

August 25, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	282		260	
NII (Rs.)	47,246	56,507	43,018	52,909
% Chng.	9.8	6.8		
PPoP (Rs.)	39,479	46,882	31,498	38,841
% Chng.	25.3	20.7		
EPS (Rs.)	43.6	56.1	34.7	46.5
% Chng.	25.6	20.6		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	48,215	32,404	47,246	56,507
Growth (%)	10.5	(32.8)	45.8	19.6
Op. Profit (Rs m)	42,217	24,778	39,479	46,882
PAT (Rs m)	24,018	9,544	22,019	28,314
EPS (Rs.)	47.4	18.9	43.6	56.1
Gr. (%)	(1.5)	(60.1)	130.7	28.6
DPS (Rs.)	8.0	9.0	9.0	9.0
Yield (%)	2.7	3.0	3.0	3.0
Margin (%)	2.4	1.5	2.0	2.2
RoAE (%)	13.9	5.2	11.3	13.2
RoAA (%)	1.1	0.4	0.9	1.0
PE (x)	6.3	15.8	6.9	5.3
P/BV (x)	0.8	0.8	0.7	0.7
P/ABV (x)	1.0	1.0	0.9	0.7

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.487 / Rs.185
Sensex / Nifty	38,844 / 11,472
Market Cap	Rs.151bn/ \$ 2,030m
Shares Outstanding	505m
3M Avg. Daily Value	Rs.3261.52m

Shareholding Pattern (%)

Promoter's	40.31
Foreign	32.32
Domestic Institution	14.00
Public & Others	13.37
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.7	(14.7)	(29.6)
Relative	7.7	(11.6)	(33.5)

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

Hope & hype posturing present scenario

Quick Pointers:

- 25% EMIs under moratorium; developer morat: 77% (Q4:75%), LAP: 36% (Q4:35%), HL:16% (13%)
- No exclusive COVID provisions; Mngt believes ECL provs. stand sufficient

Q1FY21 earnings for LICHF was a beat on most parameters led by lower interest expenses, steep decline in operating costs and unexpected continued lower provisioning. While moratorium book stands at 25% of overall loans, business-wise morat numbers have not shown improvements as recoveries remain elusive. While it's COVID assessment on asset quality is uncertain, Mngt hopes of higher transition of moratorium customers to standard. We maintain our reservations on developer/LAP stress and foresee low near term levers to healthy return profile. Against this backdrop, we maintain weak loan growth cycle (6-9%), imminent NIM pressures (1.5%) led by downward asset re-pricing and elevated NPAs (3-3.5%) for FY21-22E. Continued lower provisioning and further anticipated improvement in opex prompt us to tweak our FY22-23 EPS estimates higher by 20-25%. We believe FY23 should witness revival with loan growth expected at 14%, NIMs at 2.15%+ and NPAs declining to 2.5%. We reiterate REDUCE recommendation and assign 0.8x PABV as we rollover multiple to Sep'22 estimates arriving at price target of Rs282.

- Mixed performance:** Q1FY21 witnessed better NII (7% up QoQ) led by interest accruals and lower NPA accretion but disbursements declined 200%+ impacting near term prospects. NIMs at 2.32% declined QoQ as downward asset re-pricing in-line with market took a toll. Corporate loans continued to growth with 2.6% uptick QoQ led by ones with healthy sales velocity and ones being standard. While other operating costs declined by massive 67% QoQ, the same appear unsustainable as lockdown and business activity closure could have led to improvement in first place.
- Morat masking true asset quality picture:** QoQ GNPA for Q1FY21 stood somber as 25% of the boo lies under moratorium. While 77% of the developer book that accounts for 7% of overall mix stand under moratorium, asset quality judgment here stands premature. Individual home loans that account for 77% of mix observed 16% AUMs falling under morat despite 88% customer base falling into salaried category. While Mngt justifies that most of these customers stood as standard as at March 1st, 2020 and that likelihood of these slipping directly into NPA post morat-end stands lower, we maintain caution. LAP at 16% mix saw 36% of the book falling under morat and asset quality worries here refuse to subside. **We would prefer to closely monitor the moratorium book falling on track before riding the hope wave of anticipated asset quality improvement. As economic challenges stand pertinent and Co. seemingly under provided, we maintain high order credit costs (35-56bps) and 3-3.5% NPAs over FY21-22E. Maintain REDUCE with low quartile RoE/RoA at 11-13%/0.9-1.0% over FY22-23.**

Exhibit 1: Q1FY21: Lower opex, lower interest expense, lower provisions aid PAT

PAT at Rs8175mn stood higher than our estimates Rs3537mn growing 94%QoQ on the back of improved NII, lower opex and lower than expected provisioning.

