

LIC Housing Finance

Estimate change



TP change



Rating change



Bloomberg	LICHF IN
Equity Shares (m)	550
M.Cap.(INRb)/(USD\$)	234.6 / 2.8
52-Week Range (INR)	444 / 315
1, 6, 12 Rel. Per (%)	9/-3/2
12M Avg Val (INR M)	913

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	63.3	78.4	81.2
PPP	55.0	68.4	70.6
PAT	28.9	41.8	46.1
EPS (INR)	52.5	76.0	83.8
EPS Gr. (%)	26.4	44.7	10.3
BV/Sh (INR)	492	549	612

Ratios

NIM (%)	2.5	2.8	2.7
C/I ratio (%)	15.2	14.9	15.4
RoAA (%)	1.1	1.4	1.5
RoE (%)	11.2	14.6	14.4
Payout (%)	16.2	14.0	12.1

Valuations

P/E (x)	8.1	5.6	5.1
P/BV (x)	0.9	0.8	0.7
Div. Yield (%)	2.0	2.5	2.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	45.2	45.2	45.2
DII	25.2	24.4	19.2
FII	17.0	17.5	20.7
Others	12.6	12.9	14.9

FII Includes depository receipts

CMP: INR427

TP: INR500 (+17%)

Buy

Technical glitches led to muted disbursements and higher Stage 3

Strong PAT beat, driven by NIM expansion and lower credit costs

- LICHF reported 1QFY24 PAT of ~INR13.2b (~34% beat), which grew 43% YoY, driven by a healthy NII growth and lower credit costs.
- NII at ~INR22b (22% beat) grew 37% YoY, while PPOP at INR20b (23% beat) grew 39% YoY. Cost-income ratio moderated to ~11% (PY: ~12%), driven by a sharp NII growth.
- 1QFY24 NIM (reported) at ~3.2% expanded ~30bp QoQ, driven by a ~15bp improvement in (reported) yields to ~10.2%. The CoF was flat QoQ at ~7.6%. We do not believe that NIMs can be sustained at current levels and model NIM compression (from current levels) for the rest of the fiscal year.
- The management shared that the ongoing IT platform transformation led to technical glitches, which resulted in a) muted disbursements and b) deterioration in GS3, due to the inability to present NACH mandates.
- We model NIM of 2.8%/2.7% in FY24/FY25. To factor in the margin expansion reported in 1QFY24, we increase our FY24/FY25 EPS estimate by ~9%/6%. We model an advances/PAT CAGR of 9%/26% over FY23-25 for RoA/RoE of 1.5%/14% in FY25.
- Muted disbursements and asset quality deterioration was a dampener despite the historically high NIM levels, reported by LICHF. While we hope for the volatility in NIM and ECL provisioning to subside, we still see risk reward favorable at 0.7x FY25 P/BV. We reiterate our **BUY rating with a TP of INR500 (premised on 0.8x FY25E P/BV).**

Highlights from the management commentary

- Opex was elevated because of the IT interventions, which were done over the last 18 months (in consultation with BCG). The management guided for cost-income ratio to decline next year.
- Reported NIM of ~3.2% has no one-offs and is purely a function of the PLR hikes, which were taken over the last one year. Incremental borrowing costs are very close to the weighted average CoB. Borrowing costs should remain largely stable within a band of 10-15bp.

Valuation and View

- LICHF has strong moats in retail mortgages and on the liability side and has demonstrated its ability to transmit higher borrowing cost to its customers. However, we still remain wary of potential slippages in the restructured pool and model higher credit costs of ~55bp (vs. guidance of 45-50bp).
- LICHF's valuation of 0.7x FY25E P/BV reflects the volatility in LICHF's reported earnings and the asset quality stress, particularly in its developer book. We estimate a RoA/RoE of 1.5%/14% in FY25 and reiterate our **BUY** rating on the stock with a TP of INR500 (based on 0.8x FY25E BVPS).
- **Key downside risks:** a) Slippages from restructured pool, leading to higher credit costs and b) volatility in NIM profile and ECL provisioning

