

Feb 06, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

# LIC Housing Finance Limited

## Good quarter on margins and asset quality

### Strong margins and asset quality but meek growth

LIC HF delivered NII/PPOP/PAT beat of 4%/6%/3% on our estimates, notwithstanding a) muted growth performance, b) augmentation of ECL coverage and c) one-off provision on AIF exposure. The operational performance was buoyed by margin resilience and asset quality improvement.

Loan portfolio grew by modest at 1.2% qoq/4.8% yoy with overall disbursements at Rs151bn (7% below expectation) and portfolio run-off being higher. Home Loan (HL) lumpsum pre-payment rate was elevated for second consecutive quarter. HL disbursements were only marginally higher than preceding quarter (despite major festive season falling in Q3 FY24), reflecting gradual stabilization after significant changes in operational structure and tech/systems. Management was also averse to being aggressive at the cost of margins and asset quality.

NIM stood at 3% v/s expectation of 2.9% with both the portfolio yield compression and funding cost increase being milder than expectation. The reported portfolio yield declined by 7 bps qoq and CoF increased only by 4 bps with NCD cost being largely stable. Incr. CoF rose by 6 bps qoq to 7.79% in the wake of borrowing mix shifting towards bank borrowings. Stage-2 assets declined by 9% in abs. terms (after declining by 11% in Q2), and Stage-3 assets were flat depicting-controlled slippages and equivalent recoveries & collections. Write-offs were nil in the quarter. Credit cost was elevated at 60 bps owing to significant augmentation of Stage-3 ECL coverage and Rs0.5bn provision on AIF investment.

### Management expects growth to pick-up and credit cost to moderate

Management expects business volumes to be much better in Q4 FY24 with efficiencies improving from the changes done in operational structure and tech/systems. Month-wise disbursements trajectory since October also depicts a secular improvement. Though not sharing an explicit guidance for FY25, the co. expressed confidence on delivering significant growth improvement from hereon. NIM is likely to moderate by 10-15 bps in Q4 FY24 on expectation of marginal increase in CoF and slight decline in portfolio yield. The recent decline in 10-yr G-Sec yield after the Budget has lowered LIC HF's borrowing cost through NCDs by ~10 bps. LIC HF expects its asset quality to improve in coming quarters through collections, usual recoveries, one-time settlements, and legal resolutions of some legacy project NPLs. The co. is also evaluating selling some large written-off loans to ARCs on cash basis which would cause some provision write-backs. Credit cost in FY25 is estimated to be lower than FY24 (likely 50-55 bps).

### Earnings upgraded; growth improvement key for further valuation re-rating

Even with conservative growth estimates, earnings estimate for FY24/25/26 have got upgraded by 5-7% on a less-sharper margin decline trajectory and an improved core credit cost trend. Delivery of higher disbursements volume/growth would be keenly watched along with the expected high-ticket NPL resolution/ARC Sale. In the medium-term, a combination of 10-15% growth, reduced risk on the BS (share of HL having substantially increased) and 13-15% RoE delivery can re-rate valuation towards 9x P/E and 1.1x P/BV on FY26 basis. Retain BUY with enhanced 12m PT of Rs760.

Reco	: BUY
CMP	: Rs 640
Target Price	: Rs 760
Potential Return	: +18.8%

#### Stock data (as on Feb 05, 2024)

Nifty	21,772
52 Week h/l (Rs)	656 / 315
Market cap (Rs/USD mn)	348878 / 4203
Outstanding Shares (mn)	550
6m Avg t/o (Rs mn):	1,296
Div. yield (%):	1.4
Bloomberg code:	LICHF IN
NSE code:	LICHSGFIN

#### Stock performance



	1M	3M	1Y
Absolute return	11.4%	38.5%	60.2%

#### Shareholding pattern

Promoter	45.2%
FII+DII	43.4%
Others	11.4%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	760	575

#### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	87.5	84.9	89.5
EPS (Old)	82.8	79.9	83.3
% Change	5.7%	6.2%	7.5%

#### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	86,421	83,314	87,489
PPOP	76,042	71,755	74,762
Net profit	48,179	46,714	49,282
Growth (%)	66.6	(3.0)	5.5
EPS (Rs)	87.5	84.9	89.5
ABVPS (Rs)	463.9	540.7	606.6
P/E (x)	7.3	7.5	7.1
P/ABV (x)	1.4	1.2	1.1
ROE (%)	16.5	14.0	13.2
ROA (%)	1.7	1.5	1.5

