

July 14th, 2011

LIC HOUSING FINANCE LTD.

HOLD

LIC Housing Finance Ltd (LICHF), promoted by **Life Insurance Corporation of India (LIC)** in 1989, is currently the second largest housing finance company (HFC) in India with a FY11 loan book of Rs510bn.

- India has the lowest home loan to GDP ratio:** - Home loans as a percentage of gross domestic product of the economy is one of the lowest in India. It stood at 5% in the year 2011, whereas the same stands at more than 50% in the developed countries such as USA or other European countries. Strong up move in housing prices is likely to keep home loan demand at elevated levels.
- Strong disbursal to approval despite several rate hikes:** - Total loan book as on March 31st 2011 stood at Rs 510bn. Disbursal to approvals ratio have remained consistent at 81% till FY11. Strong disbursements during Q4FY11 led to increase in disbursements to approvals ratio during FY11. Despite consecutive rate hikes, the loan book growth in FY11 also remained robust at 34% over FY10.
- Improvement in market share to 13% in FY11:** - On account of strong disbursements, LICHF has continuously gained market share. It stood at 13%, next to HDFC which has more than 20% market share. Continuous product development has led to increase in disbursements during FY11.
- One of the best asset quality:** - Despite growing at above industry growth rate, LICHF has maintained its asset quality. Standard assets constitute around 99% of the total loan book till FY11.

Based on consolidated FY13 P/ABV multiple of 2, the fair value for the company works out to be Rs 252/share.

Financial Snapshot

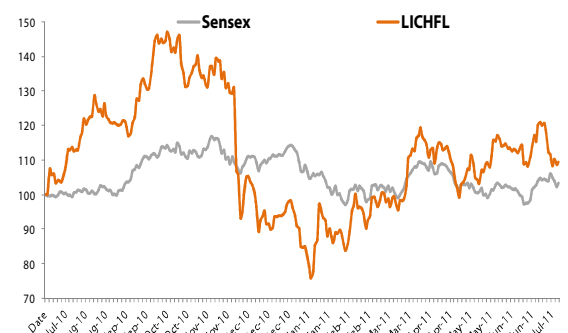
Projections (Rs Mn)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net Interest Income	7,387	8,877	13,723	17,987	20,548
Y-o-Y Growth %		20%	55%	31%	14%
Non-Interest Income	1,565	1,923	4,049	1,796	2,266
Y-o-Y Growth %		23%	111%	-56%	26%
Total Income	29,126	34,756	48,749	64,172	77,707
Y-o-Y Growth %		19%	40%	32%	21%
PAT	5,296	6,603	9,693	10,671	14,207
Y-o-Y Growth %		25%	47%	10%	33%
EPS Rs	13	15	20	22	30
Book Value Per Share	53	72	88	106	130
Adj Book Value Per Share	49	69	86	103	126
NIM %	2.98%	2.70%	3.08%	3.17%	3.06%
RoE %	26.11%	24.15%	24.94%	22.79%	25.07%
PER x			10.88	9.86	7.38
Price/ BV			2.47	2.06	1.68
Price/Adjusted BV			2.55	2.13	1.73

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.
Buy – Expected Returns from 10 to 20% p.a.
Hold – Expected Returns from 0 % to 10% p.a.
Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk
Sell – Returns < 0 %



STOCK DATA				
BSE / NSE Code	500253/ LICHSFGFIN			
Bloomberg Code	LICHF IN Equity			
No. of Shares (Mn)	475			
Sensex / Nifty	18,596/ 5,585			
PRICE DATA				
CMP Rs. (13th July 11)	219			
Beta	1.3			
Market Cap (Rs mn)	103,880			
52 Week High-low	299/ 150			
Average Daily Volume	1,152,152			
STOCK RETURN (%)				
	30D	3M	6M	1Y
LIC Housing Finance Ltd	-3%	-3%	34%	10%
Sensex	2%	-6%	-3%	3%
Nifty	2%	-6%	-3%	3%
SHARE HOLDING PATTERN (%)				
Promoter	37			
Institutional	48			
Non Institutional	16			
Total	100			
1 Year Price Performance (Rel. to Sensex)				

