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July 07, 2017

L&T Finance Holdings Ltd

Prudent downsizing for attractive business revival

L&T Finance Holdings Ltd (LTFH), promoted by L&T Ltd (64.2%) is a leading NBFC with a diversified lending portfolio. Over the last one year the management has restructured its business model and is focusing on selective segments where it has competitive advantage, simultaneously downsizing some products which were making losses.

Range of offerings across diversified book: LTFH's lending operations are focused on three primary segments viz. Rural 15% (Micro Finance, 2Wheeler & Tractors), Housing 19% (Home Loans, LAP & Builder loans) and Wholesale finance 62% (Renewable Energy, Operating Roads, etc.) of loan book. While the above segments will be the growth drivers, the management has started downsizing unattractive range of products.

Loan growth to remain fairly strong: We expect MFI, 2W and Tractor loans to report 25%/20%/10% CAGR over FY2017-20E respectively. LTFH has been gaining market share in the Tractor segment (9.5% in 2HFY2017 v/s. 4.5% in 1HFY2017) and expects to achieve double digit over next one year. The home loan segment is expected to grow at 30% CAGR, while wholesale loan book by 11% over the same period. The management intends to undertake sale down of assets post origination, which will release capital in addition to strong fee income.

Credit cost should moderate going ahead: LTFH has provided `1,150cr on its impaired assets and additional `650cr is to be provided. However, there is goodwill on consolidation of its subsidiaries, hence the company will claim tax benefit on amortization of the same, which will be used for making additional provisions, thus, overall credit cost will remain moderate.

Exiting of loss making business to revive ROE: LTFH has restructured some business segments and has been downsizing range of products which were loss making. However, as management intends to completely exit the defocused products, its impact is unlikely to be there from FY19 onwards, this together with favorable change in loan book and resultant NIM should propel the ROE to 17.9% by FY20 from 13.8% in FY17.

Ability to generate strong fee income will support earnings: LTFH has been a leader in lending to renewable energy sector and it intends to capitalize on its expertise of loan origination and subsequently selling it to other financial institutions for fee income. We expect fee income to grow by 30% CAGR over FY2017-20 and this should support a 24% PAT CAGR over the same period.

Outlook & Valuation: As LTFH operates in multiple segments, we have valued it based on SOTP. We have valued the rural finance segment at 2.5x, while the housing finance and wholesale finance has been valued at 3x and 2x its FY2020E BV each. LTFH's AMC arm, L&T MF has been valued at 5% of average AUM. **Accordingly, we have arrived at a fair value of `179 based on SOTP, and hence recommend BUY on the stock.**

Key financials (Consolidated)

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
NII	**3,165**	**3,714**	**4,006**	**4,552**	**5,181**
% chg	*20.4*	*17.3*	*7.9*	*13.6*	*13.8*
Net profit	**854**	**1,043**	**1,210**	**1,520**	**2,006**
% chg	*20.8*	*22.1*	*16.1*	*25.6*	*32.0*
NIM (%)	6.0	6.1	5.6	5.5	5.4
EPS (`)	**4.9**	**5.9**	**6.9**	**8.7**	**11.4**
P/E (x)	30.4	24.9	21.5	17.1	12.9
P/BV (x)	3.6	3.3	2.8	2.5	2.2
RoA (%)	1.6	1.7	1.7	1.9	2.1
RoE (%)	11.9	13.8	14.1	15.5	17.9

Source: Company, Angel Research; Note: CMP as of July 06, 2017

BUY

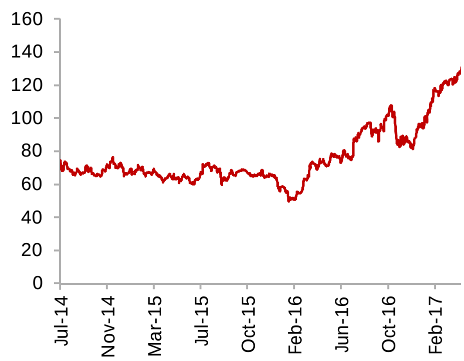
CMP	`149
Target Price	`179
Investment Period	12 Months

Sector	NBFC
Market Cap (` cr)	27,181
Beta	1.8
52 Week High / Low	151/74
Avg. Daily Volume	37,68,991
Face Value (`)	10
BSE Sensex	31,369
Nifty	9,675
Reuters Code	LTFH.NS
Bloomberg Code	LTFH.IN

Shareholding Pattern (%)	
Promoters	64.2
MF / Banks / Indian FIs	8.3
FII / NRIs / OCBs	16.6
Indian Public / Others	10.9

Abs.(%)	3m	1yr	3yr
Sensex	4.2	16.2	15.0
L&T Fin	20.2	63.7	93.5

3-year price chart



Source: Company, Angel Research

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Company Background:

L&T Finance Holdings Ltd, promoted by L&T Ltd (holds 64.2%) is a leading NBFC with a diversified lending portfolio. The NBFC had built a line of multiple product portfolios, however some of the segments where it didn't have significant presence, and was facing severe competition started making losses, and hence, the management decided to restructure its business model by downsizing the low profit/ loss making segments. Going ahead, the management intends to focus only on three segments i.e. Rural Finance, Housing Finance and Wholesale Finance. The defocused loan book as % of total loan book has already been brought down to 4% from 8.5%, and we expect that by FY2018 it will be insignificant compared to the total loan book.

Exhibit 1: Transition towards a more focussed organisation

BEFORE STRATEGY – LTFH 1.0	AFTER STRATEGY – LTFH 2.0
Aspirations of Bank	Aspirations of becoming top quartile NBFC
No RoE focus	Sole objective is RoE focus -18%
Doing 21 products	Doing 7 products in a focused manner
Doing business through 7 lending entities	Doing business through 4 lending entities and shrinking further
Focused on growing book	Focused on increasing fees along with disbursements
	Down selling book
Falling short of provisions	Focused on insulating Balance sheet through proactive provisioning
Cost to Income highest at 33%	Cost to Income reduced to 26%

Source: Company, Angel Research

Key Management Personnel:

Mr Dinanath Dubhashi – Managing Director & CEO. He has over 26 years of experience in the BFSI space involving Corporate Banking, Cash Management, Credit Ratings, Retail Lending and Rural Finance. He has been associated with reputed organizations like BNP Paribas, SBI Caps and CARE.

Mr Kailash Kulkani – Chief Executive, Investment Management. He has over 26 years of experience having worked for organizations like Kotak Mahindra AMC, Met Life and ICICI.

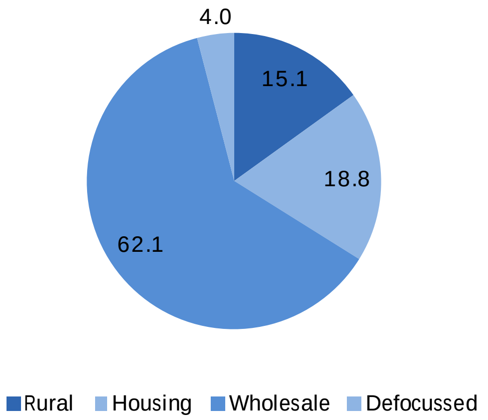
Mr Sunil Prabhune – Chief Executive, Rural and Consumer Lending. He has over 8 years of experience, having worked with ICICI Bank, GE and ICI.

