

October 29, 2024

## Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	HOLD		HOLD	
Target Price	675		660	
NII (Rs.)	83,487	87,921	83,711	85,797
% Chng.	(0.3)	2.5		
PPoP (Rs.)	72,848	76,748	73,023	74,553
% Chng.	(0.2)	2.9		
EPS (Rs.)	90.5	94.7	89.7	93.8
% Chng.	0.8	0.9		

### Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Int.Inc. (Rs m)	86,509	80,070	83,487	87,921
Growth (%)	36.7	(7.4)	4.3	5.3
Op. Profit (Rs m)	76,976	69,923	72,848	76,748
PAT (Rs m)	47,654	50,324	49,794	52,096
EPS (Rs.)	86.6	91.4	90.5	94.7
Gr. (%)	64.8	5.6	(1.1)	4.6
DPS (Rs.)	8.5	10.1	10.9	11.4
Yield (%)	1.3	1.6	1.7	1.8
Margin (%)	3.1	2.6	2.6	2.5
RoAE (%)	16.3	15.0	13.2	12.3
RoAA (%)	1.7	1.7	1.5	1.5
PE (x)	7.4	7.0	7.0	6.7
P/BV (x)	1.1	1.0	0.9	0.8
P/ABV (x)	1.3	1.1	1.0	0.9

### Key Data

LICH.BO | LICHF IN

52-W High / Low	Rs.827 / Rs.435
Sensex / Nifty	80,369 / 24,467
Market Cap	Rs.351bn/ \$ 4,170m
Shares Outstanding	550m
3M Avg. Daily Value	Rs.2050.02m

### Shareholding Pattern (%)

Promoter's	45.24
Foreign	21.95
Domestic Institution	20.52
Public & Others	12.29
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.0)	(4.4)	44.9
Relative	2.2	(11.2)	15.0

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## Asset quality improving

### Quick Pointers:

- PAT beat due to better asset quality and lower provisions, but NII miss
- Disbursals within developer and affordable self-employed to increase

**LICHF saw a mixed quarter; NII missed PLe by 5% due to lower NIM, which was offset by lower provisions at 11bps (PLe 49bps) and higher other income. NIM declined by 5bps QoQ due to focus on growth. As per LICHF, NIM has bottomed out as (1) share of higher yielding NHL in disbursals is targeted to reach 20% by FY25 end, (2) yields in prime/super-prime have increased by 10-15bps, (3) wholesale portfolio growth would be higher, (4) loans would be disbursed to new segment of self-employed individuals priced at a 250bps premium, and (5) loan mix is shifting from HL to higher yielding NHL/NHC. Double-digit loan growth guidance has been maintained for FY25E. However, we factor in 7.5% loan CAGR over FY24-27E due to competition from banks/large HFCs. Given RoA of 1.7%, re-rating would hinge on better loan growth and stable earnings quality, though asset quality is improving. Keeping multiple at 1.0x, we increase TP to Rs675 from Rs660 and roll forward to Sep'26 ABV. Retain 'HOLD'.**

- **PAT beat owing to lower provisions:** NII was lower at Rs19.7bn (PLe Rs20.7bn) led by lower NIM as AuM growth was better at 6% YoY (PLe 5.4%). NIM (calc.) was a miss at 2.76% (PLe 2.90%). Yield on loans saw a blip at 9.58% (PLe 9.68%). Cost of funds was a tad higher at 7.79% (PLe 7.73%). Disbursals were better at Rs164.8bn (PLe Rs161.4bn) as disbursals in developer jumped by 2.7x QoQ to Rs14bn. Repayments were lower at Rs105.5bn (PLe Rs118.3bn). Other income was higher at Rs784mn (PLe Rs428mn). Opex at Rs3.1bn was 8.5% above PLe due to higher staff costs/other opex. On asset quality, gross Stage-3 improved QoQ at 3.06% (PLe 3.3%), while PCR was steady at 49.3% QoQ. Provisions were lower at Rs0.8bn (PLe Rs3.5bn) due to improved asset quality and TWO. PAT was 12.5% above PLe at Rs13.3bn.
- **Credit growth targeted to reach double digits in FY25:** Overall AuM grew by 2.1% QoQ; individual growth was 1.8%, while project grew by 10.8% QoQ. LICHF aims to increase share of loans other than retail housing, in disbursals to ~20% and developer loans to reach 4% of overall loans in FY25. Builders rated BBB and above rating are considered for developer loans. AuM growth guidance of early double digits for FY25 is intact. However, considering the competitive intensity from banks, we are factoring a loan CAGR of 7.5% over FY25-27E. Stage-3 split: housing - 1.26%, developer - 30.13% and IHL - 5.03%.
- **Lower NIM; LICHF expects stable NIM hereon:** NIM declined by 5bps QoQ due to focus on higher growth, leading to disbursals at lower yields. The management does not expect any further fall in NIM due to (1) increase in pricing by 10bps within 4 tiers for CIBIL score of 700-800, (2) increase in prime/super-prime yields by 10-15bps, (3) growth in wholesale portfolio, (4) introduction of an affordable segment product for self-employed individuals priced at a 250bps premium, (5) shift in the mix from HL to higher yielding NHL and NHC products, and (6) enhanced collection efficiency.

