

LIC Housing Finance

22 October 2019

Reuters: LICH.BO; Bloomberg: LICHF IN

Asset quality deterioration is in the price

LIC Housing Finance (LICHF) reported its 2QFY20 results with the key pointers being: (1) LICHF pulled back disbursement in builder loan and LAP segment while growing home loans relatively healthily (2) Margin inched up 1 bp YoY to 2.42% with scope for further improvement over the rest of the year (3) Asset quality worsened materially with Stage 3 assets ratio increasing 40 bps QoQ to 2.38%. (See *comprehensive* conference call takeaways on page 2 for *significant incremental colour*). Per se, on the key P&L items, LICHF posted Nil growth of 19% YoY at Rs12,517mn, PPOP growth of 36% YoY at Rs11,375mn and PAT growth of 35% YoY at Rs7,722mn. We have revised our estimates for FY20/FY21/FY22 and retained Buy rating on LICHF, revising our target price to Rs518 (from Rs528 earlier), valuing the stock at 1.1x H1FY22E P/BV.

LICHF pulled back disbursement in builder loan and LAP segment while growing home loans relatively healthily: Builder loan disbursements were Rs 4.45bn in the current quarter compared with Rs 29.7bn in the same quarter an year ago. LAP disbursements at Rs 15.92bn were about Rs 10bn lower YoY. Home loan disbursements were up 16% YoY at Rs 101.36bn. Overall loan book grew 14.5% YoY within which individual loans grew 13% YoY.

Margin inched up 1 bp YoY to 2.42% with scope for further improvement over the rest of the year: Incremental cost of funds has declined ~20 bps QoQ to 8.04%. The cost of NCD borrowings stands to reduce materially over the course of the remaining financial year since about Rs 175bn worth of NCDs are going to mature in 2HFY20. These NCDs have original borrowing cost of 8.3% whereas, they will be replaced at a cost that would be ~35 bps lower.

Asset quality worsened materially with Stage 3 assets ratio increasing 40 bps QoQ to 2.38%: Builder book GNPA ratio rose to 14.3% compared with ~11% in 1QFY20. Individual book GNPA ratio rose to 1.52% compared with 1.26% in 1QFY20. LAP book GNPA ratio stood at 2.36% whereas home loan book GNPA ratio stood at 1.05%.

Valuation and outlook: We have retained our Nil and PPOP estimates and revised our PAT estimates by -7.7%/-6.3%/-5.1% for FY20/FY21/FY22, respectively. We have retained Buy rating on LICHF, valuing the stock at 1.1x H1FY22E P/BV and revising our target price to Rs518 (from Rs528 earlier).

BUY

Sector: Banking

CMP: Rs375

Target Price: Rs518

Upside: 38%

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Key Data

Current Shares O/S (mn)	504.7
Mkt Cap (Rsbn/US\$bn)	194.3/2.7
52 Wk H / L (Rs)	587/354
Daily Vol. (3M NSE Avg.)	4,044,216

Price Performance (%)

	1 M	6 M	1 Yr
LIC Housing Finance	(7.7)	(23.7)	(8.1)
Nifty Index	3.4	(0.8)	13.2

Source: Bloomberg

Y/E Mar (Rsmn)	Q2FY20	Q2FY19	Q1FY20	YoY (%)	QoQ (%)
Interest Income	49,535	41,873	47,845	18.3	3.5
Interest Expense	37,018	31,382	36,026	18.0	2.8
Net Interest Income	12,517	10,491	11,819	19.3	5.9
NIM (%)	2.42	2.41	2.35	1bps	7bps
Fee & Other income	290	(1,094)	188	NA	54.2
Total Income	12,807	9,396	12,006	36.3	6.7
Staff Cost	770	574	613	34.0	25.6
Other Op Exp	662	475	451	39.4	46.6
Total Operating Expenses	1,431	1,049	1,064	36.4	34.5
Cost to Income (%)	11.2	11.2	8.9	1bps	231bps
Cost to AUM (%)	0.3	0.2	0.2	4bps	7bps
Pre-Provisioning Operating profit	11,375	8,347	10,942	36.3	4.0
Provisions	2,815	894	2,533	214.9	11.1
PBT	8,561	7,453	8,409	14.9	1.8
Tax	839	1,722	2,302	(51.3)	(63.6)
-effective tax rate	9.8	23.1	27.4	-1330bps	-1758bps
PAT	7,722	5,732	6,107	34.7	26.4
Other Comprehensive Income	(11)	0	(23)	NA	(52.2)
Total Comprehensive Income	7,711	5,732	6,084	34.5	26.7
EPS (Rs)	15.3	11.4	12.1	34.7	26.4
AUM	2,030,370	1,759,530	1,977,680	15.4	2.7