Mr Virender Pankaj – Chief Executive, Wholesale. He has over 25 years of experience in the banking space and has worked with SBI.

Mr Srikant J – Chief Executive. He has over 20 years of experience and has worked with BNP Paribas and Commerz Bank AG.

Transition towards a more balanced portfolio of products and reducing exposure in loss making segments: LTFH had aspired to become a bank and accordingly had expanded to as high as 21 products. In some of the segments it was a marginal player, while the cost associated with those businesses was very high, and hence, those segments were losing money. However, as a change of strategy the organization has been focusing only on selective 7 products and the key parameters for getting into any business will be the ability to generate strong RoE.

Exhibit 2: Loan Book Composition FY2017 (%)



Source: Company, Angel Research

Exhibit 3: Loan Book Composition (` Cr)

Segmental Loan Book	FY16	FY17	FY18E	FY19E	FY20E
Rural	8,644	10,041	12,051	14,226	17,077
Housing	9,811	12,534	15,667	19,584	24,480
Wholesale	34,870	41,403	47,200	51,920	57,112
Defocused	4,931	2,671	1,335	668	334
Total	**58,256**	**66,648**	**76,253**	**86,398**	**99,002**
Segmental Contribution					
Rural	14.8	15.1	15.8	16.5	17.2
Housing	16.8	18.8	20.5	22.7	24.7
Wholesale	59.9	62.1	61.9	60.1	57.7
Defocused	8.5	4.0	1.8	0.8	0.3
Total	**100**	**100**	**100**	**100**	**100**

Source: Company, Angel Research

Investment Rationale

Knowledge of rural hinterland coupled with strong OEM and dealer relationship a key strength of LTFH

The rural finance of LTFH is largely focused on three segments viz. Microfinance (MFI), Two Wheeler (2W) & Tractors. Over the years LTFH has developed strong understanding of the rural hinterland, which helps in growing its MFI business. Further, it has developed excellent relationship with all major OEMs and dealers, which has been the key differentiator in market share gain in the 2W and Tractor financing segments. It has also strengthened the collection systems over the years, which is critical as far as long term sustainability of this business is concerned.

Exhibit 4: Rural loan growth product wise

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Micro Finance	2,234	3,551	4,439	5,548	6,936
% Change YoY	-	59	25	25	25
2W Finance	1,761	2,110	2,532	3,089	3,800
% Change YoY	-	20	20	22	23
Farm Equipment	4,649	4,379	5,080	5,588	6,342
% Change YoY	-	(6)	16	10	14
Total	**8,644**	**10,041**	**12,051**	**14,226**	**17,077**

Source: Company, Angel Research

Microfinance will continue to be a growth driver in rural segment: Microfinance business has been a growth driver for LTFH growing by 59% in FY2017. While there has been some moderation in the last two quarters, we expect MFI book to grow at 25% CAGR over FY2017-20 and account for 41% of the total rural loan book. The company has been quick in adapting to technology for the segment, and has now migrated to 100% cashless and 'Adhar' based disbursements.

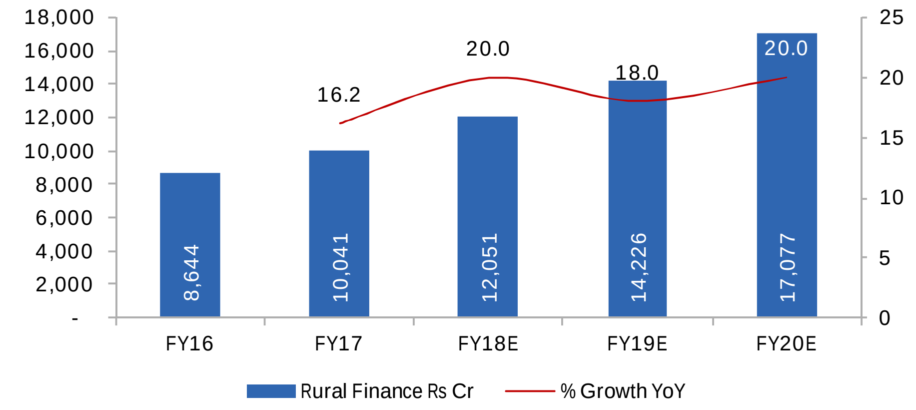
Two Wheelers segment leaves scope for further market share gain: LTFH has adopted technology and algorithm based database, which has resulted in sharp improvement in turnaround time. Ability to take credit call within 10 minutes vis-à-vis few hours has enabled it to grow this book and gain market share. We expect the 2W loans to grow by 20% CAGR over FY2017-20 and account for 23% of the total 2W loan book by FY2020.

Emerging as market leader in the tractor segment: The tractor segment depends a lot on factors like income levels in rural economy, monsoon and also on various program of Government addressing the rural masses. Despite lot of moving factors, LTFH has gained strong market share in tractor financing backed by increasing presence and relationship with dealers of top OEMs. The market share has doubled to 9.5% in 2HFY2017 v/s. 4.5% in 1HFY2017, and the management is confident of having double digit market share in next few quarters.

Rural Finance will continue to be a growth driver

Rural segment will continue to be a key area of focus for LTFH. In FY2017 the company reported 16.2% growth in the rural book. However, the steps taken with regards to adaptation of technology, faster turnaround time and higher presence across dealer network could help in growth rate accelerating in the years to come. We expect 19% CAGR in loan book over FY2017-20.

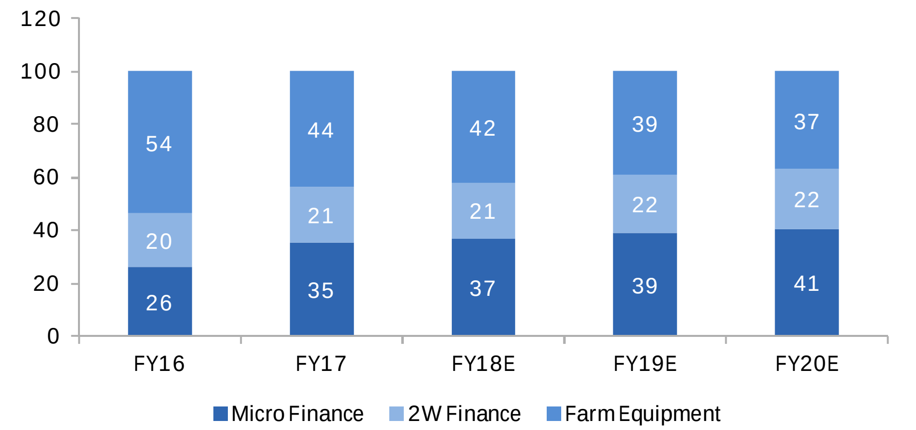
Exhibit 5: Loan Book growth Rural Business (` Cr)



Source: Company, Angel Research

The nature of rural business is of higher credit costs, and hence we have factored in 450 bps credit cost, similar to FY2017. However, the higher yield should take care of the credit cost, and despite this the higher operating leverage will ensure ~21% ROE in this business.

