

July 24, 2012

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Rating	BUY
Price	Rs251
Target Price	Rs310
Implied Upside	23.5%
Sensex	16,918
Nifty	5,128

(Prices as on July 24, 2012)

Trading data

Market Cap. (Rs bn)	126.8
Shares o/s (m)	505.0
3M Avg. Daily value (Rs m)	448.4

Major shareholders

Promoters	40.31%
Foreign	34.25%
Domestic Inst.	9.45%
Public & Other	15.99%

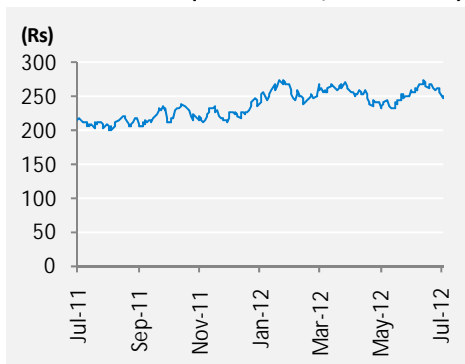
Stock Performance

(%)	1M	6M	12M
Absolute	(2.9)	(1.9)	16.2
Relative	(2.6)	(1.5)	25.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	24.3	24.7	-1.7
2014	31.2	30.9	0.9

Price Performance (RIC: LICH.BO, BB: LICHF IN)



Source: Bloomberg

LICHF's Q1FY13 PAT of Rs2.27bn was much lower than our initial expectation of +Rs3.0bn but in line with company's recent guidance. Margin performance disappointed but we believe funding costs at ~9.6% have peaked and repricing of the 'fix-o-floaty' portfolio (Rs25bn every qtr) should lead to an improvement in margins from Q2FY13. We cut estimates by 5% for FY13 for LICHF as improvement related to builder mix will get pushed to FY14. Despite the 5% PAT cut, ROEs will be ~20-21% (pre-dilution) and 18-19% (post dilution). Maintain 'BUY' with a PT of Rs310/share.

■ **How should we read Q1FY13 margin performance?** Margin performance was disappointing, with reported margins down ~25bps QoQ. We would like to highlight that there is seasonality in Q4 margins for HFCs and adjusted for that spread contraction was lower in Q1FY13. We expect ~40bps improvement in core spread (FY13), with ~Rs80bn of repricing over FY13 and further 20bps in FY14 again due to repricing and some improvement in loan mix.

■ **Individual growth strong; Builder portfolio still muted:** Individual mortgages continue to grow at a rapid clip, with ~29% growth in individual disbursements and with no unusual increase in repayments, individual loan growth was strong at ~28% YoY. Builder portfolio disbursements continue to lag repayments and we expect a build up only in H2FY13 and material improvement in loan mix only in FY14.

LIC's valuation at 1.7x Sep-13 (1.55x ep-13 diluted book) book seems reasonable for +19-20% ROEs and limited asset quality and regulatory risk. Given limited avenues for fund deployment, we believe that competition from banks will not be easy but we don't expect disruptive pricing from PSUs banks (as after FY08-09 crisis) as liquidity environment is significantly different from 08-09 now and credit costs of PSU banks are much higher than HFCs/private banks.

Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	14,144	13,916	17,945	22,886
Growth (%)	58.2	(1.6)	28.9	27.5
Non-interest income (Rs m)	3,567	2,324	2,390	2,873
Operating Profit (Rs m)	15,548	13,870	17,540	22,437
PAT (Rs m)	9,745	9,142	12,290	15,742
EPS (Rs)	20.5	18.1	24.3	31.2
Growth (%)	47.2	(11.8)	34.4	28.1
Net DPS (Rs)	3.5	3.6	4.1	6.2

Profitability & valuation	2011	2012	2013E	2014E
Spreads / Margins (%)	3.2	2.5	2.6	2.7
RoAE (%)	25.8	18.6	19.9	21.7
RoAA (%)	2.2	1.6	1.8	1.8
P/E (x)	12.2	13.9	10.3	8.1
P/BV (x)	2.9	2.2	1.9	1.6
P/ABV (x)	2.9	2.3	2.0	1.6
Net dividend yield (%)	1.4	1.4	1.6	2.5

Source: Company Data; PL Research

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Exhibit 1: Q1FY13- Margins disappoint (Rs m)

