

Retail Equity Research

LIC Housing Finance Ltd.

NBFC

BSE CODE: 500253

NSE CODE: LICHSGFIN

Bloomberg CODE: LICHF:IN

SENSEX: 49,798

BUY

12M Investment Period

Rating as per Mid cap

CMP Rs. 441

TARGET Rs. 515

RETURN 17% ↑

(Closing: 02-02-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

3Q performance grew; Outlook positive

LIC Housing Finance (LICHF) is one of the largest housing finance companies in India. It provides long-term finance to individuals, professionals and builders of residential flats and houses. The company has a wide distribution network of 282 marketing offices.

- For Q3FY21, loans portfolio increased 5.7% YoY driven by Individual loan portfolio (+5.4% YoY) and Project loan (+10.4% YoY). The new loan composition consists of 77.0% of Retail home loans, 7.1% of Project loans and 15.8% of Non-Housing Individual/Corporate loans.
- In Q3FY21, Net Interest Margin (NIM) contracted ~6bps YoY to 2.36%.
- Net Profit grew 21.7% YoY to Rs. 727cr, owing to decline in provisions and increase in net interest income.
- The improvement in economy supported by reduction in provisions, stamp duty, home loan rate, and closure of PMAY in March 2021 will boost the demand in real estate sector. Hence, we reiterate our BUY rating on the stock with a target price of Rs. 515 based on rolled over multiple of 1x FY23E BVPS.

Movement in disbursements

In Q3FY21, the company reported loan portfolio of Rs. 220,197cr, a rise of 5.7% YoY, majorly driven by Individual loan portfolio (+5.4% YoY). However, total disbursements stood at Rs. 16,857cr, a growth of 27.9% YoY due to increase in Individual home loan segment by 36.1% YoY to Rs. 14,511cr, partially offset by decline in Projects loan segment by 8.4% YoY to Rs. 852cr.

Growth in net interest income

In Q3FY21, total income fell 1.5% YoY to Rs. 4,924cr. Net interest income increase to Rs. 1,281cr, a rise of 2.2% YoY, however, NIM fell to 2.36% from 2.42% in Q3FY20. The yields on advances and average cost of borrowed funds contracted 120bps YoY and 140bps YoY, respectively to 8.9% and 6.5%, respectively. Operating profit before provision rose 1.5% YoY to Rs. 1,160cr, with reduction in total expenditure. Net profit rose 21.7% YoY to Rs. 727cr, due to the decline in provisions (-52.1% YoY) to Rs. 191cr.

Asset quality decline on higher ECL

Exposure at default (EAD) Stage 3 fell 4bps YoY to 2.68%, however, Expected Credit Loss (ECL) Stage 3 provisions rose by 15.4% YoY to Rs. 2,946cr. As of December 31, COVID-19 and impairment provisions stood at Rs. 212cr and Rs. 187cr, respectively.

Key concall highlights

- In 9MFY21, Total capital adequacy/TIER-1 ratio stood at 14.49x/13.07x, compared to 12.5x/14.4x in 9MFY20.
- The company changed the loan portfolio composition - 77.0% Retail home loans, 7.1% Project loans and 15.8% Non-Housing Individual/Corporate loans.
- The company has fully resumed its operations from office after a COVID-19 lockdown last year; Collection efficiency stood at 98% at the end of year.

Outlook & Valuation

In 2HFY20, economy started to pick up and it is expected to improve in upcoming quarters as well. The reduction in provisional requirements supported by increase in demand in real estate sector, reduction in stamp duty and home loan rates might boost the Company's performance in near to medium term. Therefore, we reiterate our BUY rating on the stock with rolled over price target of Rs. 515 at 1x FY23E BVPS.

