

January 30, 2021

## Q3FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	420		455	
NII (Rs.)	55,218	64,583	54,704	62,339
% Chng.	0.9	3.6		
PPoP (Rs.)	47,259	52,099	46,724	49,825
% Chng.	1.1	4.6		
EPS (Rs.)	63.2	71.9	56.3	64.0
% Chng.	12.4	12.4		

### Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	48,215	50,569	55,218	64,583
Growth (%)	10.5	4.9	9.2	17.0
Op. Profit (Rs m)	42,217	43,788	47,259	52,099
PAT (Rs m)	24,018	28,676	31,929	36,316
EPS (Rs.)	47.4	56.8	63.2	71.9
Gr. (%)	(1.5)	19.7	11.3	13.7
DPS (Rs.)	8.0	9.0	9.0	9.0
Yield (%)	2.0	2.3	2.3	2.3
Margin (%)	2.4	2.3	2.3	2.4
RoAE (%)	13.9	14.8	14.6	14.7
RoAA (%)	1.1	1.2	1.2	1.2
PE (x)	8.3	7.0	6.3	5.5
P/BV (x)	1.1	1.0	0.9	0.8
P/ABV (x)	1.3	1.3	1.1	0.9

### Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.465 / Rs.185
Sensex / Nifty	46,286 / 13,635
Market Cap	Rs.200bn / \$ 2,737m
Shares Outstanding	505m
3M Avg. Daily Value	Rs.5673.69m

### Shareholding Pattern (%)

Promoter's	40.31
Foreign	29.26
Domestic Institution	15.39
Public & Others	15.04
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	8.9	44.7	(13.8)
Relative	12.0	19.0	(23.2)

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## Asset quality refuses to provide any respite

### Quick Pointers:

- NPA 2.68% + SC standstill 1% + restructured book 1% = 4.68% stressed pool

**LICHF's Q3FY21 earnings recorded healthy growth(6%YoY/3%QoQ)/spread (2.26%) uptick led by 30%+YoY increase in disbursements but the asset quality vulnerability remained stark. The stressed pool stood at 4.68% comprising of GNPA at 2.68%, SC standstill at 1% and restructured book at 1%. With negligible recoveries on developer side (no resolution yet on the 2,3 big ticket accounts), developer NPA at 16% stays at elevated levels. Besides, Stage 2 assets (inclusive of SC standstill accounts of Rs22bn, Swami fund accounts of Rs14bn) have jumped ~100bps YoY to ~7% during Q3FY21. While ECL has climbed to 50%, the P/L account does not factor the asset quality pain fully as provision run-rate (credit costs at avg. 20-21bps for 9MFY21) continues to remain lower. Therefore, we are compelled to reduce our credit costs estimates marginally lower (25bps: FY21; 13-19bps: FY22-23) resulting into EPS uptick (up 20%: FY21, 12%: FY22-23). But we tweak higher NPA estimates (4.2%: FY21 vs 3.5% earlier, 2.9-3.8%: FY22-23) impacting our book-value. Consequently, our price target stands reduced to Rs420 (earlier Rs455) as we value the stock at 1.0x PABV MAR'23E. That the tailwinds stand supportive of spread and growth improvement and valuations for a while have remained attractive, we recommend HOLD. But we do not see any upgrade in ratings further as asset quality refuses to provide any respite.**

- Macros tailwinds supportive of business/spreads:** Loans grew by 5.7%/3.2% YoY/QoQ to Rs2202bn [PLe : Rs 2218bn ] led by individual loan traction at 5.4%/YoY/3.3%QoQ growth and corporate book grew by 9.6%/YoY/2.5%QoQ growth. Q3FY21 also witnessed higher disbursement growth at 28%/36% YoY/QoQ at Rs169bn with 15%+ disbursements' share coming from Gujarat and Maharashtra regions. Co. also kick-started LAP disbursements from Q3FY21 in anticipation of increased demand as economy opens up. We maintain our growth forecasts at ~10% for FY21 and 12-15% over FY22-23.
- Asset quality fails to provide any respite:** Inclusive of SC standstill NPAs have shot up for LICHF although collection efficiency climbs to 98% as at Dec'20-end. The stressed pool stood at 4.68% comprising of GNPA at 2.68%, SC standstill at 1% and restructured book at 1%. With negligible recoveries on developer side (no resolution yet on the 2,3 big ticket accounts), developer NPA at 16% stays at elevated levels. Besides, Stage 2 assets (inclusive of SC standstill accounts of Rs22bn, Swami fund accounts of Rs14bn) have jumped ~100bps YoY to ~7% during Q3FY21. While ECL has climbed to 50%, the P/L account does not factor the asset quality pain fully as provision run-rate (credit costs at avg. 20-21bps for 9MFY21) continues to remain lower. Therefore, we are compelled to reduce our credit costs estimates marginally lower (25bps: FY21; 13-19bps: FY22-23). But we tweak higher NPA estimates (4.2%: FY21 vs 3.5% earlier, 2.9-3.8%: FY22-23) impacting our book-value.