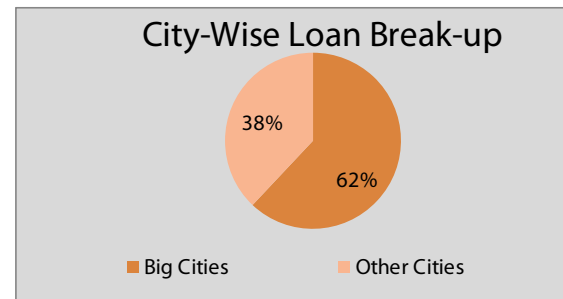
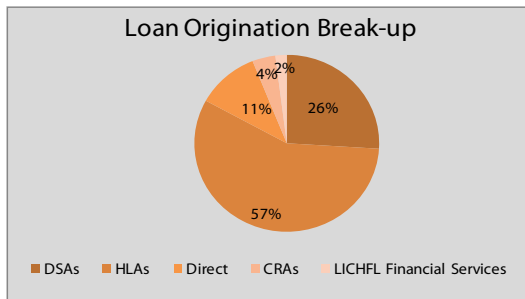


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BUSINESS PROFILE

LIC Housing Finance Ltd. was promoted by Life Insurance Corporation on 19th June 1989. The main objective of the company is providing long term finance to individuals for purchase / construction / repair and renovation of new / existing flats / houses. The Company also provides finance on existing property for business / personal needs and gives loans to professionals for purchase / construction of Clinics / Nursing Homes / Diagnostic Centres / Office Space and also for purchase of equipments.

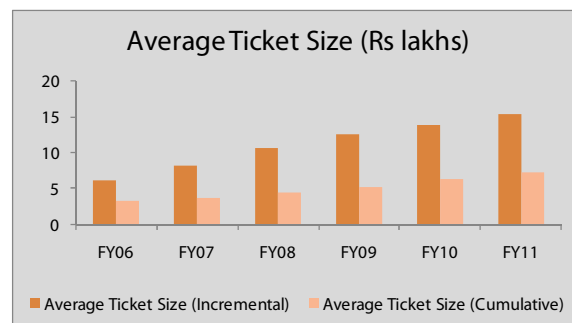
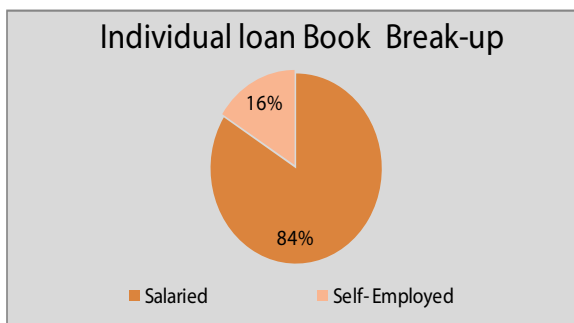
Direct selling agents are the highest loan originators



Majority of the loans towards big cities

The company has a strong distribution network of more than 205 offices (Corporate Office at Mumbai with 7 Regional Offices, 13 Back Offices, 183 Marketing Offices and 1 Customer Service Point) and leverages on LIC's huge agent network. Majority of the loans are originated by direct selling agents (DSA). Further, its 100% subsidiary LIC Financial Services also contributes towards home loan origination. With the strong incentive plans, DSA have remained the major source of loan originations for the firm. The contribution from DSA stood at 58% out of total number of loans generated by LICHF during FY11. In addition to Direct Selling Agents (DSAs), Customer Relationship Associates (CRAs) also contributes towards loan generations. With regard to city wise loan distribution, the firm relies on big city (tier 1 and tier 2) clients. Its contribution for the total loans generated stood at 62% and loans from other cities contributed 38% of the total loans during FY11.

