

LIC Housing Finance

India | Diversified Financials | Result Update



3 February 2025

Growth vs margin conundrum stays

LIC Housing Finance (LICHF) Q3 profit was healthy, aided by NPA recoveries; however, the company continues to face the conundrum of growth vs margin. With LICHF finding solutions via product diversification, its forays into the affordable segment and re-strategizing project loan portfolios being in initial stages do not address the challenge of growth and margin. It has taken a beating on valuation. But, given a favorable risk-reward at 0.8x FY27E P/ABV, we reiterate **Buy** with a TP of INR 821.

Growth vs margin challenge remains: PAT at INR 14.3bn was ahead of our estimates, rising 7.8% QoQ and 23.1% YoY, driven by recoveries despite a flat NII of 1.3% QoQ and down 4.6% YoY, as NIM for 9MFY25 declined to ~2.7% vs ~3.1% YoY. Yield for 9MFY25 fell YoY to ~9.7%, primarily due to increased competition in home loans, competitive rates demanded by higher-rated developers and the lag effect of the recent 10bp Prime Lending Rate (PLR) hike. While loan mix remains stagnant for 9MFY25, management is pinning hopes on traction in developer and affordable housing loans and NPA resolution to lift margin. On the other hand, a Cost of Borrowing (COB) spike of 8bp YoY and 5bp QoQ for 9M, low-cost wholesale debt and 55-65% floating rate borrowings should aid margin with a downward revision in the rate cycle. While growth vs margin issue stays and affordable built still distant, LICHF might see near-term margin pressures. We expect a 2.7-2.8% NIM, keeping ROA in check at 1.5-1.6% during FY25-27E.

Portfolio diversification to garner volume: AUM grew 1.5% QoQ and 6.5% YoY to INR 2,991bn, prompting a FY25 guidance cut to 9% from 10%. NHI + Others rose 3.3% QoQ, IHL 1.4%, while project loans fell 1.8%. Disbursements (a 6.1% QoQ drop) were hit by INR 7-8bn portfolio of Bengaluru & Hyderabad challenges, with revival likely by Q4 and increased competition in prime housing loans. LICHF is focused on affordable housing (AUM target at 10% for the next three years) while leveraging its pan-India reach. A robust Q4 is likely, with monthly disbursement of INR 60bn, led by Bengaluru's INR 6bn sanctions pipeline. After factoring in sustained competition, high base and new portfolios built underway, we expect a 13% loan CAGR during FY24-27E.

Good visibility on asset quality improvement. Asset quality improved, with Stage 3 GEAD at ~2.8% (vs ~4.3% in Q3FY24) and Stage 2 at 4.0% (vs ~4.5%). PCR declined 100bp QoQ to 48%, but further improvement is likely. A stressed exposure of INR 5.7bn (fully provided) was sold to an ARC for INR 2.5bn, while 4-5 large cases in the advanced resolution stage, with 1-2 nearing closure. Management overlay of INR 1.5-1.6bn was undertaken, with a negative impact of INR 440mn in P/L. Credit cost was negative in Q3, with Q4 likely to remain low, targeting a steady-state of 20bp. With more visibility on asset quality, we expect <3% GNPA with a 30bp credit cost during FY25E-27E.

Risk-reward favorable, business turning around: We raise our EPS by 5.0% for FY25E, 3.7% for FY26E and 3.5% for FY27E, after factoring in anticipated accounts resolutions. LICHF is set to deliver 1.5% ROA, with a ROE of 14-15% during FY24-27E. While beaten down valuation provides comfort from a risk-reward perspective, and the underlying trends remain upbeat for the sector, we retain **Buy** with a TP of INR 821 based on 1.2x PABV FY27E. Although we have a BUY rating, we have reservations about margin improvement, which is a key driver of stock rerating.

