Sharekhan
by BNP PARIBAS

LIC Housing Finance

Asset quality concerns persist; retain Hold

Sector: Banks & Finance
Result Update

	Change
Reco: **Hold**	↔
CMP: **Rs. 370**	
Price Target: **Rs. 400**	↓

↑ Upgrade ↔ No change ↓ Downgrade

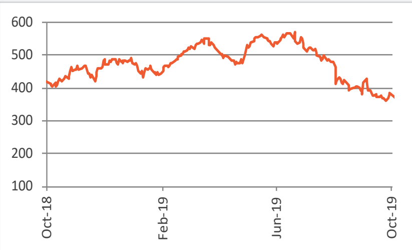
Company details

Market cap:	Rs. 18,677 cr
52-week high/low:	Rs. 587/354
NSE volume: (No of shares)	24.2 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Sharekhan code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	40.3
FII	32.9
DII	14.5
Others	12.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.8	-26.8	-23.6	-8.4
Relative to Sensex	-12.8	-29.1	-25.3	-21.7

Sharekhan Research, Bloomberg

LIC Housing Finance posted healthy operating performance for Q2FY20. Net interest income (NII) rising by 19.3% and Net interest margins (NIM) remained largely stable. However, the asset quality continues to deteriorate with gross NPA at 2.38% as compared to 1.98% during Q1FY20, largely led by rise in the developer segment NPA which has increased to 14.8% from ~11% in the previous quarter. Management is hopeful of recovery going ahead but concerns are likely to persist and remain as the key overhang on the stock. Thus, despite the steep correction in the past few months, we retain our Hold rating on the stock with a price target of Rs 400.

Key positives

- Stable net interest margins due to improving funding mix (higher proportion from banks) and control on cost of funds
- Given its Public sector nature, there is ample availability of funding and no crisis of confidence like in some of the other housing finance companies.

Key negatives

- Further deterioration in asset quality with gross NPA rising from 1.98% to 2.38% on a sequential basis, especially steep rise in developer book NPA from 11% to 14.8% QoQ.
- Relatively slower growth in core retail home loans of 13% despite the favorable base and easing of competitive intensity.

Our Call

Valuation: LICHF currently trades at 1.3x valuations which seem to be reasonable considering the fact that LICHF its strong distribution network and comfortable liquidity situation. However, soft scenario in the builder loan segment and deterioration in the asset quality warrants caution. Performance pertaining to recoveries in retail and developer book, loan growth momentum in next few quarters would be key to watch. We thus maintain Hold rating on the stock with PT of Rs400.

Key Risks

Increased delinquencies in developer book may worsen asset quality and impact profitability.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E
Net interest income (Rs cr)	3,835.0	4,349.9	5,334.5	6,580.5
Net profit (Rs cr)	1,989.6	2,431.0	2,675.8	3,325.2
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)	251.3	322.0	333.6	387.2
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

LIC Housing Finance: Key Concall Highlights for Q2FY20

On asset quality

- Builder book NPA increased from 11% to 14.8% q-o-q
- 4 to 5 accounts predominantly contributed to NPA rise
- 60% of builder loan NPA is under SARFAESI, ~35% of the developer book is under moratorium
- ~Rs400 Cr – Rs500 Cr builder loans is in stage 2
- Credit cost to be around 60 BPS for the year
- 20-25% of the accounts in retail segment that were NPA as of previous quarter have started making payments during this quarter
- NPA in Individual home loan segment is 1.05% and non-housing individual is 2.36%, overall retail NPA is 1.52% versus 1.25% in last quarter

On growth

- The company intends to focus on affordable housing in retail segment
- Disbursement in individual home loans has gone up by 16% y-o-y
- In H1FY20 LICHF disbursed to nearly 25,000 accounts totaling to Rs 5000 crore under Pradhan Mantri Awas Yojna (PMAY).
- Disbursement in PMAY accounts for 26% of retail disbursement in volume terms and 24% in value terms.
- The company has made cautious approach in project loans and disbursement in this segment stood at Rs445 crore versus Rs2970 crore y-o-y
- Central, Southeastern and northern regions registered good growth

On margins and funding

- We expect margins to remain stable with a positive bias
- Incremental cost of funds has declined by 20 bps YoY to 8.04%
- Bonds worth Rs17500 crore will be re-priced in next 6 month, expect its funding cost to decline by 35 to 40 BPS
- Incremental yield on pure home loans is ~8.8%, non-home retail is ~10.5% and builder loans is ~12.7%, blended yield is 9.3%
- LICHF has unutilized lines of around Rs10,000-Rs15,000 crore
- During Q2FY20, the company has raised Rs10,000 crore through NCDs, Rs3600 crore via CP and Rs3000 crore via public deposits

Results Rs cr

Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %
Revenue from operations	4953.5	4187.3	18.3	4784.5	3.5
Interest expense	3701.8	3138.2	18.0	3602.6	2.8
NII	1251.7	1049.1	19.3	1181.9	5.9
Other Income	25.5	20.6	24.0	22.8	12.2
Net Total Income	1277.2	1069.6	19.4	1204.6	6.0
Total Operating expenses	139.7	234.9	-40.5	106.4	31.3
Pre-Provisioning Profit	1137.5	834.7	36.3	1098.2	3.6
Provisions	281.5	89.4	214.9	257.3	9.4
PBT	856.1	745.3	14.9	840.9	1.8
Tax	83.9	172.2	-51.3	230.2	-63.6
PAT	772.2	573.2	34.7	610.7	26.4

