Sharekhan
by BNP PARIBAS

LIC Housing Finance

Headwinds cloud the outlook

Sector: Banks & Finance
Result Update

	Change
Reco: **HOLD**	↔
CMP: **Rs. 269**	
Price Target: **Rs. 285**	↓

↑ Upgrade ↔ No change ↓ Downgrade

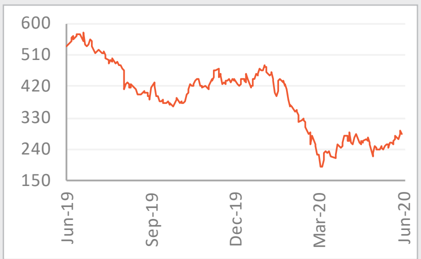
Company details

Market cap:	Rs. 13,550 cr
52-week high/low:	Rs. 586/186
NSE volume: (No of shares)	59.6 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Sharekhan code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	40.3
FII	32.3
DII	5.7
Others	21.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.4	39.5	-43.7	-50.0
Relative to Sensex	-2.4	5.1	-28.6	-39.0

Sharekhan Research, Bloomberg

LIC Housing Finance Limited (LICHF) reported weak Q4FY2020 results. Operational performance was below estimates due to muted demand for housing loans (impacted by the lockdown etc.) and contraction in spreads and NIMs. Net interest income (NII; Calculated) for Q4FY2020 declined by 8.2% y-o-y to Rs. 1,155.9 crore mainly due to higher interest expense growth compared to interest income growth. Interest expense increased by 10.8% y-o-y to Rs. 3,764 crore, while revenue from operations grew by 5.6% y-o-y. Consequently, NIM contracted by 40 bps y-o-y to 2.34% due to lower yield on portfolio advances. Yield on advances on portfolio fell by 51 bps y-o-y to 10.2%, whereas cost of borrowing reduced by 41 bps y-o-y for FY2020. Loan disbursals slowed down 34% y-o-y and total loan book stood at Rs. 2,10,578 crore, up 8% y-o-y, which was a considerable slowing down from the earlier quarters. During the quarter, employee cost and fees and commission expense rose sharply, while overall provision was lower at Rs. 27.3 crore, down 73.6% y-o-y and 93% q-o-q. Asset-quality wise too, performance was impacted with gross stage 3 (GS3) at 2.83% (up 10 bps q-o-q and 125 bps y-o-y). About 25% of loans (by value) are under moratorium as on March 31, 2020. It is likely that the moratorium book may be having a significant proportion of developer book (which was already facing challenges), which poses risks to the estimated credit costs in FY2021E. We believe the low credit cost was due to COVID-19 moratorium benefit. Further, the absence of COVID-19 related provisions buffer was perplexing. During the quarter, due to the deferred tax asset impact (due to migration to new tax rate), LICHF saw higher tax provision, which we expect would normalise going forward. LICHF has comfortable access to liquidity and enjoys high credit ratings. However, we believe competitive intensity may increase in the home loan segment, keeping margins under pressure, given aggressive mortgage rate cuts by PSU banks. Moreover, we expect elevated credit costs due to the economic impact of NPLs because of COVID-19. Due to significant uncertainty on the asset-quality outlook and profitability, we have cut our FY2021E and FY2022E estimates and target multiples. We maintain our Hold rating on the stock with a revised price target (PT) of Rs. 285.

Key positives

- Net slippages have moderated to 0.7%, which is positive, even as Stage 2 loans have declined by 105 bps q-o-q, with ~10 bps increase in stage 3 loans, implying net upgrade of 95 bps.
- Given its public sector nature and a strong parent, availability of funding is not a problem, which LICHF is able to leverage to its advantage.

Key negatives

- Decline in disbursement in individual home loan and project loan disbursement amid COVID-19 crisis is a concern.
- NIM contracted by 40 bps y-o-y to 2.34% due to lower yield on portfolio advances which is a concern, especially as the interest rates have been soft over the quarter.

