

LIC Housing Finance

Sector: Finance / Mid Cap | Earnings Update – 3QFY19

BUY

31 January 2019

Background: LIC Housing Finance (LICHF) provides housing loans to individuals and corporate bodies. The company is also engaged in the home equity space. The company is a distant second player among housing finance companies in India. LIC Housing has an established network of direct selling agents and home loan agents. Through its subsidiary, LIC Housing operates homes for senior citizens. Loans to individual including LAP forms 94% of the loan book with the balance coming from project/developer loans (loans to builders).

Sensex	36,155
Nifty	10,808
Price	INR 444
Target Price (12 months)	INR 502
Recommendation	BUY
52 Week High/Low	INR 583/388
Bloomberg / Reuters	LICHF IN / LICH.BO
Equity (shares in mn)	504.66
Mkt. Cap in bn	INR 224.07/ \$ 3.15
Avg. Daily Vol. ('000)	2292.62
Avg. Daily Vol. (mn)	INR 1017.92 / \$ 14.33

NIMs remain intact despite near term pressures on cost of funds

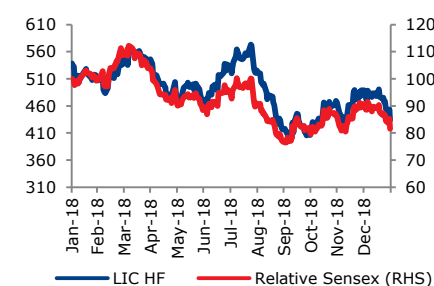
- LICHF's loan book grew by 16.3% YoY (lower than CSEC estimate of 19% YoY) to INR 1.82tn, largely led by LAP and project loans segments which grew at 45.7% YoY and 73.1% YoY respectively. LAP's share in the overall portfolio has grown 333bps YoY to 16.5% and that of developer (project) loans by 205bps YoY to 6.3%. The management has retained its earlier AUM growth target of 17-18% for FY19E.
- Disbursements saw a muted growth of 3.9% YoY to INR 127.8bn in 3QFY19, of which INR 115bn came from individual loan and INR 13bn from project loan disbursements. Sequentially, overall disbursements de-grew by 10.5%.
- Borrowings grew by 16.5% YoY and stood at INR 1.6tn. The borrowing mix was altered in 3QFY19, with greater dependence on NCDs (74% of total borrowings from 68.2% in 2QFY19). Whereas, Commercial Paper as a % of total borrowings, reduced to 5% from 9.2% in 2QFY19. In 3QFY19, weighted average cost of funds (WACF) inched up by 13bps YoY (in line with management's guidance in 2QFY19).
- However, yields also increased by 27bps YoY led by shift towards high yielding assets (project & LAP) and reset done in PLR in October 2018. The PLR was hiked by 70bps in 9MFY19, the effect of which is yet to be fully reflected on NIMs, as most assets (loans) have a reset only at the end of 1 year term. Hence, NIMs remained flat YoY at 2.33% in 3QFY19.
- In 3QFY19, GNPA's (in absolute numbers) spiked by 68% YoY (12.5% QoQ). However, the slippages in the current quarter were almost entirely from the individual loan portfolio. GNPA's as a % of advances (GS-3) dipped marginally to 1.25% from 1.27% in 2QFY19. Provisions under the ECL model resulted in a write back to the tune of INR 31mn in 3QFY19.
- Loan to Value ratio remained at 46% in 3QFY19 (flat sequentially). Prepayment rate fell by 30bps sequentially to 10.4%. During 3QFY19, proportion of floating rates loans increased to 93% from 82% in 4QFY18.
- Net interest income saw a healthy growth of 41% YoY to INR 10.42bn (in line with CSEC estimate of INR 10.5bn), largely due to increase in book yields. Other Income inched up by 2.6% YoY to INR 67mn.
- Opex increased to INR 2.5bn in 3QFY19, vs. INR 724mn in 3QFY18. This led to a spike in C/I ratio to 22.8% from 9% in 3QFY18. Hence PAT growth was limited to 25.5% YoY and stood at INR 5.96bn (vs. CSEC estimate of INR 5.7bn).

Shareholding	Dec 17	Sep 18	Dec 18
Promoters (%)	40.31	40.31	40.31
FII (%)	34.07	30.76	28.83
DII (%)	13.54	9.47	10.97
Others (%)	12.08	19.46	19.89
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019E	2020E	2021E
Net Interest Inc	46.1	51.5	55.4
Other Inc	2.0	2.4	2.5
Pre Prov Profit	38.1	49.4	51.7
PAT	27.7	19.8	30.4
EPS	54.9	39.3	60.3
EPS growth (%)	39.2	(28.5)	53.6
PE	8.1	11.3	7.4
P /ABV	1.6	1.3	1.2
Div Yield (%)	1.8	1.8	2.0
ROA (%)	1.3	1.2	1.3
ROE (%)	16.3	16.2	16.4
Tier - 1 (%)	12.6	12.3	11.9
CAR (%)	14.8	14.1	13.5

Performance %	1M	3M	12M
LICHF	-11.2	6.9	-19.4
Sensex	-1.4	5.0	-1.2



Valuation: LICHF is expected to post a strong loan book growth (CAGR of 11% over FY18-21E) despite a high base owing to its well established branch network. Also, with 93% of the book at floating rates the company's NIMs are expected to remain in the range of 2.3 to 2.5% thereby painting a positive outlook for the company. The stock is currently trading at P/ABV of 1.2X, P/E of 7.4X FY21E. We rate the stock a BUY and revise our target price to INR 502 assigning a P/ABV of 1.4X on FY21E.

Risks: Yield correction done in Q1 due to competition which is yet to revive post the MCLR resets; asset quality risks due to increase of share in LAP & developer segment (which could also eat out larger chunk of capital- RWA).

Results Summary 3QFY19

Y/E March (INR bn)	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth
Net Interest Income	10.42	7.37	41.3%	10.60	-1.7%
Other Income	0.67	0.65	2.6%	0.04	1434.1%
Pre Provisioning Profit	8.56	7.30	17.3%	8.75	-2.2%
PAT	5.96	4.75	25.5%	5.73	4.0%
Cost / Income (%)	22.80	9.02		17.75	
Gross NPA (%)	1.26	0.87		1.27	
Net NPA (%)	0.85	0.49		-*	
Prov Coverage ratio (%)	65.00	90.00		-*	
CAR (%)	-*	16.04		14.80	

*Quarterly numbers not published

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