

GIC Housing Finance Limited: Q4FY18 Result Update

Loan Book growth accelerated with significant improvement in asset quality

CMP INR: 420
 Rating: BUY
 Target Price INR: 567
 Upside: 35%

GIC Housing Finance (GICHF) reported a significant improvement in asset quality with healthy growth in loan & advances in its Q4FY18 financial results. However, net revenue and operating profit growth moderated due to marginal decline in net interest margin (NIM) but PAT grew at healthy pace due to lower tax payment. GICHF reported >21% growth in loan & advances, primarily driven by the individual housing loans. Company consciously decided to prune the LAP growth, hence LAP growth came down to 14% YoY and it constitutes 14% of loan book as compared to 16% in Q4FY17. Net interest income grew 9% YoY to INR 102cr, slightly lower due to 41bps declined in net interest margin. Company has reported 9% YoY growth in operating profit to INR 87cr. Net profit grew by 28% YoY to INR 60cr, aided by lower tax rate. Cost/income ratio remained stable to 21%, broadly in-line with management guidance. We expect profitability to improve on account of moderation in credit cost and improve growth going forward.

Asset quality improved significantly; on back of healthy recovery and up-gradation

GIC has reported a significant improvement in asset quality. Gross NPA reduced from 3.2% in Q3FY18 to 2.4% and in absolute term GNPA reduced from INR 342cr in Q3FY18 to INR 270cr in Q4FY18, net NPA reduced from 1% in Q3FY18 to 0.21% in Q4FY18 and PCR also improved from 69% to 91%. The significant reduction in asset quality is attributable to strong recovery and up-gradation. Top managements are chasing for recovery & up-gradation and hence they have set up monthly and bio-monthly recovery & up-gradation target. As a consequence of this, asset quality improved substantially and targeting further improvement in next 2-3 quarters.

Loans & advances growth accelerated

Company has reported 21% growth in loans & advances in Q4FY18 aided by 22% growth in retail housing loans. Company consciously decided to prune the growth of LAP, consequently LAP grew 14% y-o-y to INR 1,592cr and constituting 14% of total loan book as compared to 16% in Q4FY17. GICHF's reported 35% growth in disbursement to INR 987cr as compared to INR 732cr in Q4FY17 and for whole year disbursement grew at 31% y-o-y to INR 3,621cr as compared to INR 2,761cr. We expect loans and advances to grow 22-25% over FY18-20E on back of improving demand of affordable housing aided by strengthening distribution network.

Valuation: we continue with buy recommendation

At CMP of INR 420, stock is trading at 1.5x/8.0x FY20E ABV/EPS with an RoA/RoAE of 1.8%/20%. We believe stock has potential of re-rating account of a) accelerating loans growth, marginally higher than industry average and also de-risking the loans portfolio through reducing LAP proportion; b) significant improvement in asset quality will lead to lower credit cost; c) available at very attractive level as compared to its peers. Based on 2.0x FY20E ABV, we arrive at a target price of INR 567 per share, entailing 35% upside. At CMP, we continue with 'BUY' recommendation.

| INR crs | Q4FY18E | Q4FY17 | % change | Q3FY18 | % change | FY17 | FY18 | FY19E** | FY20E |
|---------------------|---------|--------|----------|--------|----------|------|------|---------|-------|
| Net revenue | 110 | 100 | 10 | 99 | 11.1 | 332 | 416 | 504 | 604 |
| Net profit | 60 | 47 | 28 | 42 | 41.9 | 146 | 186 | 235 | 293 |
| Dil. EPS (INR) | 11 | 9 | 28 | 8 | 41.9 | 27 | 34 | 40 | 49 |
| Adj. Book Value | | | | | | 156 | 184 | 241 | 283 |
| Price/Adj. book (x) | | | | | | 2.7 | 2.3 | 1.7 | 1.5 |
| Price/Earning (x) | | | | | | 15.5 | 12.3 | 10.6 | 8.5 |

