

LIC Housing Finance

BUY

Sector: Finance / Mid Cap | Earnings Update – 1QFY20

6 August 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 93.3% of the loan book with the balance coming from project/developer loans (loans to builders).

Sensex	36,977
Nifty	10,948
Price	INR 487
Target Price (12 months)	INR 556
Recommendation	BUY

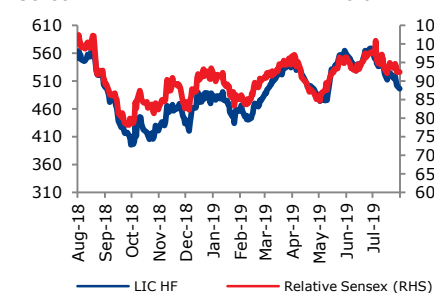
52 Week High/Low	INR 587/388
Bloomberg / Reuters	LICHF IN / LICH.BO
Equity (shares in mn)	504.66
Mkt. Cap in bn	INR 245.21 / \$ 3.47
Avg. Daily Vol. ('000)	1953.68
Avg. Daily Vol. (mn)	INR 949.29 / \$ 13.43

Shareholding	Jun 18	Mar 19	Jun 19
Promoters (%)	40.31	40.31	40.31
FII (%)	31.72	31.42	32.46
DII (%)	8.44	9.00	9.12
Others (%)	19.53	19.27	18.11
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Net Interest Inc	43.3	50.5	57.8
Other Inc	1.4	2.5	3.3
Pre Prov Profit	38.6	43.9	49.4
PAT	24.3	26.6	29.5
EPS	48.2	52.6	58.5
EPS growth (%)	22.2	9.3	11.1
PE	10.1	9.3	8.3
P /ABV	1.8	1.7	1.5
Div Yield (%)	1.6	1.8	2.1
ROA (%)	1.3	1.5	1.6
ROE (%)	16	17.9	17.9
Tier – 1 (%)	12.3	12.3	12.2
CAR (%)	14.5	14.5	14.3

Performance %	1M	3M	12M
LICHF	-12.4	2.3	-8.2
Sensex	-7.1	-5.8	-2.3



Muted NIM growth; Rise in developer segment warrants caution in asset quality

- LICHF's loan book grew by 1.6% YoY to INR 1.98tn, largely led by Developers Loans and LAP segments which grew at 61.8% YoY and 24% YoY respectively. LAP's share in the overall portfolio has grown 90bps YoY to 16.9% and that of developer (project) loans by 190bps YoY to 6.9%. The management expects the affordable housing segment to drive the loan book to growth in FY20E.
- Disbursements saw a growth of 16.4% YoY to INR 197bn in 1QFY20, of which INR 184bn came from individual loan and INR 13bn from project loan disbursements. Sequentially, overall disbursements grew by 6%, owing to a favorable base in 1QFY19.
- Borrowings grew by 17.1% YoY and stood at INR 1.73tn. The borrowing mix altered marginally in 1QFY20, with greater dependence on NCDs still intact (72.6% of total borrowings from 74.3% in 1QFY19). However, sequentially Commercial Paper as a % of total borrowings, increased to 6% from 4% in 4QFY19. In 1QFY20, weighted average cost of funds (WACF) inched up by 17bps YoY to 8.46%.
- Yields also increased by 26bps YoY led by high yielding assets (project & LAP). The PLR was hiked by 70bps in FY19, the effect of which has fully reflected on NIMs in 1QFY20. Hence, NIMs improved to 2.35%, up by 3bps YoY and down 19bps QoQ. Going forward the management expects NIMs to be maintained at 2.4%.
- In 1QFY20, GNPA's (in absolute numbers) spiked by 90.5% YoY (30% QoQ). GNPA's as a % of advances spiked to 1.98% in 1QFY20 from 1.58% in 4QFY19. During the quarter, GNPA's in the LAP portfolio too increased to 2%. The slippage amounted to INR 7 bn as a result of three large accounts.
- Loan to Value ratio increased to 47% in 1QFY20 (100 bps sequentially). Prepayment rate fell by 40bps sequentially to 9.8%. During 1QFY20, proportion of floating rates loans remained flat at 93% from 4QFY19.
- Net interest income saw a healthy growth of 17.7% YoY to INR 11bn, largely due to increase in Project loan disbursement. Other Income dropped by 7.8% YoY to INR 507mn.
- Opex increased 25% YoY and fell by 36% sequentially, to INR 1.06bn. This led to a fall in C/I ratio to 8.9% from 13.3% in 4QFY19. Hence PAT grew by 7.5% YoY and stood at INR 6.10bn.

Valuation: LICHF is expected to post a reasonably strong loan book growth (CAGR of 8% over FY19-21E) 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 1.5X, P/E of 8.3X FY21E. We rate the stock a BUY and arrive at a target price of INR 556 assigning a P/ABV of 1.7X on FY21E.

Risks: Yield correction due to competition; asset quality risks due to increase of share in LAP & developer segment (which could also eat out larger chunk of capital- RWA).

Results Summary 1QFY20

Y/E March (INR bn)	1QFY20	1QFY19	YoY Growth	4QFY19	QoQ Growth
Net Interest Income	11.54	9.80	17.7%	12.01	-3.9%
Other Income	0.51	0.55	-7.8%	0.57	-10.6%
Pre Provisioning Profit	10.99	9.51	15.6%	10.90	0.8%
PAT	6.11	5.68	7.5%	6.94	-12.0%
Cost / Income (%)	8.80	8.16		13.33	
Gross NPA (%)	1.53	1.20		1.53	
Net NPA (%)	1.07	0.80		1.07	
Prov Coverage ratio (%)	65.00	-*		65.00	

* Quarterly numbers not published

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