

CMP: ₹ 408

Target: ₹ 400 (-2%)

Target Period: 12 months

HOLD

August 6, 2021

Uncertainty on stress accretion, low NPA buffer...

About the stock: LIC Housing Finance (LICHF) is among the largest HFCs in India with an extensive distribution network of 282 marketing office and 2421 employees.

- Total 91% of LICHF's customers are salaried and 9% are self employed
- Retail home loans form 78.3% of the overall book

Q1FY22 Results: Subdued overall performance; asset quality concern looming.

- NII up 4.5% YoY, down 15.3% QoQ, NIMs down 46 bps QoQ to 2.2%
- Higher provisions at ₹ 830 crore, C/I ratio rise impacted PAT at ₹ 153 crore
- Stage 3 assets rose 181 bps from 4.12% to 5.93% & 2.3% was restructured

What should investors do? LICHF has given ~57% return over the past year. However, we believe a healthy recovery on stressed asset is necessary for better valuations.

- We retain our HOLD rating on the stock

Target Price and Valuation: We value LIC Housing at ~0.9 FY23E BV and revise our target price for the stock at ₹ 400 per share from ₹ 475 earlier.

Key triggers for future price performance:

- Exponential stress >50% in developer book remains key concern
- Low provision buffer could call for elevated credit cost ahead
- Elevated asset quality concerns to keep margin improvement limited
- Pick-up in housing demand amid soft interest rates to aid growth

Alternate Stock Idea: Apart from LICHF, in our coverage we like HDFC Ltd.

- HDFC Ltd is largest NBFC HFC with consistent performance over various business cycles
- BUY with a target price of ₹ 3100



LIC HOUSING FINANCE LTD

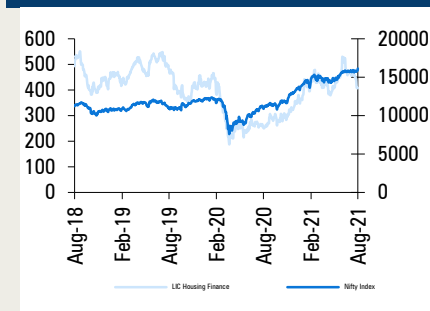
Particulars

Particulars	Amount
Market Capitalisation	₹ 20605 crore
Networth (FY21)	₹ 20521 crore
52 week H/L	542 / 255
Face value	₹ 2

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	40.3	40.3	40.3	40.3	40.3
FII	34.3	34.4	29.3	28.2	28.8
DII	10.6	10.4	15.4	16.8	15.6
Others	14.8	21.9	21.9	14.7	15.3

Price Chart



Recent Event & Key risks

- Considerable rise in stress with stage 3 assets rising 181 bps QoQ to 5.93%
- **Key Risk:** (i) Elevated stress in developer book (ii) faster recovery in stressed asset portfolio acts a upside risk

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Key Financial Summary

₹ crore	FY19	FY20	FY21	4 year CAGR (FY17-FY21)	FY22E	FY23E	2 year CAGR (FY21-23E)
NII	4463.5	4821.5	5244.5	10%	5671.6	6370.5	10%
PPP	3997.6	4221.8	4666.2	10%	4988.9	5716.3	11%
PAT	2431.0	2401.8	2734.3	9%	1972.7	2823.9	2%
ABV (₹)	275.7	294.3	293.8		305.4	356.8	
P/E	8.8	8.6	7.5		11.4	7.9	
P/ABV	1.5	1.4	1.4		1.3	1.1	
RoA	1.3	1.2	1.2		0.8	1.0	
RoE	16.3	14.1	14.1		8.9	11.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Rise in delinquencies remain concern

- Net interest income was down 15.3% QoQ to ₹ 1275 crore as a result of 46 bps fall in NIMs to 2.2%. NIMs contracted due to interest reversals on NPA despite 5 bps sequential fall in cost of funds at 6.88%
- Operating expenses increased 18% QoQ to ₹ 286 crore owing to a sharp rise in employee expenses at ₹ 215 crore vs. ₹ 59 crore QoQ
- Rise in staff cost is attributable to ₹ 130 crore provision made towards wage revision arrears. However, on a normalised level staff cost is expected to be ₹ 90 crore per quarter
- Provisions were elevated at ₹ 830 crore, resulting into a credit cost of 1.4% (annualised) due to higher stress recognition. As a result of tepid topline growth and high provisions, PAT declined 81% YoY to ₹ 153 crore
- Restructuring pool jumped to 2.3% of the book from 1.3% QoQ

