

October 22, 2021

Q2FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	REDUCE		REDUCE	
Target Price	387		390	
NII (Rs.)	65,711	72,897	62,212	71,873
% Chng.	5.6	1.4		
PPoP (Rs.)	57,034	62,501	54,555	62,682
% Chng.	4.5	(0.3)		
EPS (Rs.)	59.0	70.1	63.8	73.3
% Chng.	(7.5)	(4.4)		

Key Financials - Standalone

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Net Int.Inc. (Rs m)	52,445	56,096	65,711	72,897
Growth (%)	8.8	7.0	17.1	10.9
Op. Profit (Rs m)	46,662	48,810	57,034	62,501
PAT (Rs m)	27,343	21,217	32,495	38,571
EPS (Rs.)	54.1	40.2	59.0	70.1
Gr. (%)	14.1	(25.7)	46.8	18.7
DPS (Rs.)	9.0	8.6	9.0	9.0
Yield (%)	2.2	2.1	2.2	2.2
Margin (%)	2.4	2.3	2.4	2.3
RoAE (%)	14.1	9.5	12.9	13.7
RoAA (%)	1.2	0.8	1.1	1.2
PE (x)	7.6	10.2	6.9	5.8
P/BV (x)	1.0	0.9	0.8	0.8
P/ABV (x)	1.3	1.4	1.1	0.9

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.542 / Rs.281
Sensex / Nifty	60,822 / 18,115
Market Cap	Rs.225bn/ \$ 3,000m
Shares Outstanding	550m
3M Avg. Daily Value	Rs.3166.66m

Shareholding Pattern (%)

Promoter's	45.24
Foreign	24.07
Domestic Institution	14.96
Public & Others	15.73
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.2)	5.6	32.4
Relative	(8.1)	(16.5)	(11.7)

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Re-rating still distant

Quick Pointers:

- OTR at 3.1%; interest reversals stand elevated at Rs2.5bn

LICHF's Q2FY22 earnings stood mixed. While low base led to both business (interest income falling 3% QoQ, loans up 2.2%QoQ) and asset quality improvement QoQ (stage 3 lower by 79bps QoQ to 5.14%), the elevated interest reversals on OTR accounts (Rs2.5bn) and one-time operating costs (actuarial impact Rs450mn) proved as a dampener. while individual Home loan NPAs at 2.2% stood down 4bps QoQ, developer NPAs at ~24% stood stagnant with negligible resolutions during the quarter.

Going forward, while a decent growth story remains intact for LICHF, asset repricing on lower side, continued interest reversals (although quantum should recede) and slower developer resolutions would remain an overhang on the stock. Our FY22 estimates warrant a sharp cut (20%) led by PPoP pressures during H1FY22, and incorporating persistent higher provisioning our FY23-24 estimates stand down by avg. 6%. We reiterate REDUCE rating shifting our target multiple to Sep'23E and maintain closer to 1x PABV as re-rating is clearly a function of sustenance of healthy asset quality show. Our price target now stands at Rs 387 (earlier Rs390).

- Business momentum picks-up but on a low base; NII disappoint:** Loans at Rs2376bn stood grew 2.2%QoQ/11.4%YoY led by individual loan growth of 15.4%YoY/3.5%QoQ. With Co.'s incremental focus reverting to individual home loans that form 79% of overall mix today, the weakness in projects loans stay as they de-grew 0.2%YoY/1.6%QoQ decline. Disbursements at Rs161bn stood higher 86%QoQ coming on a low base largely aided by similar traction in individual home loans segment. NII declined 5% QoQ led fall in interest income of 3%QoQ led by sizeable interest reversals of Rs2.5bn. Moreover, LICHF had recently revised lending rates downwards to 6.6% and we reckon the best of NIM days are behind. Going forward, with growth underperformance (11%/15%), sluggish NIMs (2.2%) and elevated credit costs (55/28bps) to limit return profile of the Co to 1.2%/13.6% over FY22/23. whiel we maintain our growth estimates (11%/15%/15%) over FY22-24E, NIMs should fall to 2.2% by FY24 post an uptick of 2.3% in FY23.
- Sustenance of healthy asset quality is the key; RoEs capped at ~14%:** At 5.14% GNPA, LICHF saw individual home loan NPAs declining 4bps QoQ to 2.2%, non-housi8ng commercial NPAs falling 408bps QoQ to 14.8% and LAP NPAs declining 123bps to 9.76%. Developer loans continue to NPAs remained critical at 24% as resolutions stood negligible. While OTR at 3.1% that's largely contributing to Stage1/Stage 2 stock stands positive interest reversals are expected to flow through each quarter ahead although the quantum should recede. While we maintain our NPA estimates at higher order of 6%/4%/3.5%), we tweak credit costs estimates higher to 85/50/35 bps (earlier 55/28/20 bps) to incorporate continued higher provisioning levels. As asset quality resolutions remain an overhang, we expect Roes to linger at 14% levels.

