

February 7, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	410		410	
NII (Rs.)	66,773	73,359	66,838	73,639
% Chng.	(0.1)	(0.4)		
PPoP (Rs.)	57,469	63,330	57,810	63,818
% Chng.	(0.6)	(0.8)		
EPS (Rs.)	65.8	74.3	67.6	76.8
% Chng.	(2.8)	(3.3)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	55,206	60,556	66,773	73,359
Growth (%)	5.6	9.7	10.3	9.9
Op. Profit (Rs m)	47,664	51,442	57,469	63,330
PAT (Rs m)	22,873	25,715	36,195	40,879
EPS (Rs.)	41.6	46.7	65.8	74.3
Gr. (%)	(23.3)	12.4	40.8	12.9
DPS (Rs.)	8.5	8.4	13.2	14.9
Yield (%)	2.3	2.2	3.5	3.9
Margin (%)	2.3	2.3	2.3	2.2
RoAE (%)	10.1	10.0	12.8	13.1
RoAA (%)	0.9	1.0	1.2	1.2
PE (x)	9.1	8.1	5.7	5.1
P/BV (x)	0.8	0.8	0.7	0.6
P/ABV (x)	1.1	1.0	0.9	0.8

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.444 / Rs.292	
Sensex / Nifty	60,286 / 17,722	
Market Cap	Rs.207bn/ \$ 2,502m	
Shares Outstanding	550m	
3M Avg. Daily Value	Rs.795.9m	

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	(7.1)	(0.8)	(3.3)
Relative	(7.7)	(3.9)	(7.6)

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LIC Housing Finance (LICHF IN)

Rating: ACCUMULATE | CMP: Rs376 | TP: Rs410

Earnings volatility a concern

Quick Pointers:

- Earnings miss led by higher provisions at 119bps (PLe 39bps).
- PCR to be maintained at 50%; credit costs to normalize in Q4.

Led by higher provisions, we cut FY23/24/25E PAT by ~13%/3%/3%. LICHF saw a weak quarter yet again; while PPoP was a 4.6% beat driven by higher NIM, earnings were a miss led by spike in provisions due to QoQ increase in PCR to ~51% from ~44%. While provisions for Q3 did not include any write-offs, company wants to maintain PCR at ~50% which could normalize credit costs in Q4 to 45-50bps from 119bps in Q3. We could not determine a concrete reason for an elevated PCR, since in case of a HFC collateral value and quality is strong. Slower pace of resolutions in builder portfolio and recurring one-time aberrations in quarterly earnings would continue to weigh on the stock. We keep multiple unchanged at 0.9x on Sep'24 ABV and maintain TP at Rs410. Retain ACCUMULATE.

- Earnings miss led by higher provisions; better NII led to 4.6% PPoP beat:** NII was a beat at Rs16.1bn (PLe Rs15.1bn) as NIM was a higher at 2.51% (PLe 2.36%). While loan growth was mainly in-line at 10.3% YoY (PLe 10.4%), lower disbursements at Rs161bn (PLe Rs176bn) were offset by lesser repayments at Rs99.9bn (PLe Rs113bn). Other income was a miss at Rs364mn (PLe Rs550mn). Opex was a bit more at Rs2.88bn (PLe Rs2.71bn) led by other opex. Led by higher NII, PPoP was a beat to PLe by 4.6% at Rs13.6bn. Provisions were higher at Rs7.6bn (PLe Rs2.5bn) mainly led by an increase in PCR from 43.6% to 50.9% while absolute stage-3 slightly declined QoQ. Gross/net stage-3 declined QoQ to 4.75%/2.33% from 4.91%/2.77%. Thus, PAT was below estimates at Rs3bn (PLe Rs9.2bn).
- Reason for heightened PCR unclear:** As per the management, there were no write-offs included in elevated provisions for the quarter and it beefed up PCR in-line with industry standards. While higher PCR is preferred in lending businesses, the same is not required for a HFC in which collateral value is more than adequate. Hence we could not gauge a concrete reason for a higher PCR. Company expects provisions to normalize in Q4 to 45-50bps from 119bps in Q3, however, it would like to maintain PCR near 50% levels which we have factored in. OTR reduced from Rs35bn to Rs14bn as accounts have come out of moratorium. Segmental GNPA is: individual housing-1.6%, NI commercial-22.5%, project loans-45.6% and non-housing individual-6.7%.
- Q4 seasonally strong; credit flow to improve:** ~97% of disbursements in Q3 were attributable to individual, and retail home now contributes 83.1% to loans (vs 80.5% a year ago). Although Q3 disbursements were muted due to rates hikes, individual housing demand remains strong. Also, rising rates and tightening liquidity are curtailing repayments. Company expects a ~36% QoQ growth in Q4 disbursements which could be steep to achieve; we see a 15% accretion in disbursements. LICHF expects to maintain current NIM run-rate in Q4 given PLR hike of 35bps w.e.f. 1st Jan'23. We see stable NIM at 2.25% over FY23-25E.

