LIC Housing Finance

Encouraging Q3; all eyes on asset quality

Banks & Finance	Sharekhan code: LICHSGFIN	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Positive	↔	Positive
RQ	Positive	↓	Neutral
RV	Positive	↔	Positive

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 396**	
Price Target: **Rs. 450**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

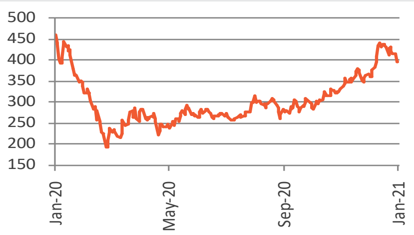
Company details

Market cap:	Rs. 19,974 cr
52-week high/low:	Rs. 463/186
NSE volume: (No of shares)	58.8 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	40.3
FII	29.8
DII	18.8
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.8	39.9	49.9	-10.1
Relative to Sensex	8.1	23.0	27.3	-23.2

Sharekhan Research, Bloomberg

Summary

- Q3FY21 results were encouraging; operational numbers was largely in line with expectations. Margins slightly expanded q-o-q while reported asset quality improved.
- Disbursements are encouraging and have reverted to pre-COVID levels; collection efficiency for non-moratorium customers stood at 98% for December (from 96% in September).
- Strong borrowing profile aided by parentage and conservative LTVs; valuations reasonable at 0.97x/0.84x its FY2022E and FY2023E ABVPS.
- We maintain a Buy on stock with a revised PT of Rs. 450.

Q3FY21 results were encouraging and operational performance was largely in line with expectations. Margins saw a slight increase q-o-q and reported asset quality improved too. The pick-up in disbursements is encouraging as they are back to Pre-COVID levels. Collection efficiency for non-moratorium customers stood at 98% for December (from 96% in September). Total disbursements stood at Rs. 16,857 crore up by 28% YoY, with individual home loans at Rs. 14511 crore up by 36% YoY. Stage 3 Exposure at Default as on December 31, 2020 stood at 2.68 % as against 2.79% as on September 30, 2020. COVID-19 related provisions stood at Rs. 212 crore and provisions for impairment stood at Rs. 186.53 crore as of Q3FY2021. As per the Expected Credit Loss (ECL) methodology, the provisions for ECL stood at Rs. 2946 crore (as 1.3% of Loans) as on December 31, 2020 and we believe that it is at reasonable levels, given that the mortgage loans are relatively well secured. Based on the SC's interim order, LICHF has not classified any account which was not an NPA as of August 31, 2020, as a bad loan. However, on the basis of the ECL assessment, higher impairment provisions have been made. LICHF has strengths in its borrowing profile and has been able to reduce cost of funds, helped by a strong parent profile and we believe conservative LTVs and inexpensive valuations make risk-return favourable. We have fine-tuned estimates and believe the outlook is improving but challenges to asset quality and growth are key monitorables. We maintain our Buy rating on the stock with a revised PT of Rs. 450.

Key positives

- Collection efficiency for December 2020 stood at 98%, better than September levels.
- Healthy loan traction, with total disbursements at Rs. 16,857 crore, up by 28% y-o-y. Out of this, individual home loan disbursements grew by 36% y-o-y to Rs. 14,511 crore and project loans were Rs. 852 crore.

Key negatives

- For the 9MFY2021, NIMs fell by 13 bps y-o-y to 2.31%. However, q-o-q, NIMs have improved by 2 bps.

Our Call

We believe valuations at 0.97x/0.84x its FY2022E and FY2023E ABVPS are reasonable considering its high return ratios and stable asset quality. LICHF has comfortable access to liquidity and enjoys high credit ratings and hence is well-placed to manage the expected competitive intensity in the home loan segment and is likely to be able to keep margins steady (with a positive bias). The pall of the pandemic is lifting and healthy traction is encouraging. Asset quality outlook (aided by conservative LTV ratios) along with normalising business traction (improving faster than earlier envisaged) improves the company's overall outlook. LICHF has strengths in its borrowing profile and has been able to bring down its cost of funds, helped by its strong parent profile. We believe that conservative LTVs and inexpensive valuations make it a reasonably attractive investment. We have fine-tuned our estimates. We maintain a Buy rating on the stock with a revised PT of Rs. 450.