PAT increases by 61.5%QoQ but declines 68.7% YoY to Rs2.59bn standing way below estimates [vs. PLe of Rs4.59bn; CE: Rs5.96bn] primarily on account of sluggish NII and higher operating costs

NII growth was weaker with declining 8%QoQ/5.3%YoY to Rs12.2bn [vs. PLe of Rs14.4bn] led by sluggishness in loans

Loans at Rs 2376bn stood up 11.4%/2.2% YoY/QoQ and stood in-line with our estimates [vs PLe: Rs2395bn]

Other operating costs stood elevated led by unusual spike in commission/brokerage expenses witnessing 400%+180%+QoQ/YoY increase

PPoP at Rs 9.3bn was a drag with 8.7%/16% decline QoQ/YoY and stood way below estimates [vs. PLe of Rs12.4bn]

Provisions at Rs6.25bn declines 24.7% QoQ but climbed ~6x YoY but stood in-line [vs PLe: Rs 12.2bn]

GNPA at 5% increased 235bps YoY but declines 79bps QoQ [vs. PLe of 5.5%]

Exhibit 1: Q2FY22: One-off employee costs, higher provisions mar PAT

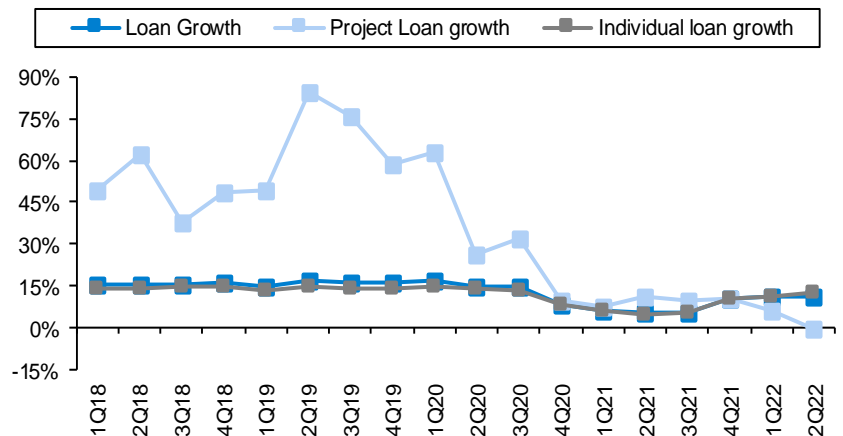
P&L (Rs m)	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	QoQ gr. (%)
Interest Income	47,080	49,690	(5.3)	48,571	(3.1)
Interest Expense	35,060	37,002	(5.2)	35,500	(1.2)
Net Interest Income	12,020	12,688	(5.3)	13,071	(8.0)
Other operating Inc.	-	-	-	-	-
Other Income	70	128	(45.4)	19	262.2
Total income	12,090	12,817	(5.7)	13,091	(7.6)
Employee Expense	1,471	785	87.4	2,152	(31.6)
Other Expenses	1,276	909	40.4	705	81.0
Operating Profit	9,343	11,123	(16.0)	10,233	(8.7)
Provisions	6,253	1,030	507.0	8,304	(24.7)
Tax	611	2,184	(72.0)	395	54.7
Net Profit excl exceptional	2,479	7,909	(68.7)	1,534	61.5
Reported PAT	2,479	7,909	(68.7)	1,534	61.5
Balance Sheet (Rs m)					
O/S Loans	23,76,600	21,33,490	11.4	23,25,480	2.2
-Individual loans	22,23,309	19,79,879	12.3	21,69,470	2.5
Retail Home Loans	18,83,480	16,32,120	15.4	18,20,550	3.5
Retail LAP / Non Core	3,39,854	3,47,759	(2.3)	3,48,822	(2.6)
-Corporate loans	1,53,291	1,53,611	(0.2)	1,55,807	(1.6)
-Individual loans (%)					
Retail Home Loans	93.6	92.8	0.7	93.3	0.2
Retail LAP / Non Core	79.3	76.5	2.8	78.3	1.0
-Corporate loans (%)	14.3	16.3	(2.0)	15.0	(0.7)
	6.5	7.2	(0.7)	6.7	(0.2)
Incr. Disbursements					
-Individual loans (%)	1,61,100	1,24,430	29.5	86,520	86.2
-Developer loans (%)	89.0	83.4	5.6	88.4	0.5
	11.0	16.6	(5.6)	11.6	(0.5)
Asset quality					
Gross NPL	1,22,157	59,524	105.2	1,37,901	(11.4)
Gross NPL (%)	5.14	2.79	235.0	5.93	(79.0)
