

Nov 05, 2023

RESULT REPORT Q2 FY24 | Sector: Financials

LIC Housing Finance Limited

Another stable quarter drives earnings upgrade

Disbursements bouncing back as branch operations stabilize

Overall disbursements stood 35% higher over Q1 FY24 at Rs147bn, marking stabilization of branch operations on newly introduced tech/system changes. The bounce-back in originations was driven by HL and NHI (LAP) segments as new business activity in project finance and NHC segments remained low. Portfolio run-off was higher during the quarter owing to larger write-off (~Rs14-15bn incl. interest which was a part of EAD), arrear collections (bucket/Stage-2 improvement), NPL recoveries, prepayment on a project loan and increase in BT Out. Annualized lumpsum prepayment rate for H1 FY24 stood at 10.3% v/s 9.6% in Q1.

Management has retained its expectation of delivering 12%+ loan growth in the year which implies an ask of 5%+ qoq growth in H2 FY24. Sanctioning activity has been significantly higher from September and the disbursement to sanction ratio is expected to improve too on account of improved TAT after the tech changes. Special rates/pricing offers were given to customers during the festive period. Monthly disbursements are now trending above Rs50bn, and the co. hopes to deliver a positive yoy growth in disbursements from Q3 FY24.

Resilient NIM performance; full-year guidance of 2.6-2.8%

NIM came in at 3.04% v/s expectation of 3.06% depicting reasonable resilience at higher levels in a tight rate/liquidity environment and competitive pricing scenario. The decline in portfolio yield was caused by re-pricing of BT requests worth ~Rs93bn (bunched due to tech/system changes in Q1). The incr. lending rate is above 9.4% v/s extant portfolio yield of 10%. CoF increased only by 4 bps due to upward substitution of NCDs (53% of borrowings) and Deposits (5%). Notably, the cost of bank loans declined by 8 bps qoq. However, overall incr. CoF was steady at 7.73%.

The pace of further NIM moderation in the coming quarters would be determined less by the movement in CoF (mainly the negative substitution effect as incr. CoF is largely stable) and more by the movement in portfolio yield (pressure of finer pricing on both new loans and existing loans). Management expects full-year NIM to be in the range of 2.6-2.8%, which looks like a conservative guidance as H1 FY24 NIM is at 3.1%.

Reduction in Stage 2/3 assets; credit cost within guided range adjusted for one-off

Stage 2/3 assets declined by 11%/12% qoq in abs. terms and stood at 5.1%/4.3% (5.7%/4.9% as of Q1) of the loan portfolio. Adjusted for higher write-offs (~Rs14-15bn) and reclassification of assets-held-for-sale as loan assets (~Rs2.4bn), there is a notable reduction in Stage-3 assets depicting lower slippages from Stage-2 and reasonable recoveries. The significant reduction in Stage-2 assets reflected strong collection trends and the expected roll-back of accounts that had slipped in preceding quarters due to technical/NACH issue. The credit cost of 60 bps should be looked in the context of a) sustained PCR on Stage-3 assets even after higher write-offs and b) making of one-off Rs1.04bn ECL provisions on reclassified loan assets (earlier being carried as assets-held-for-sale). Excluding the latter, the credit cost was 45 bps. Management has maintained the full-year credit cost guidance at 50 bps and would like to raise Stage-3 PCR.

Earnings significantly upgraded again; valuation re-rating to continue

Despite tweaking growth expectations lower, earnings estimate for FY24/25 have been upgraded by 11%/4% on stronger margin and stable asset quality. Valuation re-rating is likely after the resilient show in Q2 FY24, but the pace of re-rating would be contingent on the pace of growth recovery and further improvement in asset quality. In the medium-term, a combination of 10-12% growth, reduced risk on the BS (share of HL having substantially increased) and plausible 13-14% RoE delivery can re-rate valuation towards 1.1x 1-yr rolling fwd. P/ABV. Retain BUY with enhanced 12 PT of Rs575.

| | |
|------------------|----------|
| Reco | : BUY |
| CMP | : Rs 462 |
| Target Price | : Rs 575 |
| Potential Return | : 24.4% |

Stock data (as on Nov 03, 2023)

| | |
|-------------------------|---------------|
| Nifty | 19,231 |
| 52 Week h/l (Rs) | 481 / 315 |
| Market cap (Rs/USD mn) | 254349 / 3059 |
| Outstanding Shares (mn) | 550 |
| 6m Avg t/o (Rs mn): | 1,023 |
| Div. yield (%): | 1.9 |
| Bloomberg code: | LICHF IN |
| NSE code: | LICHSGFIN |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|------|-------|
| Absolute return | -1.8% | 8.4% | 24.2% |

Shareholding pattern

| | |
|----------|-------|
| Promoter | 45.2% |
| FII+DII | 42.7% |
| Others | 12.0% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|-----|-----|
| Rating | BUY | BUY |
| Target Price | 575 | 510 |

