

LIC Housing Finance (LICHF IN)

Rating: REDUCE | CMP: Rs410 | TP: Rs390

July 30, 2021

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		HOLD	
Target Price	390		469	
NII (Rs.)	55,381	62,212	56,408	62,761
% Chng.	(1.8)	(0.9)		
PPoP (Rs.)	49,021	54,555	49,839	53,527
% Chng.	(1.6)	1.9		
EPS (Rs.)	50.7	63.8	60.4	65.7
% Chng.	(16.0)	(2.8)		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Int.Inc. (Rs m)	48,215	52,445	55,381	62,212
Growth (%)	10.5	8.8	5.6	12.3
Op. Profit (Rs m)	42,217	46,662	49,021	54,555
PAT (Rs m)	24,018	27,343	26,777	35,120
EPS (Rs.)	47.4	54.2	50.7	63.8
Gr. (%)	(1.5)	14.2	(6.3)	25.7
DPS (Rs.)	8.0	9.0	8.6	9.0
Yield (%)	1.9	2.2	2.1	2.2
Margin (%)	2.4	2.4	2.3	2.3
RoAE (%)	13.9	14.1	11.9	13.5
RoAA (%)	1.1	1.2	1.1	1.2
PE (x)	8.7	7.6	8.1	6.4
P/BV (x)	1.1	1.0	0.9	0.8
P/ABV (x)	1.3	1.3	1.4	1.1

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.542 / Rs.255
Sensex / Nifty	52,587 / 15,763
Market Cap	Rs.207bn/ \$ 2,784m
Shares Outstanding	505m
3M Avg. Daily Value	Rs.3773.91m

Shareholding Pattern (%)

Promoter's	40.31
Foreign	29.26
Domestic Institution	15.39
Public & Others	15.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.7)	3.7	55.5
Relative	(12.8)	(8.7)	11.6

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Erratic asset quality behaviour - baffling

Quick Pointers:

- 24% of developer book part of Stage 3; 54% of developer book under stress
- Retail home loans Stage3 stock spike 70bps QoQ to 2.6%

LICHF's developer book Stage 3 at 24%+ which has remained higher in double digits since 9 quarters in a row, Stage 2 exposure at 20% and overall stress at 54% (including restructured: Rs47bn) is baffling. Moreover, despite 91% salaried customer focus, retail home loan Stage 3 at 2.6% is equally disappointing. Q1FY22 earnings were further marred by higher sequential interest costs (up 5%QoQ albeit decline in CoF), one-off employee costs (Rs1.2bn) and elevated provisioning (143bps credit costs). While second wave restricted loan book expansion (0.2%QoQ), we reckon trajectory should only remain tepid for FY22 in light of surmounting asset quality challenges.

Against this backdrop, we tweak our NPA estimates to 6%/4% (earlier 5%/3.5%) but maintain growth estimates at 11%/15% over FY22-23. Consequently, our EPS estimates stand down by 16%/3% over FY22/23. Shrinkage in return profile, erratic asset quality behavior and tepid growth would limit valuation multiple to 1.0x. Moreover, at 15% CAR and pending SEBI verdict on preferential allotment to parent remains a near term overhang. Therefore, we downgrade LICHF to REDUCE (earlier HOLD) and our price target stands reduced to Rs390. We value stock at 1.0x PABV FY23E.

