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Financial
LICHF IN
500253

Growth Improves but Asset Quality Disappoints

1QFY20 Result Update

- NII grew by 17% YoY backed by AUM growth of 17% YoY. NIM remained stable at 2.35% YoY. PAT grew by 8%/-12% YoY/QoQ.
- Operating expenses grew by 31% YoY however they declined by 35% QoQ leading to C/I ratio of 9.16% in 1QFY20. Provision reported high growth of 57%/146% YoY/QoQ.
- Total loan portfolio grew by 17%/1% YoY/QoQ backed by growth in individual loan portfolio. Core individual loans grew by 13% YoY and its contribution to total loan remained same at 76%. Disbursement grew by 18% YoY.
- Asset quality deteriorated as Stage 3/Net stage 3 both increased by 44/2 bps QoQ to 1.98%/1.1% in 1QFY20. The slippages mainly coming from developer loans portfolio.

Margins Remained Stable

Net Interest Margin remained stable YoY whereas it declined QoQ by 19 bps to 2.35% due to decline in yield QoQ in 1QFY20. Margins are expected to be stable going ahead. Yield increased by 26 bps YoY and declined by 8 bps QoQ in 1QFY20. Incremental yield stood at 9.55% in 1QFY20. Cost declined by 5/25 bps YoY/QoQ to 8.24% in 1QFY20. Weighted average cost has been declining for NHB, NCDs and CP. Cost is expected to be lower going ahead.

Pickup in Individual Loan segment.

Loan growth remained at 17% YoY backed by growth in individual loan portfolio. Individual loan grew by 13% YoY whereas developer loans grew by 62% YoY. LAP reported low growth of 24% YoY in 1QFY20 as against growth of 30% plus in last few quarters. The composition of loan portfolio remained almost same as the previous quarter. Disbursements grew by 18% YoY. Disbursements remained low in project loan segment due to cautious approach of management.

Asset Quality deterioration continues

Asset quality remained deteriorated due to hike in S3/NS3 by 44/2 bps to 1.98%/1.09% in 1QFY20. Rs 600-700 Cr of slippages reported in 1QFY20 mainly from 3 accounts under the developer segment. 8 accounts from developer loans forms 65% of the total slippages in project loans. Under individual loan segment GNPA for LAP was at 2% and for home loan remained almost stable at 1% GNPA. The GNPA number for developer loans stood at 11% for 1QFY20. The recovery was of Rs 377 Cr in 1QFY20. No write offs reported in 1QFY20. The recovery mainly came from retail segment

View and Valuation

Growth picked up in the individual core home loan segment but there was slow down in the non-individual home loan segment as management maintain cautious stance due to the developing stress in the real estate segment. Focus being on affordable housing segment management expects the growth to remain around 15% going ahead. Recent expansion of branches will support the growth. Margin is expected to remain stable with upward bias. Ease of interest rate in the market will reduce the funding cost for LICHSGFIN. However, spread remained competitive. The major concern remained on the asset quality front with spike of slippages in non-individual segment. In rise in stage 2 assets also signaled the pressure on the asset quality. Slow sales in real estate will continue to impact the lenders. With the rise in stress in the system we remain cautious and increase our credit cost estimate for LICHSGFIN and reduce the PAT estimate by 8% in FY20. We value the stock at Rs 589 (1.4x BV FY21e) and maintain BUY.

Key Risks to our rating and target

- Rise of stress in real estate will impact the delinquencies.
- Intensive competition can lead to margin compression.