Exhibit 6: Rural Loans Composition (%)



Source: Company, Angel Research

Exhibit 7: Income Statement Rural Business

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	1,589	1,823	2,164	2,521	2,964
Interest Cost	611	682	839	946	1,100
Net Interest Income	979	1,141	1,324	1,575	1,864
Fee Income & Other income	70	86	99	114	131
Total Income	1,049	1,227	1,423	1,689	1,995
Total Operating Expenses	390	359	370	400	440
PPP	658	867	1,053	1,289	1,555
Provisions, contingencies & w/off	336	425	497	591	704
PBT	323	443	556	698	851
Tax	112	154	189	237	289
PAT	211	289	367	461	562

Source: Company, Angel Research

Exhibit 8: **Balance Sheet**

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Closing Gross Loans & Advances	8,644	10,041	12,051	14,226	17,077
Total Assets	9,152	10,412	12,476	14,726	17,727
Closing Net worth	1,193	1,331	1,698	2,158	2,720
Closing Borrowing	7,329	8,686	10,162	11,890	13,911
Other Liabilities	630	396	616	678	1,096
Total Liabilities	9,152	10,412	12,476	14,726	17,727

Source: Company, Angel Research

Exhibit 9: Key Ratios Rural Business

Key Assumptions	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)					
Loans	-	16.2	20.0	18.0	20.0
Borrowings	-	18.5	17.0	17.0	17.0
NII	-	16.5	16.1	18.9	18.4
Provisions	-	26.5	17.0	18.9	19.1
PAT	-	37.0	27.2	25.4	22.0
Key Ratios (%)					
Yield on advances	20.3	19.8	19.6	19.2	18.9
Cost of funds	9.2	8.6	8.3	8.0	7.9
NIM%	12.5	12.4	12.0	12.0	11.9
Credit Cost	4.3	4.6	4.5	4.5	4.5
ROA	2.4	2.9	3.0	3.2	3.3
ROE	17.7	21.7	21.6	21.3	20.7

Source: Company, Angel Research

Growth has just begun for Housing Finance segment

LTFH has the potential to become a meaningful player in the housing finance segment in the years to come. Under this segment it lends to individual home loans, Loan Against Property (LAP) and also to developers. The segment grew by 27.8% YoY in FY2017 and accounted for 18.8% of the overall loan book. We expect the overall Housing Finance book to report 30% CAGR over FY2017-20.

Exhibit 10: Segmental Growth Housing Loans

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Retail Home Loans / LAP	6,313	7,643	9,936	13,413	17,840
% Change YoY		21.1	30.0	35.0	33.0
Real Estate Finance	3,498	4,891	7,092	8,865	9,929
% Change YoY		39.8	45.0	25.0	12.0
Total	**9,811**	**12,534**	**17,028**	**22,278**	**27,769**
% Growth YoY		27.8	35.9	30.8	24.6

Source: Company, Angel Research

Retail home loans/ LAP segment to see further improvement in traction: The retail home loan segment of LTFH caters to both salaried as well non salaried-self employed segments. However, as the margins in salaried segment are relatively lower, hence, in order to improve its overall NIMs, the company intends to increasingly focus more on the non salaried segment, which faces less competition as well as offers better yield. LAP accounts for ~33% of the individual home loans segment.

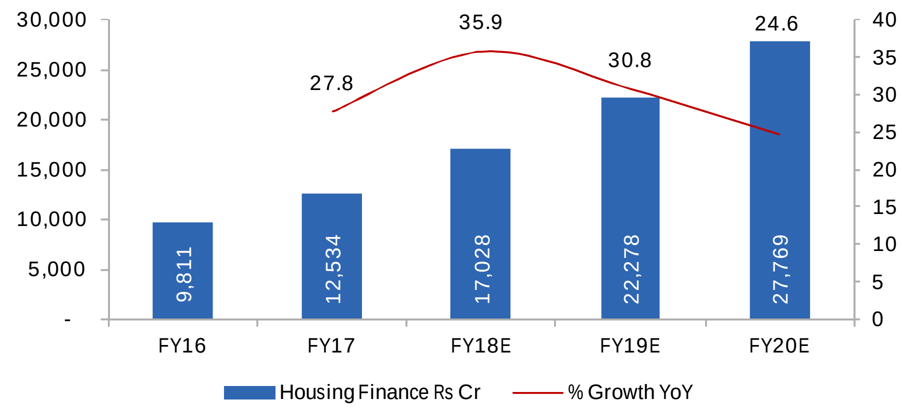
Builder's loan segment could aid higher margins in the Housing Finance segment: In FY2017, the loans book towards developers reported a strong growth of ~40%. In the developer loan segment LTFH will use parent L&T domain expertise, which will be used as the key mover for growing the housing finance space. Currently also, the company is lending only to the Tier 1 builders after doing lot of due diligence. While on one hand, it will lend to the developers, it will also generate leads from the same set of developers for its retail home loans, thus enhancing its cross selling capability.

Higher incremental business from developer loans and self employed segment should be RoE accretive: Generally, the fee income from developer loans are higher compared to other retail loans. Though developer loans will continue to grow at a healthy pace its share in total loans is expected to come down gradually. And as a result of better spread and higher fee income this is likely to result in a sustainable 20% ROE for the segment, despite increasing competition in the retail loans space. Further, in the home loans to the salaried segment, incrementally the company is relying more on its own origin rather than sourcing from DSA, which should result in lower cost.

AUM growth to be higher than industry growth in Housing Finance segment

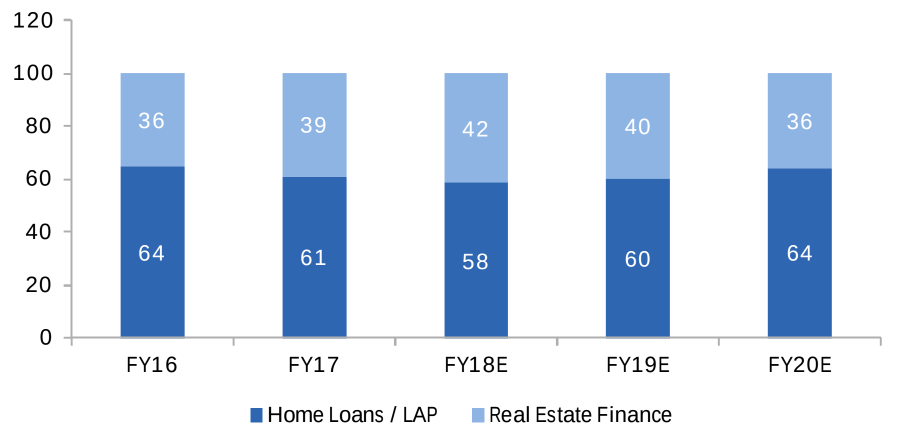
The Housing Finance segment reported a 27.8% growth in AUM in FY2017 and we expect it to report a 30% CAGR over FY2017-20, backed by 26% and 36% growth in Home Loans/ LAP and Developer loan segment respectively. We have factored in a marginally higher credit cost, as the share of loans from the non salaried segment goes up for the segment, and hence expect the PAT CAGR of 25% over the same period.