- Erratic asset quality behavior stands baffling:** LICHF's asset quality performance stands erratic due to following reasons: (a) Continued spike in retail home loans Stage 3 to 2.6% despite 91% being salaried customer focus (b) developer book Stage 3 at 24% which has remained higher since 9 quarters in a row (c) Further, Stage 2 developer exposure at 20% and overall stress at 54% (including restructured: Rs47bn) (d) LAP with 11% Stage 3 assets, non-housing commercial Stage 3 at 19% (e) cumulative restructured book at 2% of overall loans (Rs54bn), expected to climb higher, 88% of this stands contributed by developer book (f) lingering NCLT resolution for 4 developer loan accounts for a while now (g) elevated provisioning (143bps credit costs vs 10bps in Q1FY21 as Co. beefed up provisioning only since past 2 quarters). With substantial uncertainty surrounding the asset quality of LICHF, we tweak NPA estimates higher to 6%/4% (earlier 5%/3.5%), subsequent to which our credit costs estimates climb to 55/28 bps (earlier 30/19bps) over FY22/23.
- Business/revenue metrics weaken; return profile under threat:** Loans at Rs2325bn stood flattish at 0.2% QoQ growth due to disruption in business activity during May-Jun'21. So also disbursements declined sizably by 61% QoQ. Besides, as high yielding developer/LAP/LRD expansion has been restricted, the overall loan trajectory continues to remain tepid. While that had a rub-on effect on interest income, surprisingly, interest costs increased 5%QoQ despite CoF declining denting NII. Going forward, with growth underperformance (11%/15%), sluggish NIMs (2.2%) and elevated credit costs (55/28bps) to limit return profile of the Co to 1.2%/13.6% over FY22/23.

PAT declines by 62%QoQ/ 81%YoY to Rs1.53bn [PLe of Rs4.36bn; consensus: Rs6.9bn] on account of unexpected elevated employee costs

Employee costs at Rs2.1bn stood higher by 263%QoQ vs our estimates of PLe:Rs0.6bn dragging overall PPoP.

NII growth stood sluggish with 17%QoQ decline to Rs13.1bn [PLe of Rs14.7bn]

PPoP at Rs10.2bn stood down 23%QoQ/ 5%YoY [PLe of Rs12.2bn]

Provisions at Rs8.3bn stood in-line [PLe:Rs8.3bn] declining 15% QoQ but substantially higher YoY also dragging the bottom-line

GNPA 5.93% in Q1FY22 (PLe : 4.5%) Vs 2.83% Q1FY21 & 4.01% in Q4FY21

Loans at Rs 2325bn in Q1FY22 in line with (PLe: 2343 bn) YoY up by 11% , QoQ up by 0.2%

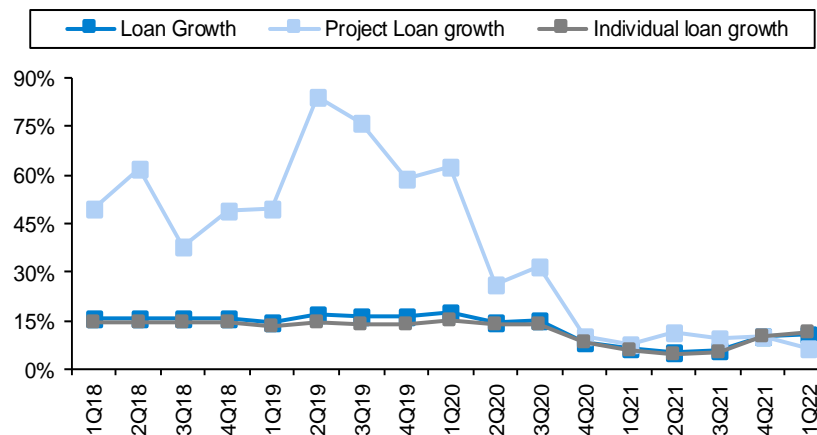
Exhibit 1: Q1FY22: One-off employee costs, higher provisions mar PAT

