

LIC Housing Finance (LICHF)

Rs 1062

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 981 to Rs 1161
 EPS (FY11E) Changed from Rs 88.5 to Rs 90.8
 EPS (FY12E) Rs 105.1
 RATING.....Changed from Reduce to Add

Profit zooms 71% YoY, beats expectations...

LICHF reported strong growth of 37% YoY in its mortgage portfolio with NIM of 3.01%, rising from 2.45% YoY. This led to a 69% rise in the NII to Rs 294 crore. However, sequentially the NII remained flat despite loan growth due to a QoQ decline in NIM by 29 bps. The PAT grew 71% YoY for the quarter.

Asset growth robust, targets Rs 50,000 crore loan book

Strong traction in credit growth continued with 34% YoY growth to Rs 40,030 crore. Sanctions and disbursements surged 51% and 40% YoY, respectively, in Q1FY11. The loan book is skewed in favour of retail assets where the individual loan book comprises 89.7% and project loans (developers, etc) are at 10.3% of the loan portfolio. LICHF has targeted to scale the loan book to Rs 50000 crore, a growth of 32% YoY. However, we have built 24% CAGR in core business growth, taking the book size to Rs 48,600 crore in FY11E and Rs 58,200 crore in FY12E.

Strong NII boosts bottomline

NII jumped by 69% YoY due to business momentum. This quarter project loans have seen higher disbursement. These yield an average of 13.98% as against individual loans getting 9.59% leading to an uptick in NII. NIM for the quarter was 3.01%, down from 3.3% in Q4FY10. We expect NIM to stay close to 2.8% over FY10-FY12E.

LICHF has sold its 19.3% stake in LIC AMC but, on account of pending regulatory approvals, gain from the transaction has not been booked yet.

Valuation

Strong business momentum along with higher return ratios of over 20% RoE and 1.8-2% of RoA warrant considerable premium over BV. We expect LICHF to maintain its asset quality with 0.35% GNPA and over 80% coverage ratio by the end of the fiscal. We have, therefore, revised our target multiple to 2.1x its FY12 ABV to arrive at a target price of Rs 1161.

Exhibit 1: Financial Performance

Rs Crore	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr(%)	QoQ Gr.(%)
NII	294.3	273.3	174.2	298.0	69.0	-1.2
Non Interest income	43.4	45.0	36.8	48.9	17.7	-11.4
Total Income	337.7	318.3	211.0	346.9	60.0	-2.7
PBT	298.4	261.5	168.8	298.2	76.8	0.1
PAT	212.1	188.3	123.8	213.3	71.3	-0.6

Source: Company, ICICIdirect.com Research

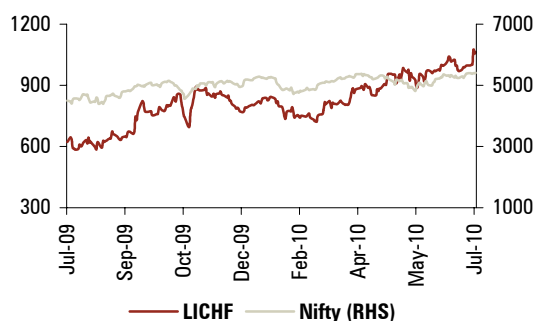
Rating matrix	
Rating	: Add
Target	: Rs 1161
Target Period	: 12 months
Potential Upside	: 9%

Key Financials				
(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	731.0	886.9	1252.4	1440.7
PPP	732.4	881.9	1257.0	1446.1
PAT	531.6	662.1	861.9	998.0

Valuation summary				
	FY09	FY10	FY11E	FY12E
Net Profit (Rs crore)	531.6	662.1	861.9	998.0
EPS (Rs)	62.6	69.7	90.8	105.1
Growth (%)	37.4	11.4	30.2	15.8
P/E (x)	17.1	15.3	11.8	10.2
Price / Book (x)	4.1	2.8	2.4	2.0
ABV (Rs)	256.4	373.1	447.8	533.4
Price / Adj Book (x)	4.2	2.9	2.4	2.0
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	21.9	21.2

Stock data	
Market Capitalisation	Rs 10084 crore
GNPA (Q1FY11)	Rs 367 crore
NNPA (Q1FY11)	Rs 140 crore
NIM (Q1FY11)	3.0%
52 week H/L	1093 / 519
Equity capital	Rs 9493 Crore
Face value	Rs. 10
DII Holding (%)	18.4
FII Holding (%)	32.1

