

# L&T Finance Holdings

**BSE SENSEX** 36,445  
**S&P CNX** 10,923

**Bloomberg** LTFH IN  
 Equity Shares (m) 1,988  
 M.Cap.(INRb)/(USDb) 273.4 / 3.8  
 52-Week Range (INR) 190 / 111  
 1, 6, 12 Rel. Per (%) -11/-24/-25  
 12M Avg Val (INR M) 1104  
 Free float (%) 36.0

## Financials & Valuations(INR b)

Y/E March	2018	2019E	2020E
Total Income	51.7	68.1	84.0
PPP	36.4	47.9	59.3
PAT	13.5	22.8	26.4
EPS (INR)	6.8	11.5	13.3
BV/Sh. (INR)	56.2	66.1	77.8
RoAA (%)	1.7	2.3	2.2
RoE (%)	14.2	18.8	18.5
Payout (%)	17.1	13.9	11.6
<b>Valuation</b>			
P/E (x)	20.2	11.9	10.3
P/BV (x)	2.4	2.1	1.8
Div. Yield (%)	0.7	1.0	1.0

**CMP: INR137**

**TP: INR185 (+35%)**

**Buy**

## Performance encouraging; Outcome of IL&FS saga key monitorable

- L&T Finance Holdings' (LTFH) 3QFY19 PAT grew 81% YoY to INR5.8b, in line with our estimate, driven by strong AUM growth (+23% YoY), 'retailization' of the balance sheet, and improving asset quality.
- **The company managed its liquidity situation well with a positive ALM gap of INR60b+ in a stress case scenario as on 31<sup>st</sup> Dec'18.** LTFH has cash and liquid investments of INR42b (~4% of BS) and undrawn lines of INR110b+.
- **LTFH has exposure to six SPVs of subsidiaries of IL&FS, of which one SPV paid its dues in Jan'19 (amount unknown). Three SPVs communicated that normal servicing of loans has been stayed by NCLAT, while the other two SPVs are yet to communicate to its lenders.** However, management is confident of nil eventual credit losses from the IL&FS exposures.
- LTFH prioritized its rural lending business in the quarter. **Disbursements in rural lending were up 40% YoY, while those in housing finance and wholesale finance were down 23% and 44%, respectively.** We believe this is a prudent strategy. As a result, the share of rural finance increased 200bp QoQ to 26%.
- **Overall asset quality improved marginally, with the GNPL/NNPL ratio declining 35bp/15bp QoQ to 6.7%/2.6%.** The reduction in the GNPL ratio has come on the back of an improvement in asset quality in the rural lending book, while the housing finance and wholesale finance books witnessed stable asset quality. **The company also added INR850m to its provision buffer during the quarter, taking the outstanding amount to INR2.7b.**
- **Valuation view:** Over the past two years, LTFH has delivered a turnaround in business, with a strong improvement in RoE from 10% to 18%. It is now well on its journey of 'retailization' of the balance sheet. Notwithstanding the tight liquidity in the past quarter, management has been able to grow its focused products impressively and yet maintain sufficient liquidity. We remain confident that LTFH would continue to generate strong return ratios over the medium term. We keep our estimates as well as our TP unchanged. Maintain Buy with a **TP of INR185** is based on 2.1x Dec 2020E BVPS.

## LTFH: Quarterly performance

(INR Million)

Y/E March	FY18				FY19				FY18	FY19E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	23,010	25,967	25,433	27,483	30,410	31,532	32,440	34,434	101,894	128,817
Interest Expenses	12,703	13,137	14,022	14,373	15,132	16,497	18,647	18,873	54,234	69,148
<b>Net Interest Income</b>	<b>10,307</b>	<b>12,831</b>	<b>11,411</b>	<b>13,111</b>	<b>15,279</b>	<b>15,035</b>	<b>13,793</b>	<b>15,562</b>	<b>47,660</b>	<b>59,669</b>
YoY Growth (%)	22.6	37.3	22.2	30.5	48.2	17.2	20.9	18.7	28.3	25.2
Other income	1,262	129	513	1,901	1,375	1,870	2,724	2,422	3,805	8,391
<b>Total Income</b>	<b>11,570</b>	<b>12,960</b>	<b>11,924</b>	<b>15,012</b>	<b>16,653</b>	<b>16,905</b>	<b>16,517</b>	<b>17,984</b>	<b>51,466</b>	<b>68,060</b>
YoY Growth (%)	32.2	31.1	19.0	39.0	43.9	30.4	38.5	19.8	30.4	32.2
Operating Expenses	3,565	4,313	3,600	4,671	5,003	5,256	4,599	5,307	16,149	20,165
YoY Growth (%)	10.7	29.7	14.1	52.5	40.3	21.9	27.8	13.6	26.5	24.9
<b>Operating Profits</b>	<b>8,005</b>	<b>8,647</b>	<b>8,325</b>	<b>10,341</b>	<b>11,650</b>	<b>11,649</b>	<b>11,918</b>	<b>12,677</b>	<b>35,317</b>	<b>47,895</b>
YoY Growth (%)	44.8	31.9	21.3	33.6	45.5	34.7	43.2	22.6	32.3	35.6
Provisions	4,433	5,180	4,567	4,746	4,359	3,673	4,160	4,417	18,926	16,608
<b>Profit before Tax</b>	<b>3,571</b>	<b>3,467</b>	<b>3,758</b>	<b>5,595</b>	<b>7,292</b>	<b>7,976</b>	<b>7,758</b>	<b>8,261</b>	<b>16,391</b>	<b>31,287</b>
Tax Provisions	204	14	503	1,504	1,894	2,385	1,949	2,220	2,225	8,447
<b>Profit after tax</b>	<b>3,143</b>	<b>3,447</b>	<b>3,267</b>	<b>4,060</b>	<b>5,398</b>	<b>5,591</b>	<b>5,810</b>	<b>6,040</b>	<b>14,415</b>	<b>22,839</b>
YoY Growth (%)	51.5	38.9	20.6	28.5	71.8	62.2	77.8	48.8	38.2	58.4
Loan growth (%)	19.7	20.7	25.5	25.4	24.3	24.1	21.8	18.6	27.3	19.9
Cost to Income Ratio (%)	30.8	33.3	30.2	31.1	30.0	31.1	27.8	29.5	31.4	29.6
Tax Rate (%)	5.7	0.4	13.4	26.9	26.0	29.9	25.1	26.9	13.6	27.0

