

October 17, 2017

BSE Code: 533519 NSE Code: L&TFH Reuters Code: LTFH.NS Bloomberg Code: LTFH:IN

L&T Finance Holdings Ltd. (LTFH) is a financial holding company offering a diverse range of financial products and services across retail, corporate, housing and infrastructure finance sectors. It also has presence in asset management and investment management services.

Key Events

Shift in focus on select business segments:

LTFH identified select focus segments which it believes offer strong long-term leading growth opportunities. It includes three key lending businesses (Rural, Housing and Wholesale), asset management and wealth management. Moreover, owing to difficult macro-environment and the challenges in large numbers of infrastructure projects, the company has decided to sell/run down less profitable/loss businesses includes CV, Cars, CE, Leases and SME Term Loans.

Improvement in asset quality:

Although LTFH moved to 90 days past due (dpd) non-performing assets (NPA) recognition across all business segments from Q1FY18, it reported significant improvement in asset quality. Gross NPA ratio improved by 140 bps QoQ to 5.7% on the back of higher recoveries in tractor portfolio along with sale of infra loans worth Rs350 cr to ARC. Net NPA ratio improved by 171 bps QoQ to 3.3% on account of aggressive provisioning policy of the company.

Profitability remains strong:

Net interest income (NII) increased at a strong pace of 22% YoY (in line with our expectation) mainly driven by 29 bps YoY improvement in net interest margin (NIM) to 6.1% coupled with healthy loan growth. Other income witnessed robust growth of 213% YoY led by sharp surge in fee income on the back of high sell-down of loans. LTFH continued to improve its operating efficiency as cost to income (C/I) ratio declined by 790 bps YoY to 28.9%. Provisions increased by 81% YoY as the company made additional voluntary provisions of Rs95 cr and Rs49 cr in its rural and wholesale segment, respectively. Net profit came ahead of our expectation increasing by 49% YoY.

Healthy loan growth:

Consolidated advances grew at a healthy pace of 18% YoY driven by 22% YoY growth in focused businesses while defocused businesses which includes CV, Cars, CE, Leases and SME Term Loans) declined 46% YoY. Disbursement grew at a robust pace of 2.0x YoY on the back of 3.0x YoY increase in real estate financing followed by 2.5x and 1.7x YoY growth in infra and farm equipment financing, respectively.

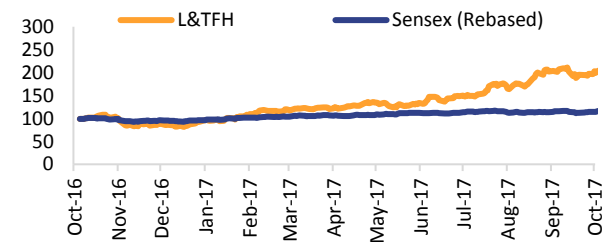
Market Data

CMP (Rs.)	204
Face Value (Rs.)	10
52 week H/L (Rs.)	213/81
Adj. all time High (Rs.)	213
Decline from 52WH (%)	4.2
Rise from 52WL (%)	151.9
Beta	1.1
Mkt. Cap (Rs.Cr)	6,999
Enterprise Value (Rs.Cr)	-

Fiscal Year Ended

	FY15	FY16	FY17
NII (Rs.cr)	178	301	422
PPP (Rs.cr)	152	273	388
PAT (Rs.Cr)	86	157	235
EPS (Rs.)	32.4	59.0	88.4
P/E (x)	81.2	44.6	29.8
P/ABV (x)	9.1	8.0	6.5
ROA (%)	1.2	1.6	1.9

One year Price Chart



Shareholding	Sep-17	Jun-17	Diff.
Promoters (%)	64.2	64.2	-
Public (%)	35.8	35.8	-
Others (%)	-	-	-

L&T Finance Holdings Ltd.: Business overview

L&T Finance Holdings Ltd. (LTFH) was incorporated in 2008 and is promoted by the construction major Larsen & Toubro (L&T). LTFH is a financial holding company offering a diverse range of financial products and services across retail, corporate, housing and infrastructure finance sectors. It also has presence in asset management and investment management services through its wholly owned subsidiaries. Further, the company has a strong parentage and a highly-qualified management team which has significant experience in evaluating long-gestation infrastructure projects.

