

July 24, 2012

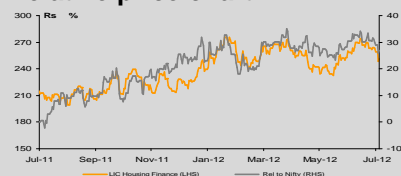
Rating	Previous Reco
Hold	Hold
CMP	Target Price
Rs251	Rs285
EPS Chg FY13E/FY14E (%)	-12 / -10
Target Price change (%)	NA
Nifty	5,128
Sensex	16,918

### Price Performance

(%)	1M	3M	6M	12M
Absolute	-3	-3	-2	16
Rel. to Nifty	-3	-1	-1	29

Source: Bloomberg

### Relative price chart



Source: Bloomberg

### Stock Details

Sector	Banking & Financial Services
Bloomberg	LICHF IB
Equity Capital (Rs mn)	1,009
Face Value(Rs)	2
No of shares o/s (mn)	505
52 Week H/L	290/ 195
Market Cap (Rs bn/USD mn)	127/ 2,259
Daily Avg Volume (No of sh)	1,595,854
Daily Avg Turnover (US\$m)	7.2

### Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	40.3	40.3	36.5
FII/NRI	29.7	34.4	40.3
Institutions	9.1	9.5	9.4
Private Corp	3.5	2.9	2.8
Public	17.4	13.0	11.0

Source: Bloomberg

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- LICHF Q1FY13 NII / PAT at Rs3.5bn / Rs2.27bn – below est. Reported NIM at 2.18% declined 26bps qoq and was dragged by lower share of corporate loans and higher borrowing costs
- Growth on retail front remains upbeat with individual disbursement / loan up 28%+ yoy each. Asset quality remains intact, cumulative provisions stood at Rs6.9bn or 1% of loans
- While LICHF has beaten our exp on competitive pressure, the benefit of repricing is increasingly getting restricted due to higher disbursements in the discounted category
- Though cutting our estimates driven by restricted benefits from loan repricing, LICHF remains our best bet in financials driven by strong RoA profile with limited risks of NPAs

### Results below estimates; growth on retail front remains upbeat

LICHF Q1FY13 NII at Rs3.5bn (-3% yoy/-6% qoq) was lower than our / street estimates and was dragged by relatively lower disbursements towards corporate loans and higher borrowing costs. Reported NIM at 2.18% declined 26bps qoq (60bps yoy). Also, with lower non-interest income and higher provisioning (primarily towards standard asset and higher PCR requirement), PAT at Rs2.27bn (-11% yoy / 10% qoq) was significantly lower than our estimates of Rs2.46bn.

On the flip side, 28%+ yoy growth in individual disbursements / loan portfolio and 17% qoq rise in corporate loan portfolio came in as a silver lining. Overall loan / disbursement growth for Q1FY13 stood at 24% yoy / 35% yoy respectively.

### Lower corporate portfolio + higher borrowing cost led to NIM compression

Q1FY13 calc NIM at 2.14% (-29bps qoq) was lower than our estimates of 2.31% and primarily dragged by lower income from corporate loans and higher borrowing costs. Reported cost of funds at 9.58% was up 36bps sequentially. Q1FY13 borrowings stood at Rs50bn vs disbursements of Rs48bn. We await details on such steep rise in borrowing cost as LICHF had inflows of Rs8bn via pref. allotment in the 1st half of FY12.

### Exhibit 1: Yield analysis

%	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY bps	QoQ bps
Yield on advances	10.5	10.7	10.7	10.7	10.7	23	-2
Yield on total assets	10.8	11.0	10.9	10.7	10.5	-30	-17
Yield on earning funds	10.5	10.7	10.7	10.7	10.7	23	-2
Cost of borrowings	8.7	9.2	9.4	9.2	9.6	92	36
Cost of funds	7.9	8.5	8.6	8.2	8.3	43	11
Spread	1.8	1.5	1.3	1.5	1.1	-70	-37
NIM	2.9	2.5	2.3	2.4	2.1	-73	-29
NIMs#	2.8	2.5	2.3	2.4	2.2	-60	-26

Source: Company, Emkay Research

# reported

### Financial Snapshot (Standalone)

(Rsmn)

Y/E	Net Income	Net Profit	EPS (Rs)	ABV (Rs)	RoA (%)	RoE (%)	PE (x)	P/ABV (x)
Mar								
FY11A	16,056	9,745	22.0	87.5	2.2	27.6	11.5	2.9
FY12A	16,255	9,142	20.4	110.8	1.7	20.9	12.3	2.3
FY13E	19,952	12,318	24.4	129.3	1.7	20.0	10.3	1.9
FY14E	25,125	16,870	30.8	154.8	1.8	21.4	8.2	1.6

