

CMP Rs. 245

Recommendation BUY

Target Price Rs.302

Sector BFSI

Key Data	
Size Segment	Mid Cap
Market Cap (Rs. Cr.)	12,364
Market Cap (US\$ mn)	2,207
O/S Shares, Cr.	50.47
Free Float Factor	0.60
Face Value, Rs	2.00
2 Wk Avg Vol, NSE	909,99
52 Wk High/Low	281/195
Rs/US\$	56.02
Bloomberg	LICHF IN
Reuters	LICH.BO
NSE	LICHSGFIN
BSE	500253

Source: BSE, Shah Investor's Research

Shareholding Pattern

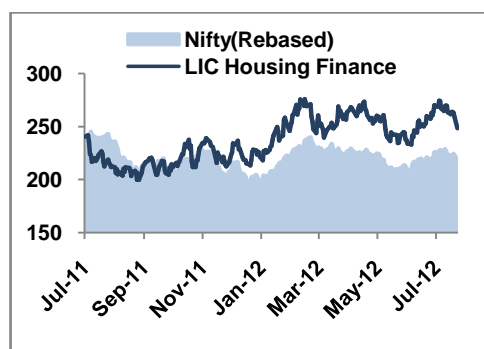
	Q1 FY13	Q1 FY12
Promoters	40.3%	36.5%
FII	29.7%	39.9%
Inst Inv	9.1%	7.8%
Public	20.9%	15.8%

Source: BSE, Shah Investor's Research

Institutional Holdings

Institutions	Q1 FY13	Q1 FY12
Copthall Mauritius Investment	4.9%	5.8%
HSBC Bank (Mauritius)	4.7%	5.0%
HDFC Trustee Co.	3.7%	1.1%

Source: BSE, Shah Investor's Research



Source: Ace Equity, Shah Investor's Research

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Disbursements of Developer loan improved – Key Positive

Q1 FY13 Result Update

LIC Housing Finance (LICHF) in Q1 FY13 reported total net income (NII + non-interest income) of Rs.379 cr down 3% YoY (6% QoQ). The fall in total net income was due to increase in interest expenses by 37% YoY (9% QoQ) as against 26% YoY (6% QoQ) increase in interest income led by decline in margins (NIMs declined by 60bps YoY). The pre provision profit for the quarter stood at Rs.327 cr down 6% YoY due to increase in operating expenses by 24% YoY. Thus, PAT declined by 11% YoY (10% QoQ) to Rs.228 cr.

Strong loan growth led by individual portfolio

Outstanding loan book grew by 24% YoY (4% QoQ) to Rs.65,644 cr led by robust growth of 28% YoY (5% QoQ) in individual loan portfolio. While, in Q1 FY13 project loans declined by 24% YoY (5% QoQ) resulted in increase in Individual: project loan ratio to 95:5 from 92:8 YoY (95:5 QoQ). Management targets to increase the share of project loans in the overall to 6% by March 2013 (v/s 5% as on FY12).

Disbursement grew by 35% YoY (down 28% QoQ) to Rs.4,791 cr led by 29% YoY growth in individual loans disbursement and 317% YoY growth in project loan disbursement. Management targets quarterly disbursements of Rs.500-1,000 cr in project loan segment which should outpace quarterly repayment. Thus, portfolio should grow in next few quarters. Also, guided disbursements of Rs,22,000 cr in the individual segment and Rs,2,000 cr in the developer segment.

NIMs declined led by increase in cost of funds

NIMs declined by 26bps QoQ to 2.18% led by increase in cost of funds. Yield on advances remains flat QoQ at 10.7% while cost of funds increased sharply by 36bps QoQ to 9.58% due to some high cost borrowings done at the end of March 2012. Management targets NIMs in the range of 2.5% - 2.7% by end of FY13 and spread in the range of 1.6% - 1.7% which would be led by increasing developer loan portfolio and re-pricing of teaser loan portfolio.

Asset quality deteriorated – Seasonal phenomenon

Asset quality deteriorated with GNPA in absolute terms increased by 77% QoQ due to seasonal phenomenon as the individual loan portfolio witnesses stress in Q1.. However, GNPA % declined to 0.7% from 0.8% YoY. With decline in PCR to 47% from 67% QoQ, NNPA declined to 0.4% from 0.14% QoQ. With teaser loan provisions of Rs.250 cr available for write back from Q1 FY14 as per NHB requirement, PCR would move back to 70%.

