

Growth outlook positive; caution on low NPA buffer...

LIC Housing Finance (LICHF) saw improved traction in individual business during the quarter while operating performance was steady. NII for LICHF saw flattish growth of 2.2% YoY at ₹ 1281 crore, mainly on account of 6 bps YoY decline in margins to 2.36. Recent management commentary indicated that margins were benefitted from lower funding cost which was down by 36 bps in Q3FY21 and 83 bps in current fiscal, as liquidity environment remained favourable for the company. Other income jumped 73% YoY to ₹ 48 crore aiding topline. Cost-to-income sequentially was steady at 13.4% vs. 13.2%. Provisions declined YoY by 54% to ₹ 181 crore but QoQ were up 75%. Total provisions for Covid related and standstill accounts is to the tune of ₹ 400 crore. PAT for the quarter was up 22% YoY to ₹ 727 crore.

Asset quality manageable; buffer relatively lower

LICHF saw largely stable asset quality during Q3FY21 with stage 3 assets declining 11 bps QoQ to 2.68%. On a proforma basis, there was slight deterioration though, as proforma GNPA (calc) increased from ~3% to ~3.7%, as the management had indicated that ~1% of loans would have been recognised as NPA if not for standstill norms. NPA in individual category fell from 1.7% to 1.62% QoQ while in project loans it was down 30 bps QoQ to 16.22%. Collection efficiency improved from 96% to 98% QoQ. Thus, asset quality remains steady but provision buffer at ~1.3% of advances seems to be relatively lower, which is seen partially impacting earnings two to three quarters ahead.

Gradual pick-up in business traction to continue ahead

LICHF saw a pick-up in business activity as total disbursement was up 28% YoY to ₹ 16857 crore, of which disbursement in individual home loan jumped 36% YoY to ₹ 14511 crore. Advances growth was at 6% YoY. Affordable housing contributing remained healthy at ~30% in total disbursements during the quarter. Low interest rates, stable home prices and incentives like stamp duty reductions have spurred some demand. Key centres like Mumbai saw healthy registrations.

Valuation & Outlook

Business growth is seen picking up with low interest rates, stable property prices and government's push for growth aiding demand for housing. Margins are expected to remain steady with competitive environment keeping yields in check but softening of costs to cushion NIMs. Improvement in collection provides comfort on asset quality, though relatively lower provision buffer is seen keeping near term credit cost higher. Strong parentage and higher proportion of individual loans provide comfort. However, with the recent run up in the stock price, we believe there is limited room for upside. Thus we downgrade our rating from BUY to **HOLD** with a revised TP of ₹ 475 (earlier ₹ 345).



LIC HOUSING FINANCE LTD

Particulars

Particulars	Amount
Market Capitalisation	₹ 23852 crore
Stage 3 (Q3FY21) %	₹ 2.68
NIM % (Q3FY21)	2.36
52 week H/L	463 / 186
Face value	₹ 2
DII Holding (%)	15.4
FII Holding (%)	29.3

Key Highlights

- Disbursement jumped 28% YoY to ₹16857 crore
- Provision buffer at 1.3% of advances remains relatively lower
- Downgrade to HOLD with revised TP of 475

Risk to our call

- Further increase in loan traction may make case for faster than expected recovery
- Increased stress from developer book may impact performance