## Exhibit 2: Key financials – Quarterly

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
Net Interest Income	3,610	3,341	3,257	3,708	3,505	-2.9	-5.5
Other Income	601	574	539	610	494	-17.7	-19.0
Net Income	4,211	3,916	3,796	4,318	3,999	-5.0	-7.4
Total Operating Expenses	405	543	514	834	503	24.1	-39.7
As % Of Net Income	9.6	13.9	13.5	19.3	12.6		
Employee Expenses	160	175	180	209	192	20.0	-7.9
As % Of Net Income	3.8	4.5	4.7	4.8	4.8		
Other Expenses	262	386	353	645	328	25.4	-49.1
As % Of Net Income	6.2	9.9	9.3	14.9	8.2		
Operating Profit	3,789	3,354	3,262	3,464	3,479	-8.2	0.4
As % Of Net Income	90.0	85.7	86.0	80.2	87.0		
Provisions	334	206	-8	0	436	NA	#DIV/0!
PBT	3,454	1,307	4,059	3,488	3,043	-11.9	-12.7
Total Tax	889	323	1,003	952	766	-13.9	-19.6
Adjusted PAT	2,565	2,370	2,462	2,519	2,278	-11.2	-9.6
Extra Ordinary Items	0	1,841	-789	-24	0		
Reported PAT	2,565	984	3,056	2,536	2,278	-11.2	-10.2
Reported EPS	5.4	2.1	6.4	5.0	4.5	-16.5	-10.2

Source: Company, Emkay Research

### Repricing benefits to be more restricted than we thought earlier

With stronger than expected growth in the retail category (29% yoy vs our estimates of 20% yoy), we believe that the benefits from the repricing are going to be much more restricted than we thought earlier. From Q2FY13 onwards LICHF is likely to witness the repricing of the teaser rate loans to the extent of Rs25-30bn per quarter. The upward repricing will be to the extent of 250bps upwards. However, with significant retail disbursements growth still happening at hefty pace under fixed-o-floaty scheme, the amount of loans at lending yields which are equal to current depressed blended yields will still remain high. We believe that the higher proportion of such loans will restrict the repricing benefit on the old loans in the wake of still steep borrowing cost environment. **Hence, we have reduced our NIMs assumption from earlier 2.65% vs 2.4% now.** However, any significant correction in the wholesale borrowing costs will be a key risk to our call.

### Growth on retail front remains upbeat; expect 22% CAGR in disbursements

LICHF Q1FY13 results provided respite in terms of its ability to withstand competition in the retail mortgage space. This is clearly reflected from healthy 28% yoy (5% qoq) growth in individual loans during the quarter. (HDFC Q1FY13 individual loans portfolio grew 23% yoy / 8% qoq). Disbursements too were up 29% yoy. During our recent interactions, mgmt hinted for increasing traction in Southern and Eastern India. These regions cumulative account for 55% of total business for LICHF. Developers' book declined 24% yoy / 5% qoq. Disbursements however were up 17% qoq.

## Exhibit 3: Disbursements and loan portfolio mix

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	% of portfolio	YoY (%)	QoQ (%)
<b>Disbursements</b>								
Individual	34,677	47,365	45,680	63,450	44,700	93.3	28.9	-29.6
Project	774	4,117	1,540	2,740	3,211	6.7	315.0	17.2
<b>Total</b>	<b>35,451</b>	<b>51,482</b>	<b>47,220</b>	<b>66,190</b>	<b>47,911</b>	<b>100.0</b>	<b>35.1</b>	<b>-27.6</b>
<b>Total Loans</b>								
Individual	488,504	521,498	551,710	598,950	626,020	95.4	28.2	4.5
Project	40,252	39,480	35,350	31,852	30,420	4.6	-24.4	-4.5
<b>Total</b>	<b>528,755</b>	<b>560,977</b>	<b>587,060</b>	<b>630,802</b>	<b>656,440</b>	<b>100.0</b>	<b>24.1</b>	<b>4.1</b>

Source: Company, Emkay Research.

**Stable asset quality; adequate provisioning provides comfort**

Q1FY13 GNPA / NNPA at Rs4.7bn / Rs2.5bn were up 5% / 21% yoy respectively. LICHF passed Rs436mn as provisions via P&L and was largely to driven by higher standard asset provisioning. We drive comfort from the fact that cumulative provisioning (ie standard asset + teaser rate) stands at Rs6.9bn or 1% of loans. Following NHB requirement, teaser rate provisioning will be reversed beginning Q1FY14.