Quarterly Performance

(INR M)

Y/E March	FY23				FY24E				FY23	FY24E	1Q FY24E	Act. v/s est. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	52,502	50,493	58,387	63,780	67,037	66,702	67,369	67,620	2,25,162	2,68,726	62,824	7
Interest Expenses	36,400	38,864	42,328	43,877	44,942	46,291	48,142	50,999	1,61,860	1,90,374	44,755	0
Net Interest Income	16,102	11,629	16,059	19,903	22,094	20,411	19,226	16,621	63,303	78,353	18,069	22
YoY Growth (%)	26.3	-0.4	10.4	21.5	37.2	75.5	19.7	-16.5	14.4	23.8	12.2	
Fees and other income	407	427	374	371	429	540	545	532	1,580	2,045	489	-12
Net Income	16,509	12,056	16,432	20,274	22,523	20,951	19,771	17,153	64,882	80,398	18,558	21
YoY Growth (%)	26.1	-0.3	7.8	15.4	36.4	73.8	20.3	-15.4	11.9	23.9	12.4	
Operating Expenses	2,029	2,610	2,876	2,759	2,425	2,871	3,163	3,554	9,883	12,013	2,191	11
Operating Profit	14,481	9,447	13,557	17,515	20,098	18,080	16,608	13,599	55,000	68,384	16,367	23
YoY Growth (%)	40.9	-0.4	2.9	16.2	38.8	91.4	22.5	-22.4	14.6	24.3	13.0	
Provisions and Cont.	3,077	5,658	7,627	3,068	3,608	4,800	4,400	3,913	19,430	16,721	4,200	-14
Profit before Tax	11,404	3,789	5,930	14,448	16,490	13,280	12,208	9,686	35,570	51,663	12,167	36
Tax Provisions	2,149	739	1,127	2,645	3,253	2,523	2,320	1,720	6,660	9,816	2,312	41
Net Profit	9,255	3,050	4,803	11,803	13,237	10,757	9,889	7,966	28,910	41,847	9,855	34
YoY Growth (%)	503.2	23.0	-37.4	5.5	43.0	252.7	105.9	-32.5	26.4	44.7	6.5	
Key Operating Parameters (%)												
Yield on loans (Cal)	8.29	7.80	8.80	9.39	9.72	9.55	9.43	9.20	8.78	9.6		
Cost of funds (Cal)	6.47	6.78	7.15	7.24	7.40	7.56	7.66	7.84	6.91	7.5		
Spreads (Cal)	1.81	1.02	1.65	2.15	2.33	1.99	1.77	1.36	1.87	2.1		
Margins (Cal)	2.54	1.80	2.42	2.93	3.21	2.92	2.69	2.26	2.40	2.7		
Credit Cost (Cal)	0.49	0.87	1.15	0.45	0.52	0.69	0.62	0.53	0.76	0.6		
Cost to Income Ratio	12.3	21.6	17.5	13.6	10.8	13.7	16.0	20.7	15.2	14.9		
Tax Rate	18.8	19.5	19.0	18.3	19.7	19.0	19.0	17.8	18.7	19.0		
Balance Sheet Parameters												
Loans (INR B)	2,557	2,623	2,684	2,750	2,764	2,823	2,894	2,984	2,678	2895		
Change YoY (%)	10.0	10.4	10.3	9.5	8.1	7.6	7.8	8.5	9.2	8.1		
Indiv. Disb. (INR B)	149	164	157	145	106	155	175	190	614	626		
Change YoY (%)	77.0	3.9	-10.3	-23.4	-28.8	-5.3	11.8	31.4	1.5	2.0		
Borrowings (INR B)	2,260	2,329	2,404	2,447	2,414	2,484	2,547	2,656	2,448	2629		
Change YoY (%)	9.5	11.4	11.4	9.3	6.8	6.6	5.9	8.5	9.4	7.4		
Loans/Borrowings (%)	113.2	112.6	111.7	112.4	114.5	113.6	113.6	112.4	109.4	110.1		
Asset Quality Parameters												
GS 3 (INR B)	126.8	128.5	127.5	120.2	137.1				120.2	124.5		
Gross Stage 3 (% on Assets)	5.0	4.9	4.8	4.4	5.0				4.4	4.2		
NS 3 (INR B)	75.6	72.3	62.6	66.4	79.2				66.4	62.9		
Net Stage 3 (% on Assets)	3.0	2.8	2.4	2.5	2.9				2.5	2.2		
PCR (%)	40.4	43.7	50.9	44.8	42.3				44.8	49.5		
ECL (%)	2.40	2.49	2.71	2.63	2.75				2.63			
Loan Mix (%)												
Home loans	82.0	82.6	83.1	83.2	83.2				83.2			
LAP	13.2	12.9	12.9	12.5	12.3				12.5			
Non Individual loans	4.8	4.5	4.0	4.3	4.3				4.3			
Borrowing Mix (%)												
Banks	33.0	34.0	33.9	34.0	31.0				34.0			
NCD	51.0	52.0	51.9	50.0	54.0				50.0			
Sub Debt	1.0	1.0	0.8	1.0	1.0				1.0			
Deposits	8.0	7.0	5.9	5.0	5.0				5.0			
NHB	4.0	4.0	3.6	5.0	5.0				5.0			
CP	3.0	2.0	3.9	5.0	4.0				5.0			

