

June 22, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	REDUCE		REDUCE	
Target Price	283		282	
NII (Rs.)	28,708	39,002	31,217	45,932
% Chng.	(8.0)	(15.1)		
PPoP (Rs.)	21,041	31,314	24,373	38,372
% Chng.	(13.7)	(18.4)		
EPS (Rs.)	13.0	34.1	12.6	31.7
% Chng.	3.2	7.5		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	43,646	48,215	28,708	39,002
Growth (%)	21.7	10.5	(40.5)	35.9
Op. Profit (Rs m)	37,299	42,217	21,041	31,314
PAT (Rs m)	24,310	24,018	6,544	17,215
EPS (Rs.)	48.1	47.4	13.0	34.1
Gr. (%)	21.4	(1.5)	(72.7)	163.1
DPS (Rs.)	7.6	8.0	9.0	9.0
Yield (%)	2.8	3.0	3.4	3.4
Margin (%)	2.4	2.4	1.3	1.7
RoAE (%)	16.0	13.9	3.8	10.0
RoAA (%)	1.3	1.1	0.3	0.7
PE (x)	5.6	5.7	20.7	7.9
P/BV (x)	0.8	0.7	0.8	0.8
P/ABV (x)	0.9	0.9	1.0	0.9

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.587 / Rs.185
Sensex / Nifty	34,911 / 10,311
Market Cap	Rs.136bn / \$ 1,783m
Shares Outstanding	505m
3M Avg. Daily Value	Rs.3433.11m

Shareholding Pattern (%)

Promoter's	40.31
Foreign	32.32
Domestic Institution	14.00
Public & Others	13.37
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.4	(39.0)	(50.0)
Relative	(2.1)	(27.1)	(43.8)

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Asset quality hazy; returns weak

Quick Pointers:

- 25% EMIs under moratorium; developer morat:75%, LAP:35%, HL:13%
- No exclusive COVID provisions; Mngt believes ECL provs. stand sufficient

Q4FY20 earnings for LICHF indicate structural weakness. While provisions stood much lower than expectations despite pandemic challenges, 25% of the book stood under moratorium. PPop took a beating (25%QoQ/22%YoY) as customer retention took precedence in light of intense competition followed by asset re-pricing hurting NIMs (40bps decline YoY) and elevated operating costs (85%QoQ/58%YoY). While it's COVID assessment on asset quality is uncertain, yet 75% developer loans & 35% LAP fall under morat and weak collections stands worrisome. Moreover, LICHF existing asset quality stands appalling led by 17% developer NPA, 1.8% individual book NPAs and ~2% credit costs. FY20 witnessed subdued loan traction (2%CAGR) and doubling of absolute NPAs. Against this backdrop, we expect weak loan growth cycle (6-9%), imminent NIM pressures (1.4-1.7%) and elevated NPAs (3-3.5%) for FY21-22E. Our EPS estimates do not change materially as we maintain conservatism. Therefore, structural weakness in earnings translate into lower tier return profile with RoAs expected at 0.7% and RoEs at 10% for FY22. While LICHF's ability to raise funds remain strong, higher gearing, coupled with credit risk pressures both on core/non-core book can de-rate the stock despite trading at lowest band at current levels. Therefore, we reiterate REDUCE maintaining target multiple at 1.0x PABV FY22E for a price target of Rs283.

