

# LIC Housing Finance

Refer to important disclosures at the end of this report

## Under-provisioning builds risk-on balance sheet

**CMP:** Rs 299  
as of (August 25, 2020)

**TP:** Rs 274 (▲)  
12 months

**Rating:** HOLD (■)

**Upside:** (8.4) %

- LICHF's disbursements declined ~65% yoy (-78% qoq) on a ~68% yoy fall (-72% qoq) in individual housing, while project financing fell ~37% yoy (-91% qoq). Overall loan book grew at a multi-quarter low of 6.1% yoy (-0.4% qoq) and stood at Rs2,098bn.
- Net interest income rose ~3.3% yoy to Rs12.2bn, with margins improving sequentially to ~232bps from ~218bps last quarter. This was mainly a result of the non-reversal of interest income amid no incremental slippages due to asset-quality standstill. Despite increasing competition, LICHF is optimistic on retaining spreads due to its strong parentage.
- The company said 25% of its loan book remains under moratorium as of Jun'20. It recognized credit costs at ~11bps due to lower LGDs. With 75% of its developers under moratorium and due to uncertainties of a potential second wave of Covid-19, we believe this is the time to be conservative and not look at recording profits. In our view, LICHF may escalate its plan to build provision buffers once it raises capital and shores up capital adequacy.
- Though the housing loan book is safer than asset-backed loans in current turbulent times, we are concerned about competitive pressures, inadequate provision in the Stage 1 and Stage 2 books and potential dilution from fund raising. We keep our estimates largely intact and reiterate Hold/EW in EAP, but raise the target price to Rs274 from Rs254 due to the rollover to Sep'22E, corresponding to ~0.7x Sep'22E P/Adj. Book.

**Subdued growth, pressure on margins and higher slippages:** Overall loan book growth slipped to a multi-quarter low of 6.1% yoy. The loan book stood at Rs2.1tn, of which individual loans grew 6% yoy and developer loans grew 7.6% yoy. The share of retail home loans was flat sequentially at ~76.8%, while the share of developer finance inched up to 7.0%. The housing finance industry has seen intense competition recently, with aggressive efforts by large banks and newly formed HFCs. With limited or no pricing power, LICHF should witness spread and margin compression in FY20-22E. Considering the current turmoil in the developer segment, i.e., liquidity crunch and the slowdown in sales, along with inadequate provisions, we expect credit costs to be elevated for the next 4-6 quarters.

**Outlook and valuation:** We have been cautious on the company's asset-quality profile for some time, and we remain so due to inadequate provisioning. Though the housing loan book is safer than asset-backed loans in current times, we remain concerned about the pressure emerging on spreads and margins on the introduction of external benchmark-linked floating-rate loans by banks. We keep our estimates largely unchanged and reiterate Hold/EW in EAP, but raise the target price to Rs274 from Rs254 due to the rollover to Sep'22E, corresponding to ~0.7x Sep'22E P/Adj. Book. The key risk is a big fiscal push by the government for reviving of real-estate activity.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 6\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	44,720	49,399	46,749	48,595	53,454
Net profit	24,328	24,018	20,648	21,466	24,910
EPS (Rs)	48.2	47.6	40.9	42.5	49.3
ABV (Rs)	300.4	314.7	302.1	301.6	310.5
RoA (%)	1.3	1.2	1.0	1.0	1.1
RoE (%)	16.0	13.9	10.9	10.5	11.2
PE (x)	6.2	6.3	7.3	7.0	6.1
P/ABV	1.0	1.0	1.0	1.0	1.0

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	(1)/(3)
Target Price change (%)	7.8
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	40.9	42.5
Consensus	33.5	49.5
Mean Consensus TP (12M)	Rs 317	

### Stock Details

Bloomberg Code	LICHF IN
Face Value (Rs)	2
Shares outstanding (mn)	505
52 Week H/L	487 / 185
M Cap (Rs bn/USD bn)	151 / 2.03
Daily Avg Volume (nos.)	62,34,363
Daily Avg Turnover (US\$ mn)	22.5