**Exhibit 1: Quarterly performance v/s our estimates and reasons for deviation (INR m)**

Y/e March	3QFY19E	3QFY19A	Var (%)	Comments
Interest Income	33,275	32,440	-3	
Interest Expenses	17,157	18,647	9	
<b>Net Interest Income</b>	<b>16,118</b>	<b>13,793</b>	<b>-14</b>	<b>Reclassification of some items from interest income to other income</b>
YoY Growth (%)	26.9	20.9		
Other income	850	2,724	220	
<b>Total Income</b>	<b>16,968</b>	<b>16,517</b>	<b>-3</b>	<b>In line</b>
YoY Growth (%)	26.5	38.5		
Operating Expenses	5,208	4,599	-12	Other expenses lower than expected
YoY Growth (%)	30.0	27.8		
<b>Operating Profits</b>	<b>11,760</b>	<b>11,918</b>	<b>1</b>	
YoY Growth (%)	25.0	43.2		
Provisions	3,800	4,160	9	Provisions higher on the back of macro-prudential provisions
<b>Profit before Tax</b>	<b>7,960</b>	<b>7,758</b>	<b>-3</b>	
Tax Provisions	2,149	1,949	-9	
<b>Profit after tax</b>	<b>5,811</b>	<b>5,810</b>	<b>0</b>	<b>In-line</b>
YoY Growth (%)	51.3	77.8		
Borrowings growth (%)	24.9	21.8		
Cost to Income Ratio (%)	30.7	27.8		
Tax Rate (%)	27.0	25.1		

Source: MOSL, Company

3.9%/28% RoA/RoE in rural lending for the quarter

**Rural lending traction continues**

- The quarter was “business as usual” for microfinance with disbursements of INR28b (INR26-28b for the past four quarters). However, the positive surprise came from two-wheeler lending, wherein disbursements were up 93% YoY to INR16.5b in the quarter.
- “Margins + fees” were largely stable on a sequential basis at 13.6%.
- **Asset quality has been on an improvement trend for the past six quarters now. GNPL/NNPL ratio declined 50bp/20bp sequentially to 3.8%/1.3%.**
- PAT grew ~60% YoY to INR2.3b, resulting in a RoA/RoE of 3.9%/28% for the quarter.

34% YoY loan book growth in housing finance

**Housing finance – scaling back in LAP and real estate finance**

- In the housing finance business, the company prioritized home loans as compared to LAP and real estate finance. Home loan disbursements were up 57% YoY to INR6.5b, while LAP and real estate finance disbursements were down 50%/32% to INR2.8b/INR14b respectively.
- Hence, the total housing finance book growth slowed down marginally to 34% YoY. The share of builder loans in the company’s housing finance book is largely stable at 57%.
- **Asset quality was stable with Gross Stage 3 loans at 95bp. The RoA/RoE for the quarter came in at 3.4%/28%.**

6% YoY loan growth in wholesale finance

**Maintaining slow growth in wholesale finance business**

- In the wholesale finance business, the company maintained its disbursement run-rate in renewables and roads, but scaled back in other segments, especially power.
- Overall loan growth slowed down to 6% YoY. PPOP margins were stable on a YoY basis at 2.6%.

- Asset quality was stable. GS3/NS3 were sequentially unchanged at 10.9%/4.2%. Hence, credit costs declined from 66bp to 41bp QoQ.
- **RoA/RoE for the quarter was 1.3%/10.2%.**

Share of equity AAUM now stands at 57% v/s 48% a year ago

### AMC business growth slows down

- AAUM growth in the AMC business slowed down to 15% YoY as compared to 40% in the prior quarters. AAUM for the quarter was INR691b. The share of equity AAUM continued to rise and stood at 57% of the total AAUM.