Processing fees remain subdued

Processing fees declined to Rs.29 cr from Rs.34 cr QoQ due to abolishment of pre payment charges and lower share of developer loans. We believe as the developer portfolio grows, fee income should improve to that extent (LICHF charges 0.5-1.0% processing fees on builder loans on a case-to-case basis).

Teaser loan re-pricing schedule

- Q1 FY13 – Rs.800 cr (got over during the quarter)
- Q2 FY13 – Rs.2,500 cr
- Q3 FY13 & Q4 FY13 – Rs.5,500 cr
- Q1 FY14 – balance to be re-priced

Loans are expected to re-priced at 11.5% - 11.9% from 8.9%.

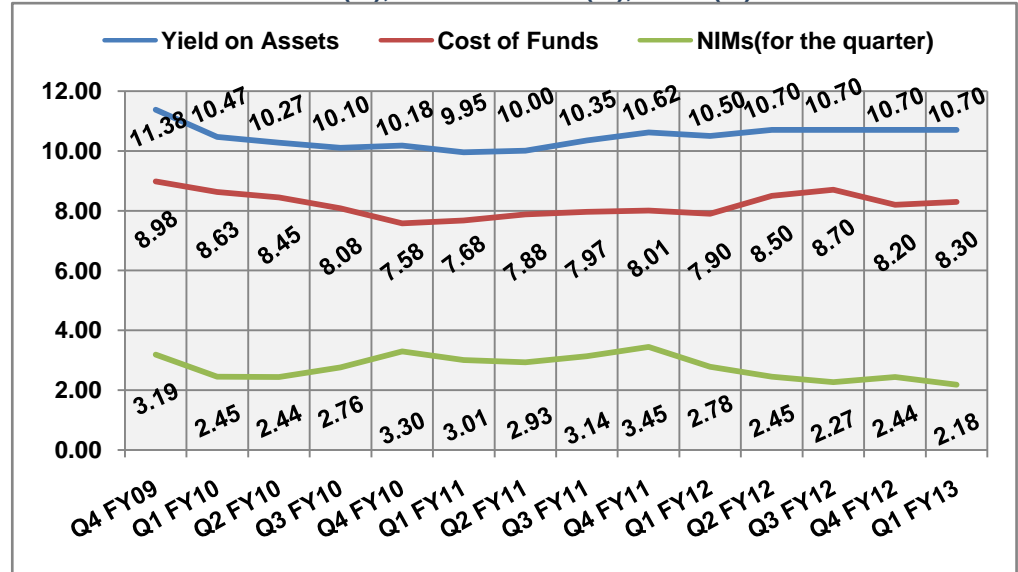


Outlook & Valuation

LICHF reported better disbursement growth in developer loans and better individual loan portfolio growth in high interest rates environment. Also, Management guided improvement in margins led by re-pricing of fixed loan disbursed 3 year back, which are currently at 8.9% interest rate, to floating rate of 11.5% - 11.9% from July 2012. The higher yield Developers' loan currently stands at close to 5% of the total loan portfolio, with the revival of the real estate market in various cities (eg. Chennai, Coimbatore, Pune) the management expects strong growth in Developers' loan segment and has guided that the share will increase to close to 6% by FY13. This will further boost the NIMs for LICHF.

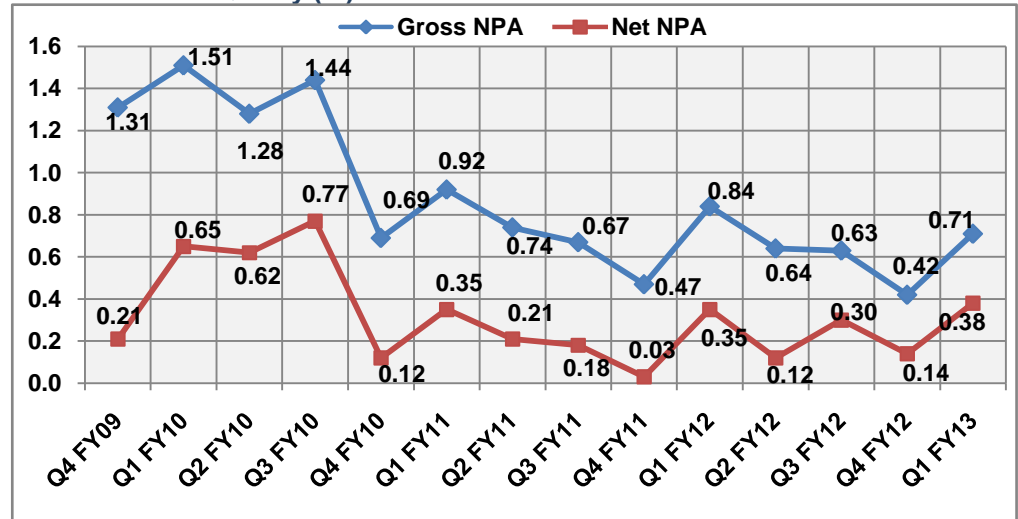
At CMP of Rs.245 LICHF is trading at 1.8x its FY13E BV of Rs.134 and 1.5x its FY14E BV of Rs.162. We value LICHF at its P/BV of 1.9x its FY14E BV of Rs.162 and maintain our target price of Rs.302. We reiterate **BUY** for LIC Housing finance with an investment horizon of 12 months and upside potential of 23%.

