Sharekhan by BNP PARIBAS

LIC Housing Finance Ltd.

Inexpensive valuations, steady performance

Sector: Banks & Finance

Result Update

	Change
Reco: **Buy**	↑
CMP: **Rs. 299**	
Price Target: **Rs. 345**	↑

↑ Upgrade ↔ No change ↓ Downgrade

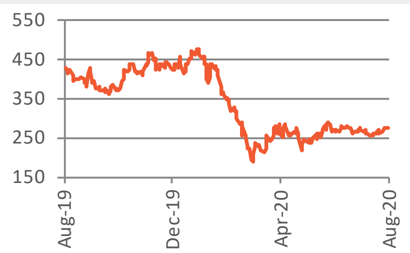
Company details

Market cap:	Rs. 15,089 cr
52-week high/low:	Rs. 486/186
NSE volume: (No of shares)	57.6 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Sharekhan code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	40.3
FII	34.7
DII	10.6
Others	14.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.1	11.4	42.2	-30.7
Relative to Sensex	9.7	-0.1	6.1	-34.3

Sharekhan Research, Bloomberg

LIC Housing Finance Limited (LICHFL) reported steady results with operating performance coming largely in line with expectations (lower provisions resulted in better-than-expected profits) but asset-quality performance was not bright. Moratorium book holding fast at 25% of total book (was 25% at Q4FY2021) was a dampener since most peers have reported a reduction in the same. Of the 25% loan book under moratorium, individual home loans accounted for 16% and rest were developer segment, which is a concern. Nearly 77% of developer loan book was under moratorium. However, developer loans were at ~7% of the total book; hence, the risk for the overall loan book is at manageable levels. Net interest income (NII, Calculated) was Rs. 1,226.5 crore, better than expectations, up 1.8% y-o-y and 6% q-o-q. PAT reported a 34% y-o-y jump to Rs. 817.48 crore for the quarter ending June, helped by lower provisioning. Provisioning in the first quarter stood at Rs. 56.5 crore compared to around Rs. 253 crore in Q1FY2020. Stage 3 exposure at default as of June 30, 2020, stood at 2.83%, stable on a q-o-q basis but up from 1.98% as on June 30, 2019. Provisions for expected credit loss (ECL) as a percentage of stage 3 exposure at default stood at 45.32% but has reasonably strong coverage on Stage 3 loans. Net interest margin (NIM) for the quarter stood at 2.32% as against 2.41% for Q1FY2020 and 2.34% in Q4FY2020. Total disbursements were Rs. 3,560 crore in the first quarter (was Rs. 10,261 crore for Q1FY2020). Out of this, disbursement in the individual home loan segment was Rs. 3,034 crore as against Rs. 7,871 crore, whereas project loans were Rs. 159 crore compared to Rs. 829 crore. The total loan portfolio grew by 6% y-o-y to Rs. 2,09,817 crore and individual loan portfolio rose by 6% y-o-y to Rs. 1,95,176 crore as against Rs. 1,84,155 crore. LICHF has strengths in borrowing profile and has been able to bring down its cost of funds, helped by its strong parent profile and we believe conservative LTVs and inexpensive valuations make risk-return favourable. We have introduced FY2023 estimates and accordingly rolled forward the target multiples. We upgrade the rating to Buy with a revised price target of Rs. 345.

Key positives

- Marginal improvement in RoA and RoE at 1.6% and 17.5% as compared to Q1FY2020 is encouraging.
- Steady asset-quality outlook, with conservative LTVs (most loans having incremental LTV in the range of ~50% as per management), is encouraging and indicate sufficient cover against the risk of large default.
- The company recovered ~Rs. 26 crore resulting in reduced NPA in builder book.

Key negatives

- Disbursement has dwindled in individual home loan as well as project loan disbursement, mainly impacted by the lockdown and reduced activity.
- Loan under moratorium is stagnant at 25%, whereas several peers reported a reduction on a q-o-q basis.

Our Call

LICHF currently trades at <1x its FY2022E book value (BV), and we believe that valuations are reasonable. LICHF has comfortable access to liquidity and enjoys high credit ratings and is well placed to manage the expected competitive intensity in the home loan segment and is likely to be able to keep margins steady. As the pall of lockdown gradually lifts, the asset-quality outlook (aided by conservative LTV ratios) has steadied. We have introduced FY2023E estimates and accordingly rolled forward the target multiples. We upgrade the rating to Buy with a revised price target of Rs. 345.

