

January 17, 2017

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Rating	Accumulate
Price	Rs532
Target Price	Rs645
Implied Upside	21.2%
Sensex	27,236
Nifty	8,398

(Prices as on January 17, 2017)

Trading data

Market Cap. (Rs bn)	268.8
Shares o/s (m)	505.0
3M Avg. Daily value (Rs m)	1569.6

Major shareholders

Promoters	40.31%
Foreign	32.83%
Domestic Inst.	14.39%
Public & Other	12.47%

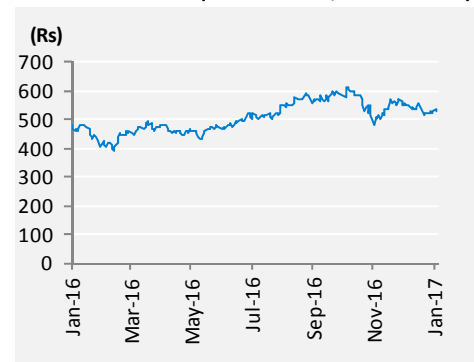
Stock Performance

(%)	1M	6M	12M
Absolute	(3.5)	1.4	13.9
Relative	(6.4)	3.5	2.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	44.5	45.3	-1.9
2019	53.1	53.0	0.1

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



Source: Bloomberg

LICHF net earnings of Rs4.99bn were in-line with our estimates with strong NII growth of 22.6% YoY at Rs9.15bn (PLe: Rs8.82bn) but was offset by lower fee income (down 45% QoQ). Overall loan book grew at 15.3% YoY, but growth was mainly led by strong growth in developer book (45% YoY) and LAP book (87% YoY). Core retail book growth continue to be slow at 9.4% YoY. Competitive landscape continues to be tough with all asset financiers getting into faster interest rate cuts, while cost repricing has been gradual which will keep spreads steady. We retain 'Accumulate' with revised PT of Rs645 (from Rs630), based on 2.3x as we rollover to Sep-18E ABV.

- **In line performance on core operations:** NII growth was better than expectation at Rs9.15bn up ~22.6% YoY on back of improved margins by 7bps QoQ to 2.75% as LICHF got good benefit from lowering cost of funds (14bps down QoQ) and yields were supported from strong growth in developer & LAP book. Fee income disappointed down 45% QoQ mainly on processing fees waiver in Q3FY17. LICHF expects margins have some more room for improvement as incremental cost of borrowing has been much lower in Q3FY17 which is not reflected fully reflected in borrowing costs, but we believe that the incremental benefit on cost will be offset by reduction in interest rates.

- **Core mortgage portfolio growth remains a worry:** Core retail loan growth remained slower at ~9.4% YoY with disbursements de-growing 7.2% YoY which is also partly due to demonetisation. Overall loan book growth has been led by non-core portfolio with developer loan disbursement increasing 2x QoQ. Non-core book has now reached 13.7% of loan book, with management mentioning that they would like to maintain the book at current levels as outstanding sanctions are comparatively lower and remain cautious on growing the LAP portfolio.

- **Asset quality remains stable; valuations remain reasonable:** Asset quality remained stable with both GNPA's & NNPA's down 1bps QoQ at 0.56% & 0.27% respectively. Valuations of 2.1x FY18E & 1.7x FY19E remains at reasonable level, but core retail book continues to struggle with risk of repricing at lower levels on competitive intensity offsetting lowering borrowing cost. Maintain Accumulate.

Key Financials (Y/e March)	2016	2017E	2018E	2019E
Net interest income (Rs m)	29,724	36,436	42,180	49,855
Growth (%)	31.2	22.6	15.8	18.2
Non-interest income (Rs m)	1,453	1,110	1,604	2,270
Operating Profit (Rs m)	26,490	31,756	36,829	43,818
PAT (Rs m)	16,608	19,286	22,448	26,821
EPS (Rs)	32.9	38.2	44.5	53.1
Growth (%)	19.8	16.1	16.4	19.5
Net DPS (Rs)	5.5	6.0	7.0	8.0

