

## LIC Housing Finance (LICHF)

Rs 1386

### WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 1329 to Rs 1506  
 EPS (FY11E) ..... Changed from Rs 89.9 to Rs 90.2  
 EPS (FY12E) ..... Changed from Rs 102.5 to Rs 108.0  
 RATING..... Changed from Reduce to Add

### Results in line, growth targets robust...

A strong 8% sequential jump in advances by LICHF shows that the home loan segment is seeing good volume surge in the industry. This led to a 63% jump in NII to Rs 305 crore in line with expectations. NIM continued its slide QoQ at 2.93% from 3.01% in Q1FY11. We expect NIM to stay close to 2.8% over FY10-FY12E. The PAT grew 37% YoY to Rs 234 crore slightly above our estimate on account of lower provisions. We estimate that PAT will grow at 24% CAGR over FY10-12E.

#### ■ Credit growth robust, Q2 developer loans disbursement - higher...

The loan book continues to be skewed in favour of retail assets where the individual loan book comprised 88.7% and project loans (developers, etc) are at 11.3% of total loan book, which rose 36% YoY to Rs 43385 crore. However, in Q2FY11, developer loans have seen incremental disbursements forming 21% of the incremental loan book of about Rs 6,000 crore. Sanctions and disbursements surged 36% and 43% YoY, respectively. Considering the strong credit numbers, we have revised our growth estimate of FY11 and FY12E to 28% and 22%, respectively, taking the book size to Rs 48,743 crore in FY11E and Rs 59,573 crore in FY12E. Accordingly, NII and PAT have also been revised upwards.

#### ■ Clean asset book and strong return ratios maintained

GNPA and NNPA remained under control at 0.74% and 0.21%, respectively. With substantial portion of loans being retail, we do not expect any major spike in NPAs. Return ratios continue to be high with RoE at around 24% and RoA at around 2.19% for the quarter. We believe RoE over 20% and RoA over 1.8-2% are sustainable.

### Valuation

Higher return ratios of over 20% RoE and 1.8-2% of RoA led to considerable premium over BV. Now, the buzz on the banking licence is an added trigger. We expect LICHF to maintain its asset quality and growth momentum. Hence, we value the stock at 2.8x its FY12 ABV to arrive at a target price of Rs 1506 (including Rs 19 from LIC Mutual Fund).

#### Exhibit 1: Financial Performance

Rs Crore	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	YoY Gr(%)	QoQ Gr.(%)
NII	305.1	307.8	186.8	294.3	63.3	3.7
Non Interest income	64.5	45.0	54.4	43.4	18.5	48.8
Total Income	369.6	352.8	241.3	337.7	53.2	9.5
PBT	319.3	298.6	227.8	298.4	40.2	7.0
PAT	234.2	215.0	171.2	212.1	36.8	10.4

Source: Company, ICICIdirect.com Research

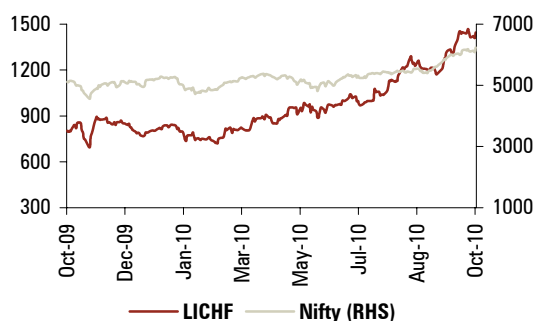
Rating matrix	
Rating	: Add
Target	: Rs 1506
Target Period	: 12 months
Potential Upside	: 9%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	731.0	886.9	1230.0	1448.5
PPP	732.4	881.9	1235.1	1467.9
PAT	531.6	662.1	856.7	1025.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	531.6	662.1	856.7	1025.5
EPS (Rs)	62.6	69.7	90.2	108.0
Growth (%)	37.4	11.4	29.4	19.7
P/E (x)	22.7	20.4	15.8	13.2
Price / Book (x)	5.4	3.8	3.2	2.7
ABV (Rs)	256.4	373.1	444.3	530.0
Price / Adj Book (x)	5.6	3.8	3.2	2.7
GNPA (%)	1.1	0.7	0.6	0.6
NNPA (%)	0.2	0.1	0.1	0.1
RoNA (%)	2.0	1.9	1.9	1.8
RoE (%)	26.1	22.7	21.8	21.9

