

LIC Housing Finance

Estimate change



TP change



Rating change



Bloomberg	LICHF IN
Equity Shares (m)	505
M.Cap.(INRb)/(USD\$)	208.6 / 2.6
52-Week Range (INR)	463 / 292
1, 6, 12 Rel. Per (%)	3/-4/-14
12M Avg Val (INR M)	1305

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	55.3	64.0	68.9
PPP	48.0	56.8	61.1
PAT	22.9	33.4	37.8
EPS (INR)	41.6	60.7	68.7
EPS Gr. (%)	-23.3	46.2	13.1
BV/Sh (INR)	448	491	540

Ratios

NIM (%)	2.3	2.5	2.4
C/I ratio (%)	17.2	14.3	14.2
RoAA (%)	0.9	1.2	1.3
RoE (%)	10.1	12.9	13.3
Payout (%)	20.5	15.6	15.3

Valuations

P/E (x)	9.1	6.2	5.5
P/BV (x)	0.8	0.8	0.7
Div. Yield (%)	2.2	2.5	2.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	45.2	45.2	40.3
DII	19.2	16.2	15.6
FII	20.7	23.0	28.8
Others	14.9	15.5	15.3

FII Includes depository receipts

CMP: INR379
TP: INR440 (+16%)
Buy

Earnings beat, but incremental slippages from the restructured pool can keep credit costs elevated

- LICHF reported a PAT of INR9.25b (~18% beat), up 5x YoY, but down 17% QoQ, led by contained OPEX (CIR of ~12%) and lower than estimated credit costs of INR3.1b (est. INR4.5b).
- Asset quality exhibited deterioration, with GS3/NS3 increasing by ~30bp QoQ each to 5%/3%. The ~90bp increase in GS2 was predominantly attributed to reclassification of restructured loans on actual days past due (dpd) basis. This was accompanied by an increase in COVID-related provisions to INR6.2b (PQ: INR3b).
- Reported yields declined by ~30bp QoQ as of Jun'22. NIM fell ~10bp QoQ to ~2.55% in 1QFY23. Core spreads also declined by ~12bp QoQ to 1.8%, driven by lower yields, even as CoF remained stable sequentially.
- We have increased our FY23/FY24 EPS estimate by ~5% each to factor in higher loan growth and improvement in NIM, even though we remain wary of slippages from restructured loans, which can keep credit costs elevated and result in interest income reversals in the following quarters.
- The management expects demand in Residential Real Estate to remain buoyant, despite rising interest rates. It sees margin sustaining at current healthy levels in FY23. We model a loan book/PAT CAGR of 11%/29% over FY22-24 for a RoA/RoE of 1.3%/13% in FY24. We maintain our Buy rating with a TP of INR440 (0.8x FY24E P/BV).

Disbursements healthy; expect 11% YoY growth in the loan book in FY23

- Disbursements in Home loans grew 72% YoY, while Builder and Project loan disbursements grew 30%. Total disbursements grew 76% YoY.
- The loan book grew by ~10% YoY and 2% QoQ. Home loans grew 15% YoY and 3% QoQ, while LAP and Developer loans continued to decline.

Asset quality deteriorates; wary of slippages from the restructured pool

- Stage 2 and 3 loans grew by ~120bp QoQ, driven by slippages or reclassification from the restructured pool. PCR on S3 fell 260bp QoQ to ~41%. Volatility in PCR across S1 and S2 continued.
- As per the RBI's circular, ECL provisions for assets re-categorized as NPA, but classified under Stage 1 and 2 stood at INR1.5b (PCR of 10-11%).

Highlights from the management commentary

- Around 60% of its borrowings are at a fixed rate and ~90% of loans are at a floating rate.
- LICHF hiked the PLR by 60bp from Jun'22, which has become effective on the entire floating rate back book from 1st Jul'22.
- The management expects Housing loan disbursements to grow by 12-15% YoY and the proportion of Developer finance to increase to 7-8% (from ~5% at present) by FY23-end.

