

LIC Housing Finance

Performance Highlights

Particulars (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
NII	388	416	(6.9)	362	7.0
Pre-prov. profit	335	379	(11.5)	319	5.0
PAT	98	257	(61.6)	234	(58.0)

Source: Company, Angel Research

For 2QFY2012, LICHF reported a sharp 58.0% yoy drop in its reported profit to ₹98cr on account of one-off regulatory provisions of ₹205cr, primarily (₹160cr) related to standard assets. Individual disbursements remained strong at 24.6% yoy, however NIM contracted by 48bp on a yoy basis. **We recommend Neutral on the stock.**

One-off regularity provisioning dents bottom line: For 2QFY2012, LICHF's loan book grew strongly by 29.3% yoy (6.1% qoq) to ₹56,098cr. During 2QFY2012, individual disbursements (₹4,736cr) growth was healthy at 24.6% yoy, however overall disbursements (₹5,148cr) increased by only 0.9% yoy as disbursements related to projects (₹412cr) declined by 68.3% yoy, mostly due to a high base effect (₹1,300cr worth project disbursements during 2QFY2011). LICHF's loan portfolio share to developers, which is generally higher yielding, have been on a declining trend since the last 2-3 quarters, leading to slower rise in yield on advances (11.0% in 2QFY2012 compared to 10.5% in 1QFY2012 and 10.0% in 2QFY2011) for the company. LICHF picked up loans worth ₹5,000cr from banks during the quarter, leading to cost of funds shooting up by 84bp qoq to 9.5% (rise of 162 bp yoy). Consequently, NIM for the quarter declined by 48bp yoy to 2.45%. The company made provisions of ₹205cr during the quarter to meet the new regulatory norms of standard asset provisioning of 0.4% on individual loan book and higher provisioning required for substandard assets. On the asset-quality front, LICHF's asset quality continued to be stable during 2QFY2012, with gross NPA ratio declining by 10bp yoy to 0.64% and net NPA ratio declining by 9bp yoy to 0.1%.

Outlook and valuation: At the CMP, the stock is trading at a P/ABV multiple of 1.7x FY2013E of ₹126.0cr. Historically, the stock has traded at 0.8x–2.1x one-year forward P/ABV multiple, with a five-year median of 1.2x, but it has been rerated over the past two years to 1.9x average. However, on account of the prevailing high interest rates, we expect loan growth to slow down to 27% for FY2012 and 23% for FY2013 (from 34.2% in FY2011) and spreads to be about ~33bp lower in FY2012 compared to FY2011. Also, unlike NBFCs regulated by the RBI, CAR requirements for HFCs have not been increased by NHB. Considering the near-term macro headwinds, regulatory overhang and above-average valuations, **we recommend Neutral on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
NII	937	1,441	1,667	1,991
% chg	17.6	53.8	15.7	19.4
Net profit	662	974	974	1,293
% chg	24.6	47.2	(0.0)	32.7
NIM (%)	2.7	3.1	2.8	2.7
EPS (₹)	13.9	20.5	20.5	27.2
P/E (x)	15.8	10.7	10.7	8.1
P/ABV (x)	3.1	2.5	2.1	1.7
RoA (%)	1.9	2.1	1.6	1.7
RoE (%)	23.6	25.8	21.4	23.6

Source: Company, Angel Research

NEUTRAL

CMP	₹226
Target Price	-

Investment Period	-
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Stock Info

Sector	NBFC
Market Cap (₹ cr)	10,713
Beta	1.2
52 Week High / Low	270/150
Avg. Daily Volume	1,325,813
Face Value (₹)	2
BSE Sensex	16,776
Nifty	5,030
Reuters Code	LICH.BO
Bloomberg Code	LICHF@IN

Shareholding Pattern (%)

Promoters	36.5
MF / Banks / Indian Fls	8.8
FII / NRIs / OCBs	38.6
Indian Public / Others	15.9

Abs. (%)	3m	1yr	3yr
Sensex	(0.3)	(15.6)	80.6
LICHF	7.2	(13.7)	451.6

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Exhibit 1: 2QFY2012 performance

