

August 4, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	430		410	
NII (Rs.)	78,012	80,178	70,738	78,214
% Chng.	10.3	2.5		
PPoP (Rs.)	68,547	70,075	61,599	68,135
% Chng.	11.3	2.8		
EPS (Rs.)	75.8	80.2	67.0	75.0
% Chng.	13.1	6.9		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	55,206	63,513	78,012	80,178
Growth (%)	5.6	15.0	22.8	2.8
Op. Profit (Rs m)	47,664	55,000	68,547	70,075
PAT (Rs m)	22,873	28,910	41,722	44,134
EPS (Rs.)	41.6	52.5	75.8	80.2
Gr. (%)	(23.3)	26.4	44.3	5.8
DPS (Rs.)	8.5	9.5	15.2	16.0
Yield (%)	2.0	2.2	3.6	3.8
Margin (%)	2.3	2.4	2.7	2.5
RoAE (%)	10.1	11.2	14.5	13.8
RoAA (%)	0.9	1.1	1.4	1.4
PE (x)	10.3	8.1	5.6	5.3
P/BV (x)	1.0	0.9	0.8	0.7
P/ABV (x)	1.3	1.2	1.0	0.9

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.444 / Rs.315	
Sensex / Nifty	65,721 / 19,517	
Market Cap	Rs.235bn / \$ 2,833m	
Shares Outstanding	550m	
3M Avg. Daily Value	Rs.1015.72m	

Shareholding Pattern (%)

Promoter's	45.24
Foreign	17.15
Domestic Institution	25.04
Public & Others	12.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.3	6.7	14.7
Relative	8.9	(1.2)	1.8

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Better NII to drive earnings upgrade

Quick Pointers:

- Earnings beat led by higher NIM at 3.2% (PLe 3.0%); NIM guidance raised.
- Loan growth and asset quality that were impacted should improve.

We raise FY24/25E PAT by 13%/6% as NIM is increased by 27/13bps due to faster repricing of asset yields in FY24E, given higher proportion of fixed rate borrowings (~60%). LICHF reported a mixed quarter; while loan growth was softer and asset quality saw a blip, PAT beat PLe by 10% due to better NII/NIM. Company raised NIM guidance for FY24E from 2.5% to 2.7%. Disbursals and asset quality were weaker in Q1'24 since operations and collections were impacted as 1) restructuring led to transition of manpower, impeding staff bandwidth and 2) technology platform witnessed glitches. As these issues have been sorted, disbursals have normalized in Jun'23 and Stage-3 should reduce. While consensus earnings upgrade positively impacted the stock, earnings quality should improve for further re-rating. We maintain multiple at 0.9x on FY25E ABV and raise TP to Rs430 from Rs410. Retain HOLD.

- PAT beat led by better NII/NIM; miss on loan growth and asset quality:** NII was better at Rs22.1bn (PLe Rs20.4bn) driven by higher NIM, as loan growth was a miss. NIM was ahead at 3.33% (PLe 3.06%) led by better loan yields at 10.1% (PLe 9.8%). Loan growth was lower at 8.1% YoY (PLe 9%); disbursals were a miss at Rs108.6bn (PLe Rs133bn) offset by lesser repayments at Rs94.6bn (PLe Rs96.3bn). Individual growth was 9% YoY while project loans de-grew by 9% YoY. Opex was a miss at Rs2.4bn (PLe Rs2.1bn) due to staff cost and other opex. PPoP was 8% higher to PLe at Rs2bn (PLe Rs1.86bn). Asset quality disappointed; stage-2/3 rose QoQ by 49/59bps to 5.7%/5.0%, while PCR dipped QoQ from 44.4% to 42.2%. Provisions were Rs3.6bn (PLe Rs3.75bn). PAT was ahead at Rs13.2bn (PLe Rs12.0bn).
- Disbursals lower due to tech execution/restructuring:** While Q1 is usually soft, disbursals saw a sharper decline of 32.3% QoQ due to 1) organizational restructuring in Q1'24, as new area and cluster offices were opened which led to transition of manpower and 2) glitches in the technology platform established in Mar'23, which impacted operations in Apr/May'23. Company suggested that these issues have been sorted and volumes have normalized as disbursals were Rs50bn in Jun'23, which may improve. Tech changes have strengthened credit appraisal process and streamlined operations which should reduce TAT. We trim loan growth for FY24/25E by 2% and expect an 8% CAGR.
- NIM guidance raised; asset quality blip should regularize:** Reported NIM increase QoQ from 2.9% to 3.2% was organic, led by faster rise in yields compared to funding cost. While, company expects NIM to normalize, NIM guidance for FY24E has been increased to 2.6-2.75% from 2.5%. Hence we raise NIM by 27/13bps for FY24/25E. Increase in stage-3 QoQ was mainly due to technical glitches in NACH mandates which affected presentation of EMI demand in Apr/May'23 that impacted collections. As per LICHF, this issue too has been resolved and collection efficiency is near normal.