Δ in earnings estimates

| | FY24e | FY25e | FY26e |
|-----------|-------|-------|-------|
| EPS (New) | 82.8 | 79.9 | 83.3 |
| EPS (Old) | 74.6 | 76.5 | - |
| % Change | 11.0% | 4.4% | - |

Financial Summary

| (Rs mn) | FY24E | FY25E | FY26E |
|------------|--------|--------|--------|
| Op. income | 83,261 | 82,288 | 85,783 |
| PPOP | 72,459 | 70,396 | 72,680 |
| Net profit | 45,563 | 43,986 | 45,845 |
| Growth (%) | 57.6 | (3.5) | 4.2 |
| EPS (Rs) | 82.8 | 79.9 | 83.3 |
| ABVPS (Rs) | 455.5 | 526.9 | 586.7 |
| P/E (x) | 5.6 | 5.8 | 5.5 |
| P/ABV (x) | 1.0 | 0.9 | 0.8 |
| ROE (%) | 15.7 | 13.4 | 12.5 |
| ROA (%) | 1.6 | 1.4 | 1.3 |

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Exhibit 1: Result table

| Particulars (Rs mn) | Q2 FY24 | Q1 FY24 | % qoq | Q2 FY23 | % yoy |
|---------------------|----------|----------|----------|----------|-------|
| Operating Income | 67,528 | 67,465 | 0.1 | 50,855 | 32.8 |
| Interest expended | (46,000) | (44,942) | 2.4 | (38,864) | 18.4 |
| Net Interest Income | 21,528 | 22,523 | (4.4) | 11,991 | 79.5 |
| Other Income | 59.2 | 0.4 | 14,700.0 | 64.8 | (8.6) |
| Total Income | 21,587 | 22,523 | (4.2) | 12,056 | 79.1 |
| Operating expenses | (2,595) | (2,425) | 7.0 | (2,610) | (0.6) |
| PPOP | 18,993 | 20,098 | (5.5) | 9,447 | 101.1 |
| Provisions | (4,192) | (3,608) | 16.2 | (3,738) | 12.1 |
| PBT | 14,801 | 16,490 | (10.2) | 3,789 | 290.7 |
| Tax | (2,920) | (3,253) | (10.2) | (739) | 295.2 |
| Reported PAT | 11,881 | 13,237 | (10.2) | 3,050 | 289.6 |

Source: Company, YES Sec

Exhibit 2: Business Data

| (Rs mn) | Q2 FY24 | Q1 FY24 | % qoq | Q2 FY23 | % yoy |
|---------------------------|-----------|-----------|--------|-----------|--------|
| Loan Portfolio | 2,779,870 | 2,764,400 | 0.6 | 2,623,360 | 6.0 |
| Retail home loans | 2,346,210 | 2,311,038 | 1.5 | 2,166,895 | 8.3 |
| Retail LAP | 272,427 | 273,676 | (0.5) | 257,089 | 6.0 |
| Developer / Project loans | 97,295 | 113,340 | (14.2) | 118,051 | (17.6) |
| Loan Disbursements | 146,650 | 108,560 | 35.1 | 167,860 | (12.6) |
| Individual | 141,610 | 105,090 | 34.8 | 163,790 | (13.5) |
| Project | 5,040 | 3,470 | 45.2 | 4,070 | 23.8 |

Source: Company, YES Sec

Exhibit 3: Key Ratios

| (%) | Q2 FY24 | Q1 FY24 | chg qoq | Q2 FY23 | chg yoy |
|---------------|---------|---------|---------|---------|---------|
| NIM | 3.0 | 3.2 | (0.2) | 1.8 | 1.2 |
| YoA - Cum. | 10.0 | 10.2 | (0.1) | 8.6 | 1.4 |
| CoF- Cum. | 7.7 | 7.6 | 0.0 | 7.1 | 0.6 |
| Gross Stage 3 | 4.3 | 5.0 | (0.6) | 4.9 | (0.6) |
| RoA - Cum. | 1.7 | 1.9 | (0.2) | 0.5 | 1.2 |
| RoE - Cum. | 16.0 | 19.0 | (3.0) | 5.0 | 11.0 |