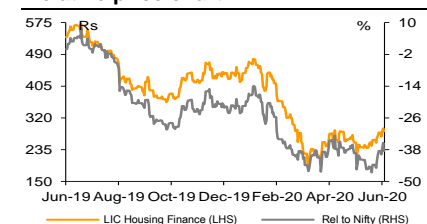
### Shareholding Pattern Jun '20

Promoters	40.3%
FIIs	34.3%
DIIIs	10.6%
Public and Others	14.8%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	10	24	(15)	(30)
<b>Rel. to Nifty</b>	7	(2)	(12)	(34)

### Relative price chart



Source: Bloomberg

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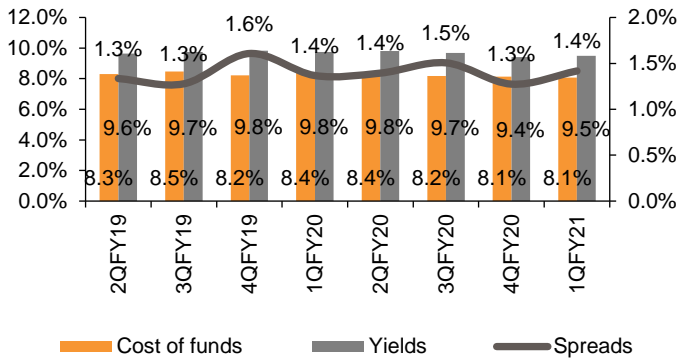
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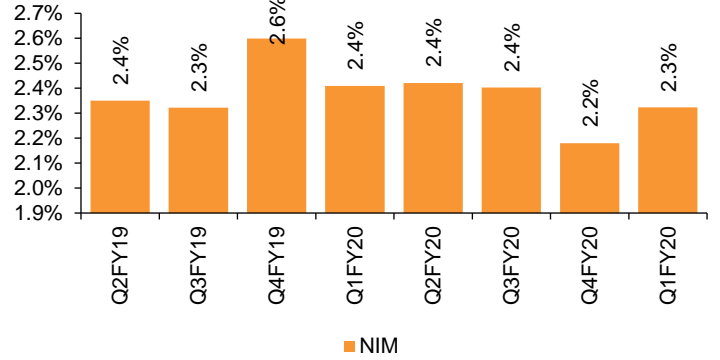
## Story in Charts