E: MOFSL Estimates

Disbursements momentum to pick up in subsequent quarters

- 1QFY24 disbursements in individual home loans declined ~28% YoY, while non-housing individual/ commercial disbursements declined 33% YoY. Builder/project loan disbursements declined 19% YoY. Total disbursements declined ~29% YoY.
- Overall loan book grew ~8.5% YoY, but was flat QoQ at ~INR2.76t. Home loans/ LAP exhibited growth of 10%/1% YoY, respectively, while the developer loan book declined 3% YoY.
- LICHF shared that its IT systems have now stabilized and that it returned to a monthly disbursement run-rate of ~INR50b in June and July disbursements were in line with expectations.

Asset quality deterioration transitory in nature

- Asset quality deteriorated with GS3, increasing ~60bp QoQ to ~5%. LICHF reduced the PCR on Stage 3 loans by ~250bp QoQ to ~42%. This led to NS3 increasing by 40bp QoQ to 3.0%
- Implementation of technological changes resulted in technical glitches, negatively impacting the collection of EMIs which in turn led to deterioration in GS3. The management shared that this deterioration is transitory in nature and that it expects the asset quality to improve in the subsequent quarters.
- Stage 2 + 3 assets (30+ dpd) increased ~110bp QoQ to 10.7% (PQ: 9.6%), while the company reduced the coverage on Stage 2 + 3 assets by ~140bp.
- ECL/ EAD increased by ~10bp sequentially to 2.75% (PQ: 2.6%).
- LICHF did cumulative restructuring of ~INR72b. Out of this, ~INR56b is still outstanding, while the remaining exposures has either been fully repaid or closed. Stage 3 from the restructured pool is in the range of ~18-20%.



Highlights from the management commentary

Business Update

- Improving the credit process by building superior credit appraisal structure.
- The company is experiencing teething issues since it transitioned to its technological platform. Things are improving fast and the company is expected to deliver positive results in the coming quarters.
- Demand across all sectors is witnessing buoyancy and is likely to remain that way in the coming quarters.
- Margins rose because of the impact of passing on the PLR hikes in 4QFY23 and 1QFY24.
- A marginal decline in the (absolute) Stage 3 of project loans - Visibility on recoveries in Stage 3 has also improved.

