

August 5, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	450		435	
NII (Rs.)	62,405	68,591	60,227	66,359
% Chng.	3.6	3.4		
PPoP (Rs.)	54,846	60,364	53,277	58,956
% Chng.	2.9	2.4		
EPS (Rs.)	58.3	69.3	58.3	69.3
% Chng.	-	-		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Int.Inc. (Rs m)	52,266	55,206	62,405	68,591
Growth (%)	9.3	5.6	13.0	9.9
Op. Profit (Rs m)	46,661	47,664	54,846	60,364
PAT (Rs m)	27,343	22,873	33,906	39,264
EPS (Rs.)	54.1	37.5	58.3	69.3
Gr. (%)	14.1	(30.7)	55.6	18.8
DPS (Rs.)	8.0	8.5	11.1	14.3
Yield (%)	2.1	2.2	2.9	3.8
Margin (%)	2.3	2.3	2.3	2.3
RoAE (%)	14.1	10.1	13.0	13.5
RoAA (%)	1.2	0.9	1.3	1.3
PE (x)	7.0	10.1	6.5	5.5
P/BV (x)	0.9	0.8	0.8	0.7
P/ABV (x)	1.3	1.2	1.1	0.9

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.463 / Rs.292
Sensex / Nifty	58,388 / 17,398
Market Cap	Rs.209bn/ \$ 2,633m
Shares Outstanding	550m
3M Avg. Daily Value	Rs.1024.27m

Shareholding Pattern (%)

Promoter's	45.24
Foreign	20.67
Domestic Institution	19.22
Public & Others	14.87
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.4	(4.0)	(7.1)
Relative	2.3	(3.5)	(13.3)

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LIC Housing Finance (LICHF IN)

Rating: BUY | CMP: Rs379 | TP: Rs450

NII growth may exceed loan accretion

Quick Pointers:

- Loan growth was a beat; higher share of fixed rate liabilities could support NIM.
- Stage-3 saw a QoQ blip; focus is on recoveries to improve GNPA.

LIC Housing Finance (LICHF) saw a mixed quarter with a beat on disbursements and loan growth although PPoP and PAT were a miss led by higher opex and provisions. Retail HL continues to drive credit flow with share in closing loans at 82% (vs 78% a year ago). Demand outlook remains healthy despite rising rates and company guided that disbursements could grow by 12-15% in FY23 while share of builder loans could reach 7-8% by FY23 end. Higher proportion of fixed rate liabilities coupled with floating rate loans could support margins. Stage-3 saw a blip, rising by 32bps QoQ and ~45% of the quantum rise was led by slippages from the OTR pool. Focus remains on shoring up recoveries which may aid in stress reduction. As we raise FY23/24 earnings by ~4% we slightly raise multiple to 1.1x FY24 ABV and TP to Rs450. Retain BUY.

- Earnings miss led by a miss on core metrics and higher provisions:** NII was slightly lower at Rs16.2bn (PLe Rs16.6bn) due to softer NIM as loan growth was tad higher at 10% YoY. Disbursements were stronger at Rs152bn (PLe Rs135bn) while repayments at Rs106bn too were ahead (PLe Rs100bn). Other income was lower at Rs0.3bn. Opex was a miss at Rs2bn (PLe Rs1.64bn) led by higher commissions, employee cost and other opex. Hence, PPoP was lower at Rs14.5bn (PLe Rs15.4bn) led by a miss on NII and higher opex. Provisions were sharper at Rs3.0bn (PLe Rs2.4bn) as stage-3 was higher and increased by 32bps QoQ to 4.96%. PCR dipped QoQ from 43.3% to 40.4%. Thus, PAT was below estimates at Rs9.25bn (PLe Rs9.8bn).
- Credit momentum may sustain:** 98% of disbursements were attributable to individual and retail home now contributes 82% to loans (vs 78% a year ago). Disbursements were better as housing demand was robust driven by healthy economic environment and the company witnessed strong demand in south-eastern, western and southern regions. Despite rate hardening, demand for the housing continues to be robust as property rates are stable. Management guided for 12-15% YoY growth in disbursements for FY23 while individual disbursements might also see a similar growth. Outlook on construction finance is better and current share which is 5% which may improve to 7-8% by year end.
- Higher share of fixed rate liabilities to support margins:** 60% of liabilities are fixed rate while 95% of assets are floating. With the company raising PLR by 60bps w.e.f. Jul'22, benefit from rising yields would outpace the increase in funding cost. On asset quality, 40-45% of rise in absolute stage-3 was led by slippages from restructuring. OTR reduced from Rs78bn to Rs30bn (coverage of 10%) which would come up for repayment in next 2-3 quarters. Focus is on collections and the management expects GNPA to reduce over the next few quarters as recoveries may surpass slippages. Segmental GNPA is as follows: individual home loans – 1.9%, non-individual home (incl. commercial) – 10% and project loans – 35%.