Particulars (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Interest earned	1,511	1,414	6.9	1,100	37.4
Interest expenses	1,124	997	12.7	738	52.3
Net interest income	388	416	(6.9)	362	7.0
Non-interest income	4	5	(16.2)	7	(46.2)
Operating income	392	421	(7.0)	370	5.9
Operating expenses	56	42	33.0	50	11.6
Pre-prov. profit	335	379	(11.5)	319	5.0
Provisions & cont.	205	33	512.2	-	74,335.3
PBT	131	345	(62.2)	319	(59.0)
Prov. for taxes	32	89	(63.6)	85	(61.9)
PAT	98	257	(61.6)	234	(58.0)
EPS (₹)	2.1	5.4	(61.6)	4.9	(58.0)
Cost-to-income ratio (%)	14.3	10.0		13.6	
Effective tax rate (%)	24.7	25.7		26.6	
Net NPA (%)	0.1	0.4		0.2	

Source: Company, Angel Research

Exhibit 2: 2QFY2012 – Actual vs. Angel estimates

Particulars (₹ cr)	Actual	Estimates	% chg
Net interest income	388	425	(8.7)
Non-interest income	4	10	(61.0)
Operating income	392	435	(9.9)
Operating expenses	56	61	(8.1)
Pre-prov. profit	335	374	(10.2)
Provisions & cont.	205	23	772.6
PBT	131	350	(62.7)
Prov. for taxes	32	90	(64.1)
PAT	98	260	(62.2)

Source: Company, Angel Research

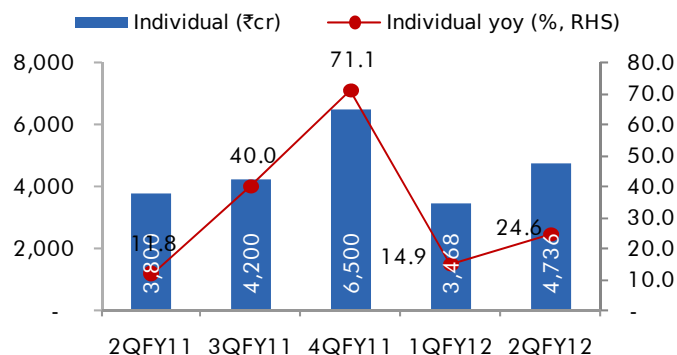
Individual disbursements see traction; NIM declines on yoy basis

For 2QFY2012, LICHF's loan book grew strongly by 29.3% yoy (6.1% qoq) to ₹56,098cr. During 2QFY2012, individual disbursements (₹4,736cr) growth was healthy at 24.6% yoy, however overall disbursements (₹5,148cr) increased by only 0.9% yoy as disbursements related to projects (₹412cr) declined by 68.3% yoy, mostly due to a high base effect (₹1,300cr worth of project disbursements during 2QFY2011).

LICHF's loan portfolio share to developers, which is generally higher yielding, have been on a declining trend since the last 2-3 quarters, leading to a slower rise in yield on advances (11.0% in 2QFY2012 compared to 10.5% in 1QFY2012 and 10.0% in 2QFY2011) for the company. LICHF picked up loans worth ₹5,000cr from banks during the quarter, leading to cost of funds shooting up by 84bp qoq to 9.5% (rise of 162bp yoy). Consequently, NIM for the quarter declined by 48bp yoy to 2.45%.

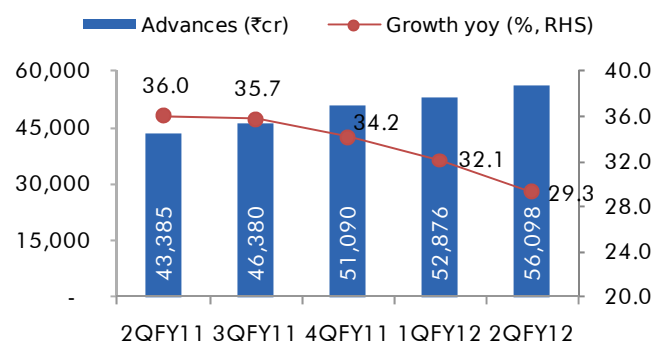
During the quarter, the company announced a new home loan product – New Advantage 5. This product is being offered at fixed rates of interest for the first five years and floating rates thereafter. Floating rates will be linked to the company's prime lending rate prevailing at the time of the switch. According to management, this product has not been classified as a teaser product till now by the NHB.