Key financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
NII (INR mn)	63,303	86,509	87,354	94,465	108,885
YoY (%)	14.9	36.7	1.0	8.1	15.3
PPoP (INR mn)	54,999	76,976	75,524	80,702	89,001
YoY (%)	14.6	40.0	(1.9)	6.9	10.3
PAT (INR mn)	28,910	47,654	49,869	53,191	59,554
YoY (%)	26.4	64.8	4.6	6.7	12.0
EPS (INR)	52.6	86.5	90.6	96.6	108.2
RoE (%)	11.2	16.3	15.0	14.3	15.1
RoA (%)	1.1	1.7	1.6	1.5	1.5
P/E (x)	10.7	6.5	6.2	5.8	5.2

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 821**

Upside: **47%**

CMP: **INR 558**

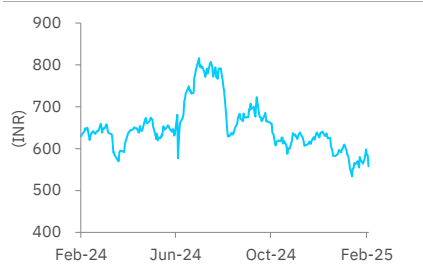
As on 3 February 2025

Key data

Bloomberg	LICHF IN
Reuters Code	LICH.NS
Shares outstanding (mn)	550
Market cap (INR bn/USD mn)	307/3518
Enterprise Value (INR bn/USD mn)	0/0
Avg daily volume 3M (INR mn/USD mn)	1190/14
52 week high/low	827/530
Free float (%)	55

Note: as on 3 February 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	45.2	45.2	45.2	45.2
% Pledged	-	-	-	-
FII	22.6	23.2	21.9	21.2
DII	22.0	21.3	20.8	21.6
Others	10.2	10.3	12.1	12.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(3.9)	(5.5)	6.9
LIC Housing Finance	(12.1)	(25.5)	(12.1)
NSE Midcap	(6.2)	(8.5)	9.3
NSE Smallcap	(11.6)	(11.6)	2.1

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	63,303	86,509	87,354	94,465	108,885
Other income	1,580	1,931	2,075	2,232	2,390
Total net Income	64,882	88,440	89,429	96,697	111,275
Less :- Opex (Incl depreciation)	11,474	11,463	13,905	15,995	22,274
Pre-provisioning Operating Profit	54,999	76,976	75,524	80,702	89,001
Less:- Provisions	19,430	16,437	8,881	9,619	9,414
PBT	35,570	60,539	66,644	71,083	79,586
Less :- Taxes	6,660	12,885	16,774	17,891	20,032
Reported PAT	28,910	47,654	49,869	53,191	59,554
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Capital	1,101	1,101	1,101	1,101	1,101
Reserves & Surplus	269,903	312,846	348,497	395,738	389,787
Net worth	271,003	313,946	349,598	396,838	390,887
Non-current liabilities	2,447,742	2,524,968	2,818,961	3,159,922	3,621,690
Current Liabilities	65,374	73,132	107,365	144,012	177,203
Total Liabilities	2,784,120	2,912,046	3,275,924	3,700,773	4,189,780
Fixed assets	5,959	3,610	6,763	7,101	7,456
Current investments	69,764	62,770	92,389	110,365	78,469
Cash and bank balances	7,419	15,726	26,869	25,565	16,562
Loans and advances	2,678,348	2,805,898	3,114,547	3,519,438	4,012,159
Other current assets	22,631	24,042	35,356	38,304	75,135
Total Assets	2,784,120	2,912,046	3,275,924	3,700,773	4,189,780
Per Share data & Valuation Ratios	FY23	FY24	FY25E	FY26E	FY27E
EPS- (INR)	52.6	86.5	90.6	96.6	108.2
BV (INR)	492.4	570.4	635.2	721.0	710.2
ABV- (INR)	392.3	489.9	566.7	655.8	710.2
P/E- (x)	10.7	6.5	6.2	5.8	5.2
P/ABV-(x)	1.4	1.2	1.0	0.9	0.8
Yield and Cost (%)					
Yield on advances	8.8	9.9	9.7	9.6	9.5
Cost of funds (calc)	6.9	7.4	7.4	7.4	7.3
Interest Income/ Avg. assets	8.4	9.5	9.2	9.1	9.1
Interest Expense/ Avg. assets	6.1	6.5	6.4	6.4	6.3
Net Interest Margin (%)	2.4	3.0	2.8	2.7	2.8
Asset Quality (%)					
Gross NPA (%)	4.4	3.9	3.3	2.9	2.6
Net NPA (%)	2.7	2.1	1.6	1.4	1.3
% coverage of NPA	38.9	45.9	50.7	52.9	52.4
credit cost (calc)	0.8	0.6	0.3	0.3	0.3
Capital Adequacy (%)					
Tier 1	16.5	18.3	18.1	18.2	15.8
CAR	17.8	19.5	19.2	19.1	16.7
Growth Rates (%)					
Loan growth	9.2	4.8	11.0	13.0	14.0
Earnings growth	26.9	64.4	4.7	6.7	12.0
Business Ratios					
RoAA (%)	1.1	1.7	1.6	1.5	1.5
Core RoE (%)	11.2	16.3	15.0	14.3	15.1
Dividend Yield (%)	2.4	2.4	2.4	2.4	2.4
Dividend payout (%)	20.6	12.5	11.9	11.2	10.0

