

LIC Housing Finance

Earnings beat, but challenges remain

LICHF's 1QFY21 operating performance was only slightly higher than estimates, but earnings were considerably higher than estimates, on account of lower-than-expected provisions (LLPs and tax). AUM growth was the slowest since FY09, and the moratorium portfolio remained sticky at 25% of loans (77% in the developer book). While we have increased our earnings, we maintain our REDUCE rating with a target price of Rs 296 (0.9x FY22E), especially after the recent run-up. LICHF faces several challenges in the near term: (1) a sticky moratorium book (particularly in the developer book), (2) inadequate coverage with minuscule Stage I & II provisions and negligible COVID-19 related provisions, and (3) stiff competition from banks, which would constrain growth and NIMs.

- Asset quality and moratorium trends:** LICHF's moratorium portfolio was sticky. The proportion of loans under moratorium was 25% (16%/36%/77% of individual home loans/ of the LAP book/ the project loan portfolio were under moratorium). The commentary indicates that the book under moratorium dipped by just 200-300bps between July and August. GS-III was optically stable QoQ at 2.83% (+85bps YoY) due to the standstill classification benefit. Over FY17-20, LICHF's asset quality steadily deteriorated, as GNPA's are 9.5x FY17 levels, (vs. AUM CAGR of ~13.6% over the period). Non-core segments, which have grown faster, have disproportionately contributed to asset quality deterioration. We remain cautious on LICHF's asset quality, given (1) pre-COVID-19 trends and the (2) sticky moratorium portfolio, and we expect GNPA's to hit 4.5% in FY22E.
- Provisions dip YoY:** Surprisingly, provisions were 77.7% lower YoY at just Rs 565mn (just 12bps of AUM, ann.). LICHF does not seem to have adequately provided for the impact of COVID-19, especially given its sticky moratorium portfolio. And while Stage III coverage may appear high at 44.9%, it is a consequence of the fact that developer loans constituted ~43% of GS-III in FY20. Stage I & II coverage was negligible. We have reduced our FY21E LLP estimates to factor in the 1Q miss. However, at 66bps ann., they are significantly higher vs. 34bps over FY17-20.
- Growth slows further:** AUM growth slowed to 6.1% YoY (the lowest since FY09), with individual home loan growth slowing to 7%. Disbursals were 65.3/61.7% lower YoY/QoQ at Rs 35.6bn. LICHF's performance on the growth front, especially in case of individual home loan has been disappointing. Post-IL&FS, when competition from most NBFCs and HFCs waned, the company had an advantage in terms of its ability to access funds, but it failed to gain market share. This is evident as bank credit to the sector grew at a much faster pace until FY20.

Financial Summary

(Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Net int. income	12,206	11,819	3.3	11,342	7.6	43,646	48,215	47,471	55,407
PPOP	10,741	10,942	(1.8)	8,540	25.8	39,976	42,692	42,068	49,619
PAT	8,164	6,084	34.2	4,199	94.4	24,310	24,018	20,920	24,137
EPS (Rs)	16.2	12.1	34.2	8.3	94.4	48.1	47.6	41.4	47.8
ROAE (%)						15.9	13.9	11.0	11.5
ROAA (%)						1.31	1.15	0.94	1.02
ABVPS (Rs)						281	294	292	315
P/ABV (x)						1.06	1.02	1.03	0.95
P/E (x)						6.2	6.3	7.2	6.3

Source: Company, HSIE Research

REDUCE

CMP (as on 25 Aug 2020)	Rs 299
Target Price	Rs 296
NIFTY	11,472

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 272	Rs 296
EPS %	FY21E	FY22E
	+30.4%	+3.8%

KEY STOCK DATA

Bloomberg code	LICHF IN
No. of Shares (mn)	505
MCap (Rs bn) / (\$ mn)	151/2,033
6m avg. traded value (Rs mn)	1,605
52 Week high / low	Rs 487/185

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.0	(14.7)	(29.6)
Relative (%)	(2.6)	(11.2)	(35.5)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	40.3	40.3
FIs & Local MFs	14.1	10.7
FPIs	32.4	34.3
Public & Others	13.3	14.8
Pledged Shares		

Source : BSE

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- Funding:** LICHF has been able to raise debt with relative ease due to its parentage. Outstanding bank borrowings and NCDs dipped ~10.5% and ~6.1% on a sequential basis, while retail deposits (+12.5%, ~8% of borrowings) and NHB borrowings (4.9xQoQ, ~5% of borrowings) saw significant growth. As of FY20, LICHF's CRAR was 13.9% (w/w Tier 1 was 12.2%). We believe that the company should look to raise equity.
- Margins expand QoQ:** LICHF's NIMs were 22bps higher QoQ at 2.32% (-3bps YoY). The expansion was aided by a sharp 59/21bps fall in CoF to ~7.9%. Notably, LICHF saw a sharp fall in its average cost of bank loans (-145/-52bps) and debentures (-192/-203bps). Yields fell 30bps YoY but were 13bps higher QoQ at ~10.2%. We expect NIMs of 2.3% over FY21-22E and do not see scope for further material NIM expansion, as LICHF faces stiff competition from banks.