**Exhibit 1: PAT at Rs13.3bn cushioned by higher other income and lower provisions**

P&L (Rs m)	Q2FY25	Q2FY24	YoY gr. (%)	Q1FY25	QoQ gr. (%)	Q2FY25E	% Var.,
Interest Income	68,534	67,066	2.2	67,391	1.7	69,089	(0.8)
Interest Expense	48,796	46,000	6.1	47,501	2.7	48,392	0.8
<b>Net Interest Income</b>	<b>19,739</b>	<b>21,066</b>	<b>(6.3)</b>	<b>19,891</b>	<b>(0.8)</b>	<b>20,698</b>	<b>(4.6)</b>
Other Income	706	374	<b>88.7</b>	311	127.4	286	146.9
Fee Income	77	147	(47.3)	135	(42.7)	142	(45.4)
<b>Total income</b>	<b>20,522</b>	<b>21,587</b>	<b>(4.9)</b>	<b>20,336</b>	<b>0.9</b>	<b>21,125</b>	<b>(2.9)</b>
Employee Expense	1,703	1,383	23.1	1,511	12.7	1,600	6.5
Other Expenses	1,402	1,212	15.7	1,110	26.3	1,261	11.2
<b>Operating Profit</b>	<b>17,417</b>	<b>18,993</b>	<b>(8.3)</b>	<b>17,715</b>	<b>(1.7)</b>	<b>18,264</b>	<b>(4.6)</b>
Provisions	773	4,192	(81.6)	1,431	(46.0)	3,500	(77.9)
Tax	3,355	2,920	14.9	3,282	2.2	2,953	13.6
<b>Net Profit</b>	<b>13,289</b>	<b>11,881</b>	<b>11.9</b>	<b>13,002</b>	<b>2.2</b>	<b>11,811</b>	<b>12.5</b>

**Balance Sheet (Rs m)**
**O/S Loans**

Home Loans	85.2%	84.4%	80.0	85.3%	(10.0)
LAP	11.8%	12.1%	(30.0)	11.9%	(10.0)
Builder	3.0%	3.5%	(50.0)	2.8%	20.0

**Borrowings**

Banks (%)	34.0%	33.0%	1.0	34.0%	-
NCD (%)	54.0%	53.0%	1.0	54.0%	-
CP (%)	4.0%	4.0%	-	4.0%	-
Sub-debt (%)	1.0%	1.0%	-	1.0%	-
Deposits (%)	3.0%	5.0%	(2.0)	3.0%	-
NHB (%)	4.0%	4.0%	-	4.0%	-

**Asset quality**

			Change in bps		Change in bps		Change in bps
Stage-3	3.1%	4.3%	(127)	3.3%	(24)	3.3%	(24)
Net-stage-3	1.55%	2.5%	(100)	1.7%	(11)	1.91%	(36)
PCR	49.3%	41.2%	813	49.6%	(33)	42.0%	732