### Valuation and view

- LTFH is a quintessential turnaround story, in our view. From a company with 20+ product lines and sub-standard return ratios, it has transformed itself into a focused financier with eight product lines and 18-19% RoE.
- With its focused management and strong execution skills, the company is set to deliver an 18% loan CAGR over FY18-21E, driven by the growth in the rural and housing finance segments. In addition, continued origination and down-selling in the infra finance book will drive the company's fee income traction, resulting in an elevated RoE.
- Given its strong credit rating and parentage, the company has managed the liquidity situation with ease. LTFH has been able to raise adequate money at competitive prices and has also kept one month's worth of disbursements as liquidity on the balance sheet.
- We keep our EPS estimates for FY19/20E as well as our TP unchanged. Buy with a TP of INR185 (2.1x Dec2020E BVPS).

### Exhibit 2: We keep our FY19-21E EPS estimates largely unchanged

INR b	Old Est.			New Est.			Change %		
	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21
NII	50.5	63.4	76.7	45.5	56.0	67.7	-10.0	-11.7	-11.7
Other Income	17.4	21.3	24.7	22.6	28.1	32.8	29.9	31.7	32.8
<b>Total Income</b>	<b>67.9</b>	<b>84.7</b>	<b>101.4</b>	<b>68.1</b>	<b>84.0</b>	<b>100.5</b>	<b>0.2</b>	<b>-0.8</b>	<b>-0.8</b>
Operating Expenses	21.0	25.9	31.0	20.2	24.7	29.6	-4.0	-4.4	-4.4
<b>Operating Profits</b>	<b>46.9</b>	<b>58.8</b>	<b>70.4</b>	<b>47.9</b>	<b>59.3</b>	<b>71.0</b>	<b>2.1</b>	<b>0.9</b>	<b>0.7</b>
Provisions	15.7	22.4	26.3	16.6	23.1	26.9	5.7	3.3	2.5
<b>PBT</b>	<b>31.2</b>	<b>36.4</b>	<b>44.2</b>	<b>31.3</b>	<b>36.2</b>	<b>44.0</b>	<b>0.3</b>	<b>-0.6</b>	<b>-0.3</b>
Tax	8.4	9.8	11.9	8.4	9.8	11.9	0.3	-0.6	-0.3
<b>PAT</b>	<b>22.8</b>	<b>26.6</b>	<b>32.2</b>	<b>22.8</b>	<b>26.4</b>	<b>32.1</b>	<b>0.3</b>	<b>-0.6</b>	<b>-0.3</b>
<b>Loan book</b>	951	1,136	1,333	951	1,136	1,333	0.0	0.0	0.0
NIM (%)	5.4	5.6	5.8	4.9	5.0	5.1			
Spreads (%)	4.3	4.3	4.3	4.0	4.0	4.0			
<b>ROAA (%)</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>			
<b>RoAE (%)</b>	<b>18.7</b>	<b>18.6</b>	<b>19.1</b>	<b>18.8</b>	<b>18.5</b>	<b>19.0</b>			

Source: MOSL, Company

## Conference call highlights

### Business Updates

- Management expects maximum of 5-10bp increase in weighted average cost of funds in 4Q
- Set aside INR850m of floating provisions during the quarter
- Market share in 2W finance has increased from 5% two years back to 11% now
- Orissa MFI situation – Provided 100% of portfolio >60days due (INR810m) and 60% of the portfolio between 30-60days due (INR720m)
- LTFH has appointed a special sales agent for pushing sales in the Supertech projects. Received INR500m prepayment from Supertech.
- 50% of the exposures of IDF are guaranteed by NHAI
- Macro-Prudential provisions can be made up to 1.25% of the RWA, as per board approval
- 50% of real estate finance disbursements in the quarter were to existing projects and the rest to new projects. Most of the disbursements were in South and West India.
- Did 1lac 2Ws in October and November. Early collections trends are encouraging.

### IL&FS

- All six IL&FS projects are operating projects
- As per the NCLAT order, normal servicing of the SPVs is not an issue.  
**Throughout 3Q, loan servicing by all 6 SPVs has been regular.**
- **One SPV did not pay its instalment yesterday (on 21<sup>st</sup> January, 2019)**

### Others

- Liquidity has been easing since 10<sup>th</sup> Dec
- 14% market share in tractor finance
- Overall unsold stock of Top 20 developers in top cities has declined 20% over the past three years
- RE finance loan book – 40% in West India and 30% each in North and South India
- 75bp increase in wholesale PLR