Exhibit 11: Growth in Housing Finance



Source: Company, Angel Research

Exhibit 12: Loan Bifurcation Housing Finance Segment (%)



Source: Company, Angel Research

Exhibit 13: Income statement Housing Loans

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	941	1,386	1,733	2,122	2,597
Interest Cost	604	832	1,100	1,332	1,611
Net Interest Income	338	554	633	790	986
Fee Income & Other income	45	90	113	138	168
Total Income	383	644	746	928	1,154
Total Operating Expenses	156	157	173	190	209
PPP	227	487	573	738	945
Provisions, contingencies & w/off	26	68	78	109	143
PBT	201	420	495	628	802
Tax	73	146	168	214	273
PAT	128	274	327	415	529

Source: Company, Angel Research

Exhibit 14: Balance Sheet Housing Finance

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Closing Gross Loans & Advances	9,811	12,534	15,667	19,584	24,480
Total Assets	10,615	13,220	16,387	20,334	25,305
Closing Net worth	991	1,363	1,690	2,104	2,634
Closing Borrowing	8,829	11,115	13,782	17,227	21,534
Other Liabilities	1,786	2,106	2,605	3,107	3,771
Total Liabilities	10,615	13,220	16,387	20,334	25,305

Source: Company, Angel Research

Exhibit 15: Key Ratios Housing Finance Business

Key Assumptions	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)					
Loans	-	27.8	37.0	29.3	25.0
Borrowings	-	25.9	24.0	25.0	25.0
NII	-	64.0	14.2	24.8	24.8
Provisions	-	162.9	14.7	40.9	31.0
PAT	-	113.2	19.5	26.9	27.6
Key Ratios (%)					
Yield on advances	12.2	12.4	12.3	12.0	11.8
Cost of funds	8.8	8.4	8.0	7.7	7.5
NIM%	4.4	5.0	4.5	4.5	4.5
Credit Cost	0.3	0.6	0.6	0.6	0.7
ROA	1.3	2.2	2.1	2.1	2.2
ROE	12.9	20.1	19.3	19.7	20.1

Source: Company, Angel Research

Wholesale finance to generate high fee income

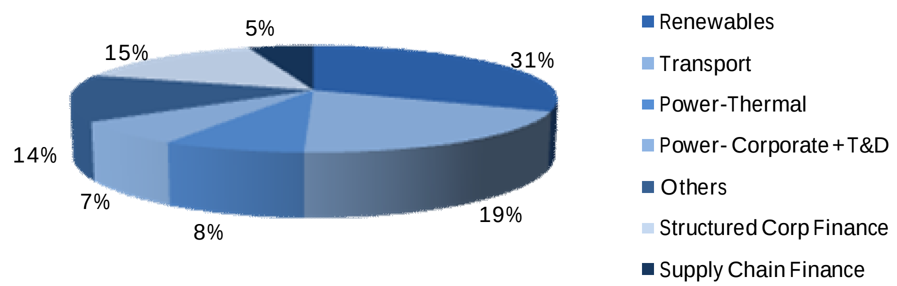
The wholesale finance segment reported a 18.7% growth in AUM in FY2017 and we expect it to report 11% CAGR over FY2017-20. The key strategy in wholesale finance will be to originate the deal and sell the assets to other financial institutions for some fees. LTFH is already a pioneer in lending to the renewable energy sector and intends to capitalize on the domain knowledge it has developed over the years in funding to the new sector where there is limited competition. Further, it also has been financing to operating roads and transmission sectors within the wholesale finance business.

Exhibit 16: Loan Bifurcation – Wholesale Finance

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Infrastructure Finance	27,604	32,884	37,134	40,476	44,119
% Growth YoY	-	19.1	12.9	9.0	9.0
Structured Corp Finance	4,979	6,397	7,932	9,281	10,766
% Growth YoY	-	28.5	24.0	17.0	16.0
Supply Chain Finance	2,287	2,123	2,134	2,163	2,227
% Growth YoY	-	(7.2)	0.5	1.4	3.0
Total	**34,870**	**41,404**	**47,200**	**51,920**	**57,112**
% Growth YoY	-	18.7	14.0	10.0	10.0

Source: Company, Angel Research

Exhibit 17: Loan Composition of Wholesale Finance

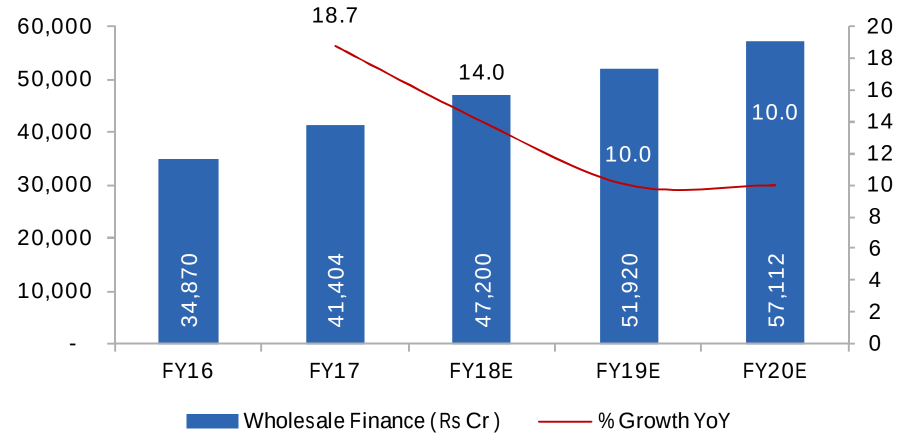


Source: Company, Angel Research

Sale down of assets will ensure higher bottom-line growth with low capital consumption

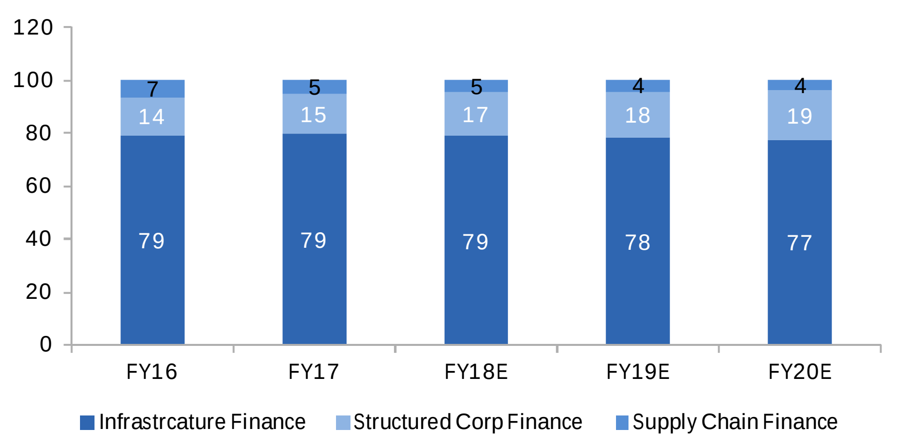
LTFH, on the back of its strong parentage has developed strong domain knowledge of financing the large and long gestation projects. While the assets financed before 2011 have lot of stress, those after 2011 have been strong in balance sheet. Going ahead, the management intends to sale down assets after strong underwriting process. Projects which are financed have a strong cash flow potential, and hence LTFH intends to generate strong fee income out of selling the loans. There is strong demand for this type of transactions both from Banks and other NBFCs.