RATING

BUY

CMP	496
Price Target	589
Potential Upside	19%

Rating Change

↔

Estimate Change

↓

Target Change

↓

STOCK INFO

52wk Range H/L	587/388
Mkt Capital (Rs Cr)	25,036
Free float (%)	60%
Avg. Vol 1M (,000)	1,805
No. of Shares (Crs)	50
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4269	5150	6052
PPP	3998	4776	5589
PAT	2431	2600	3315
NIM %	2.5	2.6	2.6
EPS (Rs)	48	52	66
EPS growth (%)	21	7	27
ROE (%)	16	15	17
ROA (%)	1.3	1.2	1.3
BV	322	365	421
P/B (X)	1.5	1.4	1.2
P/E (x)	10	10	8

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Asset Quality Deteriorated

1QFY20 Results

Below our expectation

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	4,005	4,188	4,414	4,620	4,757	18.8%	2.9%	14,666	17,161	17.0%
Interest Exp.	3,025	3,138	3,330	3,398	3,603	19.1%	6.0%	11,144	12,892	15.7%
NII	980	1,049	1,084	1,222	1,154	17.8%	-5.6%	3,522	4,269	21.2%
Other Income	54	21	25	35	51	-6.7%	46.9%	174	201	15.1%
Total Income	1,034	1,070	1,109	1,257	1,205	16.5%	-4.1%	3,836	4,636	20.9%
Ope Exp.	85	105	117	166	110	30.5%	-33.3%	440	473	7.5%
PPP	949	965	992	1,091	1,094	15.3%	0.3%	3,257	3,998	22.7%
Provisions	161	219	132	105	253	0.5739	1.4074	492	618	25.7%
PBT	788	746	860	986	841	6.7%	-14.7%	2,766	3,380	22.2%
Tax	220	172	263	293	230	4%	-21.3%	763	949	24.3%
Net Profit	568	574	596	693	611	7.5%	-11.9%	2,003	2,431	21%

Concall Highlights

- Spreads and margins are expected to be stable with positive bias going ahead.
- The cost funds were lower in 1QFY20 and are expected to further reduce going ahead.
- The weighted average cost of funds from bank remained stable at 8.69% which is the reason for decline in expected borrowings from banks.
- Loan growth guidance of 15% in home loan segment for FY20.
- Project loan disbursement declined by 59% QoQ to Rs 830 Cr in 1QFY20, the reason being cautious stance taken due to the market conditions. The company takes minimum 1.5% security cover for the project loans.
- Amongst all the regions, central, south central, south eastern and western regions registered good growths in terms of disbursement.
- The NPAs in builder portfolio increased from 7% in last quarter to 11% in 1QFY20, the reason being some slippages reported in the segment due to delinquencies in developer loans on the account of new norms i.e. if one of the account is performing but the other one is non performing then the first one also slips to NPA which is reason for high NPAs. Slippages stood at Rs 600 -700 Cr in 1QFY20 majorly from 3 accounts and the largest one being of Rs 200 Cr.
- From Rs 700 Cr of slippages in developer loans, Rs 150 Cr are standard one and Rs 550 are actual NPAs.
- The major NPAs in developer portfolio reported from 8 major accounts which form 65% of the NPAs for which some recoveries are expected in next 2-3 quarters.
- Total provisions, standard and non-standard stood at Rs 1900 Cr and for builder loans stood at Rs 490 Cr excluding the standard assets provisions for builder loans stood at Rs 400 Cr.
- No write offs reported in 1QFY20.
- The provisions as per new NHB guidelines stood at RS 1912 Cr for 1QFY20.
- The asset quality in individual loan portfolio deteriorated in 1QFY20 the reason being slipping of accounts to NPA on the account of seasonality.
- Recovery of Rs 377 Cr reported in 1QFY20. The recovery mainly came from retail segment. Marginal recovery in non-individual portfolio.
- Opened 9 more marketing offices opened in 1QFY20 in tier II, tier III which are mainly focused on affordable housing loan segment.
- Under PMAY scheme, the company disbursed 10073 accounts totalling Rs 2021 Cr under this scheme accounting for nearly 25% of retail disbursement in volume terms and in value terms and has received subsidy of Rs 219 Cr for the beneficiaries.
- ALM mismatch position in less than 1 year bucket stood at 13%.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	15.5	20.5	8.2	9.8	10.6	13.2	9.2	0.93	-4.01
Empl. Cost/ Tot. Exp. %	32.7	28.1	56.5	54.6	59.1	44.3	55.5	-0.99	11.18
Other Exp/Tot. Exp. %	65.6	70.7	35.7	36.8	35.4	42.4	29.1	-6.55	-13.34
Provision/PPP %	6.0	3.2	17.0	22.7	13.4	9.6	23.2	6.19	13.51
Tax Rate %	35.1	35.7	28.0	23.1	30.6	29.7	27.4	-0.60	-2.31
Int Exp./Int Inc. (%)	75.3	73.9	75.0	74.9	75.4	73.5	75.7	0.74	2.19
Other Inc./NII %	6.1	8.7	2.5	2.0	2.3	2.8	4.4	1.87	1.57
PPP/ Net Income %	84.5	79.5	91.8	90.2	89.4	86.8	90.8	-0.93	4.01
PAT/ Net Income %	51.5	49.4	54.9	53.6	53.8	55.2	50.7	-4.19	-4.47
NII Growth % (YoY)	0.9	(3.5)	9.7	8.9	42.0	21.6	17.8	8.09	-3.77
PPP Growth YoY %	(0.7)	(3.2)	10.5	11.6	42.2	23.6	15.3	4.74	-8.35
PAT Growth %	(1.6)	1.9	18.3	11.6	25.5	16.6	7.5	-10.79	-9.11