Note: Pricing as on 3 February 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q2FY25	Q3FY24	YoY (%)	QoQ (%)	Q3FY25E Est. beat/miss
NII	20,001	19,739	20,972	(4.6)	1.3	19,961 0
Operating profit	17,495	17,417	18,845	(7.2)	0.4	17,407 1
Reported profit	14,320	13,289	11,629	23.1	7.8	12,418 15

Source: Company, Elara Securities Estimate

Exhibit 1: Q3FY25 results

P&L (INR mn)	Q3FY25	Q3FY24	YoY (%/bps)	Q2FY25	QoQ (%/bps)	Comments
Interest Income	69,516	67,437	3.1	68,534	1.4	
Interest Expense	49,515	46,465	6.6	48,796	1.5	
Net Interest Income	20,001	20,972	(4.6)	19,739	1.3	NII was in line with estimates rising 1.3% QoQ but declining 4.6% YoY
Other operating Inc.	98	127	(23.3)	77	26.2	
Other income	960	360	166.3	706	35.9	Other income rose by 35.9% QoQ and 166.3% YoY
Total income	21,059	21,460	(1.9)	20,522	2.6	
Employee Expense	2,044	1,401	45.9	1,703	20.0	Employee expenses rose by 20% QoQ and 45.9% YoY and were higher than our estimates
Other Expenses	1,521	1,214	25.3	1,402	8.4	Other expenses were up 8.4% QoQ and 25.3% YoY
Operating Profit (PPOP)	17,495	18,845	(7.2)	17,417	0.4	PPOP was in line with estimates and flat QoQ and declined 7.2% YoY
Provisions	(440)	4,358	(110.1)	773	(156.9)	Write-backs worth INR 440mn for the quarter bolstered PAT
Tax	3,615	2,858	26.5	3,355	7.8	
Reported PAT	14,320	11,629	23.1	13,289	7.8	PAT was a beat on estimates, up 7.8% QoQ and 23.1% YoY, bolstered by write-backs, although top-line growth remains flat QoQ
Asset quality						
Gross NPL (%)	2.75	4.26	(151)bps	3.06	(31)bps	Asset quality improved as GNPA came in 32bp lower sequentially
Cost/ Income Ratio	16.9	12.2	474bps	15.1	179bps	Cost-to-income ratio spiked 179bp QoQ

