

# Retail Equity Research

## LIC Housing Finance Ltd.

NBFC

BSE CODE: 500253

NSE CODE: LICHSGFIN

Bloomberg CODE: LICHF:IN

SENSEX: 39,113

**BUY**

12M Investment Period

Rating as per Mid cap

CMP Rs. 304

TARGET Rs. 353

RETURN 16% ↑

(Closing: 27-08-20)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

### Strong 1Q performance; Outlook positive

LIC Housing Finance (LICHF) is one of the largest housing finance companies in India. It provides long-term finance to individuals, professionals and builders of residential flats and houses. The company has a wide distribution network of 282 marketing offices.

- For Q1FY21, loans portfolio increased 6.1% YoY driven by Individual loan portfolio (+6.0% YoY) and Project loan (+7.5% YoY). Total disbursements stood at Rs. 3,561cr (-65.3% YoY).
- Net Interest Margin (NIM) for the quarter contracted ~10bps to 2.32%.
- Net Profit rose 33.9% YoY to Rs. 817cr, owing to decline in provisions.
- The expectation of economy to improve post lockdown, strong fundamentals, and new products will boost performance in near future. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 353 based on 0.8x FY22E BVPS.

#### Strong loan portfolio

LICHF reported loan portfolio of Rs. 209,817cr in Q1FY21, a rise of 6.1% YoY, majorly on account of strong growth in Individual loan portfolio by 6.0% YoY. However, total disbursements stood at Rs. 3,561cr, a decline of 65.3% YoY due to drop in Individual home loan segment by 63.9% YoY to Rs. 3,402cr and Projects loan segment by 80.8% YoY to Rs. 159cr.

#### Net profit rose with low provisions

In Q1FY21, total income rose to Rs. 4,977cr compared to Rs. 4,807cr in Q1FY20. Net interest income rose to Rs. 1,221cr, a rise of 3.3% YoY, however, NIM fell to 2.32% from 2.41% in Q1FY20. The yields on advances contracted 30bps YoY to 10.15%. Net profit increased 33.9% YoY to Rs. 817cr with drop in provisions by 77.2% YoY to Rs. 59cr. With the change in Taxation laws Act 2019, the corporate tax fell to Rs. 200cr compared to Rs. 230cr (prior to adjustment for new tax laws).

#### Asset quality weakens on higher EAD stage 3

Exposure at default (EAD) Stage 3 rose 85bps YoY to 2.83%, along with rise in Expected Credit Loss (ECL) Stage 3 provisions by 51.9% YoY to Rs. 2,669cr. As of June 30, the provisions for ECL as a percentage of Stage 3 EAD stood at 45.3%.

#### Key concall highlights

- As of June 30, 2020, 25% of the company's loan book was under moratorium. Also, Individual Home Loans under moratorium had 16% of the home loans.
- The outstanding loan portfolio consists of 76.8% of Retail home loans, 16.2% of Retail loan against property and 7.0% of Developer loans.
- The company has launched new home loan product GrihaVarishtha to support retired or serving employees of PSUs.
- It has announced low-interest rate of 6.9% onwards on new home loans for borrowers with CIBIL score of 700 and above.

#### Outlook & Valuation

We believe, the economy will pick up along with new business activities in the coming quarters. Additionally, the strong fundamentals and distribution network will boost the company performance in near to medium term. Therefore, we reiterate our BUY rating on the stock with revised price target of Rs. 353 at 0.8x FY22E BVPS.

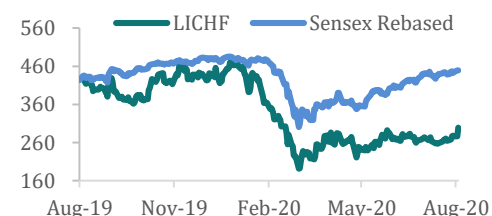
#### Company Data

Market Cap (cr)	Rs. 15,039
Outstanding Shares (cr)	50.5
Free Float	60.0%
Dividend Yield	2.7%
52 week high	Rs. 486
52 week low	Rs. 186
6m average volume (lac)	3.0
Beta	1.6
Face value	Rs. 2

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	40.3	40.3	40.3
FIIIs	32.7	32.3	34.3
MFs/Insti	15.1	14.0	10.6
Public	8.0	9.0	10.0
Others	3.9	4.4	4.48
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	24.3%	-14.3%	-30.9%
Absolute Sensex	27.7%	-2.0%	4.2%
Relative Return*	-3.3%	-12.3%	-35.1%

