Equity Research

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BSE Sensex: 60906

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Q2FY23 result review, earnings, TP and rating revision

Financials

Target price: Rs415

Earnings revision

(%)	FY23E	FY24E
PAT	↓ 15.0	↓ 1.0

Target price revision

Rs415 from Rs490

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	45.2	45.2	45.2
Institutional investors	39.3	39.9	41.4
MFs & other	11.2	13.0	14.4
Banks/FIs	0.3	0.3	0.1
Insurance	4.7	5.8	6.1
FIIs	23.1	20.8	20.8
Others	15.5	14.9	13.4

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**34.2**	**35.6**	**1.4**
Environment	2.4	2.4	-
Social	21.5	25.7	4.2
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

Research Analysts:

Kunal Shah
kunal.shah@icicisecurities.com
+91 22 6807 7572

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6807 7465

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6807 7658

INDIA

LIC Housing Finance

ADD

Downgrade from BUY

Disappointing again; volatility in earnings continue

Rs367

LIC Housing Finance's (LICHF) erratic NIM behaviour across quarters makes it difficult to forecast its NIM trajectory with a reasonable degree of confidence. Q2FY23 too has been disappointing. NIM plunge of >70bps QoQ to 1.8% (against expectations of an improvement) led to a significant earnings miss. The rationale offered was de-recognition of upfront interest of Rs2.75bn on loans converted from fixed-rate to floating rate (at lower yields). Further, there was interest reversal drag of Rs0.95bn due to slippages in corporate / project loans. Rise in cost of funds by 40bps QoQ has almost offset the repricing benefit post 60bps PLR hike w.e.f. July'22. LICHF has further increased rates by 115bps w.e.f. Oct'22, which gives hopes of rebound in yields. Confidence of it translating to NIM expansion will however be low as vectors that led to NIM decline may continue to play during the coming quarters as well.

Write-offs of Rs1.9bn weighed on credit costs, which settled at 90bps. Given the 2.5% ECL provisioning against stress pool of 8.9%, we expect some catch-up in provisioning in the coming quarters.

The stock is trading at an inexpensive valuation of 0.7x FY24E P/B, but that is due to volatility and lack of consistency/visibility in earnings. The overhang continues and will cap rerating beyond 0.8x FY24E. We therefore revise our target price to Rs415 (earlier: Rs490 at 0.9x FY24E book). Downgrade to ADD (from *Buy*). Key risks: i) lagged NIM improvement; ii) higher stress flow from restructured pool.

- **NIMs plunge >70bps QoQ to 1.8% (much below I-Sec and consensus estimates):** NIMs plunged >70bps QoQ to 1.8% -- a huge disappointment as there were expectations of margin improvement post the 60bps lending rate hike w.e.f. 1st Jul'22. Management offered the following rationale: i) in a conscious decision to retain home loans in an increasing-rate scenario, and in an effort to move loans to floating-rate regime from fixed-rate, there was upfront interest de-recognition of Rs2.75bn on an exposure of Rs90bn. Terms of the financial assets were modified (here it was conversion from fixed to floating) and current value of interest differential over the residual life of the assets had to be accounted in P&L as per Ind-AS 109. ii) Slippages of Rs5.4bn in corporate portfolio and decline in project loans by Rs7bn QoQ, had an adverse impact of Rs0.95bn in interest income. iii) Rise in funding cost by 40bps QoQ has offset 47bps repricing benefit in yields (post 60bps PLR hike w.e.f. 1st Jul'22).

Market Cap	Rs202bn/US$2.4bn
Reuters/ Bloomberg	LICH.BO/LICHF IN
Shares Outstanding (mn)	550.1
52-week Range (Rs)	440/296
Free Float (%)	54.8
FII (%)	20.8
Daily Volume (US$/'000)	12,166
Absolute Return 3m (%)	(5.0)
Absolute Return 12m (%)	(12.0)
Sensex Return 3m (%)	5.1
Sensex Return 12m (%)	2.7

Year to Mar	FY21	FY22	FY23E	FY24E
NII (Rs mn)	51,941	55,348	61,561	75,768
Net Profit (Rsmn)	27,343	22,873	25,834	32,941
EPS (Rs)	54.2	41.6	46.9	59.8
% Chg YoY	13.8	-23.3	12.9	27.5
P/E (x)	6.8	8.8	7.8	6.1
P/BV (x)	0.9	0.8	0.8	0.7
Net NPA (%)	2.4	2.8	2.4	1.8
Dividend Yield (%)	2.3	2.3	2.6	2.8
RoA (%)	1.2	0.9	0.9	1.1
RoE (%)	14.1	10.1	10.1	11.9