Margin Performance

MARGIN %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	10.2	9.9	10.0	10.0	10.2	10.2	10.1	0.10	-0.11
Cost of Funds	8.3	8.3	8.3	8.3	8.5	8.5	8.2	-0.05	-0.25
Spreads(Cal)	1.6	1.6	1.7	1.6	1.4	1.6	1.4	-0.36	-0.27
NIM Reported.	2.3	2.5	2.3	2.4	2.3	2.5	2.4	0.01	-0.19

Exhibit: Yield and Cost

Yield stable and cost of fund shown improvement

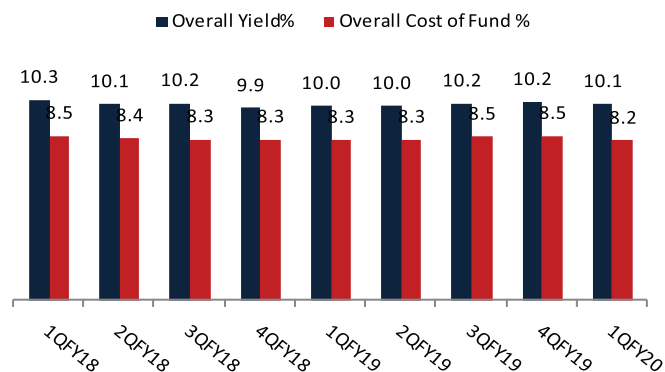
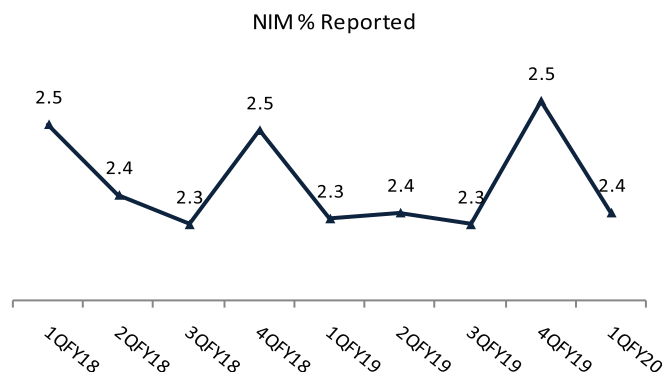


Exhibit: Net Interest Margin

NIM remained under pressure.