	Q1FY12	Q4FY12	Q1FY13	YoY	QoQ
Operating Income	13,581	16,280	17,179	26.5%	5.5%
Interest Expenses	9,971	12,572	13,674	37.1%	8.8%
Net Interest Income	3,610	3,708	3,505	-2.9%	-5.5%
Other Income	601	610	494	-17.7%	-18.9%
Processing Fees	299	343	286	-4.3%	-16.6%
Total Income	4,211	4,318	3,999	-5.0%	-7.4%
Operating Expenses	422	854	521	23.2%	-39.0%
Operating Profits	3,788	3,464	3,479	-8.2%	0.4%
Provisions	334	(24)	436	30.3%	NA
PBT	3,454	3,488	3,043	-11.9%	-12.8%
Taxation	889	952	766	-13.9%	-19.6%
PAT	2,565	2,536	2,277	-11.2%	-10.2%
Balance Sheet					
Borrowings	469,740	560,873	586,511	24.9%	4.6%
Loans	528,755	630,802	656,440	24.1%	4.1%
Individual loan book	488,504	598,950	626,020	28.2%	4.5%
Builder loan book	40,252	31,852	30,420	-24.4%	-4.5%
Share of builder loans	7.6%	5.0%	4.6%	-3.0%	-0.4%
Ratios					
Annualized Yield on Loans	10.45%	10.69%	10.68%	0.23%	-0.02%
Cost of Funds	8.66%	9.24%	9.53%	0.88%	0.29%
Spreads	1.79%	1.45%	1.14%	-0.65%	-0.31%
Margins	2.67%	2.36%	2.13%	-0.53%	-0.23%
Cost to Income Ratio	10.0%	19.8%	13.0%	3.0%	-6.8%
Provisions to Operating Profits	8.8%	-0.7%	12.5%	3.7%	13.2%
Tax Rate	25.7%	27.3%	25.2%	-0.6%	-2.1%
Asset Quality					
Gross NPA	4,444	2,652	4,680	5.3%	76.5%
Net NPAs	1,843	849	2,487	34.9%	193.0%
Provisions coverage %	58.5%	68.0%	46.5%	-12.0%	-21.5%

NII de-grows as healthy growth in individual loan book is negated by disappointment on margin front

Individual loan book growth aids growth but builder portfolio continues to remain a drag

We expect ~40bps improvement in core spread (FY13), with ~Rs80bn of repricing over FY13 and further 20bps in FY14 again due to repricing and some improvement in loan mix

Source: Company Data, PL Research

Exhibit 2: Margin improvement in FY13 - levers at play

Equity Impact	
Planned QIP	10000
Total Equity raised	10000
Borrowing cost	9.00%
Impact on margins (Rs m)	900
Positive impact on margins	0.13%

Re-pricing Impact	
Fix-O-Floaty Repricing - FY13	90000
Average Repricing in FY13	60000
Re-pricing (11.25% - 8.9%)	2.35%
Positive impact on margins	1410
Positive impact on margins/spreads	0.20%

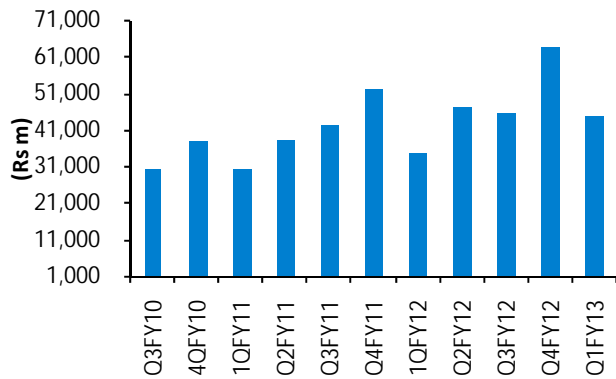
Repricing of liabilities	
Liabilities re-pricing	58491
Average Repricing in FY13	38994
Repricing	0.8%
Positive impact on margins	292
Positive impact on margins/spreads	0.04%

Builder book Impact	
Increase in builder book	0.3%
Diff. in yields	5.0%
Positive impact on margins	0.01%

Positive impact on spreads	0.17%
Positive impact from equity infusion	0.13%
Total positive impact on margins	0.30%