**Exhibit 4: Stable asset quality**

Rs mn	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)
Gross NPLs	4,444	3,590	3,678	2,649	4,680	5.3	76.6
Net NPLs	2,062	660	1,801	883	2,487	20.6	181.6
Gross NPLs (%)	0.8	0.6	0.6	0.4	0.7		
Net NPLs (%)	0.4	0.1	0.3	0.1	0.4		
Net NPLs/Net worth (%)	4.7	1.5	3.7	1.6	4.2		
Provision cover (%)	53.6	81.6	51.0	66.7	46.9		

Source: Company, Emkay Research

**Provision coverage though low will even out by the end of the year**

From Q3FY12 onwards, LICHF has started following NHB directed norms for provisions (which are less aggressive) and accordingly now has stopped providing ad-hoc provisions. Accordingly the provision coverage ratio (PCR) has come off from 54% in Q1FY12 to 47% in Q1FY13. We believe that as the financial year moves forward to Q4FY13, GNPA figure will reduce significantly (seasonal impact), the overall provision coverage ratio will be back to 70%. Also, with the tease rate loan provisions of Rs2.5bn available for write back from Q1FY14, it will help in beefing up the PCR.

**Exhibit 5: Ad-hoc provisions reducing gradually**

Rs mn	Retail Loans			Developers Loans			Total			NNPA	NNPA	Adhoc	Total
	GNPAs	Provisions	PCR (%)	GNPAs	Provisions	PCR (%)	GNPAs	Provisions	PCR (%)	Calc	reported	LLP	LLP
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
						(1)+(4)	(2)+(5)		(7)-(8)			(10)-(11)	(8)+(12)
<b>FY10</b>													
Substandard	697	105	15.0	37	6	15.0	734	110	15.0				
Doubtful	1,606	817	50.9	89	40	45.0	1,695	857	50.6				
Loss assets	168	168	100.0	34	34	100.0	202	202	100.0				
Total GNPA	2,471	1,090	44.1	160	80	49.8	2,632	1,170	44.5	1,462	810	652	1,822
<b>FY11</b>													
Substandard	521	78	15.0	33	5	15.0	553	83	15.0				
Doubtful	1,539	807	52.4	86	42	49.1	1,625	849	52.3				
Loss assets	213	213	100.0	29	29	100.0	241	241	100.0				
Total GNPA	2,272	1,098	48.3	148	76	51.5	2,420	1,174	48.5	1,246	409	837	2,011
<b>FY12</b>													
Substandard	626	94	15.0	20	3	15.0	646	97	15.0				
Doubtful	1,554	1,184	76.2	86	60	70.1	1,640	1,244	75.9				
Loss assets	331	331	100.0	35	35	100.0	366	366	100.0				
Total GNPA	2,510	1,608	64.1	142	99	69.6	2,652	1,707	64.4	945	883	62	1,769

Source: Company, Emkay Research

LLP: Loan loss provisions

## Valuations and view

LICHF Q1FY13 results were a mixed bag in terms of:

- Positives being in nature of buoyancy on the retail loan front with stable asset quality and adequate provision cover
- Negatives in terms of relatively lower disbursements towards corporate loans and steeper than expected decline in NIM to 2.18%.

While LICHF has beaten our expectations on the competition front with 29% yoy growth in retail disbursement (even HDFC and Gruh Finance reported 20%+ growth), the same strong growth will be restricting any meaningful expansion in NIMs in FY13. The continued higher proportion of loans at yields which are equal or lower than the blended yield on total portfolio would mean that the any yield expansion will just offset steep borrowing costs in the current scenario. Accordingly we have lowered our NIMs from 2.65% in FY13 to 2.4% (just about 5bps expansion).

Accordingly we have cut our NII and PAT growth estimates by 11% / 12% and 9% / 10% each respectively for FY13E/FY14E. However, the windfall gains would arise and will be a risk to our estimates if the wholesale borrowing costs soften dramatically.

The stock trades at 1.9x / 1.6x FY13 / FY14 ABV. Though our TP of Rs285 continues to leave limited upside to the CMP, LICHF remains our top pick in the sector driven by strong RoA profile of 1.7% even in scenario highlighted earlier. The fact that the asset quality risks are much lower than the peers in banking space is added incentive.