P&L (Rs m)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	QoQ gr. (%)
Interest Income	48,571	50,037	(2.9)	49,677	(2.2)
Interest Expense	35,500	37,645	(5.7)	33,929	4.6
Net Interest Income	13,071	12,392	5.5	15,748	(17.0)
Other operating Inc.	-	-	-	-	-
Other Income	19	(262)	-	(33)	-
Total income	13,091	12,130	7.9	15,715	(16.7)
Employee Expense	2,152	796	170.5	592	263.4
Other Expenses	705	593	18.8	1,831	(61.5)
Operating Profit	10,233	10,741	(4.7)	13,292	(23.0)
Provisions	8,304	565	1,371.1	9,772	(15.0)
Tax	395	2,002	(80.3)	(469)	(184.2)
Net Profit excl exceptional	1,534	8,175	(81.2)	3,989	(61.5)
Reported PAT	1,534	8,175	(81.2)	3,989	(61.5)
Balance Sheet (Rs m)					
O/S Loans	23,25,480	20,98,170	10.8	23,20,030	0.2
-Individual loans	21,69,470	19,51,298	11.2	21,60,470	0.4
Retail Home Loans	18,20,550	16,11,395	13.0	18,07,303	0.7
Retail LAP / Non Core	3,48,005	3,39,904	2.4	3,54,965	(2.0)
-Corporate loans	1,55,807	1,46,872	6.1	1,57,762	(1.2)
-Individual loans (%)	93.3	93.0	0.3	93.2	0.1
Retail Home Loans	78.3	76.8	1.5	77.9	0.4
Retail LAP / Non Core	15.0	16.2	(1.2)	15.3	(0.3)
-Corporate loans (%)	6.7	7.0	(0.3)	6.8	(0.1)
Incr. Disbursements	86,520	35,600	143.0	2,23,620	(61.3)
-Individual loans (%)	88.4	95.6	(7.1)	94.7	(6.2)
-Developer loans (%)	11.6	4.4	7.1	5.3	6.2
Asset quality					
Gross NPL	1,37,901	59,378	132.2	93,033	48.2
Gross NPL (%)	5.93	2.83	3.1	4.01	1.9
Others / Ratios (%)					
Yield on Loans - Calc	8.4	9.5	(1.2)	8.8	(0.4)
Cost of Borrowings - Calc	6.9	7.9	(1.0)	6.9	(0.0)
Spread	1.48	2.28	(0.8)	1.86	(0.4)
NIMs	2.20	2.32	(0.1)	2.66	(0.5)
Cost/ Income Ratio	21.83	11.45	10.4	15.42	6.4

