

# LIC Housing Finance | BUY

## Steady quarter; growth uptick awaited

LICHF reported a minor beat on PAT (+3% vs JMFe) at INR 11.6bn (+144% YoY -2.1% QoQ) driven by healthy NII at INR 20.9bn (flat QoQ, +31% YoY), lower opex (+0.8% QoQ, -6.4% YoY) and stable credit cost at 61bps (+1bps QoQ). NIM decline was lower than expected with it at 3.0% (-4bps QoQ) led by slow increase in cost of funds to 7.61% (+2bps QoQ) and yield compression to 9.65% (-3bps QoQ loan book stood at INR 2.8trn (+1.2% QoQ/ +4.8% YoY), driven by individual home loans (+1.6% QoQ/ +7% YoY) and LAP (+1.2% QoQ/ -1.4% YoY) while dragged by decline in project finance book (-10.7% QoQ/ -21.1% YoY). Slowness in loan growth by far was attributed to technology implementation, structural reforms at organisational level and calibrated growth to improve asset quality. Mgmt. expects pickup in growth to sustain in coming quarters supported by reduction in TAT which is aided by organisational reforms. LICHF continues to be watchful on its project finance book and expects to grow that in a measured manner. We forecast a loan CAGR of 10% over FY23-26E. GS3/ NS3 improved by -7bps/ -36bps QoQ to 4.26%/ 2.19% and PCR at 48.6%. We build avg. credit costs of c.40bps over FY24-26E. We believe LICHF may witness moderation on NIMs given an impending rate cut cycle as they have higher fixed rate liability book (50%) vs majority assets book being floating rate. This translates into an avg. RoA/ RoE of 1.7%/ 15.5% by FY26E. We maintain BUY on the stock with a revised TP of INR 700 valuing the company at 1x FY26E BVPS.

- Soft loan growth, disbursement momentum expected to pick:** As of 3QFY24, the loan book stood at INR 2.8trn (+1.2% QoQ/ +4.8% YoY), driven by individual home loans (+1.6% QoQ/ +7% YoY) and LAP (+1.2% QoQ/ -1.4% YoY) while dragged by decline in project finance book (-10.7% QoQ/ -21.1% YoY). Consequently, share of retail home loans marginally increased to 84.9% (+40bps QoQ). Reported prepayment rates remained steady at 10.2% (+1% QoQ). In 3QFY24, disbursement were at INR 151bn (+3.5% QoQ) driven by momentum in disbursements picking up towards the end of the quarter. It was supported by LAP (+20.1% QoQ/ -5.5% YoY) and individual home loans (+2.8% QoQ/ -5.5% YoY) whereas, contraction in project finance book (-29.6% QoQ, -12.2% YoY). The share of disbursements from small cities (excl. the top 7) increased sequentially to 58% (vs 57% QoQ) also the proportion of salaried remained at 89%. In 3QFY24, LTV was at 52% (vs. 48% YoY) and instalment to income ratio (IIR) stood at 30% (flat YoY). We forecast a loan CAGR of 10% over FY23-26E.
- Marginal fall in NIMs aid healthy NII:** LICHF reported a beat on PAT (+3% vs JMFe) at INR 11.6bn (+144% YoY -2.1% QoQ) driven by healthy NII at INR 20.9bn (flat QoQ, +31% YoY), lower opex (0.8% QoQ, -6.4% YoY) and stable credit cost at 61bps (+1bps QoQ). Margins decline was lower than expected at 3% (-4bps QoQ) led by slow increase in cost of funds to 7.61% (+2bps QoQ) and yield compression to 9.65% (-3bps QoQ). Mgmt. guided margins of 2.8-3.0% for 4Q24. We forecast NII growth of 13% over FY23-26E. GS3/ NS3 improved by -7bps/ -36bps QoQ to 4.26%/ 2.19%. Gross stage 3 for non-housing individual book was at 1.71% (vs 1.84% QoQ), non-housing individual loans at 6.5% (vs 7.13% QoQ) and project loans at 40.75% (vs 35.48% QoQ). Credit cost



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	700
Upside/(Downside)	10.4%
Previous Price Target	630
Change	11.1%

