

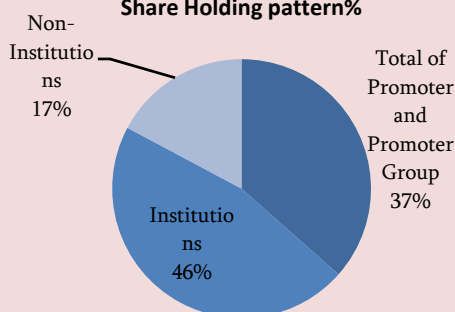
LIC Housing Finance –Q1'12 result review

HOLD

Market Data

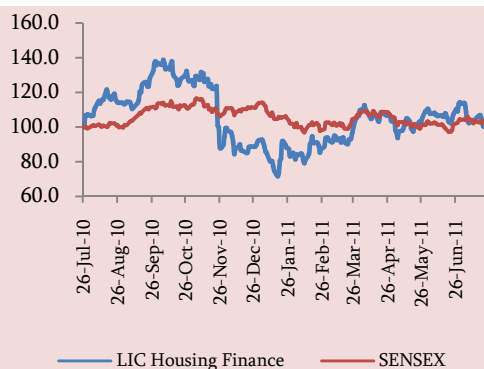
| | |
|-----------------------------------|---------|
| Current Market Price (INR) | 216 |
| Target Price (INR) | 238 |
| Upside Potential (annualized) | ~ 6% |
| 52 Week High / Low (INR) | 299/141 |
| Market Capitalization (In INR Mn) | 11967.4 |

Share Holding pattern%



STOCK SCAN

| | |
|---------------------------------|-----------|
| BSE Code | 500253 |
| NSE Code | LICHSGFIN |
| Bloomberg Ticker | LICHF.IN |
| Reuters Ticker | LICH.BO |
| Face Value (INR) | 2 |
| Equity Share Capital (INR. Mn.) | 949 |
| Average P/E/PBV | 8.61/1.81 |
| Beta vs Sensex | 1.18 |
| Average Daily Volumes (6 M) | 933190 |
| Dividend Yield (%) | 1.28 |
| Stock Return (1 Yr) | 4.14% |



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Lower Disbursements & margin erosion put pressure on PAT

LICHFL has delivered a tepid Q1'12. Some of the highlights of the results are as follows

❑ **Loan book grew by 3.50% QoQ and 32.2% YoY.** However disbursements declined by 47.82% QoQ, which we believe to be more of a seasonal thing for the NBFC. Disbursements grew by 4.3% YoY. Disbursements to individual segment grew by 14.9% YoY but declined by almost 47% QoQ. Disbursements to project loans were just 0.77 Bn, down from 3.33 Bn in Q4'11. The management remained cautious on lending to developers as high interest rate & property prices made this segment riskier. However, they had mentioned that this segment would pick up pace going forward as interest rates peaking out.

❑ **NIMs were down by 70 bps QoQ and 20 bps YoY.** This was mainly due to higher cost of funds (up by 65 bps QoQ). The change in business mix (Individual : Project = 92.5 : 7.5) also negatively affected the average lending rates by almost 10 bps QoQ. We expect the NIMs to stabilize around 2.85% in FY12.

❑ **Asset quality deteriorated sequentially however remained flat on YoY basis.** The sequential rise in NNPL was mainly due to lower base in Q4'11. The company has almost INR 1 Bn of excess provisions which we believe can be used going forward in case of NHB hiking standard asset provisions of 0.4% for the sector and put "Advantage 5" as a teaser loan product. However we haven't put the assumptions into our valuation model for the later event.