Asset & Borrowings Growth Trend

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Disbursements	8699	10975	12293	17402	9594	14272	12778	18649	10262
Growth YoY %	15	20	27	15	10	30	4	7	18
AUM	147051	151417	156176	167466	168652	175953	183104	194646	197768
Growth YoY %	15	16	15	16	15	16	17	16	17
Borrowings	129163	133622	137629	145339	147735	154451	160291	170629	173025
Growth YoY %	14	15	15	15	14	16	16	17	34

Fig in Rs Cr

Asset Composition

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Individual Loan Portfolio %	83	83	83	81	79	78	77	77	76
LAP %	13	13	13	14	16	16	17	17	17
Project/Developer loan portfolio %	4	4	4	5	5	6	6	6	7
Total	100	100	100	100	100	100	100	100	100

Exhibit: AUM Growth %

AUM growth improved

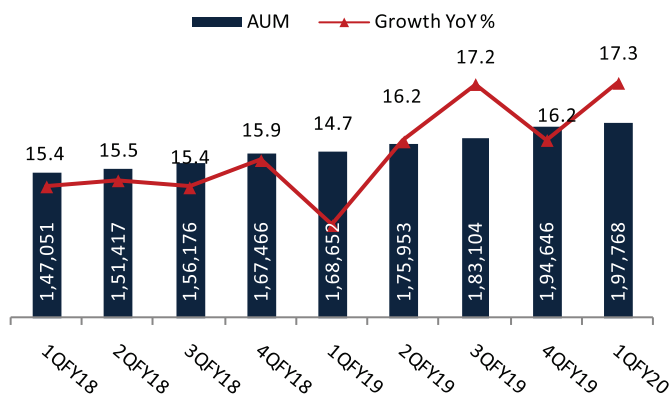
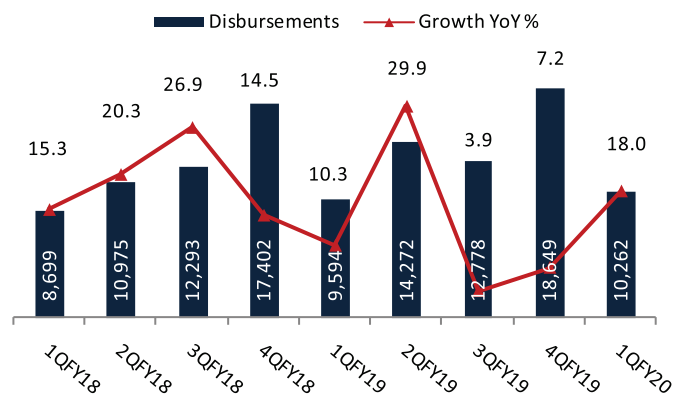


Exhibit: Disbursement Growth %

High Disbursements YoY



Borrowing Mix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Non Convertible Debentures(NCD)	79%	79%	78%	79%	74%	68%	74%	75%	73%
Bank	9%	9%	10%	10%	12%	16%	14%	15%	14%
Others	12%	12%	12%	11%	14%	16%	12%	10%	14%

Disbursement Break up

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Core Home Loans	6,674	8,483	9,177	10,541	7,260	9,000	9,177	12,448	7,871
Lap	1,612	1,900	2,146	4,635	1,445	2,324	2,363	4,170	1,561
Corporate Loan	413	600	978	2,226	889	2,948	1,238	2,031	830
Total	8,699	10,983	12,301	17,402	9,594	14,272	12,778	18,649	10,262

Asset Quality

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Stage 1								
Exposure At Default %	95.12	0.95	0.95	0.95	0.95	0.94	0.94	0.93
Amount	144082	147774	158610	160152	166399	171788	183065	184478
ECL Provision	160	52	116	190	279	5	24	28
ECL Provision %	0.11	0.04	0.07	0.12	0.17	0.00	0.01	0.01
Stage 2								
Exposure At Default %	4.02	0.04	0.04	0.04	0.04	0.05	0.04	0.05
Amount	6,089	6,981	6,405	6,459	7,320	9,027	8,506	9,374
ECL Provision	3	3	6	74	111	2	112	129
ECL Provision %	0.05	0.04	0.09	1.15	1.52	0.02	1.31	1.37
Stage 3								
Exposure At Default %	0.86	0.91	0.81	1.21	1.27	1.25	1.58	1.98
Amount	1,303	1,421	1,348	2,041	2,235	2,289	3,075	3,916
ECL Provision	772	815	908	652	1,170	1,549	1,524	1,757
ECL Provision %	59.00	57.30	67.40	32.00	52.30	67.70	49.60	44.90