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Superior liability franchise, but potential asset quality woes from the restructured pool remains an overhang; maintain our Buy rating

- LCIHF has strong moats in both retail mortgages and on the liability side. However, we still remain skeptical on the management's guidance of pressing the accelerator on project and developer loans in FY23.
- The stock's valuation, at 0.7x FY24E P/BV, reflects the historical volatility in LICHF's reported earnings and the asset quality stress, particularly in its developer book. We expect a RoA/RoE of 1.3%/13% in FY24. We maintain our **Buy** rating on the stock with a TP of INR440 (based on 0.8x FY24E BVPS).
- **Key risks:** a) Slippages from restructured pool, leading to higher credit costs; and b) Higher interest rates in mortgages can result in a moderation in demand and potentially higher delinquencies.

Quarterly Performance

(INR M)

Y/E March	FY22				FY23E				FY22	FY23E	1QFY23E	Act. v/s est. (%)
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Interest Income	48,253	46,734	50,006	51,893	52,502	56,702	59,538	60,644	1,96,885	2,29,387	53,345	-2
Interest Expenses	35,500	35,060	35,460	35,518	36,400	40,040	43,844	45,125	1,41,537	1,65,410	36,938	-1
Net Interest Income	12,753	11,674	14,546	16,375	16,102	16,662	15,693	15,520	55,348	63,977	16,407	-2
YoY Growth (%)	4.5	-5.7	13.6	8.8	26.3	42.7	7.9	-5.2	5.5	15.6	28.7	
Fees and other income	338	416	698	1,193	407	472	716	686	2,646	2,282	320	27
Net Income	13,091	12,090	15,244	17,568	16,509	17,134	16,409	16,206	57,994	66,259	16,727	-1
YoY Growth (%)	7.9	-5.7	14.7	11.8	26.1	41.7	7.6	-7.8	7.5	14.3	27.8	
Operating Expenses	2,815	2,609	2,070	2,500	2,029	2,244	2,401	2,791	9,994	9,465	2,421	-16
Operating Profit	10,276	9,481	13,174	15,069	14,481	14,890	14,008	13,415	48,000	56,794	14,306	1
YoY Growth (%)	-4.5	-15.4	13.5	12.7	40.9	57.1	6.3	-11.0	2.3	18.3	39.2	
Provisions and Cont.	8,346	6,392	3,556	1,925	3,077	4,800	4,200	3,444	20,218	15,521	4,500	-32
Profit before Tax	1,929	3,090	9,619	13,144	11,404	10,090	9,808	9,971	27,782	41,273	9,806	16
Tax Provisions	395	611	1,945	1,958	2,149	1,917	1,863	1,912	4,909	7,842	1,961	10
Net Profit	1,534	2,479	7,673	11,186	9,255	8,173	7,944	8,059	22,873	33,431	7,845	18
YoY Growth (%)	-81.2	-68.7	5.5	180.4	503.2	229.7	3.5	-28.0	-16.3	46.2	411.3	
Key Operating Parameters (%)												
Yield on loans (Cal)	8.31	7.95	8.32	8.39	8.29				8.32	8.9		
Cost of funds (Cal)	6.86	6.75	6.68	6.46	6.47				6.56	7.0		
Spreads (Cal)	1.45	1.20	1.64	1.93	1.81				1.76	1.8		
Margins (Cal)	2.20	1.99	2.42	2.65	2.54				2.28	2.4		
Credit Cost (Cal)	1.44	1.09	0.59	0.31	0.49				0.85	0.6		
Cost to Income Ratio	21.5	21.6	13.6	14.2	12.3				17.2	14.3		
Tax Rate	20.5	19.8	20.2	14.9	18.8				17.7	19.0		
Balance Sheet Parameters												
Loans (INR B)	2,325	2,377	2,434	2,511	2,557				2,453	2721		
Change YoY (%)	10.8	11.4	10.5	8.2	10.0				7.5	10.9		
Indiv. Disb. (INR B)	84	158	175	189	149				605	684		
Change YoY (%)	147.4	35.4	9.2	-10.8	77.0				15.9	13.0		
Borrowings (INR B)	2,064	2,091	2,158	2,238	2,260				2,237	2476		
Change YoY (%)	9.6	9.9	10.3	7.8	9.5				7.6	10.7		
Loans/Borrowings (%)	112.7	113.7	112.8	112.2	113.2				109.7	109.9		
Asset Quality Parameters												
GS 3 (INR B)	137.9	122.2	122.7	116.5	126.8				116.5	119.2		
Gross Stage 3 (% on Assets)	5.9	5.1	5.0	4.6	5.0				4.7	4.3		
NS 3 (INR B)	91.8	69.2	73.9	66.3	75.6				66.3	67.3		
Net Stage 3 (% on Assets)	4.0	3.0	3.1	2.7	3.0				2.7	2.5		
PCR (%)	33.5	43.3	39.7	43.1	40.4				43.1	43.5		
ECL (%)	2.03	2.25	2.35	2.33	2.40				2.03	2.25		
Loan Mix (%)												
Home loans	78.3	79.3	80.5	81.3	82.0				78.3	79.3		
LAP	15.0	14.3	13.7	13.5	13.2				15.0	14.3		
Non Individual loans	6.7	6.5	5.8	5.2	4.8				6.7	6.5		
Borrowing Mix (%)												
Banks	26.0	27.0	27.4	30.0	33.0				26.0	27.0		
NCD	55.0	54.0	54.3	53.0	51.0				55.0	54.0		
Sub Debt	1.0	1.0	0.8	1.0	1.0				1.0	1.0		
Deposits	9.0	8.0	8.4	8.0	8.0				9.0	8.0		
NHB	5.0	5.0	4.2	4.0	4.0				5.0	5.0		
CP	4.0	5.0	4.8	4.0	3.0				4.0	5.0		