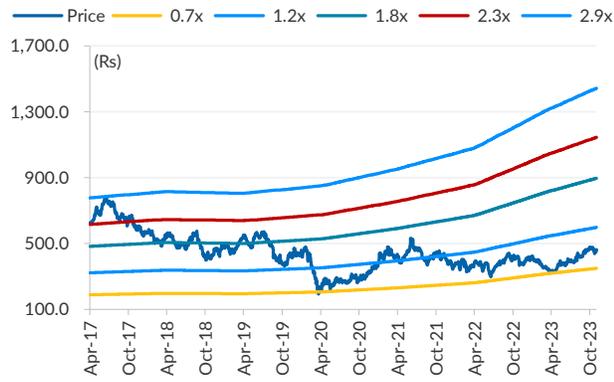
Source: Company, YES Sec

Exhibit 4: Borrowing Mix

| Borrowing mix - (%) | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 |
|----------------------------|---------|---------|---------|---------|---------|
| NCD | 52.0 | 51.9 | 50.0 | 54.0 | 53.0 |
| Bank | 34.0 | 33.9 | 34.0 | 31.0 | 33.0 |
| CP | 2.0 | 3.9 | 5.0 | 4.0 | 4.0 |
| NHB | 4.0 | 3.6 | 5.0 | 5.0 | 4.0 |
| Deposits | 7.0 | 5.9 | 5.0 | 5.0 | 5.0 |
| Sub debt and Upper Tier II | 1.0 | 0.8 | 1.0 | 1.0 | 1.0 |

Source: Company, YES Sec

Exhibit 5: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 6: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

| Y/e 31 Mar (Rs m) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Equity and Liabilities | | | | | |
| Equity Share Capital | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 |
| Other Equity | 245,618 | 269,903 | 308,904 | 346,330 | 385,614 |
| Shareholders' fund | 246,718 | 271,003 | 310,005 | 347,431 | 386,715 |
| Financial Liabilities | | | | | |
| Derivative financial instruments | - | - | - | - | - |
| Trade payables | 643 | 390 | 390 | 390 | 390 |
| Debt Securities | 1,273,420 | 1,369,600 | 1,465,472 | 1,622,277 | 1,804,784 |
| Borrowings (Excl. Debt Sec.) | 764,472 | 943,923 | 1,009,997 | 1,118,067 | 1,243,849 |
| Deposits | 180,735 | 116,262 | 124,400 | 137,711 | 153,204 |
| Subordinated Liabilities | 17,954 | 17,958 | 19,215 | 21,271 | 23,664 |
| Other Financial Liabilities | 56,521 | 57,710 | 57,710 | 57,710 | 57,710 |
| Non-Financial Liabilities | | | | | |
| Provisions | 1,700 | 1,795 | 1,974 | 2,171 | 2,388 |
| Other non-financial liabilities | 3,511 | 5,480 | 6,028 | 6,631 | 7,294 |
| Total liabilities & Equity | 2,545,675 | 2,784,120 | 2,995,191 | 3,313,659 | 3,679,997 |
| Assets | | | | | |
| Financial Assets | | | | | |
| Cash and Cash Equivalents | 8,222 | 6,194 | (1,098) | (454) | 178 |
| Bank balances | 1,152 | 1,225 | 1,225 | 1,225 | 1,225 |
| Derivative financial instruments | 792 | 0 | 0 | 0 | 0 |
| Loans | 2,452,963 | 2,678,348 | 2,887,767 | 3,195,755 | 3,550,646 |
| Investments | 61,986 | 69,764 | 76,741 | 84,415 | 92,856 |
| Other Financial Assets | 166 | 186 | 186 | 186 | 186 |
| Non- Financial Assets | 20,394 | 28,403 | 30,372 | 32,533 | 34,906 |
| Current tax assets (Net) | 1,352 | 0 | 0 | 0 | 0 |
| Deferred tax assets (Net) | 13,681 | 18,885 | 20,773 | 22,850 | 25,135 |
| Property, Plant and Equipment | 1,357 | 1,598 | 1,678 | 1,762 | 1,850 |
| Other intangible Assets | 2,593 | 4,360 | 4,360 | 4,360 | 4,360 |
| Other Non-Financial Assets | 1,412 | 3,560 | 3,560 | 3,560 | 3,560 |
| Total Assets | 2,545,675 | 2,784,120 | 2,995,191 | 3,313,659 | 3,679,997 |

Source: Company, YES Sec

Exhibit 8: Income statement

| Y/e 31 Mar (Rs m) | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Operating Income | 199,191 | 226,570 | 273,357 | 276,917 | 288,030 |
| Interest expense | (141,773) | (161,860) | (190,277) | (194,819) | (202,447) |
| Net interest income | 57,418 | 64,710 | 83,080 | 82,098 | 85,583 |
| Non-interest income | 340 | 173 | 181 | 190 | 200 |
| Total op income | 57,758 | 64,882 | 83,261 | 82,288 | 85,783 |
| Total op expenses | (9,758) | (9,883) | (10,802) | (11,892) | (13,103) |
| PPoP | 48,000 | 55,000 | 72,459 | 70,396 | 72,680 |
| Provisions | (20,218) | (19,430) | (15,719) | (15,618) | (15,588) |
| Profit before tax | 27,782 | 35,570 | 56,740 | 54,777 | 57,092 |
| Taxes | (4,909) | (6,660) | (11,178) | (10,791) | (11,247) |
| Net profit | 22,873 | 28,910 | 45,563 | 43,986 | 45,845 |

