

Relatively steady business model preferred...

LIC Housing Finance reported steady Q1FY21 results wherein loan growth was sluggish whereas lower provisions and lower tax rate led to healthy PAT growth. Moratorium book was relatively lower compared to peers. As on June 2020, ~25% of the total loan book was under moratorium while individual loans under moratorium formed 16% of respective portfolio. Moratorium for LAP and developer loans was at 37% and 77%, respectively.

Loan book for the quarter was at ₹ 209817 crore, up 6% YoY, with major proportion of loan mix skewed towards individual loans at ₹ 195176 crore (up 6% YoY) while developer loans grew 7.5% YoY to ₹ 14641 crore.

Asset quality deteriorated with GNPA ratio at 2.83% against 1.98% in Q1FY20 though it remained stable sequentially. NII growth remained sluggish at 3% YoY to ₹ 1220.6 crore, on account of slower credit growth. NIMs dipped ~3 bps YoY to 2.32% on the back of lower yields. Provisioning was down 78% YoY to ₹ 56.25 crore. Lower tax rate led to healthy PAT growth at 34% YoY to ₹ 817.5 crore.

Competitive pricing, focus on affordable housing ahead

LICHF's loan growth in the past was largely led by healthy traction in the individual loan segment. Given elevated uncertainty and general economic slowdown, credit growth is expected to remain gradual. However, competitive pricing, launching of new products (six month's EMI waiver scheme) and focus on affordable housing to cater to incremental demand from tier 2 and 3 cities bodes well for future business growth. We expect credit growth at ~10% CAGR in FY20-22E to ₹ 2.5 lakh crore.

Asset quality in individual book remains prudent

LIC HF witnessed a deterioration in asset quality in non-individual book in the past leading to an increase in GNPA to 2.83%. Moratorium in individual book has remained steady and repayment are expected to revive further as the moratorium ends in August 2020. Exposure to developer segment remains vulnerable but relatively lower proportion of exposure provides comfort on probability of future delinquencies. We anticipate credit cost at ~20 bps in FY21-22E; lower compared to the quantum seen in FY20.

Valuation & Outlook

Business growth is seen remaining gradual with a focus on opportunities in Tier II, III cities. Slightly aggressive pricing is seen offsetting benefit of lower funding cost thereby keeping margins steady. Given the current scenario, strong parentage, housing finance business (which is better placed) and higher proportion of individual loans provide comfort. However, higher restructuring and thereby regulatory provisions remain a near term risk. We expect earnings growth at 12% CAGR in FY20-22E to ₹ 2961 crore. Valuing the business at ~1x FY22E ABV, we revise our target price to ₹ 345/share. We have a **BUY** recommendation on the stock.

Key Financial Summary

₹ crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
NII	3701	4463	4124	4898	5401	14%
PPP	3301	3998	3750	4457	4924	15%
PAT	2013	2431	2348	2233	2961	12%
ABV (₹)	237.2	275.7	291.5	315.1	342.9	
P/E	11.8	10.2	10.1	10.6	8.0	
P/ABV	2.0	1.7	1.6	1.5	1.4	
RoA	1.2	1.3	1.1	0.9	1.1	
RoE	16.9	16.3	13.8	11.9	14.5	

Source: Company, ICICI Direct Research



LIC HOUSING FINANCE LTD

Particulars

Particulars	Amount
Market Capitalisation	15,089.0
Stage 3 (Q1FY21)	₹5938 crore
NIM % (Q1FY21)	2.32
52 week H/L	486 /186
Networth (FY20)	₹ 18049 crore
Face value	₹2
D II Holding (%)	10.6
F II Holding (%)	34.3

Key Highlights

- Overall moratorium book at 25% as on June 2020; individual book under moratorium at 16%
- Credit growth remained moderate at 6% YoY to ₹ 209817 crore
- Upgrade from HOLD to BUY rating with revised target price of ₹ 345