Exhibit 1: Yield on Assets (%), Cost of Funds (%), NIMs (%)



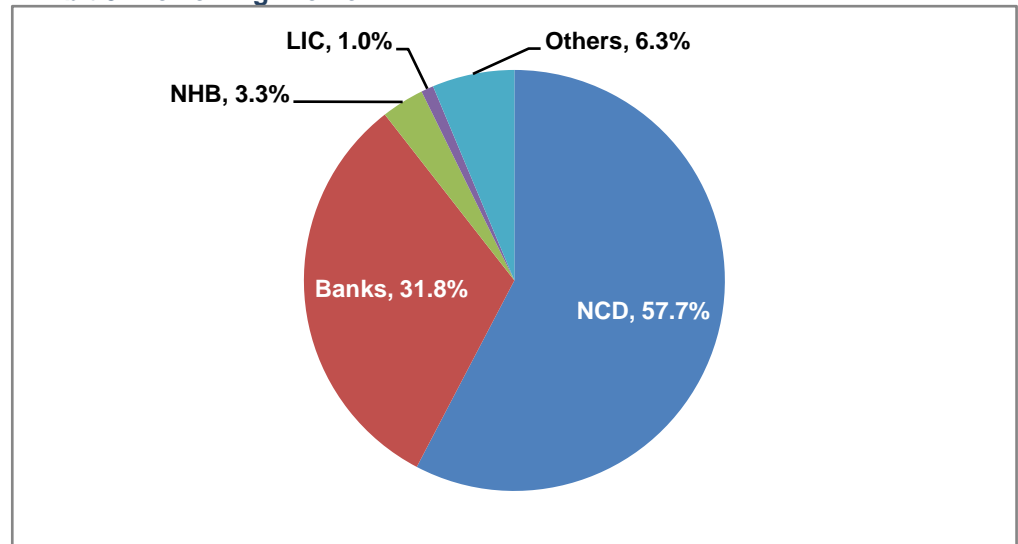
Source: Company, Shah Investor's Research

Exhibit 2: Asset Quality (%)



Source: Company, Shah Investor's Research

Exhibit 3: Borrowing Profile



Source: Company, Shah Investor's Research

Exhibit 4: Standalone Income Statement (Quarterly)

Particulars, Rs. cr	Q1 FY13	Q1 FY12	YoY	Q4 FY12	QoQ
Interest Income	1,718	1,358	26%	1,628	6%
Interest Expense	1,367	997	37%	1,257	9%
Net Interest Income	350	361	-3%	371	-5%
Non-Interest Income	29	30	-4%	34	-17%
Net Income	379	391	-3%	405	-6%
Operating Expenses	52	42	24%	85	-39%
Employee Cost	19	16	20%	21	-8%
Other Op. Exp.	31	24	28%	63	-50%
Depreciation	2	2	6%	2	-9%
Pre Prov. Profit	327	349	-6%	320	2%
Provisions	44	33	30%	(2)	-
Other Income	21	30	-31%	27	-22%
PBT	304	346	-12%	349	-13%
Tax	77	89	-14%	95	-20%
PAT	228	257	-11%	254	-10%
EPS, Rs.	4.5	5.1	-11%	5	-10%

Source: Company, Shah Investor's Research

Exhibit 5: Key Data**Exhibit 5.1**

Particulars	Q1 FY13	Q1 FY12	YoY	Q4 FY12	QoQ
Outstanding Loan Portfolio, Rs. cr	65,644	52,876	24%	63,080	4%
Individual Loan Disbursed, Rs. cr	4,470	3,468	29%	6,345	-30%
Developers Loan Disbursed, Rs. cr	321	77	317%	274	17%

