

October 16, 2015

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Rating	<b>BUY</b>
Price	Rs495
Target Price	Rs520
Implied Upside	5.1%
Sensex	27,226
Nifty	8,238

(Prices as on October 16, 2015)

### Trading data

Market Cap. (Rs bn)	249.9
Shares o/s (m)	505.0
3M Avg. Daily value (Rs m)	1221.1

### Major shareholders

Promoters	40.31%
Foreign	35.01%
Domestic Inst.	7.58%
Public & Other	17.10%

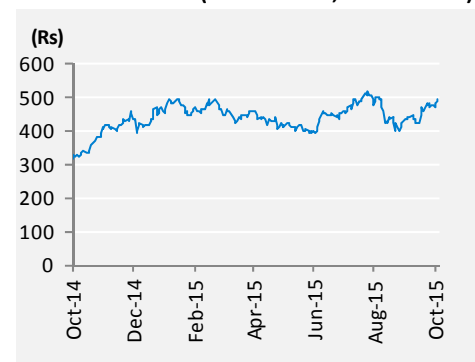
### Stock Performance

(%)	1M	6M	12M
Absolute	12.1	9.7	51.0
Relative	7.2	14.7	46.3

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2016	33.4	34.0	-1.8
2017	41.4	41.4	0.0

### Price Performance (RIC: LICH.BO, BB: LICHF IN)



Source: Bloomberg

Below are the key concall highlights of LICHF for Q2FY16:

- **Share of non-individual loans to increase to ~10-12% by FY16 end:** LICHF intends to focus on profitable growth as it attempts to further improve upon its margins/spreads which are now at a multi-year high. To achieve this, LICHF aims to increase the share of non-individual loan mix (LAP + developer loans) to ~10-12% by FY16 end v/s ~9% currently as spreads on these loans are higher by ~2% over individual loans. LAP disbursements have grown by ~114% in Q2FY16 (107% in H1FY16 v/s overall disbursement growth of 14% YoY). Within individual space, 'Home loan better choice' is the largest selling product for LICHF accounting for 65% of incremental disbursements. Under this product, the company is offering home loans at 9.6% for two years initial fixed tenure.
- **Lending rate to be revised shortly; 35% of the portfolio will get re-priced:** LICHF plans to revise its lending rate over the next few days. Accordingly, 35% of portfolio at pure floating rate carrying an average yield of ~11% (excl. Advantage 5, Super 3 and some other fixed products) will get re-priced.
- **Teaser loans to get re-priced over next two quarters:** Nearly Rs150bn of loans will get re-priced over the next two quarters and the yield on these loans will move from 10.25-10.3% currently to 10.75-11% (if PLR remains unchanged). LICHF is offering a conversion option on all such fixed rate products with nominal charges of Rs1000-2000 in order to retain such customers.
- **Borrowing mix to further move in favour of NCDs; bank-loan mix to decline further:** LICHF further plans to reduce the share of bank borrowings to 12% from 15% currently and further grow the share of bond-borrowing (NCDs). The company is benefitting from benign rate environment and it is now placing NCDs at 8.35% v/s portfolio NCD cost of 9.13%

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Key Financials (Y/e March)	2014	2015	2016E	2017E
Net interest income (Rs m)	19,158	22,658	27,595	33,957
Growth (%)	23.9	18.3	21.8	23.1
Non-interest income (Rs m)	1,080	1,227	1,643	2,122
Operating Profit (Rs m)	17,106	20,093	24,907	30,969
PAT (Rs m)	13,172	13,862	16,848	20,900
EPS (Rs)	26.1	27.5	33.4	41.4
Growth (%)	28.7	5.2	21.5	24.0
Net DPS (Rs)	5.3	6.0	6.6	7.2

Profitability & valuation	2014	2015	2016E	2017E
Spreads / Margins (%)	2.2	2.2	2.2	2.3
RoAE (%)	18.8	18.1	18.9	19.3
RoAA (%)	1.5	1.3	1.4	1.4
P/E (x)	19.0	18.0	14.8	12.0
P/BV (x)	3.3	3.2	2.5	2.1
P/ABV (x)	3.5	3.3	2.6	2.2
Net dividend yield (%)	1.1	1.2	1.3	1.5

