Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

LIC Housing Finance

Good Q4; asset quality continues to improve

NBFC		Sharekhan code: LICHSGFIN	
Reco/View: Buy	↔	CMP: Rs. 356	Price Target: Rs. 505 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 27.62

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

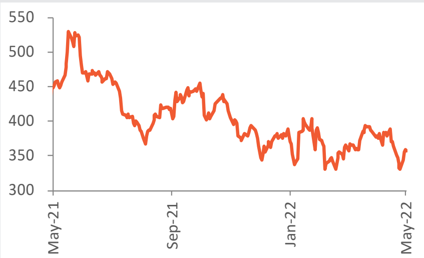
Company details

Market cap:	Rs. 19,728 cr
52-week high/low:	Rs. 542 / 321
NSE volume: (No of shares)	34.5 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	45.2
FII	23.0
DII	16.2
Others	15.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.8	-4.8	-12.2	-20.5
Relative to Sensex	0.7	3.9	-0.7	-26.3

Sharekhan Research, Bloomberg

Summary

- LIC Housing Finance reported better-than-expected operating performance led by lower credit costs in Q4FY22.
- NII beat ours and the street's expectations and was at Rs. 1,637 crore versus our estimate of Rs. 1,498 crore, rising by ~9% y-o-y and ~13% q-o-q. The company posted a PAT of Rs. 1,119 crore versus our estimate of Rs. 793 crore, an increase of 180% y-o-y aided by lower provisions and higher other income.
- Disbursements fell by 14% y-o-y and was up by 9% q-o-q to Rs. 19,315 crore, primarily driven by growth in individual loans. The company's asset quality improved with stage-3 NPLs declining by 40 bps q-o-q to 4.64% in Q4FY22.
- At CMP, the stock trades at 0.7x/0.6x its FY2023E/FY2024E ABV. We maintain a Buy rating on LICHF with a revised price target of Rs. 505.

LIC Housing Finance Ltd (LICHF) clocked a PAT of Rs. 1,119 crore, up 180% y-o-y and ~46% q-o-q, aided by lower credit costs in Q4FY22. For FY22, however, PAT declined by 16% y-o-y to Rs. 2,287 crore. Provisions stood at Rs. 117 crore versus Rs. 356 crore in Q3FY22. NII beat ours and the street's expectations, at Rs. 1,637 crore, rising by ~9% y-o-y and ~13% q-o-q (versus our estimate of Rs. 1,498 crore). NIM was up by 22 bps q-o-q (and marginally down by 2 bps y-o-y). This was primarily driven by healthy disbursements (up by 9% q-o-q). Overall spreads improved by 29 bps to 1.93% in Q4FY22. Disbursements declined by 14% y-o-y and was up by 9% q-o-q to Rs. 18,887 crore, driven by growth in individual loans (up by ~8% q-o-q) and project loans (up by ~46% q-o-q). Loan book grew by 8% y-o-y and 3% q-o-q in Q4FY22. This was primarily led by individual loan book growth (up by ~10% y-o-y and ~4% q-o-q). While project loans declined by ~19% y-o-y and ~8% q-o-q. Company's asset quality – Stage-3 assets improved by 40 bps q-o-q to 4.64% in Q4FY22. PCR stood at 43.1% versus 39.7% in Q3FY22.

Key positives

- Continued improvement in asset quality. Stage-3 NPLs improved by 40 bps q-o-q to 4.64% in Q4FY22. PCR stood at 43.1% versus 39.7% in Q3FY22.
- Healthy growth in disbursement q-o-q driven by individual loans.
- Collection efficiency (CE) remained stable sequentially at 99% in March 2022.

Key negatives

- Outstanding mortgage portfolio for the developer book declined by ~19% y-o-y and ~8% q-o-q in Q4FY22, on account of higher pre-payments. Pre-payments for developer portfolio stood at Rs. 1,541 crore (~10.9% repayment rate).
- Likewise, the developer book continues to have a higher GNPA ratio of 31% versus 27% in Q3FY22.

Management Commentary

- With a significant improvement in the economic environment, the management foresees decent growth in FY23. It expects its loan book to grow in double digits in FY23, which is likely to be aided by robust demand across segments and geographies.
- It intends to increase the share of project loans to 10% from 5% in Q4FY22 in the loan book mix going ahead
- Company has guided for 15% incremental growth in the disbursements in FY23. Developer pipeline have improved for the company after the company being cautious in the segment during FY22.
- It guided for NIM to be at 2.4-2.5% going forward.

