

## GIC Housing Finance Ltd

Recommendation	BUY
CMP (18/10/2012)	Rs. 106
Target Price	Rs.123
Sector	Housing Finance

## Stock Details

BSE Code	511676
NSE Code	GICHSGFIN
Bloomberg Code	GIC HF IN
Market Cap (Rs crs)	546
Free Float (%)	57.05%
52- wk Hi/Lo (Rs)	104.5/68
Avg. volume BSE (Quarterly)	64,272
Face Value (Rs)	10
Dividend (FY12)	45%
Shares o/s (Crs)	5.39

Relative Performance	1Mth	3Mth	1Yr
GIC Housing	10.1%	14.0%	4.1%
Sensex	0.9%	9.4%	9.9%



Shareholding Pattern	30 <sup>th</sup> Jun. 12
Promoters Holding	42.95%
Institutional (Incl. FII)	9.12%
Corporate Bodies	10.99%
Public & others	36.94%

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Year	NII (Rs crs)	Growth (%)	Pre prov profit (Rs cr)	PAT (Rs cr)	EPS	PE (x)	P/BV (x)	RoE (%)
FY10A	106	11.6%	102	67	12.46	8.51	1.48	18.3%
FY11A	122	14.5%	132.0	65	12.12	8.74	1.22	15.3%
FY12A	125	2.8%	136.4	59	10.96	9.67	1.15	12.3%
FY13E	170	36.2%	160.3	93	17.28	6.13	0.97	17.1%

**Improvement signs visible...**

GIC Housing Finance is a small size housing finance company catering mainly to the middle and lower middle income customers with a ticket size of ~Rs 10-15 lakhs. It is more concentrated in the Western and the Southern India with 95% focus on salaried class. The company witnessed a muted growth in FY12 as the company was focusing on improving the quality of the book and the higher interest rates impacted the buying decision of the customers. With major improvements in place, and the interest rates showing signs of coming down, the overall demand for housing loans for GIC Housing have seen a significant revival.

- **GIC Housing Finance reported good results for Q2FY13** with net interest income increasing 57% on YoY basis to Rs 43 cr. NIMs stood at 2.66% for the quarter as compared to 1.91% in Q2FY12.
- In addition provisions declined from Rs 10.5 cr in Q2FY12 to Rs 4.3 cr in Q2FY13 boosting the bottom line performance.
- PAT increased by whopping 149% from Rs 9.3 cr to Rs 23.15 cr.
- Asset quality improved with gross NPA coming down from 2.29% in Q1FY13 to 2.19% in Q2FY13.
- Going forward management targets to bring Gross NPA down below 2% mark resulting from continuous focus on collection efficiency and recoveries.
- Management is targeting a loan growth of 25% for FY13E and is witnessing good and balanced growth in its loan portfolio.
- **As per the Management, FY13 is expected to be a good year both in terms of business loan disbursement and as well as in recoveries.**

The company witnessed significant increase in disbursement in H1FY13 as compared to H1FY12 (growth of 32.6% YoY). There was some decline witnessed on sequential basis due to the inauspicious period of Adhik Maas which deferred the buying plans. **Nevertheless, going forward with the onset of festive season and launching of various new schemes Management expects the disbursement growth to pick up in 2HFY13.** With cost of funds showing signs of easing and asset quality under control, **GIC Housing is all set to scale up on profitability.** Led by the improving fundamentals of the company we believe that the return ratios of the company are set to improve. We expect RoE to improve to 17.1% (vs 12.3% in FY12 and RoA to improve to 2.0% (vs 1.5% in FY12) in FY13E still below the average RoE range of 18-20% and RoA range of 2.0-2.5%.

Based on our FY13E estimates, GIC Housing is trading at P/BV of 0.97x and P/E of 6.1x which we believe are attractive. **With improving financials, GIC will command a higher multiple and we therefore recommend to BUY the stock at current levels and on decline for a target price of Rs 123 indicating an upside of 16.3% over the medium term.**

## GIC Housing Finance Ltd

### Company Background:

GIC Housing Finance (GICHF) was incorporated in 1989. The Company was promoted by General Insurance Corporation of India and its erstwhile subsidiaries namely, National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited together with UTI, ICICI, IFCI, HDFC and SBI, all of them contributing to the initial share capital.

