

LIC Housing Finance –

Stable performer, reasonable valuations... upgrade to buy from hold with revised target price of Rs 485...

We upgrade LIC Housing Finance to BUY from HOLD as we believe 1) softening of interest rates at wholesale level by ~100 bps and 10 year G sec yields falling by ~50 bps in last 3 months and 2) decline in lending rates by banks in early FY16 is likely to play well for the company. Management indicating that incremental market borrowings cost for LIC Housing has come down significantly to 8.6% as against ~9.6% earlier. This along with increasing proportion of LAP is likely to help company in increasing NIMs. LIC Housing has disbursed Rs 6 bn in project loans segment till Q2FY15 which is exactly in line with our project loan disbursement assumption and further company has strong pipeline of Rs 10 bn for H2FY15. With strong pipeline of sanctioning in project loans, focus on LAP and decline in interest rates, we are increasing our loan book assumption to 19% CAGR for FY14-16E and NIMs for FY16E to 2.27% as against earlier assumption of 18% CAGR and 2.2% respectively. Further LIC Housing's valuation remains of 2.2x for FY16E comforts us as against 2.5-3.5x for other NBFCs. Upgrade to BUY with revised target price of Rs 485, valuing it at 2.5x FY16E ABV.

Loan book likely to grow by 19% CAGR:

We expect loan book of LIC housing Finance is likely to grow by 19% CAGR over FY14-16E as against our earlier assumption of 18% CAGR over the same period. Increase in assumption is mainly led by strong pipeline of sanctioned project loans of Rs 10 bn and thrust on increasing the LAP book along with stable high teen growth in individual loan book. LIC housing has disbursed Rs 6 bn in project loan segment in H1FY15 and likely to disburse the sanctioned amount in H2FY15. Currently Individual loan book constitutes 93.5% to loan book, LAP is 4% and Project loan at 2.5%.

Margins to improve in FY16E:

Currently ~68% of borrowings of LIC Housing are NCDs and 22% are from banks. As per management, incremental cost of market borrowings for LIC housing finance has come down to 8.6% as against 9.6% in Q2FY15 which is likely to help in improving margins. Significant benefit of this will be visible in FY16 wherein we expect margins to improve to 2.27%. However Management is targeting for NIM of 2.75% by FY17E which will be led by 1) increase in proportion of LAP to 5% from 4% currently, 2) Pick up in project loans in H2FY15 and 3) change in borrowing mix from banks to NCDs where the interest differential is 60-80 bps.

Stable asset quality:

Asset quality of LIC housing has always been best in the industry with Net NPA of 0.3-0.5% in last 2 years. In Q2FY15, Asset quality of LIC housing has surprised positive as Gross and Net NPA improved by 18 and 15 bps qoq to 0.63% and 0.33% respectively. Gross NPA in individual loan was stable qoq at 0.38% (0.46% in Q2FY14) and project loan Gross NPA has improved to Rs 2.5 bn from Rs 3.9 bn in Q1FY15. Provision coverage ratio improved to 48% from 39% in Q1FY15. One project loan account of Rs 1.3 bn was recovered during Q2FY15. As a result there was a write back of provisioning to the extent of Rs 200 mn due to recovery of one project loan account.

Valuation:

We continue to prefer LIC Housing Finance in housing finance space as it continues to perform well in terms of loan book, likely improvement in margins, stable asset quality and reasonable valuations amongst peers. We are revising upwards our loan book assumptions to 19% CAGR in FY14-16E, NIMs to 2.27% from 2.2% earlier. As a result, we revise Net profit by 1% and 3% for FY15E and FY16E respectively with ROE of 18% and ROA of 1.4% for FY16E. At CMP of Rs 423, LIC housing finance is trading at P/ABV of 2.2x for FY16E which is lower as against peer valuation of 2.5-3.5x for FY16E. We upgrade LIC housing to BUY from HOLD with upwards revised target price of Rs 485, valuing it at 2.5x FY16E ABV

Income Statement (Rs mn)	FY13	FY14	FY15E	FY16E
Interest Income	74591	90733	106432	126926
Interest Expense	59246	71744	84374	100004
Net Interest Income	15345	18989	22059	26922
Other Income	1998	2613	2713	3113
Net Income	17343	21602	24772	30034
Total Income	76589	93347	109146	130038
Total Expenses	2819	3133	3709	4243
Pre Provision Profit	14524	18470	21063	25791
Provisions	789	215	200	250
Profit Before Tax	13736	18255	20863	25541
Tax	3504	5083	7088	8677
Profit After Tax	10232	13172	13775	16864

Source: Company, IndiaNivesh Research

Balance Sheet (Rs Mn)	FY13	FY14	FY15E	FY16E
Liabilities				
Equity	1010	1010	1010	1010
Reserves and Surplus	63803	74319	85202	98938
Net Worth	64813	75329	86212	99948
Borrowings	687641	820400	972267	1161565
Other Liabilities & Provisions	53149	62085	74998	89009
Total Liabilities	805602	957814	1133477	1350522
Assets				
Net Block	624	756	880	927
Loans & advances	778120	913409	1080163	1290468
Investments & Other Assets	26852	43586	52434	59126
Total Assets	805602	957814	1133477	1350522

Source: Company, IndiaNivesh Research

Valuation Ratios	FY13	FY14	FY15E	FY16E
Earning Per Share (Rs)	20.3	26.1	27.3	33.4
Book Value Per Share (Rs)	128	149	171	198
Adj Book Value Per Share (Rs)	123	143	164	191
Dividend Per Share (Rs)	3.8	4.5	4.9	5.3
P/E (x)	20.9	16.2	15.5	12.7
P/BV (x)	3.3	2.8	2.5	2.1
P/ABV (x)	3.4	3.0	2.6	2.2
Growth Y-o-Y (%)				
Loan	23.4	17.4	18.3	19.5
Borrowing	22.6	19.3	18.5	19.5
Balance sheet	22.5	18.9	18.3	19.1
Net Interest Income	10.3	23.7	16.2	22.0
Other Income	-14.0	30.8	3.8	14.7
Net Profit	11.9	28.7	4.6	22.4
Return Ratios (%)				
ROA	1.4	1.5	1.3	1.4
ROE	16.8	18.8	17.1	18.1
Yield / Margin (%)				
Yield on Funds	10.6	10.7	10.7	10.7
Cost of Funds	9.5	9.5	9.4	9.4
Interest Spread	1.1	1.2	1.3	1.3
Net Interest Margin	2.2	2.2	2.2	2.3
Net Profit Margin	13.4	14.1	12.6	13.0
Dividend Yield	0.9	1.1	1.2	1.3
Other Ratios (%)				
Cost / Income	16.3	14.5	15.0	14.1
CAR	16.5	17.4	16.9	16.2
Tier I	11.5	12.5	12.3	11.9
Gross NPA	0.6	0.7	0.6	0.5
Net NPA	0.4	0.4	0.3	0.3
Provision Coverage Ratio	41.4	42.0	44.4	46.6

Source: Company, IndiaNivesh Research