

## LIC Housing Finance

### Performance Highlights

Particulars (₹ cr)	2QFY13	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)
NII	385	379	1.7	369	4.5
Pre-prov. profit	339	348	(2.4)	335	1.2
PAT	243	228	6.7	98	147.0

Source: Company, Angel Research

For 2QFY2013, LIC Housing Finance (LICHF) posted a slightly below estimate numbers with net profit growing by 147.0% yoy (on a low base due to standard asset provisioning on individual loans in 2QFY2012) to ₹243cr. The NII disappointed growing by a moderate 4.5% yoy but lower provisioning expenses aided bottom-line. **We recommend a Buy rating on the stock.**

**NIM disappoints:** For 2QFY2013, LICHF's loan book grew strongly by 23.2% yoy (5.3% qoq) to ₹69,119cr. Loan growth was driven by loans to the individual segment, which grew by 27.4% yoy to ₹66,458cr, while loans to the developer segment declined by 33.1% yoy to ₹2,660cr. The proportion of developer loans to overall loans dipped further from 4.6% in 1QFY2013 to 3.8% for 2QFY2013. The margins were down 35bp yoy, primarily on account of lower share of higher yielding developer loans (3.8% in 2QFY2013 compared to 7.1% in 2QFY2012). The cost of funds has been on a rising trend over the last year due to the high interest rates. The management has indicated that they would look more towards debt issues rather than bank borrowings to decrease their cost of funds. LICHF aims to increase the proportion of developer loans going forward which in our view should give a push to the margins. Also, the loans given out under fixed-o-floaty scheme (teaser rate loans with a fixed tenure of 3 years) at a fixed rate of 8.9% (between July 2009 and July 2010) are expected to re-price upwards (to at least 10.4%) and are expected to aid in margin expansion. The asset quality of the company remained stable on the gross NPA front (0.60% in 2QFY2013 compared to 0.64% in 2QFY2012), however a decline in provision coverage ratio (52.8% in 2QFY2013 compared to 81.6% in 2QFY2012) led to NPA levels increasing from 0.12% in 2QFY2012 to 0.28% in 2QFY2013.

**Outlook and valuation:** At the current market price, the stock is trading at a P/ABV multiple of 1.6x FY2014E ABV. Historically, the stock has traded at 0.8-2.1x one-year forward P/ABV multiple over FY2006-FY2012, with a median of 1.4x, but it has been rerated over the past three years to 1.9x average. Considering that interest rates have a downward bias over the next couple of years and the company has healthy growth prospects, **we recommend an Buy on the stock with a target price of ₹298.**

### Key financials (standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
NII	1,441	1,481	1,649	2,076
% chg	53.8	2.8	11.3	25.9
Net profit	974	914	1,027	1,378
% chg	47.2	(6.2)	12.4	34.2
NIM (%)	3.1	2.6	2.3	2.4
EPS (₹)	20.5	18.1	20.3	27.3
P/E (x)	11.8	13.4	11.9	8.9
P/ABV (x)	2.8	2.2	1.9	1.6
RoA (%)	2.1	1.6	1.4	1.5
RoE (%)	25.8	18.6	16.9	19.7

Source: Company, Angel Research

## BUY

CMP	₹250
Target Price	₹298

Investment Period	12 months
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### Stock Info

Sector	HFC
Market Cap (₹ cr)	12,553
Beta	1.2
52 Week High / Low	290/208
Avg. Daily Volume	261,393
Face Value (₹)	2
BSE Sensex	18,562
Nifty	5,645
Reuters Code	LICH.BO
Bloomberg Code	LICHF@IN

### Shareholding Pattern (%)

Promoters	40.3
MF / Banks / Indian Fls	9.6
FII / NRIs / OCBs	37.7
Indian Public / Others	12.3

Abs. (%)	3m	1yr	3yr
Sensex	8.2	6.2	16.8
LICHF	(3.7)	6.3	67.5

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**Exhibit 1: 2QFY2013 performance (standalone)**