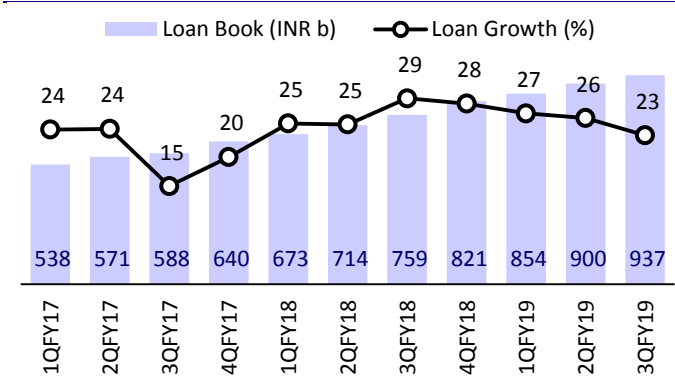
## Exhibit 3: Quarterly Snapshot

	FY18				FY19			Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	QoQ	YoY
<b>Profit and Loss (INR m)</b>									
Interest Income	23,010	25,967	25,433	27,483	30,410	31,532	32,440	6	15
Interest Expenses	12,703	13,137	14,022	14,373	15,132	16,497	18,647	10	10
<b>Net Interest Income</b>	<b>10,307</b>	<b>12,831</b>	<b>11,411</b>	<b>13,111</b>	<b>15,279</b>	<b>15,035</b>	<b>13,793</b>	<b>-8</b>	<b>21</b>
Other Income	1,262	129	513	1,901	1,375	1,870	2,724	46	431
<b>Net Income</b>	<b>11,570</b>	<b>12,960</b>	<b>11,924</b>	<b>15,012</b>	<b>16,653</b>	<b>16,905</b>	<b>16,517</b>	<b>-2</b>	<b>39</b>
Operating Expenses	3,565	4,313	3,600	4,671	5,003	5,256	4,599	-12	28
Employee	1,074	946	1,071	1,453	1,612	2,179	2,299	6	115
Others	2,491	3,367	2,528	3,218	3,391	3,077	2,300	-25	-9
<b>Operating Profits</b>	<b>8,005</b>	<b>8,647</b>	<b>8,325</b>	<b>10,341</b>	<b>11,650</b>	<b>11,649</b>	<b>11,918</b>	<b>2</b>	<b>43</b>
Provisions	4,433	5,180	4,567	4,746	4,359	3,673	4,160	13	-9
<b>PBT</b>	<b>3,571</b>	<b>3,467</b>	<b>3,758</b>	<b>5,595</b>	<b>7,292</b>	<b>7,976</b>	<b>7,758</b>	<b>-3</b>	<b>106</b>
Taxes	204	14	503	1,504	1,894	2,385	1,949	-18	287
Share of profit of associates	-225	-7	13	-31	0	0	0		
<b>PAT</b>	<b>3,143</b>	<b>3,447</b>	<b>3,267</b>	<b>4,060</b>	<b>5,398</b>	<b>5,591</b>	<b>5,810</b>	<b>4</b>	<b>78</b>
<b>Asset Quality</b>									
Gross NPAs (%)	11.7	5.8	5.5	4.8	7.9	7.1	6.7		
Net NPAs (%)	6.1	3.3	2.9	2.3	3.2	2.8	2.6		
PCR (Calculated, %)	47.6	42.9	47.7	51.3	60.0	60.7	60.8		
<b>Ratios (%)</b>									
Cost to Income	30.8	33.3	30.2	35.6	30.0	31.1	27.8		
Provision to operating profit	55.4	59.9	54.9	45.9	37.4	31.5	34.9		
Tax Rate	5.7	0.4	13.4	26.9	26.0	29.9	25.1		
RoA - calculated	1.8	1.9	1.7	2.0	2.5	2.5	2.5		
RoE - calculated									
<b>Margins Reported (%)</b>									
Yield on earning assets	13.5	14.5	13.5	13.6	14.3	14.2	14.0		
Cost of Funds	8.1	8.1	8.4	8.2	8.1	8.0	8.5		
Spreads	5.4	6.4	5.1	5.4	6.2	6.1	5.4		
NIMs	6.1	7.2	6.0	6.5	7.2	6.8	5.9		
<b>Business Details (INR b)</b>									
<b>Total Loans</b>	<b>696</b>	<b>714</b>	<b>777</b>	<b>835</b>	<b>866</b>	<b>900</b>	<b>947</b>	<b>5</b>	<b>22</b>
<b>Total Borrowings</b>	<b>640</b>	<b>657</b>	<b>685</b>	<b>716</b>	<b>772</b>	<b>868</b>	<b>878</b>	<b>1</b>	<b>28</b>
<b>AUM Break-up (INR b)</b>									
<b>Rural</b>	<b>108</b>	<b>125</b>	<b>146</b>	<b>165</b>	<b>191</b>	<b>214</b>	<b>241</b>	<b>13</b>	<b>65</b>
Micro Finance	39	49	62	75	91	104	116	11	86
2W	22	26	29	33	38	43	52	22	78
Farm Equipment	47	51	55	56	62	67	73	8	33
<b>Housing</b>	<b>137</b>	<b>116</b>	<b>133</b>	<b>189</b>	<b>162</b>	<b>174</b>	<b>190</b>	<b>9</b>	<b>42</b>
Home loans & LAP	77	42	43	88	49	53	57	8	33
Real Estate Finance	60	75	91	101	112	122	133	9	46
<b>Wholesale</b>	<b>428</b>	<b>434</b>	<b>439</b>	<b>468</b>	<b>457</b>	<b>469</b>	<b>463</b>	<b>-1</b>	<b>5</b>
Infra Finance	348	343	347	373	368	385	388	1	12
Structured Finance	61	71	73	77	76	76	75	-1	2
Supply Chain Finance	18	20	19	17	12	7	0		
De-focused loan book	23	21	18	14	12	12	10	-15	-44
<b>Total</b>	<b>696</b>	<b>696</b>	<b>736</b>	<b>835</b>	<b>821</b>	<b>869</b>	<b>904</b>	<b>4</b>	<b>23</b>
<b>Total Borrowing Mix (%)</b>									
Term Loan & CC	38.0	37.0	40.0	41.0	35.0	36.0	36.0		
NCD	46.0	36.0	39.0	37.0	43.0	41.0	42.0		
CP	13.0	17.0	13.0	14.0	20.0	18.0	16.0		
Others	3.0	10.0	8.0	8.0	2.0	5.0	6.0		