- **Hiked PLR further by 115bps w.e.f. Oct'22; vectors that led to NIM decline may continue to play:** LICHF has further raised PLR by 115bps from 1st Oct'22 over and above the 60bps in Jul'22. The benefit of this is likely to flow through in H2FY23 and management has guided for higher margins in FY23 than in FY22. This gives hopes of rebound in yields. However, confidence of it translating to NIM expansion will be low as vectors that led to NIM decline may continue to play during the coming quarters as well. Given the volatile margin trajectory and seasonally better H2 as compared to H1, we are building in margins of 2.3% / 2.5% for FY23E / FY24E respectively.
- **Restructured pool o/s at Rs34.66bn (1.3% of loans):** LICHF has cumulatively restructured Rs78bn (gross exposure) till date. As of Q2FY23, it had Rs34.66bn outstanding restructured portfolio (*vs* Rs37.6bn QoQ), of which Rs13.7bn (*vs* Rs15.4bn) is towards retail and Rs20.9bn (*vs* Rs22.2bn) towards wholesale. Entire OTR is classified under stage-2. During the quarter, Rs3.5bn of corporate/project loans slipped from the restructured pool. Also, bulk of the OTR is expected to come out of restructuring in H2FY23.
- **Stage-3 assets declined QoQ due to Rs1.9bn write-offs; stress pool flat QoQ:** Stage-3 assets moderated to 4.90% from 4.96% QoQ, while stage-2 assets inched up to 4.0% from 3.96% QoQ. As a result, cumulative stress pool (stage-2 + stage-3) was flat QoQ and so was the case with stage-1 assets. There was technical write-off of Rs1.9bn during the quarter, which was routed through P&L. Write-offs against fully provided exposure under IRACP norms cannot be netted off against the existing ECL provisions under Ind-AS. Company has therefore increased coverage on stage-3 assets under ECL framework. Write-offs during the quarter need to be looked at in the context of cumulative write-off of a mere Rs4.11bn until Q1FY23 since inception. Collection efficiency in Sep'22 was maintained at 99% (*vs* 99% in Jun'22; 99% in Mar'22; 99% in Dec'21 and Sep'21; and 98% in Jun'21, Mar'21 and Dec'20). During the quarter, Rs5.4bn of corporate/project loans slipped into NPA, of which Rs3.5bn was from the restructured pool. There was marginal improvement in retail home loan stage-3 pool QoQ. Given the uncertainty pertaining to the restructured book, we are building in stage-3 of 4.5% / 3.8% for FY23E / FY24E respectively.
- **Coverage at 2.49% for 8.9% stress pool of stage-2 and stage-3:** Coverage on stage-3 saw a further uptick to 43.8% from 40.4% QoQ and is now at the highest level in the past 7 quarters. However, coverage ratio moderated QoQ on stage-1 to 6bps *vs* 8bps QoQ and 7.2% *vs* 8.2% QoQ on stage-2. Consequently, the company is carrying cumulative provisions of 2.49% *vs* 2.40% QoQ and 2.25% YoY on the overall portfolio. It has utilised covid provisions of Rs0.83bn in Q2FY23 and overall covid buffer is down to Rs5.36bn (*vs* Rs6.19bn QoQ).

  We had expected higher credit cost given increased coverage and slippages from the restructured pool. In line with expectations, credit cost came in at ~90bps (Rs5.65bn). Overall, ECL provision was enhanced further to Rs65.2bn (Rs61.4bn / Rs58.4bn / Rs57.15bn / Rs53.5bn / Rs47.3bn in Q1FY23 / Q4 / Q3 / Q2 / Q1FY22) and, that too, largely towards improving coverage on stage-3 assets. We are building in credit costs of 0.8%/ 0.8% for FY23E/FY24E respectively.

- **Loanbook was up 10% YoY / 2.4% QoQ led by rise in individual loans:** Sequential uptick in disbursements was aided by 10.0% rise in individual disbursements and 31.7% QoQ rise in project loan disbursements. However, disbursements growth on YoY basis was relatively slow at 3.9% for individual and 15.3% for project loans. Repayment rate also moderated to ~4.1% (lowest in the past 5 quarters). Discounts offered to customers in order to retain them is restraining repayments/prepayments. Overall, loanbook was up 2.4% QoQ and 10.2% YoY. Furthermore, individual home loanbook increased by 3.4% QoQ and 15.1% YoY, retail non-home loanbook fell 0.8% QoQ and 1.7% YoY, while project loans fell 5.8% QoQ and 23.5% YoY.

  As real estate sentiment improves on the back of stable property prices, the company will participate in financing demand through attractive rate offerings. Overall, the management expects individual housing disbursements as well as AUM to grow at 12-15% for FY23. We expect AUM growth of 12%/ 13% over FY23E/FY24E respectively.

- **Opex up 29% QoQ led by rise in employee cost, fees and commission as well as other expenses:** Employee cost was higher 15% QoQ (down 24% YoY). Overhead costs were up 71% QoQ and 42% YoY and fees and commission grew 21% QoQ and 19% YoY. As a result, overall opex was up 29% QoQ and down 5% YoY. Given the margin plunge and elevated opex, operating profit came in at Rs9.4bn *vs* consensus estimate of Rs14.9bn. We are looking at opex growth of (1%) / 18% for FY23E/FY24E respectively.

Table 1: Q2FY23 result review

(Rs mn, year ending March 31)

	Q2FY22	Q1FY23	Q2FY23	% YoY	% QoQ
Interest income	46,734	52,502	50,493	8.0	(3.8)
Interest expenses	35,060	36,400	38,864	10.9	6.8
Net interest income	**11,674**	**16,102**	**11,629**	**(0.4)**	**(27.8)**
Other income	416	408	427	2.6	4.8
Net Operating income	**12,090**	**16,509**	**12,056**	**(0.3)**	**(27.0)**
Operating expenses	**2,747**	**2,029**	**2,610**	**(5.0)**	**28.6**
Pre-provisioning profit (PPoP)	**9,343**	**14,481**	**9,447**	**1.1**	**(34.8)**
Provisions	6,253	3,077	5,658	(9.5)	83.9
PBT	**3,090**	**11,404**	**3,789**	**22.6**	**(66.8)**
Tax expense	611	2,149	739	20.9	(65.6)
Tax Rate (%)	19.8	18.8	19.5	-28 bps	65 bps
PAT	**2,479**	**9,255**	**3,050**	**23.0**	**(67.0)**
EPS (Rs)	**4.5**	**16.8**	**5.5**	**23.0**	**(67.0)**

Source: Company data, I-Sec research
*Note: All numbers are as per IND-AS

Table 2: Key ratios

(Rs mn, year ending March 31)