Source: Company Data; PL Research

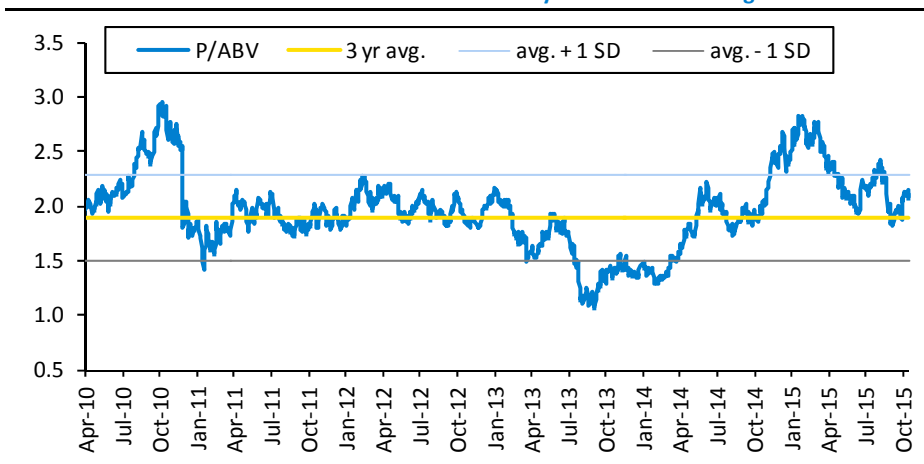
- **Capital position stands comfortable; NHB announcement on risk-weights may push up Tier-1 by 2%:** LICHF has a comfortable Tier-I position of ~12% (6% regulatory requirement) and the company expects this to improve to 14% as and when NHB follows the recent RBI guideline and prescribes lower-risk weight on low-value housing loans. This will enable the company to aggressively focus on growth and preempt any capital raising for next 1-2 years.
- **Asset quality stands comfortable; slippage this quarter was largely technical in nature:** LICHF reported ~16% QoQ increase in developer loan NPL and this was due to one Lease Rental Discounting account which slipped during the quarter. Management suggested that the account will likely turn standard in Q3FY16 which slipped due to technical factors. We expect asset quality trends to improve aided by continuous improvement in LTV ratio, while improved funding opportunities and lower yields may help ease pressure on developers. We maintain **“BUY”** with PT of Rs520.

**Exhibit 1: We maintain ‘BUY’ and PT of Rs520/share based on 2.3x Mar-17 ABV**

PT calculation and upside	
Fair price – EVA	509
Fair price - P/ABV	532
<b>Average of the two</b>	<b>520</b>
<b>Target P/ABV</b>	<b>2.3</b>
<b>Target P/E</b>	<b>12.6</b>
Current price, Rs	492
<b>Upside (%)</b>	<b>6%</b>
Dividend yield (%)	1%
<b>Total return (%)</b>	<b>7%</b>

Source: Company Data, PL Research

**Exhibit 2: LICHF continues to trade at close to three year historical average levels**



Source: Company Data, PL Research

### Income Statement (Rs m)

Y/e March	2014	2015	2016E	2017E
Int. Inc. / Opt. Inc.	90,903	105,761	123,186	145,025
Interest Expenses	71,744	83,102	95,591	111,068
<b>Net interest income</b>	<b>19,158</b>	<b>22,658</b>	<b>27,595</b>	<b>33,957</b>
<i>Growth (%)</i>	<i>23.9</i>	<i>18.3</i>	<i>21.8</i>	<i>23.1</i>
Non interest income	1,080	1,227	1,643	2,122
<i>Growth (%)</i>	<i>(7.5)</i>	<i>13.5</i>	<i>34.0</i>	<i>29.1</i>
Net operating income	20,239	23,885	29,238	36,079
<b>Expenditure</b>				
Employees	1,038	1,293	1,513	1,785
Other expenses	2,018	2,405	2,814	3,321
Depreciation	76	94	4	5
Total expenditure	3,133	3,792	4,331	5,111
<b>PPP</b>	<b>17,106</b>	<b>20,093</b>	<b>24,907</b>	<b>30,969</b>
<i>Growth (%)</i>	<i>23.8</i>	<i>17.5</i>	<i>24.0</i>	<i>24.3</i>
Provision	215	73	1,431	1,726
Other income	1,363	999	1,301	1,493
Exchange Gain / (Loss)	—	—	—	—
<b>Profit before tax</b>	<b>18,255</b>	<b>21,019</b>	<b>24,777</b>	<b>30,735</b>
Tax	5,083	7,158	7,929	9,835
<i>Effective tax rate (%)</i>	<i>27.8</i>	<i>34.1</i>	<i>32.0</i>	<i>32.0</i>
<b>PAT</b>	<b>13,172</b>	<b>13,862</b>	<b>16,848</b>	<b>20,900</b>
<i>Growth (%)</i>	<i>28.7</i>	<i>5.2</i>	<i>21.5</i>	<i>24.0</i>

