

Sector: Banks & Finance
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 496	
Price Target: Rs. 500	↓

↑ Upgrade ↔ No change ↓ Downgrade

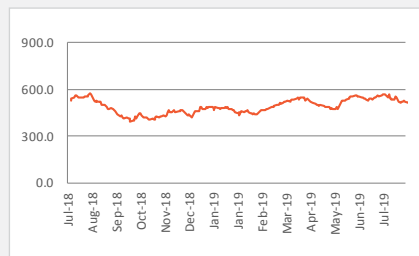
Company details

Market cap:	Rs. 25,036 cr
52-week high/low:	Rs. 587/388
NSE volume: (No of shares)	18.1 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Sharekhan code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	40.3
FII	18.7
DII	10.6
Others	30.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.8	2.6	8.9	-4.2
Relative to Sensex	-5.7	7.0	6.0	-5.3

Sharekhan Research, Bloomberg

LIC Housing Finance (LICHF) reported weak numbers in Q1FY2020 with a marginal pickup in disbursement. However, a q-o-q decline in net interest margins (NIMs) and decline in asset quality on a sequential basis were dampeners. Loan growth was healthy, but was largely driven by loans to developer (which has historically been a pain point for the HFC, and also led to higher NPAs). We believe, LICHF may be vulnerable to margin pressures going forward as well as developer loans tend to turn sour, which can affect profitability. Moreover, due to intensifying competition in the housing finance market, where both private as well as PSU banks vie for market share gains, the outlook becomes all the more challenging. Hence, we see little probability of a near-term expansion in NIMs, improvement in interest spread and return on assets (ROA). Also, considering the present scenario, we believe that the developer loan segment warrants caution. Hence, we maintain our Hold recommendation with a revised price target (PT) of Rs. 500.

Key positives

- ♦ Healthy loan growth where the individual loan portfolio rose by 14% y-o-y
- ♦ Diverse funding mix helps manage cost of funds y-o-y, incremental Costs lower

Key negatives

- ♦ Asset quality is worsening and LICHF is seeing a sequential rise in delinquencies (with stage 3 exposure at default (EAD)) at 1.98%.

Our Call

Valuation: Though current valuations are modest, at 1.3x FY2021E BV, the overhang of a rising developer loan book proportion, limited scope of ROA expansion, increasing risk of delinquencies in the real estate segment and modest growth outlook indicate that there may be limited upside for the stock. Hence, we maintain our Hold recommendation with a revised price target (PT) of Rs. 500.

Key Risks

Headwinds in real estate funding and liquidity concerns have increased disproportionately of late, warranting caution.

Valuation Particulars	FY18	FY19	FY20E	FY21E
Net interest income	3,835	4,350	5,334	6,580
Net profit	1,990	2,431	2,676	3,325
EPS (Rs)	39.4	48.1	53.0	65.8
P/E (x)	12.6	10.3	9.4	7.5
Book value (Rs/share)	251	322	334	387
P/BV (x)	2.0	1.5	1.5	1.3
RoAE (%)	16.7	16.8	16.2	18.3
RoAA (%)	1.6	1.5	1.4	1.6

Source: Company, Sharekhan Estimates

Weak operating performance:

LIC Housing Finance (LICHF) reported weak results with a marginal pick-up in disbursements. However, sequentially, margins and asset quality declined which were dampeners. Net interest income (NII) grew by 18.9% y-o-y to Rs. 1,181.9 crore, mainly driven by strong loan growth and some margin expansion y-o-y. Margins stood at 2.35%, falling by 19 bps from 2.54% in Q4FY2019, but was up 3 BPS y-o-y. Last quarter, the management had guided for largely stable margins for FY2020E, which currently appears to be a challenge. However, provisions for Q1FY2020 increased by 60% y-o-y, which resulted in PAT of Rs. 610 crore, which grew by 7.5% y-o-y.