Source: Company; Sharekhan Research

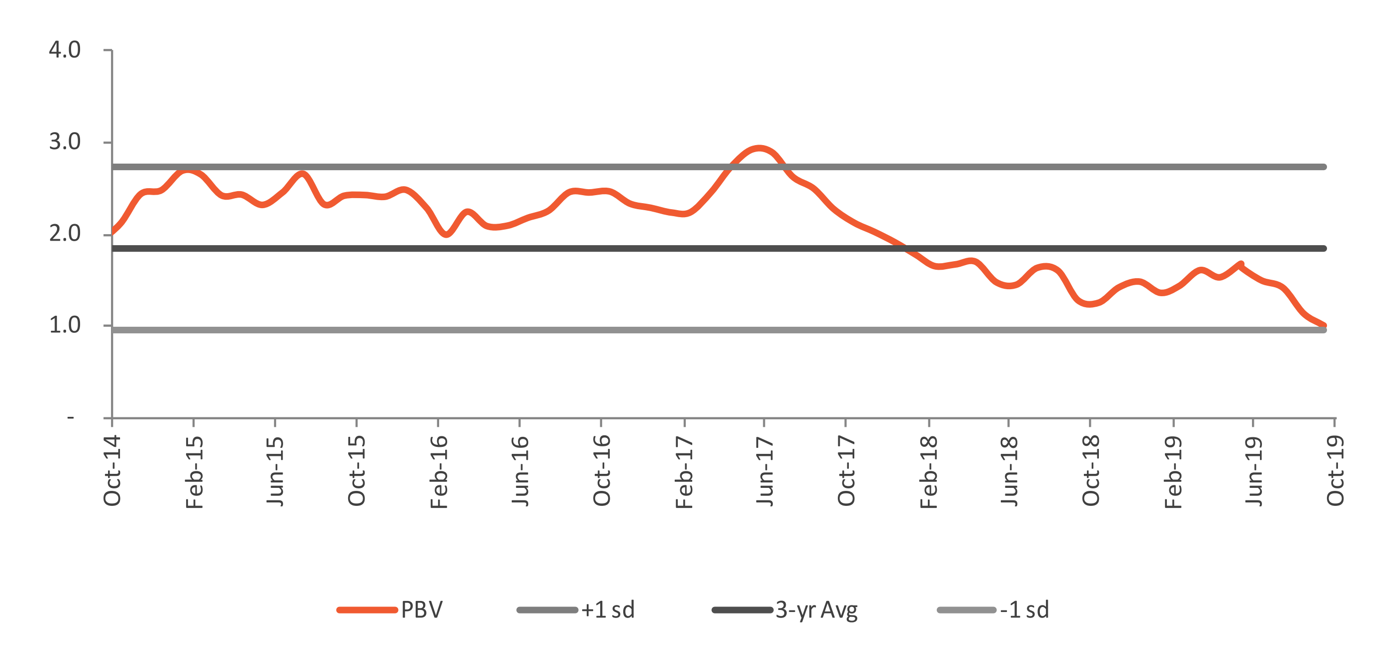
Outlook

During the quarter, LICHF has witnessed a slower loan traction as compared to its growth in previous many quarters which is a result of the reduced disbursement in the developer segment. Competitive scenario in the HFC space has intensified as corporate credit off-take has been lackluster and can restrict the benefit coming out of lower funding cost. Moreover lower declining interest rate from banks increase the risk of pre-payments leading to lower growth. Developments in the stress situation going ahead would be important as it not only disrupts profitability but also elongates the recovery cycle.

Valuation

LICHF currently trades at 1.3x valuations which seem to be reasonable considering the fact that LICHF its strong distribution network and comfortable liquidity placement. However, the soft scenario in the builder loan segment and deterioration in the asset quality space warrants caution. Performance pertaining to recoveries in retail and developer book, loan growth momentum in the next few quarters would be key to watch. We thus maintain Hold rating on the stock with PT of 400.

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	370	1.5	1.3	9.4	7.5	1.4	1.6	16.2	18.3
Can Fin Homes	386	2.4	2.0	14.1	11.4	1.4	1.4	15.3	15.3
PNB Housing Finance	447	0.8	0.7	6.1	5.2	1.8	1.9	18.7	19.3
HDFC Ltd	2146	4.4	4.0	36.7	31.0	2.0	2.1	12.0	13.0

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 high 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.

Investment theme

LICHF has seen steady loan book growth but the performance of the high yield (but also high delinquency) developer loan book portion like LAP / Developer is a key monitorable. Backed by a strong parent, the Rating of LICHF has been strong, and thus it has been able to see off most of the liquidity pressure that had impacted most of the 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 monitorable in the near term. While the diversified borrowing mix is a positive, we view the scenario having become significantly challenging for real estate players and consequently, for the lenders in the segment as well.

Key Risks

Increased delinquencies in developer book may worsen asset quality and impact profitability.

Additional Data

Key management personnel

Shri M. R. Kumar	Chairman
Mr. Siddhartha Mohanty	Managing Director and CEO
Mr. Nitin K. Jage	General Manager (Taxation) & Company Secretary
Ms. N Rangarajan	Chief Risk Officer

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	2.5
4	Bank Muscat SAOG	2.3
5	BlackRock Inc	2.0
6	FIL Ltd	1.9
7	Norges Bank	1.9
8	GOVERNMENT PENSION FUND - GLOBAL	1.8
9	ICICI Prudential Asset Management	1.8
10	Vanguard Group Inc/The	1.8

Source: Bloomberg

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