

May 19, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		ACCUMULATE	
Target Price	435		420	
NII (Rs.)	60,227	66,359	60,217	67,310
% Chng.	-	(1.4)		
PPoP (Rs.)	53,277	58,956	53,051	58,869
% Chng.	0.4	0.1		
EPS (Rs.)	58.3	69.3	58.3	69.3
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Int.Inc. (Rs m)	52,266	55,206	60,227	66,359
Growth (%)	9.3	5.6	9.1	10.2
Op. Profit (Rs m)	46,661	47,664	53,277	58,956
PAT (Rs m)	27,343	22,873	32,566	37,684
EPS (Rs.)	54.1	37.5	58.3	69.3
Gr. (%)	14.1	(30.7)	55.6	18.8
DPS (Rs.)	8.0	8.5	10.7	13.7
Yield (%)	2.3	2.4	3.0	3.9
Margin (%)	2.3	2.3	2.3	2.3
RoAE (%)	14.1	10.1	12.5	13.1
RoAA (%)	1.2	0.9	1.2	1.3
PE (x)	6.6	9.5	6.1	5.1
P/BV (x)	0.9	0.8	0.7	0.6
P/ABV (x)	1.2	1.1	0.9	0.8

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.542 / Rs.321
Sensex / Nifty	52,792 / 15,809
Market Cap	Rs.195bn/ \$ 2,508m
Shares Outstanding	550m
3M Avg. Daily Value	Rs.1277.27m

Shareholding Pattern (%)

Promoter's	45.24
Foreign	23.03
Domestic Institution	16.23
Public & Others	15.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.3)	(12.7)	(20.9)
Relative	0.2	(1.3)	(25.3)

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Fixed rate liabilities could cushion NIM

Quick Pointers:

- NII beat estimates by 13% driven by better margins; loan growth was weaker.
- Asset quality improved due to higher recoveries; OTR pool was stable QoQ.

LIC Housing Finance (LICHF) saw a good quarter with a positive surprise on PAT led by beat on all fronts barring loan growth, that was a miss as volumes were impacted due to third covid wave. The company guided that disbursements could grow by 15% in FY23 and builder loans could see an uptick that might contribute 5-10% to credit flow. NII was ahead due to higher NIM driven by lower funding cost. Benefit of borrowing cost could continue, that might cushion NIM considering that fixed rate liabilities contribute 53% and interest rates could harden. Asset quality improved with GNPA/NNPA reducing QoQ by 40bps each led by better recoveries. LICHF performed well in H2FY22 while valuation at 0.8x is attractive. We maintain multiple at 1.0x FY24 ABV but slightly raise TP to Rs435. Upgrade from ACCUMULATE to BUY.

- Earnings beat driven by better PPoP and lower provisions:** NII was higher at Rs16.3bn (PLe Rs14.4bn) due to NIM beat as loan growth was softer at 8.2% YoY (PLe 10%). Disbursements were weaker at Rs193bn (PLe Rs228bn). Repayments at Rs116bn too were higher. NIM surprised positively at 2.7% (PLe 2.4%) owing to lower funding cost. Other income was stronger at Rs1.1bn while opex was better at Rs2.5bn. PPoP was ahead at Rs14.9bn (PLe Rs12.4bn) led by better NII and other income and lower opex. While provisions were controlled at Rs1.8bn (PLe Rs2.5bn), gross and net stage-3 was lower and improved QoQ by 40bps each to 4.6%/2.6%. PCR increased QoQ from 39.7% to 43.0% which was a positive. PAT was Rs11.2bn (PLe Rs7.4bn).
- Third covid wave impacted credit flow; outlook better:** Disbursements were hit owing to third covid wave that affected operations. Individual continued to drive most of the credit flow and retail home now contributes 81.3% to total loans. The management is confident that disbursements could grow by 15% in FY23E as competitive intensity has reduced driven by lower systemic liquidity. There are signs of a real estate upcycle and hence the builder segment could contribute 5-10% to incremental business. Asset quality improved QoQ due to better collection efficiency. There were recoveries of Rs3.5bn in the builder portfolio of which Rs700mn was from the written-off pool. Restructured portfolio was stable QoQ at 3.1% and the split between project and retail is 50:50.
- Higher proportion of fixed rate liabilities to cushion margins:** NCD which are fixed rate in nature, make up for 53% of borrowings while 95% of assets are floating. This could benefit LICHF in a hardening interest rate environment as increase in yields could outpace rise in funding cost. Liabilities worth Rs250bn are expected to mature in FY23E and incremental funding cost could be range between 6.5-7.0% which would be lower than existing NCD cost of 7.4%. Assuming slippages in FY23 and FY24 would be controlled, NIM could either remain stable or improve from hereon. We have projected NIM for FY23/24E to remain stable at FY22 levels near 2.3%.