Exhibit 1: Earnings beat at Rs13.2bn led by higher NII and NIM

NII growth was higher at 36.5% YoY/11% QoQ, led by higher NIM of 3.3%

Opex grew 20.3% YoY due to lower employee and other expenses

Provisions at Rs3.6bn was higher owing to lower recoveries.

PAT grew at 43%YoY led by higher NII and NIM growth.

Loan growth was bit lower at 8.1%YoY/0.5% QoQ led by lower disbursements.

GNPA increased by 55bps QoQ to 4.96%

P&L (Rs m)	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)
Interest Income	67,065	52,609	27.5	63,805	5.1
Interest Expense	44,942	36,401	23.5	43,877	2.4
Net Interest Income	22,123	16,209	36.5	19,927	11.0
Other operating Inc.	132	139	(4.9)	125	5.2
Other Income	269	162	66.0	222	21.1
Total income	22,523	16,509	36.4	20,274	11.1
Employee Expense	1,331	974	36.6	1,436	(7.3)
Other Expenses	1,268	1,054	20.3	1,323	(4.1)
Operating Profit	19,924	14,481	37.6	17,515	13.8
Provisions	3,608	3,077	17.3	3,068	17.6
Tax	3,253	2,149	51.4	2,645	23.0
Net Profit excl exceptional	13,062	9,255	41.1	11,803	10.7
Reported PAT	13,237	9,255	43.0	11,803	12.1
Balance Sheet (Rs m)					
O/S Loans	2,764,400	2,557,120	8.1	2,750,470	0.5
-Individual loans	2,651,190	2,432,690	9.0	2,633,090	0.7
Retail Home Loans	2,311,169	2,096,838	10.2	2,279,380	1.4
Retail LAP / Non Core	340,021	337,540	0.7	353,710	(3.9)
-Corporate loans	113,210	124,430	(9.0)	117,380	(3.6)
-Individual loans (%)	95.9	95.1	0.8	95.7	0.2
Retail Home Loans	83.6	82.0	1.6	83.1	0.5
Retail LAP / Non Core	12.3	13.2	(0.9)	12.9	(0.6)
-Corporate loans (%)	4.1	4.9	(0.8)	4.3	(0.2)
Incr. Disbursements	108,560	152,010	(28.6)	160,270	(32.3)
-Individual loans (%)	86.8	98.0	(11.2)	77.4	9.4
-Developer loans (%)	13.2	2.0	11.2	22.6	(9.4)
Asset quality					
Gross NPL	137,114	126,833	8.1	121,296	13.0
Gross NPL (%)	4.96	4.96	-	4.41	55.0
Others / Ratios (%)					
Yield on Loans - Calc	10.1	8.6	1.5	9.7	0.4
Cost of Borrowings - Calc	7.7	6.7	1.0	7.5	0.2
Spread	2.4	1.9	0.5	2.2	0.2
NIMs	3.3	2.7	67.0	3.0	29.6
Cost/ Income Ratio	10.8	12.3	(1.5)	13.6	(2.8)