** : Assuming 10% equity dilution

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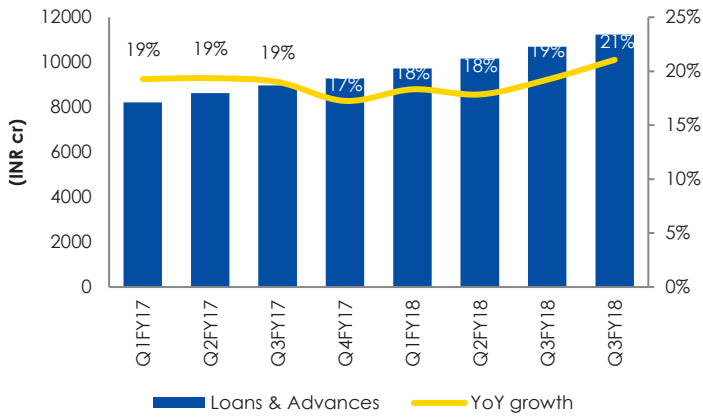
| Bloomberg: | GICHF:IN |
|----------------------------------|-----------------|
| 52-week range (INR): | 623.40 / 342.30 |
| Share in issue (cr): | 5 |
| M cap (INR cr): | 2,260 |
| Avg. Daily Vol. BSE/NSE :('000): | 204 |
| Promoter Holding (%) | 42.16 |

Date: 26th April 2018

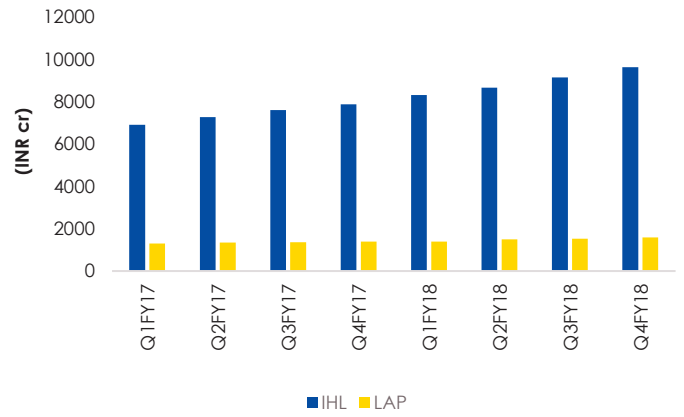
Q4FY18 Result Highlights

| INR crs | Q4FY18 | Q4FY17 | % change | Q3FY18 | % change | FY17 | FY18 |
|-------------------------------------|--------|--------|-------------|--------|-------------|-------|-------|
| Interest income | 289 | 260 | 11 | 275 | 5.2 | 980 | 1,103 |
| Interest expenses | 187 | 166 | 12 | 182 | 2.5 | 668 | 713 |
| Net interest income | 102 | 94 | 9 | 93 | 10.4 | 312 | 390 |
| Non-interest income | 8 | 6 | 27 | 7 | 19.4 | 20 | 26 |
| Net revenue | 110 | 100 | 10 | 99 | 11.1 | 332 | 416 |
| Operating expenses | 23 | 20 | 13 | 20 | 13.9 | 73 | 82 |
| Operating Profit | 87 | 80 | 9 | 79 | 10.3 | 259 | 334 |
| Provisions & Contingencies | 6 | 9 | -30 | 15 | -57.7 | 33 | 61 |
| PBT | 81 | 71 | 14 | 65 | 25.7 | 225 | 273 |
| Tax | 21 | 25 | -14 | 22 | -3.8 | 79 | 87 |
| PAT | 60 | 47 | 28 | 42 | 41.2 | 146 | 186 |
| Adjustment | - | - | - | - | - | - | - |
| Adjusted PAT | 60 | 47 | 28 | 42 | 41.2 | 146 | 186 |
| Paid-up Capital | 54 | 54 | 0 | 54 | 0.0 | 54 | 54 |
| Adj. EPS (INR) | 11 | 9 | 28 | 8 | 41.2 | 27 | 35 |
| Ratio | | | | | | | |
| C/I Ratio | 21 | 20.0 | 61bps | 20.1 | 52bps | 22.1 | 19.7 |
| Yield | 11.1 | 11.6 | -57bps | 11.1 | bps | 11.4 | 10.7 |
| cost of funds | 7.9 | 8.8 | -88bps | 7.9 | bps | 8.8 | 7.8 |
| Spread | 3.2 | 2.9 | 31bps | 3.2 | bps | 2.6 | 2.9 |
| NIM | 4.0 | 4.4 | -38bps | 3.8 | 22bps | 3.6 | 3.8 |
| Balance Sheet | | | | | | | |
| Loan & Advances | 11235 | 9277 | 21.1 | 10690 | 5.1 | 9277 | 11235 |
| Borrowings | 9984 | 8237 | 21.2 | 9533 | 4.7 | 8237 | 9984 |
| Disbursement | 987 | 732 | 34.8 | 948 | 4.2 | 2761 | 3621 |
| Asset Quality | | | | | | | |
| GNPA | 270 | 216 | 24.8 | 342 | -21.2 | 216.2 | 269.6 |
| GNPA (%) | 2.40 | 2.33 | 7bps | 3.20 | -80bps | 2.3 | 2.4 |
| NNPA | 24 | 27 | -11.0 | 107 | -77.9 | 26.9 | 23.6 |
| NNPA (%) | 0.21 | 0.29 | -8bps | 1.00 | -79bps | 0.3 | 0.2 |
| Provision Coverage Ratio | 91.3 | 87.6 | 370bps | 68.8 | 2,250bps | 88 | 91 |
| Adjusted Book Value per share (ABV) | | | | | | 156 | 184 |
| P/ABV | | | | | | 2.7 | 2.3 |
| P/E (x) | | | | | | 15.5 | 12.3 |

