

L&T Finance Holdings

Focus on improving ROE

L&T Finance Holdings Ltd (LTFH), promoted by L&T Ltd (64.2%) is a leading NBFC with a diversified lending portfolio. Over the last two year the management has restructured its business model and is focusing on selective segments where it has competitive advantage, simultaneously downsizing some products which were making losses.

New management strategies delivering results: LTFH had a vast portfolio of financial products, which was a mix of productive as well as non-productive segments. The company underwent a restructure at the beginning of FY17, when the new management focused on five products – retail, housing and whole sale loans, investment and wealth management services. Since then, LTFH set a target of ROE 18% to be achieved by 2020. As of 3QFY18, the company's ROE stands at 15.9% which was 9.8% at the beginning of new management in FY17. The focus products are delivering continuous growth.

Constant improvement in asset quality: LTFH's loans & advances is increasing steadily and reported a 26% rise at the end of 9MFY18. Major portion of the advances comprise of wholesale loan, followed by housing loans and retail loans. In the midst of rising loan disbursements also, there is great focus at maintaining asset quality. The gross NPA as of 9MFY18 decreased to 5.5% from 9% in the previous year. Similarly, net NPA also slumped to 2.9% from 7.3% in the year-ago, primarily on account of an expansion in provision coverage from 20.4% in 49.1%.

Capital infusion to leverage growth: LTFH recently raised capital of ₹3,000cr, which will keep the company's required CAR intact. Additional capital infusion will help in developing its lending business in the coming years which is already growing at a level of ~20%. The company raised ₹3,000cr in equity capital, of which ₹2,000Cr came from the parent and ₹1000cr from institutional investors.

Outlook & Valuation: We expect going forward advance to grow at healthy CAGR of 24% over FY17-FY20E, primarily owing to focused lending segment (rural, housing and wholesale) and better managed credit cost would further help to improve return ratio. At CMP LTFH is trading at 2.5x of FY20 AdjBV. We recommend a Buy rating on the stock, with a target price of ₹210.

Key financials (Consolidated)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Nil	2,693	3,034	3,686	4,674	5,846
% chg	15	13	21	27	25
Net profit	854	1,043	1,345	1,931	2,479
% chg	17	22	29	44	28
NIM (%)	5.3	5.1	5.2	5.2	5.3
EPS (₹)	4	5	6	9	11
P/E (x)	44	36	28	19	15
P/ABV (x)	5.0	4.6	4.3	2.9	2.5
RoA (%)	1	2	2	2	2
RoE (%)	11	12	14	16	16

Source: Company, Angel Research; Note: CMP as of may 2, 2018

Please refer to important disclosures at the end of this report

BUY

CMP	₹174
Target Price	₹210

Investment Period	12 Months
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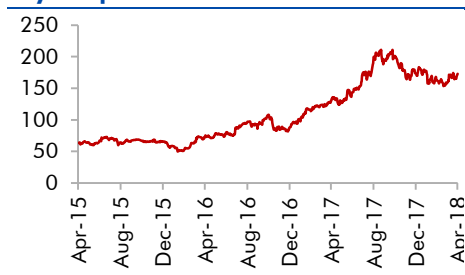
Sector	NBFC
Market Cap (₹ cr)	34,654
Beta	1.8
52 Week High / Low	213.6/119.1
Avg. Daily Volume	41,45,730
Face Value (₹)	10
BSE Sensex	35,176
Nifty	10,718
Reuters Code	LTFH.BO
Bloomberg Code	LTFH.IN

Shareholding Pattern (%)

Promoters	64.2
MF / Banks / Indian Fls	8.3
FII / NRIs / OCBs	16.6
Indian Public / Others	10.9

Abs. (%)	3m	1yr	3yr
Sensex	(3.1)	17.6	30.2
LTFH	(1.8)	29.0	173.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: QoQ performance

Particulars (₹ cr)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	% YoY	% QoQ
Interest earned	2,088	2,094	2,163	2,259	2,384	2,630	25.6	10.3
Interest Expended	1,153	1,160	1,158	1,233	1,297	1,360	17.2	4.8
Net Interest Income	934	934	1,005	1,026	1,087	1,271	36.1	16.9
Other income	54	68	76	107	111	71	4.3	(36.1)
Operating income	988	1,002	1,080	1,133	1,198	1,341	33.9	12.0
Operating expenses	333	315	306	328	342	401	27.0	17.2
- Employee expenses	128	123	134	110	114	134	9.0	17.1
- Other Opex	205	193	173	217	228	267	38.5	17.2
C/l (%)	34	31	28	29	29	30		
Pre-provision Profit	656	686	774	806	856	941	37.1	9.9
Provisions & Contingencies	320	328	688	459	471	493	50.2	4.7
PBT	335	358	85	347	385	448	25.1	16.2
Provision for Tax	89	81	-229	38	23	64	(21.6)	176.3
PAT	247	277	314	309	362	384	38.7	6.1
Effective Tax Rate (%)	26.5	22.6	-267.9	10.9	6.0	14.2		