- Core profits under pressure:** Q4FY20 earnings further corroborate our concerns where PAT miss (Rs4.2bn vs PLe: Rs3.7bn, declining 30%QoQ/39%YoY) stood meaningful despite lower provisions (down 93%QoQ/74%YoY). We did hint at structural weakness for LICHF with best of Nis behind and likelihood of PPop under pressure. Q4FY20 saw NIMs at 2.1% declining 40bps YoY due to decline in disbursements by 34% YoY (individual disbursements declined 28%, project 80% YoY) and lack of interest collections on NPA accounts end-Mar on account of lockdown. Quarter also witnessed unusual spike in costs, up 58%YoY/85%QoQ denting PPop. Therefore, we built-in NIM compression (1.7%), higher credit costs (35-50bps) and overall loan growth at 6-9% over FY21-22E.
- Asset quality woes accentuate:** Q4FY20 asset quality disappointed yet again led by: (a) Absolute NPAs at Rs60bn doubling YoY (b) Stage 3 full year stands at 2.86% up 130bpsYoY/13bps QoQ (c) Stage 3 ECL provisions spiked 57%YoY/1%QoQ (d) Developer Stage 3 assets spike 200bps QoQ to 17%; retail Stage 3 at elevated 1.8% levels (e) 25% EMIs under moratorium; developer morat:75%, LAP:35%, HL:13% (f) No COVID led provision as Stage 3 ECL provisioning at 43% covers the pandemic impact as cited by Mngt. While Management has cited confidence over initial repayments from 21,000 accounts and resolution of Rs11bn developer loans spread across 17 accounts led by SBI funds. As LICHF balance sheet resilience weakens, we maintain high order credit costs (30-50bps) and 3-3.5% NPAs over FY21-22E.

Exhibit 1: Q4FY20: PPOP weakens; operating and tax expenses dent PAT

PAT declines -39% YoY to Rs4.21bn [PLe: Rs3.69bn] led by lower provisioning (provs stood at Rs273mn vs PLe of Rs4297mn); had it not been for lower provisioning PAT decline could have been much steeper.

While Co. has offered morat to all eligible borrowers for teh period between Mar-Aug'20, lack of clarity on % morat both in no/value terms makes the assessment on the COVID impact difficult at this stage

NII growth stood weaker with 8%/10% decline YoY to Rs11.6bn [PLe: Rs10.7bn] led by weak loan growth of 1% QoQ to Rs2079.8bn (PLe:Rs2098bn).

PPoP reported steep 22% YoY/25% QoQ to Rs8.5bn [vs. PLe of Rs9.2bn]

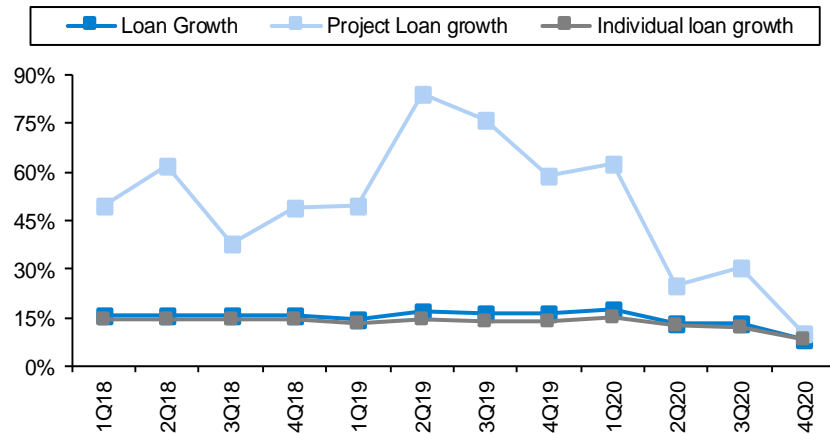
Employee expenses spiked 19% both YoY/QoQ to Rs.9bn [PLe:Rs.7bn] with overall operating expenses climbing 85%QoQ/58%YoY denting PAT

PAT also came under pressure as CO. made DTA adjustments with revised tax rate jumping to 49% fo Q4FY20