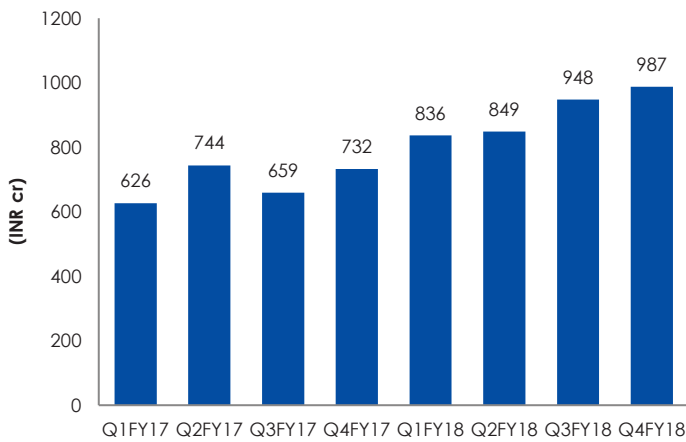
Loans growth accelerated



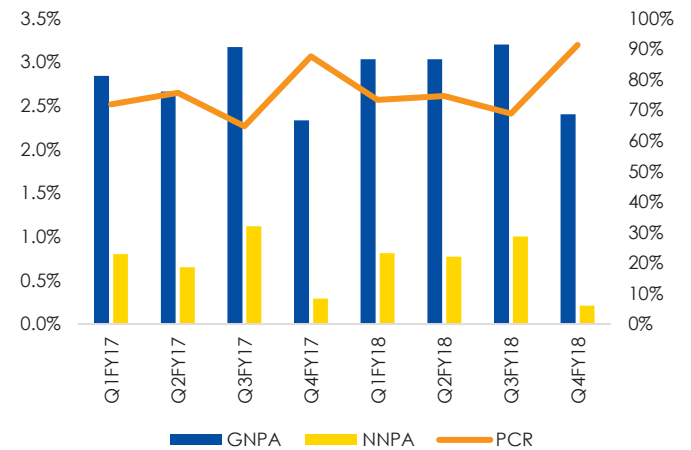
Individuals housing loans (IHL) grew at faster pace



