

## Sector update

## INDIA



## Housing Finance Companies

## Divergent trends; what encourages, what fails to cheer

Operating performance trends for housing financiers were quite divergent in Q1FY22 and we pen down a few notable trends. We also highlight how they fared vis-à-vis I-Sec expectations as well as against each other. What encouraged: 1) Developer collections were not too adversely impacted; stress pool for the developer segment was broadly stable; 2) rise in stress pool for salaried customers was more contained. What gives confidence: 1) July bounce rates / collection efficiency are at least similar to, if not better than Mar'21. 2) Cumulative provisions cover significant portion (60-100%) of outstanding stress pool; incremental provisioning is expected to be capped at <1%/0.8% over FY22E/FY23E. What failed to cheer: 1) Restructuring was prominent in non-individual loans; HFCs in affordable housing segment witnessed home loan restructuring requests. 2) Disbursements were down 40-60% QoQ; modest growth in non-individual segment dragged overall AUM growth.

- ▶ **Our preference rests with HDFC, JM Financial, and affordable HFCs including Repco:** HDFC's superior portfolio quality with nominal rise (40-50bps) in individual loan stage-2/3 and steady non-individual stress pool, contained credit cost sub-60bps. LICHF, on the contrary, exhibited volatile operating metrics with spike in stage-3 assets (5.93%), restructuring at 2.3% and exponential stress in corporate developer segment at >50%. LICHF's cumulative provisioning at only 2% still appears inadequate. Aavas Financiers and Repco showed signs of mild stress emerging in its portfolio (but is confident of normalisation in coming quarters), while HomeFirst surprised positively. JM Financial and Piramal's stress pools were relatively stable. For PNBHF, though stress accretion was elevated as expected, lower credit cost led to earnings beat.
- ▶ **Collection efforts were hit amidst restricted movement...** Collection efforts were hindered due to employee safety-first approach and restrictions on movement. Collection efficiency was down 3-5pps from Mar'21 levels and home loan stage-2/3 rose for HFCs. Stress pool was managed in line with expectations for HDFC, Aavas, HomeFirst and deteriorated relatively more for LICHF and PNBHF.
- ▶ **...retracing to Mar'21 levels in Jun/Jul'21 suggesting stress should descend:** Within home loans and LAP, customer profile aligned towards self-employed borrowers witnessed relatively higher stress in the retail segment. Amongst affordable housing financiers, Aavas witnessed spike in 1+dpd to 12.67% (vs 6.37%/8.21% in Q4/Q3FY21 respectively), while for HomeFirst it was contained at 8.9% (6.2% in FY21). Collections in Jun/Jul'21 have been encouraging, which suggests 1+dpd has peaked out and will likely descend hereon. All HFCs highlighted that Jul'21 bounce rates / collection efficiency are at least similar to, if not better than Mar'21. This gives confidence on asset quality stabilising soon and the benefits of improved collection flowing through in coming quarters.
- ▶ **Developer collections supported by strong sales in H2FY21:** Developer collections were not adversely impacted due to strong sales witnessed in H2FY21 as well as aided by slab-wise collections as per the stage of construction. Construction activities were at ~80-90% of levels witnessed prior to covid second wave. Developer sales were down; however, it bounced back in Jun'21. Non-individual stage-3 and stage-2 pools were steady for HDFC and Piramal (positive surprises) while, on the contrary, the same rose for PNBHF and JM (on expected lines). LICHF disappointed the most with further spike in stage-3 on developer loans to 24%.

