

Industry  
Bloomberg  
BSE CODE

Financial  
LICHF IN  
500253

## Steady Growth and Margin, But Retail Asset Quality Deteriorates Further

RATING	BUY
CMP	441
Price Target	508
Potential Upside	15%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	587/354
Mkt Capital (Rs Cr)	21,996
Free float (%)	60%
Avg. Vol 1M (,000)	3,283
No. of Shares (Cr)	50
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4269	4962	5743
PPP	3998	4561	5302
PAT	2431	2593	3193
NIM %	2.5	2.5	2.6
EPS (Rs)	48	51	63
EPS growth (%)	21	7	23
ROE (%)	16	15	16
ROA (%)	1.3	1.2	1.3
BV	322	364	418
P/B (X)	1.3	1.2	1.1
P/E (X)	9	9	7

### 3QFY20 Result Update

- LIC Housing Finance performance for 3QFY20 has been below our expectations with NII growth of 16%/0.16% YoY/QoQ driven by advances growth of 13%/2% YoY/QoQ. NIM remained stable at 2.41%.
- OPEX grew by 18%/-3.41% YoY/QoQ. PBT de-grew by 14%/13% YoY/QoQ. PAT also de-grew by 1%/23% YoY/QoQ.
- Asset quality continues to deteriorate as GNPA increased by 35 bps to 2.73% in 3QFY20. Most of incremental NPA came from retail segment. Provisions also remained elevated as it increased by 200% YoY.
- Advances grew by 13%/2% YoY/QoQ in 3QFY20, the growth mainly coming from individual loan portfolio backed by company's focus on affordable housing segment. Disbursements grew by 3% YoY only mainly lower disbursement on developer portfolio. Total disbursements were Rs 13177 Cr in Q3 FY2020 as against Rs 12778 Cr for the corresponding period in FY2019.

### Advances growth

Advances growth has been at 13%/2% YoY/QoQ below our expectations, individual loan portfolio being the growth driver for the quarter. The company has not been able to disburse in LAP portfolio in the quarter as it reported negative growth in disbursement in 3QFY20. Disbursement in Individual loan portfolio grew by 16% YoY. LAP disbursement de-grew by 33% YoY and Developer segment declined by 25% YoY. Borrowings grew by 15% YoY. Majority of borrowings came from Banks. Borrowings from NCDs declined to 68% of total borrowings as against 72% last quarter.

### NIM remained stable

NIM remained stable at 2.41% in 3QFY20 due to low cost of funds and stable yield. Yield reported growth of 11 bps QoQ whereas it remained stable on YoY basis. Cost of funds declined by 24/15 bps YoY/QoQ to 8.21% in 3QFY20. Incremental cost of funds has also been low at 7.87% as against 8.04% last quarter.

### Asset quality deteriorated further

Asset quality deteriorated as GNPA increased by 35 bps to 2.73% in 3QFY20. Stage 2 number also reported growth of 3% QoQ in 3QFY20. The Stage 3 Exposure at Default as on December 31, 2019 stood at 2.73% as against 2.38% as on September 30, 2019. Stage 3 ECL provisioning increased by 22% QoQ to Rs 2551 Cr. In retail segment stage 3 assets have increased to 1.92% among them there are Rs 180 Cr of loans which are up to date but they are classified as NPA because other loans taken by them are NPAs.

### View and Valuation

Individual home loan portfolio continues to drive the growth of the company. Developer and LAP remained sluggish as the company is being very selective due to the current environment. Margins remained stable on the account of low incremental cost of funds. Asset quality continues to deteriorate further and this time mainly driven by retail portfolio. Increased number for provisioning and stress reported in individual loan portfolio is an area of major concern for the company which may increase credit cost further. Given the current stress in the individual loan segment, profitability will likely to be moderate in the near term, however, LICHSGFIN is currently trading at lower valuation band of 1.1x BV on FY21e which gives comfort. We maintain BUY with the target price of Rs 508 at 1.2x BV.

### Key Risks to our rating and target

- Increasing delinquencies in retail loan segment.
- Aum growth.

