

Margin recovery led by change in product mix...

LIC Housing Finance reported a healthy operational performance led by steady advances growth coupled with improvement in margins. NII came in at ₹ 1223 crore, up 12.8% QoQ (21.8% YoY) mainly led by sharp expansion in margins of 21 bps QoQ. Higher slippages & provisions impacted earnings, though above our estimates at ~₹ 693 crore, up 14.4% YoY.

Loan growth remained stable at 16.2% YoY at ₹ 194646 crore on the back of healthy traction in LAP & developer financing. Consequently, their share of LAP has increased from 12.6% in FY18 to 17.20% in Q4FY19 & developer portfolio has increased from 3.8% in FY18 to 6.25%. Overall disbursement growth was weak at 7.2% YoY but strong sequentially.

Headline asset quality deteriorated marginally with GNPA ratio increasing to ₹ 2972 crore by 27 bps QoQ to 1.53%. Gross NPAs in individual segment surged to 1.14% vs. 0.93% in Q3FY19. Credit cost declined to 21 bps vs. 29 bps in Q3FY19.

Change in product mix to boost margins & return ratios

LICHF's loan growth in past was largely led by healthy traction in Individual loan book. With focus now shifting towards high yielding product such as LAP & developer loans, earnings & return ratio are poised to improve. Going ahead, we expect credit CAGR of 15.3% in FY19-21E to ₹ 258571 crore with RoA of 1.3% & RoE of 15.8%.

Asset quality weakens; individual NPA on continues increase

LICHF's asset quality witnessed deterioration in past few quarters on the back of higher slippages in individual home loans. Individual home loans which accounts to ~76% of the book witnessed surge in GNPA. The GNPA in individual loan increased from 0.42% in Q4FY18 to 1.14% to ₹ 2070 crore in Q4FY19. Also stage 3 had doubled from 0.81% in Q4FY18 to 1.58% while share of stage 1& 2 combined was at 98.42% in Q4FY19. Going ahead, we expect GNPA ratio to remain elevated at 1.5% for FY21E.

Valuation & Outlook

LICHF's developer and LAP portfolio has been witnessing traction and core individual book has been witnessing a moderation in growth. Long awaited margin uptick is seen but with a pinch of salt as developer portfolio rises. Given the liquidity pressure faced by other HFCs, LICHF is poised to gain market share. The recent hike in lending rates and gradual up-tick in market share are expected to provide a cushion to margins in spite of cost of funds rising. Accordingly, we expect PAT CAGR of 13.5% in FY19-21E to ₹ 3129 crore. We revise our target price higher to ₹ 540 (earlier ₹ 475) valuing the stock at 1.4x FY21E ABV. We maintain **HOLD** recommendation.



Particulars

Particulars	Amount
Market Capitalisation	₹ 24529 crore
GNPA (Q4FY19)	₹ 2972 crore
NNPA (QFY19)	₹ 2083 crore
NIM % (Q4FY19)	2.54
52 week H/L	583 /388
Networth	₹ 16259 crore
Face value	₹ 2
DII Holding (%)	8.90
FII Holding (%)	31.4

Key Highlights

- Asset quality witnessed deterioration with higher slippages in individual loans.
- Margins improved by 21 bps QoQ on back of improving share of LAP & developer loans.
- Maintain **HOLD** with revised target price of ₹ 540 (earlier ₹ 475)

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Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	3645	3701	4463	5092	6034	16%
PPP	3237	3301	3998	4749	5635	19%
PAT	1931	2013	2431	2706	3129	13%
ABV (₹)	215.1	237.2	275.7	326.3	386.0	
P/E	12.6	12.1	10.5	9.0	7.8	
P/ABV	2.2	2.0	1.8	1.5	1.3	
RoA	1.4	1.2	1.3	1.3	1.3	
RoE	19.1	16.9	16.3	15.8	15.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
NII	1,223	1,131	1,004	21.8	1,084	12.8	Healthy NII growth on the back of improvement in margins
NIM (%)	2.54	2.20	2.49	5 bps	2.33	21 bps	Transmission of 70 bps to customers improved margin
Other Income	35	70	87	-60.5	25	37.7	
Net Total Income	1,257	1,201	1,091	15.2	1,109	13.3	
Operating Expenses	166	214	155	6.5	117	41.2	Added 9 marketing offices in Tier 2 & 3 cities in the quarter
PPP	1,091	987	936	16.7	992	10.0	
Provision	103	108	28	266.7	132	-22.1	
PBT	988	880	908	8.9	860	15.0	
Tax Outgo	293	268	299	-2.3	263	11.2	
PAT	693	612	608	13.9	596	16.2	
Key Metrics							
GNPA	2,972	2,361	1,304	127.9	2,290	29.8	Incremental slippages in Individual loan impacted asset quality
Total Loans	194,646	194,297	167,467	16.2	181,698	7.1	Retail segment loan growth remained steady at ~15% YoY. The developer book grew 62% YoY on a lower base