NII at Rs12.4bn exceed our estimates (PLe: Rs8.6bn) on the back of better interest income flow. NII grew 7%/3% QoQ/YoY respectively during the quarter.

The quarter also saw operating leverage playing out as opex saw a sharp decline of 67%QoQ to Rs 0.6bn (PLe: Rs1.7bn)

Provisions at Rs0.6bn also stood lower than our estimates (PLe:Rs1.4bn) declining 78% YoY (up 107% QoQ).

While loan book stood flattish QoQ, disbursements declined steeply to report Rs36bn vs Rs 113bn a quarter ago.

NPA at 2.8% stood close to Q4 levels of 2.86%; Morat book at 25%, 16% accounted for individual home loans.

P&L (Rs m)	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	QoQ gr. (%)
Interest Income	50,037	48,072	4.1	49,202	1.7
Interest Expense	37,645	36,026	4.5	37,642	0.0
Net Interest Income	12,392	12,046	2.9	11,559	7.2
Other operating Inc.	-	-		-	
Other Income	(262)	-		(332)	
Total income	12,130	12,046	0.7	11,227	8.0
Employee Expense	796	613	29.9	877	(9.2)
Other Expenses	593	491	20.8	1,811	(67.2)
Operating Profit	10,741	10,942	(1.8)	8,540	25.8
Provisions	565	2,533	(77.7)	273	107.2
Tax	2,002	2,302	(13.0)	4,053	(50.6)
Net Profit excl exceptional	8,175	6,107	33.9	4,214	94.0
Reported PAT	8,175	6,107	33.9	4,214	94.0
Balance Sheet (Rs m)					
O/S Loans	20,98,170	19,77,680	6.1	21,05,780	(0.4)
-Individual loans	19,51,298	18,41,220	6.0	19,62,587	(0.6)
Retail Home Loans	16,11,395	15,06,992	6.9	16,19,345	(0.5)
Retail LAP / Non Core	3,39,904	3,34,228	1.7	3,43,242	(1.0)
-Corporate loans	1,46,872	1,36,460	7.6	1,43,193	2.6
-Individual loans (%)	93.0	93.1	(0.1)	93.2	(0.2)
Retail Home Loans	76.8	76.2	0.6	76.9	(0.1)
Retail LAP / Non Core	16.2	16.9	(0.7)	16.3	(0.1)
-Corporate loans (%)	7.0	6.9	0.1	6.8	0.2
Incr. Disbursements					
-Individual loans (%)	35,600	1,02,610	(65.3)	1,13,250	(68.6)
-Developer loans (%)	95.6	91.9	3.6	96.4	(0.8)
	4.4	8.1	(3.6)	3.6	0.8
Asset quality					
Gross NPL	59,378	39,158	51.6	60,225	(1.4)
Gross NPL (%)	2.83	1.98	0.9	2.86	(0.0)
Others / Ratios (%)					
Yield on Loans - Calc	9.5	9.8	(0.3)	9.5	0.1
Cost of Borrowings - Calc	7.9	8.5	(0.6)	8.1	(0.2)
Spread	1.65	1.99	(0.3)	1.38	0.3
NIMs	2.32	2.41	(0.1)	2.10	0.2
Cost/ Income Ratio	11.45	9.16	2.3	23.94	(12.5)