Source: Company, PL

KTAs of LICHF Q1FY24 Earnings Con call

Assets & Liabilities:

- Mr. Tribhuvan Adhikari took over as MD & CEO of the company wef August 3rd, 2023. Company initiated series of changes likes expansion in newer geographical areas by increasing branches, implementation of new core loan management system (LMS), incorporating special team for high value cases for improving TAT and integration of SAP accounting package.
- **Management guided loan book to grow at 12-15% for FY24** with targeted RoA of ~1.3-1.4%. Rate hike pause has led to stability in operations and brought back customers. Demand remains buoyant and is likely to sustain. Company opened 50 new marketing offices and 44 cluster offices in order to expand its geographical presence.
- **Disbursement in Q1FY24, de-grew by 28.6% YoY / 32.3 % QoQ** mainly due to 1) organization restructure in Q1FY24 by opening new area offices and cluster offices which led to transition of manpower and 2) technical glitches on the new technology platform established in Mar'23 which impacted operations in Apr-May'23. Management said that disbursements have normalized from Jun'23 onwards with monthly run-rate of ~Rs50bn.
- **Management's focus is on diversification** and reducing dependency on one market segment for borrowings. Company envisages a 50:50 floating – fixed rate mix in the medium term in order to hedge against interest rate movement. However, would continue to participate in bond market due to benefits available of HDFC Ltd merger.

NIM/Others

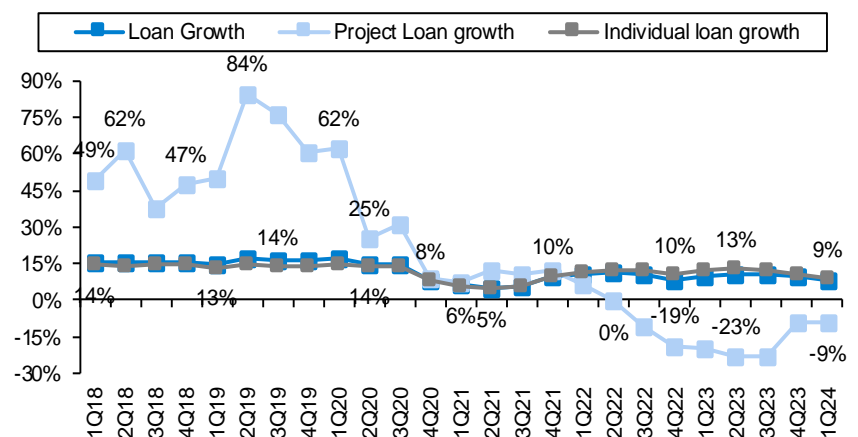
- **NIM grew from 3.03% in Q4FY23 to 3.33% in Q1FY24** led by passing of rate hikes and better liability management. Company revised its NIM guidance to ~2.6-2.75% for FY24E from earlier ~2.5%. Incremental cost of borrowings stood at 7.69% and management expects borrowing cost to remain range bound. Management hinted there could be some reduction in lending rates from current levels.
- **Yield on assets stood at 10.1% in Q1FY24.** Incremental yields for non-housing individual loans was 9.75% and for non-housing corporate loans was 11.88%. Repricing on assets side is largely over and management does not expect any rate hikes unless repo rates are increased.

Asset Quality:

- **Stage 3 increased by 55bps QoQ to 4.96% in Q1FY24.** Increase in GNPA's was mainly because of technical glitches which affected collections. Presentation of EMI demands was hit in Apr-May'23 due to glitches in NACH mandates. Management said that this issue has been resolved and collection efficiency is near to normal.