Source: Company, Nirmal Bang Institutional Equities Research

Comprehensive Conference Call Takeaways

Asset Quality

- The company is aware of the increased GNPA and is taking appropriate measures. The company also stated that it is receiving part payments from NPA accounts and the value of the underlying security in these cases are more than the exposure.
- Further, since many of the projects which are NPA in the company's books are nearing completion, the company is confident that recoveries will improve going forward.
- The company stated that it has formed a dedicated team to follow up on builder loans. The team continues to monitor builder exposures and is even advised to take legal action, if necessary. The team is working towards ensuring that there are no more slippages.
- NPAs in the salaried segment are low. The company's overall experience with the salaried segment asset quality has been generally good.
- The company has enforced SARFAESI in about 50-60% of the NPAs by value.
- GNPA break-up:
 - Home loans: 1.05%; PMAY affordable housing: 0.07%
 - Non-housing individual/LAP: 2.36%
 - Overall individual/retail: 1.52%
 - Project loans: 14.28%
- The company said that it expects to see some improvement in stage 2 assets in the coming quarters. In some of the cases, where the company was supposed to see recoveries, faced delays and hence full recoveries could not materialize. Nonetheless, the company collected, in part payments, about Rs. 375 mn as principal and Rs. 275mn as interest. In the retail category, out of the total accounts outstanding as NPAs as of June 2019, the company collected payments in about 2000 accounts.
- Further, in the retail segment, the company stated that the NPAs are mostly a result of delay in payments.
- As per the company, over the last 3-4 years, share of retail exposure towards under construction flats has been coming down. Customer preference towards ready flats has been increasing. Rate of new project launches has also been coming down.
- Movement from stage 2 to stage 3 in the developer book mainly constitutes 4-5 accounts.
- Builder book that is under moratorium is about 32-40 accounts which make up for 35-36% of the builder book. The moratorium period is 12-18 months.
- Builder loans under stage 2 are about Rs. 4-5 bn.
- In the builder / project loans segment, the number of projects which are more than 50% complete are about 50-60%.
- Cumulative provisions on the builder book are Rs. 20.83 bn.
- In terms of credit costs, the company expects some stability.

Business and Loan Growth

- Within the total individual loan book, pure home loan book grew 13% YoY to Rs. 1.54 trn. Disbursements in the pure home loan segment grew 16% YoY to Rs. 101.36 bn.
- The company stated that it saw good growth from central, south-east and north regions.
- On the affordable housing front, the company continued to perform well. For H1FY20, the company has disbursed about Rs. 50 bn worth of loans under PMAY, which is about 25% of retail disbursements in volume terms and 26% in value terms. The company also received subsidy of Rs. 4 bn for the beneficiaries.

- Disbursements in LAP/non-housing retail were lower by Rs. 10 bn YoY during Q2FY20. Total disbursements in this segment during the quarter were Rs. 15.9 bn.
- The company is open to funding projects catering to the affordable housing segment.
- Builder book is spread across top 7 cities.
- In terms of growth rate for the full year, the company said its effort would be to maintain the current rate of growth.

Margin, Liabilities and Liquidity

- During the quarter, there was 20 bps reduction in incremental cost of funds.
- Funding environment remained favorable during Q2FY20. The company raised Rs 100 bn through NCDs, Rs. 36 bn through CPs and Rs. 30 bn through public deposits.
- The reduction in share of pure floating rate loans decreased on QoQ basis since the company launched a product where the rate is fixed in the initial period.
- Though external rate linking is only for banks, the company would continue to keep rates competitive.
- Cost of funds in the next 6 months, upto March 2020, could reduce further since Rs. 175 bn worth of bonds will be getting redeemed. These bonds, which were raised at a coupon of 8.3% will be replaced at a price 35-40 bps lower.
- ALM mismatch in less than 1 year bucket is within NHB limit of 15%. Currently, the company also has unutilized lines of about Rs. 100-150 bn.
- Interest income break up:
 - Individual loans: Rs. 45.30 bn (vs. Rs. 39.17 bn in Q2FY19)
 - Project loans: Rs. 3.80 bn.
- Segment wise incremental yields:
 - Individual retail home loans: 8.84%
 - Non-home individual loans/LPA: 10.5%
 - Project/builder loans: 12.7%.
- Since bank loans are floating rate, cost of bank funding has been coming down with banks reducing their MCLR. With respect to NCDs, rates are fixed and reduction in cost of bonds is only possible at the time of bond maturity.
- Same time last year, the company was raising 10-year paper at >9% compared to around 8% today. Similarly, short term paper was priced at 9.2% last year and is about 200 bps cheaper today.
- In terms of margin visibility, the company stated it has been stable so far and outlook remains the same.