Others / Ratios (%)					
Yield on Loans - Calc	8.0	9.4	(1.4)	8.4	(0.4)
Cost of Borrowings - Calc	6.7	7.6	(0.9)	6.9	(0.2)
Spread	1.28	2.21	(0.9)	1.48	(0.2)
NIMs	2.05	2.40	(0.4)	2.25	(0.2)
Cost/ Income Ratio	22.72	13.21	9.5	21.83	0.9

Source: Company, PL

KTAs of LICHF Q2FY22 Earnings Con call

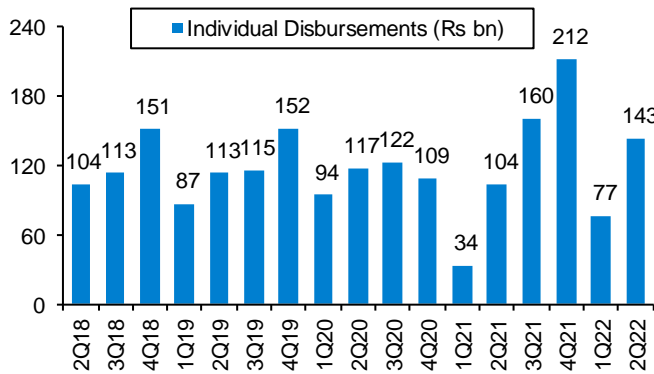
- **Business** - Strong growth of 15% YoY in individual home loan. Disbursements during Q2FY22 was 132% of pre-covid level. Balance transfer in last 6 months stood at 1-1.5%.
- **NIMs** – margins down YoY and QoQ due to interest income reversal on OTR accounts to an extent of Rs 2500 mn in Q2FY22. Interest reversal impacted margins by 22-23 bps in Q2FY22. As economic condition and cash flow of borrowers is improving the restructured accounts will come out in subsequent quarters and interest write back is expected on this OTR accounts. NIMs will improve to 2.25% to 2.5% in next 2-3 quarters.
- **Spreads** - Fall in cost of funds (by ~12 bps) has improved the spreads marginally to 1.99% in Q2FY22 from 1.92% in Q1FY22. Bond repayments of Rs 220-230bn is expected in next 12 months.
- **Credit cost** - Overall credit cost will continue to trend downwards due reduction in NPA in upcoming quarters.
- **Opex** - Rise in expenses due to one-time payment of arrears. Establishment expenses will be in the range of Rs 900-1000mn going ahead.
- **Provisions** - Covid-19 related provision stood at Rs 3144mn and total ECL provisions stood at Rs 53549mn as of Q2FY22.
- **Asset quality** – Individual Home loans - 2.25%, Non housing commercial - 14.83%, Non housing Individual (LAP) - 9.76%. No addition in NPAs of developer segment. In non-housing segment recovery of Rs 1000mn in Q2FY22 whereas in developer segment recovery was in 2 small digits.
- **Restructured accounts** - Total restructured loans stood at Rs 73bn (OTR 1 + OTR 2) which is 3.1% of total loan book and mostly in stage 1 and 2. OTR 2 of Rs 20.78bn is mainly in retail segment (ATS Rs 25- Rs 30 lakhs). Impact of OTR expected to come down in next 2-3 quarters.
- **Collection efficiency** - Regular collection efficiency on performance account is ~ 99%.
- **Capital** - Capital adequacy is adequate at this stage.
- **Others** - LICHF has tied up with IPPB for cross selling home loans, which will improve its reach in tier I and tier II cities.

