

## LIC Housing Finance (LICHF)

### RESULT UPDATE ✓

#### WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (FY08E).....	Unchanged
EPS (FY09E).....	Unchanged
RATING.....	Unchanged

<b>Current price</b> Rs 304	<b>Target price</b> Rs 448
<b>Potential Upside</b> 47%	<b>Time Frame</b> 12 months

### OUTPERFORMER

**Chirag J Shah**

chirag.shah@icicidirect.com

**Kajal Jain**

kajal.jain@icicidirect.com

### Concrete gains...

LIC Housing Finance (LICHF)'s Q3FY08 results were above our estimates. The good performance of the company is attributed to the healthy growth it achieved in its core business operations (loan disbursements grew by 49% in the current quarter). Net profit stood at Rs 106.02 crore against Rs. 76.61 crores in the corresponding quarter of the previous year, thus exhibiting a robust growth of 38%. The company is gradually exhibiting strength in all aspects of operations – sanctions & disbursements, realising better yields, maintaining costs and also focusing on maintaining healthy asset quality.

#### ▪ Business moving on the right track

The results for Q3FY08 highlight the fact that the company is moving on the right track in terms of increasing its loan book. This is quite evident from the fact that the loan disbursements grew 49% y-o-y to Rs1652 crore, which is ahead of our estimates. This coupled with better yields on advances, which was around 10.3% (improvement of 100 bps over previous year), helped achieve better growth in its NII which stood at Rs. 140.5 crores, showing a growth of 36% y-o-y. The cost of funds stood at 8.6% implying a jump of 70 bps over the previous quarter. On the NIM front the company managed to report a margin of 2.9% which we expect to stabilise around 2.8% levels by FY09E. This significant improvement in the NIM's (31bps y-o-y) can be attributed to the fact that majority of the lending is focused towards retail lending (95% of loan book as on Q3FY08 is exposed to retail segment) which has enabled it to garner better yields and also its AAA rating enables it to borrow at competitive rates.

#### ▪ Continues to maintain healthy asset quality

Gross non-performing assets recorded a decline from 3.56 % during 9MFY07 to 2.77 % as of 9MFY08. Net NPAs stood 1.61% as of December 2007. In spite of the high retail exposure of its loan book, LICHF has maintained the quality of its assets. The company has taken necessary steps like maintaining a low loan-to-value ratio, providing multiple due dates for EMI payments, creating lien on the property until the loan is cleared, churning customer mix – concentrating on more credit-worthy Category A and B retail clients, and high degree of improvement in the appraisal methodology, etc. This we believe will bring down the GNPA and NNPA levels to 1.84% and 0.85% respectively by FY09E.

#### ▪ Benefits of new business initiatives will provide further boost to profitability

LICHF has announced several new business initiatives like reverse mortgage, credit card business. It has also floated a new wholly owned subsidiary known as LIC Care Homes Ltd, where the target audience is going to be senior citizens. We would revise our estimates once numbers start kicking in from these avenues, which will add to the valuations of the company.

### Valuations

At the current price of Rs 304, the stock trades at 1.22x its FY09E ABV. We believe the current valuation do not fully imbibe the potential of the company in terms of margin expansion, asset quality and consistently improving ROE. Also we are of the view that interest rate cycle in India is peaked and this is quite evident from the fact the biggest home loan provider HDFC has taken the charge in reducing the PLR rate on its home loan products. This we believe will signal other players for a rate cut and will have a positive impact on the loan book of housing finance companies like LICHF. We maintain our **Outperformer** rating on the stock with a 12 month price target of Rs. 448.

**Key Financials:**

<b>Year to March</b>	<b>Q3FY08</b>	<b>Q3FY07</b>	<b>% growth</b>	<b>FY08E</b>	<b>FY09E</b>
Interest Income	534.35	396.11	34.9%	1967	2409
Interest Expended	381.53	281.55	35.5%	1433	1740
<b>Net Interest Income(NII)</b>	<b>152.82</b>	<b>114.56</b>	<b>33.4%</b>	<b>533</b>	<b>669</b>
Non Interest Income	17.27	7.99	116.1%	91	98
Operating Expenses	36.74	25.91	41.8%	125	135
<b>PBT</b>	<b>133.35</b>	<b>96.64</b>	<b>38.0%</b>	<b>466</b>	<b>591</b>
Tax	27.33	20.03	36.4%	107	136
<b>PAT</b>	<b>106.02</b>	<b>76.61</b>	<b>38.4%</b>	<b>359</b>	<b>455</b>
<b>Yield on advances</b>	<b>10.30%</b>	<b>9.20%</b>		<b>10.0%</b>	<b>10.1%</b>
<b>Cost of Funds</b>	<b>8.60%</b>	<b>7.90%</b>		<b>8.6%</b>	<b>8.7%</b>
<b>NIM's</b>	<b>2.87%</b>	<b>2.56%</b>		<b>2.7%</b>	<b>2.8%</b>
<b>GNPA</b>	<b>2.77%</b>	<b>3.56%</b>		<b>2.1%</b>	<b>1.8%</b>
<b>NNPA</b>	<b>1.61%</b>	<b>1.97%</b>		<b>1.0%</b>	<b>0.9%</b>

Source: Company, ICICIdirect research

## **RATING RATIONALE**

ICICIdirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer:** 20% or more

**Performer:** Between 10% and 20%

**Hold:**  $\pm$ 10% return

**Underperformer:** -10% or more

**Harendra Kumar**

**Head - Research & Advisory**

**[harendra.kumar@icicidirect.com](mailto:harendra.kumar@icicidirect.com)**

**ICICIdirect Research Desk,  
ICICI Securities Limited,  
Mafatlal House, Ground Floor,  
163, H T Parekh Marg,  
Churchgate, Mumbai – 400 020**

**[research@icicidirect.com](mailto:research@icicidirect.com)**

## **Disclaimer**

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities Ltd (I-Sec). The author of the report does not hold any investment in any of the companies mentioned in this report. I-Sec may be holding a small number of shares/position in the above-referred companies as on date of release of this report. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This report may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. I-Sec and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. I-Sec may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject I-Sec and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.