**Exhibit 1: Q3FY21: Lower costs, lower provisions & better growth aid PAT**

PAT declines 8%QoQ (but increases by 22% YoY) to Rs7.27bn due to somber core business performance but exceed our estimates [ vs. PLe of Rs6.01bn] due to lower than expected provisioning

NII growth was better and broadly in-line with 3%QoQ/2%YoY growth at Rs13.1bn [ vs. PLe of Rs12.8bn]; lower interest costs, better growth drove the improved NII performance.

Opex at Rs1.8 stood in-line [PLe: Rs1.8bn] spiking 5%QoQ/23%YoY

PPoP also stood largely in-line at Rs11.5bn [ vs. PLe of Rs11.1bn] growing 3%QoQ/1%YoY led by improved NII

Provisions at Rs.1.8bn stood lower than our expectations [Rs3.0bn] increasing 76%QoQ (down 54%YoY).

**BUSINESS HIGHLIGHTS:**

Loans grew by 5.7%/3.2% YoY/QoQ at Rs. 2202bn and stood in-line [PLe : Rs 2218bn ]; Individual loan grew by 5.4% YoY and Corporate book grew by 9.6% YoY to Rs. 2044bn and Rs. 157 bn respectively.

Higher disbursement growth with 28%/36% YoY/QoQ growth at Rs. 169bn

Stage 3 assets at 2.7% (considering SC order) stood stable on YoY basis and declined by 10 bps on QoQ.

