

Oct 30, 2024

RESULT REPORT Q2 FY25 | Sector: Financials

LIC Housing Finance Limited

Growth and Margins remain key monitorables'

Earnings higher on lower credit cost; disbursements in-line, margin contracts

LIC HF delivered a material 8% beat on our PAT estimate on benign credit cost and asset quality improvement. NII/PPOP were marginally lower than our expectation with NIM dipping sequentially and opex being higher, even as the disbursement/loan portfolio growth were in-line with expectation and recoveries from written-off loans were larger.

Disbursements stood at Rs165bn (up 28% qoq/12% yoy), comprising of IHL Rs130.5bn (up 19% qoq/4% yoy), NHI-LAP Rs19bn (up 36% qoq/15% yoy), and wholesale (DF + HFC) Rs14bn (up 168% qoq/223% yoy). Portfolio run-off rate in IHL was lower in Q2 FY25 at 13.5% (14.4% in Q1) and the lumpsum prepayment rate for H1 FY25 stood at 9.4% (10.4% in FY24). Loan portfolio growth improved to 6% yoy (4.4% in Q1) with IHL growth at 7% yoy.

Portfolio Yield declined by 6 bps qoq while CoF declined by 3 bps, resulting in 5 bps shaving-off of NIM (2.71% v/s 2.76% in Q1). The significant increase in Opex during the quarter was driven by higher distribution cost (improvement in business volume) and provision towards wage revision. Stage-2/Stage-3 loans declined by 3%/5% qoq in absolute terms on account of resilient collections (controlled flows) and smaller NPL recoveries. Write-offs in the quarter were lower at Rs2.9bn versus Rs7.4bn in Q1. With coverage stable across buckets, the asset quality improvement underpinned a modest credit cost of Rs0.8bn/11 bps (H1 FY25 credit cost stands at 15 bps). Notwithstanding some margin compression, the RoA/RoE for Q2 FY25 was steady at 1.8%/16%.

Management continues to expect growth recovery and sturdy margins

LIC HF expects loan growth to further improve in H2 FY25 aided by 1) resilient home loan demand, 2) seasonally stronger traction in IHL, 3) a pick-up in recently launched Affordable HL product (250 bps higher pricing than prime HL), 4) renewed emphasis on wholesale lending through selective/prudent credit (not chasing yield) for project finance and HFC lending, 5) stable competition from banks (balanced aggression) and 6) continuance of palatable trends in lumpsum prepayment/BT Out. NIM in H2 FY25 is expected around the H1 level with 1) estimated decline in funding cost (lower cost for incremental NCDs and quicker repricing of bank loans with >80% linked to Repo and other EBLRs) and 2) likely resilience demonstrated by portfolio yield (aided by product mix shift, recent tweaking of rate/pricing structure and consistent reduction in NPLs). Stage-3 improvement is expected to continue with resolution discussion in advanced stages in 4-5 large NPL accounts (one NPL of ~Rs4bn likely to be resolved in Q3). Focus also remains on collecting/resolving smaller accounts in retail/commercial segments. Credit cost would significantly undershoot the earlier guidance of 25-30 bps.

Re-rating contingent on growth improvement with margin stability

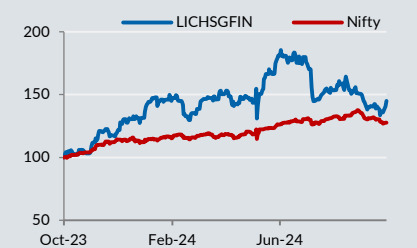
Our FY25/26 estimates get upgraded on moderation of credit cost assumptions. However, any significant re-rating of the stock depends on delivery on the growth and margin guidance. We estimate 8% loan growth in FY25 and 11-12% growth in FY26/27, factoring a conservative lift in growth from scaling-up of Affordable HL and Developer/HFC financing. We expect NIM to remain resilient in H2 FY25 and afterwards declining moderately as the rate downcycle plays out. For the medium-to-longer term delivery of 11-12% loan growth and 13-14% RoE, the stock is moderately priced at 0.8x FY26 P/BV. Retain ADD rating with 12m PT of Rs765.