Q1FY22 Earnings Conference Call highlights

- Stage 3 loans for individual home loan segment were at 2.6%, LAP stage 3 assets were at 10.99%, Non individual home loan at 18.9% and developer book at 24.4%
- Rise in NPAs in individual category is due to increase in stress in tier-II and tier-III cities
- Collection efficiency at 98% for Q1FY22
- Total 30% of NPA customers are making part payment
- LTV on individual home loan is at 44% while on non-housing loans is 35%
- Covid related provisions were at ₹ 658 crore
- Of total ₹ 5350 crore restructured book, ~₹ 4700 crore is coming from 127 accounts in which 93 are from developer segment with exposure of ~₹ 4300 crore
- ECLGS disbursement in Q1FY22 at ₹ 140 crore and outstanding book is at ~₹ 450 crore

Peer comparison

Exhibit1: ICICI Direct coverage universe (BFSI- NBFC)

Sector / Company	CMP			M Cap (₹ bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
LIC Housing Finance (LICHF)	408	400	Hold	205	54.2	35.9	51.3	7.5	11.4	7.9	1.4	1.3	1.1	14.1	8.9	11.5
HDFC (HDFC)	2,642	3,100	Buy	4,772	59.8	75.6	87.8	44.2	35.0	30.1	4.4	4.2	4.0	11.1	12.3	13.5
Bajaj Finserv (BAFINS)	14,000	13,500	Hold	2,228	235.6	300.1	440.5	59.4	46.6	31.8	6.2	5.5	4.7	11.0	12.5	15.9
Bajaj Finance (BAJFI)	6,245	6,900	Buy	3,769	73.5	102.9	131.7	85.0	60.7	47.4	10.5	9.2	7.1	12.1	15.6	16.3
Mahindra & Mahindra Finance	155	160	Reduce	190	2.7	7.2	10.4	57.0	21.6	14.9	1.7	1.4	1.2	2.6	5.7	7.3

Source: Company, ICICI Direct Research

LIC Housing Finance has strong parentage and, thus brand, while prospects for growth in long term remain steady. However, subdued near term performance could cast a shadow over long term positives.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
NII	1,275	1,221	4.5	1,505	-15.3	Decline due to a sharp fall in margins
NIM (%)	2.20	2.32	-12 bps	2.66	-46 bps	NIMs contract due interest reversals and funding costs
Other Income	34	-8	-544.8	67	-49.3	
Net Total Income	1,309	1,213	7.9	1,572	-16.7	
Operating Expenses	286	139	105.7	242	17.9	Sharp rise in employee cost due to wage arrears led to jump in overall Opex
PPP	1,023	1,074	-4.7	1,329	-23.0	
Provision	830	56	1,371.1	977	-15.0	Provisions remained elevated as stress persist
PBT	193	1,018	-81.0	352	-45.2	
Tax Outgo	39	200	-80.3	-47	-184.2	
PAT	153	817	-81.2	399	-61.5	Sluggish topline, increased staff and credit cost impacted PAT
Key Metrics						
GNPA	13,790	5,938	132.2	9,303	48.2	Rise in corporate stress pool and individual non-home segment
Total Loans	232,548	209,817	10.8	232,003	0.2	Sequential growth flattish due to impact of lockdowns

Source: Company, ICICI Direct Research

Exhibit 3: Change in Estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	5623	5,672	0.9	6349.9	6,370	0.3
Pre Provision Profit	5095	4,989	-2.1	5781.1	5,716	-1.1
NIM(%) (calculated)	2	2.3	2 bps	2.3	2.3	-3 bps
PAT	3297	1,973	-40.2	3839.6	2,824	-26.5
ABV per share (₹)	380	305.4	-19.5	416.8	356.8	-14.4

Source: Company, ICICI Direct Research

Exhibit 4: Assumptions

	Current		Earlier	
	FY22E	FY23E	FY22E	FY23E
Credit growth (%)	12.3	16.2	12.6	12.7
NIM Calculated (%)	2.30	2.26	2.29	2.29
Cost to income ratio (%)	14.8	13.3	12.6	12.2
GNPA (₹ crore)	12,205	11,896	7,257	7,913
NNPA (₹ crore)	7,073	5,729	3,947	4,240

