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DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

February 2018

THINK DIFFERENT PROFIT MORE

UPSTREAM PICK

Company Name	:	**LIC Housing Finance**
BSE Code	:	**500253**
Time Duration	:	**2 year**
CMP	:	**₹531 (as on 01 February, 2018)**
Target Price	:	**₹805**

The Upstream Pick for the month of February is LIC Housing Finance Limited. This is one of the largest housing finance companies in India providing long term finance to individuals for the purchase or construction of a residential house. The company also gives loans to professionals for buying their office space and equipments and to persons engaged in the business of construction and the sale of residential properties.

There are more than 80 companies in the housing finance sector in India, out of which LIC Housing Finance and HDFC are the top players having assets of over Rs 1 lakh crore and having almost 57% market share. Thus, we can say that LIC is one of the leaders in the market. However, since last 2-3 quarters, the company is losing its market share due to the weak performance delivered during these quarters and stiff competition prevailing in the market from other housing finance companies and banks. The low interest rates have placed the sector in a sweet spot, but the growth has not been too high for all the companies. We expect the growth would continue at a consolidated level, but revival could be seen due to the government's focus on infrastructure and housing development initiatives. We see LICHF as our Upstream Pick as it is currently trading at reasonable valuations and, being the market leader, it will benefit from the developments and growth taking place in the sector.

Strong loan book and disbursements

Since FY07, the company's loan book has grown aggressively at 25% CAGR, whereas the industry has grown at the rate of 15-17%. This growth has been led by the retail segment, especially the individual loan book (96% of the total loan book). This shows that individual loans remain a core focus area for the company, unlike its peers. Under this, salaried employees account for 83% of the loan book, which shows that the company has focus on the retail middle class segment. In FY13 and FY14, the growth was flattish but revival was seen since FY15, which led to growth of 17% CAGR over FY13-17. In FY17, the loan portfolio grew by 15% YoY.

The trend of loan disbursements has been a mixed one over the past 4-5 quarters. The Q3 of FY18 has shown growth and if this growth trend continues, the company's net interest margin would improve going forward.

Diminishing cost of borrowings

Too much dependence on banks for borrowings raises the cost of borrowings for any NBFC. In FY15, LICHF borrowed ~15% of its total borrowings from banks, which increased its cost of borrowing to 9.48%. However, since FY16, the company increased the proportion of borrowings through NCDs. Comparatively, its cost of borrowings was reduced to 8.32% up to Q3FY18. During Q3FY18, the company's borrowings were Rs 16,430 crore with cost at 7.38%. Its borrowing profile consisted of NCDs (78%), banks (10%), deposits (5%), and others (7%). The reduced cost of borrowings would increase the net interest income and improve the net interest margins.

Pan-India presence

The company has pan-India presence with 9 regional offices and 249 marketing offices. It has coverage across more than 450 centres. Its loan origination is well-diversified, with LIC agents comprising almost two-thirds of the total disbursements. Without physical presence, it has enabled the company to reach out to remote regions across the country. Now, the company is focusing to expand its network in tier-2 to tier-5 cities. This has given the company a competitive advantage over other players to sustain its loan growth going forward.

Outlook of Housing Finance Companies

According to ICRA's estimates, HFCs will require Rs 9,000-16,000 crore of external capital (11-19% of existing net worth) to grow at a compounded annual rate of 20-22% for the next three years. The HFCs compete with commercial banks in home loans and their market share has grown gradually. Especially for affordable housing, their share is expected to grow at a faster pace. HFCs' share in total housing loans was 37% in FY17, as against 33% in FY12.

Ensuring a decent house for all by 2022 is one of the key initiatives of the government. Under the Pradhan Mantri Awas Yojana (PMAY), the government has approved the construction of 1.17 lakh houses for the urban poor. The infrastructure status granted to the affordable housing sector will enable developers operating in this segment to raise loans at a cheaper rate which will augur well for the HFCs.

Financial Performance

The company's total loan disbursements for FY17 stood at Rs 41,541 crore, up by 15% YoY. The loan portfolio stood at Rs 1,44,534 crore, a growth of 15% over FY16. Its gross NPAs at the end of FY17 stood at 0.43%, as against 0.45% in FY16, while the net NPAs stood at 0.14%, as against 0.22% in FY16. The lower costs of funds coupled with higher share of high margin business ensured higher margins. The net interest margins for the year stood at 2.70%, up from 2.52% in FY16. Its PAT grew by 16% in FY17 to Rs 1,931.05 crore.

The company's revenue from operations increased during the quarter to Rs 3,738 crore, up by 6%. Individual loan disbursements were up by 32% to Rs 11,324 crore. The total loan disbursements, including loan to developers, for the quarter stood at Rs 12,301 crore, up by 27% YoY. The outstanding loan portfolio was Rs 1,56,175 crore, up by 15%, out of which individual loan portfolio stood at Rs 1,49,986 crore, up by 15%. Its net interest income was Rs 898 crore, as against Rs 915 crore for the same period last year. Its GNPAs increased to 0.87% from 0.8% YoY, while NNPAs saw a sequential increase to 0.49% from 0.43%. Advances increased by 15% YoY to Rs 156,176 crore, whereas PAT declined by 2% YoY at Rs 491 crore.

