



Pick of the week

LIC Housing Finance Ltd. (LICHF)

Recommendation: **BUY**

Current Price: ₹418

Potential Upside: **43.5%**

Time Period: **12 Month**

Target Price: ₹600

Why invest?

- 📌 LICHF has raised equity capital of Rs. 2340 cr. (11.4% of March 2021 net worth) on September 8 from LIC. This increased LIC's stake to 45% from 40% earlier. This reduces risk of hitting the regulatory cap as its growth picks up. Further, it reduces risk of a rating downgrade.
- 📌 We believe the improving real estate sales, reducing inventory levels and developer consolidation in metros leading to potential price rise/new launches will augur well for lenders, both on retail and developer loans (a trend likely to play out in 1-2 years).
- 📌 LICHF is likely to benefit on home loan disbursements; it has slowed down on developer loans post increase in stress. Market sources suggest strong retail home loan disbursements for HFCs in the past two months.
- 📌 We believe that the qoq rise in stress in 1QFY22 is partially akin to lockdown-driven delinquencies and hence expect some reduction in the near term.
- 📌 We increase FV to Rs. 600 (from Rs. 575); we raise our estimates to reflect capital issuance in September 2021 and higher NIM. At our RGM-based FV, the stock will trade at undemanding multiples of 1.1X book and 8.4X earnings September 2023E. We revise our rating of LICHF to BUY from ADD.