




Industry
Bloomberg
BSE CODE

Financial
LICHF IN
500253

Slow Advances Growth, Low Margins, Deterioration in Asset Quality, High OPEX Dragged Profitability.

RATING	NEUTRAL
CMP	270
Price Target	296
Potential Upside	10%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	587/186
Mkt Capital (Rs Cr)	13,639
Free float (%)	59%
Avg. Vol 1M (,000)	7,895
No. of Shares (Cr)	50
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20	FY21E
NII	4365	4821	4416
PPP	3998	4269	4043
PAT	2431	2402	2190
NIM %	2.5	2.4	2.1
EPS (Rs)	48	48	43
EPS growth (%)	21	-1	-9
ROE (%)	16	14	11
ROA (%)	1.3	1.2	1.0
BV	322	360	394
P/B (X)	1.3	0.7	0.7
P/E (x)	9	6	6

4QFY20 Result Update

- LIC Housing Finance performance for 4QFY20 has been below our expectations with NII de growth of 7% YoY with advances growth of 8%/2% YoY/QoQ. NIM declined to 2.10% from 2.4a% QoQ.
- OPEX grew by 36%/65% YoY/QoQ. PBT de-grew by 14%/13% YoY/QoQ due to high growth in employee cost and commission. PAT also de-grew by 39%/26% YoY/QoQ.
- Asset quality continues to deteriorate as GNPA increased by 10 bps to 2.83% in 4QFY20. Most of incremental NPA came from retail segment. Provisions declined by 36/83% YoY/QoQ to Rs 67 Cr in 4QFY20.
- Advances grew by 8%/2% YoY/QoQ in 4QFY20, the growth mainly coming from individual loan portfolio backed by company's focus on affordable housing segment. Disbursements degrew by 34% YoY. Total disbursements were Rs 11325 Cr in 4QFY20 as against Rs 17242 Cr for the corresponding period in FY19.

Advances growth

Advances growth has been at 8%/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 individual loans as well as developer loan portfolio in the quarter as it reported negative growth in disbursement in 4QFY20. Disbursement in Individual loan portfolio de grew by 24% YoY. LAP disbursement de-grew by 41% YoY and Developer segment declined by 80% YoY. Borrowings grew by 12% YoY. Majority of borrowings came from Banks and NCDs. Borrowings from NCDs declined to 65% of total borrowings as against 68% last quarter.

Margins under pressure

NIM remained declined to 2.10% in 4QFY20 on the account of lower yield. Yield declined by 51/43 bps YoY/QoQ to 10.02% in 4QFY20. Cost of funds declined by 41/13 bps YoY/QoQ to 8.08% in 4QFY20. Incremental cost of funds has also been at 7.90% as against 7.87% last quarter.

Asset quality deteriorated further

Asset quality deteriorated as GNPA increased by 10 bps to 2.83% in 4QFY20. The Stage 3 Exposure at Default as on March, 2020 stood at 2.83% as against 2.73% as on December 31, 2019. Stage 3 ECL provisioning increased by 2% QoQ to Rs 2612 Cr. The Company offered 3 Months moratorium to its customers from March 2020 to May 2020 as per Reserve Bank of India (RBI) Guidelines. RBI extended moratorium till 31st August 2020. About 25% of the EMI's are under moratorium.

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 under pressure on the account of lower yield and may remain the same going ahead. OPEX remained high. Asset quality continues to deteriorate further. 25% of the book is under moratorium. Given the current Scenario of lower growth in almost all the segments, profitability will likely to be moderate in the near term, however, LICHSGFIN is currently trading at lower valuation band of 0.75 x BV on FY21e. but due to deterioration in asset quality, lower margins and low asset growth we give NEUTRAL rating with reduced target price of Rs 296.

Key Risks to our rating and target

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

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Asset Quality Deteriorated

4QFY20 Results

Below our expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Interest Inc.	4,620	4,757	4,954	4,943	4,898	6.0%	-0.9%	17,256	19,605	13.6%
Interest Exp.	3,398	3,603	3,702	3,715	3,764	10.8%	1.3%	12,892	14,784	14.7%
NII	1,222	1,154	1,252	1,228	1,134	-7.2%	-7.6%	4,365	4,821	10.5%
Other Income	35	51	30	28	(12)	-131%	-142%	108	64	-40.6%
Total Income	1,257	1,205	1,277	1,255	1,123	-10.8%	-10.6%	4,547	4,911	8.0%
Ope Exp.	166	110	143	138	229	35.8%	65.4%	475	617	29.7%
PPP	1,091	1,094	1,134	1,117	894	-18.0%	-20.0%	3,998	4,269	6.8%
Provisions	105	253	278	398	67	-0.361	-0.831	618	1,000	61.8%
PBT	986	841	856	720	827	-16.1%	14.9%	3,380	3,269	-3.3%
Tax	293	230	84	148	405	38%	174.2%	949	867	-8.6%
Net Profit	693	611	773	572	421	-39.2%	-26.3%	2,431	2,402	-1%

