

## RETAIL EQUITY RESEARCH

## L&amp;T Finance Holdings Ltd. (LTFH)

NBFC

BSE CODE: 533519

NSE CODE: L&amp;TFH

Bloomberg CODE: LTFH:IN

SENSEX: 36,546

11<sup>th</sup> February, 2019

BUY

Rating as per Large Cap

12months investment period

CMP Rs. 129 TARGET Rs. 160 RETURN 24% 

## Strong profitability continues...

LTFH is a financial holding company offering a diverse range of financial products and services across retail, corporate, housing and infrastructure finance sectors.

- AUM grew at a strong pace of 22% YoY driven by 64% YoY growth in rural finance and 34% YoY growth in housing finance.
- NII increased at a robust pace of 54% YoY mainly driven by 101 bps YoY improvement in NIM to 5.1% coupled with healthy loan growth.
- We expect AUM and PAT to grow at 21% and 37% CAGR, respectively over FY18-21E led by industry leading growth in select segments coupled with improving operational efficiency.
- Though near-term asset quality overhang will remain, we expect to improve further (Gross/Net NPA ratio to improve to 5%/2% by FY21E).
- We remain confident that LTFH would continue to generate strong return ratios and project RoE of 19% and RoA of 2.3% by FY21E. Thus, we continue to maintain BUY rating on the stock with a revised downward TP of Rs160 valuing it at P/ABV of 2.0x for FY21E.

## De-risking loan book through strong growth in retail book

Assets under management (AUM) grew at a strong pace of 22% YoY driven by robust growth of 64% YoY in rural finance. As a result, share of rural finance increased by 659 bps YoY to 25% in total AUM. The growth in rural loan portfolio was driven by strong traction in all three products viz. tractor loans (33% YoY), two-wheeler loans (75% YoY) and micro loans (86% YoY). Housing portfolio also continued to grow at a healthy pace of 34% YoY supported by robust momentum in home loans (121% YoY) and increase in Real Estate finance book (146% YoY). Management remained selective in infra / wholesale finance (15% YoY). Defocused portfolio continues to run down and constitutes 1.1% of the loan book as compared to 2.3% in Q3FY18. Going forward, we expect LTFH to deliver industry leading growth in microfinance while wholesale vertical is expected to report steady growth leading to 21% CAGR in AUM over FY18-21E.

## Strong operating performance

Net interest income (NII) grew at a robust pace of 54% YoY mainly on the back of 101 bps YoY improvement in net interest margin (NIM) to 5.1%. An increase in the proportion of high-yield business (rural business) and cost increases passed on to customers in wholesale and housing businesses helped to improve NIM. LTFH continued to improve its operating efficiency as cost to income (C/I) ratio declined by 234 bps YoY to 27.8%. Provisions declined by 9% YoY. Notably, LTFH has set aside Rs85cr as macroprudential provisions in Q3FY19, taking overall macroprudential provisions to Rs269cr for unforeseen risks in future. Net profit increased by 78% YoY. We expect net profit to grow at a CAGR of 37% over FY17-21E supported by robust growth in other income coupled with decline in C/I ratio and credit cost.

## Asset quality improvement on track

Gross and Net non-performing asset (NPA) ratios improved by 36 bps and 15 bps sequentially to 6.7% and 2.6%, respectively. Provision coverage ratio improved by 13 bps QoQ to 60.8%. Notably, LTFH's exposure to Supertech (Rs800cr) and IL&FS (Rs1,800cr) remains standard as the management attributes negligible probability to their default and consequent loss. The company's exposure to IL&FS is across four annuity road and two tall road projects which are under SPVs and are operational. Though the company has strong risk management practices and we don't foresee any major setback on asset quality front from rural and housing lending books, the company's exposure to few large chunky accounts will remain an area of concern. Overall, we expect asset quality to improve further and project Gross/Net NPA ratio at 5%/2% by FY21E.

## Outlook &amp; Valuation

LTFH delivered a commendable performance across parameters in Q3FY19. The company is now well on its journey of 'retailization' of the balance sheet. We remain confident that LTFH would continue to generate strong return ratios over the medium term and project RoE of 19% and RoA of 2.3% by FY21E. However, near-term overhang on the stock price will continue given the uncertainty towards the company's exposure to IL&FS and Supertech. We believe that stock at current valuation (P/ABV of 1.6x for FY21E) factors most of the negatives. Hence, we continue to maintain BUY rating on the stock with a revised downward target price (TP) of Rs 160 valuing it at P/ABV of 2.0x for FY21E.

