Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

LIC Housing Finance

Weak Performance

NBFC	Sharekhan code: LICHSGFIN
Reco/View: Buy ↔	CMP: Rs. 367	Price Target: Rs. 435 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- LICHF reported weak performance in Q2FY2023 with PAT at Rs. 305 crore (up 23% YoY/ down 67% QoQ), 63% below estimates, driven by weak NII, higher opex growth, and higher-than-estimated credit costs.
- NII was flat YoY/down 28% QoQ. NIM declined by ~20bps YoY and ~75bps QoQ to ~1.8% in Q2FY2023 mainly due to a) modification loss of ~Rs. 275 crore booked, as upfront reduction in interest rate was given by the company to convert some of the fixed rate retail assets to floating rate, b) reversal of interest income on NPLs – ~Rs. 95 crore, and c) lag in repricing of the book compared to increased COF.
- Higher opex (flat YoY/up 29% QoQ) coupled with weak NII momentum led to weaker PPoP (flat YoY/down 35% QoQ). Credit cost stood at 86 bps (as a % of loans) vs. 48 bps QoQ. Gross Stage-2 and Stage-3 assets increased by ~4%/1% QoQ during the quarter. GS3/NS3 improved by 6bps/20bps QoQ to 4.90%/2.76%, respectively, while PCR on Stage-3 assets improved by ~330bps QoQ to ~44%.
- At the CMP, the stock trades at 0.7x and 0.6x its FY2023E and FY2024E BV, respectively. We maintain our Buy rating with a revised PT of Rs. 435.

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 27.62
Updated Oct 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

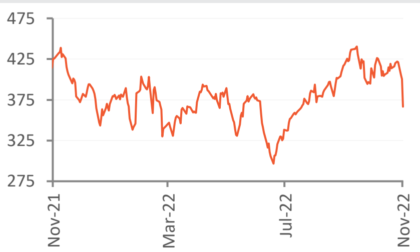
Company details

Market cap:	Rs. 20,182 cr
52-week high/low:	Rs. 444 / 292
NSE volume: (No of shares)	26.0 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Free float: (No of shares)	30.1 cr

Shareholding (%)

Promoters	45.2
FII	20.8
DII	20.7
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.7	-6.9	-5.7	-13.6
Relative to Sensex	-9.6	-20.9	-10.1	-13.0

Sharekhan Research, Bloomberg

LIC Housing Finance (LICHF) reported weak performance in Q2FY2023. NII was flat y-o-y/ down ~28% q-o-q. NIM contracted by ~20bps YoY and ~75bps QoQ in Q2FY23, reported at 1.8% in Q2FY2023. Total operating expenses were flat y-o-y and higher 29% q-o-q, which translated into PPoP flat y-o-y and down by ~35% q-o-q. Total credit cost stood at 86 bps (as a % of loans) vs. 48 bps QoQ and 108 bps YoY. PAT reported at Rs. 305 crore was up 23% YoY/down 67% QoQ. Gross Stage-2 and Stage-3 assets increased by ~4%/1% QoQ during the quarter. GS3/NS3 improved by 6bps/20bps QoQ to 4.90%/2.76%, respectively, while PCR on Stage-3 assets improved by ~330bps QoQ to ~44%. Overall loan book grew by ~10% YoY/3% QoQ. Individual home loans grew by 15% YoY/3% QoQ, while consolidation in LAP and the developer book continued. Disbursements in individual home loans were flat YoY. Non-Housing Individual and Commercial disbursements grew by 44% YoY. Builder and project loan disbursements grew by 15% YoY. Total disbursements grew by 4% YoY in Q2FY2023.

Key positives

- PCR on GS3 at ~44% in Q2FY2023 vs. 40% in Q1FY2023

Key negatives

- Weak NII growth driven by margin compression
- Higher opex growth (29% QoQ)
- Higher credit cost QoQ due to higher write-offs

Management Commentary

- The company has guided for overall loan growth to be around ~15% for FY2023E. NIM is expected to be better than FY2022 in FY2023E, as it expects spreads to improve by ~60 bps in H2FY2023, led by repricing of the floating rate book. Credit cost is expected at 45-50 bps in FY2023E.

