



LIC Housing Finance Ltd

Industry Financial
Bloomberg LICHF IN
BSE CODE 500253

Assets Quality blip, but retail growth and margin improves.

RATING	BUY
CMP	373
Price Target	508
Potential Upside	36%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	587/354
Mkt Capital (Rs Cr)	18,849
Free float (%)	60%
Avg. Vol 1M (,000)	2,948
No. of Shares (Cr)	50
Promoters Pledged %	0%

Fig. In Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4269	5017	5711
PPP	3998	4634	5273
PAT	2431	2656	3379
NIM %	2.5	2.5	2.5
EPS (Rs)	48	53	67
EPS growth	21	9	27
ROE (%)	16	15	17
ROA (%)	1.3	1.2	1.4
BV	322	366	423
P/B (X)	1.2	1.0	0.9
P/E (x)	8	7	6

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2QFY20 Result Update

- ☐ LIC Housing Finance reported NII growth of 20%/8% YoY/QoQ driven by advances growth of 15%/3% Yoy/QoQ. NIM grew marginally by 1/7 bps YoY/QoQ in 2QFY20.
- ☐ OPEX grew by 34%/25% YoY/QoQ due to high growth in commission and brokerage expenses along with high employee cost. PBT growth has been 16%/3% on the account of high provisioning done in the quarter.
- ☐ Asset quality deteriorated as both GNPA increased by 40 bps to 2.38% in 2QFY20. GNPA in developer segment crossed 14%.
- ☐ Advances grew by 15%/3% YoY/QoQ in 2QFY20, the growth mainly coming from individual loan portfolio. Disbursements declined by 15% mainly due to reduction in LAP and developer book. Retail disbursement improved to 16% YoY growth.

Healthy growth in retail book

Advances growth has been at 15%/3% YoY/QoQ in line with our expectations, individual loan portfolio being the growth driver for the quarter. The company has not been able to disburse in project loan and LAP portfolio in the quarter as both of them reported negative growth in disbursement in 2QFY20. LAP disbursement degrew by 38% YoY whereas developer book degrew by 85% YoY. Borrowings grew by 34% YoY. Majority of borrowings came from NCDs and Banks.

NIM remained stable

NIM grew marginally by 1/7bps QoQ to 2.42% in 2QFY20. Yield reported growth of 10 bps YoY whereas it reported degrowth of 11bps QoQ. The incremental yield (non-annualised) stood at individual retail home loan: 8.84%, non-home loan retail: 10.5%, builder loan: 12.7%, blended: 9.3% for 2QFY20. Cost of funds increased by 7/12 bps YoY/QoQ to 8.37% in 2QFY20. The company is expecting NCDs to be re-priced at lower cost going ahead in next 2-3 quarters.

Asset quality dragged by developer loan segment

Asset quality deteriorated as GNPA increased by 40 bps to 2.38% in 2QFY20. Stage 2 number also reported growth of 3% QoQ in 2QFY20. Stage 3 ECL provisioning increased by 19% QoQ to Rs 2083 cr. GNPA segment wise stood at: for builder loan: 14.8%, retail home Loan: 1.05%, non-housing Individual: 2.36%, overall retail: 1.52% for 2QFY20. NPAs in affordable housing have been nil.

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 considering the current environment. The management expects 15% growth rate to continue for FY20. On the account of movement towards affordable housing, ability to re price the liability profile going ahead may provide cushion to margins and growth of the company. However, Stress in developer loan segment (GNPA at 14%) is deteriorating the asset quality of the company continuously which is an area of concern. We reduce the earnings estimate by 5% in FY20 and reduce the target price to Rs 508 at 1.2x BV FY21e. Maintain BUY.

Key Risks to our rating and target

- ☐ Stress in developer segment.
- ☐ Intensive competition can lead to margin compression.