Exhibit 2: Marginal uptick in Loan growth



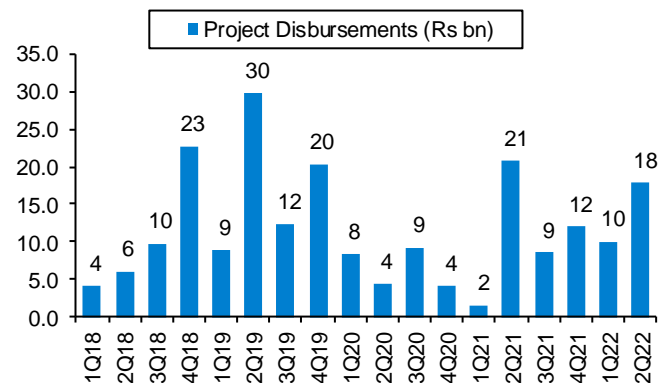
Source: Company, PL

Exhibit 3: Strong QoQ growth in retail disbursements



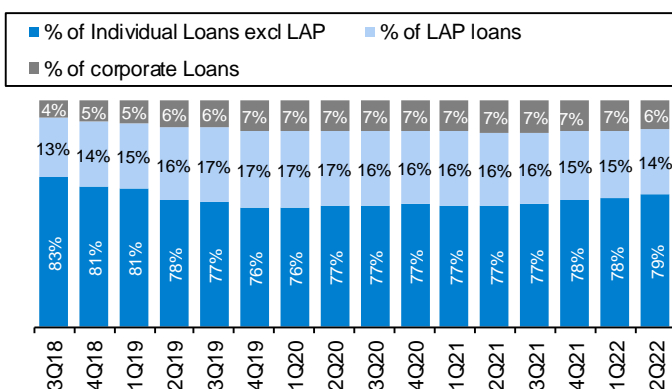
Source: Company, PL

Exhibit 4: Increasing Project loan disbursements QoQ



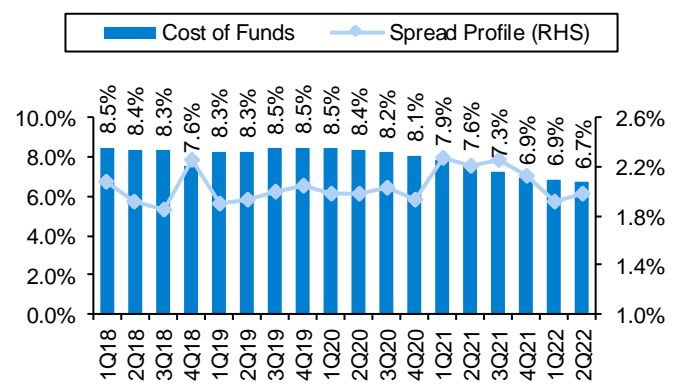
Source: Company, PL

Exhibit 5: Individual Loan share remained largely stable



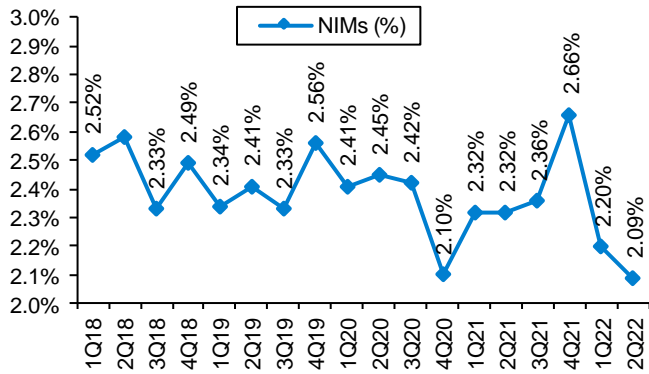
Source: Company, PL

Exhibit 6: CoF declined by 20 bps QoQ



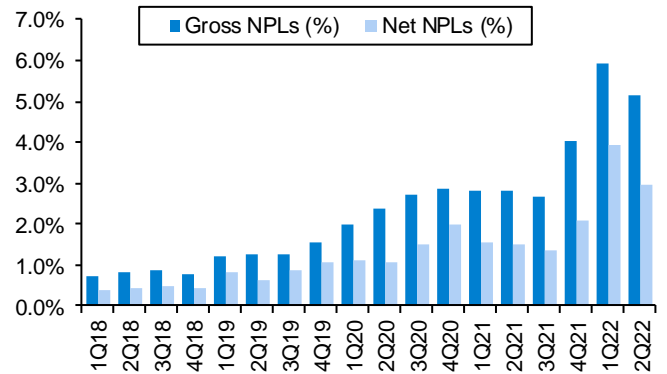
Source: Company, PL

Exhibit 7: NIM declined by 11bps on QoQ basis



Source: Company, PL

Exhibit 8: Asset quality improved QoQ



Source: Company, PL

Exhibit 9: Change in Estimates: we incorporate higher credit costs, elevated NPAs over FY22/23/24