Source: Company, MOSL

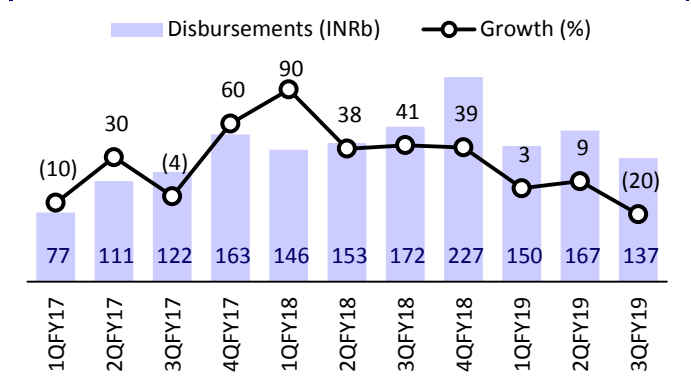
## Story in charts

**Exhibit 4: Focused loan book grew 23% YoY**



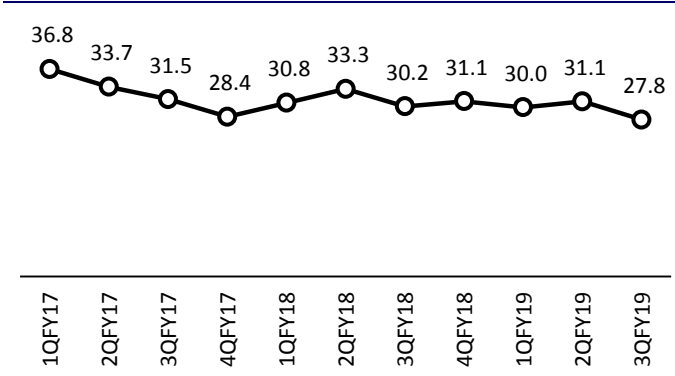
Source: Company, MOSL

**Exhibit 5: Core disbursement trend (excl IPO financing)**



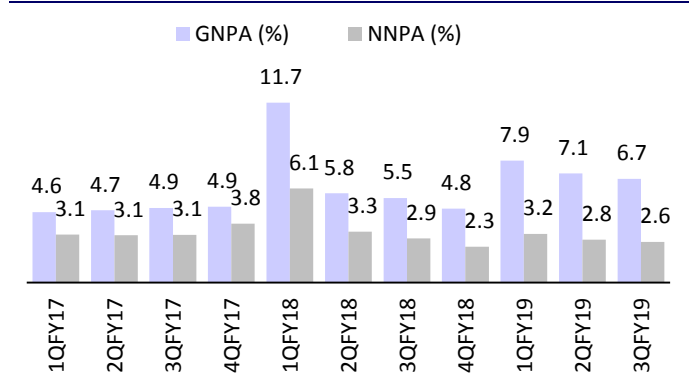
Source: Company, MOSL

**Exhibit 6: Calc. cost to income ratio (%)**



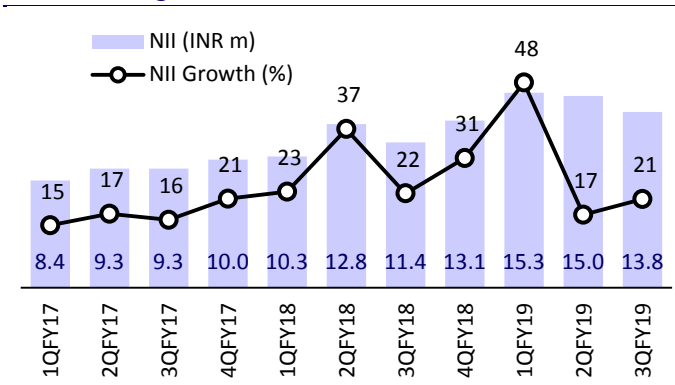
Source: Company, MOSL; Note: 9MFY18 and 9MFY19 numbers as of Ind-AS

**Exhibit 7: Gross/Net Stage 3 trend**



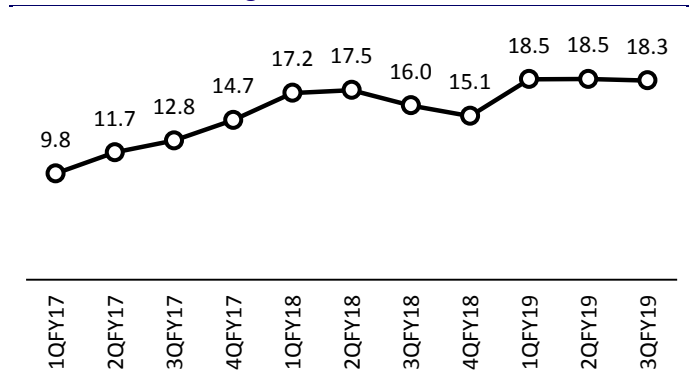
Source: Company, MOSL; Migrated to 90dpd in 1QFY19

