

# Result Update

**CMP : INR 592**  
**Rating : Buy**  
**Target Price : INR 660**

## KEY DATA

Market Cap (INR bn)	50.3
Market Cap (USD mn)	1048.2
52 WK High / Low	681/151
Avg Daily Volume (BSE)	335267
Face Value (INR)	10

BSE Sensex	14843
Nifty	4399
BSE Code	500253
NSE Code	LICHSGFIN
Reuters Code	LICH.BO
Bloomberg Code	LICHF IN

Shareholding %	3Q	4Q	1Q
Promoters	41.0	41.0	41.0
MF/Banks/Indian FIs	14.0	19.0	19.0
FII/ NRIs/ OCBs	27.0	22.0	24.0
Indian Public	18.0	18.0	16.0

## Performance Chart



## Price Performance (%)

	3 M	6 M	12 M
Absolute	37.2	68.4	5.2
Relative	(60.2)	(102.4)	(120.6)

Financials (INR Mn.)	F09	F10E	F11E
NII	7,363	9,287	11,403
PPP	7,317	9,148	11,106
PAT	5,316	7,347	7,758
EPS	62.6	77.4	81.7

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## LIC Housing Finance Ltd.

LICHFL's Q1FY10 results were below our estimates as net profits grew at a modest rate of 18% YoY. This was primarily driven by muted growth in net interest income (17% YoY). The company reduced its lending rates on home loans which led to 23 bps YoY decline in net interest margins to 2.45%. However on sequential basis, NPAs have increased which according to management is a cyclical phenomenon and will be contained in the coming quarters.

### Disbursement up by 60% YoY

Business growth continues to remain robust as sanctions and disbursements have increased by 99% and 60% respectively. Growth in disbursement was driven by uptick in loan demand and reduction in lending rates. Loan book expanded by 29%YoY to INR 292 billion, out of that ~9% was in the project segment. Management has indicated strong growth in loan volumes and expects minimum growth of 30% in disbursements. Considering strong business outlook for the company we have assumed 23% CAGR growth (earlier 22%) in disbursement over FY09-FY11E.

### NIM's fall 23bps YoY to 2.45%

Net Interest margins have declined 23bps YoY and 57 bps sequentially to 2.5%. This was mainly due to special schemes floated by company offering home loans at 8.8%. Majority of the loans disbursed during the quarter were on special rates and hence contributed to decline in NIMs. Going forward, we expect NIMs to improve on back of reduction in funding costs and reset of interest at card rates (on loans disbursed under special schemes). We expect NIM to be in the range of 2.8% for FY10E.

### Asset quality deteriorates

Gross NPAs have increased sequentially to 1.5% (1.07% in Q409) which is a cyclical phenomenon for the company. Net NPA have also increased to 0.7% (0.21% in Q409) to INR 1.9 billion. Historically, the NPAs have been higher in first quarter and had declined in the subsequent quarters. We expect asset quality to improve to FY09 levels (1% GNPA) by the end of fiscal.

### Capital infusion to boost CAR

LICHFL is planning to raise additional capital via QIP (10.0 million shares) to fund its business growth. We have assumed QIP issue at INR 550/ share in our estimates. Further, the company has decided to sell 17.3% stake in LIC Mutual fund to Nomura, expected to fetch around INR 1.4 billion. This will significantly increase the capital adequacy ratio and bring down the leverage levels in FY10E.

### Valuations & Outlook

We have revised our estimates and target price to capture strong growth in disbursements and realisation on account of LIC MF stake sale. We continue to believe that the company has strong fundamentals in housing finance segment considering huge demand supply gap in housing sector. We revise our target multiple for the stock from 1.3x to 1.6x FY11E ABV due to better growth outlook. We maintain BUY rating on the stock with a target price of INR 660.

For details refer to the initiating coverage report (Visit Note) dated 20/05/2009.