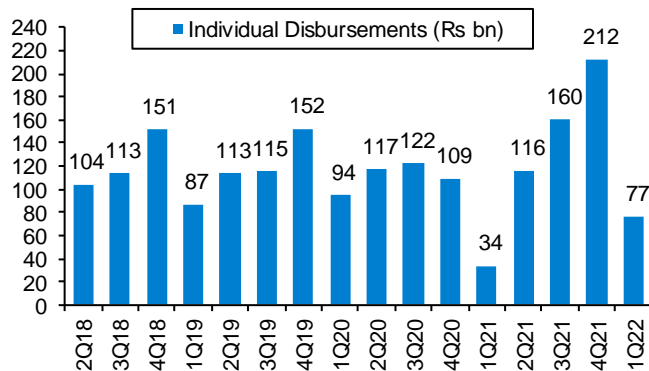
Source: Company, PL

KTAs of LICHF Q1FY22 Earnings Con call

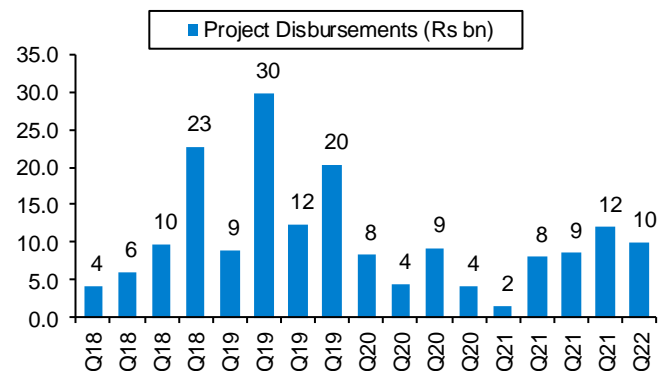
- **Asset Quality:** Ind HL 2.6% (1.9 in Q4FY21) Non Housing commercial ~18.91%, Non Housing Individual (LAP): 10.99%. In Individual HL, due to restricted movement in Apr-May'21, Geography wise major delinquency came from tier 2-3 cities (>50% business) with small tickets. In jun'21, recovery has been increased and further it will improve going forward. Increase in NPA is due to ECL provisioning, Fresh pool from stage 2 to stage 3 is 1.5%-2% in Q1FY22 and marginal improvement in stage 1.
- **Rise in employee cost:** Due to arrears of Rs 1240mn is on revision of wages that happens once in 4 years. Rest amt Rs900mn will be usual run rate going ahead and expects 15% improvement over this on YoY basis.
- **Covid provision:** Total Provs Rs 8300mn in Q1FY22, Covid provs at Rs6570mn, part is in ECL
- **Restructuring:** Rs 53500mn total till Q1FY22, incrementally in Q1FY22 ~13500mn. Comprise of stage 1 and stage 2 assets, largely stage 1. Currently, OTR 2.0 is <Rs500mn. Restructuring opens till sept'21 majorly comes at the end of closing date. Restructured book in corporate ~Rs 40bn. On LRD side Rs 70-80mn amt of restructuring requests have been received over 2 quarters.
- **ECLGS Disbursements:** ECLGS portfolio retail sanction is Rs 640mn and disbursement ~Rs 80mn in Q1FY22. Total ECLGS (retail +project) disbursements ~Rs 1400mn in Q1FY22. O/S ECLGS: Rs 4500mn.
- **Developer book:** Top10 standard a/cs at Rs20 bn. Stage 3 assets on developer book ~24.4%. Stage 2 assets on developer book side, comprise of Rs 24900mn. In Q1FY22, No progress on 4 accounts pending with NCLT. LRD climbs to Rs90bn (Rs80bn:Q4FY21)
- **Collection efficiency:** Regular collection efficiency on performance account is more than 95% & expects to remain same. 10-15% of NPL customers as on 30th Jun'21 have been regularized.
- **LTV:** Loan to book value on entire project portfolio is 38%-39%. In Ind home loan: 40% on book. LAP~ 33%, Non housing commercial LTV ~30%. In Individual home loan segment, disbursement is based on stage of construction.
- **Write offs:** out of 4lakhs Cr loan portfolio only Rs300 Cr write off has been done yet. No write offs in Q1FY22.
- **CoF:** Due to decrease in CPs, Interest expense, CoF YoY have been reduced.
- **Impairment Reserve:** in Q4FY21 is 2840mn and in Q1FY22 it is 3500mn not routed through PL