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
NII	1,221	1,182	3.3	1,089	12.1	NII growth sluggish on account of slower credit growth
NIM (%)	2.32	2.35	-3 bps	2.34	-2 bps	Margins weakened due to drop in yields
Other Income	-8	23	-133.4	-12	-34.2	
Net Total Income	1,213	1,205	0.7	1,077	12.6	
Operating Expenses	139	110	25.8	269	-48.3	
PPP	1,074	1,094	-1.8	809	32.8	
Provision	56	253	-77.7	27	107.2	
PBT	1,018	841	21.0	781	30.2	
Tax Outgo	200	230	-13.0	405	-50.6	
PAT	814	611	33.4	376	116.5	Lower provisions and lower tax rate led to healthy PAT growth
Key Metrics						
GNPA	5,938	1,757	238.0	6,023	-1.4	Asset quality deteriorated with GNPA ratio at 2.83% vs 1.98% in Q1FY20
Total Loans	2,09,817	1,97,768	6.1	2,10,578	-0.4	Loan book stood at ₹209817 crore, up 6% YoY, with major proportion of loan mix skewed towards individual loans

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

	FY20	FY21E		FY22E	
(₹Crore)		Old	New	% Change	Introduced
Net Interest Income	4,124	6034	4,898	-18.8	5,401
Pre Provision Profit	3,750	5609	4,457	-20.5	4,924
NIM(%) (calculated)	2.0	2.5	2.2	-30 bps	2.2
PAT	2,348	3113	2,233	-28.3	2,961
ABV per share (₹)	291.5	384	315.1	-18.0	342.9

Source: Company, ICICI Direct Research

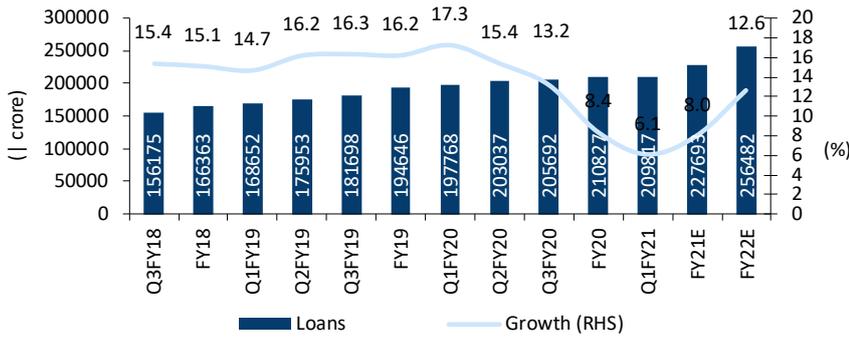
Exhibit 3: Assumptions

	Current		Introduced Earlier	
	FY20	FY21E	FY22E	FY21E
Credit growth (%)	8.4	8.0	12.6	16.9
NIM Calculated (%)	2.03	2.22	2.22	2.35
Cost to income ratio (%)	12.6	12.2	12.2	11.0
GNPA (₹crore)	5,943	6,731	7,257	2,972
NNPA (₹crore)	3,331	3,713	3,909	1,945

