

March 8, 2019

**BUY**

CMP	TP	Return	Duration
141	160	14%	12 months

**Stock Details**

Mkt. Cap (Rs. cr)	28,123
Enterprise Value (Rs. cr)	-
52 week H/L (Rs.)	190/111
Decline from 52 WH (%)	25.8
Rise from 52 WL (%)	26.5
Beta	2.1
3 months avg. Volume (crs)	1.0
Bloomberg	LTFH:IN
Reuters	LTFH.NS
BSE Code	533519
NSE Code	L&TFH

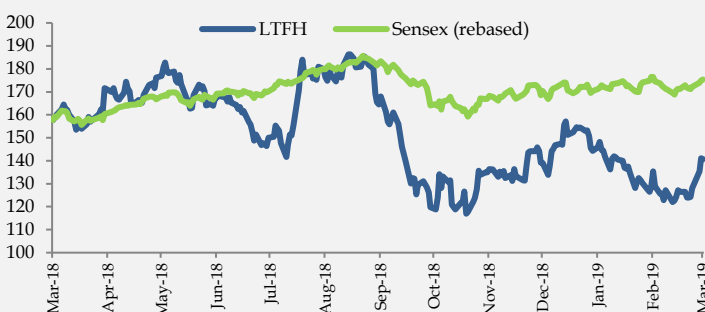
**Shareholding Pattern**

Particulars	18-Dec	18-Sep	Var	18-Jun	Var
Promoters	64.0	64.0	-	64.0	-
Public	36.0	36.0	-	36.0	-
Others	-	-	-	-	-

**1 Yr. Stock with BSE (%)**

	1M	3M	6M	12M
CFH	3.9%	1.3%	(16.2%)	(10.8%)
Sensex	(0.7%)	2.9%	(4.3%)	11.2%

**1 yr. Price Chart of Stock and BSE**



**Investment Rationale**

- Assets under management (AUM) grew at a strong pace of 22% YoY in Q3FY19 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 (↑21% YoY) and increase in Real Estate finance book (↑46% YoY). 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.
- Net interest income (NII) grew at a robust pace of 54% YoY in Q3FY19 mainly on the back of 101 bps YoY improvement in net interest margin (NIM) to 5.1%. LTFH continued to improve its operating efficiency as cost to income (C/I) ratio declined by 234 bps YoY to 27.8%. As a result, net profit increased by 78% YoY. We expect net profit to grow at a CAGR of 37% over FY18-21E supported by robust growth in other income coupled with decline in C/I ratio and credit cost.
- Gross and Net non-performing asset (NPA) ratios improved by 36 bps and 15 bps sequentially to 6.7% and 2.6%, respectively in Q3FY19. 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. 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.

**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) factored most of the negatives. Hence, we assign BUY rating on the stock with a target price (TP) of Rs 160 valuing it at P/ABV of 2.0x for FY21E.

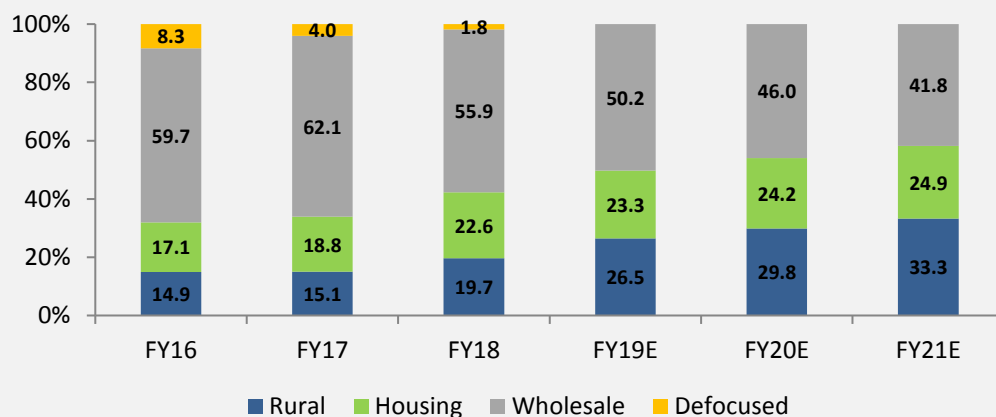
Y/E Mar	FY18	FY19E	FY20E	FY21E
Net Interest Income	3,687	4,747	5,769	7,029
Pre Pro Profit	3,637	4,720	5,784	7,003
Net Profit	1,465	2,238	2,763	3,308
EPS	7.3	11.2	13.8	16.6
P/E	19.2	12.5	10.2	8.5
P/BV	2.2	2.0	1.7	1.5
P/ABV	2.6	2.4	2.1	1.8
RoE (%)	12.9	16.2	18.3	19.1
RoA (%)	1.8	2.2	2.3	2.3

### L&T Finance Holdings Ltd. (LTFH) : Company 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 whereas roads, renewable energy projects in the wholesale segment. However, its first priority is rural finance, followed by housing finance and wholesale finance. As a result, we expect the share of wholesale lending to decline from 60% currently to 42% by FY21.