### Business Profile:

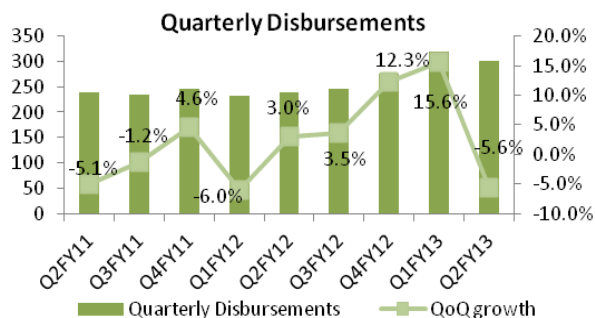
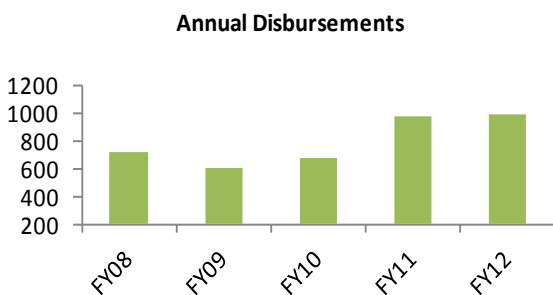
The primary business of GIC Housing Finance is granting housing loans to individuals and to persons/entities engaged in construction of houses/flats for residential purposes. Its major business is concentrated in Western and Southern India (~80%), being the regions with high loan growth potential. As on 31<sup>st</sup> March 2012 its branch network totaled 32. Its customer focus is Middle and Lower middle income borrower with an average ticket size of loans of Rs 10-15 lakhs. **GIC Housing mainly targets 95% salaried class of which 99% are first time borrowers.**

### Investment Rationale:

#### Strong growth in Disbursement

After showing an increase in disbursement at around 44.0% in FY11, GICHF showed a moderation in disbursement growth in FY12 reflecting slowdown and the conscious efforts by the management in order to improve the book quality. However, from Q4FY12 disbursements started to gain momentum and witnessed an increase of around 12.3% QoQ. During 1HFY13 the company has seen a disbursement growth of around 32.8% YoY to Rs 622 cr. There was some decline witnessed on sequential basis in Q2FY13 as compared to Q1FY13 on disbursement front due to the inauspicious period of Adhik Maas which led the retail individuals to defer the buying plans. **Nevertheless, going forward with the onset of festive season and launching of various new schemes Management expects the disbursement growth to pick up in 2HFY13.**

Moreover, the loan portfolio of the company increased 15% YoY in H1FY13 to Rs 4182 cr. Management is targeting a loan growth of 25% for FY13E and expects strong demand in the upcoming festive season.



Source: Company data, Nirmal Bang Research

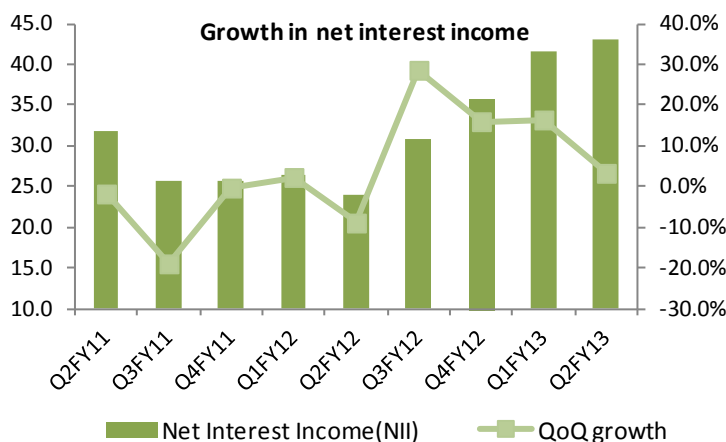


## GIC Housing Finance Ltd

### Net Interest Income witnessing revival

Net Interest Income (NII) declined during H2FY11 and remained at the same levels during H1FY12 primarily due to rising interest rates. Further since majority of the borrowings are from banks, (around 85%-90%) the cost of funds increased as a result of which the Net interest margins (NIMs) were under pressure.

However, NII grew significantly during the H2FY12, registering a QoQ growth of 28.6% and 16.0% in Q3FY12 and Q4FY12 respectively. Net interest margins have shown a significant improvement from 1.91% in Q2FY12 to 2.66% in Q2FY13. Going forward, Management expects to improve NIMs from current levels and targets NIMs of 2.75% for FY13E. **Management is taking various steps in order to reduce its cost of funds which is currently at 9.9%.** Recently, the company has completed a bond issue of Rs 125 cr at 9.45%, the benefit of which will be more visible in the coming quarter. We expect net interest income to increase 36.2% YoY for FY13E.

