Aug 06, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

LIC Housing Finance Limited

Growth and Yield key monitorables

Reco	:	**ADD**
CMP	:	Rs 686
Target Price	:	Rs 765
Potential Return	:	+11.5%

LIC HF reported higher than expected PAT mainly on lower provisions, as PPOP/NII were 4%/5% below our estimates. Disbursements were softer than expectations, GNPLs (incl. write-offs) rose in-line with typical seasonality and NIM witnessed a material fall (even on like-to-like basis) with the decline in portfolio yield. Lower credit cost was partially underpinned by provision releases on upgraded (backward flown) accounts.

Soft disbursements and significant NIM decline; asset quality moved on usual lines

Overall disbursements stood at Rs129bn (-29% qoq/+19% yoy), lower than our estimate of Rs135bn. IHL and NHI (LAP) originations grew by 16% and 28% respectively on a low base. IHL prepayment rate was at annualized 9.4% in the quarter. LIC HF's loan portfolio grew by 0.6% qoq/4.4% yoy and the growth was marginally better before the write-off of Rs7.3bn. Adjusted for write-offs, Stage-3 assets rose 8% qoq and the level increased to 3.6%; and this movement was in-line with seasonal pattern. Stage-2 assets declined in absolute terms representing controlled flows from Stage-1 due to strengthened collection efforts. While ECL coverage level was largely maintained on Stage-3, it fell significantly on Stage 1 & 2 assets. Credit cost for the quarter was just 20 bps.

NIM decline of 39 bps qoq to 2.76% was much sharper than our expectation of 20 bps. It was caused by lower interest collection from NPLs (shortfall of Rs0.5-0.6bn from transient challenges), presence of ~Rs1bn interest recovery in preceding quarter (from lumpy NPL resolution) and pressure of BT leading to re-pricing of some existing loans. Excluding interest collection & recovery from NPLs, the portfolio yield fell by 12 bps qoq as per our computation. CoF was stable at 7.8% with incremental CoF witnessing a marginal decline and negligible impact from repricing of bank borrowings.

Management retains growth and margin guidance; expects 30 bps credit cost

Notwithstanding the soft start both on growth and margins, LIC HF continues to guide for 20-25% disbursement growth, double-digit loan portfolio growth and NIM between 2.7-2.9% for the year. Loan originations has picked-up from the second half of Q1 FY25 and July has been strong too. Basis strong momentum in Individual Loans, opportunity in Project Loans, retention of good customers through repricing and likely lower incremental write-offs, the loan portfolio growth is expected to improve through the year. Sustaining NIM around 2.8% would be a tough ask given persistent pressure on portfolio yield from lower yield of new book and challenges in retaining pricing on some of the back book. CoF is estimated to remain firm given stickiness in the cost of NCDs and Bank Loans. Management has guided for 30 bps of credit cost in current year on the back of controlled flow rates, adequate Stage-3 coverage, limited incremental write-offs and expectations of significant NPL resolutions.

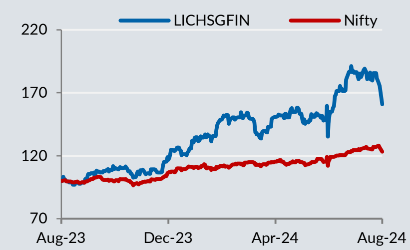
Growth and Yield key monitorables; change rating to ADD

Earnings cuts of 2-4% for FY25/26 have come through on tweaking of loan growth and margin assumptions but after considering a lower credit cost. Stock trades at 7.5x P/E and near 1x P/BV on FY26 estimates. In our view, some uncertainty over stabilization of margins and delivery of double-digit growth would weigh on valuation in near term. To come back on re-rating path, LIC HF needs to deliver strong disbursements growth, steady margins and significant NPL resolutions in ensuing quarters. Rate ADD (earlier BUY) with a lowered 12m PT of Rs765.