Home loan growth considerably slower growth vs. peers

Growth (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
LICHF	9.6	9.1	8.4	10.1	12.2	12.5	12.5	9.3	6.9
SBIN	13.0	23.8	26.5	27.9	28.5	18.0	15.6	13.9	10.7
ICICIBC	16.4	16.2	18.1	18.8	19.1	18.6	14.8	12.3	9.3
AXSB	9.8	9.1	11.6	13.1	15.9	16.9	15.8	14.4	9.6
Industry (Banks)	15.8	15.6	17.1	19.0	18.9	19.3	17.6	15.4	12.5

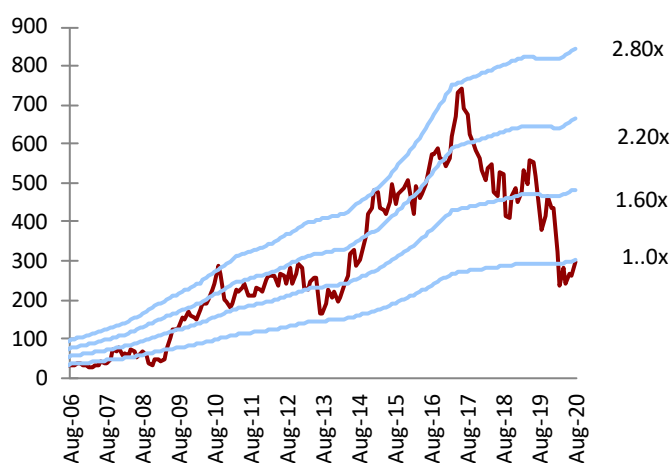
Source: Company, Banks, RBI, HSIE Research

Change In Estimates

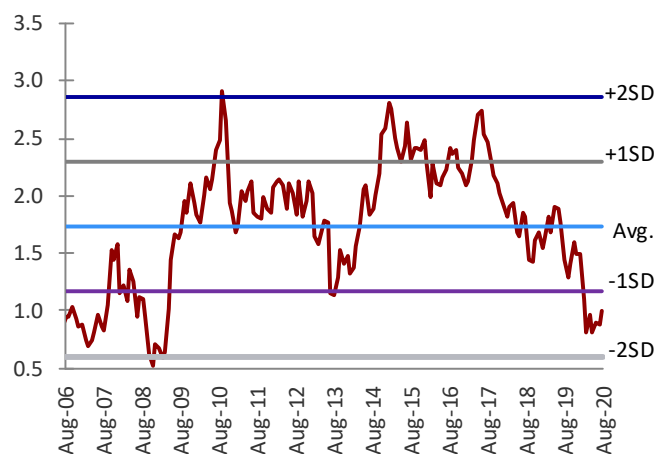
Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
NII	46,507.3	47,470.8	2.1	54,394.5	55,406.8	1.9
PPOP	41,326.3	42,068.4	1.8	48,606.5	49,618.8	2.1
PAT	16,042.8	20,919.9	30.4	23,258.6	24,137.5	3.8
ABV (Rs)	269.2	291.5	8.3	297.5	315.3	6.0