Source: Company, Elara Securities Research

Conference call – key takeaways

Business updates and snapshots

- ▶ The interest rate scenario remains volatile in the last quarter.
- ▶ The RBI changed its stance in the October MPC meeting due to weak Q2 GDP at 5.4%
- ▶ Despite anticipation, the RBI did not cut rates in December due to the INR depreciation against the USD and tight liquidity in the financial system
- ▶ The budget relief for the middle class will bolster purchasing power, aiding in savings and housing finance.
- ▶ Loan growth increased by 6% YoY, with housing loans (HL) growing 7%, which currently make up 85% of the book
- ▶ Disbursements at Bengaluru and Hyderabad took a hit, with INR 7bn being delayed. Hyderabad's issues have been resolved, while Bengaluru's will be resolved this month
- ▶ Disbursement growth was 2%
- ▶ The company launched an affordable housing finance segment during the quarter, priced 250-300bp higher than retail mortgages
- ▶ Growth in FY26: Guidance for FY25 was 10%, but growth was delayed by issues in the two major regions of Bengaluru (due to tech issues related to property registration) and Hyderabad (due to HYDRA). These two regions contribute 35% of the book, and the delays pushed back growth
- ▶ Bengaluru has a significant number of undisbursed sanctions; hence, once properties are registered, this will positively affect growth, expected in February-March, with a normalized quarter in March
- ▶ Although double-digit growth is not likely, 9% growth is anticipated for FY25, with a projected double-digit growth in FY26, driven by a foray into affordable housing finance where underlying signs are positive

- ▶ Budgetary tax benefits might trigger demand for second homes
- ▶ Growing from a large base presents challenges, but the company is balancing growth with margins. The prime segment in individual housing loans (IHL) is highly competitive, offering non-margin accretive business
- ▶ In the developer book, top-tier AA and BB+ developers are expecting financing at rates of 8.5-8.75%, in line with IHL rates
- ▶ The company is considering whether growth at these rates is a good trade-off and is focusing on margin-accretive segments. Therefore, the focus is on the affordable housing segment, which is priced 250-300bp higher than housing loans and has significant demand
- ▶ The company is not aiming for high growth but rather focusing on margin-accretive business
- ▶ The salaried segment will continue to face competition, but the company will focus on high-margin products while building its loan book. The IHL book is now over INR 130bn
- ▶ Regional issues with disbursements are expected to be resolved. At Bengaluru alone, there is an undisputed sanction pipeline of INR 6bn, which is likely to contribute to disbursement growth
- ▶ The affordable housing segment is a different ballgame. The company is currently pushing it with existing resources, but in the next fiscal year, a separate infrastructure in the form of a team will be built, and it will be presented to the Board in March. LICHF is not rushing but plans to slowly build up capacity. For the next 2-3 years, about 10% of loanbook of INR 250-300bn will focus on affordable housing. It plans to capitalize on its pan-India reach and branch network, which is stronger than some peers in the affordable housing space. The focus will be on Tier 3 and beyond where the company already has offices
- ▶ Disbursement guidance for the next year is 15-20% growth

Asset quality scenario

- ▶ LICHF is upbeat on asset quality, expecting continued improvement
- ▶ Stage 3 EAD stands at ~2.8%, a significant improvement from ~4.3% as on Q3FY24
- ▶ A stressed exposure was sold through an ARC for a cash consideration of INR 2.5bn during the quarter. The account had an outstanding principal of INR 5.7bn, and it was fully provided for
- ▶ More resolutions are likely in Q4, with lumpy cases in various stages of resolution. Some cases will be moved to the ARC, and 4-5 cases are nearly resolved while 1-2 cases might be resolved in Q4. Efforts are ongoing.
- ▶ The focus remains on resolving large-ticket cases
- ▶ Stage 3 breakdown:
 - IHL: 1.2%
 - Non-IHL: ~4.6%
 - NHC and Project: 27%
- ▶ Credit cost: This quarter saw negative credit costs despite higher provisions in some accounts. Q4 also is likely to have low credit cost, lower than previous guidance, with a steady-state credit cost of around 20bp
- ▶ Management has taken an overlay provision in Q3 of INR 1.5-1.6bn, with a negative impact of INR 440mn