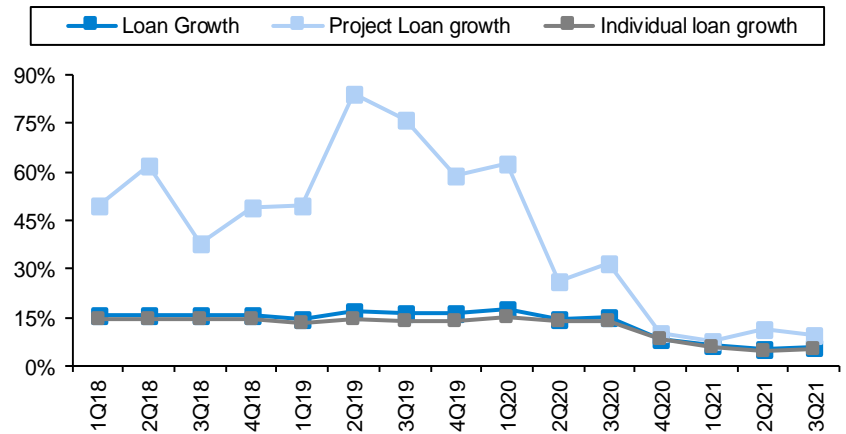
P&L (Rs m)	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)
Interest Income	49,067	49,965	(1.8)	49,690	(1.3)
Interest Expense	35,951	37,152	(3.2)	37,002	(2.8)
<b>Net Interest Income</b>	<b>13,117</b>	<b>12,812</b>	<b>2.4</b>	<b>12,688</b>	<b>3.4</b>
Other operating Inc.	-	-		-	
Other Income	173	0		128	
<b>Total income</b>	<b>13,289</b>	<b>12,812</b>	<b>3.7</b>	<b>12,817</b>	<b>3.7</b>
Employee Expense	759	732	3.7	785	(3.3)
Other Expenses	1,025	721	42.2	909	12.8
<b>Operating Profit</b>	<b>11,506</b>	<b>11,360</b>	<b>1.3</b>	<b>11,123</b>	<b>3.4</b>
Provisions	1,810	3,907	(53.7)	1,030	75.6
Tax	2,426	1,478	64.2	2,184	11.1
<b>Net Profit excl exceptional</b>	<b>7,270</b>	<b>5,975</b>	<b>21.7</b>	<b>7,909</b>	<b>(8.1)</b>
<b>Reported PAT</b>	<b>7,270</b>	<b>5,975</b>	<b>21.7</b>	<b>7,909</b>	<b>(8.1)</b>
<b>Balance Sheet (Rs m)</b>					
<b>O/S Loans</b>	<b>2,201,970</b>	<b>2,082,700</b>	<b>5.7</b>	<b>2,133,490</b>	<b>3.2</b>
-Individual loans	2,044,529	1,938,994	5.4	1,979,879	3.3
Retail Home Loans	1,696,398	1,598,472	6.1	1,632,120	3.9
Retail LAP / Non Core	348,131	340,521	2.2	347,759	0.1
-Corporate loans	157,441	143,706	9.6	153,611	2.5
<b>-Individual loans (%)</b>					
Retail Home Loans	<b>92.9</b>	<b>93.1</b>	<b>(0.3)</b>	<b>92.8</b>	<b>0.0</b>
Retail LAP / Non Core	77.0	76.8	0.3	76.5	0.5
<b>-Corporate loans (%)</b>	15.8	16.4	(0.5)	16.3	(0.5)
	<b>7.2</b>	<b>6.9</b>	<b>0.3</b>	<b>7.2</b>	<b>(0.0)</b>
<b>Incr. Disbursements</b>					
-Individual loans (%)	<b>168,570</b>	<b>131,770</b>	<b>27.9</b>	<b>124,430</b>	<b>35.5</b>
-Developer loans (%)	94.9	92.9	2.0	93.5	1.4
	5.1	7.1	(2.0)	6.5	(1.4)
<b>Asset quality</b>					
Gross NPL	59,013	56,858	3.8	59,524	(0.9)
Gross NPL (%)	2.68	2.73	(0.0)	2.79	(0.1)
<b>Others / Ratios (%)</b>					
Yield on Loans - Calc	9.1	9.7	(0.7)	9.4	(0.3)
Cost of Borrowings - Calc	7.3	8.2	(1.0)	7.6	(0.4)
<b>Spread</b>	<b>1.80</b>	<b>2.03</b>	<b>(0.2)</b>	<b>1.78</b>	<b>0.0</b>