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## Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	67,925	67,528	0.6	58,708	15.7
Interest expended	(46,465)	(46,000)	1.0	(42,410)	9.6
Net Interest Income	21,460	21,528	(0.3)	16,299	31.7
Other Income	0.3	59.2	(99.5)	51.9	(99.4)
Total Income	21,460	21,587	(0.6)	16,351	31.2
Operating expenses	(2,615)	(2,595)	0.8	(2,794)	(6.4)
PPOP	18,845	18,993	(0.8)	13,557	39.0
Provisions	(4,358)	(4,192)	4.0	(7,626)	(42.9)
PBT	14,487	14,801	(2.1)	5,930	144.3
Tax	(2,858)	(2,920)	(2.1)	(1,127)	153.6
Reported PAT	11,629	11,881	(2.1)	4,803	142.1

Source: Company, YES Sec

## Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Loan Portfolio	28,12,060	27,79,870	1.2	26,84,440	4.8
Retail home loans	23,87,439	23,46,210	1.8	22,30,770	7.0
NH Individual	2,75,582	2,72,427	1.2	2,65,760	3.7
NHC Project Developer / NHC Others	1,49,039	1,61,232	(7.6)	1,87,911	(20.7)
Loan Disbursements	1,51,840	1,46,650	3.5	1,61,000	(5.7)
Individual	1,45,940	1,41,610	3.1	1,56,730	(6.9)
Project	5,900	5,040	17.1	4,270	38.2

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM	3.0	3.0	(0.0)	2.4	0.6
YoA - Cum.	10.0	10.0	(0.1)	9.7	0.3
CoF- Cum.	7.7	7.7	0.0	7.4	0.3
Gross Stage 3	4.3	4.3	(0.1)	4.8	(0.5)
RoA - Cum.	1.7	1.7	(0.1)	0.7	0.9
RoE - Cum.	16.0	16.0	-	7.5	8.5

Source: Company, YES Sec

## Exhibit 4: Borrowing Mix

Borrowing mix - (%)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
NCD	51.9	50.0	54.0	53.0	52.0
Bank	33.9	34.0	31.0	33.0	35.0
CP	3.9	5.0	4.0	4.0	4.0
NHB	3.6	5.0	5.0	4.0	4.0
Deposits	5.9	5.0	5.0	5.0	4.0
Sub debt and Upper Tier II	0.8	1.0	1.0	1.0	1.0

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Disbursements & Growth

- Company has made significant changes in its operational structure and tech/systems which has impacted disbursements so far in the year.
- 44 new Cluster Offices have been opened and have been made the centre of operations for marketing and underwriting - operational workload has been taken away from the 24 Back Offices - these changes are reducing TAT.
- HL demand remains strong, but the co. does not want to be over aggressive at the cost of margins and asset quality in view of the past experiences.
- Month-wise Disbursements (ex. Project Loans) in Q3 FY24 were Oct Rs45bn, Nov Rs47bn and Dec Rs57bn.
- Disbursements (ex. Project Loans) in January were at Rs46.5bn - but incl. Project Loans, overall Disbursements were higher than Dec.
- Business volume in Q4 FY24 will be better than Q3.
- Looking for diversification in FY25 by focusing on Affordable Housing Finance.
- Overall CAR at 19%+ and thus no plans of raising capital.
- Dividend Payout is 17-19%, which has been consistent.

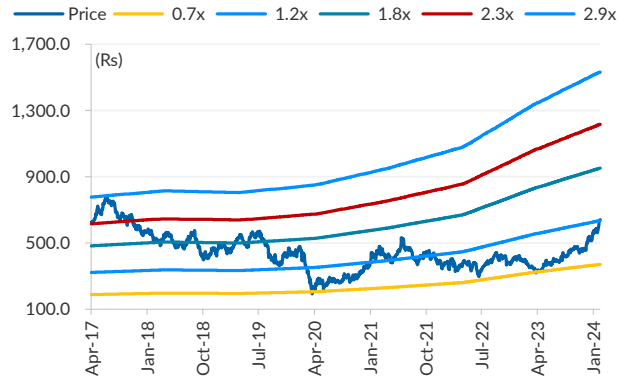
### Spread & Margins

- NIM guided to moderate by 10-15 bps in Q4 FY24 on expectation of marginal increase in CoF and mild decline in portfolio yield.
- With the recent decline in 10-yr G-Sec yield after the Budget, LIC HF's borrowing cost for NCDs has come down by 8-10 bps.