Particulars (₹ cr)	2QFY13	1QFY13	% chg (qoq)	2QFY12	% chg (yoy)	1HFY13	1HFY12	% chg
Interest earned	1,840	1,746	5.4	1,493	23.3	3,587	2,881	24.5
Interest expenses	1,455	1,367	6.4	1,124	29.4	2,822	2,121	33.1
<b>Net interest income</b>	<b>385</b>	<b>379</b>	<b>1.7</b>	<b>369</b>	<b>4.5</b>	<b>765</b>	<b>760</b>	<b>0.6</b>
Non-interest income	22	21	4.6	23	(3.5)	43	53	(19.3)
<b>Operating income</b>	<b>407</b>	<b>400</b>	<b>1.8</b>	<b>392</b>	<b>4.0</b>	<b>807</b>	<b>813</b>	<b>(0.7)</b>
Operating expenses	68	52	30.5	56	21.0	120	98	22.0
<b>Pre-prov. profit</b>	<b>339</b>	<b>348</b>	<b>(2.4)</b>	<b>335</b>	<b>1.2</b>	<b>687</b>	<b>714</b>	<b>(3.8)</b>
Provisions & cont.	7	44	(84.1)	205	(96.6)	50	238	(78.8)
PBT	332	304	9.2	131	154.2	637	476	33.7
Prov. for taxes	89	77	16.7	32	176.4	166	121	36.9
<b>PAT</b>	<b>243</b>	<b>228</b>	<b>6.7</b>	<b>98</b>	<b>147.0</b>	<b>471</b>	<b>355</b>	<b>32.7</b>
EPS (₹)	4.8	4.5	6.7	2.1	132.3	9.3	7.5	24.8
Cost-to-income ratio (%)	16.7	13.0		14.3		14.9	12.1	
Effective tax rate (%)	26.9	25.2		24.7		26.1	25.5	
Net NPA (%)	0.3	0.4		0.1		0.3	0.1	

Source: Company, Angel Research

**Exhibit 2: 2QFY2013 – Actual vs Angel estimates**

Particulars (₹ cr)	Actual	Estimates	% chg
<b>Net interest income</b>	<b>385</b>	<b>409</b>	<b>(5.7)</b>
Non-interest income	22	23	(4.0)
<b>Operating income</b>	<b>407</b>	<b>431</b>	<b>(5.6)</b>
Operating expenses	68	68	0.5
<b>Pre-prov. profit</b>	<b>339</b>	<b>364</b>	<b>(6.7)</b>
Provisions & cont.	7	30	(76.6)
PBT	332	334	(0.5)
Prov. for taxes	89	86	4.1
<b>PAT</b>	<b>243</b>	<b>248</b>	<b>(2.1)</b>

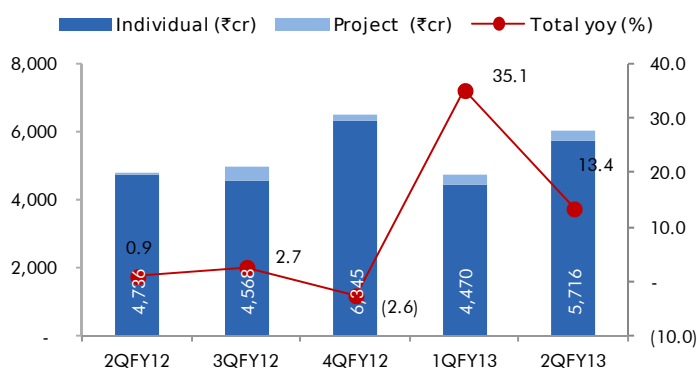
Source: Company, Angel Research

### Individual loan growth remains healthy

For 2QFY2013, LICHF's loan book grew strongly by 23.2% yoy (5.3% qoq) to ₹69,119cr. Loan growth was driven by loans to the individual segment, which grew by 27.4% yoy to ₹66,458cr, while loans to the developer segment declined by 33.1% yoy to ₹2,660cr. The proportion of developer loans to overall loans dipped further from 4.6% in 1QFY2013 to 3.8% for 2QFY2013.