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- ▶ **Restructuring prominent in non-individual loans; affordable HFCs witnessed home loan requests:** For prime home lenders (HDFC, LICHF), restructuring was more prominent in non-individual loans – constituting more than two-thirds of the pool. LICHF surprised mainly with 30% of its developer book being restructured. Retail restructuring was less than 30bps. However, all requests have not been fully implemented and there will be more flows in Q2FY22. For affordable housing financiers, restructuring requests that were absent in FY21, resurfaced in Q1FY22. It constituted 60-120bps of their AUM with another 50-75bps being in the pipeline. Repco had witnessed highest restructuring of >5%. Absence of incremental restructuring for PEL and JM was a positive surprise.
- ▶ **Credit cost for affordable HFCs in FY22 to be higher than recent averages:** Credit cost for HDFC at <60bps, PNBHF at 104bps (vs an average of 133bps in FY21) came better than our expectations. Credit cost for Aavas at 70bps (vs sub-50bps for FY21), HomeFirst at 130bps, LICHF at 140bps and Repco at 260bps were higher than anticipated. No further credit provisioning (for fifth consecutive quarter) for PEL was enthusing after having created buffer once in Q4FY20. Provisions were more earmarked towards specific NPA coverage and incremental restructuring. Cumulative provisions comprising specific ECL and management overlay provisioning for majority of HFCs covers significant portion (60-100%) of outstanding stress pool. For all HFCs, we expect incremental provisioning to be capped at <1% / 0.8% over FY22E / FY23E, respectively.
- ▶ **Disbursements down 40-60% QoQ; should regain momentum now:** In a seasonally weak Q1, growth was further derailed by the second covid wave disruption. Disbursements were significantly impacted in the first two months of FY21. Most HFCs witnessed 40-60% QoQ decline in disbursements in Q1FY22. Nonetheless, trends have been encouraging since Jun'21. Growth in home loans was seen in both affordable housing segment as well as high-end properties. Also, buyers preferred ready-to-move-in properties compared to under-construction ones. With easing of restrictions and improvement in demand sentiment, we expect disbursements to regain momentum. Overall, we are building-in loan growth of ~15% for FY22E / FY23E for prime housing financiers, >20-30% for affordable HFCs. The latter are investing consistently into building their distribution franchise and increasing people/process capabilities.
- ▶ **Modest non-individual growth dragging overall AUM growth:** Growth in non-individual loans moderated due to sell-down, prepayments/repayments and conservative approach. However, incrementally, there is healthy pipeline of LRD and project loan proposals and financiers are selectively looking for growth in this segment too. We expect high single to low double digit growth for non-individual loan growth of HDFC, JM, PEL, PNBHF.

## Our rating action during Q1FY22 earnings update

**HDFC** reflected its superior portfolio quality with stress (stage-2/3) pool being contained at 9.2%. Individual AUM growth of 14-16% and provisioning buffer of 2.64% (of advances) improve visibility on growth and credit cost outlook. It is our top pick in the space with **BUY** recommendation and SoTP-based target price of Rs3,307.

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**JM Financial's** business positioning has been realigned and business segments reclassified. With renewed focus on client-focused business structure and risk-calibrated scale-up of businesses, we maintained **BUY** with SoTP-based fair value of Rs131. GNPA were flat QoQ (against our expectations of an increase). However, SMA-2 pool spiked to 5% (from 2.94%). Collections from projects in Q1FY22 were still healthy. Also, the behaviour of 19.7% of loan portfolio that has sought DCCO extension, would be a key monitorable. Company is cautiously evaluating opportunities across geographies and will look at gradually increasing the lending book.

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**Home First Finance** stage-3 assets at 1.9% and 1+dpd at 8.9% surprised positively. Core earnings momentum with NII growth of 24% YoY / 11% QoQ beat our expectations. Moderation in disbursements was lower (vs peers) at 33%, which improved AUM growth momentum. We maintain **BUY** with a target price of Rs650.

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**PNB Housing Finance's** earnings beat was driven by lower credit cost. Nonetheless, against the stress pool (stage-3/2 assets at 6.0%/6.5%, restructuring at ~2.9%), ECL provisions were maintained at 4.5% of advances. Key trigger will be: approval for proposed preferential issue to Carlyle (raising its stake to 50%) and Mr. Aditya Puri's nomination to the Board. We maintained **BUY** with a target price of Rs848.