Exhibit 18: Loan growth in Wholesale finance



Source: Company, Angel Research

Exhibit 19: Wholesale Finance Loan Composition (%)



Source: Company, Angel Research

Exhibit 20: Income Statement Wholesale Finance

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	3,717	4,064	4,773	5,191	5,547
Interest Cost	2,429	2,736	3,372	3,663	3,953
Net Interest Income	1,288	1,328	1,401	1,528	1,593
Fee Income & Other income	144	299	404	485	582
Total Income	1,432	1,627	1,805	2,013	2,175
Total Operating Expenses	176	159	166	186	209
PPP	1,257	1,469	1,639	1,826	1,966
Provisions, contingencies & w/off	461	712	665	595	545
PBT	795	757	974	1,232	1,421
Tax	247	197	244	320	370
PAT	548	560	731	911	1,052

Source: Company, Angel Research

Exhibit 21: Balance Sheet Wholesale Finance

` Cr	FY16	FY17	FY18E	FY19E	FY20E
Closing Business Assets	34,870	41,403	47,200	51,920	57,112
Total Assets	37,026	44,111	50,124	55,078	60,523
Closing Net worth	4,591	5,316	5,864	6,548	7,337
Closing Borrowing	30,593	37,164	41,996	46,195	50,815
Other Liabilities	1,841	1,630	2,264	2,335	2,371
Total Liabilities	37,026	44,111	50,124	55,078	60,523

Source: Company, Angel Research

Exhibit 22: Key Ratios Wholesale Finance

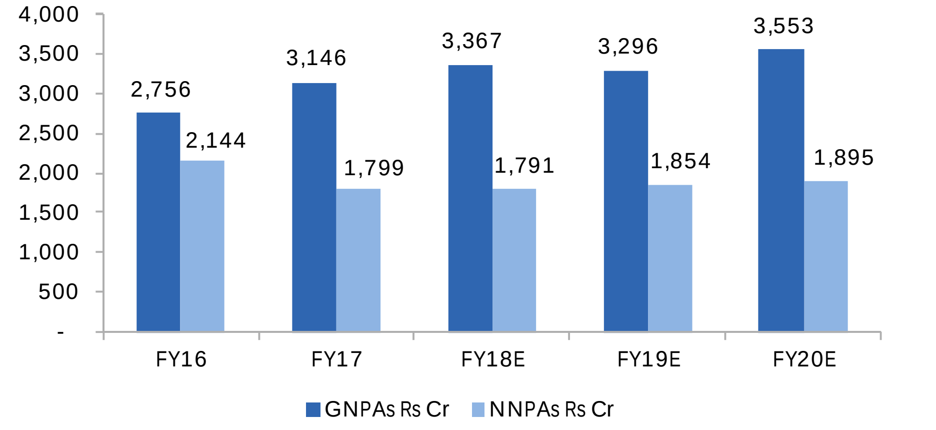
Key Assumptions	FY16	FY17	FY18E	FY19E	FY20E
Growth (%)					
Loans	-	18.7	14.0	10.0	10.0
Borrowings	-	21.5	13.0	10.0	10.0
NII	-	3.1	5.5	9.1	4.3
Provisions	-	54.3	(6.7)	(10.5)	(8.3)
PAT	-	2.1	30.5	24.7	15.4
Key Ratios (%)					
Yield on advances	11.9	11.0	10.8	10.5	10.2
Cost of funds	8.8	8.4	8.0	7.9	7.8
NIM%	4.1	3.6	3.2	3.1	2.9
Credit Cost	1.5	1.9	1.5	1.2	1.0
ROA	1.6	1.5	1.5	1.8	1.8
ROE	10.7	10.5	11.7	13.3	13.7

Source: Company, Angel Research

Worst in terms of asset quality is over

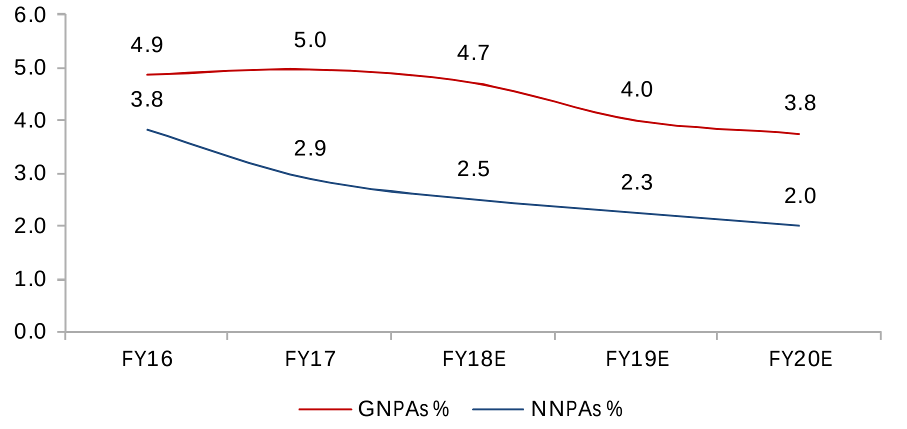
While the reported GNPA of LTFH is at 4.9%, including the restructured loans the gross impaired assets is at 9.8%. Large part of the stress is from the legacy assets financed prior to 2011, while the new assets financed in the wholesale financed segment have negligible NPAs. Further, incrementally the company's focus is on retail space and the granular nature of book will ensure lower slippages and NPAs in turn. We expect the GNPAs and NNPAs levels to gradually come down to 3.75% and 2% of the book by FY2020 respectively.

Exhibit 23: Asset Quality (` Cr)



Source: Company, Angel Research

Exhibit 24: Asset Quality Trend



Source: Company, Angel Research

Overall credit cost should moderate going ahead

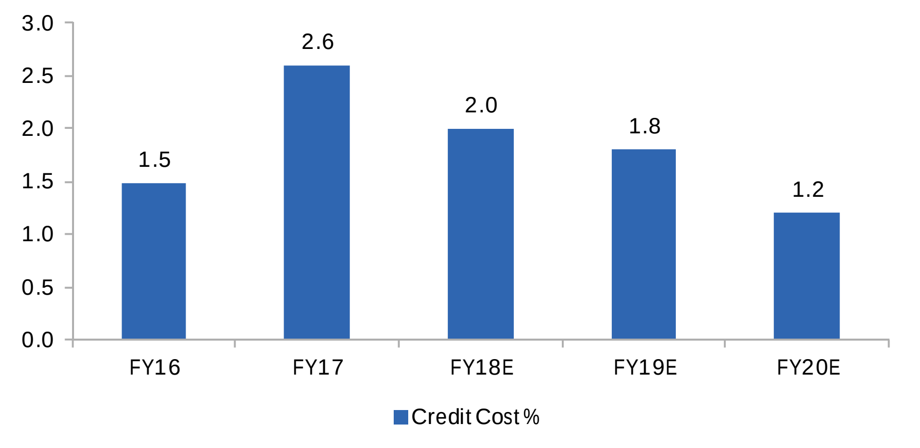
The nature of rural finances is of higher credit costs, which will remain high going ahead as well. Nonetheless, historically the credit cost for housing finance has always been lower and under control. The credit cost for the wholesale finance had been higher over the last two years and might remain higher in FY2018 as well, we expect the same to moderate going ahead. We expect the blended credit cost to decline to 1.8% by FY2020 from 2.4% in FY2017. Further, LTFH has increased its provision coverage ratio on the wholesale book and the blended PCR is likely to further improve going ahead.

