25 August 2016
Update | Sector: Financials

LIC Housing Finance

BSE SENSEX	S&P CNX
27,836	8,592

CMP: INR558 TP: INR761 (+36%) Buy

Falling yields favor LICHF due to liability mix

Stock Info

Bloomberg	LICHF IN
Equity Shares (m)	505.0
52-Week Range (INR)	567 / 389
1, 6, 12 Rel. Per (%)	8/16/21
M.Cap. (INR b)	281.8
M.Cap. (USD b)	4.2
12M Avg Val (INR m)	1,108
Free float (%)	59.7

Financials Snapshot (INR b)

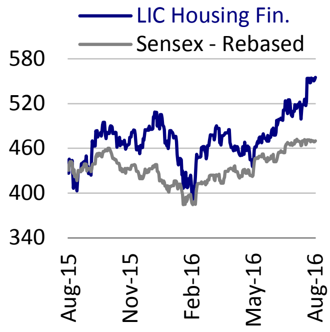
Y/E Mar	2016	2017E	2018E
NII	29.4	36.8	44.0
PPP	27.1	34.1	40.5
Adj. PAT	16.4	20.4	25.3
Adj. EPS (INR)	32.5	40.4	50.1
EPS Gr. (%)	21.8	24.4	24.0
BV/Sh (INR)	181.1	213.6	253.8
RoAA (%)	1.5	1.5	1.6
RoE (%)	19.3	20.5	21.4
P/E (x)	17.2	13.8	11.1
P/BV (x)	3.1	2.6	2.2

Shareholding pattern (%)

As On	Jun-16	Mar-16	Jun-15
Promoter	40.3	40.3	40.3
DII	37.6	6.1	7.3
FII	0.0	27.5	37.4
Others	22.1	26.0	15.1

FII Includes depository receipts

Stock Performance (1-year)



Re-rating on the cards

LIC Housing Finance (LICHF) stands to benefit significantly from the growing demand of mortgages coupled with falling interest rates. Over the past two years, improvement in borrowing profile has led to margin expansion – we expect this to continue. Its NPA ratio is comparable to the best in the industry. Post an earnings growth of 22% in FY16, we expect this momentum to sustain and model 23% PAT CAGR over FY16-19. ROE is set to cross 20% in FY17 which would drive further re-rating. The stock trades at 2.2x FY18 P/B, a discount to peers. **Buy** with a TP of INR761 (3x FY18E P/B).

Improving spreads in highly competitive environment

Over the past two years, LICHF diversified its borrowing profile significantly. Share of bank borrowings declined from ~25% then to ~10% now while the share of market borrowings increased proportionately. With improving system-wide liquidity over the past 4-5 months, bond yields have come off significantly (~40-50bp). This is beneficial for LICHF as market borrowings comprise almost 90% of its total borrowings. With NCDs worth INR222b (~20% of total outstanding borrowings) maturing in FY17 and FY18, we believe that LICHF could save ~30bp in cost of funds over next two years. LICHF is originating pure floating loans at ~9.5% currently, while other home loans are originated at ~10%. These rates are competitive with banks and LICHF would not need to reduce rates substantially further. While incremental spreads have increased over the past few quarters to ~2.0% due to higher mix of LAP, we believe these levels should sustain given above-mentioned tailwinds, despite stable LAP share.

Robust loan growth to continue

LICHF has a granular loan book with retail home loans comprising ~88% of the total book and the LAP book comprising an additional ~10% of the total book. Since around two-thirds of loan sourcing is from LIC agents, the company is able access the length and breadth of the country. We believe LICHF will be a big beneficiary of the tax incentives announced in the FY17 Union Budget. We expect loan book Cagr of 19% over FY16-19E.

Asset quality has remained strong consistently

LICHF has robust asset quality, with GNPA of 0.59% (Individual segment: 0.35%) and NNPA of 0.29%. This compares very well with its private-sector HFC peers. The company has sustained good asset quality over the past several years due to its stringent underwriting discipline. Loan-to-value ratio on incremental disbursements is 47% while installment-to-income ratio is 32%, down from 34% in FY15. Management commented that from more than INR2tn disbursed to date, net credit losses have been only INR600m. Asset quality is expected to remain stable, which would support RoE and drive re-rating.

Sunesh Khanna (Sunesh.Khanna@MotilalOswal.com); +91 22 3982 5521
Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)/**Piran Engineer** (Piran.Engineer@MotilalOswal.com); +91 22 6129 1539

Falling bond yields provide upside to margins

Tailwind to margins despite heightened competition

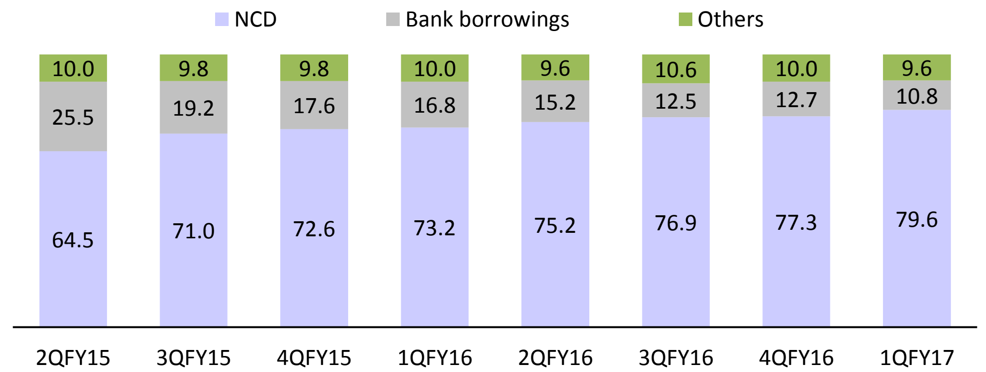
- **We expect the sharp decline in bond yields in the past 4-5 months to benefit LICHF given the high share of market borrowings in its liability mix**
- **Over 20% of NCDs will mature over FY17 and FY18, thus providing significant savings on refinancing**
- **LICHF's variable-rate home loan product is competitive with large banks with regards pricing. Banks may not have much scope to reduce rates further without reducing MCLR**
- **Margins should improve marginally despite severe competition in home loans**

Falling bond yields due to improving system liquidity a boost for LICHF

Share of bank borrowings is only 10% of total borrowings

- Over the past two years, LICHF has diversified its borrowing profile significantly. Share of bank borrowings declined from ~25% then to ~10% now while the share of market borrowings increased proportionately.

Exhibit 1: Borrowing mix shift towards market borrowings

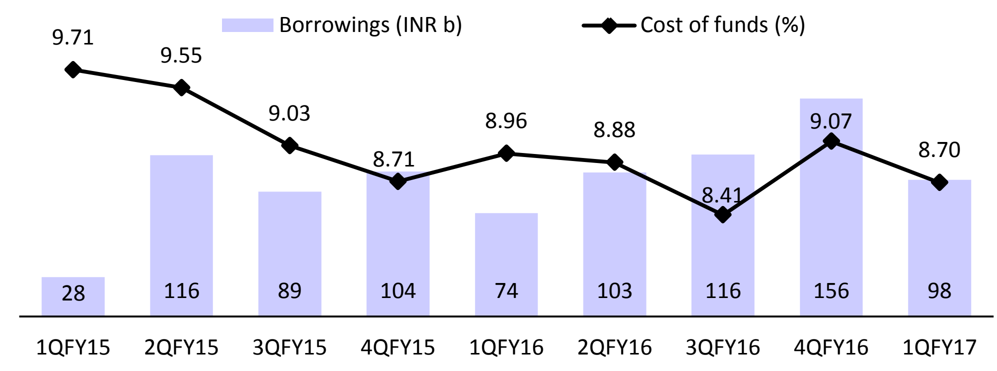


Source: MOSL, Company

- Hence, LICHF reaped the twin benefit of interest rate decline in the economy as well as shift in liability mix towards lower cost borrowings.