Decent loan growth, but developer segment rise warrants caution: In Q1FY2020, advances grew at a moderate pace and the loan book rose by 16% y-o-y, largely in line with the range seen in the past 4-5 quarters. Loan growth was driven by a 62% y-o-y rise in project loans and only a 14% y-o-y rise in individual loans. The management indicated that there was good traction from the affordable housing segment (PM Awaas Yojana) during the quarter. Overall disbursements were, however, muted in Q1FY2020, rising by 7% y-o-y. In contrast, individual loan disbursements were up by 9.8% y-o-y. However, We believe that exposure to developer loans (6.9% of total loan book) is a key monitorable, since as per the management, the delinquency levels from this segment has risen sharply to ~11% (from ~7% in Q4FY2019), which we believe warrants caution. We believe the quality of growth is important for HFCs, which generally have thinner margins as compared to other banks and NBFCs. Hence, a rise in the share of the developer segment, which historically has been a pain point for LICHF, should be viewed with caution. While the management has maintained its stance of selective exposure to this category, rise in asset stress may affect valuations significantly. We believe that the management's guidance for loan growth of 15-16% in FY2020E is achievable. Asset quality declined on a sequential basis, with Stage 3 EAD at 1.98% as against 1.54% as of Q4FY19. While overall Stage 3 assets have a low base, we believe that for HFCs, liquidity as well as asset quality becomes a crucial monitorable, especially in present times and a deviation may reflect in valuations.

Results

Particulars	Rs cr				
	Q1FY20	Q1FY19	YoY %	Q4FY19	QoQ %
Revenue from operations	4,784	4,019	19.0	4,621	3.5
Interest expense	3,603	3,025	19.1	3,398	6.0
NII	1,182	994	18.9	1,223	-3.3
Other Income	23	32	-28.9	35	-34.1
Net Total Income	1,205	1,026	17.4	1,257	-4.2
Employee expenses	61	47	29.6	73	-16.5
Other expenses	45	30	52.6	94	-52.1
Total Operating expenses	106	77	38.5	168	-36.5
Pre-Provisioning Profit	1,098	949	15.7	1,089	0.8
Provisions	257	161	60.1	103	149.4
PBT	841	788	6.7	986	-14.7
Tax	230	220	4.4	293	-21.3
PAT	611	568	7.5	694	-11.9

Source: Company; Sharekhan Research

Loan Mix

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Retail Home Loan	83%	83%	83%	81%	79%	78%	77%	76%	76%
Retail LAP/ Non Core	13%	13%	13%	14%	16%	16%	17%	17%	17%
Developer	4%	4%	4%	5%	5%	6%	6%	7%	7%

Source: Company; Sharekhan Research

Reported Margins, Cost of funds and Yields on advances

Particulars	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Yield on Advances (%)	10.6%	10.3%	10.2%	10.1%	10.2%	10.2%	10.5%	10.5%	10.5%
Wtd.Avg COF (%)	8.5%	8.4%	8.3%	8.1%	8.3%	8.3%	8.5%	8.5%	8.5%
NIM (%)	2.5%	2.6%	2.3%	2.4%	2.3%	2.4%	2.3%	2.5%	2.4%

Source: Company; Sharekhan Research

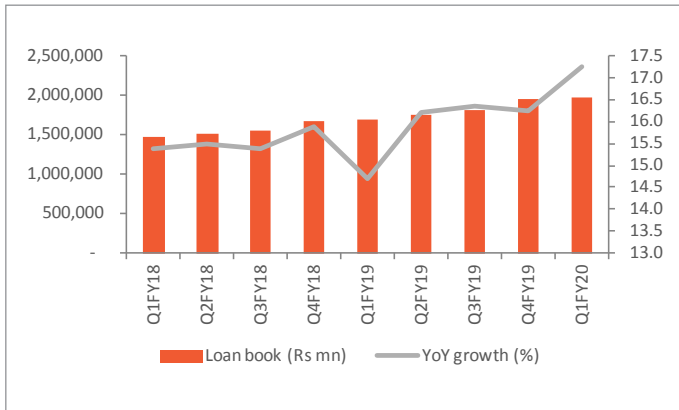
Classification of Assets

Particulars (Rs Cr)	Q1FY19	Q1FY20
Exposure At Default		
Stage1	95.0%	93.3%
Stage2	3.8%	4.7%
Stage3	1.2%	2.0%
Total	100.0%	100.0%
ECL Provision (Rs Cr)		
Stage1	189.9	27.6
Stage2	74.0	128.6
Stage3	652.4	1,756.7