### Key Data – LICHF IN

Current Market Price	INR634
Market cap (bn)	INR348.9/US\$4.2
Free Float	55%
Shares in issue (mn)	505.0
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,447.6/US\$17.5
52-week range	642/315
Sensex/Nifty	72,086/21,854
INR/US\$	82.9

### Price Performance

%	1M	6M	12M
Absolute	10.9	48.7	58.7
Relative*	10.8	35.5	33.9

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	22,873	28,910	49,539	54,836	59,241
Net Profit (YoY) (%)	-16.3%	26.4%	71.4%	10.7%	8.0%
Assets (YoY) (%)	8.0%	9.4%	12.2%	9.6%	10.4%
ROA (%)	0.9%	1.1%	1.7%	1.7%	1.6%
ROE (%)	10.1%	11.2%	17.0%	16.4%	15.5%
EPS	41.6	52.5	90.0	99.6	107.6
EPS (YoY) (%)	-23.3%	26.4%	71.4%	10.7%	8.0%
<b>P/E (x)</b>	<b>15.3</b>	<b>12.1</b>	<b>7.0</b>	<b>6.4</b>	<b>5.9</b>
BV	448	492	567	650	739
BV (YoY) (%)	10.3%	9.8%	15.2%	14.6%	13.7%
<b>P/BV (x)</b>	<b>1.41</b>	<b>1.29</b>	<b>1.12</b>	<b>0.98</b>	<b>0.86</b>

Source: Company data, JM Financial. Note: Valuations as of 02/Feb/2024

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remained stable at 61bps (+1bps QoQ) and PCR at 48.6%. Mgmt. expects some resolutions to come in in next few quarters. We have built avg. credit costs over c.40bps for FY24-26E.

- **Valuation and view:** We believe LICHF may witness moderation on NIMs given an impending rate cut cycle as they have higher fixed rate liability book (50%) vs majority assets book being floating rate. This translates into an avg. RoA/ RoE of 1.7%/ 15.5% by FY26E. We expect LICHF to deliver on its return metrics on the back of a) pick up in loan growth, b) stable margins c) lower credit cost and d) controlled opex. We maintain BUY on the stock with a revised TP of INR 700 valuing the company at 1xFY26E BVPS.

## LICHF – 3QFY24 performance highlights

### Exhibit 1. 3QFY24 – key financials

Earnings Table (INR mn)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>15,977</b>	<b>21,066</b>	<b>20,972</b>	<b>31.3%</b>	<b>-0.4%</b>
Total Non-Interest income	364	460	415	14.2%	-9.7%
Total Income	16,341	21,526	21,388	30.9%	-0.6%
Employee Cost	1,205	1,383	1,401	16.3%	1.3%
Total Operating Expenses	2,794	2,595	2,615	-6.4%	0.8%
<b>Operating Profit (PPP)</b>	<b>13,547</b>	<b>18,931</b>	<b>18,773</b>	<b>38.6%</b>	<b>-0.8%</b>
Total Provisions	7,617	4,131	4,286	-43.7%	3.8%
<b>PBT</b>	<b>5,930</b>	<b>14,801</b>	<b>14,487</b>	<b>144.3%</b>	<b>-2.1%</b>
Tax	1,127	2,920	2,858		
<b>Reported Profit</b>	<b>4,803</b>	<b>11,881</b>	<b>11,629</b>	<b>142.1%</b>	<b>-2.1%</b>
<b>Loan Book (INR bn)</b>					
Disbursements	161.0	146.7	151.8	-5.7%	3.5%
Loans	2,684.4	2,779.9	2,812.1	4.8%	1.2%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	17.1%	12.1%	12.2%	-4.87%	0.17%
Effective Tax Rate (%)	19.0%	19.7%	19.7%	0.72%	0.00%
<b>Credit Quality</b>					
Gross S3 (INRmn)	127,511	120,368	119,794	-6.1%	-0.5%
Net S3 (INRmn)	62,573	70,789	61,604	-1.5%	-13.0%
Gross S3 (%)	4.75%	4.33%	4.26%	-0.49%	-0.07%
Net S3 (%)	2.33%	2.55%	2.19%	-0.14%	-0.36%
Coverage Ratio (%)	50.9%	41.2%	48.6%	-2.4%	7.4%