Concall Highlights

- Disbursements degrew by 34% YoY on the account of business lost in 4th week of March 2020 due to lockdown in the country. Disbursement have started picking up now. The company disbursed Rs 2000 Cr in June 2020 in Tier II and Tier III cities mostly and is likely to go up going ahead. Affordable and mid housing segments are likely to see good demand.
- The Company offered 3 Months moratorium to its customers from March 2020 to May 2020 as per Reserve Bank of India (RBI) Guidelines. RBI extended moratorium till 31st August 2020. About 25% of the EMI's are under moratorium.
- Margins declined in 4QFY20 to 2.10% from 2.42% QoQ due to lower yield. Yield declined to 10.02% from 10.45% last quarter on the account of falling interest rate scenario, lost interest income in last week of March 2020 as most of the collections happen in this period and falling project loans in the portfolio mix.
- Cost funds are declining with the number at 8.08% as against 8.21 sequentially and is expected to fall further going ahead.
- The company had very less provisions on stage II assets on the account of improvement in these assets.
- Tax rate has been high at 49% in 4QFY20 on the account of DTA reversal due to movement to new tax regime.
- The GNPA in developer segment stood at 17% in 4QFY20.
- Out of 25% of book under moratorium, 75% opted are from developer segment. Balance 25% are retail customers.
- OPEX grew by 65% QoQ in 4QFY20 on the account of one off of Rs 40 Cr from CSR expenses.
- On the project loans front the company will continue to be selective and will focus on affordable housing segment going ahead.
- Stage II assets in project loans segment stood at 2.5%
- Incremental yield is at 8.3%-8.4% for Retail home loans, 10-10.5% for LAP and 12-13% for developer loan segment.
- The company is comfortable enough on ALM front.
- Stage I book stood at Rs 11323 Cr, Stage II Rs 362 Cr and Stage III Rs 2530 Cr for developer segment.

Profitability Matrix

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	9.8	10.5	13.4	9.2	11.2	11.0	20.4	7.00	9.36
Empl. Cost/ Tot. Exp. %	54.6	59.1	43.6	55.5	53.8	52.9	38.3	-5.25	-14.61
Other Exp/Tot. Exp.%	36.8	35.4	46.7	29.1	21.6	27.0	44.9	-1.79	17.91
Provision/PPP %	22.7	13.2	9.6	23.2	24.5	35.6	7.5	-2.13	-28.07
Tax Rate %	23.1	30.3	29.7	27.4	9.8	20.5	49.0	19.33	28.48
Int Exp./Int Inc. (%)	75.0	75.4	73.6	75.7	74.7	75.2	76.8	3.29	1.69
Other Inc./NII %	2.2	3.2	4.9	4.4	2.4	6.6	3.7	-1.25	-2.93
PPP/ Net Income %	90.2	89.5	86.6	90.8	88.8	89.0	79.6	-7.00	-9.36
PAT/ Net Income %	53.6	54.2	55.0	50.7	60.5	45.5	37.5	-17.49	-8.01
NII Growth % (YoY)	20.5	47.1	23.5	17.8	19.6	13.2	(7.2)	-30.69	-20.40
PPP Growth YoY %	11.6	43.6	23.6	15.3	17.5	11.5	(18.0)	-41.63	-29.54
PAT Growth %	11.6	27.6	16.6	7.5	34.7	(5.7)	(39.2)	-55.77	-33.49

Margin Performance

MARGIN %	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	10.0	10.2	10.2	10.1	10.2	9.9	9.5	-	-0.38
Cost of Funds	8.3	8.5	8.5	8.2	8.4	8.2	8.1	-0.41	-0.13
Spreads(Cal)	1.4	1.4	1.6	1.4	1.6	1.5	1.2	-0.35	-0.25
NIM Reported.	2.4	2.3	2.6	2.4	2.4	2.4	2.1	-0.46	-0.32

Exhibit: Yield and Cost

Yield declined and cost of fund shown improvement.