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	101	101	101	101	101	101	101	101
Equity Capital	101	101	101	101	101	101	101	101
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	7432	7717	9045	10976	14140	16158	18298	21128
Networth	7533	7818	9146	11077	14241	16259	18399	21229
Change (%)	16	4	17	21	29	14	13	15
Total Borrowings	82036	96547	110936	126335	145339	170629	198933	228773
Change (%)	19	18	15	14	15	17	17	15
Provisions	1077	1070	1267	1139	118	113	125	137
Other Liabilities	5132	7110	9149	12349	11392	13582	14940	16434
Total Liabilities	95777	112545	130498	150901	171090	200583	232397	266574
Investments	199	237	277	528	1972	3595	3955	4350
Loans	91341	108361	125173	144534	166162	192993	223872	257452
Change (%)	17	19	16	15	15	16	16	15
Fixed Assets	76	80	92	97	169	211	232	255
Other Assets	1139	934	1029	1280	690	790	869	956
Cash Balances	3022	2933	3927	4462	2096	2995	3470	3560
Total Assets	95777	112545	130498	150901	171090	200583	232397	266574

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	9,073	10,547	12,251	13,877	14,666	17,161	20,148	23,168
Interest expended	7,174	8,310	9,307	10,231	11,144	12,892	14,998	17,116
Net Interest Income	1,899	2,236	2,944	3,645	3,522	4,269	5,150	6,052
Change (%)	24	18	32	24	(3)	21	21	18
Other Income	261	252	235	204	174	201	227	266
Change (%)	31	(4)	(7)	(13)	(14)	15	13	18
Total Net Income	2,160	2,488	3,179	3,849	3,697	4,470	5,377	6,319
Change (%)	25	15	28	21	(4)	21	20	18
Operating Expenses	313	379	469	612	440	473	601	730
Change (%)	11	21	24	31	(28)	8	27	21
Employee Expenses	104	129	150	246	223	248	312	379
Change (%)	15	25	16	63	(9)	11	26	22
Other Expenses	209	250	318	366	216	225	289	351
Pre-provisioning Profit	1,847	2,109	2,710	3,237	3,257	3,998	4,776	5,589
Change (%)	27	14	28	19	1	23	19	17
Provisions	21	7	146	281	492	618	1,011	714
Change (%)	(73)	(65)	1,920	92	75	26	64	(29)
PBT	1,826	2,102	2,564	2,956	2,766	3,380	3,765	4,874
Tax	508	716	903	1,025	763	949	1,165	1,560
Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,600	3,315
Change (%)	29	5	20	16	4	21	7	27
Adjusted Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,600	3,315
Change (%)	29	5	20	16	4	21	7	27