Profitability & valuation	2016	2017E	2018E	2019E
Spreads / Margins (%)	2.4	2.6	2.6	2.6
RoAE (%)	19.6	18.7	18.1	18.6
RoAA (%)	1.4	1.4	1.4	1.4
P/E (x)	16.2	13.9	12.0	10.0
P/BV (x)	2.9	2.3	2.0	1.7
P/ABV (x)	3.0	2.4	2.1	1.8
Net dividend yield (%)	1.0	1.1	1.3	1.5

Source: Company Data; PL Research

Exhibit 1: Better performance on operations supported from growth in non-core book

P&L (Rs m)	Q3FY17	Q3FY16	YoY chg. (%)	Q2FY17	QoQ chg. (%)
Interest Income	35,125	31,018	13.2	34,283	2.5
Interest Expense	25,972	23,549	10.3	25,626	1.3
Net Interest Income	9,154	7,469	22.6	8,657	5.7
Other operating Inc.	154	375	(58.9)	281	(45.3)
Other Income	208	175	18.9	335	(37.9)
Total Income	9,516	8,018	18.7	9,273	2.6
Employee Expense	615	432	42.5	592	4.0
Other Expenses	792	782	1.2	772	2.6
Operating Profit	8,109	6,804	19.2	7,909	2.5
Provisions	453	344	31.5	303	49.4
Tax	2,663	2,271	17.3	2,659	0.2
Net Profit	4,993	4,189	19.2	4,948	0.9
Balance Sheet (Rs m)					
O/S Loans	1,353,660	1,173,960	15.3	1,310,960	3.3
-Individual loans	1,308,780	1,143,050	14.5	1,274,340	2.7
<i>Retail Home Loans</i>	1,167,999	1,068,034	9.4	1,147,177	1.8
<i>Retail LAP / Non Core</i>	140,781	75,016	87.7	127,163	10.7
-Corporate loans	44,880	30,910	45.2	36,620	22.6
-Individual loans (%)	96.7	97.4	(0.7)	97.2	(0.5)
<i>Retail Home Loans</i>	86.3	91.0	(4.7)	87.5	(1.2)
<i>Retail LAP / Non Core</i>	10.4	6.4	4.0	9.7	0.7
-Corporate loans (%)	3.3	2.6	0.7	2.8	0.5
Incr. Disbursements	96,840	84,210	15.0	91,230	6.1
-Individual loans (%)	88.3	95.8	(7.5)	96.0	(7.6)
-Developer loans (%)	11.7	4.2	7.5	4.0	7.6
Asset quality					
Gross NPL	7,590	6,820	11.3	7,500	1.2
Gross NPL (%)	0.56	0.6	(0.0)	0.57	(0.0)
Net NPL	3,610	3,757	(3.9)	3,680	(1.9)
Net NPL (%)	0.27	0.32	(0.1)	0.28	(0.0)
Coverage ratio (%)	52.4	44.9	7.5	50.9	1.5
Others / Ratios (%)					
Yield on Loans	10.5	10.7	(0.2)	10.6	(0.1)
Cost of Borrowings	8.8	9.2	(0.3)	9.0	(0.1)
Spread	1.72	1.57	0.2	1.73	(0.0)
NIMs	2.75	2.58	0.2	2.68	0.1
Cost/ Income Ratio	14.79	15.14	(0.4)	14.70	0.1

Source: Company Data, PL Research

Key Q3FY17 Concall Highlights

Assets – pricing/growth/outlook:

- **Loan growth – Outlook:** LICHF targets overall loan growth of 15% for FY17 and is on track, while targeting individual loan growth of 15% (incl. LAP book).
 - **Core loan growth outlook** – Focus remains on growth in core loan book with new introduction of new products like in affordable housing segment at competitive rates.
 - **Non-core loan portfolio** – Share of LAP portfolio has further increased by 70 bps to 10.4% of loans. Disbursements in LAP portfolio were quite strong this quarter at Rs16bn. Disbursements increased 2x in project loans from earlier sanctioned loans. Outstanding sanctions remain at Rs20bn to A+ rated developers.
- **Floating portfolio** – Pure floating portfolio has increased to 62% from 56% in Q4FY16 mainly due to pure floating rate schemes being launched and also some contribution from fixed to floating rate products.