	Q2FY22	Q1FY23	Q2FY23	% YoY	% QoQ
Loans (Rs mn)	**23,76,600**	**25,57,120**	**26,19,056**	**10.2**	**2.4**
Disbursements (Rs mn)	**1,61,100**	**1,52,010**	**1,67,860**	**4.2**	**10.4**
Yield on loans (%) (disclosed)	8.0	8.3	7.8	*-15 bps*	*-49 bps*
Cost of borrowings (%) (disclosed)	6.8	6.5	6.8	*2 bps*	*30 bps*
Spread (%) (disclosed)	1.2	1.8	1.0	*-18 bps*	*-79 bps*
NIM (%)	**1.99**	**2.54**	**1.80**	***-19 bps***	***-75 bps***
GNPL (% of total loans)	**5.14**	**4.96**	**4.90**	***-24 bps***	***-6 bps***
NNPL (% of total loans)	**2.91**	**2.95**	**2.75**	***-16 bps***	***-21 bps***
Provisions as a % of AUM	0.27	0.12	0.22	*-5 bps*	*9 bps*
Cost to income	23.5	12.6	22.4	*-110 bps*	*984 bps*

Source: Company data, I-Sec research
*Note: All numbers are as per IND-AS

Table 3: Stage-3 assets declined QoQ due to Rs1.9bn write-offs; stress pool flat QoQ

(%, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Assets breakdown (%)									
Stage 1 Assets (%)	95.89	90.37	89.69	88.69	90.44	91.21	92.28	91.08	91.10
Stage 2 Assets (%)	1.32	6.95	6.19	5.38	4.42	3.75	3.08	3.96	4.00
Stage 3 Assets (%)	2.79	2.68	4.12	5.93	5.14	5.04	4.64	4.96	4.90
Coverage (%)	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**
Stage 1 Assets	0.00	0.00	0.06	0.04	0.02	0.26	0.25	0.08	0.06
Stage 2 Assets	0.00	0.00	0.26	0.24	0.19	2.95	3.10	8.17	7.24
Stage 3 Assets	46.56	49.93	39.93	33.45	43.34	39.75	43.09	40.43	43.81

Source: Company data, I-Sec research

Table 4: Q2FY23 disbursement growth moderated YoY on a higher base

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Total Loan Disbursals	**1,24,440**	**1,68,570**	**2,23,630**	**86,520**	**1,61,100**	**1,77,700**	**1,93,150**	**1,52,010**	**1,67,860**
Individual disbursements	1,16,410	1,60,050	2,11,660	84,150	1,57,570	1,74,770	1,88,870	1,48,920	1,63,790
Project disbursements	8,030	8,520	11,970	2,370	3,530	2,930	4,280	3,090	4,070
(YoY % change)									
Total Loan Disbursals	**2.2**	**27.9**	**97.5**	**143.0**	**29.5**	**5.4**	**-13.6**	**75.7**	**4.2**
Individual disbursements	-0.7	30.7	94.0	147.4	35.4	9.2	-10.8	77.0	3.9
Project disbursements	80.4	-8.5	189.8	49.1	-56.0	-65.6	-64.2	30.4	15.3
(QoQ % change)									
Total Loan Disbursals	249.6	35.5	32.7	-61.3	86.2	10.3	8.7	-21.3	10.4
Individual disbursements	242.3	37.5	32.2	-60.2	87.2	10.9	8.1	-21.2	10.0
Project disbursements	405.0	6.1	40.5	-80.2	48.9	-17.0	46.1	-27.8	31.7
(% of total)									
Individual disbursements	93.5%	94.9%	94.6%	97.3%	97.8%	98.4%	97.8%	98.0%	97.6%
Project disbursements	6.5%	5.1%	5.4%	2.7%	2.2%	1.6%	2.2%	2.0%	2.4%

Source: Company data, I-Sec research

Table 5: Loanbook was up 10% YoY / 2.4% QoQ led by rise in individual loans

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Total Loan Portfolio	**21,33,490**	**22,01,970**	**23,20,030**	**23,25,480**	**23,76,600**	**24,34,120**	**25,11,200**	**25,57,120**	**26,19,056**
Retail Home Loans	16,32,101	16,96,309	18,05,505	18,20,550	18,83,480	19,58,980	20,42,300	20,95,990	21,67,710
Retail LAP / Other	3,47,759	3,48,131	3,54,965	3,48,920	3,39,854	3,34,205	3,39,012	3,36,700	3,34,156
Developer Loans	1,53,630	1,57,530	1,59,560	1,56,010	1,53,266	1,40,936	1,29,888	1,24,430	1,17,190
(YoY % change)									
Total Loan Portfolio	**5.1**	**7.1**	**10.2**	**10.8**	**11.4**	**10.5**	**8.2**	**10.0**	**10.2**
Retail Home Loans	5.0	7.3	11.4	12.9	15.4	15.5	13.1	15.1	15.1
Retail LAP / Other	2.6	1.3	3.4	2.7	-2.3	-4.0	-4.5	-3.5	-1.7
Developer Loans	12.3	19.0	12.1	6.6	-0.2	-10.5	-18.6	-20.2	-23.5
(QoQ % change)									
Total Loan Portfolio	**1.7**	**3.2**	**5.4**	**0.2**	**2.2**	**2.4**	**3.2**	**1.8**	**2.4**
Retail Home Loans	1.3	3.9	6.4	0.8	3.5	4.0	4.3	2.6	3.4
Retail LAP / Other	2.3	0.1	2.0	-1.7	-2.6	-1.7	1.4	-0.7	-0.8
Developer Loans	4.9	2.5	1.3	-2.2	-1.8	-8.0	-7.8	-4.2	-5.8
(% of total)									
Total Loan Portfolio	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Retail Home Loans	76.5%	77.0%	77.8%	78.3%	79.3%	80.5%	81.3%	82.0%	82.8%
Retail LAP / Other	16.3%	15.8%	15.3%	15.0%	14.3%	13.7%	13.5%	13.2%	12.8%
Developer Loans	7.2%	7.2%	6.9%	6.7%	6.4%	5.8%	5.2%	4.9%	4.5%