Source: Company, HSIE Research

PABV



Source: Company, HSIE Research



Source: Company, HSIE Research

Five quarters at a glance

NII was 6.4% ahead of estimates, and its QoQ growth was aided by NIM expansion

The sharp fall in operating costs is mostly seasonal

Provisions were significantly lower than estimates

Loan growth was the slowest since FY09

NHB borrowings were the largest source of borrowings on a QoQ basis

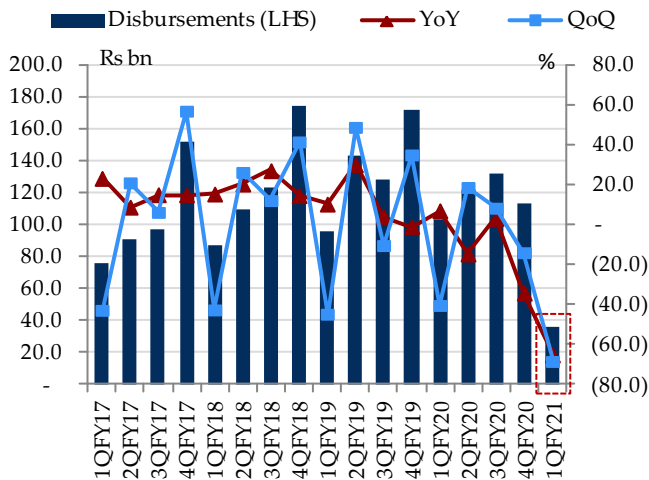
The sharp fall in the CoF is a positive

Gross NPA was optically stable due to the standstill classification benefit

(Rs mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY Growth	QoQ Growth
Net interest income	11,819	12,517	12,537	11,342	12,206	3.3%	7.6%
Non-interest income	228	255	276	(115)	(76)	-133.4%	-34.2%
Operating income	12,046	12,772	12,812	11,227	12,130	0.7%	8.0%
Operating expenses	1,104	1,397	1,452	2,687	1,389	25.8%	-48.3%
Pre provision profits	10,942	11,375	11,360	8,540	10,741	-1.8%	25.8%
Non-tax provision	2,533	2,815	3,907	273	565	-77.7%	107.2%
PBT	8,409	8,561	7,453	8,267	10,177	21.0%	23.1%
Tax expenses	2,302	839	1,478	4,053	2,002	-13.0%	-50.6%
PAT	6,107	7,722	5,975	4,214	8,175	33.9%	94.0%
OCI	-22.8	-10.9	-19.8	-15	-10.5	-53.9%	-30.0%
PAT + OCI	6,084	7,711	5,956	4,199	8,164	34.2%	94.4%
Balance sheet items							
Disbursals (Rs bn)	102.6	121.7	131.8	92.9	35.6	-65.3%	-61.7%
Individual (Rs bn)	94.3	117.3	122.5	88.8	34.0	-63.9%	-61.7%
Projects (Rs bn)	8.3	4.5	9.3	4.1	1.6	-80.8%	-61.5%
Loan book (Rs bn)	1,978	2,030	2,056.9	2,105.8	2,098.2	6.1%	-0.4%
Individual (Rs bn)	1,842	1,894	1,924.6	1,962.6	1,951.8	6.0%	-0.6%
Projects (Rs bn)	136	137	132.3	143.2	146.4	7.6%	2.2%
Borrowings (Rs bn)	1,730	1,788	1,849.7	1,912.1	1,882.6	8.8%	-1.5%
Bank borrowings (%)	13.7	15.5	19.0	22.0	20.0	635 bps	-200 bps
Profitability (%)							
Yield on advances	10.45	10.34	10.25	10.02	10.15	-30 bps	13 bps
Cost of funds	8.46	8.36	8.22	8.08	7.87	-59 bps	-21 bps
Spreads	1.99	1.98	2.03	1.94	2.28	29 bps	34 bps
NIM	2.35	2.42	2.42	2.10	2.32	-3 bps	22 bps
C-I ratio	9.2	10.9	11.3	23.9	11.5	229 bps	-1249 bps
Tax rate	27.4	9.8	19.8	49.0	19.7	-771 bps	-2935 bps
Asset quality							
Gross NPA	39,158	48,323	56,154	59,594	59,378	51.6%	-0.4%
Net NPA	21,591	27,492	30,638	33,474	32,692	51.4%	-2.3%
Gross NPAs (%)	1.98	2.38	2.73	2.83	2.83	85 bps	0 bps
Net NPAs (%)	1.09	1.35	1.49	1.59	1.56	47 bps	-3 bps
Coverage ratio (%)	44.9	43.1	45.4	43.8	44.9	8 bps	111 bps
Individual GNPA (%)	1.26	1.52	1.92	1.74	1.74	47 bps	0 bps