Caters mainly to the salaried people

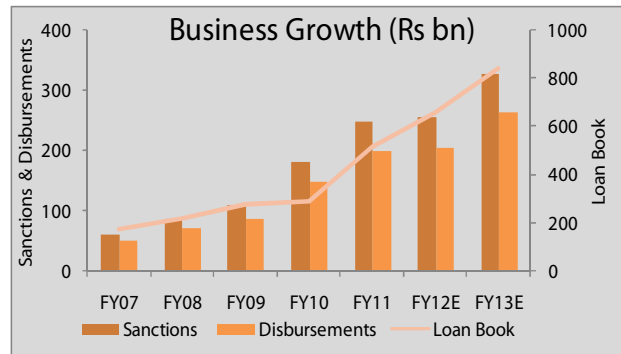
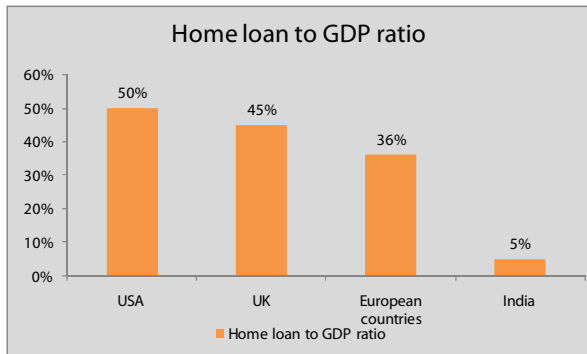


Average ticket size has increased

LICHF is majorly engaged into providing home loans to the individuals. Besides this, the firm also has exposure non individual project clients. The project loan contributed only about 8.5% during FY11. Within the housing loan category, around 84% of the loans are originated from salaried class customers and rest 16% were originated from self employed clients. The incremental average ticket size has also increased from around Rs 0.5mn in FY06 to Rs 1.5mn in FY11.



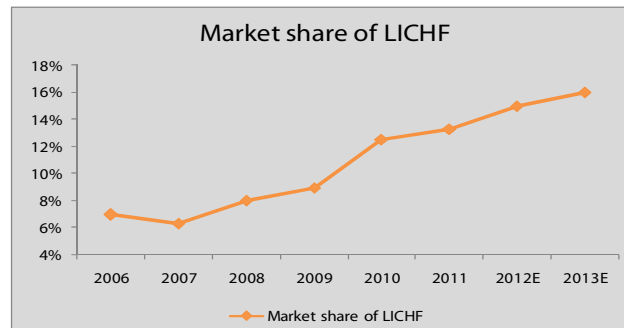
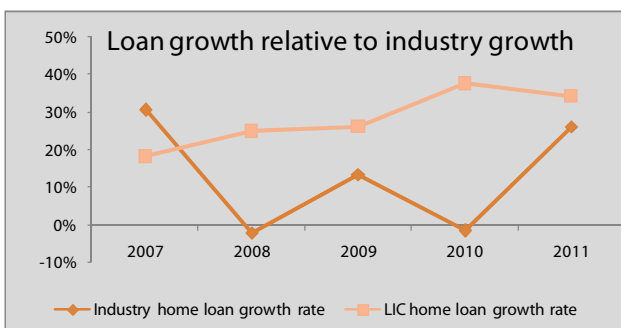
BUSINESS PERFORMANCE



Lower home loan to GDP ratio in India

Lower home loans to GDP ratio to help housing loans growth

Housing loan as percentage of GDP is the lowest in India. It stood at only 5% in FY11. Relative to the developed countries such as USA or other European countries like UK and Germany, India's housing loan to GDP ratio is highly under penetrated. However, we believe that rising population in India and strong mismatch in housing demand and supply is likely to keep housing prices at elevated levels and likely to result in higher home loan to GDP ratio for coming few years. The sanctions and disbursements during last five years were quite impressive. The firm has maintained its disbursals to sanctions ratio at higher levels. It remained constant at 80% during last 5 years.