Although company's provisions increased from Rs 398 cr to Rs 598 cr in Q3FY18, its coverage ratio has improved from 128% to 90% in Q3FY18 on YoY basis.

Valuation

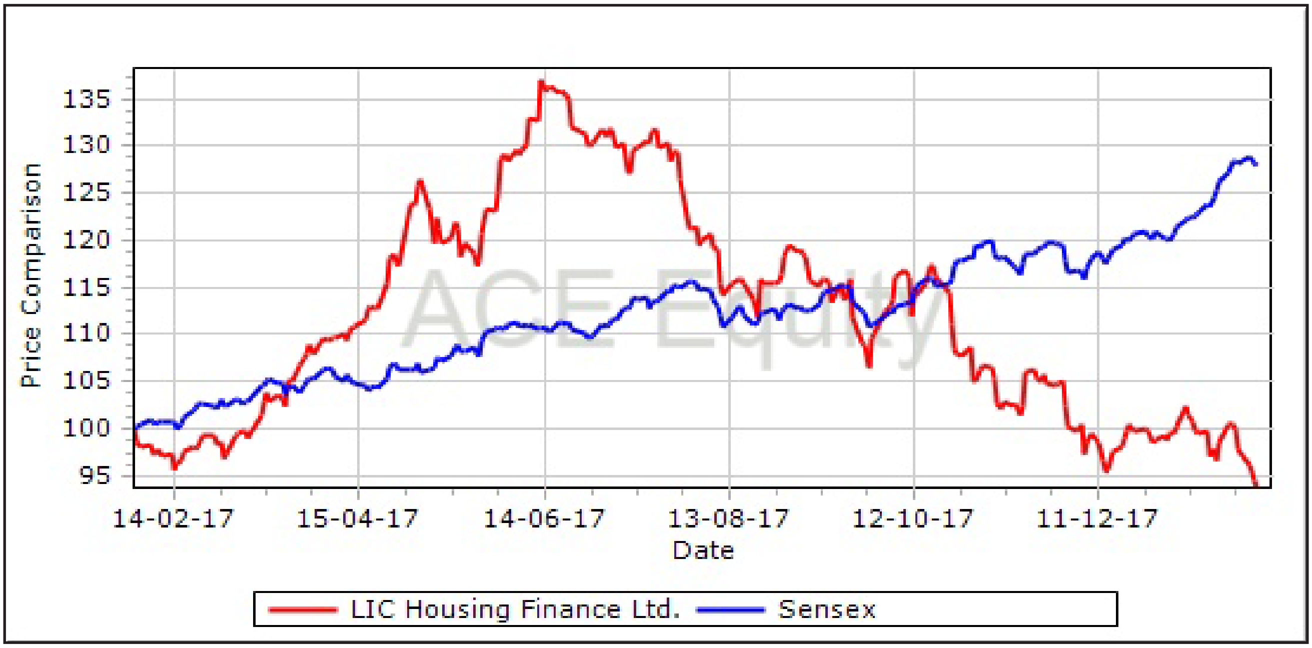
The company is trading at TTM P/B of 2.22x with TTM EPS of Rs 39.22. Company's listed peers namely HDFC, Indiabulls Housing, Dewan Housing Finance and PNB Housing Finance have P/B of 6.74x, 4.5x, 2.1x and 3.54x respectively. As we can see, as compared to the peers, LICHF is trading at reasonable price. We see potential upside of 51% with target price of Rs 805 over a period of two years.

Yearly Financial Performance (Rs in Crore)

Particulars	FY17	FY16	FY15	FY14	FY13
Loan Outstanding	1,44,534	1,25,173	1,08,361	91,341	77,812
Disbursement	41,541	36,151	30,327	25,271	24,359
Provisions	1,038	820	704	707	695
Total Income	14,080	12,485	10,799	9,335	7,659
PAT	1,931	1,661	1,386	1,317	1,023
EPS	38.26	32.91	27.47	26.1	20.28
GNPA%	0.43	0.45	0.46	0.67	0.61
NNPA%	0.14	0.22	0.22	0.39	0.35
ROE %	19.1	19.57	18.07	18.8	16.82

Quarterly Financial Performance (Rs in Crore)

Particulars	Q3Y18	Q3FY17	YoY change %	Q2FY18	QoQ change %
Loan Outstanding	156176	135366	15.4%	151417	3.1%
Disbursement	12301	9684	27.0%	10975.3	12.1%
Provisions	48.4	45.3	6.8%	57.8	-16.3%
Interest Income	3738.1	3527.9	6.0%	3687.4	1.4%
Interest Expended	2814.8	2597.2	8.4%	2770.5	1.6%
NII	897.6	915.4	-1.9%	887.5	1.1%
PAT	491.1	499.3	-1.6%	489.1	0.4%
GNPA%	0.9	0.6	50.0%	0.8	12.5%
NNPA%	0.4	0.3	33.3%	0.4	0.0%


Price Comparison
135
130
125
120
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