

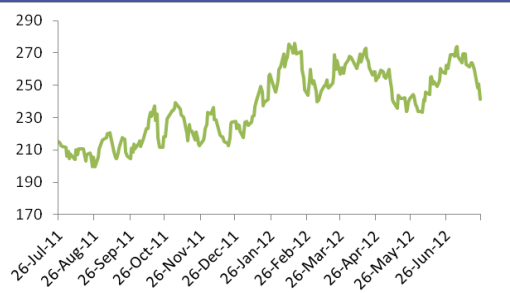
## LIC Housing Finance Ltd

Recommendation	BUY
CMP (26/07/2012)	Rs. 245
Target Price	Rs. 333
Sector	Housing Finance

## Stock Details

BSE Code	500253
NSE Code	LICHSGFIN
Bloomberg Code	LICF IN
Market Cap (Rs cr)	12,472
Free Float (%)	59.7%
52- wk HI/Lo (Rs)	290/195
Avg. volume BSE (Quarterly)	205199
Face Value (Rs)	2.0
Dividend (FY 12)	180%
Shares o/s (Cr)	10.1

Relative Performance	1Mth	3Mth	1Yr
LIC Housing	-7.9%	-4.5%	12.3%
Sensex	-0.4%	-1.7%	-9.0%



Shareholding Pattern	30 <sup>th</sup> June 12
Promoters Holding	40.31%
Institutional (Incl. FII)	38.79%
Corporate Bodies	3.53%
Public & others	17.37%

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Research Analyst

## Healthy growth; margins compression bottoming out

LIC Housing Finance (LICHF) reported PAT below estimates primarily due to lower Net Interest Income resulting in margin compression (due to higher cost of funds) and higher provisions. We have fine tuned our estimates to incorporate the below expected Q1FY13 results. However, our view on the stock remains unchanged as the margin expansion benefit which was expected to kick in from Q1FY13 has been postponed and is expected to start from Q2FY13 onwards with the chunk of repricing coming up from Q2FY13. Moreover, we remain confident that the current momentum in loan growth will continue with increase in share of developer loans. We expect PAT to grow at a CAGR of 28% over FY12-FY14E.

## ➤ Strong growth seen in individual loan portfolio

LICHF's loan portfolio continued to remain healthy at 24% YoY to Rs 65,644 cr of which retail disbursements increased almost 29% YoY in Q1FY13. Disbursements to the developer's loan segment increased 17% QoQ to Rs 321 cr from Rs 274 cr in Q4FY12. However, repayments from the developer segment continued to be more than fresh disbursements resulting in overall decline in the outstanding developer loan portfolio. Management has guided for fresh disbursements to developers to be ~Rs 2000 cr for FY13E, resulting in share of developer portfolio improving to ~6-7% for FY13E.

## ➤ NIMs compress: however expected to improve from hereon

NIMs for Q1FY13 stood at 2.18% against 2.44% in Q4FY12 mainly on account of lower income from Developer Loans and higher cost of funds. Going forward as per the Management, the easing NCD rates and lowering of base rate should result in lower cost of funds. Moreover, with the repricing of the teaser loan portfolio and the increasing developer loan portfolio NIMs are expected to improve going forward. Management targets NIMs to be in the range of 2.5%-2.7% for FY13E. We expect that the margins have bottomed out and will only improve from here on, given repricing of teaser rate loans, possible reduction in rates and increase in developer loan book.

## Seasonal impact on asset quality; Adequate provisioning maintained

Gross NPA increased 5% YoY to Rs 468 cr whereas Net NPA 20.6% YoY to Rs 248.7 cr in Q1FY13. Gross NPA and Net NPA ratios stood at 0.71% and 0.38% respectively. Management highlighted that deterioration in asset quality in Q1 is a seasonal phenomenon as the individual loan portfolio witnesses' stress in Q1. Recoveries are expected to remain high in the coming quarters of FY13E.