❑ **LICHFL's CAR stood at 15% with Tier-1 share at around 8.5%.** We may see some capital raising during FY12 to support future growth.

| Particulars (in INR Mn) | 2009 | 2010 | 2011A | 2012E | 2013E |
|-------------------------|---------------|----------------|----------------|----------------|-----------------|
| Total Income | 8642.6 | 10678.3 | 15823.8 | 18985.3 | 24491.0 |
| Growth% | | 23.6% | 48.2% | 20.0% | 29.0% |
| NII | 7310.6 | 8869.6 | 13719.5 | 16428.5 | 19993.6 |
| Growth% | | 21.3% | 54.7% | 19.7% | 21.7% |
| Net Profit | 5074.2 | 6582.8 | 9744.8 | 10761.4 | 13356.36 |
| Growth% | | 29.7% | 48.0% | 10.43% | 24.11% |
| EPS | 11.9 | 15.5 | 20.5 | 25.34 | 31.45 |
| P/E | 18.2 | 13.9 | 10.5 | 8.5 | 6.9 |
| NIM% | 2.9 | 3.1 | 3.3 | 2.85 | 2.8 |
| ROE | 22.4% | 19.1% | 26.0% | 21.2% | 22.0% |
| NNPA% | 0.21 | 0.13 | 0.03 | 0.1 | 0.1 |
| BV | 51.20 | 70.40 | 84.60 | 104.88 | 118.50 |
| P/BV | 4.2 | 3.1 | 2.6 | 2.1 | 1.8 |

Source: Company, Microsec Research

□ During Q1'12 (on 5th May'11), LIC Housing Finance had unveiled a new home loan product 'Freedom' on a floating rate basis. As per the scheme, loans up to INR 3.0 Mn would be offered at 9.9%, loans between INR 3.0-7.5 Mn at 10.35% and loans of INR 7.5- 15.0 Mn can be availed at 10.75%.

LICHF had a stated policy to cap 'Advantage 5' to 20% of its loan book since the company did not want to put ALM mismatch pressure on its balance sheet.

Quarterly Analysis

| LICHFL Quarterly-[INR-Millions] | | | | | |
|--------------------------------------|----------------|----------------|----------------|---------------|---------------|
| DESCRIPTION | Q1'12 | Q4'11 | Q1'11 | QoQ% | YoY% |
| Interest Earned | 13580.73 | 12936.99 | 9715.52 | 5.0% | 39.8% |
| Interest Expended | 9971.14 | 8733.45 | 6772.33 | 14.2% | 47.2% |
| NII | 3609.59 | 4203.54 | 2943.19 | -14.1% | 22.6% |
| Other Income | 601.1 | 982.24 | 433.78 | -38.8% | 38.6% |
| Total Income | 4210.69 | 5185.78 | 3376.97 | -18.8% | 24.7% |
| Operating Expenses | 422.12 | 702.16 | 394.25 | -39.9% | 7.1% |
| Operating Profit before Prov.& Cont. | 3788.57 | 4483.62 | 2982.72 | -15.5% | 27.0% |
| Provisions and Contingencies | 334.36 | 188.52 | 89.31 | 77.4% | 274.4% |
| PBT | 3454.21 | 4295.1 | 2893.41 | -19.6% | 19.4% |
| Tax | 889.17 | 1147.43 | 773.24 | -22.5% | 15.0% |
| Profit After Tax | 2565.04 | 3147.67 | 2120.17 | -18.5% | 21.0% |
| Adj Calculated EPS | 5.4 | 6.63 | 4.47 | -18.6% | 20.8% |
| | Q1'12 | Q4'11 | Q1'11 | In BPS | in BPS |
| Capital Adequacy Ratio Basel II | 15.00 | 15.00 | 15.30 | 0.00 | -30.00 |
| NIM % | 2.80 | 3.50 | 3.00 | -70.00 | -20.00 |
| Tax rate% | 25.74% | 26.71% | 26.72% | -97.32 | -98.25 |
| C/I Ratio | 10.02% | 13.54% | 11.67% | -351.51 | -164.97 |
| OI/TI | 14.28% | 18.94% | 12.85% | -466.55 | 143.03 |

Actual V/S Estimate

| INR Mn | Microsec Expectation | Actual | A/ME |
|------------------|----------------------|---------|--------|
| Total Income | 13189.5 | 13580.7 | 2.97% |
| Operating Profit | 12478.6 | 13158.6 | 5.45% |
| PAT | 2806.9 | 2565.0 | -8.62% |