Key Risks

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

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income (Rs. cr)	4,349.9	4,689.0	4,391.1	4,837.0	5,612.9
Net profit (Rs. cr)	2,431.0	2,401.8	1,926.0	2,277.7	2,581.6
EPS (Rs.)	48.1	47.6	38.1	45.1	51.1
P/E (x)	6.2	6.3	7.8	6.6	5.8
Book value (Rs./share)	322.0	360	383.9	400.6	442.2
P/BV (x)	0.93	0.90	0.82	0.75	0.68
RoAE (%)	16.8	15.9	10.9	11.8	12.1
RoAA (%)	1.5	1.4	1.1	1.1	1.1

Source: Company; Sharekhan estimates

Key result highlights from Concall

- **Management Commentary:** Q1FY2021 PAT at Rs. 817.48 crore as against Rs. 610.68 crore, up 34%.

  Q1FY2021 total revenue from operations was up by 4% to Rs. 5,003.71 crore. Outstanding loan portfolio increased by 6% yoy to Rs. 2,09,817 crore, whereas individual loan portfolio grew by 6% to Rs. 1,95,176 crore. Q1FY2021 disbursements at Rs. 3,560 crore against Rs. 10,261 crore, wherein individual home loan disbursements at Rs. 3,034 crore against Rs. 7,871 crore. Net interest income at Rs. 1,220.61 crore as against Rs. 1,181.86 crore as of Q1FY2021. Net interest margin at 2.32% for Q1FY2021 as against 2.41% for Q1FY2020. Stage 3 EAD for the quarter stood at 2.83%.
- **Moratorium:** Individual home loans under moratorium accounted for 16% of the home loans portfolio in value terms and 12% in terms of accounts as on June 30, 2020. Around 77%s of builder account is under moratorium, whereas 25% of overall book is under moratorium. LAP would constitute around 36% of moratorium book. Around 25% customers have not paid any installmement of differ payment till now.
- **Restructuring:** Waiting for RBI's guidelines to take necessary steps.
- **Real Estate Scenario:** Most developers were able to service their EMI installments until March. However, to preserve cash for any unprecedented downturn, it has opted for moratorium. Sales in real estate have accelerated mid-segment and affordable segment post unlock 1. Witnessed increased retail home loan disbursement.
- **Fund Raised:** No plan of capital infusion as of now. Will not require support from the parent. The board will take calibrated decision at appropriate time.
- **Provision:** Stage 1 for the quarter was 93.2% as against 92.5%, Stage 2 stood at 3.97% versus 4.74% and Stage 3 at 2.83% versus 1.98%. Basically, ECL model depends on actual delinquencies and delinquency identified. So, in case of LICHF, most loans have LTV in the range of ~40%, which provide sufficient cover in the event of default. In most property value is twice the loan amount. In retail home loan, LTV remains in 80-85% of property value. The company witnesses actual loss of Rs. 350 crore-400 crore in the last three decades, which reflect underwriting capabilities and risk management practices.
- **Improvement in Q2 disbursement:** Since the last week of June, the company has witnessed disbursement in individual retail loans. However, the company was able to disburse only Rs. 158 crore as against Rs. 900 crore during the corresponding quarter previous year.
- **Recovery:** The company recovered around Rs. 26 crore-28 crore resulting in reduced NPA in builder book.
- **Yields:** 10% yield on project loans and LAP+LRD book, and there has steady yields during quarter. However, lower interest rates (three-year paper carrying coupon of 7.25% in March has gone down to as low as 5.45%) have resulted in lower cost of funds (CoF). LICHF also witnessed surge in public deposit despite reducing its deposit rates by ~150 bps over the last few quarters.
- **Cost of Fund:** Management has opted for diversified source of fund to reduce concentration risks. Couple of years back, NCDs constituted around 80% of sources of fund, which has declined substantially. Sourcing of funds from NHB is the lowest, which hovers 5-5.5%, which has helped bring down the Cost of Funds down from 8-8.5% trajectory.

Results					Rs cr
Particulars	**Q1FY21**	**Q1FY20**	**YoY%**	**Q4FY20**	**QoQ%**
Revenue from operations	5003.7	4807.2	4.1	4920.2	1.7
Interest expense	3764.5	3602.6	4.5	3764.2	0.0
NII	**1239.2**	**1204.6**	**2.9**	**1155.9**	**7.2**
Other Income	-26.2	0.0	NA	-33.2	-21.1
Net Total Income	**1213.0**	**1204.6**	**0.7**	**1122.7**	**8.0**
Employee expenses	79.6	61.3	29.9	87.7	-9.2
Other expenses	59.3	49.1	20.8	181.1	-67.2
Total Operating expenses	138.9	110.4	25.8	268.7	-48.3
Pre-Provisioning Profit	**1074.1**	**1094.2**	**-1.8**	**854.0**	**25.8**
Provisions	56.5	253.3	-77.7	27.3	107.2
PBT	1017.7	840.9	21.0	826.7	23.1
Tax	200.2	230.2	-13.0	405.3	-50.6
PAT	**817.5**	**610.7**	**33.9**	**421.4**	**94.0**
Key Items					
Loan Book (Rs. cr)	209817	197768	6.1	210578	-0.4
			BPS		**BPS**
Stage 3 asset %	2.83	1.98	85	2.83	0
NIM %	2.32	2.41	-9	2.34	-2