Liabilities - pricing/growth/outlook:

- NCDs of Rs35bn with coupon of 9.4%-9.5% will get matured in Q4FY17 giving some room for repricing at lower rates. Almost Rs120bn of NCDs will get matured over FY18 and Rs155bn in FY19. This will help cost of borrowings to move down further. Also CoB is not completely reflecting rates offered during Nov-Dec.
- Bank borrowing share as come off to 9.2%, but if rates reduce further incremental borrowing could be through banking channels.

Margins/Yields:

- Margins should see some improvement with further room to lower cost of funds, currently standing at 2.75% which is highest amongst past several quarters.
- Incremental origination yields on core portfolio is at 8.5-8.7%, while re pricing of loans from fixed to floating are happening at 9.4% (on home loans). On LAP book, incremental origination is at 10.5%-11% rates and developer book origination yields also remain stable at 13-14%.

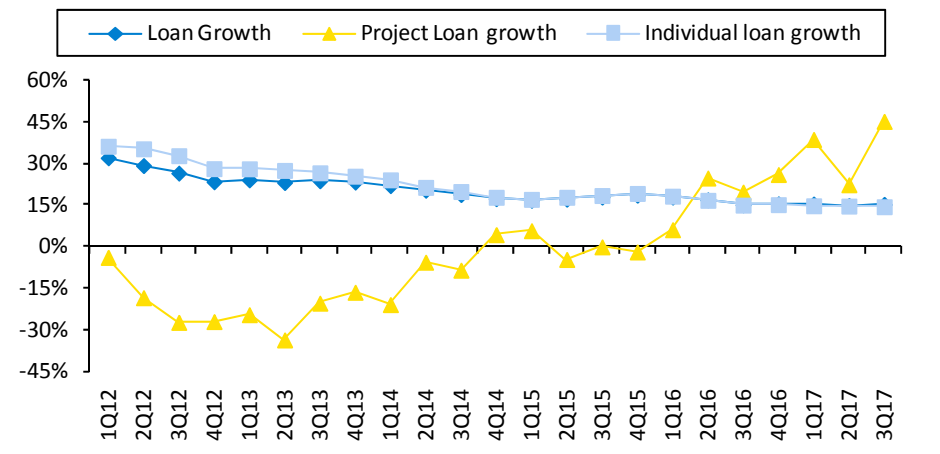
Asset Quality:

- Asset quality is quite stable both in retail as well developer loan book. GNPA Ratio and NNPA Ratio remained stable at 0.56% and 0.27% respectively.

Others:

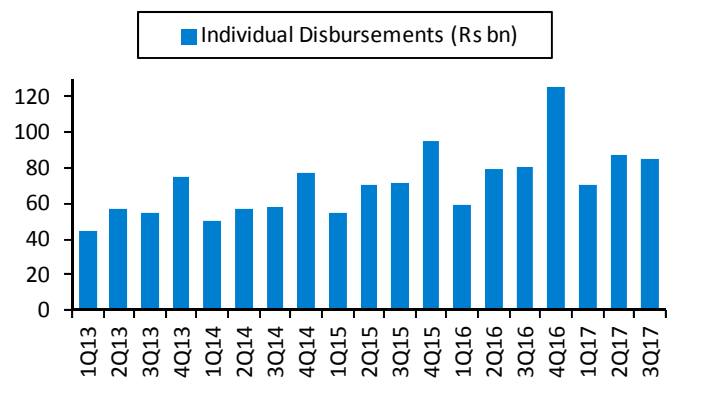
- Processing fees have come down both on yearly and sequentially mainly on lumpy processing fees on high ticket disbursements last year and waiving off processing fees in Q3FY17. However, going forward some uptick will be seen as LICHF has hiked processing charges across products.
- Opex cost should normalize going ahead as wage arrears of Rs75mn have been completed, while should see some rationalisation in commission. Will maintain C/I Ratio of 15%-16.

