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Company Updates

LIC housing Finance

Better play in NBFC space... reiterate buy with PT of 575...

We reiterate buy on LIC Housing Finance as it remains our preferred pick in Housing finance space over other NBFCs mainly due to 1) healthy Loan growth of 16% CAGR over FY16-18E, 2) strong NIMs of 2.5%, 3) Best in class asset quality with Gross and Net NPA of 0.5% and 0.2% respectively, 4) strong earnings CAGR of 16% for FY16-18E reflecting ROEs / ROAs of 19% / 1.4% for FY18E and 5) reasonable valuation of 2.3x and 2.0x for FY17E and FY18E ABV. Reiterate buy with target price of Rs 575, valuing it at 2.4x FY18E ABV.

Investment rationale:

Loan book likely to grow by 16% CAGR in FY16-18E:

LIC housing finance's loan book has grown at healthy growth rate of 20% CAGR in last 5 years (FY11-16) largely led by strong growth in individual loan book of 21% CAGR over the same period. Project loan segment was muted mainly due to company's conscious decision of not growing in this segment on concerns of continuous stress (-4% CAGR over same period). We expect LIC Housing's loan book to grow by 16% CAGR over FY16-18E largely led by healthy growth in individual loan segment. In Q4FY16, LICHSFG's loan book grew by 16% yoy led by higher growth in Loan against property segment which grew by 122% yoy partly due to low base. However pure home loans (retail loans) grew modest 10% yoy. Project loan also picked up during Q4FY16 as it grew by 26% yoy. Disbursements growth was strong at 33% yoy led by higher growth in LAP and Project loans.

Loan (Rs mn)	% of total	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
Loan book	100.0	1251732	1083610	15.5	1173960	6.6
Individual	97.3	1217310	1056300	15.2	1143050	6.5
Project	2.7	34420	27310	26.0	30910	11.4
Disbursements	100.0	132160	99380	33.0	84210	56.9
Individual	95.2	125760	95500	31.7	80670	55.9
Project	4.8	6400	3880	64.9	3540	80.8

Source: Company, IndiaNivesh Research

NIMs to remain stable:

We are expecting NIMs of LIC housing to remain stable at 2.5%. In Q4FY16, NIMs of LICHSFG has surprised positively due to both 1) decline in cost of funds by 29 bps qoq to 8.9% and 2) better yields due to high growth in LAP and project loans.

Yields/Costs/Margins (%)	Q4FY16	Q4FY15	YoY bps	Q3FY16	QoQ bps
NIM	2.7	2.5	24	2.6	13
Yield on loans	10.6	10.7	-8	10.7	-15
Individual	10.5	10.6	-5	10.7	-13
Project	12.0	13.3	-133	12.7	-71
Cost of funds	8.9	9.2	-31	9.2	-29
Spread	1.7	1.5	23	1.6	14

Source: Company, IndiaNivesh Research

Borrowings (Rs mn)	% of total	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
Banks	12.7	140889	169923	-17.1	129770	8.6
NHB Refinance	2.7	29953	34757	-13.8	33221	-9.8
LIC Term Loan	0.1	1109	965	14.9	1038	6.9
NCD	77.3	857535	700931	22.3	798345	7.4
Sub. Bonds	1.3	14422	14965	-3.6	15572	-7.4
Tier II Bonds	1.0	11094	14965	-25.9	10382	6.9
Public Deposits	3.4	37718	24137	56.3	35297	6.9
Others	1.5	16640	4827	244.7	15572	6.9
Outstanding Borrowings	100.0	1109360	965470	14.9	1038160	6.9

Source: Company, IndiaNivesh Research

Asset quality remains stable, lower LTVs in LAP makes LICHSG better than peers:

Asset quality of LICHSG was maintained at 0.45% Gross NPA and 0.22% Net NPA. Moreover LICHSG is better than peers in LAP mainly because 1) it has significantly lower LTVs of 25-30% compared to peers, 2) ~60% of customers are already having strong track record with LICHSG, 3) Average Ticket Size (ATS) is Rs 1.25 mn which is lower than industry as well as compared to closest peers and 4) Customer profile is salaried which is different compared to other HFCs providing LAP for business.

Gross/Net NPA (Rs mn)	Q4FY16	Q4FY15	% YoY	Q3FY16	% QoQ
Gross NPA	5678	4947	14.8	6820	-16.7
Net NPA	2973	2344	26.8	3740	-20.5
Gross NPA (%)	0.45	0.46	-1bps	0.58	-13bps
Net NPA (%)	0.22	0.22	0bps	0.32	-10bps
PCR (%)	47.6	52.6	-497bps	45.2	247bps

Source: Company, IndiaNivesh Research

Valuation:

LIC Housing continue to remain our top bet in Housing finance space over other NBFCs driven by 1) 16% CAGR in Loan growth of FY16-18E, 2) strong NIMs of 2.5%, 3) Best in class asset quality and 4) strong return profile of 19% ROEs / 1.4% ROAs for FY18E. At CMP of Rs 482, LICHSG is trading at P/ABV of 2.3x and 2x for FY17E and FY18E respectively. We reiterate buy on LIC Housing with target price of Rs 575, valuing it at 2.4x FY18E ABV.