

LIC HOUSING FINANCE | Housing Finance*Negatives Priced In***LKP**

LICHF's performance was strong in 1QFY21 driven by better NIMs (3.4%) due to finer cost of funds. Provision expenses (₹565mn) stood lower leading to PAT (₹8175mn) growth of 34% YoY and 94% sequentially. As the company is looking for stability rather than growth, the AUM growth stood at 6.1% YoY because of lower quarterly disbursement. Sovereign rating has led to reduction in cost of fund which could provide further cushion to NIMs in FY21E.

The company maintains adequate liquidity with CRAR of 14%, positive ALM and ample cash in hand of ₹13bn as on FY20. The company's reported asset quality is in fine fettle with GNPA and NNPA ratio of 2.8% and 1.6% respectively. However, the moratorium (25% of book) may remain a key overhang, although collection efficiency has reached a level of 85% as on Sep20. We believe, the negatives are priced in with ample liquidity position and higher collections. Thus we recommend BUY.

No liquidity constraint & improving NIMs

Disbursements for 1QFY21 declined by 65.3% YoY to ₹35.6bn mainly led by individual loans (-63.9% YoY) while project disbursements were down 80.8% YoY. Hence overall loan growth of 6.1% was led by home loans. Share of home/LAP/developer was sequentially stable at 77%/16%/7%. Disbursements are improving MoM and July/August saw decent flows. Being sovereign rated, LICHF is not facing any liquidity constraints and funding cost is consistently declining for the company since the last 5 quarters. Overall WACC has declined from 8.5% in Q4FY19 to 7.9% in Q1FY21. Incremental Bank/NCD (82% of borrowings) cost has reduced substantially by 1.5%/2.2% over the same timeframe. On the yield front, large chunk of the book has already been re-priced lower and hence NIM for FY21E could be cushioned. NII came in higher at ₹12.2bn (est. ₹11.7bn) while AuM growth was slightly lower at 6.1% YoY (est. 6.6%) due to higher repayments. Hence NIM was higher at 3.4% (est. 3.3%) due to lower cost of funds.

Moratorium (25% of book) a key monitorable

25% of overall loans are under moratorium as at June'20 and this number could have marginally improved over later months. In terms of segments under standstill, individual home is 16% (vs 13% earlier), for developer loans it is 77%, while LAP stands at 40%. Till date provisioning on moratorium has been lower and though we would have preferred higher provisions, the management suggested that provisions have been arrived at by the ECL method. Under ECL, provisions are determined by the ultimate LGD which is a function of past write-offs which have been very low. LICHF also highlighted that their LTVs at origination are much lower which could lead to lower LGD. As the collection efficiency (85%) is improving, we estimate 10% of moratorium book may come under stress (slippages or restructured). We have incorporated it in projections and expect the company to report GS3 (%) of 4.7% and 3.2% in FY21E and FY22E.

Outlook and Valuation

With moderate AUM growth in FY21E, we estimate the company's FY21E and FY22E ROE at 10.7% and 12.2% respectively. We believe the stress emerging from moratorium book is already in the price. We value the LICHF with FY22E BVPS of ₹459 with P/BVPS of 0.75(x) and arrive at a target price of ₹345, with a potential upside of 20%. We recommend BUY.

Rating	Buy
Current Market Price (₹)	286
12 M Price Target (₹)	345
Potential upside (%)	20

Stock Data

FV (₹) :	2
Market Cap Full (₹ bn) :	145
Market Cap Free Float (₹ bn) :	87
52-Week High / Low (₹) :	487 / 185
2-Year High / Low (₹) :	587 / 185
1 Year Avg. Dly Traded Volume (in lakh)	55
BSE Code / NSE Symbol :	500253 / LICHSFIN
Bloomberg :	LICHF IN

Shareholding Pattern (%)