Source: Company; Sharekhan Research

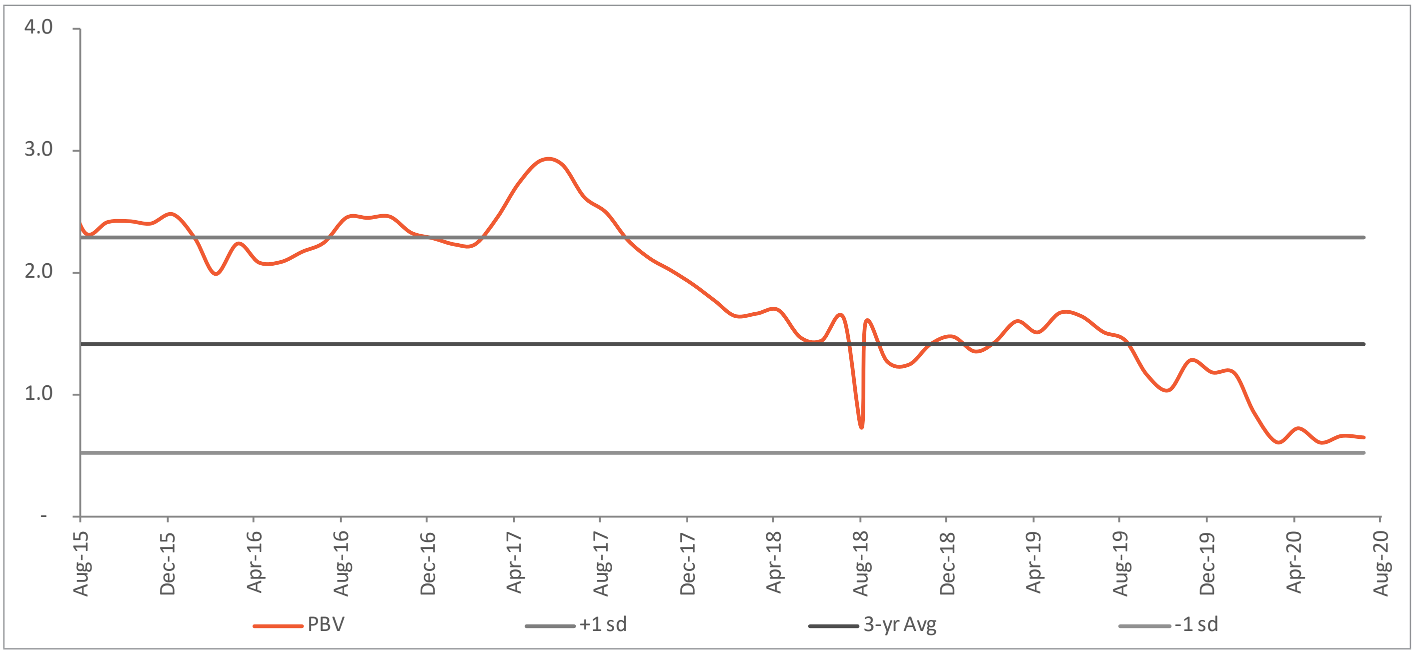
Outlook

During the quarter, LICHF witnessed slower loan disbursement, which was expected due to the lockdown and the slower economic activity due to the COVID-19 pandemic. However, improving traction in loan disbursement was witnessed in May and June months as the lockdown was gradually lifted, and is encouraging. At present, the activity is likely to be more in Tier-3 and Tier-4 centres, 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. We believe the outlook on asset quality and well-managed costs of borrowings are positives in favour.

Valuation

LICHF currently trades at <1x its FY2022E book value (BV), and we believe valuations are reasonable. LICHF has comfortable access to liquidity and enjoys high credit ratings and is well placed to manage the expected competitive intensity in the home loan segment. We believe the company will be able to keep margins steady. As the pall of lockdown gradually lifts, asset-quality outlook (aided by conservative LTV ratios) has steadied. We have introduced FY2023E estimates and accordingly rolled forward the target multiples. We upgrade the rating to Buy with a revised price target of Rs. 345.

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	299	0.8	0.7	7.8	6.6	1.07	1.13	10.90	11.80
Can Fin Homes	386	2.1	1.8	13.1	11.0	1.76	1.94	16.61	17.51
PNB Housing Finance	276	8.7	5.5	8.7	5.5	0.78	1.15	6.83	9.86

Source: Sharekhan Research, Bloomberg estimates

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 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 NBFCs/HFCs of late. However, while the high ratings are a key positive support to its margins, also allowing it to wean off high liquidity faster than peers. However, in the medium term, its book quality and growth performance will be the key monitorables. 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, however low LTVs are encouraging.

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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