

February 5, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		HOLD	
Target Price	540		460	
NII (Rs.)	79,158	81,937	77,570	80,459
% Chng.	2.0	1.8		
PPoP (Rs.)	69,742	71,811	68,160	70,358
% Chng.	2.3	2.1		
EPS (Rs.)	82.1	87.8	79.6	84.7
% Chng.	3.2	3.7		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Int.Inc. (Rs m)	63,513	85,180	79,158	81,937
Growth (%)	15.0	34.1	(7.1)	3.5
Op. Profit (Rs m)	55,000	76,268	69,742	71,811
PAT (Rs m)	28,910	48,136	45,207	48,323
EPS (Rs.)	52.5	87.5	82.1	87.8
Gr. (%)	26.4	66.5	(6.1)	6.9
DPS (Rs.)	8.5	17.5	16.4	17.6
Yield (%)	1.3	2.7	2.6	2.7
Margin (%)	2.4	3.0	2.6	2.5
RoAE (%)	11.2	16.6	13.8	13.3
RoAA (%)	1.1	1.7	1.5	1.5
PE (x)	12.2	7.3	7.8	7.3
P/BV (x)	1.3	1.1	1.0	0.9
P/ABV (x)	1.7	1.4	1.3	1.1

Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.656 / Rs.315
Sensex / Nifty	71,731 / 21,772
Market Cap	Rs.352bn/ \$ 4,241m
Shares Outstanding	550m
3M Avg. Daily Value	Rs.1447.61m

Shareholding Pattern (%)

Promoter's	45.24
Foreign	21.91
Domestic Institution	21.77
Public & Others	11.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.4	50.1	60.2
Relative	11.9	37.5	35.9

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NIM surprise continues but we remain cautious

Quick Pointers:

- Earnings beat led by better NIM; loan offtake remains weak.
- Company expects disbursements to normalize in FY25, as tech issues sorted.

LICHF saw a mixed quarter. PAT was a beat by 7.3% to PLe due to higher NII/NIM but loan growth remains muted at 4.8% YoY. While company expects a 10-15bps YoY compression in FY25E NIM owing to tight liquidity, we see a 37bps fall in NIM (calc.) from 3.0% to 2.6% since cost of bank borrowings (35% share) may further increase. Loan offtake has remained weak due to tech change and sprucing back-office capabilities. Company expects disbursements to pick-up in FY25, however, owing to stiff competition from banks especially in prime housing, we see a loan CAGR of 7% over FY24-26E. While we raise PAT for FY25/26E by 3%/4% due to higher NIM, ABV for FY25/26E is upgraded by 8%/10% led by reduction in GNPA and increase in PCR as most of the stress has been recognized. However, we remain cautious on loan growth and NIM due to competitive intensity. We tweak our multiple from 0.9x to 1.0x on Sep'25 ABV and increase TP from Rs460 to Rs540. Retain 'HOLD'.

