

Strategy Update & Results – Q4FY17 and FY17



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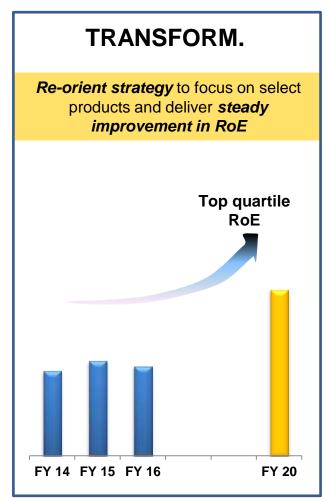


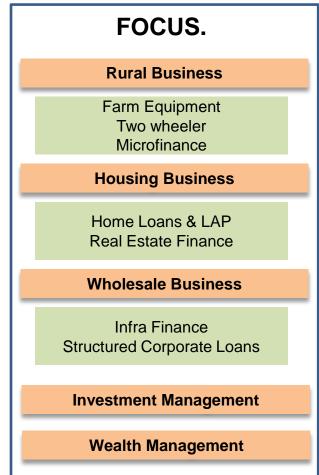
Strategy Updates & Management Discussion

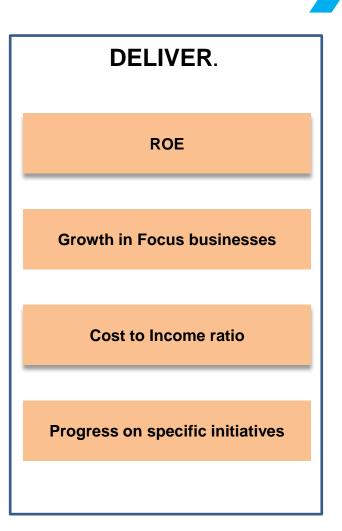
Appendix



Strategy to deliver top quartile ROE stays on course



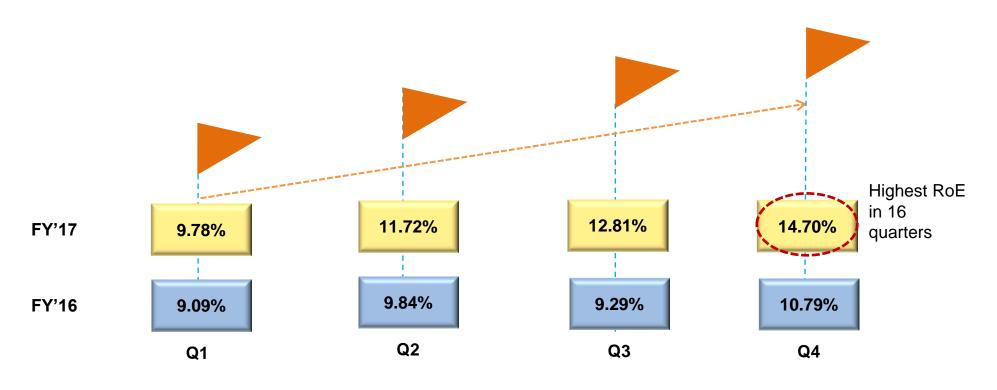






LTFH 2.0- Top quartile RoE trajectory established

FY17- Built foundation for sustainable RoE growth





Reflected in strong performance through FY 17

Continuous Improvement in ROE Q4 FY16 Q4 FY17 FY16 FY17 10.79% 14.70% 9.78% 12.31%

GROWTH IN FOCUS
BUSINESSES

Lending: 23% disbursement and 20% asset growth between FY16 and FY17 **Non-lending**: 51% AAUM and 46% AAUS growth in Investment and Wealth Management resp.

EXIT FROM NON-CORE BUSINESSES

Defocus book rundown from 8.5% to 4.0% of assets from FY16 to FY17 Rs. 327 Cr of assets sold in Q4FY17 to accelerate exit

OTHER INCOME

46% increase in fee & other income – from Rs. 495 Cr to Rs. 722 Cr Increase from 0.94% to 1.18% as a percentage of book

REDUCTION IN COST INCOME RATIO

Reduction in cost-income ratio by 477 bps – from 30.94% in FY16 to 26.18% in FY17 Operating expenses down by 3% - from Rs. 1,064 Cr to Rs. 1,034 Cr

STRENGTHENING THE BALANCE SHEET

PCR on GNPA improved from 22.19% in Q4FY16 to 42.82% in Q4FY17



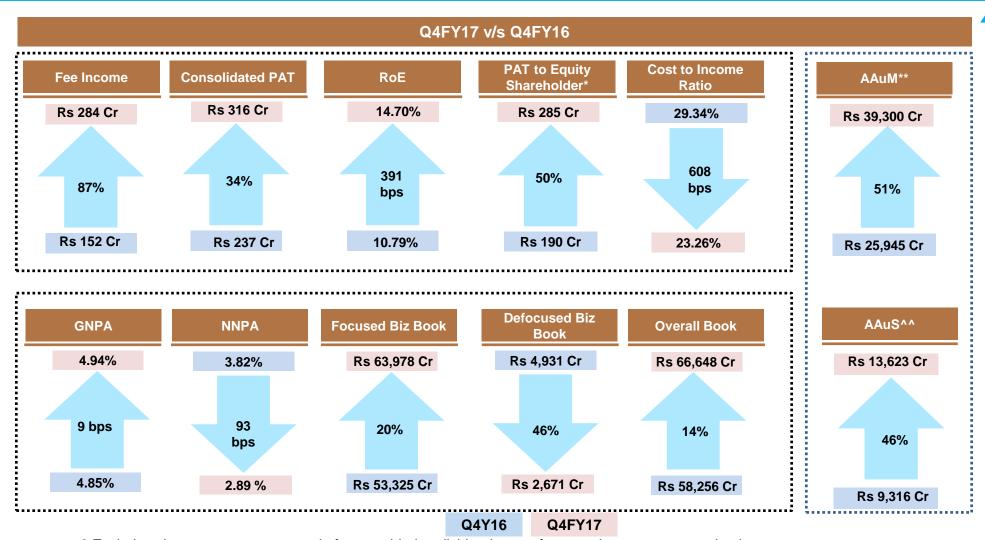
Progress on specific initiatives

INITIATIVE	STATUS	RATING SCALE*	IMPACT ON ROE TREE
COE – FOCUS BUSINESS	YoY Growth in assets of the focus businesses is 20%	4	INCOME
RISK FRAMEWORK	Enterprise wide risk framework established	4	CREDIT COST
COE SELLDOWN	Sell down increased by 2.2x resulting in 3.4x increase in fee income	4	INCOME
OPEX OPTIMIZATION	Achieved 26% Cost to Income ratio with reduction in Opex by 5% on a YoY basis	5	OPERATING EXPENSES
DIVESTMENT OF NON- CORE BUSINESS	First tranche of ~ Rs 327 Cr sold. Book rundown successfully by 46%	2	CAPITAL ALLOCATION
MERGER OF ENTITIES	Merger of 3 entities completed	5	CAPITAL ALLOCATION



^{*}Rating scale where 1 stands for lowest and 5 for highest

LTFH consolidated Q4FY17 – Financial performance highlights



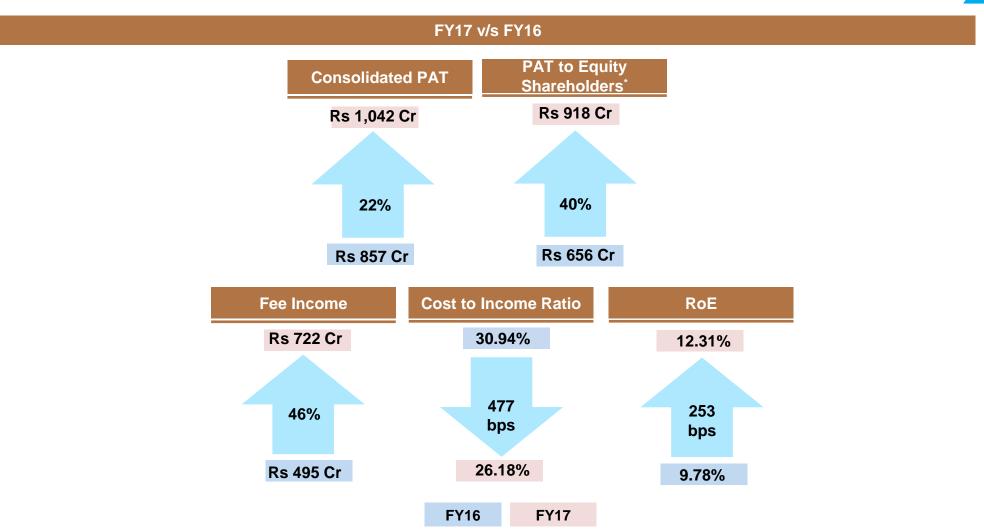
^{*} Excludes share warrant money and after considering dividend on preference shares on pro-rata basis