Our Call

LICHF currently trades at <1x FY2021E book value (BV), which reflects the challenges before it. LICHF has comfortable access to liquidity and enjoys high credit ratings, however, we expect competitive intensity in the home loan segment is likely to keep margins under pressure (given aggressive mortgage rate cuts by PSU banks). Moreover, we expect elevated credit costs because of the economic impact of NPLs due to COVID-19. Due to significant uncertainty on the asset-quality outlook and profitability, we have cut our FY2021E and FY2022E estimates and target multiples. We maintain our Hold rating on the stock, with a revised PT of Rs. 285.

Key Risks

Increased delinquencies in developer book may worsen asset quality and affect profitability.

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Net interest income	3,835.0	4,349.9	4,689.0	5,036.9	5,548.4
Net profit	1,989.6	2,431.0	2,401.8	2,481.4	2,800.5
EPS (Rs.)	39.4	48.1	47.6	49.1	55.5
P/E (x)	6.8	5.6	5.6	5.5	4.8
Book value (Rs./share)	251.3	322.0	332.8	372.8	408.0
P/BV (x)	1.1	0.8	0.8	0.7	0.6
RoAE (%)	16.7	16.8	15.9	13.9	14.0
RoAA (%)	1.6	1.5	1.4	1.4	1.4

Source: Company; Sharekhan estimates

Key Concall highlights

- **Operational Performance:** Total disbursements declined by 34% y-o-y to Rs. 11,325 crore, out of which disbursements of individual home loans declined by 24% y-o-y to Rs. 8,877 crore, while project loans disbursement fell sharply by 80% y-o-y from Rs. 413 crore to Rs. 200 crore. Fresh loan sanctions have also picked up.
- **Pradhanmantri Awas Yojna:** Disbursement for the year stood at Rs. 11,320 crore, which was more than 25% of retail loan, an upside of 52%, whereas for the quarter, it stood at Rs. 3,100 crore. Going forward, management perceives this scheme as the growth driver.
- **Funding Cost and outlook:** During the quarter, LICHF was able to raise funds through NCD, bank loans, CPs etc. Outlook for fund raising is positive. Cost of fund is expected to move down in the coming quarters. Cost of funds reduced by 41 bps for the year.
- **Disbursement scenario:** Post the lock down, April saw low disbursement, and the last few weeks of March were also impacted (which seasonally are high activity period). However, now that the lockdown is being lifted, loan disbursement has starting again in May and June. Fresh loan has been sanctioned in the past two months. Almost all offices are open now, and functioning as per per government guidelines.
- **Digital push:** The newly launched mobile app, has helped the company to remain connected to prospective customers during the lockdown period.
- **Moratorium:** 25% of customer in value terms have opted for moratorium; however, during the past two months, some customers have also opted out of moratorium. Collection efficiency for non-moratorium loan is ~ 92% which is encouraging. Around 75% of developers have opted for moratorium. Additional provision requirement was Rs. 80 crores, if the moratorium would not have been there.
- **Asset Quality:** There was an increase in stage 3 defaults by 10 bps to 2.83%, while the decrease has been witnessed in stage 2 assets. Moreover, there was some improvement on stage 1 assets. ECL provision as of March 2020 stood at Rs. 2612 crore against Rs. 1,059 crore after considering the impact of COVID-19.
- **Developer segment:** The segment is seeing ~17% NPL in the developer segment.
- **LAP segment:** Loan against property has ~90% of loans under the self-occupied segment.