Exhibit 2: Loan book growth led by developer book and LAP, both growing at lower base



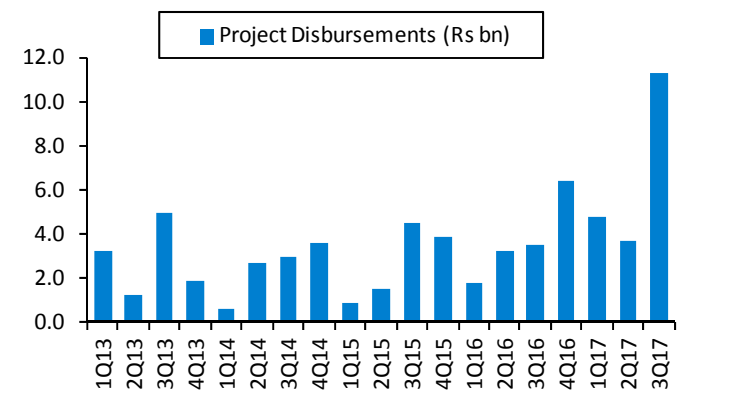
Source: Company Data, PL Research

Exhibit 3: Individual disbursement remained stable



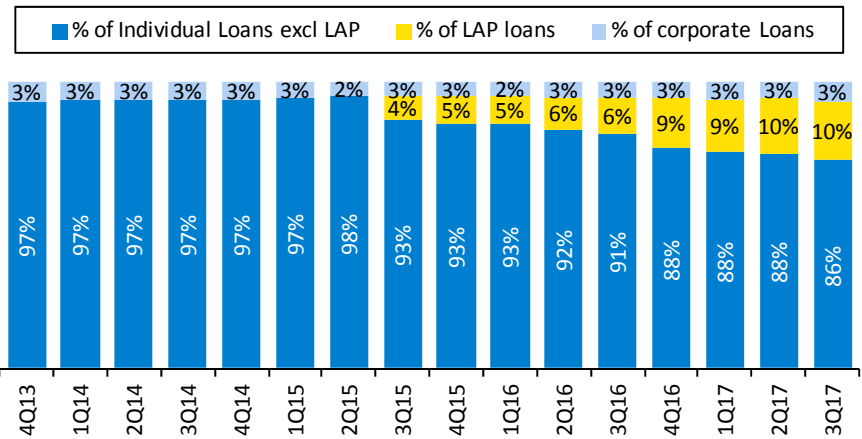
Source: Company Data, PL Research

Exhibit 4: Developer loan disbursements was comparatively robust



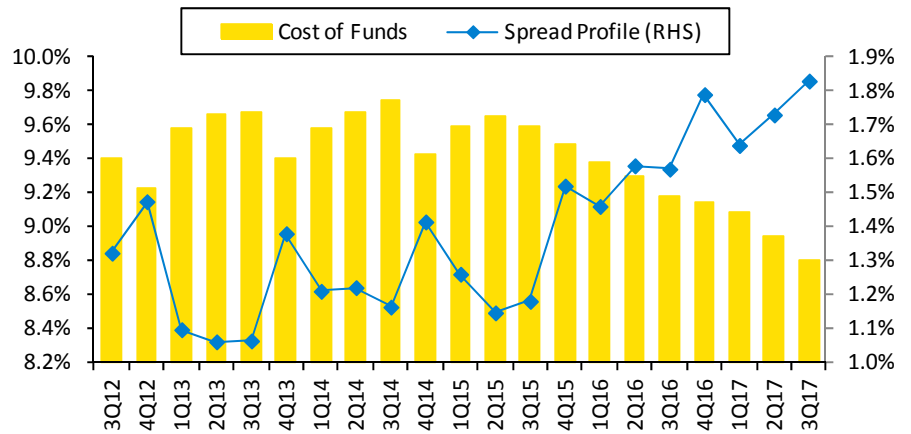
Source: Company Data, PL Research

Exhibit 5: LAP book continues to grow strong, while core book struggles to grow



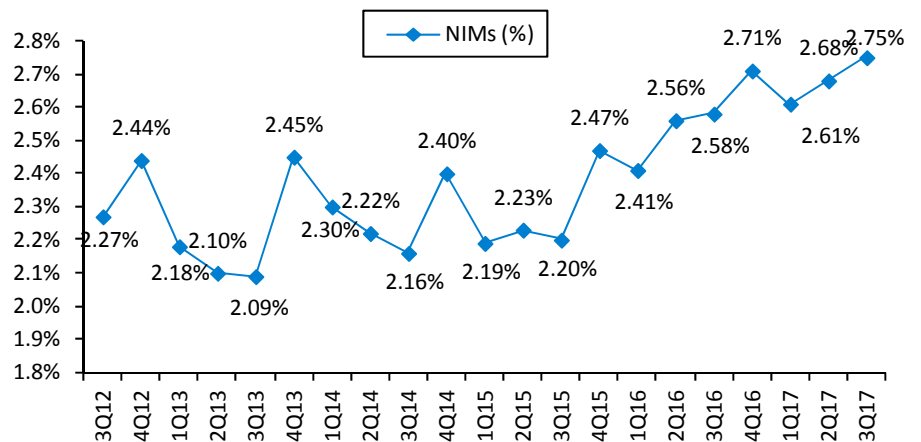
Source: Company Data, PL Research

Exhibit 6: Spreads expand further as cost of funding continues to move down while benefitting from non-core book growth aiding yields

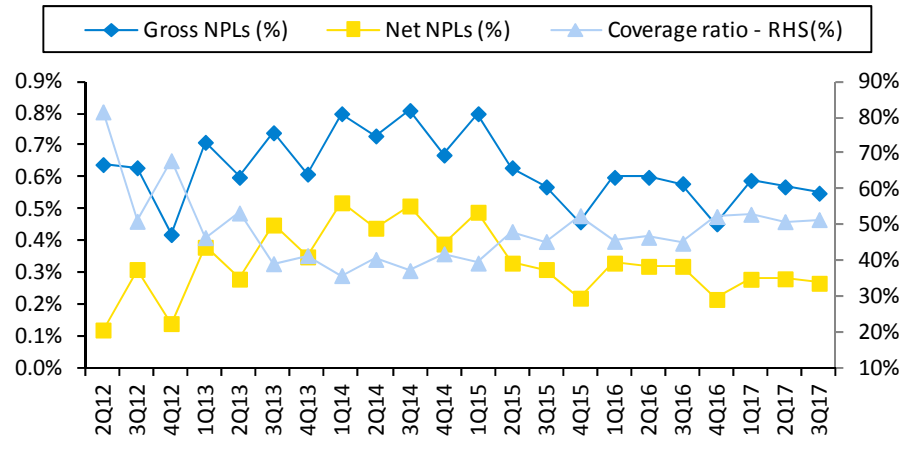


Source: Company Data, PL Research

Exhibit 7: Margin improves on better mix of loans



Source: Company Data, PL Research

