

May 19, 2022

RESULT REPORT Q4 FY22 | Sector: Financials

LIC Housing Finance Limited

Improved outlook on NIM and Asset Quality

Our view

LIC HF delivered a better-than-expected performance in Q4 FY22 with NII/PPOP/PBT beat of 12%/14%/22%. Notably, this performance was aided by material NIM expansion (largely driven by CoF decline) and lower credit cost (underpinned by 15%/5% qoq reduction in Stage-2/Stage-3 assets). Collection efficiency was strong through the quarter (March at 99%) and there were significant NPL recoveries in builder/high-value loan segments. Stage-2 ECL coverage was maintained while Stage-3 coverage was raised. Portfolio construct has reverted to pre-pandemic level and ECL coverage is better, which provides visibility of moderate credit cost for coming quarters.

NIM expansion in Q4 FY22 was driven by a) positive re-pricing of liabilities (CoF down by 20 bps), b) lending rates hike effected in January across products (restricted Portfolio Yield decline) and c) significant recoveries of NPLs/w-off loans (likely would include interest recovery). While the incremental CoF (declined in Q4 FY22) could harden in coming quarters, the overall CoF is expected to move up gradually considering that 60%+ of liabilities are on fixed rate. On asset side, 90% of the portfolio is on floating rate and back-book re-pricing takes place quarterly. The co. has increased lending rates by 20-25 bps recently across product categories. Thus, NIM outlook is encouraging in a rising rate environment.

On growth front, disbursements were below expectations in the quarter due to 3rd wave impact in the initial part. Lumpsum pre-payment rate in home loans was stable at 10.5-11%. Management expects 15% disbursement growth in FY23, with project loans pegged at 10% of incremental business v/s 5% of loan portfolio currently. Loan portfolio is estimated to grow in double-digits in the current year. NIM for FY23 has been guided at 2.4-2.5% v/s 2.3% in FY22.

We raise FY23/24 earnings/BV estimates materially by lifting NIM assumptions and marginally moderating credit cost estimates. Hence, we now expect average RoA/RoE delivery of 1.4%/14% over FY23-24. In the context of enhanced outlook and undemanding valuation (0.8x/4.7x FY24 PBV/PE), we upgrade the stock to BUY (from ADD) with a 12m TP of Rs500.

Exhibit 1: Result table

| Result table (Rs mn) | Q4 FY22 | Q3 FY22 | % qoq | Q4 FY21 | % yoy |
|-------------------------|----------|----------|--------|----------|---------|
| Revenue from Operations | 52,997 | 50,543 | 4.9 | 49,677 | 6.7 |
| Interest expended | (35,518) | (35,460) | 0.2 | (33,929) | 4.7 |
| Net Interest Income | 17,479 | 15,083 | 15.9 | 15,748 | 11.0 |
| Other income | 89 | 161 | (44.5) | (33) | (369.0) |
| Total Income | 17,568 | 15,244 | 15.2 | 15,715 | 11.8 |
| Operating expenses | (2,499) | (2,070) | 20.7 | (2,347) | 6.5 |
| PPOP | 15,070 | 13,174 | 14.4 | 13,368 | 12.7 |
| Provisions | (1,925) | (3,556) | (45.9) | (9,848) | (80.5) |
| PBT | 13,145 | 9,618 | 36.7 | 3,520 | 273.4 |
| Tax | (1,958) | (1,945) | 0.6 | 469 | (517.2) |
| Reported PAT | 11,187 | 7,673 | 45.8 | 3,989 | 180.4 |

Source: Company, YES Sec

| | |
|------------------|--------------|
| Reco | : BUY |
| CMP | : Rs 354 |
| Target Price | : Rs 500 |
| Potential Return | : 41.2% |

Stock data (as on May 19, 2022)

| | |
|-------------------------|---------------|
| Nifty | 15,809 |
| 52 Week h/l (Rs) | 542 / 321 |
| Market cap (Rs/USD mn) | 194970 / 2508 |
| Outstanding Shares (mn) | 550 |
| 6m Avg t/o (Rs mn): | 1,277 |
| Div yield (%): | 2.4 |
| Bloomberg code: | LICHF IN |
| NSE code: | LICHSGFIN |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|-------|--------|
| Absolute return | -6.3% | -5.4% | -19.3% |

