LIC Housing Finance

BSE SENSEX	S&P CNX
78,054	23,721

Bloomberg	LICHF IN
Equity Shares (m)	550
M.Cap.(INRb)/(USDb)	423.5 / 5.1
52-Week Range (INR)	777 / 383
1, 6, 12 Rel. Per (%)	15/38/70
12M Avg Val (INR m)	1550

Financials &Valuations (INR b)

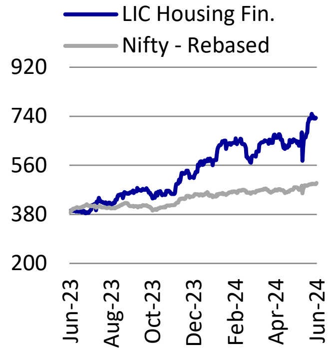
Y/E March	FY24	FY25E	FY26E
NII	86.5	84.6	87.2
PPP	77.0	74.9	76.7
PAT	47.7	50.0	51.7
EPS (INR)	86.6	90.8	94.0
EPS Gr. (%)	64.8	4.9	3.5
BV/Sh (INR)	570	643	717
Ratios			
NIM (%)	3.2	2.9	2.7
C/I ratio (%)	13.0	13.7	14.4
RoAA (%)	1.7	1.6	1.6
RoE (%)	16.3	15.0	13.8
Payout (%)	10.4	10.5	10.6
Valuations			
P/E (x)	8.9	8.5	8.2
P/BV (x)	1.3	1.2	1.1
Div. Yield (%)	1.2	1.2	1.3

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	45.2	45.2	45.2
DII	22.3	21.8	24.4
FII	22.3	21.6	17.5
Others	10.2	11.4	12.9

FII Includes depository receipts

Stock performance (one-year)



CMP: INR770 TP: INR930 (+21%) Buy

Turning the corner with better predictability of earnings

Asset quality improvement along with sectoral tailwinds the key enablers

- LIC Housing Finance (LICHF) delivered a healthy FY24 where (except for muted loan growth) it reported a good improvement in NIM and credit costs. This led to an improved RoA of ~1.7% (vs. a decadal average of ~1.3% over FY14-FY23).
- Loan growth was muted in FY24 primarily because of upgradations in the technology platform done by LICHF in 1HFY24. With the teething issues behind, it demonstrated an improvement in disbursement momentum in 2HFY24. LICHF will sustain this momentum going forward in FY25 as well. We estimate a disbursement/AUM CAGR of ~18%/10% over FY24-FY26.
- NIM was at an all-time high of ~3.1% in FY24, aided by re-pricing of existing loans as well as write-backs of interest income on NPA accounts, which were upgraded to standard. In line with management guidance, we believe that there will be a NIM compression in FY25 driven by moderation in yields as well as a rise in the CoB. We model a NIM of 2.9%/2.7% in FY25/FY26.
- LICHF also reported healthy asset quality improvement, with Gross Stage 3 declining ~1pp YoY to ~3.3% as of Mar'24. While a large part of this improvement was driven by (technical) write-offs of ~INR26b in FY24, this led to a significant reduction in the stressed loan exposures of the company. LICHF is also doing a pilot on achieving resolutions through sale to ARCs. It has a technical written-off pool of ~INR40b, and we expect more resolutions to come through in FY25. We estimate its credit costs to decline to ~45bp/ 40bp in FY25/26 (vs. ~60bp in FY24).
- Over the last four to five quarters, LICHF's earnings predictability has improved, with fewer surprises on asset quality, credit costs, and operating expenses. We expect LICHF to deliver stronger loan growth over FY25-26, which can offset NIM compression. The company reported a PAT growth of ~65% YoY in FY24. Against this base, we forecast only ~4% PAT CAGR over FY24-26. However, we expect this to translate into an RoE of 1.6%/14% in FY26. A low volatility in earnings and better loan growth can potentially translate into a re-rating of the valuation multiples for LICHF. **Reiterate BUY with a revised TP of INR930 (based on 1.3x FY26E P/BV).**
- **Key downside risks:** 1) any significant impact from the RBI guidelines to HFCs – to charge interest only when the Cheque/DD is encashed – could result in a steeper NIM compression; and 2) inability to deliver better loan growth due to high competitive intensity from banks and other large HFCs.

Focused efforts to accelerate loan growth

- After a muted FY24 where loan growth was only ~4% YoY, LICHF is making focused efforts to accelerate its disbursement engine and deliver stronger loan growth over FY25-26. It has invested in technology, marketing, and underwriting over the last one year, to improve its sourcing that we expect would drive better loan growth over FY25-26.

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- LICHF has also created alternate souring channels such as Direct Marketing Executives (DME) and has even tied-up with a few lead management companies. Unlike in the past, LICHF now has a team, which monitors the leads and follow-up on them. The company has also added 44 new cluster offices, which process and underwrite loans for further sanction and disbursement. By aligning its back offices to cluster offices, the company has managed to deliver a faster TAT to its customers. **We estimate a loan CAGR of ~10% over FY24-26.**