### Asset Quality & Credit Cost

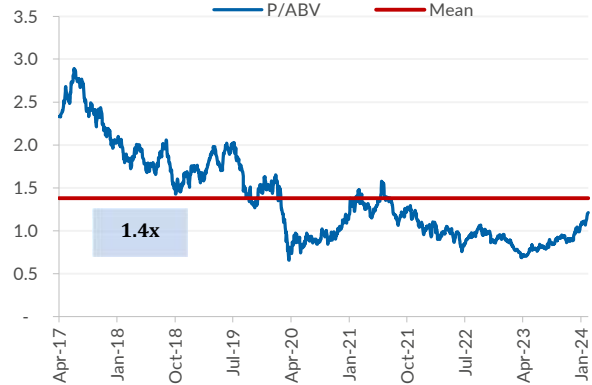
- Segmental break-up of overall Stage-3 asset (4.26%) was IHL 1.71%, NHI 6.5% and NHC (incl. Project Loans) 40.75%.
- There were Rs5.4bn worth of NPL recoveries/collections during Q3 FY24 - but towards the fag end of the quarter, there was slippage of a large account worth Rs4.5bn.
- There were no write-offs in the quarter.
- Stage-3 ECL coverage will be taken to 50% by March, as prescribed by the Board - henceforth, it will be maintained.
- ECL Coverage on Stage-1 and Stage-2 assets would hover around the current levels, as it is as per the ECL model.
- Management is confident about asset quality improving in coming quarters.
- Many NPL borrowers showing willingness to settle through OTS - and many other loans are in legal process of resolution (IBC and NCLT).
- ARC sale would be for written-off accounts - provision reversal would happen to the extent of cash consideration received.
- Company would be taking 10 big loans to ARCs for evaluation - huge pool likely to be sold to ARCs in FY25.
- Credit cost in FY25 will be lower than FY24 (likely 50-55 bps).

**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
<b>Equity and Liabilities</b>					
Equity Share Capital	1,101	1,101	1,101	1,101	1,101
Other Equity	2,45,618	2,69,903	3,11,520	3,51,674	3,94,395
<b>Shareholders' fund</b>	<b>2,46,718</b>	<b>2,71,003</b>	<b>3,12,621</b>	<b>3,52,775</b>	<b>3,95,496</b>
<b>Financial Liabilities</b>	<b>22,93,746</b>	<b>25,05,842</b>	<b>25,79,274</b>	<b>28,31,392</b>	<b>31,57,253</b>
Derivative financial instruments	-	-	-	-	-
Trade payables	643	390	390	390	390
Debt Securities	12,73,420	13,69,600	14,10,688	15,51,757	17,34,088
Borrowings (Excl. Debt Sec.)	7,64,472	9,43,923	9,72,240	10,69,464	11,95,126
Deposits	1,80,735	1,16,262	1,19,750	1,31,725	1,47,203
Subordinated Liabilities	17,954	17,958	18,496	20,346	22,737
<b>Other Financial Liabilities</b>	<b>56,521</b>	<b>57,710</b>	<b>57,710</b>	<b>57,710</b>	<b>57,710</b>
<b>Non-Financial Liabilities</b>	<b>5,211</b>	<b>7,275</b>	<b>8,002</b>	<b>8,803</b>	<b>9,683</b>
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
<b>Total liabilities &amp; Equity</b>	<b>25,45,675</b>	<b>27,84,120</b>	<b>28,99,898</b>	<b>31,92,969</b>	<b>35,62,432</b>
<b>Assets</b>					
<b>Financial Assets</b>	<b>25,25,281</b>	<b>27,55,717</b>	<b>28,69,526</b>	<b>31,60,436</b>	<b>35,27,526</b>
Cash and Cash Equivalents	8,222	6,194	828	3,554	3,854
Bank balances	1,152	1,225	1,225	1,225	1,225
Derivative financial instruments	792	-	-	-	-
Loans	24,52,963	26,78,348	27,90,547	30,71,057	34,29,405
Investments	61,986	69,764	76,741	84,415	92,856
Other Financial Assets	166	186	186	186	186
<b>Non- Financial Assets</b>	<b>20,394</b>	<b>28,403</b>	<b>30,372</b>	<b>32,533</b>	<b>34,906</b>
Current tax assets (Net)	1,352	-	-	-	-
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
<b>Total Assets</b>	<b>25,45,675</b>	<b>27,84,120</b>	<b>28,99,898</b>	<b>31,92,969</b>	<b>35,62,432</b>

