

October 14, 2010

ACCUMULATE

Price	Target Price
Rs 1,458	Rs1,490
Sensex	20,498

Price Performance

(%)	1M	3M	6M	12M
Absolute	19	46	71	82
Rel. to Sensex	12	27	47	53

Source: Bloomberg

Stock Details

Sector	Financial Services
Reuters	LICH.BO
Bloomberg	LICHF@IN
Equity Capital (Rs mn)	949
Face Value(Rs)	10
No of shares o/s (mn)	95
52 Week H/L	1,497/687
Market Cap (Rs bn/USD mn)	137/3,100
Daily Avg Volume (No of sh)	1.2mn
Daily Avg Turnover (US\$m)	34.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	36.5	36.5	36.5
FII/NRI	41.9	32.3	34.1
Institutions	9.2	18.4	17.4
Private Corp	2.8	3.4	2.2
Public	9.6	9.4	9.9

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LIC Housing Finance

Structurally strong story continues

- **LICHF reported strong 63% growth in NII at Rs3.1bn driven by 36% growth in advances and 35bps expansion in spreads. Stable spreads/NIMs are positive surprise**
- **The growth in sanctions to individuals remained strong at 28% yoy, although the D/S ratio was lower at 67% due to as LICHF funded mostly under construction properties**
- **The asset profile improved as the gross NPAs were down by 22% yoy and net NPAs were down 54% yoy. The gross and net NPAs stood at 0.7% and 0.1% respectively**
- **Valuations at 2.7x FY12E ABV look expensive in short term. However, strong balance sheet, earnings growth keep long term story intact. Maintain ACCUM with 18-mth TP of Rs1490**

NII growth in line with estimates...

LICHF has reported a strong 63% yoy growth in NII to Rs3.1bn, in line with our expectations of Rs3.0bn

... As spreads/NIMs maintained sequentially

The spreads for the quarter contracted by just 14bps qoq (NIMs remained flat) as the rising cost of funds (17bps qoq) was partially maintained by stable yields. The yield on advances stabilised at 10% after declining over past six quarters. We believe that the same is due to partial repricing of the discount rate loans given last year.

LICHF has also increased its benchmark lending rate by 50bps from October 1, 2010 which should help the individual loan yield to improve by 33bps and overall yields by ~28bps. We believe that the magnitude of rise in the funding costs will moderate from hereon. These cumulatively should help LICHF to maintain NIMs at 2.8-2.9%

Yield Analysis

%	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY bps	QoQ bps
Yield on advances	10.3	10.1	10.2	10.0	10.0	-26	5
Yield on total assets	10.1	9.9	10.1	9.9	10.0	-3	10
Yield on earning funds	10.3	10.1	10.2	10.0	10.0	-26	5
Cost of borrowings	8.4	8.0	7.5	7.6	7.8	-62	19
Cost of funds	7.7	7.2	6.8	6.9	7.1	-57	17
Spread	1.9	2.1	2.7	2.3	2.2	35	-14
NIM	2.4	2.7	3.3	3.0	2.9	54	-7
Average Yield (Individual)#	9.7	NA	9.7	9.6	9.6	-9	-3
Average Yield (Total)#	10.0	NA	10.2	10.1	10.0	1	-1
Cost of Funds (Wtd Avg)#	8.4	NA	7.8	7.8	7.9	-47	10
Average Spreads#	1.7	NA	2.4	2.2	2.1	48	-11
Incremental Spreads#	2.4	NA	3.1	2.2	2.1	-29	-6

Source: Company, Emkay Research, calculated based on average quarterly balances, # reported

Valuation table

Y/E March 31	Net income	Net profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	P/E (x)	P/ABV (x)
FY09	8,760	5,244	61.7	256.2	2.0	25.8	23.6	5.7
FY10	10,749	6,440	67.8	352.2	1.9	22.9	21.5	4.1
FY11E	14,704	9,087	95.7	435.5	2.0	24.0	15.2	3.3
FY12E	18,512	11,445	120.5	534.9	1.9	24.6	12.1	2.7
FY13E	22,590	13,929	146.6	659.3	1.9	24.4	9.9	2.2