NIM to moderate but remain comfortably higher than its historical levels

- LICHF's reported FY24 NIM of ~3.1% is unlikely to sustain going forward given that the company benefitted from: 1) the interest rate hikes on its back book; 2) the recoveries (~INR1.2-1.3b in FY24) from NPA accounts in the last fiscal year; and 3) the astute liability management, wherein the reported CoB for LICHF rose ~13bp in FY24 (vs. ~20-85bp for its peer HFCs).
- NIM is likely to contract in FY25, due to moderation in yields (because of a change in product mix towards lower-yielding home loans, competitive pressure, and pursuing stronger loan growth), and rise in borrowing costs. In addition, any recoveries (through resolutions/settlements) from the written-off pool will not boost NIM but will instead improve profitability. If there is a cut in repo rates in 2HFY25, it could result in further pressure on yields. **We expect NIM to moderate to ~2.9%/2.7% in FY25/FY26.**

Stressed asset resolutions around the corner; credit costs to moderate

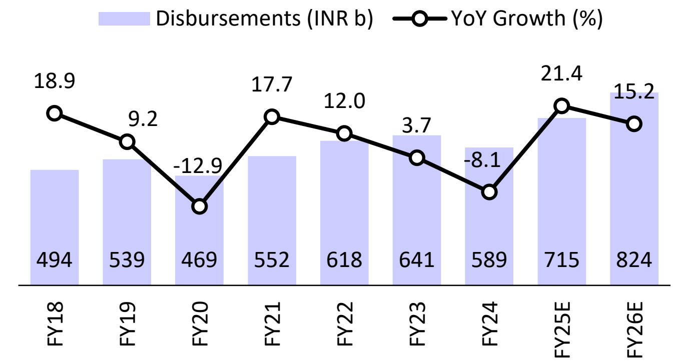
- LICHF has implemented the policy of taking technical write-offs and building management overlay (in addition to ECL provisions) ~12-18 months back. LICHF took technical write-offs of ~INR26b in FY24. It has a total written-off pool of ~INR40b as of Mar'24. It also has a management overlay of ~INR17-18b.
- LICHF has been making targeted efforts at stressed asset resolutions (across both wholesale and retail segments) through a combination of auctions as well as pilots on sale to Asset Reconstruction Companies (ARC). Management shared that any ARC transaction that LICHF will undertake will be an all-cash deal (with associated hair-cuts) rather than the typical 85:15 SR:Cash structure.
- Targeted efforts being made by the management will lead to asset quality improvement and **credit costs are likely to decline to ~45bp/40bp in FY25/26.**

Candidate for a valuation re-rating if loan growth picks up; reiterate BUY

- LICHF's valuation of ~1.1x FY26E P/BV reflects the muted loan growth, frequent one-offs in operating expenses, and NIM volatility. We believe that the company will demonstrate more predictability in its NIM trajectory and earnings profile going forward. LICHF is a potential candidate for a valuation re-rating if it is able to provide investors with higher confidence in double-digit loan growth over FY25-26.
- LICHF has strong moats in both retail mortgages and on the liability side. We estimate an RoA/RoE of 1.6%/14% in FY26 and **reiterate our BUY rating with a TP of INR930 (based on 1.3x FY26E BV).**