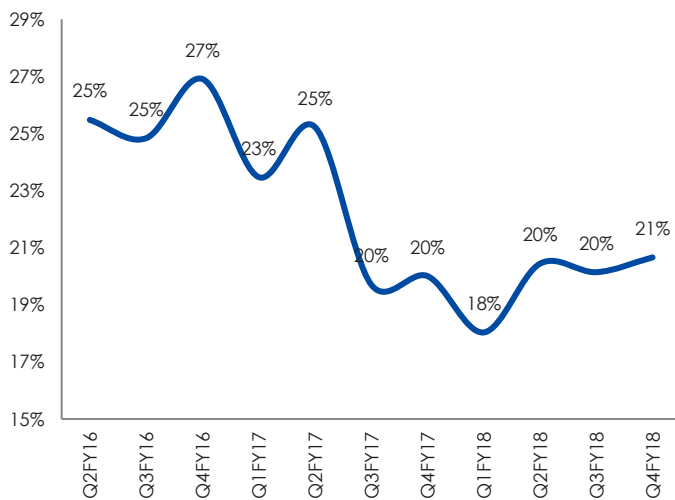
Disbursement grew at higher pace



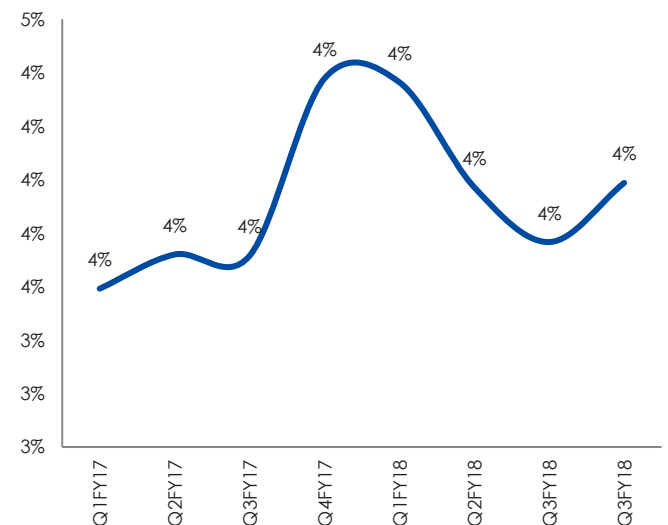
Asset quality improved significantly



C/I(x) remained stable



Net interest margin moderated but likely to stabilise



Source: Edelweiss Investment Research

GIC Housing Finance Limited.

Company Profile

GICHFL is a HFC promoted by General Insurance Corporation of India (GIC) and its erstwhile subsidiaries. The company's primary business is granting housing loans to individuals and 100% loan book is individuals. It is a leading retail HFC with a loan book of INR112bn as of FY18. GICHFL has a strong presence in West India with c.45% plus of total branches, especially in Mumbai & its suburbs; while c.23% plus branches are located in South & North, balance are in the East. GICHFL has sharpened focus on East and South India. GICHF is planning to open 5-10 branches every year over the next few years. The company's capital adequacy ratio stands at 16.8%.

Key Risk

Unforeseen NPA accretion in LAP book

LAP has been a higher risk lending area for HFCs since the emergence of hyper-competition in the segment a few years ago and resultant dilution of underwriting standards. Assessment of credit risk in this segment has been more challenging since this segment's marginal borrower has been non-salaried and who generally lacks authentic financial statements such as salary slips and income tax returns. GICHFL's loan book exposure to this segment stands at 14% as of Q3FY18 and is a focus area with an aim to increase its share in the loan book.

Unexpected rise in cost of borrowings

As of Q4FY18, banking funding constitutes 60% of GICHFL's borrowing mix, which is on the higher side. While banks have passed on some of the reduction in key interest rates, the reduction in interest rates seems to have stalled, given sticky core inflation. Furthermore, the expected improvement in credit rating may not materialize and an increase in share of capital market borrowings may not, therefore, work out.

Slower-than-expected loan CAGR

GICHFL may not be able to access captive network of GIC's (parent) financial advisors to generate leads for loans. Furthermore, some of the loan growth hinges on timely opening of branches and they maturing at a reasonable pace, both of which may not pan out as planned.