Stock data	
Market Capitalisation	Rs 13160 crore
GNPA (Q2FY11)	Rs 319 crore
NNPA (Q21FY11)	Rs 90.1 crore
NIM (Q21FY11)	2.93%
52 week H/L	1496 / 687
Equity capital	Rs 9493 Crore
Face value	Rs. 10
DII Holding (%)	9.2
FII Holding (%)	41.7

#### Price movement



#### Analyst's name

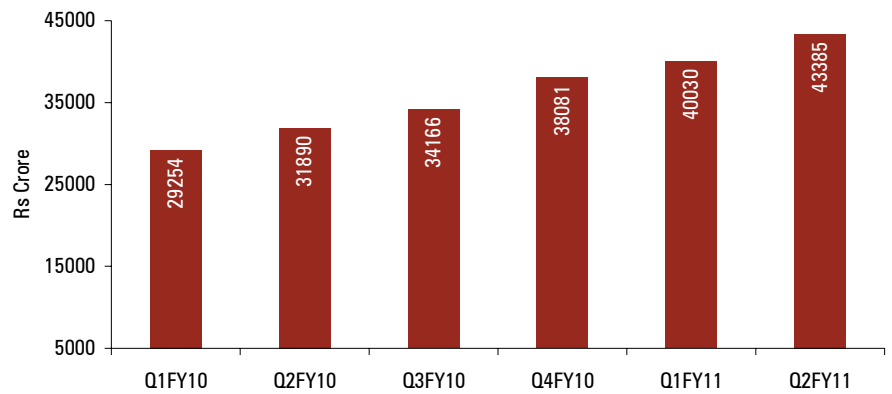
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The loan book increased to Rs 43,385 crore in Q2FY11 registering a growth of 36% YoY

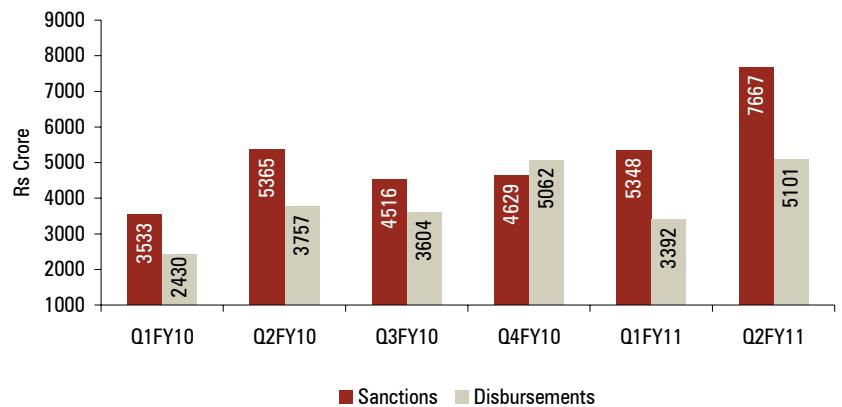
**Exhibit 2: Loan book growth momentum maintained**



Source: Company, ICICIdirect.com Research

Sanctions and disbursements surged 36% and 43% YoY, respectively. The average ticket size is Rs 15.5 lakh