**Others / Ratios (%)**

			Change in bps		Change in bps		Change in bps
Yield on Loans - Calc	9.6	9.9	(35)	9.5	4	9.7	(10)
Cost of Borrowings - Calc	7.79	7.7	7	7.7	12	7.7	7
<b>Spread</b>	<b>1.8</b>	<b>2.2</b>	<b>(42)</b>	<b>1.9</b>	<b>(8)</b>	<b>2.0</b>	<b>(17)</b>
<b>NIMs</b>	<b>2.8</b>	<b>3.1</b>	<b>(36)</b>	<b>2.8</b>	<b>(6)</b>	<b>2.9</b>	<b>(14)</b>
Cost/ Income Ratio	15.1	12.0	311	12.9	224	13.5	159

Source: Company, PL

## Q2FY25 Concall Highlights

### Assets & Liabilities:

- Developer loans increased after 6 quarters, albeit with a cautious approach. Loans are granted to builders with a rating of BBB or higher, and the portfolio share for this segment is expected to reach 4-6% by FY25-26. Incremental loans in this category are extended to new customers.
- Developer portfolio comprises ~200 accounts, with the largest exposure to a single client at around Rs5bn.
- AuM growth is guided at lower double digits.

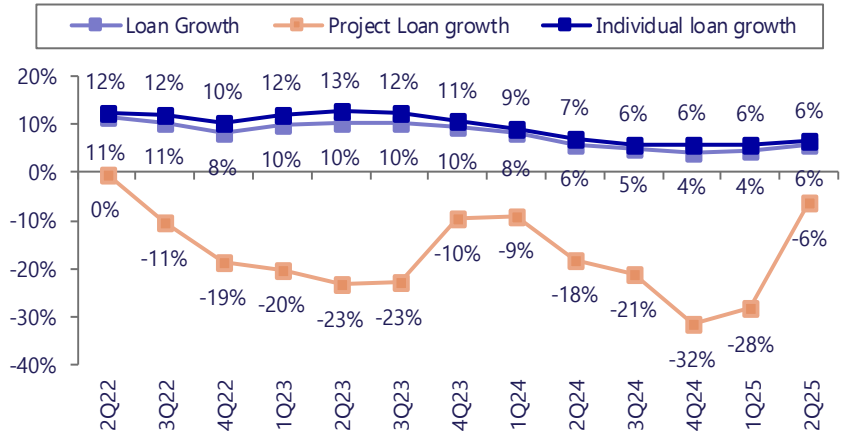
### NIM/Others

- **NIM** is expected to have bottomed out with yield improvements expected due to: (1) adjustments in the pricing structure with 4 tiers for CIBIL score of 700-800, each raised by 10 bps, (2) growth in the wholesale portfolio, (3) introduction of an affordable segment product for self-employed individuals priced at a 250 bps premium, (4) a shift in the mix from HL to NHL and NHC products, and (5) enhanced collection efficiency.
- Loans to prime and super-prime customers were previously issued at 8.5-8.6%. However, 10-15bps increase has been applied to new loans. Yield on developer loans stood at 10.5%.
- Cost of funds reduced by 3bps on a pool of Rs2.5trn towards September-end.
- **Rate cut impact** – Loans are reset quarterly. Borrowings tied to T-bill rates are adjusted monthly, and those linked to the repo rate are reset immediately.
- Interest recoveries from NPA were Rs860mn.
- Margins are guided to be maintained at 2.7-2.9%. 10-15bps improvement is expected going ahead.
- Staff costs rose primarily due to adjustments in wage provisions, while other operating expenses increased due to higher commissions driven by greater disbursements. Elevated costs are expected to persist as the company focuses on expanding disbursements.

### Asset Quality:

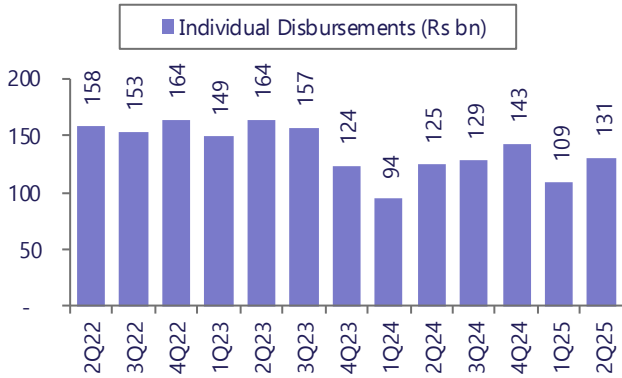
- Segment Stage-3 mix: IHL at 1.26% (vs 1.38% QoQ), non-housing corporate at 30.13% (vs 33.06% QoQ) and non-housing housing at 5.03% (vs 5.39% QoQ)
- Developer loan Stage-3 consists of 35-40 accounts.
- PCR for Stage-1/2 has gone down owing to loans written-off and clearing of OTR pool.
- Stage-3 pool reduction is attributed to higher collection efficiency and technical write-offs. This pool consists of 4-5 big accounts. Resolution from one large account of ~Rs4bn is expected in Q3FY25.