<b>NIMs</b>	<b>2.36</b>	<b>2.42</b>	<b>(0.1)</b>	<b>2.32</b>	<b>0.0</b>
Cost/ Income Ratio	13.42	11.34	2.1	13.21	0.2

Source: Company, PL

## KTAs of LICHF Q3FY21 Earnings Con call

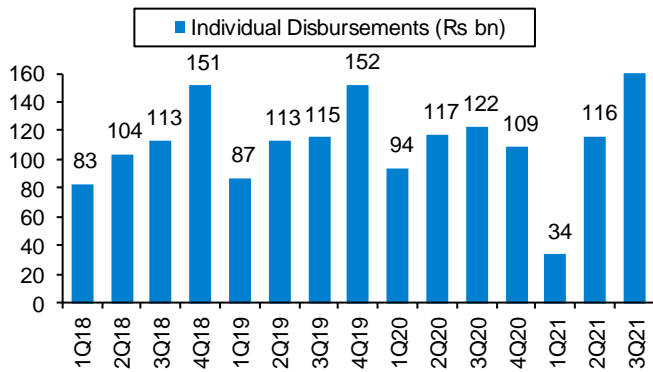
- **Disbursements:** witnessed 30% growth in Dec'20 month. 15% + disbursement in Gujarat and Maharashtra region during 9MFY21. Started LAP disbursements from Q3FY21 because as economy opens up there will be increase in the demand.
- **Liabilities:** Raised Rs. 310bn loan from bank in 9MFY21 and more in pipeline at rates below 5.5% (Will help in reducing CoF further). Higher proportion of external benchmark link loans than MCLR. Raised Rs. 10bn from tier 2 bond to improve CRAR.
- **ALM:** Liabilities maturing worth Rs.200bn by FY22 and Rs.60bn by FY21
- **Restructuring:** Has not done any restructuring and processing requests. Expects 1% restructuring of total AUM. Sufficient provisions provided for such restructuring (Rs.4bn addn COVID Provisions).
- **Yield:** Incremental yield at 7.6% for home loans and 11-12% for developer loans.
- **CoF** saw reduction 36 bps during the qtr on YoY basis and 83 bps in 9MFY21. CoF to go down further for next 2-3 qtrs.
- **NIMs** to increase marginally in coming qtrs.
- **Stage 3:** 1% increase in terms of stage 3 assets of SC order is not taken into account. Individual stage 3 assets at 1.62% ; HL 1.07%; Project 16.22%. There has not been an addition in stage 3 developers book.
- **Stage 2** Retail EAD at 7%; project EAD at less than 10% . Stage 2 to improve in Q4FY21 due to restructuring and higher collection efficiency in March month.
- Rs. 14bn worth of assets under SWAMI funds classified as stage 3.
- **Project red:** with Boston consulting Group to be completed in 1-2 years and give results in 4-5 years. CRM, video KYC programs already rolled out.
- Homie appliances recd loan applications worth Rs. 18bn during the qtr.
- Collection efficiency at 98% in Dec'20.
- Interest accrued on AUM at Rs1 bn.