**Exhibit 8: NII growth stable**



Source: Company, MOSL

**Exhibit 9: Maintaining RoE at 18-20%**



Source: Company, MOSL

## Exhibit 10: Financials – Valuation matrix

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USD <b>b</b> )	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ICICIBC*	Buy	369	33.5	8.0	20.2	33.0	13.1	166	181	1.6	1.5	0.6	1.2	5.0	11.8
HDFCB	Buy	2,134	81.7	79.8	95.9	26.8	22.3	543	621	3.9	3.4	1.8	1.8	16.7	16.5
AXSB	Buy	662	23.8	17.4	37.9	38.1	17.4	265	298	2.5	2.2	0.6	1.1	6.8	13.5
KMB*	Neutral	1,292	33.8	37.9	46.1	34.1	28.0	303	348	4.3	3.7	1.7	1.7	12.1	13.3
YES	Buy	192	6.2	20.2	24.6	9.5	7.8	128	157	1.5	1.2	1.3	1.4	16.9	17.2
IIB	Buy	1,501	12.7	68.8	100.2	21.8	15.0	441	556	3.4	2.7	1.7	2.1	16.5	20.2
FB	Buy	89	2.5	6.1	8.9	14.5	10.1	67	75	1.3	1.2	0.8	1.0	9.5	12.5
DCBB	Neutral	180	0.8	10.2	13.2	17.7	13.6	96	109	1.9	1.7	0.9	1.0	11.6	13.4
SIB	Buy	14	0.4	1.7	2.7	8.5	5.3	29	31	0.5	0.5	0.3	0.5	5.6	8.6
Equitas	Buy	121	0.6	6.3	8.4	19.3	14.3	73	80	1.7	1.5	1.3	1.4	9.0	11.1
RBL	Buy	575	3.5	20.9	27.6	27.5	20.9	176	199	3.3	2.9	1.2	1.2	12.4	14.7
<b>Private Aggregate</b>															
SBIN (cons)*	Buy	290	36.5	8.7	32.3	29.3	8.3	249	276	1.0	1.0	0.1	0.7	2.7	12.3
PNB	Neutral	79	3.5	-17.7	8.0	-4.4	9.9	109	117	0.7	0.7	-0.7	0.4	-13.8	6.8
BOI	Neutral	98	2.5	-1.8	8.6	-54.4	11.3	181	187	0.5	0.5	-0.1	0.2	-0.9	4.3
BOB	Buy	114	4.3	9.3	16.1	12.2	7.1	165	180	0.7	0.6	0.3	0.5	5.6	9.0
CBK	Neutral	263	2.8	17.1	51.7	15.4	5.1	448	493	0.6	0.5	0.2	0.5	3.5	9.9
UNBK	Neutral	84	1.4	4.5	12.8	18.7	6.6	235	245	0.4	0.3	0.1	0.3	2.1	5.5
<b>Public Aggregate</b>															
<b>Banks Aggregate</b>															
HDFC*	Buy	1,983	47.0	42.3	48.7	22.0	19.1	306	341	3.0	2.7	1.8	1.8	15.5	15.0
LICHF	Buy	475	3.3	46.2	56.4	10.3	8.4	324	371	1.5	1.3	1.4	1.5	15.1	16.2
IHFL	Buy	798	4.8	95.6	109.7	8.4	7.3	395	446	2.0	1.8	3.1	3.1	25.6	26.1
PNBHF	Buy	877	2.1	62.2	73.5	14.1	11.9	432	489	2.0	1.8	1.4	1.3	15.3	16.0
REPCO	Buy	429	0.4	40.0	45.1	10.7	9.5	245	287	1.8	1.5	2.4	2.4	17.7	17.0
<b>Housing Finance</b>															
SHTF	Buy	1,095	3.5	109.0	127.9	10.0	8.6	694	804	1.6	1.4	2.3	2.3	16.9	17.1
MMFS	Buy	436	3.8	22.8	26.4	19.1	16.5	173	191	2.5	2.3	2.5	2.4	13.9	14.5
BAF	Neutral	2,617	20.8	65.8	85.6	39.8	30.6	327	403	8.0	6.5	3.7	3.7	22.1	23.5
CIFC	Buy	1,139	2.6	77.2	86.4	14.7	13.2	393	470	2.9	2.4	2.4	2.3	21.5	20.0
SCUF	Buy	1,752	1.6	147.3	162.1	11.9	10.8	952	1,096	1.8	1.6	3.5	3.6	16.6	15.8
LTFH	Buy	137	3.9	11.5	13.4	11.9	10.2	66	78	2.1	1.8	2.3	2.2	18.7	18.6
MUTH	Neutral	541	3.1	50.3	58.0	10.8	9.3	229	270	2.4	2.0	5.8	5.9	23.8	23.3
MAS	Buy	551	0.4	25.3	30.9	21.8	17.8	152	175	3.6	3.1	4.2	4.1	17.8	18.9