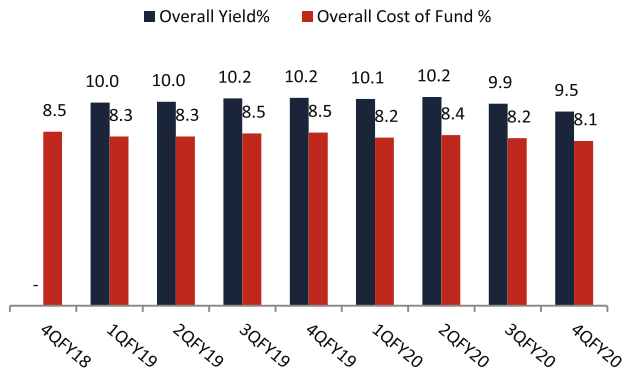
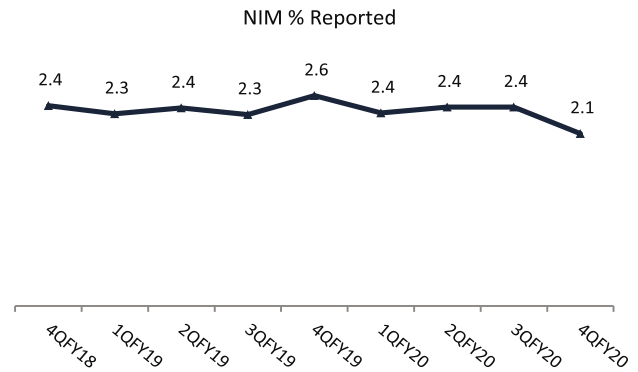


Exhibit: Net Interest Margin

NIM under pressure



Asset & Borrowings Growth Trend

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Disbursements	17402	9594	14294	12778	17242	10262	12173	13177	11325
Growth YoY %	15	10	30	4	-1	7	-15	3	-34
AUM	167466	168652	177393	181553	194646	197768	200849	205692	210578
Growth YoY %	16	15	17	16	16	17	13	13	8
Borrowings	145339	147735	154451	160291	170629	173025	178849	184966	191209
Growth YoY %	0	14	16	16	17	17	16	15	12

Asset Composition

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Individual Loan Portfolio %	81	79	77	77	76	76	77	77	77
LAP %	14	16	16	17	17	17	17	16	16
Project/Developer loan portfolio %	5	5	6	6	7	7	7	7	7
Total	100	100	99	100	100	100	100	100	100

Exhibit: AUM Growth %

AUM growth

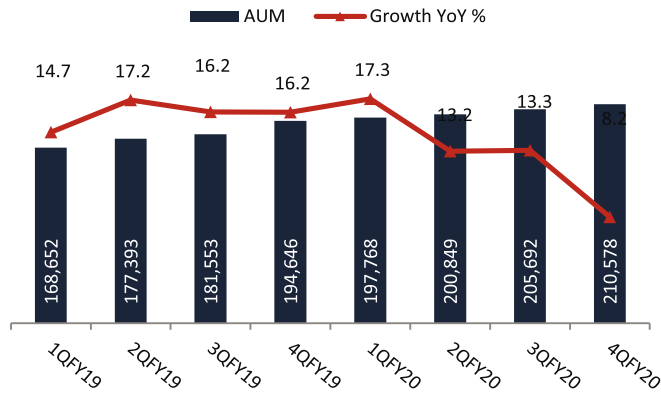
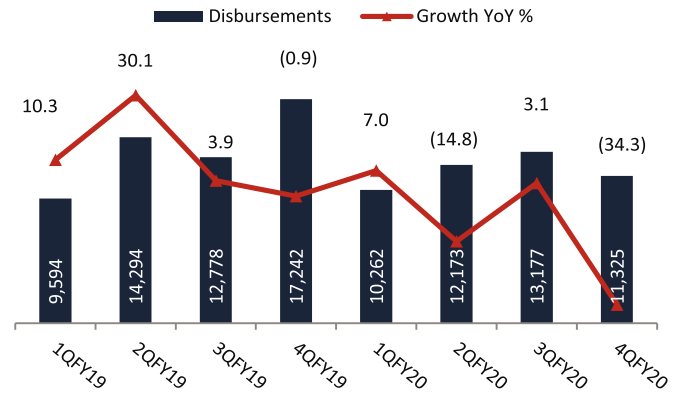


Exhibit: Disbursement Growth %

Low Disbursements



Borrowing Mix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Non Convertible Debentures(NCD)	79%	74%	68%	74%	75%	73%	72%	68%	65%
Bank	10%	12%	16%	14%	15%	14%	15%	19%	22%
Others	11%	14%	16%	12%	10%	14%	13%	13%	13%