P&L (Rs m)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)
Interest Income	49,202	46,579	5.6	49,965	(1.5)
Interest Expense	37,642	33,981	10.8	37,152	1.3
Net Interest Income	11,559	12,598	(8.2)	12,812	(9.8)
Other operating Inc. other income	- (332)	- 1		- 0	
Total income	11,227	12,599	(10.9)	12,812	(12.4)
Employee Expense	877	734	19.4	732	19.8
Other Expenses	1,811	971	86.4	721	151.3
Operating Profit	8,540	10,894	(21.6)	11,360	(24.8)
Provisions	273	1,032	(73.6)	3,907	(93.0)
Tax	4,053	2,927	38.5	1,478	174.2
Net Profit excl exceptional Reported PAT	4,214	6,936	(39.2)	5,975	(29.5)
Balance Sheet (Rs m)					
O/S Loans	21,05,780	19,46,460	8.2	20,56,920	2.4
-Individual loans	19,62,587	18,16,047	8.1	19,14,993	2.5
Retail Home Loans	16,19,345	14,81,256	9.3	15,78,686	2.6
Retail LAP / Non Core	3,43,242	3,34,791	2.5	3,36,306	2.1
-Corporate loans	1,43,193	1,30,413	9.8	1,41,927	0.9
-Individual loans (%)	93.2	93.3	(0.1)	93.1	0.1
Retail Home Loans	76.9	76.1	0.8	76.8	0.2
Retail LAP / Non Core	16.3	17.2	(0.9)	16.4	(0.1)
-Corporate loans (%)	6.8	6.7	0.1	6.9	(0.1)
Incr. Disbursements	1,13,250	1,72,420	(34.3)	1,31,770	(14.1)
-Individual loans (%)	96.4	88.2	8.1	92.9	3.4
-Developer loans (%)	3.6	11.8	(8.1)	7.1	(3.4)
Asset quality					
Gross NPL	60,225	29,720	102.6	56,154	7.3
Gross NPL (%)	2.86	1.54	1.3	2.73	0.1
Others / Ratios (%)					
Yield on Loans - Calc	9.5	9.9	(0.4)	9.8	(0.4)
Cost of Borrowings - Calc	8.1	8.5	(0.4)	8.2	(0.1)
Spread	1.38	2.04	(0.7)	1.61	(0.2)
NIMs	2.10	2.56	(0.5)	2.42	(0.3)
Cost/ Income Ratio	23.94	13.53	10.4	11.34	12.6