Financials

| Income statement | | | | | |
|-------------------------------|----------|------|-------|-------|-------|
| | (INR cr) | | | | |
| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
| Interest income | 857 | 980 | 1,103 | 1,320 | 1,612 |
| Interest charges | 601 | 668 | 713 | 851 | 1,050 |
| Net interest income | 257 | 312 | 390 | 469 | 561 |
| Fee & other income | 19 | 20 | 26 | 35 | 42 |
| Net revenues | 276 | 332 | 416 | 504 | 604 |
| Operating expense | 69 | 73 | 82 | 100 | 116 |
| - Employee exp | 23 | 26 | 29 | 35 | 40 |
| - Legal & Professional fees | 25 | 26 | 53 | 36 | 44 |
| - Other opex | 21 | 21 | 0 | 29 | 33 |
| Preprovision profit | 207 | 259 | 334 | 404 | 487 |
| Provisions | 16 | 33 | 61 | 50 | 46 |
| PBT | 191 | 225 | 273 | 354 | 442 |
| Taxes | 67 | 79 | 87 | 119 | 149 |
| PAT | 125 | 146 | 186 | 235 | 293 |
| Extraordinaries | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 125 | 146 | 186 | 235 | 293 |
| Basic number of shares (mn) | 5 | 5 | 5 | 6 | 6 |
| Basic EPS (INR) | 23 | 27 | 35 | 40 | 49 |
| Diluted number of shares (mn) | 5 | 5 | 5 | 6 | 6 |
| Diluted EPS (INR) | 23 | 27 | 35 | 40 | 49 |
| DPS (INR) | 5 | 5 | 6 | 6 | 7 |
| Payout ratio (%) | 22 | 18 | 16 | 15 | 14 |

Growth ratios (%)

| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
|---------------------|------|-------|------|--------|-------|
| NII growth | 23.9 | 21.7 | 25.0 | 20.3 | 19.6 |
| Net revenues growth | 23.2 | 20.5 | 25.3 | 21.1 | 19.8 |
| Opex growth | 19.1 | 6.6 | 11.7 | 21.9 | 16.4 |
| PPP growth | 24.6 | 25.1 | 29.1 | 20.9 | 20.6 |
| Provisions growth | 28.3 | 111.9 | 82.6 | (18.2) | (8.3) |
| PAT growth | 20.9 | 17.3 | 26.3 | 27.4 | 24.7 |

Balance Sheet

| Balance Sheet | | | | | |
|---------------------|----------|----------|--------|--------|--------|
| | (INR cr) | | | | |
| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
| Paid Capital | 54 | 53.9 | 54 | 59 | 59 |
| Reserve & Surplus | 678 | 784 | 936 | 1,368 | 1,619 |
| Shareholder's Fund | 732 | 838 | 990 | 1,427 | 1,679 |
| Total Borrowings | 7,001 | 8,237 | 9,984 | 12,159 | 14,829 |
| Other Liabilities | 277 | 329 | 381 | 309 | 481 |
| Total Liabilities | 8,010 | 9,404 | 11,355 | 13,896 | 16,989 |
| Cash & Bank Balance | 52 | 62 | 57 | 91 | 111 |
| Investment | 10 | 26 | 26 | 26 | 26 |
| Loan & Advances | 7,912 | 9,277 | 11,235 | 13,721 | 16,782 |
| Net Fixed Assets | 2.16 | 2.27 | 2 | 3 | 3 |
| Other assets | 33 | 37 | 34 | 55 | 67 |
| Total Assets | 8,010 | 9,404.49 | 11,355 | 13,896 | 16,989 |

Operating ratios (%)

| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
|----------------------|------|------|------|-------|-------|
| Yield on advances | 11.8 | 11.4 | 10.7 | 10.5 | 10.5 |
| Cost of funds | 9.4 | 8.8 | 7.8 | 7.7 | 7.8 |
| Spread | 2.4 | 2.6 | 2.9 | 2.8 | 2.7 |
| Net interest margins | 3.5 | 3.6 | 3.8 | 3.7 | 3.7 |
| Cost-to-income | 25.0 | 22.1 | 19.7 | 19.8 | 19.3 |
| Tax rate | 34.9 | 35.2 | 32.0 | 33.7 | 33.7 |

