

LIC Housing Finance Ltd.

Nifty	~11,600
Sensex	~39,000

Key Stock Data

CMP	₹371
Market Cap (Cr)	₹18,800
52W High/Low	586.8/354

(₹ Cr)

Particulars	FY18	FY19
NII	3,701	4,463
Op. Profit	3,301	3,998
PAT	2,013	2,431
ROA (%)	1.2%	1.3%
ROE (%)	16.9%	16.3%
Gross NPA (%)	0.5%	1.54%

Source: Company Data, Way2Wealth Inst Equity

Key Result Highlights – Q2FY20

LIC Housing Finance Ltd (LIC Hsg) Q2FY20 results were in line with the street expectation except for asset quality. Core performance was encouraging with pre-provision operating profit growing 36% YoY aided by Non Interest Income growth of 16% and healthy Cost to Income ratio of ~11%. NIMS improved marginally to 2.42% vs. 2.35% QoQ. The same can be attributed to decline in incremental cost of funding by 20 bps QoQ. However, its asset quality got deteriorated to 2.38% vs. 1.98% QoQ.

- **Loan Book** – Amidst tight liquidity environment, the company has been able to grow its loan book with a moderate pace of 14.5% YoY driven by healthy growth in Individual home loan book (13% YoY). It is cautiously growing developer book which can be reflected from 85% decline in disbursement YoY. PMAY Scheme is doing well for the company. For 1HFY20, it has disbursed about Rs.50 bn worth of loans under PMAY which is 26% of retail disbursement in volume & 24% in value terms. The company would like to maintain the current growth rate (~15%) for FY20.
- **Asset Quality** – LIC Hsg asset quality deteriorated to 2.38% vs. 1.98% QoQ. Management stated that it is receiving part payments from NPA projects & value of underlying security are more than exposure. It is expecting good recoveries from near completion projects.
- **Margin** – Incremental cost of funding has declined by 20 bps to 8.04% QoQ. It expects cost of funds to reduce further in next 6 months as Rs.175 bn worth of bonds are getting redeemed. These bonds were raised at a rate of 8.3% and it will be replaced at a 35-40 bps lower. In terms of margin visibility, the company stated it has been stable so far & outlook remains the same.

Valuation

LIC Hsg has been able to withstand tight liquidity environment and grow its book at moderate pace. It will continue to have funding access because of its strong parentage & AAA credit rating. With focus on low average ticket size of ₹20 lakh and loan to value of ~49%, we believe LIC HF is in sweet spot to cater to affordable housing segment. At CMP of ₹375/- it is trading at ~0.9 times (As per Bloomberg Consensus) FY21E P/B which offers decent risk reward. Market is wary of its asset quality especially in developer book, however, the company is confident about the recovery of the same. **Considering the above risk we maintain ACCUMULATE rating. Any positive action on recoveries from developer book will lead to re-rating of the stock.**

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Quarterly Financials

(₹Cr)

Particulars	Q2FY20	Q1FY20	Q-o-Q	Q2FY19	Y-o-Y
Interest Income	4,954	4,785	3.53	4,187	18.30
Interest Expenses	3,702	3,603	2.75	3,138	17.96
NII	1,252	1,182	5.90	1,049	19.31
Other Income	29	19	54.26	(109)	-126.51
Total Net Income	1,281	1,201	6.66	940	36.29
Employee Cost	77	61	25.61	57	34.15
Other Op. Exp	66	45	46.78	48	39.37
Total Op. Exp.	143	106	34.59	105	36.51
Operating Profit	1,137	1,094	3.95	835	36.26
Provisions and Contingencies	282	253	11.13	89	214.88
Provision for Tax	84	230	-63.55	172	-51.28
PAT	772	611	26.41	573	34.70
EPS `	15.30	12.10		11.40	
Cost to Income	11.18%	8.86%		11.16%	
NIM	2.42%	2.35%		2.41%	
Asset Quality					
% of Gross NPA	2.38%	1.98%		1.27%	
Return Ratios					
RoA	1.40%	1.30%		1.30%	
ROE	16.50%	15.42%		16.00%	

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Disclosure of Interest Statement in LIC Housing Finance Ltd. as on October 24, 2019

Name of the Security	LIC Housing Finance Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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