Guidance

- FY24 margins of 2.7-2.8%. CoB will largely remain flat.
- Disbursement growth of 12-15% in FY24 and RoA will be between 1.3% and 1.4%.
- Guided for more stabilization in the ECL provisioning and FY24 credit costs of ~40-50bp.
- Guided for a 50:50 mix between fixed and floating borrowings. Now that HDFC Ltd. is not present in the debt markets, it expects to benefit in its debt market borrowings.
- NIM of ~3.2% is purely operational and is a function of PLR hikes taken over the last one year.
- Incremental CoB is very close to the weighted average CoB. Borrowing cost should remain largely stable within a band of 10-15bp.
- Margins will expand YoY and there will be a substantial increase in the NIM for the full year. There could be a minor reduction in the lending rates because of the outlook of stability in the interest rates.

Asset Quality

- The deterioration of ~60bp in GS3 is because of Individual Housing Loans. The technological changes it undertook resulted in some technical glitches, which, in turn, slightly affected the collection of EMIs.
- About 85% of the EMIs are collected from the E-NACH and NACH mode. Because of technical glitches, the presentment of demand could not happen and this led to lower collections.
- Asset quality deterioration is only transitory; Stage 3 NPAs will definitely come down from what they are now.

Liabilities

- ~50% the liabilities are on fixed-rate instruments and ~97% of the assets are on the floating side.
- Floating Rate Liabilities can offer certain benefits when they are re-priced lower.

Disbursements

- Back on track from June onwards wherein disbursement run-rate in June was ~INR50b. July has been in line with expectations.

Restructured Book

- ~INR72b of cumulative OTR; <INR1b of exposures has still not exited moratorium as yet.
- From the cumulative restructured pool, INR56b is still outstanding and the remaining has already been paid/closed.
- Stage 3 from the restructured pool stood at 18-20%

Project Loans

- Collection of more than ~INR1b from the Project Loans. Additionally, it has received ~INR800m of positive order from NCLT.
- The total quantum of project loans in NCLT is ~INR23b (comprising of 22 accounts).
- Until now, LICHF was not aggressive in OTS and ARC Sales. The company has come up with an ARC policy within the organization and will also be looking at doing technical write-offs within project loans in the subsequent quarters.

Others

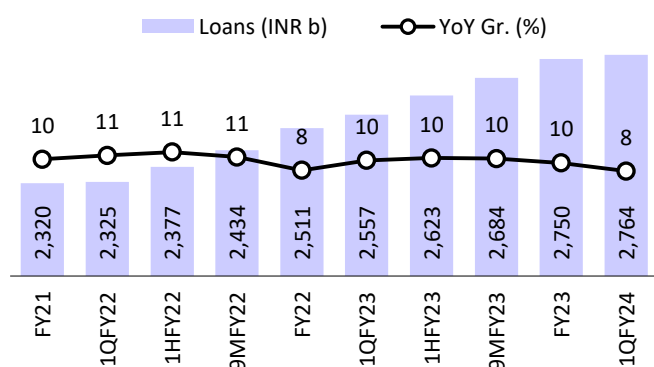
- Opex is high because of the IT interventions, which were done over the last 18 months (in consultation with BCG). The management has guided for cost-income ratio to come down next year.
- 50 New Sales offices opened in Tier 2 and 3 towns and 44 new cluster offices. Restructuring of cluster offices were done to streamline loan sanctions and disbursement operations. This will help improve the TAT.
- The management is targeting a 25% growth in the number of marketing intermediaries (feet on the street).
- Cost of NHB borrowings stood at 5.8%

Exhibit 1: Product-wise split of Stage 3

Stage 3 (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Individual home loans (IHL)	2.3	2.1	1.7	1.9	1.7	1.6	1.6	2.2
Non-housing commercial (NHC)	14.8	15.9	18.0	11.5	22.4	22.5	22.0	24.0
Non-housing individual (NHI)	9.8	9.0	8.1	8.1	6.9	6.7	6.6	7.8
Project loans	23.9	27.0	31.8	35	42.2	45.6	40.0	42.1