Our Call

Valuation – We maintain our Buy rating on the LICHF with a revised price target of Rs. 505. We find comfort in the company's stability with high return ratios and stable margins. LICHF is well-capitalised to cater to growth going ahead. With the improvement in the business environment after the intermittent disruptions by third wave, the company is well-poised to gain momentum in the individual loan book segment as well as the project loans where it intends to focus going ahead. Additionally, with an improving real estate cycle, we expect its disbursements to be higher going ahead with continued improvement in collection efficiency. Persistent concerns on its asset quality is seemed to be addressed by the company in the past two quarters with coverage of stage-3 assets at ~40%. We expect LICHF's AUMs to clock ~12% CAGR over FY23E-FY24E. At the CMP, the stock trades at 0.7x/0.6x its FY2023E/FY2024E ABV. We maintain our Buy rating on the LICHF with a revised price target of Rs. 505.

Key Risks

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

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
NII	5,245	5,535	6,219	7,216
PAT	2,734	2,287	3,433	3,991
EPS (Rs)	54.2	41.6	62.4	72.5
P/E (x)	6.7	8.8	5.9	5.0
P/BV (x)	0.9	0.8	0.7	0.6
RoA (%)	1.2	0.9	1.3	1.3
RoE (%)	14.1	10.1	13.1	13.6

Source: Company; Sharekhan estimates

Key Concall Highlights

- **Management foresees healthy growth:** With the significant improvement in the economic environment after the third COVID-19 wave, the company expects a decent growth in FY23.
- **Loan book growth to be in double digits:** The management expects its loan book to grow in double digit in FY23 which is likely to be aided by robust demand across segments and geographies. Loan book grew by 8% y-o-y and 3% q-o-q in Q4FY22 to Rs. 2.5 trillion. This was primarily led by individual loan book growth (up by ~10% y-o-y and ~4% q-o-q). While its project loans de-grew by ~19% y-o-y and ~ 8% q-o-q. This was largely on account of pre-payments which stood at Rs. 1,541 crore (~10.9% repayment rate). The retail home loans share increased to 81.3% in Q4FY22 from 77.9% in Q4FY21. The company intends to increase the share of project loans to 10% from 5% in Q4FY22 in the loan book mix going ahead. Re-pricing of the book happens every quarter for the company and it has increased the yield on loans by 20-25 bps in May across product categories.
- **Disbursements:** The company has guided for 15% incremental growth in the disbursements in FY23. Disbursements de-grew by 14% y-o-y and was up by 9% q-o-q to Rs. 19,315 crore, driven by growth in individual loans (up by ~8% q-o-q) and project loans (up by ~46% q-o-q). Developer pipeline have improved for the company after the company being cautious in the segment during FY22.
- **Asset quality to remain stable:** The company's asset quality improved with stage 3 assets NPLs declining by 40 bps q-o-q to 4.64% in Q4FY22. PCR stood at 43.1% versus 39.7% in Q3FY22. It expects a gradual increase in the provision coverage going ahead. The restructured book was 3% (Rs. 7,800 crore) of the total loan book which is categorized under stage 1 and stage 2 assets with 10% of provisioning. Total ECL provisions stood at Rs. 5,839 cr (~2.2% of the book) as on March 2022 with Covid related provisioning at Rs. 299 crore. Recoveries were to the tune of Rs. 350 crore in Q4FY22.
- **Guidance on NIMs:** The company has ~50% of its liabilities as fixed rate liabilities and > 90% of outstanding portfolio is floating rate, this is likely to cushion the company in the regime of rising interest rates on the liabilities front. Cost of funds (weighted average) reduced by 17 bps q-o-q to 6.5%. It guided for NIM to be at 2.4-2.5% going forward.