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**LIC Housing Finance** once again exhibited volatile operating metrics: Ageing of restructured and stress pools (unless upgraded / recovered) will call for higher provisioning. Also, growth momentum and provisioning risk buffer advances the need for fund-raising. Valuation will be capped below book till visibility improves. We downgraded the stock to **HOLD** (from **Add**) with a target price of Rs435.

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**Aavas Financiers** showed signs of mild stress emerging in its portfolio. This was evident from: i) stage-3 assets at 1.14% (vs 0.98% QoQ), ii) spike in 1+dpd pool to 12.7% (vs 6.4% QoQ), iii) 1.2% restructuring (vs nil till FY21), and iv) >70bps annualised credit cost (vs sub-50bps for FY21). The stock trades at 6.4x FY23E book and 47x earnings. We downgrade it to **HOLD** from **Buy** with a target price of Rs2,668.

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**Piramal Enterprises** surprised positively on stable stress pool (stage-2/3 and restructuring pool). We downgraded the stock to **HOLD** from **Buy** as near-term notable triggers seem priced-in and optional value co-exists with risks. **What can drive up valuation further:** i) Optional value of utilisation of unallocated equity into new business, inorganic opportunities or return to shareholders, ii) demerger of financial services and pharma business, and iii) business transformation opening up new possibilities. However, at the same time, risks persist with respect to: i) deferment in integration of DHFL, ii) integration uncertainties and challenges including higher markdowns, etc., and iii) effectively leveraging the acquired network to cross-sell existing retail products.

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**Repco Home Finance's** earnings were dragged by elevated credit cost of 260bps. Against the expectations of steep rise in Stage 3, it was restricted to 4.4% (from 3.7% in FY21). However, this was compensated by higher restructuring. OTR 2.0 at 5.1% amounting to Rs 6.1bn came in much higher than our expectations as well as peers (classified under Stage 2). It now carries reduced management overlay of Rs178mn (~15bps of advances) vs. Rs 425mn QoQ.

**Table 1: Cumulative provisions cover significant portion (60-100%) of outstanding stress pool**

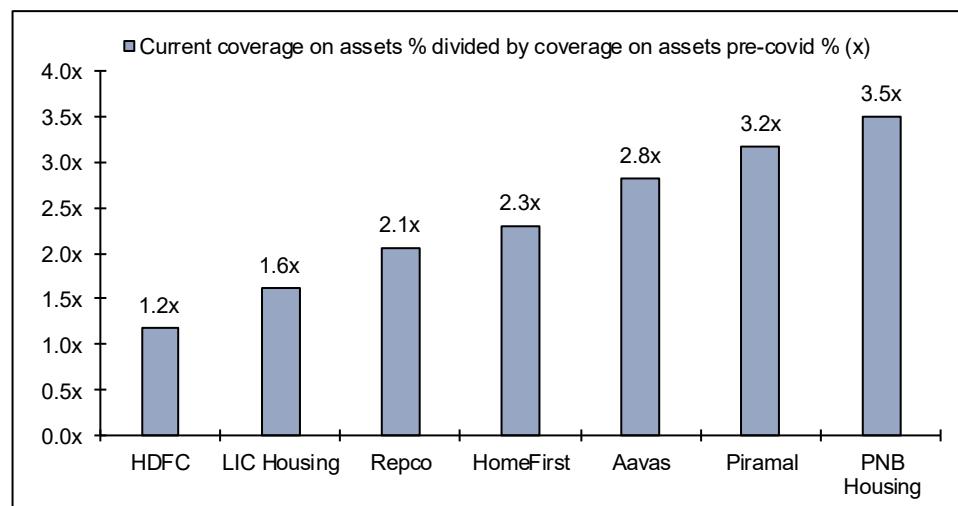
Q1FY22	HDFC	LIC Housing	PNB Housing	Piramal	Repco	Aavas	HomeFirst
<b>Stage-wise assets (% of assets)</b>							
Stage 1	90.76%	88.69%	87.55%	95.70%	95.57%	98.86%	94.23%
Stage 2	6.64%	5.38%	6.45%				3.84%
Stage 3	2.60%	5.93%	6.00%	4.30%	4.43%	1.14%	1.93%
<b>Total assets</b>	<b>100.0%</b>						
<b>ECL provisions &amp; coverage ratio</b>							
Stage 1	0.24%	0.04%	1.14%	3.79%	1.29%	0.57%	0.43%
Stage 2	17.55%	0.24%	16.91%				11.62%
Stage 3	48.31%	33.45%	39.75%	51.23%	42.06%	25.03%	26.22%
<b>Total provisions (B)</b>	<b>2.64%</b>	<b>2.03%</b>	<b>4.47%</b>	<b>5.82%</b>	<b>3.10%</b>	<b>0.85%</b>	<b>1.36%</b>
<i>of which: covid related</i>	<i>0.20%</i>	<i>0.28%</i>			<i>0.15%</i>	<i>0.19%</i>	