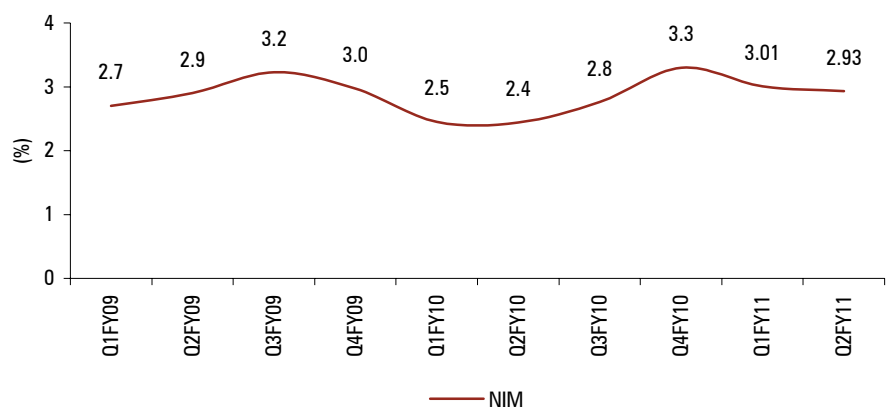
**Exhibit 3: Growth in sanctions and disbursements continues to be robust**



Source: Company, ICICIdirect.com Research

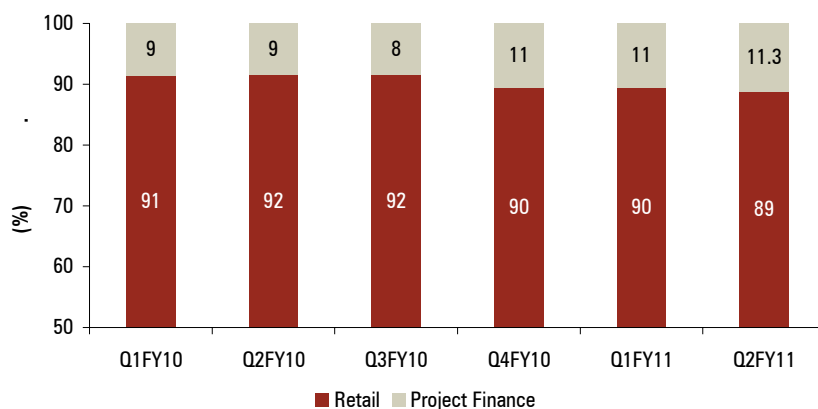
Lower home loan rates and rising costs have led to declining NIM, which should average around 2.8% in future

**Exhibit 4: NIM to be stable around 2.8%**



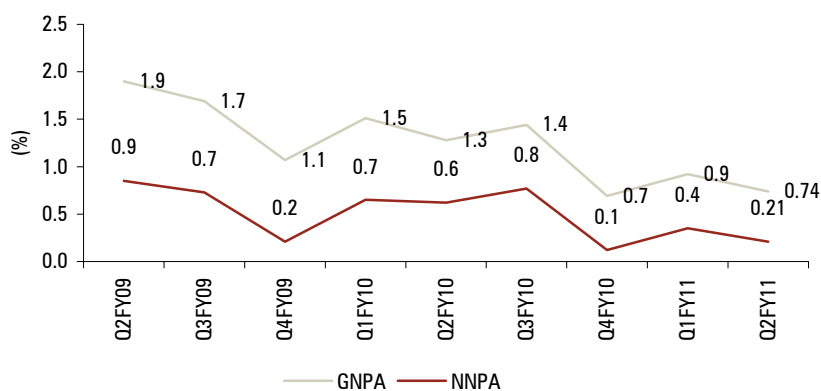
Source: Company, ICICIdirect.com Research

**Exhibit 5: Retail loans maintain their proportion**



Source: Company, ICICIdirect.com Research

**Exhibit 6: Asset quality robust**



Source: Company, ICICIdirect.com Research

LICHF has sold its 19.3% stake in LIC AMC. However, on account of pending regulatory approvals, gain from the transaction is expected to be booked in Q3FY11.