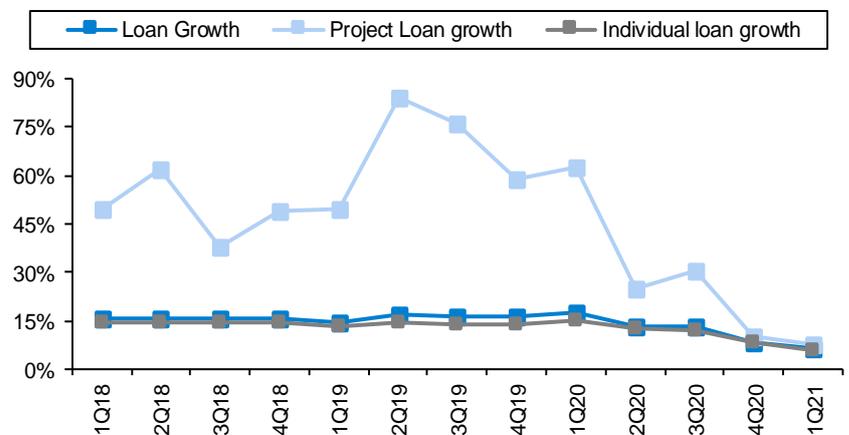
Source: Company Data, PL Research

KTAs of LICHF Q1FY21 Earnings Con call

- **Moratorium:** 77%/36%/16% of Developer loans/ LAP/ Individual home loans under morat. Overall 25% of AUM and 12% in terms of no of customers under morat. Less than 25% under morat in August.
- **Disbursement:** Will post disbursement growth nos from Q2FY21 onwards and will report double digit in this financial year. Disbursement for developer loans will depend on sale velocity of the project

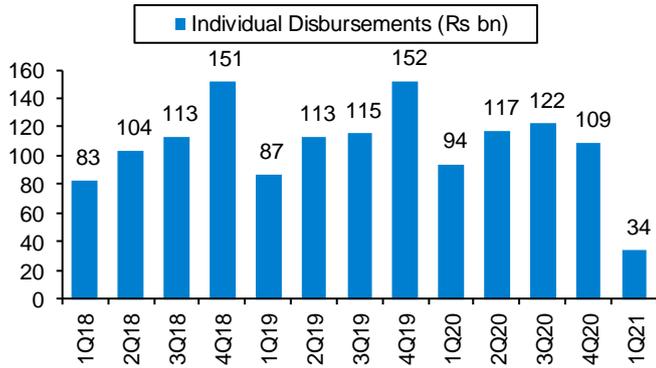
- **Restructuring:** Guidelines will be out in September. Few customers will not start making regular payments from September itself but it will be acceptable and tolerable.
- **Capital adequacy:** CRAR at the brink of regulatory environment and will take call at apt time for capital infusion.
- **LTV Lower LTV gives confidence regarding delinquencies.** Max retail LTV at 85%. Avg Retail home loan LTV is less than 50% which is lowest across sector.
- **Lap at the inception does not exceed 60%.** And for builder loans 1.5 to 2 times of security is taken apart from collateral resulting in LTV of 40%.
- **Provisions:** Lower provisions on account of lower LTV and expectations of stable asset quality post morat too. Sufficient provisions and doesn't expect any additional provisions in coming qtrs.
- **Biggest challenge is transition from moratorium to regular payments.** Regularizing payment would be difficult for individual home loans as developers are business entity and are preserving liquidity just like any other biz.
- **Yields:** improvement in yields as stage 3 assets have remain stagnant and interest accrual on morat book.
- **Cost of borrowings:** Individual home loans at 6.95% because low incremental cost of borrowings; 3 year commercial paper rate was at 7.25% in March and it has reduced to 5.45% today. Deposit rates reduced by 150bps. Increase in NHB borrowings because of lower cost than any other sources.
- **NIMs:** Nominal growth in NIMs because of sluggish AUM growth.
- **Developers under morat have not made any payment in last 4 months and intermittent payment from individual home loans.**