NII growth was strong with 11.7%QoQ/8.6%% YoY growth at Rs16bn [vs. PLe of Rs14.4bn].

Other operating costs grew 34% QoQ and de-grew 16.4% YoY at Rs 1.5bn.

PPoP at Rs 14.9bn registered a decent growth of 13.2% QoQ / 12.2% YoY and stood higher than our estimates [vs. PLe of Rs12.4bn]

Provisions at Rs 1.8bn declines 50.2% QoQ /81.9% YoY and stood below our estimates [vs PLe: Rs 2.5bn]

PAT increases by 45.8% QoQ and nearly doubled to Rs11.1bn standing higher than estimates [vs. PLe of Rs7.4bn] primarily on account of healthy NII.

Loans at Rs 2,511bn stood up 8.2%/3.2% YoY/QoQ and were lower than our estimates [vs PLe: Rs2551bn]

GNPA at 4.6% increased 52bps YoY. While it declined QoQ by 40bps [vs. PLe of 4.7%]

Exhibit 1: Q4FY22: Healthy NII; controlled opex lower provisions aided PAT growth

P&L (Rs m)	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)
Interest Income	51,985	49,020	6.0	50,064	3.8
Interest Expense	35,673	34,005	4.9	35,460	0.6
Net Interest Income	16,312	15,015	8.6	14,604	11.7
Other operating Inc.	216	459	(53.0)	335	(35.6)
Other Income	885	165	437.2	305	190.0
Total income	17,413	15,639	11.3	15,244	14.2
Employee Expense	1,033	592	74.5	976	5.8
Other Expenses	1,467	1,755	(16.4)	1,094	34.1
Operating Profit	14,913	13,292	12.2	13,174	13.2
Provisions	1,769	9,772	(81.9)	3,556	(50.2)
Tax	1,958	(469)	(517.2)	1,945	0.6
Net Profit excl exceptional	11,186	3,989	180.4	7,673	45.8
Reported PAT	11,186	3,989	180.4	7,673	45.8
Balance Sheet (Rs m)					
O/S Loans	2,511,200	2,320,030	8.2	2,434,120	3.2
-Individual loans	2,381,420	2,160,470	10.2	2,293,210	3.8
Retail Home Loans	2,041,606	1,807,303	13.0	1,958,980	4.2
Retail LAP / Non Core	339,012	352,645	(3.9)	334,205	1.4
-Corporate loans	129,780	159,560	(18.7)	140,910	(7.9)
-Individual loans (%)	94.8	93.1	1.7	94.2	0.6
Retail Home Loans	81.3	77.9	3.4	80.5	0.8
Retail LAP / Non Core	13.5	15.2	(1.7)	13.7	(0.2)
-Corporate loans (%)	5.2	6.9	(1.7)	5.8	(0.6)
Incr. Disbursements	193,150	2,23,620	(13.6)	177,770	8.7
-Individual loans (%)	97.8	94.7	3.1	98.4	(0.6)
-Developer loans (%)	2.2	5.3	(3.1)	1.6	0.6
Asset quality					
Gross NPL	116,520	95,585	21.9	122,680	(5.0)
Gross NPL (%)	4.64	4.12	52.0	5.04	(40.0)
Others / Ratios (%)					
Yield on Loans - Calc	8.6	8.9	(0.3)	8.6	(0.0)
Cost of Borrowings - Calc	6.4	6.8	(0.4)	6.6	(0.2)
Spread	2.23	2.04	0.2	2.07	0.2
NIMs	2.70	2.71	(1.3)	2.52	18.1
Cost/ Income Ratio	14.35	15.01	(0.7)	13.58	0.8

