

LIC HOUSING FINANCE LIMITED

Industry NBFC's
 Bloomberg LICHF IN
 BSE Code 500253
 NSE Code LICHSGFIN

Wednesday, August 29, 2018

RATING	NEUTRAL
CMP	522
Price Target	558
Previous Target	518
Potential Upside	7%

Stock Info

52wk Range H/L	691/457
Mkt Capital (Rs Cr)	26,341
Free float (%)	60%
Avg. Vol 1M (,000)	1,988
No. of Shares (Crore)	50
Promoters Pledged %	-

Operating performance deteriorate further

Key Highlights

- ☑ LICHSGFIN is the second largest HFC and is consistently growing at CAGR of 16% over the last 4 years. Loan book growth remained in line with past trends at 15-16% YoY, with core home loans growing at 9% YoY. Over the last 12 quarters, Non-Core portfolio has been the key driver of growth. We expect LICHSGFIN to continue to grow at 15% backed by increasing share on non-core home loan portfolio.
- ☑ Earnings have been muted in FY18 under the strain of continued margin pressure, stagnant growth of 15% in loan book over a period of time and deteriorating assets quality.
- ☑ Margin (NIM) has been one of the lowest in the industry due to pricing pressure in core home loan segment. Pricing on the LAP segment also continues to witness pressure. Cost of fund is expected to rise given the sharp rise in G-Sec bond yield. Management expects the margins to improve further due to the impact of rates hike in the next quarters.
- ☑ Due to shift in IND-AS, there was positive impact of around Rs 1000 Cr on net worth. C/I ratio declined to 7% as against 14% under IGAAP norms.

1Q FY19 Result:

LICHSGFIN reported healthy PAT growth of 18% YoY to Rs 567 Cr, driven by decline in opex and lower provisioning. Net Interest Income (NII) growth remained muted at 7% YoY backed by lower NIM and stagnant 15% growth of AUM. Operating profit grew by 11% YoY. Operating expenses declined by 16% YoY, which led sharp fall in cost to income (C/I) ratio to 7% vs 10% in the same quarter a year back. Other income has grown by 50% YoY subject to rise in fee charges in different segment. Provisions during the quarter declined by 21% to Rs 161 Cr.

View and Valuation

LICHSGFIN has grown at the stagnant rate of 15% since last 10 quarters. Pace of retail home loan segment has slowed down to 9% CAGR during last 2 years. Yield has remained under pressure on the back of intensified competition. Recent hardening of bond yield will also result in rise in cost of fund going ahead. However management has increased PLR by 50 bps in recent few months, the benefit is expected to accrue in next 2 quarters. Incremental spread has shown positive trend. However we believe intensive competition will have some pressure in NIM and will limit the NIM expansion. Assets quality has been in continuous deterioration which will increase credit cost. Due to shift to IND-AS there has been positive impact in net worth and opex of LICHSGFIN. We increase our earnings estimate and value the stock at 1.6x P/BV FY20e to arrive at target price of Rs 558 and remain NEUTRAL.

Key Risks to our rating and target

- ◆ Deterioration in asset quality can lead credit cost at high level.
- ◆ Sharp rise in bond yield will further impact margin.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2944	3645	3701	4303	4852
PPP	2710	3237	3301	4148	4678
PAT	1661	1931	1990	2712	2777
NIM %	2.5	2.7	2.4	2.4	2.4
EPS (Rs)	33	38	39	54	55
EPS growth (%)	19.8	16.3	3.0	36.3	2.4
ROE (%)	19.6	19.1	16.7	19.4	16.9
ROA (%)	1.4	1.4	1.2	1.5	1.3
BV	181	219	251	303	349
P/B (X)	2.7	2.8	2.1	1.6	1.4
P/E (x)	15.0	16.2	13.6	8.9	8.7

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1Q FY 19 Results Above expectation

