Sharekhan by BNP PARIBAS

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LIC Housing Finance Ltd

Weak Q3, Higher credit cost shores up PCR

NBFC	Sharekhan code: LICHSGFIN

Reco/View: Buy	↔	CMP: Rs. 376	Price Target: Rs. 435	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Dec 08, 2022

Medium Risk

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

Source: Morningstar

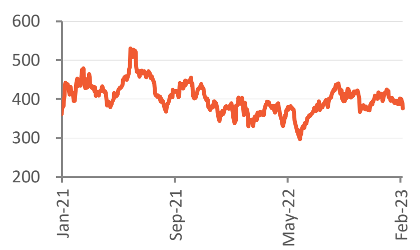
Company details

Market cap:	Rs. 20,677 cr
52-week high/low:	Rs. 444 / 292
NSE volume: (No of shares)	25.3 lakh
BSE code:	500253
NSE code:	LICHSGFIN
Free float: (No of shares)	30.3 cr

Shareholding (%)

Promoters	45.2
FII	19.3
DII	22.7
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	-1.8	-0.8	-3.3
Relative to Sensex	-5.5	-0.9	-4.1	-5.9

Sharekhan Research, Bloomberg

Summary

- LICHF reported PAT at Rs. 480 crore (down 37% YoY/ up 58% q-o-q), which significantly lagged consensus and our estimates mainly led by higher credit costs. Credit cost stood at 115 bps annualized versus 87 bps q-o-q and 59 bps y-o-y. Company guided that there were no incremental write offs during the quarter however, higher credit cost is attributable towards shoring up the PCR to 51% versus 44% q-o-q.
- NIMs improved by 62 bps q-o-q and were stable y-o-y at 2.42%. However, there were no positive surprise in terms of margin uptick sequentially as improvement in NIMs was on expected lines due to certain one-off items that had compressed NIMs during the last quarter. We believe margins are expected to improve from hereon as a 115 bps rate hike taken in September and 35 bps rate hike taken in December will be fully reflected going forward which should lend support to the NIMs.
- Disbursements in individual home loan segment & non home loan segment declined by 11% y-o-y and 4% y-o-y respectively, while non-individual projects loan disbursements grew by 46% y-o-y. Total disbursements declined by 9% y-o-y /4% q-o-q. Overall loan book grew by 10% y-o-y/3% q-o-q. Individual home loan and non-home loan book grew by 14% y-o-y and 3% y-o-y respectively while developer book continued to decline by 23% y-o-y.
- Asset quality outlook remains stable. Gross Stage-2 assets declined by 8 bps q-o-q to 3.92%. GS3/NS3 asset ratio improved by 14 bps/36 bps q-o-q to 4.75%/2.40%, respectively. At the CMP, the stock trades at 0.8x/ 0.7x/ 0.6x its FY2023E /FY2024E/ FY2025E BV estimates, respectively. We maintain our Buy rating with an unchanged PT of Rs. 435.

LIC Housing Finance (LICHF) reported weak performance in Q3FY2023. Net interest income grew by 10%y-o-y/38% q-o-q. NIMs improved by 62 bps q-o-q and were stable y-o-y at 2.42%. However, there was no positive surprise in terms of margin uptick sequentially as improvement in NIMs was on expected lines due to certain one-off items that dragged down NIMs during the last quarter. We believe margins are expected to improve from here on as 115 bps rate hike taken in September and 35 bps rate hike taken in December will be fully reflected going forward which should lend support to the NIMs. Total operating expenses grew by 39% y-o-y/ 10% q-o-q. Operating profits grew by 3% y-o-y/ 44% q-o-q. Total credit cost stood at 115 bps (as a % of loans) versus. 87 bps q-o-q and 59 bps y-o-y. There were no incremental write offs during the quarter however, higher credit cost is attributable towards shoring up the PCR to 51% versus 44% q-o-q. PAT stood at Rs. 480 crore (down 37% y-o-y/up 58% q-o-q. Gross Stage-2 assets declined by 8 bps q-o-q to 3.92%. GS3/NS3 asset ratio improved by 14bps/36bps q-o-q to 4.75%/2.40%, respectively. The overall loan book grew by 10% y-o-y/3% q-o-q. Individual home loan and non-home loan book grew by 14% y-o-y and 3% y-o-y respectively while developer book continued to decline by 23% y-o-y. Disbursements in individual home loan segment & non home loan segment declined by 11% y-o-y and 4% y-o-y respectively, while non-individual projects loan disbursements grew by 46% y-o-y. Total disbursements declined by 9% y-o-y /4% q-o-q. Total restructured book at Rs. 1,420 crore (0.5% of loans versus 1.3% q-o-q).