Balance sheet ratios (%)

| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
|---------------------|-------|------|------|-------|-------|
| Loan growth | 19.9 | 17.2 | 21.1 | 22.1 | 22.3 |
| EA growth | 19.9 | 17.5 | 21.0 | 22.1 | 22.3 |
| Disbursement growth | 12.9 | 10.0 | 31.1 | 24.3 | 22.7 |
| Gross NPA ratio | 1.8 | 2.3 | 2.4 | 2.0 | 1.8 |
| Net NPA ratio | 0.0 | 0.3 | 0.2 | 0.2 | 0.2 |
| Provision coverage | 100.0 | 87.6 | 91.3 | 89.6 | 88.3 |

RoE decomposition (%)

| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
|----------------------------|------|------|------|-------|-------|
| Net interest income/Assets | 3.5 | 3.6 | 3.8 | 3.7 | 3.7 |
| Other Income/Assets | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 |
| Net revenues/Assets | 3.8 | 3.8 | 4.0 | 4.0 | 3.9 |
| Operating expense/Assets | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Provisions/Assets | 0.2 | 0.4 | 0.6 | 0.4 | 0.3 |
| Taxes/Assets | 0.9 | 0.9 | 0.8 | 0.9 | 1.0 |
| Total costs/Assets | 2.1 | 2.1 | 2.2 | 2.1 | 2.0 |
| ROA | 1.7 | 1.7 | 1.8 | 1.9 | 1.9 |
| Equity/Assets | 10.0 | 9.7 | 9.6 | 11.3 | 10.9 |
| ROAE | 17.9 | 18.6 | 20.2 | 19.4 | 18.9 |

Valuation metrics

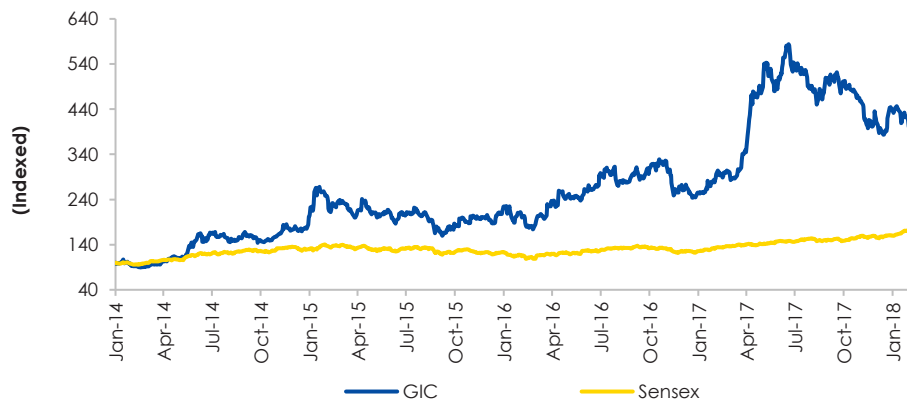
| Year to March | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------------|-------|-------|-------|-------|-------|
| Diluted EPS (INR) | 23.1 | 27.1 | 34.2 | 39.7 | 49.5 |
| EPS growth (%) | 20.9 | 17.3 | 26.3 | 15.8 | 24.7 |
| Adjusted BV per share | 135.9 | 155.7 | 183.8 | 240.9 | 283.4 |
| Diluted P/E (x) | 18.2 | 15.5 | 12.3 | 10.6 | 8.5 |
| Price/Adj. Book Value(x) | 3.1 | 2.7 | 2.3 | 1.7 | 1.5 |
| Price/ Earning (x) | 18.2 | 15.5 | 12.3 | 10.6 | 8.5 |

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| Rating | Expected to |
|--------|---|
| Buy | appreciate more than 15% over a 12-month period |
| Hold | appreciate between 5-15% over a 12-month period |
| Reduce | Return below 5% over a 12-month period |



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