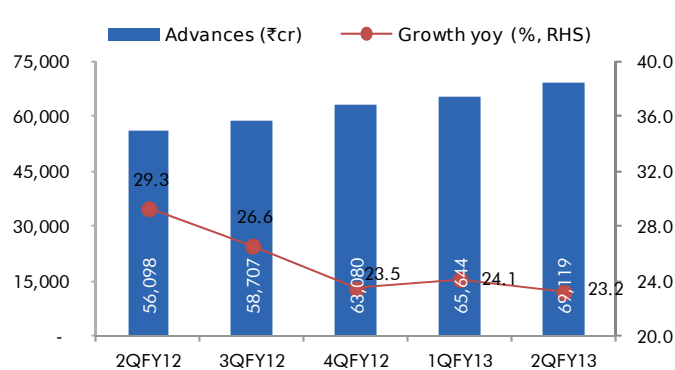
Disbursement growth to the individual segment (₹5,716cr) was healthy during 2QFY2013 at 20.7% yoy, while the disbursements to developer loans stood at ₹121cr (₹321cr in 1QFY2013 and ₹412cr in 2QFY2012). The developer loan book has been contracting over the last year due to higher repayments than disbursements.

**Exhibit 1: Disbursements to developers to pick up**



Source: Company, Angel Research

**Exhibit 2: Advances growth remains healthy**



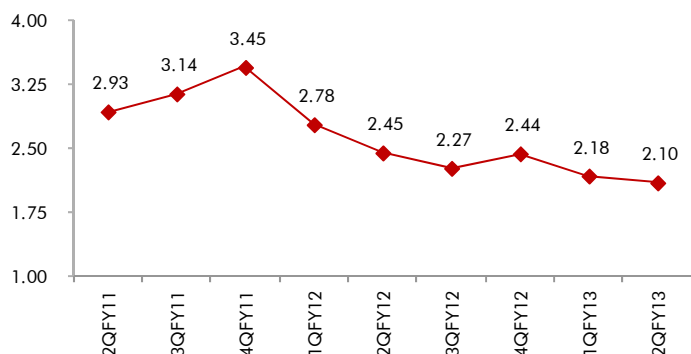
Source: Company, Angel Research

### Margins decline on higher cost of funds and contracting developer loan book

The margins were down 35bp yoy, primarily on account of lower share of higher yielding developer loans (3.8% in 2QFY2013 compared to 7.1% in 2QFY2012). The cost of funds has been on a rising trend over the last year due to the high interest rates. The management has indicated that they would look more towards debt issues rather than bank borrowings to decrease their cost of funds.

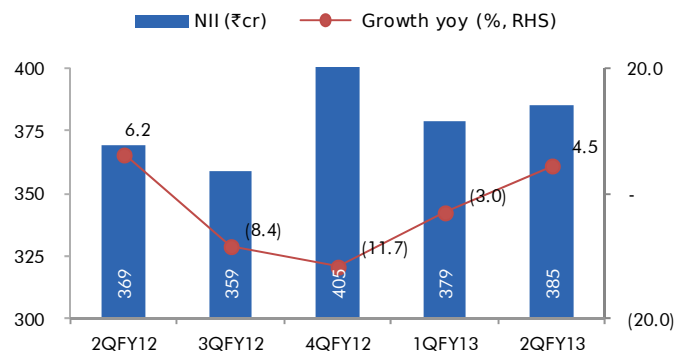
LICHF aims to increase the proportion of developer loans going forward which in our view should give a push to the margins. Also, the loans given out under fixed-o-floaty scheme (teaser rate loans with a fixed tenure of 3 years) at a fixed rate of 8.9% (between July 2009 and July 2010) are expected to re-price upwards (to at least 10.4%) and are expected to aid in margin expansion (~₹2,300cr worth of loans re-priced during 1HFY2013; expected re-pricing of ₹2,200cr, ₹3,000cr and ₹2,500cr in 3QFY2013, 4QFY2013 and 1QFY2014, respectively).