## ICICIdirect.com coverage universe (BFSI)

<b>Bank of India</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	BANIND	CMP	536	FY10	1741.1	33.1	16.2	2.7	0.7	12.6
		Target	525	FY11E	2895.1	55.0	9.7	2.2	1.0	18.8
Mcap (Rs Cr)	28207	Upside (%)	-2.1	FY12E	3768.9	62.3	8.6	1.8	1.1	19.9
<b>Bank of Baroda</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	BANBAR	CMP	964	FY10	3058.3	83.7	11.5	2.9	1.2	21.9
		Target	918	FY11E	3683.2	100.8	9.6	2.3	1.2	21.9
Mcap (Rs Cr)	35237	Upside (%)	-4.8	FY12E	4373.2	119.6	8.1	1.9	1.2	21.1
<b>Dena Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	DENBAN	CMP	119	FY10	511.3	17.8	6.7	1.7	1.0	21.4
		Target	127	FY11E	621.0	18.2	6.5	1.4	1.0	20.3
Mcap (Rs Cr)	3403	Upside (%)	7.0	FY12E	746.0	21.8	5.4	1.2	1.0	19.5
<b>Indian Overseas Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	INDOVE	CMP	161	FY10	707.0	13.0	12.4	2.0	0.6	11.5
		Target	145	FY11E	996.3	18.3	8.8	1.6	0.7	14.6
Mcap (Rs Cr)	8747	Upside (%)	-9.7	FY12E	1287.4	23.6	6.8	1.2	0.8	16.4
<b>IDBI Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	IDBI	CMP	159	FY10	1031.1	8.8	18.2	2.4	0.5	13.2
		Target	150	FY11E	1267.2	12.9	12.4	1.7	0.5	12.3
Mcap (Rs Cr)	11547	Upside (%)	-5.8	FY12E	1683.8	17.1	9.3	1.5	0.6	12.8
<b>OBC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	ORIBAN	CMP	478	FY10	1134.7	45.3	10.6	1.6	0.9	14.5
		Target	545	FY11E	1533.9	61.2	7.8	1.3	1.0	17.2
Mcap (Rs Cr)	11982	Upside (%)	14.0	FY12E	1851.2	73.9	6.5	1.1	1.0	17.7
<b>Punjab National Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	PUNBAN	CMP	1304	FY10	3905.4	123.9	10.5	2.7	1.4	23.9
		Target	1218	FY11E	4854.6	154.0	8.5	2.2	1.5	24.7
Mcap (Rs Cr)	41115	Upside (%)	-6.6	FY12E	5788.5	183.6	7.1	2.0	1.5	25.5
<b>SBI</b>					<b>NP (Rs Bn)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	STABAN	CMP	3177	FY10	91.7	144.4	22.0	3.7	0.9	14.8
		Target	3210	FY11E	113.2	160.5	19.8	2.8	1.0	14.4
Mcap (Rs Cr)	8747	Upside (%)	1.0	FY12E	142.1	201.5	15.8	2.4	1.0	14.7
<b>Syndicate Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	SYNBN	CMP	133	FY10	813.3	15.6	8.5	1.6	0.6	15.3
		Target	144	FY11E	1094.6	21.0	6.3	1.4	0.7	18.2
Mcap (Rs Cr)	6948	Upside (%)	8.2	FY12E	1380.6	26.4	5.0	1.3	0.8	20.5
<b>Union Bank of India</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	UNIBAN	CMP	392	FY10	2074.9	41.1	9.5	2.5	1.2	26.2
		Target	398	FY11E	2444.0	48.4	8.1	2.1	1.1	24.8
Mcap (Rs Cr)	19801	Upside (%)	1.5	FY12E	2948.7	53.1	7.4	1.7	1.2	22.8
<b>Axis Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	UTIBAN	CMP	1505	FY10	2514.5	62.1	24.3	3.9	0.4	1.7
		Target	1520	FY11E	3008.4	74.3	20.3	3.4	0.4	1.3
Mcap (Rs Cr)	60985	Upside (%)	1.0	FY12E	3825.8	94.4	15.9	2.9	0.3	1.2
<b>Dhanlaxmi Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	DHABAN	CMP	189	FY10	23.3	3.6	52.0	3.0	0.3	5.4
		Target	191	FY11E	61.2	7.2	26.3	2.1	0.6	9.5
Mcap (Rs Cr)	1211	Upside (%)	1.1	FY12E	101.1	11.9	15.9	1.9	0.7	11.2
<b>HDFC Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	HDFBAN	CMP	2385	FY10	2948.7	64.4	37.0	5.2	1.5	16.3
		Target	2349	FY11E	3914.9	85.5	27.9	4.6	1.6	17.1
Mcap (Rs Cr)	109185	Upside (%)	-1.5	FY12E	5034.4	110.0	21.7	4.1	1.8	19.4
<b>Kotak Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	KOTMAH	CMP	507	FY10	561.1	8.1	64.3	8.5	1.7	13.5
		Target	454	FY11E	793.6	10.9	47.6	6.5	1.9	15.0
Mcap (Rs Cr)	17628	Upside (%)	-10.5	FY12E	1009.7	13.8	37.4	5.9	2.0	15.7
<b>South Indian Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	SOUINO	CMP	26.9	FY10	233.7	2.1	13.0	2.2	1.1	17.9
		Target	32.0	FY11E	272.5	2.4	11.1	1.9	1.0	17.4
Mcap (Rs Cr)	3028	Upside (%)	19.2	FY12E	335.6	3.0	9.0	1.7	1.0	18.6
<b>Yes Bank</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE (%)</b>
Idirect Code	YESBAN	CMP	346	FY10	477.7	14.1	24.6	3.8	1.6	20.3
		Target	365	FY11E	685.7	20.2	17.1	3.2	1.6	20.2
Mcap (Rs Cr)	10391	Upside (%)	5.5	FY12E	885.6	26.1	13.3	2.7	1.5	21.6