Source: Company, Shah Investor's Research

Exhibit 5.2

Particulars	Q1 FY13	Q1 FY12	YoY bps	Q4 FY12	QoQ bps
Gross NPA	0.7%	0.8%	-13	0.4%	29
Net NPA	0.4%	0.4%	-1	0.1%	24
NIM	2.2%	2.8%	-60	2.4%	-26
Yield on Advances	10.7%	10.5%	20	10.7%	0
Cost of Fund	8.3%	7.9%	40	8.2%	10
Provision Coverage	46.9%	53.6%	-670	66.7%	-1980

Source: Company, Shah Investor's Research

Exhibit 6: Peer Comparison (based on FY12 data)

Particulars	CMP Rs.	Mcap Rs. Cr	Loan Book Rs. Cr	EPS Rs.	FY13E BV	P/BV (x)	P/E (x)	RoA (%)	RoE (%)	Cost / Income (%)	NIMs (%)	GNPA (%)	Market Share* (%)
HDFC Ltd	674	100,272	140,875	28	159	4.23	24.5	2.9	22.7	7.6%	4.4	0.74	15.1
LIC HF	260	13,124	63,080	19	134	1.94	13.5	1.8	20.3	14.6%	2.2	0.7	9.6

Source: Company, Shah Investor's Research

HDFC Ltd and LIC HF both have a Face Value of Rs. 2 per share

*Market share in individual loan industry

Exhibit 7: Standalone Income Statement

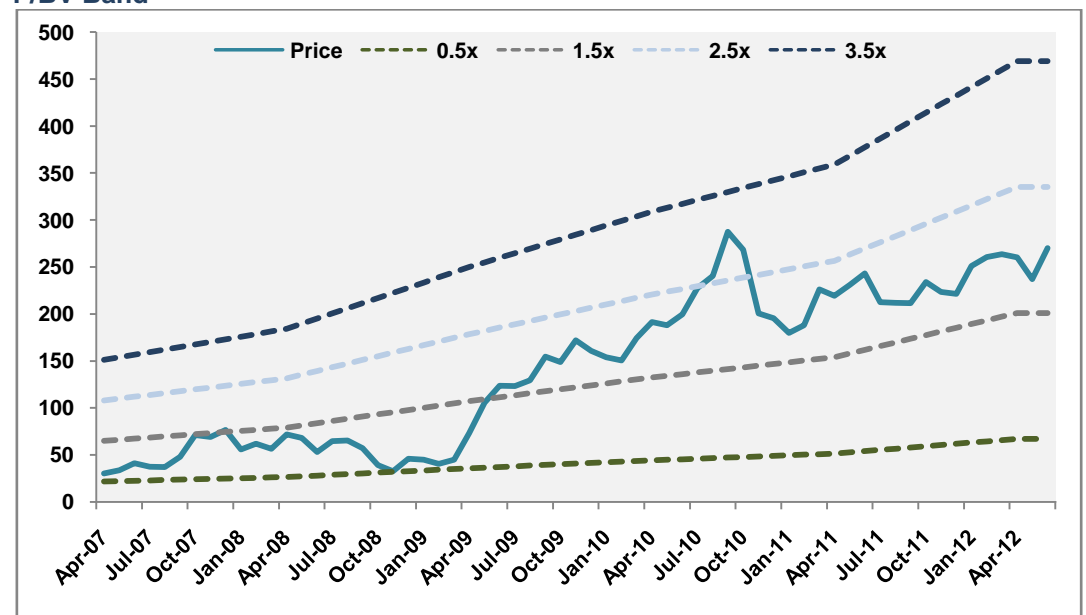
Particulars Rs. cr	FY10	FY11	FY12	FY13E	FY14E
Net Interest Income	876	1,372	1,392	1,987	2440
Non-Interest Income	187	399	232	271	295
Net Income	1,062	1,771	1,624	2,258	2,735
Operating Expenses	191	216	237	289	310
Pre Prov. Profit	871	1,555	1,387	1,969	2,425
Provisions	(28)	261	156	175	198
PBT	900	1,294	1,231	1,794	2,227
Tax	249	320	317	493	612
PAT	651	974	914	1,301	1,615
EPS, Rs.	12.9	19.3	18.1	25.8	32.0

Source: Company, Shah Investor's Research

Exhibit 8: Break up of Source of Funds

Particulars	FY09	FY10	FY11	FY12
Term Loans from Schedule Banks	31.9%	33.6%	27.7%	32.0%
Non Convertible Debentures	49.6%	52.0%	57.3%	57.7%
Term Loan from LIC of India	5.3%	3.0%	1.7%	1.0%
Refinances from NHB	5.8%	4.0%	3.4%	3.3%
Sub. & Tier II bonds	6.3%	6.0%	7.7%	5.3%
Public Deposits	0.6%	1.0%	0.5%	0.5%
Others	0.5%	0.5%	1.6%	0.2%