E: MOFSL Estimates



Highlights from the management commentary

Outlook on Demand

- Demand was robust in 1QFY23 and expects this demand momentum to sustain even in the subsequent quarters. Demand is driven by a) stability in property prices b) spike in interest rates might not be a big deterrent for people to take housing loans

Guidance

- Margin stability has been maintained despite an increase in borrowing costs across the board. On a full year basis, there will be NIM stability or a marginal improvement.
- Expect individual housing loan disbursements to grow 12-15% YoY in FY23
- Expect proportion of developer finance to increase to 7-8% (v/s ~5% now) by end-FY23
- C/I ratio expected to remain stable at ~12% over the year.

Yields, CoF, Spreads and NIM

- Sequential Decline of ~30bp in the reported yields was because of a special exercise which was conducted in Apr'22 to retain retail customers on the bulk/corporate side and also because of some higher yielding loans getting pre-paid.
- Hiked the PLR by 60bp from Jun'22 which has become effective on the entire floating rate back-book from 1-Jul-2022
- In the context of the 50bp repo rate hike announced by the RBI today, it will take a decision on hiking its PLR in the ALCO over the next few days. While the new PLR becomes effective on incremental lending effective immediately, the back-book will only get re-priced at the end of the ongoing quarter. (1-Oct | 1-Jan | 1-Apr | 1-Jul).

Liabilities

- 32% of the total borrowings are from Banks and large part of it is Bank linked to EBLR or Repo
- Incremental borrowings was INR100b which came at 5.44%
- 60% of the liabilities are fixed-rate while >90% of advances are on floating rate.

Asset Quality

- Segmental split of Stage 3: Individual home loans: 1.9% | Project/developer NPA: 35% | Non-housing (individual + commercial): 11.5%
- Non-housing individual Stage 3 stood at INR20b and Non-housing commercial Stage 3 stood at INR18.8b. Total non-housing Stage 3 stood at INR38.8b
- Segment wise PCR: Individual Home loans – 44%, Non-housing commercial – 37%, Non housing individual- 38% and Project loans - 38%
- ECL/ EAD on project loans was increased to 14.5% (PQ: 11.6%)
- Stage 3 increase is due to slippages from the restructured pool as well as some of the stressed advances outside the restructured pool

- PCR on Stage 1 under Ind-AS might appear low but Regulatory provisioning as per IRACP norms is adequate.
- RBI NPA pool (as per the NPA circular) which has been classified under Stage 1 and Stage 2 was ~INR14b and LICHF has a PCR of 10-11% on these loans.

