

LIC HOUSING FINANCE | Housing Finance

Proxy to play the real estate recovery

LKP

Demand revival in real estate projects (post reduction in stamp duty by Maharashtra Government) and continuous initiatives to boost affordable housing are likely to be the key triggers for home buying. HFCs are likely to be the biggest beneficiaries and LIC Housing Finance will lead the non-banking home financiers. Moreover, the company's 2QFY21 performance and management commentary acknowledge our conviction that the company is preparing for cautious and prudent growth keeping the asset quality intact. LICHF witnessed a demand revival with disbursement growing ~250% QoQ (2.2% YoY) with wholesale disbursement of 242% QoQ (80% YoY). Furthermore, the overall collection efficacy has improved to ~96% as on 2QFY21. The bank declared that ~3% of customers requesting for restructuring. LICHF's current Tier 1 of 12.2% is likely to be inadequate to manage growth momentum. Therefore, capital dilution is expected sooner than later. Factoring improvement in demand and moderate credit cost, we estimate FY22E ROA and ROE of 1.3% and 13.7% respectively.

Growth rebounds

On 2QFY21, the company's loan book grew by 5.1% YoY and 1.7% sequentially owing to strong retail demand. The loan portfolio stood Rs2.1tn of which individual loan (~76.5% share) grew 4.6% YoY and developer loans (7.2% share) grew at 12.3% YoY. The Housing Finance industry has seen intense competition with aggressive efforts by large banks. However, we believe, LICHF is likely to grow above the market growth rate.

Stable Asset Quality

The Company's asset quality improved further with stage – 3 asset for individual loan stood 1.72% (v/s 1.74% in 1QFY21) and for project loan stage-3 stood 16.52% (v/s 17.64% in the previous quarter). Collection efficiency for 2QFY21 was around 96% and ~3% of loan book has enquired for restructuring. The restructuring enquiry in the proportion of corporate and retail (by volume) is 2:1. The company expects this number to trend down by 3QFY21. We estimate elevated credit costs in coming quarters, thus delaying ROE improvement.

Margins improved sequentially

With incremental yield of around 8.1% and individual loan incremental yield of 7.3%, the margin improved 2bps sequentially to 2.34%. Incremental cost of fund declined 99bps sequentially to 5.8%. We expect the spreads to remain stable in coming quarters despite competition with banks.

Outlook and Valuation

High liquidity and decline in interest rate bodes well for cost of funds, enabling LICHF to protect its margins despite heightened pricing pressure in mortgage. We model 19%/16% earnings growth in FY21/22 translating into ROE of 13.6%/13.7% in FY21/22 from 13.2% in FY20. We believe the current valuation factors the stress on the portfolio. Incremental positive data pertaining to credit cost and restructuring would be key triggers for the stock. We have factored 3% restructured book for FY21 and GNPA of 3% in FY21E. Given inexpensive valuation we maintain BUY, with a target price of Rs488 valuing the entity at 1.0x FY22 Adj. book value.

Rating	Buy
Current Market Price (₹)	394
12 M Price Target (₹)	488
Potential upside (%)	24

Stock Data

FV (₹) :	2
Market Cap Full (₹ bn) :	199
Market Cap Free Float (₹ bn) :	119
52-Week High / Low (₹) :	487 / 185
2-Year High / Low (₹) :	587 / 185
1 Year Avg. Dly Traded Volume (in lakh)	64
BSE Code / NSE Symbol :	500253 / LICHSGFIN
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

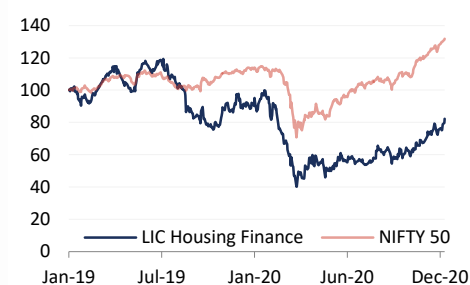
Price Performance (%)