Source: Company data, I-Sec research

Q2FY23 earnings call takeaways

Margins

- RBI increased repo rate by 190bps in 4 meetings in current fiscal. Consequently, company also raised PLR by 175bps in current fiscal till date (60bps wef July and 115bps wef October)
- Incremental cost of funds during the quarter has risen to 6.89% (5.44% QoQ).
- Margins fell >70bps QoQ and 20bps YoY. NII down 28% QoQ for Q2FY23.
- NII fell due to the following reasons:
  - ***In a conscious decision to retain retail assets in an increasing rate scenario and in an effort to move them to floating rate regime from fixed rate regime, there has been impact of Rs2.75bn on an exposure of Rs90bn in its NII, due to modification of NPV of residual tenure (9 years) with change in rate related to those assets.***
  - *Whenever there is a modification in terms of financial asset, here it is conversion from fixed to floating or floating to fixed, then the difference over the residual life of the asset is discounted at present value and accounted in P&L as per IND-AS 109.*
  - ***This decision is taken keeping future years in mind and not for a single quarter, since the company now would seek benefits from these loans since now they are floating in nature. This adjustment was on loans amounting to Rs90bn.***
  - ***Rate increase is 175bps on these loans and going ahead, it would have yield of 8.5% on these loans which would have been generated 4-5 years back***
  - ***There was a slippage of Rs5.4bn in corporate portfolio and project loans portfolio is down Rs7bn QoQ and Rs20bn YoY. Interest income reversal and change in project mix had an impact of Rs0.95bn in interest income.***
  - *~Rs2bn rise in interest income due to rise in yields. Apart from accounts which are NPA and fresh disbursals, transmission of 60bps has been done in Q2. However, lag in transmission of higher priced assets resulted in lower NII.*
  - *Spreads reflect ~7bps QoQ expansion in Q2 (47bps rise in yields vs. 40bps rise in cost of funds)*
  - *Rs2.2bn was the impact of rise in interest expense on NII*
- ***For FY23, margins would be higher than FY22 (2.29%) on full year basis (2.17% for H1FY23)***
- 115bps repricing effective entire portfolio from 1st October 2022 which will result in significant increase in interest income in forward quarters
- ***80-90bps yields improvement can be expected in H2FY23, since 60bps rise in PLR in Q2 led to 47bps rise in yields***
- ***Cost of funds would increase by less than 50% of the proportion of future Repo rate hike***
- 97-98% of loans are purely floating in nature
- ***8.3%*** is lowest housing loan rate for best customer at present.

Restructuring

- ***Rs34.66bn (Rs37.44bn QoQ) outstanding restructured portfolio***
  - ***Project/Corporate Rs 20.93bn (Rs 22bn QoQ)***
  - ***Individual Rs 13.73bn (Rs15.44bn QoQ)***
- Entire OTR of Rs34.66bn is under Stage-2
- *Rs31bn moved out of OTR in Q1FY23 (~Rs20bn corporate and ~Rs10bn individual)*

- Restructured portfolio has been behaving stable
- ***Out of Rs5.4bn slippages in corporate segment, Rs3.5bn was from restructured pool. Going forward, don't foresee any big slippage from restructured pool.***
- Getting more clarity on the restructured pool with the passage of time.

Asset quality
- ***There was technical write-off of Rs1.9bn (953 accounts) during the quarter which was fully provided for.***
- ***For write-offs, it has to be routed through P&L and cannot be netted off against existing ECL provisions. Hence, ECL provisions would increase which has been the case in this quarter for LICHF.***
- No requirement to increase coverage on Stage-3 due to scale based regulations
- ***Slight improvement seen in retail asset quality***
- Increase in NPA in project loans by Rs5.4bn and Rs7bn NPA reduced from retail segment
- ***Stage-3 across products:***
  - ***Individual housing loans at 1.68%***
  - ***Non housing commercial at 22.38% (Rs17.4bn)***
  - ***Non housing individual at 6.85% (Rs17.66bn)***
  - ***Project at 42.24% (since book size is down by 20% YoY)***

Disbursements and loanbook
- Success of Homie App has helped get better penetration into younger segment
- Project loans has shrunk to such an extent that further run-down is not expected from hereon
- If need be, company would retail project loans but that would be a commercial decision

Capital raise
- Overall comfortable with current leverage and well within the allowable limits

Q1FY23 earnings call takeaways

On disbursements
- ***Individual housing loan disbursements are expected to grow 12-15% YoY for FY23 and even total loanbook is expected to grow at similar rates.***
- Strong momentum was witnessed during Q1 in disbursements
- ***As reflected in strong disbursements in Q1, FY23 seems more promising as compared to the past two years***
- 76% YoY disbursements growth ***with evenly distributed across regions***
- Across all regions, there is a very good demand for housing loans. Even a small spike in interest rates won't be a major deterrent for housing loans
- Project finance is currently 5% of the total book and company is looking to increase its share in overall mix. It is focusing on funding developer in smart cities

On margins
- ***All loans which are floating i.e. 96%, non-NPL and not disbursed in the past 3 months will see a hike of 60bps in lending rate wef 1st July 2022***
- Today post RBI repo rate hike of 50bps, it will look to increase its PLR based on its ALCO.