Stage 3 (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Individual Home Loans (IHL)	1.9%	2.6%	2.3%	2.1%	1.7%	1.90%
Non-housing commercial (NHC)		18.9%	14.8%	15.9%	18.0%	11.5%
Non-housing individual (NHI)	5.8%	11.0%	9.8%	9.0%	8.1%	
Project loans	18.0%	24.4%	23.9%	27.0%	31.8%	35%

1QFY23 (INR b)	Corporate	Retail	Total
Outstanding OTR Pool	10	20	30

1QFY23 (INR b)	Principal + Interest Moratorium	Only Principal moratorium	Total
Outstanding OTR Pool	21	10	31

Restructured Advances

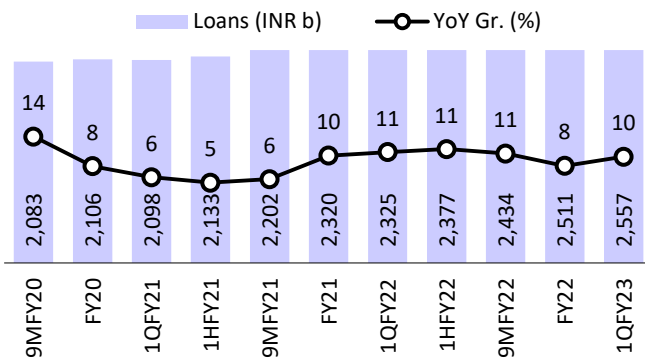
- Cumulatively the total OTR done by the company was INR78b. Total OTR outstanding as on 1QFY23 was INR31b which was split as INR21b (with principal and interest moratorium) and ~INR10b (servicing the interest but are in principal moratorium).
- Split of the restructured pool was INR20b in retail and INR10b in Wholesale
- Exits of INR45b from the restructured pool over the last few quarters.
- In this quarter, they have classified OTR accounts based on their actual dpd prior to the implementation of OTR. Slippages of OTR accounts from Stage 1 to Stage 2 are because of re-classification based on actual dpd.
- From the restructured pool, INR20b moved to Stage 2 (because of reclassification) and INR4.0-4.5b has moved into Stage 3
- From the outstanding restructured pool, expect bulk of them to move out in Sep'22 and Dec'22 and the remainder in Mar'23

Others

- Effective tax will remain 18.0-18.5% because of exemptions u/s 36.1.8

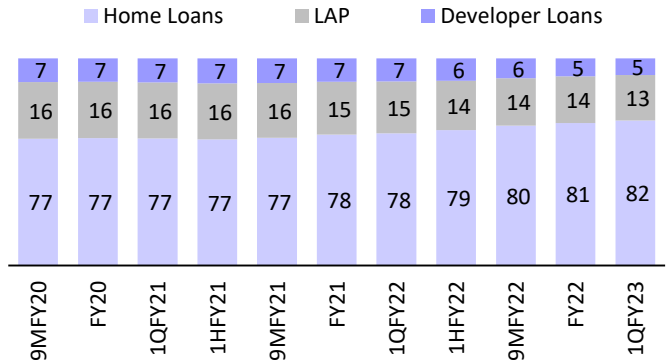
Story in charts

Exhibit 1: Loan book up 10% YoY and 2% QoQ



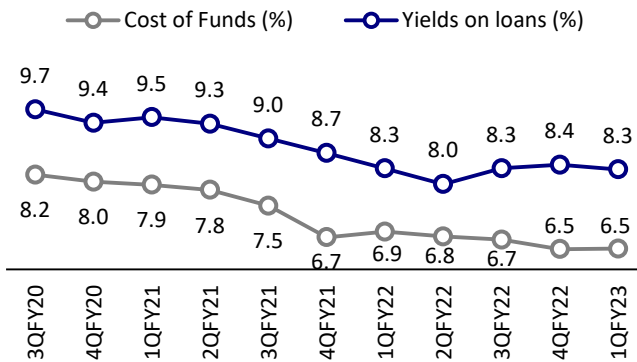
Source: MOFSL, Company

Exhibit 2: Share of Home loans continues to increase (%)