Exhibit 25: Segmental Credit Cost (%)

	FY16	FY17	FY18E	FY19E	FY20E
Rural Finance	4.28	4.61	4.50	4.50	4.50
Housing Finance	0.33	0.61	0.55	0.62	0.65
Wholesale Finance	1.47	1.92	1.50	1.20	1.00
Blended Credit Cost	1.49	2.60	2.00	1.80	1.20

Source: Company, Angel Research

Exhibit 26: Credit Cost Trend (%)

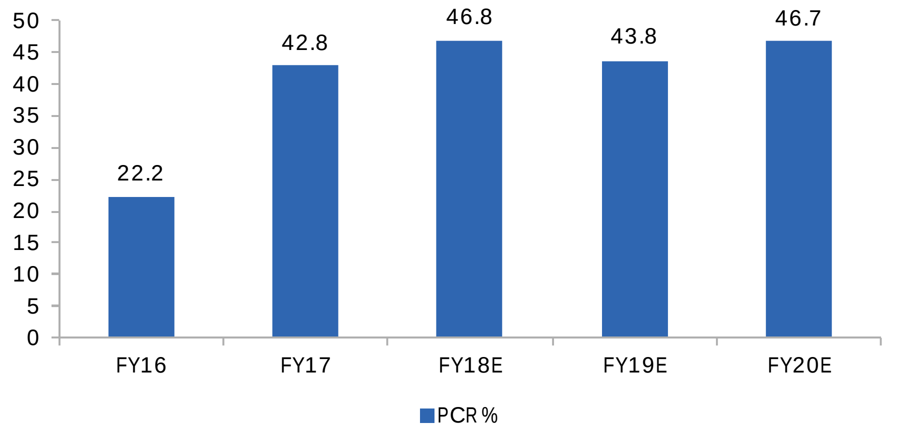


Source: Company, Angel Research

Increasing provision should take care of the impaired assets

While the company has already taken extra voluntary provisions with slippages remaining under control, overall asset quality trend should remain positive going ahead. LTFH merged two of its 100% subsidiaries with itself and since the companies were valued at a premium to their book value there was goodwill to the tune of `3000cr on account of this. Amortization of goodwill is tax deductible expenditure and the company intends to use this as an extra provision in its books. Lower PCR was one of the concerns for LTFH's book, particularly on the wholesale finance side. However, it has already increased its PCR on the book and we expect the same to go up further.

Exhibit 27: PCR Trend (%)

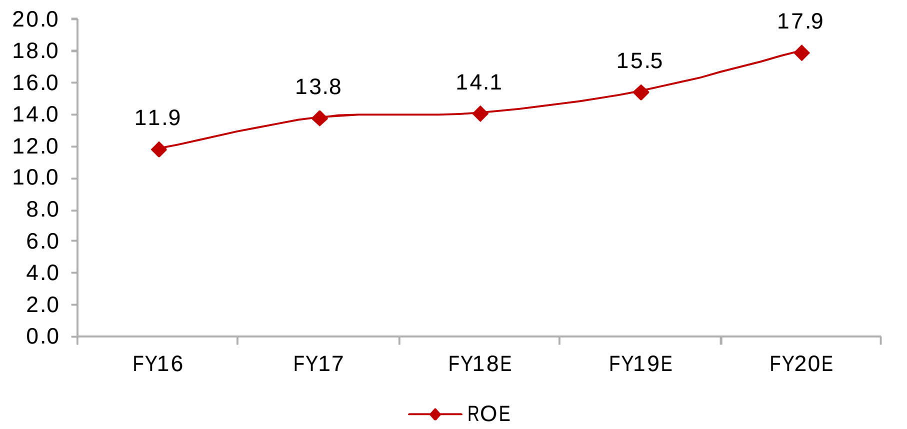


Source: Company, Angel Research

Shift towards higher yielding assets and lower credit cost to result in RoE improvement

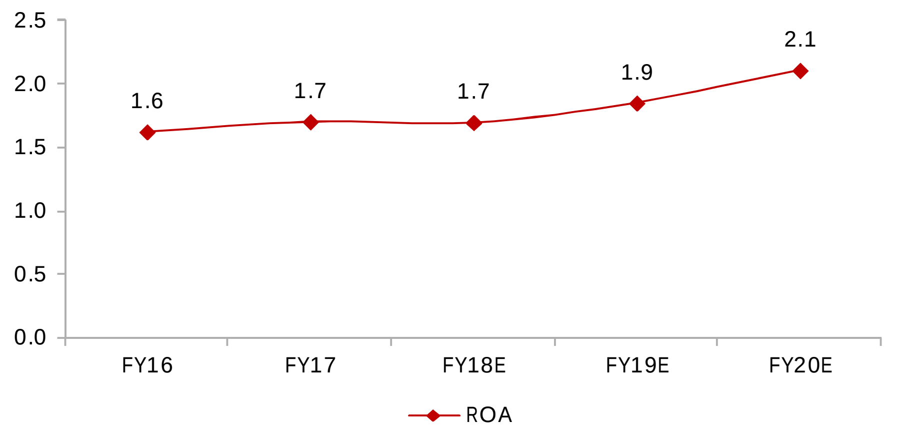
LTFH's move to scale down its book on certain products which were making losses and the renewed focus on increasing share of high yielding assets like Rural Finance and Housing Finance segments have started paying off. Further, it has already taken voluntary provisions to cover the impaired assets from the wholesale book. Despite this, it ended FY2017 with a RoE of 13.8% v/s. 11.9% with 4QFY2017 hitting a high of 14.7%. With increasing sale down of assets in the wholesale book, the fee income will get a boost and this is likely to have positive impact on the RoE. We expect the blended RoE of LTFH to hit ~18% by FY2020.