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## Asset Quality Deteriorated

### 3QFY20 Results

#### Below our expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	4,414	4,620	4,757	4,954	4,969	12.6%	0.3%	14,666	17,161	17.0%
Interest Exp.	3,330	3,398	3,603	3,702	3,715	11.6%	0.4%	11,144	12,892	15.7%
NII	1,084	1,222	1,154	1,252	1,254	15.6%	0.2%	3,522	4,269	21.2%
Other Income	25	35	51	30	45	29.6%	52.3%	174	201	15.1%
Total Income	1,109	1,257	1,205	1,277	1,281	14.4%	0.3%	3,836	4,636	20.9%
Ope Exp.	117	166	110	143	138	17.7%	-3.4%	440	473	7.5%
PPP	992	1,091	1,094	1,134	1,143	14.1%	0.8%	3,257	3,998	22.7%
Provisions	132	105	253	278	398	2.0016	0.4319	492	618	25.7%
PBT	860	986	841	856	745	-14.3%	-13.0%	2,766	3,380	22.2%
Tax	263	293	230	84	148	-44%	76.7%	763	949	24.3%
Net Profit	596	693	611	773	598	-1.4%	-22.7%	2,003	2,431	21%

### Concall Highlights

- Among the regions, central, north central, south eastern and northern regions registered good growth in the quarter.
- Rs 3400 Cr loans disbursed under PMAY scheme (under CLSS) totalling to 16000 loans.
- The disbursement degrew by 25% YoY in developer loan segment in 3QFY20, the reason being company being selective in this area looking at the current environment.
- In retail segment stage 3 assets have increased to 1.92% among them there are Rs 180 Cr of loans which are up to date but they are classified as NPA because other loans taken by them are NPAs. This has contributed 10 bps in total delinquencies in the quarter. Most of incremental NPA s came from retail segment this time due technical reasons. High provisioning also has been done on the account of these delinquencies.
- High provisioning of Rs 390 Cr impacted the profit growth in 3QFY20.
- The company raised ECB of US\$ 200 Mn during the quarter.
- 25-27% of project loans are still under moratorium period.PCR on developer book stands at 51%. Total 260 accounts are there and 5 cases taken to NCLAT and 2 accounts expected to be resolved by March 2019.Around 14 accounts amounting to Rs 1110 Cr have been referred to AIFs managed by SBI Cap. Top ten exposure NPA is 14.05%.
- The company is hopeful of recovery in 2-3 big accounts in 4QFY20.
- Out of Rs 13000 Cr of developer book, Rs 3000 Cr is LRD. Total LRD is Rs 8000 Cr.
- The book under moratorium declined to Rs 2500 Cr as against Rs 4500 Cr last quarter.
- Slippages stood at Rs 800 Cr for 3QFY20.
- 2000 accounts out of NPAs at the end of September 2019 have made Rs 40-50 Cr of payments but they have not serviced full EMIs the reason for transition of accounts from stage I to stage II.
- 15% of the developer book is to top ten accounts in developer book.
- Individual HL NPA: 1.14%, total was 1.54%, project loan: 6.96% last year 4QFY19 and Individual HL: 1.92% and LAP:2.73% and 14.05% for developer book for current year 3QFY20. Core retail NPAs for last quarter stood at 1.05%.LAP NPA in retail segment stood at 2.2% last quarter.
- Focuses on affordable housing only. Average loan size is Rs 23-24 lakhs. High ticket size loans i.e. more than Rs 1 Cr ticket size are 2-3% of portfolio.
- Out of total GNPLs of Rs 5686 Cr, Rs 2000 Cr is from Project loans segment, Rest is retail NPLs and individual home loan is 1.35%.Rs 180 Cr of multi loan NPAs include both HL and LAP segment.
- Credit cost is not expected to elevate going ahead.
- 25-30% of Salaried customers belong to PSU.50-55% are private sector one.