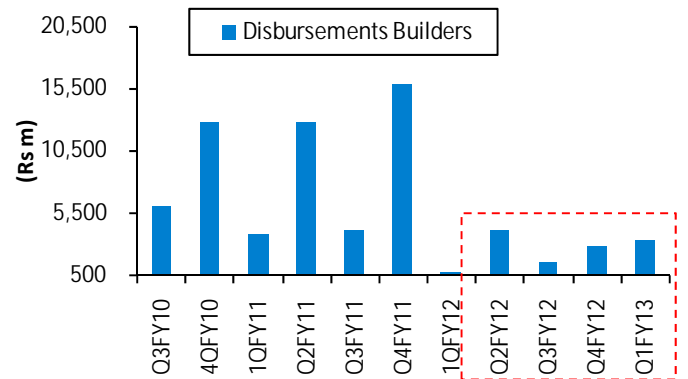
Source: Company Data, PL Research

Exhibit 3: Individual mortgage disbursements strong



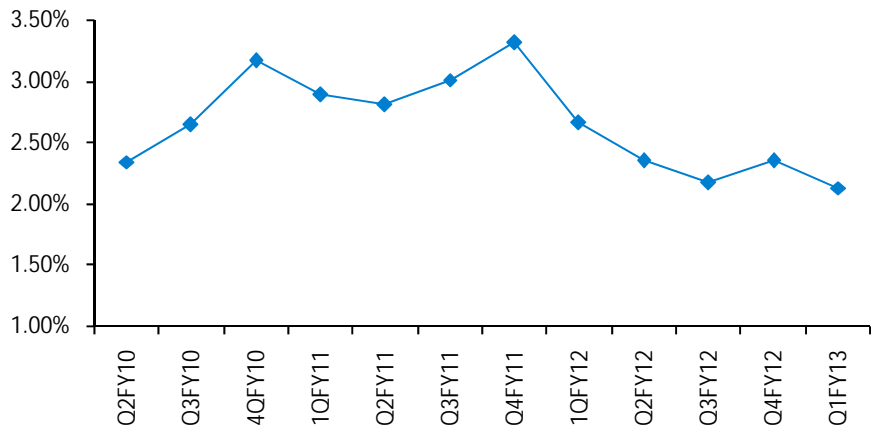
Source: Company Data, PL Research

Exhibit 4: Builder disbursements continue to remain slow



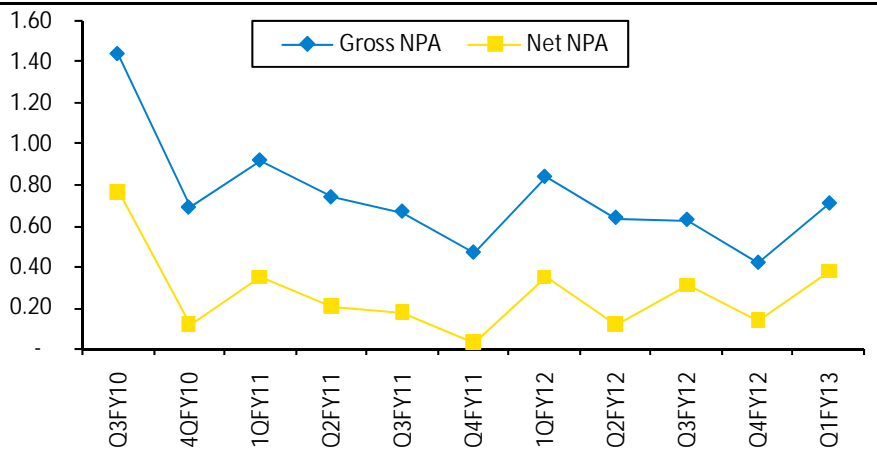
Source: Company Data, PL Research

Exhibit 5: Q1 margin disappoints



Source: Company Data, PL Research

Exhibit 6: Asset quality continues to remain robust; shows seasonal uptick



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	45,121	59,827	77,138	93,868
Interest Expenses	30,977	45,911	59,194	70,981
Net interest income	14,144	13,916	17,945	22,886
<i>Growth (%)</i>	<i>58.2</i>	<i>(1.6)</i>	<i>28.9</i>	<i>27.5</i>
Non interest income	3,567	2,324	2,390	2,873
<i>Growth (%)</i>	<i>98.7</i>	<i>(34.8)</i>	<i>2.8</i>	<i>20.2</i>
Net operating income	17,710	16,241	20,334	25,760
Expenditure				
Employees	681	724	833	975
Other expenses	1,419	1,572	1,880	2,258
Depreciation	62	74	82	90
Total expenditure	2,162	2,371	2,794	3,323
PPP	15,548	13,870	17,540	22,437
<i>Growth (%)</i>	<i>76.3</i>	<i>(10.8)</i>	<i>26.5</i>	<i>27.9</i>
Provision	2,609	1,561	704	873
Other income	2	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	12,942	12,309	16,836	21,564
Tax	3,197	3,167	4,546	5,822
<i>Effective tax rate (%)</i>	<i>24.7</i>	<i>25.7</i>	<i>27.0</i>	<i>27.0</i>
PAT	9,745	9,142	12,290	15,742
<i>Growth (%)</i>	<i>47.2</i>	<i>(6.2)</i>	<i>34.4</i>	<i>28.1</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	950	1,010	1,010	1,010
Reserves & Surplus	40,741	55,812	65,658	77,716
Networth	41,691	56,822	66,668	78,726
<i>Growth (%)</i>	<i>23.1</i>	<i>36.3</i>	<i>17.3</i>	<i>18.1</i>
Loan funds	451,628	560,873	698,567	878,797
<i>Growth (%)</i>	<i>—</i>	<i>24.2</i>	<i>24.6</i>	<i>25.8</i>
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	—	—	—	—
Total	493,319	617,695	765,234	957,523
Application of funds				
Net fixed assets	474	622	552	606
Advances	510,898	630,802	778,115	968,262
<i>Growth (%)</i>	<i>34.2</i>	<i>23.5</i>	<i>23.4</i>	<i>24.4</i>
Net current assets	(32,085)	(27,479)	(30,786)	(33,067)
Investments	14,032	13,750	17,464	21,970
<i>Growth (%)</i>	<i>1.0</i>	<i>(2.0)</i>	<i>27.0</i>	<i>25.8</i>
Other Assets	—	—	—	—
Total	493,319	617,695	765,346	957,771