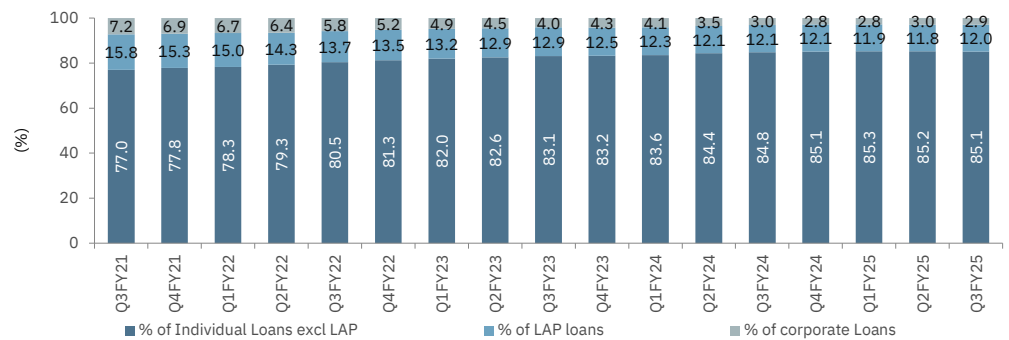
Spread analysis

- ▶ NIM for Q3 FY25 stood at 2.70%, slightly down from 2.71% in Q2FY25
- ▶ Incremental COF for Q3 was ~7.8%. A 10bp hike in PLR was taken, which will help offset the COF spike
- ▶ Bond market rates are set to remain supportive, with improvement likely in short-term papers. The impact of a potential rate cut in April is likely to be addressed in a way that maintains matching rates without cutting margin
- ▶ The company is securing the best pricing in the wholesale debt market
- ▶ Yield for 9MFY25 declined to 9.7% compared to 9.9% in 9MFY24
- ▶ The decline in yield on a QoQ basis is primarily due to the recalibration of lending rates and a shift in the loan mix. Although incremental yields have improved from pricing adjustments, overall lending rates remain lower than in the previous years
- ▶ The decline in the wholesale lending portfolio, which has decreased from 4.0-4.5% to below 3.0%, has also contributed to the decline in yield. Every 1% decline in the wholesale segment directly impacts NIM by 300-350bp
- ▶ Margin levers:
 - The foray into the affordable segment, even if it is small at first.
 - The recent PLR hike
 - More assets moving from NPA to the performing category
 - The turnaround of the project loan segment, which is yielding better returns
- ▶ 55% of borrowings are floating rate

Other operational highlights

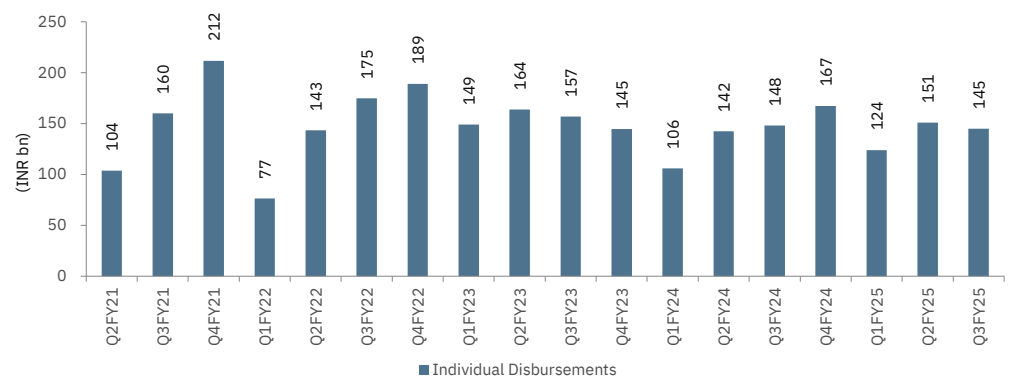
- ▶ The increase in operating expenses was a one-off event related to gratuity provisions, which will be concluded soon. This had an impact of INR 300mn in Q3
- ▶ Fee income and insurance cross-sell efforts within the affordable housing pool are generating normal processing fees
- ▶ The company is in the process of revamping its entire fee structure across product categories. A completely new fee structure will be implemented starting in April