Shareholding pattern

| | |
|----------|-------|
| Promoter | 45.2% |
| FII+DII | 39.3% |
| Others | 15.5% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-----|-----|
| Rating | BUY | ADD |
| Target Price | 500 | 470 |

Δ in earnings estimates

| | FY22 | FY23e | FY24e |
|-----------|------|-------|-------|
| EPS (New) | - | 67.1 | 74.9 |
| EPS (Old) | - | 59.8 | 70.5 |
| % change | - | 12.2% | 6.2% |

Financial Summary

| (Rs mn) | FY22 | FY23E | FY24E |
|------------|--------|--------|--------|
| Op. income | 57,994 | 67,574 | 75,395 |
| PPOP | 48,000 | 58,345 | 65,176 |
| Net profit | 22,873 | 36,934 | 41,203 |
| Growth (%) | (16.3) | 61.5 | 11.6 |
| EPS (Rs) | 41.6 | 67.1 | 74.9 |
| ABVPS (Rs) | 327.8 | 388.2 | 453.4 |
| P/E (x) | 8.5 | 5.3 | 4.7 |
| P/ABV (x) | 1.1 | 0.9 | 0.8 |
| ROE (%) | 10.1 | 14.1 | 14.0 |
| ROA (%) | 0.9 | 1.4 | 1.4 |

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KEY CON-CALL HIGHLIGHTS

Portfolio Growth

- January and February disbursements were somewhat impacted due to 3rd wave.
- Expecting 15% disbursement growth in FY23 - project loans to be 10% of incremental business v/s 5% of loan portfolio currently.
- Loan portfolio estimated to grow in double-digits during FY23.
- No contribution of builder subvention scheme in IHL book.

NIM & CoF

- NIM expansion in Q4 driven by a) positive re-pricing of liabilities, b) lending rates hike effected in January across products and 3) significant recoveries of NPLs/w-off loans.
- FY22 NIM was 2.3% - FY23 NIM to be in the range of 2.4-2.5%.
- Increased lending rates by 20-25 bps recently across product categories.
- 90% assets are floating - 60% fixed rate liabilities.
- Back-book reprices every quarter and next revision is on July 1.
- Incremental CoF was 5.14% - Cost of 3-year bond currently at 6.5-7%.
- Rs250bn of liabilities maturing in FY23.

Asset Quality

- Recovered Rs3.5bn (incl. Rs0.7bn from a written-off account) from builder and high-value loan segments.
- Collection efficiency was at 99% in March.
- GS3 split segment-wise: IHL 1.74%, Non-housing IL at 8.4% and Non-housing Commercial Loans (including project loans) at 18%.
- OTR stood at Rs78bn, 3% of loan portfolio - Project loans Rs39bn and Retail loans (IHL + NHIL) Rs39bn.
- ECLGS outstanding at Rs9.3bn.
- No loan write-offs in Q4 FY22.
- GS3 PCR at 43% which will be gradually increased - ECL cover on Stage 1 & 2 assets will be stable.
- Total ECL provisions at Rs58.3bn.

Exhibit 2: Business Data

| (Rs mn) | Q4 FY22 | Q3 FY22 | % qoq | Q4 FY21 | % yoy |
|---------------------------|-----------|-----------|-------|-----------|--------|
| Loan Portfolio | 2,511,200 | 2,434,120 | 3.2 | 2,320,030 | 8.2 |
| Retail home loans | 2,041,606 | 1,958,980 | 4.2 | 1,807,303 | 13.0 |
| Retail LAP & Other loans | 339,012 | 334,205 | 1.4 | 354,965 | (4.5) |
| Developer / Project loans | 130,582 | 140,936 | (7.3) | 157,762 | (17.2) |
| Loan Disbursements | 193,150 | 177,700 | 8.7 | 223,620 | (13.6) |
| Individuals | 188,870 | 174,770 | 8.1 | 211,660 | (10.8) |
| Project | 4,280 | 2,930 | 46.1 | 11,960 | (64.2) |