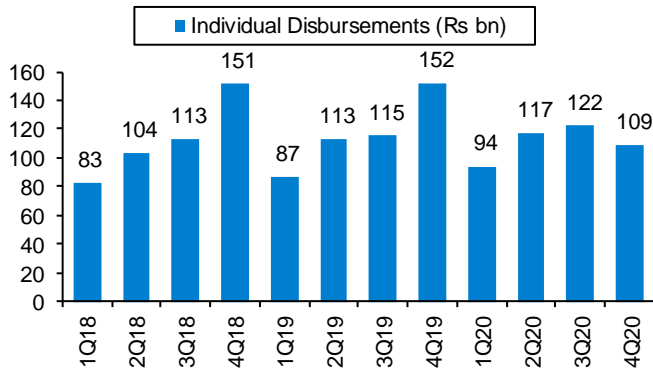
Source: Company Data, PL Research

Exhibit 2: Loan growth stood anemic



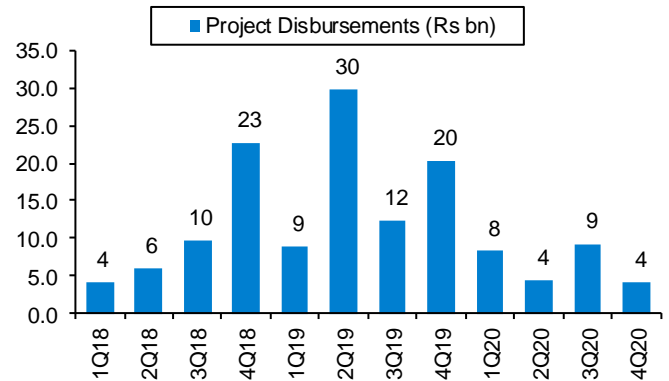
Source: Company, PL

Exhibit 3: Volatile disbursements in core retail loans



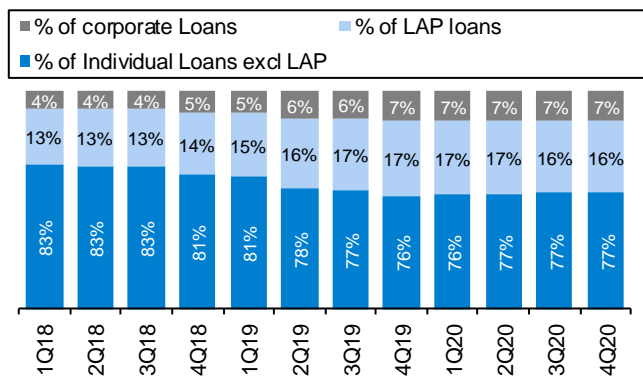
Source: Company, PL

Exhibit 4: Increasing Developer loan disbursements



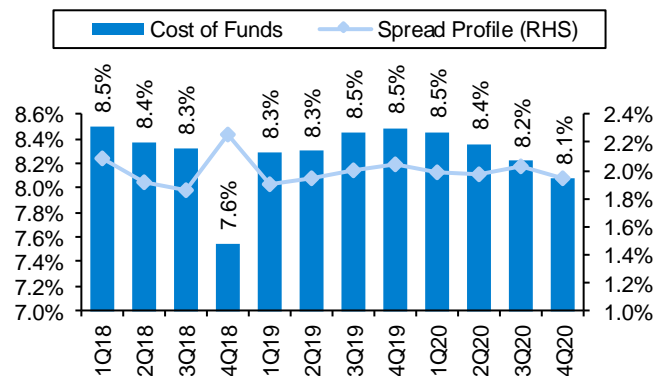
Source: Company, PL

Exhibit 5: Individual Loan share ~77%

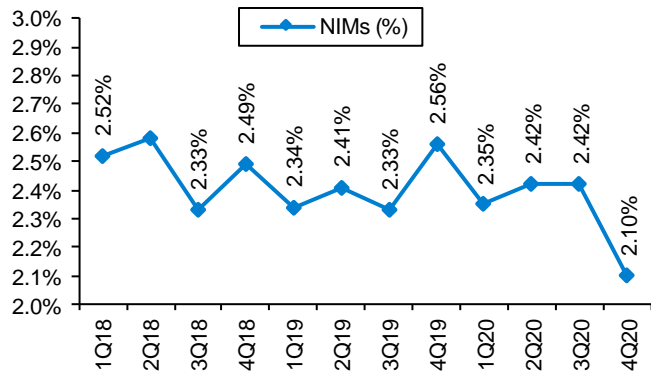


Source: Company, PL

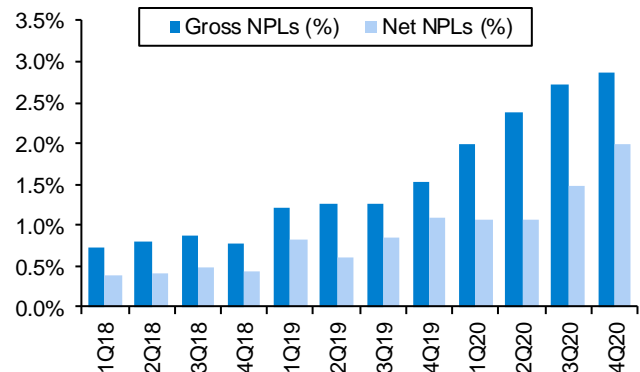
Exhibit 6: Cost of fund alleviates



Source: Company, PL

Exhibit 7: NIMs decline on slower growth & lower collections


Source: Company, PL

Exhibit 8: Asset quality deteriorates; developer in pain


Source: Company, PL

Exhibit 9: Change in Estimates

(Rs mn)	Old			Revised			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net interest income	48,285	31,217	45,932	48,215	28,708	39,002	0%	-8%	-15%
Operating profit	42,915	24,373	38,372	42,217	21,041	31,314	-2%	-14%	-18%
Net profit	23,502	6,341	16,015	23,950	6,544	17,215	2%	3%	7%
EPS, Rs.	46.5	12.6	31.7	47.4	13.0	34.1	2%	3%	7%
Price target, Rs.	282			283					
Recommendation	REDUCE			REDUCE					

