

Retail Equity Research

L&T Finance Holdings Ltd.

NBFC

BSE CODE: 533519

NSE CODE: L&TFH

Bloomberg CODE: LTFH:IN

SENSEX: 40,165

12M Investment period

Rating as per Mid cap

CMP Rs 97 TARGET Rs 112 RETURN 15%

(Closing: 01-11-19)



KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Momentum steady despite weak macros

L&T Finance Holdings Limited is a financial holding company offering financial products and services in the corporate, retail and infrastructure finance areas, along with fund products and investment services.

- Rural and Housing loan book registered strong growth of 24.1% and 24.3% respectively, as retailisation increased to 53% of the portfolio from 47%.
- Disbursements were in line with the overall market as Rural, Housing and Infrastructure finance disbursements were down 1.6%, 21.3% and 19.0% respectively on account of industry wide de-growth.
- PAT declined 68.9% YoY to Rs. 174.5cr, due to the adoption of lower corporate tax rate of 25.17% from FY20, which resulted in one-time tax adjustment of Rs. 473 cr.
- We value the stock at 1.3x on FY21E BVPS of Rs. 86.3, with a target price of Rs. 112, and retain our BUY rating.

Disbursements maintain downward trend

Excess monsoon and delay in Kharif sowing in eastern states affected the Farm equipment disbursements, which fell 15.9% YoY in Q2FY20. Similarly, price increase in 2 wheelers and delayed buying decision by consumers due to expectation of discount on transition to BS VI played a part in flat disbursements in 2 wheeler financing. The company continues to maintain a tight credit policy in the Loans against Property segment resulting in 58% YoY decline in disbursements while real estate disbursements continue to decline as the company continues to focus on Category-A developers with stringent focus on project completion. Despite a slowdown at the macro-economic level, the company's focussed loan book registered a healthy 19.2% YoY growth, led by impressive showings in Rural & Housing Finance (24.1% and 24.3% YoY respectively).

Fundamentals remain strong

Net interest margin was up 45bps, supported by 126bps improvement in Infrastructure finance NIM. However, both Rural and Housing finance saw NIM decline of ~35bps owing to increased stress in asset quality in these segments. The company has managed to maintain its credit rating despite a slew of rating downgrades in the NBFC sector. Overall, the asset quality remains better with GS3/NS3 ratio at 5.98%/2.83% in Q2FY20 (v/s 7.10%/2.79% in Q2FY19). The company continues to maintain positive liquidity gaps and a well-diversified funding profile. Better liability management and healthy margins helped adj. PAT (adjusted for one-time deferred tax asset reversal) grow by 15.5%.

Key earnings highlights

- The company has entered into an agreement with IIFL Wealth to sell 100% of its stake in L&T Capital Markets and is awaiting regulatory approval.
- The management has decided to opt for lower corporate tax of 25.17%, which will lead to lower tax liability from FY20.

Outlook & Valuation

We believe the company's focussed book to grow at a healthy rate driven by the housing and individual segments. We remain confident in the management's ability to maintain the asset quality. We value LTFH at 1.3x FY21E BVPS, with a revised target price of Rs. 112, and maintain our BUY recommendation.

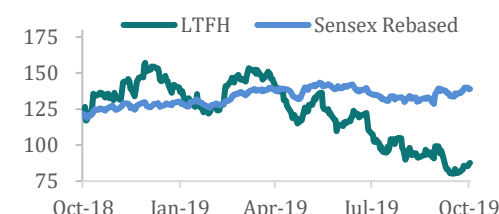
Company Data

Market Cap (cr)	Rs. 19,117
Outstanding Shares (cr)	199.9
Free Float	33.0%
Dividend Yield	1.1%
52 week high	Rs. 159
52 week low	Rs. 79
6m average volume (cr)	0.8
Beta	1.7
Face value	Rs. 10

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	63.9	63.9	63.9
FII's	11.4	10.5	10.8
MFs/Insti	3.0	3.1	5.3
Public	11.1	11.6	12.3
Others	10.6	11.0	7.8
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-3.4%	-26.4%	-24.4%
Absolute Sensex	7.1%	2.8%	16.5%
Relative Return*	-10.5%	-29.2%	-40.9%