\*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Source: MOSL, Company

## Financials and valuations

Income statement								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Interest Income	48,719	59,025	68,174	76,614	91,815	114,601	139,891	166,620
Interest Expended	30,739	35,678	41,241	46,270	53,261	69,148	83,932	98,910
<b>Net Interest Income</b>	<b>17,980</b>	<b>23,347</b>	<b>26,933</b>	<b>30,343</b>	<b>38,554</b>	<b>45,453</b>	<b>55,959</b>	<b>67,710</b>
Change (%)	20.6	29.9	15.4	12.7	27.1	17.9	23.1	21.0
Other Operating Income	3,653	4,349	6,533	9,110	13,184	22,607	28,067	32,837
<b>Net Income</b>	<b>21,633</b>	<b>27,697</b>	<b>33,466</b>	<b>39,453</b>	<b>51,738</b>	<b>68,060</b>	<b>84,027</b>	<b>100,547</b>
Change (%)	29.8	28.0	20.8	17.9	31.1	31.5	23.5	19.7
Operating Expenses	9,123	10,771	13,129	12,765	15,373	20,165	24,745	29,588
<b>Operating Income</b>	<b>12,510</b>	<b>16,926</b>	<b>20,337</b>	<b>26,688</b>	<b>36,366</b>	<b>47,895</b>	<b>59,282</b>	<b>70,959</b>
Change (%)	19.9	35.3	20.2	31.2	36.3	31.7	23.8	19.7
Provisions/write offs	4,261	6,617	7,810	15,899	18,968	16,608	23,116	26,938
<b>PBT</b>	<b>8,249</b>	<b>10,309</b>	<b>12,527</b>	<b>10,789</b>	<b>17,398</b>	<b>31,287</b>	<b>36,166</b>	<b>44,021</b>
Tax	2,300	3,014	3,990	364	2,748	8,447	9,765	11,886
Tax Rate (%)	28	29	32	3	16	27	27	27
<b>PAT before pref dividend</b>	<b>5,969</b>	<b>8,774</b>	<b>8,567</b>	<b>10,422</b>	<b>14,595</b>	<b>22,839</b>	<b>26,401</b>	<b>32,136</b>
Change (%)	-18.3	47.0	-2.4	21.7	40.0	56.5	15.6	21.7
Preference Dividend	760	1,102	1,671	1,244	1,120	0	0	0
Change (%)	4,965.3	45.0	51.7	-25.5	-10.0			
<b>PAT to equity shareholders</b>	<b>5,209</b>	<b>7,672</b>	<b>6,896</b>	<b>9,177</b>	<b>13,475</b>	<b>22,839</b>	<b>26,401</b>	<b>32,136</b>
Change (%)	-28.5	47.3	-10.1	33.1	46.8	69.5	15.6	21.7

Balance sheet								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Capital	27,184	30,837	29,668	29,691	30,301	30,301	30,301	30,301
- of which equity share capital	17,184	17,203	17,534	17,534	19,881	19,881	19,881	19,881
Reserves & Surplus	41,072	46,562	53,237	60,202	91,873	111,534	134,872	163,280
<b>Net Worth</b>	<b>68,257</b>	<b>77,399</b>	<b>82,905</b>	<b>89,893</b>	<b>122,174</b>	<b>141,834</b>	<b>165,173</b>	<b>193,581</b>
<b>Borrowings</b>	<b>358,536</b>	<b>420,906</b>	<b>516,157</b>	<b>598,111</b>	<b>715,771</b>	<b>886,136</b>	<b>1,062,848</b>	<b>1,238,575</b>
Change (%)	26.9	17.4	22.6	15.9	19.7	23.8	19.9	16.5
Other liabilities	21,817	29,117	38,402	37,133	54,335	57,051	59,904	62,899
<b>Total Liabilities</b>	<b>448,609</b>	<b>527,422</b>	<b>637,463</b>	<b>725,136</b>	<b>892,279</b>	<b>1,085,021</b>	<b>1,287,925</b>	<b>1,495,055</b>
<b>Loans</b>	<b>388,936</b>	<b>460,425</b>	<b>564,679</b>	<b>623,145</b>	<b>793,300</b>	<b>951,075</b>	<b>1,135,501</b>	<b>1,332,630</b>
Change (%)	20.1	18.4	22.6	10.4	27.3	19.9	19.4	17.4
<b>Investments</b>	<b>27,303</b>	<b>26,492</b>	<b>35,633</b>	<b>60,115</b>	<b>48,433</b>	<b>72,650</b>	<b>87,180</b>	<b>95,898</b>
Change (%)	48.2	-3.0	34.5	68.7	-19.4	50.0	20.0	10.0
Net Fixed Assets	7,287	7,185	6,962	6,189	5,311	5,577	5,856	6,148
<b>Total Assets</b>	<b>448,609</b>	<b>527,422</b>	<b>637,463</b>	<b>725,136</b>	<b>892,279</b>	<b>1,085,021</b>	<b>1,287,925</b>	<b>1,495,055</b>