Source: Company, ICICI Direct Research

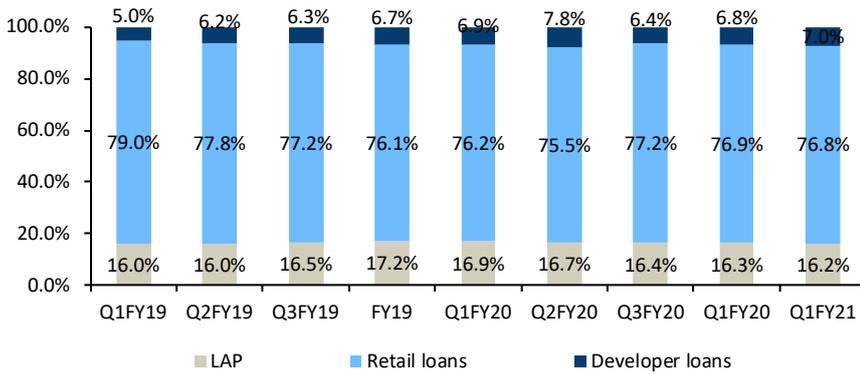
Story in Charts

Exhibit 4: Loan book growth to remain gradual, going forward



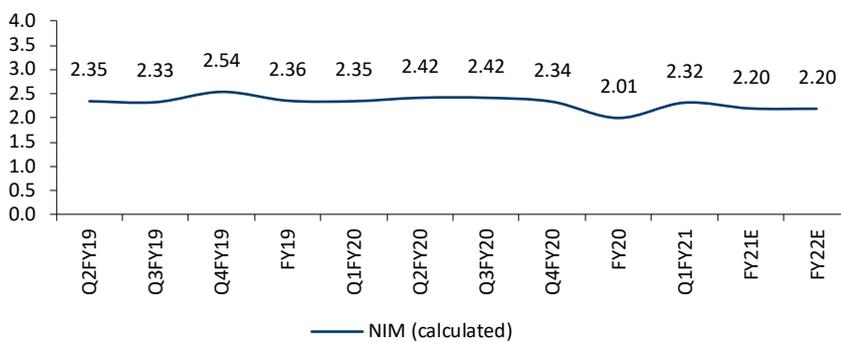
Source: Company, ICICI Direct Research

Exhibit 5: LIC HF loan mix trend



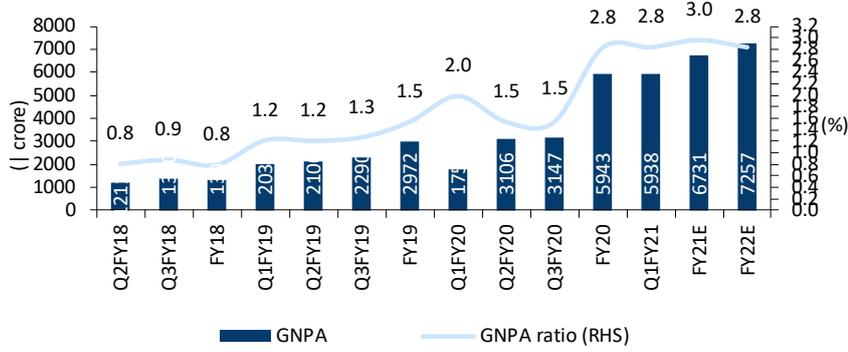
Source: Company, ICICI Direct Research

Exhibit 6: NIMs to inch up, going forward



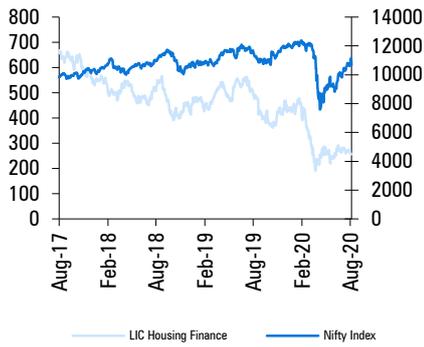
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality to deteriorate in FY21E



Source: Company, ICICI Direct Research

Exhibit 8: Price Chart



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit & Loss (₹ crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Interest Earned	17355.0	19255.2	20829.7	23240.4
Interest Expended	12891.6	15131.1	15932.1	17839.4
Net Interest Income	4,463.5	4,124.1	4,897.6	5,401.0
% growth	20.6	-7.6	18.8	10.3
Non Interest Income	6.7	165.1	180.8	206.4
Net Income	4470.2	4289.1	5078.5	5607.4
Employee cost	247.9	217.2	257.3	270.2
Other operating Exp.	224.7	322.3	364.0	413.6
Operating Income	3997.6	3749.6	4457.2	4923.6
Provisions	618.1	611.7	1473.2	966.2
PBT	3379.6	3137.9	2984.0	3957.4
Taxes	948.6	789.8	751.1	996.1
Net Profit	2,431.0	2,348.1	2,232.9	2,961.3
% growth	20.8	-3.4	-4.9	32.6
EPS (₹)	46.2	46.5	44.2	58.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet (₹ crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Capital	101.0	101.0	101.0	101.0
Reserves and Surplus	16158.3	17948.2	19525.5	21125.8
Networth	16259.3	18049.2	19626.5	21226.8
Secured Loans	168667.0	171737.8	188706.4	212669.4
Unsecured Loans	2000.0	18560.7	21802.4	25612.8
Other Liabilities & Provisio	13657.2	20413.9	25974.8	30298.1
Total	2,00,583	2,28,762	2,56,110	2,89,807
Applications of Funds				
Fixed Assets	135.9	133.3	155.2	180.4
Investments	3595.1	2808.0	3377.5	4092.5
Advances	192992.7	210827.2	227693.4	256481.6
Other Assets	3859.8	14993.0	24884.0	29052.5
Total	2,00,583	2,28,762	2,56,110	2,89,807

