

Retail Equity Research LIC Housing Finance Ltd.

NBFC

BSE CODE: 500253

NSE CODE: LICHSGFIN

Bloomberg CODE: LICHF:IN

SENSEX: 40,345

ACCUMULATE

12M Investment Period

Rating as per Mid cap

CMP Rs 442

TARGET Rs 495

RETURN 12% 

(Closing: 11-11-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

At attractive valuation

LIC Housing Finance is one of the largest housing finance companies in India. It provides long-term finance to individuals, professionals and builders of residential flats and houses. The company has a wide distribution network with 282 marketing offices.

- Total disbursements in Q2FY20 declined 14.8% YoY, on account of 85.0% decline in projects disbursements.
- Net interest income (NII) rose 15.8%/5.1% YoY/QoQ backed by around 14.5%/2.7% YoY/QoQ growth in loans & advances.
- A deterioration in asset quality due to slowdown in real estate resulted in GNPA/NNPA ratio increasing to 2.38%/1.35% in Q2FY20 (vs. 1.27%/0.61% in Q2FY19). Factoring this slip in asset quality, we have lowered our PAT estimates by 3.7%/9.1% for FY20E/FY21E.
- We value LIC Housing Finance at Rs. 495 based on 1.2x FY21E BVPS and upgrade our rating on the stock to ACCUMULATE.

The total loan book grew 14.5% on a YoY basis

Total disbursements declined 14.8% YoY to Rs. 12,173cr in Q2FY20, as management continues to take a cautious stance due to the prevailing market conditions. Individual loan disbursals improved 3.6% YoY, while project loan disbursals declined 85.0% YoY. Developer loans (~6.8% of total loans) grew 29.8% YoY and retail home loans (~76.5% of total loans) rose 12.3% YoY, resulting in a 14.5% YoY increase in loan book.

Sharp rise in provisions

Q2FY20 saw a sharp rise in Stage 3 ECL provisions of 78.1% YoY to Rs. 2,083cr due to fresh slippages in developer loan portfolio. A challenging external environment placed further pressure on asset quality as the GNPA/NNPA ratio increased to 2.38%/1.35% (up 111/74 bps YoY). Developer loan portfolio GNPA rose to 14.3% compared to 11.8% in Q1FY20. Further increases in the share of developer and LAP loans could affect asset quality and continued weakness in real estate sector would hamper company's growth prospects.

Stable margins and a reduction in cost of funds expected

Net interest margin saw a marginal growth of 1bp YoY to 2.42% in Q2FY20. In H1FY20, spread improved 4bps YoY to 1.98%, as higher yield on advances (10.34%) was offset by increase in cost of funds (8.36%). The company expects the cost of funds to reduce as NCD's worth Rs. 17,500cr with higher borrowing costs will be refinanced in H2FY20 by NCD funds at lower rate.

Key concall highlights

- The company has disbursed around Rs.5,000cr on the affordable housing segment under PMAY and will continue focussing on funding good projects under PMAY.
- Management expects to maintain loan growth in the range of 14-15% for FY20.

Outlook & Valuation

Despite a deterioration in asset quality over the last few quarters, we remain positive on LIC Housing Finance given the company's extensive distribution network, strong brand value and reducing competition from NBFCs in housing finance. After factoring in the reduced asset quality, we have lowered our PAT estimates by 3.7%/9.1% for FY20E/FY21E. We value the entity at 1.2x FY21E BVPS with a target price of Rs. 495 and recommend ACCUMULATE given upside of 12%.