Source: Company, JM Financial

### Exhibit 2. Loan book composition - trend

Loan Book Composition (%)	Q3FY23	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Individual	83.1%	84.4%	84.9%	1.76%	0.40%
LAP	12.9%	12.1%	12.1%	-0.76%	0.00%
Project	4.0%	3.5%	3.0%	-1.00%	-0.40%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Company, JM Financial

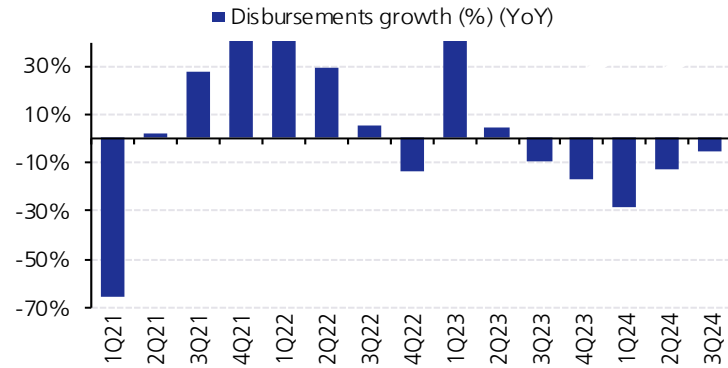
### Exhibit 3. Trend in spreads

Spread Comparison (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Spread Calculated (%)					
Yield on advances (%)	8.80%	9.39%	9.72%	9.68%	9.65%
Cost of borrowings (%)	7.17%	7.24%	7.40%	7.59%	7.61%
<b>Spread (%)</b>	<b>1.63%</b>	<b>2.15%</b>	<b>2.33%</b>	<b>2.09%</b>	<b>2.04%</b>