*over- or underperformance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Net Interest Income	4,567	5,214	5,967
Growth (%)	46.4	14.2	14.4
NIM (%)	5.0	5.1	5.5
Pre-provision Profit	4,661	5,324	6,191
Adj. Net Profit	2,226	2,136	2,605
Growth (%)	77.4	-4.1	22.0
Adj. EPS	11.1	10.7	13.0
Growth (%)	63.0	-3.7	22.0
BVPS	67.1	74.3	86.3
P/E	13.7	8.9	7.3
P/B	2.3	1.3	1.1
P/ABV	2.3	1.6	1.4
ROE (%)	17.9	11.8	16.2
ROA (%)	2.3	1.5	2.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	3,254	2,777	17.2	3,287	(1.0)	6,541	5,341	22.5
Interest Expense	1,891	1,651	14.5	1,918	(1.4)	3,809	3,163	20.4
Net Interest Income (NII)	1,363	1,126	21.0	1,369	(0.4)	2,732	2,178	25.4
Non-Interest Income	470	415	13.3	396	18.7	866	774	11.9
Total Net Income	1,833	1,541	18.9	1,765	3.9	3,598	2,952	21.9
Total Income	3,724	3,192	16.7	3,683	1.1	7,407	6,115	21.1
Operating Expenses	448	368	21.7	422	6.2	870	698	24.6
Total Expenditure	2,340	2,018	16.0	2,341	(0.0)	4,681	3,860	21.3
Pre-Provision profit	1,384	1,174	17.9	1,342	3.1	2,726	2,255	20.9
Provisions	624	373	67.3	595	4.9	1,219	729	67.2
Profit Before Tax	760	801	(5.1)	747	1.7	1,507	1,526	(1.2)
Tax	113	241	(53.0)	198	(43.0)	311	427	(27.1)
Net Profit	174	560	(68.9)	549	(68.3)	723	1,099	(34.2)
Adj.	473	0	-	0	-	473	0	-
Adj. PAT	647	560	15.5	549	17.9	1,196	1,099	8.8
Adj. EPS – Diluted (Rs)	3.2	2.8	16.1	2.7	18.2	6.0	5.5	9.3

Business Performance

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %
Disbursements	9,779	16,735	(41.6)	9,608	1.8
Average AUM	69,213	73,754	(6.2)	73,497	(5.8)
Overall Book	100,258	91,201	9.9	99,904	0.4

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	5,467	6,584	5,214	5,967	(4.6)	(9.4)
Net Interest Margin (%)	4.9	4.8	5.1	5.5	25bps	68bps
Pre-Provision Profit	5,590	6,653	5,324	6,191	(4.8)	(6.9)
Net Profit	2,588	3,005	2,136	2,605	(17.5)	(13.3)
EPS (Rs)	12.9	15.0	10.7	13.0	(17.3)	(13.1)



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	7,771	8,571	11,426	12,972	14,507
Interest Expense	4,543	5,451	6,859	7,758	8,540
Net Int. Income	3,228	3,120	4,567	5,214	5,967
% Change	23.9	-3.3	46.4	14.2	14.4
Non-Int. Income	722	1,270	1,594	1,783	2,065
Net Income	3,950	4,390	6,161	6,998	8,032
Total Income	8,493	9,841	13,020	14,756	16,572
Operating Exp.	1,034	938	1,500	1,674	1,841
Total Exp.	5,577	6,389	8,359	9,432	10,381
Pre-Prov. Profit	2,916	3,452	4,661	5,324	6,191
Provisions	1,464	2,040	1,606	2,462	2,702
PBT	1,452	1,412	3,055	2,862	3,489
Tax	410	157	829	720	878
Tax Rate (%)	28.2	11.1	27.1	25.2	25.2
Net Profit	1,042	1,255	2,226	1,663	2,605
% Change	21.7	20.4	77.4	(25.3)	56.6
Adj.	0	0	0	473	0
Adj. PAT	1,042	1,255	2,226	2,136	2,605
No. of Shares (cr)	203	184	201	200	200
Adj. EPS (Rs)	5.1	6.8	11.1	10.7	13.0
% Change	35.6	32.5	63.0	(3.7)	22.0
DPS (Rs)	0.8	1.0	1.0	1.0	1.0

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	594	1,109	1,874	4,218	4,302
Investments	6,012	5,301	8,641	4,684	5,621
Advances	62,314	77,088	91,325	98,043	1,09,808
Fixed Assets	1,258	1,170	1,166	1,248	1,348
Other Assets	2,335	3,109	3,050	3,327	3,526
Total Assets	72,514	87,777	106,055	1,11,520	1,24,605
Capital	2,969	1,996	1,999	1,992	1,992
Reserves & Surplus	6,138	9,411	11,450	12,853	15,258
Borrowings	59,811	70,850	87,053	89,263	1,02,652
Other Liabilities	3,595	5,521	5,553	7,412	4,703
Total Liabilities	72,514	87,777	106,055	1,11,520	1,24,605
BVPS (Rs)	44.9	61.9	67.1	74.3	86.3
Adj. BVPS(Rs)	32.2	50.0	54.3	60.0	70.3
% Change	37.9	55.2	8.7	10.4	17.2

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	24.0	23.1	13.7	8.9	7.3
P/BV (x)	2.7	2.5	2.3	1.3	1.1
Div. Yield (%)	0.6	0.6	0.7	1.0	1.0
Profitab. & Return (%)					
Yield on Funds	12.7	11.5	12.5	13.2	13.2
Cost of Funds	8.2	8.3	8.7	8.8	8.9
Spread	4.5	3.1	3.8	4.4	4.3
NIM	5.3	4.2	5.0	5.1	5.5
ROE	11.9	15.7	17.9	11.8	16.2
ROA	1.5	1.6	2.3	1.5	2.2
Asset Quality (%)					
GS3	7.1	8.7	5.9	5.8	5.9
NS3	5.0	3.3	2.4	2.6	2.6
Operating Ratios (%)					
Cost/ Income	26.2	21.4	24.3	23.9	22.9

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
17-Apr-17	BUY	135
17-Aug-17	BUY	200
11-Feb-19	BUY	160
26-Jul-19	BUY	121
01-Nov-19	BUY	112

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more 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. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Abijith T Cherian, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein 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. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abijith T Cherian, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