## Valuation &amp; Recommendation

Driven by strong disbursement and focus on asset quality LIC Housing is well positioned to deliver sustainable and profitable growth. We believe that the current valuations of 1.86x FY13E and 1.57x FY14E BV are attractive. We recommend **BUY** on the stock and maintain our target price of Rs 333 implying an upside of 35.9% from current levels.

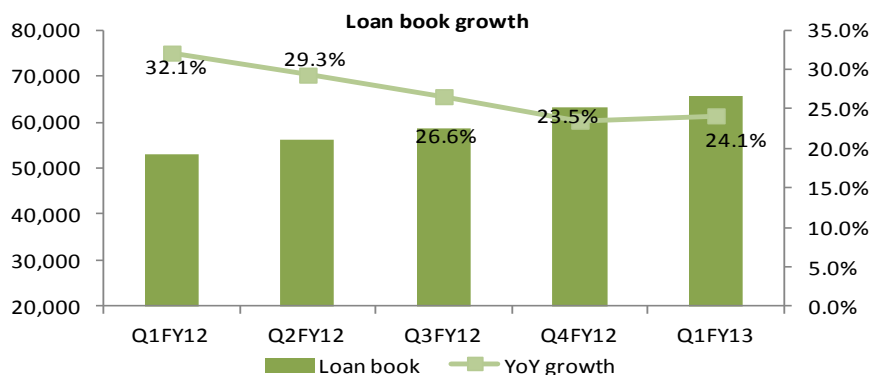
Year	NII (Rs cr)	Growth (%)	Pre prov profit (Rs cr)	Growth (%)	PAT (Rs cr)	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY 11A	1,372	55%	1,555	76%	975	20.51	11.95	87.45	2.80	25.8%
FY 12A	1,392	1%	1,389	-11%	916	18.11	13.53	112.52	2.18	18.6%
FY 13E	1,812	30%	1,791	29%	1,209	23.95	10.23	131.68	1.86	19.6%
FY 14E	2,265	25%	2,206	23%	1,503	29.75	8.24	156.43	1.57	20.5%



## LIC Housing Finance Ltd

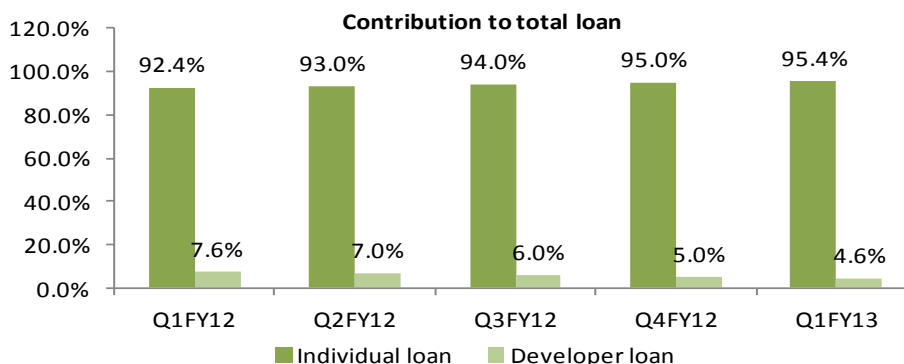
### Strong growth seen in individual loan portfolio

LICHF loan portfolio continued to remain healthy at 24% YoY to Rs 65,644 cr of which retail disbursements increased almost 29% YoY in Q1FY13. As per the Management incremental loan growth is mainly from the tier II and tier III cities. The Southern states witnessed a growth of 25%+ whereas the Central and Eastern States witnessed growth of 35%+ during the quarter.



Source: Company data, Nirmal Bang Research

Disbursements to the developer's loan segment increased 17% QoQ to Rs 321 cr from Rs 274 cr in Q4FY12. However, repayments from the developer segment continued to be more than fresh disbursements resulting in overall decline in the outstanding developer loan portfolio. The overall share of the developer loan book declined to 4.6% of the total book.