Source: Company; Sharekhan Research

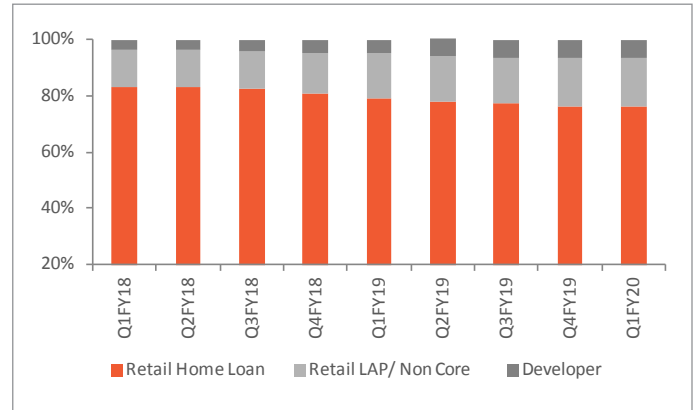
Financials in charts

Loan book trend



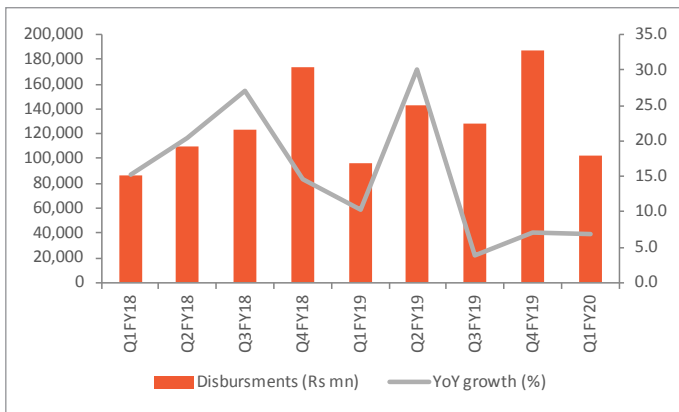
Source: Company, Sharekhan Research

Loan book Mix (%)