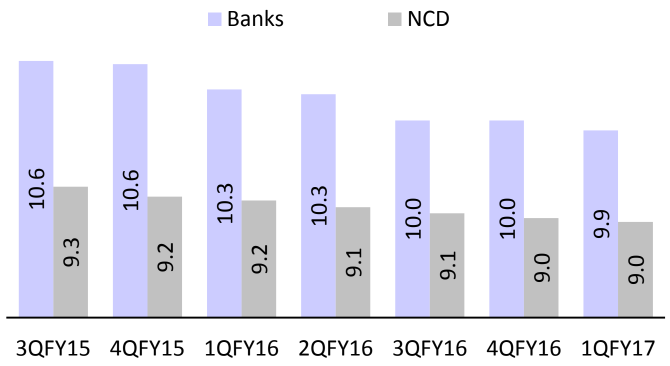
Cost of borrowings spiked in 4QFY16 due to system wide liquidity deficit

Exhibit 2: Incremental borrowings and corresponding cost of funds (calculated)



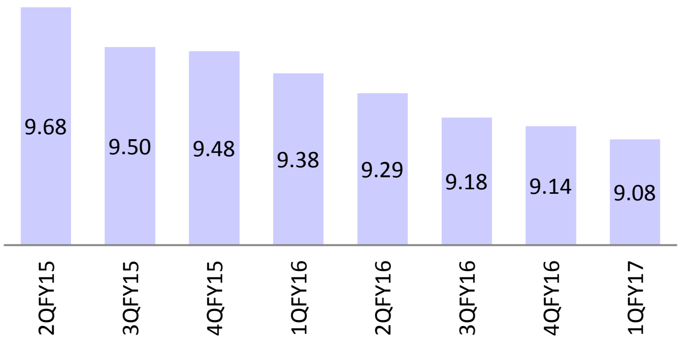
Source: MOSL, Company

Exhibit 3: Weighted avg. CoF for bank borrowings and NCDs



Source: MOSL, Company

Exhibit 4: Weighted average cost of funds for LICHF

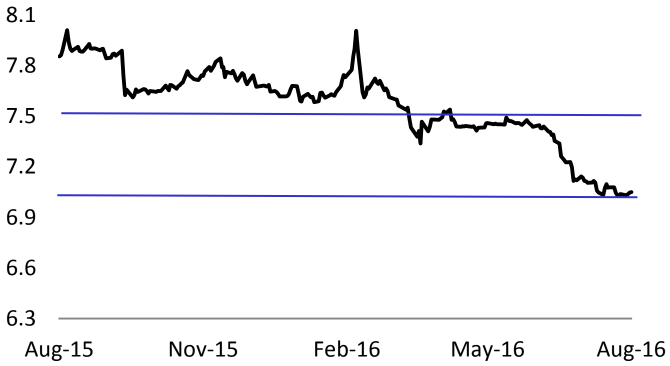


Source: MOSL, Company

There would be significant benefits to the company from falling GSec yields.

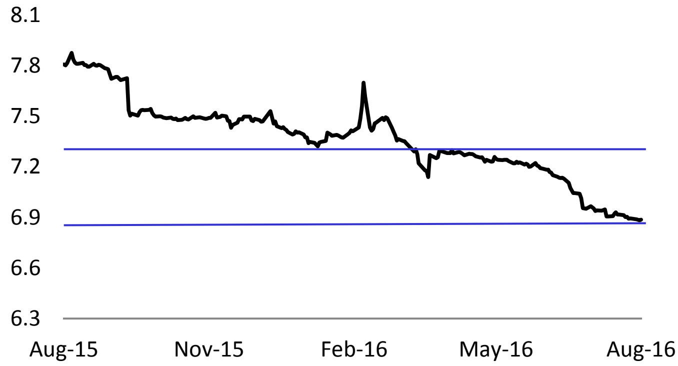
- Over the past 4-5 months, system-wide liquidity has moved from deficit to neutral/surplus. Due to significant OMOs by the RBI, bond yields have come off significantly (~40-50bp). This is highly beneficial for LICHF as market borrowings comprise ~90% of total borrowings.

Exhibit 5: GoI 5-year bond yield (%)



Source: MOSL, Company

Exhibit 6: GoI 3-year bond yield (%)

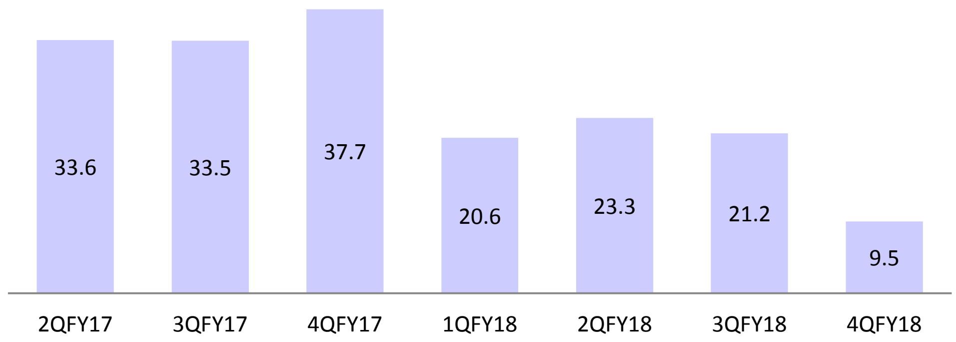


Source: MOSL, Company

With 20% of borrowings maturing over next two years, we expect ~30bp reduction in cost of funds.

- The company has NCDs worth INR222b (~20% of total outstanding borrowings) maturing in FY17 and FY18. NCDs currently bear an interest rate of ~9.2-9.5%. Given that 5-year GoI bond yields are currently at ~7.0%, we believe that LICHF will be able to raise funds at ~7.75%. This would translate into ~30bp decline in cost of funds.

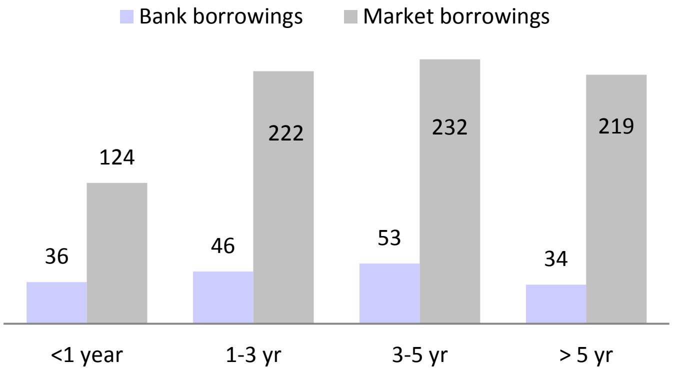
Exhibit 7: Quarter-wise maturity of NCDs outstanding – Good refinancing opportunity



Source: MOSL, Company, Data from Annual Report 2015

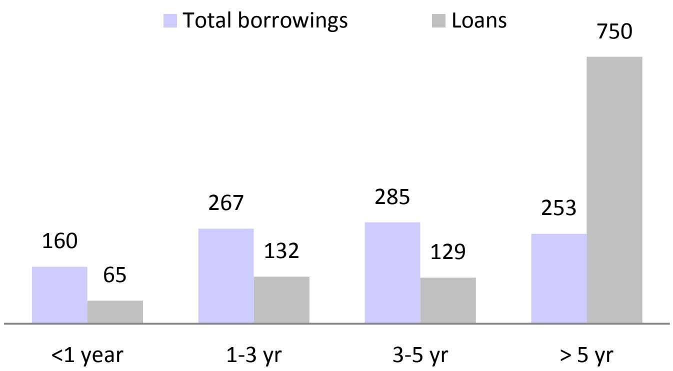
- In addition, incremental borrowings to support 18-20% balance sheet growth will be at significantly lower costs compared to outstanding borrowings. This would help reduce weighted average cost of funds.
- Note that LICHF has enjoyed AAA rating since 2002.

Exhibit 8: Maturity pattern of liabilities



Source: MOSL, Company, Note: Data for Annual Report, 2015

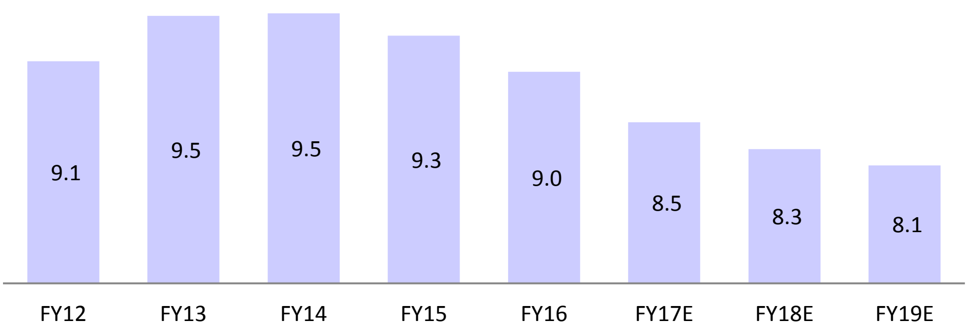
Exhibit 9: Maturity pattern of loans and borrowings



Source: MOSL, Company, Note: Data for Annual Report, 2015

- We expect LICHF to reap significant benefits on cost of borrowings and build in 90bps reduction in cost of funds over the next 3 years.