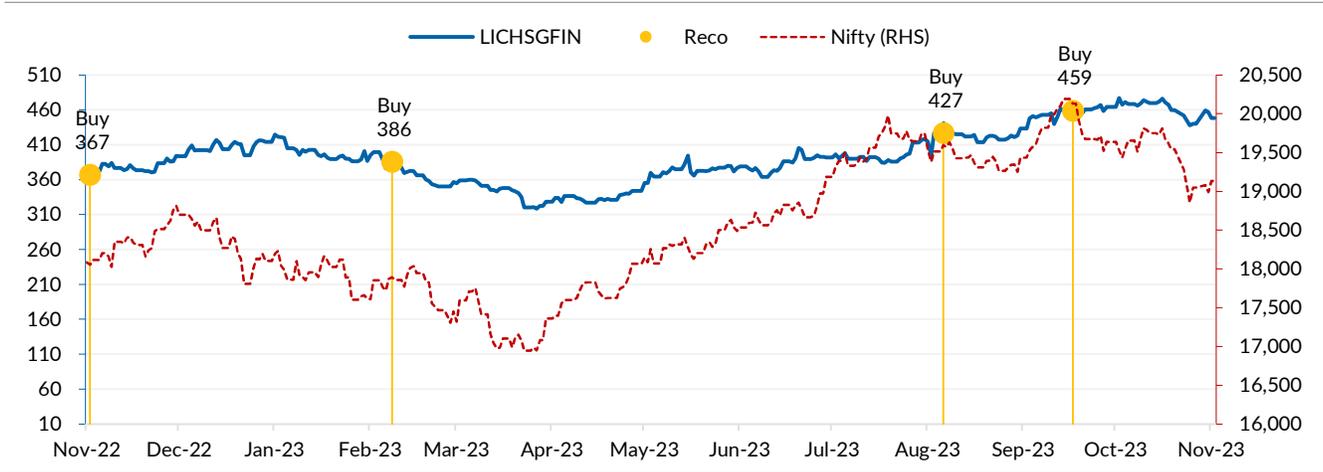
Source: Company, YES Sec

Exhibit 9: Growth and Ratio matrix

| Y/e 31 Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
|-----------------------------------|--------|-------|-------|-------|-------|
| Growth matrix (%) | | | | | |
| Net interest income | 6.4 | 12.7 | 28.4 | (1.2) | 4.2 |
| Total op income | 7.1 | 12.3 | 28.3 | (1.2) | 4.2 |
| Op profit (pre-provision) | 2.3 | 14.6 | 31.7 | (2.8) | 3.2 |
| Net profit | (16.3) | 26.4 | 57.6 | (3.5) | 4.2 |
| Advances | 7.5 | 9.2 | 7.8 | 10.7 | 11.1 |
| Total Borrowings | 23.0 | 23.5 | 7.0 | 10.7 | 11.3 |
| Total assets | 8.0 | 9.4 | 7.6 | 10.6 | 11.1 |
| Profitability Ratios (%) | | | | | |
| NIM | 2.4 | 2.5 | 2.9 | 2.6 | 2.5 |
| Non-interest income /Total income | 0.6 | 0.3 | 0.2 | 0.2 | 0.2 |
| Return on Avg. Equity | 10.1 | 11.2 | 15.7 | 13.4 | 12.5 |
| Return on Avg. Assets | 0.9 | 1.1 | 1.6 | 1.4 | 1.3 |
| Per share ratios (Rs) | | | | | |
| EPS | 41.6 | 52.5 | 82.8 | 79.9 | 83.3 |
| Adj. BVPS | 327.8 | 371.8 | 455.5 | 526.9 | 586.7 |
| DPS | 8.5 | 8.5 | 10.0 | 10.0 | 10.0 |
| Other key ratios (%) | | | | | |
| Loans/Borrowings | 110.6 | 110.2 | 111.1 | 111.0 | 110.9 |
| Cost/Income | 16.9 | 15.2 | 13.0 | 14.5 | 15.3 |
| CAR | 18.1 | 17.7 | 18.8 | 19.0 | 19.0 |
| Tier-I capital | 16.2 | 16.4 | 17.4 | 17.6 | 17.7 |
| Gross NPLs/Loans | 5.4 | 4.5 | 4.0 | 3.5 | 3.5 |
| Credit cost | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 |
| Net NPLs/Net loans | 3.7 | 2.7 | 2.0 | 1.8 | 1.8 |
| Tax rate | 17.7 | 18.7 | 19.7 | 19.7 | 19.7 |
| Dividend yield | 1.8 | 1.8 | 2.2 | 2.2 | 2.2 |

Source: Company, YES Sec

Recommendation Tracker



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