**Exhibit 3: NIM on a declining trend**



Source: Company, Angel Research

**Exhibit 4: NII growth negative for 1QFY2013**

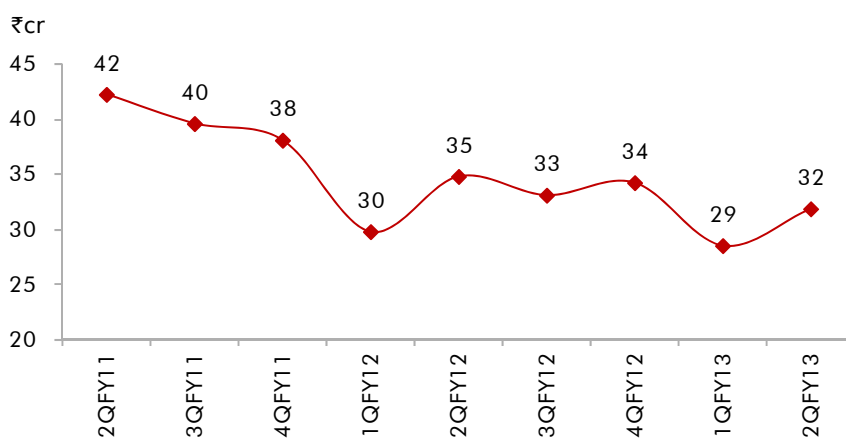


Source: Company, Angel Research

### Processing fees remain subdued

The processing fees (other operating income) for LICHF have remained weak for the company on account of 1) abolishment of prepayment charges (contributed ~₹3-4cr every quarter) and 2) lower share of developer loans (processing fees higher on loans sanctioned to developer segment compared to individual segment).

**Exhibit 5: Processing fees have been declining**



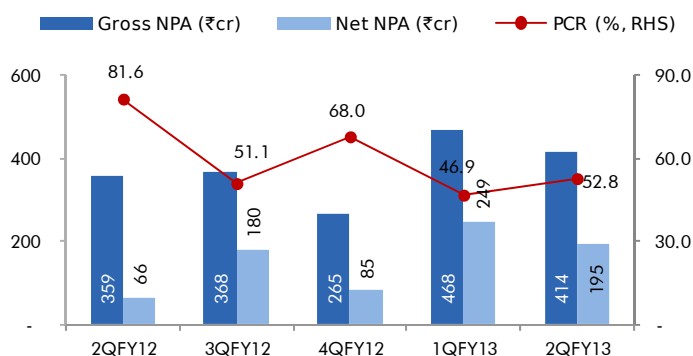
Source: Company, Angel Research

### Asset quality remains stable

The asset quality of the company remained stable on the gross NPA front (0.60% in 2QFY2013 compared to 0.64% in 2QFY2012), however a decline in provision coverage ratio (52.8% in 2QFY2013 compared to 81.6% in 2QFY2012) led to NPA levels increasing from 0.12% in 2QFY2012 to 0.28% in 2QFY2013.

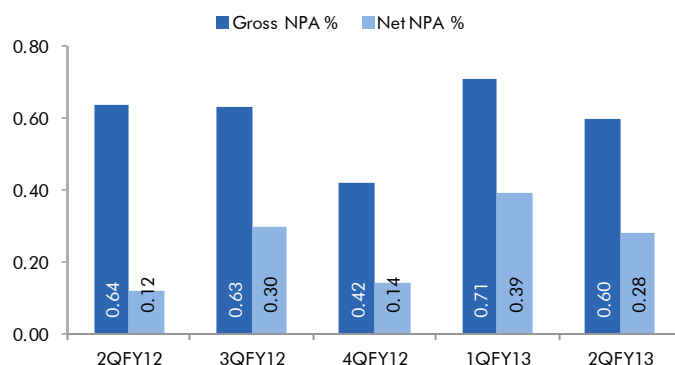
We have factored in ~₹132cr of provisioning expenses for FY2013 for LICHF. With teaser rate provisioning on fixed-o-floaty loans expected to start reversing back from 1QFY2014 onwards, provisioning expenses for LICHF are expected to be lower in FY2014 compared to FY2013 and hence we have factored in ~₹63cr of provisioning for FY2014.