IND AS- positive impact

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	3,618	3,687	3,738	3,847	4,005	10.7%	4.1%	13,877	14,960	7.8%
Interest Exp.	2,698	2,771	2,815	2,843	3,025	12.1%	6.4%	10,231	11,125	8.7%
NII	919	917	923	1,004	980	6.6%	-2.4%	3,645	3,835	5.2%
Other Income	31	29	29	87	46	48.4%	-47.4%	204	113	-44.4%
Total Income	950	946	953	1,091	1,026	8.0%	-6.0%	3,942	4,062	3.0%
Ope Exp.	91	140	148	224	77	-15.4%	-65.5%	612	648	5.8%
PPP	859	806	805	867	949	10.5%	9.4%	3,237	3,301	2.0%
Provisions	204	58	48	28	161	-21.2%	471.4%	281	239	-15.1%
PBT	655	748	757	839	788	20.4%	-6.1%	2,956	3,062	3.6%
Tax	175	259	266	299	220	26.0%	-26.4%	1,025	1,072	4.6%
Extraordinary	-	-	-	-	-					
Net Profit	480	489	491	539	568	18.4%	5.3%	1,931	1,990	3.0%

*1Q FY18 results as per IND-AS

NIM continues to remain under pressure

NII increased by only 7% YOY, backed by stagnant AUM growth of 15% and slower disbursement growth of 10% on YoY basis. NIM has declined by 18 bps YoY to 2.34% during the quarter. Overall yield decreased by 39 bps YoY to 10.19% while the cost of funds has fallen by 21 bps YoY to 8.29%. NIM is under pressure with the rise competition in the home loan segment. Recent hardening of bond yield has exacerbated the pain further. Incremental yield in this quarter is at 10.2%, whereas incremental cost is at 7.89%. Spreads decreased by 18 bps to 1.90%. However, the management expects the margins to improve further due to impact of rates hike which will be seen in the next quarters.

Operational Efficiency

Cost to income ratio has decreased from 10% to 8% YOY. Operating profit grew by 11% YOY. Operating expenses declined by 15% yoy due to a decline in the employee expenses. The Company has opened 24 new marketing offices, which works out to roughly 10% of the existing numbers of 273. This is the largest branch expansion initiative of the company in recent times and will support its growth plans.

Loan Book Growth hovering around 15% over a period of time.

Loan Book Growth was steady at 15%, while Disbursement growth is 10% YoY. Slow growth of 9% in housing loan segment followed by 51% increase in project loan fueled AUM growth and 42% growth in LAP segment. LICHSFIN is slowly migrating its share in housing portfolio towards high risk products such as LAP which may help in maintaining its margins but deteriorate its asset quality. Share of housing portfolio is at 79% which has fallen from 83% YOY, share of LAP portfolio has increased to 16% while project loans has increased to 5%.

Asset Quality

Management is positive about the revival in asset quality. LICHSFIN GNPA number has risen by 49 bps YoY to 1.21% on the back of increased GNPA in the individual segment by 39 bps QoQ to 0.81%. Under stage 1 and 2 total exposure at default is at 95% and 4% respectively. Provision covered under Stage 3 is around 32%.

Concall Highlights :

- ✓ Overall loan sanctions have reflected a good pipeline- build up especially in the project loan category. The loan sanctions in the retail category recorded a growth of 13%, thereby indicating a pickup in disbursement growth in the retail segment in the coming quarters.
- ✓ Net worth increase under IND-AS in Q1FY19 will be more than Rs 1000 Cr, mainly on account of DTL of Rs 1100-1200 Cr.
- ✓ The Company hiked its PLR by 30 bps in two tranches in April and June, a further 20 bps hike has been done in this month making it total 50 bps PLR hike, which be nearly 1.4 Lakh Crore of back book and all the new disbursals. As only a part of the rate hike was during Q1, the management expects a larger benefit in Q2 and Q3 quarters.
- ✓ There was recovery in the large builder account where the company has successfully auctioned the underlying asset, recovering the full 100% of the principle amount and nearly the entire portion of the interest. Management is confident for more such recoveries going forward.
- ✓ Weighted average Incremental yield in individual home loan on an annual basis is at 9.2%, LAP is about 10.5% and weighted average on individual yield without LAP is 9.4%.