Price movement



Analyst's name

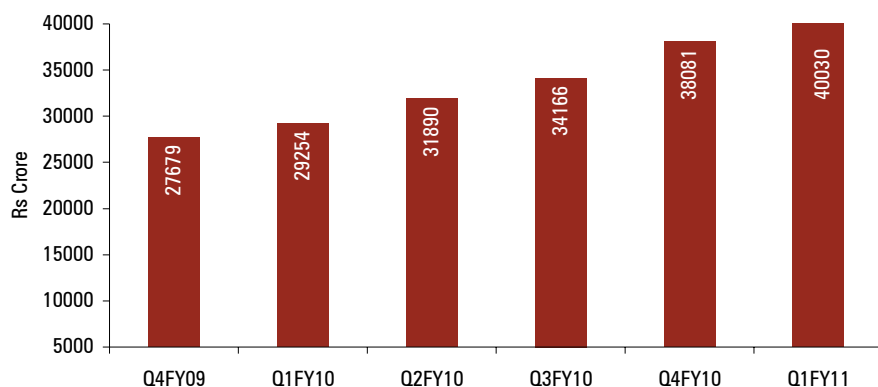
Kajal Gandhi
kajal.gandhi@icicisecurities.com

Viraj Gandhi
viraj.gandhi@icicisecurities.com

Mani Arora
mani.a@icicisecurities.com

The loan book increased to Rs 40,030 crore in Q1FY11 registering a growth of 37% YoY

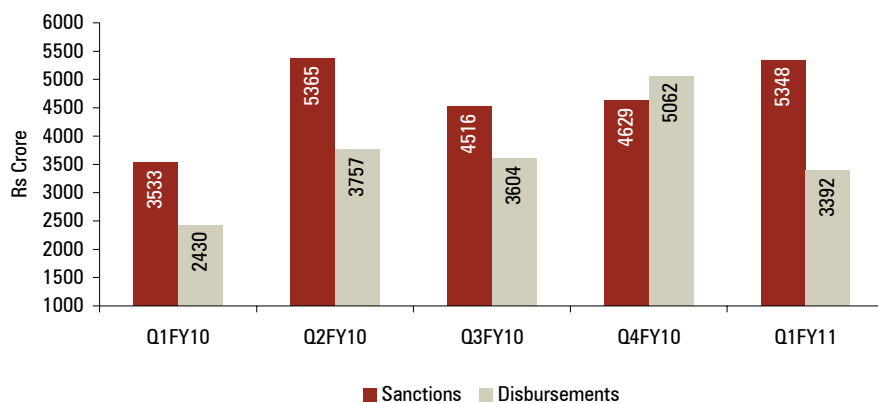
Exhibit 2: Loan book showing healthy growth



Source: Company, ICICIdirect.com Research

Sanctions and disbursements increased 51% and 40% YoY, respectively, in Q1FY11. On a QoQ basis, sanctions increased 16% over Q4FY10. However, disbursements declined by 33%

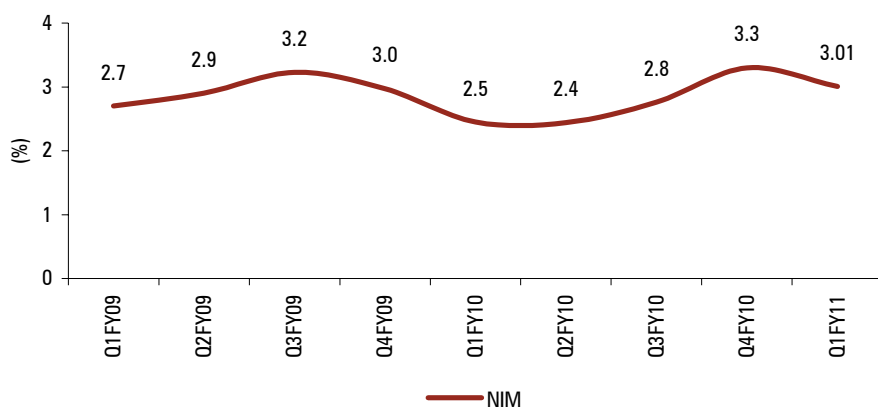
Exhibit 3: Growth in sanctions and disbursements continues to be robust