Key positives

- PCR on GS-3 stood at ~51% versus. 44% q-o-q.
- Restructured book declined without any incremental write-offs.

Key negatives

- Business momentum was weak despite strong demand. Disbursements declined in individual segment.
- Opex growth was higher (39% y-o-y/ 10% q-o-q). Opex to Avg. loans stood at 43 bps vs 40 bps q-o-q and 34 bps y-o-y.

Management Commentary

- The company is confident of achieving ~12-13% disbursement growth in near term. Credit cost is expected to normalize at 45-50 bps going forward. Asset quality outlook is expected to remain stable to positive.
- Company guided that moderation is seen in housing demand due to a sharp increase in rates in short time. Prepayments were lower relatively during the quarter due to rate tightening scenario across the industry.

Our Call

Valuation – Maintain Buy rating on LIC Housing Finance with an unchanged PT of Rs. 435: At CMP, the stock trades at 0.8x/0.7x/ 0.6x its FY2023E/FY2024E/ FY2025E BV estimates. We believe valuations clearly factors in all the related concerns on margins, sub-par growth in business (losing market share), higher stress in the non-individual book and below par return ratios. We derive comfort from continued housing demand, which looks sustainable in near to medium term. Transmission of higher rates in home loans is happening faster that should eventually benefit LICHF. The company is optimistic in terms of improving asset-quality matrix, better margins and growth outlook, thereby improving return ratios. We believe valuations are inexpensive. Hence, we maintain our Buy rating on LICHF with an unchanged price target (PT) of Rs. 435.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	5,535	6,056	6,685	7,300
Net profit	2,287	2,431	3,204	3,500
EPS (Rs.)	41.6	44.2	58.2	64.0
P/E (x)	9.0	8.5	6.5	5.9
P/BV (x)	0.8	0.8	0.7	0.6
RoA (%)	0.9	0.9	1.0	1.0
RoE (%)	10.1	9.5	11.4	11.0

Source: Company; Sharekhan estimates

Stock Update

Result Update

Key result highlights

- **Margins expected to improve gradually:** Net interest income grew by 10% y-o-y/38% q-o-q. NIMs improved by 62 bps q-o-q and were stable y-o-y at 2.42%. However, there were no positive surprise in terms of margin uptick sequentially as improvement in NIMs was on expected lines due to certain one-off items that had compressed NIMs during the last quarter. We believe margins are expected to improve from hereon as 115 bps rate hike taken in September and 35 bps rate hike taken in December will be fully reflected going forward which should lend support to the NIMs. Transmission of higher rates in home loans is happening faster that should eventually benefit LICHF. The company has raised rate around 210 bps versus RBI rate hike of 225 bps.
- **Moderate growth expectations:** Overall, the loan book grew by 10% y-o-y/3% q-o-q. Individual home loan and non-home loan book grew by 14% y-o-y and 3% y-o-y respectively while developer book continued to decline by 23% y-o-y. Around 83% of total loan book constitutes of individual home loans versus 80% last year. Disbursements in the individual home loan segment & non home loan segment declined by 11% y-o-y and 4% y-o-y respectively, while non-individual projects loan disbursements grew by 46% y-o-y. Total disbursements declined by 9% y-o-y /4% q-o-q. The company is confident of achieving ~12-13% disbursement growth in near term. However, some moderation is seen in demand due to a sharp increase in rates in short time. Prepayments were lower relatively during the quarter due to rate tightening scenario across the industry.
- **Credit cost guidance:** Total credit cost stood at 115 bps (as a % of loans) versus. 87 bps q-o-q and 59 bps y-o-y. There were no incremental write offs during the quarter however, higher credit cost is attributable towards shoring up the PCR to 51% versus 44% q-o-q. Credit cost is expected to normalise at 45-50 bps going forward. The company does not foresee further increase in PCR.
- **Asset quality outlook stable:** Gross Stage-2 assets declined by 8 bps q-o-q to 3.92%. GS3/NS3 asset ratio improved by 14 bps/36 bps q-o-q to 4.75%/2.40%, respectively. Total restructured book at Rs. 1,420 crore (0.5% of loans versus 1.3% q-o-q).