**Exhibit 6: Asset quality remains stable**



Source: Company, Angel Research

**Exhibit 7: NPA ratios trend**



Source: Company, Angel Research

## Investor concerns

### Concerns on the regulatory front

LICHF did not make any teaser loan provision on its 'Advantage-5' product, as it had not been notified by the NHB to do so. The company has replaced 'Advantage-5' by a new non-teaser plan 'Freedom'; however, the threat of NHB classifying the loans disbursed via the 'Advantage-5' plan as teaser still remains.

Also, capital adequacy requirements are relatively less strict for housing finance companies (HFCs; 12% CAR required with no specific requirement for tier-I capital) as compared to non-banking finance companies (NBFCs; minimum 15% total CAR required and 7.5% tier-I CAR generally, and specifically higher tier-I requirement of 10% for infrastructure finance companies and 12% for gold loan financing NBFCs).

The company's estimated tier-1 ratio for FY2012 is ~11.0%. Considering LICHF is leveraged 11-12 times, the company might have to raise additional capital in future if CAR requirements are raised (the company is looking to raise over ₹1,000cr via QIP in the next 2-3 months).

## Outlook and valuation

LICHF has been able to grow its loan book at a 30.2% CAGR over FY2008–12, driven by a strong parent brand, success of its home loan products (~20% of its loan book comprised teaser loans as of FY2012) and strategic focus on tier-2 and tier-3 cities to sell its home loans.

We have lowered our FY2013 and FY2014 PAT estimates by 3.5% and 4.4%, respectively, considering the subdued NIM outlook. Successful pass-through of fixed rate 'fixed-o-floaty' loans to floating rates to customers without any significant pre-payments and delinquencies and earlier than expected reversal in interest rate cycle could provide upside risk to our estimates.

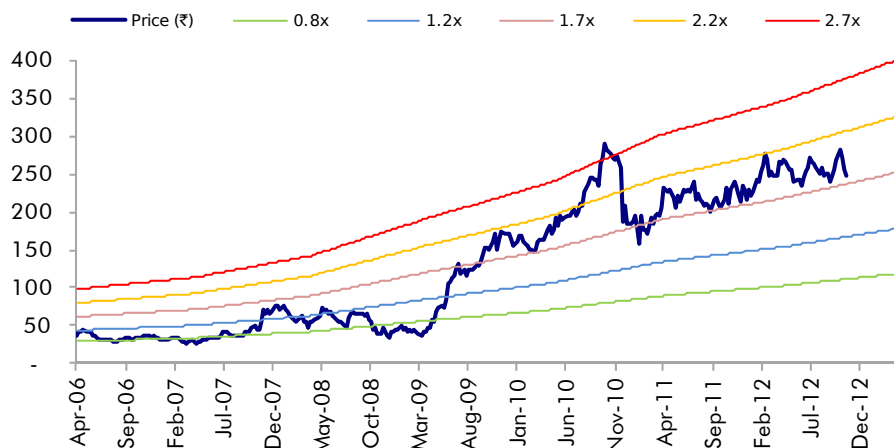
At the current market price, the stock is trading at a P/ABV multiple of 1.6x FY2014E ABV of ₹150.7cr. Historically, the stock has traded at 0.8-2.1x one-year forward P/ABV multiple over FY2006-FY2012, with a median of 1.4x, but it has been rerated over the past three years to 1.9x average. Considering that interest rates have a downward bias over the next couple of years and the company has healthy growth prospects, **we recommend a Buy rating on the stock with a target price of ₹298.**