Source: Company, JM Financial

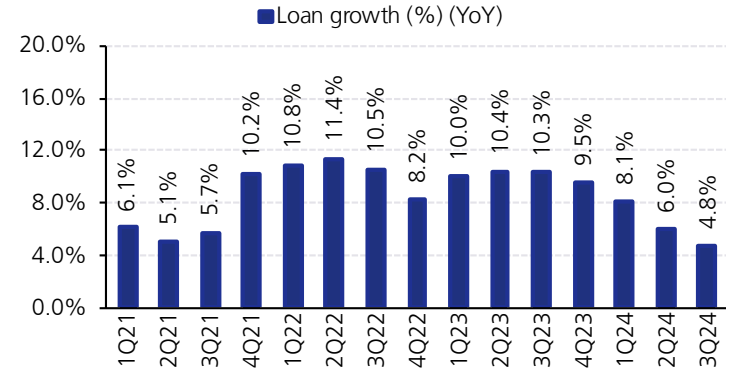
# LICHF – Quarterly Trends

**Exhibit 4. LICHF: Trend in disbursement growth**



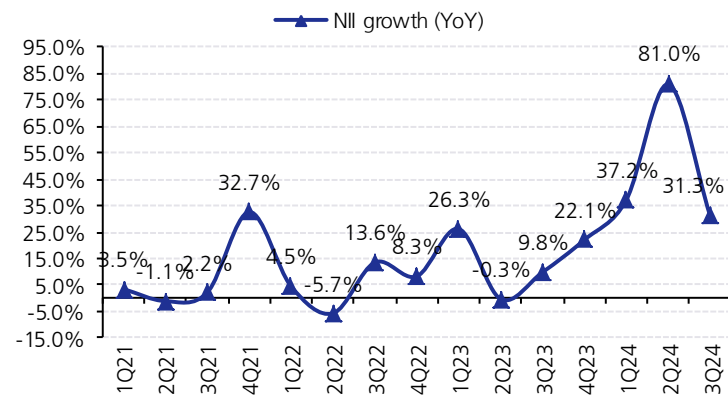
Source: Company, JM Financial

**Exhibit 5. LICHF: Trend in loan growth**



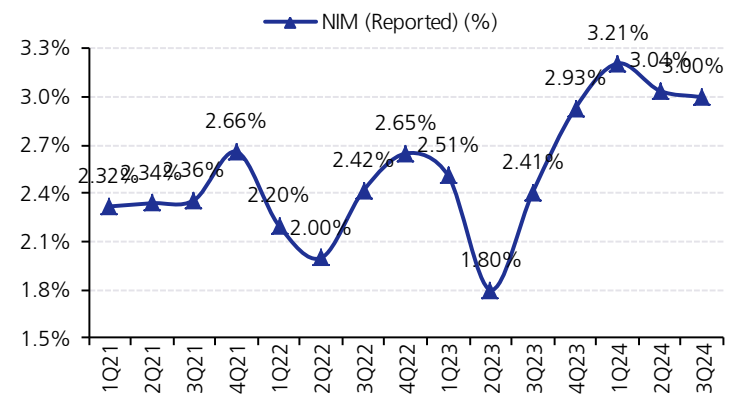
Source: Company, JM Financial

**Exhibit 6. LICHF: Trend in NII YoY growth (%)**



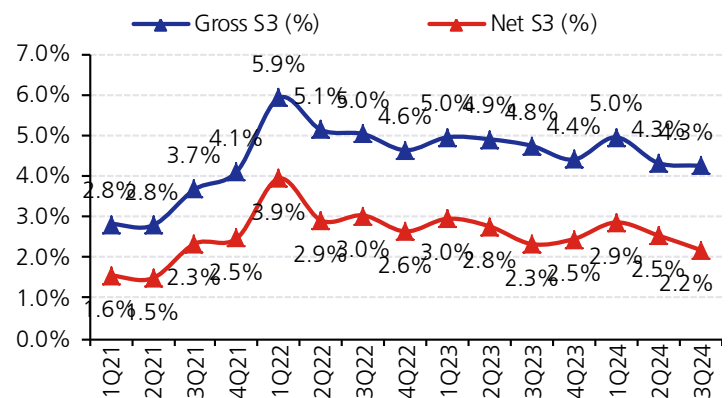
Source: Company, JM Financial

**Exhibit 7. LICHF: Trend in reported margins (%)**



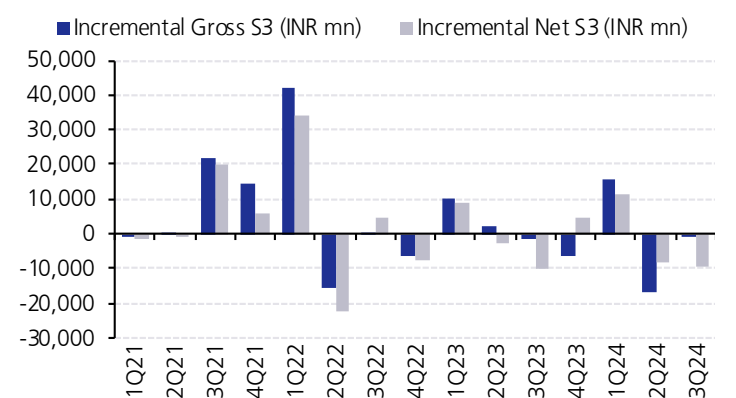
Source: Company, JM Financial

**Exhibit 8. LICHF: Trend in asset quality**



Source: Company, JM Financial

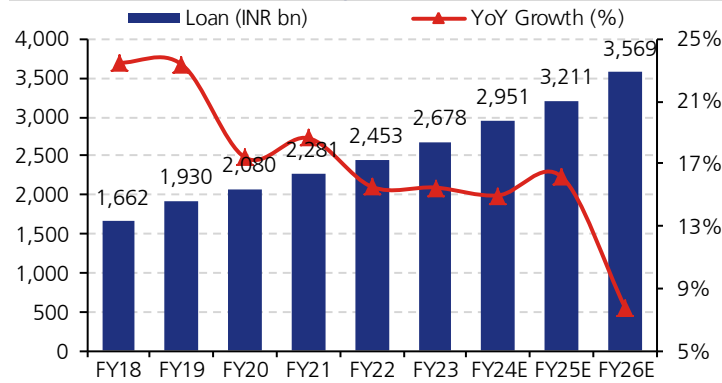
**Exhibit 9. LICHF: Trend in asset quality**