Exhibit 10: Cost of funds should decline significantly over the next three years



Source: MOSL, Company

Loan pricing competitive with banks

- Housing finance remains a highly competitive and crowded segment, especially in the absence of credit growth elsewhere in the system. Home loan rates in India have been at a marginal premium to the 10-year AAA-rated corporate bond yields.

Banks are offering home loans with thin spreads over their MCLR. Hence, further reduction in home loan rates without lowering MCLR is unlikely.

- Historically, banks have offered home loans at marginal (20-25bp) premium over their base rates. With the new MCLR system in place, banks will also have to reduce MCLR in order to lower their home-loan rates, which is unlikely. As such, banks do not have much bandwidth to reduce home loan rates without altering their MCLR. Hence, we expect HFCs to remain competitive with respect to price.

Exhibit 11: Home loan rates offered by banks are at a marginal premium to MCLR

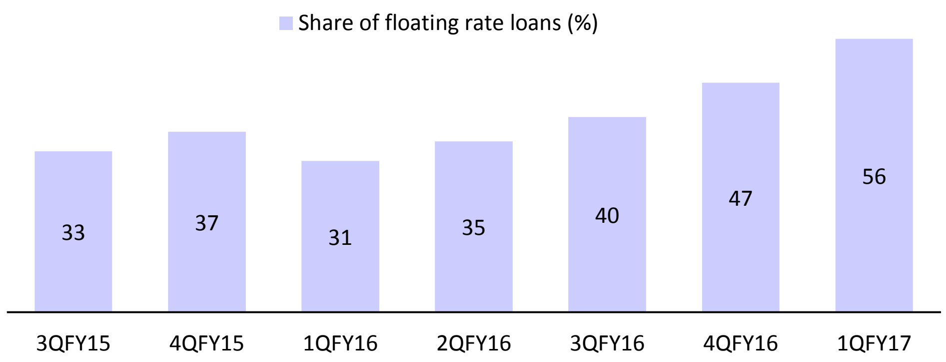
	1-yr MCLR (%)	Home loan rate (%)
HDFCB	9.10	9.45
ICICIBC	9.15	9.40
AXSB	9.25	9.45
SBIN	9.10	9.35
BOB	9.40	9.65

Source: MOSL, Company

LICHF is offering loans at very competitive interest rates.

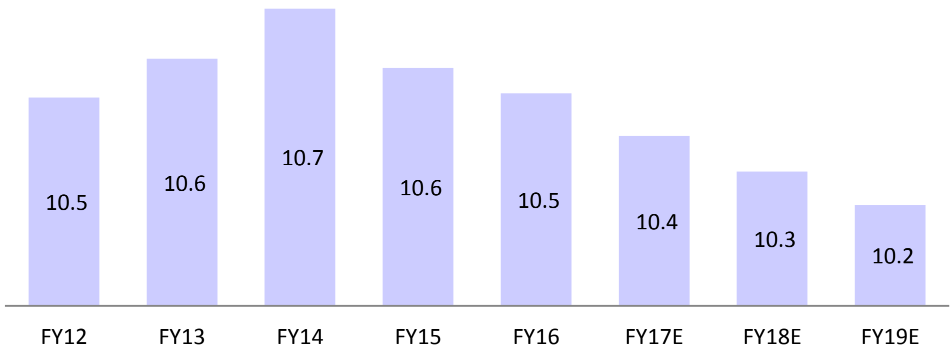
- LICHF is originating pure floating loans at ~9.5% currently, while other home loans are originated at ~10%. We believe that with such competitive rates, loan off-take would be strong.
- 56% of the loan book is floating rate. However, this does not include the 'fixed-to-floating' products. Yet, with a significant proportion of the book currently fixed rate, we expect loan yields to decline only modestly.

Exhibit 12: LICHF has a significant proportion of fixed rate book



Source: MOSL, Company

Exhibit 13: Trend in loan yields



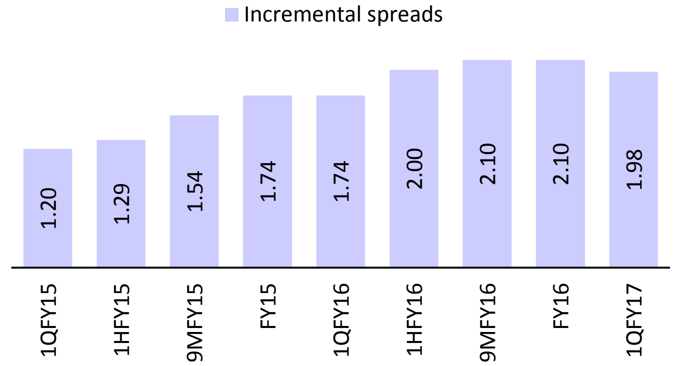
Source: MOSL, Company

Spreads have increased in the past few quarters; should sustain going forward

Incremental spreads, which have increased significantly in the past year, would sustain due to reduction in cost of funds.

- Incremental spreads of LICHF have increased over the past few quarters. This is partly due to the proportion of LAP loans increasing from 4.6% in FY15 to 9.3% in 1QFY17.
- Also, with bond yields coming off sharply in the past 4-5 months and loan yields relatively stable, we believe incremental spreads will continue to remain strong.

Exhibit 14: Incremental spreads (reported)



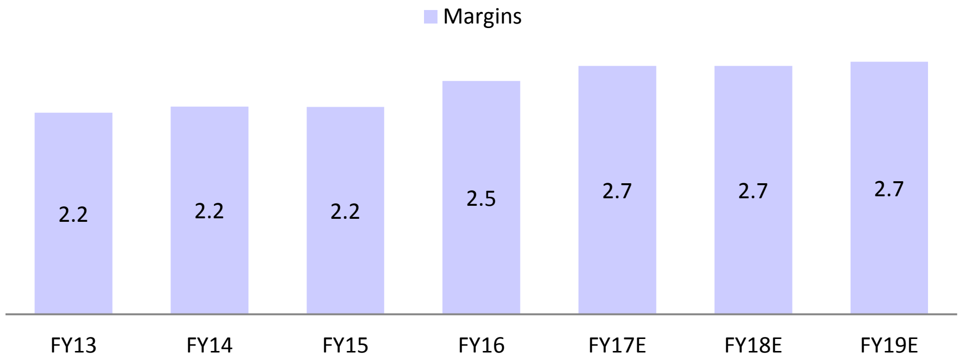
Source: MOSL, Company

Exhibit 15: Incremental spreads will sustain at ~2.0%

	Home loan	Non-retail
Yield (Incremental)	10.0%	12.0%
Share of disbursements	88.0%	12.0%
Incremental CoF	8.1%	8.1%
Weighted Avg Yield	10.2%	
Incremental Spreads	**2.1%**	

Source: MOSL, Company

Exhibit 16: NIMs should improve marginally over the medium term (%)



Source: MOSL, Company

Robust loan growth to continue

Pan-India network and government initiatives to sustain loan growth

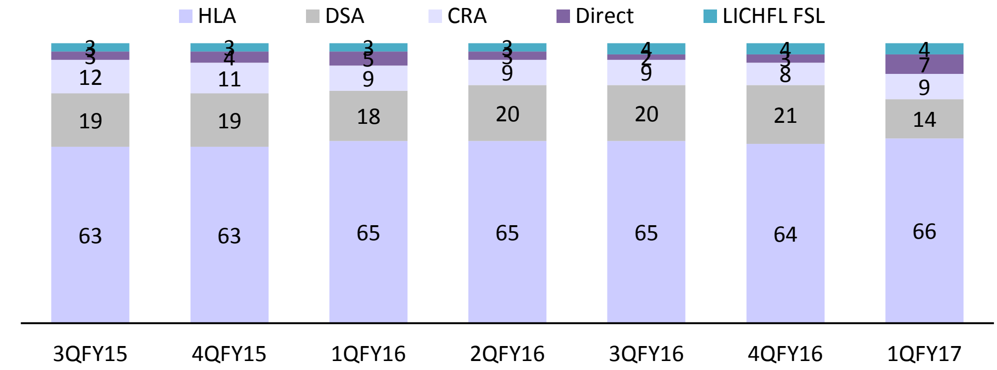
- **Over two-thirds of loan sourcing is from LIC agents, thus giving the company access to the length and breadth of the country**
- **The tax benefits on home loans announced in the latest Union Budget as well as the 7th Pay Commission recommendations bode well for LICHF**
- **LICHF's share of retail home loans (ex-LAP) at ~88% is significantly higher than peers**

Pan-India reach across urban and rural geographies

LIC agents source two-thirds of loans. Hence, the company has a broad reach across the country.