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E		FY21E	
(₹ Crore)	Old	New	% Change	Introduced
Net Interest Income	4,980	5,092	2.3	6,034
Pre Provision Profit	4,628	4,749	2.6	5,635
NIM(%) (calculated)	2.4	2.4	3 bps	2.5
PAT	2,634	2,706	2.7	3,129
ABV per share (₹)	336.4	326.3	-3.0	386.0

Source: Company, ICICI Direct Research

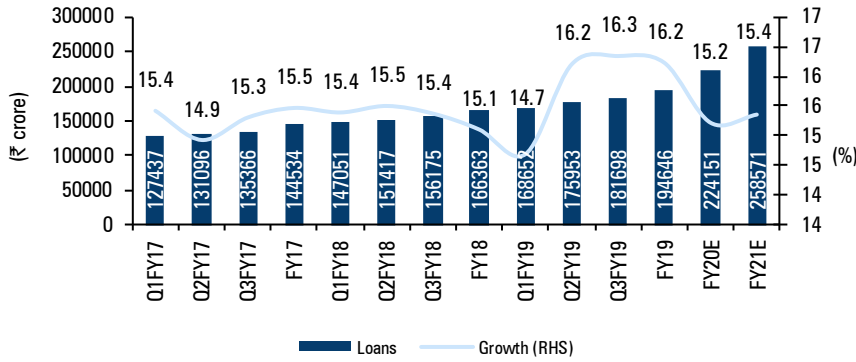
Exhibit 3: Assumption

	Current			Earlier	
	FY18	FY19	FY20E	FY21E	FY20E
Credit growth (%)	15.1	16.9	15.2	15.4	15.2
NIM Calculated (%)	2.36	2.35	2.42	2.49	2.39
Cost to income ratio (%)	16.4	11.0	10.2	9.9	11.3
GNPA (₹ crore)	1,304	2,972	3,394	3,790	2,586
NNPA (₹ crore)	712	1,945	1,891	1,697	1,207