Stock data (as on Aug 05, 2024)

Nifty	24,056
52 Week h/l (Rs)	827 / 390
Market cap (Rs/USD mn)	416700 / 4961
Outstanding Shares (mn)	550
6m Avg t/o (Rs mn):	1,694
Div. yield (%):	1.1
Bloomberg code:	LICHF IN
NSE code:	LICHSGFIN

Stock performance



	1M	3M	1Y
Absolute return	-13.8%	4.9%	60.8%

Shareholding pattern

Promoter	45.2%
FII+DII	44.4%
Others	10.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	765	800

Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	86.6	89.0	89.8
EPS (Old)	86.6	90.8	93.9
% Change	-	-1.9%	-4.4%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	88,440	83,323	85,043
PPOP	76,976	70,889	71,431
Net profit	47,654	48,993	49,416
Growth (%)	64.8	2.8	0.9
EPS (Rs)	86.6	89.0	89.8
ABVPS (Rs)	486.5	567.9	652.4
P/E (x)	7.9	7.7	7.6
P/ABV (x)	1.4	1.2	1.1
ROE (%)	16.3	14.6	13.1
ROA (%)	1.7	1.6	1.5

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Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Operating Income	67,837	69,364	(2.2)	67,465	0.6
Interest expended	(47,501)	(46,499)	2.2	(44,942)	5.7
Net Interest Income	20,336	22,865	(11.1)	22,523	(9.7)
Other Income	0.2	4.3	(95.3)	0.4	(50.0)
Total Income	20,336	22,869	(11.1)	22,523	(9.7)
Operating expenses	(2,621)	(3,829)	(31.5)	(2,425)	8.1
PPOP	17,715	19,041	(7.0)	20,098	(11.9)
Provisions	(1,431)	(4,279)	(66.6)	(3,608)	(60.3)
PBT	16,284	14,762	10.3	16,490	(1.2)
Tax	(3,282)	(3,854)	(14.8)	(3,253)	0.9
Reported PAT	13,002	10,908	19.2	13,237	(1.8)

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Loan Portfolio	28,86,650	28,68,440	0.6	27,64,400	4.4
Retail home loans	24,62,312	24,41,042	0.9	23,11,038	6.5
NH Individual	2,85,778	2,86,844	(0.4)	2,73,676	4.4
NHC Project Dev. / NHC Others	1,38,559	1,40,554	(1.4)	1,79,686	(22.9)
Loan Disbursements	1,29,150	1,82,320	(29.2)	1,08,560	19.0
Individual	1,23,260	1,65,100	(25.3)	1,05,090	17.3
Project	5,890	17,220	(65.8)	3,470	69.7

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NIM	2.8	3.2	(0.4)	3.2	(0.5)
YoA – Cum.	9.8	9.9	(0.1)	10.2	(0.3)
CoF- Cum.	7.8	7.8	-	7.6	0.1
Gross Stage 3	3.3	3.3	(0.0)	5.0	(1.7)
RoA – Cum.	1.8	1.7	0.1	1.9	(0.1)
RoE – Cum.	16.0	16.0	-	19.0	(3.0)

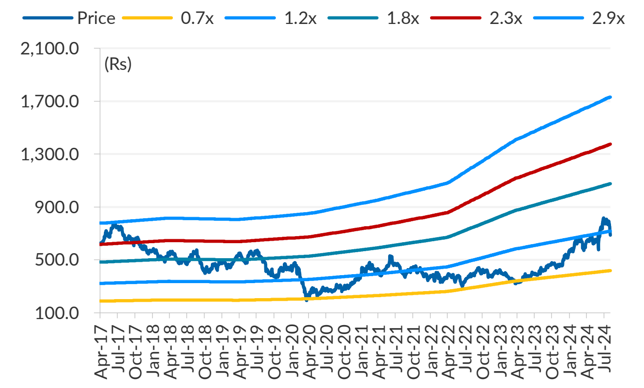
Source: Company, YES Sec

Exhibit 4: Borrowing Mix

Borrowing mix - (%)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
NCD	54.0	53.0	52.0	52.0	54.0
Bank	31.0	33.0	35.0	34.0	34.0
CP	4.0	4.0	4.0	5.0	4.0
NHB	5.0	4.0	4.0	4.0	4.0
Deposits	5.0	5.0	4.0	4.0	3.0
Sub debt and Upper Tier II	1.0	1.0	1.0	1.0	1.0