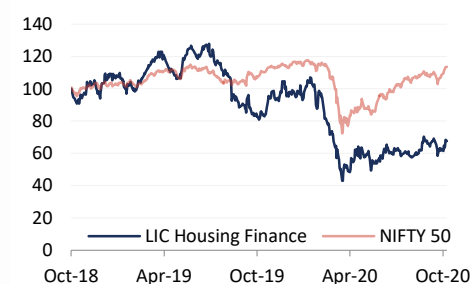
	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	40.31	40.31	40.31	40.31
FPIs	34.44	34.27	32.32	32.70
MFs	6.72	4.74	8.21	9.06
Insurance	5.04	4.87	4.76	4.64
Others	13.49	15.81	14.40	13.29

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
LICHF	-5%	9%	17%	-21%
Nifty 50	5%	13%	33%	6%

* To date / current date : October 14, 2020

LICHF vs Nifty 50

Income Statement

(₹ mn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	147,745	172,669	196,112	199,412	220,888
Interest Expenses	111,671	131,593	148,314	145,398	158,175
NII	36,074	41,076	47,798	54,014	62,713
Other Income	661	977	586	703	844
Total Income	36,735	42,053	48,384	54,717	63,557
Opex.	4,396	4,754	6,167	6,976	8,104
PPOP	32,339	37,299	42,217	47,741	55,454
Provision	4,684	3,504	9,527	19,131	18,174
PBT	27,655	33,795	32,690	28,610	37,279
Tax	7,630	9,486	8,672	6,866	8,947
PAT	20,025	24,309	24,018	21,743	28,332

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY18	FY19	FY20	FY21E	FY22E
Cash	19,083	28,018	13,657	21,851	34,962
Bank Balance	1,881	2,117	6,132	12,264	24,528
Loans	1,661,623	1,929,927	2,079,880	2,100,679	2,310,747
Investments	19,722	35,951	54,964	55,514	56,069
Other Financial assets	649	409	1,019	1,029	1,039
Non - Financial assets	7,940	9,413	12,404	12,528	12,653
Total Assets	1,710,898	2,005,835	2,168,056	2,203,865	2,439,998
Debt Securities	1,195,212	1,346,157	1,320,823	1,307,615	1,425,300
Borrowings	232,887	340,513	577,494	571,719	623,174
Subordinate debts	25,000	20,000	15,000	15,000	15,000
Other Financial liabilities	114,189	133,952	69,118	70,500	74,025
Non - Financial liabilities	1,198	2,620	3,690	3,764	3,839
Share capital	1,010	1,010	1,010	1,010	1,010
Other Equity	141,402	161,583	180,921	202,664	230,997
Total liabilities	1,710,898	2,005,835	2,168,056	2,172,272	2,373,345

Source: Company, LKP Research

Balance Sheet Ratios

	FY18	FY19	FY20	FY21E	FY22E
Debt / Equity	10.2	10.5	10.5	9.3	8.9
Asset / Equity	12.0	12.3	11.9	10.8	10.5
Cash / Borrowings (%)	1.5	1.8	1.0	1.8	2.9

Source: Company, LKP Research

Capital Adequacy Ratios (%)

	FY18	FY19	FY20	FY21E	FY22E
CRAR	15.5	14.4	14.4	14.5	14.3
Tier 1	13.1	12.3	12.5	12.5	12.3
Tier 2	2.4	2.1	1.9	2.0	2.0

Source: Company, LKP Research

Asset Quality					
	FY18	FY19	FY20	FY21E	FY22E
GNPA (₹ mn)	13,036	29,717	59,594	98,831	74,987
NNPA (₹ mn)	7,117	20,812	33,474	53,580	42,157
GNPA (%)	0.8	1.5	2.8	4.7	3.2
NNPA (%)	0.4	1.1	1.6	2.6	1.8
PCR (% , calculated)	45.4	30.0	43.8	45.8	43.8

Source: Company, LKP Research

Valuation & Returns					
	FY18	FY19	FY20	FY21E	FY22E
EPS (₹)	39.7	48.1	47.6	43.1	56.1
BVPS (₹)	282.0	322.0	360.3	403.3	459.4
P/E (x)	7.1	5.9	5.9	6.5	5.0
P/BV (x)	1.0	0.9	0.8	0.7	0.6
ROA (%)	1.2	1.2	1.1	1.0	1.2
ROE (%)	14.1	15.0	13.2	10.7	12.2

Source: Company, LKP Research

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