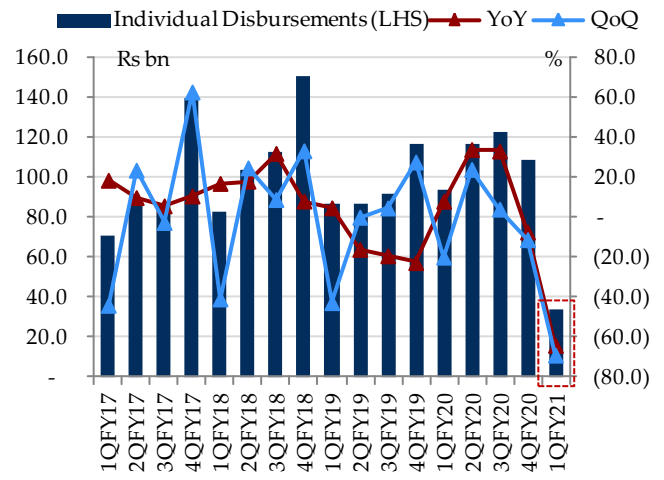
Source: Company, HSIE Research

Overall disbursements dipped 65.3/61.7%



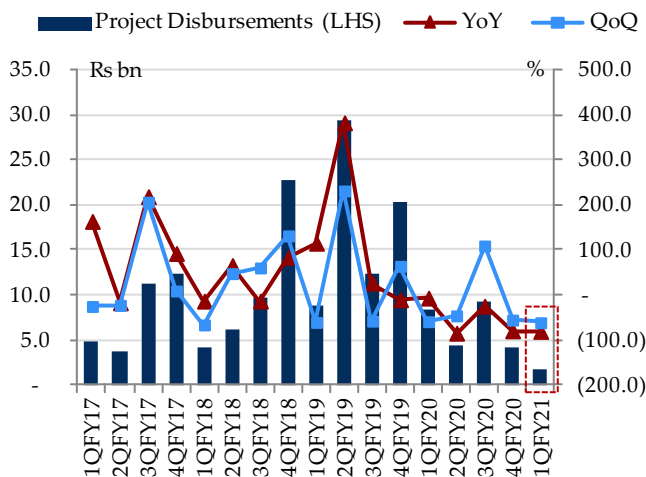
Source: Company, HSIE Research

Individual disbursements dipped 63.9/61.7%



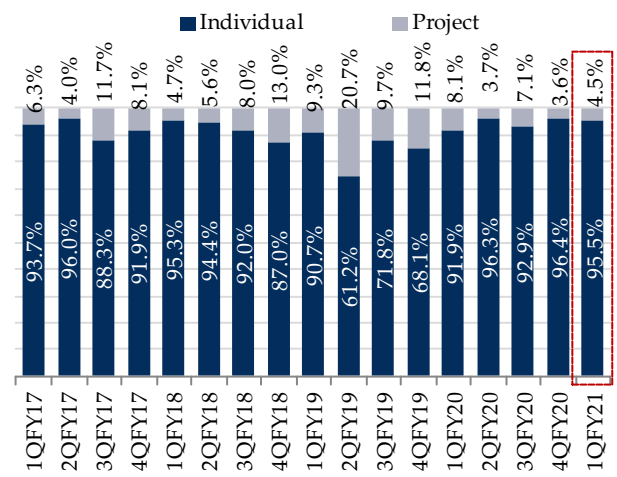
Source: Company, HSIE Research

Project disbursements 80.8/61.5%



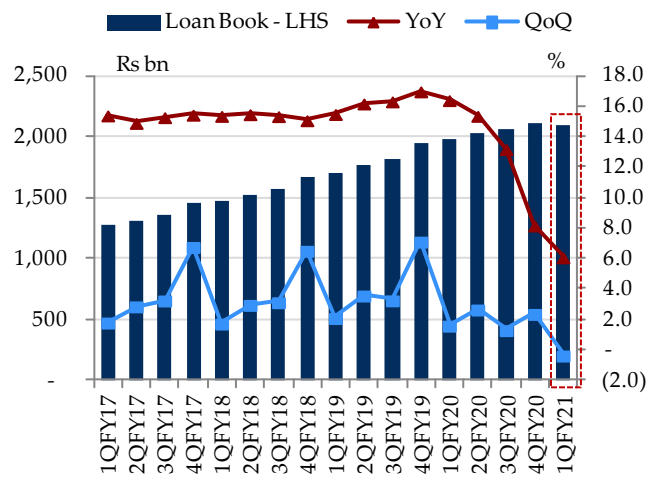
Source: Company, HSIE Research

The share of individual disbursements rises



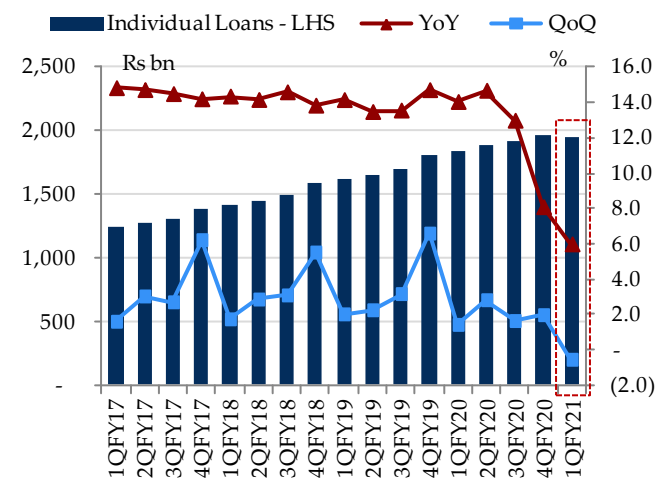
Source: Company, HSIE Research

Loan growth continues to slow



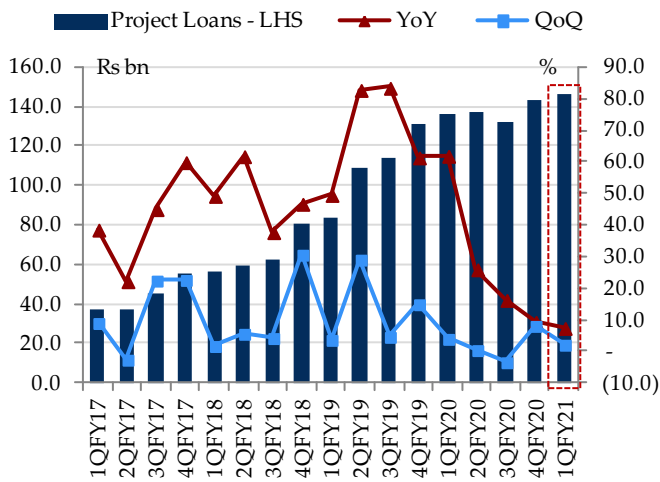
Source: Company, HSIE Research

Individual loan growth



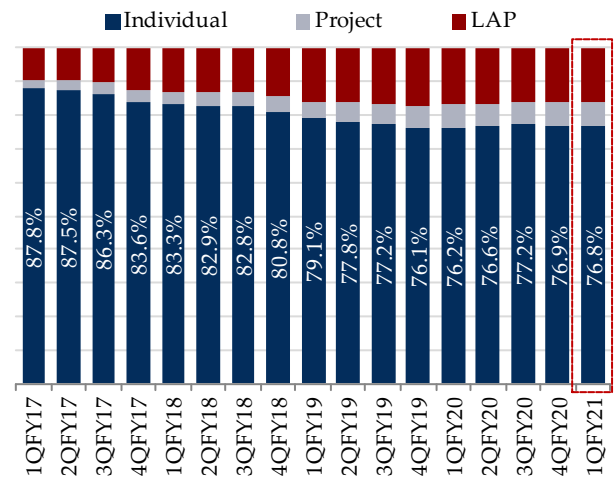
Source: Company, HSIE Research

Project loan disbursals



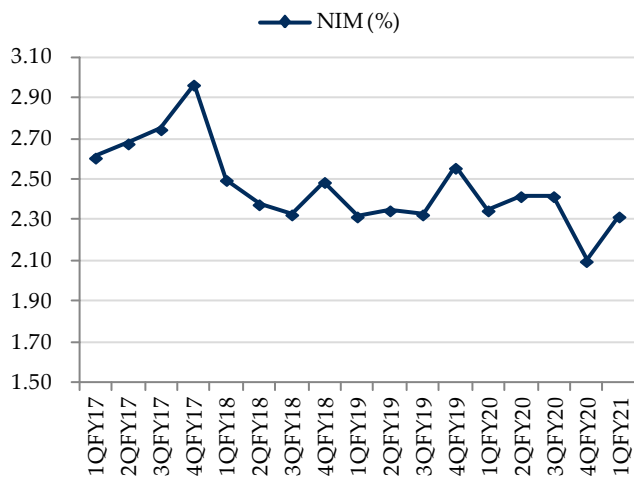
Source: Company, HSIE Research

Loan book split