Source: Company, YES Sec

Exhibit 3: Key Ratios

| (%) | Q4 FY22 | Q3 FY22 | chg qoq | Q4 FY21 | chg yoy |
|---------------|---------|---------|---------|---------|---------|
| NIM | 2.7 | 2.4 | 0.2 | 2.7 | (0.0) |
| YoA - Cum. | 8.4 | 8.5 | (0.1) | 9.1 | (0.7) |
| CoF- Cum. | 6.5 | 6.7 | (0.2) | 6.9 | (0.4) |
| Gross Stage 3 | 4.6 | 5.0 | (0.4) | 4.1 | 0.5 |
| RoA - Cum. | 1.0 | 1.3 | (0.3) | 1.2 | (0.3) |
| RoE - Cum. | 11.0 | 14.0 | (3.0) | 14.0 | (3.0) |

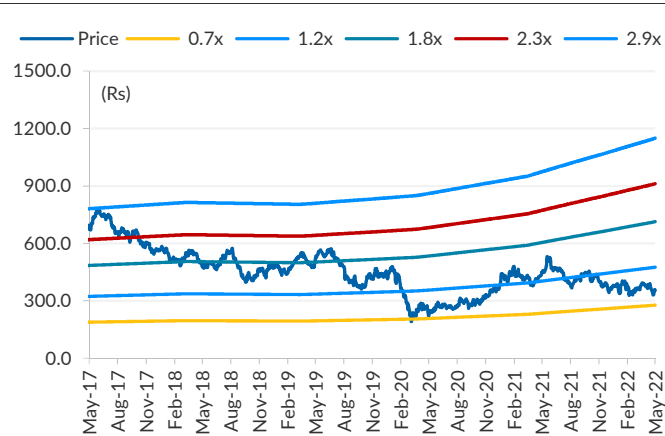
Source: Company, YES Sec

Exhibit 4: Borrowing Mix

| Borrowing mix - (%) | Q4 FY21 | Q1 FY22 | Q2 FY22 | Q3 FY22 | Q4 FY22 |
|----------------------------|---------|---------|---------|---------|---------|
| NCD | 54.0 | 55.0 | 54.0 | 54.3 | 53.0 |
| Bank | 25.0 | 26.0 | 27.0 | 27.4 | 30.0 |
| CP | 6.0 | 4.0 | 5.0 | 4.8 | 4.0 |
| NHB | 5.0 | 5.0 | 5.0 | 4.2 | 4.0 |
| Deposits | 9.0 | 9.0 | 8.0 | 8.4 | 8.0 |
| Sub debt and Upper Tier II | 1.0 | 1.0 | 1.0 | 0.8 | 1.0 |

