LIC Housing Fin Reports 1.6% Drop in Net Profit

Our Bureau

Mumbai: LIC Housing Finance reported 1.6% drop in net profit for the third quarter compared to the same period a year ago due to lower project loans and deterioration in asset quality.

LIC Housing's net profit was at ₹491 crore in the third quarter ended December 31, 2018 against ₹499 crore in the year ago quarter. Loan book grew 15.9% to ₹1.76 lakh crore, paced by loans to home buyers in Bangalore, Hyderabad, Mumbai, Chennai and Delhi. Retail loans grew by 17% where as project loans fell by 14%.

"The focus of buyers have moved towards completed projects and we see end users buying property and not for investment purposes in all markets," said Vinay Sah MD and CEO LIC Housing Finance.

Under Pradhanmantri Awas Yojana, the company has disbursed ₹1,385 crore.

"Lower disbursement in project finance dragged down the profits while we grew our retail book which is core to housing finance," said Sah. "This is one of the best quarters as far as retail disbursements are concerned. The share of project finance is maintained at around 4% of the book, which is the lowest amongst housing finance companies."

L&T Fin's Q3 Net Up 42% on Loan Growth

Our Bureau

Mumbai: L&T Finance Holdings (LTFH) Thursday reported a 42% increase in its December-quarter consolidated net profit at ₹384 crore, paced by improvements in asset quality and loan growth in rural areas and to the housing sector.

In the year-ago quarter, the company had posted a net profit of ₹271 crore.

Rural lending expanded 46%, housing finance business rose 49%, and wholesale business climbed 14% in the quarter. The loan book stands at ₹75,000 crore, with wholesale business comprising 58% of the advances. Disbursements during the quarter rose 68%.

"This growth was made possible by focusing on the five lines of businesses, improving return on equity to 15.91% and focusing on collection efficiency through the use of digital and data collection analytics," said Dinanath Dubhashi, CEO, LTFH.

ET Q&A

HARSHAD PATIL
Chief Investment Officer, Tata AIA Life

'Benchmark Indices Could Post Double-digit Returns'

Tata AIA Life's chief investment officer Harshad Patil expects earnings growth to be in the high teens in a couple of years. In an interview to **Shilpy Sinha**, Patil said the benchmark index could post double-digit returns, tracking earnings growth, even as valuations normalise to long-term levels. Edited excerpts:

What are your earnings expectations for this year?
Over the last couple of years, there has been a significant re-rating of price-earnings multiples in India as the markets have rallied even though there has been very little support from earnings growth. The re-rating of price earnings multiples has been on account of expectations of a robust earnings recovery in 2018-19 and beyond. Going forward, we believe that the Indian equity markets would track earnings growth and expect the earnings growth to be in the high teens in the next couple of years. The benchmark index can still post double-digit returns as it tracks earnings growth, even as the valuations normalise to long-term levels.

Given that tax collections have gone up, what impact would it have on bond yields in the short and long term?
The recent improvement in direct tax collection does help in cushioning the fiscal deficit and is a positive for the fixed income market. There remain some concerns on the GST collection front this fiscal as the GST revenues are expected to stabilise only over the next few months as compliance levels improve. The government has recently reduced its revised borrowing programme by ₹30,000 crore as it has felt more comfortable on the revenue collection front, led by robust disinvestment proceeds. Bond yields have fallen from recent highs post these developments. Yields in the coming months will take cues from the government's fiscal consolidation path in 2018-19 to be announced in the upcoming Budget and the borrowing programme of the government.

With the recent capital infusion plan announced, will you look to invest in public-sector banks?
The government's announcement on the ₹88,000 crore capital infusion into PSU banks through recapitalisation bonds is definitely a positive development, in line with the overall recapitalisation plan announced last year. That said, we still maintain our preference for private banks, as they would continue to gain market share over the medium term. We would like to see some announcements pertaining to consolidation in the PSU-bank space. We would also like to see the banking reforms announced by the government play out in the lending activities of the PSU banks and consequently improve the quality of underwriting. Moreover, a faster resolution of the cases referred to the NCLT would also help build investor confidence in this sector.

TOP SECTORS

We believe that the growth opportunities offered by the domestic consumption-based sectors can be huge and sustainable over long periods

What could be the next trigger for the equity markets – both local and global?
While the third quarter results have acted as a positive catalyst for the Indian equity markets, we believe that earnings growth over the next few quarters would continue to act as positive triggers for the markets on the local front. As regards global triggers, we believe that the continued economic growth momentum on the global front will keep the equity markets buoyant. That said, geo-political tensions do pose a threat to the market momentum.

What are your expectations from the Budget?
The Union Budget 2018-19 is expected to focus on key areas such as rural development, infrastructure creation and stimulating economic growth to accelerate job creation. The Budget could address the agriculture sector with an objective of improving farmer incomes, with specific initiatives for irrigation, quality seeds and crop insurance. It could catalyse rural infrastructure by improving road connectivity and power availability in villages. The Budget could also enable acceleration in logistics and transportation sector through improving quality of infrastructure and connectivity on highways, ports and railways. The government could facilitate more job creation opportunities by focusing on skill development initiatives as well as large labour intensive sectors in the economy and the tourism sector. Overall, the government is expected to deliver the objectives of stimulating economic growth, addressing rural aspirations as well as accelerating jobs, while broadly remaining in the path of fiscal consolidation. The government's fiscal consolidation efforts over the last four budgets have ushered in macro-stability and lower inflation, culminating in the sovereign rating upgrade by Moody's.