\*over- or underperformance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	4,689	4,756	5,411
Growth (%)	9.8	1.4	13.8
NIM (%)	2.3	2.1	1.9
Pre-provision Profit	4,269	4,331	4,932
Net Profit	2,402	2,356	2,550
Growth (%)	(1.2)	(1.9)	8.2
Adj. EPS	47.6	46.7	50.5
Growth (%)	(1.2)	(1.9)	8.2
BVPS	360.5	398.7	440.6
P/E	4.9	6.4	5.9
P/B	0.7	0.7	0.7
P/ABV	0.8	1.0	0.9
ROE (%)	14.0	12.3	12.0
ROA (%)	1.2	1.0	1.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	4,985	4,784	4.2	4,854	2.7
Interest Expense	3,764	3,603	4.5	3,764	0.0
<b>Net Interest Income (NII)</b>	<b>1,221</b>	<b>1,182</b>	<b>3.3</b>	<b>1,089</b>	<b>12.1</b>
Non-Interest Income	(8)	23	(133.4)	33	(122.7)
<b>Total Net Income</b>	<b>1,213</b>	<b>1,205</b>	<b>0.7</b>	<b>1,123</b>	<b>8.0</b>
<b>Total Income</b>	<b>4,977</b>	<b>4,807</b>	<b>3.5</b>	<b>4,887</b>	<b>1.9</b>
Operating Expenses	137	106	28.4	229	(40.2)
<b>Total Expenditure</b>	<b>3,901</b>	<b>3,709</b>	<b>5.2</b>	<b>3,993</b>	<b>(2.3)</b>
<b>Pre-Provision profit</b>	<b>1,076</b>	<b>1,098</b>	<b>(2.0)</b>	<b>894</b>	<b>20.4</b>
Provisions	59	257	(77.2)	67	(12.8)
<b>Profit Before Tax</b>	<b>1,018</b>	<b>841</b>	<b>21.0</b>	<b>827</b>	<b>(23.1)</b>
Tax	200	230	(13.0)	405	50.6
<b>Net Profit</b>	<b>817</b>	<b>611</b>	<b>33.9</b>	<b>421</b>	<b>(94.0)</b>
EPS - Diluted (Rs.)	16.2	12.1	33.9	8.4	(94.0)

### Business Performance

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Loans	209,817	197,768	6.1	210,578	(0.4)
Borrowings	188,259	173,025	8.8	191,209	(1.5)
Gross NPA	5,656	3,916	44.4	5,948	(4.9)
Net NPA	3,936	2,159	82.3	4,139	(4.9)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	4,882	6,088	4,756	5,411	(2.6)	(11.1)
Net Interest Margin (%)	2.0	2.0	2.1	1.9	10bps	(6bps)
Pre-Provision Profit	4,520	5,695	4,331	4,932	(4.2)	(13.4)
Net Profit	2,455	3,278	2,356	2,550	(4.0)	(22.2)
Adj. EPS (Rs.)	48.6	64.9	46.7	50.5	(3.9)	(22.1)



## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	14,666	17,163	19,473	20,379	22,026
Interest Expense	11,144	12,892	14,784	15,623	16,615
<b>Net Int. Income</b>	<b>3,522</b>	<b>4,271</b>	<b>4,689</b>	<b>4,756</b>	<b>5,411</b>
% Change	(3.4)	21.3	9.8	1.4	13.8
Non-Int. Income	174	202	197	192	188
<b>Net Income</b>	<b>3,697</b>	<b>4,473</b>	<b>4,886</b>	<b>4,948</b>	<b>5,599</b>
<b>Total Income</b>	<b>14,841</b>	<b>17,365</b>	<b>19,670</b>	<b>20,571</b>	<b>22,213</b>
Operating Exp.	440	475	617	617	666
<b>Total Exp.</b>	<b>11,583</b>	<b>13,367</b>	<b>15,401</b>	<b>16,240</b>	<b>17,281</b>
<b>Pre-Prov. Profit</b>	<b>3,257</b>	<b>3,998</b>	<b>4,269</b>	<b>4,331</b>	<b>4,932</b>
Provisions	492	618	1,000	1,058	1,390
<b>PBT</b>	<b>2,766</b>	<b>3,380</b>	<b>3,269</b>	<b>3,273</b>	<b>3,542</b>
Tax	763	949	867	916	992
Tax Rate (%)	27.6	28.1	26.5	28.0	28.0
<b>Net Profit</b>	<b>2,003</b>	<b>2,431</b>	<b>2,402</b>	<b>2,356</b>	<b>2,550</b>
% Change	3.7	21.4	(1.2)	(1.9)	8.2
No. of Shares (cr)	50	50	50	50	50
Adj. EPS (Rs.)	39.7	48.2	47.6	46.7	50.5
% Change	3.7	21.4	(1.2)	(1.9)	8.2
DPS (Rs.)	6.8	7.6	8.0	8.6	8.6