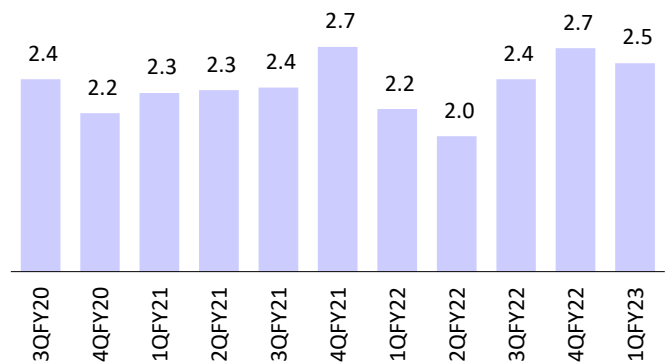
Source: MOFSL, Company

Exhibit 3: Calculated spreads declined ~10bp QoQ to 1.8%



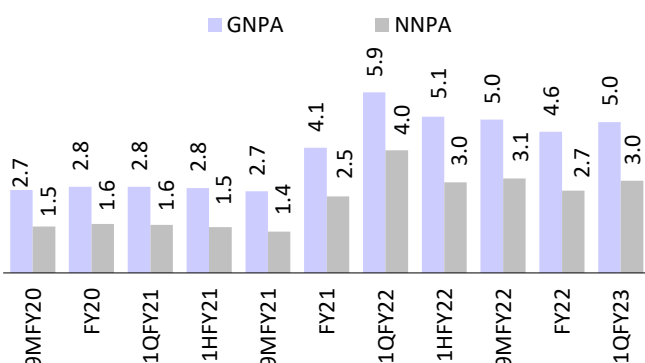
Source: MOFSL, Company

Exhibit 4: NIMs declined by ~10bp QoQ (%)



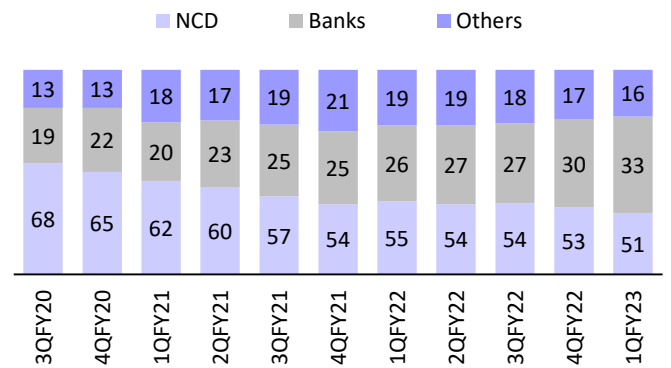
Source: MOFSL, Company

Exhibit 5: GS3 increased by 30bp QoQ (%)



Source: MOFSL, Company

Exhibit 6: Proportion of banks term loans increased in the borrowing mix (%)

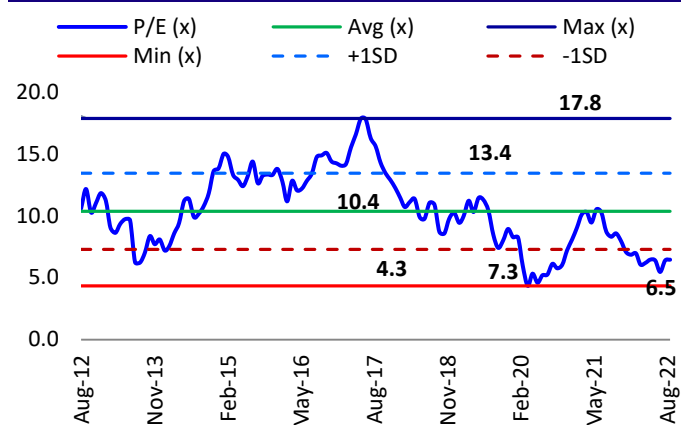


Source: MOFSL, Company, CP share at ~5%

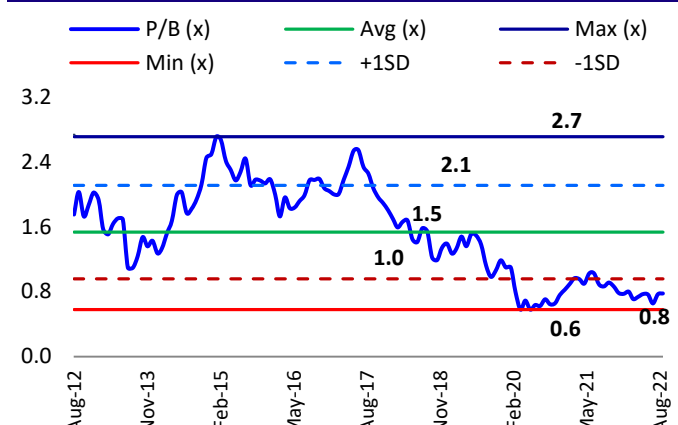
Exhibit 7: Upgrade FY23/FY24E EPS by ~5% each to factor in higher loan growth and improvement in NIM