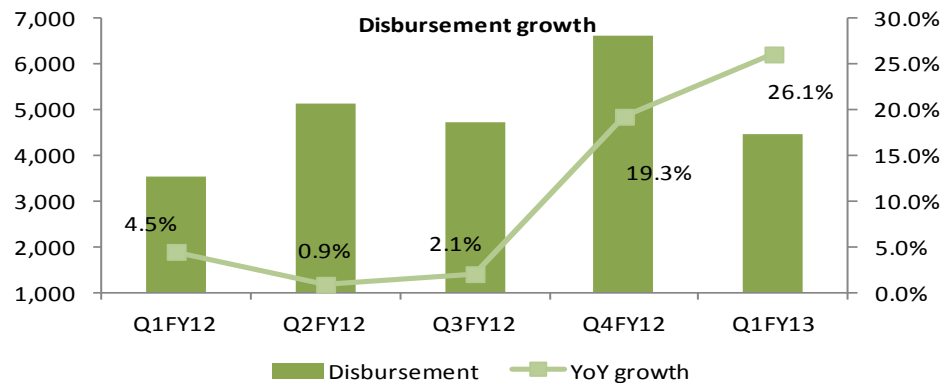


Source: Company data, Nirmal Bang Research

Going forward, disbursements are expected to be better than the repayment which will help in increasing the overall developer loan portfolio of the company. Management has guided for fresh disbursements to developers to be ~ Rs 2000 cr for FY13E, resulting in share of developer portfolio improving to ~6-7% for FY13E.



## LIC Housing Finance Ltd

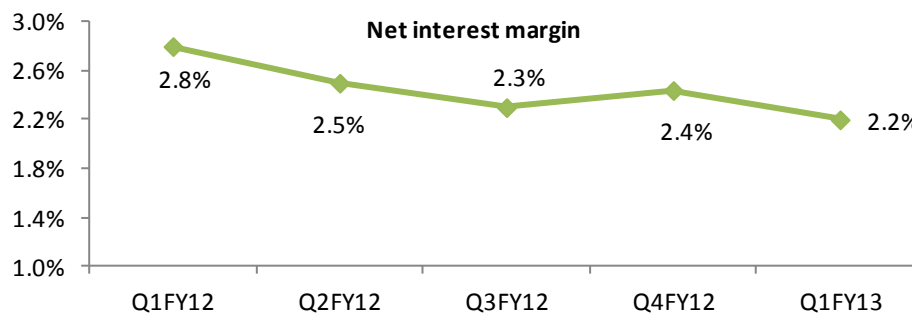


Source: Company data, Nirmal Bang Research

### NIMs compress: however expected to improve from hereon

Net Interest Margins for the Q1FY13 stood at 2.18% against 2.44% in Q4FY12 mainly on account of lower income from Developer Loans. Higher borrowing cost also dragged down the NIMs. The cost of funds remained elevated primarily due to lower reduction in the base rates by the banks. As per the Management, the NCD rates have started showing signs of easing and the benefit of the base rate effect is also being passed by the banks which should result in lower cost of funds for the company.

Moreover, with the repricing of the teaser loan portfolio spread over the next four quarter and the increasing developer loan portfolio; NIMs are expected to improve going forward. Management expects the repricing of ~Rs 8000 cr to happen in FY13E and the remaining Rs 3000 cr in Q1FY14E. Around Rs 800 cr has already been repriced in current quarter. Management targets NIMs to be in the range of 2.5%-2.7% for FY13E. We expect that the margins have bottomed out and will only improve from here on, given repricing of teaser rate loans, possible reduction in rates and some pick-up in developer book.