Key risk to our estimates could come from two factors (1) the intended QIP (LIC has board approval to raise additional capital) and (2) sharper than expected bounce back in the NIMs. LICHF has kept the option of QIP open and may look at raising Rs12-13bn sometime next year. If QIP is done at Rs270/share (same price as to LIC, its parent), there will be an upside of 9%/7% to our ABV assumptions for FY13/14. RoE's will dip by 200bps each.

### Exhibit 6: Revised estimates

Rs mn	FY13			FY14		
	Old	New	% change	Old	New	% change
NII	19,570	17,485	-10.7	24,452	22,213	-9.2
Pre-provision profit	19,473	17,327	-11.0	24,350	21,962	-9.8
PAT	13,986	12,318	-11.9	18,685	16,870	-9.7
EPS (Rs)	27.7	24.4	-11.9	34.4	30.8	-10.4
ABV (Rs)	132.6	129.3	-2.5	161.7	154.8	-4.3

Source: Emkay Research

## Key Financials

## Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Net interest income</b>	13,770	14,022	17,485	22,213
Other income	2,286	2,232	2,466	2,913
Net income	16,056	16,255	19,952	25,125
Operating expenses	2,162	2,372	2,625	3,163
Pre provision profit	13,894	13,882	17,327	21,962
PPP excl treasury	0	0	0	0
Provisions	41	0	792	1,073
<b>Profit before tax</b>	<b>13,854</b>	<b>13,882</b>	<b>18,586</b>	<b>23,076</b>
Tax	3,197	3,167	4,216	5,774
Tax rate	24.7	25.7	25.5	25.5
Profit after tax	9,745	9,142	12,318	16,870

## Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Liabilities</b>				
Equity	950	1,010	1,010	1,010
Reserves	40,741	55,812	65,176	78,028
Net worth	41,691	56,822	66,186	79,038
Deposits	451,972	561,069	694,293	846,156
Borrowing & Others	40,938	35,222	41,797	43,569
Total liabilities	534,601	653,113	802,276	968,764
<b>Assets</b>				
Cash and bank	4,352	2,793	5,475	5,475
Investments	14,032	14,032	14,032	14,032
Customer assets	510,898	630,801	777,552	943,145
Others	5,319	5,488	5,485	5,476
Total assets	534,601	653,113	802,276	968,764

## Key Ratio (%)

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
NIM	2.9	2.4	2.4	2.5
Non-ll/avg assets	0.5	0.4	0.3	0.3
Fee income/avg assets	0.0	0.0	0.0	0.0
Opex/avg assets	0.4	0.4	0.4	0.3
Provisions/avg assets	3.0	2.3	2.4	2.5
PBT/avg assets	0.0	0.0	0.1	0.1
Tax/avg assets	0.7	0.5	0.6	0.7
RoA	2.2	1.7	1.7	1.8
RoAE	27.6	20.9	20.0	21.4
GNPA (%)	0.5	0.4	0.3	0.3
NNPA (%)	0.0	0.1	0.1	0.1

## Valuation Table

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Net profit (Rs mn)	9,745	9,142	12,318	16,870
Shares in issue (mn)	475	505	505	505
EPS (Rs)	22.0	20.4	24.4	30.8
PER (x)	11.5	12.3	10.3	8.2
FDEPS(Rs)	22.0	20.4	24.4	30.8
FDPER (x)	11.5	12.3	10.3	8.2
Book value (Rs)	87.8	112.5	131.1	156.5
P/BV (x)	2.9	2.2	1.9	1.6
Adj book value (Rs)	87.5	110.8	129.3	154.8
P/ABV (x)	2.9	2.3	1.9	1.6
P/PPP (x)	8.6	9.2	7.3	5.8
Dividend yield (%)	1.4	1.4	2.0	2.7

**Recommendation History: LIC Housing Finance – LICHF@IN**

Date	Reports	Reco	CMP	Target
25/04/2012	<a href="#">LIC Housing Finance Q4FY12 Result Update</a>	Hold	258	285
22/03/2012	<a href="#">LIC Housing Company Update</a>	Hold	269	260
30/01/2012	<a href="#">LIC Housing Finance Q3FY12 Result Update</a>	Hold	246	250
06/01/2012	<a href="#">India - Housing Finance Sector Report</a>	Buy	225	250

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
17/07/2012	<a href="#">Axis Bank Q1FY13 Results Update</a>	Hold	1,024	1,050
16/07/2012	<a href="#">South Indian Bank Q1FY13 Result Update</a>	Hold	25	25
13/07/2012	<a href="#">HDFC Bank Q1FY13 Result Update</a>	Hold	587	610
11/07/2012	<a href="#">HDFC Q1FY13 Result Update</a>	Hold	679	700

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