NII growth was slightly lower owing to stable margins

PPoP grew 41.5% YoY and was muted QoQ, led by controlled opex.

Provisions at Rs3bn was higher owing to higher Stage 3 assets.

PAT was lower to estimates owing to higher provisions.

Loans at Rs 2,557bn stood up 10% YoY/3.2% QoQ led by better disbursals.

GNPA at 4.96% increased 32bps QoQ.

Exhibit 1: Lower NII; higher opex & provisions lead to earnings miss

P&L (Rs m)	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Interest Income	52,609	48,269	9.0	51,985	1.2
Interest Expense	36,401	35,542	2.4	35,673	2.0
Net Interest Income	16,209	12,727	27.4	16,312	(0.6)
Other operating Inc.	139	207	(33.0)	216	(35.7)
Other Income	162	115	41.0	885	(81.7)
Total income	16,509	13,048	26.5	17,413	(5.2)
Employee Expense	974	2,152	(54.7)	1,033	(5.7)
Other Expenses	1,054	663	59.1	1,467	(28.1)
Operating Profit	14,481	10,233	41.5	14,913	(2.9)
Provisions	3,077	8,304	(62.9)	1,769	73.9
Tax	2,149	395	444.1	1,958	9.8
Net Profit excl exceptional	9,255	1,534	503.2	11,186	(17.3)
Reported PAT	9,255	1,534	503.2	11,186	(17.3)
Balance Sheet (Rs m)					
O/S Loans	2,557,120	2,325,480	10.0	2,511,200	3.2
-Individual loans	2,432,690	2,169,470	12.1	2,381,420	3.8
Retail Home Loans	2,096,838	1,820,851	15.2	2,041,606	4.2
Retail LAP / Non Core	337,540	348,822	(3.2)	339,012	1.4
-Corporate loans	124,430	156,010	(20.2)	129,780	(7.9)
-Individual loans (%)	95.1	93.3	1.8	94.8	0.3
Retail Home Loans	82.0	78.3	3.7	81.3	0.7
Retail LAP / Non Core	13.2	15.0	(1.8)	13.5	(0.3)
-Corporate loans (%)	4.9	6.7	(1.8)	5.2	(0.3)
Incr. Disbursements	152,010	86,520	75.7	193,150	(21.3)
-Individual loans (%)	98.0	88.4	9.5	97.8	0.2
-Developer loans (%)	2.0	11.6	(9.5)	2.2	(0.2)
Asset quality					
Gross NPL	126,833	137,901	(8.0)	116,520	8.9
Gross NPL (%)	4.96	5.93	(97.0)	4.64	32.0
Others / Ratios (%)					
Yield on Loans - Calc	8.6	8.7	(0.1)	8.6	0.0
Cost of Borrowings - Calc	6.4	7.2	(0.8)	6.4	0.1
Spread	2.18	1.52	0.7	2.23	(0.1)
NIMs	2.66	2.30	35.4	2.70	(4.5)
Cost/ Income Ratio	12.29	21.57	(9.3)	14.35	(2.1)

Source: Company, PL

KTAs of LICHF Q1FY23 Earnings Con call

Assets & Liabilities:

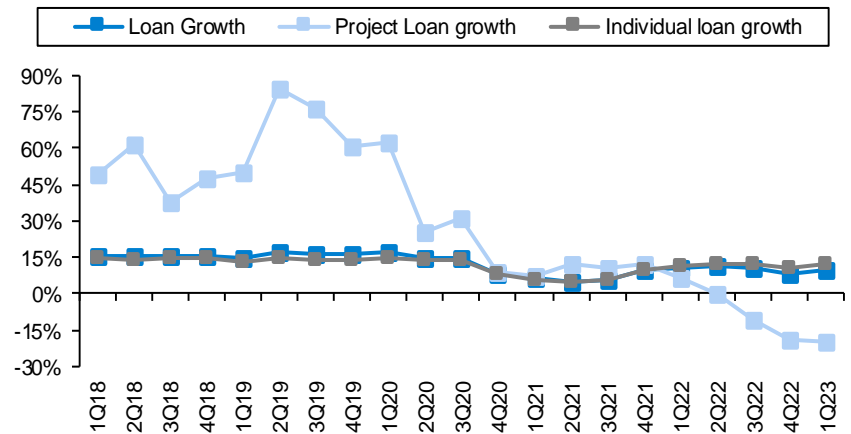
- Economic environment during the quarter has been better and resulted in robust disbursements. Despite the rates hardening, demand for the housing continues to be strong across geographies, management guided for 12-15% growth in disbursements.
- For individual loans, disbursements would be in-line with overall growth of 12-15% as demand persists across geographies (especially Southern, South East and western), property rates being stable thus spike in rates may not be a deterrent, however competition from banks and other HFCs remain. During the quarter, company sanctioned Rs65bn via Mobile app and expects the same to contribute to the overall disbursements.
- Construction Finance book saw shrinkage owing to slippages of 1-2 accounts. Management would focus on smart cities and would disburse in the range of Rs1bn. They have started a line of credit product which aid hem expand the book. Currently, the share of the book is ~5%, aspiration would be to growth the book to 7-8% for FY23.
- PLR has been raised by 60bps w.e.f from July 1, 2022. Another 50bps hike would be factored on the basis of ALCO.

NIM:

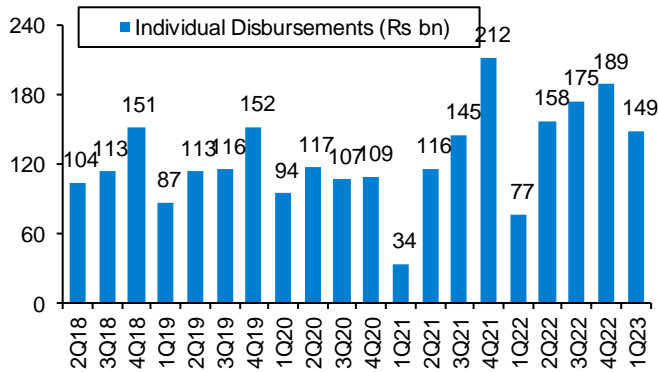
- ~60% of the liability book is floating rate book while 97% of the loan book is linked to floating rate which should help cushion NIM. NIM would be maintained at normalized levels throughout the year. In April, company offered discount rates to retain retail customers which aided in better disbursals during the quarter.

Asset Quality:

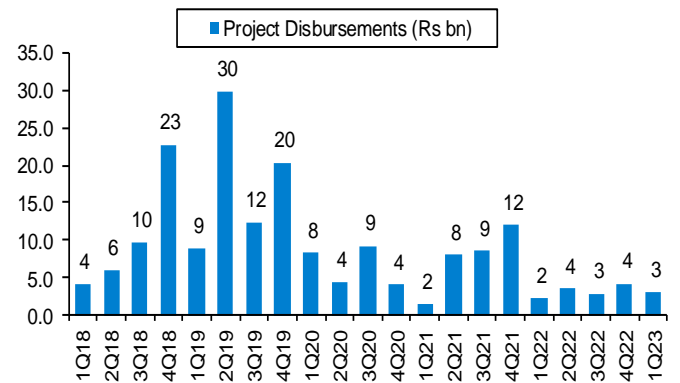
- Stage 3 book stood at 4.96% vs 4.6% in Q4FY22. PCR for Stage 3 was 40% which came down from 43% in Q4FY22. Slippages in the Stage 3 book was about Rs10bn, of which Rs4-4.5bn were from OTR pool.
- Segmental GNPA: Individual Home Loans stood at 1.9%, Project Loans was 35%, Non-Individual Home Loans (incl. Commercial) – 10%. Segment wise PCR – Individual Home Loans – 43%, Non-Housing Commercial – 37%, Non-Housing Individual Loans – 38%, Project Loans – 38%
- O/S restructured book stood at Rs. 30bn, against which 10% provisioning has been made. Of which, Project Loans – Rs. 10bn and Retail Loans –Rs.20bn. Of the O/s pool, Rs20bn is classified as Stage 2 and balance as Stage 1. Most of the restructured book would be out of moratorium by end of FY23. Collection efficiency of the book >99%
- In the project finance, Slippages were ~Rs.5bn, while recovery was Rs1bn.