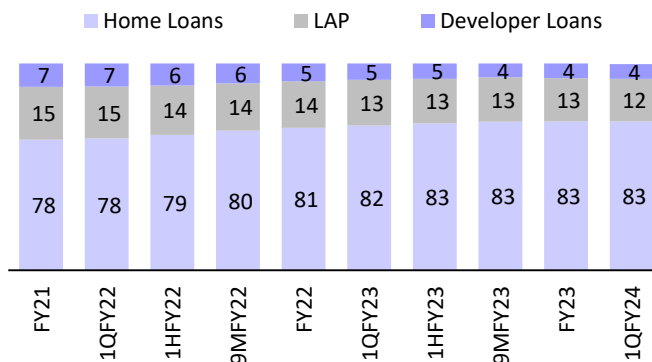
Story in charts

Exhibit 2: Loan book grew 8% YoY



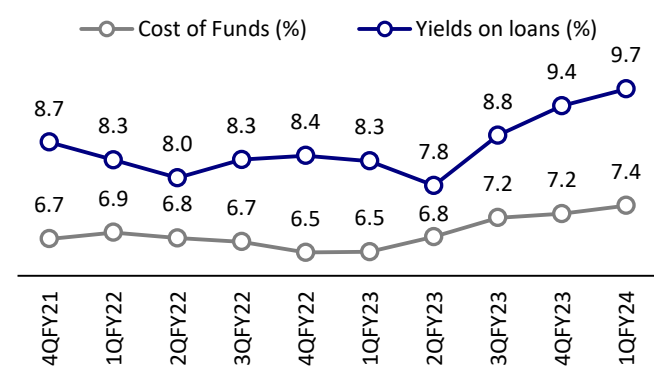
Source: MOFSL, Company

Exhibit 3: Loan mix stable sequentially (%)



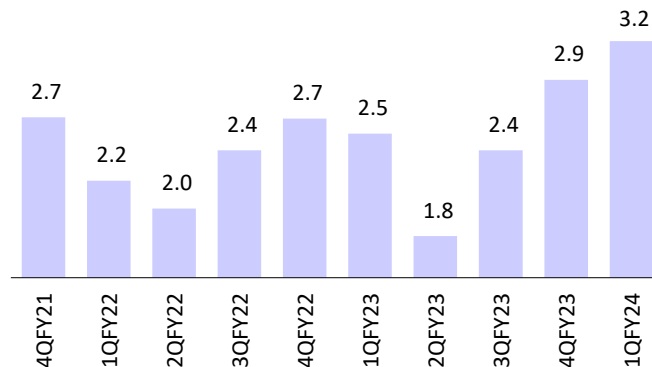
Source: MOFSL, Company

Exhibit 4: Calculated spreads rose ~20bp QoQ



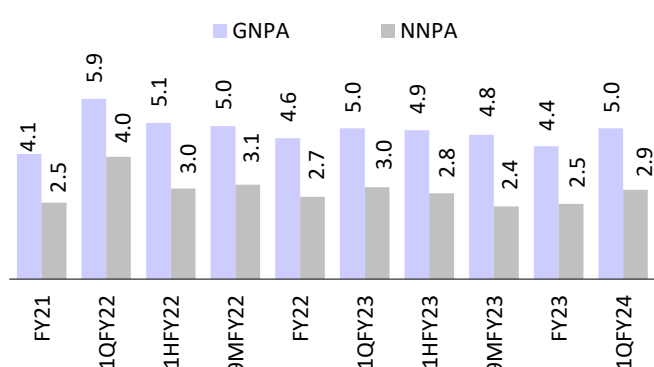
Source: MOFSL, Company

Exhibit 5: NIMs improved ~30bp QoQ (%)