**Exhibit 1: LICHF maintains spreads despite rate cuts**



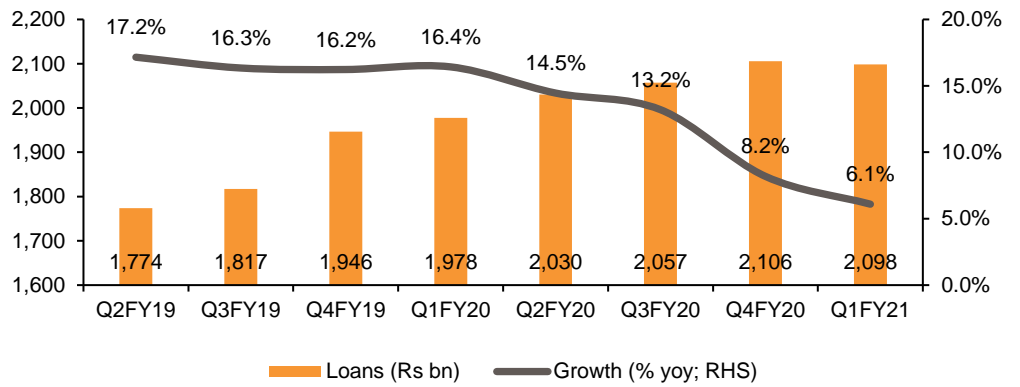
Source: Company, Emkay Research

**Exhibit 2: NIMs remain robust due to non-reversal of interest income on asset standstill**



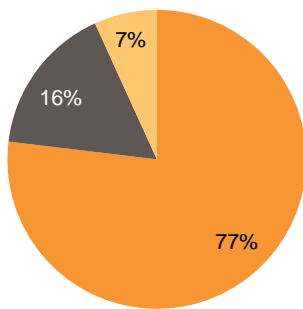
Source: Company, Emkay Research

**Exhibit 3: Loan growth touches all-time low**



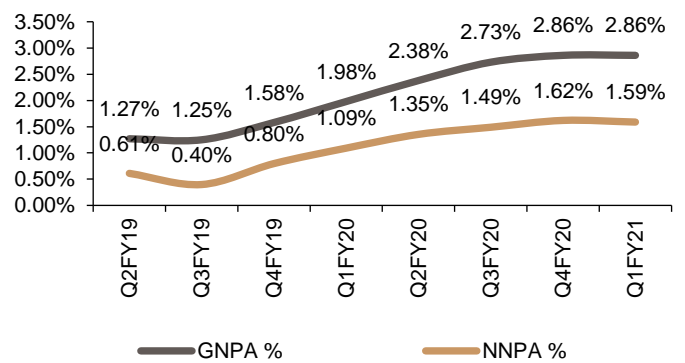
Source: Company, Emkay Research

**Exhibit 4: Individual loans form 77% of the loan book**



Source: Company, Emkay Research

**Exhibit 5: Maintains asset quality due to standstill**



Source: Company, Emkay Research

**Exhibit 6: Actual vs. Estimates (Q1FY21)**

Rs mn	Actuals	Estimate (Emkay)	Consensus estimate (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net income	12,130	11,819	11,366	2.6%	6.7%	In line with estimates
PPOP	10,763	10,982	NA	-2.0%	NA	In line with estimates
PAT	8,175	6,107	5,097	33.9%	60.4%	Lower provisioning despite high morat

Source: Company, Emkay Research

**Exhibit 7: Quarterly financials**

Rs mn	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net Interest Income	11,819	12,131	12,279	11,342	12,206	3.3%	7.6%	47,321	45,716	-3.4%
Other Income	228	642	533	-115	-76	-133.4%	-34.2%	2,078	1,033	-50.3%
<b>Total Income</b>	<b>12,046</b>	<b>12,772</b>	<b>12,812</b>	<b>11,227</b>	<b>12,130</b>	<b>0.7%</b>	<b>8.0%</b>	<b>49,399</b>	<b>46,749</b>	<b>-5.4%</b>
Operating Expenses	1,064	1,431	1,383	2,288	1,367	28.5%	-40.2%	6,707	6,546	-2.4%
Operating Profit	10,982	11,341	11,430	8,939	10,763	-2.0%	20.4%	42,692	40,203	-5.8%
Provisions	2,573	2,780	3,977	672	587	-77.2%	-12.8%	10,002	12,412	24.1%
% of operating profit	23.4%	24.5%	34.8%	7.5%	5.4%			23.4%	30.9%	
<b>PBT</b>	<b>8,409</b>	<b>8,561</b>	<b>7,453</b>	<b>8,267</b>	<b>10,177</b>	<b>21.0%</b>	<b>23.1%</b>	<b>32,690</b>	<b>27,791</b>	<b>-15.0%</b>
Tax	2,302	839	1,478	4,053	2,002	-13.0%	-50.6%	8,672	7,142	-17.6%
Tax rate (%)	27.4%	9.8%	19.8%	49.0%	19.7%			26.5%	25.7%	
<b>PAT</b>	<b>6,107</b>	<b>7,722</b>	<b>5,975</b>	<b>4,214</b>	<b>8,175</b>	<b>33.9%</b>	<b>94.0%</b>	<b>24,018</b>	<b>20,648</b>	<b>-14.0%</b>