Exhibit 2: Loan growth remained flat; project loans continue to come off


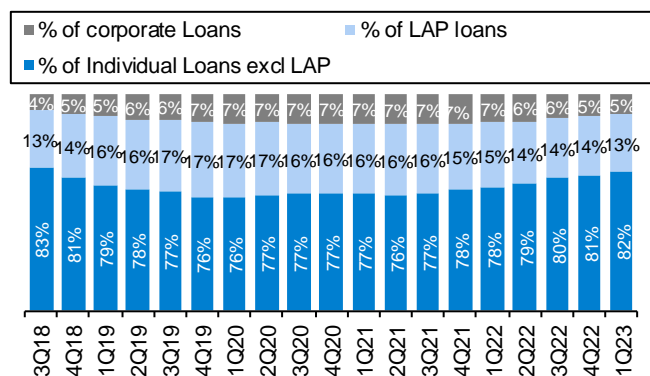
Source: Company, PL

Exhibit 3: Disbursement growth led by Individual segment


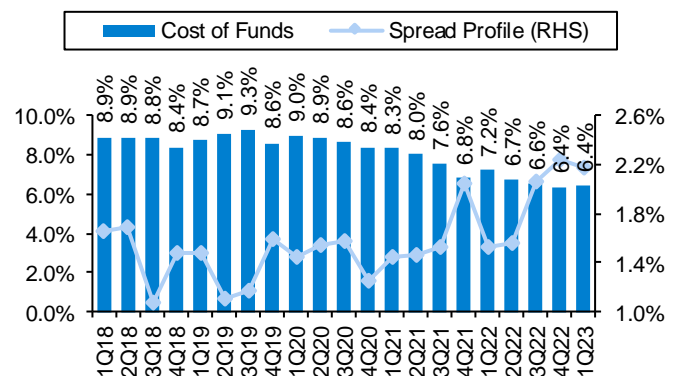
Source: Company, PL

Exhibit 4: Project loan disbursements decline QoQ


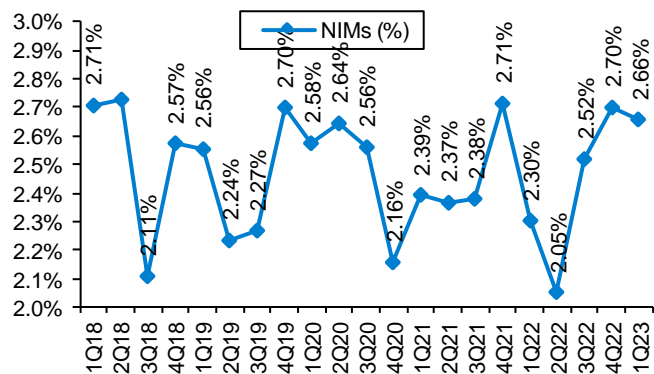
Source: Company, PL

Exhibit 5: Individual Loan mix continue to gain share


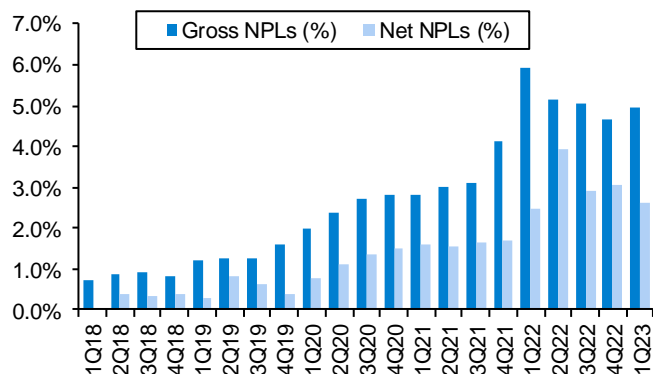
Source: Company, PL

Exhibit 6: CoF stable leading to stable yields


Source: Company, PL

Exhibit 7: NIM remain flattish sequentially


Source: Company, PL

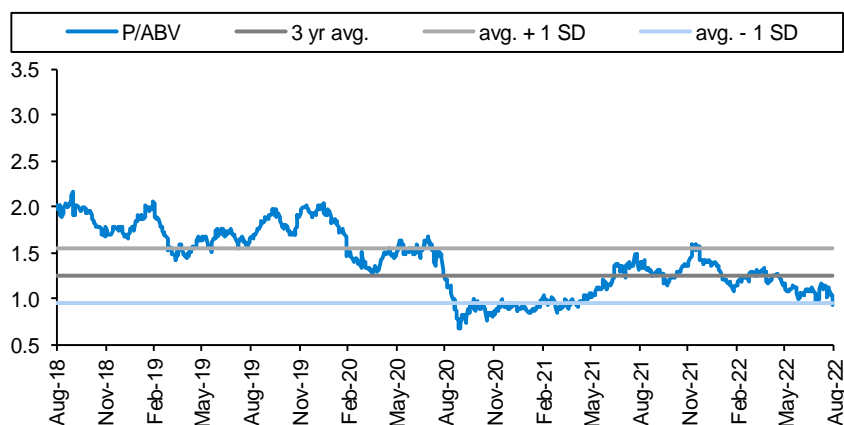
Exhibit 8: Asset quality sees slight deterioration


Source: Company, PL

Exhibit 9: No change in Estimates

(Rs mn)	Old		Revised		% change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net interest income	60,227	66,359	62,405	68,591	3.6%	3.4%
Operating profit	53,277	58,956	54,846	60,364	2.9%	2.4%
Net profit	32,566	37,684	33,906	39,264	4.1%	4.2%
EPS, Rs.	59.2	68.5	62	71	4.1%	4.1%
Price target, Rs.	435		450		3.45%	
Recommendation	BUY		BUY			

Source: PL

Exhibit 10: One-year forward P/ABV Chart


Source: Company, Bloomberg, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Inc. / Opt. Inc.	1,97,066	1,97,079	2,34,054	2,77,616
Interest Expenses	1,44,800	1,41,872	1,71,650	2,09,025
Net interest income	52,266	55,206	62,405	68,591
Growth(%)	9.3	5.6	13.0	9.9
Non-interest income	1,411	2,452	2,174	2,404
Growth(%)	140.9	73.8	(11.3)	10.6
Net operating income	53,676	57,658	64,578	70,995
Expenditures				
Employees	2,932	5,633	4,816	5,308
Other Expenses	3,589	3,836	4,325	4,682
Depreciation	494	524	591	640
Operating Expenses	7,015	9,994	9,732	10,631
PPP	46,661	47,664	54,846	60,364
Growth(%)	10.5	2.1	15.1	10.1
Provisions	13,176	19,882	11,927	10,664
Profit Before Tax	33,485	27,782	42,919	49,701
Tax	6,142	4,909	9,013	10,437
Effective Tax rate(%)	18.3	17.7	21.0	21.0
PAT	27,343	22,873	33,906	39,264
Growth(%)	13.8	(16.3)	48.2	15.8