- Growth remains weak but superior margins led to PAT beat:** NII was ahead Rs21.0bn (PLe Rs20bn) driven by better NIM at 3.06% (PLe 2.90%) led by lower funding cost at 7.66% (PLe 7.82%). Loan growth was a slight miss at 4.8% YoY (PLe 5.1%) as disbursements at Rs151.8bn were lower (PLe Rs154.0bn) while repayments were higher at Rs119.7bn (PLe Rs112.1bn). Other income was softer at Rs415mn (PLe Rs483mn) offset by lower opex. PPoP was at Rs1.88bn (PLe Rs1.77bn) led by better NII/NIM. On asset quality; stage-2/stage-3 decreased QoQ by 53/7bps to 4.5%/4.3%. PCR improved QoQ from 41.2% to 48.6% due to ECL transfer from stage-2 to stage-3. Provisions were higher at Rs4.4bn (PLe Rs4.2bn). PAT was at Rs116.3bn (PLe Rs108.4bn).
- Credit flow remains weak but likely to improve:** Disbursements remained muted due to (1) new technology implementation and (2) organisational change from a 4-tier to 5-tier structure for strengthening back-office infrastructure. New cluster offices have been opened for underwriting and marketing, taking the total to 44 offices (earlier 24 offices). LICHF suggested that disbursements for FY25 would enhance as TAT has reduced since (1) tech issues are resolved and (2) operational capability has improved. However, due to competitive intensity from banks which, we see loan CAGR of 7% over FY24-26E. States like Telangana, Karnataka, parts of North/North East India are seeing good growth.
- NIM guided to fall post FY24; focus on recoveries:** Reported NIM for Q3'24 was 3.0% and due to constrained liquidity, management expects a worst case YoY decline of 10-15bps. However, as bank borrowings (35%) are further repriced upwards, funding cost increase in FY25 may surpass that of yield increase. On asset quality, Stage-3 product wise split was: IHL-1.7%, non-housing IL-6.5% and corporate including project loans-40.8%. On recoveries, an ARC committee is formed and external consultant is hired for guidance. First phase involves transferring 10 large accounts to ARCs.

Exhibit 1: Earnings beat at Rs11.9bn led by higher NII and lower opex

NII growth was higher at 31% YoY, led by higher loan growth

Opex was a tad higher sequentially due to slight increase in employee expenses

Provisions at Rs4.4bn was higher sequentially due to provision made for AIF

PAT was ahead at Rs116.3bn led by higher NII and NIM growth.

Loan growth was bit lower at 4.8%YoY/1.2% QoQ led by lower disbursements.

Stage-3 remained stable sequentially but PCR increased to 48.6%

P&L (Rs m)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)
Interest Income	67,510	58,397	15.6	67,128	0.6
Interest Expense	46,465	42,329	9.8	46,000	1.0
Net Interest Income	21,045	16,068	31.0	21,128	(0.4)
Other operating Inc.	127	64	99.2	147	(13.3)
Other Income	288	300	(3.9)	313	(8.0)
Total income	21,460	16,432	30.6	21,587	(0.6)
Employee Expense	1,401	1,205	16.3	1,383	1.3
Other Expenses	1,214	1,671	(27.3)	1,212	0.2
Operating Profit	18,845	13,556	39.0	18,993	(0.8)
Provisions	4,358	7,626	(42.9)	4,192	4.0
Tax	2,858	1,127	153.6	2,920	(2.1)
Net Profit excl exceptional	11,629	4,803	142.1	11,881	(2.1)
Balance Sheet (Rs m)					
O/S Loans	2,812,060	2,684,440	4.8	2,779,870	1.2
Home Loans	84.9%	83.1%	1.8	84.4%	0.5
LAP	12.1%	12.9%	(0.8)	12.1%	-
Builder	3.0%	4.0%	(1.0)	3.5%	(0.5)
Borrowings	2,450,670	2,403,640	2.0	2,436,060	0.6
Banks (%)	35.0%	33.9%	1.1	33.0%	2.0
NCD (%)	52.0%	51.9%	0.1	53.0%	(1.0)
CP (%)	4.0%	3.9%	0.1	4.0%	-
Sub-debt (%)	1.0%	0.8%	0.3	1.0%	-
Deposits (%)	4.0%	5.9%	(1.9)	5.0%	(1.0)
NHB (%)	4.0%	3.6%	0.4	4.0%	-
Asset quality					
Stage-3	4.3%	4.8%	(0.5)	4.3%	(0.1)
Net-stage-3	2.2%	2.3%	(0.1)	2.5%	(0.4)
PCR	48.6%	50.9%	(2.4)	41.2%	7.4
Others / Ratios (%)					
Yield on Loans - Calc	9.8	9.1	0.7	9.9	(0.1)
Cost of Borrowings - Calc	7.7	7.4	0.2	7.7	(0.1)
Spread	2.2	1.7	0.5	2.2	(0.0)
NIMs	3.1	2.5	0.6	3.1	(0.1)
Cost/ Income Ratio	12.2	17.5	(5.3)	12.0	0.2