[^] NPA classification as per extant RBI /NHB guidelines

^{**} Investment Management - AAuM; ^ Wealth Management - AAuS

LTFH consolidated FY17 – Financial performance highlights



Excludes share warrant money and after considering dividend on preference shares on pro-rata basis



LTFH consolidated Q4FY17 – Capital allocation and RoE bridge

	Q4 FY16		Business Segments (Rs. Cr)		Q4 FY17			
PAT	Net Worth	RoE			Net Worth	RoE	Y-o-Y (%)	
63	1,192	21.68%	Rural Business	73	1,331	20.99%	16%	
51	991	21.16%	Housing Business	87	1,362	27.09%	71%	
134	4,491	12.05%	Wholesale Business	179	5,317	13.71%	33%	
247	6,675	15.08%	Lending Business	338	8,010	17.17%	37%	
7	726	3.90%	Investment Management	13	771	6.94%	88%	
(7)	7		Wealth Management		14			
248	7,409	13.60%	Focus Business Total	355	8,795	16.39%	43%	
(20)	686	(11.59%)	De-focused Business	(37)	323	(38.68%)	85%	
227	8,095	11.40%	Businesses Total	317	9,118	14.05%	40%	
9	313		Others ^{&}	(1)	(11)			
0	0	0	Exceptional gains	0	0	0		
237	8,408	10.99%	LTFH Consol. (Reported)	316	9,107	13.88%	34%	
47	1,213	(11.85%)	Less Pref. Div. / Pref. Cap	32	1,213	10.49%	(32%)	
190	7,077	10.79%	LTFH Consol. (To Equity Shareholders) *	285	7,775	14.70%	50%	

^{*} Consol. PAT to Shareholders is after considering dividend on preference shares on pro-rata basis; Net Worth excludes preference shares, pref. dividend on pro-rata basis and share warrant money

[&]amp; Other Businesses include Private Equity , L&T Vrindavan, L&T Access and LTFH Standalone

LTFH consolidated FY17- Capital allocation and RoE bridge

	FY16		Business Comments (Bo Cv)		FY17			
PAT	Net Worth	RoE	Business Segments (Rs. Cr)	PAT	Net Worth	RoE	Y-o-Y (%)	
211	1,192	18.25%	Rural Business	289	1,331	21.80%	37%	
127	991	13.28%	Housing Business	274	1,362	24.25%	115%	
548	4,491	12.33%	Wholesale Business	559	5,317	11.34%	2%	
886	6,675	13.51%	Lending Business	1,122	8,010	15.19%	27%	
19	726	2.58%	Investment Management	45	771	5.97%	139%	
(24)	7		Wealth Management	5	14			
881	7,409	12.09%	Focus Business Total	1,172	8,795	14.39%	33%	
(67)	686	(9.71%)	De-focused Business	(141)	323	(26.64%)		
813	8,095	10.19%	Businesses Total	1,031	9,118	11.89%	27%	
44	313	9.95%	Others ^{&}	11	(11)	7.10%	(75%)	
0	0	0	Exceptional gains	0	0	0	<u>-</u>	
857	8,408	10.18%	LTFH Consol. (Reported)	1,042	9,107	11.81%	22%	
201	1,213	11.88%	Less Pref. Div. / Pref. Cap	124	1,213	10.25%	(38%)	
656	7,077	9.78%	LTFH Consol. (To Equity Shareholders)*	918	7,775	12.31%	40%	

^{*} Consol. PAT to Shareholders is after considering dividend on preference shares on pro-rata basis; Net Worth excludes preference shares, pref. dividend on pro-rata basis and share warrant money

[&]amp; Other Businesses include Private Equity , L&T Vrindavan, L&T Access and LTFH Standalone

Voluntary credit cost / Exceptional gains

	Q4 NET CREDIT COST											
Rs Crs	Regulatory (1)	Voluntary from business P&L (2)	Total (1) +(2) = (3)	Accelerated Provisions from exceptional gains(4)	Total (3)+(4)=(5)							
Rural	38	85	124	87	210							
Housing	8	16	24	0	24							
Wholesale	175	39	215	265	480							
Rundown	5	45	50	0	50							
Lending	226	186	412	352	763							

Reconciliation with Exceptional gains	Q4FY17 (Rs Crs)
Accelerated provisions created to strengthen the Business	352
Less: Tax impact	122
Adjusted against efficiencies arising at LTFH consol. due to amalgamation * and Other Exceptional gains / provisions	230

Benefit from exceptional gains entirely used to create accelerated provisions

^{*}The scheme of amalgamation of L&T Finance and L&T Fincorp into Family Credit Ltd was approved by The Honorable Calcutta High Court on November 28th, 2016 and National Company Law Tribunal, Mumbai Bench on January 24th, 2017. Family Credit Ltd. has since been renamed L&T Finance Ltd. These efficiencies are recurring for a period of 5 years

Voluntary credit cost

Details of total voluntary credit cost Rs. 537 Cr in Q4FY17

Rs. Cr	Preparation for moving to 90 DPD	Preparation for moving to 0.40% SAP	Other accelerated Provisions	Total
Housing	0	2	14	16
Rundown	9	1	35	45
Rural	92	4	76	172
Wholesale	0	18	286	304
TOTAL	101	25	412	537

FY17- Key highlights – 1/2

BUSINESS

STRATEGY

RESULTS



- Digitisation of customer acquisition process
- 100% Aadhar based KYC
- Collection analytics based dynamic target setting

Rural



- Digitise customer underwriting
- Envisaged building fortress location to drive growth



- · Reclaiming market share ceded
- Establish partnerships with prominent OEMs
- Movement of portfolio to optimal OEM mix

- Digitally enrolled 14.3 lacs customers
- Disbursed Rs. 1,113 cr in fully cashless mode
- Increase in delinquency stemmed from Feb
- Delivered best in class TAT of under 10 minutes
- Increased Market share from 4% in H1 FY17 to 7% in H2 FY17
- Market Rank #2 in Q4 Share in H2 FY'17
 9.5% vs 4.5% in H1



- Discontinue DSA sourced salaried HL
- Greater focus on SENP segment in HL
- Optimize the loan approval process and cost
- Loan process revamped for faster TATreduced from 12 days to 6 days
- LAP book healthy despite de-monetization

Housing



- Leverage L&T ecosystem
- Develop and implement risk framework & Early Warning Signals
- Book size growth by 40% YoY
- Fee Income growth of 93% YoY
- Cat A & B exposure comprises 80% of book size



FY17- Key highlights – 2/2

BUSINESS

STRATEGY

RESULTS

Wholesale



- Focus on operational projects
- Build accelerated provisions to mitigate balance sheet risk
- · Build strong sell down desk as CoE
- · Undertake monetisation of equity portfolio
- Fee income grew 108% from Rs144 Cr to Rs 299 Cr YoY
- Sell down volumes increased from Rs 2,734 Cr to Rs 5,988 Cr YoY
- · Disbursement growth rate of 26% YoY

Investment Management



- Addition of new funds to Rs.1,000 Cr club
- Building loyalty among top 100 distributors
- Activation of identified corporates for new sales across Fixed Income products
- 56% YoY growth in Equity AuM
- Equity AAuM is 39% of AAuM
- Drop in C/I ratio YoY from 83% to 66%
- 140% YoY growth in PAT from Rs 19 Cr to Rs 45 Cr

Wealth Management



- Consolidate Premier and Private wealth platforms
- Increase Assets & Revenue per RM
- · Increase overseas presence

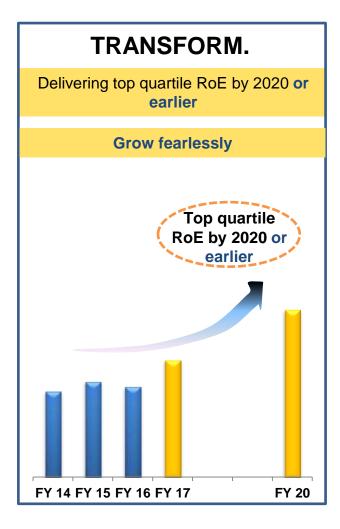
- Assets per RM increased 102% YoY
- Revenue per RM increased 150% YoY
- Strong presence in Dubai constituting 15% of income
- Turned around with a PAT of Rs 5 Cr from loss of Rs 24 Cr







Transform. Focus. Deliver... Redefined



FOCUS.

Increasing RoE in each business

Increasing market share in our focused products

Build a strong sell down desk

Shift from cost reduction to cost control

Strong risk framework and adequate provision coverage

9

DELIVER.