Exhibit 2: Loan growth stood anemic



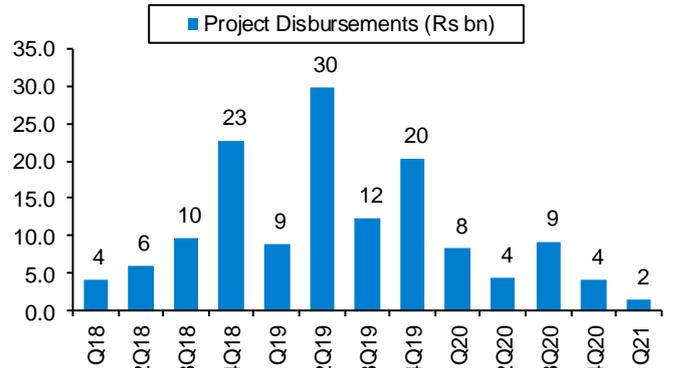
Source: Company, PL

Exhibit 3: Volatile disbursements in core retail loans



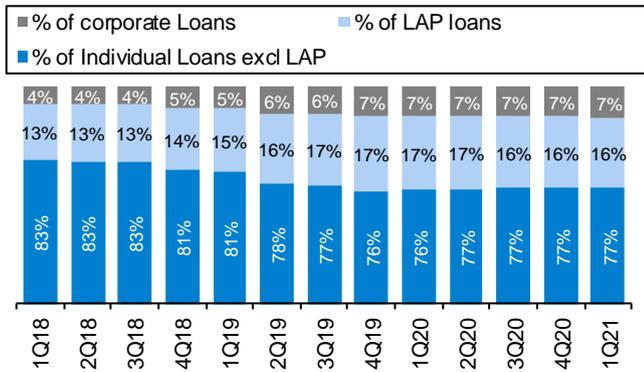
Source: Company, PL

Exhibit 4: Increasing Developer loan disbursements



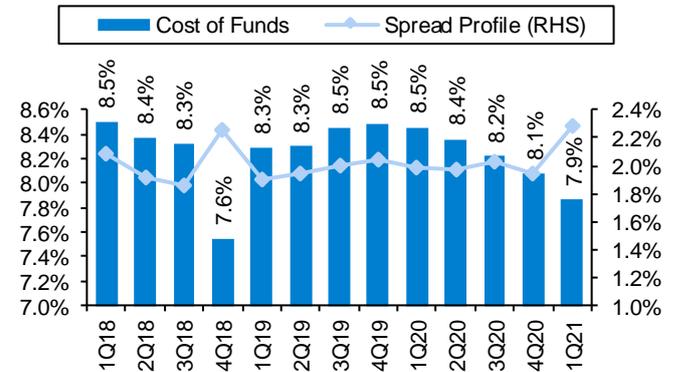
Source: Company, PL

Exhibit 5: Individual Loan share ~77%



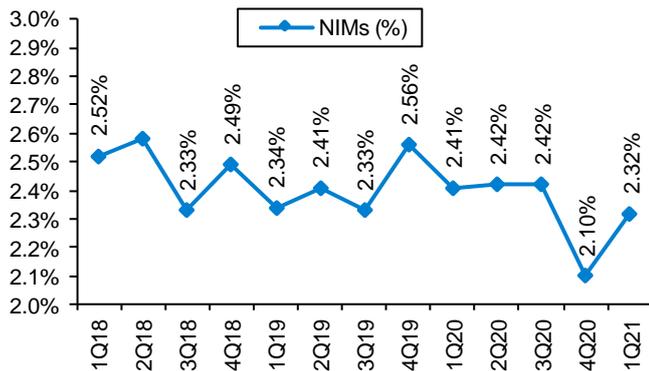
Source: Company, PL

Exhibit 6: Cost of fund alleviates



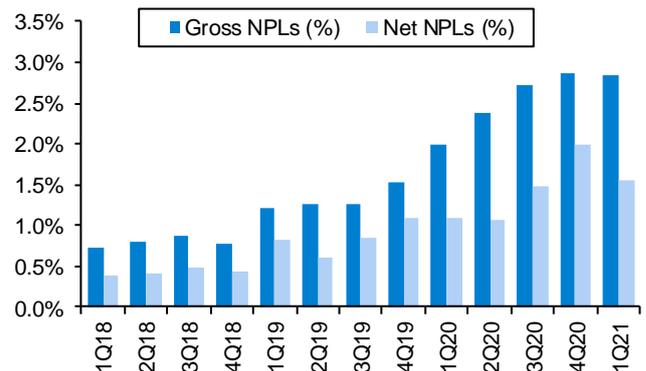
Source: Company, PL

Exhibit 7: NIMs decline on downward asset re-pricing



Source: Company, PL

Exhibit 8: Asset quality steady; picture unclear



Source: Company, PL

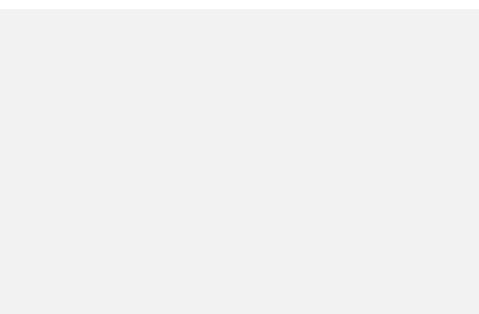


Exhibit 9: Change in Estimates

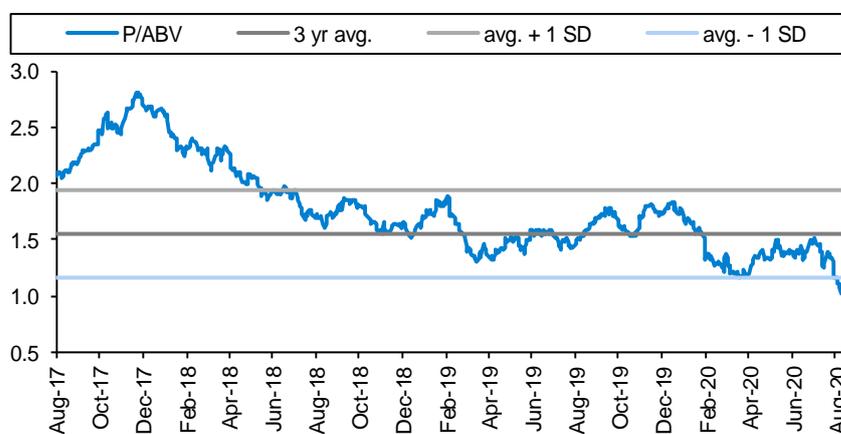
(Rs mn)	Old			Revised			% change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	30,135	43,018	52,909	32,404	47,246	56,507	7.5	9.8	6.8
Operating profit	19,454	31,498	38,841	24,778	39,479	46,882	27.4	25.3	20.7
Net profit	5,545	17,531	23,476	9,544	22,019	28,314	72.1	25.6	20.6
EPS, Rs.	11.0	34.7	46.5	18.9	43.6	56.1	72.1	25.6	20.6
Price target, Rs.	260			282			8.5%		