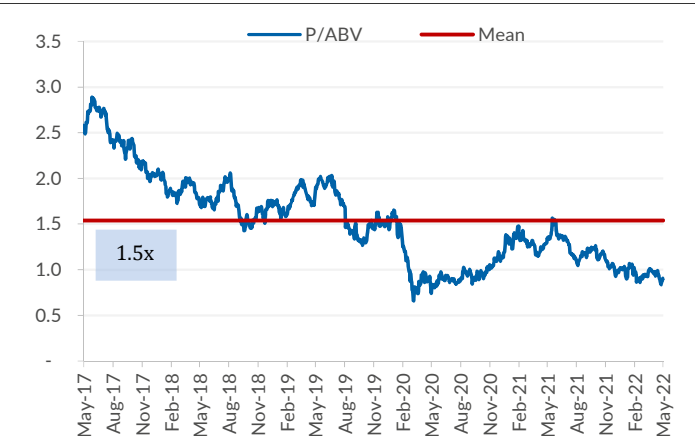
Source: Company, YES Sec

Exhibit 5: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

| Y/e 31 Mar (Rs m) | FY20 | FY21 | FY22 | FY23E | FY24E |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Equity and Liabilities | | | | | |
| Equity Share Capital | 1,010 | 1,010 | 1,101 | 1,101 | 1,101 |
| Other Equity | 180,921 | 204,203 | 245,618 | 275,991 | 310,633 |
| Shareholders fund | 181,931 | 205,213 | 246,718 | 277,092 | 311,733 |
| Financial Liabilities | 1,982,435 | 2,146,767 | 2,293,746 | 2,573,318 | 2,912,999 |
| Derivative financial instruments | 229 | 0 | 0 | 0 | 0 |
| Trade payables | 346 | 961 | 643 | 643 | 643 |
| Debt Securities | 1,320,823 | 1,255,980 | 1,273,420 | 1,432,597 | 1,625,998 |
| Borrowings (Excl. Debt Sec.) | 451,404 | 621,327 | 764,472 | 860,031 | 976,135 |
| Deposits | 126,090 | 183,357 | 180,735 | 203,327 | 230,776 |
| Subordinated Liabilities | 15,000 | 17,951 | 17,954 | 20,199 | 22,926 |
| Other Financial Liabilities | 68,544 | 67,191 | 56,521 | 56,521 | 56,521 |
| Non-Financial Liabilities | 3,690 | 4,353 | 5,211 | 5,732 | 6,305 |
| Provisions | 1,453 | 1,502 | 1,700 | 1,870 | 2,057 |
| Other non-financial liabilities | 2,237 | 2,851 | 3,511 | 3,862 | 4,248 |
| Total liabilities & Equity | 2,168,056 | 2,356,333 | 2,545,675 | 2,856,142 | 3,231,037 |
| Assets | | | | | |
| Financial Assets | 2,155,652 | 2,342,082 | 2,525,281 | 2,834,109 | 3,207,195 |
| Cash and Cash Equivalents | 13,657 | 13,292 | 8,222 | 11,188 | 14,017 |
| Bank balances | 6,132 | 176 | 1,152 | 1,152 | 1,152 |
| Derivative financial instruments | 805 | 57 | 792 | 792 | 792 |
| Loans | 2,079,880 | 2,281,143 | 2,452,963 | 2,752,627 | 3,116,066 |
| Investments | 54,964 | 46,356 | 61,986 | 68,185 | 75,003 |
| Other Financial Assets | 214 | 1,059 | 166 | 166 | 166 |
| Non- Financial Assets | 12,404 | 14,252 | 20,394 | 22,033 | 23,842 |
| Current tax assets (Net) | 3,541 | 0 | 1,352 | 1,554 | 1,788 |
| Deferred tax assets (Net) | 5,200 | 9,129 | 13,681 | 15,049 | 16,554 |
| Property, Plant and Equipment | 1,346 | 1,303 | 1,357 | 1,425 | 1,497 |
| Other intangible Assets | 1,198 | 2,429 | 2,593 | 2,593 | 2,593 |
| Other Non-Financial Assets | 1,119 | 1,390 | 1,412 | 1,412 | 1,412 |
| Total Assets | 2,168,056 | 2,356,333 | 2,545,675 | 2,856,142 | 3,231,037 |

Source: Company, YES Sec

Exhibit 8: Income statement

| Y/e 31 Mar (Rs m) | FY20 | FY21 | FY22 | FY23E | FY24E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Operating Income | 196,967 | 198,472 | 199,191 | 229,063 | 268,713 |
| Interest expense | (147,839) | (144,526) | (141,537) | (161,829) | (193,658) |
| Net interest income | 49,128 | 53,946 | 57,654 | 67,234 | 75,056 |
| Non-interest income | (269) | 5 | 340 | 340 | 340 |
| Total op income | 48,859 | 53,951 | 57,994 | 67,574 | 75,395 |
| Total op expenses | (6,167) | (7,015) | (9,994) | (9,228) | (10,219) |
| PPoP | 42,692 | 46,936 | 48,000 | 58,345 | 65,176 |
| Provisions | (10,002) | (13,450) | (20,218) | (10,994) | (12,352) |
| Profit before tax | 32,690 | 33,486 | 27,782 | 47,351 | 52,824 |
| Taxes | (8,672) | (6,142) | (4,909) | (10,417) | (11,621) |
| Net profit | 24,018 | 27,343 | 22,873 | 36,934 | 41,203 |