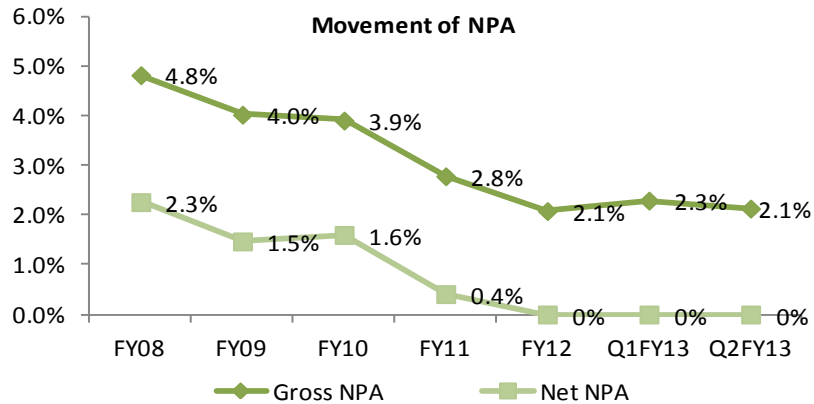


Source: Company data, Nirmal Bang Research

### Improving Assets Quality:

The company had high level of NPAs in the past, but the same have been declining drastically over the last few years. The company asserts that recovery efforts have proved to be effective in reducing the NPA levels. As a result, the Net NPA as on 31<sup>st</sup> March 2012 is 'Nil'. GIC Housing Finance has almost covered all its assets under the 100% provisioning. Gross NPAs have improved consistently from the levels of 4.8% in FY08 to 2.1% in FY12. In Q1FY13 Gross NPA increased to 2.29% which was a seasonal impact and it has improved to 2.19% in Q2FY13. Going forward, Management targets to reduce Gross NPA below the 2% mark. We expect Gross NPA to improve from 2.19% in Q2FY13 to 2.1% for FY13E.

GIC Housing Finance Ltd

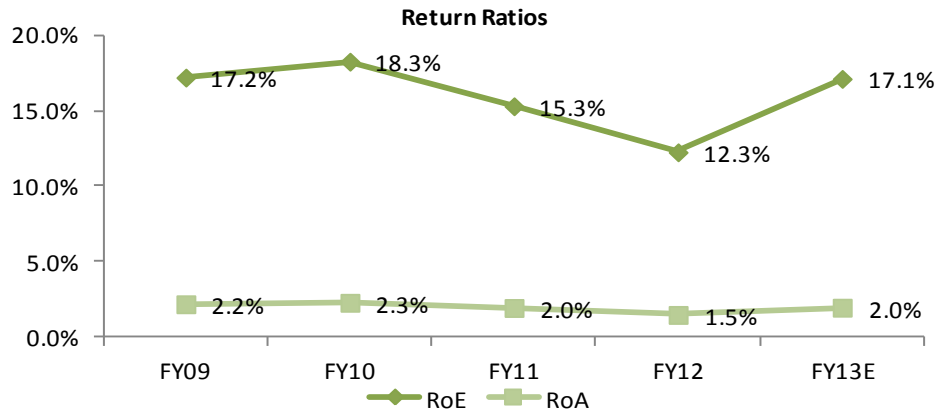


Source: Company data, Nirmal Bang Research

Return Ratios set to improve

Led by the improving fundamentals of the company, with a healthy growth rate, improving NIMs, lower operating expenses and control on the asset quality we believe that the return ratios (RoE and RoA) of the company are set to improve in the long run. RoE stood at 12.3% for FY12 whereas RoA stood at 1.5% for FY12. **Going forward we expect RoE to improve to 17.1% for FY13E and RoA to improve to 2.0% in FY13E which is still below the average RoE range of 18-20% and RoA range of 2.0-2.5%.**

We believe that with improvement in the return ratios, the stock will definitely command a premium multiple from current levels.



Source: Company data, Nirmal Bang Research

## GIC Housing Finance Ltd

## Q2FY13 Result Snapshot

Income Statement (Rs cr)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)
Interest Earned	135.8	104.2	30.3%	131.6	3.2%
Interest Expended	92.8	76.9	20.7%	89.9	3.2%
Net interest income	43.0	27.4	57.2%	41.6	3.3%
Other income	0.7	1.2	(41.0%)	0.3	140.0%
Total income	43.7	28.6	53.0%	41.9	4.3%
Payment to employees	2.6	2.1	26.9%	3.1	(15.1%)
Other operating expenses	5.7	4.3	32.6%	4.9	16.4%
Total operating expenses	8.4	6.4	30.7%	8.0	4.2%
Profit before provisioning	35.3	22.2	59.5%	33.9	4.3%
Provisions	4.3	10.5	(59.2%)	4.3	N/A
Profit before tax	31.1	11.7	165.6%	29.6	5.0%
Tax	7.9	2.4	230.0%	7.6	4.5%
Profit after tax	23.2	9.3	148.9%	22.0	5.1%
EPS	4.3	1.7	148.9%	4.1	5.1%