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Net Interest Income	**1,606**	**1455**	**10%**	**1163**	**38%**
Other income	37	70	-46%	43	-12%
Net Income	**1643**	**1524**	**8%**	**1206**	**36%**
Opex	288	207	39%	261	10%
Operating Profit	**1,356**	**1317**	**3%**	**945**	**44%**
Provisions	763	356	114%	566	35%
PAT	**480**	**767**	**-37%**	**305**	**58%**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Housing demand to grow exponentially

Long-term structural drivers remain strong for mortgages growth in India. There is an emerging trend across the young population to acquire homes at the early stages of life, which is likely to prop up demand. At present, higher interest rates are not affecting demand. Moreover, rising affordability and the government's schemes for affordable housing would support demand. Overall, asset-quality trends are stable.

■ Company Outlook – Sectoral tailwinds to lend support

We believe valuations clearly factor in all the related concerns - sub-par growth in business (losing market share), higher stress in the non-individual book, which in turn is leading to higher credit cost, lower margins, below par return ratio. 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 margin should improve gradually as transmission of rate hikes happens and credit cost is expected to normalise going forward due to accelerated write offs in past & as PCR now stands at ~51%.

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

At CMP, the stock trades at 0.8x/0.7x/ 0.6x its FY2023E/FY2024E/ FY2025E BV estimates. We believe valuations clearly factors in all the related concerns on margins, sub-par growth in business (losing market share), higher stress in the non-individual book and below par return ratios. We derive comfort from continued housing demand, which looks sustainable in near to medium term. Transmission of higher rates in home loans is happening faster that should eventually benefit LICHF. The company is optimistic in terms of improving asset-quality matrix, better margins and growth outlook, thereby improving return ratios. We believe valuations are inexpensive. Hence, we maintain our Buy rating on LICHF with an unchanged price target (PT) of Rs. 435.

Peer Comparison

Particulars	CMP	MCAP	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
LIC Housing	376	20,677	8.5	6.5	0.8	0.7	9.5	11.4	0.9	1.0
Can Fin Homes	580	7,720	12.7	11.5	2.1	1.8	18.0	16.8	2.0	1.8

Source: Company, Sharekhan research

About company

LICHF is one of the second largest HFCs in India having one of the widest networks across the country. LICHF is promoted by Life Insurance Corporation in which it currently holds 45.24% shares in HFC. Over the years, they have grown stronger and built a huge base of around 30 lakh homeowners. It has an extensive reach to address the home loan needs of prospective borrowers with a well-trained and well-spread network of 282 marketing offices and around 10,000 marketing intermediaries.

Investment theme

LICHF has seen steady growth in the past, however performance of the high-yielding developer loan book portion such as LAP/Developer loans continues to be below par. We believe valuations clearly factor in all the related concerns - sub-par growth in business (losing market share), higher stress in the non-individual book, which in turn is leading to higher credit cost, lower margins, below par return ratio. We derive comfort from continued housing demand which looks sustainable in near to medium term. Transmission of higher rates in home loans is happening faster that should eventually benefit LICHF. Overall asset quality outlook is expected to remain stable.

Key Risks

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

Additional Data

Key management personnel

Mr. Y. Viswanatha Gowd	MD & CEO
Mr. Sudipto Sil	CFO
Mr. Ashwani Ghai	COO

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	5.56
3	NIPPON LIFE INDIA ASSET MANAGEMENT LTD	2.74
4	SBI FUNDS MANAGEMENT LTD	2.55
5	GOVERNMENT PENSION FUND GLOBAL	2.53
6	BANK MUSCAT INDIA FUND	2.09
7	NORGES BANK	2.08
8	VANGUARD GROUP INC.	1.98
9	HDFC LIFE INSURANCE CO INC	1.47
10	PRUDENTIAL PLC	1.40

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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