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
NII	3701	4463	4846	5123	5623	6350	9%
PPP	3301	3998	4212	4571	5095	5781	11%
PAT	2013	2431	2402	2974	3297	3840	17%
ABV (₹)	237.2	275.7	293.7	331.2	379.6	416.8	
P/E	11.7	10.1	9.8	7.9	7.2	6.1	
P/ABV	2.0	1.7	1.6	1.4	1.2	1.1	
RoA	1.2	1.3	1.1	1.2	1.2	1.2	
RoE	16.9	16.3	14.1	15.4	15.1	15.9	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
NII	1,281	1,254	2.2	1,238	3.5	Flattish growth on account of modest yearly loan growth
NIM (%)	2.36	2.42	-6 bps	2.34	2 bps	Marginal rise sequentially due to low funding cost
Other Income	48	28	73.9	44	9.7	
Net Total Income	1,329	1,281	3.7	1,282	3.7	
Operating Expenses	178	145	22.8	169	5.3	Higher cost due to increased staff expenses with business activity getting back to normal
PPP	1,151	1,136	1.3	1,112	3.4	
Provision	181	391	-53.7	103	75.6	Sequential rise in provisions due to Covid related provisions
PBT	970	745	30.1	1,009	-3.9	
Tax Outgo	243	148	64.2	218	11.1	
PAT	727	598	21.7	791	-8.1	Modest topline with yearly decline in credit cost helped PAT
Key Metrics						
GNPA	5,901	3,187	85.2	5,952	-0.9	Stage 3 assets decline from 2.79% to 2.68% sequentially
Total Loans	2,20,197	2,08,270	5.7	2,13,349	3.2	Sequential pick up in disbursement seen

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	4898	5,123	4.6	5401	5,623	4.1	6,350
Pre Provision Profit	4457	4,571	2.6	4924	5,095	3.5	5,781
NIM(%) (calculated)	2	2.3	10 bps	2	2.3	9 bps	2.3
PAT	2233	2,974	33.2	2961	3,297	11.3	3,840
ABV per share (₹)	315	331.2	5.1	343	379.6	10.7	416.8

Source: Company, ICICI Direct Research

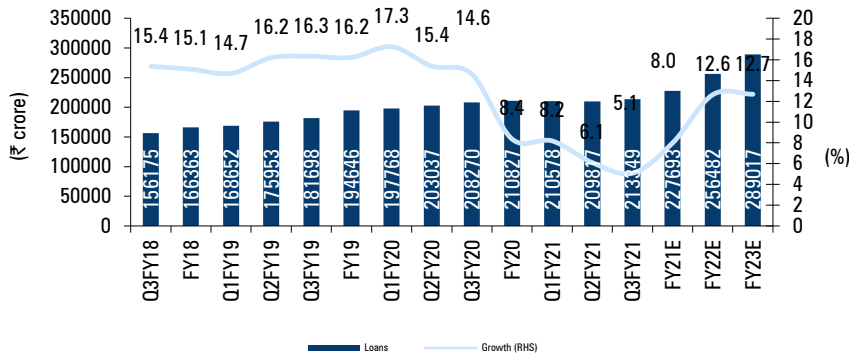
Exhibit 3: Assumptions

	Current			Earlier	
	FY21E	FY22E	FY23E	FY21E	FY22E
Credit growth (%)	8.0	12.6	12.7	12.6	16.9
NIM Calculated (%)	2.30	2.29	2.29	2.22	2.35
Cost to income ratio (%)	13.0	12.6	12.2	12.2	11.0
GNPA (₹ crore)	6,731	7,257	7,913	7,257	2,972
NNPA (₹ crore)	3,756	3,947	4,240	3,909	1,945