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2QFY20 Results Above our expectation

Asset Quality Deteriorated

Fig. In Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	4,185	4,414	4,620	4,757	4,954	18.4%	4.1%	14,666	17,161	17.0%
Interest Exp.	3,138	3,330	3,398	3,603	3,702	18.0%	2.8%	11,144	12,892	15.7%
Nil	1,047	1,084	1,222	1,154	1,252	19.6%	8.5%	3,522	4,269	21.2%
Other Income	23	25	35	51	36	54.5%	-29.6%	174	201	15.1%
Total Income	1,070	1,109	1,257	1,205	1,287	20.3%	6.9%	3,836	4,636	20.9%
Opex Exp.	105	117	166	110	140	33.5%	26.5%	440	473	7.5%
PPP	965	992	1,091	1,094	1,148	18.9%	4.9%	3,257	3,998	22.7%
Provisions	219	132	105	253	281	0.28297	0.11108	492	618	25.7%
PBT	746	860	986	841	866	16.1%	3.0%	2,766	3,380	22.2%
Tax	172	263	293	230	84	-51%	-63.7%	763	949	24.3%
Net Profit	574	596	693	611	783	36.4%	28.1%	2,003	2,431	21%

Concall Highlights

- Margins are expected to be stable going ahead.
- The incremental yield (non annualised) stood at individual retail home loan: 8.84%, non home loan retail: 10.5%, builder loan: 12.7%, blended: 9.3% for 2QFY20.
- Cost on NCDs is expected to come down in next 2-3 quarters.
- Cumulative provisioning on builder book stood at Rs 2083 Cr for 2QFY20.
- The company will be following the tax rate of 25.17% from next quarter.
- Credit cost is expected to be at the same level going ahead.
- AUM growth is expected to be at the same level OF 14-15% for FY20.
- The company raised Rs 10k Cr through NCDs, Rs 3600 Cr through CP and Rs 3000 Cr through Public deposits during the quarter 2QFY20.
- The company had recovery of Rs 66 Cr i.e. Rs 28 Cr interest and Rs 38 Cr principle amount during the quarter 2QFY20.
- In the period of October to March 2020 Rs 17.5 K Cr of bonds are maturing and the rate on them is 8.3% currently which is expected to be re priced at a rate lower than 35-40 bps .
- Capital Adequacy ratio stood at 14% for 2QFY20 with Tier I capital at 12.3-12.5%.
- 35-36% of builder loan portfolio is under moratorium period of 12-18 months.
- >Rs 2400 Cr of builder loans are in stage 2 Assets.
- 50-60% of total developer loan portfolio are 50% or below 50% construction stage.
- Intangible assets increased drastically during the quarter due to IND AS 116 impact of Right to use assets addition.
- The company is focusing on affordable housing going ahead.
- Processing fees has come down, the reason being change in the accounting of fee income as per IND AS, now only amortised portion of the fee income will be reflected in fee income.
- There has been high GNPA reported in construction finance segment in 2QFY20. GNPA segment wise stood at: for builder loan: 14.8%, Home Loan: 1.05%, non housing Individual: 2.36%, overall retail: 1.52% for 2QFY20. NPAs in affordable housing has been nil.
- Among the regions central, south eastern and northern regions registered good growth.
- The company disburser 25000 accounts totalling Rs 5000 Cr in 2QFY20 under PMAY scheme accounting for 26% of retail assets in volume terms and 24% in volume terms.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	20.5	8.2	9.8	10.6	13.2	9.2	10.9	1.07	1.69
Empl. Cost/ Tot. Exp. %	28.1	56.2	54.6	59.1	44.3	55.5	55.1	0.47	-0.42
Other Exp/Tot. Exp.%	70.7	35.9	36.8	35.4	42.4	29.1	22.1	-14.64	-7.00
Provision/PPP %	3.2	17.0	22.7	13.4	9.6	23.2	24.5	1.79	1.37
Tax Rate %	35.7	28.0	23.1	30.6	29.7	27.4	9.7	-13.43	-17.72
Int Exp./Int Inc. (%)	73.9	75.5	75.0	75.4	73.5	75.7	74.7	-0.26	-1.01
Other Inc./NII %	8.7	5.5	2.2	2.3	2.8	4.4	2.7	0.51	-1.68
PPP/ Net Income %	79.5	91.8	90.2	89.4	86.8	90.8	89.1	-1.07	-1.69
PAT/ Net Income %	49.4	54.9	53.6	53.8	55.2	50.7	60.8	7.17	10.09
NII Growth % (YoY)	(3.5)	6.6	20.5	42.0	21.6	17.8	19.6	-0.87	1.79
PPP Growth YoY %	(3.2)	10.6	11.6	42.2	23.6	15.3	18.9	7.33	3.65
PAT Growth %	1.9	18.4	11.6	25.5	16.6	7.5	36.4	24.80	28.90