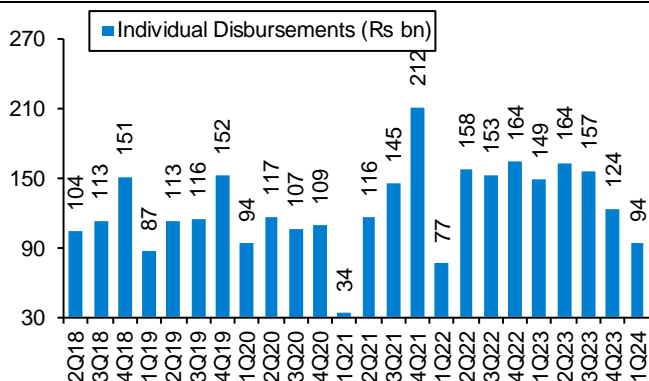
- **Stage 3 product wise split:** Individual home loans – Rs51bn or 2.2%, non-housing individual loans – Rs21bn or 7.8%, non-housing corporate book – Rs16.3bn or 24%, project loans – Rs48.74bn or 42.12%. Credit cost guidance maintained at 40-50bps for FY24.
- For project loans, out of Rs48.74bn stage 3 assets, Rs23bn are in NCLT consisting of 22 accounts. Company has received favorable orders to the tune of Rs0.8bn in NCLT.
- **Total restructured book was Rs72bn**, of which under moratorium - >1bn, NPA – 18-20% and Rs56bn remains outstanding.
- Management said that it would explore one-time settlement and ARC strategy in order to improve NPAs. It would also be looking at technical write-offs in coming quarters.