(Rs mn)	Old			Revised			% change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	55,381	62,212	71,873	56,096	65,711	72,897	1.3%	5.6%	1.4%
Operating profit	49,021	54,555	62,681	48,810	57,034	62,501	-0.4%	4.5%	-0.3%
Net profit	26,777	35,120	40,346	21,217	32,495	38,571	-20.8%	-7.5%	-4.4%
EPS, Rs.	50.7	63.8	73.3	40.2	59.0	70.1	-20.8%	-7.5%	-4.4%
Price target, Rs.	390			387			-0.7%		
Recommendation	REDUCE			REDUCE					

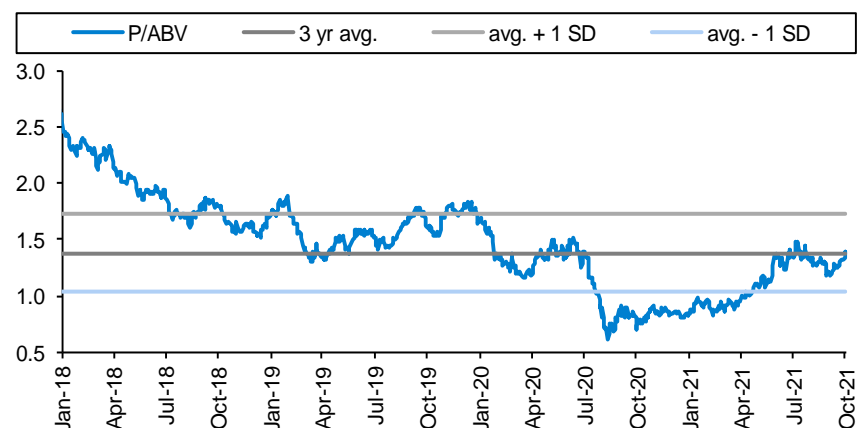
Source: PL

Exhibit 10: Maintain REDUCE; TP revised downwards to Rs 387

PT calculation and upside	
Fair price – EVA	509
Fair price - P/ABV	266
Average of the two	387
Target P/ABV	0.9
Target P/E	7.8
Current price, Rs	409
Upside (%)	-5%
Dividend yield (%)	2%
Total return (%)	-3%