**Exhibit 2: Loan growth higher at 6% YoY; project loan disburseals increase**



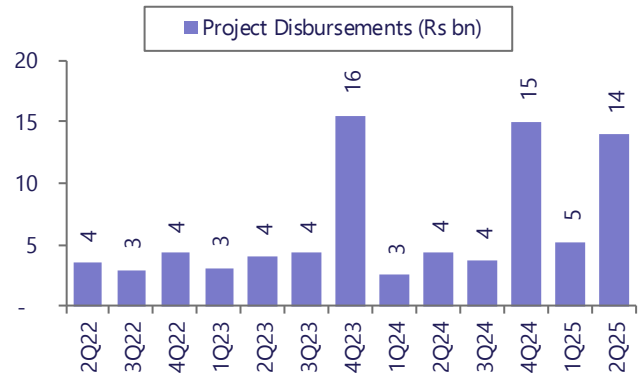
Source: Company, PL

**Exhibit 3: Disbursements increase YoY to Rs131bn**



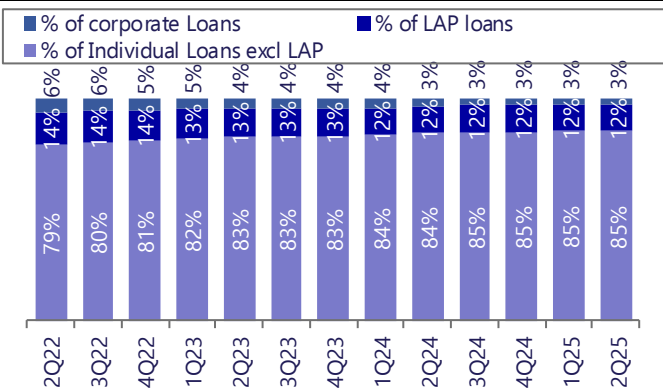
Source: Company, PL

**Exhibit 4: Project loan disbursements increase YoY**



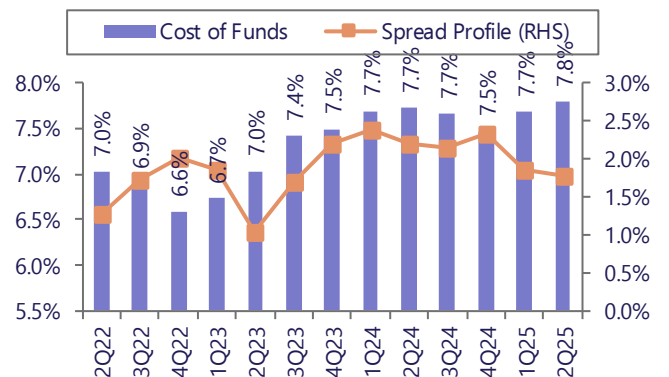
Source: Company, PL

**Exhibit 5: Individual loan mix stable at 85% share**



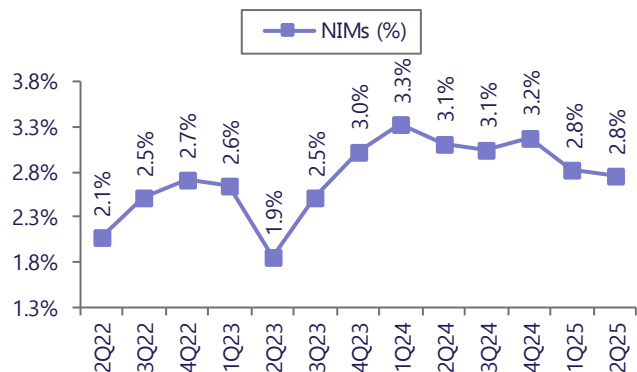
Source: Company, PL

**Exhibit 6: Spreads fall by 8bps QoQ to 1.8%**



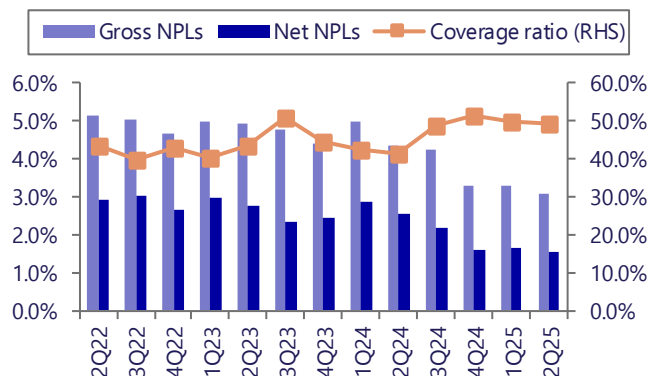
Source: Company, PL

**Exhibit 7: NIM falls by 5bps QoQ due to lower yields**



Source: Company, PL

**Exhibit 8: GNPA improves to 3.1%, PCR stable at 49.3%**



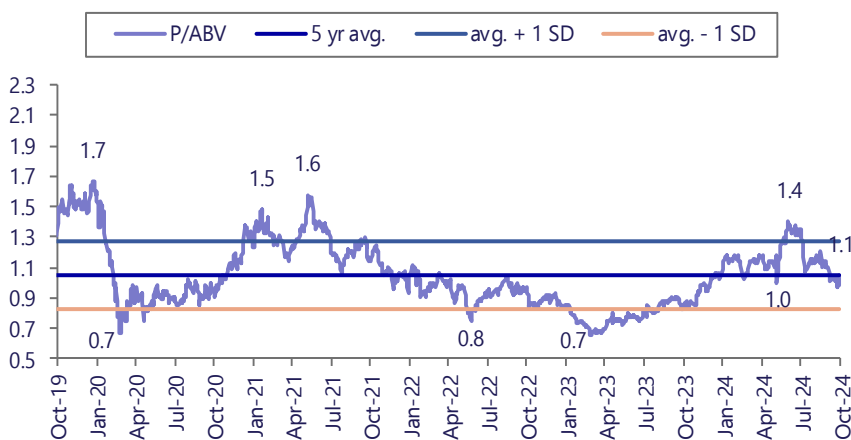
Source: Company, PL

**Exhibit 9: RoA at 1.5%, while RoE at 12-13% for FY26/27E**

RoE decomposition (%)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest income	9.4	8.7	8.0	8.4	9.5	9.1	8.8	8.6
Interest expenses	7.1	6.4	5.8	6.1	6.5	6.5	6.3	6.1
<b>Net interest income</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>3.0</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
Other Inc. from operations	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total income</b>	<b>2.3</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.6</b>	<b>2.6</b>
Employee expenses	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other operating expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Operating profit</b>	<b>2.0</b>	<b>2.1</b>	<b>1.9</b>	<b>2.1</b>	<b>2.7</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>
Loan loss provisions	0.5	0.6	0.8	0.7	0.6	0.2	0.3	0.3
Tax	0.4	0.3	0.2	0.2	0.5	0.4	0.4	0.4
PAT	1.2	1.2	0.9	1.1	1.7	1.7	1.5	1.5
<b>RoAA</b>	<b>1.2</b>	<b>1.2</b>	<b>0.9</b>	<b>1.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>
<b>RoAE</b>	<b>13.9</b>	<b>14.1</b>	<b>10.1</b>	<b>11.2</b>	<b>16.3</b>	<b>15.0</b>	<b>13.2</b>	<b>12.3</b>