Short Term H1 FY'18

- Continuous increase in market share
- Strong risk framework
- Strengthen sell down desk further



Medium Term FY'18

- Continue to deliver RoE
- Build counter-cyclical provisions to avoid future shocks
- Strengthen cost controls



Long Term FY'20

- Establish digital and data analytics as sustainable competitive advantage
- Be the dominant player in specific products



Conclusion & Outlook

FY17 has been a year of turnaround for LTFH – first step towards delivering top quartile ROE

We have endeavoured to create an environment where:

- Management intent is clear
- Focus stays on execution
- The culture is result oriented "Results not Reasons"

RoE in FY17 has been achieved even despite a challenging environment:

- Q4FY17 RoE is 14.70% vis-à-vis 10.79% in Q4FY16
- FY17 RoE is 12.31% vis-à-vis 9.78% in FY16 an increase of 253 bps
- Key levers that have contributed to RoE are growth in focused businesses, exit from non-core businesses, increase in fee & other income and reduction in cost-income ratio

Going forward, LTFH looks at shifting gears:

- To achieve top quartile RoE by 2020 or earlier`
- Grow fearlessly supported by a strong balance sheet and robust risk framework







Strategy Update & Management discussion

Appendix



Lending Business – Segment Wise Disbursement Split

	Disbursements									
Q4FY16	Q3FY17	Q4FY17	Y-o-Y (%) Segments (Rs. Cr.)	FY16	FY17 Y	′-o-Y (%)				
954	653	857	(10%) Microfinance	2,536	3,514	39%				
381	549	464	22% 2W Finance	1,595	1,753	10%				
417	732	672	61% Farm Equipment	2,394	2,138	(11%)				
1,753	1,934	1,994	14% Rural Finance	6526	7405	13%				
1,138	702	763	(33%) Home Loans / LAP	3,548	2,979	(16%)				
460	1,184	1,246	171% Real Estate Finance	2,257	3,925	74%				
1,598	1,886	2,009	26% Housing Finance	5,805	6,904	19%				
3,189	4,382	7,598	138% Infrastructure Finance	14,513	17,613	21%				
570	1,007	3,847	575% Structured Corp Finance	2,796	5,835	109%				
3,079	2,971	2,865	(7%) Supply Chain Finance	10,522	11,548	10%				
6,838	8,360	14,310	109% Wholesale Finance	27,831	34,996	26%				
10,189	12,180	18,313	80% Focused Products	40,161	49,305	23%				
499	0	0	(100%) De-focused Products	1,603	52	(97%)				
10,688	12,180	18,313	71% Total	41,765	49,357	18%				



^{*} Includes Rs 2000 Cr of IPO funding

Lending Business – Segment Wise Book Split

	Loans & Advances								
Q4FY16	Q3FY17	Q4FY17 Segments (Rs. Cr.)	FY16	FY17	Y-o-Y (%)				
2,234	3,194	3,551 Microfinance	2,234	3,551	59%				
1,761	2,022	2,110 2W Finance	1,761	2,110	20%				
4,649	4,349	4,379 Farm Equipment	4,649	4,379	(6%)				
8,644	9,565	10,041 Rural Finance	8,644	10,041	16%				
6,313	7,431	7,643 Home Loans / LAP	6,313	7,643	21%				
3,498	4,134	4,891 Real Estate Finance	3,498	4,891	40%				
9,811	11,565	12,534 Housing Finance	9,811	12,534	28%				
27,604	30,548	32,884 Infrastructure Finance	27,604	32,884	19%				
4,979	4,961	6,397 Structured Corp Finance	4,979	6,397	28%				
2,287	2,151	2,123 Supply Chain Finance	2,287	2,123	(7%)				
34,870	37,660	41,403 Wholesale Finance	34,870	41,403	19%				
53,325	58,790	63,978 Focused Products	53,325	63,978	20%				
4,931	3,180	2,671 De-focused Products	4,931	2,671	(46%)				
58,256	61,970	66,648 Total	58,256	66,648	14%				



Rural Business – Summary Financials

	P&L Summary										
Q4FY16	Q3FY17	Q4FY17	Y-o-Y(%)	Summary P&L (Rs. Cr.)	FY16	FY17	Y-o-Y(%)				
434	478	465	7%	Interest Income	1,589	1,823	15%				
162	174	178	10%	Interest Expense	611	682	12%				
272	304	287	5%	NIM	979	1,141	17%				
22	17	34	57%	Fee & Other Income	70	86	23%				
294	321	321	9%	Total Income	1,049	1,227	17%				
95	90	82	(14%)	Operating Expense	390	359	(8%)				
199	232	239	20%	Earnings before credit cost	658	868	32%				
104	121	124	19%	Credit Cost	336	425	27%				
63	74	73	16%	PAT	210	289	37%				

Balance Sheet Summary

Balance Sheet (Rs. Cr.)	FY16	FY17	Y-o-Y(%)
Total Assets	9,152	10,412	14%
Gross Loans & Advances	8,644	10,041	16%
Borrowings	7,329	8,686	19%
Networth	1,192	1,331	12%



Rural Business – Key Ratios

Key Ratios

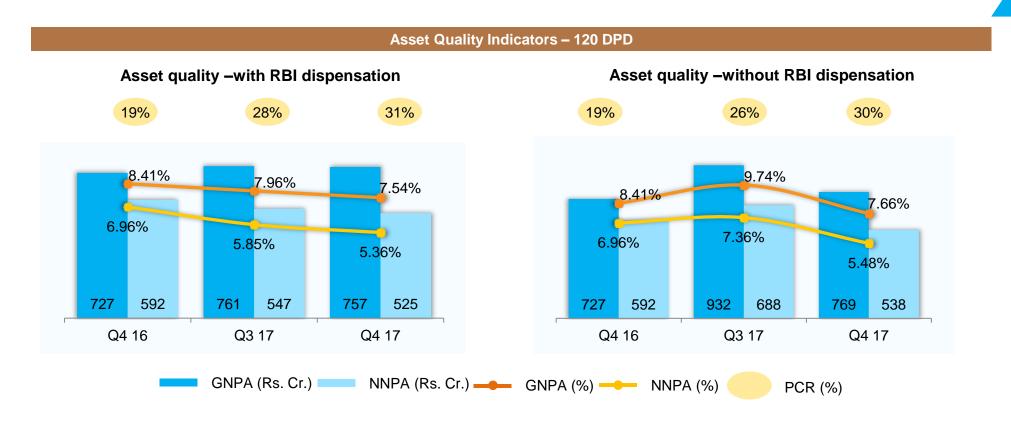
Q4FY16	Q3FY17	Q4FY17	Key Ratios	FY16	FY17
20.64%	20.38%	18.97%	Yield	20.28%	19.79%
9.05%	8.68%	8.43%	Cost of Borrowing	9.15%	8.62%
12.94%	12.97%	11.70%	Net Interest Margin	12.49%	12.38%
1.04%	0.73%	1.40%	Fee & Other Income	0.89%	0.93%
4.53%	3.81%	3.34%	Operating Expenses	4.98%	3.90%
9.46%	9.88%	9.77%	Earnings before credit cost	8.40%	9.42%
4.93%	5.16%	5.05%	Credit Cost	4.28%	4.61%
2.80%	2.96%	2.83%	Return on Assets	2.53%	2.96%
6.15	5.68	6.53	Debt / Equity	6.15	6.53
21.68%	20.98%	20.99%	Return on Equity	18.25%	21.80%

Net worth allocation re aligned after amalgamation of Family Credit with L&T Finance and L&T Fincorp

All ratios based on quarterly average of Gross Loans & Advances



Rural Business – Asset Quality





Housing Business – Summary Financials

	P&L Summary										
Q4FY16	Q3FY17	Q4FY17	Y-o-Y (%)	Summary P&L (Rs. Cr.)	FY16	FY17	Y-o-Y(%)				
288	360	384	34%	Interest Income	941	1,386	47%				
178	212	214	20%	Interest Expense	604	832	38%				
109	149	171	56%	NIM	338	554	64%				
15	36	26	76%	Fee & Other Income	45	90	103%				
124	185	197	58%	Total Income	382	644	68%				
47	35	38	(19%)	Operating Expense	156	157	1%				
77	151	158	107%	Earnings before credit cost	227	487	115%				
(4)	18	24		Credit Cost	26	68					
51	88	87	71%	PAT	127	274	115%				

Balance Sheet Summary

Balance Sheet (Rs. Cr.)	FY16	FY17	Y-o-Y(%)
Total Assets	10,615	13,220	25%
Gross Loans & Advances	9,811	12,534	28%
Borrowings	8,829	11,114	26%
Networth	991	1,362	37%