Source: Company, Microsec Research

Quarterly trend

| | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|--------|-------|--------|-------|--------|--------|
| Loan Book (Rs Bn) | 228 | 241 | 253 | 277 | 293 | 319 | 342 | 381 | 400 | 433.85 | 463.8 | 510.9 | 528.76 |
| Growth % | 6.30% | 5.70% | 5.00% | 9.50% | 5.80% | 8.90% | 7.20% | 11.40% | 5.00% | 8.50% | 6.90% | 10.20% | 3.50% |

| | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|----------------------|-------|--------|---------|--------|---------|--------|--------|--------|---------|--------|--------|--------|---------|
| Disbursement (Rs Bn) | 15 | 22 | 19 | 31 | 24 | 38 | 36 | 51 | 34 | 51 | 46.26 | 67.94 | 35.45 |
| Growth % | | 46.70% | -13.60% | 63.20% | -22.60% | 58.30% | -5.30% | 41.70% | -33.30% | 50.00% | -9.29% | 46.87% | -47.82% |

| % mix in Loan book | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Individual (%) | 94 | 94 | 93 | 91 | 91 | 92 | 92 | 89 | 90 | 88.7 | 89.6 | 91.5 | 92.5 |
| Builder (%) | 6 | 6 | 7 | 9 | 9 | 8 | 8 | 11 | 10 | 11.3 | 10.4 | 8.5 | 7.5 |

| % | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Spread | 1.9 | 1.75 | 2.06 | 2.05 | 1.83 | 1.65 | 1.95 | 2.36 | 2.24 | 2.13 | 2.36 | 2.6 | 1.86 |

| INR Bn | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Loan Disbursed | 15.2 | 21.59 | 19.44 | 31.43 | 24.3 | 37.57 | 36.04 | 50.62 | 33.92 | 51 | 46.26 | 67.94 | 35.45 |
| Individual | 14.18 | 19 | 16 | 25 | 22.8 | 33.88 | 29.95 | 37.86 | 30.18 | 38.2 | 42.15 | 64.6 | 34.68 |
| Project Loans | 1.02 | 3 | 4 | 6 | 1.5 | 3.69 | 6.09 | 12.76 | 3.74 | 12.83 | 4.11 | 3.33 | 0.77 |

| Asset Quality | Q1'09 | Q2'09 | Q3'09 | Q4'09 | Q1'10 | Q2'10 | Q3'10 | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Q4'11 | Q1'12 |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| GNPA % | 2.2 | 1.85 | 1.69 | 1.07 | 1.51 | 1.28 | 1.44 | 0.69 | 0.9 | 0.7 | 0.7 | 0.5 | 0.9 |
| NNPA % | 1.15 | 0.87 | 0.73 | 0.21 | 0.65 | 0.62 | 0.77 | 0.12 | 0.4 | 0.2 | 0.2 | 0.03 | 0.4 |
| Provision Cover % | 51 | 57 | 56 | 81 | 43 | 51.6 | 46.5 | 82.4 | 61.9 | 71.8 | 73.9 | 93.8 | 58.5 |

Source: Company, Microsec Research

Valuation & Recommendation

At the CMP of INR 216, LICHFL is trading at 1.8x BV and 6.9x EPS for FY13E. We maintain our target price at INR 238 (which was achieved on 29th June'11).

We believe the company to give much better result from Q2'11 onwards mainly due to 1) higher traction for its new product "Freedom", 2) pick up in loan disbursements to high yielding project loans 2) peaking out of interest rates in India, 4) lending rates revision to support NIMs.

Key Risks – 1) Tougher regulatory environment 2) "Advantage 5" to be recognized as teaser loans.



Source: ACE Equity, Microsec Research

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** Rating Scale

| Recommendation | Expected absolute returns (%) over 12 months |
|----------------|--|
| Strong BUY | More than 20% |
| BUY | Between 10% and 20% |
| Hold | Between 0% and 10% |
| Underperform | Negative return up to -10% |
| Sell | Less than -10% |

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