Source: Company, ICICIdirect.com Research

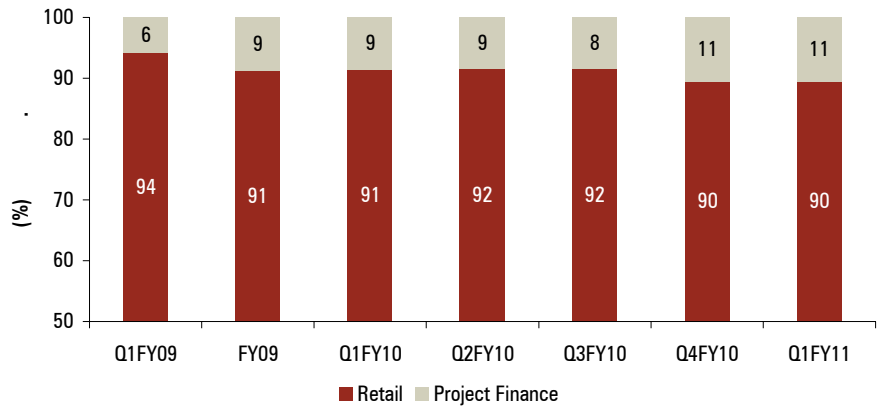
The yield on advances stood at 10.05% while cost of funds stood at 7.81% in Q1FY11E

Exhibit 4: NIM declines sequentially by 20 bps



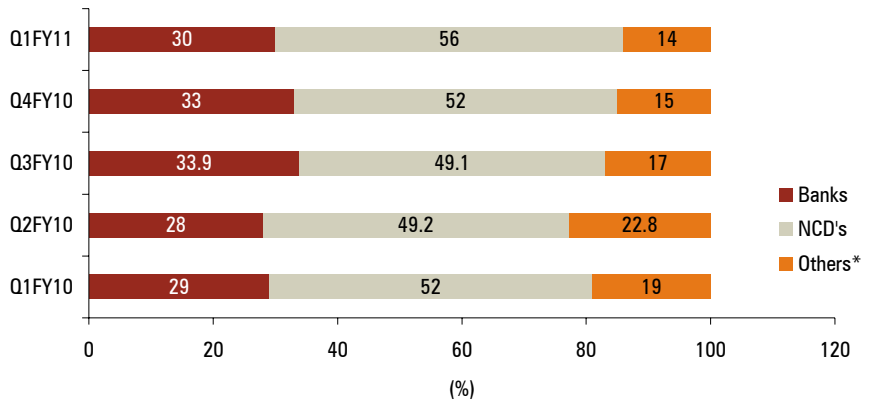
Source: Company, ICICIdirect.com Research

Exhibit 5: Retail loans maintain their proportion



Source: Company, ICICIdirect.com Research

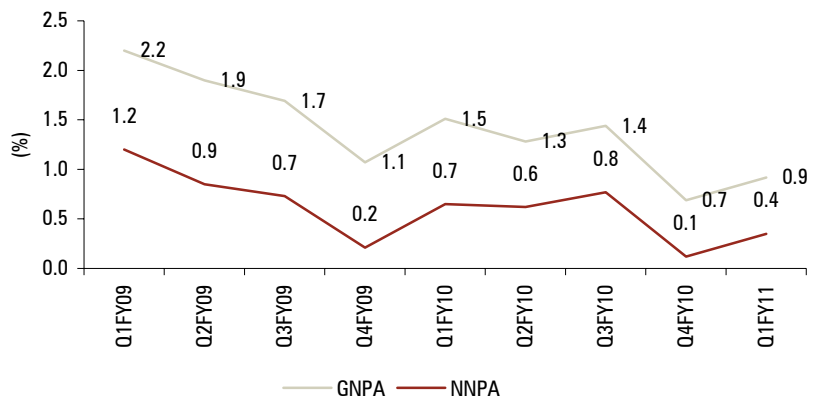
Exhibit 6: Liability franchise: NCD constitutes major share



Source: Company, ICICIdirect.com Research

*Others includes LIC, NHB etc.

Exhibit 7: NPA on the rise



Source: Company, ICICIdirect.com Research

The GNPA and NNPA for LICHF in Q1FY11 stood at 0.92% and 0.35%, respectively (1.5% GNPA in Q1FY10)

LICHF also keeps extra provisioning on its books for substandard assets. We believe this will cushion future delinquencies, going forward. Currently, it holds more than Rs 100 crore of extra provision on its books despite write-backs done in FY10 on account of the changed policy of providing 10 bps rather than 20 bps on standard assets

Valuation

Strong business momentum along with higher return ratios of over 20% RoE and 1.8-2% of RoA warrant considerable premium over BV. We expect LICHF to maintain its asset quality with 0.35% GNPA and over 80% coverage ratio by the end of the fiscal. We have, therefore, revised our target multiple to 2.1x its FY12 ABV to arrive at a target price of Rs 1161.