Housing Business – Key Ratios

Key Ratios

Q4FY16	Q3FY17	Q4FY17	Key Ratios	FY16	FY17
12.46%	12.57%	12.76% `	Yield	12.21%	12.44%
8.67%	8.36%	8.06%	Cost of Borrowing	8.90%	8.39%
4.74%	5.19%	5.67% I	Net Interest Margin	4.38%	4.97%
0.63%	1.27%	0.85% I	ee & Other Income	0.59%	0.81%
2.06%	1.21%	1.27%(Operating Expenses	2.02%	1.41%
3.32%	5.25%	5.25% I	Earnings before credit cost	2.95%	4.37%
(0.16%)	0.62%	0.79% (Credit Cost	0.33%	0.61%
2.05%	2.91%	2.75%	Return on Assets	1.56%	2.32%
8.91	8.42	8.16	Debt / Equity	8.91	8.16
21.16%	29.82%	27.09% I	Return on Equity	13.28%	24.25%

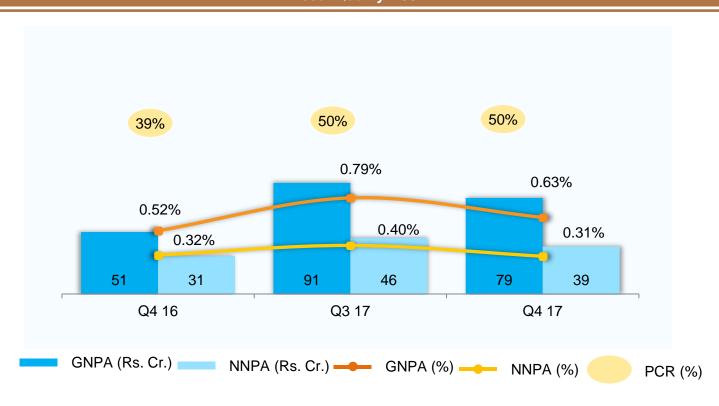
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All ratios based on quarterly average of Gross Loans & Advances



Housing Business – Asset Quality

Asset Quality - 90 DPD





Wholesale Business – Summary Financials

	P&L Summary										
Q4FY16	Q3FY17	Q4FY17	Y-o-Y (%)	Summary P&L (Rs. Cr.)	FY16	FY17	Y-o-Y(%)				
1,000	1,010	1,005	1%	Interest Income	3,717	4,064	9%				
675	685	689	2%	Interest Expense	2,429	2,736	13%				
324	325	316	(2%)	NIM	1,288	1,328	3%				
50	73	148	194%	Fee & Other Income	144	299	108%				
375	397	464	24%	Total Income	1,432	1,627	14%				
47	43	29	(38%)	Operating Expense	176	159	(10%)				
327	354	435	33%	Earnings before credit cost	1,257	1,469	17%				
151	171	215	42%	Credit Cost	461	712	54%				
135	128	179	33%	PAT	548	560	2%				

Balance Sheet Summary

Balance Sheet (Rs. Cr.)	FY16	FY17	Y-o-Y(%)
Total Assets	37,026	44,111	19%
Gross Loans & Advances	34,870	41,403	19%
Borrowings	30,593	37,164	21%
Networth	4,491	5,317	18%



Wholesale Business – Key Ratios

Key Ratios

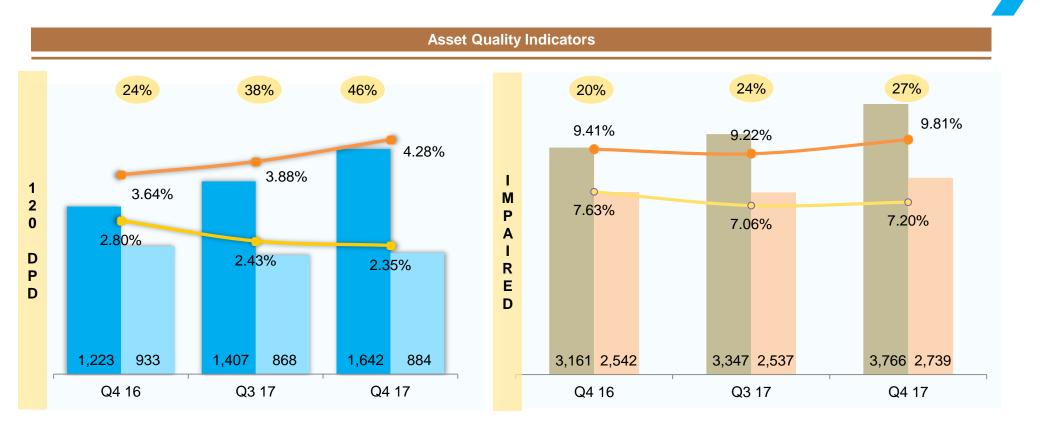
Q4FY16	Q3FY17	Q4FY17 Key Ratios	FY16	FY17
11.60%	10.90%	10.17% Yield	11.86%	10.97%
9.03%	8.52%	7.94% Cost of Borrowing	8.88%	8.43%
3.76%	3.50%	3.20% Net Interest Margin	4.11%	3.59%
0.58%	0.79%	1.49% Fee & Other Income	0.46%	0.81%
0.55%	0.47%	0.30% Operating Expenses	0.56%	0.43%
3.80%	3.82%	4.40% Earnings before credit cost	4.01%	3.97%
1.76%	1.85%	2.17% Credit Cost	1.47%	1.92%
1.47%	1.29%	1.69% Return on Assets	1.62%	1.41%
6.81	6.60	6.99 Debt / Equity	6.81	6.99
12.05%	10.24%	13.71% Return on Equity	12.33%	11.34%

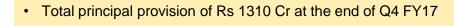
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All ratios based on quarterly average of Gross Loans & Advances



Wholesale Business – Asset Quality









Wholesale Business – Segment Wise Split

	Sectors (Rs Cr.)	Q4FY17	Q3FY17	Q4FY16	Y-o-Y (%)	q-o-q
	Renewable Power	3,223	2,517	1,683	92%	28%
,	Transport	2,033	1,160	395	414%	75%
3	Power – Thermal	38	56	429	(91%)	(31%)
וי	Power – Corp ² + T&D	943	15	173	446%	<u></u>
5	Others ¹	1,361	635	510	167%	114%
	Structured Corp. Fin.	3,847	1,007	570	575%	282%
:	Supply Chain Finance	2,865	2,971	3,079	(7%)	(4%)
1	Total	14310	8360	6839	109%	71%
	Net Disbursement	12303	6103	5864	110%	102%

Sectors (Rs Cr.)	Q4FY17	Q4FY17 (%)	Q3FY17	Q4FY16	Q4FY16 (%)	Y-o-Y (%)	q-o-q	Q3FY17 %
Renewable Power	12,878	31%	12,130	9,387	27%	37%	6%	32%
Transport	8,013	19%	7,403	6,178	18%	30%	8%	20%
Power – Thermal	3,122	8%	3,849	3,652	10%	(15%)	(19%)	10%
Power – Corp ² + T&D	2,928	7%	2,191	2,404	7%	22%	34%	6%
Others ¹	5,944	14%	4,975	5,983	17%	(1%)	19%	13%
Structured Corp. Fin.	6,397	15%	4,961	4,979	14%	28%	29%	13%
Supply Chain Fin	2,123	5%	2,151	2,287	7%	(7%)	(1%)	6%
Total	41403		37660	34870		19%	10%	

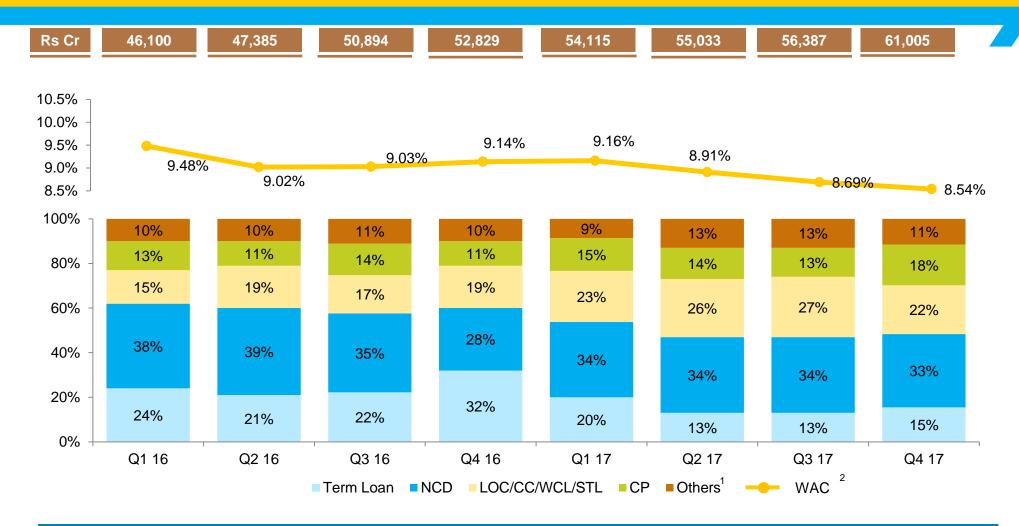


Lending Business – CRAR Ratios

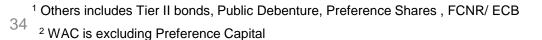
As of December 2016		2016	CRAR Ratios	As of March 2017		
Tier I	Tier II	CRAR	Entity	Tier I	Tier II	CRAR
15.41%	3.39%	18.80%	L&T Finance Ltd.(Erstwhile Family Credit)	13.37%	3.06%	16.42%
13.81%	6.38%	20.19%	L&T Infra. Finance Ltd.	12.89%	6.89%	19.69%
30.20%	5.21%	35.42%	L&T IDF Ltd.	33.51%	5.82%	39.33%
10.50%	4.09%	14.60%	L&T Housing Finance Ltd.	11.54%	3.86%	15.40%