Exhibit 2: Loan growth sequentially declined


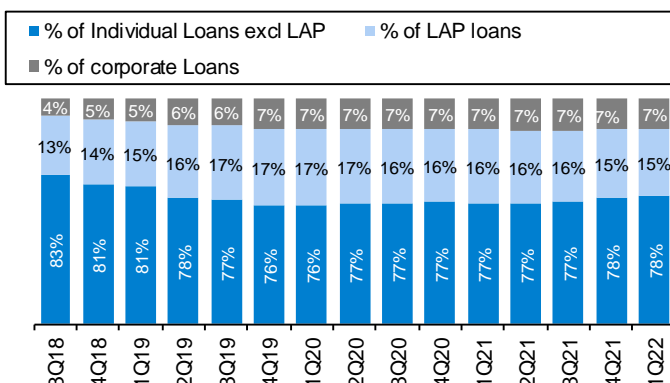
Source: Company, PL

Exhibit 3: Retail disbursements degrew 64% QoQ


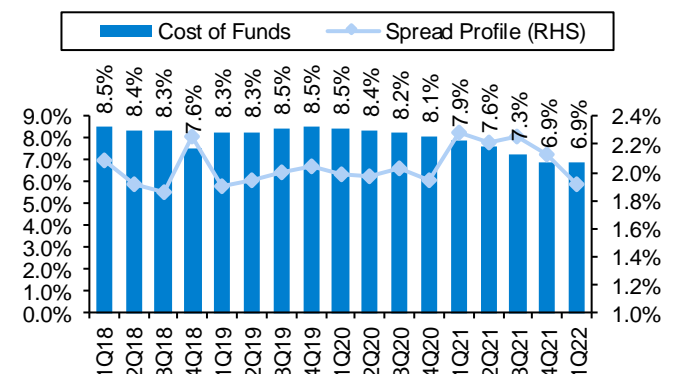
Source: Company, PL

Exhibit 4: Project loan disbursements degrew sequentially


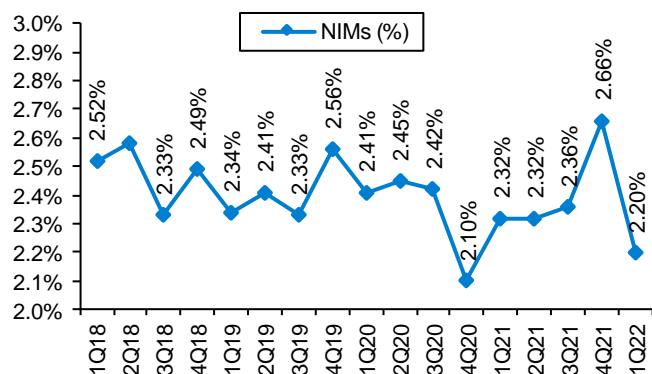
Source: Company, PL

Exhibit 5: Individual Loan share remain stable ~78%


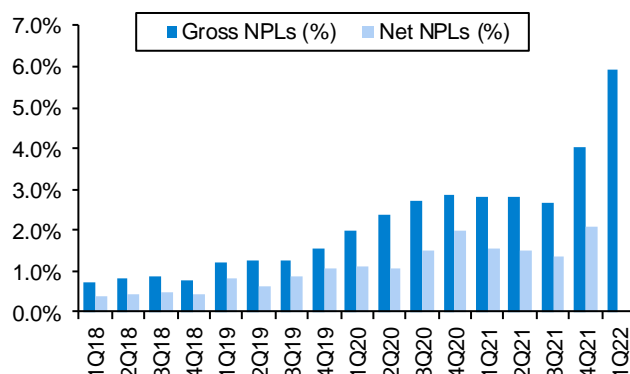
Source: Company, PL

Exhibit 6: CoF declined remained stable at 6.9%


Source: Company, PL

Exhibit 7: NIM declined by 46bps on QoQ basis


Source: Company, PL

Exhibit 8: Stage 3 assets accelerated due to 2nd wave


Source: Company, PL

Exhibit 9: Change in Estimates: we incorporate higher credit costs, elevated NPAs, tepid growth over FY22/23

(Rs mn)	Old			Revised			% change		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Net interest income	52,445	56,408	62,761	52,445	55,381	62,212	0.0%	-1.8%	-0.9%
Operating profit	46,662	49,839	53,527	46,662	49,021	54,555	0.0%	-1.6%	1.9%
Net profit	27,343	31,866	36,150	27,343	26,777	35,120	0.0%	-16.0%	-2.8%
EPS, Rs.	54.2	60.4	65.7	54.2	50.7	63.8	0.0%	-16.0%	-2.8%
Price target, Rs.		469			390			-16.8%	
Recommendation		HOLD			REDUCE				

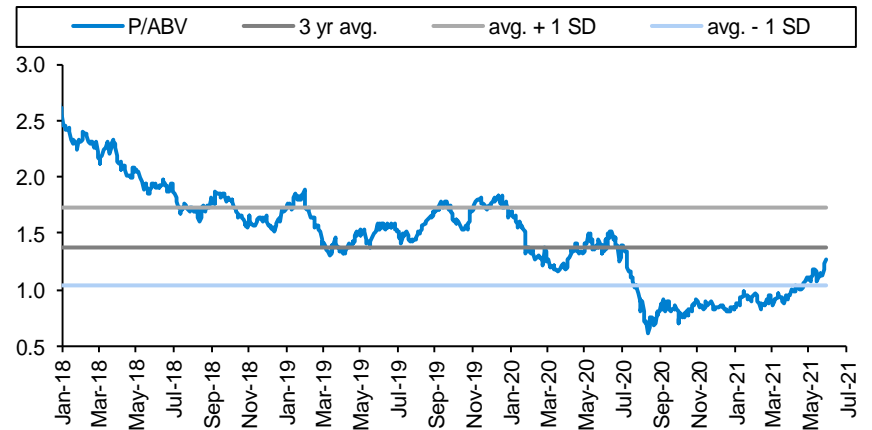
Source: PL

Exhibit 10: Downgrade to REDUCE; TP revised downwards to Rs 390

PT calculation and upside	
Fair price – EVA	517
Fair price - P/ABV	264
Average of the two	390
Target P/ABV	1.0
Target P/E	6.8
Current price, Rs	410
Upside (%)	-5%
Dividend yield (%)	2%
Total return (%)	-3%