Source: Company, PL

KTAs of LICHF Q4FY22 Earnings Con call

▪ **Assets & Liabilities:**

- Covid-19 impacted business in the first half, however recovery of the economic activity was sharp which is reflected in profitability of the company. Despite hardening of interest rates, FY23 seems to be more promising as economic environment remains conducive and guides for double digit growth.
- Demand for Individual Home Loans continue to remain robust across geographies, management guides for 15% growth in this segment, coupled with enhanced digital capabilities.
- Management was cautious on growing the project loans in the past two years. With improvement in economic activity and green shots of revival seen in the Real Estate sector despite inflationary pressure, management remains positive on increasing disbursal in this segment, and guides for increase in share from 5% to 10% in FY23.
- For Builder loans - Management expects increase in drawdowns in existing projects. Company has pipeline of Rs.10-15bn across regions, hence management intends to gain market share.
- Competitive Intensity – With liquidity being withdrawn, competitive intensity would reduce.

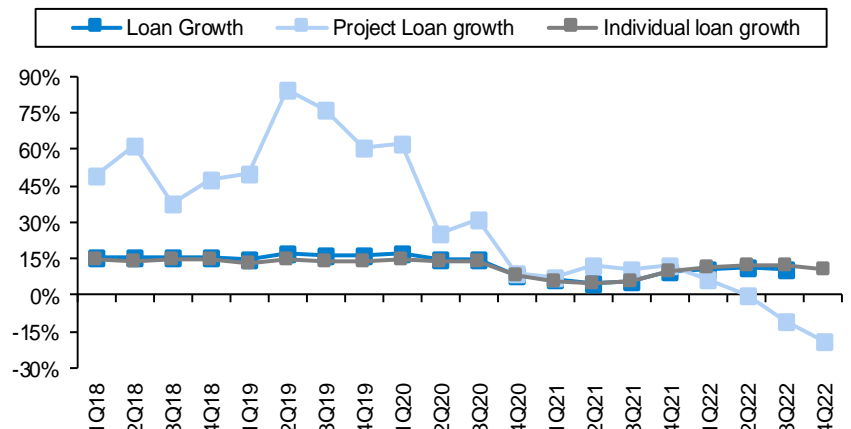
▪ **NIM:**

- 50% of the liabilities are fixed rate while 90% of the asset side is at floating rate, which is expected to cushion NIM from rising rates. Management guides for FY23 NIM at 2.4%.