Source: Company, PL

Q3FY24 earnings concall KTAs

Assets & Liabilities:

- **Disbursals remained muted** due to organisational structure changes (commenced in Q1/Q2'24)
 - Formed clusters and new area officers for underwriting loans and marketing. Clusters have crossed 70-75% of annual budget. 44 new cluster offices are introduced (earlier 24 back offices).
 - Change from 4-tier to 5-tier structure. Focus is to improve TAT and conversion ratio leading to higher disbursements from FY25.
- **Disbursements (Individual + LAP)** for Oct'23 ~Rs45bn, Nov'23 ~Rs47bn, Dec'23 ~Rs57bn, Jan'24 46.5bn.
- **Developer book contracted** due to 2 big Line of Credit customers' accounts getting closed. More conservative approach is to be followed to control quality (34% NPA). Rs45bn loan is sanctioned to be drawn in Q4'24.
- **Management has exposure** to wholesale deposits and considers to diversify to retail deposits. However, it is a diversification strategy and will not have impact on cost. Currently, deposit book for the company stood at ~Rs110bn constituting a share of 5% to overall liability book.
- **Digitalization:** Management plans to add more digital initiatives including onboarding of customers. Sourcing leads, conversion of leads and much more.

NIM/Others

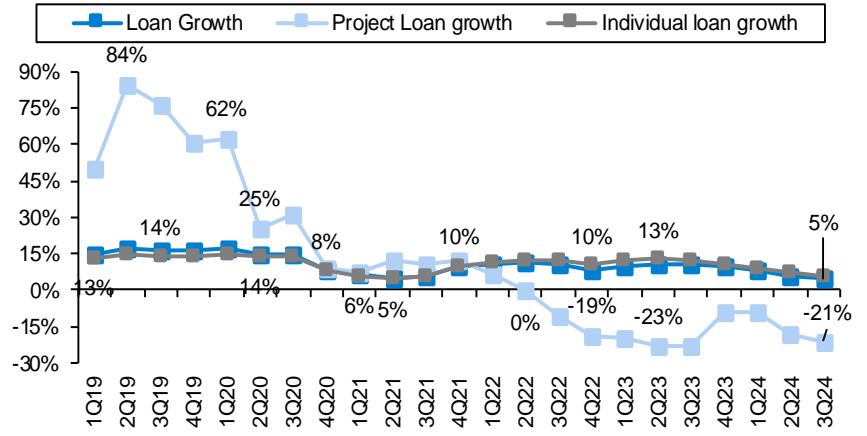
- **NIM at 3% vs 3.04% QoQ** due to increase in CoF. Margin pressure is expected to continue with an estimated fall of 10-15bps. Company revised its NIM guidance to 2.8-3% for Q4'24.
- **Incremental cost of funds stood** at 7.7% and management expects borrowing cost to remain range bound. Incremental disbursement yields stood at ~9.6%; may decline further by 2-3bps in Q4'24.

Asset Quality:

- **Stage 3 improved by 7bps to 4.26%**. One big loan account slipped to Stage 3 amounting to Rs.4.5bn. ARC committee is formed and external consultant is hired for guidance. 1st Phase involves transferring 10 big accounts to ARCs and an actual call will be taken in FY25. Excess provision is made in accordance with prudence as management overlay. Provisioning is guided at 0.2%/4.5% for Stage I/Stage II.
- **Stage 3 product wise split:** Individual home loans –1.71%, non-housing individual loans –6.5%, non-housing corporate book including project finance –40.75%. Stage III ~Rs61bn for an asset pool of ~Rs85bn project loans and ~Rs65bn Wholesale Loans. In terms of developer loans in NPA (40-50 accounts) of Rs2.3-2.4bn, Rs1-1.5bn is expected to regularize.