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	10.0	10.0	10.0	10.2	10.1	10.1	10.2	0.16	0.05
Cost of Funds	8.3	8.3	8.3	8.5	8.2	8.2	8.4	0.07	0.12
Spreads(Cal)	1.7	1.4	1.4	1.6	1.4	1.4	1.5	0.07	0.13
NIM Reported.	2.3	2.3	2.4	2.5	2.4	2.4	2.4	0.01	0.07

Exhibit: Yield and Cost

Yield stable and cost of fund shown improvement

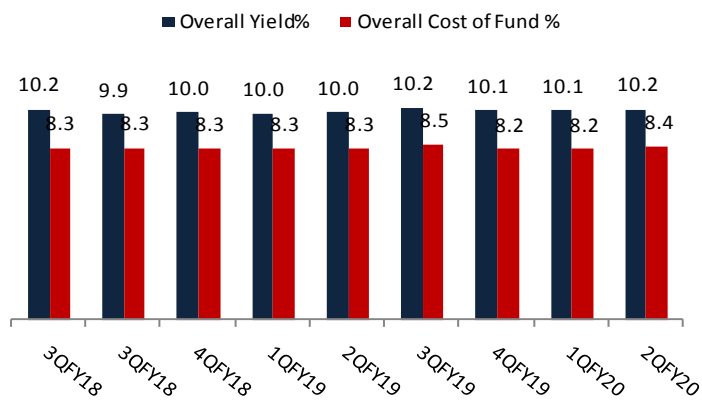
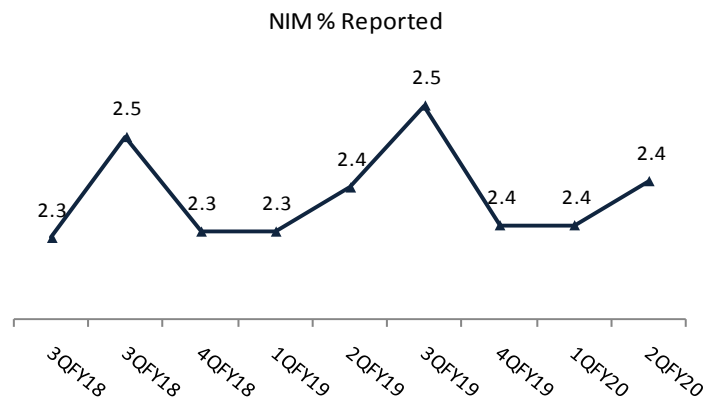


Exhibit: Net Interest Margin

NIM remained under pressure.



Asset & Borrowings Growth Trend

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Disbursements	10975	12293	17402	9594	14294	12778	18649	10262	12173
Growth YoY %	20	27	15	10	30	4	7	18	11
AUM	151417	156176	167466	168652	175953	183104	194646	197768	203037
Growth YoY %	16	15	16	15	16	17	16	17	15
Borrowings	133622	137629	145339	147735	154451	160291	170629	173025	178849
Growth YoY %	15	15	15	14	16	16	17	34	34

Asset Composition

Individual Loan Portfolio %	83	83	81	79	78	77	77	76	77
LAP %	13	13	14	16	16	17	17	17	17
Project/Developer loan	4	4	5	5	6	6	6	7	7
Total	100	100	100	100	100	100	100	100	100

Exhibit: AUM Growth %

AUM growth

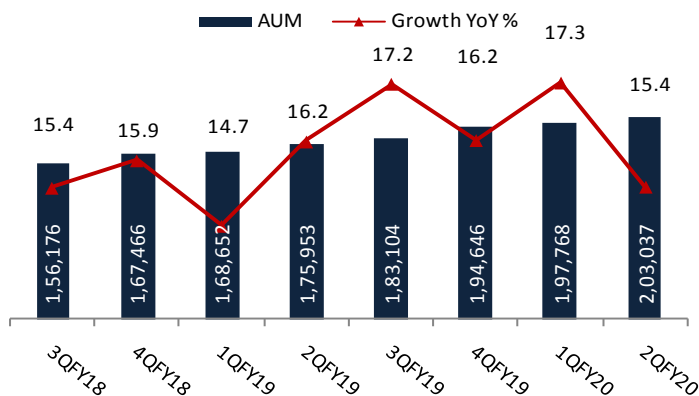
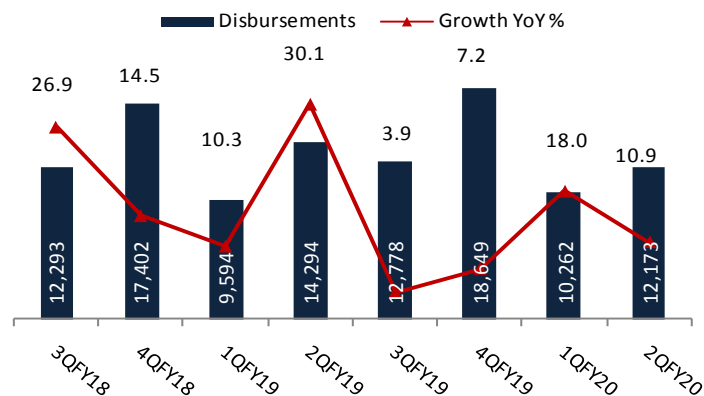