## Profitability Matrix

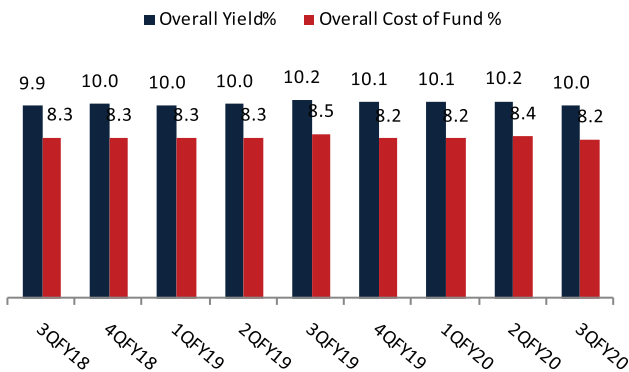
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	8.2	9.8	10.5	13.5	9.2	11.2	10.8	0.30	-0.42
Empl. Cost/ Tot. Exp. %	56.2	54.6	59.1	43.1	55.5	53.8	52.9	-6.21	-0.83
Other Exp/Tot. Exp.%	35.9	36.8	35.4	42.9	29.1	21.6	23.3	-12.05	1.72
Provision/PPP %	17.0	22.7	13.2	9.5	23.2	24.5	34.8	21.57	10.30
Tax Rate %	28.0	23.1	30.3	29.7	27.4	9.8	19.8	-10.45	10.06
Int Exp./Int Inc. (%)	75.5	75.0	75.4	73.9	75.7	74.7	74.8	-0.66	0.04
Other Inc./NII %	5.5	2.2	3.2	4.9	4.4	2.4	3.6	0.39	1.24
PPP/ Net Income %	91.8	90.2	89.5	86.5	90.8	88.8	89.2	-0.30	0.42
PAT/ Net Income %	54.9	53.6	54.2	55.0	50.7	60.5	46.6	-7.52	-13.86
NII Growth % (YoY)	6.6	20.5	47.1	21.4	17.8	19.6	15.6	-31.46	-3.99
PPP Growth YoY %	10.6	11.6	43.6	23.4	15.3	17.5	14.1	-29.58	-3.44
PAT Growth %	18.4	11.6	27.6	16.6	7.5	34.7	(1.4)	-29.05	-36.15

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	10.0	10.0	10.2	10.2	10.1	10.2	10.0	-0.21	-0.28
Cost of Funds	8.3	8.3	8.5	8.5	8.2	8.4	8.2	-0.24	-0.15
Spreads(Cal)	1.4	1.6	1.4	1.6	1.4	1.6	1.5	0.15	-0.01
NIM Reported.	2.3	2.4	2.3	2.5	2.4	2.4	2.4	0.09	0.00

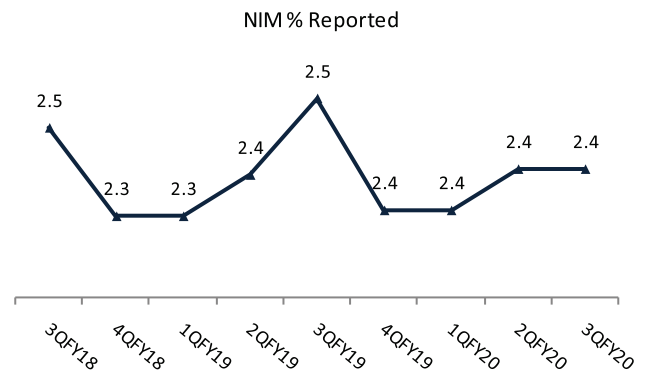
### Exhibit: Yield and Cost

Yield stable and cost of fund shown improvement



### Exhibit: Net Interest Margin

NIM remained stable.



## Asset & Borrowings Growth Trend

Fig in Rs Cr

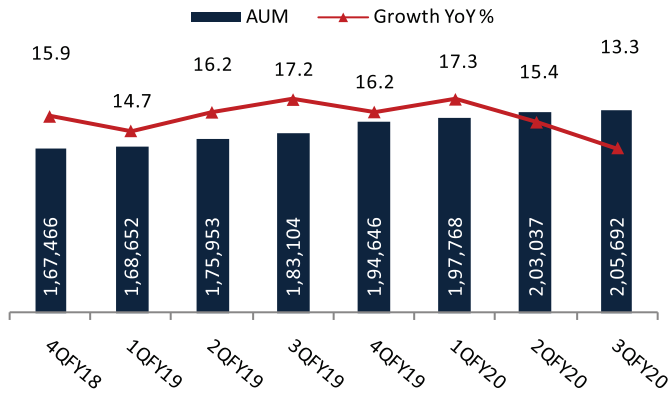
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	12293	17402	9594	14294	12778	18649	10262	12173	13177
Growth YoY %	27	15	10	30	4	7	7	-15	3
AUM	156176	167466	168652	177393	181553	194646	197768	200849	205692
Growth YoY %	15	16	15	17	16	16	17	13	13
Borrowings	137629	145339	147735	154451	160291	170629	173025	178849	184966
Growth YoY %	15	0	14	16	16	17	17	16	15

