

## PAT below our estimate on lower margins

### Quick Note

**LICHF reported a PAT of INR2.43bn versus our estimate of INR2.72bn (street est. of INR2.6bn), largely driven by lower net interest income.**

#### Key 2QFY13 highlights:

- Loan growth of 23.2% was in line with our expectation of 23.7%, largely due to retail loans that grew 27% y/y (sequential increase of 6%) while the higher yielding developer/project loans declined 32.6% y/y (sequential decline of 12.5%). The developer/project loans as a proportion of total loans has declined from 4.63% in 1QFY13 to 3.85% in 2QFY13.
- Average yield on funds increased from 10.68% in 1QFY13 to 10.73% in the current quarter while average cost of funds increased from 9.58% in 1QFY13 to 9.66% in 2QFY13. This led to a sequential compression in spread of 3bps to 1.07%. NIM for 2QFY13 was 2.1% versus 2.18% in 1QFY13. The decline in the share of developer loans coupled with a flat cost of funds led to this sequential spread compression of 3bps and a NIM compression of 8bps.
- Project loan sanctions were INR5.24bn versus INR4.07bn in 1QFY13 while disbursements were INR1.21bn (INR3.21bn in 1QFY13). Individual loan sanctions grew 15% y/y and disbursements grew 21% y/y.
- Non-interest income was in line with our estimate at INR5.38bn, a QoQ increase of 9% (YoY decline of 6.2%).
- Operating expenses and employee costs were 13.1% higher than our expectations. Cost-income ratio inched up 234bps y/y to 16.7% (13% in 1QFY13).
- GNPLs declined 12% sequentially to INR4.1bn from INR4.7bn. GNPL and NNPL ratio came in at 0.60% and 0.28% (versus 0.71% & 0.38% in 1QFY13). Provisions were below our estimate at INR69mn as the company largely made only standard asset provisions during the quarter. Provision cover (excluding teaser rate provisions) has improved to 52.8% from 46.9% in 1QFY13.
- Key issue to watch for in the management discussion tomorrow - the guidance for the project loan book and, consequently, the trajectory for margins.

We will revisit our estimates post LICHF's earnings call scheduled for tomorrow.

**Valuation: LICHF currently trades at 1.8x our FY13F ABV of INR131.9 and 10x our FY13F EPS of INR24.4. Our TP of INR295 implies multiples of 2.2x our FY13F ABV and 12.9x our FY13F EPS.**

October 31, 2012

<b>Rating</b> Remains	<b>Buy</b>
<b>Target price</b> Remains	INR 295
<b>Closing price</b> October 30, 2012	INR 242

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**Fig. 1: Earnings summary**

Earnings summary (INRmn)	2QFY13	1QFY13	2QFY12	%y/y	%q/q	2QFY13F	Variance %
Interest Earned	18,081.2	17,178.6	14,579.4	24.0	5.3	18,084.4	(0.0)
Interest expended	14,545.8	13,673.7	11,238.1	29.4	6.4	14,053.4	3.5
Net interest income	3,535.4	3,504.9	3,341.3	5.8	0.9	4,031.0	(12.3)
Non-interest income	537.5	494.4	574.3	(6.4)	8.7	541.1	(0.7)
Total Net income	4,072.9	3,999.3	3,915.6	4.0	1.8	4,572.1	(10.9)
Operating expense	679.1	520.5	561.4	21.0	30.5	600.5	13.1
Employee cost	230.9	192.2	175.5	31.6	20.1	203.5	13.5
Operating & Administrative costs	429.8	310.4	367.5	16.9	38.5	377.2	13.9
Depreciation	18.5	17.9	18.4	0.3	3.1	19.9	(7.1)
Pre-prov operating profit	3,393.8	3,478.8	3,354.2	1.2	(2.4)	3,971.6	(14.5)
Provisions & Contingencies	69.4	435.5	2,047.0	(96.6)	(84.1)	355.9	(80.5)
PBT	3,324.3	3,043.2	1,307.2	154.3	9.2	3,615.7	(8.1)
Tax Provisions	893.8	765.7	323.4	176.4	16.7	893.1	0.1
Adjusted net profit	2,430.6	2,277.5	983.8	147.1	6.7	2,722.6	(10.7)
EPS	4.8	4.5	2.1	131.7	6.9	5.4	(10.7)