Source: Company, PL

**Exhibit 10: One-year forward P/ABV of LICHF trades at 1.1x**



Source: Company, PL

**Income Statement (Rs. m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
Int. Inc. / Opt. Inc.	2,70,416	2,77,336	2,89,840	3,03,622
Interest Expenses	1,83,907	1,97,266	2,06,352	2,15,701
<b>Net interest income</b>	<b>86,509</b>	<b>80,070</b>	<b>83,487</b>	<b>87,921</b>
Growth(%)	36.7	(7.4)	4.3	5.3
Non-interest income	1,931	2,217	2,395	2,574
Growth(%)	22.2	14.8	8.0	7.5
Net operating income	88,440	82,287	85,882	90,495
<b>Expenditures</b>				
Employees	6,100	6,657	6,926	7,206
Other Expenses	4,709	4,791	5,101	5,433
Depreciation	654	916	1,007	1,108
Operating Expenses	11,463	12,365	13,035	13,747
<b>PPP</b>	<b>76,976</b>	<b>69,923</b>	<b>72,848</b>	<b>76,748</b>
Growth(%)	40.0	(9.2)	4.2	5.4
Provisions	16,437	7,018	10,605	11,627
<b>Profit Before Tax</b>	<b>60,539</b>	<b>62,905</b>	<b>62,242</b>	<b>65,121</b>
Tax	12,885	12,581	12,448	13,024
Effective Tax rate(%)	21.3	20.0	20.0	20.0
<b>PAT</b>	<b>47,654</b>	<b>50,324</b>	<b>49,794</b>	<b>52,096</b>
Growth(%)	64.8	5.6	(1.1)	4.6

**Balance Sheet (Rs. m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Source of funds</b>				
Equity	1,101	1,101	1,101	1,101
Reserves and Surplus	3,12,846	3,54,048	3,97,866	4,43,711
Networth	3,13,946	3,55,148	3,98,967	4,44,812
Growth (%)	15.8	13.1	12.3	11.5
Loan funds	25,24,968	27,42,281	29,30,586	31,34,338
Growth (%)	3.2	8.6	6.9	7.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	69,791	61,692	65,937	70,533
Other Liabilities	3,341	3,349	3,579	3,828
<b>Total Liabilities</b>	<b>29,12,046</b>	<b>31,62,471</b>	<b>33,99,070</b>	<b>36,53,511</b>
<b>Application of funds</b>				
Net fixed assets	3,610	4,056	4,360	4,686
Advances	28,05,898	30,48,129	32,76,173	35,21,414
Growth (%)	4.8	8.6	7.5	7.5
Investments	62,770	74,008	79,545	85,499
Current Assets	15,935	9,498	10,208	10,972
<b>Net current assets</b>	<b>(53,856)</b>	<b>(52,195)</b>	<b>(55,729)</b>	<b>(59,560)</b>
Other Assets	23,833	26,780	28,784	30,939
<b>Total Assets</b>	<b>29,12,046</b>	<b>31,62,471</b>	<b>33,99,070</b>	<b>36,53,511</b>
Growth (%)	4.6	8.6	7.5	7.5
<b>Business Mix</b>				
AUM	28,68,440	30,83,671	33,14,377	35,62,478
Growth (%)	4.3	7.5	7.5	7.5
On Balance Sheet	28,68,440	30,83,671	33,14,377	35,62,478
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

**Profitability & Capital (%)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
NIM	3.1	2.6	2.6	2.5
ROAA	1.7	1.7	1.5	1.5
ROAE	16.3	15.0	13.2	12.3

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Int. Inc. / Operating Inc.	67,437	68,875	67,391	68,534
Income from securitization	-	-	-	-
Interest Expenses	46,465	46,499	47,501	48,796
<b>Net Interest Income</b>	<b>20,972</b>	<b>22,376</b>	<b>19,891</b>	<b>19,739</b>
Growth (%)	30.6	12.4	(10.0)	(6.3)
Non-Interest Income	488	493	446	784
<b>Net Operating Income</b>	<b>21,460</b>	<b>22,869</b>	<b>20,336</b>	<b>20,522</b>
Growth (%)	30.6	12.8	(9.7)	(4.9)
Operating expenditure	2,615	3,829	2,621	3,105
<b>PPP</b>	<b>18,845</b>	<b>19,041</b>	<b>17,715</b>	<b>17,417</b>
Growth (%)	-	-	-	-
Provision	4,358	4,279	1,431	773
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	14,487	14,762	16,284	16,644
Tax	2,858	3,854	3,282	3,355
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.7	26.1	20.2	20.2
<b>PAT</b>	<b>11,629</b>	<b>10,908</b>	<b>13,002</b>	<b>13,289</b>
Growth	142	(8)	(2)	12
AUM	28,12,060	28,68,440	28,86,650	29,45,880
YoY growth (%)	4.8	4.3	4.4	6.0
Borrowing	24,50,670	25,30,300	25,36,980	25,74,490
YoY growth (%)	2.0	3.4	5.1	5.7