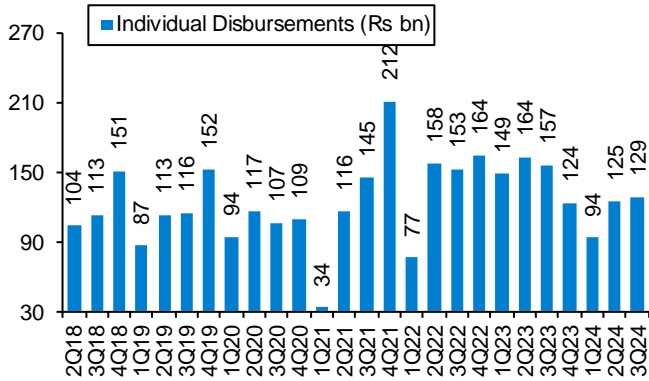
- PCR stood improved to 48%** guided to improve to 50% by FY24 and stabilize. Credit costs guided at 50-55bps and due to technological advancements, it is expected to fall by 10-15bps by FY25.

Exhibit 2: Loan growth was soft at 5% YoY; project loan continues to de-grow



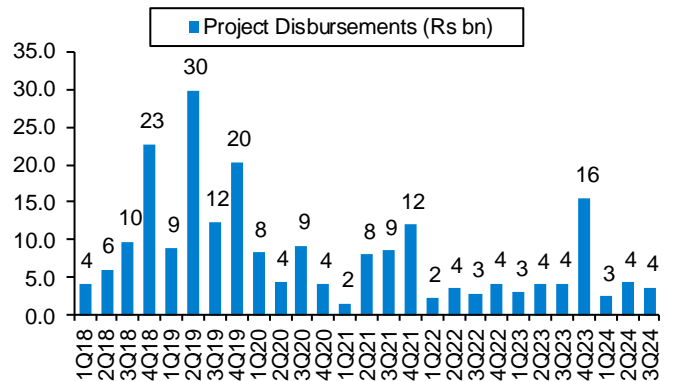
Source: Company, PL

Exhibit 3: Disbursements increases QoQ to Rs129bn



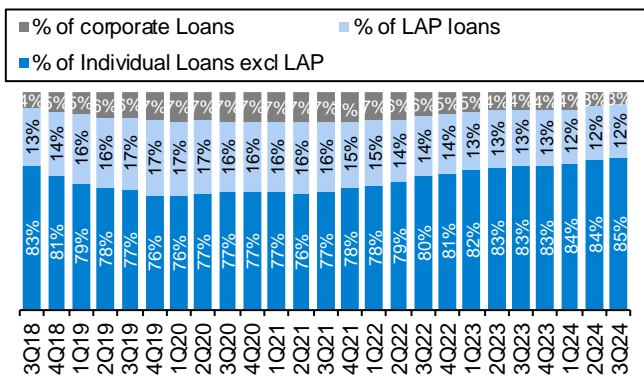
Source: Company, PL

Exhibit 4: P.L. disbursements inches marginally to Rs4bn



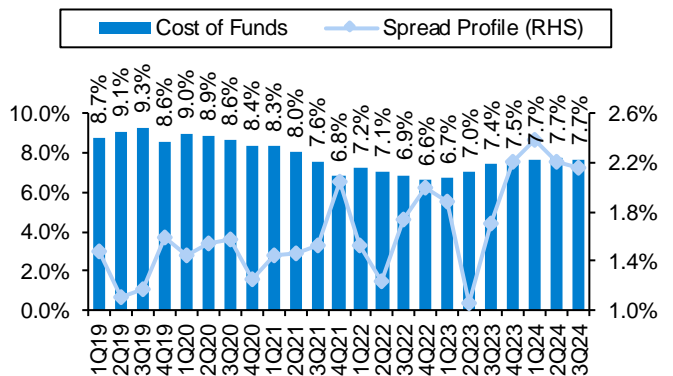
Source: Company, PL

Exhibit 5: Individual loan mix increased to 85% share



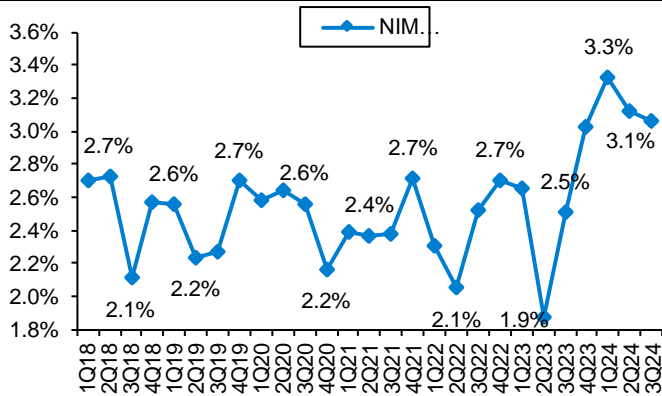
Source: Company, PL

Exhibit 6: Spreads decreased 6bps QoQ to 2.2%



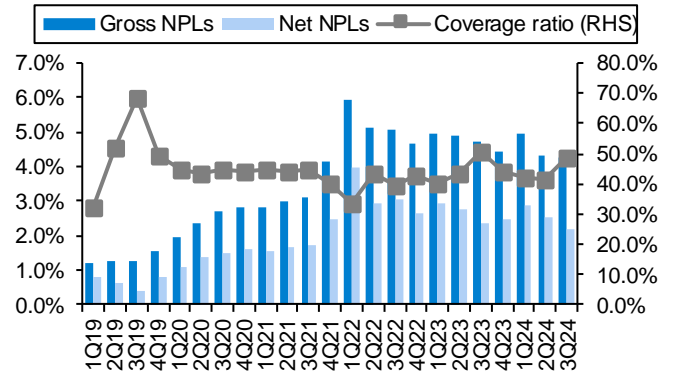
Source: Company, PL

Exhibit 7: NIM decline by 7bps QoQ to 3.1% led by lower YoA



Source: Company, PL

Exhibit 8: GNPA stable to 4.3%, PCR improved to 48.6%



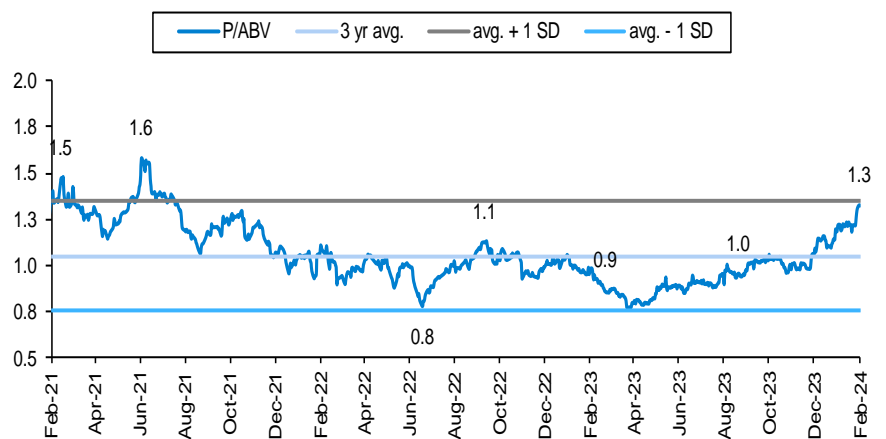
Source: Company, PL

Exhibit 9: RoA/RoE at 1.5%/13.3% FY26E

RoE decomposition (%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.3	9.4	8.7	8.0	8.5	9.4	9.2	9.0
Interest expenses	7.1	7.1	6.4	5.8	6.1	6.5	6.6	6.5
Net interest income	2.2	2.3	2.3	2.3	2.4	3.0	2.6	2.5