#### Increasing share of retail finance in total AUM



Source: Company, In-house research

#### Quarterly Financials (Standalone)

(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)

(Rs cr)	Q3FY19	Q3FY18	YoY		QoQ
			Growth %	Q2FY19	Growth %
Disbursements	13,682	17,176	(20.3)	16,735	(18.2)
Assets Under Management	94,711	77,742	21.8	91,201	3.8
Borrowings	87,818	68,466	28.3	86,789	1.2
Gross NPA	6,033	7,513	(19.7)	6,119	(1.4)
Net NPA	2,263	3,222	(29.8)	2,296	(1.4)

Source: Company; In-house research

### De-risking of loan book by strong growth in retail book

Assets under management (AUM) grew at a strong pace of 22% YoY in Q3FY19 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 (↑21% YoY) and increase in Real Estate finance book (↑46% YoY). Management remained selective in infra / wholesale finance (↑5% 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 to continue

Net interest income (NII) grew at a robust pace of 54% YoY in Q3FY19 mainly on the back of 101 bps YoY improvement in net interest margin (NIM) to 5.1%. An increase in the proportion of a 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 macro-prudential 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 FY18-21E supported by robust growth in other income coupled with decline in C/I ratio and credit cost. We expect RoE to improve further to 19% by FY21E given (i) increasing share of rural and housing finance book, which command higher RoE than wholesale finance and (ii) declining credit costs in the wholesale finance book.

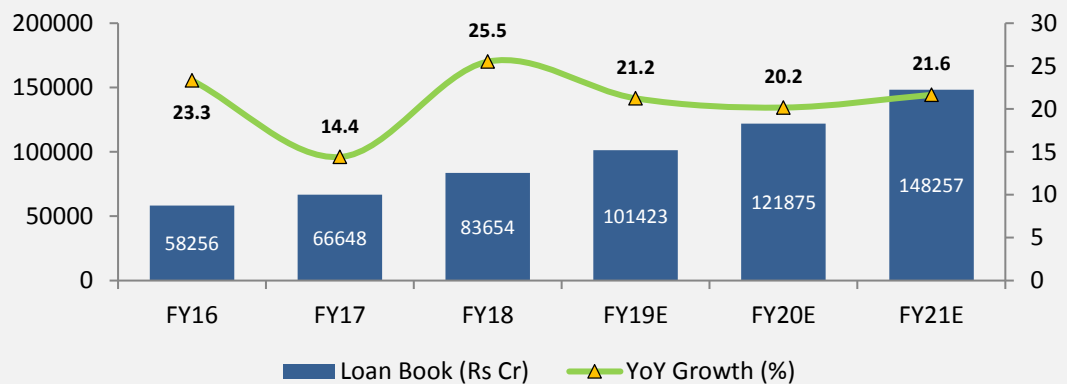
### Asset quality restoration on track

Gross and Net non-performing asset (NPA) ratios improved by 36 bps and 15 bps sequentially to 6.7% and 2.6%, respectively in Q3FY19. 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 toll 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.