Source: PL

Exhibit 10: We maintain REDUCE with TP of Rs283

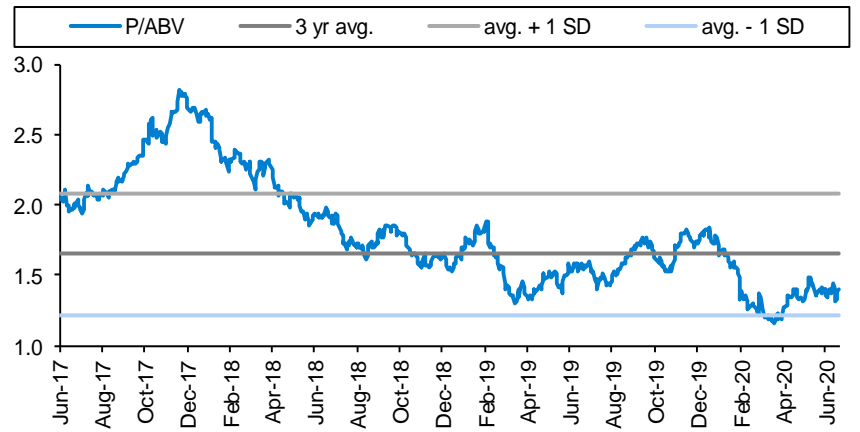
PT calculation and upside	
Fair price – EVA	325
Fair price - P/ABV	240
Average of the two	283
Target P/ABV	1.0
Target P/E	12.0
Current price, Rs	269
Upside (%)	5%
Dividend yield (%)	3%
Total return (%)	8%

Source: Company, PL

Conference Call Highlights

- **Morat to borrowers:** 25% in terms of value and 16% in terms of volume as on May end under morat. Non morat collections at 92% in May. 75% of developers book under morat. 20k accounts which opted for morat have started paying in June and it is improving.
- **Disbursements:** Rs 20 bn disbursement so far after branches have started operating; zero disbursement in April. Majority of demand coming from Affordable housing segment from tier-2 and tier-3 cities.
- **ALM:** Quite comfortable as majority borrowing done in February for disbursement purpose and ALM position is better than previous quarters.
- **Incremental Yields:** Retail portfolio 8.3%- 8.4%, LAP and LRD portfolio 10%-10.5%, Builder loans 12%-13%
- **NIM:** Drop in NIMs is due to loss of collection of NPL account during March end, decline in assets growth and coupled with change in mix of incremental disbursements. NIMs to stabilise or see slight improvement by FY21 as CoF to reduce further.
- **Asset Quality:** Marginal increase in stage 3 assets QoQ. Lower provisions in stage 2 assets due to improvement in asset quality. Stage 3 (Increase of Rs. 3 bn QoQ) and stage 2 assets on developer book is 17% and 2.5% respectively. Stage 2 assets for individual home loans is at 4.8%. Expects improvement in asset quality before Q2FY21. 17 accounts worth Rs. 11 bn under resolution in Swami funds which is managed by SBI Caps
- **Affordable Housing:** Disbursed Rs. 112 bn under Pradhanmantri Aavas Yojna in FY20 which is more than 25% of retail disbursement and company believes that it will be a growth driver as it grew more than 50% YoY.
- 95% of LAP is self-occupied.
- Newly launched App in February has helped the company in connecting with customers during lockdown. All branches are operational as of now.
- Higher tax rate in Q4FY20 is due to reversal of DTA on account of adoption of new tax rate. And negative other income is due to fluctuations in exchange rate.
- No plans of raising capital as of now.