Source: Company data, I-Sec research

**Table 2: Stress coverage requirement in pre-covid period was much contained**

Q3FY20	HDFC	LIC Housing	PNB Housing	Piramal	Repco	Aavas	HomeFirst
<b>Stage-wise assets (% of assets)</b>							
Stage 1	98.41%	91.55%	98.25%	98.16%	95.79%	99.43%	98.04%
Stage 2		5.72%					0.95%
Stage 3	1.59%	2.73%	1.75%	1.84%	4.21%	0.57%	1.01%
<b>Total assets</b>	<b>100.0%</b>						
<b>ECL provisions &amp; coverage ratio</b>							
Stage 1	1.50%	0.00%	0.79%	1.42%	0.31%	0.18%	0.32%
Stage 2		0.28%					6.52%
Stage 3	49.04%	45.44%	28.43%	24.36%	28.57%	20.56%	20.86%
<b>Total provisions (A)</b>	<b>2.25%</b>	<b>1.26%</b>	<b>1.28%</b>	<b>1.84%</b>	<b>1.50%</b>	<b>0.30%</b>	<b>0.59%</b>
<b>Current coverage on assets divided by coverage on assets pre-covid (x) (B)/(A)</b>	<b>1.17x</b>	<b>1.62x</b>	<b>3.49x</b>	<b>3.16x</b>	<b>2.07x</b>	<b>2.81x</b>	<b>2.31x</b>

Source: Company data, I-Sec research

**Chart 1: HFCs have stepped up overall coverage ratios by 1.5-3.5x since Q3FY20**

Source: Company data, I-Sec research

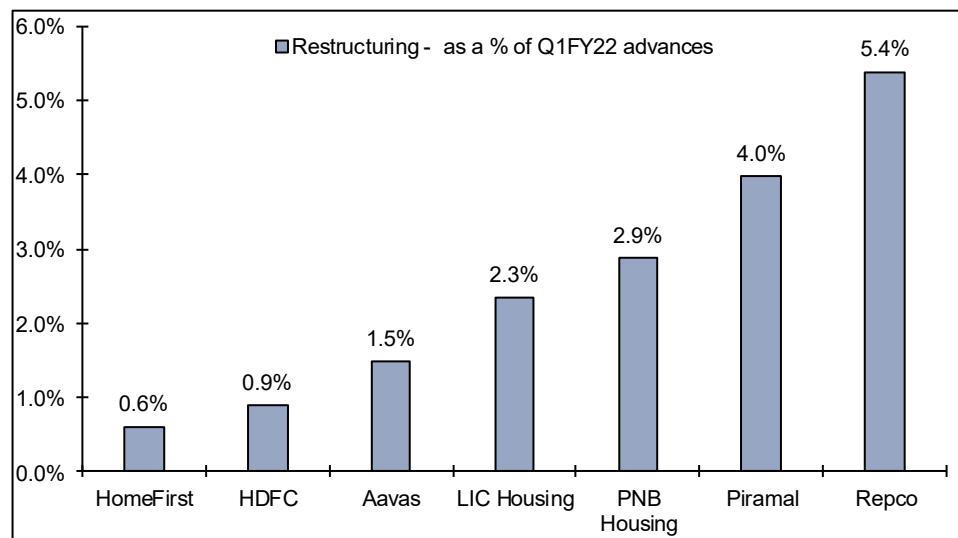
Note: Calculation for above ratios is shown in Table 2