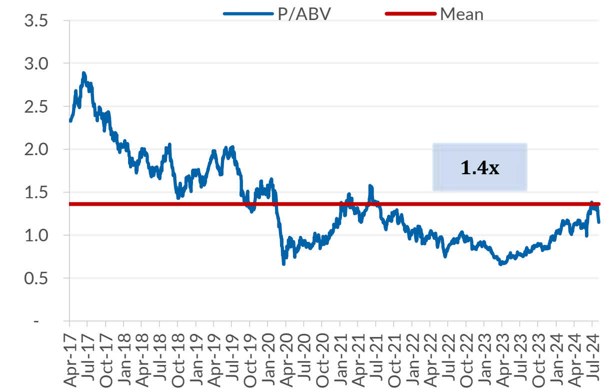
Source: Company, YES Sec

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	FY24	FY25E	FY26E
Equity and Liabilities					
Equity Share Capital	1,101	1,101	1,101	1,101	1,101
Other Equity	2,45,618	2,69,903	3,12,846	3,55,277	3,98,133
Shareholders' fund	**2,46,718**	**2,71,003**	**3,13,946**	**3,56,378**	**3,99,234**
Financial Liabilities	**22,93,746**	**25,05,842**	**25,90,440**	**28,00,013**	**31,14,485**
Derivative financial instruments	-	-	-	-	-
Trade payables	643	390	706	706	706
Debt Securities	12,73,420	13,69,600	14,46,653	15,66,725	17,46,899
Borrowings (Excl. Debt Sec.)	7,64,472	9,43,923	9,61,366	10,41,159	11,60,892
Deposits	1,80,735	1,16,262	98,986	1,07,201	1,19,530
Subordinated Liabilities	17,954	17,958	17,963	19,454	21,691
Other Financial Liabilities	**56,521**	**57,710**	**64,767**	**64,767**	**64,767**
Non-Financial Liabilities	**5,211**	**7,275**	**7,660**	**8,426**	**9,268**
Provisions	1,700	1,795	3,341	3,675	4,043
Other non-financial liabilities	3,511	5,480	4,319	4,750	5,225
Total liabilities & Equity	**25,45,675**	**27,84,120**	**29,12,046**	**31,64,816**	**35,22,987**
Assets					
Financial Assets	**25,25,281**	**27,55,717**	**28,84,603**	**31,35,012**	**34,90,557**
Cash and Cash Equivalents	8,222	6,194	14,375	14,648	12,194
Bank balances	1,152	1,225	1,351	1,351	1,351
Derivative financial instruments	792	-	-	-	-
Loans	24,52,963	26,78,348	28,05,898	30,49,756	34,00,851
Investments	61,986	69,764	62,770	69,047	75,952
Other Financial Assets	166	186	209	209	209
Non- Financial Assets	**20,394**	**28,403**	**27,443**	**29,805**	**32,430**
Current tax assets (Net)	1,352	0	4,243	4,879	5,611
Deferred tax assets (Net)	13,681	18,885	16,392	18,031	19,834
Property, Plant and Equipment	1,357	1,598	1,715	1,801	1,891
Other intangible Assets	2,593	4,360	1,895	1,895	1,895
Other Non-Financial Assets	1,412	3,560	3,199	3,199	3,199
Total Assets	**25,45,675**	**27,84,120**	**29,12,046**	**31,64,816**	**35,22,987**

Source: Company, YES Sec

Exhibit 8: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Operating Income	1,99,191	2,26,570	2,72,282	2,75,799	2,85,117
Interest expense	(1,41,773)	(1,61,860)	(1,83,907)	(1,92,541)	(2,00,158)
Net interest income	**57,418**	**64,710**	**88,376**	**83,258**	**84,959**
Non-interest income	340	173	64	64	83
Total op income	57,758	64,882	88,440	83,323	85,043
Total op expenses	(9,758)	(9,883)	(11,463)	(12,434)	(13,611)
PPoP	**48,000**	**55,000**	**76,976**	**70,889**	**71,431**
Provisions	(20,218)	(19,430)	(16,437)	(9,877)	(9,892)
Profit before tax	**27,782**	**35,570**	**60,539**	**61,012**	**61,540**
Taxes	(4,909)	(6,660)	(12,885)	(12,019)	(12,123)
Net profit	**22,873**	**28,910**	**47,654**	**48,993**	**49,416**