Key Risks

Increased delinquencies in developer book may worsen asset quality and affect profitability.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	4,349.9	4,689.0	5,786.8	6,569.1	7,442.0
Net profit	2,431.0	2,401.8	3,098.9	3,567.5	3,938.7
EPS (Rs)	48.1	47.6	61.4	70.6	78.0
P/E (x)	8.2	8.3	6.5	5.6	5.1
Adj book value (Rs/share)	315.8	302.0	351.1	407.7	470.1
P/ABV (x)	1.25	1.31	1.13	0.97	0.84
RoAE (%)	16.8	15.9	17.2	17.2	16.5
RoAA (%)	1.46	1.38	1.66	1.68	1.59

Source: Company; Sharekhan estimates

Operational performance highlights

Total disbursements were Rs. 16,857 crore as against Rs. 13,177 crore a year ago, rising by 28%. Out of this, individual home loan disbursements grew by 36% to Rs. 14,511 crore from Rs. 10,655 crore, whereas project loans were Rs. 852 crore as compared to Rs. 931 crore in the same quarter a year ago.

Individual loan portfolio stood at Rs. 204,444 crore as against Rs. 194,004 crore, a growth of 5%. Project loan portfolio stood at Rs. 15,753 crore as on December 31, 2020 as against Rs. 14,266 crore as on December 31, 2019. Total outstanding portfolio grew at 6% to Rs. 220197 crore from Rs. 208270 crore.

Revenue from operations was Rs. 4,907 crore as against Rs. 4,996 crore. Net Interest Income (NII) was Rs. 1281 crore, as against Rs.1254 crore for the same period previous year. Profit before tax for the quarter was Rs. 969.64 crore as against Rs. 745.32 crore. a growth of 30%. Net PAT stood at Rs. 727.04 crore compared with Rs. 597.53 crore during the same period in the previous year, up 22% YoY. Net interest margin (NIM) for the quarter ended December 31, 2020 was 2.36% as against 2.34% in Q2FY 21.

Under Ind-AS 16, asset classification and provisioning changes for future credit loss are reported on Expected Credit Loss (ECL) basis. As per the same methodology, provisions for ECL stood at Rs. 2948.05 crore as on December 31, 2020 as against Rs. 2584.72 crore as on December 31, 2019. Stage 3 Exposure at default as on December 31,2020 stood at 2.68 % as against 2.73% as on December 31, 2019. COVID-19 provisions stood at Rs. 212.01 crore and impairment provision stood at Rs. 186.53 crore.

Key Concall Highlights

- Collection efficiency and recovery has improved. Due to healthy collection, some Stage 3 assets have moved to Stage 2 levels (upgraded).
- Home loan yield is more than 7% in aggregate, excluding LAP & builder loan book
- Aggregate on book yield is 7.5-7.6%
- Restructuring outlook is that Stage 2 restructuring would be ~Rs. 500-600 crore. Stage1 would be Rs. 1000 crore while Stage 3 would be Rs 25-50 crore
- Builder Loan/Corporate book stood at Rs 15,000 crore, yielding a 13% return, wherein incremental yields are at 11-12%.
- Balance transfer on individual home loan is less encouraged by LICHF, and the HFC would look to grow organically.
- Weighted average borrowing cost stood at ~6% at present.
- Borrowing cost skewed towards NCDs which stood at 60% but the proportion of bank funding too has increased. Rate of interest on bank funding stood at 5.5%.
- The company has migrated from MCLR based to repo rate pricing, to reduce interest rate of its book. At present, ~75% would be linked to MCLR while remaining 25% is linked to the repo rate.
- During 9MFY21 ~Rs 33,000 crore has been disbursed in western region and would constitute 15% plus share in total book predominately from Maharashtra & Gujarat.
- Due to demand for housing, average ticket size of home loans has increased from Rs. 23-Rs. 25 lakh to Rs. 27 lakh.
- Ambition to be No 1 player in technology space within the HFC space. HFC has strong focus on customer experience.
- Gross NPA of Rs. 6000 crore spread in a ratio of 16% from developer funding and rest in the retail segment.
- LICHF's balance sheet is constructed in such a way that 60% of borrowing are at fixed rate while 90% loan disbursed are linked with floating rate of interest which augur well for changing interest rates.
- Incremental cost of funds is at 5.6% while yield on advances are at 7.5%.

