

January 20, 2011

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs174	Rs210
EPS change FY11E/12E (%)	+10 / -17
Target Price change (%)	-30
Nifty	5,712
Sensex	19,047

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(34)	(16)	7
Rel. to Nifty	1	(31)	(20)	(3)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Financial Services
Bloomberg	LICHF@IN
Equity Capital (Rs mn)	949
Face Value(Rs)	2
No of shares o/s (mn)	475
52 Week H/L	299/141
Market Cap (Rs bn/USD mn)	82/1,801
Daily Avg Volume (No of sh)	14265039
Daily Avg Turnover (US\$m)	64.3

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	36.5	36.5	36.5
FII/NRI	42.3	41.9	32.3
Institutions	4.5	9.2	18.4
Private Corp	4.1	2.8	3.4
Public	12.6	9.6	9.4

Source: Capitaline

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- **Recent increases in the lending rates to take care of NIMs atleast for next two quarters. We are already building in 20bps pressure in spreads/NIMs next year**
- **Developers' loan portfolio only on pause now, to start disbursing fresh loans from Q4FY11 onwards. The proportion of developers' loan to remain steady at 11% of total**
- **Developers' loans portfolio NPAs are minimal. The loans under investigation at Rs3.9bn which are all performing assets**
- **Valuations at 1.7x/1.4x FY11E/FY12E ABV – valuations attractive looking at 22% avg RoEs despite higher provisions and building lower NIMs. Upgrade to BUY with TP of Rs210**

We recently hosted a conference call of LIC Housing Finance. Here are few takeaways from the call

NIMs can be maintained/incremental spread to improve next quarter

As LICHF revised its benchmark lending rates by 50bps wef Oct-10, the NIMs during the quarter expanded by 22bps and overall spreads were maintained. However, incremental spreads contracted by sharp 47bps as the incremental cost of funds during the quarter rose by 40bps.

Albeit, we have already built in 20bps contraction in NIMs for FY12, we believe that the NIMs can be maintained in near term as

- LICHF has revised its benchmark lending rates by 50bps more wef Jan-11 and also revised rates for advantage-five scheme by 50-85bps,
- Roughly 55% of the liabilities are on fixed basis compared with 65% of the assets on floating basis
- Developers' loan come back to 11% of the total loans

Developers' loan portfolio to pick up from Q4FY11

LICHF had put a temporary pause on its developers' loan portfolio in December 2010 due to events which happened last month. However, the management is confident of resuming the disbursements from Q4FY11 on loans which have already been sanctioned. The developers' loan portfolio is likely to remain around 11% of total in future.

Developers' loan portfolio almost NPA free

The developers' loan portfolio was virtually NPA free as they stood at 0.08% of the portfolio or just Rs38mn. Of the loans under investigations (Rs3.9bn), the repayment is happening on schedule. Our assessment of annual reports of few real estate players suggests that LICHF's developers' loan portfolio has adequate collaterals.

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	12.3	51.2	2.0	25.8	13.5	3.3
FY10	10,749	6,440	13.6	70.4	1.9	22.9	12.3	2.4
FY11E	15,364	9,987	21.0	83.8	2.2	26.9	7.9	2.0
FY12E	18,743	9,510	20.0	99.6	1.6	21.6	8.3	1.7
FY13E	24,320	12,703	26.7	121.9	1.7	23.9	6.2	1.4

Source: Company, Emkay Research

RoEs to still remain strong despite additional provisions

We are **building in provisions of Rs3.1bn/Rs3.7bn** in FY12E and FY13E each for the teaser rate loans assuming that the scheme is continued. We have also **built in NIMs/spreads contraction of ~20bps in FY12E**. We are also building in lower **disbursement CAGR of 21% over FY11-13E**. Despite the same we expect LICHF's RoEs would average at 22% over FY12-13E.