Results Rs cr

Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Interest Income	4,898.5	4,620.6	6.0	4,968.9	-1.4
Fees and Commission	5.0	7.5	-32.3	17.8	-71.7
Net Gain on derecognition of Fin Instruments	0.5	0.7	-30.8	1.9	-76.2
Others	16.2	29.2	-44.5	7.9	106.0
Total Revenue from Operations	**4,920.2**	**4,657.9**	**5.6**	**4,996.5**	**-1.5**
Other Income	-33.2	0.1	NA	0.0	NA
Interest expense	3,764.2	3,398.1	10.8	3,715.2	1.3
Net Interest Income (NII)	**1,155.9**	**1,259.8**	**-8.2**	**1,281.2**	**-9.8**
Net Total Income	**1,122.7**	**1,259.9**	**-10.9**	**1,281.2**	**-12.4**
Fees & Commission expenses	25.4	13.2	92.7	15.0	69.4
Net Loss on de-recognition of Fin Instruments	40.0	2.1	1,822.1	7.0	473.6
Employee expenses	87.7	73.4	19.4	73.2	19.8
Depreciation	12.9	3.2	306.9	12.7	1.6
Other Expenses	102.7	78.9	30.3	37.3	175.2
Pre-Provisioning Profit	**854.0**	**1,089.2**	**-21.6**	**1,136.0**	**-24.8**
Impairment on Financial Instruments	27.3	103.2	-73.6	390.7	-93.0
PBT	**826.7**	**986.0**	**-16.2**	**745.3**	**10.9**
Tax	405.3	292.7	38.5	147.8	174.2
PAT	**421.4**	**693.4**	**-39.2**	**597.5**	**-29.5**