Our Call

Valuation – Maintain Buy rating on LIC Housing Finance with a revised PT of Rs. 435: At the CMP, the stock trades at 0.7x/0.6x its FY2023E/FY2024E BV. We believe valuations clearly factor in all the related concerns on margins, sub-par growth in business (losing market share), and higher stress in the non-individual book, which in turn is leading to higher credit cost. Currently, housing demand is very strong, across tier I, II, and III cities, which looks sustainable over the medium term. The company is optimistic in terms of improving asset-quality matrix, margin improvement, and growth outlook, thereby improving return ratios. We believe valuations are reasonable. Hence, we maintain our Buy rating on LICHF with a revised price target (PT) of Rs. 435.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Net Interest Income	5,245	5,535	6,792	8,068
Net profit	2,734	2,287	3,843	4,755
EPS (Rs.)	54.2	41.6	69.8	86.4
P/E (x)	6.8	8.8	5.3	4.2
P/BV (x)	0.9	0.8	0.7	0.6
RoE	14.1	10.1	14.6	15.8
RoA	1.2	0.9	1.4	1.5

Source: Company; Sharekhan estimates

Key result highlights

- **Weak NII momentum due to margin compression:** NII was flat YoY/down 28% QoQ. NIM declined by ~20bps YoY and ~75bps QoQ to ~1.8% in Q2FY2023 mainly due to a) modification loss booked – ~Rs. 275 crore, as upfront reduction in interest rate was given by the company to convert some of the fixed rate retail assets to the floating rate, b) reversal of interest income on NPLs 0 ~Rs. 95 crore, and c.) lag in repricing of the book compared to increased COF. The company has guided that NIM is expected to be better than FY2022 in FY2023E, as it expects spreads to improve by ~60 bps in H2FY2023, led by repricing of the floating rate book.
- **Mid-teens growth expected in loan book:** The overall loan book grew by ~10% YoY/3% QoQ. Individual home loans grew by 15% YoY/3% QoQ, while consolidation in LAP and the developer book continued. Disbursements in individual home loans were flat YoY. Non-housing individual and commercial disbursements grew by 44% YoY. Builder and project loan disbursements grew by 15% YoY. Total disbursements grew by 4% YoY in Q2FY2023. The company has guided for overall loan growth to be around ~15% for FY2023E.
- **Credit cost guidance:** Total credit cost stood at 86 bps (as a % of loans) vs. 48 bps QoQ and 108 bps YoY. The company has guided that credit cost is expected to be 45-50 bps in FY2023E.
- **Asset quality stable:** Gross Stage-2 and Stage-3 assets increased by ~4%/1% QoQ during the quarter. GS3/NS3 improved by 6bps/20bps QoQ to 4.90%/2.76%, respectively, while PCR on Stage-3 assets improved by ~330bps QoQ to ~44%. Restructured book stood at Rs. 3,466 crore as of September 2022.

Result Snapshot (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	YoY	Q1FY23	QoQ
Net Interest Income	1,163	1,167	-	1,610	-28%
Other income	43	42	3%	41	5%
Net Income	**1,206**	**1,209**	**-**	**1,651**	**-27%**
Opex	261	261	-	203	29%
Operating Profit	**945**	**948**	**-**	**1,448**	**-35%**
Provisions	566	639	-11%	308	84%
PAT	**305**	**248**	**23%**	**925**	**-67%**

Source: Company; Sharekhan Research

Key Parameters Rs cr

Particulars	Q2FY22 Sep-21	Q1FY23 Jun-22	Q2FY23 Sep-22	% YoY	% QoQ
Loan book	2,37,660	2,55,712	2,62,336	10.4	2.6
-Individual loans	2,22,365	2,43,269	2,50,617	12.7	3.0
-Project/Developer loans	**15,295**	**12,443**	**11,719**	**-23.4**	**-5.8**
Disbursements	16,110	15,201	16,786	4.2	10.4
-Individual loans	**15,757**	**14,892**	**16,379**	**3.9**	**10.0**
-Project/Developer loans	353	309	407	15.3	31.7
Yield on loans (%)	**8.0**	**8.3**	**7.8**	**925**	**-67%**
Cost of borrowings (%)	6.8	6.5	6.8	308	84%
Spread (%)	1.2	1.8	1.0	308	84%
NIM (%)	2.0	2.5	1.8	308	84%
GNPL (% of total loans)	5.14	4.96	4.90	308	84%
NNPL (% of total loans)	2.9	3.0	2.8	308	84%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Housing demand to grow exponentially