Disbursement Break up

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Core Home Loans	10,541	7,260	8,739	9,170	11,743	7,871	10,136	10,655	8,877
Lap	4,635	1,445	2,585	2,370	3,468	1,561	1,592	1,591	2,035
Corporate Loan	2,226	889	2,970	1,238	2,031	830	445	931	413
Total	17,402	9,594	14,294	12,778	17,242	10,262	12,173	13,177	11,325

Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Stage 1								
Exposure At Default %	94.96	94.57	93.82	94.05	93.28	92.88	0.92	0.93
Amount	160152	166399	171788	183065	184478	188581	188311	194806
ECL Provision	190	279	5	24	28	29	33	0
ECL Provision %	0.12	0.17	0.00	0.01	0.01	0.02	0.02	-
Stage 2								
Exposure At Default %	3.83	4.16	4.93	4.37	4.74	4.74	5.72	4.66
Amount	6,459	7,320	9,027	8,506	9,374	9,624	11,766	9,813
ECL Provision	74	111	2	112	129	82	-	0
ECL Provision %	1.15	1.52	0.02	1.31	1.37	0.01	-	-
Stage 3								
Exposure At Default %	1.21	1.27	1.25	1.58	1.98	2.4	2.7	2.8
Amount	2,041	2,235	2,289	3,075	3,916	4,832	5,615	5,959
ECL Provision	652	1,170	1,549	1,524	1,757	2,083	2,551	2,612
ECL Provision %	32.00	52.30	67.70	49.60	44.90	43.11	45.43	43.83

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	18092	19806
Networth	7533	7818	9146	11077	14241	16259	18193	19907
Change (%)	16	4	17	21	29	14	12	9
Total Borrowings	82036	96547	110936	126335	145339	170629	191209	210578
Change (%)	19	18	15	14	15	17	12	10
Provisions	1077	1070	1267	1139	118	113	145	160
Other Liabilities	5132	7110	9149	12349	11392	13582	7258	7984
Total Liabilities	95777	112545	130498	150901	171090	200583	216806	238628
Investments	199	237	277	528	1972	3595	5496	6596
Loans	91341	108361	125173	144534	166162	192993	207988	228787
Change (%)	17	19	16	15	15	16	8	10
Fixed Assets	76	80	92	97	169	210	249	273
Other Assets	1139	934	1029	1280	690	772	976	1074
Cash Balances	3022	2933	3927	4462	2097	3013	1979	1899
Total Assets	95777	112545	130498	150901	171090	200583	216688	238628

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest income	9,073	10,547	12,251	13,877	14,666	17,256	19,605	20,264
Interest expended	7,174	8,310	9,307	10,231	11,144	12,892	14,784	15,848
Net Interest Income	1,899	2,236	2,944	3,645	3,522	4,365	4,821	4,416
Change (%)	24	18	32	24	(3)	24	10	(8)
Other Income	261	252	235	204	174	108	113	199
Change (%)	31	(4)	(7)	(13)	(14)	(38)	4	76
Total Net Income	2,160	2,488	3,179	3,849	3,697	4,473	4,886	4,615
Change (%)	25	15	28	21	(4)	21	9	(6)
Operating Expenses	313	379	469	612	440	475	617	572
Change (%)	11	21	24	31	(28)	8	30	(7)
Employee Expenses	104	129	150	246	223	248	299	277
Change (%)	15	25	16	63	(9)	11	21	(7)
Other Expenses	209	250	318	366	216	228	318	295
Pre-provisioning Profit	1,847	2,109	2,710	3,237	3,257	3,998	4,269	4,043
Change (%)	27	14	28	19	1	23	7	(5)
Provisions	21	7	146	281	492	618	1,000	1,116
Change (%)	(73)	(65)	1,920	92	75	26	62	12
PBT	1,826	2,102	2,564	2,956	2,766	3,380	3,269	2,927
Tax	508	716	903	1,025	763	949	867	737
Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,402	2,190
Change (%)	29	5	20	16	4	21	(1)	(9)
Adjusted Profit After Tax	1,318	1,386	1,661	1,931	2,003	2,431	2,402	2,190
Change (%)	29	5	20	16	4	21	(1)	(9)