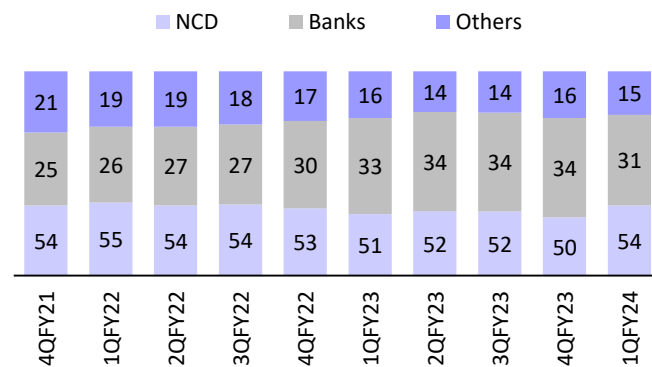
Source: MOFSL, Company

Exhibit 6: GS3 deteriorated sequentially (%)



Source: MOFSL, Company

Exhibit 7: Share of NCDs rose ~4pp QoQ (%)

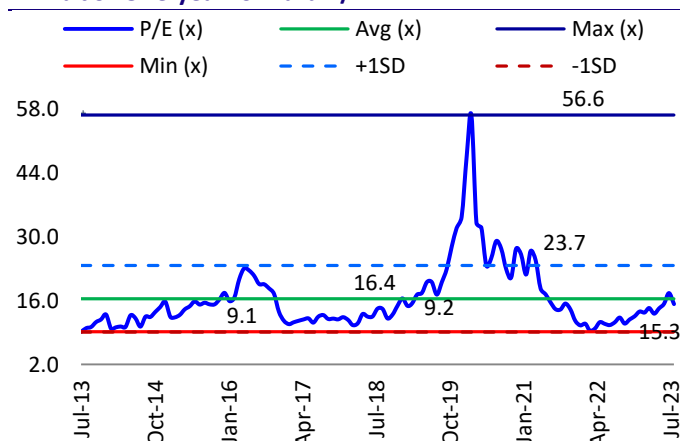


Source: MOFSL, Company

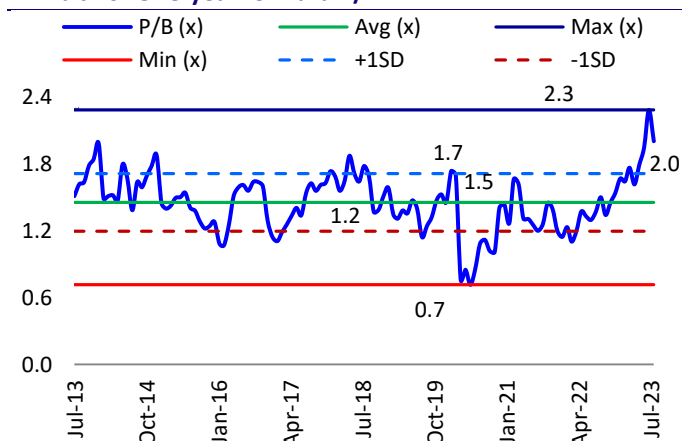
Exhibit 8: Increase our FY24/FY25 EPS by ~9%/6% to factor in higher NIM and operating expenses

INR B	Old Est.		New Est.		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	72.0	78.9	78.4	81.2	8.8	3.0
Other Income	2.0	2.2	2.0	2.2		
Net Income	74.1	81.1	80.4	83.4	8.6	2.9
Operating Expenses	11.3	12.7	12.0	12.8	6.5	0.7
Operating Profits	62.8	68.3	68.4	70.6	8.9	3.3
Provisions	15.4	13.8	16.7	13.6	8.7	-1.3
PBT	47.4	54.5	51.7	57.0	9.0	4.5
Tax	9.0	10.9	9.8	10.8		
PAT	38.4	43.6	41.8	46.1	9.0	5.8
Loans	2,916	3,216	2,895	3,157	-0.7	-1.8
Borrowings	2,652	2,913	2,629	2,851	-0.9	-2.1
Spreads (%)	1.92	1.88	2.14	1.97		
RoAA (%)	1.3	1.4	1.4	1.5		
RoAE (%)	13.5	13.8	14.6	14.4		