Profitability Matrix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	14.8	18.0	9.6	14.8	15.5	20.5	7.5	-2.14	-13.06
Empl. Cost/ Tot. Exp. %	43.7	28.9	58.4	37.1	32.7	28.1	61.5	3.17	33.37
Other Exp/Tot. Exp.%	15.7	21.2	39.0	61.2	65.6	70.7	35.1	-3.91	-35.61
Provision/PPP %	5.6	10.0	23.8	7.2	6.0	3.2	16.9	-6.82	13.69
Tax Rate %	34.8	34.4	26.7	34.6	35.1	35.7	28.0	1.24	-7.74
Int Exp./Int Inc. (%)	73.9	71.2	74.4	75.1	75.3	72.9	75.3	0.87	2.39
Other Inc./NII %	4.0	5.0	2.7	6.6	6.1	8.7	4.7	2.00	-4.00
PPP/ Net Income %	85.2	82.0	90.4	85.2	84.5	79.5	92.5	2.14	13.06
PAT/ Net Income %	52.5	48.5	50.5	51.7	51.5	49.4	55.4	4.87	5.92
NII Growth % (YoY)	22.6	26.6	12.6	5.9	0.9	1.8	7.0	-5.58	5.28
PPP Growth YoY %	19.2	22.3	16.0	1.9	(0.7)	(3.2)	10.6	-5.49	13.74
PAT Growth %	19.2	18.1	17.6	(1.1)	(1.6)	1.9	18.4	0.80	16.49

Margin Performance

Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
Overall Yield	10.6	10.7	10.6	10.3	10.2	10.1	10.2	-0.39	0.07
Cost Of Funds	8.8	8.6	8.5	8.4	8.3	8.3	8.3	-0.21	-0.02
Spreads	1.8	2.1	2.1	1.9	1.9	1.8	1.9	-0.18	0.09
NIM (Reported)	2.8	3.0	2.5	2.4	2.3	2.5	2.3	-0.18	-0.15

Exhibit: Yield and Cost

Decline in yield outpaced decline in cost

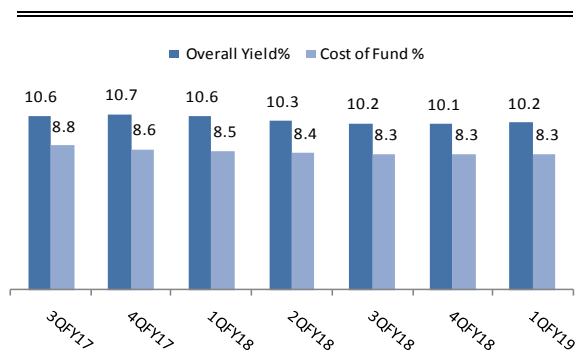
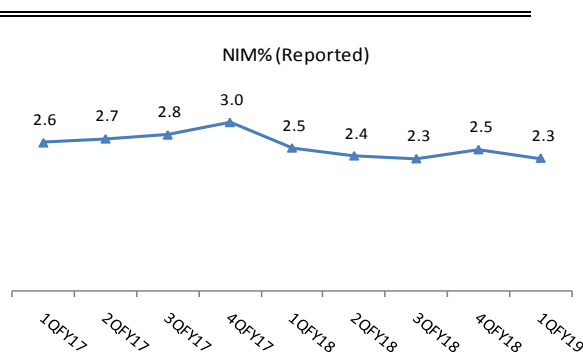


Exhibit: Net Interest Margin

Pressure in NIM



Asset & Borrowings Growth Trend

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Disbursements	7542	9123	9684	15192	8699	10983	12301	17402	9594
Growth YoY %	21	9	15	15	15	20	27	15	10
AUM	127437	131096	135366	144534	147051	151417	156176	166363	168652
Growth YoY %	15	15	15	15	15	16	15	15	15
Borrowings	112960	116083	119428	126335	129163	133622	137629	145339	147735
Growth YoY %	16	14	15	14	14	15	15	15	14

Asset Composition

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Individual Loan Portfolio %	87.8	87.5	86.3	83.6	83.3	82.9	82.6	80.8	79.0
LAP %	9.3	9.7	10.4	12.6	12.9	13.2	13.2	14.3	16.0
Project/Developer loan	2.9	2.8	3.3	3.8	3.8	3.9	4.2	4.9	5.0