Source: Company, Emkay Research

**Exhibit 8: Revision in earnings estimates**

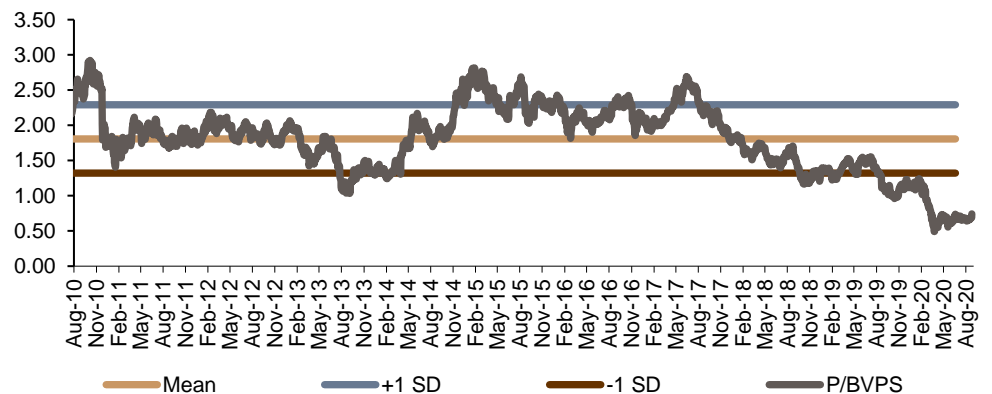
Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	46,557	45,716	-1.8%	50,702	46,788	-7.7%	51,394	46,788	-9.0%
PPOP	42,055	40,203	-4.4%	40,779	39,411	-3.4%	42,408	39,411	-7.1%
PAT	20,978	20,648	-1.6%	21,779	21,466	-1.4%	24,910	21,466	-13.8%
EPS (Rs)	42	41	-1.6%	43	43	-1.3%	49	43	-13.8%
BV (Rs)	393	391	-0.6%	432	421	-2.5%	457	421	-7.7%

Source: Company, Emkay Research

**Exhibit 9: Key assumptions**

(%)	FY20	FY21E	FY22E	FY23E
Loans growth	7.8%	-1.1%	4.5%	6.5%
Borrowings growth	12.5%	-0.8%	2.8%	5.4%
Yield on average loans	9.7%	9.3%	9.1%	8.9%
Cost of average int. liabilities	8.2%	7.8%	7.6%	7.4%
GNPA (Stage 3)	2.9%	4.3%	5.1%	5.6%

Source: Company, Emkay Research

**Exhibit 10: The stock currently trades at 0.7x 1-year forward P/B**

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>42,713</b>	<b>47,321</b>	<b>45,716</b>	<b>46,788</b>	<b>51,394</b>
<b>Other income</b>	<b>2,008</b>	<b>2,078</b>	<b>1,033</b>	<b>1,807</b>	<b>2,060</b>
Net income	44,720	49,399	46,749	48,595	53,454
<b>Operating expenses</b>	<b>4,726</b>	<b>6,707</b>	<b>6,546</b>	<b>9,184</b>	<b>11,046</b>
Pre provision profit	39,995	42,692	40,203	39,411	42,408
<b>Provisions</b>	<b>6,181</b>	<b>10,002</b>	<b>12,412</b>	<b>10,519</b>	<b>8,883</b>
<b>Profit before tax</b>	<b>33,814</b>	<b>32,690</b>	<b>27,791</b>	<b>28,891</b>	<b>33,526</b>
Tax	9,486	8,672	7,142	7,425	8,616
<b>Tax rate</b>	<b>28</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>26</b>
Profit after tax	24,328	24,018	20,648	21,466	24,910

**Balance Sheet**

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	1,010	1,010	1,010	1,010	1,010
Reserves	1,61,583	1,80,921	1,96,252	2,11,811	2,29,631
<b>Net worth</b>	<b>1,62,593</b>	<b>1,81,931</b>	<b>1,97,262</b>	<b>2,12,821</b>	<b>2,30,641</b>
Deposits	16,86,670	18,98,317	18,82,575	19,35,272	20,38,960
<b>Total liabilities</b>	<b>20,05,835</b>	<b>21,68,056</b>	<b>21,78,704</b>	<b>22,61,391</b>	<b>24,01,821</b>
Cash and bank	30,235	19,790	52,386	20,251	14,728
Investments	35,951	56,964	56,477	77,411	81,558
Loans	19,29,927	20,79,880	20,57,459	21,50,302	22,90,966
<b>Total assets</b>	<b>20,05,835</b>	<b>21,68,056</b>	<b>21,78,704</b>	<b>22,61,391</b>	<b>24,01,821</b>