Source: Company, ICICI Direct Research

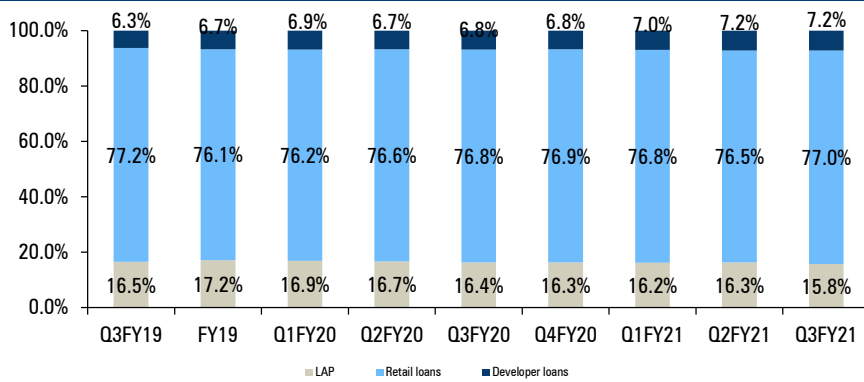
Story in charts

Exhibit 4: Loan book growth to pick up gradually



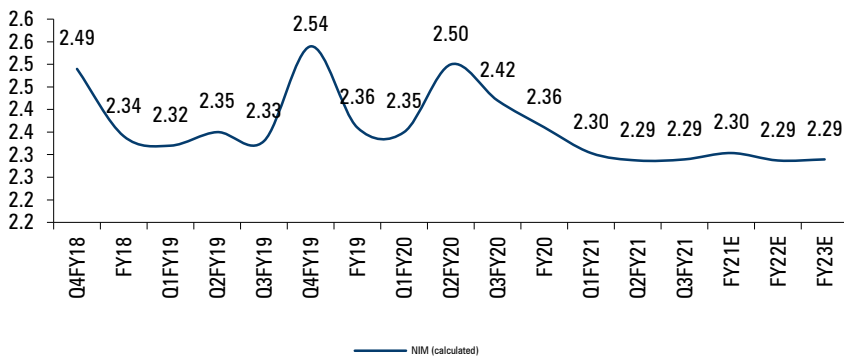
Source: Company, ICICI Direct Research

Exhibit 5: LICHF loan mix trend



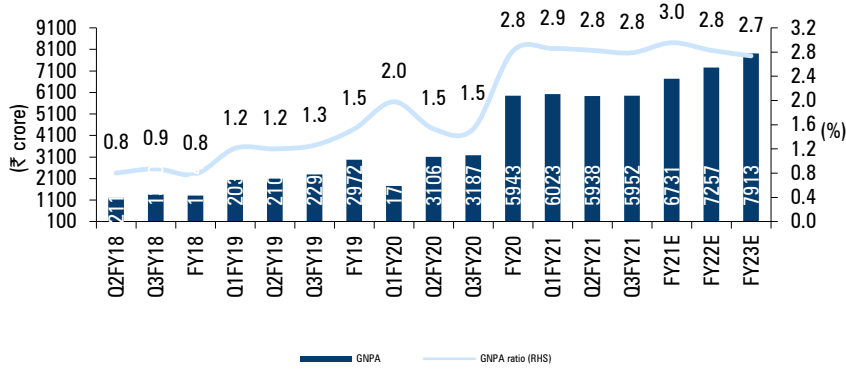
Source: Company, ICICI Direct Research

Exhibit 6: NIMs to remain range-bound



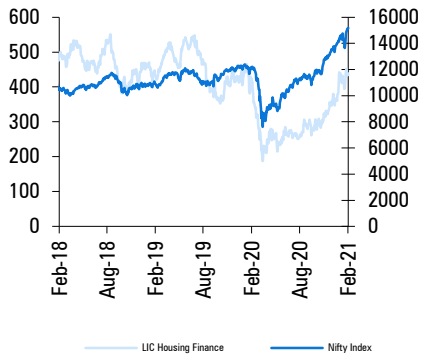
Source: Company, ICICI Direct Research

Exhibit 7: Asset quality to stabilise



Source: Company, ICICI Direct Research

Exhibit 8: Price Performance



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit & Loss		(₹ crore)			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Interest Earned	19620.0	19952.7	22901.5	25911.2	
Interest Expended	14774.3	14829.9	17278.5	19561.3	
Net Interest Income	4,845.8	5,122.8	5,623.0	6,349.9	
% growth	8.6	5.7	9.8	12.9	
Non-Interest Income	68.6	128.3	206.0	237.7	
Net Income	4914.4	5251.1	5829.0	6587.6	
Employee cost	297.9	331.2	338.2	355.1	
Other operating Exp.	404.3	349.0	395.6	451.4	
Operating Income	4212.1	4571.0	5095.2	5781.1	
Provisions	944.4	596.0	689.3	650.0	
PBT	3267.7	3975.0	4405.9	5131.1	
Taxes	865.9	1000.5	1109.0	1291.5	
Net Profit	2,401.7	2,974.5	3,296.9	3,839.6	
% growth	-1.2	23.8	10.8	16.5	
EPS (₹)	47.6	58.9	65.3	76.0	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		(₹ crore)			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Sources of Funds					
Capital	101.0	101.0	101.0	101.0	
Reserves and Surplus	18061.8	20380.7	23017.4	25187.9	
Networth	18162.8	20481.7	23118.4	25288.9	
Secured Loans	171737.8	188706.4	212669.4	239712.7	
Unsecured Loans	18560.7	21802.4	25612.8	30091.9	
Other Liabilities & Provisions	20746.7	25430.3	31303.7	36604.6	
Total	2,29,208	2,56,421	2,92,704	3,31,698	
Applications of Funds					
Fixed Assets	133.3	155.2	180.4	210.1	
Investments	2808.0	3377.5	4092.5	4994.0	
Advances	210827.2	227693.4	256481.6	289017.4	
Other Assets	15439.4	25194.7	31949.7	37476.6	