Source: Company, Emkay Research

Key financials – Quarterly

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Net Interest Income	1,868	2,280	2,980	2,943	3,051	63.3	3.7	5,994	3,610	66.0
Other Income	544	469	489	434	645	18.5	48.7	1,079	913	18.2
Net Income	2,413	2,748	3,469	3,377	3,696	53.2	9.5	7,073	4,523	56.4
Total Operating Expenses	397	408	597	379	488	23.0	28.9	867	705	23.1
As % Of Net Income	16.5	14.8	17.2	11.2	13.2			12.3	15.6	
Employee Expenses	101	123	120	149	166	65.3	11.6	315	200	57.9
As % Of Net Income	4.2	4.5	3.4	4.4	4.5			4.5	4.4	
Other Expenses	312	302	493	245	338	8.2	37.7	583	536	8.9
As % Of Net Income	12.9	11.0	14.2	7.3	9.1			8.2	11.8	
Operating Profit	2,000	2,324	2,856	2,983	3,192	59.6	7.0	6,175	3,788	63.0
As % Of Net Income	82.9	84.6	82.3	88.3	86.4	4.2	-2.2	87.3	83.7	4.2
Provisions	5	158	-126	89	3	-42.7	-96.9	92	105	-12.2
PBT	2,278	2,165	2,982	2,893	3,189	40.0	10.2	6,083	3,966	53.4
Total Tax	566	629	847	773	848	50.0	9.7	1,621	1,015	59.7
Adjusted PAT	1,500	1,536	2,135	2,120	2,341	56.1	10.4	4,461	2,738	62.9
Extra Ordinary Items	-283	0	0	0	0			0	-283	
Reported PAT	1,712	1,536	2,135	2,120	2,341	36.7	10.4	4,461	2,951	51.2
Reported EPS	18.0	16.2	22.5	22.3	24.7	36.8	10.4	47.0	32.6	44.2

Source: Company, Emkay Research

Sanctions remain strong in individual loans...

The sanctions in the individual loans have grown by 28% yoy and 56% qoq partially driven by seasonality and also launch of three new products. The new products contributed ~70% of the fresh sanctions.

... But disbursements slow for higher under construction properties

However, the individual disbursements during the quarter grew by just 12% yoy (26% qoq). The D/S ratio was at its lowest of 67%. The management has attributed this to higher proportion of the under construction properties where disbursements will be in piecemeal manner.

Also during the quarter the repayment rate in the individual loans was slightly higher. However, the management has attributed this to the regular repayment and not to the closure of accounts or full repayments.

Asset profile

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	% of portfolio	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Sanctions											
Individual	44,267	27,960	40,741	36,543	56,930	74.3	28.6	55.8	93,473	72,810	28.4
Project	9,382	17,196	5,554	16,940	19,738	25.7	110.4	16.5	36,678	16,171	126.8
Total	53,648	45,156	46,295	53,483	76,668	100.0	42.9	43.4	130,151	88,981	46.3
Disbursements											
Individual	33,879	29,947	37,857	30,183	38,180	74.8	12.7	26.5	68,363	56,674	20.6
Project	3,692	6,095	12,759	3,735	12,832	25.2	247.6	243.6	16,566	5,198	218.7
Total	37,570	36,042	50,616	33,918	51,012	100.0	35.8	50.4	84,930	61,871	37.3
Total Loans											
Individual	292,110	309,202	339,491	358,458	384,884	88.7	31.8	13.4			
Project	26,790	32,458	41,322	41,838	48,965	11.3	82.8	18.5			
Total	318,900	341,660	380,814	400,296	433,849	100.0	36.0	13.9			

Source: Company, Emkay Research

Sharp growth in balance sheet continues

The balance sheet continued to witness sharp growth as the sanctions grew by 43% yoy. However, the retail sanctions have grown by slower 28.6% yoy due to high base effect. The total loans have grown by 36% yoy.

The project loans constituted 11% of the loans which the management wishes to cap at 11-12%.

Balance sheet growth

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Loan Assets	318,900	341,660	380,814	400,300	433,849	36.0	8.4	433,849	318,900	36.0
Sanctions	53,648	45,156	46,295	53,483	76,668	42.9	43.4	130,151	107,298	21.3
Disbursements	37,570	36,042	50,616	33,918	51,012	35.8	50.4	84,930	75,140	13.0

Source: Company, Emkay Research

Controlled expenses help further

While, the strong growth in the balance sheet has resulted in pressure on the employee costs, the same has been mitigated by lower establishment and advertisement expenses. With Opex controlled at 13% of the net income, the operating profit grew by 59.6% yoy.

Asset quality remains strong

The asset quality remained robust as the gross and net NPAs stood stable at 0.7% and 0.1% of advances compared with 1.3% and 0.6% in Q2FY10. On yoy basis, the gross and net NPAs have declined by 22% and 50%.