▪ **Asset quality:**

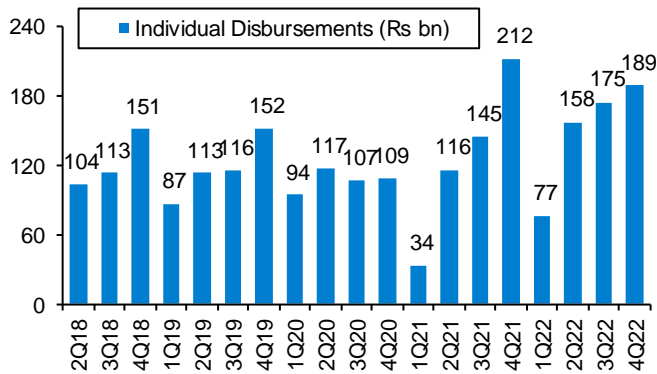
- Stage 3 book stood at 4.64% vs 5.04% in Q3FY22. PCR for Stage 3 was 43% which will be gradually increased. NPA in Individual Home Loans stood at 1.74%, Non-Housing Commercial Loans (incl. Project Loans) was 18.04%, Non-Individual Home Loans – 8.4%.
- O/S restructured book stood at Rs. 78bn, against which 10% provisioning has been made. Of which, Project Loans – Rs. 39bn and Retail Loans –Rs.39.4bn
- As on March 31, 2022; Covid-19 Provisions stood at Rs.2.99bn, Asset reclassification provision stood at Rs.2.27bn. Stage 1 Provisions – 25bps and Stage 2 – 3.1%.
- Recovery – Actual cash recovery for Q4FY22 was Rs.3.5bn (mostly principal recoveries), of which Rs. 0.7bn is from w.off accounts. During the year, there has been no w.off.