Exhibit 3: Individual disbursements remain strong



Source: Company, Angel Research

Exhibit 4: Advances growth strong for 2QFY2012



Source: Company, Angel Research

One-off regulatory provisioning worth ₹205cr during the quarter

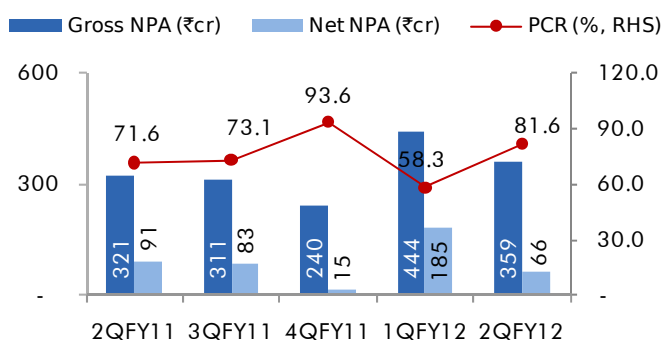
The company made provisions of ₹205cr during the quarter to meet the new regulatory norms of standard asset provisioning of 0.4% on individual loan book and higher provisioning required for substandard assets. The company was already providing 10-15bp standard asset provisioning on individual loans and 90bp on developer loans as against prior norms of 40bp requirement only on developer loans. Hence, the company had accumulated ~₹100cr extra provisioning on its balance sheet.

The outstanding individual loan portfolio for the company as of 2QFY2012 stood at ~₹52,000cr, of which ~₹12,000cr is on the fixed-o-floaty scheme on which the company was already making teaser rate provisioning. The company chose not to utilize the extra ₹100cr provisioning and made ₹160cr worth of provisions (40bp on ~₹40,000cr) during the quarter. The company also made ₹45cr provisions on

higher provisioning required for sub-standard assets. While management indicated that the extra ₹100cr provisioning could flow as profits in 2HFY2012, we have not factored the same in our estimates, providing an upside risk to our bottom-line estimates.

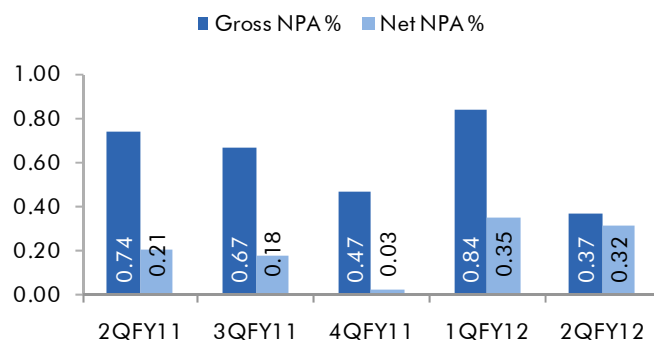
On the asset-quality front, LICHF's asset quality continued to be stable during 2QFY2012, with gross NPA ratio declining by 10bp yoy to 0.64% and net NPA ratio declining by 9bp yoy to 0.1%. Calculated provision to coverage ratio for 2QFY2012 stood at 81.6% as compared to 71.6% in 2QFY2011 and 58.3% in 1QFY2012.