Other Inc. from operations	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Total income	2.3	2.3	2.4	2.4	2.4	3.0	2.6	2.6
Employee expenses	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Other operating expenses	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Operating profit	2.0	2.0	2.1	1.9	2.1	2.7	2.3	2.2
Loan loss provisions	0.2	0.5	0.6	0.8	0.7	0.6	0.4	0.4
Tax	0.5	0.4	0.3	0.2	0.2	0.4	0.4	0.4
RoAA	1.31	1.2	1.2	0.9	1.1	1.7	1.5	1.5
RoAE	15.9	13.9	14.1	10.1	11.2	16.6	13.8	13.3

Source: Company, PL

Exhibit 10: One-year forward P/ABV of LICHF trades at 1.3x



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Int. Inc. / Opt. Inc.	2,25,373	2,70,762	2,82,952	2,94,785
Interest Expenses	1,61,860	1,85,582	2,03,794	2,12,848
Net interest income	63,513	85,180	79,158	81,937
Growth(%)	15.0	34.1	(7.1)	3.5
Non-interest income	1,369	1,712	2,028	2,204
Growth(%)	(44.1)	25.0	18.5	8.6
Net operating income	64,882	86,892	81,187	84,141
Expenditures				
Employees	4,732	5,656	6,173	6,737
Other Expenses	4,495	4,315	4,578	4,857
Depreciation	656	654	694	736
Operating Expenses	9,883	10,624	11,445	12,330
PPP	55,000	76,268	69,742	71,811
Growth(%)	15.4	38.7	(8.6)	3.0
Provisions	19,430	16,359	13,654	11,856
Profit Before Tax	35,570	59,909	56,088	59,954
Tax	6,660	11,773	10,881	11,631