Source: Company data, Nomura estimates

**Fig. 2: Key ratios**

Key Ratios	2QFY13	1QFY13	2QFY12	y/y bps	q/q bps
Net Interest Margin, %	2.10	2.18	2.45	(35)	(8)
Cost-income ratio, %	16.7	13.0	14.3	234	366
Gross NPA, %	0.60	0.71	0.63	(4)	(12)
Net NPA, %	0.28	0.38	0.12	16	(10)
Developer loan share %	3.85	4.63	7.04	(319)	(79)

Source: Company data, Nomura research

**Fig. 3: Break-up of loans**

Loan break-up (INRmn)	2QFY13	1QFY13	2QFY12	%y/y	%q/q
Individuals	664,584.2	626,020.0	521,497.7	27.4	6.2
Developer loans	26,603.6	30,420.0	39,479.5	(32.6)	(12.5)
Total Loans	691,187.7	656,440.0	560,977.2	23.2	5.3
Approvals	67,742.6	60,273.1	59,770.0	13.3	12.4
Disbursements	58,370.0	47,910.0	51,480.0	13.4	21.8

Source: Company data, Nomura research

# Appendix A-1

## Analyst Certification

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LIC Housing Finance	LICHF IN	INR 242	30-Oct-2012	Buy	Not rated	A4,A6,A13

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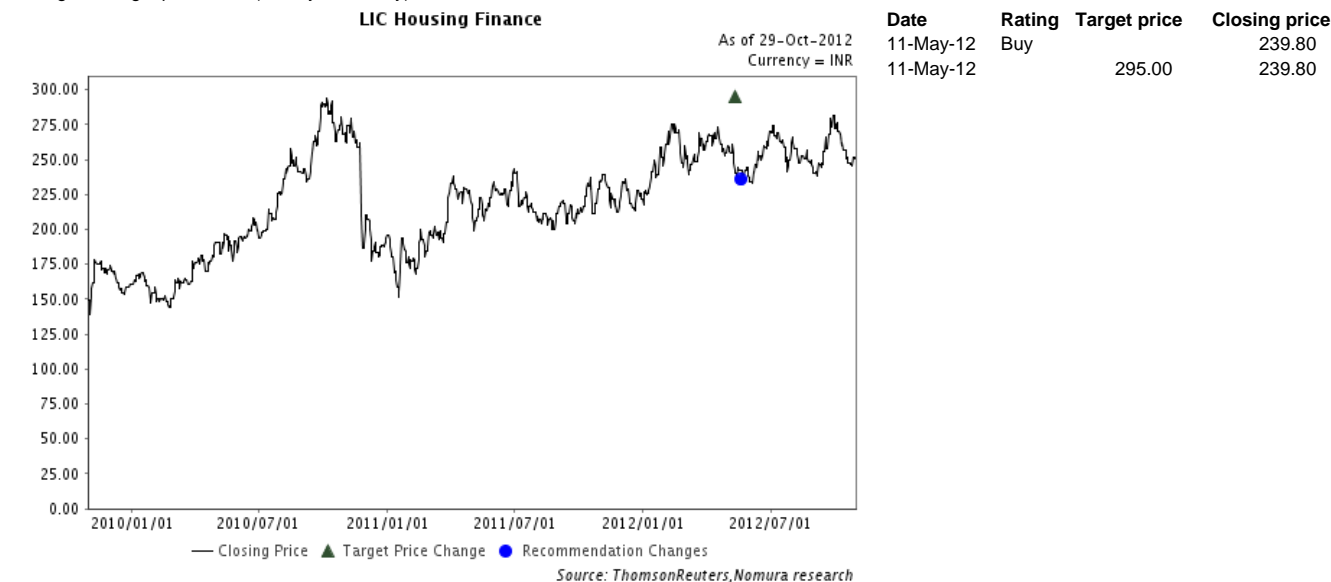
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## Previous Rating

Issuer name	Previous Rating	Date of change
LIC Housing Finance	Not Rated	11-May-2012

### LIC Housing Finance (LICHF IN) INR 242 (30-Oct-2012) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We have arrived at our target price of INR295 using a three-stage residual-income valuation method that uses the following assumptions: 1) 24.8% CAGR for interest-earning assets over FY12-14F, 14.3% CAGR over FY14-20F and a terminal growth rate of 4% beyond that; 2) average ROE of 18% over FY12-20F and a 16% terminal value ROE; and 3) discount rates ranging from 14.5% (current cost of equity) for FY12-14F, 12% for FY14-20F and a 10% terminal rate. At our target price of INR295, LIC Housing Finance will trade at 2.2x our FY13F ABV of INR131.86 and 12.9x our FY13F EPS of INR24.41.

**Risks that may impede the achievement of the target price** Potential downside risks are a relative tight money policy, regulatory uncertainties and heightened global macro risks.

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