Exhibit 28: ROE Trend (%)



Source: Company, Angel Research

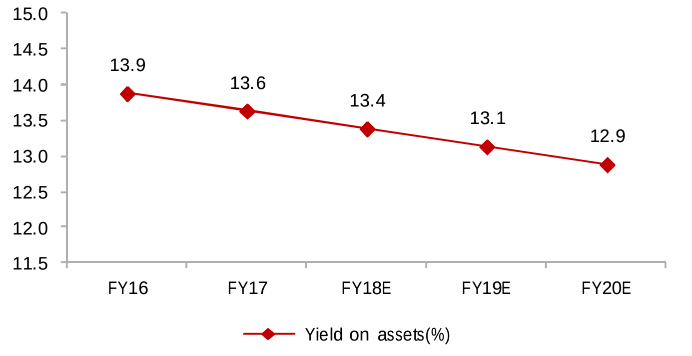
Exhibit 29: ROA Trend (%)



Source: Company, Angel Research

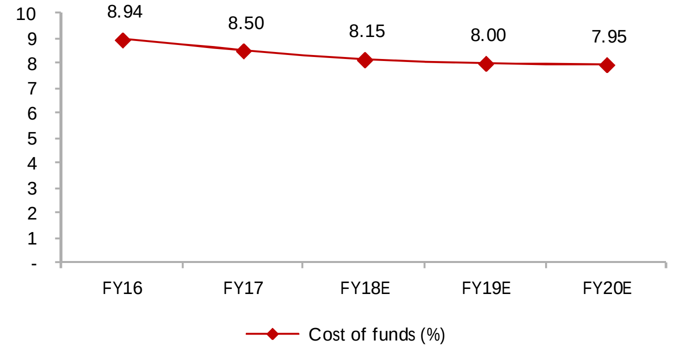
NIM to see marginal drop, still remain healthy: LTFH has historically enjoyed strong NIM due to its presence in the rural finance segment, which generates higher yield. While there has been a drop in the blended yield off late, it has also witnessed reduction in the cost of funds, and hence, NIM improved in FY2017. However, on conservative basis we have factored in further drop in yield due to competition in housing finance segment and rural finance segment, where other NBFCs and Small Finance Banks are also gearing up to scale up aggressively.

Exhibit 30: Yield (%)



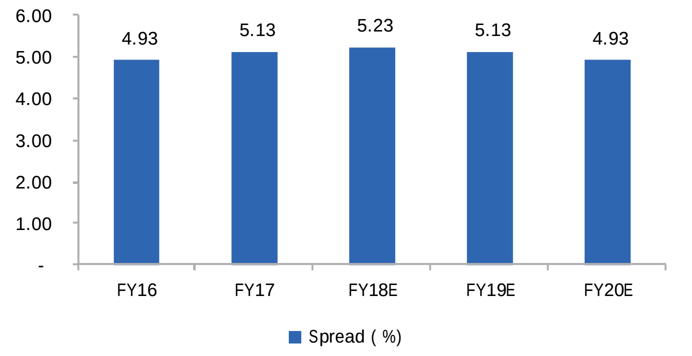
Source: Company, Angel Research

Exhibit 31: Cost of funds (%)



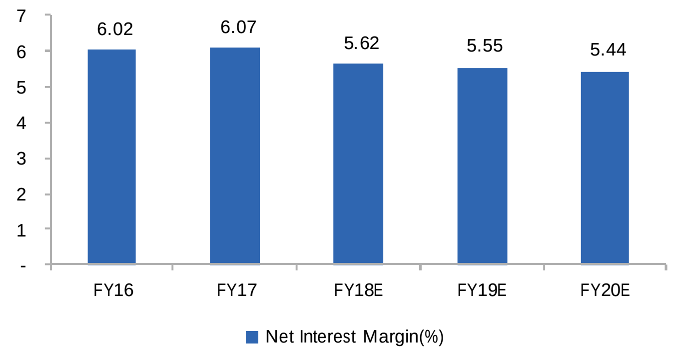
Source: Company, Angel Research

Exhibit 32: Spread (%)



Source: Company, Angel Research

Exhibit 33: NIM Trend (%)

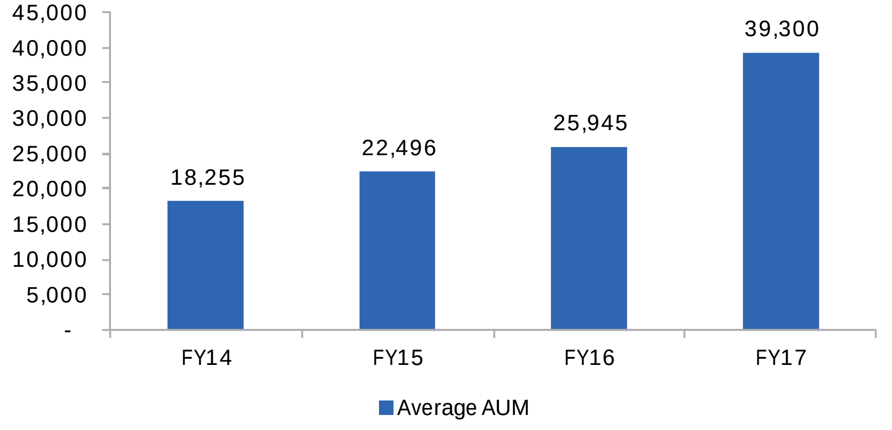


Source: Company, Angel Research

Investment management & wealth management, will aid to the profitability as well

In 2012, L&T Mutual Fund bought the Indian Operations of Fidelity Mutual Fund, which had an AUM of ~`8,881cr at that time. Nearly 38% Fidelity's total AUM was towards Equity and as a result today also L&T's overall Equity exposure in the total AUM at 39% stands higher than industry. In FY17, the average AUM of L&T AMC has gone up by 51%. While on one hand, it has been able to increase its AUM, simultaneously it has reduced the costs and hence, the cost/ income for the investment management business have come down to 66% by FY2017 from a high of 83% earlier. In FY17, the division posted PAT of `45cr v/s. `16cr in FY16. Further, the wealth management segment of the company has also been reporting improved numbers and reported a PAT of `5cr for FY17 compared to a loss of `24cr in FY16.

Exhibit 34: Increasing AUM (` Cr)



Source: Company, Angel Research

Outlook and valuation

As LTFH has multiple segments of operations, we have valued it based on SOTP. We have valued the rural finance segment at 2.5x while the housing finance and wholesale finance has been valued at 3x and 2x its FY20E BV each. LTFH's AMC arm, L&T MF has been valued at 5% of average AUM. **Accordingly, we have arrived at a fair value of `179 based on SOTP, and hence recommend BUY on the stock.**

Exhibit 35: SOTP Valuation

Based on FY20E (` Cr)	Net Worth	Multiple	Implied Mkt Cap
Rural	2,694	2.5	6,736
Housing	2,634	3.0	7,901
Whole sale	7,337	2.0	14,674
Combined Value of Lending Business			29,311
Value of MF @ 5% of AUM			1,965
Implied Market Cap			31,276
Implied Per Share			179
CMP			149
% Upside			**20%**

Source: Company, Angel Research

Exhibit 36: Comparative Valuation & Return ratio

	P/BV			RoE%			RoA%		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
L&T Fin	3.3	2.8	2.5	13.8	14.1	15.5	1.7	1.7	1.9
M&M Fin	2.9	2.6	2.3	7.6	14.7	17.4	1.0	2.0	2.2
Cholamandalam	4.2	3.6	3.1	16.9	18.3	18.9	2.3	2.5	2.6
Shriram City	3.2	2.9	2.5	11.8	15.6	16.6	2.4	3.0	3.0
Magma Fin	1.8	1.7	1.5	1.0	10.5	11.7	0.1	1.5	1.7
REPCO Home	4.6	3.8	3.2	17.6	19.5	20.6	2.4	2.5	2.6
Shriram Transport Fin	2.2	2.0	1.7	11.8	14.1	16.1	1.8	2.2	2.6
Sundaram Fin	3.7	3.5	3.1	15.2	15.6	16.7	2.3	2.4	2.6

