



LIC Housing Finance – Provision write back aided profit growth, Rating changed to Neutral

LIC Housing Finance announced its unaudited results for Q3FY12. The top-line as well as bottom-line (adjusting for write back of provision) came below our expectations on the back of lower NIMs

Key Highlights

- Net Interest Income (NII)** declined during the quarter by 7.5% YoY (decline of 2.5% QoQ) from ₹3341.3 mn in Q3FY11 to ₹3257.7 mn in the current quarter. The main reason for the subdued growth in NII was lower net interest margin (NIMs). NIM declined by 18 bps QoQ and 87 bps YoY to 2.27% in the quarter, led by higher cost of funds and slower disbursement growth in high yielding developer loan portfolio. The management expects NIM to improve going forward in FY13 led by higher disbursement in developers portfolio (target of 10% of the total loan portfolio currently at 6.0%) coupled with repricing of fixed rate loans (Fix-o-Floaty). **We expect 50 bps decline in margins for full year FY12 vs FY11.**
- Net Profit** increased 43.2% YoY (210.7% QoQ) on the back of write back of provisions as the company has aligned its provisioning policy on Standard Assets / NPA to match with revised NHB norms and consequently the company has reversed the excess provision of ₹788.9 mn.(net of provisioning required to be made in current quarter). After the write back the company has utilised the excess provision that it was carrying in its books. The write back of provisions aided in profit growth despite muted growth in NII and higher operational cost. Cost to income ratio during the quarter increased by 378 bps YoY (-28 bps QoQ) to 14.1%.
- Outstanding Mortgage Portfolio** as on Q3FY12 was ₹587.1 bn as against ₹463.8 bn as on Q3FY11, registering a YoY growth of 26.6% (4.7% QoQ). Total loan disbursements registered a muted growth of 2.1% (-8.3% QoQ) during the quarter mainly led by lower disbursement in the developer's loan portfolio (~62.0% decline both on YoY and QoQ basis) and subdued growth in individual loan disbursements (8.4% YoY, -3.5% QoQ). Lower disbursement in the developer's portfolio has consequently lowered the proportion of the developer loan portfolio to ~6.0%. The management is confident of achieving 20% growth in disbursements in the current fiscal. **Going ahead, we expect loan book CAGR of 26.4% over FY11-13E.**
- Asset quality** improved during the quarter with gross NPA registering a decline of 4 bps and 1 bps on YoY and QoQ basis respectively. However the net NPA increased by 13 bps and 19 bps on YoY and QoQ basis respectively due to write back of provisions during the quarter. As a result of write back of provisions the PCR declined to 51.0% from 81.6% QoQ. The management is confident to continue to keep asset quality under check going forward.

Outlook and Valuations

The extent of compression in margins during the quarter was surprising; however, we believe the margin to rebound on the back of repricing of fixed rate loans going forward. The company is evaluating to raise capital through QIP in the near term. We have not factored in the intended equity dilution in our estimates which could act as a trigger for the stock. We estimate LICHF to report an EPS CAGR of 20.3% over FY11-FY13E. ABV is estimated to grow at 20.4% CAGR during the same period. Going forward, we expect the company to deliver healthy net interest income growth (CAGR 19.6% FY11-13E) and earnings growth (CAGR 20.3% FY11-13E). **We have slightly increased our target price to ₹266.6 from ₹254.6 earlier, giving an upside potential of 2.0% from current levels, thus changing the rating from Accumulate to Neutral.**

Financial Snapshot (₹ mn)

In ₹ mn	NII	YoY (%)	Operating Profit	YoY (%)	Net Profit	YoY (%)	NIM (%)	EPS (₹)	YoY (%)	ABV (₹)	RoAE (%)	RoAA (%)	P/E (x)	P/ABV (x)
FY11	13719.5	54.7	13651.9	57.0	9518.8	38.2	3.0	20.0	38.2	88.1	24.9	2.0	13.0	3.0
FY12E	14814.6	8.0	14990.6	9.8	10087.3	6.0	2.5	21.2	6.0	104.6	22.0	1.6	12.3	2.5
FY13E	19624.0	32.5	19702.1	31.4	13786.8	36.7	2.6	29.0	36.7	127.8	24.9	1.8	9.0	2.0