**Table 3: Stress pool for the developer segment was broadly stable**

	HDFC	LIC Housing	PNB Housing
Individual - Stage 3	1.55%	2.60%	3.79%
Non Individual —Stage 3	5.77%	24.00%	15.94%

Source: Company data, I-Sec research

**Chart 2: Restructuring prominent in non-individual loans; affordable HFCs witnessed home loan restructuring requests**



Source: Company data, I-Sec research

**Table 4: Credit cost for affordable HFCs in FY22 to be higher than recent averages**

Credit cost (%)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY22
HDFC	0.22	0.57	0.22	1.21	0.54	0.63	0.43	0.92	0.33	0.44	0.51	0.48
LIC Housing	0.21	0.30	0.19	0.47	0.60	1.02	0.73	0.11	0.19	0.33	1.73	1.43
PNB Housing	0.30	0.53	0.26	1.49	1.09	1.27	0.59	0.44	1.07	1.58	2.21	1.04
Repco	0.62	0.80	0.16	0.52	0.67	1.07	0.55	0.74	0.24	0.73	0.97	2.60
Aavas	0.36	0.08	0.18	0.22	0.43	0.53	0.30	0.30	0.40	0.75	0.30	0.71
HomeFirst	0.27	0.42	0.64	1.00	0.83	0.47		0.49	1.30	0.77	0.83	1.24

Source: Company data, I-Sec research

**Table 5: Disbursements down 40-60% QoQ; should regain momentum now**

QoQ loan growth (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
HDFC	3.3	2.0	2.0	4.4	2.3	2.3	2.9	1.9	3.1	4.5	1.9	0.5	0.4
LIC Housing	1.4	4.4	2.4	7.1	1.6	2.7	1.3	2.4	-0.4	1.7	3.2	5.4	0.2
PNB Housing	12.1	4.5	5.9	4.7	2.6	-2.1	-6.9	-2.3	0.6	-3.3	-1.8	-3.6	-2.9
Piramal	11.4	12.3	4.7	2.5	-0.0	-6.3	-3.1	-0.9	0.6	0.5	-10.0	-3.7	-4.3
Repco	4.3	2.1	3.7	1.7	4.5	-0.0	2.5	-0.3	3.4	-1.3	2.0	-1.9	1.3
Aavas	8.8	9.5	8.7	9.5	8.2	3.9	5.8	9.9	2.8	5.2	4.2	7.9	3.1
HomeFirst									8.6	-4.8	5.0	6.5	3.7

Source: Company data, I-Sec research

**Table 6: Modest non-individual growth dragging overall loan growth; on low base YoY momentum was sustained**

YoY loan growth (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
HDFC	18.3	16.6	12.7	12.1	11.1	11.4	12.4	9.8	10.5	13.0	11.8	10.3	7.5
LIC Housing	15.5	17.2	16.3	16.2	16.4	14.5	13.2	8.2	6.1	5.1	7.1	10.2	10.8
PNB Housing	45.2	37.0	27.9	29.8	18.8	11.3	-2.2	-8.7	-10.4	-11.6	-6.7	-7.9	-11.1
Piramal	64.0	58.7	45.3	34.3	20.4	0.5	-6.9	-10.0	-9.4	-2.9	-9.8	-12.4	-16.6
Repco	11.7	11.2	12.2	12.4	12.6	10.2	9.0	6.8	5.6	4.3	3.7	2.1	0.1
Aavas				41.7	41.0	33.9	30.4	30.8	24.3	25.8	23.9	21.7	22.1
HomeFirst											15.5	10.4	18.3