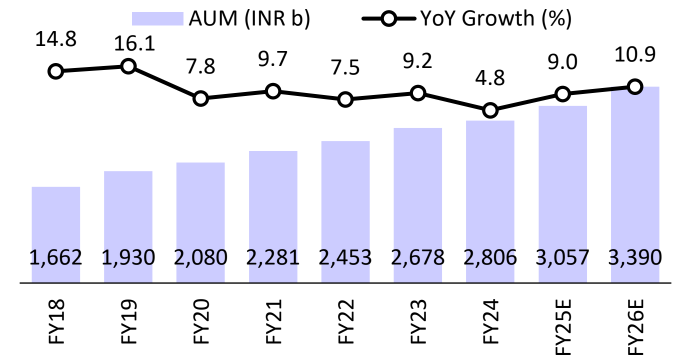
Key exhibits

Exhibit 1: Expect disbursement CAGR of ~18% over FY24-26



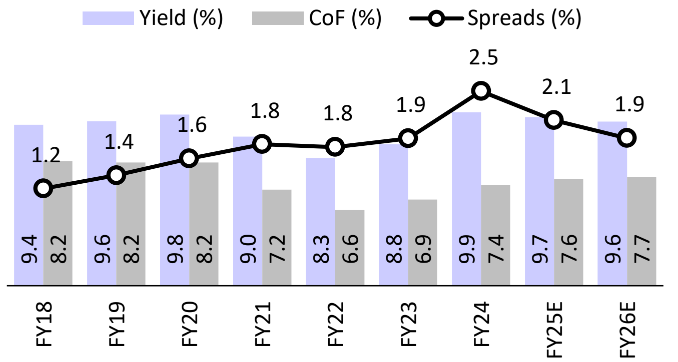
Source: MOFSL, Company

Exhibit 2: Estimate AUM CAGR of 10% over FY24-26



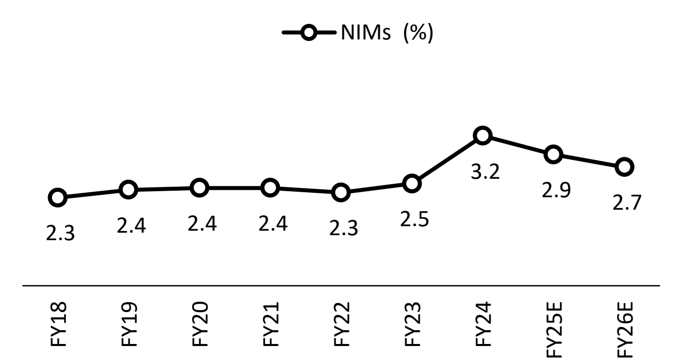
Source: MOFSL, Company

Exhibit 3: Spreads to decline due to a rise in CoF



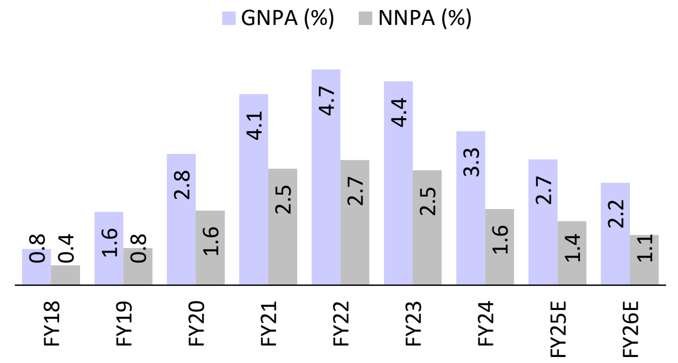
Source: MOFSL, Company

Exhibit 4: NIM likely to moderate going forward



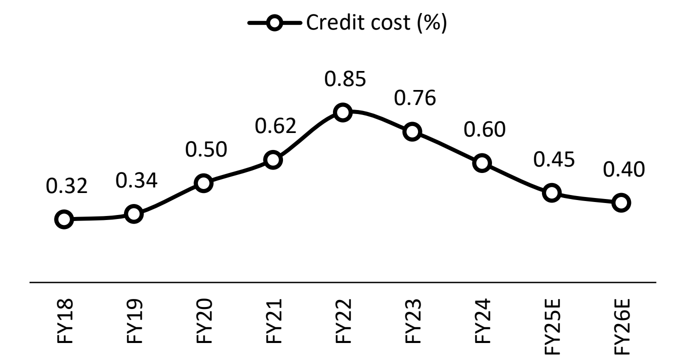
Source: MOFSL, Company

Exhibit 5: Expect improvements in asset quality



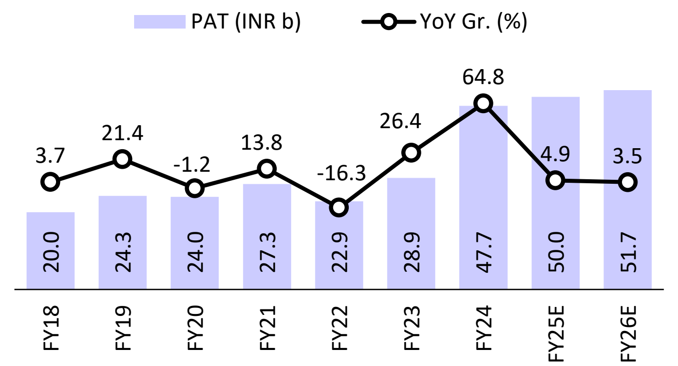
Source: MOFSL, Company

Exhibit 6: Estimate credit costs of 40bp in FY26



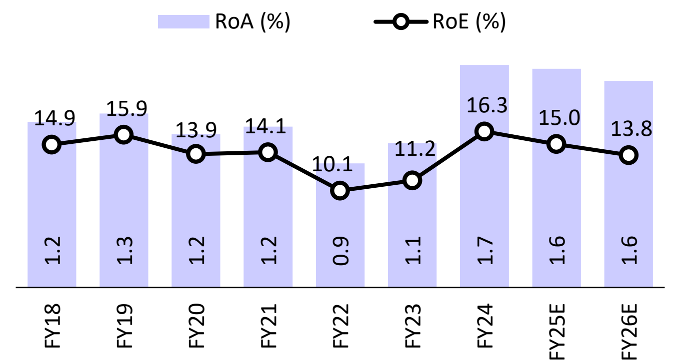
Source: MOFSL, Company

Exhibit 7: Expect a PAT CAGR of ~4% over FY24-26



Source: MOFSL, Company

Exhibit 8: ROA to be range bound at ~1.6% over FY25-26

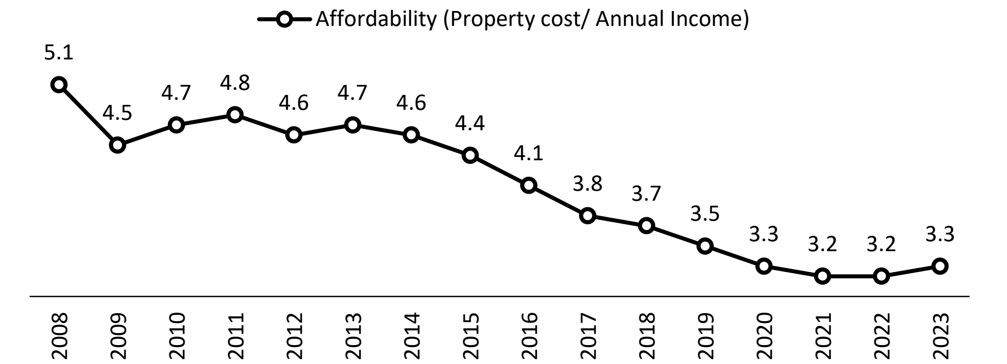


Source: MOFSL, Company

Macro favorable for sustainable growth in mortgages

Over the last 15 years, housing affordability has improved significantly in India, with the affordability index improving to 3.3x in 2023 from 3.7x in 2018. According to the ICRA India Mortgage Finance Market Report, as India's population grows, incomes rise, and household sizes shrink, the Indian housing market could see a demand for 26-27m houses between 2022 and 2031. Further, the ongoing supply shortage has boosted demand for upgrades and resale of homes. The affordable housing segment is another growth engine that banks and large HFCs can leverage to drive sustainable growth in their loan books.

