

26th April, 2024

LIC Housing Finance – BUY

CMP : Rs. 664.0
Target Price : Rs. 894.0
Upside : 36%+
Stop Loss : Rs. 570.0 (Closing basis)

Investment Thesis

- LIC Housing Finance Ltd (LICHFL), a subsidiary of LIC, is specializing in Home Financing. LICHFL leverages the strong brand image and the network of the parent LIC has established itself as a strong retail Housing Finance Company (HFC) over the past 34 years. This strong retail presence is key moat against peers in the HFC category.
- During Q1FY24, LICHFL undertaken a organizational restructuring and technology upgrade, which disrupted the disbursement. During Q3FY24, disbursements normalized to Rs. 15,184 crs of which Rs. 12,868 crs were Individual Housing loans. Management is confident they will have a improved FY25 as the benefit of the restructuring and tech upgrade start to accrue.
- LICHFL has made a conscious effort to improve profitability by expanding its Net Interest Margin (NIM). As on Q3FY24, the NIM stood at 3.00% up from 2.41% in Q3FY23, which was near a 12-year high. The expansion in the NIM was driven by elevated yields and higher spreads. This allowed LICHFL to strengthen the balance sheet using the excess profit.
- The management of LICHFL has executed a significant clean-up of the balance sheet and asset quality. During FY23, LICHFL reduced Gross NPA by 86 bps to 4.49% from 5.35% in FY22, while the Net NPA declined by 102 bps to 2.70% from 3.72% in FY22. The Stage 3 Exposure at Default (EAD) improved to 4.26% in Q3FY24 down 49 bps on a Y-o-Y basis.
- As of Q3FY24, 99% of outstanding loans of LICHFL are pure floating rate loans. This has enabled LICHFL to swiftly pass on interest rate hikes, allowing for NIM expansion. Furthermore, LICHFL is well positioned to compete with peers for loan balance transfers.

Financials

- During Q3FY24, LICHFL reported a 31% jump Y-o-Y in Net Interest Income (NII) to Rs. 2,097 crs from Rs. 1,598 crs in Q3FY23. This jumped was driven by a 59 bps NIM expansion during the same period.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII (Rs in Crs)	5,823	6,579	7,723	8,577	9,308
NIM (%)	2.29%	2.41%	2.70%	2.75%	2.65%
Adj. PAT (Rs in Crs)	2,286	2,891	3,862	4,679	5,269
Loan Book (Rs in Crs)	2,51,120	2,75,047	2,97,051	3,26,756	3,75,769
Book Value (Rs.)	449	493	564	650	745
RoE (%)	10.08	11.13	12.4%	13.1%	12.9%

Stock Data

Market Cap (Rs. Crs)	36,296
Market Cap (\$ Mn)	4,371
Shares O/S (in Crs)	55
Avg. Volume (3 month)	25,14,142
52-Week Range (Rs.)	682 / 338

Shareholding Pattern

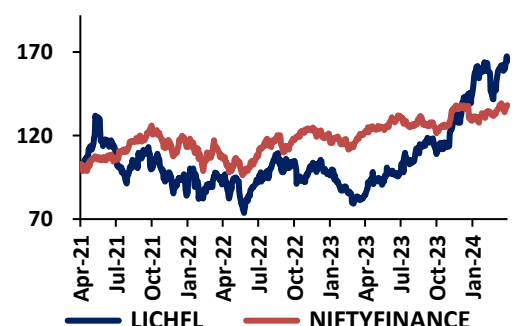
Promoters	45.24
FIIIs	21.91
Institutions	21.76
Others (incl. body corporate)	11.09

Key Ratios

Div Yield (%)	1.28
TTM PE (x)	7.45
ROE (%)	11.13
TTM EPS (Rs.)	88.5

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	11.6	50.3	94.5
NIFTYFINANCE	13.4	28.2	39.6



- The Total Loan Book Outstanding as at the end of Q3FY24 was Rs. 2,81,206 crs, up 5% Y-o-Y. The Individual Home Loan Portfolio outperformed and grew by 7% to reach Rs. 2,38,499 crs.
- During Q3FY24 asset quality on Y-o-Y basis saw an improvement as Stage 3 EAD declined to 4.26% against 4.76% in Q2FY23. There was also a sequential upgrade from 4.90%, indicating prudent provisioning and sound underwriting practices.

Key Business Highlights

- Incorporated in 1989, LICHFL is one of the largest HFC's in India with a key objective of providing long term finance to individuals for the purchase or construction of house/flat for residential purposes in India.
- Being a subsidiary of LIC, LICHFL has PAN India presence with 314 area offices, comprising of Home Loan Agents, Direct Sales Agents, etc. LICHFL has also kick started a new marketing channel wherein it employ direct marketing executives to enhance its reach.
- Average ticket size of the loans LICHFL has given is Rs. ~28 lakhs and 89% of its loans customers are Salaried. Further, 84.4% of the outstanding loans are Individual Home Loans.

Valuation

LICHFL has been consistently growing albeit slower than the industry growth rate and asset quality was also sub-par. This led to LICHFL been valued at below its book value. Over the past 1 year, LICHFL has made significant improvement and we believe strong moat in retail loans, ability to transmit higher borrowing cost to its customers and strong NIM, LICHFL is poised for a re-rating.

Therefore, we ascribe a **BUY** rating for **LICHFL** with a **target price** of **Rs. 894**, translating to an **upside** of **36%+**.

Risk & Concern

- Increased Interest rate competition with peers to attract new customers.
- Interest rate hikes by RBI could dampened fresh loan disbursements.
- Slowdown in the Real estate sector.

Graphs & Charts

Figure 1: NII & NIM Trend

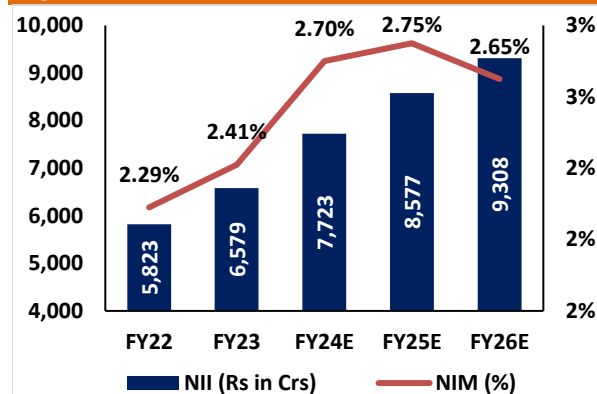


Figure 2: GNPA & NNPA Trend

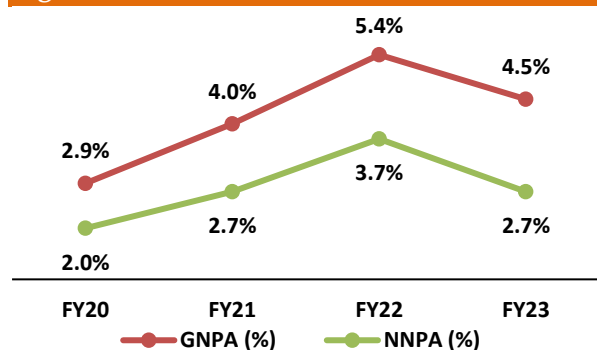


Figure 3: Loan Book Trend (Rs. in crs)

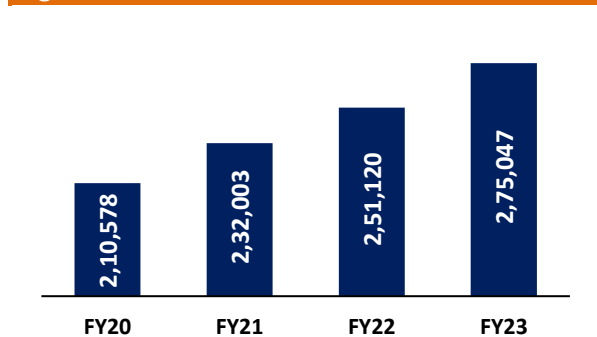
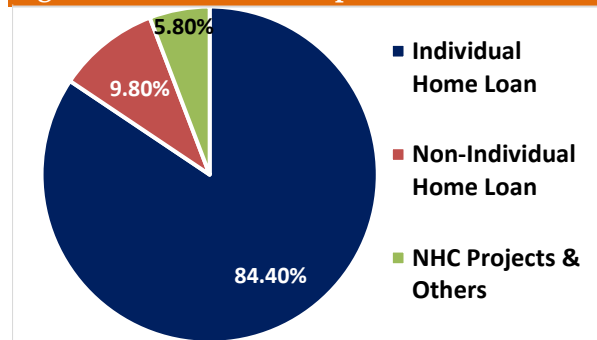


Figure 4: Loan Book Composition



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