**Key Ratios (%)**

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	2.4	2.4	2.2	2.2	2.3
RoA	1.3	1.2	1.0	1.0	1.1
RoAE	16.0	13.9	10.9	10.5	11.2
GNPA (%)	1.6	2.9	4.3	5.1	5.6
NNPA (%)	0.8	1.5	2.9	3.8	4.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	48.2	47.6	40.9	42.5	49.3
BVPS	322.0	360.3	390.7	421.5	456.8
ABVPS	300.4	314.7	302.1	301.6	310.5
DPS	7.6	8.0	9.0	10.0	12.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	6.2	6.3	7.3	7.0	6.1
P/BV	1.0	0.9	1.0	1.0	1.0
P/ABV	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	2.5	2.7	3.0	3.3	4.0

Source: Company, Emkay Research

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
NII	21.3	10.8	(3.4)	2.3	9.8
PPOP	22.8	6.7	(5.8)	(2.0)	7.6
PAT	21.5	(1.3)	(14.0)	4.0	16.0
Loans	16.1	7.8	(1.1)	4.5	6.5

<b>Quarterly (Rs mn)</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>
NII	11,819	12,131	12,279	11,342	12,206
NIM(%)	2.4	2.4	2.4	2.2	2.3
PPOP	10,982	11,341	11,430	8,939	10,763
PAT	6,107	7,722	5,975	4,214	8,175
EPS (Rs)	12.09	15.29	11.83	8.35	16.19

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>
Promoters	40.3	40.3	40.3	40.3	40.3
FIIIs	31.4	32.5	32.9	32.7	32.3
DIIIs	9.0	9.1	14.6	15.1	14.0
Public and Others	19.3	18.1	12.2	11.9	13.4

Source: Capitaline

## Emkay Alpha Portfolio – BFSI-NBFCs



### Analyst: Jignesh Shial

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#### Sector

NBFCs/AFCs

#### Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-NBFCs</b>	<b>7.41</b>	<b>7.35</b>	<b>-1%</b>	<b>-6</b>	<b>100.00</b>
Bajaj Finance	1.37	1.44	5%	6	19.37
Cholamandalam Investment	0.14	0.14	0%	0	1.91
Edelweiss Financial Services	0.07	0.00	-100%	-7	0.00
HDFC	5.23	5.30	1%	7	71.42
L&T Finance Holdings	0.07	0.00	-100%	-7	0.00
LIC Housing Finance	0.13	0.14	5%	1	1.89
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.13	0.07	-44%	-5	0.95
Nippon Life	0.07	0.07	5%	0	0.97
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.20	0.20	-4%	-1	2.65
<b>Cash</b>	<b>0.00</b>	<b>0.06</b>	<b>NA</b>	<b>6</b>	<b>0.8</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

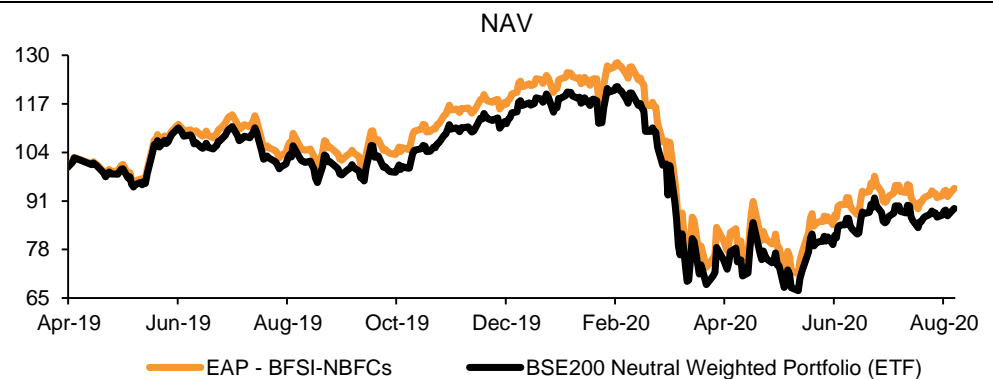
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	22-Nov-19	24-Feb-20	26-May-20	24-Jul-20	24-Aug-20
EAP - BFSI-NBFCs	100.0	115.7	123.5	71.5	93.5	94.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	110.5	116.6	66.9	88.2	89.0

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Aug 2020 00:24:24 (SGT)

Dissemination Date: 26 Aug 2020 00:25:24 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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