Loan book growth rate continued to outpace industry growth rate

Loan book continues to outpace industry growth rate

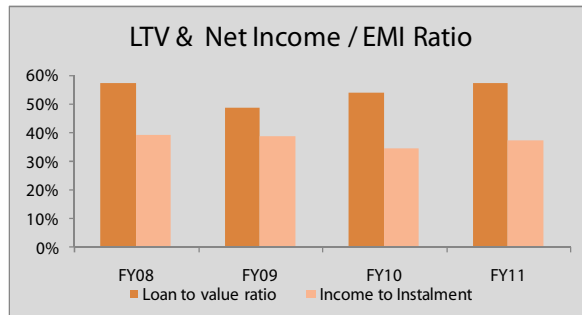
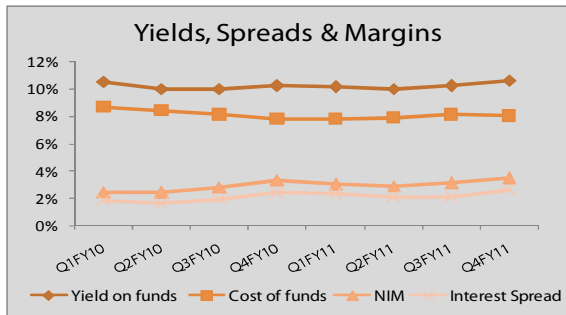
Historically, the loan book of LICHF has increased at CAGR of 28% from Rs 149bn in 2006 to Rs 510bn. During the same period however, the industry grew at a CAGR of 12%. Economic headwinds in the external as well as domestic economy have led to volatile performance of home loan industry. Especially during 2008 and 2009, home loan industry suffered on account of subprime mortgage crisis in the west. However, LICHF continued to do well even during the crisis period (Year 2008). The firm has constantly outpaced the industry growth year on year basis. Since 2006, LICHF also increased its market share from 7% in FY06 to 13% in FY11, emerging as the second largest home loan provider in the domestic markets. We believe that with the strong parentage and foothold in the home loan market, the firm is set to outperform the market.

Market share increased to 13% in FY11 from 7% in FY06



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BUSINESS PERFORMANCE CONTD.



Maintained stable margin levels

Lower loan to value and higher EMI to income ratio helps better asset quality

Increase in standard asset provision is least likely to affect bottom line

Quarterly performance:-

On a quarterly basis also, LICHF has been able to maintain its performance. It reported stable net interest margin at over 2.5% over last 8 quarters. Despite several rate hikes during the same period, the firm could maintain its margin levels on account of frequent repricing of its assets and liabilities. Yield on funds have remained over 10% during the same period. Further priority sector lending status to HFC has helped the firm to acquire funds at cheaper rate relative to market rates. This has resulted in stable NIM. However, fresh lending by banks to the HFC will no longer qualify as priority sector lending. Going forward, this is likely to increase the cost of funds and affect NIM. Lower loan to value ratio (less than 60%) and higher income to installment ratio has helped the firm to provide more stability in terms higher collateral and lower probability of asset turning out to be bad.

Increase in provisions is least likely to affect bottom line:

NHB, an apex body for housing finance companies has indicated that HFC will have to maintain 40bps as provision towards standard assets. Standard assets (housing & non housing) of LICHF stood at 508bn as on March 31st 2011, which required the provision of Rs 2.03bn. However, LICHF has a total provision of Rs 3.66bn (excess of Rs 1.63bn) for the same. Hence, we believe that increase in provisioning for standard assets is least likely to affect the bottom line of the firm. However, with respect to provision on teaser loans, the firm is yet to announce its stance. Going forward, one of its products, "Advantage5" may attract extra provisions (if classified as teaser loan). In such a case, we believe that provisions may increase substantially as a loans under Advantage5 scheme constitutes 17% of FY11 loan book.

Peer Group Comparison

Companies	NIM %	CAR	ROA%	ROE %	Total income	P/ BV (x)
LICHF	3.08%	16.79%	2.17%	24.9%	48749	2.50
Dewan HF	2.89%	19.39%	1.59%	20.00%	21054	1.49
Gruh Finance	3.0%	13.32%	2.23%	31.00%	3603	5.13

*FY11 figures

Peer comparison:

We are comparing LICHF with Dewan housing finance and Gruh finance. LICHF has maintained consistent NIM over last 5 years. It stood at close to 3% during the same period, despite major headwinds within the economy. However, with respect to other 2 firms, it has been volatile. LICHF has emerged as second largest housing finance provider which claims more than 13% market share. We believe that loan book growth is expected to outpace the industry growth. At the current market price the stock is trading at an attractive FY13E P/B multiple of 1.68.



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VALUATION

We estimate that the company's NII will increase at a CAGR of 22.73% over FY11-13 to Rs 20.5bn and PAT to grow at CAGR of 21.06% over the same period to Rs 14.20bn.