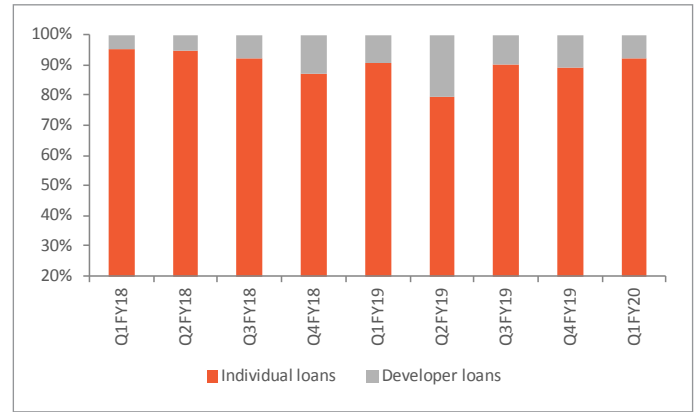
Source: Company, Sharekhan Research

Disbursements trend



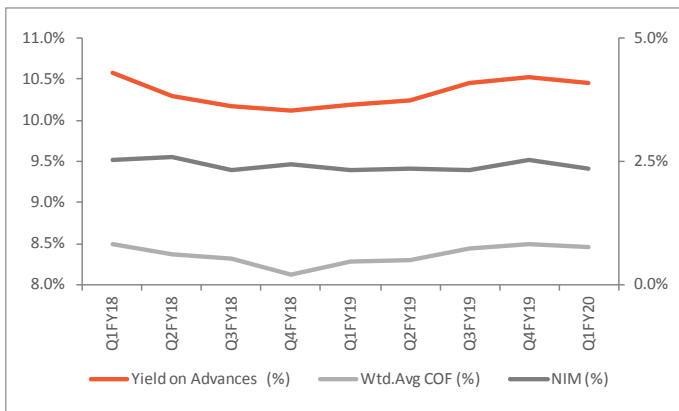
Source: Company, Sharekhan Research

Disbursements Mix



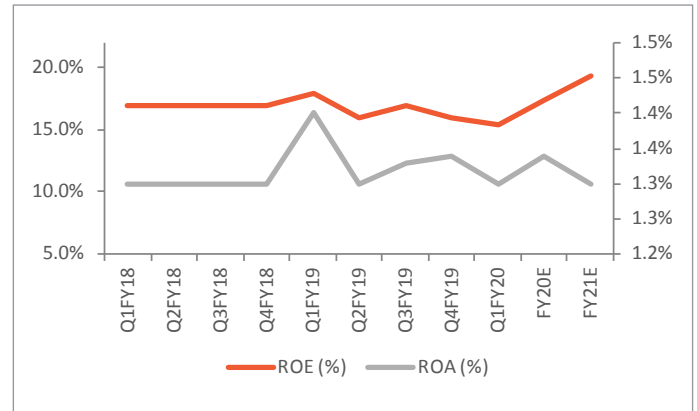
Source: Company, Sharekhan Research

YOA, COF, NIMs trend



Source: Company, Sharekhan Research

Return Ratios (%)



