

Stock Update

Attractive valuations allow for margin of safety

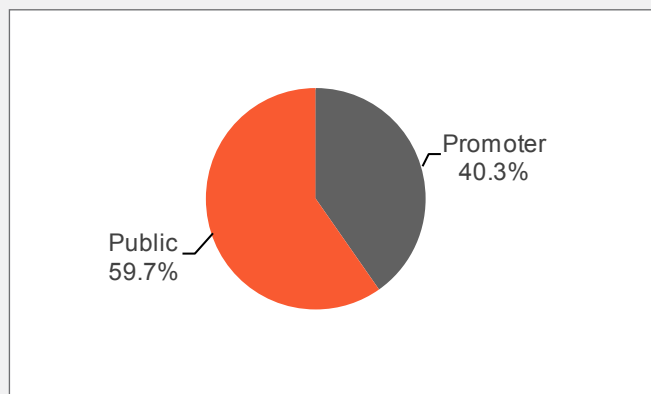
LIC Housing Finance

Reco: Buy | CMP: Rs512

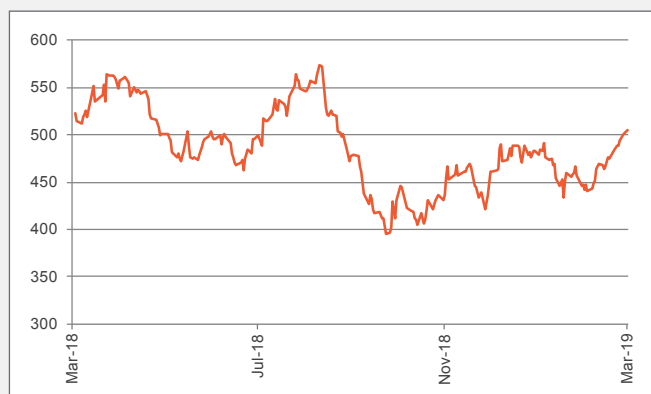
Company details

Price target:	Rs590
Market cap:	Rs 25,836 cr
52-week high/low:	Rs583 / 387
NSE volume: (No of shares)	21.5 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Sharekhan code:	LICHSGFIN
Free float: (No of shares)	30.12 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.2	9.3	5.8	-0.4
Relative to Sensex	10.0	4.1	5.9	-11.2

Key points

- ♦ **NBFC liquidity scenario has improved:** The liquidity crisis (seen in Q2FY2019) has now normalised significantly. Moreover, various steps (OMO operations and raising refinance limits) by the Reserve Bank of India (RBI) and the government to ease liquidity pressure have also helped contain and alleviate the problem.

To allow additional access to funding for the NBFC sector in wake of the recent crisis, the RBI relaxed norms for NBFCs to securitise their loan books; banks were also allowed to provide partial credit enhancement (PCE) to bonds issued by NBFC-ND (systemically important non-deposit taking NBFCs) and housing finance companies (HFCs). Such measures helped companies to access funds from the bond market. Consequently, although the borrowing rate has climbed higher compared to that a few months ago, funds for strong players are available.

LICHF, an HFC, enjoys high ratings (of AAA stable by leading rating agencies), and by virtue of its strong parent, has been able to maintain its cost of funds well (NIMs stable sequentially despite the recent flare up seen with several other peers), which is an important factor in favour of its long-term sustainability.

- ♦ **Valuations suggest asset-quality caution is likely overdone:** LICHF has maintained robust loan growth traction of ~16% y-o-y over Q3FY2019, which was better as compared to prior periods in FY2019. Still, the developer loan segment (LICHF has ~6% of total loans exposure to the developer segment), which had led the growth, continues to be a cause for concern. Not only due to its own challenges, this segment, historically too, has been a pain point for LICHF. Consequently, the present valuations of LICHF are reflecting the worries on asset quality. Presently, LICHF's P/BV valuations are at a significant discount as compared to its historical long term one-year forward average P/BV valuations, which give us reason to believe that, with fundamentals being largely same, the present valuations are more likely to see mean reversion as sentiment normalises.
- ♦ **Outlook:** LICHF has maintained robust loan growth traction in Q3FY2019 (fastest in the past 12 quarters), largely driven by growth in project loans. The housing credit off-take is expected to improve, with factors such as stabilised regulations (RERA and GST) as well as time correction and lower borrowing costs leading

to increased affordability for housing among buyers. Although its overall disbursements were muted in Q3FY2019, we believe improvement in market conditions and government's focus on affordable housing and support provided to this segment will lead to pickup in disbursements going ahead. Management has guided for improved growth in the near term. Loan growth guidance of ~15% for FY2019 and FY2020 also appears achievable; and we expect fair probability of upward risks to the guidance.

Hence, despite continued challenges to the developer segment, we believe, while the negatives are largely reflected in the price, the fundamental positives for the HFC are not being adequately reflected.

We believe the present valuation discount indicates that the market is not adequately factoring in the positives for the HFC, such as the low base of NPAs, attractive return ratios of (9MFY2019 RoE ~17% and RoA 1+%) and improved growth outlook, which are some positives that are in favour of LICHF's near-term performance. Thus, we believe valuations make the risk reward favourable in case of LICHF at present.

- ♦ **Valuation:** LICHF currently trades at valuations of ~1.5x its FY2020E book value, which we find attractive. Thus, we upgrade our recommendation on the stock to Buy with a revised price target (PT) of Rs. 590.

Valuation

					Rs cr
Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net interest income	3,694.0	3,781.2	4,711.0	5,659.4	6,981.7
Net profit	1,931.1	1,989.5	2,386.9	2,856.6	3,547.3
EPS (Rs)	38.2	39.4	47.3	56.6	70.2
EPS growth (%)	16.3	3.0	20.0	19.7	24.2
P/E (x)	13.4	13.0	10.8	9.1	7.3
Book value (Rs/share)	219.4	251.3	289.8	335.8	393.0
P/BV (x)	2.3	2.0	1.8	1.5	1.3
Adj book value (Rs/share)	214.4	245.7	283.6	328.9	385.2
P/ABV (x)	2.4	2.1	1.8	1.6	1.3
RoAE (%)	19.1	16.7	17.5	18.1	19.3
RoAA (%)	1.7	1.6	1.6	1.6	1.7

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.