Reco	: ADD
CMP	: Rs 638
Target Price	: Rs 765
Potential Return	: +20.0%

Stock data (as on Oct 29, 2024)

Nifty	24,467
52 Week h/l (Rs)	827 / 435
Market cap (Rs/USD mn)	340187 / 4046
Outstanding Shares (mn)	550
6m Avg t/o (Rs mn):	1,898
Div. yield (%):	1.4
Bloomberg code:	LICHF IN
NSE code:	LICHSGFIN

Stock performance



	1M	3M	1Y
Absolute return	-3.8%	-17.6%	41.4%

Shareholding pattern

Promoter	45.2%
FII+DII	44.4%
Others	10.4%

Δ in stance

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

Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	93.4	94.4	101.0
EPS (Old)	89.0	89.8	-
% Change	4.9%	5.1%	-

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	82,568	87,867	96,278
PPOP	70,364	74,273	81,328
Net profit	51,393	51,964	55,582
Growth (%)	7.8	1.1	7.0
EPS (Rs)	93.4	94.4	101.0
ABVPS (Rs)	572.9	662.0	760.1
P/E (x)	6.8	6.8	6.3
P/ABV (x)	1.1	1.0	0.8
ROE (%)	15.3	13.6	13.0
ROA (%)	1.7	1.6	1.5

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in



MANUJ OBEROI, Associate

Exhibit 1: Result table

Particulars (Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Operating Income	69,258	67,837	2.1	67,528	2.6
Interest expended	(48,796)	(47,501)	2.7	(46,000)	6.1
Net Interest Income	20,462	20,336	0.6	21,528	(5.0)
Other Income	60.0	0.2	-	59.2	1.4
Total Income	20,522	20,336	0.9	21,587	(4.9)
Operating expenses	(3,105)	(2,621)	18.5	(2,595)	19.7
PPOP	17,417	17,715	(1.7)	18,993	(8.3)
Provisions	(773)	(1,431)	(46.0)	(4,192)	(81.6)
PBT	16,644	16,284	2.2	14,801	12.5
Tax	(3,355)	(3,282)	2.2	(2,920)	14.9
Reported PAT	13,289	13,002	2.2	11,881	11.9

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Loan Portfolio	29,45,880	28,86,650	2.1	27,79,870	6.0
Retail home loans	25,09,890	24,62,312	1.9	23,46,210	7.0
NH Individual	2,91,642	2,85,778	2.1	2,72,427	7.1
NHC Project Dev. / NHC Others	1,44,348	1,38,559	4.2	1,61,232	(10.5)
Loan Disbursements	1,64,760	1,29,150	27.6	1,46,650	12.3
Individual	1,49,470	1,23,260	21.3	1,41,610	5.6
Project	15,290	5,890	159.6	5,040	203.4

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
NIM	2.7	2.8	(0.0)	3.0	(0.3)
YoA - Cum.	9.8	9.8	(0.1)	10.0	(0.3)
CoF- Cum.	7.7	7.8	(0.0)	7.7	0.1
Gross Stage 3	3.1	3.3	(0.2)	4.3	(1.3)
RoA - Cum.	1.8	1.8	0.0	1.7	0.1
RoE - Cum.	16.0	16.0	-	16.0	-