### Balance Sheet (Rs m)

Y/e March	2014	2015	2016E	2017E
<b>Sources of funds</b>				
Equity	1,010	1,010	1,010	1,010
Reserves & Surplus	74,319	77,174	98,680	115,951
Networth	75,329	78,184	99,690	116,961
<i>Growth (%)</i>	<i>16.2</i>	<i>3.8</i>	<i>27.5</i>	<i>17.3</i>
Loan funds	808,461	941,189	1,182,893	1,487,766
<i>Growth (%)</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>
Others	11,895	24,130	(33,421)	(86,937)
Minority Interest	62,085	75,258	84,934	95,856
Deferred Tax Liability	(2,566)	6,690	7,761	9,002
<b>Total</b>	<b>955,205</b>	<b>1,125,451</b>	<b>1,341,857</b>	<b>1,622,648</b>
<b>Application of funds</b>				
Net fixed assets	756	797	876	964
Advances	913,409	1,083,607	1,301,421	1,576,074
<i>Growth (%)</i>	<i>17.4</i>	<i>18.6</i>	<i>20.1</i>	<i>21.1</i>
Net current assets	7,377	8,152	1,458	1,837
Investments	32,210	31,703	36,790	42,330
<i>Growth (%)</i>	<i>95.2</i>	<i>(1.6)</i>	<i>16.0</i>	<i>15.1</i>
Other Assets	1,445	1,193	1,312	1,443
<b>Total</b>	<b>955,198</b>	<b>1,125,451</b>	<b>1,341,857</b>	<b>1,622,648</b>

Source: Company Data, PL Research.

### Quarterly Financials (Rs m)

Y/e March	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Int. Inc. / Operating Inc.	26,678	28,002	29,174	30,260
Income from securitization	—	—	—	—
Interest Expenses	21,192	21,504	22,585	23,091
<b>Net Interest Income</b>	<b>5,486</b>	<b>6,498</b>	<b>6,589</b>	<b>7,169</b>
<i>Growth</i>	<i>19.9</i>	<i>21.9</i>	<i>30.2</i>	<i>34.8</i>
Non interest income	680	604	481	633
<b>Net operating income</b>	<b>6,166</b>	<b>7,102</b>	<b>7,069</b>	<b>7,803</b>
<i>Growth</i>	<i>18.1</i>	<i>17.7</i>	<i>24.6</i>	<i>31.3</i>
Operating expenditure	882	1,246	835	1,060
<b>PPP</b>	<b>5,283</b>	<b>5,856</b>	<b>6,234</b>	<b>6,743</b>
<i>Growth</i>	<i>17.7</i>	<i>17.3</i>	<i>25.3</i>	<i>35.4</i>
Provision	68	103	443	301
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	5,215	5,753	5,790	6,442
Tax	1,432	1,666	1,650	2,325
Prov. for deferred tax liability	(340)	(305)	(319)	—
<i>Effective tax rate (%)</i>	<i>27.5</i>	<i>29.0</i>	<i>28.5</i>	<i>36.1</i>
<b>PAT</b>	<b>3,443</b>	<b>3,782</b>	<b>3,821</b>	<b>4,117</b>
<i>Growth</i>	<i>5.4</i>	<i>2.2</i>	<i>18.6</i>	<i>20.6</i>

### Key Ratios

Y/e March	2014	2015	2016E	2017E
CMP (Rs)	495	495	495	495
Eq. Shrs. O/s. (m)	505	505	505	505
Market Cap (Rs m)	249,864	249,865	249,865	249,865
Market Cap to AUM (%)	26.2	22.2	18.6	15.4
EPS (Rs)	26.1	27.5	33.4	41.4
Book Value (Rs)	149.2	154.8	197.4	231.6
Adjusted Book Value (Rs)	142.2	150.2	189.4	223.3
P/E (x)	19.0	18.0	14.8	12.0
P/BV (x)	3.3	3.2	2.5	2.1
P/ABV (x)	3.5	3.3	2.6	2.2
DPS (Rs)	5.3	6.0	6.6	7.2
Dividend Yield (%)	1.1	1.2	1.3	1.5

### Asset Quality

Y/e March	2014	2015	2016E	2017E
Gross NPAs (Rs m)	6,090	4,947	7,809	9,141
Net NPAs (Rs m)	3,536	2,344	4,061	4,185
Gross NPAs to Gross Adv. (%)	0.7	0.5	0.6	0.6
Net NPAs to Net Adv. (%)	0.4	0.2	0.3	0.3
NPA Coverage (%)	41.9	52.6	48.0	54.2

### Profitability (%)

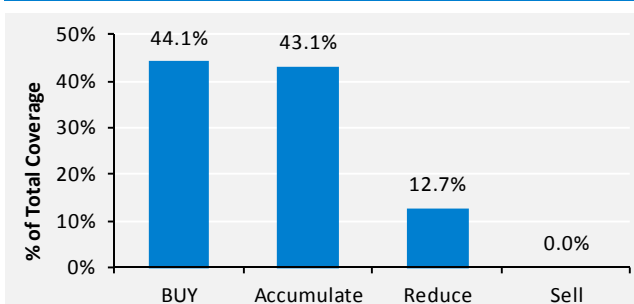
Y/e March	2014	2015	2016E	2017E
NIM	2.2	2.2	2.2	2.3
RoAA	1.5	1.3	1.4	1.4
RoAE	18.8	18.1	18.9	19.3

Source: Company Data, PL Research.

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<b>Reduce</b>	: Underperformance to Sensex over 12-months
<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month
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