Source: Company, PL

Exhibit 11: Asset quality overhang to cap valuation multiple uptick



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Int. Inc. / Opt. Inc.	1,96,971	2,10,301	2,44,097	2,83,842
Interest Expenses	1,44,526	1,54,206	1,78,386	2,10,945
Net interest income	52,445	56,096	65,711	72,897
Growth(%)	8.8	7.0	17.1	10.9
Non-interest income	1,506	1,643	1,731	1,827
Growth(%)	133.8	9.1	5.4	5.5
Net operating income	53,951	57,738	67,442	74,724
Expenditures				
Employees	2,932	4,105	4,720	5,428
Other Expenses	4,358	4,573	5,488	6,585
Depreciation	494	251	199	209
Operating Expenses	7,289	8,678	10,208	12,014
PPP	46,662	48,810	57,034	62,501
Growth(%)	10.5	4.6	16.9	9.6
Provisions	13,176	20,456	13,610	10,956
Profit Before Tax	33,486	28,353	43,425	51,545
Tax	6,142	7,137	10,930	12,974
Effective Tax rate(%)	18.3	25.2	25.2	25.2
PAT	27,343	21,217	32,495	38,571
Growth(%)	13.8	(22.4)	53.2	18.7

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Source of funds				
Equity	1,010	1,101	1,101	1,101
Reserves and Surplus	2,04,203	2,38,292	2,64,835	2,97,455
Networth	2,05,213	2,39,393	2,65,936	2,98,556
Growth (%)	12.8	16.7	11.1	12.3
Loan funds	20,78,615	23,17,726	26,61,400	31,05,061
Growth (%)	8.6	11.5	14.8	16.7
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	71,080	1,15,275	1,33,343	1,36,010
Other Liabilities	1,425	1,553	1,848	2,199
Total Liabilities	23,56,333	26,72,394	30,60,679	35,39,627
Application of funds				
Net fixed assets	3,732	3,983	4,183	4,392
Advances	22,81,143	25,32,068	29,11,879	33,48,660
Growth (%)	9.7	11.0	15.0	15.0
Investments	46,356	59,527	61,290	63,845
Current Assets	13,549	37,462	37,752	41,484
Net current assets	(57,531)	(77,813)	(95,591)	(94,527)
Other Assets	11,553	39,353	45,577	81,246
Total Assets	23,56,333	26,72,394	30,60,680	35,39,627
Growth (%)	8.7	13.4	14.5	15.6
Business Mix				
AUM	22,81,143	25,32,068	29,11,879	33,48,660
Growth (%)	9.7	11.0	15.0	15.0
On Balance Sheet	22,81,143	25,32,068	29,11,879	33,48,660
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY21	FY22E	FY23E	FY24E
NIM	2.4	2.3	2.4	2.3
ROAA	1.2	0.8	1.1	1.2
ROAE	14.1	9.6	12.9	13.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Int. Inc. / Operating Inc.	49,067	49,677	48,571	47,080
Income from securitization	-	-	-	-
Interest Expenses	35,951	33,929	35,500	35,060
Net Interest Income	13,117	15,748	13,071	12,020
Growth (%)	2.4	36.2	5.5	(5.3)
Non-Interest Income	173	(33)	19	70
Net Operating Income	13,289	15,715	13,091	12,090
Growth (%)	3.7	40.0	7.9	(5.7)
Operating expenditure	1,784	2,423	2,857	2,747
PPP	11,506	13,292	10,233	9,343
Growth (%)	-	-	-	-
Provision	1,810	9,772	8,304	6,253
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,696	3,520	1,929	3,090
Tax	2,426	(469)	395	611
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.0	(13.3)	20.5	19.8
PAT	7,270	3,989	1,534	2,479
Growth	22	(5)	(81)	(69)
AUM	22,01,970	23,20,030	23,25,480	23,76,600
YoY growth (%)	5.7	10.2	10.8	11.4
Borrowing	19,55,340	21,51,121	20,63,910	21,68,872
YoY growth (%)	5.7	12.5	9.6	14.0