Source: Company data, Nirmal Bang Research

- Net interest income increased by 57.2% to Rs 43.0 cr in Q2FY13 primarily driven by growth in disbursement and some relief on the cost of funds. NIMs stood at 2.66% for the quarter as compared to 1.91% in Q2FY12.
- Total expenses increased 30.7% YoY to Rs 8.4 cr during the quarter.
- Driven by the strong growth in net interest income, profit before provisioning increased 59.5% YoY to Rs 35.3 cr in Q2FY13.
- Provisions declined 59.2% from Rs 10.5 cr in Q2FY12 to Rs 4.3 cr in Q2FY13 driving the bottom line performance.
- PAT increased 148.9% YoY to Rs 23.2 cr in Q2FY13.
- EPS stood at Rs 4.3 in Q2FY13 vs Rs 1.7 in Q2FY12.
- Capital Adequacy ratio stands at 14.8% during the quarter comprising of only Tier I capital.

## Peer comparison

Looking at the peer group we see that GIC housing finance is trading lower as compared to most of its peers due to lower growth and lower return ratios. Going forward, we believe that with improving fundamentals of the company, the stock will command a higher multiple as compared to current levels.

	LIC Housing Finance	Dewan Housing Finance	Gruh Finance	GIC Housing Finance
Loan Book (FY12)	63,080	19,355	4,077	3,864
EPS (FY13)	23.07	34.02	8.15	17.28
Book Value (FY13)	133.5	201.6	27.0	109.60
P/BV	1.880	0.95	6.71	0.97
P/E	10.88	5.615	22.21	6.135

Source: Company data, Nirmal Bang Research

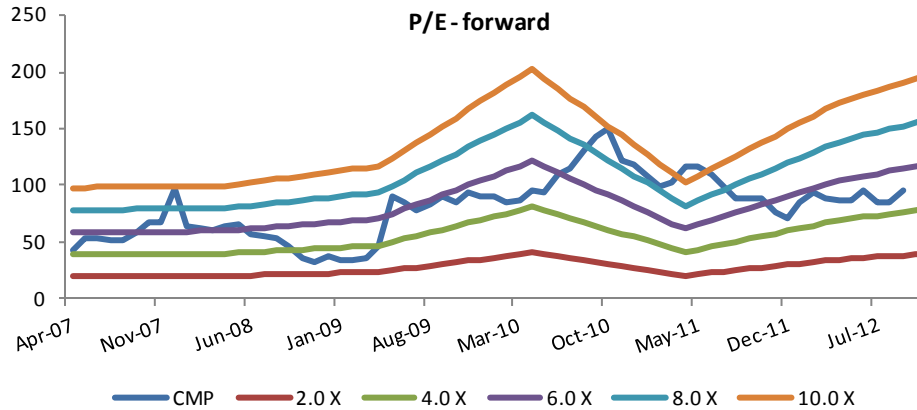


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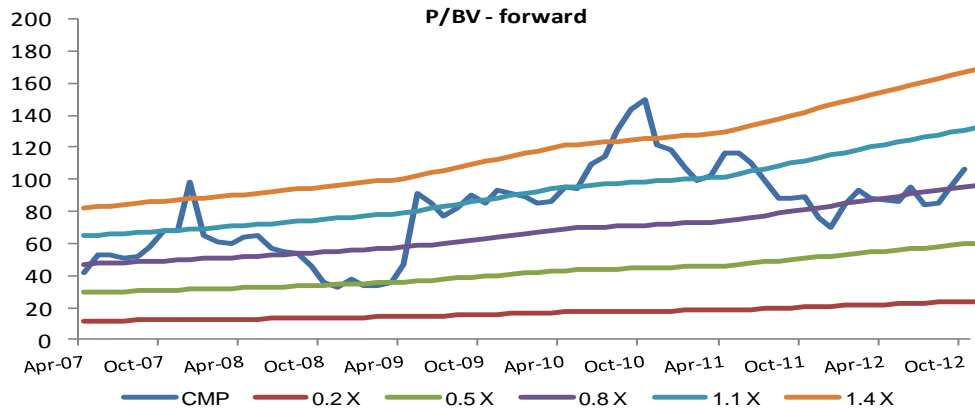
Valuation and Recommendation

