2,035)
Sources of funds	751,472	887,403	1,049,909	1,232,023
Total net fixed assets	601	575	526	472
Non current investments	2,151	2,470	2,607	2,752
Current Investments	12,189	13,998	14,775	15,597
Cash and equivalents	4,150	4,872	5,743	6,716
Loans and advances	778,120	913,410	1,076,742	1,259,313
Other current assets	6,284	7,113	8,089	9,132
Total current assets (ex cash)	800,743	939,393	1,105,348	1,290,759
Others current liabilities	52,023	55,035	58,573	61,961
Total current liabilities &	52,023	55,035	58,573	61,961
Net current assets (ex cash)	748,720	884,358	1,046,775	1,228,797
Application of funds	751,472	887,403	1,049,909	1,232,023
Book value per share (INR)	128.3	148.9	173.4	201.7

Sanctions and disbursements				
Year to March	FY13	FY14	FY15E	FY16E
Sanctions (INR mn)	264,770	288,333	330,366	379,921
Disbursements (INR mn)	243,589	259,500	297,329	341,929
Disbursements to sanction ratio	92.0	90.0	90.0	90.0
Disbursements growth (%)	21.6	6.5	14.6	15.0
Sanctions growth (%)	5.7	8.9	14.6	15.0

RoE decomposition (%)				
Year to March	FY13	FY14	FY15E	FY16E
Net interest income/assets	2.2	2.3	2.3	2.3
Non interest income/assets	0.3	0.3	0.3	0.3
Net revenues/assets	2.6	2.6	2.6	2.6
Operating expense/assets	0.4	0.4	0.4	0.3
Provisions/assets	0.1	-	-	0.1
Taxes/assets	0.5	0.6	0.6	0.6
Total costs/assets	1.1	1.0	1.0	1.0
ROA	1.5	1.6	1.6	1.6
Equity/assets	8.9	8.5	8.4	8.3
ROAE (%)	16.8	18.8	19.2	19.2

Valuation parameters				
Year to March	FY13	FY14	FY15E	FY16E
Diluted EPS (INR)	20.3	26.1	30.9	35.9
Y-o-Y growth (%)	3.0	28.7	18.6	16.1
Book value per share (INR)	128.3	148.9	173.4	201.7
Adjusted book value per share	124.5	144.0	168.6	196.1
Diluted PE (x)	13.5	10.5	8.8	7.6
Price/BV (x)	2.1	1.8	1.6	1.4
Price/ Adj. BV (x)	2.2	1.9	1.6	1.4
Dividend yield (%)	1.4	1.7	2.0	2.4

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/BV (X)		ROAE (%)	
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
LIC Housing Finance	2,252	8.8	7.6	1.6	1.4	19.2	19.2
HDFC	22,759	21.5	18.4	4.5	4.0	21.8	23.0
Infrastructure Development Finance Co	2,975	8.0	7.3	1.1	0.9	14.1	13.7
Mahindra & Mahindra Financial Services	2,169	11.9	9.6	2.4	2.1	20.2	21.5
Manappuram General Finance	317	5.7	4.6	0.7	0.6	12.9	14.4
Muthoot Finance	1,098	7.1	5.9	1.3	1.1	19.3	20.0
Power Finance Corp	4,171	4.1	3.7	0.8	0.7	21.0	20.2
Reliance Capital	1,523	11.1	10.0	0.7	0.7	5.6	6.4
Rural Electrification Corporation	4,061	4.6	4.1	1.0	0.9	23.3	22.0
Shriram City Union Finance	1,193	12.1	9.9	2.1	1.8	19.2	19.6
Median	-	8.0	7.3	0.8	0.7	19.2	19.6
AVERAGE	-	10.4	8.7	1.2	1.0	15.5	15.8

Source: Edelweiss research

Additional Data

Directors Data

D K Mehrotra	Chairman	Dhananjay Mungale	Director
S Ravi	Director	K Narasimha Murthy	Director
B N Shukla	Director	Jagdish Capoor	Additional Director
Savita Singh	Additional Director	Sushobhan Sarker	Director
Sunita Sharma	Managing Director & CEO		

Auditors - Chokshi & Chokshi

Holding - Top10

	Perc. Holding		Perc. Holding
HSBC Global Investments Mauritius	3.05	Prudential Asset Managament Singapore	2.29
Bank Muscat SAOG	2.28	Birla Sun Life Asset Management	1.78
Eastspring Investment Singapore	1.73	Morgan Stanley Asia/Singapore	1.64
Abu Dhabi Investment Authority	1.49	New India Assurance	1.25
ICICI Prudential Life Insurance	1.24	Government Pension Fund Global	1.08

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bajaj Finserv	BUY	SO	L	Bank of Baroda	BUY	SO	M
Development Credit Bank	BUY	SO	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IndusInd Bank	BUY	SO	L
IDFC	HOLD	SU	L	ING Vysya	BUY	SO	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	REDUCE	SU	M
LIC Housing Finance	BUY	SO	M	Magma Fincorp	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SP	H
Max India	BUY	SO	L	Multi Commodity Exchange of India	UNDER REVIEW	None	None
Muthoot Finance	BUY	SO	M	Oriental Bank Of Commerce	BUY	SP	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SP	M	Repco Home Finance	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	BUY	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bajaj Finserv, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Max India, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
21-Apr-14	DCB Bank	Steady performance; laying strong foundation; <i>Result Update</i>	64	Buy
16-Apr-14	IndusInd Bank	Asset quality on track; NIMs aid performance; <i>Result Update</i>	487	Buy
15-Apr-14	NBFC	Companies Act 2013: DRR norms to be onerous in current form; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	133	40	16	190
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	126	55	9	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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