

October 26th, 2010.

Key Data	
CMP (₹)	155
Target Price (₹)	161
Bloomberg Code	GICHF IN
Reuters Code	GICH.BO
BSE Code	511676
NSE Code	GICHSGFIN
Face Value (₹)	10
Market Cap (₹ Bn)	8
52 Week High (₹)	162
52 Week Low (₹)	79
Avg. Daily Volume (6m)	976213

Shareholding	%
Promoters	46.4
Mutual Funds / Bank/ FI	4.4
Insurance Companies	5.0
Foreign Institutional Investors	6.5
Others	37.6
Total	100.0

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GIC Housing Finance Ltd

GIC Housing Finance Ltd (GICHF) has declared results for 2QFY11.

KEY HIGHLIGHTS FOR 2Q FY11:

- GIC housing finance has recorded strong disbursements, which were up by 69% YoY in 2QFY11 to ₹2.4 billion. The loan assets have registered a growth of 16% YoY during 2QFY11 to ₹31.9 billion.
- The net interest income has increased by 28% from ₹248.2 million in 2QFY10 to ₹318.1million. The net profits have registered a growth of 20% to ₹205 million. The cost to income ratio has also improved from 15.2% in 2QFY10 to 12.4% in 2QFY11 thereby reflecting operational efficiency.
- Asset quality has witnessed substantial improvement with the gross as well as Net NPA's declining both on a QoQ as well as on YoY basis.
- The capital adequacy ratio stands at 18.8% as on Sep 2010 as against the minimum requirement of 12% stipulated by NHB.

Valuation and recommendation

GICHF has registered strong growth in disbursements in 2QFY11. In 1HFY11, GICHF has already achieved 60% of the target set for FY11 of ₹8500 million. Further since majority of the borrowings are from banks, the cost of funds increased, however the company was able to pass on the same to its customers. Going forward we expect GICHF to register a loan CAGR of 18.3%. We expect net profits to register a 15.4% CAGR during FY10-12. We recommend "ACCUMULATE" on GIC Housing Finance Ltd for a target of ₹161 (2.0x PBAV of ₹80.7 of FY12). Further assuming the proceeds accrue to GICHF in 3QFY11, our book value would move up further by approximately ₹14 for FY12, in which case our target price would be ₹189 (2.0x PBAV of ₹94.7 of FY12).

Disbursement growth

GICHF has recorded robust business growth. Sanctions grew by 40% YoY to INR2.3 billion while disbursements were up by 69% YoY to ₹2.4 billion in 2QFY11. The target customers for GIC are middle and lower middle-income borrowers. The current focus of the company is on salaried and self-employed segment. As a result, loan book increased 16% YoY to ₹31.9 billion. Going forward with expansion in branch network and strong demand, we expect GIC to register a 27.5% CAGR in disbursement which will result in 18.3% CAGR in loan book during FY10-12.

Borrowing profile

Majority of the funds for GIC are sourced from banks (89%) and balance from NHB (11%). With the monetary tightening, the cost of funds increased from 6.73% in 1QFY11 to 7.05% in 2QFY11.

Net Interest Margins

During the 2QFY11, GICHF reported margins of 3.31% against 2.91% reported in 2QFY10 and 3.34% in 1QFY11. Although the yields have increased on a YoY basis, sequentially they have declined mainly on account of rise in the borrowing cost. Going forward as well in a rising interest rate environment we do expect the cost of funds to increase, nevertheless the ability to pass on the same to the customers will provide cushion to the spreads. We expect the NIM to improve to 3.7% in FY11 and 3.8% in FY12.

Asset quality remains strong

Gross NPAs stood at 3.6% in 2QFY11 as against 4.4% as on 2QFY10. Net NPAs were 1.5% as against 2.5% for same period. The asset quality has witnessed significant improvement.

Capital Adequacy

The capital adequacy (CAR) for GICHF is at 18.8% as against the minimum requirement of 12% stipulated by NHB. GICHF sold 11.2% stake in LIC Mutual Fund to Japanese Financial services company; Nomura. The consideration GICHF is expected to receive from the same is around INR890 million. Although the sale occurred in FY10, pending procedural requirements the proceeds have not yet accrued to GICHF. The company expects to receive the same in 3QFY11. However we have not factored the same in our estimates.