Exhibit: AUM Growth %

Stagnant loan book growth

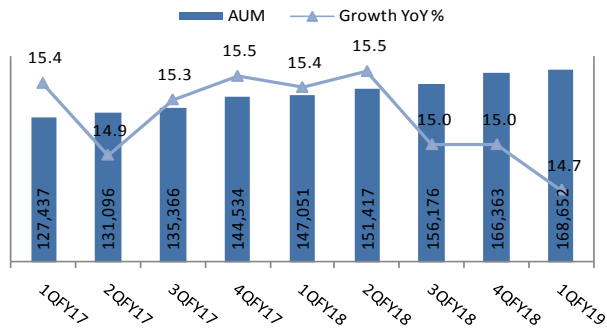
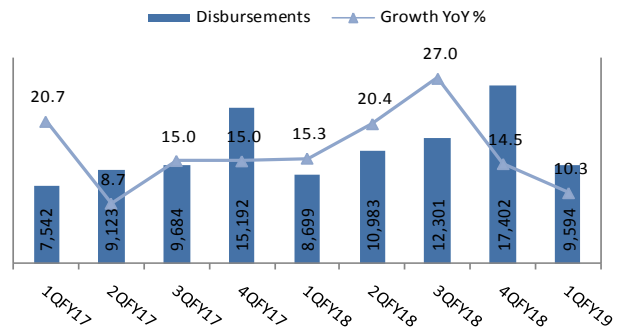


Exhibit: Disbursement Growth %



Borrowing Mix

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Debenture and Securities	80	81	81	79	79	79	78	79	74
Bank Loans	11	9	9	9	9	9	10	10	12
Public Deposits	4	4	4	5	5	5	5	5	5
Others	6	6	6	7	7	7	7	6	9

Disbursement Break up

Core Home Loans	5,922	7,493	6,955	9,460	6,674	8,483	9,177	10,838	7,260
LAP	1,142	1,262	1,600	4,500	1,612	1,900	2,146	4,298	1,445
Corporate Loan	478	368	1,129	1,232	413	600	978	2,266	889
Total	7,542	9,123	9,684	15,192	8,699	10,983	12,301	17,402	9,594

Asset Quality

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	759	627	1,066	1,211	1,360	1,304	2,041	91%	57%
GNPA %	0.56	0.43	0.72	0.80	0.87	0.78	1.21	0.49	0.43
NNPA (Rs in Cr)	361	205	553	561	598	592	1,389	151%	135%
NNPA %	0.27	0.14	0.38	0.43	0.49	0.43	0.82	0.44	0.39
Specific PCR %	52.4	67.3	48.1	46.3	44.0	45.4	31.9	-16.18	-13.45

Exhibit: Asset Quality

Increase in Non-performing assets.

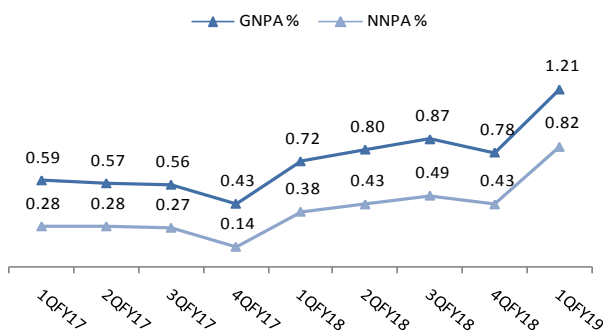
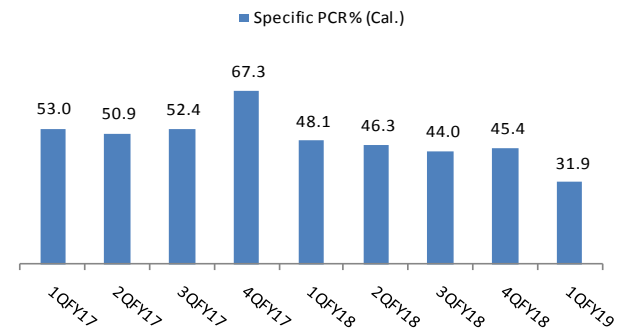