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	91341	108361	125173	144534	166363	194646	225789	259658
Off-Book AUM	0	0	0	0	201	1653	1918	2205
AUM Growth (%)	17.4	18.6	15.5	15.5	15.1	17.0	16.0	15.0
Borrowing Growth (%)	19.3	17.7	14.9	13.9	15.0	17.4	16.6	15.0
Loan/Borrowing Ratio	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Disbursement (Rs Cr)	25271	30326	36273	41541	49385	55293	63904	76681
Disbursement Growth (%)	20	20	20	15	19	12	16	20
CRAR (%)	16	15	17	16	15	14	14	13
Tier 1 (%)	12.2	11.8	13.9	13.4	13.1	12.3	12.0	12.0
Tier 2 (%)	4.2	3.5	3.2	2.3	2.4	2.1	1.6	1.4
Debt/Equity (x)	10.9	12.3	12.1	11.4	10.2	10.5	10.8	10.8
Assets Quality Metrics								
Gross NPA (Rs)	609	495	568	627	1,304	2,972	4,516	5,193
Gross NPA (%)	0.7	0.5	0.5	0.4	0.8	1.5	2.0	2.0
Net NPA (Rs)	354	234	270	205	712	2,063	2,484	2,856
Net NPA (%)	0.4	0.2	0.2	0.1	0.4	1.1	1.1	1.1
Provision Coverage (%)	42	53	52	67	45	31	45	45
Provision/Average Advances (%)	0.0	0.0	0.1	0.2	0.3	0.3	0.5	0.3
Margin Metrics								
Yield On Advances (%)	11.3	11.2	11.1	10.9	10.1	10.1	10.1	10.1
Cost Of Funds (%)	10.0	9.9	9.5	9.1	8.6	8.6	8.6	8.5
Spread (%)	1.3	1.3	1.6	1.8	1.5	1.4	1.5	1.6
NIM on AUM (%)	2.3	2.4	2.7	2.9	2.5	2.5	2.6	2.6
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	79.1	78.8	76.0	73.7	76.0	75.1	74.4	73.9
Other Income/NII (%)	13.8	11.3	8.0	5.6	5.0	4.7	4.4	4.4
Operating Profit/ Net Income (%)	85.5	84.8	85.3	84.1	88.1	89.4	88.8	88.4
Net Profit/Net Income (%)	61.0	55.7	52.2	50.2	54.2	54.4	48.4	52.5
Cost to Income (%)	14.5	15.2	14.7	15.9	11.9	10.6	11.2	11.6
Employee Exp/ Net Income (%)	4.8	5.2	4.7	6.4	6.0	5.5	5.8	6.0
Cost on Average Assets (%)	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Provisions/PPP (%)	1.1	0.3	5.4	8.7	15.1	15.5	21.2	12.8
Tax Rate (%)	27.8	34.1	35.2	34.7	27.6	28.1	30.9	32.0
Valuation Ratio Metrics								
EPS (Rs)	26	27	33	38	40	48	52	66
Change (%)	28.8	5.2	19.8	16.3	3.7	21.4	7.0	27.5
ROAE (%)	18.8	18.1	19.6	19.1	15.8	15.9	15.0	16.7
ROAA (%)	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.3
Dividend Payout (%)	17.2	18.2	16.7	16.2	17.1	15.8	15.5	12.2
Dividend yield (%)	2.1	1.4	1.2	1.2	1.3	1.5	1.6	1.6
Dividend Per Share	4.5	5.0	5.5	6.2	6.8	7.6	8.0	8.0
Book Value (Rs)	149	155	181	219	282	322	365	421
Change (%)	16.2	3.8	17.0	21.1	28.6	14.2	13.2	15.4
P/B (X)	1.6	2.8	2.7	2.8	1.9	1.5	1.4	1.2
P/E (X)	9.0	15.9	15.0	16.2	13.5	10.3	9.6	7.6

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	10.3	10.1	10.1	9.9	9.1	9.2	9.3	9.3
Interest expended	8.1	8.0	7.7	7.3	6.9	6.9	6.9	6.9
Net Interest Income	2.2	2.1	2.4	2.6	2.2	2.3	2.4	2.4
Non-Fund Based Income	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Total Income	2.5	2.4	2.6	2.7	2.3	2.4	2.5	2.5
Total Operating Expenses	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Employee Expenses	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2
Other Expenses	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1
Operating Profit	2.1	2.0	2.2	2.3	2.0	2.2	2.2	2.2
Provisions	0.0	0.0	0.1	0.2	0.3	0.3	0.5	0.3
Others	-	-	-	-	-	-	-	-
PBT	2.1	2.0	2.1	2.1	1.7	1.8	1.7	2.0
Tax	0.6	0.7	0.7	0.7	0.5	0.5	0.5	0.6
PAT/RoAA	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.3
Equity Multiplier (x)	12.6	13.6	14.3	13.9	12.7	12.2	12.5	12.6
ROAE	18.8	18.1	19.6	19.1	15.8	15.9	15.0	16.7

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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