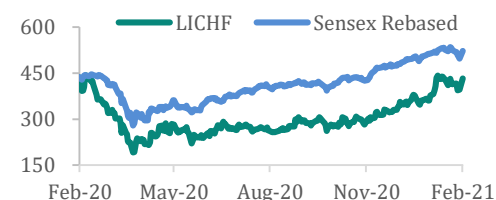
Company Data

Market Cap (cr)	Rs. 22,260
Outstanding Shares (cr)	50.5
Free Float	60.0%
Dividend Yield	1.8%
52 week high	Rs. 464
52 week low	Rs. 186
6m average volume (lac)	2.9
Beta	1.6
Face value	Rs. 2

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	40.3	40.3	40.3
FIIIs	34.3	34.4	29.3
MFs/Insti	10.6	10.4	15.4
Public	10.0	10.5	10.1
Others	4.8	4.4	4.9
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	53.0%	65.0%	-1.0%
Absolute Sensex	22.7%	29.2%	22.3%
Relative Return*	30.3%	35.8%	-23.4%

*over- or underperformance to benchmark index



Standalone (cr)	FY21E	FY22E	FY23E
Net Interest Income	5,092	5,629	6,418
Growth (%)	8.6	10.6	14.0
NIM (%)	2.3	2.1	2.0
Pre-provision Profit	4,653	5,120	5,939
Net Profit	2,561	2,971	3,553
Growth (%)	6.6	16.0	19.6
Adj. EPS	50.7	58.9	70.4
Growth (%)	6.6	16.0	19.6
BVPS	402.7	453.0	514.9
P/E	8.7	7.5	6.3
P/B	1.1	1.0	0.9
P/ABV	1.4	1.2	1.0
ROE (%)	13.3	13.8	14.5
ROA (%)	1.1	1.2	1.2

Quarterly Financials (Standalone)

Profit & Loss Account

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %	9MFY21	9MFY20	YoY Growth %
Interest Income	4,876	4,969	(1.9)	4,938	(1.3)	14,799	14,668	0.9
Interest Expense	3,595	3,715	(3.2)	3,700	(2.8)	11,060	11,020	0.4
Net Interest Income (NII)	1,281	1,254	2.2	1,238	3.5	3,740	3,649	2.5
Non-Interest Income	48	28	73.9	44	9.7	84	114	(26.6)
Total Net Income	1,329	1,281	3.7	1,282	3.7	3,824	3,763	1.6
Total Income	4,924	4,996	(1.5)	4,982	(1.2)	14,883	14,783	0.7
Operating Expenses	169	138	22.0	161	4.4	467	388	20.4
Total Expenditure	3,764	3,854	(2.3)	3,862	(2.5)	11,527	11,407	1.0
Pre-Provision profit	1,160	1,143	1.5	1,120	3.6	3,357	3,375	(0.5)
Provisions	191	398	(52.1)	111	71.9	360	933	(61.4)
Profit Before Tax	970	745	30.1	1,009	3.9	2,997	2,442	22.7
Tax	243	148	64.2	218	(11.1)	661	462	43.1
Net Profit	727	598	21.7	791	8.1	2,335	1,980	17.9
EPS - Diluted (Rs.)	14.4	11.8	21.7	15.7	8.0	46.3	39.2	17.9

Business Performance

	Q3FY21	Q3FY20	YoY Growth %	Q2FY21	QoQ Growth %
Loans	220,197	208,270	5.7	213,349	3.2
Borrowings	195,534	184,966	5.7	190,279	2.8
Gross NPA	6,298	5,686	10.8	6,102	3.2
Net NPA	3,351	3,134	6.9	3,330	0.6