E: MOSL Estimates



## Financials and valuations

### Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
<b>Spreads Analysis (%)</b>								
Avg Yield on Loans	13.1	13.4	12.9	12.6	12.6	12.6	12.6	12.6
Avg. Yield on Earning Assets	12.8	13.1	12.5	11.9	12.0	12.3	12.5	12.6
Avg. Cost-Int. Bear. Liab.	9.6	9.2	8.8	8.3	8.1	8.6	8.6	8.6
Interest Spread	3.3	3.9	3.7	3.6	3.9	3.7	3.8	4.0
Net Interest Margin	4.7	5.2	5.0	4.7	5.1	4.9	5.0	5.1

### Profitability Ratios (%)

RoE	9.2	12.6	10.3	12.4	14.2	18.8	18.5	19.0
RoA	1.3	1.6	1.2	1.3	1.7	2.3	2.2	2.3
Int. Expended/Int.Earned	63.1	60.4	60.5	60.4	58.0	60.3	60.0	59.4
Other Inc./Net Income	16.9	15.7	19.5	23.1	25.5	33.2	33.4	32.7

### Efficiency Ratios (%)

Op. Exps./Net Income	42.2	38.9	39.2	32.4	29.7	29.6	29.4	29.4
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### Asset Quality (%)

Gross NPAs	12,430	14,281	17,354	24,900	32,990	44,348	52,805	61,659
Gross NPAs to Adv.	3.2	3.1	3.1	3.9	4.1	4.6	4.6	4.5
Net NPAs	8,895	9,630	11,540	14,610	15,830	25,458	30,491	35,728
Net NPAs to Adv.	2.3	2.1	2.1	2.3	2.0	2.7	2.7	2.7

VALUATION	2014	2015	2016	2017	2018	2019E	2020E	2021E
Book Value (INR)	33.9	37.1	40.4	44.3	56.2	66.1	77.8	92.1
<b>Price-BV (x)</b>				<b>3.1</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>	<b>1.5</b>
EPS (INR)	3.0	4.5	3.9	5.2	6.8	11.5	13.3	16.2
EPS Growth YoY	-28.6	47.1	-11.8	33.1	29.5	69.5	15.6	21.7
<b>Price-Earnings (x)</b>				<b>26.2</b>	<b>20.2</b>	<b>11.9</b>	<b>10.3</b>	<b>8.5</b>
Dividend per share (INR)	0.7	0.8	0.8	0.8	1.0	1.4	1.3	1.6
<b>Dividend yield (%)</b>				<b>0.6</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>

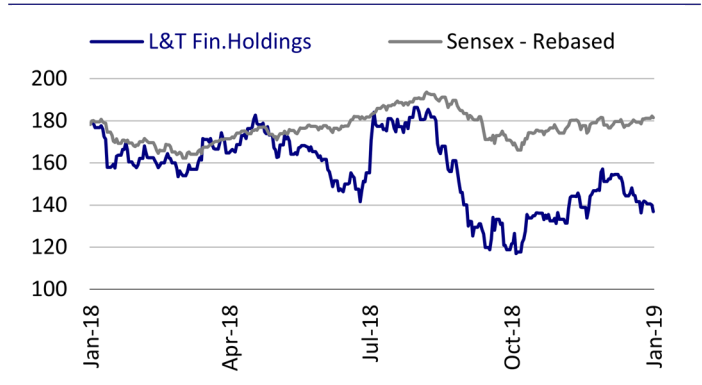
E: MOSL Estimates

## Corporate profile: L&T Finance Holdings

### Company description

L&T Finance Holdings (LTFH) is the holding company for all finance-related activities of the L&T Group. LTFH is among the largest NBFCs in India with a loan book in excess of INR900b and with 700+ points of presence across 24 states. It operates in retail/wholesale lending, as well as across 2W finance, tractor finance, microfinance, home loans/LAP, builder finance, infra finance and structured finance among other product lines. LTFH is rated AA+ by CARE. Mr Dinanath Dubhashi serves as MD & CEO of the company.

### Exhibit 1: Sensex rebased



### Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	64.0	64.0	64.1
DII	4.0	5.1	4.5
FII	10.6	8.8	9.7
Others	21.5	22.1	21.7

Note: FII Includes depository receipts

### Exhibit 3: Top holders

Holder Name	% Holding
Bc Asia Growth Investment	3.2
Citigroup Global Markets Mauritius Private Limited	2.9
ICICI Prudential Life Insurance Company Limited	2.5
Aditya Birla Sun Life Trustee Private LimitedA/C	2.3
Bc Investments Vi Limited	1.6

### Exhibit 4: Top management

Name	Designation
Shailesh V Haribhakti	Chairman
Dinanath Dubhashi	Managing Director & CEO
Apurva Rathod	Company Secretary

### Exhibit 5: Directors

Name	Name
Harsh Mariwala**	Pavninder Singh
P V Bhide**	R Shankar Raman
Thomas Mathew T**	Nishi Vasudeva*
B Prabhakar*	Rajani R Gupte*

\*Addtl Non-Executive Director; \*\*Independent

### Exhibit 6: Auditors

Name	Type
B K Khare & Co	Statutory
Deloitte Haskins & Sells LLP	Statutory
Naina R Desai	Secretarial Audit

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	11.5	11.2	3.1
FY20	13.3	13.3	-0.1
FY21	16.2	15.0	7.8

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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