Exhibit 2: Loan growth stood anemic



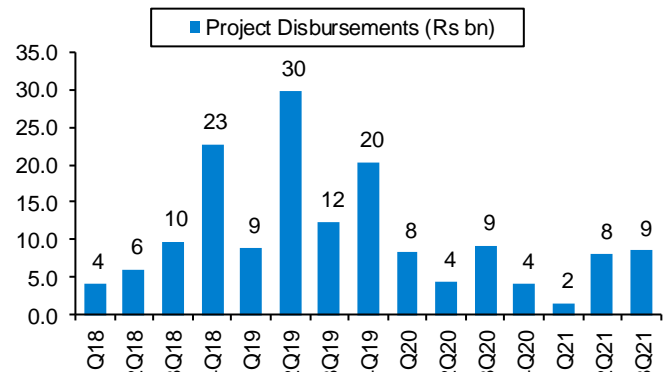
Source: Company, PL

Exhibit 3: Retail disbursements grew by 38% YoY



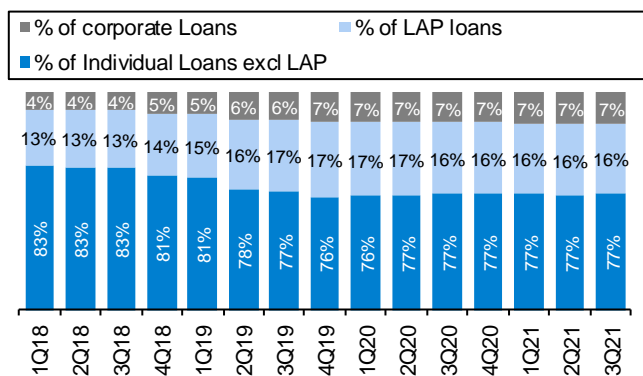
Source: Company, PL

Exhibit 4: Volatile project loan disbursements



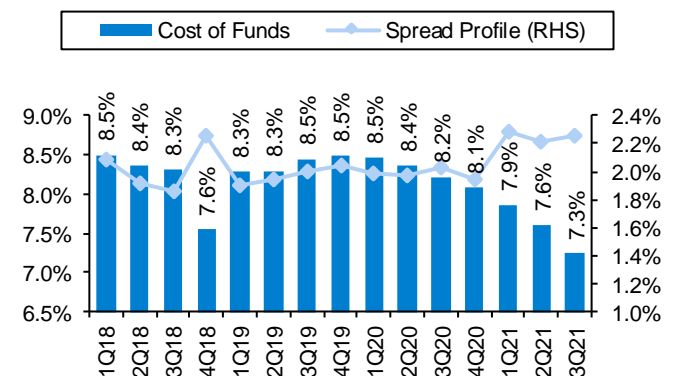
Source: Company, PL

Exhibit 5: Individual Loan share ~77%

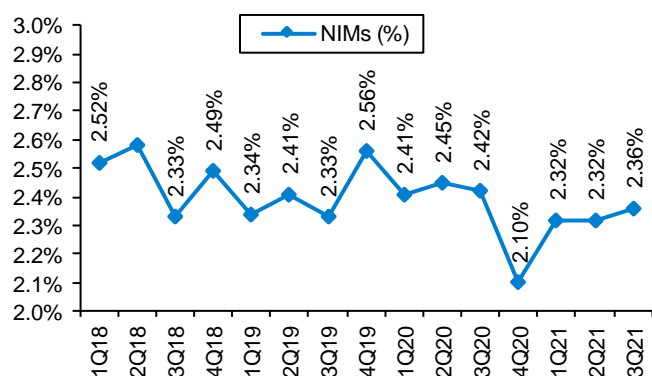


Source: Company, PL

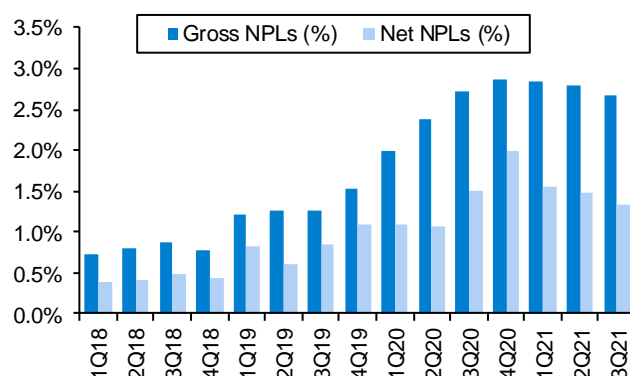
Exhibit 6: 83 bps decline in CoF in 9MFY21



Source: Company, PL

**Exhibit 7: Marginal increase in NIMs on sequential basis**


Source: Company, PL

**Exhibit 8: Improvement in stage 3 assets due to SC standstill**


Source: Company, PL

**Exhibit 9: Change in Estimates: FY21 EPS tweaked higher by 20% to factor improved loan growth, lower provisions**

(Rs mn)	Old			Revised			% change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income	48,210	54,704	62,339	50,569	55,218	64,583	4.9%	0.9%	3.6%
Operating profit	41,366	46,724	49,825	43,788	47,259	52,099	5.9%	1.1%	4.6%
Net profit	23,734	28,406	32,318	28,676	31,929	36,316	20.8%	12.4%	12.4%
EPS, Rs.	47.0	56.3	64.0	56.8	63.2	71.9	20.8%	12.4%	12.4%
<b>Price target, Rs.</b>	<b>455</b>			<b>420</b>			<b>-7.6%</b>		
<b>Recommendation</b>	<b>HOLD</b>			<b>HOLD</b>					

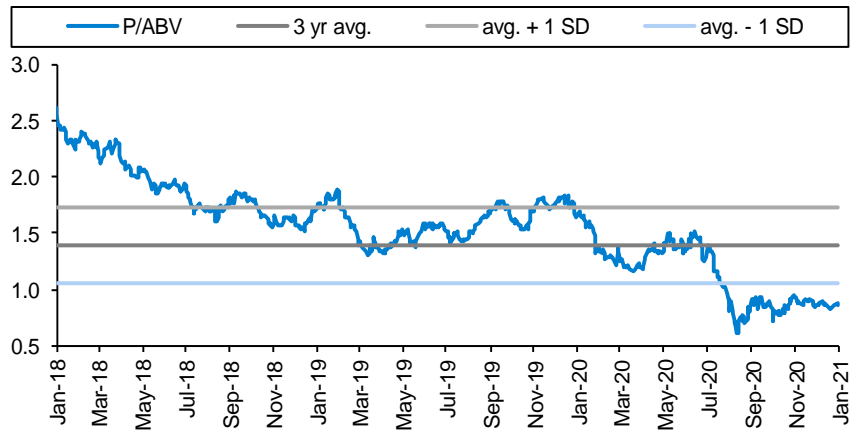
Source: PL

**Exhibit 10: Maintain HOLD; TP revised downwards factoring higher NPAs**

PT calculation and upside	
Fair price – EVA	467
Fair price - P/ABV	373
<b>Average of the two</b>	<b>420</b>
<b>Target P/ABV</b>	<b>1.0</b>
<b>Target P/E</b>	<b>6.2</b>
Current price, Rs	396
<b>Upside (%)</b>	<b>6%</b>
Dividend yield (%)	2%
<b>Total return (%)</b>	<b>8%</b>