Exhibit 5: Asset quality stable



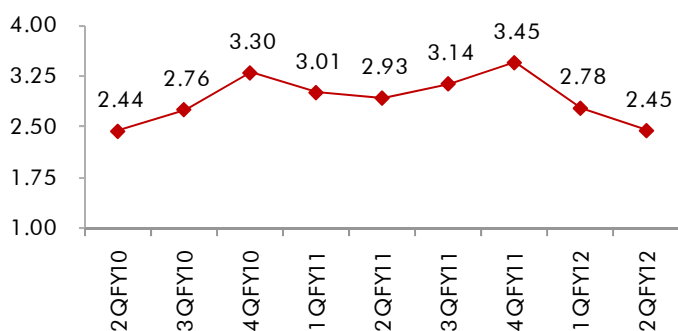
Source: Company, Angel Research

Exhibit 6: NPA ratios lower compared to 2QFY2011



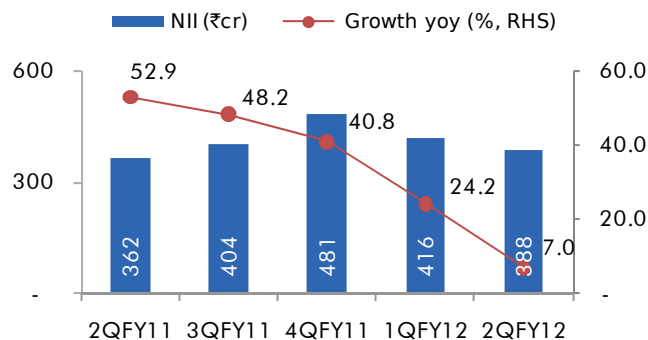
Source: Company, Angel Research

Exhibit 7: NIM drops by 48bp compared to 2QFY2011



Source: Company, Angel Research

Exhibit 8: NII growth trend



Source: Company, Angel Research

Investor concerns

Concerns on the regulatory front

LICHF did not make any teaser loan provision on its 'Advantage-5' product, as it had not been notified by the NHB to do so. The company has replaced 'Advantage-5' by a new non teaser plan 'Freedom'; however, the threat of NHB classifying the loans disbursed via the 'Advantage-5' plan as teaser still remains.

Also, capital adequacy requirements are relatively less strict for HFCs (12% CAR required with no specific requirement for Tier-1 capital), as compared to NBFCs (15% CAR required, 10% minimum tier-1 in case of IFCs). As of FY2011, CAR of LICHF stood at 14.6% (tier-1 ratio of 8.7% including 1HFY2012 profits), and considering LICHF is leveraged 12-13 times, the company might have to raise capital in future if CAR requirements are raised.

Outlook and valuation

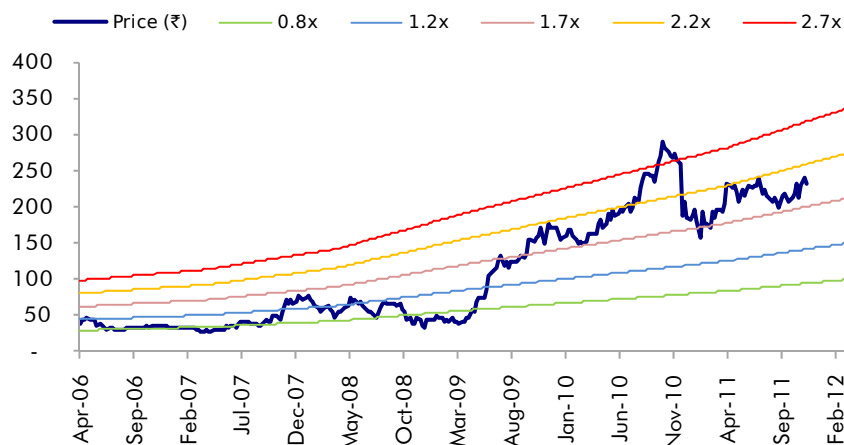
LICHF has been able to grow its loan book at a 35.9% CAGR over FY2009–11, driven by a strong parent brand, success of its home loan products (~25% of its loan book comprised teaser loans as of FY2011) and strategic focus on tier-2 and tier-3 cities to sell its home loans.

At the CMP, the stock is trading at a P/ABV multiple of 1.7x FY2013E of ₹126.0cr. Historically, the stock has traded at 0.8x–2.1x one-year forward P/ABV multiple, with a five-year median of 1.2x, but it has been rerated over the past two years to 1.9x average. However, on account of the prevailing high interest rates, we expect loan growth to slow down to 27% for FY2012 and 23% for FY2013 (from 34.2% in FY2011) and spreads to be about ~33bp lower in FY2012 compared to FY2011. Also, unlike NBFCs regulated by the RBI, CAR requirements for HFCs have not been increased by NHB. Considering the near-term macro headwinds, regulatory overhang and above-average valuations, **we recommend Neutral on the stock.**

Exhibit 9: Change in estimates

Particulars (₹ cr)	FY2012			FY2013		
	Earlier estimates	Revised estimates	Var. (%)	Earlier estimates	Revised estimates	Var. (%)
NII	1,682	1,667	(0.9)	1,985	1,991	0.3
Non-interest income	207	193	(6.8)	253	228	(9.7)
Operating income	1,889	1,860	(1.6)	2,237	2,219	(0.8)
Operating expenses	263	256	(2.5)	323	307	(5.0)
Pre-prov. profit	1,627	1,604	(1.4)	1,914	1,912	(0.1)
Provisions & cont.	117	288	145.6	143	166	15.8
PBT	1,509	1,316	(12.8)	1,771	1,746	(1.4)
Prov. for taxes	392	342	(12.8)	460	453	(1.4)
PAT	1,118	974	(12.8)	1,311	1,293	(1.4)

Source: Angel Research

Exhibit 10: P/ABV band


Source: Bloomberg, Angel Research;