Exhibit 1: Earnings miss led by higher provisioning of Rs7.6bn

P&L (Rs m)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest Income	58,397	50,064	16.6	50,562	15.5
Interest Expense	42,329	35,460	19.4	38,864	8.9
Net Interest Income	16,068	14,604	10.0	11,698	37.4
Other operating Inc.	64	335	(80.9)	120	(46.9)
Other Income	300	305	(1.8)	238	26.2
Total income	16,432	15,244	7.8	12,056	36.3
Employee Expense	1,205	976	23.4	1,117	7.9
Other Expenses	1,671	1,094	52.7	1,493	11.9
Operating Profit	13,556	13,174	2.9	9,447	43.5
Provisions	7,626	3,556	114.5	5,658	34.8
Tax	1,127	1,945	(42.1)	739	52.6
Net Profit excl exceptional	4,803	7,673	(37.4)	3,050	57.5
Reported PAT	4,803	7,673	(37.4)	3,050	57.5
Balance Sheet (Rs m)					
O/S Loans	2,684,440	2,434,120	10.3	2,623,360	2.3
-Individual loans	2,575,870	2,293,210	12.3	2,506,170	2.8
Retail Home Loans	2,230,471	1,958,980	13.9	2,166,895	2.9
Retail LAP / Non Core	345,219	334,205	3.3	338,413	2.0
-Corporate loans	108,750	140,910	(22.8)	117,190	(7.2)
-Individual loans (%)					
Retail Home Loans	96.0	94.2	1.7	95.5	0.4
Retail LAP / Non Core	83.1	80.5	2.6	82.6	0.5
-Corporate loans (%)	12.9	13.7	(0.9)	12.9	(0.0)
	4.0	5.8	(1.7)	4.5	(0.4)
Incr. Disbursements					
-Individual loans (%)	161,000	177,770	(9.4)	167,860	(4.1)
-Developer loans (%)	93.4	86.3	7.1	97.6	(4.2)
	6.6	13.7	(7.1)	2.4	4.2
Asset quality					
Gross NPL	127,511	122,680	3.9	128,807	(1.0)
Gross NPL (%)	4.75	5.04	(29.0)	4.91	(16.0)
Others / Ratios (%)	9.1	8.6	0.5	8.1	1.0
Yield on Loans - Calc	7.4	6.9	0.5	7.0	0.4
Cost of Borrowings - Calc	1.70	1.74	(0.0)	1.06	0.6
Spread	2.51	2.52	(0.9)	1.87	64.0
NIMs	17.50	13.58	3.9	21.65	(4.1)
Cost/ Income Ratio	2,684,440	2,434,120	10.3	2,623,360	2.3

Source: Company, PL

NII growth was higher at 10% YoY/37.4% QoQ, led by higher NIM of 2.5%.

PPoP grew 2.9% YoY/43.5% QoQ, led by better NII.

Provisions at Rs7.6bn was higher owing to higher Stage 3 assets.

PAT grew at de-grew 37% YoY owing to higher provisions

Loans at Rs 2,684bn stood up 10.3%YoY/2.3% QoQ led by individual loans.