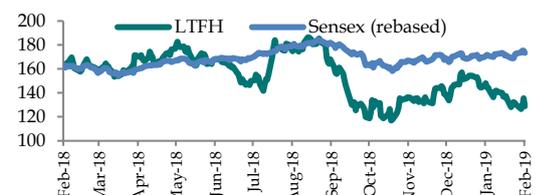
## Company Data

Market Cap (cr)	Rs. 25,755
Outstanding Shares (cr)	199.7
Free Float	33%
Dividend Yield	0.8
52 week high	Rs. 190
52 week low	Rs. 111
6m average volume (cr)	1.0
Beta	2.0
Face value	Rs. 10

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	64.0	64.0	64.0
FII's	9.9	8.8	10.6
MFs/Insti	5.2	5.1	4.0
Public	20.9	22.1	21.5
Others	-	-	-
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.9%	-26.6%	-21.4%
Absolute Sensex	3.7%	-3.5%	6.2%
Relative Return*	-9.7%	-23.1%	-27.6%

\*over or under performance to benchmark index



Consolidated (Rs.cr)	FY19E	FY20E	FY21E
Net Interest Income	4,747	5,769	7,029
Growth (%)	29%	22%	22%
NIM (%)	5.1	5.2	5.2
Pre Pro Profit	4,720	5,784	7,003
Growth (%)	30%	23%	21%
Net Profit	2,238	2,763	3,308
Growth (%)	53%	23%	20%
EPS	11.2	13.8	16.6
Growth (%)	53%	23%	20%
P/E	11.4	9.3	7.7
P/BV	1.8	1.6	1.4
P/ABV	2.2	1.9	1.6
RoE (%)	16.2	18.3	19.1
RoA (%)	2.2	2.3	2.3

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
Interest Income	3,039	2,167	40.2	2,777	9.4
Interest Expense	1,865	1,402	33.0	1,650	13.0
<b>Net Interest Income</b>	<b>1,174</b>	<b>765</b>	<b>53.6</b>	<b>1,127</b>	<b>4.2</b>
Non-Interest Income	477	428	11.6	563	(15.2)
Total Net Income	1,652	1,192	38.5	1,691	(2.3)
Operating Expenses	460	360	27.8	526	(12.5)
Employee Cost	230	107	114.6	218	5.5
Other Operating Exp.	230	253	(9.0)	308	(25.2)
Total Income	3,516	2,595	35.5	3,340	5.3
Total Expenditure	2,325	1,762	31.9	2,175	6.9
<b>Pre-Provisioning profit</b>	<b>1,192</b>	<b>832</b>	<b>43.2</b>	<b>1,165</b>	<b>2.3</b>
Provisions	416	457	(8.9)	367	13.3
Profit Before Tax	776	376	106.4	798	(2.7)
Tax	195	50	287.2	239	(18.3)
<b>Net Profit</b>	<b>581</b>	<b>325</b>	<b>78.5</b>	<b>559</b>	<b>3.9</b>
EPS - Diluted (Rs)	2.9	1.8	62.2	2.8	3.9

Business Performance (Rs cr)	Q3FY19	Q3FY18	YoY Growth %	Q2FY19	QoQ Growth %
Disbursements	13,682	17,176	(20.3)	16,735	(18.2)
AUM	94,711	77,742	21.8	91,201	3.8
Borrowings	87,818	68,466	28.3	86,789	1.2

Key Ratios (%)	Q3FY19	Q3FY18	YoY bps	Q2FY19	QoQ bps
Net Interest Margin	5.1	4.0	101	5.1	(3)
Cost of Borrowings	8.5	8.4	11	8.0	50
Yield on AUM	13.1	11.5	161	12.5	56
Cost to Income	27.8	30.2	(234)	31.1	(325)
Gross NPA	6.7	10.4	(366)	7.1	(36)
Net NPA	2.6	4.7	(210)	2.8	(15)
Provision Coverage	60.8	54.4	641	60.7	13
Credit Cost	1.8	2.4	(63)	1.7	13
RoE (Ann.)	18.3	16.0	230	18.5	(13)
RoA (Ann.)	2.4	1.6	77	2.4	(2)