Source: Company, JM Financial

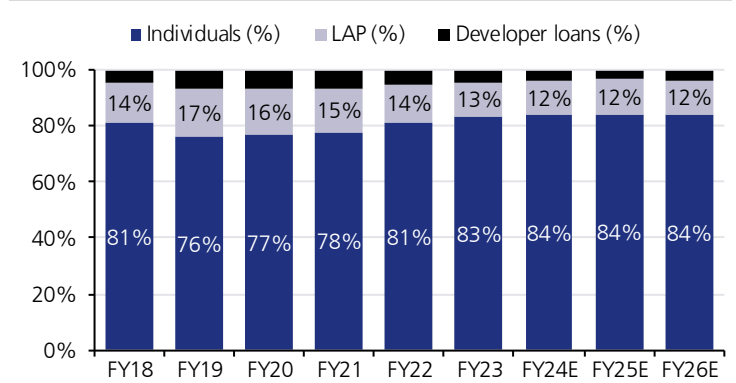
# LICHF – Annual Trends

**Exhibit 10. LICHF: Trend in loan growth**



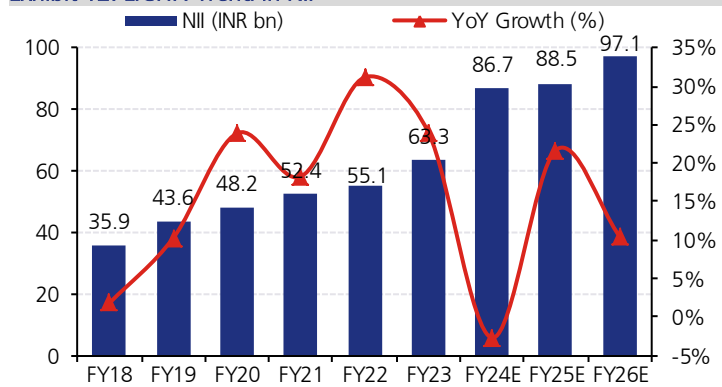
Source: Company, JM Financial

**Exhibit 11. LICHF: Trend in loan mix**



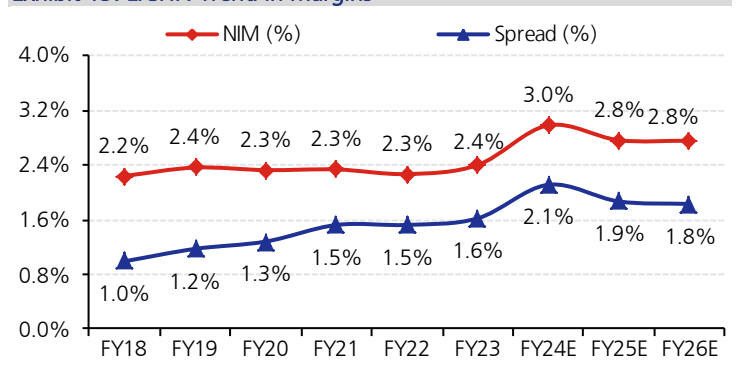
Source: Company, JM Financial

**Exhibit 12. LICHF: Trend in NII**



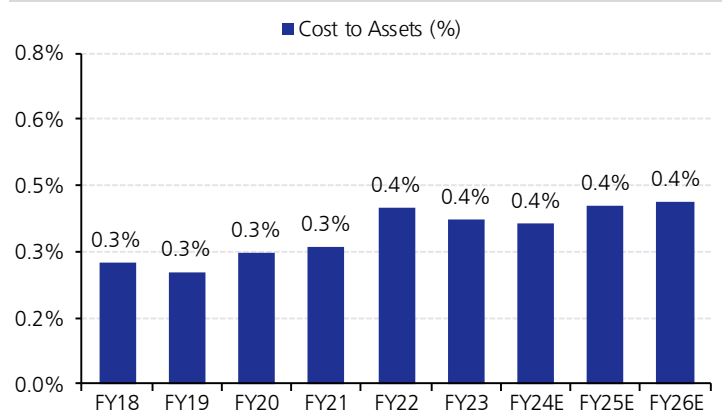
Source: Company, JM Financial

**Exhibit 13. LICHF: Trend in Margins**



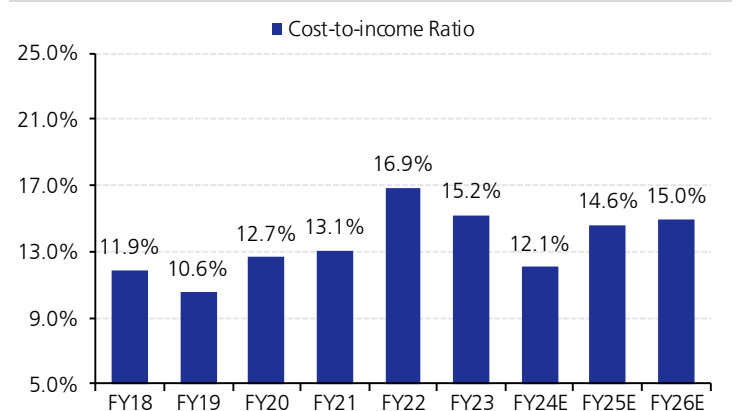
Source: Company, JM Financial

**Exhibit 14. LICHF: Trend in cost to assets**



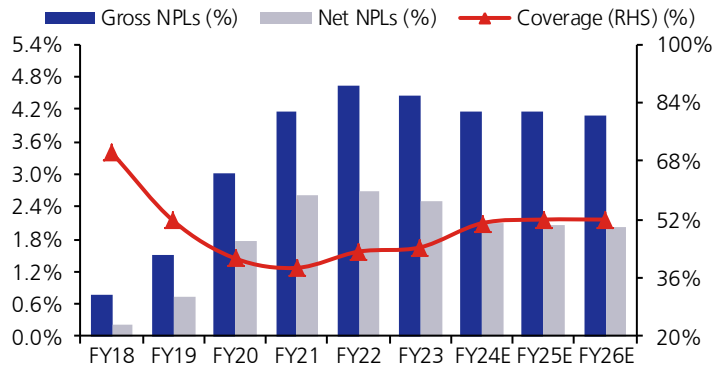
Source: Company, JM Financial

**Exhibit 15. LICHF: Trend in cost to income**



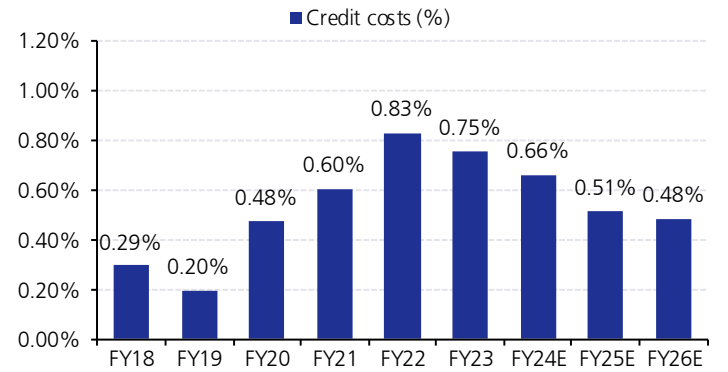
Source: Company, JM Financial

Exhibit 16. LICHF: Trend in asset quality



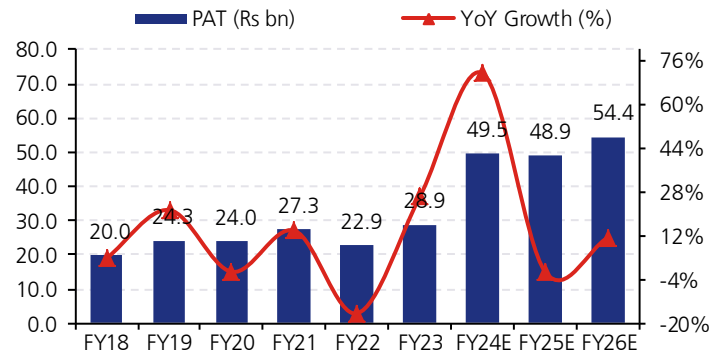
Source: Company, JM Financial

Exhibit 17. LICHF: Trend in credit costs



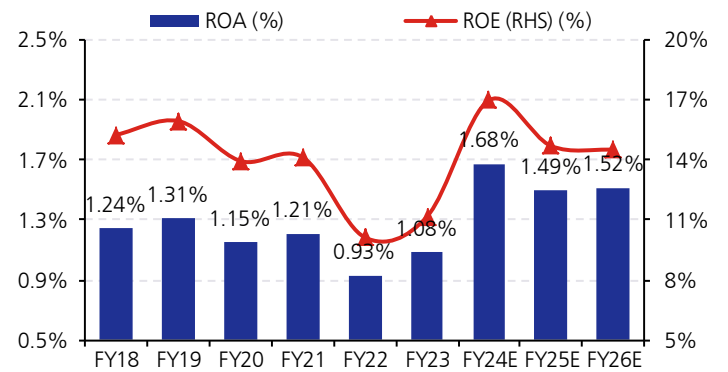
Source: Company, JM Financial

Exhibit 18. LICHF: Trend in earnings growth