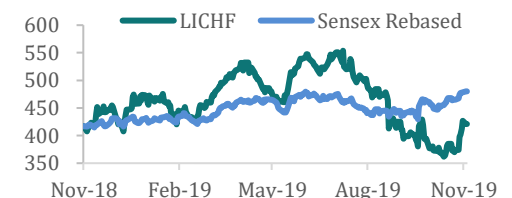
Company Data

Market Cap (cr)	Rs 22,179
Outstanding Shares (cr)	50.5
Free Float	60.0%
Dividend Yield	1.9%
52 week high	Rs 587
52 week low	Rs 354
6m average volume (cr)	0.5
Beta	1.4
Face value	Rs 2

Shareholding %	Q4FY19	Q1FY19	Q2FY20
Promoters	40.3	40.3	40.3
FIIIs	31.4	32.5	32.9
MFs/Insti	9.0	9.1	14.6
Public	8.1	7.7	8.1
Others	11.2	10.4	4.2
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-11.7%	-7.4%	1.1%
Absolute Sensex	9.4%	4.8%	15.7%
Relative Return*	-21.1%	-12.2%	-14.6%

*over- or underperformance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	4,269	4,954	5,371
Growth (%)	21.2	16.0	8.4
NIM (%)	2.4	2.3	2.2
Pre-provision Profit	3,998	4,592	5,018
Net Profit	2,431	2,600	2,804
Growth (%)	21.4	6.9	7.8
Adj. EPS	48.2	51.5	55.6
Growth (%)	21.4	6.9	7.8
BVPS	322.2	365.5	412.4
P/E	11.1	8.6	7.9
P/B	1.7	1.2	1.1
P/ABV	1.9	1.4	1.3
ROE (%)	16.0	15.0	14.3
ROA (%)	1.3	1.2	1.1

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	4,954	4,187	18.3	4,784	3.5	9,738	8,221	18.5
Interest Expense	3,740	3,140	19.1	3,631	3.0	7,371	6,194	19.0
Net Interest Income (NII)	1,213	1,047	15.8	1,154	5.1	2,367	2,027	16.8
Non-Interest Income	64	22	189.0	51	26.6	115	77	48.8
Total Net Income	1,277	1,070	19.4	1,205	6.0	2,482	2,104	17.9
Total Income	5,018	4,209	19.2	4,835	3.8	9,853	8,298	18.7
Operating Expenses	143	105	36.4	106	34.5	250	189	31.7
Total Expenditure	3,884	3,245	19.7	3,737	3.9	7,621	6,383	19.4
Pre-Provision profit	1,134	965	17.6	1,098	3.3	2,232	1,915	16.6
Provisions	278	219	26.7	257	8.1	535	381	40.5
Profit Before Tax	856	745	14.9	841	(1.8)	1,697	1,534	10.6
Tax	84	172	(51.3)	230	63.6	314	393	(20.0)
Net Profit	772	573	34.7	611	(26.4)	1,383	1,141	21.2
EPS - Diluted (Rs)	15.3	11.4	34.7	12.1	(26.4)	27.4	22.6	21.2

Business Performance

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %
Loans	203,037	177,393	14.5	197,768	2.7
Borrowings	178,849	154,451	15.8	173,025	3.4
Gross NPA	4,832	2,253	114.5	3,916	23.4
Net NPA	2,749	1,083	153.8	2,159	27.3

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	4,959	5,641	4,954	5,371	(0.1)	(4.8)
Net Interest Margin (%)	2.4	2.4	2.3	2.2	(7bps)	(18bps)
Pre-Provision Profit	4,187	4,847	4,592	5,018	9.7	3.5
Net Profit	2,700	3,085	2,600	2,804	(3.7)	(9.1)
EPS (Rs)	54.0	61.0	51.5	55.6	(4.6)	(8.9)