## Continued...

<b>NBFC</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>IDFC</b>										
<b>Idirect Code</b>	IDFC	<b>CMP</b>	205	FY 09	922.0	848.0	0.2	4.3	0.4	0.2
		<b>Target</b>	215	FY10	1117.0	1062.1	0.2	3.8	0.3	0.2
<b>Mcap (Rs Cr)</b>	29950	<b>Upside (%)</b>	4.9	FY11E	1327.5	1249.6	0.2	2.8	0.3	0.1
<b>LICHF</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	LICHF	<b>CMP</b>	1386	FY 09	531.6	62.6	22.1	5.4	2.0	26.1
		<b>Target</b>	1506	FY10	662.1	69.7	19.9	3.7	1.9	22.7
<b>Mcap (Rs Cr)</b>	13160	<b>Upside (%)</b>	8.7	FY11E	856.7	90.2	15.4	3.1	1.9	21.8
<b>Rel Cap</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/ABV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	RELCAP	<b>CMP</b>	834	FY10	434.6	17.7	47.2	2.7	2.0	5.7
		<b>Target</b>	852	FY11E	787.9	32.0	26.1	2.5	3.4	9.9
<b>Mcap (Rs Cr)</b>	20491	<b>Upside (%)</b>	2.1	FY12E	826.7	33.6	24.8	2.3	3.2	9.7
<b>Brokerage firms</b>										
<b>Edelweiss Capital</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)*</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	EDECAP	<b>CMP</b>	58.0	FY10	229.2	30.5	19.0	1.9	5.5	11.2
		<b>Target</b>	65.0	FY11E	270.2	3.6	16.1	1.7	4.1	12.1
<b>Mcap (Rs Cr)</b>	435	<b>Upside (%)</b>	12.1	FY12E	290.8	3.9	15.0	1.6	3.1	11.8
<b>India Infoline</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	INDINF	<b>CMP</b>	115	FY10	232.0	8.1	15.7	2.3	5.7	14.9
		<b>Target</b>	141	FY11E	237.1	8.3	15.4	2.0	3.9	14.3
<b>Mcap (Rs Cr)</b>	3289	<b>Upside (%)</b>	22.2	FY12E	286.2	10.0	12.8	1.8	4.8	15.5
<b>MOFSL</b>					<b>NP (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>P/BV (x)</b>	<b>RoNA (%)</b>	<b>RoE(%)</b>
<b>Idirect Code</b>	MOTOSW	<b>CMP</b>	197	FY10	170.4	11.9	18.2	3.4	10.3	18.6
		<b>Target</b>	224	FY11E	183.2	12.5	17.3	2.8	9.8	16.9
<b>Mcap (Rs Cr)</b>	2814	<b>Upside (%)</b>	13.8	FY12E	198.7	13.6	15.9	2.4	9.1	15.6

\*Adjusted for bonus and stock split

## RATING RATIONALE

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