Valuations and view

At the CMP, the stock is quoting at 1.7x FY12E ABV and 1.4x FY13E ABV. We find valuations attractive looking average RoEs of 22% over next two years. We upgrade the stock to BUY with target price of Rs210.

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

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Net interest income	7,401	8,894	13,191	16,289	21,523
Other income	1,358	1,855	2,173	2,454	2,797
Net Income	8,760	10,749	15,364	18,743	24,320
Operating expenses	1,491	1,697	1,953	2,448	3,011
Depreciation	50	62	68	76	85
Pre-provision profit	7,219	8,991	13,343	16,219	21,224
Provisions	54	137	202	3,156	3,774
Profit before tax	7,264	9,137	12,128	13,063	17,450
Tax	1,948	2,491	2,911	3,553	4,746
Tax rate	26.8	27.3	24.0	27.2	27.2
APAT	5,244	6,440	9,987	9,510	12,703

Balance sheet (Rs mn)

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Equity	850	950	950	950	950
Reserves	21,491	32,970	39,297	46,806	57,398
Net worth	22,341	33,920	40,247	47,756	58,348
Borrowings	261,194	347,582	475,819	611,824	765,752
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	526,061	669,687	834,318
Net block	323	356	305	297	288
Investments	11,292	13,886	13,292	13,292	13,292
Loans	276,793	380,814	508,892	652,526	817,166
Current assets	4,488	6,516	3,572	3,572	3,572
Total assets	292,895	401,572	526,061	669,687	834,318

As % of assets

(Y/E Mar 31)	FY09	FY10	FY11E	FY12E	FY13E
Yield on assets	10.5	9.5	9.7	10.3	10.4
Spreads	2.5	2.2	2.4	2.3	2.4
NIM	2.8	2.6	2.9	2.7	2.9
Other income	0.5	0.5	0.5	0.4	0.4
Net Income	3.3	3.1	3.3	3.1	3.2
Operating expenses	0.6	0.5	0.4	0.4	0.4
Pre-provision profit	2.7	2.6	2.9	2.7	2.8
Provisions	0.0	0.0	0.0	0.5	0.5
Profit before tax	2.8	2.6	2.6	2.2	2.3
RoAA	2.0	1.9	2.2	1.6	1.7
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)	5,243.9	6,439.9	9,987.1	9,509.5	12,703.5
No of shares (mn)	425.0	475.0	475.0	475.0	475.0
FDEPS (Rs)	12.3	13.6	21.0	20.0	26.7
PER (x)	13.5	12.3	7.9	8.3	6.2
Book value (Rs)	52.6	71.4	84.7	100.5	122.8
P/BV (Rs)	3.2	2.3	2.0	1.7	1.4
ABV (Rs)	51.2	70.4	83.8	99.6	121.9
P/ABV (Rs)	3.3	2.4	2.0	1.7	1.4
P/PPP (x)	9.8	8.8	5.9	4.9	3.7
RoE (%)	25.8	22.9	26.9	21.6	23.9
Dividend yield (%)	1.6	1.8	2.0	2.2	2.3

Recommendation History: LIC Housing Finance – LICHF@IN

Date	Reports	Reco	CMP	Target
19/01/2011	<u>LIC Housing Finance Q3FY11 Result Update</u>	UR	170	UR
14/10/2010	<u>LIC Housing Finance Q2FY11 Result Update</u>	Accumulate	1,458	1,490
15/07/2010	<u>LIC Housing Finance Q1FY11 Result Update</u>	Accumulate	1,001	1,100
29/04/2010	<u>LIC Housing Finance Q4FY10 Result Update</u>	Accumulate	901	1000

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2011	<u>Yes Bank Q3FY11 Result Update</u>	Accumulate	273	300
20/01/2011	<u>South Indian Bank Q3FY11 Result Update</u>	Buy	22	30
17/01/2011	<u>Axis Bank Q3FY11 Result Update</u>	Hold	1,227	1,300
28/12/2010	<u>Allahabad Bank Management Meet Update</u>	Buy	216	300

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