### Exhibit 8: Change in estimates

Particulars (₹ cr)	FY2013			FY2014		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
<b>Nil</b>	<b>1,703</b>	<b>1,649</b>	<b>(3.2)</b>	<b>2,144</b>	<b>2,076</b>	<b>(3.1)</b>
Non-interest income	164	150	(8.1)	194	179	(8.1)
<b>Operating income</b>	<b>1,867</b>	<b>1,799</b>	<b>(3.6)</b>	<b>2,338</b>	<b>2,255</b>	<b>(3.5)</b>
Operating expenses	280	280	-	330	330	-
<b>Pre-prov. profit</b>	<b>1,587</b>	<b>1,519</b>	<b>(4.2)</b>	<b>2,008</b>	<b>1,925</b>	<b>(4.1)</b>
Provisions & cont.	148	132	(11.1)	61	63	3.1
PBT	1,438	1,387	(3.5)	1,946	1,861	(4.4)
Prov. for taxes	373	360	(3.5)	505	483	(4.4)
<b>PAT</b>	<b>1,065</b>	<b>1,027</b>	<b>(3.5)</b>	<b>1,441</b>	<b>1,378</b>	<b>(4.4)</b>

Source: Angel Research

**Exhibit 9: P/ABV band**



Source: Bloomberg, Angel Research;

**Company Background**

LIC Housing Finance (LICHF) is the second biggest specialized mortgage lender in India, with a balance sheet size of ~₹68,000cr. The credit portfolio for LICHF is ~₹65,000cr, of which more than 90% is derived from the retail segment. The company has a network of over 200 offices spread across the country and is promoted by the state-owned life insurance behemoth, Life Insurance Corporation of India (LIC), which owns a 37% stake in the company.

**Income statement (standalone)**

Y/E March (₹ cr)	FY09	FY10	FY11	FY12	FY13E	FY14E
<b>Nil</b>	<b>796</b>	<b>937</b>	<b>1,441</b>	<b>1,481</b>	<b>1,649</b>	<b>2,076</b>
- YoY Growth (%)	28.7	17.6	53.8	2.8	11.3	25.9
<b>Other Income</b>	<b>91</b>	<b>137</b>	<b>331</b>	<b>143</b>	<b>150</b>	<b>179</b>
- YoY Growth (%)	26.3	51.1	141.4	(56.7)	5.0	18.7
<b>Operating Income</b>	<b>887</b>	<b>1,073</b>	<b>1,771</b>	<b>1,624</b>	<b>1,799</b>	<b>2,255</b>
- YoY Growth (%)	28.4	21.1	65.0	(8.3)	10.8	25.3
<b>Operating Expenses</b>	<b>154</b>	<b>192</b>	<b>216</b>	<b>237</b>	<b>280</b>	<b>330</b>
- YoY Growth (%)	15.3	24.2	12.7	9.8	18.0	18.0
<b>Pre - Provision Profit</b>	<b>732</b>	<b>882</b>	<b>1,555</b>	<b>1,387</b>	<b>1,519</b>	<b>1,925</b>
- YoY Growth (%)	31.6	20.4	76.3	(10.8)	9.6	26.7
<b>Prov. &amp; Cont.</b>	<b>5</b>	<b>(28)</b>	<b>261</b>	<b>156</b>	<b>132</b>	<b>63</b>
- YoY Growth (%)	(78.4)	(641.2)	(1,017.3)	(40.2)	(15.4)	(52.1)
<b>Profit Before Tax</b>	<b>727</b>	<b>910</b>	<b>1,294</b>	<b>1,231</b>	<b>1,387</b>	<b>1,861</b>
- YoY Growth (%)	36.6	25.2	42.2	(4.9)	12.7	34.2
<b>Prov. for Taxation</b>	<b>195</b>	<b>249</b>	<b>320</b>	<b>317</b>	<b>360</b>	<b>483</b>
- as a % of PBT	26.8	27.4	24.7	25.7	26.0	26.0
<b>PAT</b>	<b>532</b>	<b>662</b>	<b>974</b>	<b>914</b>	<b>1,027</b>	<b>1,378</b>
- YoY Growth (%)	37.3	24.6	47.2	(6.2)	12.4	34.2