Based on our FY13E estimates, GIC Housing is trading at P/BV of 0.97x and P/E of 6.1x which we believe are attractive. **With improving financials, GIC will command a higher multiple and we therefore recommend to BUY the stock at current levels and on decline for a target price of Rs 123 indicating an upside of 16.3% over the medium term.**

One Year Forward P/E and P/BV Band Chart



Source: Company data, Nirmal Bang Research



Source: Company data, Nirmal Bang Research



## GIC Housing Finance Ltd

### Financials

Profitability (Rs. Crs)					Balance Sheet (Rs. Crs)				
	FY10	FY11	FY12	FY13E		FY10	FY11	FY12	FY13E
Interest earned	295	336	436	516	Equity capital	54	54	54	54
Interest expended	189	215	311	346	Reserves and surplus	333	412	443	536
<b>Net interest income</b>	<b>106</b>	<b>122</b>	<b>125</b>	<b>170</b>	<b>Net worth</b>	<b>387</b>	<b>466</b>	<b>497</b>	<b>590</b>
Non interest income	16	92	3	6	Borrowings	2,627	3,086	3,595	4,458
<b>Total income</b>	<b>122</b>	<b>214</b>	<b>128</b>	<b>176</b>	Other liabilities	0	118	137	153
Payment to employees	6	11	11	12	<b>Total liab and equity</b>	<b>3,014</b>	<b>3,670</b>	<b>4,229</b>	<b>5,201</b>
Other op exp	14	18	19	21	Loans/Non current assets	2866	3416	3872	4956
Total expenses	20	29	30	33	Fixed assets	3	3	6	5
<b>Profit before prov</b>	<b>102</b>	<b>184</b>	<b>98</b>	<b>143</b>	Investments	49	28	10	12
Provisions	10	39	19	19	Cash and bank bal	86	198	320	199
<b>Profit before tax</b>	<b>92</b>	<b>146</b>	<b>79</b>	<b>124</b>	Net current assets	73	162	293	167
Taxes	25	32	20	31	Deferred tax asset	23	61	47	51
<b>Net profit</b>	<b>67</b>	<b>114</b>	<b>59</b>	<b>93</b>	<b>Total assets</b>	<b>3,014</b>	<b>3,670</b>	<b>4,229</b>	<b>5,191</b>
Extraordinary item	0	48	0	0	<b>Key Ratios</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>
<b>Adjusted PAT</b>	<b>67</b>	<b>65</b>	<b>59</b>	<b>93</b>	<b>Yield Ratios</b>				
Quarterly (Rs. Crs)									
	Dec.12	Mar.12	June.12	Sep.12					
<b>Net interest income</b>	31	36	42	43	Avg Yield on Loans	10.7%	10.7%	12.0%	11.7%
Non interest income	0	0	0	1	Avg Cost of funds	7.4%	7.5%	9.3%	8.6%
<b>Total income</b>	31	36	42	44	Net interest spread	3.3%	3.2%	2.7%	3.1%
Operating expenses	15	9	8	8	Gross NPA	3.9%	2.8%	2.1%	2.1%
<b>Operating profit</b>	16	27	34	35	Net NPA	1.6%	0.4%	0.0%	0.0%
Provisions	0	0	4	4	Capital Adequacy Ratio	18.0%	15.4%	14.8%	13.1%
Profit before tax	16	27	30	31	<b>Per share data</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>
Taxes	4	7	8	8	EPS	12.46	12.12	10.96	17.28
<b>Net profit</b>	12	20	22	23	BVPS	71.9	86.6	92.3	110
Profitability Ratios									
	FY10	FY11	FY12	FY13E	DPS	4.5	5.5	4.5	5.0
Cost / Income Ratio	16.5%	13.6%	23.4%	18.8%	Dividend yield	4.2%	5.2%	4.2%	4.7%
Net profit margin	21.6%	26.6%	13.4%	17.8%	Growth Ratios				
RONW	18.3%	15.3%	12.3%	17.1%		FY10	FY11	FY12	FY13E
Return on Assets	2.3%	2.0%	1.5%	2.0%	Advances growth	8.5%	19.2%	13.3%	25.0%
Valuation Ratios									
	FY10	FY11	FY12	FY13E	Borrowing growth	6.0%	17.5%	16.5%	24.0%
P/E	8.51	8.74	9.67	6.13	NII growth	11.6%	14.5%	2.8%	36.2%
P/BV	1.48	1.22	1.15	0.97	PAT growth	17.4%	69.6%	-48.1%	57.6%
					Pre prov profit growth	22.5%	80.3%	-46.8%	45.3%
					Non interest inc growth	176.9%	463.0%	-96.5%	70.0%

Source: Company data, Nirmal Bang Research

**NOTES****Disclaimer:**

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