INR B	Old Est.		New Est.		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII	62.5	66.8	64.0	68.9	2.4	3.1
Other Income	2.2	2.2	2.3	2.3		
Net Income	64.7	69.0	66.3	71.2	2.5	3.1
Operating Expenses	9.3	9.9	9.5	10.1	1.7	1.7
Operating Profits	55.4	59.1	56.8	61.1	2.6	3.4
Provisions	15.4	14.2	15.5	14.4	0.5	1.3
PBT	39.9	44.9	41.3	46.7	3.4	4.0
Tax	8.0	9.0	7.8	8.9		
PAT	31.9	35.9	33.4	37.8	4.7	5.3
Loans	2,694	2,992	2,721	3,038	1.0	1.6
Borrowings	2,452	2,707	2,476	2,750	1.0	1.6
Spreads (%)	1.80	1.65	1.85	1.71		
RoAA (%)	1.2	1.2	1.2	1.3		
RoAE (%)	12.4	12.8	12.9	13.3		

Source: MOFSL, Company

Exhibit 8: One-year forward P/E

Source: MOFSL, Company

Exhibit 9: One-year forward P/B

Source: MOFSL, Company

Financials and valuations

Income Statement								(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	1,22,509	1,38,767	1,46,662	1,71,628	1,96,054	1,96,971	1,96,885	2,29,387	2,62,280
Interest Expense	93,068	1,02,315	1,11,439	1,28,915	1,47,839	1,44,526	1,41,537	1,65,410	1,93,346
Net Interest Income	29,441	36,452	35,223	42,713	48,215	52,445	55,348	63,977	68,934
Change (%)	31.6	23.8	-3.4	21.3	12.9	8.8	5.5	15.6	7.7
Fee Income	1,453	1,102	356	348	394	788	982	1,200	1,290
Other Income	893	934	1,388	1,669	250	718	1,664	1,082	973
Net Income	31,787	38,489	36,968	44,730	48,859	53,951	57,994	66,259	71,197
Change (%)	27.7	21.1	-4.0	21.0	9.2	10.4	7.5	14.3	7.5
Operating Expenses	4,687	6,118	4,396	4,754	6,167	7,015	9,994	9,465	10,116
Operating Profits	27,100	32,371	32,572	39,976	42,692	46,936	48,000	56,794	61,081
Change (%)	28.5	19.4	0.6	22.7	6.8	9.9	2.3	18.3	7.5
Provisions/write offs	1,465	2,813	4,917	6,181	10,002	13,450	20,218	15,521	14,398
PBT	25,636	29,558	27,655	33,796	32,690	33,486	27,782	41,273	46,683
Tax	9,028	10,247	7,630	9,486	8,672	6,142	4,909	7,842	8,870
Tax Rate (%)	35.2	34.7	27.6	28.1	26.5	18.3	17.7	19.0	19.0
PAT	16,608	19,311	20,025	24,310	24,018	27,343	22,873	33,431	37,813
Change (%)	19.8	16.3	3.7	21.4	-1.2	13.8	-16.3	46.2	13.1
Adjusted PAT	16,608	19,311	20,025	24,310	24,018	27,343	22,873	33,431	37,813
Change (%)	23.3	16.3	3.7	21.4	-1.2	13.8	-16.3	46.2	13.1
Proposed Dividend	3,333	3,759	3,998	4,471	4,040	4,292	4,678	5,215	5,785