Source: Company, ABML Research

Rating	Closing Price (₹)	Target Price (₹)	Upside / Downside %
Neutral	261.4	266.6	2.0

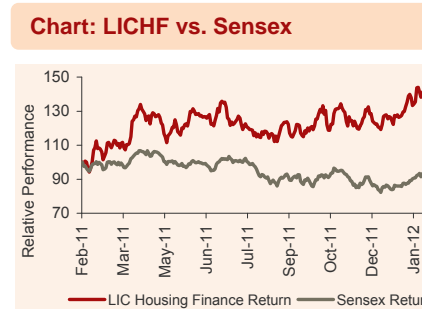
Source: ABML Research

Company Data	
BSE Code	500253
NSE Code	LICHSGFIN
Equity Capital (₹ mn)	949.3
Face Value (₹)	2
Market Cap (₹ bn)	124.1
Avg Daily Volume (Qty)	2703810
52 week H/L (₹)	264.3 / 163.3

Source: NSE, BSE

Shareholding (%)			
Holders	Dec 11	Sep 11	June 11
Promoters	36.54	36.54	36.54
FII's	40.13	37.80	39.86
MFs/Banks & FI's	9.44	8.98	7.81
Public & Others	13.89	16.68	15.79

Source: BSE



Source: Capitaline

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Standalone Financial Results (Q3 FY12) - LICHF

Particulars	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY12	QoQ (%)
Income from operations	15386.6	11614.8	32.5	14579.3	5.5
Other Operating Income	498.6	516.4	-3.5	535.4	-6.9
Total Income	15885.2	12131.2	30.9	15114.7	5.1
Expenditure	11865.7	10981.5	8.1	13846.4	-14.3
Interest Expenditure	12129.0	8093.1	49.9	11238.1	7.9
Employee Cost	179.9	197.7	-9.0	175.5	2.5
Depreciation	19.1	15.0	27.6	18.4	4.3
Advertisement Expenses	28.4	18.2	56.6	21.2	34.3
Commission & Brokerage	203.7	232.2	-12.3	244.2	-16.6
Provision & Write off	-796.9	2328.1	-134.2	2047.0	-138.9
Other Expenditure	102.5	97.3	5.4	102.1	0.4
Operating Profit	4019.5	1149.7	249.6	1268.4	216.9
Other Income	40.2	1413.0	-97.2	38.9	3.2
Profit before Tax	4059.6	2562.7	58.4	1307.3	210.5
Tax Expense	1002.7	427.8	134.4	323.4	210.1
Net Profit	3056.9	2134.9	43.2	983.9	210.7
Earning Per Share					
Basic EPS	6.44	4.50	43.1	2.08	210.1
Loan Book (in bn)	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY12	QoQ (%)
Disbursements	47.22	46.26	2.1	51.48	-8.3
Outstanding Mortgage Portfolio	587.07	463.80	26.6	560.98	4.7
Key Ratios	Q3 FY12	Q3 FY11	YoY (%)	Q2 FY12	QoQ (%)
NIM	2.27%	3.14%	-87 bps	2.45%	-18 bps
Gross NPA to Advances	0.63%	0.67%	-4 bps	0.64%	-1 bps
Net NPA to Advances	0.31%	0.18%	13 bps	0.12%	19 bps
Cost / Income Ratio	14.1%	10.3%	378 bps	14.3%	-28 bps