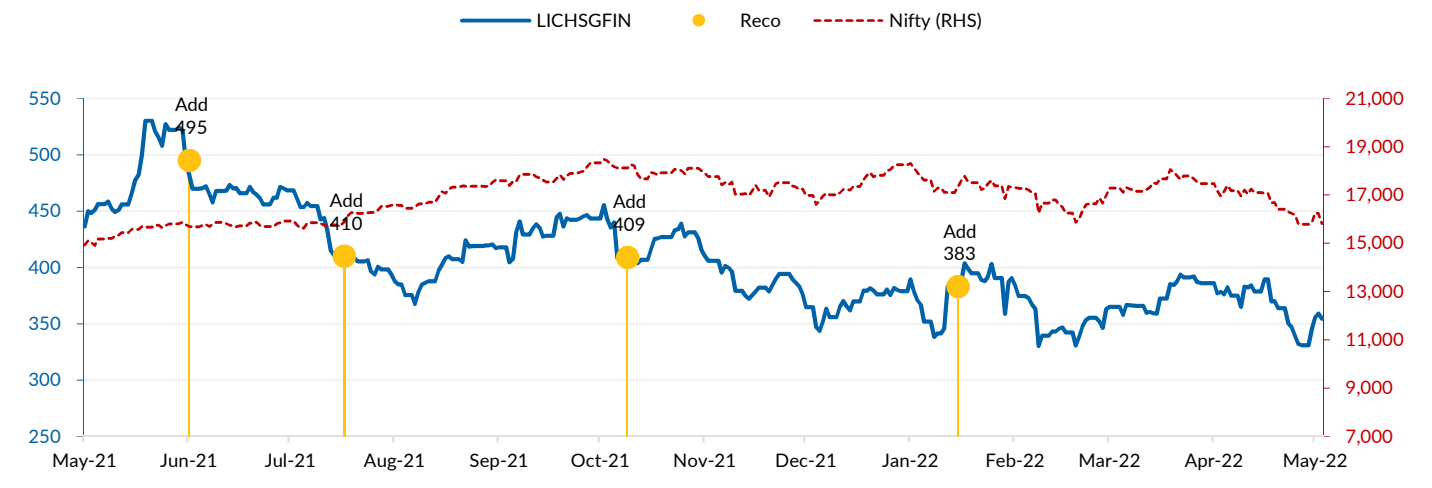
Source: Company, YES Sec

Exhibit 9: Growth and Ratio matrix

| Y/e 31 Mar | FY20 | FY21 | FY22 | FY23E | FY24E |
|-----------------------------------|-------|-------|--------|-------|-------|
| Growth matrix (%) | | | | | |
| Net interest income | 10.0 | 9.8 | 6.9 | 16.6 | 11.6 |
| Total op income | 9.2 | 10.4 | 7.5 | 16.5 | 11.6 |
| Op profit (pre-provision) | 6.8 | 9.9 | 2.3 | 21.6 | 11.7 |
| Net profit | (1.2) | 13.8 | (16.3) | 61.5 | 11.6 |
| Advances | 7.8 | 9.7 | 7.5 | 12.2 | 13.2 |
| Total Borrowings | 71.1 | 37.6 | 23.0 | 12.5 | 13.5 |
| Total assets | 8.1 | 8.7 | 8.0 | 12.2 | 13.1 |
| Profitability Ratios (%) | | | | | |
| NIM | 2.4 | 2.4 | 2.4 | 2.5 | 2.5 |
| Non-interest income /Total income | (0.6) | 0.0 | 0.6 | 0.5 | 0.5 |
| Return on Avg. Equity | 13.9 | 14.1 | 10.1 | 14.1 | 14.0 |
| Return on Avg. Assets | 1.2 | 1.2 | 0.9 | 1.4 | 1.4 |
| Per share ratios (Rs) | | | | | |
| EPS | 47.6 | 54.2 | 41.6 | 67.1 | 74.9 |
| Adj. BVPS | 277.3 | 292.7 | 327.8 | 388.2 | 453.4 |
| DPS | 8.0 | 8.5 | 8.5 | 10.0 | 10.0 |
| Other key ratios (%) | | | | | |
| Loans/Borrowings | 109.6 | 110.7 | 110.6 | 110.3 | 110.0 |
| Cost/Income | 12.6 | 13.0 | 17.2 | 13.7 | 13.6 |
| CAR | 13.9 | 15.3 | 17.0 | 17.0 | 16.9 |
| Tier-I capital | 12.2 | 13.9 | 15.6 | 15.6 | 15.6 |
| Gross NPLs/Loans | 2.9 | 4.1 | 4.6 | 3.8 | 3.3 |
| Credit cost | 0.5 | 0.6 | 0.8 | 0.4 | 0.4 |
| Net NPLs/Net loans | 2.0 | 2.5 | 2.6 | 2.3 | 2.0 |
| Tax rate | 26.5 | 18.3 | 17.7 | 22.0 | 22.0 |
| Dividend yield | 2.3 | 2.4 | 2.4 | 2.8 | 2.8 |

Source: Company, YES Sec

Recommendation Tracker



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