Exhibit 9: Affordability continues to improve due to rising annual income

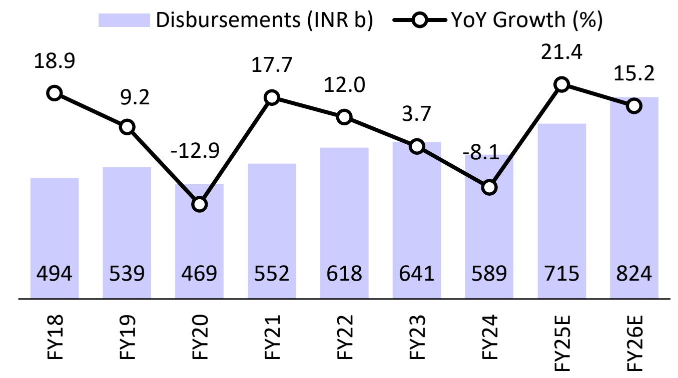


Source: MOFSL, HDFC Ltd Investor Presentation

Improvement in retail and salaried customer mix a positive

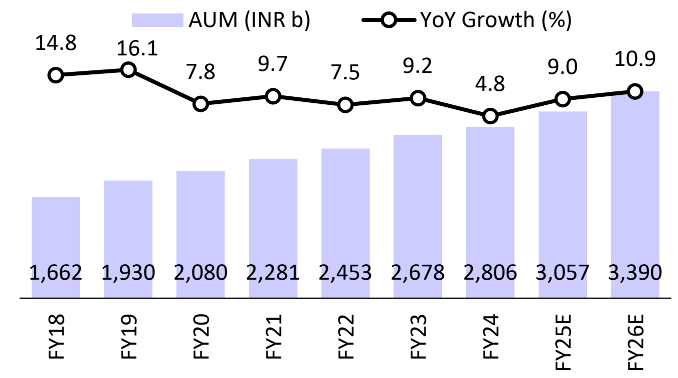
- LICHF has an established track record in the housing finance business. It is the largest housing finance company in India, with an AUM of INR2.86t as of Mar'24. Further, it remains focused on retail home loans to the salaried segment. As of Mar'24, ~95% of the loan book was towards the retail loan segment and individual home loans accounted for ~85% of the overall loan book.
- Regulated by National Housing Bank, LICHF operates through 310 marketing units across India and has ~2,400 employees. In addition, the company works with agents (Home Loan Agents from LIC, DSAs, Customer Relations Associates) to extend its marketing reach.
- The share of salaried home loan segment is the highest for LICHF among its peers, which is perceived to be less risky than the self-employed segment. The salaried segment accounted for ~88% of the total portfolio as of Mar'24, which is also the highest among its peers.

Exhibit 10: Expect disbursement CAGR of ~18% over FY24-26



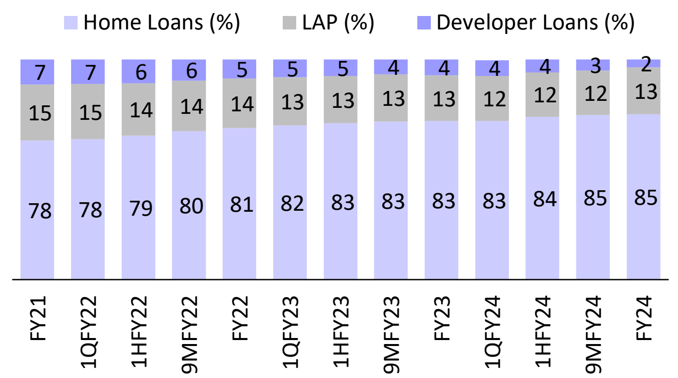
Source: MOFSL, Company

Exhibit 11: Estimate AUM CAGR of 10% over FY24-26



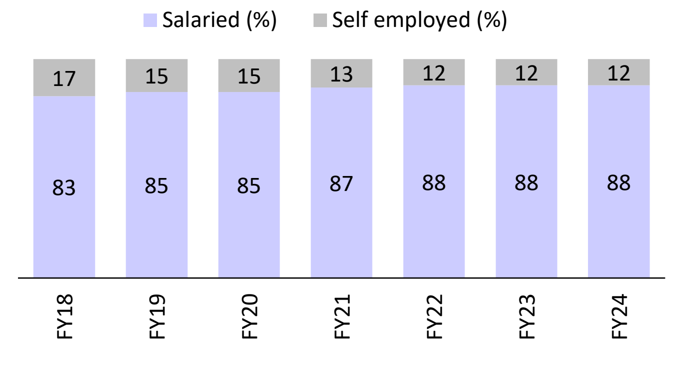
Source: MOFSL, Company

Exhibit 12: Individual home loans at 85% of total book



Source: MOFSL, Company

Exhibit 13: Loan mix (%)



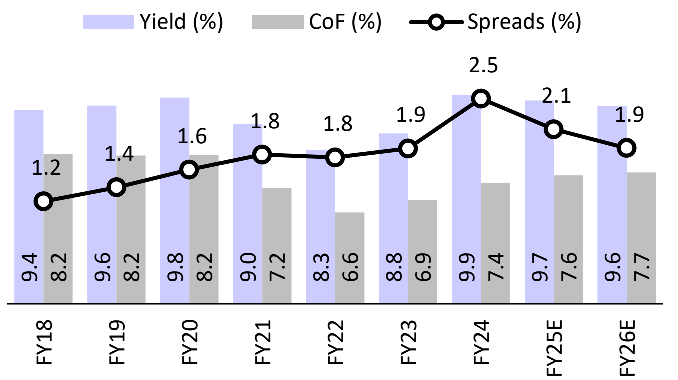
Source: MOFSL, Company

- Technological upgrades and organizational restructuring initiatives appear to have stabilized. As against FY24, which was a consolidation phase, LICHF anticipates double-digit growth in disbursements and loan growth in FY25. We model a ~10% CAGR in loans over FY24-FY26E.