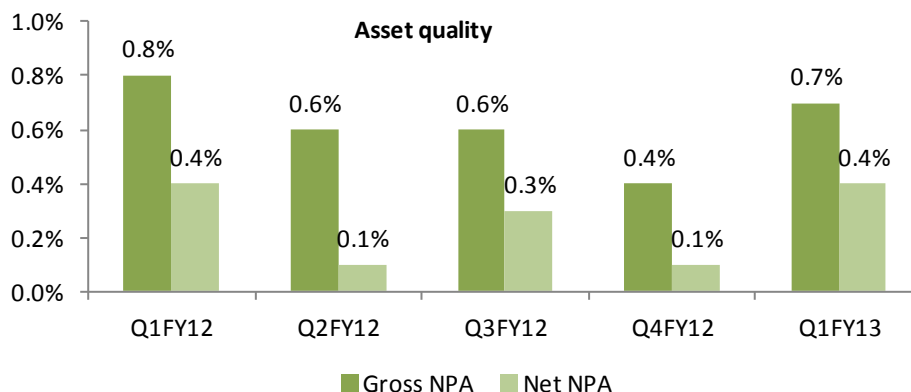


Source: Company data, Nirmal Bang Research

**LIC Housing Finance Ltd**

**Seasonal impact on asset quality; Adequate provisioning maintained**

Gross NPA increased 5% YoY to Rs 468 cr whereas Net NPA 20.6% YoY to Rs 248.7 cr in Q1FY13. Gross NPA and Net NPA ratios stood at 0.71% and 0.38% respectively. Management highlighted that deterioration in asset quality in Q1 is a seasonal phenomenon as the individual loan portfolio witnesses' stress in Q1. Recoveries are expected to remain high in the coming quarters of FY13E. We continue to assume higher NPA for FY13E considering the increasing share of developer loan portfolio. The coverage ratio including general provisions continued to remain healthy at 147%. LICHF provided Rs 43.6 cr as provisions which were largely driven by higher standard asset provisioning.



Source: Company data, Nirmal Bang Research

Income Statement (Rs cr)	Q1FY13	Q1FY12	YoY (%)	Q4FY12	QoQ (%)
Interest Earned	1,718	1,358	26.5%	1,628	5.5%
Interest Expended	1,367	997	37.1%	1,257	8.8%
Net interest income	350	361	(2.9%)	371	(5.5%)
Other income	49	60	(17.7%)	61	(19.0%)
Total income	400	421	(5.0%)	432	(7.4%)
Payment to employees	19	16	19.9%	21	(7.9%)
Other operating expenses	33	24	34.1%	65	(49.1%)
Total operating expenses	52	41	54.0%	85	(39.0%)
Profit before provisioning	348	381	(8.6%)	346	0.4%
Provisions	44	33	30.3%	-2	N/A
Profit before tax	304	347	(12.3%)	349	(12.8%)
Tax	77	89	(13.9%)	95	(19.6%)
Profit after tax	228	258	(11.8%)	254	(10.2%)
EPS	4.5	5.4	(16.5%)	5.0	(10.2%)

Source: Company data, Nirmal Bang Research

## LIC Housing Finance Ltd

**Valuation and Recommendation**

LIC Housing operates in the mortgage financing business where growth and asset quality have been proven to be healthy in the last few years. LIC Housing is one of the top players in this mortgage market with 10% market share.

Driven by strong disbursement and focus on asset quality LIC Housing is well positioned to deliver sustainable and profitable growth. With an improvement in the company's operating performance the return ratios are set to improve going forward. Moreover, the company has already proved its worth by reporting an excellent track record of profitability and building up a healthy balance sheet. Healthy asset quality and prudent provisioning policy makes LIC Housing better placed compared to its peers in the housing financing space.

We believe that the current valuations of 1.86x FY13E and 1.57x FY14E P/BV are attractive. We recommend **BUY** on the stock and maintain our target price of Rs 333 implying an upside of 35.9% from current levels.

