

L&T Finance Holdings Ltd (LTFH)

**CMP Rs 68 | P/ABV (FY16E) 1.5x | P/ABV (FY17E) 1.3x
Target Rs 84**

Investment Rationale

- LTFH's loan book has grown at healthy pace of 35% CAGR in FY10-14 led by strong growth in L&T Infra by 43% and L&T Finance by 28% over the same period. In Q3FY15, LTFH's loan book growth was ahead of our expectation at 20% yoy in Q3FY15 led by higher growth in L&T Infra (+30% yoy) and Housing Finance (+88% yoy) due to low base.
- In Q3FY15, Consolidated NIMs of LTFH was down 39 bps qoq to 5.7% mainly due to decline in yields in L&T Infra by 90 bps qoq. This is mainly because the company has done significant disbursements at the end of the quarter which has resulted in lower interest income. As a result, NIMs in L&T Infra were down 67 bps qoq to 3.7%. However NIMs in L&T Finance continues to remain strong at 7.8% as against 6.3% in Q3FY14 mainly due to increasing share of high yielding retail products. Further we expect marginal improvement in Consolidated NIMs to 6.2% by FY17E.
- Asset quality on consolidated basis for LTFH was stable at 3% Gross NPA and 2% Net NPA as of Q3FY15. Key positive was improvement in consolidated provisioning coverage ratio to 35% from 31% in Q3FY14. However, Due to overhang of new NPA guidelines on LTFH, we continue to build in higher provisioning expense at 1.7% at consolidated level as against 1.4% in FY14.

Valuations

LTFH's asset quality was affected significantly in past few quarters which have resulted in both lower margins and increase in provisioning expense. LTFH's Q3FY15 result was ahead of expectation on operating front with higher than expected growth in loan book and Net interest income. Asset quality was stable on consolidated level while it deteriorated in L&T Finance mainly due to seasonality. We believe LTFH is set for gradual recovery in both business growth and asset quality led by improvement in macros. At CMP of Rs 69, LTFH is trading at consolidated P/AVB of 1.5x and 1.3x for FY16E and FY17E respectively. We continue to maintain buy rating on the stock with target price of Rs 84, valuing at 1.5x FY17E ABV. However recent correction in stock price gives opportunity to enter the stock at reasonable valuations of 1.5x FY16E ABV which is much lower than industry multiple of ~2.0-2.5x for FY17E.

YE March (Rs mn)	NII	Net Profit	EPS (Rs)	BV (Rs)	ABV (Rs)	ROE (%)	ROA (%)	P/BV (x)	P/ABV (x)
FY13	16,145	5,112	3.0	36.2	33.9	14.3	2.3	1.9	2.0
FY14	19,821	5,948	3.5	39.7	34.6	10.5	1.5	1.7	1.9
FY15E	26,425	7,620	4.4	46.4	41.7	14.6	1.9	1.5	1.6
FY16E	30,933	9,475	5.5	51.2	46.4	13.5	1.7	1.3	1.5
FY17E	35,965	11,090	6.4	56.9	52.1	14.0	1.8	1.2	1.3

Source: Company, IndiaNivesh Research

Source: Company Filings; Bloomberg; *Calculated Note: CMP as of 02/03/2015