- LICHF's loan origination is well diversified, with LIC agents comprising approximately two-thirds of disbursements. This is one of the biggest advantages for the company. Without a physical presence, it is able to access the length and breadth of the country.

Exhibit 17: Bulk of loan sourcing is through agents

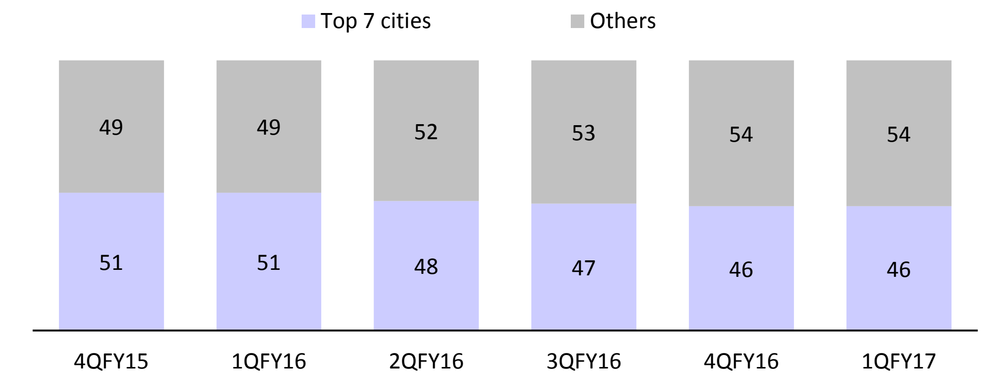


Source: MOSL, Company

Incremental disbursements coming from non-metro cities

- LICHF has a balanced mix of disbursements in metropolitan cities, as well as other towns and cities. However, the share of disbursements in the top 7 cities has been declining.

Exhibit 18: Share of loan disbursements of non-metro cities has been increasing



Source: MOSL, Company

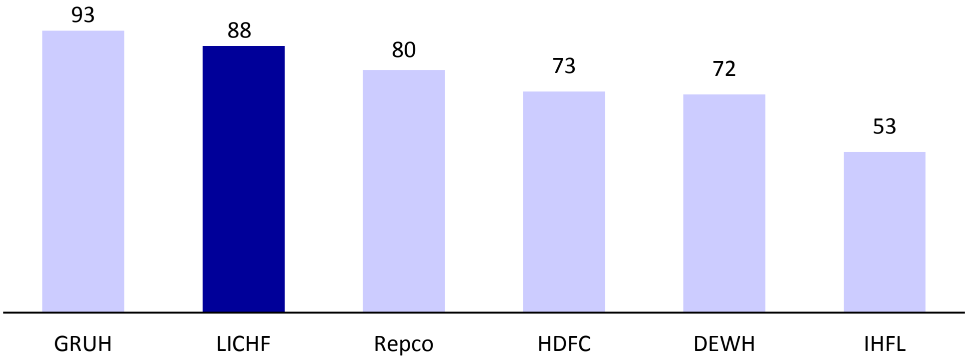
Primarily into retail home financing

- With retail home loans (ex-LAP) accounting for over 88% of its loan book and salaried employees 82%, LICHF is a pure play on the retail middle-class home loan market in India.
- LICHF has recorded strong and consistent growth, along with stable asset quality over the past several years. It has recorded AUM CAGR of 19% and PAT CAGR of 16% over FY11-16.

Individual loans comprise 97% of total loans. The share is much higher than peers.

- Unlike some of its peers, individual loans remain a core focus area. Average ticket size of disbursements is ~INR1.9m. Developer loans account for only ~3% of the overall book.

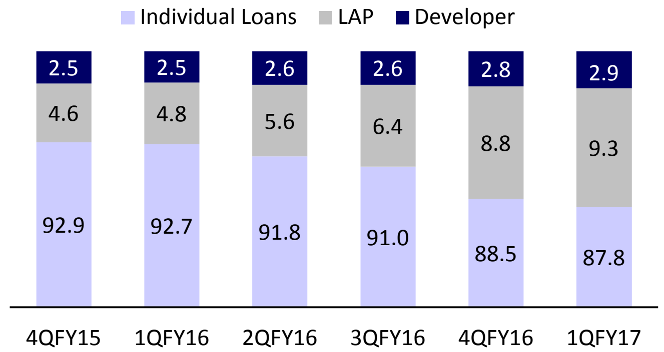
Exhibit 19: Share of retail home loans (ex-LAP)



Source: MOSL, Company

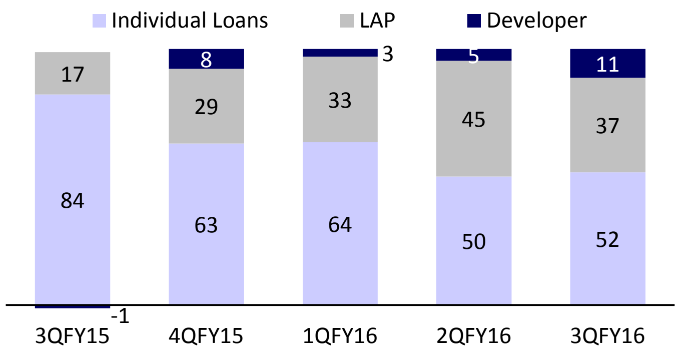
- Within individual loans, LAP accounts for only ~10% of the total book. Moreover, LAP book is highly granular with average ticket size of INR1.2-1.3m. Hence, LICHF is the lowest-risk player among HFCs.

Exhibit 20: Trend in loan mix



Source: MOSL, Company

Exhibit 21: Trend in mix of incremental loan book



Source: MOSL, Company

Impetus from government initiatives

- In the Union Budget for FY17, the Indian government announced additional interest deduction of INR50,000 per annum (over and above the prevailing INR0.2m) for first-time home buyers for loans up to INR3.5m.

Exhibit 22: Additional tax exemption of INR50,000 significantly reduces borrowing cost

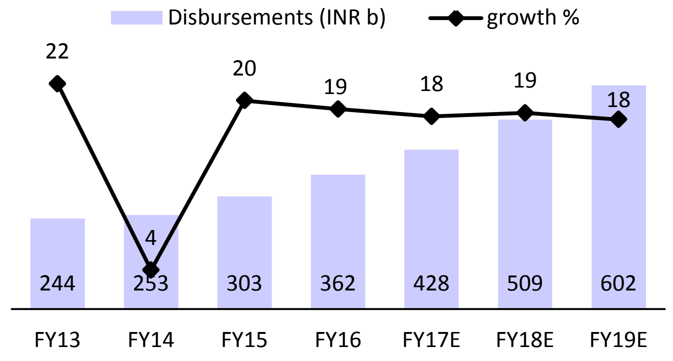
INR	Earlier	Now
Loan Amount	3,500,000	3,500,000
Interest rate	10%	10%
Interest amount	350,000	350,000
Tax deduction	200,000	250,000
Tax Saving	40,000	50,000
Net Interest paid	310,000	300,000
Effective interest rate	**8.86%**	**8.57%**

Source: MOSL, Company; Assuming income tax slab of 20% for borrower

Tax sops announced for home buyers coupled with government's trust on affordable housing bode well for LICHF

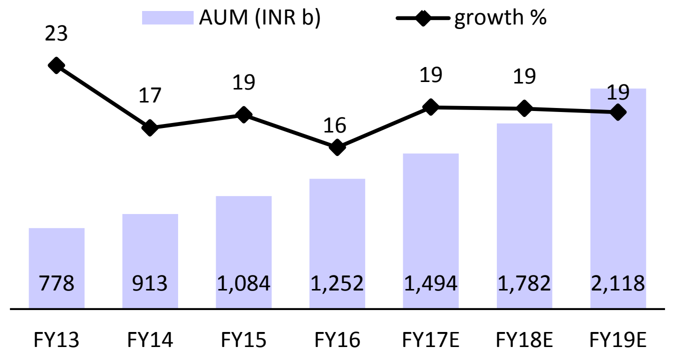
- LICHF is likely to be a major beneficiary as: a) almost all of LICHF's customers are first-time borrowers; b) LICHF has a pan-India presence, coupled with a strong distribution network in Tier 2-5 cities and brand lineage of LIC of India to fully exploit this opportunity; and c) 46% of business originates from the outskirts of top 7 cities and incremental average ticket size is INR1.95m (as on 1QFY17).
- Moreover, with a slew of measures to boost affordable housing, builder interest in affordable housing is on the rise. We remain confident that this segment will continue witnessing good growth opportunities over the near-to-medium term.