Source: Company

Exhibit 2: YoY Advance Performance (%)

Particulars	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Advance ₹cr (Q3FY18)
Microfinance	99.6	104.7	86.0	59.0	57.5	45.4	85.2	5,914
2 Wheeler	19.8	16.3	17.6	19.8	24.5	40.0	44.8	2,927
Farm Equip	(8.4)	(10.5)	(8.6)	(5.8)	2.0	12.2	21.1	5,268
Rural Finance	14.7	16.8	16.7	16.1	22.3	28.8	47.5	5,268
Housing Finance	53.5	51.2	33.6	27.8	30.2	35.1	48.7	17,193
Wholesale Finance	18.4	19.7	10.5	18.7	21.6	18.1	14.0	42,915
Focused Products	23.3	54.7	15.4	20.0	23.4	23.2	26.2	74,217
De-focused Products	(26.1)	(26.0)	(38.6)	(45.8)	(45.9)	(47.5)	(45.1)	1,747
Total	17.3	44.8	10.4	14.4	18.1	18.8	22.6	75,964

Source: Company

Income statement (Consolidated)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
NII	2,693	3,034	3,686	4,674	5,846
- YoY Growth (%)	15	13	21	27	25
Other Income	653	911	1,087	1,346	1,645
- YoY Growth (%)	50	39	19	24	22
Operating Income	3,347	3,945	4,773	6,020	7,491
- YoY Growth (%)	21	18	21	26	24
Operating Expenses	1,313	1,277	1,492	1,795	2,193
- YoY Growth (%)	22	-3	17	20	22
Pre - Provision Profit	2,034	2,669	3,281	4,225	5,297
- YoY Growth (%)	20	31	23	29	25
Prov. & Cont.	781	1,590	1,776	1,795	2,084
- YoY Growth (%)	18	104	12	1	16
Profit Before Tax	1,253	1,079	1,505	2,430	3,213
- YoY Growth (%)	22	-14	39	61	32
Prov. for Taxation	399	36	160	499	734
- as a % of PBT	32	-91	340	212	47
PAT	854	1,043	1,345	1,931	2,479
- YoY Growth (%)	17	22	29	44	28

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	2,967	2,969	2,969	3,140	3,140
Reserve & Surplus	5,324	6,020	7,096	11,470	13,454
Net Worth	8,291	8,989	10,065	14,610	16,594
Total Borrowings	51,616	59,811	75,362	92,695	1,09,380
- Growth (%)	23	16	26	23	18
Other Liabilities	3,840	3,713	5,335	4,896	8,144
Total Liabilities	63,746	72,514	90,762	1,12,201	1,34,118
Cash and Cash equivalents					
Investments	3,563	6,012	6,393	7,627	9,322
Total Loans & Advances	56,468	62,315	79,763	99,703	1,19,644
- Growth (%)	23	10	28	25	20
Fixed Assets	696	619	681	749	824
Other Assets	3,019	3,569	3,926	4,122	4,328
Total Assets	63,746	72,514	90,762	1,12,201	1,34,118

Ratio analysis

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Profitability ratios (%)					
NIMs	5.3	5.1	5.2	5.2	5.3
RoA	1.5	1.5	1.6	1.9	2.0
RoE	11	12	14	16	16
Asset Quality (%)					
Gross NPAs %	3.1	3.1	3.9	4.3	4.4
Net NPAs %	2.1	2.1	2.3	2.6	2.6
Credit Cost	1.3	2.3	2.2	1.8	1.7
Per Share Data (₹)					
EPS	4	5	6	9	11
BVPS	38	41	46	67	77
Adj BV	35	38	41	61	68
Valuation Ratios					
PER (x)	44	36	28	19	15
P/BVPS (x)	4.5	4.2	3.7	2.6	2.3
P/ABVPS (x)	5.0	4.6	4.3	2.9	2.5
DuPont Analysis					
Interest Income	12	11	11	11	11
Interest Expenses	7	7	7	7	7
NII	5	4	5	5	5
Provision	1	2	2	2	2
Adj NII	3	2	2	3	3
Other Inc.	1	1	1	1	1
Total Income	4	3	4	4	4
Opex	2	2	2	2	2
PPP	2	2	2	2	3
PBT	2	2	2	2	3
Taxes	1	0	0	0	1
RoA	1	2	2	2	2
Leverage	7	8	9	8	8
RoE	11	12	14	16	16

Note - Valuation done on closing price of 02/05/2018

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Disclosure of Interest Statement	L&T Finance Holdings
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 (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)