## Asset Composition

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

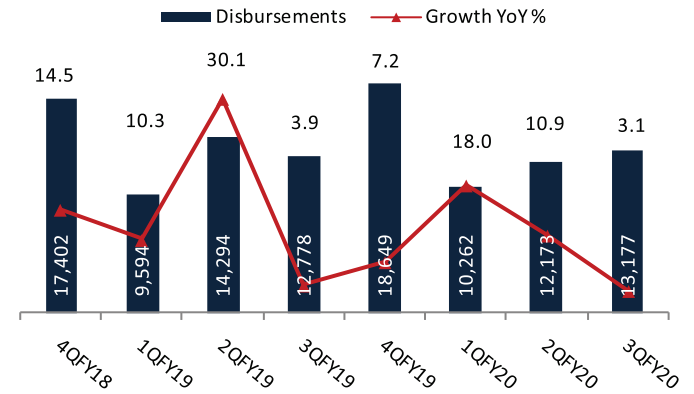
## Exhibit: AUM Growth %

AUM growth



## Exhibit: Disbursement Growth %

High Disbursements YoY



## Borrowing Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Non Convertible Debentures(NCD)	78%	79%	74%	68%	74%	75%	73%	72%	68%
Bank	10%	10%	12%	16%	14%	15%	14%	15%	19%
Others	12%	11%	14%	16%	12%	10%	14%	13%	13%

## Disbursement Break up

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Core Home Loans	9,177	10,541	7,260	8,739	9,170	12,448	7,871	10,136	10,655
Lap	2,146	4,635	1,445	2,585	2,370	4,170	1,561	1,592	1,591
Corporate Loan	978	2,226	889	2,970	1,238	2,031	830	445	931
Total	12,293	17,402	9,594	14,294	12,778	18,649	10,262	12,173	13,177

## Asset Quality

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Stage 1								
Exposure At Default %	95.34	94.96	94.57	93.82	94.05	93.28	92.88	0.92
Amount	158610	160152	166399	171788	183065	184478	188581	188311
ECL Provision	116	190	279	5	24	28	29	33
ECL Provision %	0.07	0.12	0.17	0.00	0.01	0.01	0.02	0.02
Stage 2								
Exposure At Default %	3.85	3.83	4.16	4.93	4.37	4.74	4.74	0.06
Amount	6,405	6,459	7,320	9,027	8,506	9,374	9,624	11,766
ECL Provision	6	74	111	2	112	129	82	-
ECL Provision %	0.09	1.15	1.52	0.02	1.31	1.37	0.01	-
Stage 3								
Exposure At Default %	0.81	1.21	1.27	1.25	1.58	1.98	2.38	0.03
Amount	1,348	2,041	2,235	2,289	3,075	3,916	4,832	5,615
ECL Provision	908	652	1,170	1,549	1,524	1,757	2,083	2,551
ECL Provision %	67.40	32.00	52.30	67.70	49.60	44.90	0.43	0.45

## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>101</b>	<b>101</b>	<b>101</b>	<b>101</b>	<b>101</b>	<b>101</b>	<b>101</b>	<b>101</b>
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	18291	20999
<b>Networth</b>	<b>7533</b>	<b>7818</b>	<b>9146</b>	<b>11077</b>	<b>14241</b>	<b>16259</b>	<b>18392</b>	<b>21100</b>
Change (%)	16	4	17	21	29	14	13	15
Total Borrowings	82036	96547	110936	126335	145339	170629	193789	220919
Change (%)	19	18	15	14	15	17	14	14
Provisions	1077	1070	1267	1139	118	113	125	137
Other Liabilities	5132	7110	9149	12349	11392	13582	14940	16434
<b>Total Liabilities</b>	<b>95777</b>	<b>112545</b>	<b>130498</b>	<b>150901</b>	<b>171090</b>	<b>200583</b>	<b>227245</b>	<b>258590</b>
Investments	199	237	277	528	1972	3595	3955	4350
Loans	91341	108361	125173	144534	166162	192993	218082	248613
Change (%)	17	19	16	15	15	16	13	14
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	4108	4416
<b>Total Assets</b>	<b>95777</b>	<b>112545</b>	<b>130498</b>	<b>150901</b>	<b>171090</b>	<b>200583</b>	<b>227245</b>	<b>258590</b>