Recommendation	REDUCE			REDUCE					

Source: PL

Exhibit 10: We maintain REDUCE with TP of Rs282
PT calculation and upside

Fair price – EVA	340
Fair price - P/ABV	224
Average of the two	282
Target P/ABV	0.8
Target P/E	5.7
Current price, Rs	299
Upside (%)	-6%
Dividend yield (%)	3%
Total return (%)	-3%

Source: Company, PL

Exhibit 11: Slight uptick in multiple but uncertainty on book quality sustains


Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	1,96,054	1,97,665	2,31,314	2,63,106
Interest Expenses	1,47,839	1,65,261	1,84,068	2,06,598
Net interest income	48,215	32,404	47,246	56,507
Growth(%)	10.5	(32.8)	45.8	19.6
Non-interest income	644	(52)	1,048	1,084
Growth(%)	(40.6)	(108.1)	(2,108.4)	3.4
Net operating income	48,859	32,352	48,294	57,591
Expenditures				
Employees	2,991	3,739	4,561	5,519
Other Expenses	3,170	3,329	4,062	4,955
Depreciation	481	506	192	235
Operating Expenses	6,161	7,068	8,623	10,474
PPP	42,217	24,778	39,479	46,882
Growth(%)	13.2	(41.3)	59.3	18.8
Provisions	9,527	12,023	9,724	9,044
Profit Before Tax	32,690	12,755	29,755	37,838
Tax	8,672	3,210	7,736	9,524
Effective Tax rate(%)	26.5	25.2	26.0	25.2
PAT	24,018	9,544	22,019	28,314
Growth(%)	(1.2)	(60.3)	130.7	28.6

