

Current	Previous
CMP : Rs.67	
Rating : BUY	Rating : BUY
Target : Rs.80	Target : Rs.80

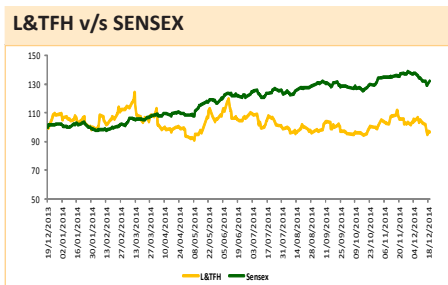
STOCK INFO	
BSE	533519
NSE	L&TFH
Bloomberg	LTFH.IN
Reuters	LTFH.BO
Sector	NBFC
Face Value (Rs)	10
Equity Capital (Rs Mn)	17191
Mkt Cap (Rs Mn)	114,665
52w H/L (Rs)	88/62
Avg Daily Vol (BSE+NSE)	6,978,036

SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Institutions	5.8
Others, Incl Public	19.2
Promoters	75.0

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
L&TFH	-10	-3	-3
SENSEX	-2	1	32

Source: Capitaline, IndiaNivesh Research



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L&T Finance holding (LTFH)... Reiterate BUY with target price of Rs 80...

We reiterate buy on LTFH as it remains the key beneficiary of uptick in economy specifically in infrastructure segment which constitute 46% of consolidated loan book. Our interaction with L&TFH's management gives confidence of maintaining the asset quality with limited incremental impairments for FY15. Recent correction in stock price makes valuation attractive at 1.5x for FY16E ABV with limited downside. Reiterate BUY with target price of Rs 80, valuing it at 2x FY16E ABV. Risks – 1) Lower growth than anticipated and 2) significant deterioration in asset quality. We had an interaction with L&T Finance Holding' (LTFH's) management for getting more insight on business and outlook on future growth. Following are the key takeaways –

Consolidated Loan book likely to grow by 15-20%:

LTFH's consolidated loan book to grow by 15-20% yoy in FY15 with more focus on B to C business (which is more of retail like micro finance, rural products and Vehicle financing where the yields are higher) and operational projects in infrastructure financing business. Further management specified that there is pick up in disbursements in Q3FY15, however expect growth to pick up materially only in FY16. In Q2FY15, Consolidated Loan book of LTFH was at 21% yoy (5% qoq) to Rs 428 bn largely led by strong growth in L&T Infra of 24% yoy (disbursement to operational projects). L&T Finance (retail financing subsidiary) grew by 10% yoy led by de growth in Commercial vehicle, Construction equipment and Corporate segment. However this was partially offset by growth in B to C segment ie rural products (largely include tractors) grew by 45%, Micro Finance grew by 75% yoy and Vehicle finance (two wheeler) grew by 14% yoy.

Consolidated margins to 5.9-6.1%:

Consolidated NIMs of LTFH is likely to remain in the range of 5.9-6.1%. Margins in retail business of L&T Finance are expected to remain at ~7% mainly as against 6.5% in FY14 due to higher disbursement in high yielding B to C products. NIMs in L&T Infra are likely to be at 4-4.1% for FY15. In Q2FY15, NIMs (rep) of L&T Finance improved by 115 bps qoq to 7.7% driven by 1) increase in proportion of high yielding segment and 2) one off income from higher prepayments and recoveries from NPA accounts. The impact on NIMs due to this one off was 60-70 bps.

Asset quality pain not extended further:

Asset quality of LTFH on consolidated level has deteriorated in Q2FY15 with 39 / 38 bps increase in Gross / Net NPA to 3.6% / 2.7% respectively. Increase in NPA was in both in L&T Finance by 37/45 bps qoq and L&T Infra by 41/27 bps qoq. Asset quality pressure in L&T Finance (retail business) might get affected negatively in Q3FY15 due to seasonality however in L&T Infra, it is likely to remain stable. Hence on consolidated level, asset quality in Q3FY15 will be either flat or will be affected marginally. As far as recent guidelines on NBFC is concerned, L&TFH will comply with regulatory requirement gradually as stated by RBI which is 5 bps increase on standard provisioning to 0.4% by FY18 and 90 days recognition of NPAs. As of now LTFH recognize NPA based on 180 days overdue in both financing subsidiaries. In L&T Finance, it does standard asset provisioning of 0.25% while in L&T Infra it does standard asset provisioning in the range of 0.25-0.4% as a prudent measure. Further the company is having excess provisioning of Rs 910 mn in L&T Finance and Rs 690 mn in L&T Infra. LTFH will start increasing the provisioning expense gradually from hereon in both the financing subsidiaries.