The company has gradually built-up several businesses/product lines through both organic and inorganic route over the past few years. LTFH has identified select segments to grow its loan book— Housing finance, Tractor, Two-wheeler and Microfinance in the retail business and roads, renewable energy projects in the wholesale segment.

Shift in focus on select business segments

LTFH identified select focus segments which it believes offer strong long-term leading growth opportunities. It includes three key lending businesses (Rural, Housing and Wholesale), asset management and wealth management. Moreover, owing to difficult macro-environment and the challenges in large numbers of infrastructure projects, the company has decided to sell/run down less profitable/loss businesses includes CV, Cars, CE, Leases and SME Term Loans.

Reclassification of focused businesses and products

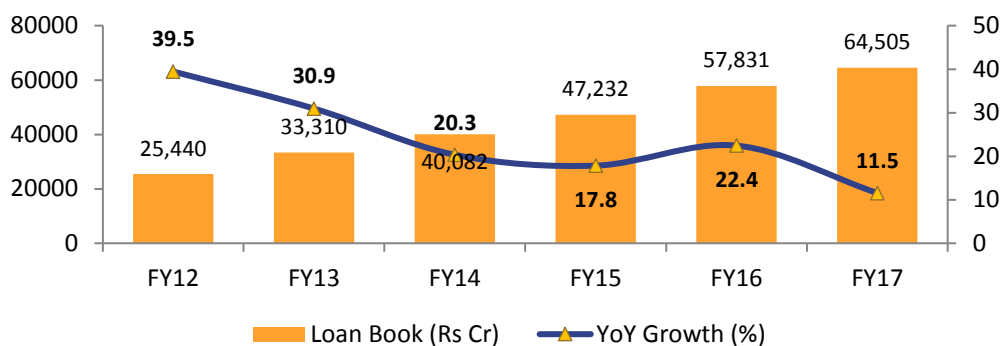
Rural Business	Housing Business	Wholesale Business
<ul style="list-style-type: none"> • Microfinance • Two Wheeler Finance • Farm Equipment 	<ul style="list-style-type: none"> • Home Loans • LAP • Real Estate Finance 	<ul style="list-style-type: none"> • Infra Finance • Structured Corporate Finance • Supply Chain Finance

Source: Company, In-house research

Healthy loan growth:

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Advances grew by 21% CAGR



Changing business mix in favour of focused businesses

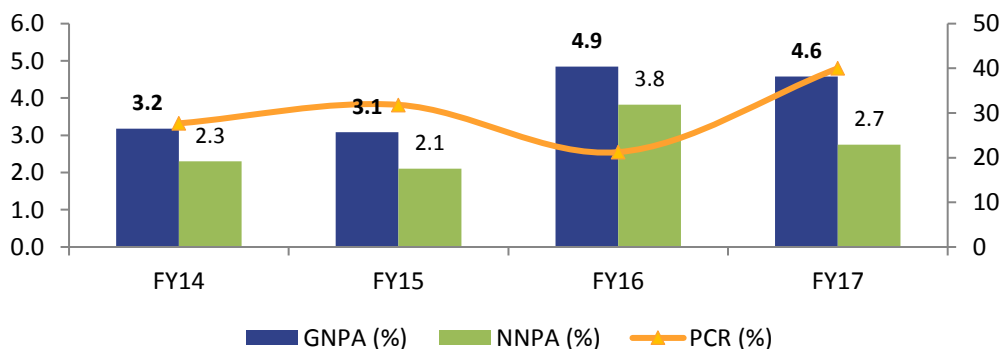


Source: Company, In-house research

Improvement in asset quality

Although LTFH moved to 90 days past due (dpd) non-performing assets (NPA) recognition across all business segments from Q1FY18, it reported significant improvement in asset quality. Gross NPA ratio improved by 140 bps QoQ to 5.7% on the back of higher recoveries in tractor portfolio along with sale of infra loans worth Rs350 cr to ARC. Net NPA ratio improved by 171 bps QoQ to 3.3% on account of aggressive provisioning policy of the company.