Income statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Nil	619	796	937	1,441	1,667	1,991
- YoY Growth (%)	48.0	28.7	17.6	53.8	15.7	19.4
Other Income	72	91	137	331	193	228
- YoY Growth (%)	28.1	26.3	51.1	141.4	(41.6)	18.1
Operating Income	690	887	1,073	1,771	1,860	2,219
- YoY Growth (%)	45.6	28.4	21.1	65.0	5.0	19.3
Operating Expenses	134	154	192	216	256	307
- YoY Growth (%)	28.1	15.3	24.2	12.9	18.4	19.8
Pre - Provision Profit	557	732	882	1,555	1,604	1,912
- YoY Growth (%)	50.6	31.6	20.4	76.3	3.2	19.2
Prov. & Cont.	24	5	(28)	261	288	166
- YoY Growth (%)	54.4	(78.4)	-	-	10.4	(42.3)
Profit Before Tax	532	727	910	1,294	1,316	1,746
- YoY Growth (%)	50.4	36.6	25.2	42.1	1.7	32.7
Prov. for Taxation	145	195	249	320	342	453
- as a % of PBT	27.3	26.8	27.4	24.7	26.0	26.0
PAT	387	532	662	974	974	1,293
- YoY Growth (%)	38.7	37.3	24.6	47.2	(0.0)	32.7

Balance sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Share Capital	85	85	95	95	95	95
Reserve & Surplus	1,747	2,149	3,293	4,074	4,855	5,892
Loan Funds	20,344	25,422	34,758	45,163	58,887	72,431
- Growth (%)	24.6	25.0	36.7	29.9	30.4	23.0
Other Liabilities & Provisions	1,181	1,727	2,096	4,298	4,273	5,358
Total Liabilities	23,357	29,382	40,242	53,630	68,110	83,775
Investments	775	1,129	1,389	1,403	1,783	2,196
Advances	21,936	27,679	38,081	51,090	64,884	79,807
- Growth (%)	24.9	26.2	37.6	34.2	27.0	23.0
Fixed Assets	30	35	36	47	59	70
Other Assets	616	539	736	1,090	1,384	1,702
Total Assets	23,357	29,382	40,242	53,630	68,110	83,775

Ratio analysis

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Profitability ratios (%)						
NIMs	3.0	3.1	2.7	3.1	2.8	2.7
Cost to Income Ratio	19.4	17.4	17.8	12.2	13.8	13.8
RoA	1.8	2.0	1.9	2.1	1.6	1.7
RoE	22.9	26.2	23.6	25.8	21.4	23.6
Asset Quality (%)						
Gross NPAs	1.70	1.07	0.69	0.47	0.53	0.58
Net NPAs	0.64	0.21	0.12	0.03	0.05	0.06
Provision Coverage	62.4	80.4	82.6	93.7	90.0	90.0
Per Share Data (₹)						
EPS	9.1	12.5	13.9	20.5	20.5	27.2
ABVPS (75% cover.)	42.0	52.6	71.3	87.8	104.2	126.0
DPS	2.0	2.6	3.0	3.5	3.5	4.6
Valuation Ratios						
PER (x)	24.2	17.6	15.8	10.7	10.7	8.1
P/ABVPS (x)	5.2	4.2	3.1	2.5	2.1	1.7
Dividend Yield	0.9	1.2	1.4	1.6	1.6	2.1
DuPont Analysis						
NII	2.9	3.0	2.7	3.1	2.7	2.6
(-) Prov. Exp.	0.1	0.0	(0.1)	0.6	0.5	0.2
Adj. NII	2.8	3.0	2.8	2.5	2.3	2.4
Treasury	0.0	0.0	0.0	0.4	0.0	0.0
Int. Sens. Inc.	2.8	3.0	2.8	2.9	2.3	2.4
Other Inc.	0.3	0.3	0.4	0.3	0.3	0.3
Op. Inc.	3.2	3.3	3.2	3.2	2.6	2.7
Opex	0.6	0.6	0.6	0.5	0.4	0.4
PBT	2.5	2.8	2.6	2.8	2.2	2.3
Taxes	0.7	0.7	0.7	0.7	0.6	0.6
RoA	1.8	2.0	1.9	2.1	1.6	1.7
Leverage	12.5	13.0	12.4	12.4	13.3	13.9
RoE	22.9	26.2	23.5	25.8	21.4	23.6

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Disclosure of Interest Statement	LIC Housing Finance
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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