Balance Sheet								(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	1,010	1,010	1,010	1,010	1,010	1,010	1,101	1,101	1,101
Reserves & Surplus	90,450	1,25,110	1,41,402	1,61,583	1,80,921	2,04,203	2,45,618	2,69,155	2,95,968
Net Worth	91,460	1,26,120	1,42,412	1,62,593	1,81,931	2,05,213	2,46,718	2,70,256	2,97,068
Borrowings	11,09,310	12,63,170	14,53,099	17,06,670	19,13,317	20,78,615	22,36,582	24,75,948	27,49,623
Change (%)	14.9	13.9	15.0	17.5	12.1	8.6	7.6	10.7	11.1
Other liabilities	0	1,15,526	1,15,387	1,36,572	72,808	72,505	62,375	68,612	75,473
Total Liabilities	12,00,769	15,04,816	17,10,898	20,05,835	21,68,056	23,56,333	25,45,675	28,14,816	31,22,165
Investments	2,768	33,694	19,722	35,951	54,964	46,356	61,986	55,787	50,209
Change (%)	16.7	1,117.1	-41.5	82.3	52.9	-15.7	33.7	-10.0	-10.0
Loans	12,51,730	14,47,167	16,61,623	19,29,927	20,79,880	22,81,143	24,52,963	27,20,823	30,38,258
Change (%)	15.5	15.6	14.8	16.1	7.8	9.7	7.5	10.9	11.7
Net Fixed Assets	920	965	971	1,359	2,544	2,470	2,876	3,308	3,804
Other assets	-54,649	22,990	28,582	38,598	30,669	26,364	27,849	34,899	29,895
Total Assets	12,00,769	15,04,816	17,10,898	20,05,835	21,68,056	23,56,333	25,45,675	28,14,816	31,22,165

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on loans	10.5	10.3	9.4	9.6	9.8	9.0	8.3	8.9	9.1
Cost of funds	9.0	8.6	8.2	8.2	8.2	7.2	6.6	7.0	7.4
Spreads Analysis (%)	1.52	1.7	1.2	1.4	1.6	1.8	1.76	1.85	1.71
Margins	2.5	2.7	2.3	2.4	2.4	2.4	2.34	2.47	2.39
Profitability Ratios (%)									
Adj RoAE	19.6	17.8	14.9	15.9	13.9	14.1	10.1	12.9	13.3
Adj RoAA	1.5	1.4	1.2	1.3	1.2	1.2	0.9	1.2	1.3
Int. Expended/Int.Earned	76.0	73.7	76.0	75.1	75.4	73.4	71.9	72.1	73.7
Other Inc./Net Income	2.8	2.4	3.8	3.7	0.5	1.3	2.9	1.6	1.4
Efficiency Ratios (%)									
Fees/Operating income	1.2	0.8	0.2	0.2	0.2	0.4	0.5	0.5	0.5
Op. Exps./Net Income	14.7	15.9	11.9	10.6	12.6	13.0	17.2	14.3	14.2
Empl. Cost/Op. Exps.	32.1	40.2	50.8	52.1	48.5	41.8	56.4	47.8	48.7
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	112.8	114.6	114.4	113.1	108.7	109.7	109.7	109.9	110.5
Debt/Equity (x)	12.1	10.0	10.2	10.5	10.5	10.1	9.1	9.2	9.3
Gross NPAs (Rs m)	5,678	6,271	13,036	30,754	59,594	95,585	1,16,520	1,19,241	1,20,760
Gross NPAs to Adv.	0.5	0.4	0.8	1.6	2.8	4.1	4.7	4.3	3.9
Net NPAs (Rs m)	2,705	2,053	7,117	15,514	33,474	57,414	66,314	67,332	67,354
Net NPAs to Adv.	0.2	0.1	0.4	0.8	1.6	2.5	2.7	2.5	2.2
Valuation									
Book Value (INR)	181	250	282	322	360	406	448	491	540
Growth (%)	17.0	37.9	12.9	14.2	11.9	12.8	10.3	9.5	9.9
Price-BV (x)	2.1	1.5	1.3	1.2	1.1	0.9	0.8	0.8	0.7
EPS (INR)	32.9	38.2	39.7	48.1	47.6	54.2	41.6	60.7	68.7
Growth (%)	19.8	16.3	3.7	21.4	-1.2	13.8	-23.3	46.2	13.1
Price-Earnings (x)	11.5	9.9	9.6	7.9	8.0	7.0	9.1	6.2	5.5
Adj. EPS (INR)	32.9	38.2	39.7	48.1	47.6	54.2	41.6	60.7	68.7
Growth (%)	23.3	16.3	3.7	21.4	-1.2	13.8	-23.3	46.2	13.1
Price-Earnings (x)	11.5	9.9	9.6	7.9	8.0	7.0	9.1	6.2	5.5
Dividend Per Share	5.5	6.2	6.8	7.6	8.0	8.5	8.5	9.5	10.5
Dividend Yield (%)	1.5	1.6	1.8	2.0	2.1	2.2	2.2	2.5	2.8

E: MOFSL Estimates

NOTES

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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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