Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

LIC Housing Finance

Strong fundamentals; reasonable valuations

Banks & Finance	Sharekhan code: LICHSGFIN	Company Update

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 476**	
Price Target: **Rs. 610**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

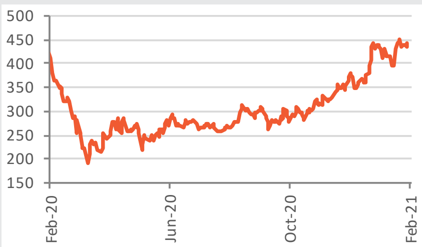
Company details

Market cap:	Rs. 24,034 cr
52-week high/low:	Rs. 479 / 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	10.7	51.3	78.4	25.4
Relative to Sensex	4.3	32.6	41.4	-1.7

Sharekhan Research, Bloomberg

Summary

- LIC Housing Finance (LICHF) is an attractive player in the housing mortgage market, with positives such as stable margins going ahead, pick-up in business growth helped by low interest rates, stable property prices, rising affordability and the government's push to drive demand for housing.
- Going forward, as corporate credit demand / capex reboot is expected to revive in FY22E, we believe will augur well for HFCs as they may see lower competition from banks.
- Valuations reasonable at 1.2x/1x its FY2022E and FY2023E ABVPS; we finetune our target multiple considering the business strengths and fundamentals.
- We maintain a Buy rating on the stock with a revised PT of Rs. 610.

LIC Housing Finance (LICHF) is an attractive player in the housing mortgage market, with positives such as stable margins going ahead, pick-up in business growth helped by low interest rates, stable property prices, rising affordability and the government's push to drive demand for housing. Going forward as corporate credit demand / capex reboot is expected to pickup in FY22E, we believe will augur well for HFCs as they may see lower competition from banks. Visibility on asset quality has improved, LICHF had COVID-19 related provisions of Rs. 212 crore and provisions for impairment at Rs. 186.53 crore as of Q3FY2021. As the restructuring window has closed, and the confident management commentary indicate little residual stress, we believe the company is well placed. ECLGS provisions at 1.3% of loans we believe are reasonable, given that the home mortgage loans (especially to individuals and salaried borrowers) are relatively well secured. LICHF has strengths in terms of 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 our target multiple as we believe the outlook is improving and challenges to asset quality and growth are key monitorables but receding. We maintain a Buy rating on the stock with a revised PT of Rs. 610.

Our Call

Valuation: We believe valuations at 1.2x/1x 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 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 COVID-19 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 reduce 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 target multiples as we believe the outlook is improving and challenges to asset quality and growth are key monitorables but receding. We maintain a Buy rating on the stock with a revised PT of Rs. 610.

Key Risks

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

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net interest income (Rs cr)	4,349.9	4,689.0	5,786.8	6,569.1	7,442.0
Net profit (Rs cr)	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)	9.8	10.0	7.7	6.7	6.1
Adj book value (Rs/share)	315.8	302.0	351.1	407.7	470.1
P/ABV (x)	1.50	1.57	1.35	1.16	1.01
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

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 help the same. We believe the outlook has turned positive on the NBFC sector in general and HFCs in particular.

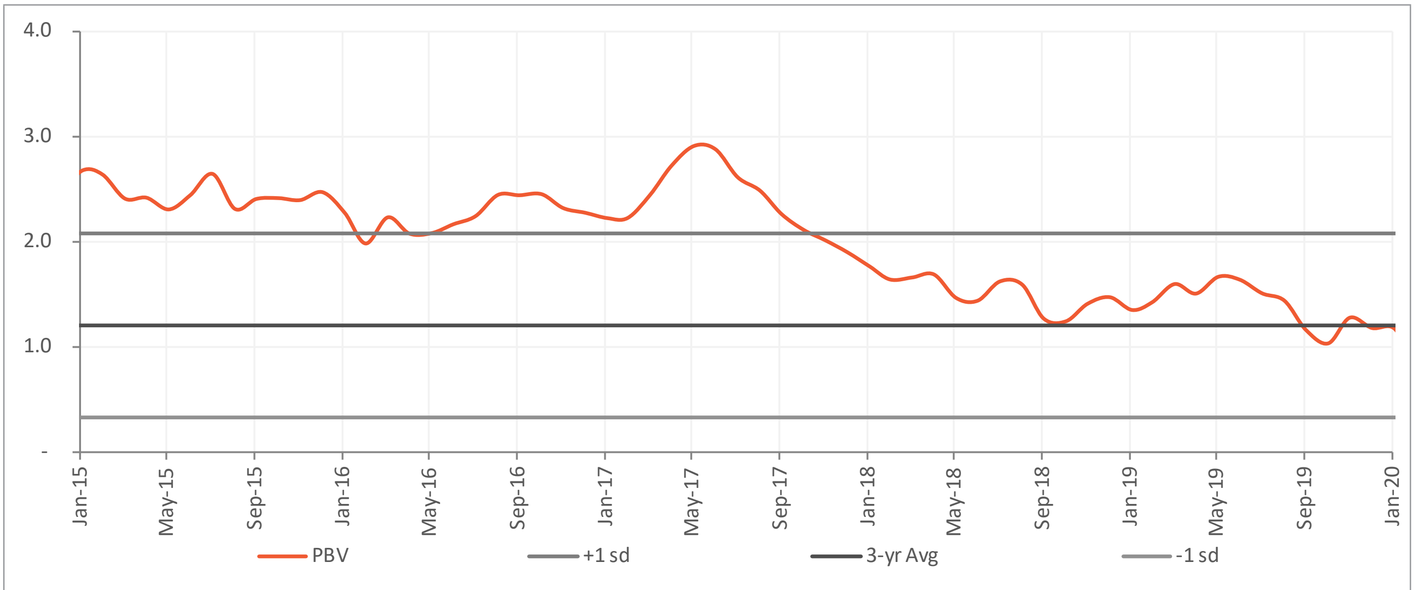
■ Company outlook - Strong fundamentals, challenges recede

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 a 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 and expect them to recede as the economic environment improves.

■ Valuation - We maintain a Buy rating with a revised PT of Rs. 610

We believe valuations at 1.2x/1x 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 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 COVID-19 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 reduce 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 target multiples as we believe the outlook is improving and challenges to asset quality and growth are key monitorables but receding. We maintain a Buy rating on the stock with a revised PT of Rs. 610.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
LIC Housing Finance	476	1.4	1.2	7.8	6.7	1.7	1.7	17.2	17.2
Can Fin Homes	509	1.0	0.9	11.2	9.6	1.0	1.1	9.3	10.1
PNB Housing Finance	371	0.7	0.7	8.1	7.0	2.0	2.1	18.5	17.5

Source: Bloomberg, Sharekhan Research

About company

LICHF is one of the largest HFCs in India having one of the widest networks of offices across the country and representative offices in 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, high ratings are a key positive support to its margins and allows it to wean off high liquidity faster than peers. Even though 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, pickup in economic activities, and well-managed costs of borrowings are positives in favour.

Key Risks

Increased delinquencies in the developer book may impact 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	FIDELITY INV TRUST FIDELIT	9.35
2	ICICI Prudential Asset Management	2.81
3	Bank Muscat SAOG	2.28
4	Norges Bank	2.23
5	NPS TRUST	2.23
6	GOVERNMENT PENSION FUND - GLOBAL	2.01
7	HDFC Life Insurance Co Ltd	1.89
8	Vanguard Group Inc/The	1.81
9	Dimensional Fund Advisors	1.22
10	Prudential Assuransce Company	1.20

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;