Consolidated Debt Profile - Effective Liability Management



Focus on diversifying sources of funds





AUM Disclosure

Assets Under Management (Rs. Cr.)									
	Quarter end	ed Jun, 2016	Quarter ende	d Sep, 2016	Quarter ended	d Dec, 2016	Quarter ended Mar, 2017		
Fund Type	AUM ¹	Avg. AUM²	AUM ¹	Avg. AUM²	AUM ¹	Avg. AUM ²	AUM ¹	Avg. AUM ²	
Income	9,053	8,892	11,048	10,987	12,316	12,796	12,862	13,629	
Equity (Other than ELSS)	10,498	9,872	11,679	11,168	12,077	11,987	14,831	13,505	
Balanced	0	0	0	0	0	0	0	0	
Liquid	6,324	7,966	8,357	8,610	8,175	8,411	10,761	10,000	
Gilt	111	104	164	136	203	189	197	205	
Equity – ELSS	1,667	1,556	1,822	1,766	1,782	1,809	2,125	1,961	
Gold ETF	0	0	0	0	0	0	0	0	
Other ETF	0	0	0	0	0	0	0	0	
Fund of Fund Overseas	0	13	0	0	0	0	0	0	
TOTAL	27,652	28,404	33,070	32,667	34,553	35,191	40,776	39,300	

¹ As on the last day of the Quarter ² Average AUM for the Quarter



Leadership comprises a seasoned board of directors

Board Of Directors



Y.M. Deosthalee, Chairman

- Chartered Accountant and Law graduate
- 40+ years at L&T Group
- Member of the Advisory Committee for Liquidity Management set by the Ministry of Finance



Dinanath Dubhashi, Managing Director

- B.E.(Mechanical), PGDM IIM (Bangalore)
- 25+ years of experience across multiple domains in BFSI such as Corporate Banking, Cash Management, Credit Ratings, Retail Lending and Rural Financing



R. Shankar Raman, Non-Executive Director

- CA; B.Com graduate from Madras University
- Current CFO of L&T Group
- 30+ years of experience in finance, including audit and capital markets



Amit Chandra, Non-Executive Director

- MBA from Boston College and Electrical Engineering from VJTI
- Managing Director at Bain Capital since early 2008
- Retired from DSP Merrill Lynch as Board Member & MD and had direct oversight of its Global Markets & IB business



S. V. Haribhakti, Independent Director, Chairman of the Audit Committee and Nomination & Remuneration Committee. LTFH

- o CA. Cost Accountant, and a Certified Internal Auditor
- Masters in Management Studies from Uni. of Mumbai
- Managing Partner, Haribhakti & Co



Harsh C. Mariwala, Independent Director

- Chairman & MD of Marico Limited
- 30+ years of experience in building some of the leading Consumer brands in India
- o President of FICCI 2010 2011



B. V. Bhargava, Independent Director

- Post graduate in commerce and Law graduate from the University of Bombay
- o Chairman of the Rating Committee of CRISIL Limited
- Former Vice Chairman and MD of ICICI



P. V. Bhide, Independent Director

- o Hold MBA, L.L.B and B.Sc degrees
- o Retired IAS officer
- Former Finance Secretary; 40+ years experience across various positions in the Ministry of Finance



Thomas Mathew, Independent Director

- o Post graduate in Economics and Law graduate
- MD & CEO of Reinsurance Group of America for India, Sri Lanka and Bangladesh
- o ~Four decades experience in Life Insurance, LIC of India



Management Team



Dinanath Dubhashi Managing Director & CEO 26 yrs exp, BNP Paribas, SBI Cap, CARE



Kailash Kulkarni CE - Investment Management 26 yrs exp, Kotak Mahindra AMC, Met Life, ICICI



Sunil Prabhune CE – Rural & CHRO 18 yrs exp, ICICI Bank, GE, ICI



Virender Pankaj CE - Wholesale 25 yrs exp, SBI



Srikanth J CE - Housing 20 yrs exp, BNP Paribas, Commerz Bank AG



Manoj Shenoy CE - Wealth Management 26 yrs exp, EFG Wealth Mgmt, Anand Rathi



Sachinn Joshi Group CFO 24 yrs exp, Aditya Birla Financial Services, Angel Group, IL&FS



Muralidharan Rajamani Group Head - Operations and IT 31 yrs exp, SBI, ICICI Bank



Raju Dodti Group General Counsel 18 yrs exp, IDFC Ltd, ABN Amro, Soc Gen



Deepak Punjabi Chief Risk Officer 31 yrs exp, Burgan Bank, BNP Paribas



Abhishek Sharma Group Head- Strategy 13 yrs exp, Indian Army



"Our aim is to be an admired and inspirational financial institution, creating sustainable value for all our stakeholders."

L&T Finance Holdings Ltd

Brindavan, Plot No 177 Vidyanagari Marg, CST Road, Kalina Santacruz (E), Mumbai 400 098

Registered Office

L&T House, NM Marg Ballard Estate, Mumbai 400 001 CIN: L67120MH2008PLC181833 T +91 22 6621 7300/400 F +91 22 6621 7509 E igrc@ltfs.com www.ltfs.com







L&T Finance Holdings

Structural story playing out well but long way ahead

May 06, 2017

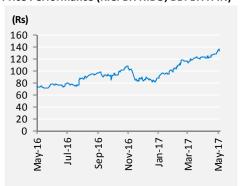
R Sreesankar rsreesankar@plindia.com / +91-22-66322214 Pritesh Bumb priteshbumb@plindia.com / +91-22-66322232 Vidhi Shah vidhishah@plindia.com / +91-22-66322258

Rating	BUY
Price	Rs133
Target Price	Rs210
Implied Upside	57.9%
Sensex	29,859
Nifty	9,285

(Prices as on May 05, 2017)

Trading data			
Market Cap. (Rs b	n)		233.6
Shares o/s (m)			1,755.7
3M Avg. Daily val	ue (Rs m)		602.1
Major sharehold	ers		
Promoters			66.65%
Foreign			15.83%
Domestic Inst.			2.93%
Public & Other			14.59%
Stock Performan	ce		
(%)	1M	6M	12M
Absolute	7.4	31.8	82.0
Relative	7.8	22.3	63.8
How we differ fro	om Consens	sus	
EPS (Rs)	PL	Cons.	% Diff.
2018	6.8	9.4	-27.1
2019	9.3	NA	NA

Price Performance (RIC: LTFH.BO, BB: LTFH IN)



Source: Bloomberg

LTFH saw beat in earnings on back of better fee income and tax write back from goodwill amortisation from merger but these gains were used to further strengthen weaker part of balance sheet by voluntary provisions on potential shocks and move towards regulatory requirement. Operational levers have started to play out on fees/opex/topline, while these tax efficiencies will continue for some time ahead, LTFH will use these gains to further take voluntary provisions. We believe ROEs are on improving trajectory with medium risk to asset quality especially in the infra business. Improving ROEs with growth and run down in defocused businesses are going to be key for LTFH valuation going forward. We believe that the company is strongly on the recovery path and we expect the stock to get rerate upwards with an expansion in P/ABV as they keep improving their capital return ratios and strong growth. We maintain BUY with revised PT of Rs210 (revised from Rs140) based on 2.9x Mar-20E ABV.

Operating performance strong: LTFH saw better operating performance with NII growth of 21% YoY, as LTFH continued to generate very strong fee income (1.5% of assets) on strong sell down activity, while non-wholesale biz growth was strong with steady margins. Company used goodwill amortisation gains on tax to create voluntary provisions leading credit cost to ~400-420bps of loans but drew up PCR to 42% from 37% in Q3FY17. LTFH also derived good lever from strong cost rationalisation bringing down C/I down to 28% from 31% in Q3FY17.