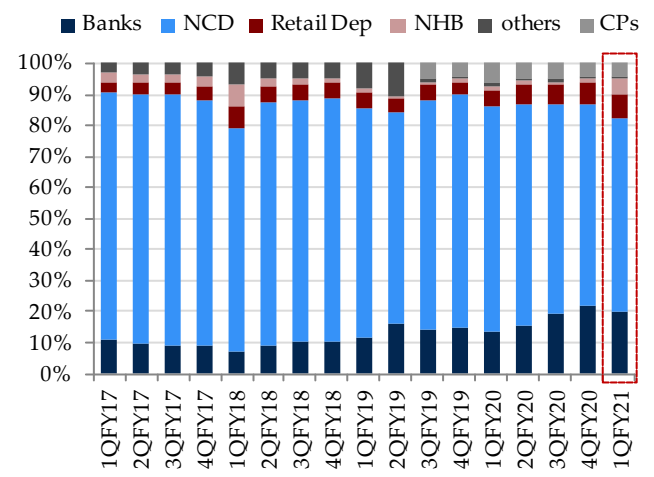
Source: Company, HSIE Research

NIMs expand QoQ



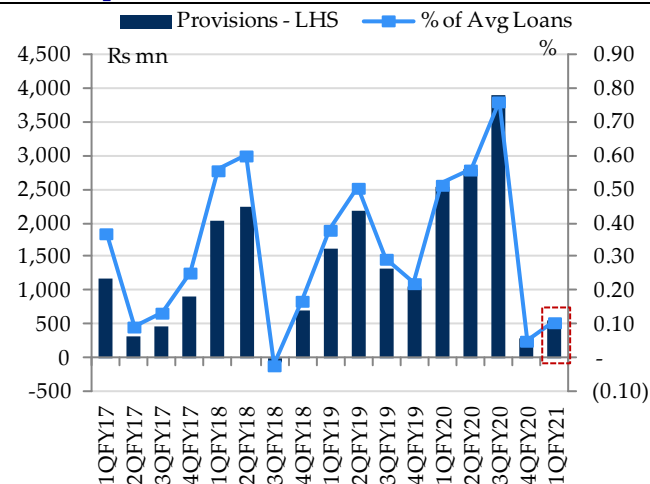
Source: Company, HSIE Research

QoQ rise in the share of NHB borrowings



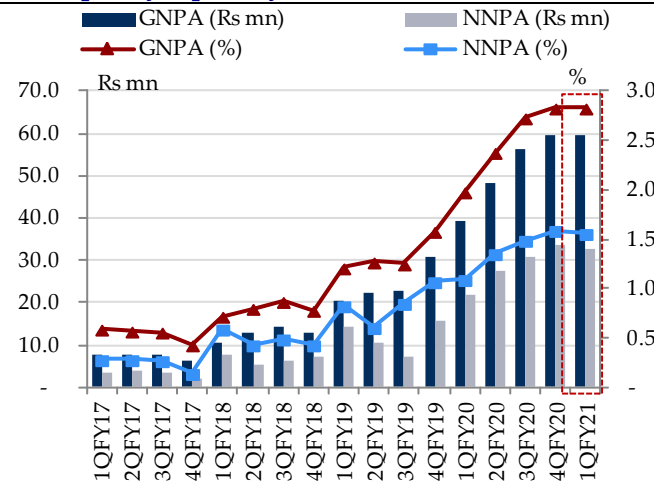
Source: Company, HSIE Research

Non-tax provision trends



Source: Company, HSIE Research, Note * - Incl. securitization

Asset quality- optically stable



Source: Company, HSIE Research

Asset quality

Rs bn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Gross Stage I	1,407.1	1,440.3	1,477.7	1,585.7	1,613.0	1,664.0	1,704.7	1,830.6	1,844.8	1,885.8	1,883.1	1,948.1	1,955.5
Gross Stage I (%)	95.7%	95.1%	94.6%	95.3%	95.0%	94.6%	93.8%	94.1%	93.3%	92.9%	91.6%	92.5%	93.2%
Gross Stage II	52.8	60.9	69.8	64.0	65.1	73.2	89.6	85.1	93.7	96.2	117.7	98.1	83.3
Gross Stage II (%)	3.6%	4.0%	4.5%	3.9%	3.8%	4.2%	4.9%	4.4%	4.7%	4.7%	5.7%	4.7%	4.0%