GNPA at 4.75% decreased 16bps QoQ./29bps YoY

KTAs of LICHF Q3FY23 Earnings Con call

Assets & Liabilities:

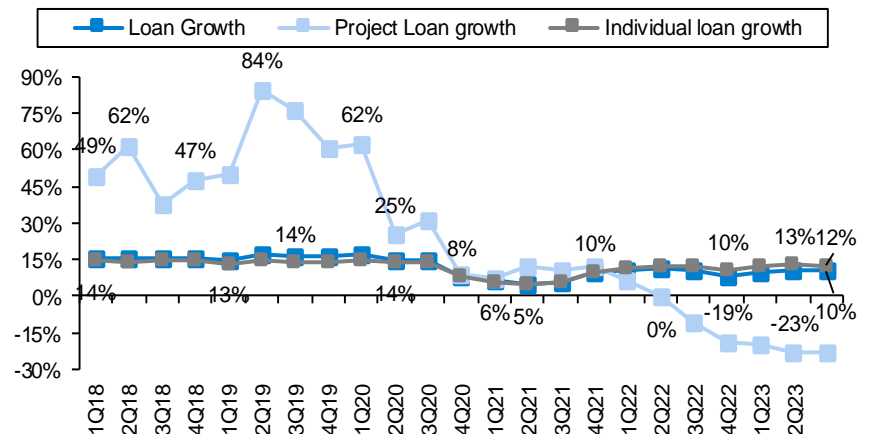
- During the quarter, focus of the management was on **margin improvement and asset quality**.
- Home loan growth has been slightly lower due to rate hikes, however the growth at 14% YoY is in-line with management's expectations.
- For individual loans, disbursements would be in-line with overall growth of 12-13% as demand persists across regions. **Management remains confident of achieving growth of 13% in Q4FY23.**
- Management guided that repayment rate at 16% is lower to industry** due to tightening of liquidity and rate hike (as rate hikes usually slow down repayments). Balance Transfers have also declined and management expects the trend to continue.

NIM:

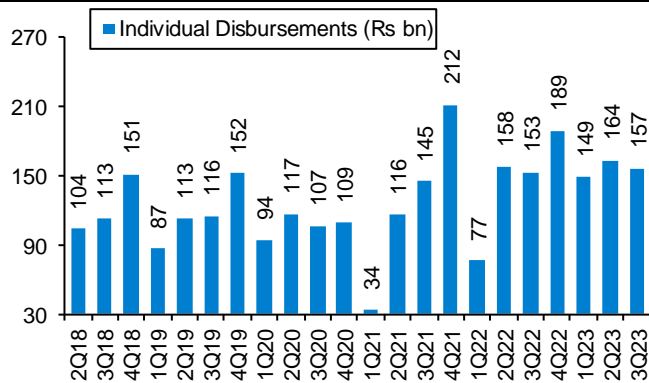
- NIM grew from 1.80% in Q2FY23 to 2.42% in Q3FY23** led by better liability management and rate hikes of 210bps till Q3FY23. Company has raised another 35bps wef January 1, 2023.
- For Q3FY23, incremental yields were slightly higher than 9%, while incremental CoF was 7.61%. Incremental spreads of home loan were 100-125bps

Asset Quality:

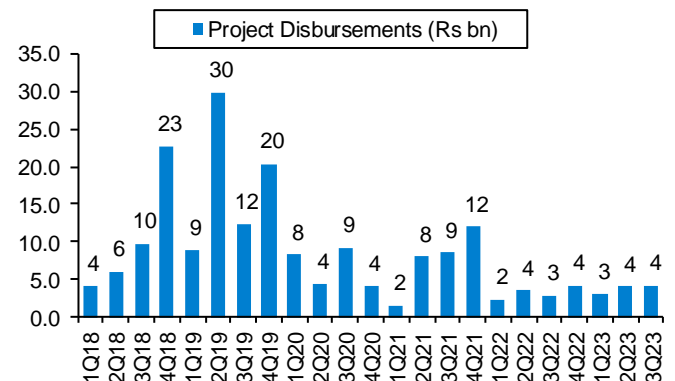
- In Q3FY23, company increased PCR from 43.6% in Q2FY23 to 50.8%**, to make it in-line with industry standards which led to higher provisions during the quarter at Rs7.6bn. Going forward, endeavor would be to maintain PCR at >50%, however fore fronting wouldn't be there and hence credit cost would remain in the range of 45-50bps.
- Stage 3 book stood at 4.75% vs 4.91% in Q2FY23.** Segmental GNPA: Individual Home Loans stood at 1.62%, Project Loans was 45.4%, Non-Individual Home Loans – 22.4%, Non-housing individual – 6.74%.
- Total restructured book was Rs72bn**, of which Rs52bn has come out of moratorium, while Rs7.5bn have repaid fully (provision held against the same have been written back), outstanding book was Rs.1.4bn, against which company holds 10% provisions
- Company had given projects loans to 300 accounts**, of which 80 accounts are in the 90+dpd bucket and another 60 accounts are in 60+dpd. Cases are under resolution at different stages. For 3 cases, resolution is yet to be implemented and management expects recovery of Rs1-1.5bn. Recovery trends remain positive.