Source: Company, ICICI Direct Research

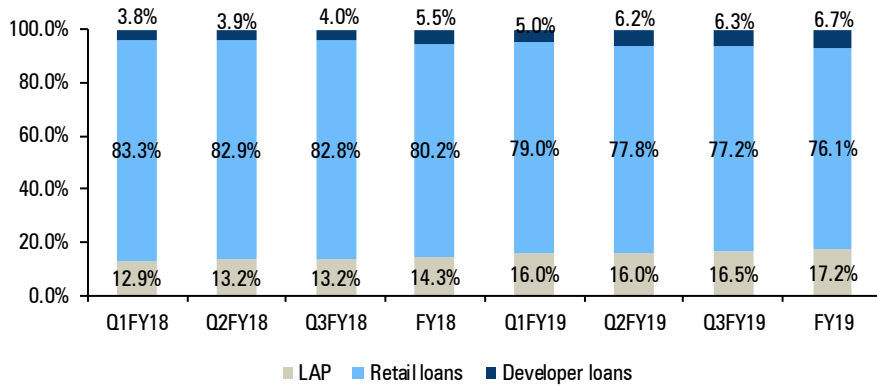
Story in Charts

Exhibit 4: Loan book to grow at 15.3% CAGR for FY19-21E



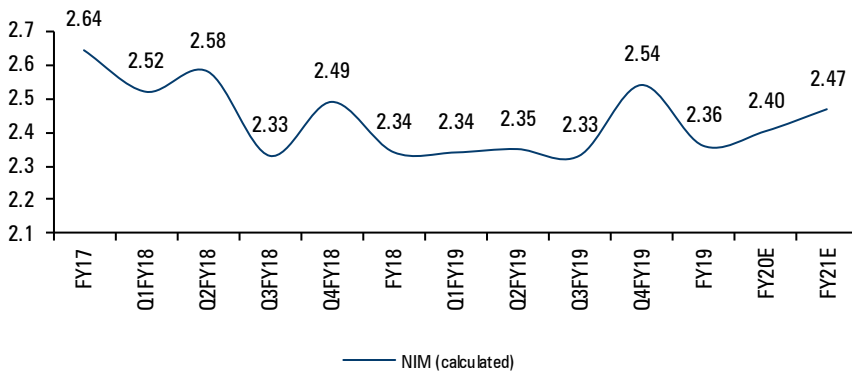
Source: Company, ICICI Direct Research

Exhibit 5: Share of LAP on the rise



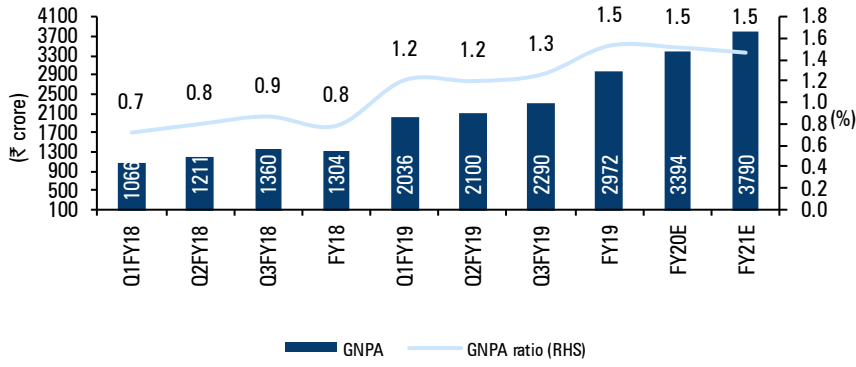
Source: Company, ICICI Direct Research

Exhibit 6: NIM expected at 2.47% by FY21E



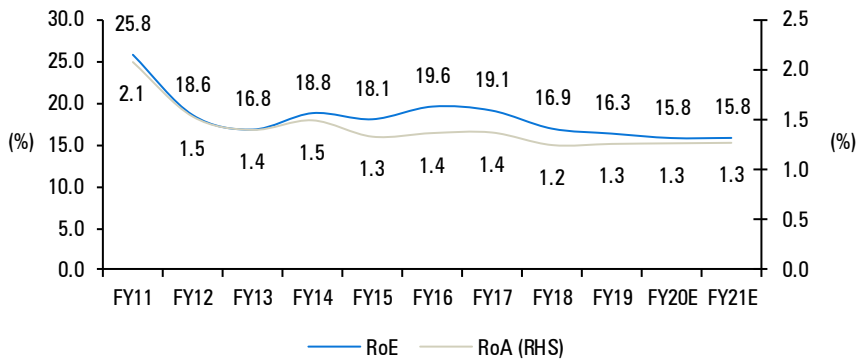
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality expected to stay manageable at 1.5%



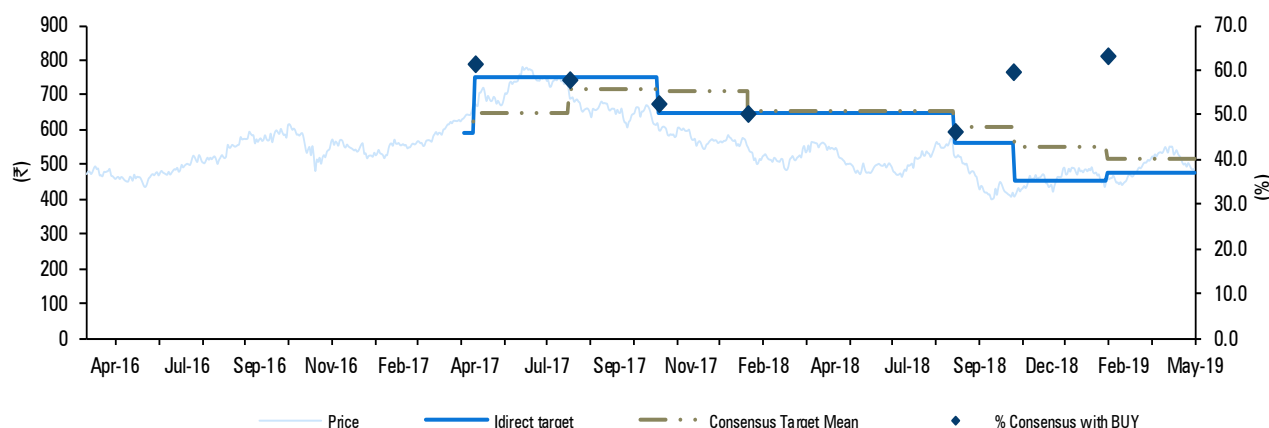
Source: Company, ICICI Direct Research

Exhibit 8: Return ratio to remain stable



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	Life Insurance Corporation of India	31-12-2018	40.31%	203.44M	0
2	Fidelity Management & Research Company	31-03-2019	6.98%	35.21M	+5.41M
3	FIL Investment Management (Hong Kong) Limit	31-12-2018	2.84%	14.32M	+0.65M
4	Bank Muscat SAOG	31-12-2018	2.28%	11.50M	0
5	The Vanguard Group, Inc.	31-03-2019	1.88%	9.46M	+0.03M
6	Norges Bank Investment Management (NBIM)	31-12-2018	1.83%	9.24M	+0.96M
7	BlackRock Institutional Trust Company, N.A.	31-03-2019	1.74%	8.78M	+0.02M
8	Mawer Investment Management Ltd.	31-03-2018	1.55%	7.83M	-14.92M
9	Dimensional Fund Advisors, L.P.	31-03-2019	1.51%	7.63M	0
10	UTI Asset Management Co. Ltd.	31-12-2018	1.48%	7.47M	+1.15M