Exhibit 8: Overall asset quality remained stable with small improvement from developer book


Source: Company Data, PL Research

Exhibit 9: ROE to remains stable over FY17-FY19 as we factor-in steady spreads

RoE decomposition (%)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Interest income	10.13	10.21	10.31	10.19	10.17	10.03	9.71	9.59
Interest expenses	7.76	8.10	8.14	8.00	7.71	7.40	7.08	6.96
Net interest income	2.37	2.11	2.17	2.18	2.46	2.63	2.63	2.64
Other income	0.38	0.26	0.28	0.21	0.17	0.13	0.15	0.17
Total income	2.75	2.37	2.45	2.40	2.63	2.76	2.78	2.80
Employee expenses	0.12	0.12	0.12	0.12	0.12	0.18	0.18	0.18
Other operating expenses	0.28	0.26	0.24	0.24	0.26	0.24	0.25	0.26
Operating profit	2.34	1.99	2.09	2.03	2.24	2.34	2.35	2.36
Provisions for NPA/ others	0.26	0.11	0.02	0.01	0.12	0.18	0.18	0.17
Taxes	0.54	0.48	0.58	0.69	0.75	0.77	0.77	0.78
ROAA	1.55	1.40	1.49	1.34	1.38	1.39	1.40	1.42
ROAE	18.56	16.82	18.80	18.06	19.58	18.67	18.08	18.59