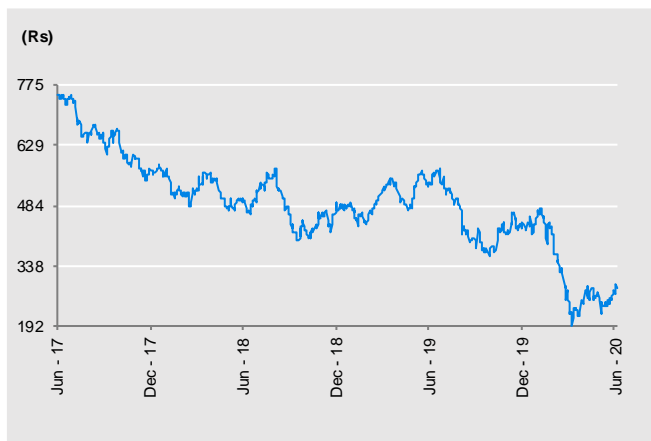
Exhibit 11: Multiple de-rating imminent as BS resilience weakens



Source: Company, Bloomberg, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY19	FY20	FY21E	FY22E	Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Int. Inc. / Opt. Inc.	1,72,561	1,96,054	1,99,481	2,33,424	Int. Inc. / Operating Inc.	48,072	49,729	49,965	49,202
Interest Expenses	1,28,916	1,47,839	1,70,773	1,94,423	Income from securitization	-	-	-	-
Net interest income	43,646	48,215	28,708	39,002	Interest Expenses	36,026	37,018	37,152	37,642
Growth(%)	21.7	10.5	(40.5)	35.9	Net Interest Income	12,046	12,711	12,812	11,559
Non-interest income	1,085	644	270	1,170	Growth (%)	16.5	19.5	15.5	(8.2)
Growth(%)	(2.2)	(40.6)	(58.1)	333.3	Non-Interest Income	-	62	-	(332)
Net operating income	44,730	48,859	28,978	40,172	Net Operating Income	12,046	12,772	12,812	11,227
Expenditures					Growth (%)	16.5	19.4	15.5	(10.9)
Employees	2,479	2,991	3,350	3,852	Operating expenditure	1,104	1,397	1,452	2,687
Other Expenses	4,835	3,170	4,102	5,005	PPP	10,942	11,375	11,360	8,540
Depreciation	117	481	485	-	Growth (%)	-	-	-	-
Operating Expenses	7,314	6,161	7,452	8,857	Provision	2,533	2,815	3,907	273
PPP	37,299	42,217	21,041	31,314	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	15.3	13.2	(50.2)	48.8	Profit before tax	8,409	8,561	7,453	8,267
Provisions	3,504	9,527	11,013	8,052	Tax	2,302	839	1,478	4,053
Profit Before Tax	33,796	32,690	10,027	23,263	Prov. for deferred tax liability	-	-	-	-
Tax	9,486	8,672	3,484	6,048	Effective Tax Rate	27.4	9.8	19.8	49.0
Effective Tax rate(%)	28.1	26.5	34.7	26.0	PAT	6,107	7,722	5,975	4,214
PAT	24,310	24,018	6,544	17,215	Growth	8	35	-	(39)
Growth(%)	21.4	(1.2)	(72.8)	163.1	AUM	19,77,680	20,08,490	20,56,920	21,05,780
					YoY growth (%)	17.3	13.2	13.3	8.2
					Borrowing	17,30,250	17,88,490	18,49,660	19,12,090
					YoY growth (%)	17.1	8.9	15.4	12.1
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY19	FY20	FY21E	FY22E	Y/e Mar	FY19	FY20	FY21E	FY22E
Source of funds					CMP (Rs)	269	269	269	269
Equity	1,010	1,010	1,010	1,010	EPS (Rs)	48.1	47.4	13.0	34.1
Reserves and Surplus	1,61,583	1,80,921	1,66,051	1,77,806	Book value (Rs)	322.0	360.3	330.8	354.1
Networth	1,62,593	1,81,931	1,67,060	1,78,815	Adj. BV(Rs)	302.5	309.6	263.4	297.1
Growth (%)	14.2	11.9	(8.2)	7.0	P/E(x)	5.6	5.7	20.7	7.9
Loan funds	17,06,670	19,13,317	22,28,947	25,35,701	P/BV(x)	0.8	0.7	0.8	0.8
Growth (%)	17.5	12.1	16.5	13.8	P/ABV(x)	0.9	0.9	1.0	0.9