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Balance Sheet Metrics								
AUM	91341	108361	125173	144534	166363	194646	210578	231636
Off-Book AUM	0	0	0	0	201	1653	2590	2849
AUM Growth (%)	17.4	18.6	15.5	15.5	15.1	17.0	8.2	10.0
Borrowing Growth (%)	19.3	17.7	14.9	13.9	15.0	17.4	12.1	10.1
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	53908	46937	53126
Disbursement Growth (%)	20	20	20	15	19	9	(13)	13
CRAR (%)	16	15	17	16	15	14	14	14
Tier 1 (%)	12.2	11.8	13.9	13.4	13.1	12.3	12.5	12.6
Tier 2 (%)	4.2	3.5	3.2	2.3	2.4	2.1	1.9	1.6
Debt/Equity (x)	10.9	12.3	12.1	11.4	10.2	10.5	10.5	10.6
Assets Quality Metrics								
Gross NPA (Rs)	609	495	568	627	1,304	2,972	5,959	5,559
Gross NPA (%)	0.7	0.5	0.5	0.4	0.8	1.5	2.8	2.4
Net NPA (Rs)	354	234	270	205	712	2,063	3,347	2,780
Net NPA (%)	0.4	0.2	0.2	0.1	0.4	1.1	2.0	1.2
Provision Coverage (%)	42	53	52	67	45	31	44	50
Provision/Average Advances (%)	0.0	0.0	0.1	0.2	0.3	0.3	0.5	0.5
Margin Metrics								
Yield On Advances (%)	11.3	11.2	11.1	10.9	10.1	10.1	9.9	9.5
Cost Of Funds (%)	10.0	9.9	9.5	9.1	8.6	8.6	8.5	8.2
Spread (%)	1.3	1.3	1.6	1.8	1.5	1.4	1.4	1.3
NIM on AUM (%)	2.3	2.4	2.7	2.9	2.4	2.5	2.4	2.1
Profitability & Efficiency Metrics								
Int. Expended/Int.Earned (%)	79.1	78.8	76.0	73.7	76.0	74.7	75.4	78.2
Other Income/NII (%)	13.8	11.3	8.0	5.6	5.0	2.5	2.3	4.5
Operating Profit/ Net Income (%)	85.5	84.8	85.3	84.1	88.1	89.4	87.4	87.6
Net Profit/Net Income (%)	61.0	55.7	52.2	50.2	54.2	54.3	49.2	47.5
Cost to Income (%)	14.5	15.2	14.7	15.9	11.9	10.6	12.6	12.4
Employee Exp/ Net Income (%)	4.8	5.2	4.7	6.4	6.0	5.5	6.1	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	23.4	27.6
Tax Rate (%)	27.8	34.1	35.2	34.7	27.6	28.1	26.5	25.2
Valuation Ratio Metrics								
EPS (Rs)	26	27	33	38	40	48	48	43
Change (%)	28.8	5.2	19.8	16.3	3.7	21.4	(1.2)	(8.8)
ROAE (%)	18.8	18.1	19.6	19.1	15.8	15.9	13.9	11.5
ROAA (%)	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.0
Dividend Payout (%)	17.2	18.2	16.7	16.2	17.1	15.8	16.8	18.4
Dividend yield (%)	2.1	1.4	1.2	1.2	1.3	1.8	3.0	3.0
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	360	394
Change (%)	16.2	3.8	17.0	21.1	28.6	14.2	11.9	9.4
P/B (X)	1.6	2.8	2.7	2.8	1.9	1.3	0.7	0.7
P/E (X)	9.0	15.9	15.0	16.2	13.5	9.0	5.7	6.2

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Interest Income	10.3	10.1	10.1	9.9	9.1	9.3	9.4	8.9
Interest expended	8.1	8.0	7.7	7.3	6.9	6.9	7.1	7.0
Net Interest Income	2.2	2.1	2.4	2.6	2.2	2.3	2.3	1.9
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	2.0
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	0.1
Other Expenses	0.2	0.2	0.3	0.3	0.1	0.1	0.2	0.1
Operating Profit	2.1	2.0	2.2	2.3	2.0	2.2	2.1	1.8
Provisions	0.0	0.0	0.1	0.2	0.3	0.3	0.5	0.5
Others	-	-	-	-	-	-	-	-
PBT	2.1	2.0	2.1	2.1	1.7	1.8	1.6	1.3
Tax	0.6	0.7	0.7	0.7	0.5	0.5	0.4	0.3
PAT/RoAA	1.5	1.3	1.4	1.4	1.2	1.3	1.2	1.0
Equity Multiplier (x)	12.6	13.6	14.3	13.9	12.7	12.2	12.1	12.0
ROAE	18.8	18.1	19.6	19.1	15.8	15.9	14.2	11.5

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Disclosure of Interest Statement-

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