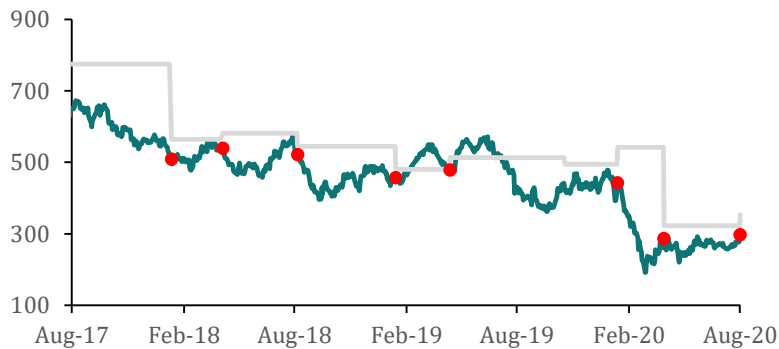
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	2,096	3,014	1,979	1,300	853
Investments	1,972	3,595	5,496	5,936	6,826
Advances	166,162	192,993	207,988	232,947	272,547
Fixed Assets	95	133	135	136	138
Other Assets	764	849	1,208	1,256	1,306
<b>Total Assets</b>	<b>171,090</b>	<b>200,583</b>	<b>216,806</b>	<b>241,574</b>	<b>281,672</b>
Capital	101	101	101	101	101
Reserves & Surplus	14,140	16,158	18,092	20,017	22,136
Deposits	6,772	7,667	12,609	13,870	15,950
Borrowings	126,293	161,000	177,349	196,857	218,511
Other Liabilities	23,784	15,657	8,655	10,730	24,973
<b>Total Liabilities</b>	<b>171,090</b>	<b>200,583</b>	<b>216,806</b>	<b>241,574</b>	<b>281,672</b>
<b>BVPS (Rs.)</b>	<b>251.5</b>	<b>322.2</b>	<b>360.5</b>	<b>398.7</b>	<b>440.6</b>
<b>Adj. BVPS (Rs.)</b>	<b>237.4</b>	<b>281.0</b>	<b>278.5</b>	<b>311.7</b>	<b>350.2</b>
% Change	10.3	18.4	(0.9)	11.9	12.4

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Valuation</b>					
P/E (x)	13.5	11.1	4.9	6.4	5.9
P/BV (x)	2.1	1.7	0.7	0.7	0.7
Div. Yield (%)	1.3	1.4	3.4	2.9	2.9
<b>Profitab. &amp; Return (%)</b>					
Yield on Funds	10.1	10.5	9.7	9.2	8.7
Cost of Funds	8.3	8.5	8.2	7.8	7.5
Spread	1.8	2.0	1.5	1.4	1.3
NIM	2.3	2.4	2.3	2.1	1.9
ROE	17.0	16.0	14.0	12.3	12.0
ROA	1.3	1.3	1.2	1.0	1.0
<b>Asset Quality (%)</b>					
GNPA	0.8	1.5	2.9	2.8	2.5
NNPA	0.4	1.1	2.0	1.9	1.7
<b>Operating Ratios (%)</b>					
Cost/ Income	11.9	10.6	12.6	12.5	11.9

## Recommendation Summary



Dates	Rating	Target
5-Feb-18	HOLD	564
30-Apr-18	HOLD	581
31-Aug-18	HOLD	545
8-Feb-19	HOLD	480
8-May-19	HOLD	513
12-Nov-19	ACCUMULATE	495
7-Feb-20	BUY	542
23-Apr-20	BUY	323
28-Aug-20	BUY	353

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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