Exhibit 2: Loan growth remained flat; project loans continue to de-grew



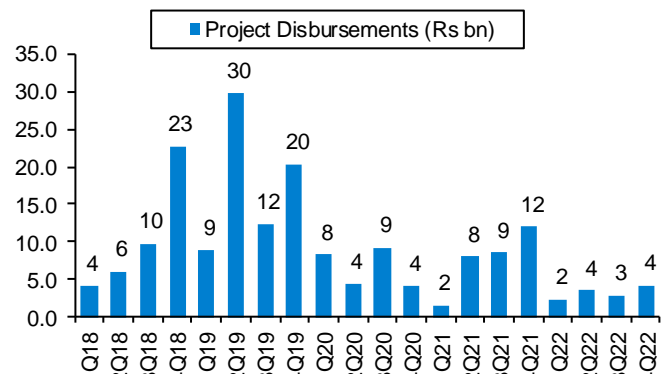
Source: Company, PL

Exhibit 3: Disbursement growth led by Individual segment



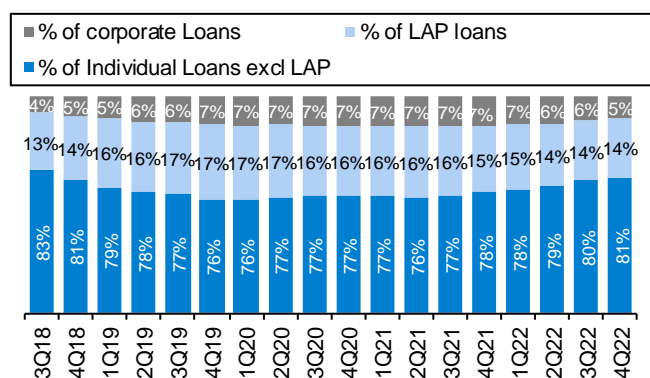
Source: Company, PL

Exhibit 4: Project loan disbursements remain range bound



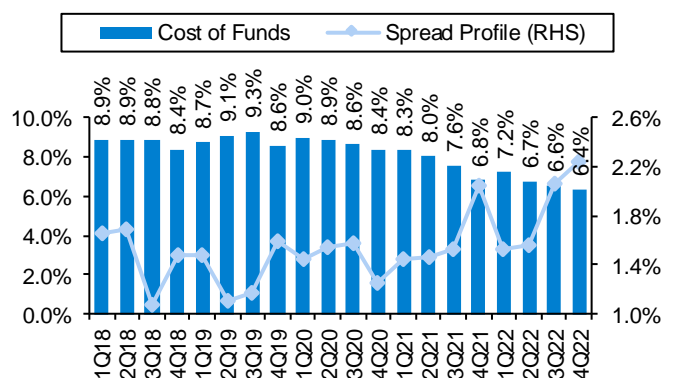
Source: Company, PL

Exhibit 5: Individual Loan mix continue to gain share



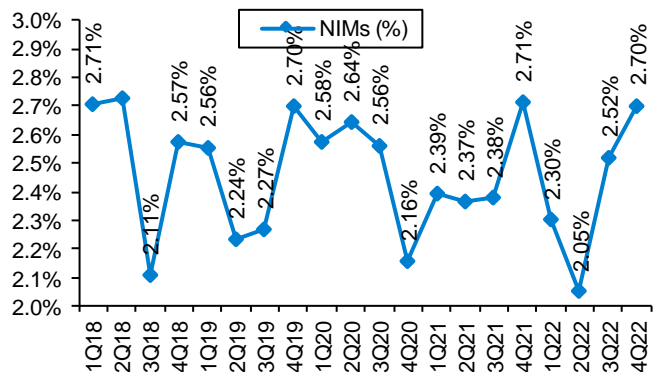
Source: Company, PL

Exhibit 6: CoF decline by 20 bps QoQ



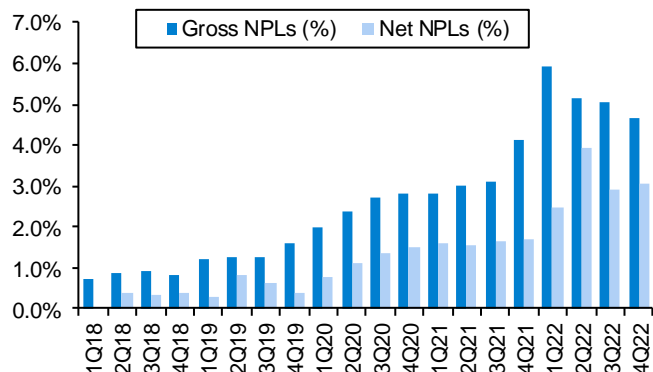
Source: Company, PL

Exhibit 7: NIM expansion led by lower CoF



Source: Company, PL

Exhibit 8: GNPA decline by 40bps QoQ



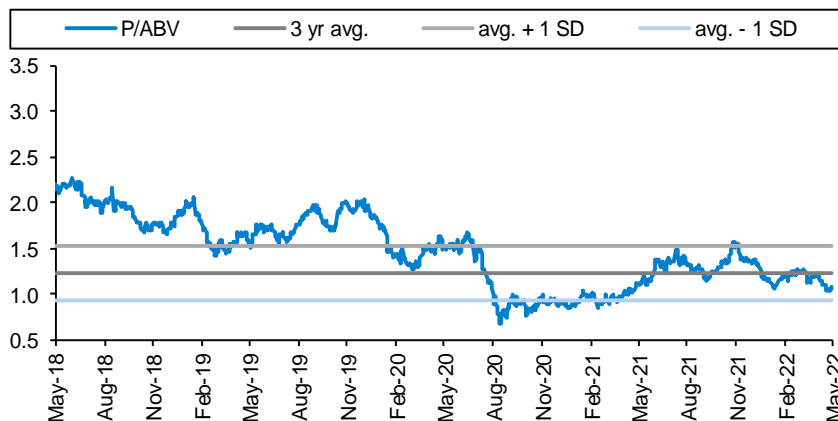
Source: Company, PL

Exhibit 9: No change in Estimates

(Rs mn)	Old		Revised		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income	60,217	67,310	60,227	66,359	0.0%	-1.4%
Operating profit	53,006	59,278	53,277	58,956	0.5%	-0.5%
Net profit	31,749	37,642	32,566	37,684	2.6%	0.1%
EPS, Rs.	57.7	68.4	59.2	68.5	2.6%	0.1%
Price target, Rs.	420		435		3.6%	
Recommendation	ACCUMULATE		BUY			

