

LIC Housing Finance

Tread with caution

LICHF, like most lenders, saw a sharp rise in collection efficiency, which is unsurprising. However, we expect GNPA's to rise to 3.8% in FY21E. It has received enquiries for restructuring, amounting to ~3-4% of loans. While we have reduced our LLP estimates, we continue to believe that the company is likely to see a significant rise in provisions in the near term. Coupled with our belief that the company would face competitive headwinds on the growth and margins fronts, this drives our **REDUCE** rating (target price of Rs 341).

- **Asset quality:** Adjusted for the impact of the recent SC order, GS III was ~3% (+60/15bps YoY/QoQ). Collection efficiency rose sharply, reaching 96% in September. GS II optically dipped 70.7/66.2% to Rs 28.2bn (1.32%). Within its developer portfolio, the value of loans for which restructuring enquiries were received, was between 28-37%. This segment will continue to weigh down on asset quality. We expect GNPA's to average ~4% over FY21-23E.
- **Provisions** rose 82.5% QoQ to Rs 1bn (-63.4% YoY). The total COVID-19 provisions were just ~9bps of AUM and Stage III coverage was 46.6%. If actual restructuring were to equal the quantum for which enquiries were received, LICHF would need to make 35bps of restructuring-related provisions as it holds negligible Stage I & II provisions. We have lowered our LLP estimates to ~0.5% over FY21-23E, but they remain conservative.
- Overall **AUM growth** continued to slow, reaching 5.1%, the slowest in at least the past 10 years, while **disbursals rebounded** sequentially (3.5x, +2.2% YoY). The management indicated that disbursals grew 38% YoY in October and expects disbursals to grow by 9-10% YoY in 3QFY21. Project loan disbursals grew 80.4/405% YoY/QoQ and constituted 7.2% of overall disbursals. We build in a loan CAGR of ~9.3% over FY21-23E.
- **Borrowings:** While NCDs constituted the largest source of borrowings at 59.9%, their share continued to decline (-1176/209bps), and that of bank borrowings continued to rise (+271/64bps). The management indicated that LICHF was looking to raise equity capital and that it could raise Tier II capital to meet regulatory capital requirements if the need arose.

Financial summary

YEMar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	12,380	12,517	(1.1)	12,206	1.4	48,215	48,996	52,559	61,273
PPOP	11,123	11,375	(2.2)	10,741	3.6	42,692	43,512	46,690	54,662
PAT	7,913	7,711	2.6	8,164	(3.1)	24,018	23,120	25,988	32,378
EPS (Rs)	15.7	15.3	2.6	16.2	(3.1)	47.6	45.8	51.5	64.1
ROAE (%)						13.9	12.1	12.3	13.7
ROAA (%)						1.15	1.03	1.07	1.20
ABVPS (Rs)						294	301	321	382
P/ABV (x)						1.08	1.05	0.99	0.83
P/E (x)						6.7	6.9	6.2	4.9

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Change	Old	New	Change	Old	New	Change
AUM	2,213	2,222	0.4%	2403	2,435	1.3%	2643	2,747	3.9%
NIM (%)	2.2	2.3	7 bps	2.4	2.3	-14 bps	2.4	2.4	-7 bps
NII	47.5	49.0	3.2%	55.4	52.6	-5.1%	61.3	61.3	-0.1%
PPOP	42.1	43.5	3.4%	49.6	46.7	-5.9%	54.8	54.7	-0.3%
PAT	20.9	23.1	10.5%	24.1	26.0	7.7%	29.3	32.4	10.6%
ABVPS (Rs)	291.5	301.2	3.3%	315.3	321.3	1.9%	360.7	381.7	5.8%

Source: Bank, HSIE Research

REDUCE

CMP (as on 12 Nov 2020)	Rs 317
Target Price	Rs 341
NIFTY	12,691

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 319	Rs 341
	FY21E	FY22E
EPS %	10.5%	7.7%

KEY STOCK DATA

Bloomberg code	LICHF IN
No. of Shares (mn)	505
MCap (Rs bn) / (\$ mn)	160/2,145
6m avg traded value (Rs mn)	1,741
52 Week high / low	Rs 487/185

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	18.6	20.1	(28.1)
Relative (%)	5.7	(18.1)	(35.6)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	40.3	40.3
FIs & Local MFs	10.7	11.8
FPIs	34.3	34.4
Public & Others	14.8	13.5

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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