Source: MOFSL, Company

Exhibit 9: One-year forward P/E

Source: MOFSL, Company

Exhibit 10: One-year forward P/B

Source: MOFSL, Company

Financials and valuations

Income Statement									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	1,38,767	1,46,662	1,71,628	1,96,054	1,96,971	1,96,885	2,25,162	2,68,726	2,86,713
Interest Expense	1,02,315	1,11,439	1,28,915	1,47,839	1,44,526	1,41,537	1,61,860	1,90,374	2,05,498
Net Interest Income	36,452	35,223	42,713	48,215	52,445	55,348	63,303	78,353	81,215
Change (%)	23.8	-3.4	21.3	12.9	8.8	5.5	14.4	23.8	3.7
Fee Income	1,102	356	348	394	788	982	448	800	900
Other Income	934	1,388	1,669	250	718	1,664	1,132	1,245	1,307
Net Income	38,489	36,968	44,730	48,859	53,951	57,994	64,882	80,398	83,422
Change (%)	21.1	-4.0	21.0	9.2	10.4	7.5	11.9	23.9	3.8
Operating Expenses	6,118	4,396	4,754	6,167	7,015	9,994	9,883	12,013	12,832
Operating Profits	32,371	32,572	39,976	42,692	46,936	48,000	55,000	68,384	70,591
Change (%)	19.4	0.6	22.7	6.8	9.9	2.3	14.6	24.3	3.2
Provisions/write offs	2,813	4,917	6,181	10,002	13,450	20,218	19,430	16,721	13,618
PBT	29,558	27,655	33,796	32,690	33,486	27,782	35,570	51,663	56,972
Tax	10,247	7,630	9,486	8,672	6,142	4,909	6,660	9,816	10,825
Tax Rate (%)	34.7	27.6	28.1	26.5	18.3	17.7	18.7	19.0	19.0
PAT	19,311	20,025	24,310	24,018	27,343	22,873	28,910	41,847	46,148
Change (%)	16.3	3.7	21.4	-1.2	13.8	-16.3	26.4	44.7	10.3
Adjusted PAT	19,311	20,025	24,310	24,018	27,343	22,873	28,910	41,847	46,148
Change (%)	16.3	3.7	21.4	-1.2	13.8	-16.3	26.4	44.7	10.3
Proposed Dividend	3,759	3,998	4,471	4,040	4,292	4,678	4,678	5,859	5,593

Balance Sheet									(INR M)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	1,010	1,010	1,010	1,010	1,010	1,101	1,101	1,101	1,101
Reserves & Surplus	1,25,110	1,41,402	1,61,583	1,80,921	2,04,203	2,45,618	2,69,903	3,01,213	3,35,909
Net Worth	1,26,120	1,42,412	1,62,593	1,81,931	2,05,213	2,46,718	2,71,003	3,02,314	3,37,010
Borrowings	12,63,170	14,53,099	17,06,670	19,13,317	20,78,615	22,36,582	24,47,742	26,28,894	28,51,040
Change (%)	13.9	15.0	17.5	12.1	8.6	7.6	9.4	7.4	8.5
Other liabilities	1,15,526	1,15,387	1,36,572	72,808	72,505	62,375	65,374	71,912	79,103
Total Liabilities	15,04,816	17,10,898	20,05,835	21,68,056	23,56,333	25,45,675	27,84,120	30,03,119	32,67,153
Investments	33,694	19,722	35,951	54,964	46,357	61,986	69,764	62,788	56,509
Change (%)	1,117.1	-41.5	82.3	52.9	-15.7	33.7	12.5	-10.0	-10.0
Loans	14,47,167	16,61,623	19,29,927	20,79,880	22,81,143	24,52,963	26,78,348	28,95,257	31,57,298
Change (%)	15.6	14.8	16.1	7.8	9.7	7.5	9.2	8.1	9.1
Net Fixed Assets	965	971	1,359	2,544	2,470	2,876	3,570	4,105	4,721
Other assets	22,990	28,582	38,598	30,669	26,364	27,849	32,439	40,969	48,625
Total Assets	15,04,816	17,10,898	20,05,835	21,68,056	23,56,334	25,45,675	27,84,120	30,03,119	32,67,153