Deferred Tax Liability	-	-	-	-	DPS (Rs)	7.6	8.0	9.0	9.0
Other Current Liabilities	1,35,438	71,355	29,854	24,333	Dividend Payout Ratio(%)	19.0	20.2	83.4	31.7
Other Liabilities	1,134	1,453	1,584	1,727	Dividend Yield(%)	2.8	3.0	3.4	3.4
Total Liabilities	20,05,835	21,68,056	24,25,862	27,38,850					
Application of funds					Asset Quality				
Net fixed assets	1,359	2,544	1,534	1,534	Y/e Mar	FY19	FY20	FY21E	FY22E
Advances	19,29,927	20,79,880	22,01,373	23,99,496	Gross NPAs(Rs m)	29,720	60,225	77,048	74,076
Growth (%)	15.2	7.8	5.8	9.0	Net NPA(Rs m)	13,130	34,105	45,421	38,424
Investments	35,951	54,964	79,697	1,24,350	Gross NPAs to Gross Adv.(%)	1.5	2.9	3.5	3.1
Current Assets	30,135	19,790	95,295	1,08,999	Net NPAs to net Adv.(%)	1.1	2.0	2.1	1.6
Net current assets	(1,05,303)	(51,565)	65,441	84,666	NPA coverage(%)	55.8	43.4	41.0	48.1
Other Assets	8,463	10,879	47,962	1,04,469					
Total Assets	20,05,835	21,68,056	24,25,862	27,38,849	Du-Pont as a % of AUM				
Growth (%)	16.3	8.1	11.9	12.9	Y/e Mar	FY19	FY20	FY21E	FY22E
Business Mix					NII	2.3	2.3	1.2	1.5
AUM	19,29,927	20,79,880	22,01,373	23,99,496	NII INCL. Securitization	2.3	2.3	1.2	1.5
Growth (%)	15.2	7.8	5.8	9.0	Total income	2.4	2.3	1.3	1.6
On Balance Sheet	19,29,927	20,79,880	22,01,373	23,99,496	Operating Expenses	0.4	0.3	0.3	0.3
% of AUM	100.00	100.00	100.00	100.00	PPOP	2.0	2.1	0.9	1.2
Off Balance Sheet	-	-	-	-	Total Provisions	0.2	0.5	0.5	0.3
% of AUM	-	-	-	-	RoAA	1.3	1.2	0.3	0.7
					Avg. Assets/Avg. net worth	12.1	11.8	13.2	14.9
					RoAE	16.0	13.9	3.8	10.0
Profitability & Capital (%)					Source: Company Data, PL Research				
Y/e Mar	FY19	FY20	FY21E	FY22E					
NIM	2.4	2.4	1.3	1.7					
ROAA	1.3	1.1	0.3	0.7					
ROAE	16.0	13.9	3.8	10.0					

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Apr-20	Reduce	282	278
2	31-Jan-20	Sell	404	438
3	03-Jan-20	Accumulate	409	439
4	22-Oct-19	Accumulate	409	373
5	03-Oct-19	Accumulate	417	383
6	05-Aug-19	Accumulate	550	496
7	04-Jul-19	Accumulate	597	569

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,000	1,965
2	Cholamandalam Investment and Finance Company	Accumulate	189	143
3	HDFC	Accumulate	1,992	1,516
4	L&T Finance Holdings	Sell	50	53
5	LIC Housing Finance	Reduce	282	278
6	Mahindra & Mahindra Financial Services	Reduce	171	168
7	Manappuram Finance	Accumulate	142	123
8	SBI Cards and Payment Services	BUY	643	570
9	Shriram Transport Finance	Accumulate	809	635

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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