Source: PL

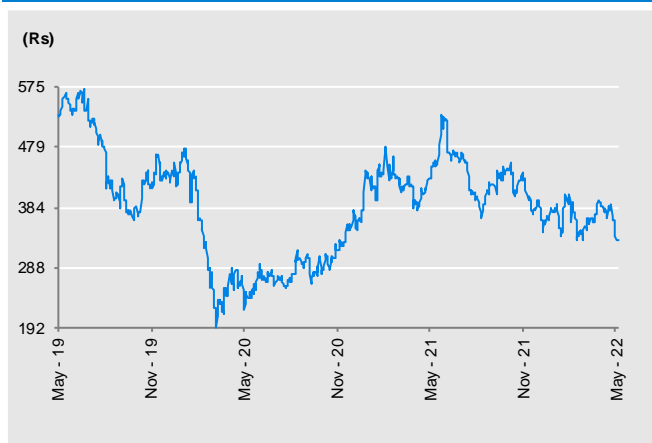
Exhibit 10: One-year forward P/ABV Chart



Source: Company, Bloomberg, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY21	FY22	FY23E	FY24E	Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Int. Inc. / Opt. Inc.	197,066	197,079	218,237	248,918	Int. Inc. / Operating Inc.	48,269	46,761	50,064	51,985
Interest Expenses	144,800	141,872	158,010	182,559	Income from securitization	-	-	-	-
Net interest income	52,266	55,206	60,227	66,359	Interest Expenses	35,542	35,198	35,460	35,673
Growth(%)	9.3	5.6	9.1	10.2	Net Interest Income	12,727	11,563	14,604	16,312
Non-interest income	1,411	2,452	2,174	2,404	Growth (%)	4.4	(6.2)	14.7	8.6
Growth(%)	140.9	73.8	(11.3)	10.6	Non-Interest Income	322	389	640	1,101
Net operating income	53,676	57,658	62,401	68,764	Net Operating Income	13,048	11,952	15,244	17,413
Expenditures					Growth (%)	7.8	(6.2)	15.6	11.3
Employees	2,932	5,633	4,209	4,485	Operating expenditure	2,815	2,609	2,070	2,500
Other Expenses	3,589	3,836	4,325	4,682	PPP	10,233	9,343	13,174	14,913
Depreciation	494	524	591	640	Growth (%)	-	-	-	-
Operating Expenses	7,015	9,994	9,124	9,808	Provision	8,304	6,253	3,556	1,769
PPP	46,661	47,664	53,277	58,956	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	10.5	2.1	11.8	10.7	Profit before tax	1,929	3,090	9,619	13,144
Provisions	13,176	19,882	9,739	8,576	Tax	395	611	1,945	1,958
Profit Before Tax	33,485	27,782	43,537	50,380	Prov. for deferred tax liability	-	-	-	-
Tax	6,142	4,909	10,971	12,696	Effective Tax Rate	20.5	19.8	20.2	14.9
Effective Tax rate(%)	18.3	17.7	25.2	25.2	PAT	1,534	2,479	7,673	11,186
PAT	27,343	22,873	32,566	37,684	Growth	(81)	(69)	6	180
Growth(%)	13.8	(16.3)	42.4	15.7	AUM	2,325,480	2,376,600	2,434,120	2,511,200
					YoY growth (%)	10.8	11.4	10.5	8.2
					Borrowing	2,063,910	2,090,900	2,157,700	2,238,440
					YoY growth (%)	9.6	9.9	10.3	7.8
Balance Sheet (Rs. m)					Key Ratios				
Y/e Mar	FY21	FY22	FY23E	FY24E	Y/e Mar	FY21	FY22	FY23E	FY24E
Source of funds					CMP (Rs)	354	354	354	354
Equity	1,010	1,101	1,101	1,101	EPS (Rs)	54.1	37.5	58.3	69.3
Reserves and Surplus	204,203	245,618	272,437	302,585	Book value (Rs)	406.4	448.3	497.0	551.8
Networth	205,213	246,718	273,538	303,685	Adj. BV(Rs)	289.3	327.8	380.7	435.4
Growth (%)	12.8	20.2	10.9	11.0	P/E(x)	6.6	9.5	6.1	5.1
Loan funds	2,078,615	2,236,582	2,480,144	2,735,820	P/BV(x)	0.9	0.8	0.7	0.6
Growth (%)	8.6	7.6	10.9	10.3	P/ABV(x)	1.2	1.1	0.9	0.8
Deferred Tax Liability	-	-	-	-	DPS (Rs)	8.0	8.5	10.7	13.7