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Yield on loans	10.3	9.4	9.6	9.8	9.0	8.3	8.8	9.6	9.5
Cost of funds	8.6	8.2	8.2	8.2	7.2	6.6	6.9	7.5	7.5
Spreads Analysis (%)	1.7	1.2	1.4	1.6	1.8	1.76	1.87	2.14	1.97
Margins	2.7	2.3	2.4	2.4	2.4	2.34	2.47	2.8	2.7
Profitability Ratios (%)									
Adj RoAE	17.8	14.9	15.9	13.9	14.1	10.1	11.2	14.6	14.4
Adj RoAA	1.4	1.2	1.3	1.2	1.2	0.9	1.1	1.4	1.5
Int. Expended/Int.Earned	73.7	76.0	75.1	75.4	73.4	71.9	71.9	70.8	71.7
Other Inc./Net Income	2.4	3.8	3.7	0.5	1.3	2.9	1.7	1.5	1.6
Efficiency Ratios (%)									
Fees/Operating income	0.8	0.2	0.2	0.2	0.4	0.5	0.2	0.3	0.3
Op. Exps./Net Income	15.9	11.9	10.6	12.6	13.0	17.2	15.2	14.9	15.4
Empl. Cost/Op. Exps.	40.2	50.8	52.1	48.5	41.8	56.4	47.9	45.7	45.8
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	114.6	114.4	113.1	108.7	109.7	109.7	109.4	110.1	110.7
Debt/Equity (x)	10.0	10.2	10.5	10.5	10.1	9.1	9.0	8.7	8.5
Gross NPAs (Rs m)	6,271	13,036	30,754	59,594	95,585	1,16,520	1,20,196	1,24,538	1,29,274
Gross NPAs to Adv.	0.4	0.8	1.6	2.8	4.1	4.7	4.4	4.2	4.0
Net NPAs (Rs m)	2,053	7,117	15,514	33,474	57,414	66,314	66,383	62,854	57,006
Net NPAs to Adv.	0.1	0.4	0.8	1.6	2.5	2.7	2.5	2.2	1.8
Valuation									
Book Value (INR)	250	282	322	360	406	448	492	549	612
Growth (%)	37.9	12.9	14.2	11.9	12.8	10.3	9.8	11.6	11.5
Price-BV (x)	1.5	1.3	1.1	1.0	0.9	0.8	0.8	0.8	0.7
EPS (INR)	38.2	39.7	48.1	47.6	54.2	41.6	52.5	76.0	83.8
Growth (%)	16.3	3.7	21.4	-1.2	13.8	-23.3	26.4	44.7	10.3
Price-Earnings (x)	9.7	9.3	7.7	7.8	6.8	8.9	7.0	5.6	5.1
Adj. EPS (INR)	38.2	39.7	48.1	47.6	54.2	41.6	52.5	76.0	83.8
Growth (%)	16.3	3.7	21.4	-1.2	13.8	-23.3	26.4	44.7	10.3
Price-Earnings (x)	9.7	9.3	7.7	7.8	6.8	8.9	7.0	5.6	5.1
Dividend Per Share	6.2	6.8	7.6	8.0	8.5	8.5	8.5	10.6	10.2
Dividend Yield (%)	1.7	1.8	2.1	2.2	2.3	2.3	2.3	2.5	2.4
E: MOFSL Estimates									

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NOTES

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BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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