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Interim Results						₹ Mn
Particulars	2QFY11	2QFY10	% Chng	1HFY11	1HFY10	% Chng
Interest Income	828.4	725.2		1,597.2	1,466.0	
Interest expended	510.3	477.0		955.2	977.7	
Net Interest Income	318.1	248.2	28.2	642	488.3	31.5
Other Income	24.8	41.2		36.2	78.9	
Operating Income	342.9	289.4		678.2	567.2	
Operating Expenses	42.5	44		94	84.7	
Profit before provisioning	300.4	245.4		584.2	482.5	
Provision	29.5	13.2		51	17.9	
Profit before taxes	270.9	232.2		533.2	464.6	
Provisions for taxes	66.1	60.9		134.9	124.5	
Net Profit	204.8	171.3	19.6	398.3	340.1	17.1
Equity Share capital	538.5	538.5		538.5	538.5	
EPS	3.8	3.2		7.4	6.3	
Source: Company						

Earnings Summary					₹ Mn
Particulars	FY09	FY10	FY11E	FY12E	
Interest Income	3,107.2	2,947.6	3,522.6	4,345.4	
Interest expended	2,115.1	1,886.2	2,214.4	2,754.0	
Net Interest Income	992.1	1,061.4	1,308.2	1,591.4	
<i>Growth %</i>	1.2	7.0	23.2	21.6	
Other Income	17.8	163.4	45.6	62.0	
Operating Income	1,009.8	1,224.9	1,353.8	1,653.4	
Operating Expenses	175.0	202.3	236.2	289.8	
Pre Provisioning Profits	834.8	1,022.6	1,117.5	1,363.6	
Provisions & contingencies	55.5	103.8	119.0	139.8	
Profit before Taxes and Prior period items	779.3	918.8	998.5	1,223.8	
Prior period items	-1.2	0.1	0.0	0.0	
Profit before Taxes	778.1	918.8	998.5	1,223.8	
Provisions for taxes	207.9	247.9	269.6	330.4	
Net Profits	570.2	670.9	728.9	893.4	
<i>Growth %</i>	1.1	17.7	8.6	22.6	
Source: Company, ACMIL research					

Sources and Application of Funds				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
Liabilities				
Capital	538.5	538.5	538.5	538.5
Reserves & Surplus	2,942.8	3,331.3	3,795.6	4,405.5
Networth	3,481.3	3,869.8	4,334.1	4,944.0
Borrowings	24,779.8	26,269.1	29,928.5	36,519.9
Total	28,261.1	30,138.9	34,262.5	41,463.9
Assets				
Fixed assets	29.6	31.0	31.9	32.2
Investments	11.4	491.3	11.4	11.4
Loans	26,404.5	28,657.7	33,620.4	40,113.7
Net current Assets	1,619.9	728.4	368.3	1,076.0
Deferred Tax asset	195.9	230.5	230.5	230.5
Total	28,261.1	30,138.9	34,262.5	41,463.9

Source: Company, ACMIL research

Key Ratios	FY09	FY10	FY11E	FY12E
Spreads				
Cost of Borrowings	9.2%	7.4%	7.9%	8.3%
Yield on Advances	11.9%	10.2%	10.7%	11.1%
Net Interest Income	2.7%	2.8%	2.8%	2.9%
Net interest margins	3.7%	3.5%	3.7%	3.8%
Profitability ratios				
Return On Average Assets (ROAA)	2.2%	2.3%	2.3%	2.4%
Return On Average Net worth (ROANW)	17.2%	18.3%	17.8%	19.3%
Balance sheet ratios				
Loan to borrowings ratio (%)	106.6	109.1	112.3	109.8
Debt/Equity Ratio (Times)	7.1	6.8	6.9	7.4
Growth Ratios				
Borrowings	17.4%	6.0%	13.9%	22.0%
Loans	10.4%	8.5%	17.3%	19.3%
NII Growth	1.2%	7.0%	23.2%	21.6%
Book value	10.1%	11.2%	12.1%	13.6%
EPS	1.1%	17.7%	8.6%	22.6%
Valuation ratios				
EPS (₹.)	10.6	12.5	13.5	16.6
Book value (₹.)	56.6	63.3	71.0	80.7
P/E (X)	13.8	11.7	10.8	8.8
P/BV (X)	2.6	2.3	2.1	1.8

Source: Company, ACMIL research

Notes

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