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Fidelity Management & Research Company	+41.6M	+5.41M	ICICI Prudential Asset Management Co. Ltd.	-36.54M	-4.75M
BNP Paribas Asset Management India Pvt. Ltd.	+37.56M	+5.35M	DSP Investment Managers Pvt. Ltd.	-14.46M	-1.88M
UTI Asset Management Co. Ltd.	+8.06M	+1.15M	Janus Henderson Investors	-11.18M	-1.45M
Norges Bank Investment Management (NBIM)	+6.75M	+0.96M	HDFC Asset Management Co., Ltd.	-10.76M	-1.40M
FIL Investment Management (Singapore) Ltd.	+5.48M	+0.82M	Canara Robeco Asset Management Company Ltd.	-9.90M	-1.29M

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	40.3	40.3	40.3	40.3	40.3
FII	32.9	31.7	30.8	28.8	31.4
DII	8.3	7.7	8.4	11.0	8.9
Others	18.5	20.3	20.5	19.9	19.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	14,826.0	17,355.0	20,223.1	23,363.7
Interest Expended	11124.6	12891.6	15131.1	17329.6
Net Interest Income	3,701.3	4,463.5	5,091.9	6,034.1
% growth	1.5	20.6	14.1	18.5
Non Interest Income	246.9	6.7	196.7	222.1
Net Income	3948.2	4470.2	5288.7	6256.3
Employee cost	217.5	247.9	217.2	257.3
Other operating Exp.	430.0	224.7	322.3	364.0
Operating Income	3300.7	3997.6	4749.1	5635.0
Provisions	215.6	618.1	585.7	820.5
PBT	3085.2	3379.6	4163.4	4814.5
Taxes	1072.3	948.6	1457.2	1685.1
Net Profit	2,012.9	2,431.0	2,706.2	3,129.4
% growth	4.2	20.8	11.3	15.6
EPS (₹)	39.9	46.2	53.6	62.0

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	50.5	50.5	50.5	50.5
EPS (₹)	39.9	46.2	53.6	62.0
BV (₹)	251.3	314.3	363.7	419.6
ABV (₹)	237.2	275.7	326.3	386.0
P/E	12.1	10.5	9.0	7.8
P/BV	1.9	1.5	1.3	1.2
P/adj.BV	2.0	1.8	1.5	1.3
Yields & Margins (%)				
Yield on interest earning asse	9.4	9.5	9.6	9.6
Avg. cost on funds	8.2	8.4	8.5	8.5
Net Interest Margins	2.3	2.3	2.4	2.5
Quality and Efficiency				
Cost / Total net income	16.4	11.0	10.2	9.9
GNPA%	0.8	1.5	1.5	1.5
NNPA%	0.4	1.1	0.8	0.7
ROE (%)	16.9	16.3	15.8	15.8
ROA (%)	1.2	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	101.0	101.0	101.0	101.0
Reserves and Surplus	12589.7	16158.3	18266.3	21090.1
Networth	12690.7	16259.3	18367.3	21191.1
Secured Loans	131988.0	168667.0	171737.8	195654.8
Unsecured Loans	13340.4	2000.0	18560.7	21802.4
Other Liabilities & Provisions	13830.4	13657.2	20388.0	25296.1
Total	171,849	200,583	229,054	263,944
Applications of Funds				
Fixed Assets	97.2	135.9	133.3	155.2
Investments	1985.6	3595.1	2808.0	3377.5
Advances	166363.0	192992.7	224151.4	258570.5
Other Assets	3403.6	3859.8	1960.9	1841.1
Total	171,849	200,583	229,054	263,944

Source: Company, ICICI Direct Research

Exhibit 16: Growth ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets				
Total assets	13.9	15.8	15.1	15.2
Advances	15.1	16.9	15.2	15.4
Borrowings	15.0	14.6	14.2	14.3
Total Income	7.0	16.2	16.6	15.5
Net interest income	1.5	14.8	19.8	18.5
Operating expenses	5.8	-25.0	11.1	15.1
Operating profit (excl	1.8	21.0	20.9	18.7
Net profit	4.2	15.9	16.0	15.6
Net worth	14.6	25.1	15.7	15.4
EPS	4.2	15.9	16.0	15.6

Source: Company, ICICI Direct Research

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