Exhibit: Disbursement Growth %

High Disbursements YoY



Borrowing Mix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Non Convertible Debentures(NCD)	79%	78%	79%	74%	68%	74%	75%	73%	72%
Bank	9%	10%	10%	12%	16%	14%	15%	14%	15%
Others	12%	12%	11%	14%	16%	12%	10%	14%	13%

Disbursement Break up

Fig. In Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Core Home Loans	8,483	9,177	10,838	7,260	8,739	9,177	12,448	7,871	10,136
Lap	1,900	2,146	4,298	1,445	2,585	2,363	4,170	1,561	1,592
Corporate Loan	600	978	2,266	889	2,970	1,238	2,031	830	445
Total	10,975	12,301	17,402	9,594	14,294	12,778	18,649	10,262	12,173

Asset Quality

Fig. In Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Stage 1								
>>Exposure At Default %	94.62	95.34	94.96	94.57	93.82	94.05	93.28	92.88
Amount	147774	158610	160152	166399	171788	183065	184478	188581
>>ECL Provision	52	116	190	279	5	24	28	29
>> ECL Provision %	0.04	0.07	0.12	0.17	0.00	0.01	0.01	0.00
Stage 2								
>>Exposure At Default %	4.47	3.85	3.83	4.16	4.93	4.37	4.74	4.74
Amount	6,981	6,405	6,459	7,320	9,027	8,506	9,374	9,624
>>ECL Provision	3	6	74	111	2	112	129	82
>> ECL Provision %	0.04	0.09	1.15	1.52	0.02	1.31	1.37	0.01
Stage 3								
>>Exposure At Default %	0.91	0.81	1.21	1.27	1.25	1.58	1.98	2.38
Amount	1,421	1,348	2,041	2,235	2,289	3,075	3,916	4,832
>>ECL Provision	815	908	652	1,170	1,549	1,524	1,757	2,083
>> ECL Provision %	57.30	67.40	32.00	52.30	67.70	49.60	44.90	0.43

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	18354	21248
Networth	7533	7818	9146	11077	14241	16259	18455	21349
Change (%)	16	4	17	21	29	14	14	16
Total Borrowings	82036	96547	110936	126335	145339	170629	197218	226801
Change (%)	19	18	15	14	15	17	16	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	230738	264721
Investments	199	237	277	528	1972	3595	3955	4350
Loans	91341	108361	125173	144534	166162	192993	221942	255233
Change (%)	17	19	16	15	15	16	15	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	3741	3927
Total Assets	95777	112545	130498	150901	171090	200583	230738	264721

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	20,064	22,797
Interest expended	7,174	8,310	9,307	10,231	11,144	12,892	15,047	17,086
Net Interest Income	1,899	2,236	2,944	3,645	3,522	4,269	5,017	5,711
Change (%)	24	18	32	24	(3)	21	18	14
Other Income	261	252	235	204	174	201	201	251
Change (%)	31	(4)	(7)	(13)	(14)	15	0	25
Total Net Income	2,160	2,488	3,179	3,849	3,697	4,470	5,218	5,962
Change (%)	25	15	28	21	(4)	21	17	14
Operating Expenses	313	379	469	612	440	473	585	690
Change (%)	11	21	24	31	(28)	8	24	18
>> Employee Expenses	104	129	150	246	223	248	302	358
Change (%)	15	25	16	63	(9)	11	22	19
>>Other Expenses	209	250	318	366	216	225	283	332
Pre-provisioning Profit	1,847	2,109	2,710	3,237	3,257	3,998	4,634	5,273
Change (%)	27	14	28	19	1	23	16	14
Provisions	21	7	146	281	492	618	1,221	707
Change (%)	(73)	(65)	1,920	92	75	26	98	(42)
PBT	1,826	2,102	2,564	2,956	2,766	3,380	3,413	4,566
Tax	508	716	903	1,025	763	949	757	1,187
Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,656	3,379
Change (%)	29	5	20	16	4	21	9	27
Adjusted Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,656	3,379
Change (%)	29	5	20	16	4	21	9	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	223843	257419
>> Off-Book AUM	0	0	0	0	201	1653	1901	2186
AUM Growth (%)	17.4	18.6	15.5	15.5	15.1	17.0	15.0	15.0
Borrowing Growth (%)	19.3	17.7	14.9	13.9	15.0	17.4	15.6	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	55315	57117	75915
Disbursement Growth (%)	20	20	20	15	19	12	3	33
CRAR (%)	16	15	17	16	15	14	14	14
>> Tier 1 (%)	12.2	11.8	13.9	13.4	13.1	12.3	12.1	12.2
>> 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	10.7	10.6