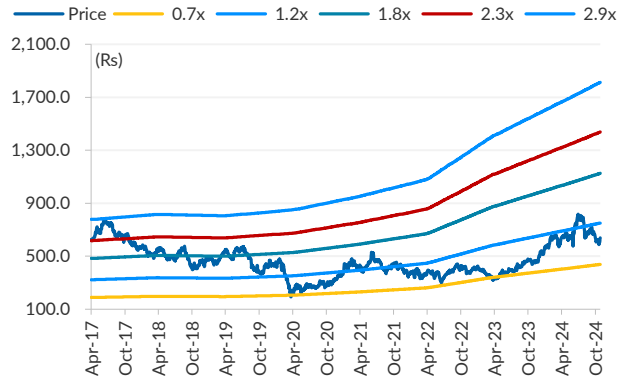
Source: Company, YES Sec

Exhibit 4: Borrowing Mix

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

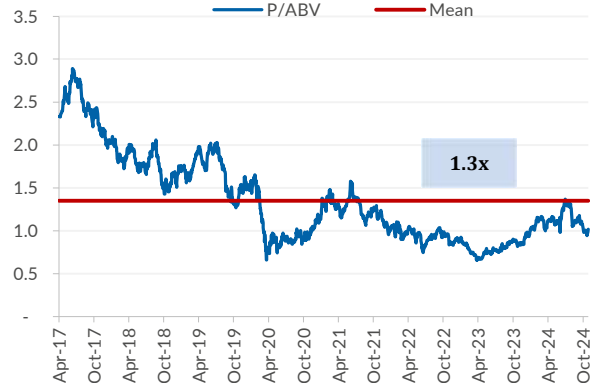
Source: Company, YES Sec

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)	FY23	FY24	FY25E	FY26E	FY27E
Equity and Liabilities					
Equity Share Capital	1,101	1,101	1,101	1,101	1,101
Other Equity	2,69,903	3,12,846	3,57,678	4,03,081	4,52,102
Shareholders' fund	2,71,003	3,13,946	3,58,778	4,04,182	4,53,203
Financial Liabilities	25,05,842	25,90,440	27,74,763	30,86,331	34,48,834
Derivative financial instruments	-	-	-	-	-
Trade payables	390	706	706	706	706
Debt Securities	13,69,600	14,46,653	15,52,259	17,30,769	19,38,461
Borrowings (Excl. Debt Sec.)	9,43,923	9,61,366	10,31,546	11,50,173	12,88,194
Deposits	1,16,262	98,986	1,06,212	1,18,426	1,32,637
Subordinated Liabilities	17,958	17,963	19,275	21,491	24,070
Other Financial Liabilities	57,710	64,767	64,767	64,767	64,767
Non-Financial Liabilities	7,275	7,660	8,426	9,268	10,195
Provisions	1,795	3,341	3,675	4,043	4,447
Other non-financial liabilities	5,480	4,319	4,750	5,225	5,748
Total liabilities & Equity	27,84,120	29,12,046	31,41,967	34,99,781	39,12,233
Assets					
Financial Assets	27,55,717	28,84,603	31,12,162	34,67,352	38,76,883
Cash and Cash Equivalents	6,194	14,375	15,224	19,349	23,907
Bank balances	1,225	1,351	1,351	1,351	1,351
Derivative financial instruments	-	-	-	-	-
Loans	26,78,348	28,05,898	30,26,332	33,70,491	37,67,869
Investments	69,764	62,770	69,047	75,952	83,547
Other Financial Assets	186	209	209	209	209
Non- Financial Assets	28,403	27,443	29,805	32,430	35,349
Current tax assets (Net)	0	4,243	4,879	5,611	6,453
Deferred tax assets (Net)	18,885	16,392	18,031	19,834	21,817
Property, Plant and Equipment	1,598	1,715	1,801	1,891	1,986
Other intangible Assets	4,360	1,895	1,895	1,895	1,895
Other Non-Financial Assets	3,560	3,199	3,199	3,199	3,199
Total Assets	27,84,120	29,12,046	31,41,967	34,99,781	39,12,233

Source: Company, YES Sec

Exhibit 8: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Operating Income	2,26,570	2,72,282	2,76,083	2,82,513	2,94,593
Interest expense	(1,61,860)	(1,83,907)	(1,93,579)	(1,94,729)	(1,98,423)
Net interest income	64,710	88,376	82,504	87,784	96,170
Non-interest income	173	64	64	83	108
Total op income	64,882	88,440	82,568	87,867	96,278
Total op expenses	(9,883)	(11,463)	(12,203)	(13,594)	(14,951)
PPoP	55,000	76,976	70,364	74,273	81,328
Provisions	(19,430)	(16,437)	(5,962)	(9,155)	(11,676)
Profit before tax	35,570	60,539	64,402	65,118	69,652
Taxes	(6,660)	(12,885)	(13,009)	(13,154)	(14,070)
Net profit	28,910	47,654	51,393	51,964	55,582