NIM to moderate but remain comfortably higher than historical levels

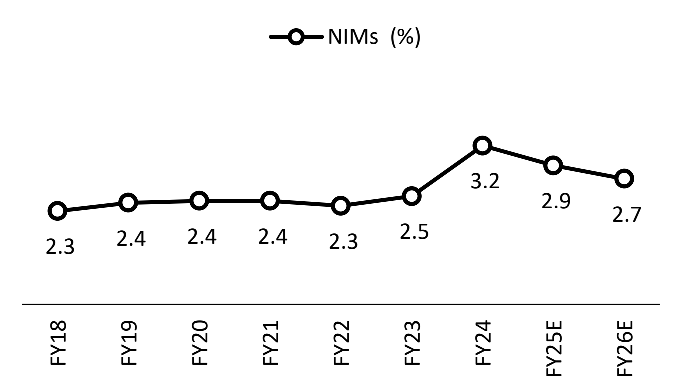
- LICHF's NIM has exhibited a notable trajectory over the past five quarters, consistently hovering around the 3% mark. This sustained performance underscores a strategic approach rather than a singular event. A pivotal factor in this improvement has been the adept navigation of the higher interest rate environment, with the company effectively passing on rate hikes to customers.

Exhibit 14: Spreads to decline due to the rise in CoF (%)



Source: MOFSL, Company

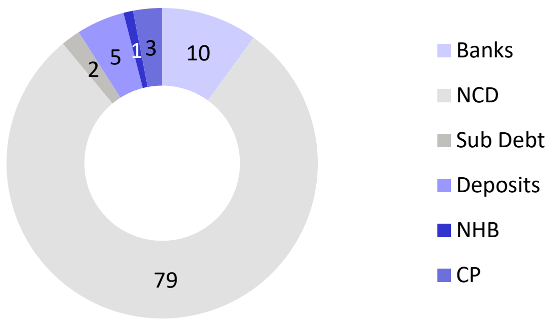
Exhibit 15: NIM likely to moderate going forward (%)



Source: MOFSL, Company

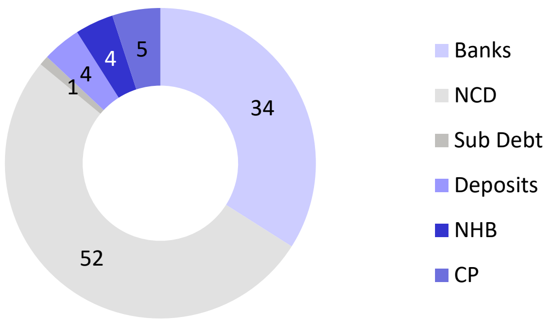
- Further, the balanced composition of liabilities, comprising 50% each of both fixed and floating components, has proven to be advantageous for bolstering its NIM. Through proactive measures such as increased dependence on banks, renegotiating borrowings, and optimizing interest expenses, the company has successfully delivered an improvement in its NIM profile.

Exhibit 16: Borrowing mix (%) – Mar'18



Source: MOFSL, Company; Note: Data as of Mar'18

Exhibit 17: Borrowing mix (%) – Mar'24



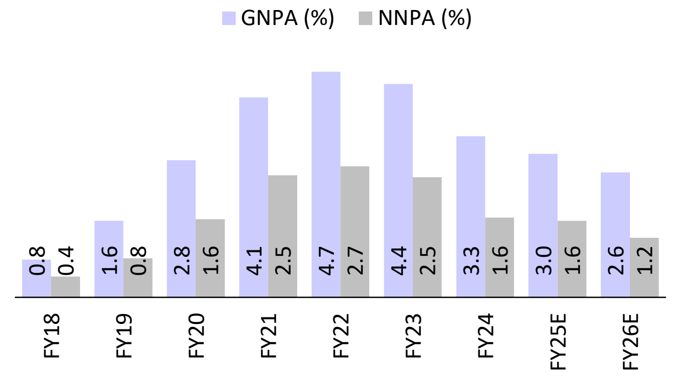
Source: MOFSL, Company; Note: Data as of Mar'24

- Additionally, the resolution of high-ticket cases has led to the collection of interest on NPA accounts, thus further enhancing NIM. However, the high competitive intensity and lower support from recoveries in interest income can lead to a contraction in NIM in FY25. **We expect NIM to moderate to 2.9%/2.7% in FY25/FY26.**