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Source of funds				
Equity	1,010	1,101	1,101	1,101
Reserves and Surplus	2,04,203	2,45,618	2,73,536	3,04,947
Networth	2,05,213	2,46,718	2,74,637	3,06,048
Growth (%)	12.8	20.2	11.3	11.4
Loan funds	20,78,615	22,36,582	24,79,074	27,33,520
Growth (%)	8.6	7.6	10.8	10.3
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	69,793	59,244	66,462	73,217
Other Liabilities	2,635	3,131	1,860	2,051
Total Liabilities	23,56,256	25,45,675	28,22,033	31,14,836
Application of funds				
Net fixed assets	2,470	2,876	3,115	3,426
Advances	22,81,143	24,52,963	27,21,745	30,01,679
Growth (%)	9.7	7.5	11.0	10.3
Investments	46,356	61,986	63,151	72,319
Current Assets	14,526	9,540	14,110	15,516
Net current assets	(55,267)	(49,704)	(52,352)	(57,702)
Other Assets	11,761	18,310	19,913	21,897
Total Assets	23,56,256	25,45,675	28,22,033	31,14,836
Growth (%)	8.7	8.0	10.9	10.4
Business Mix				
AUM	23,20,030	25,11,200	27,61,159	30,36,322
Growth (%)	10.2	8.2	10.0	10.0
On Balance Sheet	23,20,030	25,11,200	27,61,159	30,36,322
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	2.3	2.3	2.3	2.3
ROAA	1.2	0.9	1.3	1.3
ROAE	14.1	10.1	13.0	13.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Int. Inc. / Operating Inc.	46,761	50,064	51,985	52,609
Income from securitization	-	-	-	-
Interest Expenses	35,198	35,460	35,673	36,401
Net Interest Income	11,563	14,604	16,312	16,209
Growth (%)	(6.2)	14.7	8.6	27.4
Non-Interest Income	389	640	1,101	301
Net Operating Income	11,952	15,244	17,413	16,509
Growth (%)	(6.2)	15.6	11.3	26.5
Operating expenditure	2,609	2,070	2,500	2,029
PPP	9,343	13,174	14,913	14,481
Growth (%)	-	-	-	-
Provision	6,253	3,556	1,769	3,077
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,090	9,619	13,144	11,404
Tax	611	1,945	1,958	2,149
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.8	20.2	14.9	18.8
PAT	2,479	7,673	11,186	9,255
Growth	(69)	6	180	503
AUM	23,76,600	24,34,120	25,11,200	25,57,120
YoY growth (%)	11.4	10.5	8.2	10.0
Borrowing	20,90,900	21,57,700	22,38,440	22,59,650
YoY growth (%)	9.9	10.3	7.8	9.5