Gross Stage III	10.6	13.0	14.2	13.5	20.6	22.3	22.7	30.8	39.2	48.3	56.2	59.6	59.4
Gross Stage III (%)	0.7%	0.9%	0.9%	0.8%	1.2%	1.3%	1.3%	1.6%	2.0%	2.4%	2.7%	2.8%	2.8%

Source: Company and HSIE Research

Peer set comparison

	M Cap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
BAF	2,186	3,644	ADD	3,643	523	571	698	41.5	50.9	31.5	6.96	6.38	5.22	20.2	12.5	17.4	3.65	2.55	3.68
CIFC	199	242	BUY	249	84	93	114	20.1	16.1	14.2	2.88	2.60	2.12	13.8	14.1	14.1	1.63	1.90	2.03
SHTF	158	695	ADD	861	530	568	754	6.3	7.2	5.7	1.31	1.22	0.92	14.8	11.5	13.0	2.28	1.90	2.28
INDOSTAR	37	277	REDUCE	267	226	245	277	-7.9	29.1	17.3	1.22	1.13	1.00	11.4	4.5	5.2	-2.96	1.28	1.98
LICHF	151	299	REDUCE	296	294	292	315	6.3	7.2	6.3	1.02	1.03	0.95	13.9	11.0	11.5	1.15	0.94	1.02
REPCO	10	161	ADD	207	233	245	287	3.6	4.3	4.2	0.69	0.66	0.56	16.9	12.3	11.4	2.44	1.90	1.88