Source: Company data, I-Sec research

**Table 7: Yields adversely impacted due to elevated slippages; funding cost benefit continues**

Calc. NIM (%)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY22
HDFC	3.6	2.9	3.0	3.0	3.2	3.3	3.2	3.1	3.3	3.4	3.5	3.7
LIC Housing	2.7	2.2	2.4	2.3	2.4	2.4	2.3	2.3	2.3	2.4	2.7	2.2
PNB Housing	3.0	2.9	2.8	2.7	2.9	3.1	3.4	2.7	3.5	3.2	3.3	3.2
Repco	4.4	4.8	4.3	4.3	4.5	4.6	4.6	4.3	4.5	5.1	4.8	4.8
Aavas	6.3	8.3	8.6	7.5	7.1	7.1	6.9	6.2	6.8	7.4	7.7	6.9
HomeFirst	5.8	6.7	6.5	6.4	6.9	6.8						

Source: Company data, I-Sec research

**Table 8: NII growth looks optically higher due to base effect**

NII growth (%)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY22
HDFC	14.5	-3.4	18.5	11.8	17.4	15.4	11.5	9.7	22.1	24.6	13.7	23.7
LIC Housing	22.5	-5.7	24.2	9.6	11.0	11.9	9.9	1.4	2.1	4.3	38.9	9.0
PNB Housing	45.7	47.0	35.6	11.9	0.6	0.4	10.9	-22.0	3.6	4.2	21.8	12.8
Repco	21.1	21.5	0.4	9.7	10.6	3.6	4.6	3.1	16.1	15.7	7.9	11.8
Aavas	76.0	104.5	52.4	19.7	18.6	21.9	19.8	7.0	5.3	34.8	25.9	28.6
HomeFirst	75.1	98.2	56.2	24.9	32.2	31.9					16.3	16.2

Source: Company data, I-Sec research

**Table 9: Operating profit growth to be supported by loan growth uptick and stable spreads**

PPoP growth (%)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY22
HDFC	5.6	33.9	-8.2	88.5	-32.9	17.9	14.5	-1.4	-24.9	-64.2	17.1	-4.5
LIC Housing	19.4	-0.0	15.3	13.2	10.5	10.0	12.4	-1.8	-2.2	1.3	55.6	-4.7
PNB Housing	54.7	51.4	40.1	7.2	0.3	2.5	13.6	-30.0	-0.4	14.9	26.0	17.3
Repco	23.3	15.1	-1.4	11.4	12.1	4.3	4.4	4.4	13.1	22.3	8.7	13.0
Aavas	78.1	43.6	94.7	19.0	23.1	24.0	23.8	2.4	-2.9	54.9	40.9	32.9
HomeFirst	124.5	167.1	70.8	34.2	27.9	35.5					-31.0	81.1

Source: Company data, I-Sec research

**Table 10: Valuation summary**

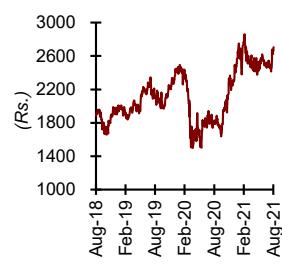
Particulars	CMP	Rating	TP	P/E (x)			P/BV (x)			P/ABV (x)			EPS (Rs)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC	2,669	BUY	3,307	25.0	22.9	17.7	2.2	2.0	1.8	2.7	2.5	2.2	53	58	75
LIC Housing	400	HOLD	435	7.4	10.8	7.6	1.0	0.9	0.8	1.2	1.1	0.9	54	37	52
PNB Housing	696	BUY	878	12.6	20.5	12.3	1.3	1.4	1.2	1.5	1.6	1.4	55	34	56
Piramal	2,719	HOLD	2,797	43.3	25.3	22.0	3.3	3.1	2.9	N/A	N/A	N/A	63	107	124
Repco	330	BUY	650	7.2	7.7	6.2	1.0	0.9	0.8	1.1	1.0	0.9	46	43	53
Aavas	2,617	HOLD	2,668	71.4	60.5	47.6	8.7	7.6	6.5	8.8	7.7	6.6	37	43	55
HomeFirst	576	BUY	650	52.4	38.8	26.5	3.8	3.4	3.0	3.9	3.6	3.1	11	15	22
JM Financial	97	BUY	131	15.7	13.4	11.3	1.3	1.2	1.1	N/A	N/A	N/A	6	7	9