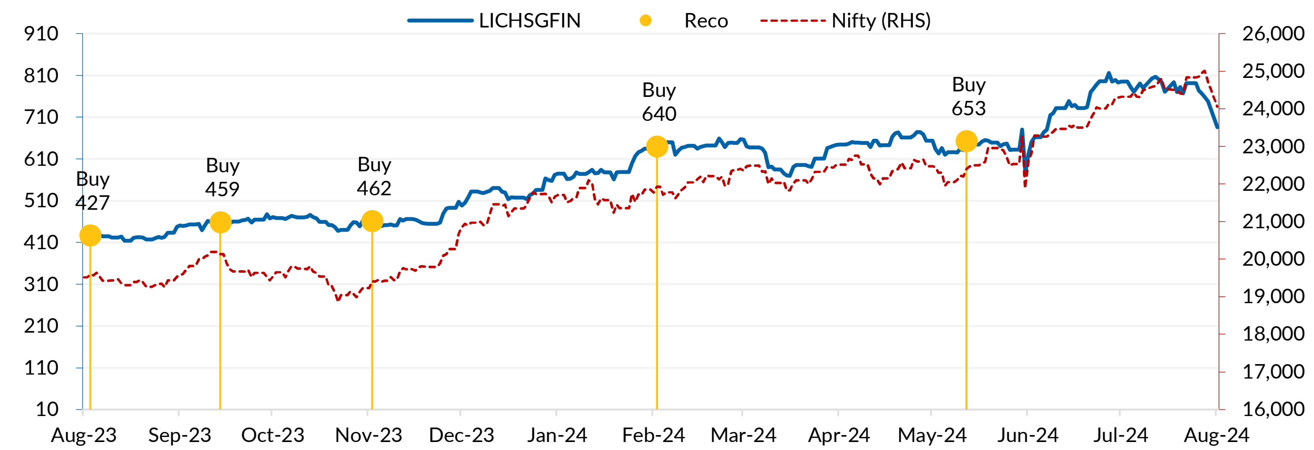
Source: Company, YES Sec

Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.4	12.7	36.6	(5.8)	2.0
Total op income	7.1	12.3	36.3	(5.8)	2.1
Op profit (pre-provision)	2.3	14.6	40.0	(7.9)	0.8
Net profit	(16.3)	26.4	64.8	2.8	0.9
Advances	7.5	9.2	4.8	8.7	11.5
Total Borrowings	23.0	23.5	1.8	8.3	11.5
Total assets	8.0	9.4	4.6	8.7	11.3
Profitability Ratios (%)					
NIM	2.4	2.5	3.1	2.8	2.6
Non-interest income /Total income	0.6	0.3	0.1	0.1	0.1
Return on Avg. Equity	10.1	11.2	16.3	14.6	13.1
Return on Avg. Assets	0.9	1.1	1.7	1.6	1.5
Per share ratios (Rs)					
EPS	41.6	52.5	86.6	89.0	89.8
Adj. BVPS	327.8	371.8	486.5	567.9	652.4
DPS	8.5	8.5	9.0	10.0	10.0
Other key ratios (%)					
Loans/Borrowings	110.6	110.2	111.9	112.3	112.3
Cost/Income	16.9	15.2	13.0	14.9	16.0
CAR	18.1	17.7	19.8	20.6	20.7
Tier-I capital	16.2	16.4	18.1	18.9	19.0
Gross NPLs/Loans	5.4	4.4	3.3	2.8	2.3
Credit cost	0.8	0.7	0.6	0.3	0.3
Net NPLs/Net loans	3.7	2.7	1.9	1.4	1.2
Tax rate	17.7	18.7	21.3	19.7	19.7
Dividend yield	1.2	1.2	1.3	1.5	1.5

Source: Company, YES Sec

Recommendation Tracker



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9	YSIL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSIL has been engaged in market making activity for the subject company(ies)	No

Since YSIL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSIL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSIL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

RAJIV DHILAN MEHTA Digitally signed by RAJIV DHILAN MEHTA Date: 2024.08.06 06:47:30 +05'30' Analyst signature

MANUJ OBEROI Digitally signed by MANUJ OBEROI Date: 2024.08.06 06:42:35 +05'30' Analyst signature

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