Exhibit: Provisions

Decline in PCR



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	101	101	101	101	101	101	101	101
>> <i>Equity Capital</i>	101	101	101	101	101	101	101	101
>> <i>Preference Capital</i>	-	-	-	-	-	-	-	-
Reserves & Surplus	6,380	7,432	7,717	9,045	10,976	12,590	15,169	17,498
Networth	6,481	7,533	7,818	9,146	11,077	12,691	15,270	17,599
<i>Change (%)</i>	14.1	16.2	3.8	17.0	21.1	14.6	20.3	15.3
Total Borrowing	68,764	82,036	96,547	110,936	126,335	145,339	166,363	191,317
<i>Change (%)</i>	22.6	19.3	17.7	14.9	13.9	15.0	14.5	15.0
Provisions	985	1,077	1,070	1,267	1,139	1,376	1,581	1,818
Other Liability	4,330	5,132	7,110	9,149	12,349	12,446	15,637	17,978
Total Liabilities	80,560	95,777	112,545	130,498	150,901	171,852	198,851	228,713
Investments	185	199	237	277	528	987	1,135	1,305
Loans	77,813	91,341	108,361	125,173	144,534	166,363	191,317	220,015
<i>Change (%)</i>	23.4	17.4	18.6	15.5	15.5	15.1	15.0	15.0
Fixed Assets	62	76	80	92	97	97	107	118
Other Assets	1,035	1,139	934	1,029	1,280	1,452	1,643	1,864
Cash Balances	1,466	3,022	2,933	3,927	4,462	2,953	4,649	5,411
Total Assets	80,560	95,777	112,545	130,498	150,901	171,852	198,851	228,713

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Interest income	7,459	9,073	10,547	12,251	13,877	14,826	17,143	20,124
Interest expended	5,925	7,174	8,310	9,307	10,231	11,125	12,840	15,273
Net Interest Income	1,534	1,899	2,236	2,944	3,645	3,701	4,303	4,852
<i>Change (%)</i>	10.3	23.8	17.8	31.6	23.8	1.5	16.2	12.8
Other Income	200	261	252	235	204	247	223	255
<i>Change (%)</i>	(14.0)	30.8	(3.6)	(6.9)	(13.2)	21.3	(9.6)	14.2
Total Net Income	1,734	2,160	2,488	3,179	3,849	3,948	4,526	5,107
<i>Change (%)</i>	7	25	15	28	21	3	15	13
Operating Expenses	282	313	379	469	612	648	378	429
<i>Change (%)</i>	19	11	21	24	31	6	(42)	14
Employee Expenses	90	104	129	150	246	218	222	255
<i>Change (%)</i>	24.8	14.9	24.5	16.3	63.5	(11.5)	2.2	14.9
Other Expenses	191	209	250	318	366	430	155	174
Pre-provisioning Profit	1,452	1,847	2,109	2,710	3,237	3,301	4,148	4,678
<i>Change (%)</i>	4.7	27.2	14.2	28.5	19.4	2.0	25.7	12.8
Provisions	79	21	7	146	281	239	382	447
<i>Change (%)</i>	(49.5)	(73.4)	(65.5)	1,919.9	92.1	(15.1)	60.1	17.0
PBT	1,374	1,826	2,102	2,564	2,956	3,062	3,766	4,230
Tax	350	508	716	903	1,025	1,072	1,054	1,453
Profit After Tax	1,023	1,318	1,386	1,661	1,931	1,990	2,712	2,777
<i>Change (%)</i>	11.9	28.8	5.2	19.8	16.3	3.0	36.3	2.4
Adjusted Profit	1,023	1,318	1,386	1,661	1,931	1,990	2,712	2,777
<i>Change (%)</i>	11.9	28.8	5.2	19.8	16.3	3.0	36.3	2.4

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	77,813	91,341	108,361	125,173	144,534	166,363	191,317	220,015
Off Book AUM	-	-	-	-	-	-	-	-
AUM Growth (%)	23.4	17.4	18.6	15.5	15.5	15.1	15.0	15.0
Borrowing Growth (%)	22.6	19.3	17.7	14.9	13.9	15.0	14.5	15.0
Loan to Borrowing Ratio (%)	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Disbursement	24,359	25,271	30,326	36,273	41,541	49,385	55,189	62,392
Disbursement Growth	20	20	20	20	15	19	12	13
CRAR (%)	16.5	16.4	15.3	17.0	15.6	16.0	16.6	16.6
>> Tier 1 (%)	11.5	12.2	11.8	13.9	13.4	13.4	14.5	14.5
>> Tier 2 (%)	5.0	4.2	3.5	3.2	2.3	2.7	2.1	2.1
Debt-Equity ratio	10.6	10.9	12.3	12.1	11.4	11.5	10.9	10.9

