Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

LIC Housing Finance

Mixed performance

Banks & Finance | Sharekhan code: LICHSGFIN | Result Update

Stock 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. 495**	
Price Target: **Rs. 610**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

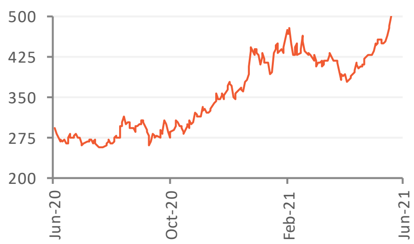
Company details

Market cap:	Rs. 24,976 cr
52-week high/low:	Rs. 542/255
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	28.2
DII	9.3
Others	22.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.5	15.1	42.9	73.8
Relative to Sensex	5.2	10.9	28.6	22.6

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on the stock of LIC Housing Finance with a unchanged PT of Rs. 610.
- For Q4FY21, the company posted mixed results where high provisioning dented profitability, even as healthy growth on disbursements and loan growth was seen.
- Strong business traction was seen with strong disbursements led by individual home segment, thus aiding AUM growth. Asset quality wise the performance was sobering, with Stage 3 assets saw significant spike which impacted profitability.
- Valuations at 1.2x/1.05x its FY2022E and FY2023E ABVPS are reasonable considering its high return ratios.

LIC Housing posted mixed results for Q4FY21 where high provisioning dented profitability, despite healthy growth on disbursements and loan growth. The company's Q4FY21 standalone profit fell 5 % y-o-y to Rs 399 crore from Rs 421.43 crore, while NII increased smartly to Rs 1575 crores, up 55% y-o-y and 20% q-o-q and was ahead of expectations. The Net Interest Margin (NIM) for the quarter stood at 2.66 % as against 2.17 % for Q4 FY 2020. Net Profit After Tax stood at Rs. 398.92 cr compared with Rs 421.43 cr during the same period in the previous year.Strong business traction was seen with strong disbursements led by individual home segment, thus aiding AUM growth. The Individual loan portfolio stood at Rs. 216047 cr posting a growth of 10 % y-o-y within which the Project loan portfolio stood at Rs. 15956 cr, de-growing on a y-o-y basis (was at Rs 14237 crore as on March, 2020). The total outstanding portfolio grew at 10 % y-o-y to Rs. 232,003 cr. Margins saw some improvement led by reduced CoF, but the yields continue to moderate. Asset quality wise the performance was sobering, and Stage 3 assets saw a significant spike. This led to higher provisioning which impacted profitability. The Stage 3 assets increased by 140BPS q-o-q and also the Stage 2 plus Stage 3 loans at 10.3% increased by 70BPS q-o-q. While the collections efficiency, has been stable at 98% for Q4 as well as for Q3, the management indicated that the same is stable seen in May 2021. 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 believe the outlook is improving and challenges to asset quality and growth are key monitorables. We maintain a Buy rating on the stock with an unchanged PT of Rs. 610.

Key positives

- Strong traction seen in disbursements, and the total disbursements were at Rs. 22362 cr in Q4 FY2021, up 97 % against Rs 11323 cr for the corresponding period in FY2020. Out of this, disbursements in Individual Home Loan segment at Rs. 19010 cr were up 114 % y-o-y, whereas Project loans were at Rs. 1197 cr (were Rs 411 cr in Q4 FY2020).
- Helped by a 115 BPS decline in Cost of Funds (COF) in FY2021, compared to FY2020, the NIMs were maintained at 2.37% levels, offsetting the fall in yields. However, for Q4 FY2021, NIMs stood at 2.66% up 30BPS q-o-q.

Key negatives

- Sharp increase in Stage 3 EAD at 4.12%, from 2.68% as at end of Q3 FY2021 and 2.86% as on end of Q4 FY2020.

Our Call

Valuations: We believe valuations at 1.2x/1.05x its FY2022E and FY2023E ABVPS are reasonable considering its high return ratios and stable margins. 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. It is likely to be able to keep margins steady (with a positive bias). The pall of the second wave 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. LICHF plans to raise funds via preferential issue to promoters which will add to the tier 1 capital, and the LIC's stake will increase to 45.24% post infusion, from 40.31% currently. We maintain a Buy rating on the stock with a unchanged PT of Rs. 610.