Asset quality trend



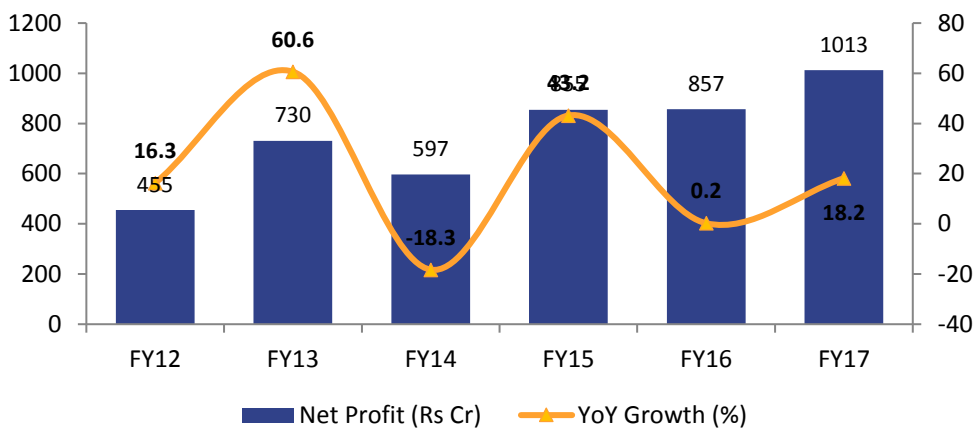
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Profitability remains strong:

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Net profit grew at 17% CAGR over FY12-17



Financial Performance

Assets under management (AUM) grew at a healthy pace of 18% YoY in Q1FY18 driven by 22% YoY growth in focused businesses while defocused businesses which includes CV, Cars, CE, Leases and SME Term Loans) declined 46% YoY. Disbursement grew at a robust pace of 2.0x YoY on the back of 3.0x YoY increase in real estate financing followed by 2.5x and 1.7x YoY growth in infra and farm equipment financing, respectively. Net interest income (NII) increased at a strong pace of 22% YoY mainly driven by 29 bps YoY improvement in net interest margin (NIM) to 6.1% coupled with healthy loan growth. Other income witnessed robust growth of 213% YoY led by sharp surge in fee income on the back of high sell-down of loans. Net profit came ahead of our expectation increasing by 49% YoY.

Balance Sheet (Consolidated)

(Rs.Cr)	FY15	FY16	FY17
Capital	3,084	2,967	2,969
Reserves and Surplus	4,656	5,442	6,138
Minority Interest	100	100	119
Borrowings	42,091	51,616	59,811
Provisions	472	645	367
Other Liabilities	2,339	3,032	3,110
Total Liabilities	52,742	63,801	72,514
Fixed Assets	1,357	1,335	1,258
Investments	2,649	3,563	6,012
Advances	46,042	56,712	62,314
Other Assets	1,831	1,789	2,335
Cash And Balances	862	402	594
Total Assets	52,742	63,801	72,514

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	5,690	6,605	7,493
Interest Expense	3,568	4,124	4,627
Net Interest Income	2,122	2,481	2,866
Non Interest Income	647	866	1,079
Net Income	2,770	3,347	3,945
Operating Expenses	1,077	1,313	1,276
Total Income	6,337	7,471	8,572
Total Expenditure	4,645	5,437	5,904
Pre Provisioning Profit	1,693	2,034	2,669
Provisions	662	781	1,590
Exceptional Items	144	0	0
Profit Before Tax	1,175	1,253	1,079
Tax	324	399	36
Net Profit	851	854	1,042

Key Ratios (Consolidated)

	FY15	FY16	FY17
P/E	41.0	41.7	34.3
P/BV	5.5	5.0	4.5
P/ABV	6.5	7.1	7.5
Dividend Yield (%)	0.4	0.4	0.0
Gross NPA (%)	3.1	4.9	7.1
Net NPA (%)	2.1	3.8	5.0
NIM (%)	4.9	4.7	4.6
RoE (%)	11.7	10.6	11.9
RoA (%)	1.8	1.5	1.5



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