Based on consolidated FY13 P/ABV multiple of 2, the fair value for the company works out to Rs 252/share. We recommend a "HOLD" rating on the stock.

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Financial Analysis and Projections

Particulars (Rs Mn)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Interest Earned	27,560	32,834	44,700	62,376	75,441
Interest Expenditure	20,174	23,957	30,977	44,389	54,893
Net Interest Income	7,387	8,877	13,723	17,987	20,548
Other Income	1,565	1,923	4,049	1,796	2,266
Total income	29,126	34,756	48,749	64,172	77,707
Operating Income	8,952	10,799	17,772	19,783	22,814
Non-Interest Expense	1,567	1,988	2,264	2,772	3,250
Pre provisioning profit	7,385	8,811	15,508	17,011	19,564
Provisions & Contingencies	141	(284)	2,609	2,783	622
PBT	7,245	9,095	12,899	14,228	18,942
Less: Tax	1,949	2,492	3,206	3,557	4,736
PAT	5,296	6,603	9,693	10,671	14,207
EPS (Rs)	13	15	20	22	30
Book Value Per Share(Rs.)	53	72	88	106	130
Adjusted Book Value (Rs)	49	69	86	103	126
Net Interest Margin (%)	2.98%	2.70%	3.08%	3.17%	3.06%
RoA (%)	2.15%	2.09%	2.17%	1.92%	2.16%
RoE (%)	26.11%	24.15%	24.94%	22.79%	25.07%
Valuation Ratios (x)			FY2011	FY2012E	FY2013E
P/E			10.88	9.86	7.38
Price/ BV			2.47	2.06	1.68
Price/Adjusted BV			2.55	2.13	1.73

Balance Sheet

Particulars (Rs Mn)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Source of funds					
Capital	850	950	950	950	950
Reserves & Surplus	21776	33478	40967	49255	60803
Total Shareholders Funds	22626	34428	41917	50205	61753
Borrowings	254217	347582	451629	551521	635352
TOTAL LIABILITIES	276,843	382,010	493,545	601,726	697,105
Application of funds					
Investments	11487	14332	14153	16546	19061
Advances	276793	380814	510898	623218	717947
Net current assets	-11436	-13135	-31506	-38038	-39903
TOTAL ASSETS	276,843	382,010	493,545	601,726	697,105