Exhibit 2: AUM mix largely steady with a 20bp uptick QoQ in LAP share



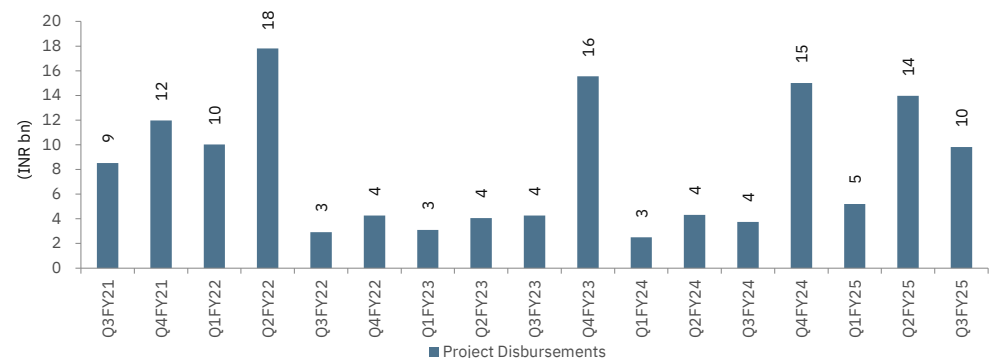
Source: Company, Elara Securities Research

Exhibit 3: Individual home loan disbursements down 4% QoQ to INR 145bn



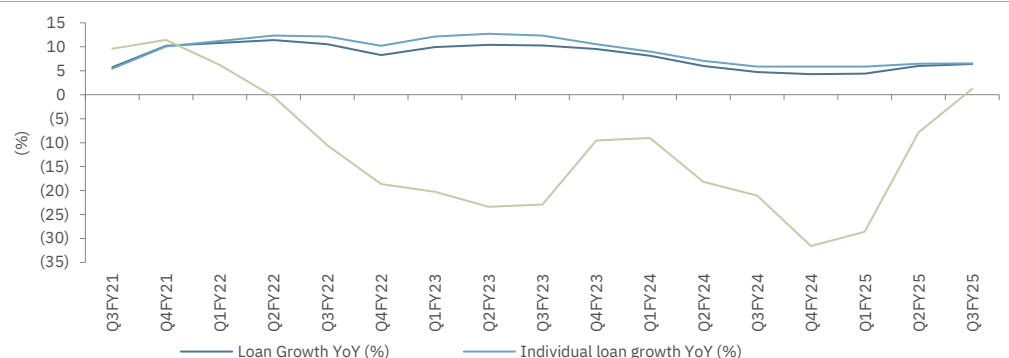
Source: Company, Elara Securities Research