Results Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y (%)	Q3FY22	Q-o-Q (%)
Interest income	5,189	4,898	6.0	5,001	3.8
Interest expenses	3,552	3,393	4.7	3,546	0.2
Net interest income	**1,637**	**1,505**	**8.8**	**1,455**	**12.6**
Other income	119	67	79.3	70	70.9
Net Operating income	**1,757**	**1,572**	**11.8**	**1,524**	**15.2**
Operating expenses	**265**	**242**	**9.6**	**207**	**28.2**
PPoP	**1,491**	**1,329**	**12.2**	**1,317**	**13.2**
Provisions & Writeoffs	177	977	(81.9)	356	(50.2)
PBT	**1,314**	**352**	**273.4**	**962**	**36.7**
Tax	196	-47		195	
Tax Rate (%)	14.9	-13.3		20.2	
PAT	**1,119**	**399**	**180.4**	**767**	**45.8**
Key Financials & Ratios	**Q4FY22**	**Q4FY21**	**% YoY**	**Q3FY22**	**% QoQ**
Loans	**2,51,120**	**2,32,003**	**8.2**	**2,43,412**	**3.2**
-Individual loans	2,38,142	2,16,047	10.2	2,29,321	3.8
-Project/Developer loans	12,978	15,956	-18.7	14,091	-7.9
Disbursements	**19,315**	**22,363**	**-13.6**	**17,770**	**8.7**
-Individual loans	18,887	21,166	-10.8	17,477	8.1
-Project/Developer loans	428	1,197	-64.2	293	46.1
Yield on loans (%)	8.4	8.7	-28 bps	8.3	7 bps
Cost of borrowings (%)	6.5	6.7	-27 bps	6.7	-22 bps
Spread (%)	1.9	1.9	-1 bps	1.6	29 bps
NIM (%)	**2.6**	**2.7**	**-2 bps**	**2.4**	**22 bps**
GNPL (% of total loans)	**4.64**	**4.12**	**52 bps**	**5.04**	**-40 bps**
NNPL (% of total loans)	**2.6**	**2.5**	**16 bps**	**3.0**	**-40 bps**

Source: Company; Sharekhan Research

Outlook and Valuation

Sector outlook – 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. A correction in 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 and LTV outlook for HFCs. We believe that with business improving going ahead, housing demand is likely to gain traction well supported by decadal low interest rates, government measures and builders offering attractive schemes. We expect, the outlook is resilient for well-run NBFCs in general and HFCs in particular.

Company outlook – Strong fundamentals

LICHF continued to witness improved loan disbursement with stable margins. It is well-placed in terms of liquidity management and falling interest rates would certainly augur well for the company in the coming quarters. Further, the company has been witnessing continued improvement sequentially. However, we believe competitive intensity may increase in the home loan segment with respect to large banks, which are aggressive in this segment but the management sounded confident in stemming the balance transfer outs (BT outs). Borrowing costs have come down significantly (declined by 17 bps q-o-q in Q4FY22) for the company which is likely to enable the company to sustain spreads. Going forward, we believe that asset quality and competitive pressures will be key monitorables.

Valuation – Buy rating on the LICHF with a revised price target of Rs. 505

We find comfort in the company's stability with high return ratios and stable margins. LICHF is well-capitalised to cater to growth going ahead. With the improvement in the business environment after the intermittent disruptions by third wave, the company is well-poised to gain momentum in the individual loan book segment as well as the project loans where it intends to focus going ahead. Additionally, with an improving real estate cycle, we expect its disbursements to be higher going ahead with continued improvement in collection efficiency. Persistent concerns on its asset quality is seemed to be addressed by the company in the past two quarters with coverage of stage-3 assets at ~40%. We expect LICHF's AUMs to clock ~12% CAGR over FY23E-FY24E. At the CMP, the stock trades at 0.7x/0.6x its FY2023E/FY2024E ABV. We maintain our Buy rating on the LICHF with a revised price target of Rs. 505

Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
LIC Housing Finance	356	19,483	0.7	0.6	5.9	5.0	1.3	1.3	13.1	13.6
Can Fin Homes	454	6,043	1.7	1.5	11.6	10.2	1.7	1.7	15.7	15.4

Source: Company, Sharekhan Research

About the 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	4.2
2	Bank Muscat SAOG	2.1
3	Norges Bank	2.1
4	GOVERNMENT PENSION FUND - GLOBAL	2.1
5	Vanguard Group Inc/The	1.9
6	HDFC Life Insurance Co Ltd	1.7
7	Nippon Life India Asset Management Ltd	1.5
8	Prudential Plc	1.5
9	DSP Investment Managers Pvt Ltd	1.4
10	Dimensional Fund Advisors	1.2

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

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