**Balance sheet (standalone)**

Y/E March (₹ cr)	FY09	FY10	FY11*	FY12*	FY13E	FY14E
Share Capital	85	95	95	101	101	101
Reserve & Surplus	2,149	3,293	4,074	5,581	6,371	7,431
Loan Funds	25,422	34,758	45,163	56,087	69,548	86,240
- Growth (%)	25.0	36.7	29.9	24.2	24.0	24.0
Other Liabilities & Provisions	1,727	2,096	3,205	2,660	3,873	5,296
<b>Total Liabilities</b>	<b>29,382</b>	<b>40,242</b>	<b>52,537</b>	<b>64,430</b>	<b>79,893</b>	<b>99,067</b>
Investments	1,129	1,389	165	164	205	255
Advances	27,679	38,081	51,090	63,080	78,219	96,992
- Growth (%)	26.2	37.6	34.2	23.5	24.0	24.0
Fixed Assets	35	36	34	62	75	93
Other Assets	539	736	1,249	1,123	1,393	1,727
<b>Total Assets</b>	<b>29,382</b>	<b>40,242</b>	<b>52,537</b>	<b>64,430</b>	<b>79,893</b>	<b>99,067</b>

Note: \*FY2011 and FY12 balance sheet numbers as per revised schedule VI



**Ratio analysis (standalone)**

Y/E March	FY09	FY10	FY11	FY12	FY13E	FY14E
<b>Profitability ratios (%)</b>						
NIMs	3.1	2.7	3.1	2.6	2.3	2.4
Cost to Income Ratio	17.4	17.8	12.2	14.6	15.5	14.6
RoA	2.0	1.9	2.1	1.6	1.4	1.5
RoE	26.2	23.6	25.8	18.6	16.9	19.7
<b>Asset Quality (%)</b>						
Gross NPAs	1.07	0.69	0.47	0.42	0.46	0.55
Net NPAs	0.21	0.12	0.08	0.13	0.14	0.14
Provision Coverage	80.4	82.6	83.1	68.0	70.0	75.0
<b>Per Share Data (₹)</b>						
EPS	12.5	13.9	20.5	18.1	20.3	27.3
ABVPS (75% cover.)	52.6	71.3	87.8	112.2	127.8	149.2
DPS	2.6	3.0	2.3	3.6	4.0	5.4
<b>Valuation Ratios</b>						
PER (x)	19.4	17.4	11.8	13.4	11.9	8.9
P/ABVPS (x)	4.6	3.4	2.8	2.2	1.9	1.6
Dividend Yield	1.1	1.2	1.0	1.5	1.7	2.2
<b>DuPont Analysis</b>						
NII	3.0	2.7	3.1	2.5	2.3	2.32
(-) Prov. Exp.	0.0	(0.1)	0.6	0.3	0.2	0.07
Adj. NII	3.0	2.8	2.5	2.3	2.1	2.25
Treasury	0.0	0.0	0.4	(0.0)	(0.0)	(0.00)
Int. Sens. Inc.	3.0	2.8	2.9	2.3	2.1	2.25
Other Inc.	0.3	0.4	0.3	0.2	0.2	0.20
Op. Inc.	3.3	3.2	3.3	2.5	2.3	2.45
Opex	0.6	0.6	0.5	0.4	0.4	0.37
PBT	2.8	2.6	2.8	2.1	1.9	2.08
Taxes	0.7	0.7	0.7	0.5	0.5	0.54
<b>RoA</b>	<b>2.0</b>	<b>1.9</b>	<b>2.1</b>	<b>1.6</b>	<b>1.4</b>	<b>1.54</b>
Leverage	13.0	12.4	12.3	11.9	11.9	12.8
<b>RoE</b>	<b>26.2</b>	<b>23.5</b>	<b>25.8</b>	<b>18.6</b>	<b>16.9</b>	<b>19.7</b>

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2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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