Key risk

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

Valuation Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Net interest income	4,349.9	4,689.0	5,245.0	6,569.1	7,442.0
Net profit	2,431.0	2,401.8	2,734.0	3,567.5	3,938.7
EPS (Rs)	48.1	47.6	61.4	70.6	78.0
P/E (x)	10.3	10.4	8.0	7.0	6.3
Adj book value (Rs/share)	315.8	302.0	351.1	407.7	470.1
P/ABV (x)	1.56	1.64	1.41	1.21	1.05
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

Key Conference call takeaways

- **Covid impact on business:** Though the "first wave" of Covid -19 was contained and economic activities resumed around Q3 FY21, the resurgence of Covid-19 in the "second wave" was far more devastating and lockdowns were imposed across country from April, 2021. At present, the management indicated that the outlook continues to be uncertain in terms of its impact on economic recovery.
- NPA bifurcation as of March 2021, NPA from housing individual was 1.89%, Individual Non- housing loans NPA were 5.82% and project was 18% GNPA.
- **Restructuring for one time restructuring (OTR):** For all onetime restructuring (OTR) accounts there is separate provision for impairment reserve created, which is provided from P&L. So OTR related provision was in the Rs 280 crores provision in Q4 FY2021 for the impairment reserve amount which was not part of the ECL provision amount.
- **Current scenario, outlook and Second Wave:** Regular accounts CE is above 98% (in March) and similar in May month too. LICHF has also made teams to collect and improve collections efficiency. There is good improvement in Stage 1 & 2 in Q1 so far and we expect the subsequent quarters to be better. We expect a lesser impact than last year. CE is stable from normal accounts.
- **Provision coverage going forward:** The present level of coverage is based on ECL and also impact of one-time restructuring impact for creation of additional buffer cover.
- **Impairment Reserve:** This regulation has come in FY2021 and is a reserve, and is different from ECL provisions.
- **Capital Infusion:** Provides ample scope for expand and improve operations. For FY2022E will look at Tier 2, had done Rs 1800 crores in FY2021. There is significant headroom for raising Tier 2 for LICHF.
- **Loan growth:** The management expects loan growth to be Similar to FY2021 in FY2022E. The H2 FY2021 had seen strong recovery in demand, LICHF expect similar recovery can be expected in H2 FY2022E helped by pent up demand.
- **Nature of slippages:** There were no significant lumpy account details shared.
- **ECL Provision, with buffer:** Total ECL provision stood at Rs. 3971 Cr as on 31.03.2021. Covid-19 related provision stood at Rs. 520 Cr while the Provisions for impairment stood at Rs. 984.81 Cr as on Q4 FY2021.

Results Rs cr

Particulars	Q4FY21	Q4FY20	YoY%	Q3FY21	QoQ%
Revenue from operations	4967.7	4920.2	1.0	4906.7	1.2
Interest expense	3392.9	3907.8	-13.2	3595.1	-5.6
NII	**1574.8**	**1012.3**	**55.6**	**1311.7**	**20.1**
Other Income	-3.3	30.6	-110.8	17.3	-119.2
Net Total Income	**1571.5**	**1042.9**	**50.7**	**1328.9**	**18.3**
Employee expenses	59.2	87.7	-32.4	75.9	-22.0
Other expenses	107.8	102.7	4.9	55.0	96.1
Other Operating expenses	67.7	38.4	76.4	37.8	79.1
Pre-Provisioning Profit	**1336.8**	**814.2**	**64.2**	**1160.3**	**15.2**
Provisions	984.8	67.2	1364.8	190.7	416.5
PBT	**352.0**	**826.7**	**-57.4**	**969.6**	**-63.7**
Tax	-46.9	405.3	NA	242.6	NA
PAT	**398.9**	**421.4**	**-5.3**	**727.0**	**-45.1**

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Long term Outlook attractive for HFCs

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 correction in the borrowing costs, which was steep for high-rated NBFCs, is another positive. Moreover, rising affordability and softening pricing (helped by tax incentives) are positives 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 that the economic recovery is also gaining momentum and stimulus/supportive measures by the government and the Reserve Bank of India (RBI) will further aid to the same. We believe the outlook is resilient for well-run NBFC sector in general and HFCs in particular.