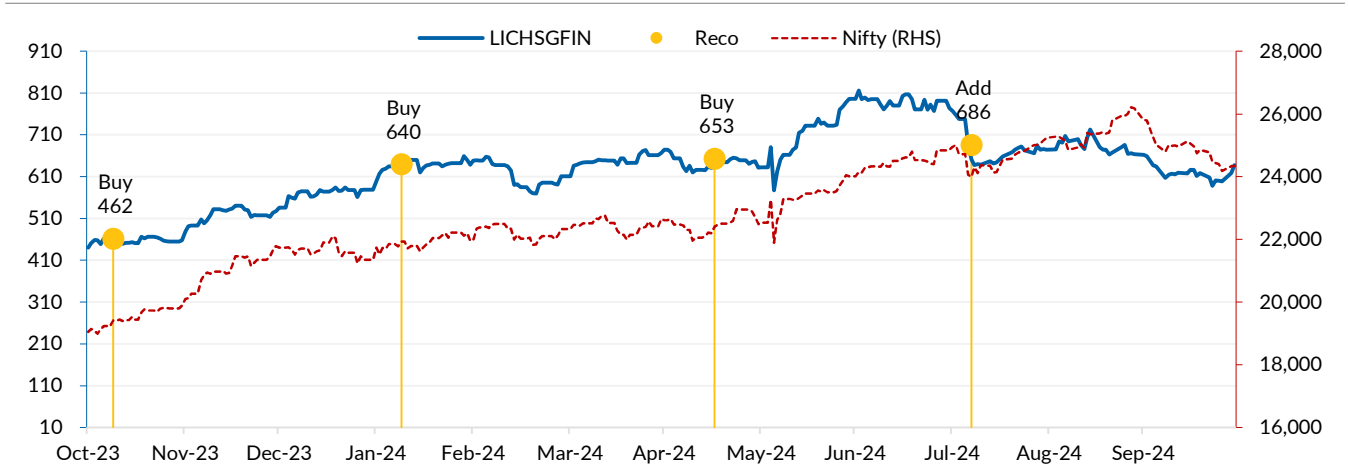
Source: Company, YES Sec

Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Net interest income	12.7	36.6	(6.6)	6.4	9.6
Total op income	12.3	36.3	(6.6)	6.4	9.6
Op profit (pre-provision)	14.6	40.0	(8.6)	5.6	9.5
Net profit	26.4	64.8	7.8	1.1	7.0
Advances	9.2	4.8	7.9	11.4	11.8
Total Borrowings	23.5	1.8	7.3	11.5	12.0
Total assets	9.4	4.6	7.9	11.4	11.8
Profitability Ratios (%)					
NIM	2.5	3.1	2.8	2.7	2.6
Non-interest income /Total income	0.3	0.1	0.1	0.1	0.1
Return on Avg. Equity	11.2	16.3	15.3	13.6	13.0
Return on Avg. Assets	1.1	1.7	1.7	1.6	1.5
Per share ratios (Rs)					
EPS	52.5	86.6	93.4	94.4	101.0
Adj. BVPS	371.8	486.5	572.9	662.0	760.1
DPS	8.5	9.0	10.0	10.0	10.0
Other key ratios (%)					
Loans/Borrowings	110.2	111.9	112.5	112.4	112.2
Cost/Income	15.2	13.0	14.8	15.5	15.5
CAR	17.7	19.8	20.8	21.1	21.1
Tier-I capital	16.4	18.1	19.2	19.4	19.5
Gross NPLs/Loans	4.4	3.3	2.8	2.3	1.8
Credit cost	0.7	0.6	0.2	0.3	0.3
Net NPLs/Net loans	2.7	1.9	1.4	1.2	0.9
Tax rate	18.7	21.3	20.2	20.2	20.2
Dividend yield	1.3	1.4	1.6	1.6	1.6

Source: Company, YES Sec

Recommendation Tracker



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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

Analyst signature

Analyst signature

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL.