

04th September, 2023

LIC Housing Finance Ltd. – BUY

CMP : Rs. 450.0
Target Price : Rs. 570.0
Upside : 26%+
Stop Loss : Rs. 384.0 (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.
- LICHFL has also made a conscious effort to improve profitability by expanding its Net Interest Margin (NIM). As on Q1FY24, the NIM stood at 3.21% up from 2.51% in Q1FY23, an increase of 70 bps, which is at a 12-year high. The expansion in the NIM has 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.
- As of Q1FY24, 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. However, as consequence, a moderation of ~25-50 bps is expected in the NIM for the rest of the year.
- As interest rate on loans have risen steeply over the past 1 year leading to a section of new home buyers to defer their purchase. However, many real estate firms have recorded improved sales on the back of robust demand and sanguine outlook on home prices, offsetting the slowdown in disbursement.

Financials

- During Q1FY24, LICHFL reported a 39% jump Y-o-Y in Net Interest Income (NII) to Rs. 2,209 crs from Rs. 1,592 crs in Q1FY23. This jumped was driven by a 70 bps NIM expansion during the same period.

Particulars	FY20	FY21	FY22	FY23	FY24E
NII (Rs. in Crs)	4,955	5,431	5,823	6,579	8,151
NIM (%)	2.34	2.37	2.29	2.41	2.74
Adj. PAT (Rs. in Crs)	2,404	2,741	2,286	2,891	4,168
Net NPA (%)	1.99	2.70	3.72	2.70	2.50
Book Value (Rs.)	361	407	449	493	541
PB Multiple (x)	0.65	1.05	0.80	0.67	1.05
RoE (%)	13.90	14.11	10.08	11.13	13.07

Stock Data

Market Cap (Rs. Crs)	24,758
Market Cap (\$ Mn)	2,993
Shares O/S (in Crs)	55
Avg. Volume (3 month)	32,87,258
52-Week Range (Rs.)	454 / 315

Shareholding Pattern

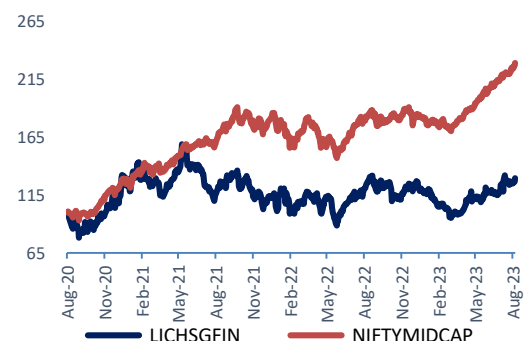
Promoters	45.24
FII's	17.15
Institutions	25.03
Others (incl. body corporate)	12.58

Key Ratios

Div Yield (%)	1.86
TTM PE (x)	7.57
ROE (%)	11.13
TTM EPS (Rs.)	59.69

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	9.9	20.3	3.9
RELATIVE	4.2	-7.1	-21.3



- The Total Loan Book Outstanding as at the end of Q1FY24 was Rs. 2,76,440 crs, up 8% Y-o-Y. The Individual Home Loan Portfolio outperformed and grew by 10% Q-o-Q to reach Rs. 2,31,087 crs.
- LICHFL disbursed loans to the tune of Rs. 10,856 crs during Q1FY24, which marked a significant contraction from Rs. 12,406 crs (Y-o-Y) and Rs. 15,202 crs (Q-o-Q). This was on account of technical glitches in the IT transformation, which LICHFL is undergoing. Individual home loan disbursement were Rs. 9,419 crs.
- Asset quality remained stabled on Y-o-Y basis as the Stage 3 Exposure at Default (EAD) at 4.96%. However, on Q-o-Q basis the Stage 3 EAD worsened from 4.37%, an increase of 59 bps. This was attributable to seasonality and technical glitches in the IT transformation due to which NACH mandates could not be presented.

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 ticker size of the loans LICHFL has given is ~27 lakhs and 87% of its loans customers are Salaried. Further, 83.6% 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. 570**, translating to an **upside** of **26%+**.

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 (FY23)

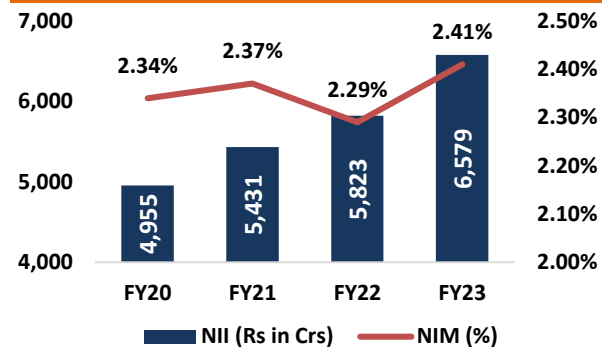


Figure 2: GNPA & NNPA Trend (FY23)

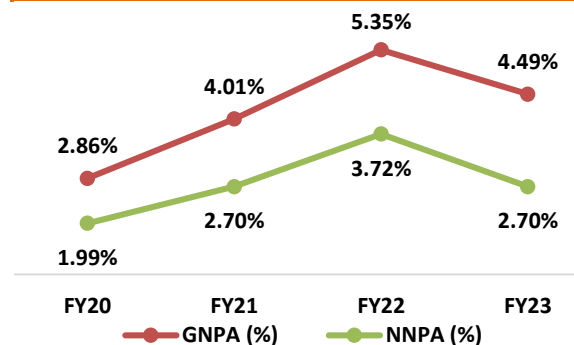


Figure 3: Loan Book (Rs. in crs) (FY23)

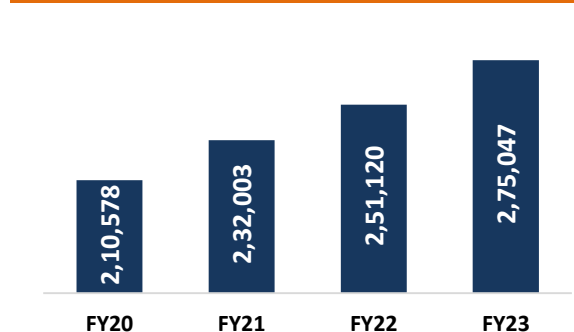
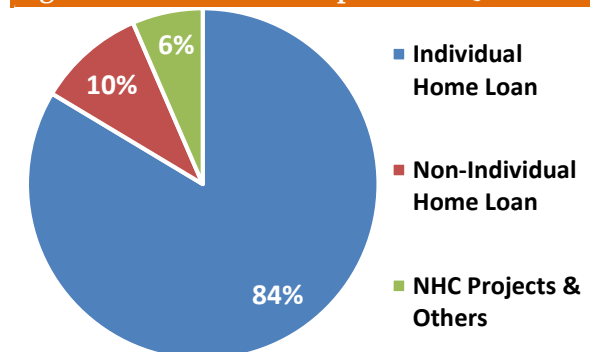


Figure 4: Loan Book Composition (Q1FY24)



Name
Omkar Kamtekar

Designation
Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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