Source: Company, YES Sec

## Exhibit 8: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Operating Income	1,99,191	2,26,570	2,71,222	2,74,240	2,87,478
Interest expense	(1,41,773)	(1,61,860)	(1,84,861)	(1,91,016)	(2,00,124)
<b>Net interest income</b>	<b>57,418</b>	<b>64,710</b>	<b>86,361</b>	<b>83,224</b>	<b>87,354</b>
Non-interest income	340	173	60	90	135
Total op income	57,758	64,882	86,421	83,314	87,489
Total op expenses	(9,758)	(9,883)	(10,380)	(11,559)	(12,727)
<b>PPoP</b>	<b>48,000</b>	<b>55,000</b>	<b>76,042</b>	<b>71,755</b>	<b>74,762</b>
Provisions	(20,218)	(19,430)	(16,006)	(13,544)	(13,351)
<b>Profit before tax</b>	<b>27,782</b>	<b>35,570</b>	<b>60,036</b>	<b>58,211</b>	<b>61,411</b>
Taxes	(4,909)	(6,660)	(11,857)	(11,497)	(12,129)
<b>Net profit</b>	<b>22,873</b>	<b>28,910</b>	<b>48,179</b>	<b>46,714</b>	<b>49,282</b>

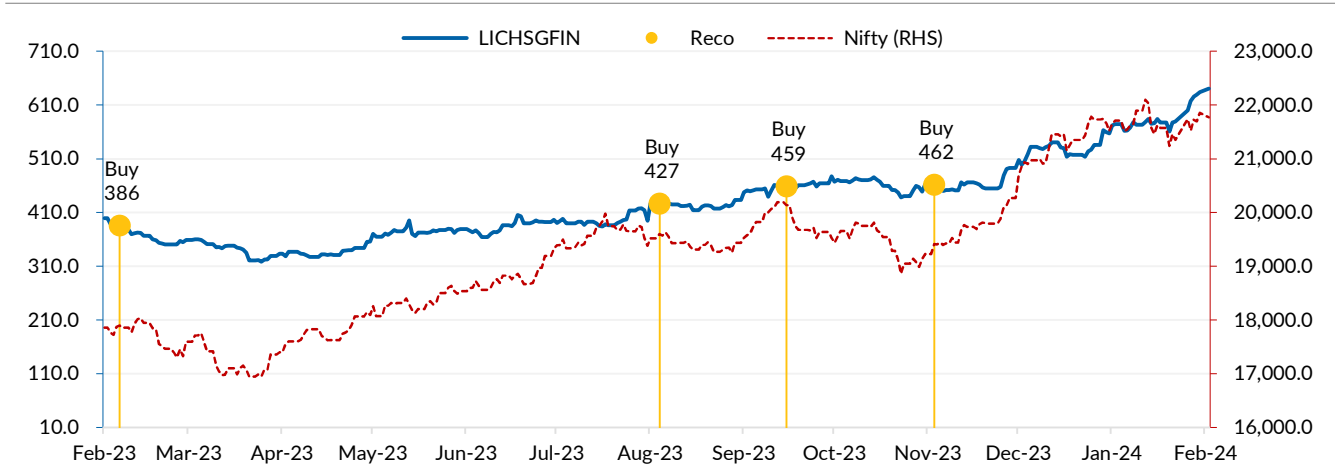
Source: Company, YES Sec

## Exhibit 9: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	6.4	12.7	33.5	(3.6)	5.0
Total op income	7.1	12.3	33.2	(3.6)	5.0
Op profit (pre-provision)	2.3	14.6	38.3	(5.6)	4.2
Net profit	(16.3)	26.4	66.6	(3.0)	5.5
Advances	7.5	9.2	4.2	10.1	11.7
Total Borrowings	23.0	23.5	3.0	10.0	11.8
Total assets	8.0	9.4	4.2	10.1	11.6
<b>Profitability Ratios (%)</b>					
NIM	2.4	2.5	3.1	2.8	2.6
Non-interest income /Total income	0.6	0.3	0.1	0.1	0.2
Return on Avg. Equity	10.1	11.2	16.5	14.0	13.2
Return on Avg. Assets	0.9	1.1	1.7	1.5	1.5
<b>Per share ratios (Rs)</b>					
EPS	41.6	52.5	87.5	84.9	89.5
Adj. BVPS	327.8	371.8	463.9	540.7	606.6
DPS	8.5	8.5	10.0	10.0	10.0
<b>Other key ratios (%)</b>					
Loans/Borrowings	110.6	110.2	111.5	111.6	111.5
Cost/Income	16.9	15.2	12.0	13.9	14.5
CAR	18.1	17.7	19.5	20.0	20.0
Tier-I capital	16.2	16.4	18.1	18.6	18.7
Gross NPLs/Loans	5.4	4.5	4.0	3.5	3.5
Credit cost	0.8	0.7	0.6	0.5	0.4
Net NPLs/Net loans	3.7	2.7	2.0	1.8	1.8
Tax rate	17.7	18.7	19.8	19.8	19.8
Dividend yield	1.3	1.3	1.6	1.6	1.6

Source: Company, YES Sec

## Recommendation Tracker



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**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**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL 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). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL 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. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.