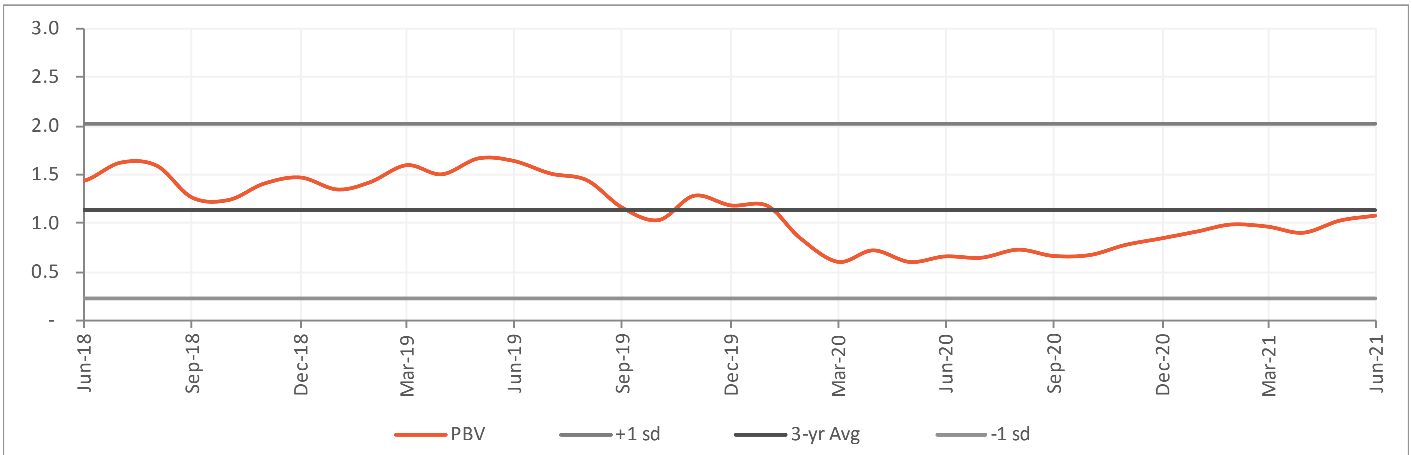
Company Outlook – Strong fundamentals

LICHF witnessed improved loan disbursement and stable NIMs, 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 rates would certainly augur well for the company in the coming quarters. LICHF It has comfortable access to liquidity and enjoys high credit ratings. However, we believe competitive intensity may increase in the home loan segmentsegment and, 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 – Maintain a Buy rating on the stock with an unchanged PT of Rs. 610

We believe valuations at 1.2x/1.05x its FY2022E and FY2023E ABVPS are reasonable considering its high return ratios and stable margins. 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 second wave 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. LICHF plans to raise funds via preferential issue to promoters which will add to the tier 1 capital, and the LIC's stake will increase to 45.24% post infusion, from 40.31% currently. We maintain a Buy rating on the stock with an unchanged PT of Rs. 610.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP Rs/Share	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
LIC Housing Finance	495	1.1	1.0	7.0	6.3	1.1	1.2	12.6	13.5
Can Fin Homes	518	2.3	2.0	13.3	11.8	2.1	2.1	18.1	17.3
HDFC Ltd	2,521	4.4	4.1	40.0	34.1	2.0	1.8	10.9	10.4

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 the 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. Y. Viswanatha Gowd	Managing Director and CEO
Mr.Sudipto Sil	CFO
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	ICICI Prudential Asset Management	4.6
2	NPS TRUST	2.57
3	GOVERNMENT PENSION FUND - GLOBAL	2.34
4	Bank Muscat SAOG	2.28
5	Norges Bank	2.01
6	HDFC Life Insurance Co Ltd	1.99
7	Vanguard Group Inc/The	1.85
8	Dimensional Fund Advisors	1.38
9	Prudential Plc	1.36
10	State of Florida	1.08

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;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.