Results

Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Interest earned	4876	4969	-1.9	4938.2	-1.3
Interest Expended	3595	3715	-3.2	3700.2	-2.8
Net interest income	1281	1254	2.2	1238	3.5
Non-interest income	47.9	27.6	73.9	43.7	9.7
Net total income	1328.9	1281.2	3.7	1281.7	3.7
Operating expenses	178.4	145.2	22.8	169.4	5.3
-Employee expenses	75.9	73.2	3.7	78.5	-3.3
-Other operating expenses	102.5	72.0	42.2	90.9	12.8
Pre-provisioning profit	1150.6	1136.0	1.3	1112.3	3.4
Provisions	181.0	390.7	-53.7	103.2	75.3
Profit before tax	969.6	745.3	55.0	1009.1	-71.9
Tax	242.6	147.8	64.2	218.4	11.1
Profit after tax	727.0	597.5	21.7	790.7	-8.1

Source: Company; Sharekhan Research

Outlook and Valuation

Sector view - Outlook improves for NBFCs in general and HFCs in particular

Long-term structural indicators remain strong for housing and mortgages in India. Interest rates are low and several states have given incentives for home buying, which is likely to prop up demand. The recent fall in borrowing costs, which was steep for high-rated NBFCs, is another positive. Moreover, rising affordability and softening pricing (helped by tax incentives) are positive for demand offtake and LTV outlook for HFCs. India has a young population and government schemes such as CLSS, etc, which will facilitate even the affordable housing segments, are also enablers along with low penetration levels of mortgages in India (at 10% of GDP, against 18% in China and 56% in the US). We believe economic recovery is also gaining momentum and stimulus/supportive measures by the government and the Reserve Bank of India (RBI) will further aid to the same. We believe the outlook has turned positive on the NBFC sector in general and HFCs in particular.

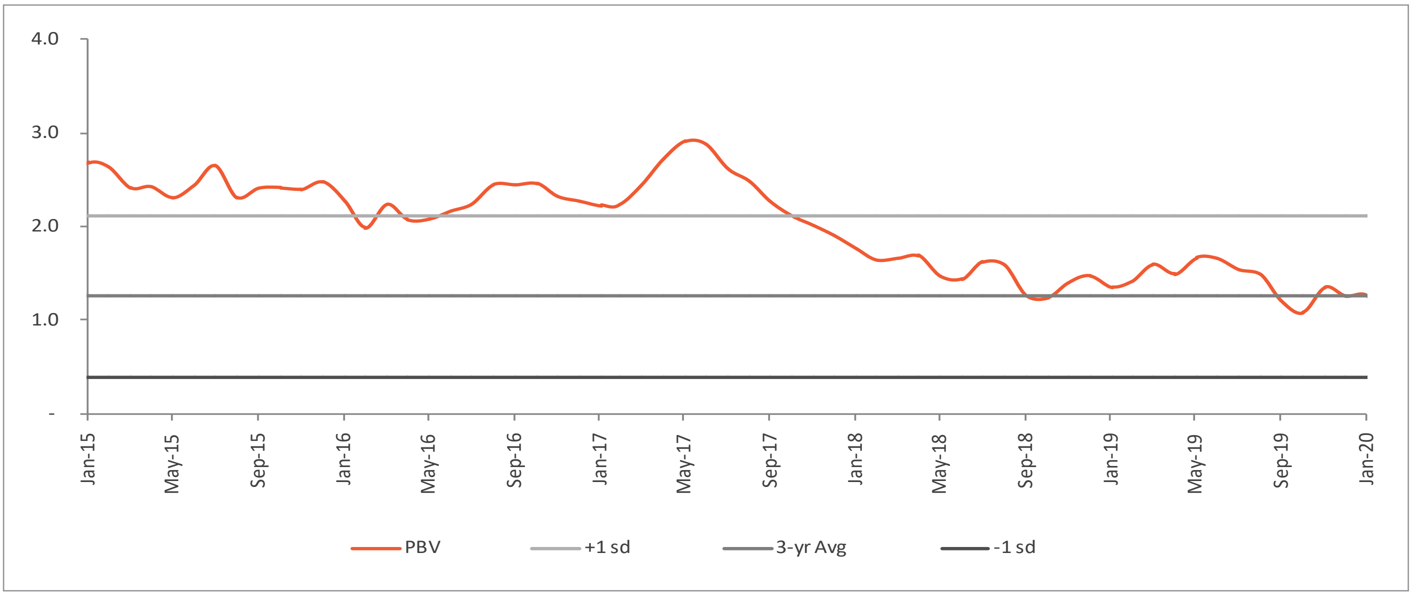
Company outlook - Strong fundamentals, but challenges persist

LICHF witnessed improved loan disbursement and stable NIM, indicating a recovering traction post the lockdown and slower economic activity due to COVID-19. LICHF is well-placed in terms of liquidity management and falling interest would certainly augur well for the company in the coming quarters. LICHF has comfortable access to liquidity and enjoys high credit ratings. However, we believe competitive intensity may increase in the home loan segment, we expect margin outlook to be stable (with a positive bias) due to its declining cost of funds and improving disbursement traction. We believe asset quality outlook and well-managed costs of borrowings are improving for LICHF, but going forward we believe that asset quality and competitive pressures will be key monitorables.

Valuation - We maintain a Buy rating with a revised PT of Rs. 450

We believe valuations at 0.97x/0.84x its FY2022E and FY2023E ABVPS are reasonable considering its high return ratios and stable asset quality. LICHF has comfortable access to liquidity and enjoys high credit ratings and hence is well-placed to manage the expected competitive intensity in the home loan segment and is likely to be able to keep margins steady (with a positive bias). The pall of the pandemic is lifting and healthy traction is encouraging. Asset quality outlook (aided by conservative LTV ratios) along with normalising business traction (improving faster than earlier envisaged) improves the company's overall outlook. LICHF has strengths in its borrowing profile and has been able to bring down its cost of funds, helped by its strong parent profile. We believe that conservative LTVs and inexpensive valuations make it a reasonably attractive investment. We have fine-tuned our estimates. We maintain a Buy rating on the stock with a revised PT of Rs. 450.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP Rs/Share	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
LIC Housing Finance	396	1.1	1.0	6.4	5.7	1.7	1.7	17.2	17.0
Can Fin Homes	481	0.9	0.9	10.6	9.1	1.0	1.1	9.3	10.1
PNB Housing Finance	335	0.7	0.6	7.4	6.3	2.0	2.1	18.5	17.5
HDFC Ltd	2,378	4.1	3.8	39.6	34.2	1.9	2.0	11.5	12.1

Source: Bloomberg, Sharekhan research

About company

LICHF is one of the largest housing finance companies in India having one of the widest networks of offices across the country and representative offices at Dubai and Kuwait. In addition, the company distributes its products through branches of its subsidiary. LICHF is promoted by Life Insurance Corporation in which it currently holds 40.31% shares in HFC. LICHF enjoys high rating from CRISIL and CARE, indicating the highest safety about the ability to service interest and repay principal, which to some degree can be attributed to having a strong parent.

Investment theme

LICHF has seen steady loan book growth, but performance of the high-yield (but also high delinquency) developer loan book portion such as LAP/Developer is a key monitorable. Backed by a strong parent, the rating of LICHF has been strong; and it has been able to see off most of the liquidity pressure that had impacted most NBFCs/HFCs of late. However, while the high ratings are a key positive support to its margins, also allowing it to wean off high liquidity faster than peers. Even though, we believe competitive intensity may increase in the home loan segment, we expect margins outlook to be stable (with positive bias) due to its declining Cost of Funds and improving disbursement traction. We believe the outlook on asset quality and well-managed costs of borrowings are positives in favour.

Key Risks

Increased delinquencies in developer book may worsen asset quality and affect profitability.

Additional Data

Key management personnel

Mr. Siddhartha Mohanty	Managing Director and CEO
Mr.Sudipto Sil	CFO/Manager:Investor Relation
Mr. Nitin K. Jage	General Manager (Taxation) & Company Secretary
Ms. Purti Samant	Chief Risk Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FIDELITY INV TRUST FIDELIT	9.4
2	ICICI Prudential Asset Management	2.8
3	Bank Muscat SAOG	2.3
4	Norges Bank	2.2
5	NPS TRUST	2.2
6	GOVERNMENT PENSION FUND - GLOBAL	2.0
7	HDFC Life Insurance Co Ltd	1.9
8	Vanguard Group Inc/The	1.8
9	Dimensional Fund Advisors	1.2
10	Prudential Assuranse Company	1.2

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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