Improvement in asset quality through resolutions and write-offs

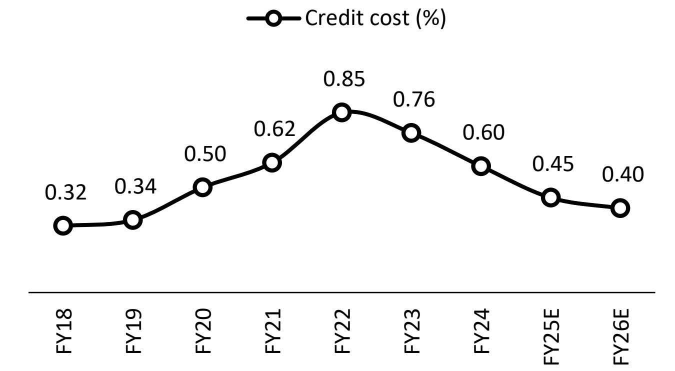
- LICHF's asset quality has been supported by a high share of individual home loans (IHL), where IHL GNPA remained comfortable at 1.5% as of Mar’24. Further, the GNPA for project loans declined to ~31% in FY24 from the peak of ~65% in 1HFY23. Consequently, overall GNPA improved markedly to ~3.3% as of Mar’24.
- LICHF has put up a large account on the block to the ARCs. It anticipates proposals from 6-7 ARCs and will take a decision within the next few months. Positive experience in this ARC transaction might prompt the management to further evaluate more such ARC resolutions throughout the year.

Exhibit 18: Expect improvement in asset quality (%)



Source: MOFSL, Company

Exhibit 19: Estimate credit costs to decline to ~40bp in FY26



Source: MOFSL, Company

Exhibit 20: Individual home loan GS3

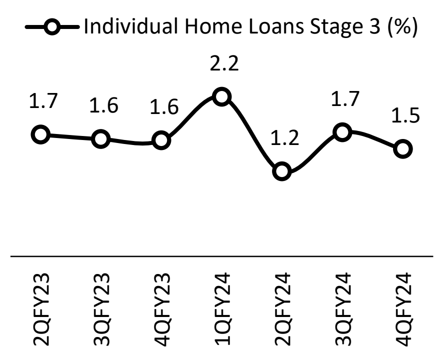


Exhibit 21: Non-housing individual GS3

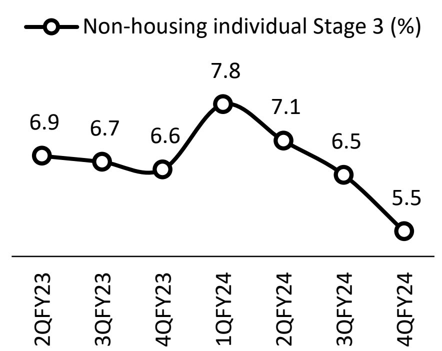
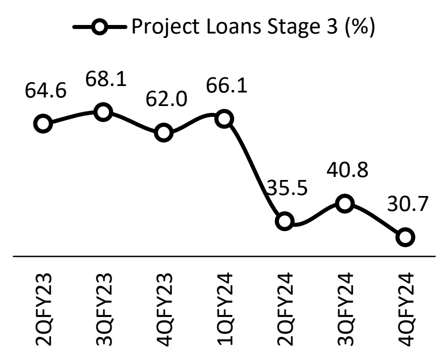


Exhibit 22: Project Loans GS3



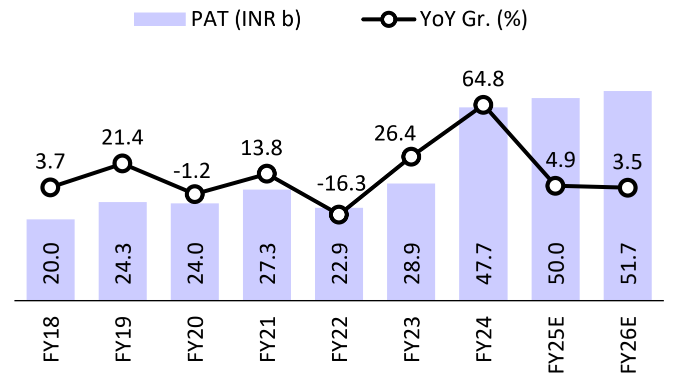
Source: Company, MOFSL

- LICHF took write-offs of ~INR26b during FY24. We expect some recoveries from the written-off pool of loans over FY25-26. **Improvements in GS3 should sustain and we model credit costs of ~45bp/40bp in FY25E/FY26E.**

Candidate for a valuation re-rating if loan growth picks up; reiterate BUY

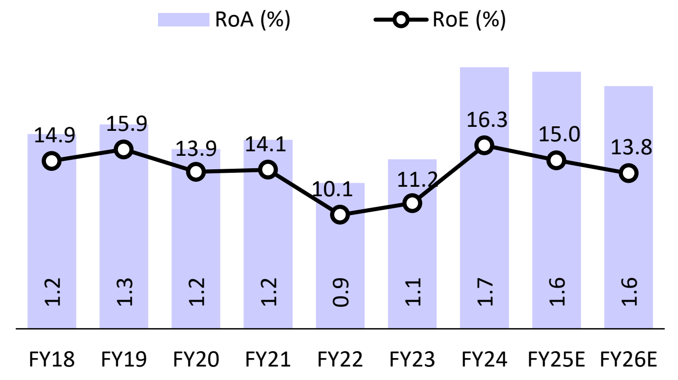
- LICHF's valuation of ~1.1x FY26E P/BV reflects the muted loan growth, frequent one-offs in operating expenses, and NIM volatility. We believe that the company will demonstrate more predictability in its NIM trajectory and earnings profile going forward. LICHF is a potential candidate for a valuation re-rating if it is able to provide investors with higher confidence in double-digit loan growth over FY25-26.
- LICHF has strong moats in both retail mortgages and on the liability side. We estimate an RoA/RoE of 1.6%/14% in FY26 and **reiterate our BUY rating with a TP of INR930 (based on 1.3x FY26E BV). Key downside risks:** 1) any significant impact from the RBI guidelines to HFCs – to charge interest only when the Cheque/DD is encashed – could result in a steeper NIM compression; and 2) inability to deliver better loan growth due to high competitive intensity from banks and other large HFCs.