Source: Company data, ABML Research

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / Downside %
27-Sep-10	Initiating Coverage	Accumulate	270.4	301.4	11.5
15-Oct-10	Result Update (Q2FY11)	Accumulate	276.1	301.4	9.2
26-Nov-10	Event Update	Accumulate	210.8	253.5	20.3
24-Jan-11	Result Update (Q3FY11)	Buy	194.1	256.9	32.4
05-May-11	Result Update (Q4FY11)	Buy	204.5	262.0	28.1
27-July-11	Result Update (Q1FY12)	Buy	215.0	263.5	22.6
17-Nov-11	Result Update (Q2FY12)	Accumulate	225.7	254.6	12.8
06-Feb-12	Result Update (Q3FY12)	Neutral	261.4	266.6	2.0

Source: ABML Research



Consolidated Financials – LIC Housing Finance

Income Statement

Financial Year (₹ mn)	FY10A	FY11A	FY12E	FY13E
Net Interest Income	8,869	13,719	14,815	19,624
Growth (%)	21	55	8	32
Other Operating Income	1,809	2,194	2,704	3,305
Net Income	10,679	15,913	17,518	22,929
Operating Expenses	1,983	2,261	2,528	3,227
Operating Profit (pre-prov)	8,696	13,652	14,991	19,702
Other Income	116	1,856	254	317
Other Prov. & Contingencies	(283)	2,609	1,837	1,783
Profit Before Taxes	9,095	12,899	13,408	18,236
Prov for tax	2,492	3,207	3,566	4,851
Net Profit	6,603	9,693	9,841	13,385
Growth (%)	25	47	2	36
Share of Associate Cos profit	285	(174)	246	402
Net PAT & share of associates	6,888	9,519	10,087	13,787

Balance Sheet

Financial Year (₹mn)	FY10A	FY11A	FY12E	FY13E
Sources of Funds				
Capital	950	950	950	950
Reserve and Surplus	33,478	40,967	49,008	59,998
Net Worth	34,428	41,917	49,958	60,948
Borrowings	347,582	451,628	579,618	730,391
Growth (%)	37	30	28	26
Total	382,010	493,545	629,576	791,338
Application of Funds				
Fixed assets	495	622	613	624
Housing Loans	380,814	510,898	648,351	816,090
Growth (%)	38	34	27	26
Investments	14,332	14,153	17,055	20,853
Growth (%)	25	(1)	21	22
Net Current Assets	(14,523)	(33,827)	(38,141)	(47,927)
Deferred Tax Assets (Net)	890	1,698	1,698	1,698
Total	382,010	493,545	629,576	791,338

Source: ABML Research, company data

Key Ratios

Financial Year (₹ mn)	FY10A	FY11A	FY12E	FY13E
Return Ratios				
Average Yield on loans	10.0%	10.0%	10.5%	10.4%
Average Cost of funds	8.0%	7.8%	8.9%	8.6%
NIM	2.6%	3.0%	2.5%	2.6%
Return on Avg Equity	24.1%	24.9%	22.0%	24.9%
Return on Avg Assets	2.0%	2.0%	1.6%	1.8%
Asset Quality				
Gross NPA to Advances	0.7%	0.5%	0.6%	0.5%
Net NPA to Advances	0.1%	0.0%	0.1%	0.1%
Efficiency Ratios				
Loan Assets Per Empl. (in mn)	375.9	429.3	497.3	540.6
Net Profit Per Empl. (in mn)	6.8	8.0	7.7	9.1
Cost / Income Ratio	17.5%	12.7%	14.2%	13.9%
Opex to Avg Assets	0.5%	0.5%	0.4%	0.4%
Balance Sheet Ratios				
Loan to Borrowing Ratio (%)	109.6	113.1	111.9	111.7
Debt/Equity Ratio	10.1	10.8	11.6	12.0
Valuations Ratio				
EPS	14.5	20.0	21.2	29.0
P/E (x)	18.0	13.0	12.3	9.0
BVPS	72.5	88.2	105.2	128.3
P/BV (x)	3.6	3.0	2.5	2.0
Adj. BVPS	72.0	88.1	104.6	127.8
P/ABV (x)	3.6	3.0	2.5	2.0



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ABML research is also accessible in Bloomberg at ABMR



Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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