## Q1FY09 Results

Decline in NIMs led to lower than expected growth in NII

Growth in disbursements was driven by special schemes floated during the quarter

NPAs have improved on YoY basis whereas it has increased sequentially

INR Million	Q1FY10	Q1FY09	%ch	Q4FY09	%ch
Interest income	7450.5	5927.5	25.7	7544.3	(1.2)
Interest expenses	5708.6	4441.5	28.5	5429.4	5.1
Net interest income	1741.9	1486.0	17.2	2114.8	(17.6)
Non-interest income	368.5	303.3	21.5	516.6	(28.7)
Total income	2,110.3	1,789.3	17.9	2631.4	(19.8)
Operating expenses	322.3	266.8	20.8	448.3	(28.1)
Operating profit	1,788.1	1,522.5	17.4	2183.1	(18.1)
Provisions	100.1	96.7	3.4	12.6	694.6
Profit before tax	1,688.0	1,425.7	18.4	2170.5	(22.2)
Tax	449.7	379.2	18.6	594.8	(24.4)
Profit after tax	1,238.4	1,046.6	18.3	1575.7	(21.4)
EPS (INR)	14.5	12.3	18.3	18.6	(21.4)
Cost to income ratio	15.3	14.9	-	17.0	-
Sanctions (INR bn)	35.3	17.8	98.6	35.4	(0.2)
Disbursements	24.3	15.2	60.3	31.4	(22.6)
Loan Book	292.5	227.6	28.5	276.8	5.7
GNPA %	1.5	2.2	-	1.1	-
NNPA %	0.7	1.2	-	0.2	-
Prov Coverage %	57.0	48.5	-	80.8	-
Yield on advances	10.5	10.6	-	11.2	-
Cost of Funds	8.0	8.9	-	8.2	-
Net Interest margins	2.45	2.7	-	3.0	-

## Revision of Estimates

Revised estimates to factor robust growth in disbursements

	Revised	FY10E Old	% ch	Revised	FY11E Old	% ch
Net Interest income	9,287	9,128	1.7	11,403	10,976	3.9
Total income	10,985	10,851	1.2	13,300	12,920	2.9
PPP	9,148	8,780	4.2	11,106	10,478	6.0
PAT*	7,347	6,342	15.8	7,758	7,576	2.4
EPS	77.4	74.7	3.6	81.7	89.2	(8.4)

\* includes realisation from stake sale in LIC MF

## Q1FY10 Concall Highlights

- The company's disbursements grew by 60% YoY to INR 24 billion. Out of this majority of loans were disbursed in under special scheme at 8.75% rate. Management plans to reset interest on these loans at card rates (~10%) from 1st July onwards. Going forward, the management has guided disbursement growth in the range of 30-40% for the current fiscal. The company targets disbursements of about INR 90 bn and INR 20 bn in individual and project segments.
- Top 10 cities continue to contribute about ~55% of the company's business. According to management, housing prices have bottomed out in big cities and even started rising in certain pockets of the country.
- With strong growth in loan volumes management expects to gain market share by 200 bps in the current fiscal. Presently the company has 8.5% share in housing finance segment. Management plans to continue the special schemes (8.9% fixed rate ) in order to increase its customer base .
- Net interest margins are expected to remain at 2.8 % for FY10 despite falling to 2.45% in the current quarter. According to management, sharp fall in incremental funding cost s (7.15% in Q1FY10 coupled with reset of interest on special scheme loans (from 8.75% to ~10%) will help withstanding the margin pressures.
- The deterioration in asset quality (QoQ) is primarily due to seasonality. Management plans to contain NPAs at Mar'09 levels in the coming quarters with better recoveries and credit monitoring.
- The company has decided to sell 17.3% stake in LIC Mutual Fund to Nomura and the transaction is expected to get executed in Q2FY10. The consideration the stake sale would be INR 1.4 billion (initial investment INR 173 million). Management has clarified it would not sell complete stake in LICMF and will continue to hold 20% stake.
- The company is planning raise additional capital via QIP issue of 10 million shares. The issue will lead to ~11% equity dilution and will boost capital adequacy ratio. Recently, the company had raised INR 11 billion via NCD's at 7.45%.