Source: Company, ICICI Direct Research

Exhibit 11: Key Ratios (₹ crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Valuation				
No. of Equity Shares	50.5	50.5	50.5	50.5
EPS (₹)	46.2	46.5	44.2	58.6
BV (₹)	314.3	357.4	388.7	420.3
ABV (₹)	275.7	291.5	315.1	342.9
P/E	10.2	10.1	10.6	8.0
P/BV	1.5	1.3	1.2	1.1
P/adj.BV	1.7	1.6	1.5	1.4
Yields & Margins (%)				
Yield on interest earning as	9.5	9.4	9.4	9.5
Avg. cost on funds	8.4	8.5	8.0	8.0
Net Interest Margins	2.3	2.0	2.2	2.2
Quality and Efficiency				
Cost/Total net income	11.0	12.6	12.2	12.2
GNPA%	1.5	2.8	3.0	2.8
NNPA%	1.1	1.6	1.6	1.5
ROE (%)	16.3	13.8	11.9	14.5
ROA (%)	1.3	1.1	0.9	1.1

Source: Company, ICICI Direct Research

Exhibit 12: Growth ratios (%)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total assets	15.8	15.0	12.0	13.2
Advances	16.9	8.4	8.0	12.6
Borrowings	14.6	14.2	10.6	13.2
Total Income	16.2	10.9	8.2	11.6
Net interest income	14.8	-3.0	18.8	10.3
Operating expenses	-25.0	11.1	15.1	10.1
Operating profit (excl tradir	21.0	-4.8	18.9	10.3
Net profit	15.9	0.6	-4.9	32.6
Net worth	25.1	13.7	8.7	8.2
EPS	15.9	0.6	(4.9)	32.6

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (BFSI- NBFC)

Sector/Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC (HDFC)	1,821	1,770	Buy	3,26,232	103.1	42.5	57.5	17.7	42.8	31.7	3.6	3.1	3.0	3.6	1.4	1.7	21.7	8.0	9.7
Mahindra & Mahindra Financial	137	160	Hold	16,958	14.7	14.7	14.7	9.3	9.3	9.3	1.1	1.9	1.6	1.3	1.2	1.6	8.1	6.8	7.3
Bajaj Finserv (BAFINS)	6,436	6,400	Hold	1,02,537	211.6	247.6	298.0	30.4	26.0	21.6	3.3	2.9	2.6	1.4	1.3	1.2	12.2	11.8	12.6
Bajaj Finance (BAJFI)	3,585	3,050	Hold	2,16,093	87.7	78.3	99.3	40.9	45.8	36.1	6.7	6.2	5.5	3.7	2.7	2.9	20.2	13.6	15.2
LIC Housing Finance (LICHF)	300	345	Buy	15,089	46.5	59.0	66.1	6.5	5.1	4.5	1.0	1.0	0.9	1.1	1.2	1.2	13.8	15.5	15.6
SBI Life Insurance (SBILIF)	838	800	Buy	83,923	14.2	16.2	19.8	58.9	51.7	42.2	3.2	2.8	2.4	0.8	0.8	0.9	14.6	14.5	15.6
HDFC AMC	2,480	3,000	Buy	52,789	59.2	58.8	67.5	41.9	42.2	36.7	13.1	11.3	9.8	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	276	364	Buy	16,903	6.7	8.8	10.9	41.0	31.5	25.3	6.4	6.0	5.6	0.2	0.2	0.2	15.5	19.0	22.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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