Contd...2

Key Financials (Y/e March)	2016	2017	2018E	2019E
Net interest income (Rs m)	28,742	33,076	38,747	44,317
Growth (%)	16.1	15.1	17.1	14.4
Non-interest income (Rs m)	4,723	6,376	7,652	9,182
Operating Profit (Rs m)	20,337	26,688	32,600	38,165
PAT (Rs m)	8,537	10,425	13,071	17,292
EPS (Rs)	4.0	5.2	6.8	9.3
Growth (%)	13.5	31.9	30.5	36.5
Net DPS (Rs)	0.8	0.8	1.0	1.2
-			•	-

Profitability & valuation	2016	2017	2018E	2019E
Spreads / Margins (%)	5.6	5.6	5.9	5.9
RoAE (%)	10.3	12.4	14.5	17.3
RoAA (%)	1.2	1.3	1.5	1.9
P/E (x)	33.6	25.5	19.5	14.3
P/BV (x)	3.3	3.0	2.7	2.3
P/ABV (x)	4.0	3.9	3.1	2.6
Net dividend yield (%)	0.6	0.6	0.8	0.9

Source: Company Data; PL Research

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- Loan book continues to be strong in focus biz: Loan book growth in focussed business was strong at 20% YoY mainly from wholesale biz & housing biz, while rural business growth was slightly soft on conservativeness in MFI loans. LTFH continued to focus on sell downs to generate fees, hence, saw strong disbursements in few of its strong business footprints like renewable/transmission & structured finance. It will continue to focus on origination and sell down as strategy.
- Strong strategy layout till FY2020 & beyond: LTFH aspires to become dominant player in businesses like Infra & tractor by FY20 and be meaningful in other businesses as well. Also improvement in ROEs will be led by cost control & rationalisation with big thrust on digital investment, focus on fee income (1.2-1.3% of assets) and strengthening balance sheet by higher provisions from exceptional gains, which we believe can lead to achieve ROE of 18% by FY19 & 20% by FY20.



Exhibit 1: LTFH Q4FY17 – Profitability better despite accelerated provisions

Consolidated (Figures in Rs mn)	Q4FY17	Q4FY16	YoY gr.	Q3FY17	QoQ gr.
Income Statement					
Interest income	21,626	19,580	10%	20,940	3%
Interest expense	11,580	11,274	3%	11,602	0%
NII	10,046	8,306	21%	9,338	8%
Other Income	755	528	43%	679	11%
Total Income	10,801	8,834	22%	10,018	8%
Staff expenses	1,338	1,070	25%	1,226	9%
Other expenses	1,725	2,359	-27%	1,928	-10%
Total Operating Expenses	3,063	3,428	-11%	3,154	-3%
Operating profit	7,738	5,405	43%	6,864	13%
Provisions	6,885	2,063	234%	3,282	110%
РВТ	853	3,343	-74%	3,582	-76%
Tax	(2,286)	983	NA	811	NA
PAT	3,140	2,360	33%	2,771	13%
PAT post associates/minority	3,159	2,369	33%	2,709	17%
Tax rate (%)	(267.9)	29.4		22.6	
Asset Quality					
GNPA (Rs m)	31,461	27,558	14%	29,401	7%
NNPA (Rs m)	17,985	21,442	-16%	18,436	-2%
GNPA (%)	5.0	4.9	10	4.9	9
NNPA (%)	2.9	3.8	(93)	3.1	(21)
Coverage ratio (%)	42.8%	22.2%	2,064	37.3%	55
Balance Sheet					
Networth (excl. Preference Cap)	91,073	84,090	8%	91,350	0%
Borrowings	5,98,111	5,28,290	13%	5,63,870	6%
Loans & Advances	6,66,480	5,82,560	14%	6,19,700	8%
Profitability Ratios					
NIM (%)	6.25	5.83	42	6.08	17
RoAE (%)	14.43	10.74	369	12.04	239

Source: Company Data, PL Research



Key Q4FY17 Analyst Meet highlights:

- Strategy LTFH's strategy till FY2020 surrounds around five parameters which are (i) Maintaining target of 18-20% ROE by FY20, which will come from profitability like strong fees & growth. (ii) Simplified structures by merging has helped gain synergies. (iii) Technology investments remains thrust for digitisation of processes and analytics. (iv) Company has also strengthened the risk framework helping balance sheet growth and sell downs, and (v) finally aiming to be dominant player in some of the businesses by FY20.
- **Business growth & outlook** Overall book to grow at 15-20% with disbursements growing at 20% CAGR in next 3 years.
 - Rural Finance: Growth momentum was slow in MFI book with minimal disbursements in Maharashtra state. In 2W, TAT remains a key factor, while in Tractor collections, OEM tie-ups and TAT has helped gain market share to 9% v/s 4-5% in FY16. LTFH intends to grow strong in 2W and tractor segment by penetrating higher with preferred OEMs.
 - Housing finance: Retail home loans saw slower movement as business
 model is yet to pick up, while Real estate continued see strong
 disbursements and have started using parent's expertise. LTFH looks to build
 a strong home loan business and look at sell down as well to generate fees..
 - Wholesale business: Business saw robust disbursement growth from renewable, transmission and operational roads. Also the structured finance saw huge growth (partly due to strong IPO funding). LTFH has doubled its IDF book using synergies from regulatory advantages. LTFH has build-up capability to be sole underwriter and sell down loans for fees. Going ahead it focuses to grow in transmission, renewable, education, healthcare and hospitality.
 - Defocused business: LTFH has sold assets worth Rs3.27bn in Q4FY17 mainly in partly PC and partly CV book reducing it down to 4% of assets in FY17 from 8.5% of assets in FY16. They aim to bring down the book by considerably FY18 end.
- Margins Margins improved by 17bps sequentially mainly on reduction in cost of funds. Outlook: Yields are under pressure but will benefit from cost of funds, but. risk based pricing will be focused on.
- Fees Fee income saw 43% YoY growth partly on loan processing fees and also due to sell down of wholesale loans. Surge in wholesale fees was from project finance deals (Rs1.0bn), active DCM desk (Rs200-250mn) and some corporate and structured deals (Rs200-250mn).



- Asset quality Asset quality deteriorated slightly as slippages came in from the restructured assets in the wholesale biz but overall impaired assets remained steady. NPAs in defocused biz came off to Rs6bn v/s Rs7bn earlier but have 50% PCR on same which management intends to take it to 60-65% in FY18.
- Stressed assets watch list Rs90bn of assets originated prior to FY12 are under stress in infra book, of which Rs30.0bn were already impaired and Rs10.0 bn are under watch list but still standard. LTFH carries Rs11.3bn of voluntary provisions on these stress assets and expect to have to another Rs5-6bn on the haircut required.
- Credit Cost LTFH has made voluntary accelerated provisioning of Rs1.86 bn from P&L mainly for rural biz (Rs0.85bn) for movement to 90dpd from 120dpd in FY17 and also conservatively made provisioning in the MFI book of 10% for beyond 1day overdue and additional 15% for the Maharashtra portfolio. It continues to maintain 2-3% credit cost on MFI book. It has also made accelerated provisioning of Rs3.52bn from exceptional gains on amortization goodwill on merger of which Rs2.65bn is for wholesale business.
- Asset Management and Wealth Management see big turnaround: Both the Investment management business as well as the wealth management business is seeing a sea change in performance with strong improvement in ROEs. We expect this improvement to continue going forward as the management has taken the necessary steps to grow the business staring from distribution to positioning. Management reiterated that they intend to keep the investment management business with them.
- **Capital raising:** There are warrants outstanding issued to Bain capital and once they convert, the same will add Rs3.50bn to the net worth.
- Capital Return Ratios: LTFH is on the cusp of sea change in the business fortunes following a refocus on their businesses. This is expected to take the company form asub10% ROE to over 20% ROE by FY20. This is being brought about by a change in business focus, run down and sale of de focussed businesses and focussing and recapitalising higher ROE businesses. The company has exited FY17 with an ROE of 12.34%.



MFI loan growth was slightly slower but was back from demonetisation with company restricting growth in vulnerable areas

LTFH continued to gain market share in 2W/Tractor

Housing loans growth is yet to pick-up, while real estate financing business buildup continued strong

Wholesale biz continued to be strong with transmission/renewable/roads continuing with growth. LTFH also did good growth in structured finance (including financing of Avenue Supermart IPO)

Wholesale mix continued to be dominant at 62% on strong growth but likely to see non-wholesale moving up substantially

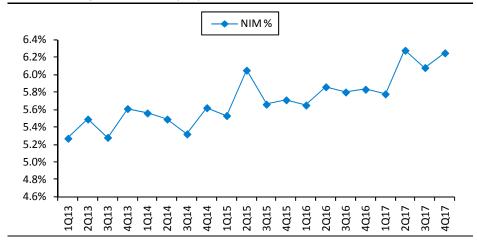
Defocused business now remains only 4% of overall book on normal run-downs and small same of loan book of Rs3.27bn partly in car & CV

Exhibit 2: LTFH lending business - Strong growth across segments of focus businesses