Source: Company, Sharekhan Research

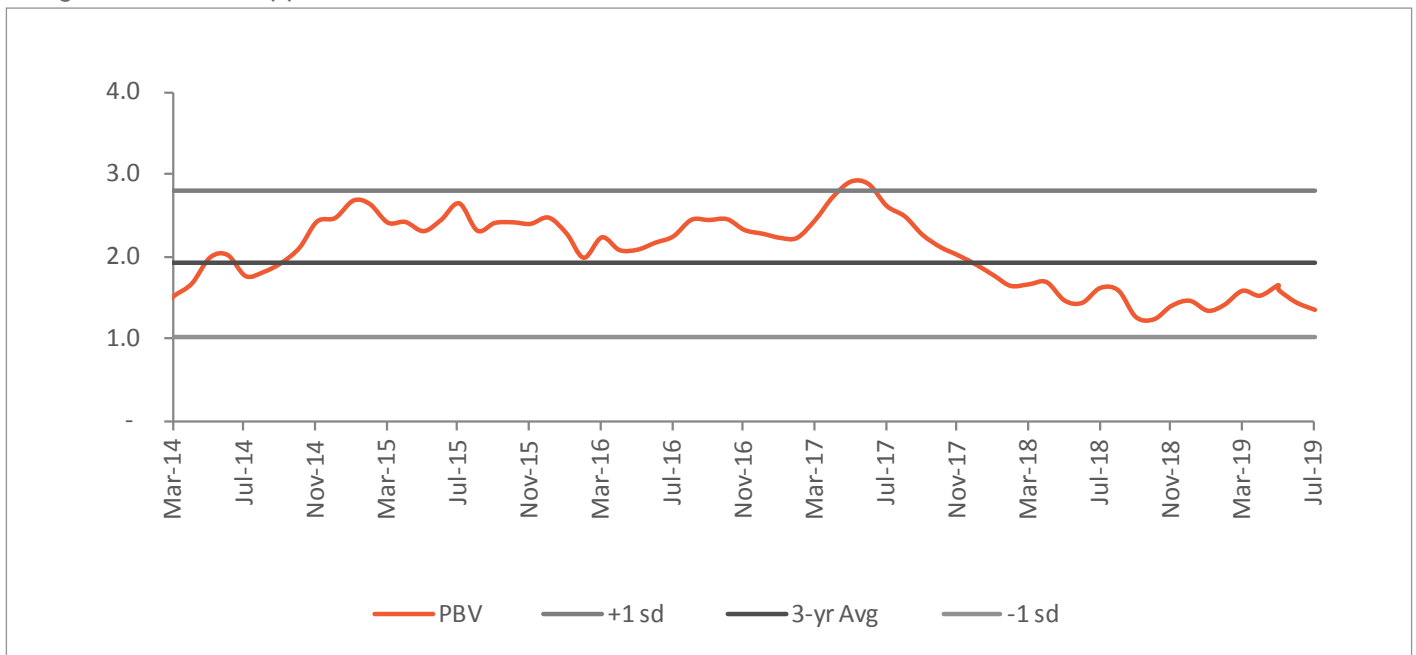
Outlook

LICHF maintained healthy loan growth traction in Q1 FY2020, largely driven by growth in the developer loans segment, but has also seen a higher level of delinquencies in this space as it has historically been a pain-point for the HFC, . We believe that HFCs are vulnerable to margin pressures going forward due to increased cost of borrowing and the overhang of adverse an impact on developer loans, which can disproportionately affect profitability. Moreover, due to the intensifying competitive scenario in the housing finance segment market, where both private as well as PSU banks vie for market share gains in the mortgage business, we believe that HFCs have little pricing power and have limited ability to pass on the cost burden to customers leaving them vulnerable to margins pressures. Hence, we see little probability of NIMs expanding in the near term, improvement in interest spreads and ROA. We believe that considering the present scenario, caution is warranted, especially in exposure to the developer loan segment. Hence, it may be a near-term overhang for the stock.

Valuation

Though current valuations are modest, at 1.3x FY2021E BV, the overhang of a rising developer loan book proportion, limited scope of ROA expansion, increasing risk of delinquencies in the real estate segment and modest growth outlook indicate that there may be limited upside for the stock. Hence, we maintain our Hold recommendation with a revised price target (PT) of Rs. 500.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
LIC Housing Finance	496	1.5	1.3	9.4	7.5	1.4	1.6	16.2	18.3
PNB Housing Finance	704	1.4	1.2	9.7	7.5	1.1	1.0	14.5	16.4
Can Fin Homes	374	2.4	2.0	13.9	11.3	1.8	1.8	18.2	18.8
Gruh Finance	250	9.0	6.9	37.7	32.2	2.3	2.2	24.2	22.2

Source: Company, Sharekhan research

About company

LIC Housing Finance Ltd is one of the largest housing finance companies in India having one of the widest networks of offices across the country and representative offices at Dubai & Kuwait. In addition, the Company also distributes its products through branches of its subsidiary LICHFL Financial Services Ltd. LIC Housing Finance Ltd was promoted by Life Insurance Corporation in which currently holds 40.31 % shares in the HFC. LICHF enjoys the highest rating from CRISIL & CARE indicating highest safety about the ability to service interest and repay principal, which to some degree can be attributed to having a strong parent. LICHF has posted consistent growth with Disbursement / PAT 5-yr CAGR of 16% / 15% with reasonably low GNPA's.

Investment theme

LICHF has seen a steady growth in its loan book but the performance of the high yield (but also high delinquency) developer loan book portion like loan against property (LAP)/ Developer is a key monitorable. Backed by a strong parent, LICHF's ratings has been strong, and thus it has been able to see off most of the liquidity pressure that had affected most NBFCs / HFCs of late. However, while the high ratings are key positive support to its margins, its book quality and growth performance will be key monitorables in the near term. While a diversified borrowing mix is a positive, we believe that the scenario has become significantly challenging for real estate players and consequently, for the lenders in the segment as well.

Key Risks

Headwinds in real estate funding and liquidity concerns have increased disproportionately of late, warranting caution.

Additional Data

Key management personnel

Shri M. R. Kumar	Chairman
Shri Vinay Shah	Managing Director and CEO
Mr. Siddhartha Mohanty	Chief Operating Officer
Mr. Nitin K. Jage	General Manager (Taxation) & Company Secretary
Mr. Rajiv Gupta	General Manager (IT & Risk Management)
Mr. Judhajit Sen	General Manager (Project Finance - Marketing & Credit Appraisal)
Mr. P Samal	General Manager (Marketing - Retail & Corporate, Online Marketing, Portfolio Management & Market Research)

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	40.3
2	FIDELITY INV TRUST FIDELIT	9.4
3	FMR LLC	7.9
4	Bank Muscat SAOG	2.3
5	ICICI Prudential Asset Management	2.1
6	BlackRock Inc	2.1
7	Vanguard Group Inc/The	1.9
8	Norges Bank	1.9
9	GOVERNMENT PENSION FUND - GLOBAL	1.8
10	Dimensional Fund Advisors LP	1.7

Source: Bloomberg

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