Effective Tax rate(%)	18.7	19.7	19.4	19.4
PAT	28,910	48,136	45,207	48,323
Growth(%)	26.4	66.5	(6.1)	6.9

Balance Sheet (Rs. m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Source of funds				
Equity	1,101	1,101	1,101	1,101
Reserves and Surplus	2,69,903	3,07,868	3,44,034	3,82,692
Networth	2,71,003	3,08,969	3,45,135	3,83,793
Growth (%)	9.8	14.0	11.7	11.2
Loan funds	24,47,742	25,95,969	27,67,029	29,47,004
Growth (%)	9.4	6.1	6.6	6.5
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	61,826	60,381	61,567	65,546
Other Liabilities	1,795	1,793	1,911	2,035
Total Liabilities	27,82,366	29,67,112	31,75,641	33,98,379
Application of funds				
Net fixed assets	3,570	3,966	4,254	4,563
Advances	26,78,348	28,59,146	30,60,111	32,74,755
Growth (%)	9.2	6.8	7.0	7.0
Investments	69,764	69,430	74,269	79,445
Current Assets	7,605	8,910	9,535	10,204
Net current assets	(54,221)	(51,471)	(52,032)	(55,342)
Other Assets	24,834	27,590	29,595	31,746
Total Assets	27,84,120	29,69,041	31,77,764	34,00,714
Growth (%)	9.4	6.6	7.0	7.0
Business Mix				
AUM	27,50,470	28,92,815	30,95,839	33,12,990
Growth (%)	9.5	5.2	7.0	7.0
On Balance Sheet	27,50,470	28,92,815	30,95,839	33,12,990
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY23	FY24E	FY25E	FY26E
NIM	2.4	3.0	2.6	2.5
ROAA	1.1	1.7	1.5	1.5
ROAE	11.2	16.6	13.8	13.3