Key Ratios

Y/e Mar	FY21	FY22E	FY23E	FY24E
CMP (Rs)	409	409	409	409
EPS (Rs)	54.1	40.2	59.0	70.1
Book value (Rs)	406.4	434.9	483.1	542.4
Adj. BV(Rs)	316.8	286.8	371.4	448.9
P/E(x)	7.6	10.2	6.9	5.8
P/BV(x)	1.0	0.9	0.8	0.8
P/ABV(x)	1.3	1.4	1.1	0.9
DPS (Rs)	9.0	8.6	9.0	9.0
Dividend Payout Ratio(%)	20.0	26.9	18.3	15.4
Dividend Yield(%)	2.2	2.1	2.2	2.2

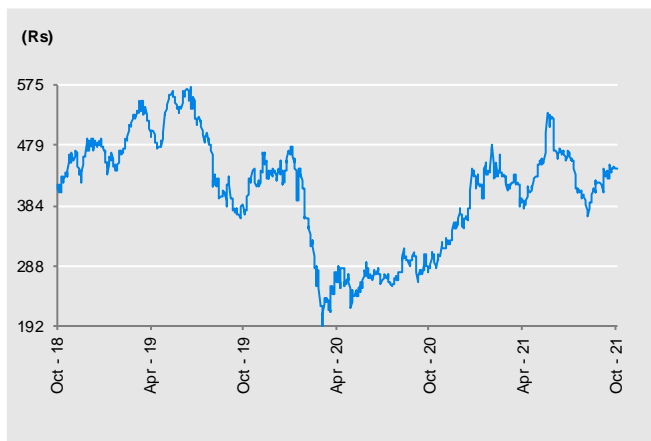
Asset Quality

Y/e Mar	FY21	FY22E	FY23E	FY24E
Gross NPAs(Rs m)	93,033	1,51,626	1,27,676	1,16,476
Net NPA(Rs m)	60,325	1,08,690	82,018	68,627
Gross NPAs to Gross Adv.(%)	4.1	6.0	4.4	3.5
Net NPAs to net Adv.(%)	2.6	4.3	2.8	2.0
NPA coverage(%)	35.2	28.3	35.8	41.1

Du-Pont as a % of AUM

Y/e Mar	FY21	FY22E	FY23E	FY24E
NII	2.3	2.2	2.3	2.2
NII INCl. Securitization	2.3	2.2	2.3	2.2
Total income	2.4	2.3	2.4	2.3
Operating Expenses	0.3	0.4	0.4	0.4
PPOP	2.1	1.9	2.0	1.9
Total Provisions	0.6	0.8	0.5	0.3
RoAA	1.3	0.8	1.1	1.2
Avg. Assets/Avg. net worth	11.2	11.3	11.3	11.7
RoAE	14.1	9.5	12.9	13.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-21	Reduce	390	448
2	30-Jul-21	Reduce	390	410
3	06-Jul-21	Hold	469	472
4	17-Jun-21	Hold	471	495
5	06-Apr-21	Hold	420	418
6	30-Jan-21	Hold	420	396
7	11-Jan-21	Hold	455	442
8	12-Nov-20	Hold	316	324

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	9,096	7,724
2	Cholamandalam Investment and Finance Company	BUY	739	594
3	HDFC	BUY	3,214	2,741
4	L&T Finance Holdings	Reduce	80	85
5	LIC Housing Finance	Reduce	390	448
6	Mahindra & Mahindra Financial Services	Reduce	168	185
7	Manappuram Finance	Hold	199	184
8	Muthoot Finance	BUY	1,780	1,521
9	SBI Cards and Payment Services	Accumulate	1,205	1,097
10	Shriram Transport Finance	Accumulate	1,453	1,384

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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