Asset quality

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Gross NPLs	4,082	4,920	2,632	3,670	3,196	-21.7	-12.9
Net NPLs	1,977	2,631	464	1,398	902	-54.4	-35.5
Gross NPLs (%)	1.3	1.4	0.7	0.9	0.7		
Net NPLs (%)	0.6	0.8	0.1	0.4	0.1		
Net NPLs/Net worth (%)	6.2	7.9	1.4	3.9	2.4		
Provision cover (%)	51.6	46.5	82.4	61.9	71.8		

Source: Company, Emkay Research

Valuations and view

As we had highlighted earlier, the growth numbers have picked up and likely to go even higher in Q3FY11. Valuations at 2.7x FY12E ABV look expensive in short term. However, strong balance sheet, earnings growth keep long term story intact. Maintain ACCUMULATE with 18-mth TP of Rs1490 valuing stock at 2.5x of average ABV for FY12E/FY13E.

Key Financials**Profit and loss (Rs mn)**

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Net interest income	7,401	8,894	12,580	16,100	19,827
Other income	1,358	1,855	2,124	2,411	2,762
Net Income	8,760	10,749	14,704	18,512	22,590
Operating expenses	1,491	1,697	1,944	2,423	2,975
Depreciation	50	62	68	76	85
Preprovision profit	7,219	8,991	12,692	16,013	19,529
Provisions	54	137	199	279	380
Profit before tax	7,264	9,137	13,473	15,734	19,149
Tax	1,948	2,491	3,673	4,289	5,220
Tax rate	27	27	27	27	27
APAT	5,244	6,440	9,087	11,445	13,929

Balance sheet (Rs mn)

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Equity	850	950	950	950	950
Reserves	21,491	32,970	40,880	50,324	62,141
Net worth	22,341	33,920	41,830	51,274	63,091
Borrowings	261,194	347,582	467,970	597,604	747,585
Deferred tax	-948	-890	-890	-890	-890
Current liabilities	10,288	20,960	10,885	10,996	11,108
Total liabilities	292,875	401,571	519,795	658,984	820,894
Net block	323	356	305	297	288
Investments	11,292	13,886	13,292	13,292	13,292
Loans	276,793	380,814	502,627	641,823	803,742
Current assets	4,488	6,516	3,572	3,572	3,572
Total assets	292,895	401,572	519,795	658,984	820,894

As % of assets

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Yield on assets	10.5	9.5	9.5	9.8	9.8
Spreads	2.5	2.2	2.3	2.3	2.2
NIM	2.8	2.6	2.7	2.7	2.7
Other income	0.5	0.5	0.5	0.4	0.4
Net Income	3.3	3.1	3.2	3.1	3.1
Operating expenses	0.6	0.5	0.4	0.4	0.4
Preprovision profit	2.7	2.6	2.8	2.7	2.6
Provisions	0.1	0.1	0.1	0.1	0.1
Profit before tax	2.8	2.6	2.9	2.7	2.6
RoAA	2.0	1.9	2.0	1.9	1.9
Gross NPA (%)	1.1	0.7	0.5	0.4	0.3
Net NPA (%)	0.2	0.1	0.1	0.1	0.1

Valuations

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
APAT (Rs mn)	5,244	6,440	9,087	11,445	13,929
No of shares (mn)	85.0	95.0	95.0	95.0	95.0
FDEPS (Rs)	61.7	67.8	95.7	120.5	146.6
PER (x)	23.6	21.5	15.2	12.1	9.9
Book value (Rs)	262.8	357.1	440.3	539.7	664.1
P/BV (Rs)	5.5	4.1	3.3	2.7	2.2
ABV (Rs)	256.2	352.2	435.5	534.9	659.3
P/ABV (Rs)	5.7	4.1	3.3	2.7	2.2
P/PPP (x)	17.2	15.4	10.9	8.6	7.1
RoE (%)	25.8	22.9	24.0	24.6	24.4
Dividend yield (%)	0.9	1.0	1.2	1.2	1.3

Recommendation History: LIC Housing Finance – LICHF@IN

Date	Reports	Reco	CMP	Target
15/07/2010	LIC Housing Finance Q1FY11 Result Update	Accumulate	1,001	1,100
29.04.2010	LICHF_Q4FY10_Result Update	Accumulate	901	1000
27.01.2010	LICHF_Q3FY10_Result Update	Reduce	795	725
04.11.2009	LICHF_Q2FY10_Result Update	Hold	693	680

Recent Research Reports

Date	Reports	Reco	CMP	Target
23/09/2010	Crisil Company Update	NR	6,169	NR
18/08/2010	Banking Sector Update			
13/08/2010	State Bank of India Q1FY11 Result Update	Reduce	2,784	2,650
13/08/2010	ICRA Q1FY11 Result Update	Reduce	1,219	1,200

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