Exhibit 4: Developer loan disbursements down by 30% QoQ to INR 10bn

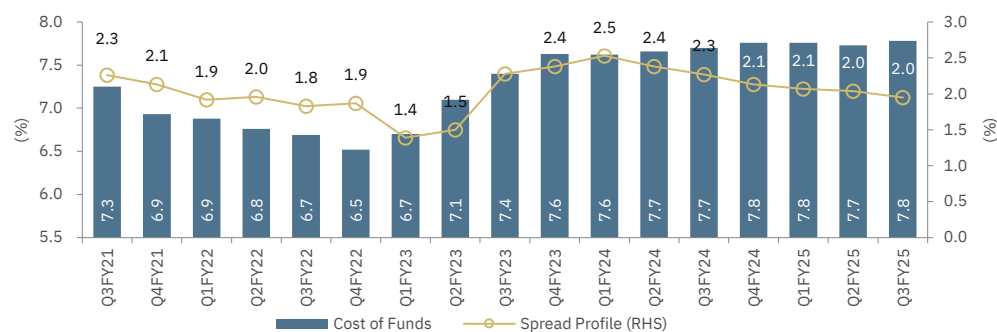


Source: Company, Elara Securities Research

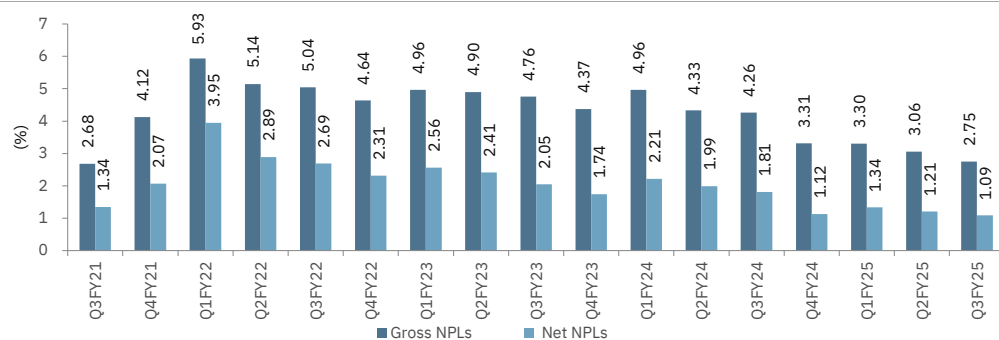
Exhibit 5: Developer loan growth being revived with caution



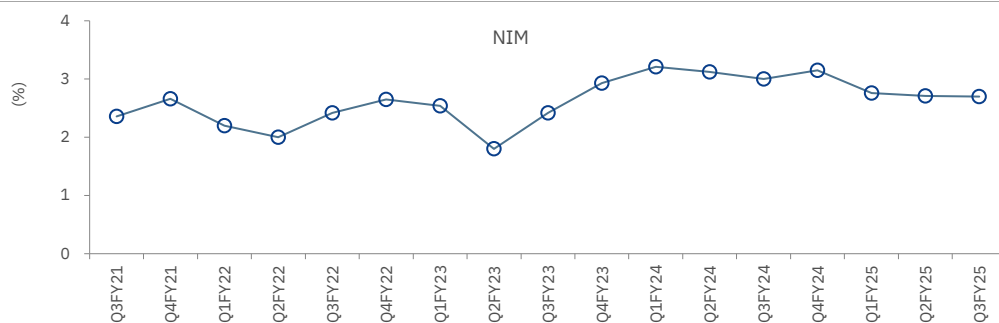
Source: Company, Elara Securities Research

Exhibit 6: Cost of funds and spreads largely steady


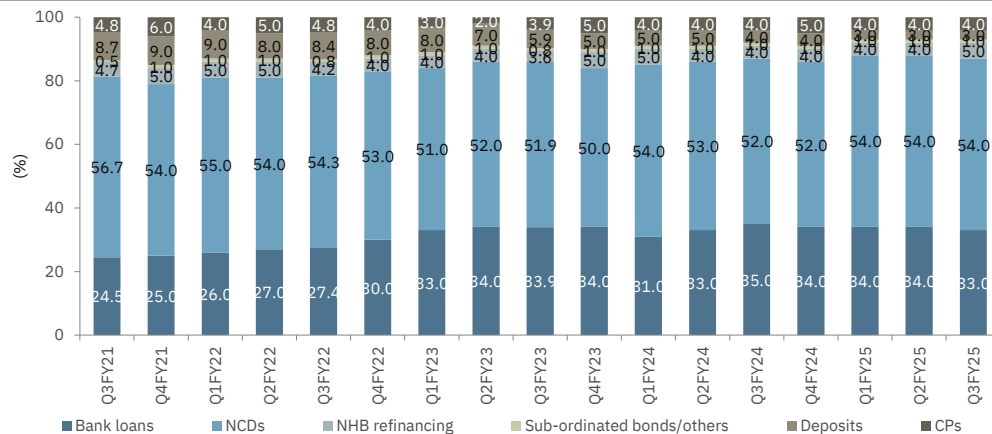
Source: Company, Elara Securities Research

Exhibit 7: Asset quality improves as GNPA decreases 32bp QoQ to ~2.7% due to write-offs and recoveries