Particulars	BV (Rs)			ABV (Rs)			RoAA (%)			RoAE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HDFC	603	656	749	486	528	608	2.2	2.2	2.4	12.3	11.9	13.2
LIC Housing	407	443	487	326	366	424	1.2	0.8	1.0	14.1	9.1	11.3
PNB Housing	530	510	565	463	446	504	1.2	1.3	2.1	11.0	8.1	10.5
Piramal	812	864	930	N/A	N/A	N/A	1.9	3.5	3.8	4.4	7.7	8.7
Repco	329	370	419	297	326	379	2.4	2.2	2.5	15.0	12.3	13.4
Aavas	302	346	402	297	338	394	3.5	3.5	3.6	12.9	13.3	14.7
HomeFirst	151	167	190	147	161	184	2.5	2.9	3.7	8.7	9.3	12.2
JM Financial	73	80	87	N/A	N/A	N/A	3.7	4.3	5.1	9.4	9.5	10.3

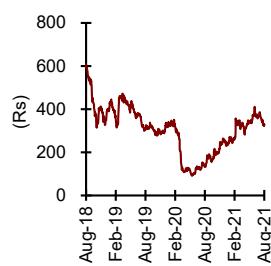
Source: Company data, I-Sec research

## Price charts

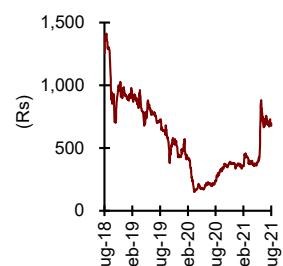
HDFC Ltd



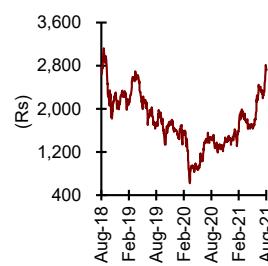
Repco Finance



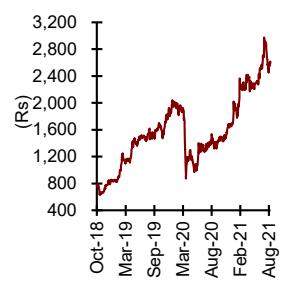
PNB Housing Finance



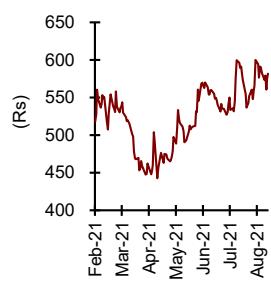
Piramal Enterprises



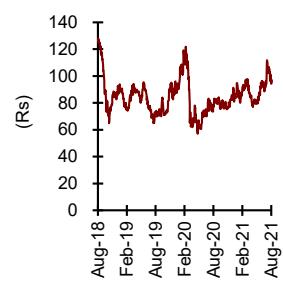
Avas Financers



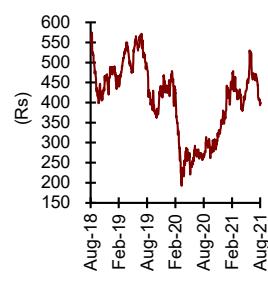
HomeFirst Finance



JM Financial



LIC Housing Finance



Source: Bloomberg, I-Sec research

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