Source: Company Data, PL Research

Exhibit 10: We slightly tweak our estimates to factor in slightly higher yield from non-core book, while decrease fee assumptions

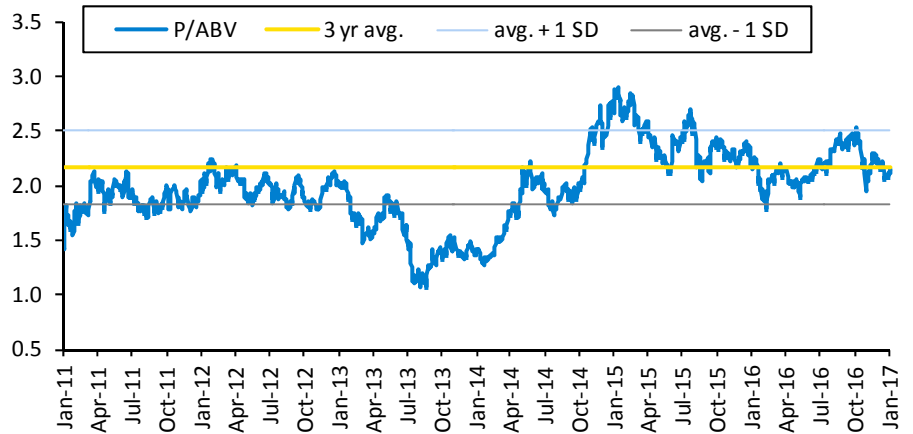
(Rs mn)	Old		Revised		% change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Net interest income	35,882	43,461	36,436	42,180	1.5	(2.9)
Operating profit	32,484	39,190	32,456	37,619	(0.1)	(4.0)
Net profit	19,381	23,431	19,286	22,448	(0.5)	(4.2)
EPS, Rs.	38.4	46.4	38.2	44.5	(0.5)	(4.2)
BVPS, Rs.	224.0	263.0	223.5	260.3	(0.2)	(1.0)
Price target, Rs.	630		645		2.2	
Recommendation	Accumulate		Accumulate			

Source: Company Data, PL Research

Exhibit 11: We maintain Accumulate with increased PT to Rs645 (from Rs630) based on 2.3x Sep-18E ABV (rolled over from Mar-18E ABV)

PT calculation and upside	
Fair price - EVA	643
Fair price - P/ABV	647
Average of the two	645
Target P/ABV	2.3
Target P/E	13.2
Current price, Rs	531
Upside (%)	21%
Dividend yield (%)	1%
Total return (%)	23%

Source: Company Data, PL Research

Exhibit 12: LICHF – One year forward P/ABV trend


Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017E	2018E	2019E
Int. Inc. / Opt. Inc.	122,792	139,101	155,787	181,439
Interest Expenses	93,068	—	—	—
Net interest income	29,724	36,436	42,180	49,855
<i>Growth (%)</i>	31.2	22.6	15.8	18.2
Non interest income	1,453	1,110	1,604	2,270
<i>Growth (%)</i>	18.4	(23.6)	44.5	41.5
Net operating income	31,177	37,546	43,784	52,125
Expenditure				
Employees	1,503	2,436	2,874	3,420
Other expenses	3,086	—	—	—
Depreciation	97	92	101	111
Total expenditure	4,687	2,528	2,975	3,531
PPP	26,490	31,756	36,829	43,818
<i>Growth (%)</i>	31.8	19.9	16.0	19.0
Provision	1,465	2,556	2,815	3,142
Other income	610	700	790	907
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	25,636	29,901	34,804	41,582
Tax	9,028	10,615	12,355	14,762
<i>Effective tax rate (%)</i>	35.2	35.5	35.5	35.5
PAT	16,608	19,286	22,448	26,821
<i>Growth (%)</i>	19.8	16.1	16.4	19.5

Balance Sheet (Rs m)