**Key Ratios**

Y/e Mar	FY24	FY25E	FY26E	FY27E
CMP (Rs)	637	637	637	637
EPS (Rs)	86.6	91.4	90.5	94.7
Book value (Rs)	570.4	645.3	724.9	808.2
Adj. BV(Rs)	486.7	562.8	639.3	720.0
P/E(x)	7.4	7.0	7.0	6.7
P/BV(x)	1.1	1.0	0.9	0.8
P/ABV(x)	1.3	1.1	1.0	0.9
DPS (Rs)	8.5	10.1	10.9	11.4
Dividend Payout Ratio(%)	9.8	11.0	12.0	12.0
Dividend Yield(%)	1.3	1.6	1.7	1.8

**Asset Quality**

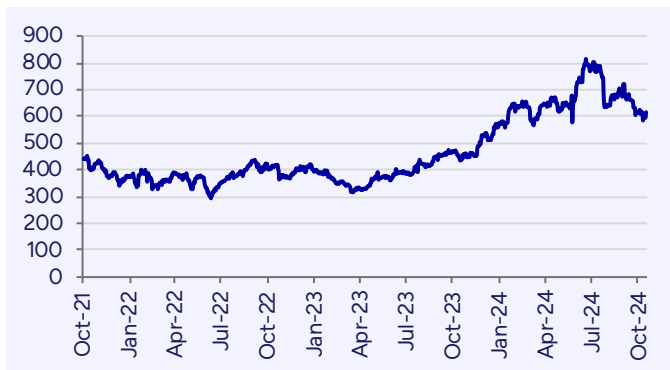
Y/e Mar	FY24	FY25E	FY26E	FY27E
Gross NPAs(Rs m)	94,834	90,847	94,279	96,974
Net NPA(Rs m)	46,071	45,389	47,124	48,497
Gross NPAs to Gross Adv.(%)	3.3	2.9	2.8	2.7
Net NPAs to net Adv.(%)	1.6	1.5	1.4	1.4
NPA coverage(%)	51.4	50.0	50.0	50.0

**Du-Pont as a % of AUM**

Y/e Mar	FY24	FY25E	FY26E	FY27E
NII	3.0	2.6	2.5	2.5
NII INCI. Securitization	3.0	2.6	2.5	2.5
Total income	3.1	2.7	2.6	2.6
Operating Expenses	0.4	0.4	0.4	0.4
PPOP	2.7	2.3	2.2	2.2
Total Provisions	0.6	0.2	0.3	0.3
RoAA	1.7	1.7	1.5	1.5
Avg. Assets/Avg. net worth	9.7	9.1	8.7	8.4
RoAE	16.3	15.0	13.2	12.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-24	Hold	660	618
2	05-Aug-24	Hold	660	686
3	10-Jul-24	Hold	660	771
4	16-May-24	Hold	660	653
5	09-Apr-24	Hold	540	649
6	05-Feb-24	Hold	540	640
7	08-Jan-24	Hold	460	575
8	02-Nov-23	Hold	460	449

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	1,875	1,745
2	Axis Bank	BUY	1,530	1,132
3	Bank of Baroda	BUY	315	240
4	Can Fin Homes	BUY	1,000	871
5	City Union Bank	BUY	190	150
6	DCB Bank	BUY	155	116
7	Federal Bank	BUY	220	185
8	HDFC Asset Management Company	BUY	5,360	4,555
9	HDFC Bank	BUY	2,000	1,682
10	ICICI Bank	BUY	1,640	1,255
11	IndusInd Bank	BUY	1,600	1,280
12	Kotak Mahindra Bank	BUY	2,230	1,872
13	LIC Housing Finance	Hold	660	618
14	Nippon Life India Asset Management	BUY	820	680
15	State Bank of India	BUY	960	797
16	UTI Asset Management Company	BUY	1,320	1,155

PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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