Operating Expenses

- The tax paid in Q1 was at the full tax rate, based on anticipated PAT for the year. Post the change in tax structure in Q2, the effective tax rate for the company will stabilize at 21-22%, excluding surcharge. Whatever impact the company had to take with respect to DTA has been fully taken in Q2FY20.

Capital Adequacy

- Tier I CAR for Q2FY20 was 12.3-12.5%. Overall CAR is over 14%.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	35,315	42,791	49,319	57,313	65,972
Pre-Provisioning Operating profit	32,504	37,421	45,660	52,954	60,865
PAT	20,082	24,344	25,893	31,131	36,846
EPS (Rs)	39.8	48.2	51.3	61.7	73.0
BV (Rs)	283.6	323.6	388.3	440.1	501.2
P/E (x)	9.4	7.8	7.3	6.1	5.1
P/BV (x)	1.3	1.2	1.0	0.9	0.7
ROA (%)	1.2	1.3	1.2	1.2	1.3
ROE (%)	14.9	15.9	14.4	14.9	15.5
Gross NPA (%)	0.8	1.5	2.8	3.6	4.1
Net NPA (%)	0.4	1.1	1.9	2.5	2.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actual performance versus our estimates

(Rsmn)	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)	2QFY20E	Devi. (%)
Net interest income	12,517	10,491	11,819	19.3	5.9	12,196	2.6
Pre-provisioning operating profit	11,375	8,347	10,942	36.3	4.0	10,832	5.0
PAT	7,722	5,732	6,107	34.7	26.4	6,857	12.6

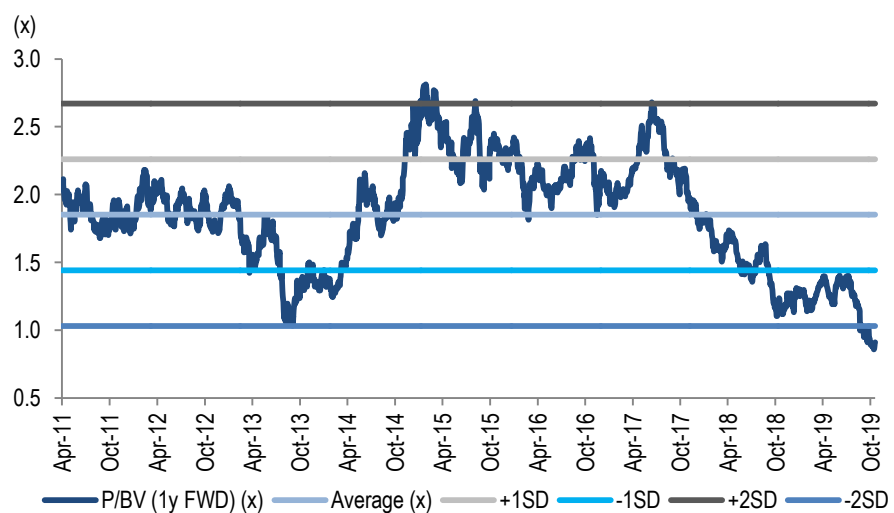
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Earning Revision	Revised Estimate			Earlier Estimate			% Revision		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income (Rs mn)	49,319	57,313	65,972	49,319	57,313	65,972	0.0	0.0	0.0
Net Interest Margin (%)	2.4	2.4	2.4	2.4	2.4	2.4	0 bps	0 bps	0 bps
Operating Profit (Rs mn)	45,660	52,954	60,865	45,660	52,954	60,865	0.0	0.0	0.0
Profit after tax (Rs mn)	25,893	31,131	36,846	28,054	33,218	38,836	(7.7)	(6.3)	(5.1)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	146,753	171,701	202,305	232,915	266,363
Interest Expense	111,438	128,910	152,986	175,602	200,391
Net Interest Income	35,315	42,791	49,319	57,313	65,972
Non Interest Income	1,779	(421)	2,430	2,619	2,848
Net Revenue	37,094	42,369	51,749	59,932	68,820
Operating expenses	4,590	4,948	6,089	6,978	7,955
-Employee expenses	2,451	2,746	3,188	3,653	4,165
-Other expenses	2,139	2,203	2,901	3,325	3,791
Pre-Provisioning Operating profit	32,504	37,421	45,660	52,954	60,865
Provisions	4,684	3,504	11,137	11,446	11,737
PBT	27,820	33,918	34,523	41,507	49,128
Tax	7,738	9,574	8,631	10,377	12,282
PAT	20,082	24,344	25,893	31,131	36,846