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Net Interest Income (NII)	4,756	5,411	5,092	5,629	6,418	7.1	4.0
Net Interest Margin (%)	2.1	1.9	2.3	2.1	2.0	(16bps)	(0bps)
Pre-Provision Profit	4,331	4,932	4,653	5,120	5,939	7.4	3.8
Net Profit	2,356	2,550	2,561	2,971	3,553	8.7	16.5
Adj. EPS (Rs.)	46.7	50.5	50.7	58.9	70.4	8.7	16.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	17,163	19,473	20,827	23,041	26,314
Interest Expense	12,892	14,784	15,735	17,412	19,895
Net Int. Income	4,271	4,689	5,092	5,629	6,418
% Change	21.3	9.8	8.6	10.6	14.0
Non-Int. Income	202	197	192	188	183
Net Income	4,473	4,886	5,284	5,817	6,601
Total Income	17,365	19,670	21,019	23,228	26,497
Operating Exp.	475	617	631	697	662
Total Exp.	13,367	15,401	16,366	18,108	20,558
Pre-Prov. Profit	3,998	4,269	4,653	5,120	5,939
Provisions	618	1,000	1,097	993	1,004
PBT	3,380	3,269	3,556	4,127	4,935
Tax	949	867	996	1,156	1,382
Tax Rate (%)	28.1	26.5	28.0	28.0	28.0
Net Profit	2,431	2,402	2,561	2,971	3,553
% Change	21.4	(1.2)	6.6	16.0	19.6
No. of Shares (cr)	50	50	50.5	50	50
Adj. EPS (Rs.)	48.2	47.6	50.7	58.9	70.4
% Change	21.4	(1.2)	6.6	16.0	19.6
DPS (Rs.)	7.6	8.0	8.6	8.6	8.6

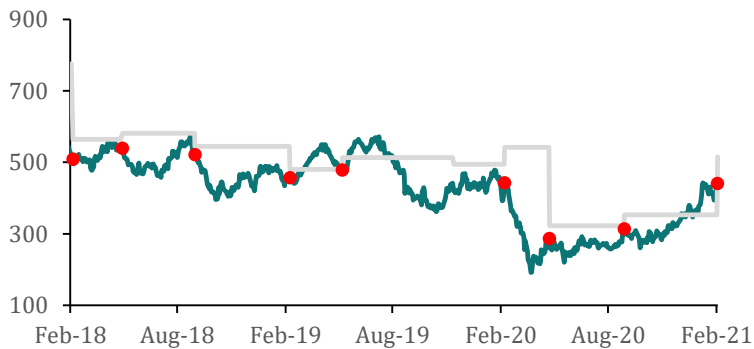
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash & Balances	3,014	1,979	1,300	853	560
Investments	3,595	5,496	5,964	6,858	7,681
Advances	192,993	207,988	230,867	265,497	307,976
Fixed Assets	133	135	136	138	140
Other Assets	849	1,208	1,256	1,306	1,358
Total Assets	200,583	216,806	239,522	274,652	317,716
Capital	101	101	101	101	101
Reserves & Surplus	16,158	18,092	20,221	22,761	25,883
Deposits	7,667	12,609	13,870	15,950	18,343
Borrowings	161,000	177,349	195,083	218,493	246,898
Other Liabilities	15,657	8,655	10,247	17,346	26,491
Total Liabilities	200,583	216,806	239,522	274,652	317,716
BVPS (Rs.)	322.2	360.5	402.7	453.0	514.9
Adj. BVPS (Rs.)	281.0	278.5	315.8	362.6	420.9
% Change	18.4	(0.9)	13.4	14.8	16.1

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Valuation					
P/E (x)	11.1	4.9	8.7	7.5	6.3
P/BV (x)	1.7	0.7	1.1	1.0	0.9
Div. Yield (%)	1.4	3.4	1.9	1.9	1.9
Profitab. & Return (%)					
Yield on Funds	10.5	9.7	9.5	9.3	9.2
Cost of Funds	8.5	8.2	7.9	7.9	8.0
Spread	2.0	1.5	1.6	1.4	1.2
NIM	2.4	2.3	2.3	2.1	2.0
ROE	16.0	14.0	13.3	13.8	14.5
ROA	1.3	1.2	1.1	1.2	1.2
Asset Quality (%)					
GNPA	1.5	2.9	2.8	2.6	2.3
NNPA	1.1	2.0	1.9	1.7	1.5
Operating Ratios (%)					
Cost/ Income	10.6	12.6	11.9	12.0	10.0

Recommendation Summary



Dates	Rating	Target
05-Feb-18	HOLD	564
30-Apr-18	HOLD	581
31-Aug-18	HOLD	545
08-Feb-19	HOLD	480
8-May-19	HOLD	513
12-Nov-19	ACCUMULATE	495
07-Feb-20	BUY	542
23-Apr-20	BUY	323
28-Aug-20	BUY	353
03-Feb-21	BUY	515

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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