Total	2,29,208	2,56,421	2,92,704	3,31,698	

Source: Company, ICICI Direct Research

Exhibit 11: Key Ratios		(₹ crore)			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Valuation					
No. of Equity Shares	50.5	50.5	50.5	50.5	
EPS (₹)	47.6	58.9	65.3	76.0	
BV (₹)	359.7	405.6	457.8	500.8	
ABV (₹)	293.7	331.2	379.6	416.8	
P/E	9.8	7.9	7.2	6.1	
P/BV	1.3	1.2	1.0	0.9	
P/adj.BV	1.6	1.4	1.2	1.1	
Yields & Margins (%)					
Yield on interest earning assets	9.6	9.0	9.3	9.4	
Avg. cost on funds	8.3	7.4	7.7	7.7	
Net Interest Margins	2.4	2.3	2.3	2.3	
Quality and Efficiency					
Cost / Total net income	14.3	13.0	12.6	12.2	
GNPA%	2.8	3.0	2.8	2.7	
NNPA%	1.6	1.6	1.5	1.5	
ROE (%)	14.1	15.4	15.1	15.9	
ROA (%)	1.1	1.2	1.2	1.2	

Source: Company, ICICI Direct Research

Exhibit 12: Growth ratios		(%)			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total assets	15.2	11.9	14.1	13.3	
Advances	8.4	8.0	12.6	12.7	
Borrowings	14.2	10.6	13.2	13.2	
Total Income	12.4	2.0	15.1	13.2	
Net interest income	14.0	5.7	9.8	12.9	
Operating expenses	44.6	-3.1	7.9	9.9	
Operating profit (excl trading)	7.4	8.2	11.2	13.3	
Net profit	2.9	23.8	10.8	16.5	
Net worth	14.4	12.8	12.9	9.4	
EPS	2.9	23.8	10.8	16.5	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (BFSI- NBFC)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
LIC Housing Finance (LICHF)	467	475	Hold	23,618	47.6	58.9	65.3	9.8	7.9	7.2	1.6	1.4	1.2	1.1	1.2	1.2	14.1	15.4	15.1
HDFC (HDFC)	2,856	3,100	Buy	5,14,179	102.6	58.5	75.0	27.8	48.8	38.1	5.7	4.9	4.7	3.6	1.9	2.2	3.6	1.9	2.2
Bajaj Finserv (BAFINS)	10,422	10,500	Buy	1,65,866	269.7	253.3	305.6	38.6	41.1	34.1	5.1	4.6	4.0	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	5,731	5,900	Buy	3,45,391	89.5	68.7	96.9	64.1	83.4	59.1	10.7	10.1	9.0	2.8	1.8	2.2	20.2	12.1	15.1
Mahindra & Mahindra Finance	212	140	Hold	26,267	14.7	7.9	10.9	14.4	26.8	19.4	1.8	2.2	1.8	1.3	1.3	1.7	8.1	7.3	8.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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