- It has offered discounted rate to retain few of the existing home loan customers of corporates. This coupled with prepayments in high yielding loans led to 30bps QoQ decline in yields. However, such exercise is unlikely to be repeated going ahead.
- ***Margins are likely improve for FY23 vs. FY22, but there could be some volatility during the quarters.***
- Higher incremental cost of funds and repricing on existing liabilities has resulted in increase in cost of funds
- ***60% of liability book is on fixed rate side and >90% of assets are floating in nature***
- *32% of total borrowings are from banks, which are linked to either EBLR or repo*
- It is expected that post RBI repo rate hike in Aug'22, there would be some stability in rate hikes

Asset quality

- ***Overall GS3 at 4.96%. In terms of segment, Individual housing stood at 1.9%, non-housing commercial at 7% and project/construction finance stood at 35%***
- **Stage-3: Rs20bn in non-housing commercial and Rs18.79bn in non-housing individual**
- Rise in Stage-3 is partly due to OTR and partly due to non-OTR accounts
- In non-housing commercial, there was a slippage of Rs5bn and recovery of Rs1.4bn with net addition of around Rs3.6bn.
- Total provisions at Rs61.4bn (includes Rs6.19bn towards covid provisions)
- ***PCR: Non-housing commercial at 44%, Non-housing individual at 37% and developer at 38%***
- ***Regulatory provision is as per IRAC norms which is fully provided for***
- Rs1.48bn is total provisions as per RBI circular (of November 2021) on total book of Rs14.8bn (10% provided).
- Total coverage on developer loans has increased to 13.45% from 11.6% QoQ
- ***Rs4.11bn is total w/off since inception, against total disbursements of ~Rs5trn over the past 33 years***

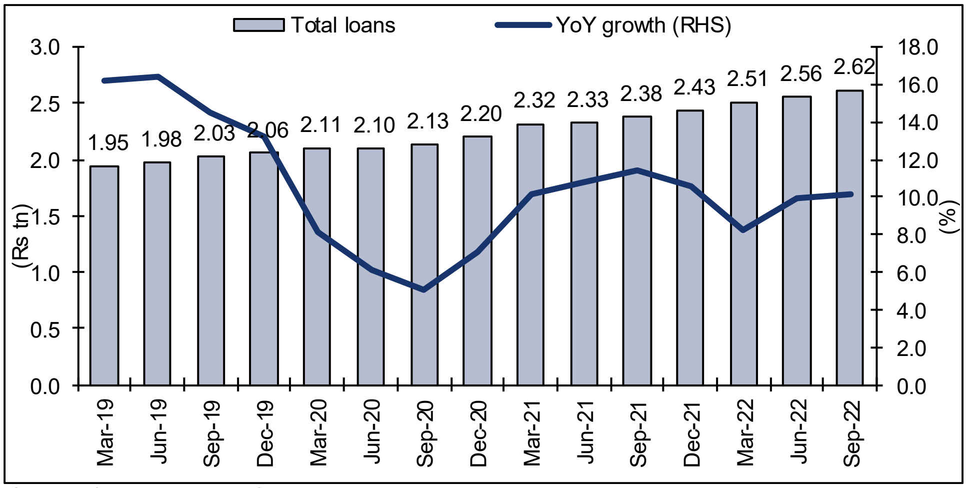
Restructuring

- Rs78bn was gross OTR invoked over the past few quarters. ***Rs45bn exited out of OTR as of Q1FY23-end***
- During the quarter, Rs 4.5bn of loans have slipped from OTR to Stage-3.
- Rs20bn of OTR exposure is now classified as per their pre-OTR invocation overdue bucket into Stage-2 (against stage-1 earlier). ***Rs20bn movement is not due to movement in dpd per-se, but it is as per pre-OTR bucket***
- ***Total OTR o/s at Rs21bn (having interest and principal moratorium) in Stage-2. Rs10bn in OTR (serving principal moratorium) in Stage-1***
- ***Therefore, Rs30bn is o/s under OTR of which ~Rs20bn is towards retail and ~Rs10bn in towards wholesale***
- Rs30bn is expected to move out of ITR, bulk of which is expected to be out in Q2 and Q3 and little in Q4

Miscellaneous

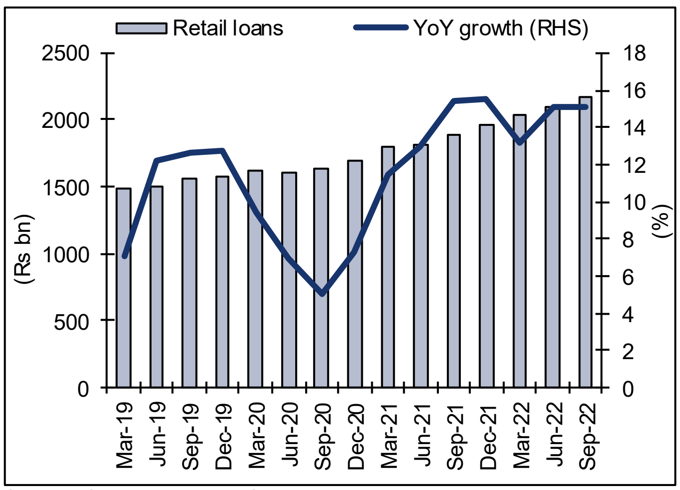
- Cost to income has normalised and was elevated in FY22 due to arrears of employee cost
- Benefit on amount made to special reserves is exempted from tax and hence effective tax rate is 18-19%