Exhibit 23: Disbursement trend



Source: MOSL, Company

Exhibit 24: Strong and consistent AUM growth



Source: MOSL, Company

Asset quality comparable to private sector peers

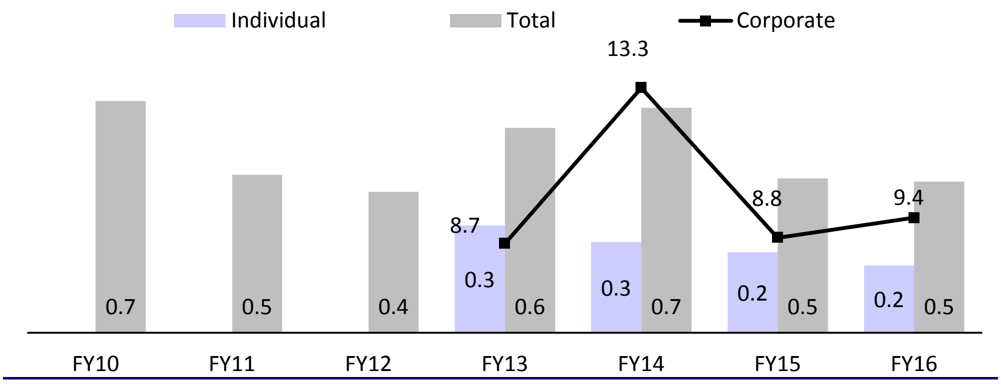
Conservative underwriting ensures best-in-class asset quality

- **LICHF enjoys superior asset quality compared to private sector peers, as over 97% of its loan book is to individuals**
- **This is a result of its conservative underwriting philosophy of keeping LTVs low**

With 97% of loan book comprising individual loans, asset quality is robust and better than peers.

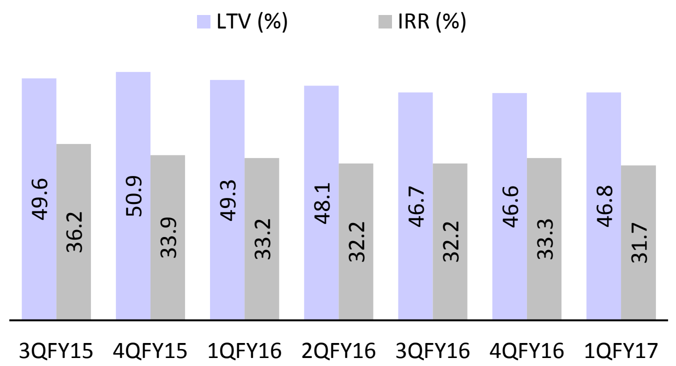
- Asset quality remains healthy as LICHF is a plain vanilla mortgage player and has the lowest risk book among housing finance companies with retail assets forming 97%+ of the loan book. Retail asset quality at LICHF has been improving over the past few years.
- As of 1QFY17, retail GNPL ratio was only 0.32%. We do not foresee any asset quality deterioration in the individual loan book. While the legacy developer book has been a cause of some concern for LICHF, the overall share of the developer book is minimal.
- LICHF follows a conservative underwriting philosophy. Average LTV of sanctions is 47% (down from 55% in FY14), while installment-to-income ratio (IIR) is 32% (down from 35% in FY14).

Exhibit 25: Overall asset quality has been stable; corporate, however, has been stressed



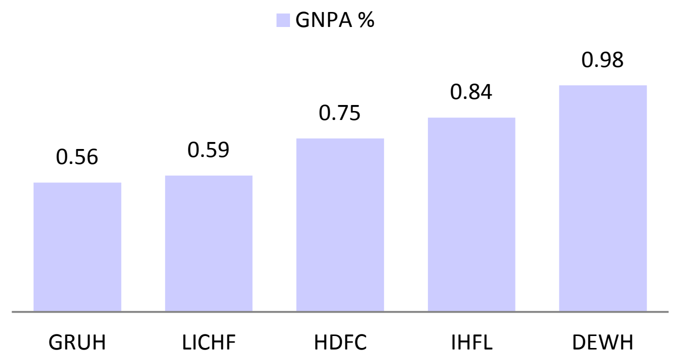
Source: MOSL, Company

Exhibit 26: LTV and IIR have been declining



Source: MOSL, Company

Exhibit 27: LICHF has superior asset quality v/s private sector peers



Source: MOSL, Company

Strong, consistent return ratios

LICHF continues to generate strong and consistent performance

- **LICHF has delivered strong and consistent growth as well as RoA/RoE over the past five years.**
- **Given the current tailwinds, we expect 19% AUM growth over the next three years along with RoE of ~20% consistently**

LICHF has delivered strong and consistent AUM growth as well as return ratios over the past five years.

- LICHF has delivered strong AUM CAGR of 19% and consistent RoA of 1.4-1.6% over the past five years. RoE too has been strong and consistent at 18-20%.
- At the same time, the company has maintained its asset quality
- LICHF is able to operate at much higher leverage than peers (12-13x for LICHF v/s 8-9x for HDFC) due to its low-risk business model (97% of loan book is to individuals). Yet, it enjoys AAA rating.
- LICHF has a strong balance sheet and is well capitalized (Tier I ratio of 13.9%). While we do not foresee any capital raise in the next 1-2 years, any capital raise (assuming current market price) would be accretive to BVPS and thus boost total shareholder return.
- We expect LICHF to post loan book CAGR of 19% and PAT CAGR of 23% over FY16-19E. RoE should average 20% over the medium term.

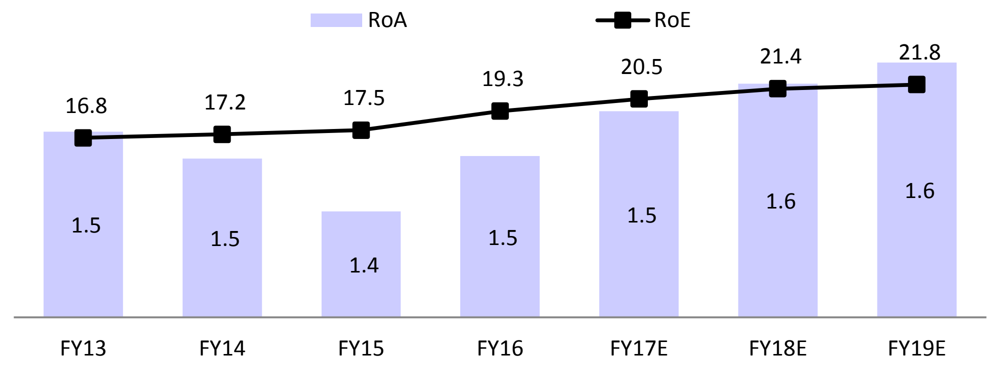
LICHF will sustain margins of ~2.6% and RoE of ~20% over the next three years