Long-term structural drivers remain strong for mortgages in India. There is an emerging trend across the young population to acquire homes at an early stage of life and it is emerging as a big aspiration among youngsters, which is likely to prop up demand. Higher interest rates are not going to affect the demand. Moreover, rising affordability and softening prices (helped by tax incentives) are positive for demand offtake. India has a young population and government schemes such as CLSS will facilitate even the affordable housing segments along with low penetration levels of mortgages in India (at 11% of GDP, against 18% in China and 56% in the U.S.). We believe economic recovery is also gaining momentum. The outlook is resilient for well-run HFCs.

■ Company Outlook – Sectoral tailwinds to lend support

We believe valuations clearly factor in all the related margin concerns, sub-par growth in business (losing market share), and higher stress in the non-individual book, which in turn is leading to higher credit cost. Currently, housing demand is very strong, across tier I, II, and III cities, which looks sustainable over the medium term. The company is optimistic in terms of improving asset-quality matrix, margin improvement, and growth outlook, thereby improving the return ratios. We believe asset-quality matrix and margin improvement would be key monitorables.

■ Valuation – Maintain Buy rating on LIC Housing Finance with a revised PT of Rs. 435

At the CMP, the stock trades at 0.7x/0.6x its FY2023E/FY2024E BV. We believe valuations clearly factor in all the related concerns on margins, sub-par growth in business (losing market share), and higher stress in the non-individual book, which in turn is leading to higher credit cost. Currently, housing demand is very strong, across tier I, II, and III cities, which looks sustainable over the medium term. The company is optimistic in terms of improving asset-quality matrix, margin improvement, and growth outlook, thereby improving return ratios. We believe valuations are reasonable. Hence, we maintain our Buy rating on LICHF with a revised PT of Rs. 435.

Peer valuation

Company	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
LIC Housing	367	20,182	5.3	4.2	0.7	0.6	14.6	15.8	1.4	1.5
Can Fin Homes	507	6,750	11.1	9.9	1.8	1.6	18.1	17.1	2.0	1.8

Source: Company, Sharekhan Research

About company

LICHF is one of the largest HFCs in India having one of the widest networks of offices across the country and representative offices in Dubai and Kuwait. In addition, the company distributes its products through branches of its subsidiary. LICHF is promoted by Life Insurance Corporation in which it currently holds 40.31% shares in HFC. LICHF enjoys high rating from CRISIL and CARE, indicating the highest safety about the ability to service interest and repay principal, which to some degree can be attributed to having a strong parentage.

Investment theme

LICHF has seen steady loan book growth in the past, but performance of the high-yielding developer loan book portion such as LAP/Developer loans is a key monitorable. Backed by a strong parent, the rating of LICHF has been strong; and it has been able to see off most of the liquidity pressure that had impacted most NBFCs/HFCs of late. Even though we believe competitive intensity may increase in the home loan segment, we expect growth outlook to be stable due to higher share of opportunity. We believe asset-quality outlook margins improvement would be key monitorables.

Key Risks

Economic slowdown due to which slower loan growth and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr. Y. Viswa-natha Gowd	Managing Director & CEO
Mr. Sudipto Sil	CFO
Ms. Purti Samant	CRO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIFE INSURANCE CORP OF INDIA	45.24
2	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	5.86
3	NORGES BANK	2.39
4	VANGUARD GROUP INC.	2.24
5	BANK MUSCAT SAOG	2.09
6	NIPPON LIFE INDIA ASSET MANAGEMENT LTD.	1.65
7	HDFC LIFE INSURANCE CO. LTD.	1.50
8	PRUDENTIAL PLC	1.44
9	DSP INVESTMENT MANAGERS PVT. LTD.	1.33
10	DIMENSIONAL FUND ADVISORS LP	1.18

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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