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	14,579	15,387	16,280	17,179
Income from securitization	—	—	—	—
Interest Expenses	11,238	12,129	12,572	13,674
Net Interest Income	3,341	3,258	3,708	3,505
<i>Growth</i>	<i>9.5</i>	<i>(7.5)</i>	<i>(11.8)</i>	<i>(2.9)</i>
Non interest income	574	539	610	494
Net operating income	3,916	3,796	4,318	3,999
<i>Growth</i>	<i>5.9</i>	<i>(30.4)</i>	<i>(16.7)</i>	<i>(5.0)</i>
Operating expenditure	561	534	854	521
PPP	3,354	3,263	3,464	3,479
<i>Growth</i>	<i>5.1</i>	<i>(33.3)</i>	<i>(22.7)</i>	<i>(8.2)</i>
Provision	2,047	(797)	(24)	436
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	1,307	4,060	3,488	3,043
Tax	323	1,003	952	766
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>24.7</i>	<i>24.7</i>	<i>27.3</i>	<i>25.2</i>
PAT	984	3,057	2,536	2,277
<i>Growth</i>	<i>(58.0)</i>	<i>43.2</i>	<i>(19.4)</i>	<i>(11.2)</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	251	251	251	251
Eq. Shrs. O/s. (m)	475	505	505	505
Market Cap (Rs m)	119,292	126,826	126,826	126,826
Market Cap to AUM (%)	24.2	20.5	16.6	13.2
EPS (Rs)	20.5	18.1	24.3	31.2
Book Value (Rs)	87.8	112.5	132.0	155.9
Adjusted Book Value (Rs)	87.4	110.8	128.6	152.2
P/E (x)	12.2	13.9	10.3	8.1
P/BV (x)	2.9	2.2	1.9	1.6
P/ABV (x)	2.9	2.3	2.0	1.6
DPS (Rs)	3.5	3.6	4.1	6.2
Dividend Yield (%)	1.4	1.4	1.6	2.5

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	2,420	2,652	4,225	5,237
Net NPAs (Rs m)	168	849	1,717	1,856
Gross NPAs to Gross Adv. (%)	0.5	0.4	0.5	0.5
Net NPAs to Net Adv. (%)	—	0.1	0.2	0.2
NPA Coverage (%)	93.1	68.0	59.4	64.6

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	3.2	2.5	2.6	2.7
RoAA	2.2	1.6	1.8	1.8
RoAE	25.8	18.6	19.9	21.7

Source: Company Data, PL Research.

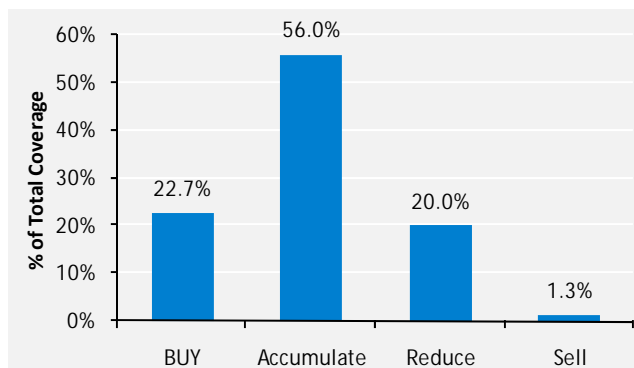


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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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