Exhibit 28: DuPont Analysis

LIC Housing Finance	FY15	FY16	FY17E	FY18E	FY19E
Interest Income	10.9	10.9	10.6	10.4	10.3
Interest Expenses	8.6	8.3	7.9	7.7	7.5
Net Interest Income	**2.3**	**2.6**	**2.7**	**2.7**	**2.8**
Non interest Income	**0.3**	**0.2**	**0.2**	**0.2**	**0.2**
Fee Income	0.1	0.1	0.1	0.1	0.1
Treasury Income	0.1	0.1	0.1	0.1	0.1
Other Income	0.0	0.0	0.0	0.0	0.0
Net Income	**2.6**	**2.8**	**3.0**	**2.9**	**2.9**
Operating Expenses	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Cost to income (%)	*15.2*	*14.7*	*14.0*	*14.3*	*14.2*
Employees	0.1	0.1	0.1	0.1	0.1
Others	0.3	0.3	0.3	0.3	0.3
Operating Profits	**2.2**	**2.4**	**2.5**	**2.5**	**2.5**
Provisions/write offs	0.0	0.1	0.2	0.1	0.1
PBT	**2.2**	**2.3**	**2.4**	**2.4**	**2.4**
Tax	0.7	0.8	0.8	0.8	0.8
Tax Rate (%)	*34.1*	*35.2*	*35.0*	*34.0*	*34.0*
PAT	**1.4**	**1.5**	**1.5**	**1.6**	**1.6**
Leverage (x)	*12.6*	*13.2*	*13.5*	*13.8*	*13.8*
RoE	**17.5**	**19.3**	**20.5**	**21.4**	**21.8**

Source: MOSL, Company

Exhibit 29: RoE of ~20% best-in-class



Source: MOSL, Company

LICHF has much lower margins than HDFC and IHFL due to higher share of retail home loans and higher leverage. However, RoE is comparable with peers

Exhibit 30: DuPont analysis – Peer Comparison

FY16	LICHF	HDFC	DEWH	IHFL
Interest Income	10.9	10.3	11.6	12.5
Interest Expenses	8.3	7.1	9.1	8.0
Net Interest Income	**2.6**	**3.2**	**2.5**	**4.6**
Non-interest Income	0.2	0.9	0.6	2.2
Net Income	2.8	4.1	3.0	6.8
Operating Expenses	0.4	0.4	0.9	1.0
Cost to income (%)	14.7	10.7	30.1	14.7
Operating Profits	2.4	3.7	2.1	5.8
Provisions/write offs	0.1	0.1	0.3	0.8
PBT	2.3	3.6	1.8	5.0
Tax	0.8	1.1	0.6	1.2
PAT	**1.5**	**2.5**	**1.2**	**3.8**
Leverage (x)	13.2	8.2	12.4	7.2
RoE	**19.3**	**21.4**	**15.1**	**27.1**

Source: MOSL, Company

Remains attractive - Re-rating on the cards

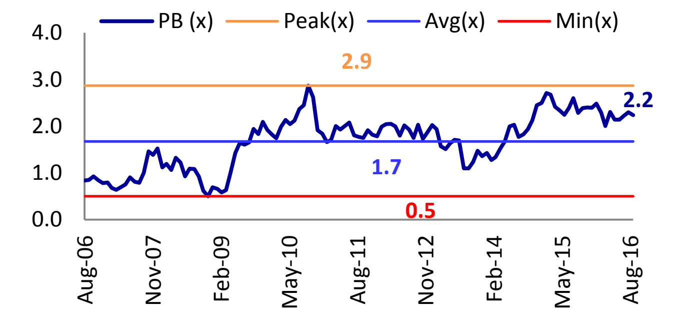
Re-rating imminent given return ratios comparable to peers

- **We upgrade our EPS estimates for FY17/18 by 2%/6% given the tailwinds to margins**
- **At 2.2x FY18 P/B, the company is undervalued as compared to peers that mostly trade above 3x FY18 P/B**

LICHF's growth and return ratios are as good as private sector peers

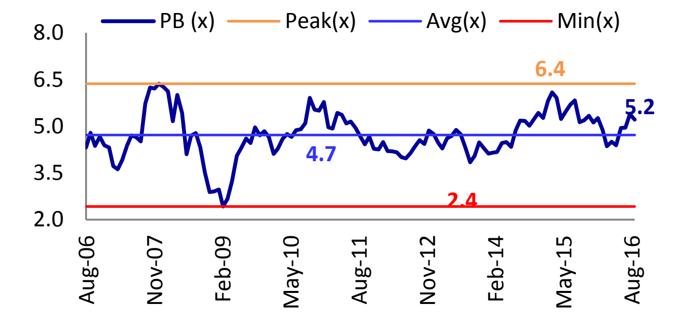
- LICHF's RoE of ~20% as well as loan book growth of 19-20% is in line with private sector peers, and in some cases, better than peers
- With the several tailwinds over the medium term, we upgrade our estimates for FY17/18 by 2%/6%
- At CMP of INR558/share, LICHF trades at 2.2x FY18E P/B. This is a significant discount to peers, which trade at more than 3x FY18E P/B. Given its steady performance, we believe the company is set for a re-rating. We expect the valuation gap vis-à-vis peers should narrow.
- **Buy** with a TP of INR761 (3x FY18E P/B).