Source: Company, HSIE Research, # Adjusted for subsidiaries value

Financials

Income statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest earned	106,693	123,961	139,869	147,297	172,561	196,054	2,00,109	2,11,739
Interest expended	83,102	93,068	102,315	111,439	128,915	147,839	1,52,638	1,56,332
Net interest income	23,591	30,894	37,555	35,859	43,646	48,215	47,471	55,407
Other income	1,293	893	934	1,109	1,085	644	885	1,201
Total income	24,884	31,787	38,489	36,968	44,730	48,859	48,356	56,608
Operating expenses	3,792	4,687	6,118	4,396	4,754	6,167	6,288	6,989
PPOP	21,092	27,100	32,371	32,572	39,976	42,692	42,068	49,619
Non-tax provisions	73	1,465	2,813	4,917	6,181	10,002	14,112	17,362
PBT	21,019	25,636	29,558	27,655	33,796	32,690	27,957	32,256
Tax expense	7,158	9,028	10,247	7,656	9,486	8,672	7,037	8,119
PAT	13,862	16,608	19,311	19,999	24,310	24,018	20,920	24,137

Source: Bank, HSIE Research

Statement of assets and liabilities

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
SOURCES OF FUNDS								
Share capital	1,010	1,010	1,010	1,010	1,010	1,010	1,010	1,010
Reserves & surplus	77,174	90,450	109,760	141,402	161,583	180,921	1,98,389	2,18,544
Net-worth	78,184	91,460	110,770	142,412	162,593	181,931	1,99,399	2,19,554
Borrowings	965,319	1,160,830	1,263,350	1,453,099	1,706,670	1,913,317	19,42,910	21,08,943
Other liabilities	81,947	48,083	134,885	115,387	136,572	72,808	1,28,048	1,31,783
Total liabilities	1,125,451	1,300,373	1,509,006	1,710,898	2,005,835	2,168,056	22,70,357	24,60,279
APPLICATION OF FUNDS								
Advances	1,085,117	1,253,213	1,447,565	1,661,623	1,929,927	2,079,880	21,86,272	23,73,102
Investments	2,371	2,768	5,270	19,722	35,951	54,964	49,467	44,521
Fixed assets	797	920	965	971	1,359	1,366	1,380	1,407
Cash and cash equivalents	29,331	34,665	44,633	20,964	29,949	19,790	29,914	37,642
Other assets	7,835	8,807	10,572	7,618	8,649	12,057	3,324	3,608
Total assets	1,125,451	1,300,373	1,509,006	1,710,898	2,005,835	2,168,056	22,70,357	24,60,279