Chart 1: AUM growth steady at ~10% YoY led by retail home loans



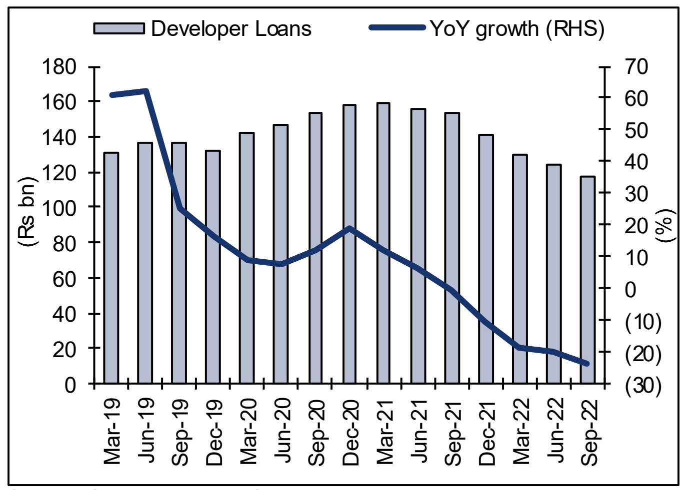
Source: Company data, I-Sec research

Chart 2: Retail home loans up 12% in Q2FY23…



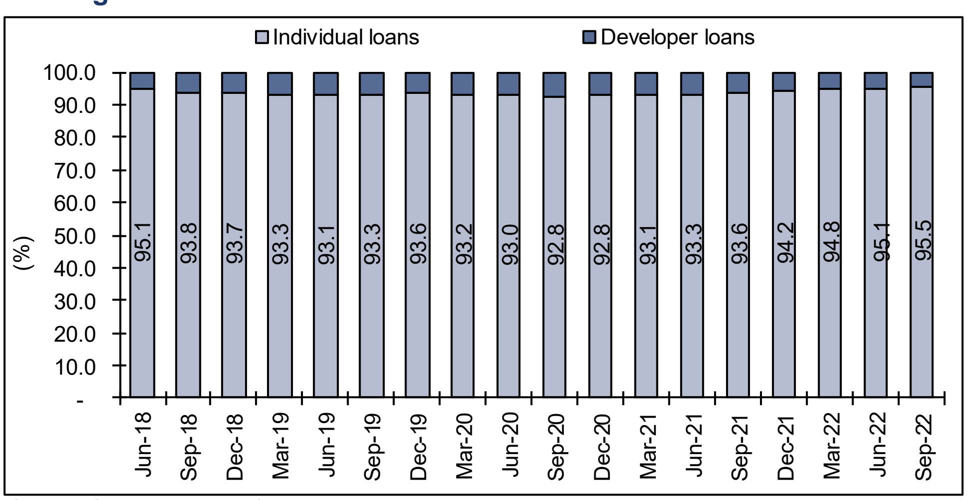
Source: Company data, I-Sec research

Chart 3: .. while developer book declined >23% YoY



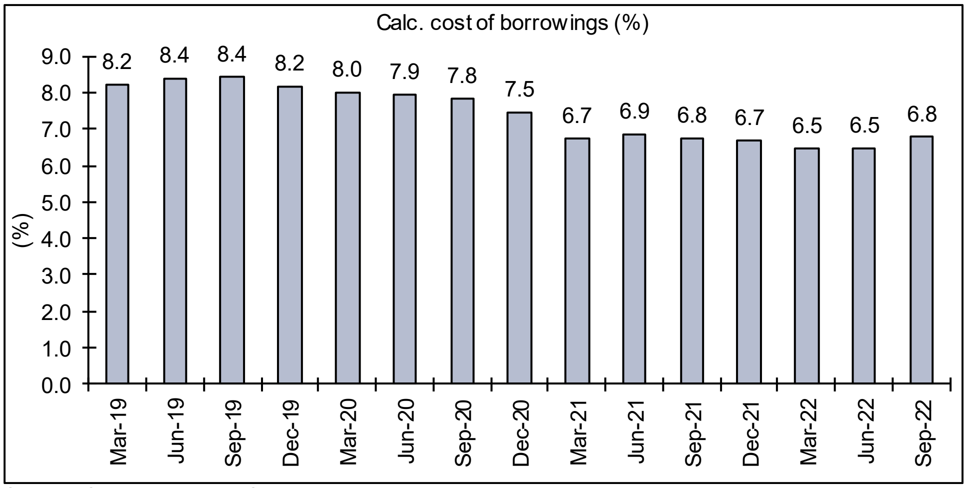
Source: Company data, I-Sec research

Chart 4: Share of individual loans was up due to cautious stance in developer lending