Exhibit 31: LICHF P/B



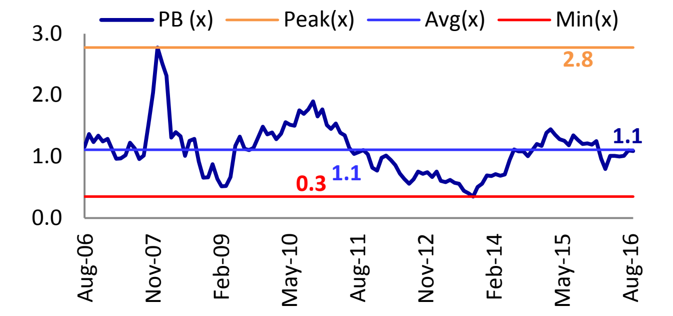
Source: MOSL, Company

Exhibit 32: HDFC P/B



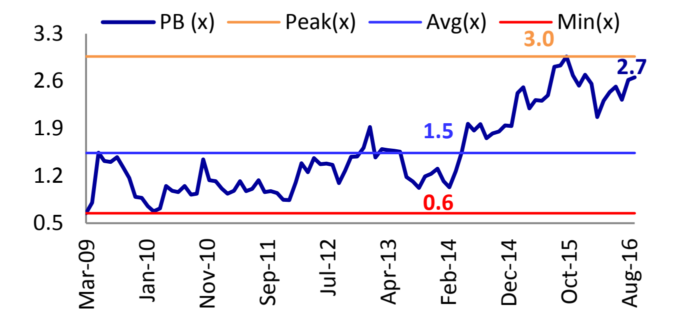
Source: MOSL, Company

Exhibit 33: DEWH P/B



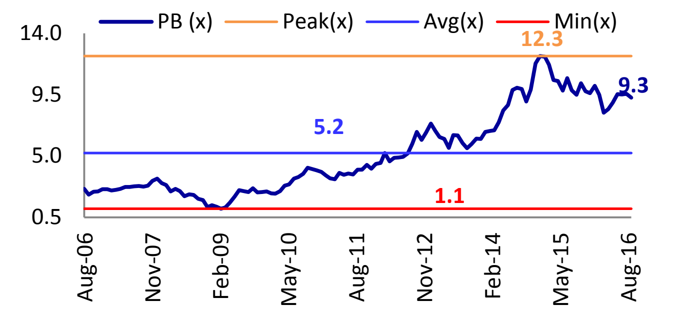
Source: MOSL, Company

Exhibit 34: IHFL P/B



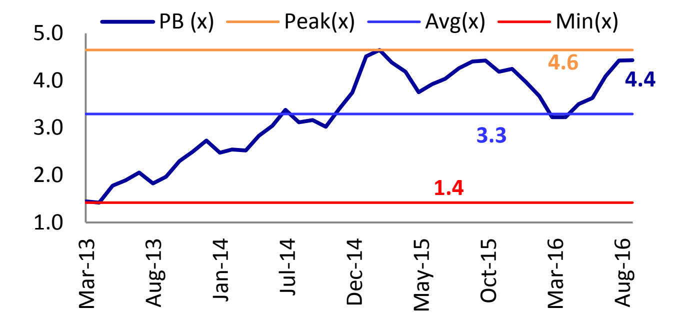
Source: MOSL, Company

Exhibit 35: GRUH P/B



Source: MOSL, Company

Exhibit 36: REPCO P/B



Source: MOSL, Company

Valuation Matrix

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)		Dividend
		(INR)	(USDb)	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	Yield (%) #
ICICIBC*	Buy	247	21.8	17.2	19.9	10.9	8.5	144	158	1.25	1.07	1.13	1.17	10.6	11.3	2.0
HDFCB	Buy	1,258	48.2	58.4	70.2	21.5	17.9	332	386	3.79	3.26	1.90	1.89	18.9	19.6	0.8
AXSB	Buy	586	21.2	31.8	37.4	18.4	15.7	243	274	2.41	2.14	1.32	1.31	13.8	14.4	0.9
KMB*	Buy	781	21.7	26.8	34.0	29.2	23.0	207	240	3.77	3.25	1.61	1.82	14.2	15.4	0.1
YES	Buy	1,344	8.6	78.8	99.2	17.0	13.5	390	469	3.44	2.86	1.80	1.84	22.0	23.1	0.7
IIB	Buy	1,182	10.7	50.5	63.8	23.4	18.5	334	389	3.53	3.04	1.92	1.96	16.2	17.6	0.4
IDFC Bk	Buy	55	2.8	3.3	4.0	16.7	13.6	43	46	1.28	1.19	1.19	1.08	7.9	9.1	1.2
FB	Buy	67	1.7	3.9	4.7	17.1	14.3	50	54	1.34	1.25	0.67	0.67	8.0	9.0	1.0
DCBB	Buy	115	0.5	7.4	8.6	15.6	13.3	69	78	1.66	1.48	0.98	0.93	11.3	11.7	0.0
JKBK	Neutral	70	0.5	17.6	21.2	4.0	3.3	146	162	0.48	0.43	0.99	1.05	12.7	13.7	2.5
SIB	Buy	22	0.5	3.1	3.7	7.3	6.1	30	33	0.75	0.68	0.61	0.64	10.7	11.7	2.2
Private Aggregate			**138.1**			**20.2**	**16.9**			**2.69**	**2.39**					
SBIN (cons)*	Buy	250	29.4	14.7	24.3	17.0	10.3	234	253	1.03	0.94	0.47	0.54	7.9	9.5	1.0
PNB	Neutral	126	3.7	10.8	12.8	11.6	9.8	193	204	0.65	0.62	0.31	0.34	5.7	6.5	0.0
BOI	Neutral	114	1.6	-10.8	21.6	-10.6	5.3	239	255	0.48	0.44	-0.16	0.29	-4.6	8.7	0.0
BOB	Buy	162	5.7	14.1	20.0	11.5	8.1	157	173	1.03	0.94	0.47	0.60	9.3	12.1	0.0
CBK	Neutral	270	2.2	25.4	34.8	10.7	7.8	497	524	0.54	0.52	0.24	0.30	5.2	6.8	0.0
UNBK	Buy	134	1.4	22.4	39.1	6.0	3.4	314	348	0.43	0.39	0.37	0.58	7.4	11.8	1.5
OBC	Neutral	119	0.6	16.7	24.2	7.1	4.9	410	428	0.29	0.28	0.23	0.30	4.2	5.8	0.0
INBK	Buy	223	1.6	24.8	31.4	9.0	7.1	300	324	0.74	0.69	0.56	0.64	8.5	10.1	0.7
ANDB	Buy	59	1.8	2.9	8.2	20.0	7.2	129	136	0.45	0.43	0.15	0.39	2.3	6.2	0.0
Public Aggregate			**48.1**			**15.1**	**9.8**			**0.76**	**0.72**					
Banks Aggregate			**186.2**			**18.6**	**14.3**			**1.63**	**1.49**					
HDFC*	Buy	1,358	32.5	34.6	37.9	27.2	21.4	194	217	4.20	3.30	1.85	1.83	19.5	19.0	1.3
LICHF	Buy	558	4.3	39.5	47.3	14.1	11.8	213	251	2.62	2.22	1.49	1.51	20.1	20.9	1.0
IHFL	Buy	823	5.3	68.2	84.0	12.1	9.8	280	315	2.94	2.61	3.74	3.78	25.6	28.2	4.4
GRHF	Buy	316	1.7	8.3	10.7	37.9	29.6	28	35	11.12	8.94	2.33	2.34	32.4	33.5	0.6
REPCO	Buy	812	0.8	30.4	39.7	26.7	20.5	180	215	4.52	3.78	2.15	2.20	18.3	20.1	0.3
DEWH	Buy	280	1.2	30.5	38.2	9.2	7.3	194	222	1.45	1.26	1.25	1.34	16.7	18.4	7.1
Housing Finance			**45.8**			**21.7**	**18.4**			**4.37**	**3.86**					
RECL	Neutral	232	3.5	59.2	68.6	3.9	3.4	336	389	0.69	0.60	2.63	2.55	18.9	18.9	7.4
POWF	Neutral	239	4.8	46.8	49.1	5.1	4.9	72	107	3.33	2.24	2.69	2.35	85.1	55.0	5.8
Infra Finance			**8.2**			**4.5**	**4.1**			**1.28**	**1.04**					
SHTF	Buy	1,250	4.3	68.4	84.6	18.3	14.8	503	570	2.48	2.19	1.96	2.01	14.4	15.6	0.8
MMFS	Buy	332	2.8	13.9	18.1	24.0	18.4	118	131	2.82	2.54	1.92	2.19	12.3	14.5	1.2
BAF	Buy	10,281	8.3	345.9	442.0	29.7	23.3	1,663	2,040	6.18	5.04	3.48	3.38	22.8	23.9	0.5
MUTH	Buy	326	2.0	28.0	33.6	11.6	9.7	159	180	2.05	1.81	3.66	3.57	18.7	19.9	3.1
SKSM	Buy	764	1.5	48.8	52.5	15.7	14.6	157	210	4.85	3.64	6.30	4.48	36.7	28.6	0.0
Asset Finance			**18.9**			**21.1**	**17.1**			**3.41**	**3.09**					
NBFC Aggregate			**72.9**			**15.1**	**13.0**			**3.25**	**2.82**					
Financials			**259.1**			**17.5**	**13.9**			**1.89**	**1.72**					

*Multiples adj. for value of key ventures/Investments; For HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and Valuations

Income Statement (INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Interest Income	59,827	74,591	90,733	105,467	122,508	142,418	168,285	198,525
Interest Expense	45,911	59,246	71,744	83,102	93,068	105,570	124,317	145,311
Net Interest Income	**13,916**	**15,345**	**18,990**	**22,364**	**29,441**	**36,848**	**43,968**	**53,214**
Change (%)	1.4	10.3	23.8	17.8	31.6	25.2	19.3	21.0
Fee Income	1,322	1,549	1,080	1,227	1,453	1,821	2,163	2,557
Income from Investments	804	617	1,083	815	893	993	1,093	1,193
Other Income	198	-168	450	343	0	0	0	0
Net Income	**16,240**	**17,343**	**21,603**	**24,749**	**31,787**	**39,661**	**47,224**	**56,964**
Change (%)	-8.3	6.8	24.6	14.6	28.4	24.8	19.1	20.6
Operating Expenses	2,371	2,819	3,133	3,885	4,688	5,560	6,754	8,091
Operating Income	**13,870**	**14,524**	**18,470**	**20,864**	**27,099**	**34,102**	**40,470**	**48,873**
Change (%)	-10.8	4.7	27.2	13.0	29.9	25.8	18.7	20.8
Provisions/write offs	1,561	789	215	-20	1,463	2,400	1,825	2,120
PBT	**12,309**	**13,736**	**18,255**	**20,884**	**25,635**	**31,702**	**38,645**	**46,753**
Tax	3,167	3,504	5,083	7,158	9,028	11,096	13,139	15,896
Tax Rate (%)	25.7	25.5	27.8	34.3	35.2	35.0	34.0	34.0
PAT	**9,142**	**10,232**	**13,172**	**13,727**	**16,608**	**20,606**	**25,506**	**30,857**
Change (%)	-6.2	11.9	28.7	4.2	21.0	24.1	23.8	21.0
Adjusted PAT	**10,011**	**10,232**	**12,017**	**13,466**	**16,401**	**20,398**	**25,295**	**30,646**
Change (%)	-2.7	2.2	17.4	12.1	21.8	24.4	24.0	21.2
Proposed Dividend	**2,112**	**2,244**	**2,657**	**3,022**	**3,386**	**4,201**	**5,200**	**6,291**