## Standalone Financials

### Profit and Loss Statement

FYE March, INR mn	FY08	FY09	FY10E	FY11E
Interest income	20,368	27,476	31,544	37,082
Interest expenses	14,744	20,113	22,257	25,679
Net interest income	5,624	7,363	9,287	11,403
Other income	1,281	1,496	1,698	1,897
Total Income	6,905	8,859	10,985	13,300
Operating expenses	1,338	1,542	1,837	2,194
Preprovision profit	5,567	7,317	9,148	11,106
Provisions	243	53	436	464
Profit before tax	5,324	7,264	8,712	10,642
Tax	1,451	1,948	2,360	2,883
<b>Net Profit</b>	<b>3,873</b>	<b>5,316</b>	<b>6,352</b>	<b>7,758</b>
Extraordinary item (net of tax)	-	-	99.5*	-
<b>Adj Net Profit</b>	<b>3,873</b>	<b>5,316</b>	<b>7,347</b>	<b>7,758</b>

### Balance Sheet

FYE March, INR mn	FY08	FY09	FY10E	FY11E
Equity share capital	850	850	950	950
Reserves And Surplus	17,467	21,491	33,101	39,027
Net worth	18,317	22,341	34,051	39,977
Borrowings	203,444	254,217	307,614	378,508
Secured	191,134	235,240	287,128	355,212
Unsecured	12,310	18,977	20,486	23,296
Current Liabilities & Prov	11,814	17,265	21,287	22,961
<b>Total liabilities</b>	<b>233,575</b>	<b>293,823</b>	<b>362,951</b>	<b>441,445</b>
Net block	230	323	320	313
CWIP	70	22	35	35
Investments	7,746	11,292	14,477	16,727
Loans	219,364	276,793	342,385	418,275
Current assets	5,236	4,446	4,787	5,148
Deferred Tax assets	929	948	948	948
<b>Total assets</b>	<b>233,575</b>	<b>293,823</b>	<b>362,951</b>	<b>441,445</b>

\* assuming stake sale of in LIC Mutual Fund

### Ratios

FYE March, INR mn	FY08	FY09	FY10E	FY11E
<b>Per Share Data</b>				
No of shares (mn)	84.9	84.9	94.9	94.9
EPS	45.6	62.6	77.4	81.7
ABV	199.2	256.3	350.3	413.3
DPS	10.0	13.0	15.5	16.5
<b>Valuation Ratios</b>				
P/E	12.9	9.4	7.6	7.2
P/BV	3.0	2.3	1.7	1.4
<b>Performance ratios %</b>				
Avg yield on assets	9.7	10.5	9.6	9.2
Avg Cost of borrowings	7.9	8.6	7.7	7.3
Net interest margins	2.7	2.9	2.8	2.8
ROE	22.9	26.2	26.1*	21.0
ROA	1.8	2.0	1.9	1.9
<b>Growth %</b>				
Net interest Income	48.9	30.9	26.1	22.8
Other Income	32.7	16.8	13.5	11.7
Total Income	45.6	28.3	24.0	21.1
Operating Profit	50.6	31.4	25.0	21.4
PAT	38.7	37.3	38.2	5.6
Sanctions				
Disbursements	24.9	26.2	23.7	22.2
<b>Asset Quality %</b>				
Gross NPA/Loan Assets %	1.70	1.07	1.08	0.98
Net NPA/Loan Assets%	0.64	0.21	0.23	0.18
Provision coverage	62.5	80.8	78.5	82.1
CAR	13.5	14.3	17.4	15.4

### Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	20-05-2009	430	Buy	512
Result Update (Q1F10)	23-07-2009	592	Buy	660

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**Outperformer**

**More than 10% to Index**

**Marketperformer**

**Within 0-10% to Index**

**Underperformer**

**Less than 0-10% to Index**