Source: Company, Elara Securities Research

Exhibit 8: Steady NIM QoQ


Source: Company, Elara Securities Research

Exhibit 9: Borrowing mix steady QoQ


Source: Company, Elara Securities Research

Exhibit 10: Valuation

(INR)	
Fair price - EVA (INR)	666
Fair price - P/ABV (INR)	974
Average of the two (INR)	820
Target P/ABV (X)	1.2
Target P/E (X)	7.6
Current price (INR)	564
Upside (%)	45.4
Dividend yield (%)	1.4
Total return (%)	46.8

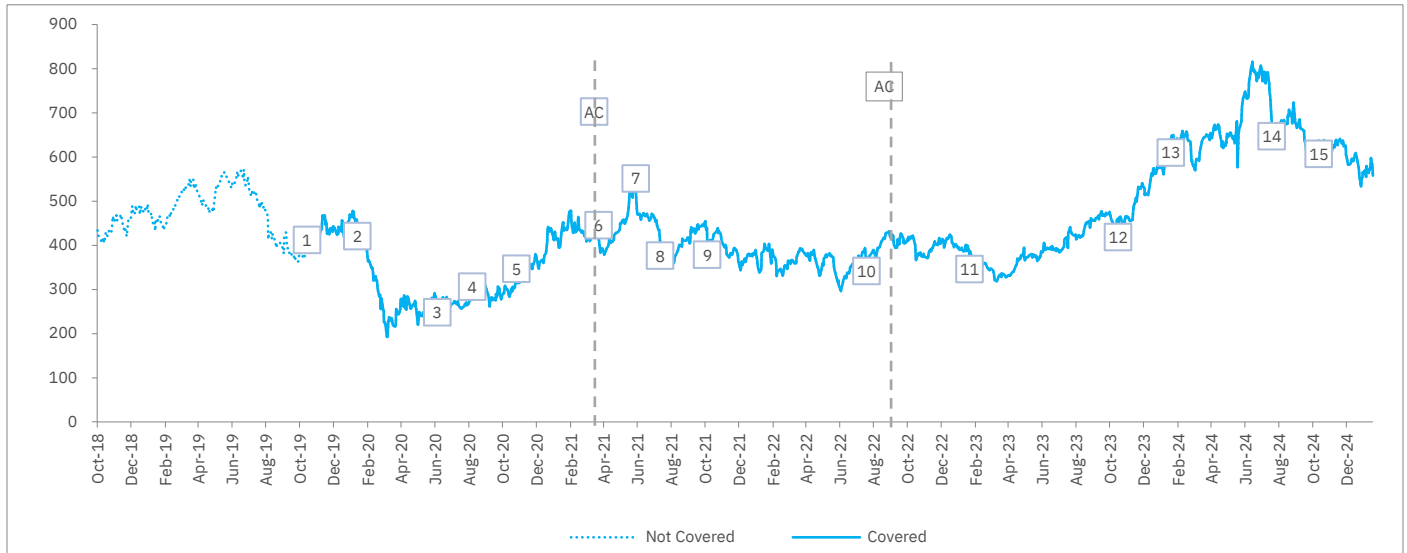
Note: Pricing as on 3 February 2025; Source: Elara Securities Estimate

Exhibit 11: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net interest income	90,006	96,787	113,426	87,354	94,465	108,885	(2.9)	(2.4)	(4.0)
Operating profit	78,113	84,827	97,208	75,524	80,702	89,001	(3.3)	(4.9)	(8.4)
PAT	47,481	51,289	57,521	49,869	53,191	59,554	5.0	3.7	3.5
EPS (INR)	86.3	93.2	104.5	90.6	96.6	108.2	5.0	3.7	3.5

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
10	5-Aug-2022	Accumulate	INR 400	INR 379
11	7-Feb-2023	Reduce	INR 389	INR 377
12	2-Nov-2023	Accumulate	INR 472	INR 449
13	5-Feb-2024	Accumulate	INR 700	INR 640
14	5-Aug-2024	Accumulate	INR 800	INR 686
15	29-Oct-2024	Accumulate	INR 821	INR 637

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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