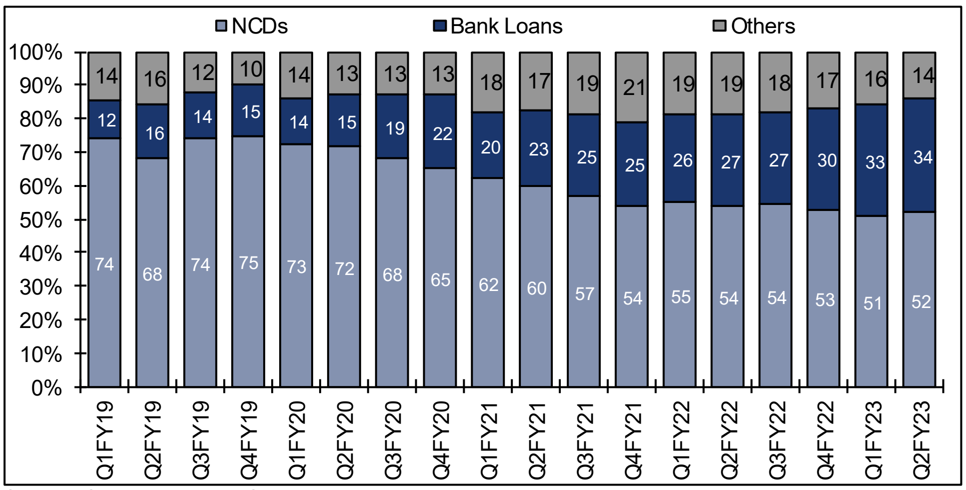
Source: Company data, I-Sec research

Chart 5: Repricing of bank borrowings led to rise in funding cost



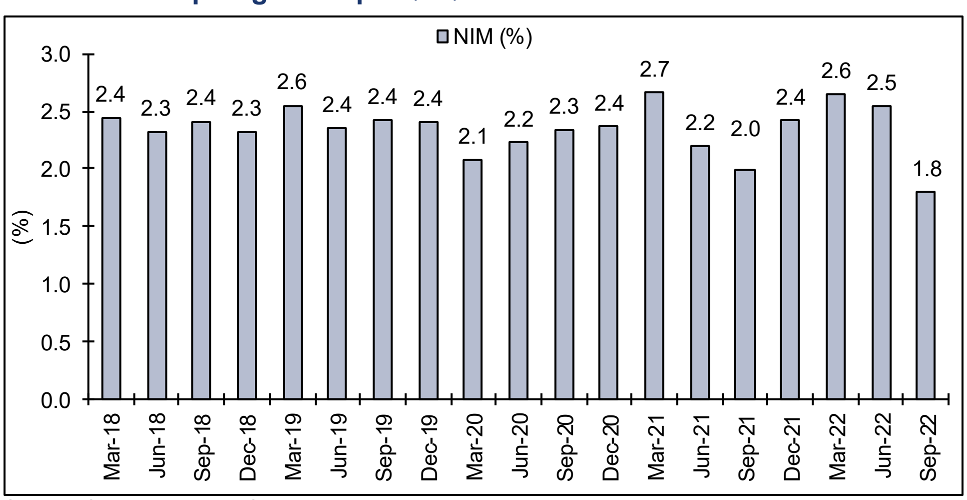
Source: Company data, I-Sec research

Chart 6: Lowering excessive reliance on debt market borrowings



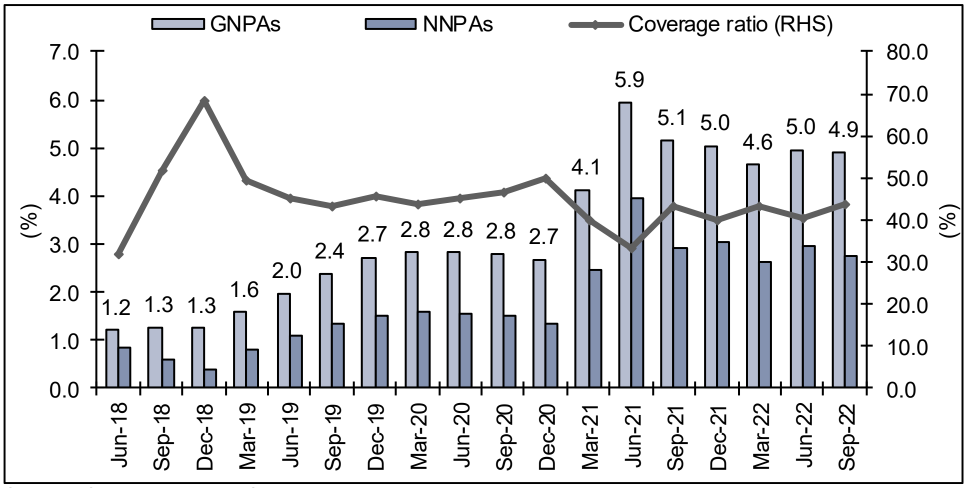
Source: Company data, I-Sec research

Chart 7: NIMs plunge >70bps QoQ to 1.8%



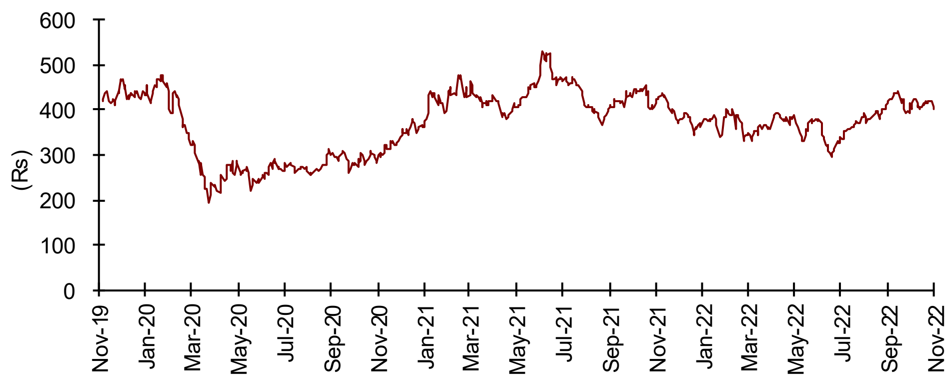
Source: Company data, I-Sec research

Chart 8: Stage-3 assets declined QoQ due to Rs1.9bn write-offs



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 6: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Interest earned	1,94,620	1,96,466	1,96,885	2,22,715	2,70,042
Interest expended	1,47,839	1,44,526	1,41,537	1,61,154	1,94,274
Net interest income	**46,782**	**51,941**	**55,348**	**61,561**	**75,768**
Other income	2,077	2,011	2,646	1,925	2,286
			10,330	10,274	12,123
Operating expenses	3,450	4,138	4,455	5,634	6,994
Employee costs	2,991	2,932	5,633	4,375	4,837
Depreciation	199	219	241	265	292
Pre-provisioning op profit	**42,218**	**46,662**	**47,664**	**53,212**	**65,932**
Provisions & contingencies	9,527	13,176	19,882	20,674	23,701
Profit before tax	**32,690**	**33,486**	**27,781**	**32,537**	**42,232**
Income taxes	8,671	6,142	4,909	6,704	9,291
Net profit	**24,019**	**27,343**	**22,873**	**25,834**	**32,941**