### 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	19,816	22,445
Interest expended	7,174	8,310	9,307	10,231	11,144	12,892	14,854	16,702
Net Interest Income	1,899	2,236	2,944	3,645	3,522	4,269	4,962	5,743
Change (%)	24	18	32	24	(3)	21	16	16
Other Income	261	252	235	204	174	201	173	253
Change (%)	31	(4)	(7)	(13)	(14)	15	(14)	46
Total Net Income	2,160	2,488	3,179	3,849	3,697	4,470	5,134	5,996
Change (%)	25	15	28	21	(4)	21	15	17
Operating Expenses	313	379	469	612	440	473	573	694
Change (%)	11	21	24	31	(28)	8	21	21
Employee Expenses	104	129	150	246	223	248	292	360
Change (%)	15	25	16	63	(9)	11	18	23
Other Expenses	209	250	318	366	216	225	281	334
Pre-provisioning Profit	1,847	2,109	2,710	3,237	3,257	3,998	4,561	5,302
Change (%)	27	14	28	19	1	23	14	16
Provisions	21	7	146	281	492	618	1,301	987
Change (%)	(73)	(65)	1,920	92	75	26	111	(24)
PBT	1,826	2,102	2,564	2,956	2,766	3,380	3,260	4,315
Tax	508	716	903	1,025	763	949	668	1,122
Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,593	3,193
Change (%)	29	5	20	16	4	21	7	23
Adjusted Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,593	3,193
Change (%)	29	5	20	16	4	21	7	23

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
AUM	91341	108361	125173	144534	166363	194646	219950	250743
Off-Book AUM	0	0	0	0	201	1653	1868	2130
AUM Growth (%)	17.4	18.6	15.5	15.5	15.1	17.0	13.0	14.0
Borrowing Growth (%)	19.3	17.7	14.9	13.9	15.0	17.4	13.6	14.0
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	53648	74832
Disbursement Growth (%)	20	20	20	15	19	12	(3)	39
CRAR (%)	16	15	17	16	15	14	14	14
Tier 1 (%)	12.2	11.8	13.9	13.4	13.1	12.3	12.3	12.4
Tier 2 (%)	4.2	3.5	3.2	2.3	2.4	2.1	1.7	1.5
Debt/Equity (x)	10.9	12.3	12.1	11.4	10.2	10.5	10.5	10.5
<b>Assets Quality Metrics</b>								
Gross NPA (Rs)	609	495	568	627	1,304	2,972	4,399	5,015
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	2,199	2,507
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	0.4
<b>Margin Metrics</b>								
Yield On Advances (%)	11.3	11.2	11.1	10.9	10.1	10.1	10.1	10.0
Cost Of Funds (%)	10.0	9.9	9.5	9.1	8.6	8.6	8.6	8.4
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	2.5	2.6
<b>Profitability &amp; Efficiency Metrics</b>								
Int. Expended/Int.Earned (%)	79.1	78.8	76.0	73.7	76.0	75.1	75.0	74.4
Other Income/NII (%)	13.8	11.3	8.0	5.6	5.0	4.7	3.5	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	50.5	53.3
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	5.7	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	28.5	18.6
Tax Rate (%)	27.8	34.1	35.2	34.7	27.6	28.1	20.5	26.0
<b>Valuation Ratio Metrics</b>								
EPS (Rs)	26	27	33	38	40	48	51	63
Change (%)	28.8	5.2	19.8	16.3	3.7	21.4	6.7	23.1
ROAE (%)	18.8	18.1	19.6	19.1	15.8	15.9	15.0	16.2
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	15.6	12.6
Dividend yield (%)	2.1	1.4	1.2	1.2	1.3	1.8	1.8	1.8
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	364	418
Change (%)	16.2	3.8	17.0	21.1	28.6	14.2	13.1	14.7
P/B (X)	1.6	2.8	2.7	2.8	1.9	1.3	1.2	1.1
P/E (X)	9.0	15.9	15.0	16.2	13.5	9.0	8.6	7.0

## 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	9.2
Interest expended	8.1	8.0	7.7	7.3	6.9	6.9	6.9	6.9
<b>Net Interest Income</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>
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	2.4	2.5
<b>Total Operating Expenses</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employee Expenses	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
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	2.1	2.2
Provisions	0.0	0.0	0.1	0.2	0.3	0.3	0.6	0.4
Others	-	-	-	-	-	-	-	-
PBT	2.1	2.0	2.1	2.1	1.7	1.8	1.5	1.8
Tax	0.6	0.7	0.7	0.7	0.5	0.5	0.3	0.5
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	12.3	12.3
ROAE	18.8	18.1	19.6	19.1	15.8	15.9	15.0	16.2

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