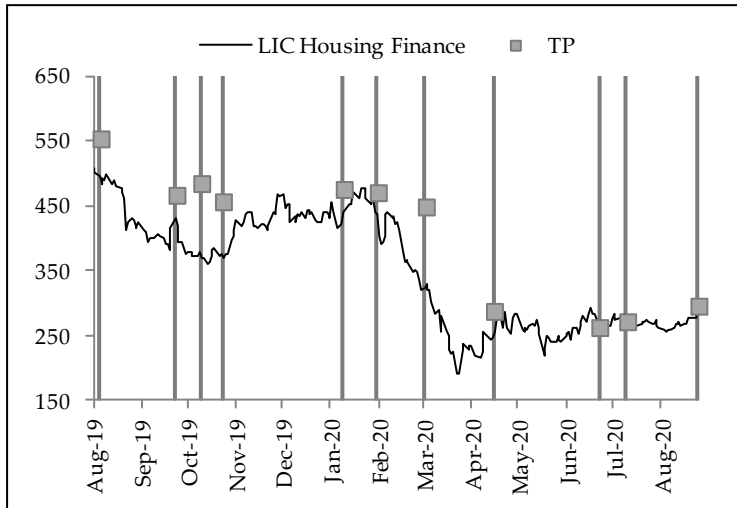
Source: Bank, HSIE Research

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Valuation ratios								
EPS (Rs)	27.5	32.9	38.2	39.6	48.1	47.6	41.4	47.8
Earnings growth (%)	5.2	19.8	16.3	3.6	21.6	(1.2)	(12.9)	15.4
BVPS (Rs)	154.8	181.1	219.4	282.0	322.0	360.3	394.9	434.8
ABVPS (Rs)	150.2	175.3	215.1	267.9	281.1	294.0	291.5	315.3
DPS (Rs)	5.0	5.5	6.4	6.8	7.8	8.0	6.8	7.9
RoAA (%)	1.3	1.4	1.37	1.24	1.31	1.15	0.94	1.02
RoAE (%)	18.1	19.6	19.1	15.8	15.9	13.9	11.0	11.5
P/E (x)	10.9	9.1	7.8	7.5	6.2	6.3	7.2	6.3
P/ABV (x)	2.0	1.71	1.39	1.12	1.06	1.02	1.03	0.95
P/PPOP (x)	7.2	5.6	4.7	4.6	3.8	3.5	3.6	3.0
Dividend yield (%)	1.7	1.8	2.1	2.3	2.6	2.7	2.3	2.6
Profitability (%)								
Yield on advances	10.67	10.60	10.36	9.47	9.56	9.68	9.27	9.17
Cost of funds	9.31	8.75	8.44	8.20	8.16	8.17	7.92	7.72
Core spread	1.36	1.85	1.92	1.27	1.40	1.50	1.34	1.45
NIM (%)	2.36	2.64	2.78	2.31	2.42	2.38	2.20	2.40
Operating efficiency (%)								
C-AA ratio	0.36	0.39	0.44	0.27	0.26	0.30	0.28	0.30
C-I ratio	15.24	14.74	15.89	11.89	10.63	12.62	13.00	12.35
Balance sheet structure (%)								
Loan growth	18.55	15.49	15.51	14.79	16.15	7.77	5.12	8.55
Borrowing growth	17.67	20.25	8.83	15.02	17.45	12.11	1.55	8.55
Equity/assets	6.95	7.03	7.34	8.32	8.11	8.39	8.78	8.92
Equity/loans	7.21	7.30	7.65	8.57	8.42	8.75	9.12	9.25
Capital adequacy (CRAR)	15.30	17.04	16.64	15.49	14.36	14.16	13.95	14.04
w/w Tier I	11.82	13.86	13.99	13.06	12.30	12.62	12.55	12.75
Asset quality								
Gross NPLs (Rs mn)	4,947	5,678	6,271	13,040	29,720	59,594	88,199	1,08,515
Net NPLs (Rs mn)	2,344	2,925	2,134	7,120	20,630	33,474	52,201	60,363
Gross NPLs (%)	0.46	0.45	0.45	0.78	1.53	2.83	3.98	4.52
Net NPLs (%)	0.22	0.22	0.15	0.43	1.07	1.59	2.36	2.51
Coverage Ratio (%)	52.6	48.5	66.0	45.4	30.6	43.8	40.8	44.4
Provision/Avg. Loans (%)	0.01	0.13	0.21	0.32	0.34	0.50	0.66	0.76
RoAA Tree								
Net interest income	2.26%	2.55%	2.67%	2.23%	2.35%	2.31%	2.14%	2.34%
Non-interest income	0.12%	0.07%	0.07%	0.07%	0.06%	0.03%	0.04%	0.05%
Operating cost	0.36%	0.39%	0.44%	0.27%	0.26%	0.30%	0.28%	0.30%
Provisioning cost	0.01%	0.12%	0.20%	0.31%	0.33%	0.48%	0.64%	0.73%
Tax	0.69%	0.74%	0.73%	0.48%	0.51%	0.42%	0.32%	0.34%
RoAA	1.33%	1.37%	1.37%	1.24%	1.31%	1.15%	0.94%	1.02%
Leverage (x)	13.6	14.3	13.9	12.7	12.2	12.1	11.6	11.3
RoAE	18.1%	19.6%	19.1%	15.8%	15.9%	13.9%	11.0%	11.5%

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Aug-19	496	NEU	554
22-Sep-19	417	NEU	467
9-Oct-19	379	NEU	485
24-Oct-19	375	NEU	457
9-Jan-20	421	NEU	476
31-Jan-20	438	NEU	471
2-Mar-20	320	REDUCE	449
15-Apr-20	249	REDUCE	288
22-Jun-20	269	REDUCE	263
10-Jul-20	283	REDUCE	272
25-Aug-20	299	REDUCE	296

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

We, **Darpin Shah, MBA, Aakash Dattani, ACA & Punit Bahlani, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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