(%)	1M	3M	6M	1YR
LICHF	13%	44%	44%	-10%
Nifty 50	7%	23%	34%	16%

* To date / current date : January 5, 2021

Financial Snapshot (₹ bn)	FY19	FY20	FY21E	FY22E
NII	43.7	48.3	51.4	58.7
PPoP	37.4	42.3	45.2	52.3
PAT	24.4	24.1	28.7	33.5
Loans & Advances	1,930	2,080	2,184	2,396
Borrowings	1,707	1,913	1,962	2,135
ROA (%)	1.2	1.1	1.3	1.3
ROE (%)	15.0	13.2	13.6	13.7
Gross Stage-3	1.5	2.8	3.0	3.1
Net Stage -3	0.7	1.6	1.6	1.6

LICHF vs Nifty 50



2QFY21 Result Summary

(₹ bn)	2QFY21	2QFY20	YoY (%)	1QFY21	QoQ (%)
Interest Income	49.4	49.1	0.6	49.3	0.2
Interest Expenses	37.0	37.0	-0.0	37.6	-1.6
NII	12.4	12.1	2.6	11.7	6.0
NIM (%)	2.3	2.5	-8.0	2.3	1.8
Other Income	0.4	0.6	-33.3	0.4	-2.4
Total Income	12.8	12.7	0.9	12.1	5.7
Opex.	1.6	1.4	14.3	1.4	14.3
C/I ratio (%)	12.5	11.0	13.3	11.6	8.1
PPoP	11.2	11.3	-0.8	10.7	4.6
Provisions	1.1	2.8	-60.7	0.6	83.3
PBT	10.1	8.5	19.0	10.1	-0.1
Tax	2.2	0.8	175.0	2.0	10.0
PAT	7.9	7.7	2.7	8.1	-2.6
Disbursements	2,134	2,030	5.1	2,098	1.7
Gross Stage - 3	124	122	2.2	36	249.4
Gross Stage - 3 (%)	2.8	2.4	17.2	2.8	-1.4

Source: Company, LKP Research

Income Statement

(₹ bn)	FY19	FY20	FY21E	FY22E
Interest Income	172.6	196.1	199.0	213.6
Interest Expenses	128.9	147.8	147.6	154.9
NII	43.7	48.3	51.4	58.7
Other Income	1.1	0.6	0.9	1.2
Total Income	44.8	48.9	52.3	59.9
Operating Expenses	7.4	6.6	7.1	7.6
PPoP	37.4	42.3	45.2	52.3
Provisions	3.5	9.5	6.1	7.0
PBT	33.9	32.8	39.1	45.3
Tax	9.5	8.7	10.4	11.8
PAT	24.4	24.1	28.7	33.5

Source: Company, LKP Research

Balance Sheet				
(₹ bn)	FY19	FY20	FY21E	FY22E
Cash & Bank Bl.	30.0	20.0	21.0	23.0
Loans & Advances	1,930	2,080	2,184	2,396
Investments	36	55	50	50
Fixed Assets	1.0	1.0	2.0	2.1
Other Assets	9.0	12.0	13.1	14.2
Total Assets	2,006	2,168	2,270	2,485
Share capital	1.0	1.0	1.0	1.0
Reserves & Surplus	162	181	210	243
Net-worth	163	182	211	244
Borrowings	1,707	1,913	1,962	2,135
Other Liabilities	134	72	93	99
Provisions	2.0	1.0	3.8	7.1
Total Liabilities	2,006	2,168	2,270	2,486

Source: Company, LKP Research

Ratios				
	FY19	FY20	FY21E	FY22E
Growth Rates				
Advance	16.1	7.8	5.0	9.7
Borrowings	18.1	12.1	2.6	8.8
NII	21.7	10.5	6.4	14.2
PPoP	15.3	13.1	6.9	15.7
PAT	21.4	-1.2	19.2	16.5
Per Share data				
EPS	48.8	48.2	57.5	67.0
BVPS	326.0	364.0	421.5	488.4
Return Ratios				
ROA (%)	1.2	1.1	1.3	1.3
ROE (%)	15.0	13.2	13.6	13.7
Valuation				
P/E (x)	6.8	8.2	6.9	5.9
P/BV (x)	1.0	1.1	0.9	0.8
Asset Quality				
Gross Stage-3	1.5	2.8	3.0	3.1
Net Stage -3	0.7	1.6	1.6	1.6
PCR (%)	53.3	42.9	46.7	48.4
CRAR (%)	13.8	13.6	14.2	15.7
Tier 1 (%)	12.2	12.5	13.2	14.1

Source: Company, LKP Research

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