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Share Capital	1,009	1,009	1,101	1,101	1,101
ESOPs	0	0	0	0	0
Reserves and surplus	1,80,921	2,04,203	2,45,618	2,61,642	2,88,983
Shareholders' equity	**1,81,930**	**2,05,213**	**2,46,718**	**2,62,743**	**2,90,083**
Borrowings	19,10,900	20,75,770	22,38,440	25,13,960	28,60,242
DTL reserve	0	0	0	1,388	4,766
Current liabilities & provisions	75,226	75,351	60,516	1,40,006	1,28,225
Total liabilities & stockholders' equity	**21,68,056**	**23,56,333**	**25,45,675**	**29,18,096**	**32,83,317**
Loans & advances	20,79,880	22,81,143	24,52,963	28,13,874	31,73,055
Fixed assets	2,544	2,470	2,659	3,379	3,803
Investments	54,964	46,356	61,986	63,485	67,000
Cash and Balance	19,790	13,467	9,374	8,437	7,593
Current assets	5,679	3,768	5,012	13,669	16,615
Deferred tax assets	5,200	9,129	13,681	15,252	15,252
Total assets	**21,68,056**	**23,56,333**	**25,45,675**	**29,18,096**	**32,83,317**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Growth (%)					
AUM	8.2	10.2	8.2	12.1	12.8
Net Interest Income	9.6	11.0	6.6	11.2	23.1
Total Non-Interest Expenses	(9.3)	9.8	41.7	(0.5)	18.0
Pre provisioning operating profits	13.2	10.5	2.1	11.6	23.9
PAT	(1.2)	13.8	(16.4)	12.9	27.5
EPS	(1.2)	13.8	(23.3)	12.9	27.5
Yields, interest costs and spreads (%)					
NIM on AUM	2.3	2.4	2.3	2.3	2.5
Yield on loan assets	9.7	9.0	8.3	8.5	9.0
Average cost of funds	8.2	7.3	6.6	6.8	7.2
Interest Spread on loan assets	1.5	1.8	1.8	1.7	1.8
Operating efficiencies					
Non interest income as % of total income	1.1	1.0	1.3	0.9	0.8
Cost to income ratio (%)	14.2	14.0	18.7	16.7	16.0
Op.costs/avg AUM (%)	0.3	0.3	0.4	0.4	0.4
No of employees (estimate)	2,409	2,509	2,609	2,709	2,809
No of branches	281	290	300	300	300
Average annual salary (Rs)	12,41,553	11,68,513	21,59,141	16,14,988	17,21,804
Annual inflation in average salary(%)	15.9	-5.9	84.8	-25.2	6.6
Salaries as % of non-int.costs (%)	45.0	40.2	54.5	42.6	39.9
NII /employee (Rs mn)	19.4	20.7	21.2	22.7	27.0
AUM/employee(Rs mn)	874	925	963	1039	1130
AUM/ branch (Rs mn)	7,494	8,000	8,371	9,380	10,577
Capital Structure					
Debt-Equity ratio	10.5	10.1	9.1	9.6	9.9
Leverage (x)	11.9	11.5	10.3	11.1	11.3
CAR (%)	14.9%	15.4%	16.8%	15.7%	15.4%
Tier 1 CAR (%)	13.1%	13.5%	15.1%	14.0%	13.7%
Tier 2 CAR (%)	1.8%	1.9%	1.7%	1.7%	1.7%
Asset quality and provisioning					
GNPA (%)	2.9	4.2	4.9	4.5	3.8
NNPA (%)	1.6	2.4	2.8	2.4	1.8
GNPA	60,317	95,808	1,20,195	1,26,624	1,20,576
NNPA	33,278	54,747	68,683	67,533	57,115
Coverage ratio (%)	44.8	42.9	42.9	46.7	52.6
Credit Costs as % of AUM	0.5	0.6	0.8	0.8	0.8
Return ratios & capital management					
RoAA (%)	1.2	1.2	0.9	0.9	1.1
RoAE (%)	13.9	14.1	10.1	10.1	11.9
Payout ratio (%)	16.8	15.7	20.5	20.0	17.0
Valuation Ratios					
EPS (Rs)	47.6	54.2	41.6	46.9	59.8
Price to Earnings	7.7	6.8	8.8	7.8	6.1
BVPS (Rs)	360.5	406.6	448.3	477.4	527.0
Price to Book	1.0	0.9	0.8	0.8	0.7
Book Value (DTL added back)	360.5	406.6	448.3	479.9	535.7
Price to book (DTL added back)	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	2.2	2.3	2.3	2.6	2.8

Source: Company data, I-Sec research

Table 9: DuPont analysis (on average loan assets)

(%, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Interest earned	9.7	9.0	8.3	8.5	9.0
Interest expended	7.4	6.6	6.0	6.1	6.5
Gross Interest Spread	**2.3**	**2.4**	**2.3**	**2.3**	**2.5**
Provisioning for NPAs	0.5	0.6	0.8	0.8	0.8
Net Interest Spread	**1.9**	**1.8**	**1.5**	**1.6**	**1.7**
Operating cost	0.3	0.3	0.4	0.4	0.4
Lending spread	**1.5**	**1.4**	**1.1**	**1.2**	**1.3**
Non-interest income	0.1	0.1	0.1	0.1	0.1
Operating spread	**1.6**	**1.5**	**1.2**	**1.2**	**1.4**
Tax	0.4	0.3	0.2	0.3	0.3
Return on average loan assets	**1.2**	**1.3**	**1.0**	**1.0**	**1.1**
Effective leverage (x)	11.6	11.3	10.5	10.3	10.8
RoAE	**13.9**	**14.1**	**10.1**	**10.1**	**11.9**

Source: Company data, I-Sec research

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