Exhibit 8: Valuation matrix

	ABV (FY12E)	Target Multiple	Fair value
Core Business (Rs)	533.4	2.1	1141.5
	Value of MF@ 3.5% AUM	Value of LICHF's 20% stake	Value per share
Value of LIC MF (Rs crore)	901	180	19
Total fair value (Rs/share)			1161

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (BFSI)

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
Bank of India										
Idirect Code	BANIND	CMP	393	FY10	1741.1	33.1	11.9	2.0	0.7	12.6
		Target	373	FY11E	2872.0	54.6	7.2	1.7	1.0	18.7
Mcaps (Rs Cr)	20666	Upside (%)	-5.1	FY12E	3367.6	55.7	7.1	1.5	0.9	18.1
Bank of Baroda										
Idirect Code	BANBAR	CMP	732	FY10	3058.3	83.7	8.7	2.2	1.2	21.9
		Target	765	FY11E	3683.2	100.8	7.3	1.8	1.2	21.9
Mcaps (Rs Cr)	26739	Upside (%)	4.6	FY12E	4373.2	119.6	6.1	1.4	1.2	21.1
Dena Bank										
Idirect Code	DENBAN	CMP	101	FY10	511.3	17.8	5.6	1.5	1.0	21.4
		Target	107	FY11E	621.0	18.2	5.5	1.2	1.0	20.3
Mcaps (Rs Cr)	2883	Upside (%)	6.5	FY12E	746.0	21.8	4.6	1.0	1.0	19.5
Indian Overseas Bank										
Idirect Code	INDOVE	CMP	115	FY10	707.0	13.0	8.9	1.1	0.6	9.6
		Target	105	FY11E	964.1	17.7	6.5	1.3	0.7	12.8
Mcaps (Rs Cr)	6276	Upside (%)	-8.9	FY12E	1224.4	22.5	5.1	1.1	0.8	15.2
IDBI Bank										
Idirect Code	IDBI	CMP	123	FY10	1031.1	8.8	14.0	1.8	0.5	13.2
		Target	141	FY11E	1226.8	12.8	9.6	1.3	0.5	11.9
Mcaps (Rs Cr)	8890	Upside (%)	15.0	FY12E	1490.4	15.6	7.9	1.2	0.5	11.5
OBC										
Idirect Code	ORIBAN	CMP	370	FY10	1134.7	45.3	8.2	1.2	0.9	14.5
		Target	424	FY11E	1359.4	54.3	6.8	1.1	0.9	15.4
Mcaps (Rs Cr)	9274	Upside (%)	14.5	FY12E	1650.5	65.9	5.6	0.9	0.9	16.2
Punjab National Bank										
Idirect Code	PUNBAN	CMP	1065	FY10	3905.4	123.9	8.6	2.0	1.4	23.9
		Target	1064	FY11E	4593.7	145.7	7.3	1.7	1.4	23.5
Mcaps (Rs Cr)	33578	Upside (%)	-0.1	FY12E	5361.0	170.0	6.3	1.6	1.4	24.0
SBI										
Idirect Code	STABAN	CMP	2458	FY10	91.7	144.4	17.0	2.8	0.9	14.8
		Target	2556	FY11E	103.5	146.9	16.7	2.2	0.9	13.3
Mcaps (Rs Cr)	156067	Upside (%)	4.0	FY12E	127.1	180.3	13.6	2.0	0.9	13.4
Union Bank of India										
Idirect Code	UNIBAN	CMP	327	FY10	2170.1	43.0	7.6	2.1	1.2	22.6
		Target	358	FY11E	2540.8	50.3	6.5	1.7	1.2	22.2
Mcaps (Rs Cr)	16517	Upside (%)	9.5	FY12E	3033.9	60.1	5.4	1.4	1.2	22.0
Axis Bank										
Idirect Code	UTIBAN	CMP	1356	FY10	2514.5	62.1	21.8	3.5	1.7	19.2
		Target	1400	FY11E	3306.9	81.6	16.6	3.0	1.5	19.0
Mcaps (Rs Cr)	54942	Upside (%)	3.2	FY12E	4236.2	104.6	13.0	2.5	1.4	20.5
Dhanlaxmi Bank										
Idirect Code	DHABAN	CMP	179	FY10	23.3	3.6	49.3	2.9	0.3	5.4
		Target	190	FY11E	61.3	7.2	24.9	1.9	0.6	9.5
Mcaps (Rs Cr)	1149	Upside (%)	6.0	FY12E	99.8	11.7	15.3	1.8	0.7	11.1
HDFC Bank										
Idirect Code	HDFBAN	CMP	2061	FY10	2948.7	64.4	32.0	4.5	1.5	16.3
		Target	2151	FY11E	3837.2	83.8	24.6	4.0	1.6	16.8
Mcaps (Rs Cr)	94334	Upside (%)	4.4	FY12E	4946.3	108.1	19.1	3.6	1.7	19.1
Kotak Bank										
Idirect Code	KOTMAH	CMP	793	FY10	561.1	16.1	47.8	6.3	1.7	13.5
		Target	831	FY11E	824.0	23.7	32.5	6.0	2.0	17.9
Mcaps (Rs Cr)	27563	Upside (%)	4.8	FY12E	988.8	28.4	27.1	5.3	2.1	19.5
South Indian bank										
Idirect Code	SOUINO	CMP	192	FY10	233.7	20.7	9.3	1.5	1.1	17.9
		Target	195	FY11E	272.5	24.1	8.0	13.8	1.0	17.4
Mcaps (Rs Cr)	2167	Upside (%)	1.7	FY12E	335.6	29.7	6.5	11.8	1.0	18.6
Yes Bank										
Idirect Code	YESBAN	CMP	298	FY10	477.7	14.1	21.2	3.3	1.6	20.3
		Target	316	FY11E	675.8	19.9	15.0	2.8	1.6	19.9
Mcaps (Rs Cr)	8935	Upside (%)	6.2	FY12E	884.8	26.0	11.4	2.3	1.5	21.7