Exhibit 2: Loan growth remained flat at 10%; project loan being run-off


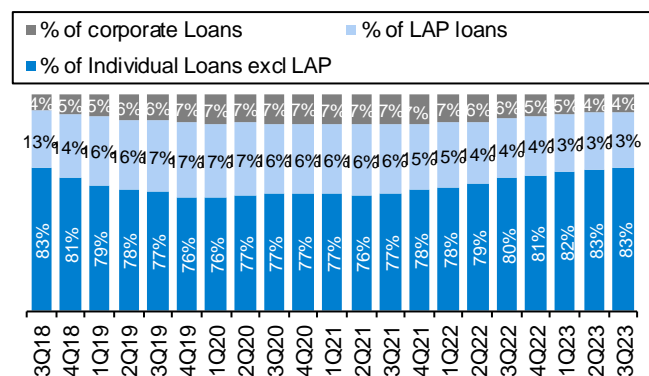
Source: Company, PL

Exhibit 3: Disbursement declined 4.3% QoQ to Rs157bn


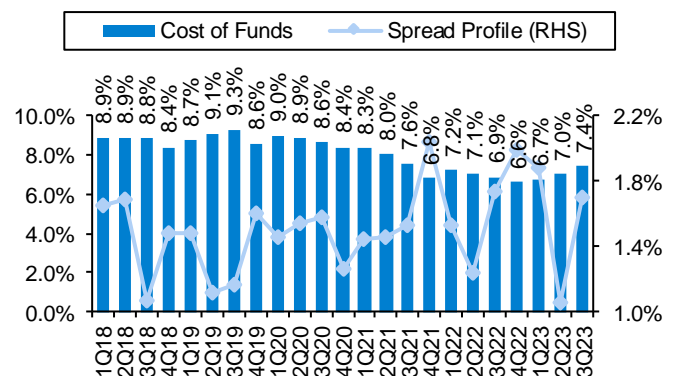
Source: Company, PL

Exhibit 4: Project loan disbursements steady at Rs4bn


Source: Company, PL

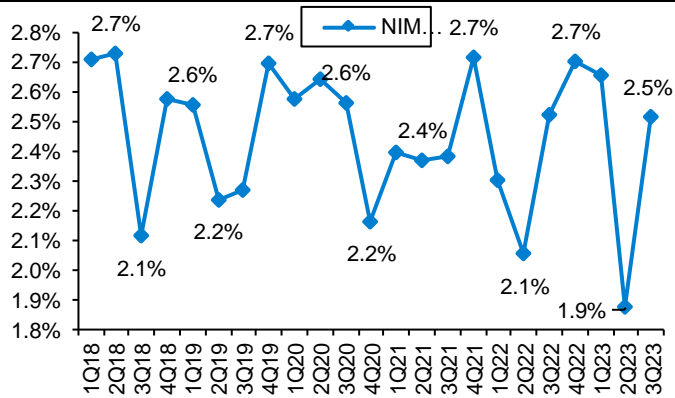
Exhibit 5: Individual Loan mix stable at 83%