Source: Company, JM Financial

Exhibit 19. Trend in return ratios



Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	55,112	63,303	86,734	91,544	98,772
Non Interest Income	2,646	1,580	1,701	1,597	1,702
<b>Total Income</b>	<b>57,758</b>	<b>64,882</b>	<b>88,434</b>	<b>93,141</b>	<b>100,474</b>
Operating Expenses	9,758	9,883	10,686	12,358	13,830
<b>Pre-provisioning Profits</b>	<b>48,000</b>	<b>55,000</b>	<b>77,748</b>	<b>80,783</b>	<b>86,644</b>
Loan-Loss Provisions	20,218	19,430	16,389	10,280	10,394
Others Provisions	0	0	200	200	300
<b>Total Provisions</b>	<b>20,218</b>	<b>19,430</b>	<b>16,589</b>	<b>10,480</b>	<b>10,694</b>
<b>PBT</b>	<b>27,782</b>	<b>35,570</b>	<b>61,159</b>	<b>70,302</b>	<b>75,950</b>
Tax	4,909	6,660	11,620	15,466	16,709
<b>PAT (Pre-Extra ordinaries)</b>	<b>22,873</b>	<b>28,910</b>	<b>49,539</b>	<b>54,836</b>	<b>59,241</b>
Extra ordinaries (Net of Tax)	0	0	0	0	0
<b>Reported Profits</b>	<b>22,873</b>	<b>28,910</b>	<b>49,539</b>	<b>54,836</b>	<b>59,241</b>
Dividend	4,676	4,676	8,422	9,322	10,071