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Int. Inc. / Operating Inc.	63,805	67,065	67,128	67,510
Income from securitization	-	-	-	-
Interest Expenses	43,877	44,942	46,000	46,465
Net Interest Income	19,927	22,123	21,128	21,045
Growth (%)	22.2	36.5	80.6	31.0
Non-Interest Income	347	401	460	415
Net Operating Income	20,274	22,523	21,587	21,460
Growth (%)	16.4	36.4	79.1	30.6
Operating expenditure	2,759	2,425	2,595	2,615
PPP	17,515	20,098	18,993	18,845
Growth (%)	-	-	-	-
Provision	3,068	3,608	4,192	4,358
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	14,448	16,490	14,801	14,487
Tax	2,645	3,253	2,920	2,858
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	18.3	19.7	19.7	19.7
PAT	11,803	13,237	11,881	11,629
Growth	6	43	290	142
AUM	27,50,470	27,64,400	27,79,870	28,12,060
YoY growth (%)	9.5	8.1	6.0	4.8
Borrowing	24,46,960	24,13,772	24,36,060	24,50,670
YoY growth (%)	9.3	6.8	4.6	2.0

Key Ratios

Y/e Mar	FY23	FY24E	FY25E	FY26E
CMP (Rs)	640	640	640	640
EPS (Rs)	52.5	87.5	82.1	87.8
Book value (Rs)	492.4	561.4	627.1	697.3
Adj. BV(Rs)	369.9	445.7	509.5	577.7
P/E(x)	12.2	7.3	7.8	7.3
P/BV(x)	1.3	1.1	1.0	0.9
P/ABV(x)	1.7	1.4	1.3	1.1
DPS (Rs)	8.5	17.5	16.4	17.6
Dividend Payout Ratio(%)	16.2	20.0	20.0	20.0
Dividend Yield(%)	1.3	2.7	2.6	2.7

Asset Quality

Y/e Mar	FY23	FY24E	FY25E	FY26E
Gross NPAs(Rs m)	1,21,248	1,24,773	1,29,512	1,31,768
Net NPA(Rs m)	67,435	63,642	64,709	65,832
Gross NPAs to Gross Adv.(%)	4.4	4.3	4.2	4.0
Net NPAs to net Adv.(%)	2.5	2.2	2.1	2.0
NPA coverage(%)	44.4	49.0	50.0	50.0

Du-Pont as a % of AUM

Y/e Mar	FY23	FY24E	FY25E	FY26E
NII	2.4	3.0	2.6	2.5
NII INCl. Securitization	2.4	3.0	2.6	2.5
Total income	2.4	3.0	2.6	2.6
Operating Expenses	0.4	0.4	0.4	0.4
PPOP	2.1	2.7	2.3	2.2
Total Provisions	0.7	0.6	0.4	0.4
RoAA	1.1	1.7	1.5	1.5
Avg. Assets/Avg. net worth	10.3	9.9	9.4	9.0
RoAE	11.2	16.6	13.8	13.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Hold	460	575
2	02-Nov-23	Hold	460	449
3	07-Oct-23	Hold	430	468
4	04-Aug-23	Hold	430	427
5	06-Jul-23	Hold	410	398
6	17-May-23	Hold	410	370
7	11-Apr-23	Accumulate	410	333
8	07-Feb-23	Accumulate	410	376

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Hold	1,660	1,484
2	Axis Bank	BUY	1,250	1,089
3	Bank of Baroda	BUY	270	248
4	Can Fin Homes	BUY	900	725
5	City Union Bank	Accumulate	160	144
6	DCB Bank	BUY	160	144
7	Federal Bank	BUY	180	150
8	HDFC Asset Management Company	BUY	3,900	3,501
9	HDFC Bank	BUY	2,000	1,679
10	ICICI Bank	BUY	1,300	1,009
11	IndusInd Bank	BUY	1,740	1,613
12	Kotak Mahindra Bank	BUY	2,250	1,807
13	LIC Housing Finance	Hold	460	575
14	State Bank of India	BUY	770	650
15	UTI Asset Management Company	BUY	900	875

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Gaurav Jani- CA, Passed CFA Level II, Mr. Aditya Modani- CA, Passed CFA Level II, Mr. Anant Dumbhare- PGDM - Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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