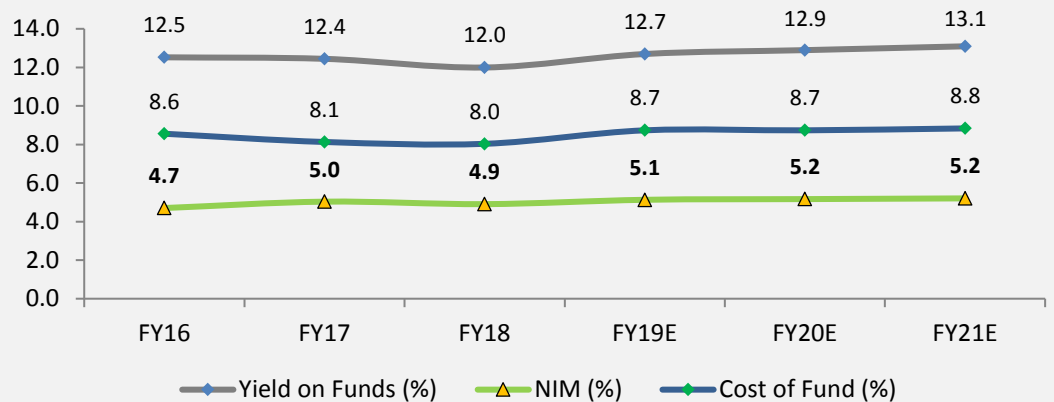
## Valuation

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. Further, we believe that the company is well capitalized to achieve this growth and would not require any dilution. 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) factored most of the negatives. Hence, we assign BUY rating on the stock with a target price (TP) of Rs 160 valuing it at P/ABV of 2.0x for FY21E.

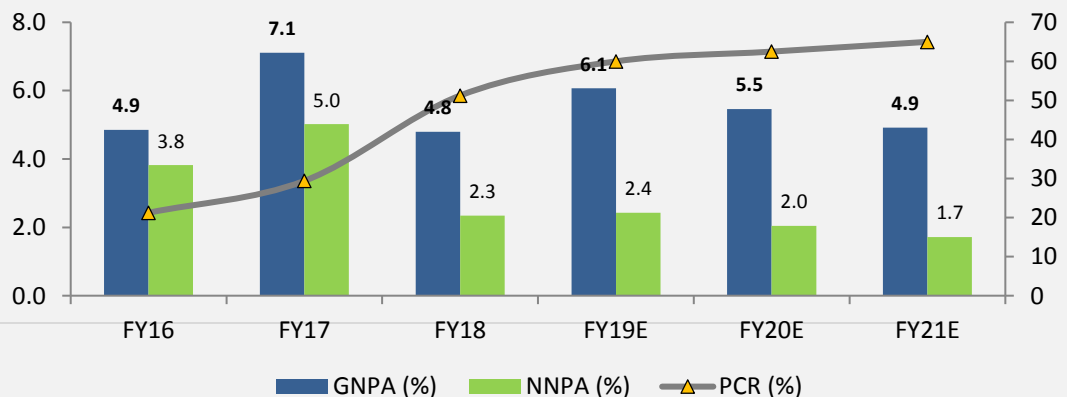
### Loan book to grow at a CAGR of 21% over FY18-21E



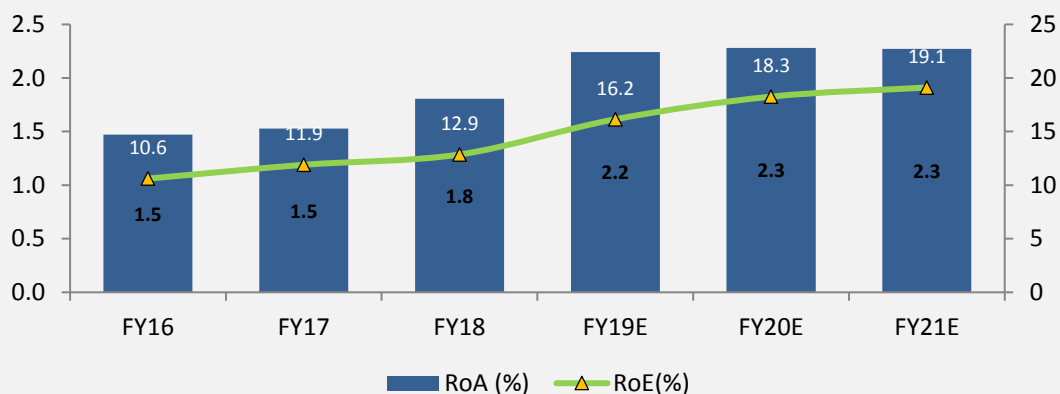
### NIM to remain around 5.0% over FY18-21E



### Asset quality to improve remarkably by FY21E



### Return ratios continue to improve further over FY18-21E



Source: Company, In-house research

### Key Risks:

- **Asset quality risks in real estate and wholesale portfolio:** Higher-than-expected delinquencies in LTHF business, particularly from the real estate and wholesale finance which has so far shown strong resilience despite headwinds which the industry is facing, could impact earnings and our valuation.
- **Competition from HFCs and banks in housing finance:** Given strong growth opportunity and best-in-class asset quality in housing finance, HFCs and banks have become aggressive in this segment. In the construction finance segment, there has been huge inflow of money from other NBFCs and PE companies. Growth and asset quality could be impacted due to the hypercompetitive environment.
- **Regulatory changes could impact profitability:** LTHF was impacted by regulatory changes in the microfinance segment and had to make significant provisions on its Andhra Pradesh portfolio. Any significant change in regulations (related to exposure, LTV, lending rates or capital requirements) could significantly impact the company's profitability.