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	1,009	1,009	1,060	1,060	1,060
Reserves & surplus	142,102	162,299	194,879	221,023	251,874
Networth	143,111	163,308	195,939	222,083	252,934
Borrowings	1,453,099	1,706,670	1,979,737	2,261,850	2,578,509
Other liability & provisions	128,526	153,218	150,502	174,389	192,468
Total liabilities	1,724,736	2,023,196	2,326,178	2,658,322	3,023,911
Fixed Assets	971	1,359	1,426	1,498	1,573
Investments	19,722	35,951	35,232	35,936	36,655
Loans	1,674,715	1,946,522	2,247,062	2,574,843	2,935,746
Cash	20,964	29,949	32,944	35,580	38,426
Other assets	8,364	9,416	9,514	10,465	11,512
Total assets	1,724,736	2,023,196	2,326,178	2,658,322	3,023,911

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

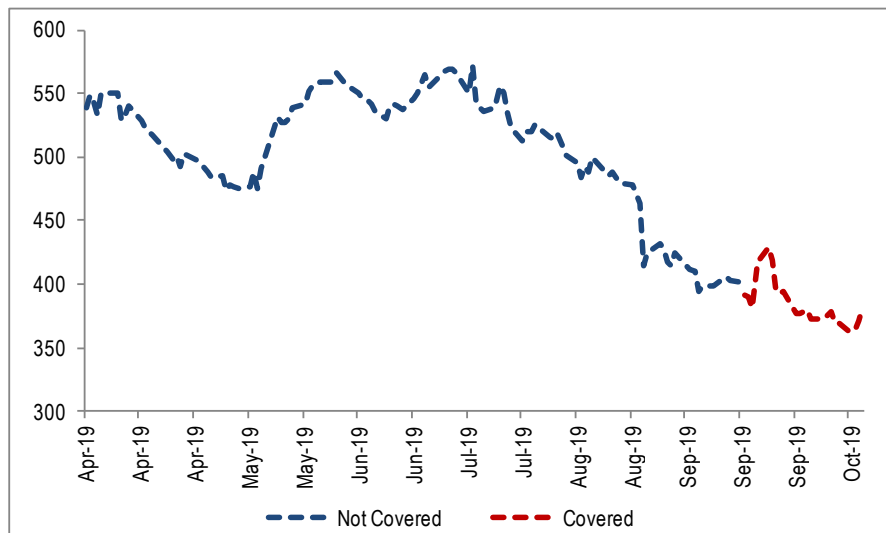
Y/E March- Ratios	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Net Interest Income	(3.1)	21.2	15.3	16.2	15.1
Operating Profit	0.4	15.1	22.0	16.0	14.9
Profit After Tax	4.0	21.2	6.4	20.2	18.4
Business (%)					
Advance Growth	15.9	16.2	15.4	14.6	14.0
Spreads (%)					
Yield on loans	9.4	9.5	9.6	9.7	9.7
Cost of Borrowings	8.2	8.2	8.3	8.3	8.3
Spread	1.2	1.3	1.3	1.4	1.4
NIMs	2.3	2.4	2.4	2.4	2.4
Operational Efficiency (%)					
Cost to Income	12.4	11.7	11.8	11.6	11.6
Cost to AUM	0.3	0.3	0.3	0.3	0.3
Productivity (Rs Mn)					
Loan per Branch	644.8	690.2	756.6	825.3	897.8
Loan per Employee	79.1	84.3	87.8	91.7	96.0
Employee per Branch	8.2	8.2	8.6	9.0	9.4
CRAR (%)					
Tier I	13.1	12.3	12.6	12.3	12.0
Tier II	2.4	2.1	2.0	2.0	2.0
Total	15.5	14.4	14.6	14.3	14.0
Asset Quality (%)					
Gross NPA	0.8	1.5	2.8	3.6	4.1
Net NPA	0.4	1.1	1.9	2.5	2.7
Specific Provision Coverage	45.4	30.0	30.5	31.5	33.0
Credit Cost	0.3	0.2	0.5	0.5	0.4
Return Ratio (%)					
ROE	14.9	15.9	14.4	14.9	15.5
ROA	1.2	1.3	1.2	1.2	1.3
Per Share (%)					
EPS	39.8	48.2	51.3	61.7	73.0
BV	283.6	323.6	388.3	440.1	501.2
ABV	269.5	282.4	302.5	314.0	341.7
Valuation (x)					
P/E	9.4	7.8	7.3	6.1	5.1
P/BV	1.3	1.2	1.0	0.9	0.7
P/ABV	1.4	1.3	1.2	1.2	1.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 September 2019	Buy	394	517
7 October 2019	Buy	373	528
22 October 2019	Buy	375	518

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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