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	1,010	1,010	1,010	1,010
Reserves and Surplus	1,80,921	1,85,006	2,01,565	2,24,419
Networth	1,81,931	1,86,016	2,02,575	2,25,429
Growth (%)	11.9	2.2	8.9	11.3
Loan funds	19,13,317	21,45,832	24,08,807	27,74,913
Growth (%)	12.1	12.2	12.3	15.2
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	71,355	73,745	74,483	99,093
Other Liabilities	1,453	1,584	1,727	2,055
Total Liabilities	21,68,056	24,05,592	26,85,865	30,99,435
Application of funds				
Net fixed assets	2,544	2,747	2,939	3,175
Advances	20,79,880	22,15,573	24,14,975	27,53,071
Growth (%)	7.8	6.5	9.0	14.0
Investments	54,964	79,697	1,44,350	2,18,097
Current Assets	19,790	95,295	1,09,107	1,09,096
Net current assets	(51,565)	21,550	34,624	10,003
Other Assets	10,879	12,279	14,494	15,997
Total Assets	21,68,056	24,05,592	26,85,865	30,99,435
Growth (%)	8.1	11.0	11.7	15.4
Business Mix				
AUM	20,79,880	22,15,573	24,14,975	27,53,071
Growth (%)	7.8	6.5	9.0	14.0
On Balance Sheet	20,79,880	22,15,573	24,14,975	27,53,071
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	2.4	1.5	2.0	2.2
ROAA	1.1	0.4	0.9	1.0
ROAE	13.9	5.2	11.4	13.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Int. Inc. / Operating Inc.	49,729	49,965	49,202	50,037
Income from securitization	-	-	-	-
Interest Expenses	37,018	37,152	37,642	37,645
Net Interest Income	12,711	12,812	11,559	12,392
Growth (%)	19.5	15.5	(8.2)	2.9
Non-Interest Income	62	-	(332)	(262)
Net Operating Income	12,772	12,812	11,227	12,130
Growth (%)	19.4	15.5	(10.9)	0.7
Operating expenditure	1,397	1,452	2,687	1,389
PPP	11,375	11,360	8,540	10,741
Growth (%)	-	-	-	-
Provision	2,815	3,907	273	565
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	8,561	7,453	8,267	10,177
Tax	839	1,478	4,053	2,002
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	9.8	19.8	49.0	19.7
PAT	7,722	5,975	4,214	8,175
Growth	35	-	(39)	34
AUM	20,08,49	20,56,92	21,05,78	20,98,17
	0	0	0	0
YoY growth (%)	13.2	13.3	8.2	6.1
Borrowing	17,88,49	18,49,66	19,12,09	18,82,59
	0	0	0	0
YoY growth (%)	8.9	15.4	12.1	8.8

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	299	299	299	299
EPS (Rs)	47.4	18.9	43.6	56.1
Book value (Rs)	360.3	368.4	401.2	446.4
Adj. BV(Rs)	309.6	300.9	345.4	403.5
P/E(x)	6.3	15.8	6.9	5.3
P/BV(x)	0.8	0.8	0.7	0.7
P/ABV(x)	1.0	1.0	0.9	0.7
DPS (Rs)	8.0	9.0	9.0	9.0
Dividend Payout Ratio(%)	20.2	57.2	24.8	19.3
Dividend Yield(%)	2.7	3.0	3.0	3.0

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	60,225	77,545	74,554	67,732
Net NPA(Rs m)	34,105	45,414	37,561	28,929
Gross NPAs to Gross Adv.(%)	2.9	3.5	3.1	2.5
Net NPAs to net Adv.(%)	2.0	2.0	1.6	1.1
NPA coverage(%)	43.4	41.4	49.6	57.3

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	2.3	1.4	1.9	2.0
NII INCl. Securitization	2.3	1.4	1.9	2.0
Total income	2.3	1.4	1.9	2.0
Operating Expenses	0.3	0.3	0.3	0.4
PPOP	2.1	1.1	1.6	1.6
Total Provisions	0.5	0.5	0.4	0.3
RoAA	1.2	0.4	0.9	1.0
Avg. Assets/Avg. net worth	11.8	12.4	13.1	13.5
RoAE	13.9	5.2	11.3	13.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jul-20	Reduce	260	276
2	23-Jun-20	Reduce	253	269
3	17-Apr-20	Reduce	282	278
4	31-Jan-20	Sell	404	438
5	03-Jan-20	Accumulate	409	439
6	22-Oct-19	Accumulate	409	373
7	03-Oct-19	Accumulate	417	383

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,815	3,292
2	Cholamandalam Investment and Finance Company	Accumulate	240	203
3	HDFC	Accumulate	2,093	1,805
4	L&T Finance Holdings	Sell	52	62
5	LIC Housing Finance	Reduce	260	276
6	Mahindra & Mahindra Financial Services	Reduce	179	208
7	Manappuram Finance	Accumulate	197	179
8	SBI Cards and Payment Services	BUY	974	766
9	Shriram Transport Finance	Accumulate	805	702

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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