<b>Retained Profits</b>	<b>18,197</b>	<b>24,235</b>	<b>41,117</b>	<b>45,514</b>	<b>49,170</b>

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	1,101	1,101	1,101	1,101	1,101
Reserves & Surplus	245,618	269,903	311,020	356,534	405,704
Stock option outstanding	0	0	0	0	0
Borrowed Funds	2,236,582	2,447,742	2,704,755	2,948,183	3,243,001
Deferred tax liabilities	0	0	0	0	0
Preference Shares	62,375	65,374	106,184	116,354	128,461
Current Liabilities & Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>2,545,675</b>	<b>2,784,120</b>	<b>3,123,060</b>	<b>3,422,171</b>	<b>3,778,267</b>
Net Advances	2,452,963	2,678,348	2,951,165	3,211,134	3,569,182
Investments	61,986	69,764	73,779	80,278	89,230
Cash & Bank Balances	9,374	7,419	44,267	48,167	53,538
Loans and Advances	0	0	0	0	0
Other Current Assets	4,809	6,142	28,669	55,001	35,855
Fixed Assets	2,861	3,562	3,996	4,378	4,834
Miscellaneous Expenditure	0	0	0	0	0
Deferred Tax Assets	13,681	18,885	21,184	23,212	25,628
<b>Total Assets</b>	<b>2,545,675</b>	<b>2,784,120</b>	<b>3,123,060</b>	<b>3,422,171</b>	<b>3,778,267</b>