Y/e March	2016	2017E	2018E	2019E
Sources of funds				
Equity	1,010	1,010	1,010	1,010
Reserves & Surplus	90,450	114,082	132,287	154,257
Networth	91,460	115,092	133,297	155,267
<i>Growth (%)</i>	17.0	25.8	15.8	16.5
Loan funds	1,071,159	—	—	—
<i>Growth (%)</i>	—	—	—	—
Others	38,153	24,628	17,453	42,676
Minority Interest	96,097	108,463	122,421	138,177
Deferred Tax Liability	8,109	9,406	10,911	12,657
Total	1,304,978	1,486,807	1,741,271	2,064,933
Application of funds				
Net fixed assets	920	1,012	1,113	1,225
Advances	1,251,732	1,438,544	1,689,227	2,007,348
<i>Growth (%)</i>	15.5	14.9	17.4	18.8
Net current assets	8,948	1,638	2,064	2,601
Investments	42,036	44,138	47,244	51,975
<i>Growth (%)</i>	32.6	5.0	7.0	10.0
Other Assets	1,341	1,475	1,622	1,784
Total	1,304,977	1,486,807	1,741,271	2,064,933

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Int. Inc. / Operating Inc.	32,057	33,263	34,283	35,125
Income from securitization	—	—	—	—
Interest Expenses	23,843	25,018	25,626	25,972
Net Interest Income	8,214	8,245	8,657	9,154
<i>Growth</i>	26.4	25.1	20.7	22.6
Non interest income	683	535	616	362
Net operating income	8,897	8,780	9,273	9,516
<i>Growth</i>	25.3	24.2	18.8	18.7
Operating expenditure	1,578	1,382	1,364	1,407
PPP	7,319	7,399	7,909	8,109
<i>Growth</i>	25.0	18.7	17.3	19.2
Provision	376	1,165	303	453
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	6,943	6,234	7,606	7,656
Tax	2,463	2,156	2,659	2,663
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	35.5	34.6	35.0	34.8
PAT	4,480	4,078	4,948	4,993
<i>Growth</i>	18.5	6.7	20.2	19.2

Key Ratios

Y/e March	2016	2017E	2018E	2019E
CMP (Rs)	532	532	532	532
Eq. Shrs. O/s. (m)	505	505	505	505
Market Cap (Rs m)	268,751	268,751	268,751	268,751
Market Cap to AUM (%)	20.6	18.1	15.4	13.0
EPS (Rs)	32.9	38.2	44.5	53.1
Book Value (Rs)	181.1	227.9	264.0	307.5
Adjusted Book Value (Rs)	175.8	222.0	259.1	303.6
P/E (x)	16.2	13.9	12.0	10.0
P/BV (x)	2.9	2.3	2.0	1.7
P/ABV (x)	3.0	2.4	2.1	1.8
DPS (Rs)	5.5	6.0	7.0	8.0
Dividend Yield (%)	1.0	1.1	1.3	1.5

Asset Quality

Y/e March	2016	2017E	2018E	2019E
Gross NPAs (Rs m)	5,678	7,480	8,953	10,639
Net NPAs (Rs m)	2,705	2,973	2,475	1,962
Gross NPAs to Gross Adv. (%)	0.5	0.5	0.5	0.5
Net NPAs to Net Adv. (%)	0.2	0.2	0.1	0.1
NPA Coverage (%)	52.4	60.3	72.4	81.6

Profitability (%)

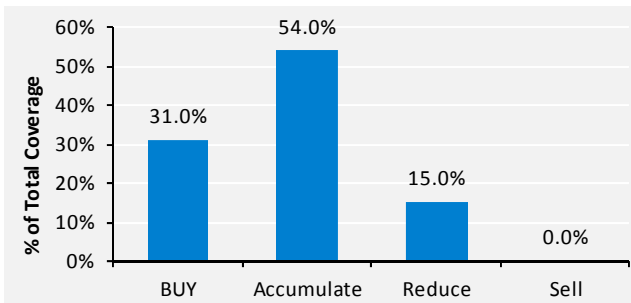
Y/e March	2016	2017E	2018E	2019E
NIM	2.4	2.6	2.6	2.6
RoAA	1.4	1.4	1.4	1.4
RoAE	19.6	18.7	18.1	18.6

Source: Company Data, PL Research.

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