Exhibit 23: Expect PAT CAGR of ~4% over FY24-26



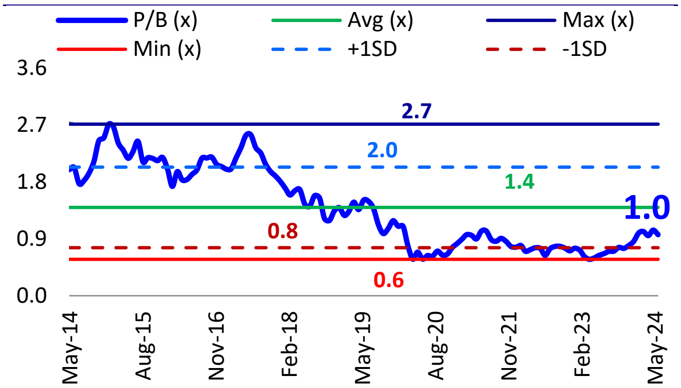
Source: MOFSL, Company

Exhibit 24: Expect ROA/RoE at 1.6%/15.0% in FY25



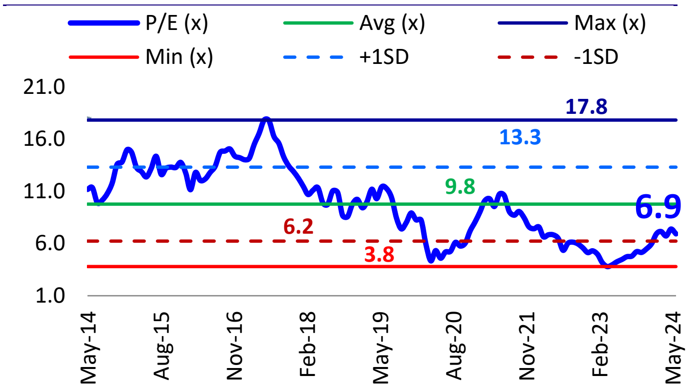
Source: MOFSL, Company

Exhibit 25: One-year forward P/B



Source: MOFSL, Company

Exhibit 26: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement									(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Interest Income	146,662	171,628	196,054	196,971	196,885	225,162	270,416	284,260	307,882
Interest Expense	111,439	128,915	147,839	144,526	141,537	161,860	183,907	199,695	220,692
Net Interest Income	**35,223**	**42,713**	**48,215**	**52,445**	**55,348**	**63,303**	**86,509**	**84,565**	**87,191**
Change (%)	-3.4	21.3	12.9	8.8	5.5	14.4	36.7	-2.2	3.1
Fee Income	356	348	394	788	982	448	491	596	687
Other Income	1,388	1,669	250	718	1,664	1,132	1,440	1,656	1,738
Net Income	**36,968**	**44,730**	**48,859**	**53,951**	**57,994**	**64,882**	**88,440**	**86,817**	**89,616**
Change (%)	-4.0	21.0	9.2	10.4	7.5	11.9	36.3	-1.8	3.2
Operating Expenses	4,396	4,754	6,167	7,015	9,994	9,883	11,463	11,927	12,880
Operating Profits	**32,572**	**39,976**	**42,692**	**46,936**	**48,000**	**55,000**	**76,976**	**74,890**	**76,736**
Change (%)	0.6	22.7	6.8	9.9	2.3	14.6	40.0	-2.7	2.5
Provisions/write offs	4,917	6,181	10,002	13,450	20,218	19,430	16,437	13,192	12,894
PBT	**27,655**	**33,796**	**32,690**	**33,486**	**27,782**	**35,570**	**60,539**	**61,697**	**63,842**
Tax	7,630	9,486	8,672	6,142	4,909	6,660	12,885	11,723	12,130
Tax Rate (%)	27.6	28.1	26.5	18.3	17.7	18.7	21.3	19.0	19.0
PAT	**20,025**	**24,310**	**24,018**	**27,343**	**22,873**	**28,910**	**47,654**	**49,975**	**51,712**
Change (%)	3.7	21.4	-1.2	13.8	-16.3	26.4	64.8	4.9	3.5
Adjusted PAT	**20,025**	**24,310**	**24,018**	**27,343**	**22,873**	**28,910**	**47,654**	**49,975**	**51,712**
Change (%)	3.7	21.4	-1.2	13.8	-16.3	26.4	64.8	4.9	3.5
Proposed Dividend	**3,998**	**4,471**	**4,040**	**4,292**	**4,678**	**4,678**	**4,954**	**5,247**	**5,481**