Valuation

LTFH has underperformed the market mainly due to stress in both infrastructure segment and retail business resulting in asset quality deterioration. We believe LTFH will be biggest beneficiary of both revival in economy and decline in interest rates. We are not increasing our earnings estimates and keep it unchanged with growth of 18% CAGR for FY14-16E after factoring in provisioning expense of 1.4% (as a % of advances). Recent correct in stock price gives a good opportunity to enter at

valuations of 1.5x FY16E ABV and hence recommend BUY with target price of Rs 80, valuing it at 2x FY16E ABV. We assign lower multiple to L&TFH (vs other NBFCs valuation of 2.5-3.5x for FY16) mainly due to comparatively lower return profile 12-13% ROEs and 1.5-1.6% ROAs.

Consolidated

Income Statement (Rs Mn)	FY13	FY14	FY15E	FY16E
Interest Earned	38620	47980	56303	65173
Interest Expended	23430	29130	33102	38329
Net Interest Income	16145	19821	25089	28813
Other Income	517	1812	1494	1644
Net Income	16662	21633	26583	30457
Total Income	39948	52372	62602	72199
Total Expenses	5376	7704	9670	10950
Pre Provision Profit	11286	13929	16913	19507
Provisions	3580	5680	6733	7584
Profit before tax	9886	8249	11620	11923
Tax	2594	2300	3488	3579
Net Profit	7292	5948	8132	8344
Adjusted Net Profit	5112	5948	6693	8344

Source: IndiaNivesh Research

Balance Sheet (Rs Mn)	FY13	FY14	FY15E	FY16E
Liabilities				
Equity	17168	17185	17185	17185
Reserves and Surplus	37535	41072	47984	55108
Net Worth	54703	58260	65168	72292
Borrowings	282474	358536	409811	468592
Other Liabilities & Provisions	21020	21817	24876	29851
Total Liabilities	365696	448613	513485	584366
Assets				
Loans and Advances	333099	400800	468517	540248
Net Block	12201	13677	14907	15764
Investments & Other Assets	20397	34136	30062	28354
Total Assets	365696	448613	513485	584366

Source: IndiaNivesh Research

Valuation Ratios	FY13	FY14	FY15E	FY16E
Earning Per Share (Rs)	4.2	3.5	4.7	4.9
Adj Earning Per Share (Rs)	3.0	3.5	3.9	4.9
Book Value Per Share (Rs)	36	40	46	50
Adj Book Value Per Share (Rs)	34	35	41	45
P/E (x)	15.7	19.3	14.1	13.7
P/BV (x)	1.8	1.7	1.5	1.3
P/ABV (x)	2.0	1.9	1.6	1.5
Growth Y-o-Y (%)				
Loan and Advances	31.3	20.3	16.9	15.3
Borrowings	34.0	26.9	14.3	14.3
Balance Sheet	35.8	22.7	14.5	13.8
Net Interest Income	32.3	28.2	20.9	15.5
Net Income	26.3	22.8	26.6	14.8
Net Profit	60.3	-18.4	36.7	2.6
Adj. Net Profit	12.4	16.4	12.5	24.7
Return Ratios (%)				
ROE	14.3	10.5	13.2	12.1
ROA	2.3	1.5	1.7	1.5
Yield / Margin (%)				
Yield on Funds	13.4	13.8	14.1	14.0
Cost of Funds	9.4	9.6	9.4	9.5
Interest Spread	4.0	4.2	4.7	4.5
Net Interest Margin	5.5	5.4	5.8	5.7
Net Profit Margin	18.3	11.4	13.0	11.6
Other Ratios (%)				
Cost / Income	32.3	35.6	36.4	36.0
Gross NPA (mn)	6596	12430	13414	14352
Net NPA (mn)	4063	8895	8676	9041
Gross NPA (%)	2.0	3.2	2.9	2.7
Net NPA (%)	1.3	2.3	1.9	1.7

Source: IndiaNivesh Research