Source: Company, Geojit Research

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Interest Income	7,771	9,013	11,746	14,395	17,684
Interest Expense	4,627	5,326	6,999	8,626	10,656
<b>Net Interest Income</b>	<b>3,144</b>	<b>3,687</b>	<b>4,747</b>	<b>5,769</b>	<b>7,029</b>
% Change	26.7	17.3	28.8	21.5	21.8
Non-Interest Income	801	1,487	1,938	2,375	2,918
Net Income	3,945	5,174	6,686	8,145	9,947
Operating Expenses	1,276	1,537	1,965	2,360	2,944
Total Income	8,572	10,500	13,684	16,770	20,602
Total Expenditure	5,904	6,863	8,964	10,986	13,600
<b>Pre-Provisioning Profit</b>	<b>2,669</b>	<b>3,637</b>	<b>4,720</b>	<b>5,784</b>	<b>7,003</b>
% Change	31.2	36.3	29.8	22.5	21.1
Provisions	1,590	1,897	1,523	1,838	2,277
Exceptional Items (net)	0	0	0	0	0
Profit Before Tax	1,079	1,740	3,197	3,947	4,725
Tax	36	275	959	1,184	1,418
Tax Rate (%)	3	16	30	30	30
<b>Net Profit</b>	<b>1,042</b>	<b>1,465</b>	<b>2,238</b>	<b>2,763</b>	<b>3,308</b>
% Change	22.1	40.5	52.8	23.4	19.7
No. of Shares (cr)	176	200	200	200	200
EPS (Rs)	5.9	7.3	11.2	13.8	16.6
% Change	21.5	23.2	53.3	23.4	19.7

### Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Liabilities</b>					
Capital	2,969	3,030	1,997	1,997	1,997
Reserves & Surplus	6,138	10,554	12,146	14,128	16,501
Minority Interest	119	123	123	123	123
Borrowings	59,811	71,577	90,469	108,713	132,245
Provisions	367	397	811	975	1,186
Other Liabilities	3,110	3,549	4,970	5,972	7,265
<b>Total Liabilities</b>	<b>72,514</b>	<b>89,231</b>	<b>110,516</b>	<b>131,908</b>	<b>159,317</b>
<b>Assets</b>					
Fixed Assets	1,258	1,170	1,170	1,170	1,170
Investments	6,012	4,843	6,694	8,044	9,785
Advances	62,314	79,330	96,757	116,269	141,437
Other Assets	2,335	2,824	3,347	4,022	4,892
Cash & Bank Balances	594	1,063	2,548	2,403	2,033
<b>Total Assets</b>	<b>72,514</b>	<b>89,231</b>	<b>110,516</b>	<b>131,908</b>	<b>159,317</b>

### Ratios

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
EPS	5.9	7.3	11.2	13.8	16.6
DPS	0.0	1.2	1.2	1.2	1.2
BV	45.0	62.9	70.8	80.7	92.6
ABV	27.2	53.6	58.5	68.3	79.9
<b>Valuation (%)</b>					
P/E	21.6	17.5	11.4	9.3	7.7
P/BV	2.9	2.0	1.8	1.6	1.4
P/ABV	4.7	2.4	2.2	1.9	1.6
Div. Yield	0.0	0.9	0.9	0.9	0.9
<b>Spreads (%)</b>					
Yield on Funds	12.4	12.0	12.7	12.9	13.1
Cost of Funds	8.1	8.0	8.7	8.7	8.8
<b>Asset (%)</b>					
GNPA	7.1	4.8	6.1	5.5	4.9
NNPA	5.0	2.3	2.4	2.0	1.7
PCR	29.4	51.3	60.0	62.5	65.0
<b>Management (%)</b>					
Debt/Equity	6.6	5.3	6.4	6.7	7.1
Cost/Income	32.4	29.7	29.4	29.0	29.6
<b>Earnings (%)</b>					
NIM	5.0	4.9	5.1	5.2	5.2
ROE	11.9	12.9	16.2	18.3	19.1
ROA	1.5	1.8	2.2	2.3	2.3

### Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
17 April 2017	BUY	135
17 August 2017	BUY	200
11 February 2019	BUY	160

\*Initiating Coverage

### Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Absolute returns less than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

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