Balance Sheet									
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Capital	1,010	1,010	1,010	1,010	1,101	1,101	1,101	1,101	1,101
Reserves & Surplus	141,402	161,583	180,921	204,203	245,618	269,903	312,846	352,619	393,602
Net Worth	**142,412**	**162,593**	**181,931**	**205,213**	**246,718**	**271,003**	**313,946**	**353,720**	**394,703**
Borrowings	**1,453,099**	**1,706,670**	**1,913,317**	**2,078,615**	**2,236,582**	**2,447,742**	**2,524,968**	**2,730,169**	**3,017,006**
Change (%)	15.0	17.5	12.1	8.6	7.6	9.4	3.2	8.1	10.5
Other Liabilities	115,387	136,572	72,808	72,505	62,375	65,374	73,132	80,445	88,490
Total Liabilities	**1,710,898**	**2,005,835**	**2,168,056**	**2,356,333**	**2,545,675**	**2,784,120**	**2,912,046**	**3,164,334**	**3,500,199**
Investments	19,722	35,951	54,964	46,357	61,986	69,764	62,770	65,909	69,204
Change (%)	-41.5	82.3	52.9	-15.7	33.7	12.5	-10.0	5.0	5.0
Loans	**1,661,623**	**1,929,927**	**2,079,880**	**2,281,143**	**2,452,963**	**2,678,348**	**2,805,898**	**3,057,300**	**3,389,894**
Change (%)	14.8	16.1	7.8	9.7	7.5	9.2	4.8	9.0	10.9
Net Fixed Assets	971	1,359	2,544	2,469	2,876	3,570	3,609	4,150	4,772
Other assets	28,582	38,598	30,669	26,364	27,849	32,439	39,770	36,976	36,328
Total Assets	**1,710,898**	**2,005,835**	**2,168,056**	**2,356,333**	**2,545,675**	**2,784,120**	**2,912,046**	**3,164,334**	**3,500,199**

E: MOFSL Estimates

Financials and valuations

Ratios									
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Spreads Analysis (%)									
Yield on loans	9.4	9.6	9.8	9.0	8.3	8.8	9.9	9.7	9.6
Cost of funds	8.2	8.2	8.2	7.2	6.6	6.9	7.4	7.6	7.7
Spreads Analysis (%)	1.2	1.4	1.6	1.8	1.76	1.87	2.46	2.10	1.87
Margins	**2.3**	**2.4**	**2.4**	**2.4**	**2.3**	**2.5**	**3.2**	**2.9**	**2.7**
Profitability Ratios (%)									
Adj RoAE	14.9	15.9	13.9	14.1	10.1	11.2	16.3	15.0	13.8
Adj RoAA	1.2	1.3	1.2	1.2	0.9	1.1	1.7	1.6	1.6
Int. Expended/Int. Earned	76.0	75.1	75.4	73.4	71.9	71.9	68.0	70.3	71.7
Other Inc./Net Income	3.8	3.7	0.5	1.3	2.9	1.7	1.6	1.9	1.9
Efficiency Ratios (%)									
Fees/Operating income	0.2	0.2	0.2	0.4	0.5	0.2	0.2	0.2	0.2
Op. Exps./Net Income	11.9	10.6	12.6	13.0	17.2	15.2	13.0	13.7	14.4
Empl. Cost/Op. Exps.	50.8	52.1	48.5	41.8	56.4	47.9	53.2	51.9	52.4
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	114.4	113.1	108.7	109.7	109.7	109.4	111.1	112.0	112.4
Debt/Equity (x)	10.2	10.5	10.5	10.1	9.1	9.0	8.0	7.7	7.6
Gross NPAs (INR m)	13,036	30,754	59,594	95,585	116,520	120,196	94,945	84,245	75,770
Gross NPAs to Adv.	0.8	1.6	2.8	4.1	4.7	4.4	3.3	2.7	2.2
Net NPAs (INR m)	7,117	15,514	33,474	57,414	66,314	66,383	46,178	42,179	36,843
Net NPAs to Adv.	0.4	0.8	1.6	2.5	2.7	2.5	1.6	1.4	1.1

Valuation	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Book Value (INR)	282	322	360	406	448	492	570	643	717
Growth (%)	12.9	14.2	11.9	12.8	10.3	9.8	15.8	12.7	11.6
Price-BV (x)	**2.7**	**2.4**	**2.1**	**1.9**	**1.7**	**1.6**	**1.3**	**1.2**	**1.1**
Adjusted BV (INR)	278.2	313.7	342.4	375.7	415.7	459.8	547.7	622.0	699.0
Price-ABV (x)	**2.7**	**2.4**	**2.1**	**1.9**	**1.7**	**1.6**	**1.3**	**1.2**	**1.1**
EPS (INR)	39.7	48.1	47.6	54.2	41.6	52.5	86.6	90.8	94.0
Growth (%)	3.7	21.4	-1.2	13.8	-23.3	26.4	64.8	4.9	3.5
Price-Earnings (x)	**19.4**	**16.0**	**16.2**	**14.2**	**18.5**	**14.7**	**8.9**	**8.5**	**8.2**
Adj. EPS (INR)	39.7	48.1	47.6	54.2	41.6	52.5	86.6	90.8	94.0
Growth (%)	3.7	21.4	-1.2	13.8	-23.3	26.4	64.8	4.9	3.5
Price-Earnings (x)	**19.4**	**16.0**	**16.2**	**14.2**	**18.5**	**14.7**	**8.9**	**8.5**	**8.2**
Dividend Per Share	6.8	7.6	8.0	8.5	8.5	8.5	9.0	9.5	10.0
Dividend Yield (%)	**0.9**	**1.0**	**1.0**	**1.1**	**1.1**	**1.1**	**1.2**	**1.2**	**1.3**

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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