Source: Company, PL

Exhibit 11: Asset quality overhang to cap valuation multiple uptick



Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Int. Inc. / Opt. Inc.	1,96,054	1,96,971	2,16,594	2,47,700
Interest Expenses	1,47,839	1,44,526	1,61,213	1,85,488
Net interest income	48,215	52,445	55,381	62,212
Growth(%)	10.5	8.8	5.6	12.3
Non-interest income	644	1,506	1,643	1,731
Growth(%)	(40.6)	133.8	9.1	5.4
Net operating income	48,859	53,951	57,024	63,943
Expenditures				
Employees	2,991	2,932	3,958	4,552
Other Expenses	3,170	4,358	3,922	4,706
Depreciation	481	494	124	130
Operating Expenses	6,161	7,289	7,880	9,258
PPP	42,217	46,662	49,021	54,555
Growth(%)	13.2	10.5	5.1	11.3
Provisions	9,527	13,176	13,236	7,622
Profit Before Tax	32,690	33,486	35,784	46,934
Tax	8,672	6,142	9,007	11,813
Effective Tax rate(%)	26.5	18.3	25.2	25.2
PAT	24,018	27,343	26,777	35,120
Growth(%)	(1.2)	13.8	(2.1)	31.2

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Source of funds				
Equity	1,010	1,010	1,101	1,101
Reserves and Surplus	1,80,921	2,04,203	2,43,877	2,73,045
Networth	1,81,931	2,05,213	2,44,978	2,74,146
Growth (%)	11.9	12.8	19.4	11.9
Loan funds	19,13,317	21,45,806	24,03,262	27,61,724
Growth (%)	12.1	12.2	12.0	14.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	71,355	3,890	4,084	4,288
Other Liabilities	1,453	1,425	1,553	1,848
Total Liabilities	21,68,056	23,56,333	26,52,324	30,40,159
Application of funds				
Net fixed assets	2,544	2,470	2,594	2,723
Advances	20,79,880	22,81,143	25,32,068	29,11,879
Growth (%)	7.8	9.7	11.0	15.0
Investments	54,964	46,356	59,527	61,290
Current Assets	19,790	13,524	37,430	37,713
Net current assets	(51,565)	9,635	33,346	33,424
Other Assets	10,879	12,840	20,704	26,555
Total Assets	21,68,056	23,56,333	26,52,324	30,40,159
Growth (%)	8.1	8.7	12.6	14.6
Business Mix				
AUM	20,79,880	22,81,143	25,32,068	29,11,879
Growth (%)	7.8	9.7	11.0	15.0
On Balance Sheet	20,79,880	22,81,143	25,32,068	29,11,879
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY20	FY21	FY22E	FY23E
NIM	2.4	2.4	2.3	2.3
ROAA	1.1	1.2	1.1	1.2
ROAE	13.9	14.2	11.9	13.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Int. Inc. / Operating Inc.	49,690	49,067	49,677	48,571
Income from securitization	-	-	-	-
Interest Expenses	37,002	35,951	33,929	35,500
Net Interest Income	12,688	13,117	15,748	13,071
Growth (%)	(0.2)	2.4	36.2	5.5
Non-Interest Income	128	173	(33)	19
Net Operating Income	12,817	13,289	15,715	13,091
Growth (%)	0.3	3.7	40.0	7.9
Operating expenditure	1,694	1,784	2,423	2,857
PPP	11,123	11,506	13,292	10,233
Growth (%)	-	-	-	-
Provision	1,030	1,810	9,772	8,304
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	10,093	9,696	3,520	1,929
Tax	2,184	2,426	(469)	395
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	21.6	25.0	(13.3)	20.5
PAT	7,909	7,270	3,989	1,534
Growth	2	22	(5)	(81)
AUM	21,33,490	22,01,970	23,20,030	23,25,480
YoY growth (%)	5.1	5.7	10.2	10.8
Borrowing	19,02,790	19,55,340	21,51,121	21,51,121
YoY growth (%)	6.4	5.7	12.5	14.3