Balance Sheet (INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Capital	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010
Reserves & Surplus	55,812	63,803	74,319	77,174	90,450	106,855	127,161	151,727
Net Worth	**56,822**	**64,813**	**75,329**	**78,184**	**91,460**	**107,865**	**128,171**	**152,737**
Borrowings	**560,873**	**687,641**	**820,356**	**965,319**	**1,109,360**	**1,374,642**	**1,639,115**	**1,948,816**
Change (%)	24.2	22.6	19.3	17.7	14.9	23.9	19.2	18.9
Total Liabilities	**617,695**	**752,454**	**895,685**	**1,043,503**	**1,200,820**	**1,482,507**	**1,767,286**	**2,101,552**
Investments	13,750	18,673	1,993	2,371	2,609	2,869	3,099	3,316
Change (%)	-2.0	35.8	-89.3	19.0	10.0	10.0	8.0	7.0
Loans	**630,802**	**778,120**	**913,410**	**1,083,610**	**1,251,730**	**1,494,177**	**1,781,647**	**2,118,278**
Change (%)	23.5	23.4	17.4	18.6	15.5	19.4	19.2	18.9
Net Fixed Assets	623	624	756	797	849	892	925	948
Net Current Assets	-27,481	-44,963	-20,474	-43,275	-54,368	-15,431	-18,385	-20,989
Total Assets	**617,695**	**752,454**	**895,685**	**1,043,503**	**1,200,820**	**1,482,507**	**1,767,286**	**2,101,552**

E: MOSL Estimates

Financials and Valuations

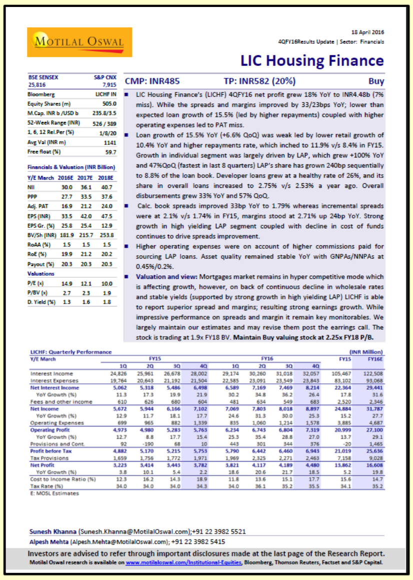
Ratios								
Y/E March	**2012**	**2013**	**2014**	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Spreads Analysis (%)								
Avg. Yield on loans	10.5	10.6	10.7	10.6	10.5	10.4	10.3	10.2
Avg. Yield on Earning Assets	10.2	10.2	10.5	10.3	10.3	10.1	10.0	10.0
Avg. Cost-Int. Bear. Liab.	9.1	9.5	9.5	9.3	9.0	8.5	8.3	8.1
Int. Spread on Hsg. Loans	1.4	1.1	1.21	1.25	1.52	1.9	2.0	2.1
Net Int. Margin on Hsg. Loans	2.4	2.2	2.25	2.24	2.52	2.68	2.68	2.73
Profitability Ratios (%)								
Adj RoAE	20.3	16.8	17.2	17.5	19.3	20.5	21.4	21.8
Adj RoAA	1.8	1.5	1.5	1.4	1.5	1.5	1.6	1.6
Int. Expended/Int.Earned	76.7	79.4	79.1	78.8	76.0	74.1	73.9	73.2
Other Inc./Net Income	1.2	-1.0	2.1	1.4	0.0	0.0	0.0	0.0
Efficiency Ratios (%)								
Fees/Operating income	2.1	2.0	1.2	1.1	1.2	1.3	1.3	1.3
Op. Exps./Net Income	14.6	16.3	14.5	15.7	14.7	14.0	14.3	14.2
Empl. Cost/Op. Exps.	30.6	32.1	33.1	34.1	32.1	33.8	34.8	34.8
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	112.5	113.2	111.3	112.3	112.8	108.7	108.7	108.7
Debt/Equity (x)	9.9	10.6	10.9	12.3	12.1	12.7	12.8	12.8
Gross NPAs (Rs m)	2,652	4,712	6,090	4,947	5,489	6,114	6,712	7,425
Gross NPAs to Adv.	0.4	0.6	0.7	0.5	0.4	0.4	0.4	0.3
Net NPAs (Rs m)	849	1,953	3,534	2,344	2,744	3,057	3,356	3,712
Net NPAs to Adv.	0.1	0.3	0.4	0.2	0.2	0.2	0.2	0.2
CAR	13.0	12.5	16.4	16.5	15.5	14.5	13.5	10.5

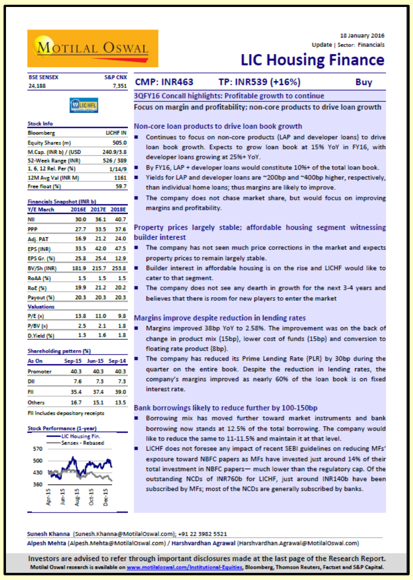
Valuation								
Book Value (INR)	112.5	128.3	149.2	154.8	181.1	213.6	253.8	302.5
Growth (%)	28.2	14.1	16.2	3.8	17.0	17.9	18.8	19.2
Price-BV (x)	**5.0**	**4.3**	**3.7**	**3.6**	**3.1**	**2.6**	**2.2**	**1.8**
Adjusted BV (INR)	112.1	127.3	147.3	153.6	179.6	212.0	252.0	300.5
Price-ABV (x)	**5.0**	**4.3**	**3.7**	**3.6**	**3.1**	**2.6**	**2.2**	**1.8**
EPS (INR)	18.1	20.3	26.1	27.2	32.9	40.8	50.5	61.1
Growth (%)	-11.7	11.9	28.7	4.2	21.0	24.1	23.8	21.0
Price-Earnings (x)	**30.8**	**27.5**	**21.4**	**20.5**	**17.0**	**13.7**	**11.0**	**9.1**
Adj. EPS (INR)	19.8	20.3	23.8	26.7	32.5	40.4	50.1	60.7
Growth (%)	-8.4	2.2	17.4	12.1	21.8	24.4	24.0	21.2
Price-Earnings (x)	**28.1**	**27.5**	**23.4**	**20.9**	**17.2**	**13.8**	**11.1**	**9.2**
Dividend Per Share	3.6	3.8	4.5	5.0	5.8	7.1	8.8	10.7
Dividend Yield (%)	**0.6**	**0.7**	**0.8**	**0.9**	**1.0**	**1.3**	**1.6**	**1.9**

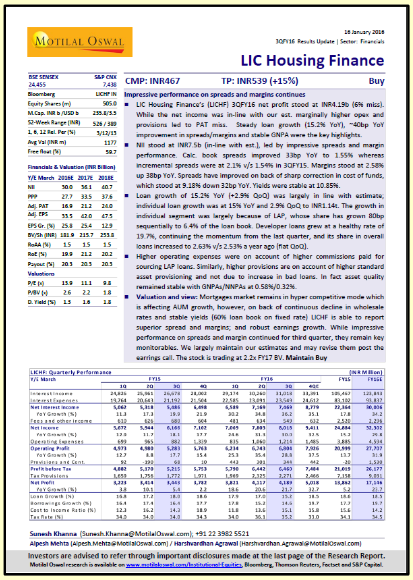
E: MOSL Estimates

PRODUCT GALLERY

Our recent reports on LICHF

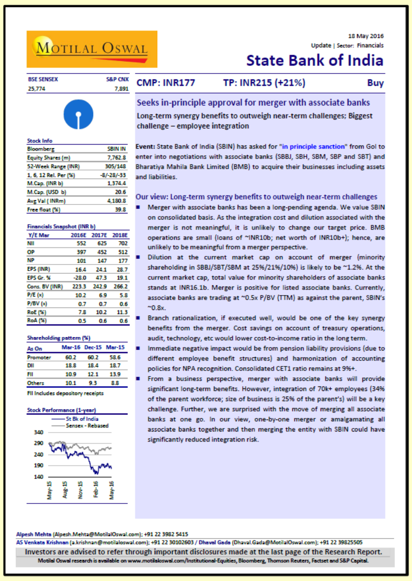






Our recent reports on Financial sector

Our recent reports on other Financial companies



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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931

Kadambari Balachandran
kadambari.balachandran@motilaloswal.com
(+65) 68189233 / 65249115

Motilal Oswal Securities Ltd
Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com