Exhibit 2: LIFH lending busine					
Loans portfolio (Rs mn)	Q4FY17	Q4FY16	YoY gr.	Q3FY17	QoQ gr.
Micro Finance	35,510	22,340	59%	31,940	11%
2W Finance	21,100	17,610	20%	20,220	4%
Farm Equipment	43,790	46,490	-6%	43,490	1%
Rural Business	1,00,400	86,440	16%	95,650	5%
Housing Loans/LAP	76,430	63,130	21%	74,310	3%
Real Estate Finance	48,910	34,980	40%	41,340	18%
Housing Business	1,25,340	98,110	28%	1,15,650	8%
Structured Corp Finance	63,970	49,770	29%	49,610	29%
Supply Chain Finance	21,230	22,870	-7%	21,510	-1%
Infrastructure Finance	3,28,840	2,71,800	21%	3,05,480	8%
Thermal power	31,220	36,520	-15%	38,490	-19%
Renewable power	1,28,780	93,870	37%	1,21,300	6%
Power Corp	29,280	24,040	22%	21,910	34%
Roads	80,130	61,780	30%	74,030	8%
Others	59,440	55,590	7%	49,750	19%
Wholesale Business	4,14,040	3,44,440	20%	3,76,600	10%
Total Lending Business	6,66,480	5,78,310	15%	6,19,700	8%
Loans portfolio mix					
Micro Finance	5.3	3.9	147	5.2	17
2W Finance	3.2	3.0	12	3.3	-10
Farm Equipment	6.6	8.0	-147	7.0	-45
Rural Business	15.1	14.9	12	15.4	-37
Housing Loans/LAP	11.5	10.9	55	12.0	-52
Real Estate Finance	7.3	6.0	129	6.7	67
Housing Business	18.8	17.0	184	18.7	14
Structured Corp Finance	9.6	8.6	99	8.0	159
Supply Chain Finance	3.2	4.0	-77	3.5	-29
Infrastructure Finance	49.3	47.0	234	49.3	4
Thermal power	4.7	6.3	-163	6.2	-153
Renewable power	19.3	16.2	309	19.6	-25
Power Corp	4.4	4.2	24	3.5	86
Roads	12.0	10.7	134	11.9	8
Others	8.9	9.6	-69	8.0	89
Wholesale Business	62.1	59.6	256	60.8	135

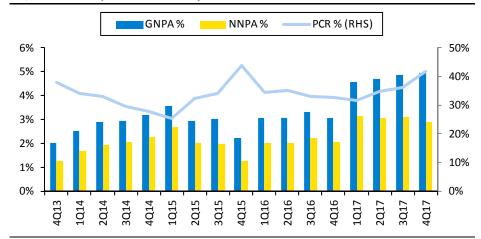
Source: Company Data, PL Research

Exhibit 3: Margins remain steady at peak levels on benefit from Cost of Funds



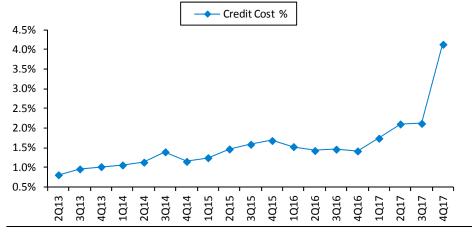
Source: Company Data, PL Research

Exhibit 4: Asset quality sees small deterioration as one RSA falls into NPA in the wholesale biz, but overall impaired assets steady



Source: Company Data, PL Research Note – FY16 asset quality based on 150dpd

Exhibit 5: Credit cost was largely elevated on accelerated provisioning routed via P&L (Rs1.86 bn) and from exceptional gains (Rs3.52 bn)



Source: Company Data, PL Research



Exhibit 6: Earnings change table – We have slightly tweaked on business growth while increased other income and credit cost which has helped improve PCR and ABV

De (mm)	Old		New		% Change	
Rs (mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net interest income	40,733	46,763	38,747	44,317	(4.9)	(5.2)
Operating profit	32,090	36,989	32,600	38,165	1.6	3.2
Net profit	13,778	16,992	13,068	17,288	(5.2)	1.7
EPS, Rs.	7.3	9.3	6.8	9.3	(7.0)	0.6
ABVPS, Rs.	40.4	48.0	44.6	52.9	10.5	10.3
Price target, Rs.	103		210)	50.0	9
Recommendation	BUY	,	BUY	1		

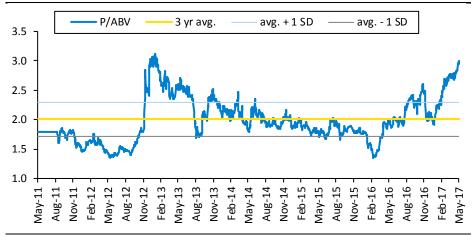
Source: Company Data, PL Research

Exhibit 7: We believe structural improvements are on its path in LTFH and can be achieved FY20 hence we value the company at 2.9x FY20 SOTP with TP of Rs210 (from Rs140)

PT calculation and upside	
Fair value of Consol Biz - P/ABV	185
Fair value of AMC	20
Fair value of PE/wealth management	5
Total - Fair value of LTFH	210
Target P/ABV - lending business on FY20 basis	2.9
Target P/E	14.3
Current price, Rs	133
Upside (%)	58%
Dividend yield (%)	1%
Total return (%)	59%

Source: Company Data, PL Research

Exhibit 8: LTFH – One year forward P/ABV trends



Source: Company Data, PL Research

May 06, 2017



Income Statement (Rs m)				
Y/e March	2016	2017	2018E	2019E
Int. Inc. / Opt. Inc.	69,984	79,347	91,219	103,647
Interest Expenses	41,241	46,270	52,472	59,329
Net interest income	28,742	33,076	38,747	44,317
Growth (%)	16.1	15.1	17.1	14.4
Non interest income	4,723	6,376	7,652	9,182
Growth (%)	61.0	35.0	20.0	20.0
Net operating income	33,466	39,453	46,399	53,499
Expenditure				
Employees	4,877	4,935	5,330	5,863
Other expenses	7,424	7,157	7,729	8,657
Depreciation	828	673	740	814
Total expenditure	13,129	12,765	13,799	15,334
PPP	20,337	26,688	32,600	38,165
Growth (%)	20.2	31.2	22.2	17.1
Provision	7,810	15,899	15,172	15,110
Other income	_	_	_	_
Exchange Gain / (Loss)	_	_	_	_
Profit before tax	12,527	10,789	17,428	23,055
Tax	3,990	364	4,357	5,764
Effective tax rate (%)	31.9	3.4	25.0	25.0
PAT	8,537	10,425	13,071	17,292
Growth (%)	20.8	22.1	25.4	32.3

Balance Sheet (Rs m)				
Y/e March	2016	2017	2018E	2019E
Sources of funds				
Equity	17,534	17,557	17,557	17,557
Reserves & Surplus	53,237	60,202	69,796	83,600
Networth	70,771	77,759	87,353	101,157
Growth (%)	11.0	9.9	12.3	15.8
Loan funds	516,157	598,111	689,545	793,688
Growth (%)	22.6	15.9	15.3	15.1
Others	_	_	_	_
Minority Interest	_	_	_	_
Deferred Tax Liability	(3,993)	(7,402)	(8,143)	(8,957)
Total	595,069	680,601	779,690	895,322
Application of funds				
Net fixed assets	13,349	12,576	13,135	13,745
Advances	560,654	616,485	702,793	808,212
Growth (%)	22.5	10.0	14.0	15.0
Net current assets	(14,841)	(9,383)	(9,852)	(11,236)
Investments	35,633	60,115	68,531	78,811
Growth (%)	34.5	68.7	14.0	15.0
Other Assets	8,379	9,540	10,303	11,334
Total	597,250	685,665	780,876	896,508
Source: Company Data PL Re	esearch			

Source:	Company	Data,	PL F	Research.	