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (YoY) (%)</b>					
Borrowed funds	7.6%	9.4%	10.5%	9.0%	10.0%
Advances	7.5%	9.2%	10.2%	8.8%	11.2%
Total Assets	8.0%	9.4%	12.2%	9.6%	10.4%
NII	5.1%	14.9%	37.0%	5.5%	7.9%
Non-interest Income	114.8%	-40.3%	7.7%	-6.1%	6.5%
Operating Expenses	39.1%	1.3%	8.1%	15.6%	11.9%
Operating Profits	2.9%	14.6%	41.4%	3.9%	7.3%
Core Operating profit	2.5%	14.6%	41.5%	4.2%	7.3%
Provisions	53.4%	-3.9%	-14.6%	-36.8%	2.0%
Reported PAT	-16.3%	26.4%	71.4%	10.7%	8.0%
<b>Yields / Margins (%)</b>					
Interest Spread	1.52%	1.62%	2.11%	1.96%	1.88%
NIM	2.27%	2.40%	2.98%	2.86%	2.80%
<b>Profitability (%)</b>					
ROA	0.93%	1.08%	1.68%	1.68%	1.65%
ROE	10.1%	11.2%	17.0%	16.4%	15.5%
Cost to Income	16.9%	15.2%	12.1%	13.3%	13.8%
<b>Asset quality (%)</b>					
Gross NPA	4.64%	4.44%	4.17%	3.96%	3.74%
LLP	0.83%	0.75%	0.66%	0.39%	0.38%
<b>Capital Adequacy (%)</b>					
Tier I	16.23%	16.56%	16.91%	17.87%	18.58%
CAR	18.08%	18.22%	18.66%	19.74%	20.51%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	2.25%	2.38%	2.94%	2.80%	2.74%
Other Income / Assets	0.11%	0.06%	0.06%	0.05%	0.05%
Total Income / Assets	2.36%	2.43%	2.99%	2.85%	2.79%
Cost / Assets	0.40%	0.37%	0.36%	0.38%	0.38%
PPP / Assets	1.96%	2.06%	2.63%	2.47%	2.41%
Provisions / Assets	0.82%	0.73%	0.56%	0.32%	0.30%
PBT / Assets	1.13%	1.33%	2.07%	2.15%	2.11%
Tax rate	17.7%	18.7%	19.0%	22.0%	22.0%
ROA	0.93%	1.08%	1.68%	1.68%	1.65%
Leverage	10.3	10.3	10.0	9.6	9.3
ROE	10.1%	11.2%	17.0%	16.4%	15.5%

Source: Company, JM Financial

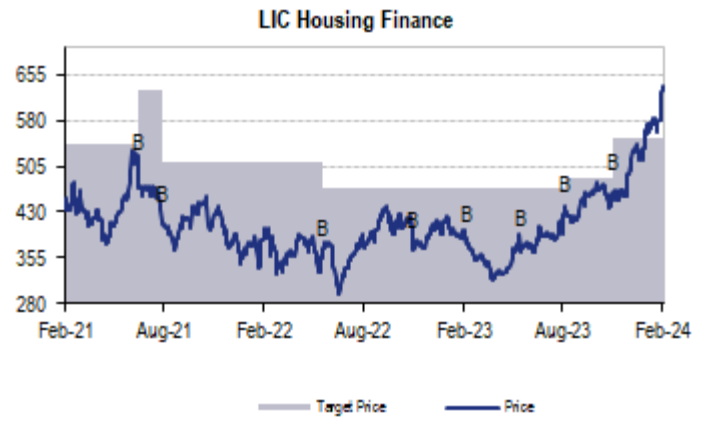
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	550.4	550.4	550.4	550.4	550.4
EPS (INR)	41.6	52.5	90.0	99.6	107.6
EPS (YoY) (%)	-23.3%	26.4%	71.4%	10.7%	8.0%
P/E (x)	15.3	12.1	7.0	6.4	5.9
BV (INR)	448	492	567	650	739
BV (YoY) (%)	10.3%	9.8%	15.2%	14.6%	13.7%
P/BV (x)	1.41	1.29	1.12	0.98	0.86
DPS (INR)	8.5	8.5	15.3	16.9	18.3
Div. yield (%)	1.3%	1.3%	2.4%	2.7%	2.9%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-Jan-20	Buy	510	
22-Jun-20	Buy	330	-35.3
25-Aug-20	Buy	360	9.1
12-Nov-20	Buy	425	18.1
6-Jan-21	Buy	530	24.7
30-Jan-21	Buy	540	1.9
16-Jun-21	Buy	630	16.7
30-Jul-21	Buy	510	-19.0
19-May-22	Buy	470	-7.8
2-Nov-22	Buy	470	0.0
7-Feb-23	Buy	470	0.0
17-May-23	Buy	470	0.0
6-Aug-23	Buy	485	3.2
3-Nov-23	Buy	550	13.4

Recommendation History





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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