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit & Loss		(₹ crore)				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	
Interest Earned	17355.0	19605.4	19697.1	21915.7	25064.5	
Interest Expended	12891.6	14783.9	14452.6	16244.1	18694.1	
Net Interest Income	4,463.5	4,821.5	5,244.5	5,671.6	6,370.5	
% growth	20.6	8.0	8.8	8.1	12.3	
Non Interest Income	6.7	64.4	150.6	186.6	223.5	
Net Income	4470.2	4885.9	5395.1	5858.1	6594.0	
Employee cost	247.9	299.1	293.2	473.6	380.3	
Other operating Exp.	224.7	365.1	435.8	395.6	497.4	
Operating Income	3997.6	4221.8	4666.2	4988.9	5716.3	
Provisions	618.1	952.8	1317.6	2352.7	1942.5	
PBT	3379.6	3269.0	3348.6	2636.2	3773.8	
Taxes	948.6	867.2	614.2	663.5	949.9	
Net Profit	2,431.0	2,401.8	2,734.3	1,972.7	2,823.9	
% growth	20.8	-1.2	13.8	-27.9	43.2	
EPS (₹)	46.2	47.6	54.2	35.9	51.3	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		(₹ crore)				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	
Sources of Funds						
Capital	101.0	101.0	101.0	110.0	110.0	
Reserves and Surplus	16158.3	18092.1	20420.3	23761.8	25240.7	
Networth	16259.3	18193.1	20521.3	23871.8	25350.7	
Secured Loans	168667.0	171737.8	187730.7	200283.7	238029.1	
Unsecured Loans	2000.0	18560.7	20130.8	21232.1	24757.2	
Other Liabilities & Provisions	13657.2	8314.1	7250.5	18667.5	20342.3	
Total	2,00,583	2,16,806	2,35,633	2,64,055	3,08,479	
Applications of Funds						
Fixed Assets	135.9	133.3	130.3	180.4	210.1	
Investments	3595.1	5496.4	4635.6	4727.8	5483.6	
Advances	192992.7	207988.0	228114.3	256210.3	297702.2	
Other Assets	3859.8	3187.9	2753.1	2936.6	5083.3	
Total	2,00,583	2,16,806	2,35,633	2,64,055	3,08,479	

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios		(₹ crore)				
(Year-end March)	FY19	FY20	FY21	FY22E	FY23E	
Valuation						
No. of Equity Shares	50.5	50.5	50.5	55.0	55.0	
EPS (₹)	46.2	47.6	54.2	35.9	51.3	
BV (₹)	314.3	360.3	406.4	434.0	460.9	
ABV (₹)	275.7	294.3	293.8	305.4	356.8	
P/E	8.8	8.6	7.5	11.4	7.9	
P/BV	1.3	1.1	1.0	0.9	0.9	
P/adj.BV	1.5	1.4	1.4	1.3	1.1	
Yields & Margins (%)						
Yield on interest earning asse	9.5	9.6	9.0	8.9	8.9	
Avg. cost on funds	8.4	8.3	7.4	7.5	7.7	
Net Interest Margins	2.3	2.4	2.4	2.3	2.3	
Quality and Efficiency						
Cost / Total net income	11.0	13.6	13.5	14.8	13.3	
GNPA%	1.5	2.9	4.1	4.8	4.0	
NNPA%	1.1	1.6	2.5	2.8	1.9	
ROE (%)	16.3	14.1	14.1	8.9	11.5	
ROA (%)	1.3	1.2	1.2	0.8	1.0	

Source: Company, ICICI Direct Research

Exhibit 8: Growth ratios		(%)				
(Year-end March)	FY19	FY20E	FY21E	FY22E	FY23E	
Total assets	15.8	9.0	8.7	12.1	16.8	
Advances	16.9	6.9	9.7	12.3	16.2	
Borrowings	14.6	14.2	9.2	6.6	18.6	
Total Income	16.2	12.3	0.9	11.4	14.4	
Net interest income	14.8	13.5	8.8	8.1	12.3	
Operating expenses	-25.0	36.7	9.7	19.2	1.0	
Operating profit (excl	21.0	7.7	10.2	6.4	14.4	
Net profit	15.9	2.9	13.8	-27.9	43.2	
Net worth	25.1	14.6	12.8	16.3	6.2	
EPS	15.9	2.9	13.9	(33.8)	43.2	

Source: Company, ICICI Direct Research

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