Key Ratios

Y/e Mar	FY20	FY21	FY22E	FY23E
CMP (Rs)	410	410	410	410
EPS (Rs)	47.4	54.2	50.7	63.8
Book value (Rs)	360.3	406.4	445.0	498.0
Adj. BV(Rs)	309.6	316.8	292.0	379.7
P/E(x)	8.7	7.6	8.1	6.4
P/BV(x)	1.1	1.0	0.9	0.8
P/ABV(x)	1.3	1.3	1.4	1.1
DPS (Rs)	8.0	9.0	8.6	9.0
Dividend Payout Ratio(%)	20.2	20.0	21.3	16.9
Dividend Yield(%)	1.9	2.2	2.1	2.2

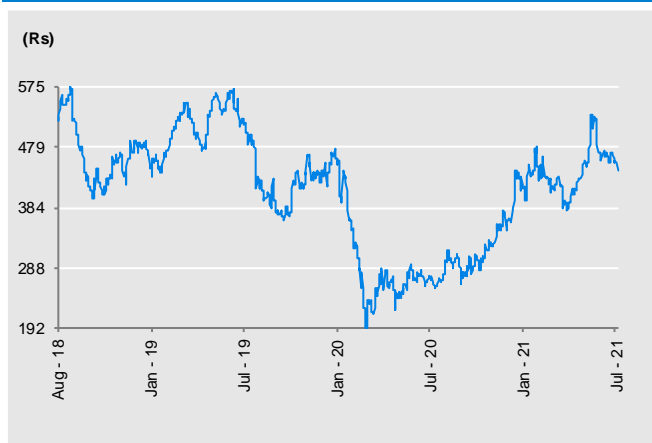
Asset Quality

Y/e Mar	FY20	FY21	FY22E	FY23E
Gross NPAs(Rs m)	60,225	93,033	1,51,626	1,27,676
Net NPA(Rs m)	34,105	60,325	1,12,300	86,825
Gross NPAs to Gross Adv.(%)	2.9	4.1	6.0	4.4
Net NPAs to net Adv.(%)	2.0	2.6	4.4	3.0
NPA coverage(%)	43.4	35.2	25.9	32.0

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21	FY22E	FY23E
NII	2.3	2.3	2.2	2.2
NII INCL. Securitization	2.3	2.3	2.2	2.2
Total income	2.3	2.4	2.3	2.2
Operating Expenses	0.3	0.3	0.3	0.3
PPOP	2.1	2.1	2.0	1.9
Total Provisions	0.5	0.6	0.5	0.3
RoAA	1.2	1.3	1.1	1.2
Avg. Assets/Avg. net worth	11.8	11.2	11.1	11.0
RoAE	13.9	14.1	11.9	13.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	Hold	469	472
2	17-Jun-21	Hold	471	495
3	06-Apr-21	Hold	420	418
4	30-Jan-21	Hold	420	396
5	11-Jan-21	Hold	455	442
6	12-Nov-20	Hold	316	324
7	12-Oct-20	Reduce	282	306
8	25-Aug-20	Reduce	282	299

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	6,840	5,942
2	Cholamandalam Investment and Finance Company	BUY	613	519
3	HDFC	BUY	3,087	2,495
4	L&T Finance Holdings	Reduce	87	91
5	LIC Housing Finance	Hold	469	472
6	Mahindra & Mahindra Financial Services	Sell	148	148
7	Manappuram Finance	Accumulate	187	177
8	Muthoot Finance	BUY	1,700	1,559
9	SBI Cards and Payment Services	Accumulate	1,073	957
10	Shriram Transport Finance	Accumulate	1,445	1,371

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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