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	379	379	379	379
EPS (Rs)	54.1	37.5	58.3	69.3
Book value (Rs)	406.4	448.3	499.0	556.0
Adj. BV(Rs)	289.3	327.8	354.2	420.3
P/E(x)	7.0	10.1	6.5	5.5
P/BV(x)	0.9	0.8	0.8	0.7
P/ABV(x)	1.3	1.2	1.1	0.9
DPS (Rs)	8.0	8.5	11.1	14.3
Dividend Payout Ratio(%)	14.8	20.5	18.0	20.0
Dividend Yield(%)	2.1	2.2	2.9	3.8

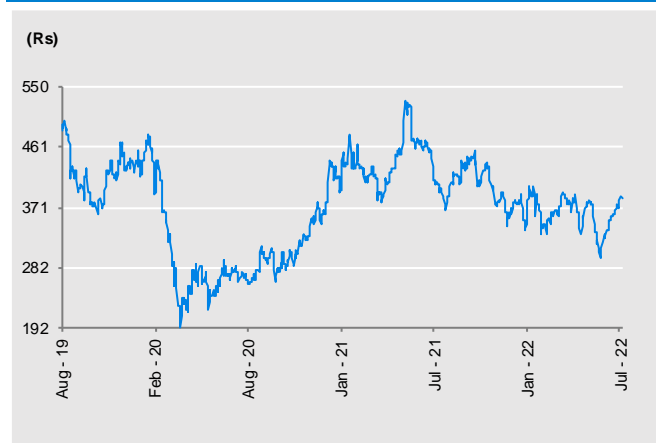
Asset Quality

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs(Rs m)	96,591	1,16,520	1,32,759	1,24,817
Net NPA(Rs m)	59,139	66,314	79,708	74,706
Gross NPAs to Gross Adv.(%)	4.2	4.6	4.8	4.1
Net NPAs to net Adv.(%)	2.5	2.6	2.9	2.5
NPA coverage(%)	38.8	43.1	40.0	40.1

Du-Pont as a % of AUM

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	2.3	2.2	2.3	2.3
NII INCL. Securitization	2.3	2.2	2.3	2.3
Total income	2.4	2.3	2.4	2.4
Operating Expenses	0.3	0.4	0.4	0.4
PPOP	2.1	1.9	2.0	2.0
Total Provisions	0.6	0.8	0.4	0.4
RoAA	1.2	0.9	1.3	1.3
Avg. Assets/Avg. net worth	11.7	10.9	10.3	10.2
RoAE	14.1	10.1	13.0	13.5

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-22	Accumulate	435	351
2	19-May-22	BUY	435	354
3	09-Apr-22	Accumulate	420	393
4	28-Jan-22	Reduce	364	383
5	11-Jan-22	Reduce	359	380
6	22-Oct-21	Reduce	387	409
7	05-Oct-21	Reduce	390	448

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	2,300	2,383
2	Axis Bank	BUY	940	727
3	Bank of Baroda	Accumulate	130	116
4	Can Fin Homes	BUY	675	538
5	City Union Bank	BUY	170	145
6	DCB Bank	BUY	120	89
7	Federal Bank	BUY	135	99
8	HDFC	BUY	2,900	2,378
9	HDFC Bank	BUY	1,740	1,362
10	ICICI Bank	BUY	950	800
11	IDFC First Bank	UR	-	34
12	IndusInd Bank	BUY	1,300	1,018
13	Kotak Mahindra Bank	Accumulate	1,950	1,827
14	LIC Housing Finance	Accumulate	435	351
15	Punjab National Bank	BUY	50	31
16	State Bank of India	BUY	600	487

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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