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Board Of Directors

Director Name	Current Position	Description
Thai Vijayan	Non-Executive Chairman of the Board	Shri. Thai S. Vijayan is Non-Executive Chairman of the Board of LIC Housing Finance Limited. He holds a B.Sc (Spi.) degree in Physical Sciences from Kerala University and management diploma. He took charge as the chairmanship, Life Insurance Corporation of India (LIC) on 3rd May 2006. Shri. Vijayan joined LIC as a Direct Recruit Officer in 1977. He held various prestigious positions in LIC, prominent among them being Marketing Manager and later Senior Divisional Manager of two divisions viz. Ernakulam and Thiruvananthapuram, and Director & Chief Executive of LICHL Care Homes Limited. He was instrumental in designing the systems for the new venture of running community living centres for senior citizens. Before becoming MD, he was Executive Director (Information Technology / Business Process Re-engineering). He has attended several national & international seminars in the areas of Information Technology, Strategic Management, Corporate Governance, Financial Management/Value creation in the Service Industry etc. According to him, the key to creating sustainable competitive advantage is employment of high-end technology and developing distinct human capital.
V. Sharma	Chief Executive, Executive Director	Mr. V. Sharma is serving as Chief Executive and Executive Director in the company
D. Mehrotra	Independent Non-Executive Director	Shri. D. K. Mehrotra is Managing Director and Executive Director of LIC Housing Finance Limited. He is working with LIC of India since 1977.
Y. Desai	Independent Non-Executive Director	Shri. Y.B. Desai is Independent Non-Executive Director of LIC Housing Finance Limited. He is a graduate in Economics and Certified Associate of Indian Institute of Bankers (CAIIB). He was a Managing Director at the EXIM Bank and has experience in banking, finance, treasury operations and international banking. He joined the Board of the Company on 24th May 2002. He is a Member of the Audit Committee of Directors.
Dhananjay Mungale	Independent Non-Executive Director	Shri. Dhananjay N. Mungale is Independent Non-Executive Director of LIC Housing Finance Limited since 4th June, 2004. is a Chartered Accountant and a Law Graduate by Profession, has spent the part of his career in banking and investment banking in India and Europe with Bank of America and DSP Merrill Lynch Limited. He is presently acting as advisor to select corporations in India and Europe. He is on the Board of various Public and Private Limited Companies. He is a Member of Audit Committee of Directors.
K. Narasimha Murthy	Independent Non-Executive Director	Shri. K. Narasimha Murthy is an Independent Non-Executive Director of LIC Housing Finance Limited since 26th June, 2005. He is a Science graduate. He is fellow member of the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. He is a practicing Cost Accountant and in various areas like cost audit, management audit, strategic planning, critical analysis of performance, SWOT analysis, organisation analysis and structure, management information and control systems development, productivity and cost reduction programmes, mergers and acquisitions, manpower planning and development, recruitment services, designing production incentive schemes, revival of sick units and other management support services. He has to his credit diverse exposure in audit, investigation, cost reduction programme, management development programme and viability study.
A. Narayanaamoorthy	Independent Non-Executive Director	Shri. A. S. Narayanaamoorthy is Independent Non-Executive Director of LIC Housing Finance Limited since 2nd July, 2008. He is a fellow member of the Institute of Chartered Accountants of India and has completed C.A. Articleship from Gopal & Co., Coimbatore. He is partner of R.G.N. Price & Co. since 1977. He has to his credit wide experience in accounting, banking, investigative audits, advisor for NRI cells and specialization in the field of direct taxes, of corporate and non-corporate assessee with special reference to taxation of non residents. Presently, he is on the Board of South Indian Bank Ltd. and Cochin Stock Exchange Ltd. He was Trustee of Cochin Port Trust from 1st April, 2000 to 31st March, 2002. He was also Director on the Board of State Bank of Travancore from 11th April, 1994 to 10th April, 2000 and Kerala Electrical and Allied Engg. Co. Ltd. from 1998-2001. He was also a Member of Working Committee and Managing Committee, Associated Chamber of Commerce and Industry of India. He is a Member of Regional Direct Tax Advisory Committee - Cochin, Regional Advisory Committee - Cochin Central Excise Commissionerate, Direct Tax and Economic Affairs and Taxation Sub Committee - CII. He is Vice President of Kerala Fine Arts Society and was president of Kairali Housing Co-operative Society.
Subramanian Ravi	Independent Non-Executive Director	Shri. Subramanian Ravi is Independent Non-Executive Director of LIC Housing Finance Limited since 26th June, 2005. He is a postgraduate in Commerce and fellow member of Institute of Chartered Accountants of India. He is promoter partner of M/s. Ravi Rajan & Company Private Limited. He has to his credit wide experience in banking and specialization in the field of accounting, auditing, financial and management consulting, business valuation, merger, acquisition, restructuring, business advisory services etc. He is Chairman of Audit and member of Investors' Grievance Committee of Directors.
B. Shukla	Independent Non-Executive Director	Shri. B. N. Shukla is Independent Non-Executive Director of LIC Housing Finance Limited since 24th January 2006. He is an Master of Arts gold medalist and has a Doctorate in Philosophy from Patna University on 'A Study of Industrial Relations in Ports & Docks in India with Particular Reference to Calcutta Port'. He has also to his credit experience in three research projects in the Department of Economics & Industrial Relations while working with Shree Ram Centre for Industrial Relations, New Delhi. He was a lecturer with the Post Graduate Department of Labour and Social Welfare at the University of Patna. He was also a Professor and Director in the L. N. Mishra Institute of Economic Development and Social Change, Patna, for the period from October 1985 to September 1990. He has also been speaker on All India Radio on subjects like the Indian population explosion, law-making procedures, position of the governor, national integration, the Minimum Wages Act, 1948, social security etc. He is presently a member of Bihar Central Standing Labour Advisory Board, Bihar Minimum Wages Advisory Board and Consumers' Affairs Committee of LIC of India.