Continued...

NBFC

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/ABV (x)	RoNA (%)	RoE(%)
IDFC										
Idirect Code	IDFC	CMP	192	FY 09	848.0	6.5	29.3	4.0	2.8	14.3
		Target	200	FY10	1062.1	8.2	23.4	3.5	3.2	15.9
Mcap (Rs Cr)	24858	Upside (%)	4.2	FY11E	1326.8	9.1	21.1	2.6	3.4	14.7
LICHF										
Idirect Code	LICHF	CMP	1062	FY 09	531.6	62.6	17.0	4.2	2.0	26.1
		Target	1161	FY10	662.1	69.7	15.2	2.9	1.9	22.7
Mcap (Rs Cr)	10084	Upside (%)	9.3	FY11E	837.3	88.2	12.0	2.4	1.8	21.3
Rel Cap										
Idirect Code	RELCAP	CMP	811	FY10	434.6	17.7	45.9	2.6	2.4	5.7
		Target	800	FY11E	771.3	31.3	25.9	2.4	4.0	9.5
Mcap (Rs Cr)	19908	Upside (%)	-1.3	FY12E	761.9	31.0	26.2	2.2	3.5	8.7

Brokerage firms

					NP (Rs Cr)	EPS (Rs)	PE (x)	P/BV (x)	RoNA (%)	RoE(%)
Edelweiss Capital										
Idirect Code	EDECAP	CMP	507	FY10	244.9	30.5	16.6	1.7	5.3	11.2
		Target	455	FY11E	268.1	33.6	15.1	1.5	4.0	11.3
Mcap (Rs Cr)	3805	Upside (%)	-10.3	FY12E	288.2	36.1	14.1	1.4	3.7	11.1
India Infoline										
Idirect Code	INDINF	CMP	99	FY10	234.3	8.3	12.0	1.6	9.0	14.6
		Target	111	FY11E	244.8	8.6	11.4	1.5	7.5	14.5
Mcap (Rs Cr)	2818	Upside (%)	12.3	FY12E	242.8	8.6	11.5	1.3	7.1	13.1
MOFSL										
Idirect Code	MOTOSW	CMP	174	FY 09	93.4	6.3	27.6	3.1	6.6	11.8
		Target	203	FY10	174.3	11.9	14.6	2.7	10.5	19.0
Mcap (Rs Cr)	2485	Upside (%)	16.8	FY11E	203.4	13.9	12.5	2.2	10.6	18.3

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Add: Up to 10%;
Reduce: Up to -10%
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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruiti Centre Point,
MIDC Main Road, Marol Naka,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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