Quarterly Financials (Rs m)				
Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Int. Inc. / Operating Inc.	19,965	20,876	20,940	21,626
Income from securitization	_	_	_	_
Interest Expenses	11,557	11,532	11,602	11,580
Net Interest Income	8,408	9,343	9,338	10,046
Growth	14.7	17.4	16.0	20.9
Non interest income	342	540	679	755
Net operating income	8,751	9,883	10,018	10,801
Growth	13.1	17.7	17.9	22.3
Operating expenditure	3,222	3,327	3,154	3,063
PPP	5,529	6,557	6,864	7,738
Growth	19.4	31.0	29.7	43.2
Provision	2,530	3,202	3,282	6,885
Exchange Gain / (Loss)	_	_	_	_
Profit before tax	2,999	3,354	3,582	853
Tax	951	888	811	(2,286)
Prov. for deferred tax liability	_	_	_	_
Effective tax rate (%)	31.7	26.5	22.6	(267.9)
PAT	2,074	2,481	2,709	3,159
Growth	7.8	15.2	27.8	33.4

Key Ratios				
Y/e March	2016	2017	2018E	2019E
CMP (Rs)	133	133	133	133
Eq. Shrs. O/s. (m)	1,753	1,756	1,756	1,756
Market Cap (Rs m)	233,290	233,599	233,599	233,599
Market Cap to AUM (%)	39.1	34.1	29.9	26.1
EPS (Rs)	4.0	5.2	6.8	9.3
Book Value (Rs)	40.4	44.3	49.8	57.6
Adjusted Book Value (Rs)	33.4	34.0	42.4	50.9
P/E (x)	33.6	25.5	19.5	14.3
P/BV (x)	3.3	3.0	2.7	2.3
P/ABV (x)	4.0	3.9	3.1	2.6
DPS (Rs)	0.8	0.8	1.0	1.2
Dividend Yield (%)	0.6	0.6	0.8	0.9

Asset Quality				
Y/e March	2016	2017	2018E	2019E
Gross NPAs (Rs m)	18,609	31,461	33,034	37,989
Net NPAs (Rs m)	12,121	17,985	12,845	11,756
Gross NPAs to Gross Adv. (%)	3.3	5.1	4.7	4.7
Net NPAs to Net Adv. (%)	2.0	2.8	2.0	1.5
NPA Coverage (%)	34.9	42.8	61.1	69.1

Y/e March	2016	2017	2018E	2019E
NIM	5.6	5.6	5.9	5.9
RoAA	1.2	1.3	1.5	1.9
RoAE	10.3	12.4	14.5	17.3

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209





PL's Recommendation Nomenclature

BUY : Over 15% Outperformance to Sensex over 12-months

Over 15% underperformance to Sensex over 12-months

Accumulate : Outperformance to Sensex over 12-months

Reduce : Underperformance to Sensex over 12-months

Trading Buy : Over 10% absolute upside in 1-month

Trading Sell : Over 10% absolute decline in 1-month

Not Rated (NR) : No specific call on the stock

Under Review (UR) : Rating likely to change shortly

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Sell

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Investor's Eye Viewpoint

L&T Finance Holdings

Viewpoint

Results of new business strategy beginning to surface

CMP: Rs133

View: Positive

Key points

Result

NNPA (%)

Loan book

- Operating performance mixed: L&T Finance Holdings (LTFH) has posted a better-than-expected bottomline number for Q4FY2017, but this was mainly due to Rs228 crore of tax write-back that helped the company to beat estimates. The Net Interest Income (NII) grew by 20.9% YoY to Rs1,004.6 crore, owing to a 14.4% YoY growth in Advances and steady Net Interest Margins (NIM) of 6.0% QoQ. The company's unwavering focus on increasing the Fee Income and Other Income using its strong underwriting capabilities and selling down loans has started showing positive results, with the Fee Income during the quarter rising by 86.8% YoY to Rs284 crore.
- Loan book growth regains momentum: Post the demonetisation-marred quarter, LTFH has shown improvement in its business momentum, as the loan book growth stood at 14.4% YoY versus 10.4% YoY in the previous quarter. The Focused Business Loan Portfolio expanded by 19.9% YoY, driven by a 16% YoY growth in Rural Finance, a 28% YoY growth in Housing Finance and a 19% YoY growth in Wholesale Finance. Within the Rural Finance segment, Microfinance and 2W Finance grew by 59% YoY and 20% YoY, respectively while the Wholesale Finance growth was fueled by a 21% YoY uptick in the Infrastructure Finance segment. The management expects to grow its loan portfolio at a CAGR of ~20% over the next 2-3 years. The company's focus would be on 2W loans and Tractor loans in the Rural Financing segment while Infrastructure Financing would be driven by segments like Renewable Enegry, Roads and Power Transmission.
- Asset quality deteriorates slightly: During the quarter, asset quality deteriorated slightly, with Gross NPA increasing by 9BPS QoQ to 4.95%, mainly on account of growing stress in the Wholesale segment (wholesale GNPA stood at 4.28% versus 3.88% QoQ). However, the Rural Finance and Housing Finance books saw an improvement in asset quality, with their GNPAs falling by 208BPS to 7.66% (9.74% QoQ) and by 16BPS to 0.63% (0.79% QoQ), respectively. Provisions surged to Rs688.5 crore (up 233.7% YoY and 109.8% QoQ), as the company made accelerated provisions of Rs491 crore pertaining to the principal amount and Rs47 crore for interest.
- Valuation and outlook: Despite a challenging quarter, LTFH has managed to put up a decent show during Q4FY2017, with continued improvement in RoE (up 391BPS/253BPS YoY to 14.70%/12.31% for Q4FY2017/FY2017), spurred by efficient cost management (Cost/Income down 608BPS YoY to 23.3%) and clear focus on the core businesses. The management appears more confident about their new strategy, execution capabilities and recovery in the various segments. We maintain our 'positive' view on LTFH and expect a 15% upside potential.

Particulars	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net interest income	1,004.6	830.6	20.9	933.8	7.6
Non-interest income	75.5	52.8	43.1	67.9	11.2
Net total income	1,080.1	883.4	22.3	1,001.8	7.8
Operating expenses	306.3	342.8	(10.7)	315.4	(2.9)
Employee cost	133.8	107.0	25.1	122.6	9.1
Other costs	172.5	235.9	(26.9)	192.8	(10.5)
Pre-provisioning profit	773.8	540.5	43.2	686.4	12.7
Provisions	688.5	206.3	233.7	328.2	109.8
Profit before tax	85.3	334.3	(74.5)	358.2	(76.2)
Tax	(228.6)	98.3	NA	81.1	NA
Profit after tax	315.8	236.9	33.3	270.9	16.6
GNPA (%)	4.95	4.85	10 bps	4.86	9 bps

2.89

66,648

3.82

58,256

-93 bps

14.4

3.10

61,970

Rs cr

-21 bps

7.5

Next

Investor's Eye Viewpoint

Profit and loss stateme		Rs cr			
Particulars	FY15	FY16	FY17	FY18E	FY19E
Net interest income	2,335	2,693	3,174	3,889	4,669
Non-interest income	435	653	771	865	986
Net total income	2,770	3,347	3,945	4,754	5,655
Operating expenses	1,077	1,313	1,276	1,481	1,747
Pre-provisioning profits	1,693	2,034	2,669	3,273	3,908
Provisions	662	781	1,590	1,353	1,453
Profit before tax	1,031	1,253	1,079	1,920	2,455
Tax	324	399	36	634	835
Profit after tax	707	854	1,042	1,286	1,620

Balance sheet					Rs cr
Particulars	FY15	FY16	FY17	FY18E	FY19E
Share capital	3,084	2,967	2,969	2,969	2,969
Reserves & surplus	4,656	5,442	6,138	7,381	8,950
Networth	7,740	8,409	9,107	10,350	11,919
Minority interest	100	100	119	119	119
Borrowings	42,695	52,199	60,543	75,679	90,815
Provisions	472	592	367	458	550
Total liabilities	51,007	61,300	70,136	86,606	103,402
Fixed assets	1,357	1,335	619	681	749
Investments	2,649	3,563	6,012	5,952	7,483
Loans & advances	46,042	56,468	62,238	74,686	89,623
Deff. tax assets (Net)	290	399	743	928	1,114
Cash & equivalent	862	402	594	5,338	5,607
Net current assets	(194)	(867)	(783)	(978)	(1,174)
Total assets	51,007	61,300	69,423	86,606	103,402

Key ratios					Rs cı
Particulars	FY15	FY16	FY17	FY18E	FY19E
Per share data (Rs)					
Earnings	4.3	3.8	5.2	7.3	9.2
Book value	45.0	48.0	51.9	59.0	67.9
Adj. book value	39.6	43.3	38.6	48.5	58.4
Spreads (%)					
Yield on advances (Calc.)	14.6	14.2	14.1	13.6	13.5
Cost of Funds (Calc.)	8.7	8.3	7.9	7.9	7.8
Net interest margins (Calc.)	5.5	5.3	5.3	5.5	5.5
Operating ratios (%)					
Cost to income	43.5	45.7	37.5	35.0	34.7
Non interest income / Total	5.7	6.3	6.8	8.2	7.2
Return ratios (%)					
RoE	9.8	10.6	11.9	13.2	14.6
RoA	1.5	1.5	1.5	1.6	1.7
Asset quality ratios (%)					
Gross NPA	2.3	3.1	4.5	3.7	3.1
Net NPA	2.0	1.5	3.8	2.5	1.9
Growth ratios (%)					
Net interest income	29.9	15.4	17.9	22.5	20.1
Pre-provisioning profit	37.3	20.2	31.2	22.7	19.4
Profit after tax	22.8	20.5	21.7	23.4	26.0
Advances	18.4	22.6	10.2	20.0	20.0
Borrowings	17.5	22.3	16.0	25.0	20.0
Valuation ratios (x)					
P/E	30.9	35.1	25.5	18.2	14.4
P/BV	3.0	2.8	2.6	2.3	2.0
P/ABV	3.4	3.1	3.4	2.7	2.3

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