### Profit & Loss Account (Standalone)

Y/E (Rs. Cr)	FY18	FY19E	FY20E	FY21E
Interest Income	9,013	11,746	14,395	17,684
Interest Expense	5,326	6,999	8,626	10,656
<b>Net Interest Income</b>	<b>3,687</b>	<b>4,747</b>	<b>5,769</b>	<b>7,029</b>
Non Interest Income	1,487	1,938	2,375	2,918
Net Income	5,174	6,686	8,145	9,947
Operating Expenses	1,537	1,965	2,360	2,944
Total Income	10,500	13,684	16,770	20,602
Total Expenditure	6,863	8,964	10,986	13,600
<b>Pre Provisioning Profit</b>	<b>3,637</b>	<b>4,720</b>	<b>5,784</b>	<b>7,003</b>
Provisions	1,897	1,523	1,838	2,277
Profit Before Tax	1,740	3,197	3,947	4,725
Tax	275	959	1,184	1,418
<b>Net Profit</b>	<b>1,465</b>	<b>2,238</b>	<b>2,763</b>	<b>3,308</b>

### Balance Sheet (Standalone)

Y/E (Rs. Cr)	FY18	FY19E	FY20E	FY21E
Capital	3,030	1,997	1,997	1,997
Reserves and Surplus	10,554	12,146	14,128	16,501
Borrowings	71,577	90,469	108,713	132,245
Provisions	397	811	975	1,186
Other Liabilities	3,549	4,970	5,972	7,265
<b>Total Liabilities</b>	<b>89,231</b>	<b>110,516</b>	<b>131,908</b>	<b>159,317</b>
Cash and Bank Balances	1,170	1,170	1,170	1,170
Investments	4,843	6,694	8,044	9,785
Advances	79,330	96,757	116,269	141,437
Fixed Assets	2,824	3,347	4,022	4,892
Other Assets	1,063	2,548	2,403	2,033
<b>Total Assets</b>	<b>89,231</b>	<b>110,516</b>	<b>131,908</b>	<b>159,317</b>

### Key Ratios (Standalone)

Y/E	FY18	FY19E	FY20E	FY21E
<b>Per share data (Rs.)</b>				
EPS	7.3	11.2	13.8	16.6
DPS	1.2	1.2	1.2	1.2
BV	62.9	70.8	80.7	92.6
ABV	53.6	58.5	68.3	79.9
<b>Valuation (%)</b>				
P/E	19.2	12.5	10.2	8.5
P/BV	2.2	2.0	1.7	1.5
P/ABV	2.6	2.4	2.1	1.8
Div. Yield	0.8	0.8	0.8	0.8
<b>Spreads (%)</b>				
Yield on Funds	12.0	12.7	12.9	13.1
Cost of Funds	8.0	8.7	8.7	8.8
<b>Asset (%)</b>				
GNPA	4.8	6.1	5.5	4.9
NNPA	2.3	2.4	2.0	1.7
PCR	51.3	60.0	62.5	65.0
<b>Management (%)</b>				
Debt/Equity	5.3	6.4	6.7	7.1
Cost/ Income	29.7	29.4	29.0	29.6
<b>Earnings (%)</b>				
NIM	4.9	5.1	5.2	5.2
ROE	12.9	16.2	18.3	19.1
ROA	1.8	2.2	2.3	2.3

### Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

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

LTFH is a large-cap company.



@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Achiivers Equities Ltd and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Achiivers Equities Ltd and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or re-produced, duplicated or sold in any form.

### Dion's Disclosure and Disclaimer

I, Kaushal Patel, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

#### Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client can not tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

#### REGULATORY DISCLOSURES:

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, 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

Dion confirms that:

- (i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.
  
- (ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

- (i) 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 at the time of publication of this report.
  
- (ii) he, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

### 2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

- (a) Have not managed or co-managed public offering of securities for the subject company
- (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company
- (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company
- (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

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

It is affirmed that I, Kaushal Patel employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

### 4. Disclosure regarding Market Making activity:

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

Copyright in this report vests exclusively with Dion.