

LIC Housing Finance

'Accidental' reflation likely to reverse

LICHF's Q1FY24 earnings were significantly ahead of our estimates on the back of sharper-than-expected reflation in NIMs, despite sub-par AUM growth (+8% YoY) and asset quality. NIMs reflatd sharply for a second consecutive quarter (+28bps QoQ) to 3.2% (Q4FY23: 2.9%), primarily driven by asset repricing and liquidity management. GS-II/GS-III clocked in at 5.8%/5%, implying negligible collections in the softer buckets, while individual home loan GNPA were at 2.2%. Loan growth continues to be tepid (8% YoY), on the back of a sharp fall in disbursals (-29% YoY), exacerbated by business throughput disruptions from the ongoing tech transformation. LICHF is likely to continue facing a trade-off between growth and margins in an elevated competitive intensity environment, while the margin gains are likely to reverse themselves through the rest of FY24. We revise our FY24/FY25 earnings estimates upwards to adjust for stronger NIMs; maintain REDUCE, with revised TP of INR395 (0.8x Mar-25 ABVPS).

- **Sharp NIM reflation offsets muted balance sheet growth:** LICHF reported strong NII/PPoP growth of 37%/39% YoY, driven by a sharp reflation in NIMs. While the reflation in assets yields was driven by the full impact of transmission in benchmark rates, the marginal funding cost was down 15bps QoQ. Credit costs approached near steady-state levels at 54bps.
- **Asset quality yet to stabilise:** GS-III increased QoQ to 4.98% (Q4FY23: 4.37%), with deterioration across segments, on account of softer collections, which the management attributed to glitches from the ongoing tech transformation. We flag the sustained elevated GNPA's across segments as an impediment to the company's ability to drive sub-30bps credit costs in the mortgage business.
- **Sustained growth-profitability trade-off in core business:** LICHF's core mortgage business remains highly competitive with peers growing at a faster clip, which is incrementally reflecting in muted disbursal traction. While the margin reflation was healthy, disbursal growth has been on a declining trend for three consecutive quarters. We expect this trade-off to sustain, resulting in muted earnings growth over the medium term.

Financial Summary

(INR bn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY22	FY23	FY24E	FY25E
NII	22.1	16.1	37.2	19.9	11.0	55.3	63.3	72.7	78.3
PPoP	20.1	14.5	38.8	17.5	14.7	47.7	55.0	63.0	67.9
PAT	13.2	9.3	41.6	11.8	11.5	22.9	28.9	38.2	43.2
EPS (INR)	24.1	16.8	43.0	21.5	12.1	41.6	52.6	69.5	78.6
ROAE (%)						10.1%	11.2%	13.3%	13.5%
ROAA (%)						0.9%	1.1%	1.3%	1.3%
ABVPS (INR)						328.6	372.0	423.0	480.3
P/ABV (x)						1.3	1.1	1.0	0.9
P/E (x)						10.3	8.1	6.1	5.4

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
AUM	3,030	3,030	0.0%	3,338	3,338	0.0%
NIM (%)	2.2	2.4	20 bps	2.2	2.4	18 bps
NII	66.7	72.7	9.0%	72.2	78.3	8.5%
PPoP	57.7	63.0	9.2%	62.2	67.9	9.1%
PAT	34.9	38.2	9.5%	39.5	43.2	9.4%
Adj. BVPS (INR)	419	423	1.0%	472	480	1.7%

Source: Company, HSIE Research

REDUCE

CMP (as on 04 Aug 2023)	INR 427
Target Price	INR 395
NIFTY	19,517

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 360	INR 395
EPS %	FY24E	FY25E

KEY STOCK DATA

Bloomberg code	LICHF IN
No. of Shares (mn)	550
MCap (INR bn) / (\$ mn)	235/2,870
6m avg traded value (INR mn)	819
52 Week high / low	INR 444/315

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.3	6.7	14.7
Relative (%)	8.9	(1.3)	2.0

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	45.2	45.2
FIs & Local MFs	24.2	24.2
FPIs	17.7	17.7
Public & Others	12.9	12.9
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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