Exhibit 2: Loan growth was soft at 8% YoY; project loan continues to de-grow



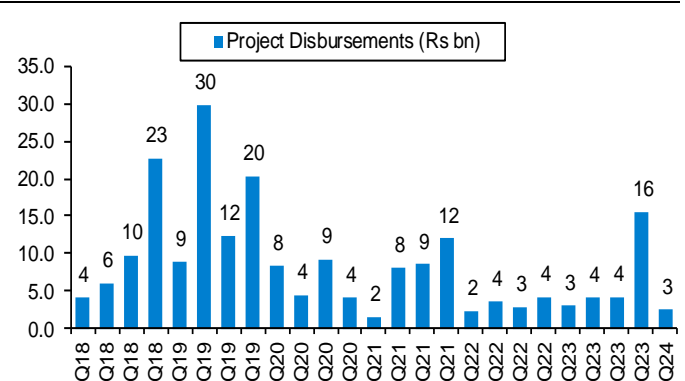
Source: Company, PL

Exhibit 3: Disbursements declined 24.1% QoQ to Rs94bn



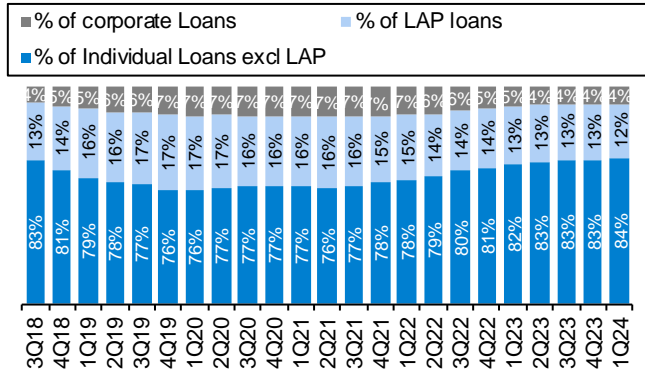
Source: Company, PL

Exhibit 4: P.L. disbursements declined sharply Rs3bn



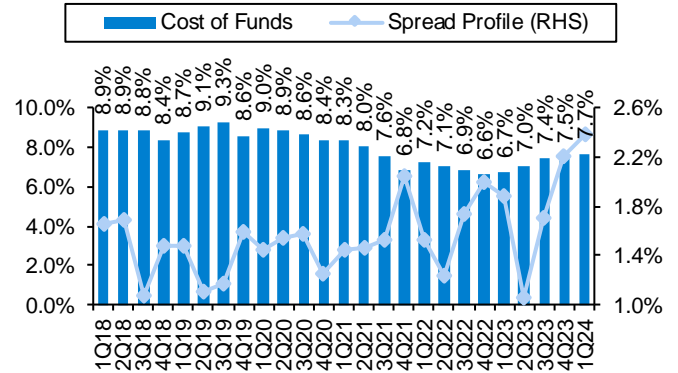
Source: Company, PL

Exhibit 5: Individual loan mix grew slightly with 84% share



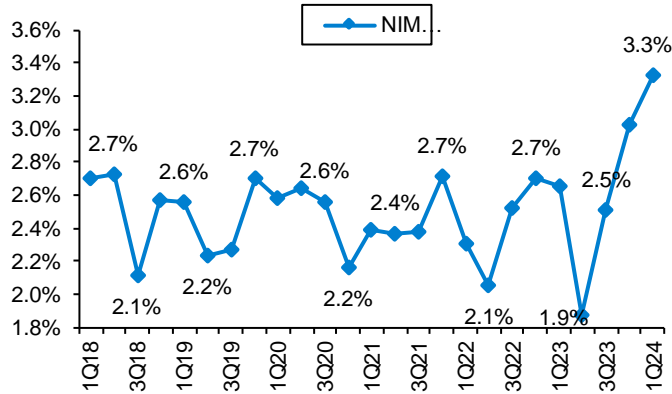
Source: Company, PL

Exhibit 6: Spreads increased 18bps QoQ to 2.4%



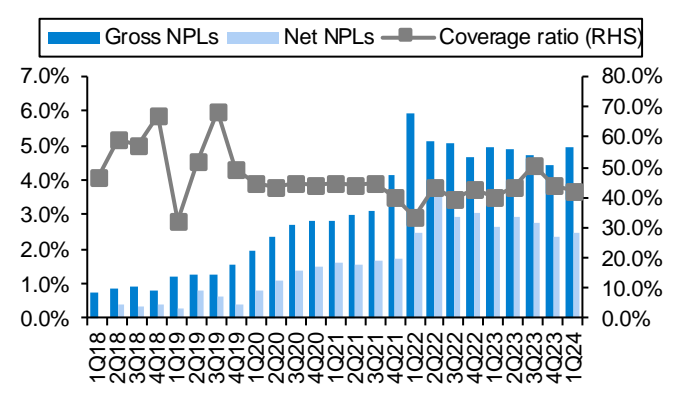
Source: Company, PL

Exhibit 7: NIM grew strong to 3.3% led by better yields



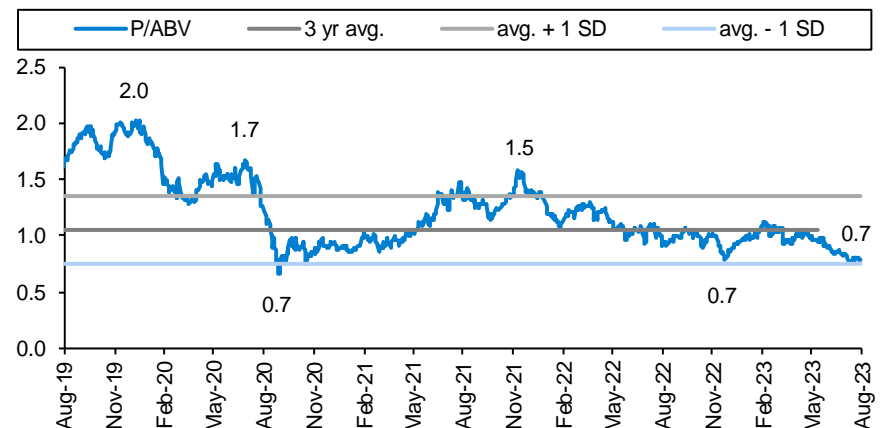
Source: Company, PL

Exhibit 8: GNPA increased to 4.9%, while PCR was at 42.2%



Source: Company, PL

Exhibit 9: One-year forward P/ABV of LICHF trades at 0.7x



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Inc. / Opt. Inc.	1,97,079	2,25,373	2,77,519	2,88,275
Interest Expenses	1,41,872	1,61,860	1,99,507	2,08,097
Net interest income	55,206	63,513	78,012	80,178
Growth(%)	5.6	15.0	22.8	2.8
Non-interest income	2,452	1,369	1,606	1,814
Growth(%)	73.8	(44.1)	17.3	12.9
Net operating income	57,658	64,882	79,618	81,992
Expenditures				
Employees	5,633	4,732	5,605	6,117
Other Expenses	3,836	4,495	4,770	5,062
Depreciation	524	656	696	738
Operating Expenses	9,994	9,883	11,071	11,917
PPP	47,664	55,000	68,547	70,075
Growth(%)	2.1	15.4	24.6	2.2
Provisions	19,882	19,430	16,782	15,318
Profit Before Tax	27,782	35,570	51,764	54,757
Tax	4,909	6,660	10,042	10,623
Effective Tax rate(%)	17.7	18.7	19.4	19.4
PAT	22,873	28,910	41,722	44,134
Growth(%)	(16.3)	26.4	44.3	5.8

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Source of funds				
Equity	1,101	1,101	1,101	1,101
Reserves and Surplus	2,45,617	2,69,903	3,02,209	3,37,516