Assets Quality Metrics

Gross NPA (Rs)	609	495	568	627	1,304	2,972	4,477	5,148
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	2,238	2,574
Net NPA (%)	0.4	0.2	0.2	0.1	0.4	1.1	1.0	1.0
Provision Coverage (%)	42	53	52	67	45	31	50	50
Provision/Average Advances (%)	0.0	0.0	0.1	0.2	0.3	0.3	0.6	0.3

Margin Metrics

Yield On Advances (%)	11.3	11.2	11.1	10.9	10.1	10.0	10.1	10.0
Cost Of Funds (%)	10.0	9.9	9.5	9.1	8.6	8.6	8.7	8.5
Spread (%)	1.3	1.3	1.6	1.8	1.5	1.4	1.5	1.5
NIM on AUM (%)	2.3	2.4	2.7	2.9	2.5	2.5	2.5	2.5

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	79.1	78.8	76.0	73.7	76.0	75.1	75.0	74.9
Other Income/NII (%)	13.8	11.3	8.0	5.6	5.0	4.7	4.0	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	50.9	56.7
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	26.3	13.4
Tax Rate (%)	27.8	34.1	35.2	34.7	27.6	28.1	22.2	26.0

Valuation Ratio Metrics

EPS (Rs)	26	27	33	38	40	48	53	67
Change (%)	28.8	5.2	19.8	16.3	3.7	21.4	9.2	27.2
ROAE (%)	18.8	18.1	19.6	19.1	15.8	15.9	15.3	17.0
ROAA (%)	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.4
Dividend Payout (%)	17.2	18.2	16.7	16.2	17.1	15.8	15.2	11.9
Dividend yield (%)	2.1	1.4	1.2	1.2	1.3	2.0	2.1	2.1
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	366	423
Change (%)	16.2	3.8	17.0	21.1	28.6	14.2	13.5	15.7
P/B (X)	1.6	2.8	2.7	2.8	1.9	1.2	1.0	0.9
P/E (X)	9.0	15.9	15.0	16.2	13.5	7.7	7.1	5.6

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	10.3	10.1	10.1	9.9	9.1	9.2	9.3	9.2
<i>Interest expended</i>	8.1	8.0	7.7	7.3	6.9	6.9	7.0	6.9
<i>Net Interest Income</i>	2.2	2.1	2.4	2.6	2.2	2.3	2.3	2.3
<i>Non-Fund Based Income</i>	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1
<i>Total Income</i>	2.5	2.4	2.6	2.7	2.3	2.4	2.4	2.4
<i>Total Operating Expenses</i>	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
>> <i>Employee Expenses</i>	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
>> <i>Other Expenses</i>	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1
<i>Operating Profit</i>	2.1	2.0	2.2	2.3	2.0	2.2	2.1	2.1
<i>Provisions</i>	0.0	0.0	0.1	0.2	0.3	0.3	0.6	0.3
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	2.1	2.0	2.1	2.1	1.7	1.8	1.6	1.8
<i>Tax</i>	0.6	0.7	0.7	0.7	0.5	0.5	0.4	0.5
<i>PAT/RoAA</i>	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.4
<i>Equity Multiplier (x)</i>	12.6	13.6	14.3	13.9	12.7	12.2	12.4	12.4
<i>ROAE</i>	18.8	18.1	19.6	19.1	15.8	15.9	15.3	17.0

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Disclosure of Interest Statement-

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