SHOCK FACTORS

Rise in geo-political tensions, elevated crude oil prices and increasing global interest rates are key risks to the Indian markets

What could lead to shock in the market?
The possible deterioration in global factors such as rise in geo-political tensions, elevated global crude oil prices and increasing global interest rates are key risks to the Indian equity market. Moreover, elevated crude oil prices impact the macroeconomic fundamentals of many oil importing economies, including India. The possibility of sticky and elevated inflation is a domestic factor which poses a risk to the Indian equity market as it tends to limit the scope of monetary accommodation of the RBI.

Which sectors are attractive from valuations point of view?
With the Indian equity markets at record levels based on expectations of the robust earnings in FY 2019 and beyond, most sectors factor in investor expectations of sustained earnings growth in the medium term. We believe that the growth opportunities offered by the domestic consumption-based sectors can be huge and sustainable over long periods and, hence, remain invested in these sectors from a medium-term horizon.

Time to be More Defensive: Marks

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Things like these can continue or even get better, but the odds are against it. It feels as if we may get through the next 18 months without a recession, but if we do, that'll make this the longest recovery since the 1850s. Certainly not impossible, but against the odds.

■ Most valuation parameters are either the richest ever (Buffett ratio of stock market capitalization to GDP, price to sales ratio, the VIX, bond yields, private equity transaction multiples, real estate capitalization ratios) or among the highest in history (p/e ratios, Shiller cycle-adjusted p/e ratio). In the past, levels like these were followed by downturns. Thus a decision to invest today has to rely on the belief that "it's different this time."

■ Prospective returns in the vast majority of asset classes are some of the lowest in history.

■ The need of investors to wring out good returns in this "low-return world" is causing them to engage in what I call pro-risk behavior. They're paying high prices for assets and accepting risky and poorly structured propositions. In such a climate, it's hard for "prudent" investors to insist on traditional levels of safety. Investors who don't want to sign on for risk (that is, who "refuse to dance") can be constrained to the sidelines.

■ As a result, we see a lot of the reaction that greeted my July memo: "the market's expensive, but I think it has further to go." How healthy can it be when investors think an asset or market is rich but they're holding anyway because they think it might go up some more? Fear of missing out (or "FOMO") is one of the more powerful reasons for investor aggressiveness, and also one of the most dangerous.

■ Market behaviour implies a level of equanimity on investors' part that could prove unrealistic (and thus subject to reversal). For example, 2017 was the first year in history in which the S&P 500 didn't decline from high to low by more than 3% at least once. Likewise, in a six month period late in the year, the VIX (an indicator of the level of volatility implied by investors' pricing of S&P 500 options) closed below a reading of ten more than 40 days; never before had it done so more than six times in a six month period (The New York Times, January 14).

■ It appears many investment decisions are being made today on the basis of relative return, the unacceptability of the returns on cash and Treasurys, the belief that the overpriced market may have further to go, and FOMO. That is, they're not being based on absolute returns or the fairness of price relative to intrinsic value. Thus, as my colleague Julio Herrera said the other day, "valuation is a lost art; today it's all about momentum."

■ The potential catalysts for decline that we have to worry about most may be the unknown ones. And although I read recently that bull markets don't die of old age or collapse of their own weight, I think sometimes they do (a dollar for anyone who can identify the catalyst for the collapse of the bull market and tech bubble in 2000 – it's not easy).

The bottom line of the above is that some people are excited about the fundamentals, and others are wary of asset prices. Both positions have merit, but as is often the case, the hard part is figuring out which one to weight more heavily.

As I wrote in September, most people (and certainly the media) want definite answers: in or out? buy or sell? risk-on or risk-off? But it's rare for answers that simple to be correct. There's a wide range of possible stances that investors might adopt. At one end of the spectrum there's maximum aggressiveness (100% invested in high beta, high-risk assets, or maybe more than 100% through the use of leverage), and at the other there's maximum defensiveness (100% cash, or perhaps being net short). Most investors are never either of those.

And I certainly wouldn't be either of them today; I'd be someplace in between. That's easy to say. But where? Closer to the bullish end of the spectrum or the bearish end? Or balancing the two equally? My answer today, as readers know, is that I would favour the defensive or cautious part of the spectrum. In my view, the macro uncertainties, high valuations and risky investor behaviour rule out aggressiveness and render defensiveness more sensible.

For one thing, I'm convinced the easy money has been made. For example, the S&P 500 has roughly quadrupled, including income, from its low in 2009. It was certainly easier for the p/e ratio to go from the low teens in 2011-12 to 25 today than it would be for it to double again from here. Thus the one thing we can say for sure is that the current prospects for making money in US equities aren't what they were half a dozen years ago. And if that's the case, isn't it appropriate to take less risk in equities than one took six years ago?

Prospective returns are well below normal for virtually every asset class. Thus I don't see a reason to be aggressive. Some investors may adopt an aggressive stance to be in the riskiest (and thus hopefully the highest returning) assets; to squeeze out the last drop of return as the markets continue to rise (under the assumption they'll be able to get out at the top, something that's present in every strongly rising market); or to achieve a high return in this low-return world. I don't view any of those as good ideas.