Source: Company, PL

Exhibit 6: CoF increases to 7.4%, spreads stable at 1.7%


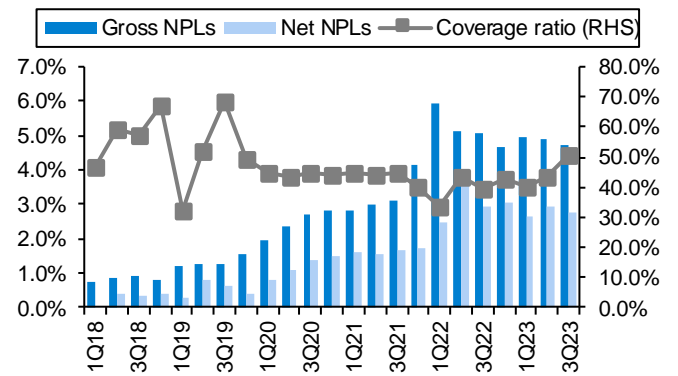
Source: Company, PL

Exhibit 7: NIM grew significantly at 2.5% led by better yields



Source: Company, PL

Exhibit 8: Asset quality improved as GNPA declined to 2.75%



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	1,97,079	2,25,317	2,73,909	3,14,256
Interest Expenses	1,41,872	1,64,761	2,07,136	2,40,897
Net interest income	55,206	60,556	66,773	73,359
Growth(%)	5.6	9.7	10.3	9.9
Non-interest income	2,452	1,699	2,413	2,663
Growth(%)	73.8	(30.7)	42.1	10.3
Net operating income	57,658	62,255	69,187	76,022
Expenditures				
Employees	5,633	4,651	5,078	5,544
Other Expenses	3,836	5,527	5,956	6,412
Depreciation	524	635	684	736
Operating Expenses	9,994	10,813	11,717	12,692
PPP	47,664	51,442	57,469	63,330
Growth(%)	2.1	7.9	11.7	10.2
Provisions	19,882	19,561	11,653	11,585
Profit Before Tax	27,782	31,881	45,816	51,745
Tax	4,909	6,166	9,621	10,866
Effective Tax rate(%)	17.7	19.3	21.0	21.0
PAT	22,873	25,715	36,195	40,879
Growth(%)	(16.3)	12.4	40.8	12.9

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	1,101	1,101	1,101	1,101
Reserves and Surplus	2,45,617	2,66,662	2,95,167	3,27,870
Networth	2,46,718	2,67,763	2,96,268	3,28,971
Growth (%)	20.2	8.5	10.6	11.0
Loan funds	22,36,582	24,94,298	27,56,292	30,34,505
Growth (%)	7.6	11.5	10.5	10.1
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	59,244	66,866	73,822	81,208
Other Liabilities	3,131	1,871	2,068	2,277
Total Liabilities	25,45,674	28,30,798	31,28,450	34,46,961
Application of funds				
Net fixed assets	2,876	3,328	3,622	3,990
Advances	24,52,963	27,28,464	30,13,097	33,19,913
Growth (%)	7.5	11.2	10.4	10.2
Investments	61,986	63,648	73,061	80,451
Current Assets	9,540	14,144	15,574	17,160
Net current assets	(49,704)	(52,722)	(58,247)	(64,048)
Other Assets	18,310	21,214	23,096	25,446
Total Assets	25,45,675	28,30,798	31,28,450	34,46,961
Growth (%)	8.0	11.2	10.5	10.2
Business Mix				
AUM	25,11,200	27,67,886	30,47,803	33,58,142
Growth (%)	8.2	10.2	10.1	10.2
On Balance Sheet	25,11,200	27,67,886	30,47,803	33,58,142
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	2.3	2.3	2.3	2.2
ROAA	0.9	1.0	1.2	1.2
ROAE	10.1	10.0	12.8	13.1