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	13,877	14,666	17,161	19,708	22,410
Interest Expense	10,231	11,144	12,892	14,754	17,038
Net Int. Income	3,645	3,522	4,269	4,954	5,371
% Change	23.8	(3.4)	21.2	16.0	8.4
Non-Int. Income	204	174	201	257	329
Net Income	3,849	3,697	4,470	5,211	5,700
Total Income	14,080	14,841	17,362	19,965	22,739
Operating Exp.	612	440	473	619	682
Total Exp.	10,843	11,583	13,364	15,373	17,720
Pre-Prov. Profit	3,237	3,257	3,998	4,592	5,018
Provisions	281	492	618	1,118	1,271
PBT	2,956	2,766	3,380	3,474	3,747
Tax	1,025	763	949	874	943
Tax Rate (%)	34.7	27.6	28.1	25.2	25.2
Net Profit	1,931	2,003	2,431	2,600	2,804
% Change	16.3	3.7	21.4	6.9	7.8
No. of Shares (cr)	50	50	50	50	50
Adj. EPS (Rs)	38.3	39.7	48.2	51.5	55.6
% Change	16.3	3.7	21.4	6.9	7.8
DPS (Rs)	6.2	6.8	7.6	8.2	8.7

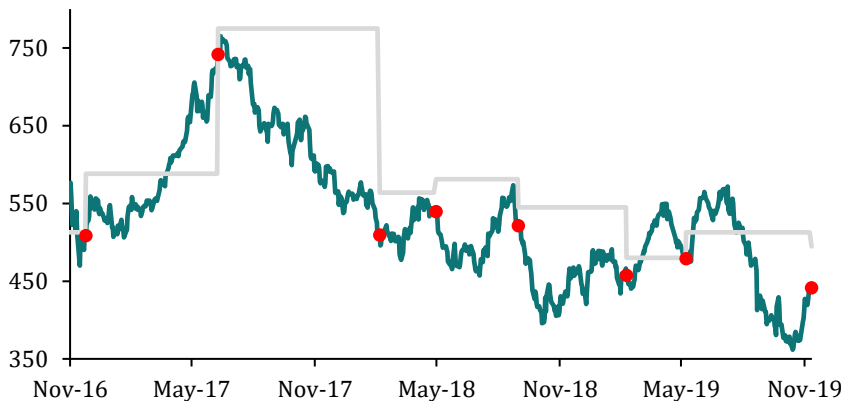
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	4,463	2,096	2,995	1,119	1,231
Investments	527	1,972	3,595	4,812	5,197
Advances	144,757	166,162	192,993	223,341	250,142
Fixed Assets	93	95	133	155	185
Other Assets	1,061	764	868	894	930
Total Assets	150,900	171,090	200,583	230,321	257,684
Capital	101	101	101	101	101
Reserves & Surplus	10,976	14,140	16,158	18,348	20,713
Deposits	0	6,772	7,667	10,759	11,835
Borrowings	111,326	126,293	161,000	187,791	208,449
Other Liabilities	28,497	23,784	15,657	13,322	16,587
Total Liabilities	150,900	171,090	200,583	230,321	257,684
BVPS (Rs)	219.5	251.5	322.2	365.5	412.4
Adj. BVPS (Rs)	215.3	237.4	281.0	304.5	339.8
% Change	22.7	10.3	18.4	8.4	11.6

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	16.1	13.5	11.1	8.6	7.9
P/BV (x)	2.8	2.1	1.7	1.2	1.1
Div. Yield (%)	1.0	1.3	1.4	1.8	2.0
Profitab. & Return (%)					
Yield on Funds	10.8	10.1	10.5	9.5	9.5
Cost of Funds	8.6	8.3	8.5	8.0	8.1
Spread	2.2	1.8	2.0	1.4	1.3
NIM	2.7	2.3	2.4	2.3	2.2
ROE	19.0	17.0	16.0	15.0	14.3
ROA	1.4	1.3	1.3	1.2	1.1
Asset Quality (%)					
GNPA	0.4	0.8	1.5	2.6	2.5
NNPA	0.1	0.4	1.1	1.3	1.4
Operating Ratios (%)					
Cost/ Income	15.9	11.9	10.6	11.9	12.0

Recommendation Summary



Dates	Rating	Target
24-Nov-16	BUY	588
9-Jun-17	HOLD	775
5-Feb-18	HOLD	564
30-Apr-18	HOLD	581
31-Aug-18	HOLD	545
8-Feb-19	HOLD	480
8-May-19	HOLD	513
12-Nov-19	ACCUMULATE	495

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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