Source: Company, PL

Exhibit 11: Asset quality overhang to cap valuation multiple uptick



Source: Company, Bloomberg, PL

**Income Statement (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	1,96,054	2,09,251	2,33,352	2,65,554
Interest Expenses	1,47,839	1,58,682	1,78,134	2,00,971
<b>Net interest income</b>	<b>48,215</b>	<b>50,569</b>	<b>55,218</b>	<b>64,583</b>
Growth(%)	10.5	4.9	9.2	17.0
Non-interest income	644	109	1,167	1,149
Growth(%)	(40.6)	(83.1)	974.7	(1.6)
Net operating income	48,859	50,678	56,385	65,732
<b>Expenditures</b>				
Employees	2,991	3,290	4,441	6,884
Other Expenses	3,170	3,098	4,492	6,514
Depreciation	481	502	192	235
Operating Expenses	6,161	6,388	8,934	13,398
<b>PPP</b>	<b>42,217</b>	<b>43,788</b>	<b>47,259</b>	<b>52,099</b>
Growth(%)	13.2	3.7	7.9	10.2
Provisions	9,527	5,467	4,590	3,567
<b>Profit Before Tax</b>	<b>32,690</b>	<b>38,321</b>	<b>42,669</b>	<b>48,532</b>
Tax	8,672	9,645	10,740	12,215
Effective Tax rate(%)	26.5	25.2	25.2	25.2
<b>PAT</b>	<b>24,018</b>	<b>28,676</b>	<b>31,929</b>	<b>36,316</b>
Growth(%)	(1.2)	19.4	11.3	13.7

**Balance Sheet (Rs. m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Source of funds</b>				
Equity	1,010	1,010	1,010	1,010
Reserves and Surplus	1,80,921	2,04,137	2,30,607	2,61,463
Networth	1,81,931	2,05,147	2,31,617	2,62,473
Growth (%)	11.9	12.8	12.9	13.3
Loan funds	19,13,317	20,87,283	23,41,278	26,96,553
Growth (%)	12.1	9.1	12.2	15.2
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	71,355	1,29,201	1,68,191	2,27,167
Other Liabilities	1,453	1,584	1,727	2,055
<b>Total Liabilities</b>	<b>21,68,056</b>	<b>24,21,631</b>	<b>27,41,086</b>	<b>31,86,193</b>
<b>Application of funds</b>				
Net fixed assets	2,544	2,747	2,939	3,175
Advances	20,79,880	22,79,039	25,52,524	29,35,402
Growth (%)	7.8	9.6	12.0	15.0
Investments	54,964	79,697	1,15,561	1,67,564
Current Assets	19,790	30,255	31,891	31,900
<b>Net current assets</b>	<b>(51,565)</b>	<b>(98,946)</b>	<b>(1,36,301)</b>	<b>(1,95,266)</b>
Other Assets	10,879	29,892	38,171	48,152
<b>Total Assets</b>	<b>21,68,056</b>	<b>24,21,631</b>	<b>27,41,086</b>	<b>31,86,193</b>
Growth (%)	8.1	11.7	13.2	16.2
<b>Business Mix</b>				
AUM	20,79,880	22,79,039	25,52,524	29,35,402
Growth (%)	7.8	9.6	12.0	15.0
On Balance Sheet	20,79,880	22,79,039	25,52,524	29,35,402
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	2.4	2.3	2.3	2.4
ROAA	1.1	1.2	1.2	1.2
ROAE	13.9	14.8	14.6	14.7