Networth	2,46,718	2,71,003	3,03,310	3,38,617
Growth (%)	20.2	9.8	11.9	11.6
Loan funds	22,36,582	24,47,742	26,87,585	28,98,908
Growth (%)	7.6	9.4	9.8	7.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	59,244	61,826	62,545	64,533
Other Liabilities	3,131	1,735	1,809	1,951
Total Liabilities	25,45,674	27,82,306	30,55,250	33,04,009
Application of funds				
Net fixed assets	2,876	3,570	4,073	4,411
Advances	24,52,963	26,78,348	29,37,115	31,76,287
Growth (%)	7.5	9.2	9.7	8.1
Investments	61,986	69,764	78,572	84,926
Current Assets	9,540	7,605	9,151	9,897
Net current assets	(49,704)	(54,221)	(53,393)	(54,637)
Other Assets	18,310	24,774	28,268	30,612
Total Assets	25,45,675	27,84,060	30,57,179	33,06,132
Growth (%)	8.0	9.4	9.8	8.1
Business Mix				
AUM	25,11,200	27,50,470	29,71,262	32,13,196
Growth (%)	8.2	9.5	8.0	8.1
On Balance Sheet	25,11,200	27,50,470	29,71,262	32,13,196
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	2.3	2.4	2.7	2.5
ROAA	0.9	1.1	1.4	1.4
ROAE	10.1	11.2	14.5	13.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Int. Inc. / Operating Inc.	50,562	58,397	63,805	67,065
Income from securitization	-	-	-	-
Interest Expenses	38,864	42,329	43,877	44,942
Net Interest Income	11,698	16,068	19,927	22,123
Growth (%)	1.2	10.0	22.2	36.5
Non-Interest Income	358	364	347	401
Net Operating Income	12,056	16,432	20,274	22,523
Growth (%)	0.9	7.8	16.4	36.4
Operating expenditure	2,610	2,876	2,759	2,425
PPP	9,447	13,556	17,515	20,098
Growth (%)	-	-	-	-
Provision	5,658	7,626	3,068	3,608
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,789	5,930	14,448	16,490
Tax	739	1,127	2,645	3,253
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.5	19.0	18.3	19.7
PAT	3,050	4,803	11,803	13,237
Growth	23	(37)	6	43
AUM	26,23,360	26,84,440	27,50,470	27,64,400
YoY growth (%)	10.4	10.3	9.5	8.1
Borrowing	23,29,430	24,03,640	24,46,960	24,13,720
YoY growth (%)	11.4	11.4	9.3	6.8

Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	427	427	427	427
EPS (Rs)	41.6	52.5	75.8	80.2
Book value (Rs)	448.3	492.4	551.1	615.2
Adj. BV(Rs)	328.4	369.8	409.9	463.3
P/E(x)	10.3	8.1	5.6	5.3
P/BV(x)	1.0	0.9	0.8	0.7
P/ABV(x)	1.3	1.2	1.0	0.9
DPS (Rs)	8.5	9.5	15.2	16.0
Dividend Payout Ratio(%)	20.4	18.0	20.0	20.0
Dividend Yield(%)	2.0	2.2	3.6	3.8

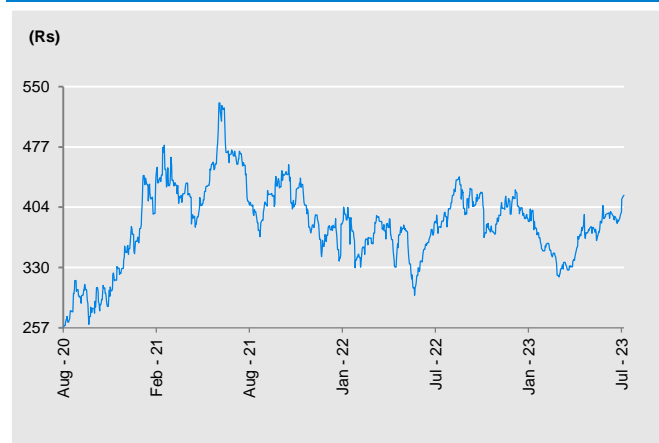
Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs(Rs m)	1,16,164	1,21,297	1,33,886	1,44,215
Net NPA(Rs m)	65,967	67,469	77,700	83,630
Gross NPAs to Gross Adv.(%)	4.6	4.4	4.5	4.5
Net NPAs to net Adv.(%)	2.6	2.5	2.6	2.6
NPA coverage(%)	43.2	44.4	42.0	42.0

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	2.3	2.4	2.7	2.5
NII INCL. Securitization	2.3	2.4	2.7	2.5
Total income	2.4	2.4	2.7	2.6
Operating Expenses	0.4	0.4	0.4	0.4
PPOP	1.9	2.1	2.3	2.2
Total Provisions	0.8	0.7	0.6	0.5
RoAA	0.9	1.1	1.4	1.4
Avg. Assets/Avg. net worth	10.8	10.3	10.2	9.9
RoAE	10.1	11.2	14.5	13.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	Hold	410	398
2	17-May-23	Hold	410	370
3	11-Apr-23	Accumulate	410	333
4	07-Feb-23	Accumulate	410	376
5	05-Jan-23	Accumulate	410	420
6	03-Nov-22	Accumulate	410	367
7	05-Oct-22	BUY	450	418
8	05-Aug-22	BUY	450	379

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,560	1,538
2	Axis Bank	BUY	1,170	977
3	Bank of Baroda	BUY	235	205
4	Can Fin Homes	BUY	950	831
5	City Union Bank	Accumulate	160	131
6	DCB Bank	BUY	150	129
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,200	2,862
9	HDFC Asset Management Company	BUY	2,800	2,502
10	HDFC Bank	BUY	2,025	1,679
11	ICICI Bank	BUY	1,180	997
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,390
14	Kotak Mahindra Bank	BUY	2,250	1,970
15	LIC Housing Finance	Hold	410	398
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	770	593
18	UTI Asset Management Company	BUY	900	814

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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