Assets Quality Metrics

Gross NPA	471	609	495	568	627	1,304	1,818	1,870
Gross NAP (%)	0.6	0.7	0.5	0.5	0.4	0.8	1.0	0.9
Net NPA	276	354	234	270	205	712	1,454	1,122
Net NPA (%)	0.4	0.4	0.2	0.2	0.1	0.4	0.8	0.5
Specific Provision Coverage (%)	41.4	41.9	52.6	52.4	67.3	45.4	20.0	40.0
Provision/Average Advances (%)	0.1	0.0	0.0	0.1	0.2	0.2	0.2	0.2

Margin Metrics

Yield On AUM (%)	10.6	10.7	10.6	10.5	10.3	9.5	9.6	9.8
Cost Of Funds (%)	9.5	9.5	9.3	9.0	8.6	8.2	8.2	8.5
Spread (%)	1.1	1.2	1.3	1.5	1.7	1.3	1.3	1.2
NIM (%)	2.2	2.2	2.2	2.5	2.7	2.4	2.4	2.4

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	79	79	79	76	74	75	75	76
Other Income/NII (%)	13	14	11	8	6	7	5	5
Operating Profit/ Net Income (%)	84	85	85	85	84	84	92	92
Net Profit/Net Income (%)	59	61	56	52	50	50	60	54
Cost to Income (%)	16	15	15	15	16	16	8	8
Employee Exp/ Net Income (%)	5	5	5	5	6	6	5	5
Cost on Average Assets (%)	0	0	0	0	0	0	0	0
Provisions/PPP (%)	5	1	0	5	9	7	9	10
Tax Rate (%)	26	28	34	35	35	35	28	34

Valuation Ratio Metrics

EPS (Rs)	20	26	27	33	38	39	54	55
Change (%)	11.9	28.8	5.2	19.8	16.3	3.0	36.3	2.4
ROAE (%)	16.8	18.8	18.1	19.6	19.1	16.7	19.4	16.9
ROAA (%)	1.4	1.5	1.3	1.4	1.4	1.2	1.5	1.3
Dividend Payout (%)	18.7	17.2	18.2	16.7	16.2	17.2	13.8	14.5
Dividend yield (%)	1.5	2.1	1.4	1.2	1.2	1.3	1.5	1.7
Dividend Per Share	3.8	4.5	5.0	5.5	6.2	6.8	7.4	8.0
Book Value (Rs)	128	149	155	181	219	251	303	349
Change (%)	14.1	16.2	3.8	17.0	21.1	14.6	20.3	15.3
P/B (X)	1.7	1.6	2.8	2.7	2.8	2.1	1.6	1.4
P/E (X)	11.0	9.0	15.9	15.0	16.2	13.6	8.9	8.7

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	10.3	10.1	10.1	9.9	9.2	9.2	9.4
Interest expended	8.1	8.0	7.7	7.3	6.9	6.9	7.1
Net Interest Income	2.2	2.1	2.4	2.6	2.3	2.3	2.3
Other Income	0.3	0.2	0.2	0.1	0.2	0.1	0.1
Total Income	2.5	2.4	2.6	2.7	2.4	2.4	2.4
Total Operating Expenses	0.4	0.4	0.4	0.4	0.4	0.2	0.2
>> Employee Expenses	0.1	0.1	0.1	0.2	0.1	0.1	0.1
>> Other Expenses	0.2	0.2	0.3	0.3	0.3	0.1	0.1
Operating Profit	2.1	2.0	2.2	2.3	2.0	2.2	2.2
Provisions	0.0	0.0	0.1	0.2	0.1	0.2	0.2
Others	-	-	-	-	-	-	-
PBT	2.1	2.0	2.1	2.1	1.9	2.0	2.0
Tax	0.6	0.7	0.7	0.7	0.7	0.6	0.7
PAT/RoA	1.5	1.3	1.4	1.4	1.2	1.5	1.3
>> Equity Multiplier (x)	12.6	13.6	14.3	13.9	13.6	13.3	13.0
RoE	18.8	18.1	19.6	19.1	16.7	19.4	16.9

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