Other Current Liabilities	69,793	59,244	66,490	73,278	Dividend Payout Ratio(%)	14.8	20.5	18.0	20.0
Other Liabilities	2,635	3,131	1,861	2,053	Dividend Yield(%)	2.3	2.4	3.0	3.9
Total Liabilities	2,356,256	2,545,675	2,822,033	3,114,836					
Application of funds					Asset Quality				
Net fixed assets	2,470	2,876	3,115	3,426	Y/e Mar	FY21	FY22	FY23E	FY24E
Advances	2,281,143	2,452,963	2,721,745	3,001,679	Gross NPAs(Rs m)	96,591	116,520	110,562	108,592
Growth (%)	9.7	7.5	11.0	10.3	Net NPA(Rs m)	59,139	66,314	64,011	64,016
Investments	46,356	61,986	63,151	72,319	Gross NPAs to Gross Adv.(%)	4.2	4.6	4.0	3.6
Current Assets	14,526	9,540	14,110	15,516	Net NPAs to net Adv.(%)	2.5	2.6	2.3	2.1
Net current assets	(55,267)	(49,704)	(52,381)	(57,763)	NPA coverage(%)	38.8	43.1	42.1	41.0
Other Assets	11,761	18,310	19,913	21,897					
Total Assets	2,356,256	2,545,675	2,822,033	3,114,836	Du-Pont as a % of AUM				
Growth (%)	8.7	8.0	10.9	10.4	Y/e Mar	FY21	FY22	FY23E	FY24E
Business Mix					NII	2.3	2.2	2.2	2.2
AUM	2,320,030	2,511,200	2,761,159	3,036,322	NII INCL. Securitization	2.3	2.2	2.2	2.2
Growth (%)	10.2	8.2	10.0	10.0	Total income	2.4	2.3	2.3	2.3
On Balance Sheet	2,320,030	2,511,200	2,761,159	3,036,322	Operating Expenses	0.3	0.4	0.3	0.3
% of AUM	100.00	100.00	100.00	100.00	PPOP	2.1	1.9	2.0	2.0
Off Balance Sheet	-	-	-	-	Total Provisions	0.6	0.8	0.4	0.3
% of AUM	-	-	-	-	RoAA	1.2	0.9	1.2	1.3
					Avg. Assets/Avg. net worth	11.7	10.9	10.3	10.3
					RoAE	14.1	10.1	12.5	13.1
Profitability & Capital (%)					Source: Company Data, PL Research				
Y/e Mar	FY21	FY22	FY23E	FY24E					
NIM	2.3	2.3	2.3	2.3					
ROAA	1.2	0.9	1.2	1.3					
ROAE	14.1	10.1	12.5	13.1					

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-22	Accumulate	420	393
2	28-Jan-22	Reduce	364	383
3	11-Jan-22	Reduce	359	380
4	22-Oct-21	Reduce	387	409
5	05-Oct-21	Reduce	390	448
6	30-Jul-21	Reduce	390	410
7	06-Jul-21	Hold	469	472
8	17-Jun-21	Hold	471	495

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,300	2,172
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	125	95
4	Can Fin Homes	BUY	800	642
5	City Union Bank	BUY	180	140
6	DCB Bank	BUY	120	78
7	Federal Bank	BUY	135	91
8	HDFC	BUY	2,900	2,264
9	HDFC Bank	BUY	1,740	1,465
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	979
13	Kotak Mahindra Bank	Accumulate	1,925	1,776
14	LIC Housing Finance	Accumulate	420	393
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	600	445

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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