## LIC Housing Finance Ltd

### Financials

Profitability (Rs. Crs)	FY11	FY12	FY13E	FY14E	Balance Sheet (Rs. Crs)	FY11	FY12	FY13E	FY14E
Interest earned	4,470	5,983	7,562	9,182	Equity capital	95	101	101	101
Interest expended	3,098	4,591	5,749	6,917	Reserves and surplus	4,074	5,581	6,589	7,839
<b>Net interest income</b>	<b>1,372</b>	<b>1,392</b>	<b>1,812</b>	<b>2,265</b>	<b>Net worth</b>	<b>4,169</b>	<b>5,682</b>	<b>6,690</b>	<b>7,940</b>
Non interest income	399	233	266	285	<b>Total Loans</b>	<b>45,163</b>	<b>56,163</b>	<b>69,923</b>	<b>85,515</b>
<b>Total income</b>	<b>1,771</b>	<b>1,625</b>	<b>2,078</b>	<b>2,549</b>	Curr Liab	4,298	3,763	4,214	5,008
Payment to employees	68	72	93	110	<b>Total liab and equity</b>	<b>53,630</b>	<b>65,608</b>	<b>80,826</b>	<b>98,463</b>
Other op exp	148	163	194	233	Cash and bank bal	435	279	162	131
Total expenses	216	235	287	343	Investments	1,403	1,543	1,621	1,702
<b>Profit before prov</b>	<b>1,555</b>	<b>1,389</b>	<b>1,791</b>	<b>2,206</b>	Housing Loans	51,090	63,080	78,265	95,793
Provisions	261	156	134	148	Fixed assets	47	62	72	82
<b>Profit before tax</b>	<b>1,294</b>	<b>1,233</b>	<b>1,657</b>	<b>2,058</b>	Other current assets	485	422	486	534
Taxes	320	317	447	556	Other Long Term Assets	170	221	221	221
<b>Net profit</b>	<b>975</b>	<b>916</b>	<b>1,209</b>	<b>1,503</b>	<b>Total assets</b>	<b>53,630</b>	<b>65,608</b>	<b>80,826</b>	<b>98,463</b>
Quarterly (Rs. Crs)	Sep.11	Dec.11	Mar.12	June.12	Key Ratios	FY11	FY12	FY13E	FY14E
<b>Net interest income</b>	334	326	371	350	<b>Yield Ratios</b>				
Non interest income	57	54	61	49	Avg Yield on Loans	10.0%	10.5%	10.7%	10.6%
<b>Total income</b>	392	380	432	400	Cost of Int Bearing Liab	7.8%	9.1%	9.1%	8.9%
Operating expenses	56	53	85	52	Net interest spread	2.3%	1.4%	1.6%	1.7%
<b>Operating profit</b>	335	326	346	348	Net interest margin	3.1%	2.4%	2.6%	2.6%
Provisions	205	(80)	(2)	44	Gross NPA	0.47%	0.40%	0.68%	0.76%
Profit before tax	131	406	349	304	Net NPA	0.03%	0.10%	0.12%	0.15%
Taxes	32	100	95	77	Capital adequacy ratio	14.9%	16.8%	15.0%	14.0%
<b>Net profit</b>	98	306	254	228	Per share data	FY11	FY12	FY13E	FY14E
Profitability Ratios	FY11	FY12	FY13E	FY14E	EPS	20.51	18.11	23.95	29.75
Cost / Income Ratio	12.2%	14.6%	13.8%	13.5%	BVPS	87.8	112.5	132.5	157.2
Net profit margin	20.0%	14.7%	15.4%	15.9%	Adj BVPS	87.5	111.7	131.7	156.4
RONW	25.8%	18.6%	19.6%	20.5%	DPS	3.5	3.6	4.0	5.0
Return on Assets	2.23%	1.65%	1.75%	1.77%	Dividend yield	1.4%	1.5%	1.6%	2.0%
Growth Ratios	FY11	FY12	FY13E	FY14E	Valuation Ratios	FY11	FY12	FY13E	FY14E
Advances growth	34.2%	23.5%	24.1%	22.4%	P/E	11.95	13.53	10.23	8.24
Borrowing growth	29.9%	24.4%	24.5%	22.3%	P/BV	2.79	2.18	1.85	1.56
NII growth	54.7%	1.4%	30.3%	24.9%	P/ABV	2.80	2.19	1.86	1.57
PAT growth	47.3%	-6.0%	32.0%	24.2%					
Pre prov profit growth	76.3%	-10.7%	28.9%	23.2%					
Non interest inc growth	113.9%	-41.6%	14.0%	7.1%					

Source: Company data, Nirmal Bang Research

## NOTES

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