Source: Company; Sharekhan Research

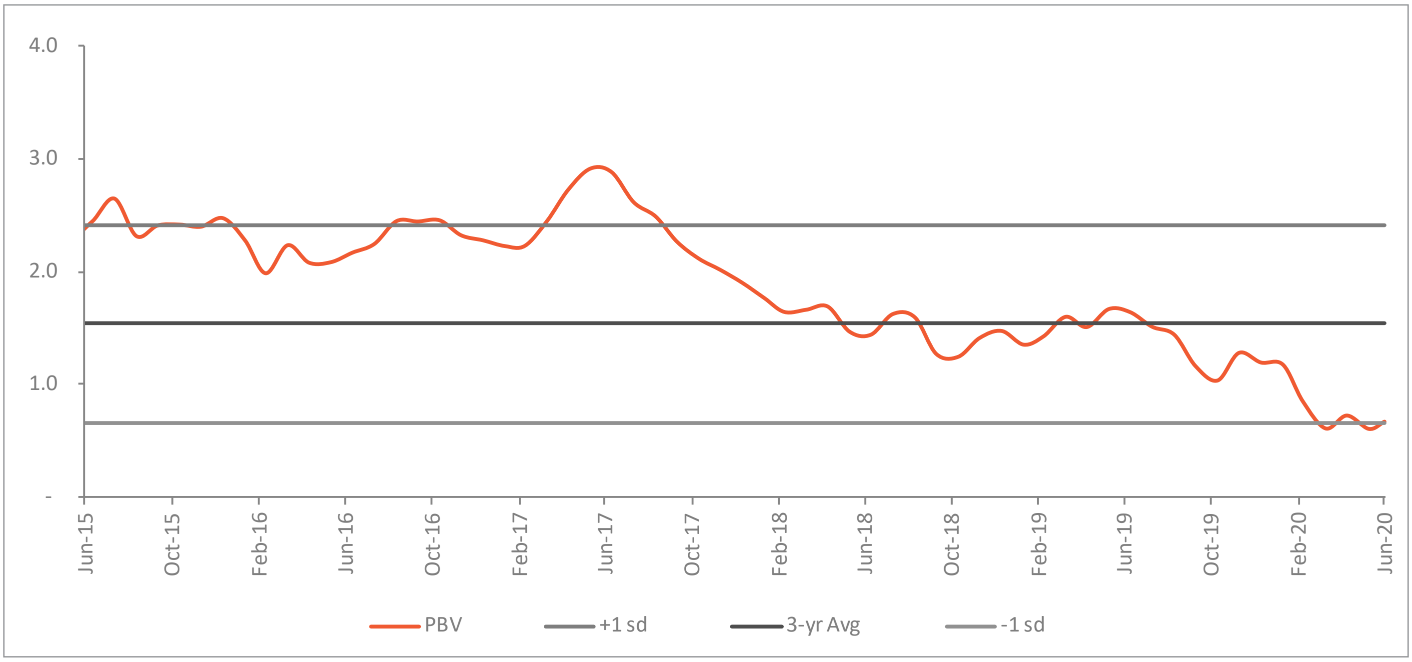
Outlook

During the quarter, LICHF witnessed a decline in loan disbursement due to the lockdown on account of COVID-19 pandemic. However, traction was witnessed in May and June as the lockdown was gradually lifted. At present, the activity is likely to be more in Tier-3 and 4 centers, with metros yet to see the pickup, which may keep FY2021E growth outlook tepid. LICHF is well placed in terms of liquidity management and falling interest would certainly augur well for the company in the coming quarters. LICHF has comfortable access to liquidity and enjoys high credit ratings. However, we believe competitive intensity may increase in the home loan segment, keeping margins under pressure given aggressive mortgage rate cuts by PSU banks. Further, we expect elevated credit costs due to the economic impact of NPLs because of COVID-19.

Valuation

LICHF currently trades at <1x its FY2021E book value (BV), which reflects the challenges before it. LICHF has comfortable access to liquidity and enjoys high credit ratings, however, we expect competitive intensity in the home loan segment is likely to keep margins under pressure (given aggressive mortgage rate cuts by PSU banks).Moreover, we expect elevated credit costs due to the economic impact of the NPLs because of COVID-19. Due to significant uncertainty on the asset-quality outlook and profitability, we have cut our FY2021E and FY2022E estimates and target multiples. We maintain our Hold rating on the stock, with a revised PT of Rs. 285.

One year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
LIC Housing Finance	269	0.7	0.6	5.5	4.8	0.3	0.5	3.4	5.4
Can Fin Homes	366	1.9	1.7	11.4	10.2	2.0	2.1	18.0	17.5
PNB Housing Finance	227	0.5	0.5	13.9	5.6	0.7	1.0	7.0	8.6
HDFC Ltd	1,818	2.8	2.5	19.4	14.4	2.2	2.3	13.4	14.4

Source: Company, Sharekhan research

About company

LICHF is one of the largest housing finance companies in India having one of the widest networks of offices across the country and representative offices at Dubai and Kuwait. In addition, the company distributes its products through branches of its subsidiary. LICHF is promoted by Life Insurance Corporation in which it currently holds 40.31% shares in HFC. LICHF enjoys the high rating from CRISIL and CARE, indicating the highest safety about the ability to service interest and repay principal, which to some degree can be attributed to having a strong parent.

Investment theme

LICHF has seen steady loan book growth, but performance of the high yield (but also high delinquency) developer loan book portion such as LAP/Developer is a key monitorable. Backed by a strong parent, the Rating of LICHF has been strong; thus, it has been able to see off most of the liquidity pressure that had impacted most of NBFCs/HFCs of late. However, while the high ratings are a key positive support to its margins, its book quality and growth performance will be key monitorable in the medium term. Due to the uncertainty posed by the COVID-19 pandemic and its economic impacts, we expect the scenario having become significantly challenging for real estate players and, consequently, for lenders in the segment as well.

Key Risks

Increased delinquencies in developer book may worsen asset quality and affect profitability.

Additional Data

Key management personnel

Shri M. R. Kumar	Chairman
Mr. Siddhartha Mohanty	Managing Director and CEO
Mr. Nitin K. Jage	General Manager (Taxation) & Company Secretary
Ms. N Rangarajan	Chief Risk Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FIDELITY INV TRUST FIDELIT	9.4
2	ICICI Prudential Asset Management	4.8
3	FMR LLC	2.5
4	Bank Muscat SAOG	2.3
5	Norges Bank	2.2
6	GOVERNMENT PENSION FUND - GLOBAL	2.2
7	NPS TRUST	2.2
8	Vanguard Group Inc/The	1.8
9	Dimensional Fund Advisors LP	1.7
10	HDFC Life Insurance Co Ltd	1.5

Source: Bloomberg

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