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Int. Inc. / Operating Inc.	49,202	50,037	49,690	49,067
Income from securitization	-	-	-	-
Interest Expenses	37,642	37,645	37,002	35,951
<b>Net Interest Income</b>	<b>11,559</b>	<b>12,392</b>	<b>12,688</b>	<b>13,117</b>
Growth (%)	(8.2)	2.9	(0.2)	2.4
Non-Interest Income	(332)	(262)	128	173
<b>Net Operating Income</b>	<b>11,227</b>	<b>12,130</b>	<b>12,817</b>	<b>13,289</b>
Growth (%)	(10.9)	0.7	0.3	3.7
Operating expenditure	2,687	1,389	1,694	1,784
<b>PPP</b>	<b>8,540</b>	<b>10,741</b>	<b>11,123</b>	<b>11,506</b>
Growth (%)	-	-	-	-
Provision	273	565	1,030	1,810
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	8,267	10,177	10,093	9,696
Tax	4,053	2,002	2,184	2,426
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	49.0	19.7	21.6	25.0
<b>PAT</b>	<b>4,214</b>	<b>8,175</b>	<b>7,909</b>	<b>7,270</b>
Growth	(39)	34	2	22
AUM	21,05,780	20,98,170	21,33,490	22,01,970
YoY growth (%)	8.2	6.1	5.1	5.7
Borrowing	19,12,090	18,82,590	19,02,790	19,55,340
YoY growth (%)	12.1	8.8	6.4	5.7

**Key Ratios**

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	396	396	396	396
EPS (Rs)	47.4	56.8	63.2	71.9
Book value (Rs)	360.3	406.3	458.7	519.8
Adj. BV(Rs)	309.6	307.0	359.5	442.0
P/E(x)	8.3	7.0	6.3	5.5
P/BV(x)	1.1	1.0	0.9	0.8
P/ABV(x)	1.3	1.3	1.1	0.9
DPS (Rs)	8.0	9.0	9.0	9.0
Dividend Payout Ratio(%)	20.2	19.0	17.1	15.0
Dividend Yield(%)	2.0	2.3	2.3	2.3

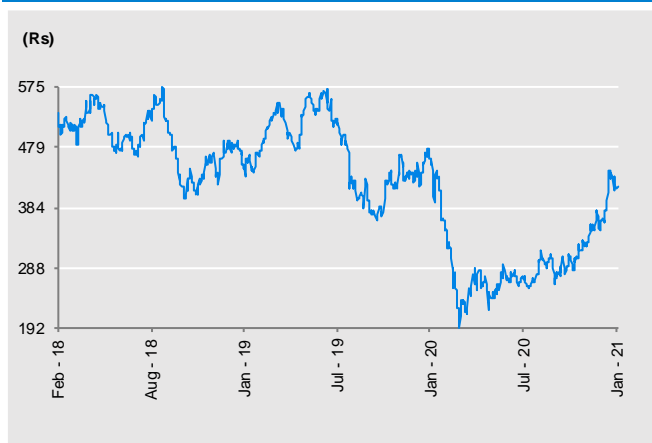
**Asset Quality**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	60,225	95,720	97,953	84,217
Net NPA(Rs m)	34,105	66,866	66,805	52,355
Gross NPAs to Gross Adv.(%)	2.9	4.2	3.8	2.9
Net NPAs to net Adv.(%)	2.0	2.9	2.6	1.8
NPA coverage(%)	43.4	30.1	31.8	37.8

**Du-Pont as a % of AUM**

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	2.3	2.2	2.1	2.2
NII INCL. Securitization	2.3	2.2	2.1	2.2
Total income	2.3	2.2	2.2	2.2
Operating Expenses	0.3	0.3	0.4	0.5
PPOP	2.1	1.9	1.8	1.8
Total Provisions	0.5	0.2	0.2	0.1
RoAA	1.2	1.2	1.2	1.2
Avg. Assets/Avg. net worth	11.8	11.9	11.8	12.0
RoAE	13.9	14.8	14.6	14.7

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	Hold	455	442
2	12-Nov-20	Hold	316	324
3	12-Oct-20	Reduce	282	306
4	25-Aug-20	Reduce	282	299
5	13-Jul-20	Reduce	260	276
6	23-Jun-20	Reduce	253	269
7	17-Apr-20	Reduce	282	278
8	31-Jan-20	Sell	404	438

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Accumulate	5,340	4,982
2	Cholamandalam Investment and Finance Company	BUY	492	431
3	HDFC	Accumulate	2,895	2,653
4	L&T Finance Holdings	Reduce	97	105
5	LIC Housing Finance	Hold	455	442
6	Mahindra & Mahindra Financial Services	Reduce	160	155
7	Manappuram Finance	Accumulate	196	174
8	Muthoot Finance	BUY	1,471	1,283
9	SBI Cards and Payment Services	Accumulate	1,081	979
10	Shriram Transport Finance	Accumulate	1,386	1,111

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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