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Operating Inc.	51,985	52,609	50,562	58,397
Income from securitization	-	-	-	-
Interest Expenses	35,673	36,401	38,864	42,329
Net Interest Income	16,312	16,209	11,698	16,068
Growth (%)	8.6	27.4	1.2	10.0
Non-Interest Income	1,101	301	358	364
Net Operating Income	17,413	16,509	12,056	16,432
Growth (%)	11.3	26.5	0.9	7.8
Operating expenditure	2,500	2,029	2,610	2,876
PPP	14,913	14,481	9,447	13,556
Growth (%)	-	-	-	-
Provision	1,769	3,077	5,658	7,626
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	13,144	11,404	3,789	5,930
Tax	1,958	2,149	739	1,127
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	14.9	18.8	19.5	19.0
PAT	11,186	9,255	3,050	4,803
Growth	180	503	23	(37)
AUM	25,11,200	25,57,120	26,23,360	26,84,440
YoY growth (%)	8.2	10.0	10.4	10.3
Borrowing	22,38,440	22,59,650	23,29,430	24,03,640
YoY growth (%)	7.8	9.5	11.4	11.4

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	376	376	376	376
EPS (Rs)	41.6	46.7	65.8	74.3
Book value (Rs)	448.3	486.5	538.3	597.7
Adj. BV(Rs)	328.4	370.9	420.2	476.4
P/E(x)	9.1	8.1	5.7	5.1
P/BV(x)	0.8	0.8	0.7	0.6
P/ABV(x)	1.1	1.0	0.9	0.8
DPS (Rs)	8.5	8.4	13.2	14.9
Dividend Payout Ratio(%)	20.4	18.0	20.0	20.0
Dividend Yield(%)	2.3	2.2	3.5	3.9

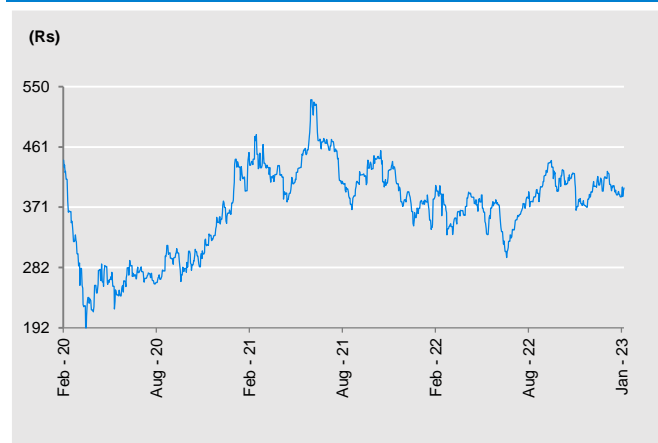
Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	1,16,164	1,27,245	1,27,783	1,31,070
Net NPA(Rs m)	65,967	63,612	65,009	66,781
Gross NPAs to Gross Adv.(%)	4.6	4.6	4.2	3.9
Net NPAs to net Adv.(%)	2.6	2.3	2.1	2.0
NPA coverage(%)	43.2	50.0	49.1	49.0

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	2.3	2.3	2.2	2.2
NII INCI. Securitization	2.3	2.3	2.2	2.2
Total income	2.4	2.3	2.3	2.3
Operating Expenses	0.4	0.4	0.4	0.4
PPOP	1.9	1.9	1.9	1.9
Total Provisions	0.8	0.7	0.4	0.4
RoAA	0.9	1.0	1.2	1.2
Avg. Assets/Avg. net worth	10.8	10.4	10.6	10.5
RoAE	10.1	10.0	12.8	13.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	Accumulate	410	420
2	03-Nov-22	Accumulate	410	367
3	05-Oct-22	BUY	450	418
4	05-Aug-22	BUY	450	379
5	08-Jul-22	Accumulate	435	351
6	19-May-22	BUY	435	354
7	09-Apr-22	Accumulate	420	393

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,999
2	Axis Bank	BUY	1,100	933
3	Bank of Baroda	BUY	220	164
4	Can Fin Homes	BUY	700	521
5	City Union Bank	BUY	220	178
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	140
8	HDFC	BUY	3,000	2,613
9	HDFC Bank	BUY	1,850	1,601
10	ICICI Bank	BUY	1,090	870
11	IDFC First Bank	UR	-	60
12	IndusInd Bank	BUY	1,500	1,223
13	Kotak Mahindra Bank	BUY	2,100	1,763
14	LIC Housing Finance	Accumulate	410	420
15	Punjab National Bank	UR	-	57
16	State Bank of India	BUY	730	544

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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