Source: Company, Shah Investor's Research

P/BV Band

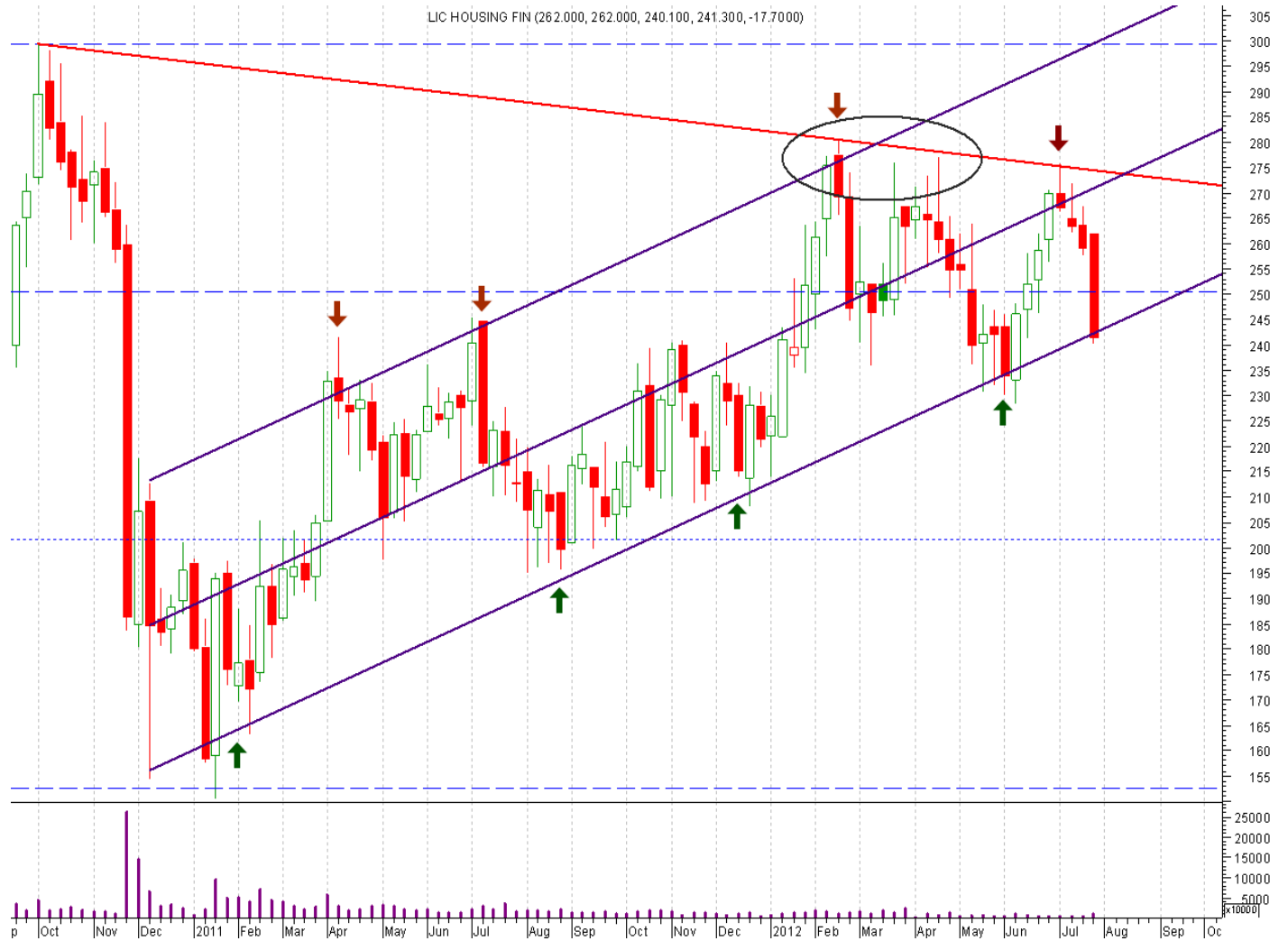
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P/BV Valuation

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Technical Corner



LICHF on weekly chart had been trading & progressing in an Upward Sloping Price Channel taking support at the lower end of the Price Channel and marking Resistance at higher end of the Price Channel. Currently LICHF has shown unwillingness to breach the upper trend line of price channel and is trading below the median line of channel indicating some amount of weakness in the stock. However we believe LIC to trade within the price channel and start the up move taking support of the lower trend line. Investor can buy LIC HSG at CMP with stop loss of 215 for target of 290-295.

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