*Source: Company, Angel Research, Note: CMP as of July 06, 2017, * other NBFCs Consensus taken from Bloomberg,*

Exhibit 37: Income Statement (Consolidated)

` Cr	FY16	FY17	FY18E	FY19E	FY20E
NII	**3,165**	**3,714**	**4,006**	**4,552**	**5,181**
- YoY Growth (%)	*20.4*	*17.3*	*7.9*	*13.6*	*13.8*
Other Income	**182**	**232**	**324**	**422**	**548**
- YoY Growth (%)	*28.8*	*27.4*	*40.0*	*30.0*	*30.0*
Operating Income	**3,347**	**3,945**	**4,330**	**4,974**	**5,729**
- YoY Growth (%)	*20.8*	*17.9*	*9.8*	*14.9*	*15.2*
Operating Expenses	**1,313**	**1,277**	**1,404**	**1,545**	**1,699**
- YoY Growth (%)	*21.9*	*-2.8*	*10.0*	*10.0*	*10.0*
Pre - Provision Profit	**2,034**	**2,669**	**2,926**	**3,430**	**4,030**
- YoY Growth (%)	*20.2*	*31.2*	*9.7*	*17.2*	*17.5*
Prov. & Cont.	**781**	**1,590**	**1,526**	**1,587**	**1,492**
- YoY Growth (%)	*18.0*	*103.6*	*(4.0)*	*4.0*	*(6.0)*
Profit Before Tax	**1,253**	**1,079**	**1,400**	**1,843**	**2,538**
- YoY Growth (%)	*21.5*	*(13.9)*	*29.8*	*31.6*	*37.7*
Prov. for Taxation	**399**	**36**	**190**	**323**	**531**
- as a % of PBT	*23.1*	*(90.9)*	*422.0*	*69.9*	*64.6*
PAT	**854**	**1,043**	**1,210**	**1,520**	**2,006**
- YoY Growth (%)	*20.8*	*22.1*	*16.1*	*25.6*	*32.0*

Source: Company, Angel Research

Exhibit 38: Balance Sheet (Consolidate)

Y/E March (` cr)	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	1,754	1,756	1,820	1,820	1,820
Reserve & Surplus	5,324	6,020	7,433	8,583	10,138
Net Worth	7,195	7,894	9,253	10,403	11,958
Preference Shares	1,213	1,213	1,213	1,213	1,213
Minority Interest	100	119	119	119	119
Borrowings	51,616	59,811	67,935	77,786	89,065
- Growth (%)		*15.9*	*13.6*	*14.5*	*14.5*
Other Liabilities	*2,961*	*3,035*	*3,131*	*3,444*	*3,789*
Total Provisions	*645*	*367*	*393*	*422*	*454*
Others	*70*	*75*	*75*	*75*	*75*
Total Liabilities	**63,801**	**72,514**	**82,120**	**93,463**	**1,06,672**
Cash and Cash equivalents	402	594	654	719	791
Investments	3,563	6,012	6,072	6,375	6,694
Total Loans & Advances	56,065	61,649	71,314	82,058	95,187
- Growth (%)		*10.0*	*15.7*	*15.1*	*16.0*
Fixed Assets	696	619	631	644	657
Good Will on consolidation	639	639	639	639	639
Others	1,074	1,487	1,509	1,532	1,557
Other Assets	1,361	1,514	1,301	1,496	1,148
Total Assets	**63,801**	**72,514**	**82,120**	**93,463**	**1,06,672**

Source: Company, Angel Research

Exhibit 39: Key Ratios (Consolidated)

	FY16	FY17	FY18E	FY19E	FY20E
Profitability ratios (%)					
NIMs	6.0	6.1	5.6	5.5	5.4
RoA	1.6	1.7	1.7	1.9	2.1
RoE	11.9	13.8	14.1	15.5	17.9
Asset Quality (%)					
Gross NPAs	2,756	3,146	3,352	3,282	3,570
Gross NPAs %	4.9	4.9	4.7	4.0	3.8
Net NPAs	2,144	1,799	1,783	1,846	1,904
Net NPAs %	3.8	2.9	2.5	2.3	2.0
Credit Cost	1.5	2.6	2.0	1.8	1.2
PCR %	22.2	42.8	46.8	43.8	46.7
Per Share Data (`)					
EPS	4.9	5.9	6.9	8.7	11.4
BVPS	41.0	45.0	52.7	59.3	68.1
Adj BV	28.8	34.7	42.6	48.8	57.3
DPS	0.8	0.8	1.0	1.8	2.2
Valuation Ratios					
PER (x)	30.4	24.9	21.5	17.1	12.9
P/BVPS (x)	3.6	3.3	2.8	2.5	2.2
P/ABVPS (x)	5.1	4.3	3.5	3.0	2.6
Dividend Yield (%)	0.5	0.5	0.7	1.2	1.5
DuPont Analysis					
Interest Income	13.9	13.6	13.4	13.1	12.9
Interest Expenses	7.9	7.6	7.8	7.6	7.4
NII	6.0	6.1	5.6	5.5	5.4
Other Inc.	0.3	0.4	0.5	0.5	0.6
Total Income	6.4	6.4	6.1	6.1	6.0
Opex	2.5	2.1	2.0	1.9	1.8
PPP	3.9	4.4	4.1	4.2	4.2
Provision	1.5	2.6	2.1	1.9	1.6
PBT	2.4	1.8	2.0	2.2	2.7
Taxes	0.8	0.1	0.3	0.4	0.6
RoA	1.6	1.7	1.7	1.9	2.1
Leverage	14.6	8.1	8.3	8.3	8.5
RoE	**11.9**	**13.8**	**14.1**	**15.5**	**17.9**

Source: Company, Angel Research

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DISCLAIMER

Disclosure of Interest Statement	L&T Finance Holdings Ltd
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*

L&T Finance Holdings

Structural story playing out well but long way ahead

Q4FY17 Result Update

May 06, 2017

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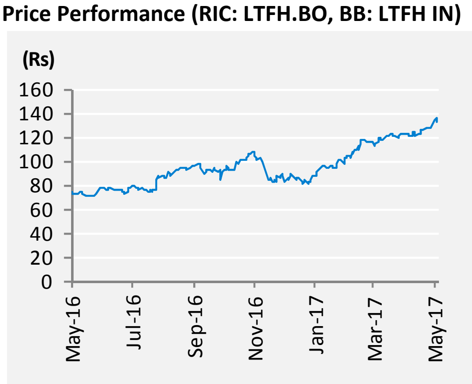
Rating	**BUY**
Price	Rs133
Target Price	Rs210
Implied Upside	57.9%
Sensex	29,859
Nifty	9,285

(Prices as on May 05, 2017)

Trading data			
Market Cap. (Rs bn)			233.6
Shares o/s (m)			1,755.7
3M Avg. Daily value (Rs m)			602.1
Major shareholders			
Promoters			66.65%
Foreign			15.83%
Domestic Inst.			2.93%
Public & Other			14.59%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	7.4	31.8	82.0
Relative	7.8	22.3	63.8
How we differ from Consensus			
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

- **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%*
PBT	**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) M**aintaining 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 build-up 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

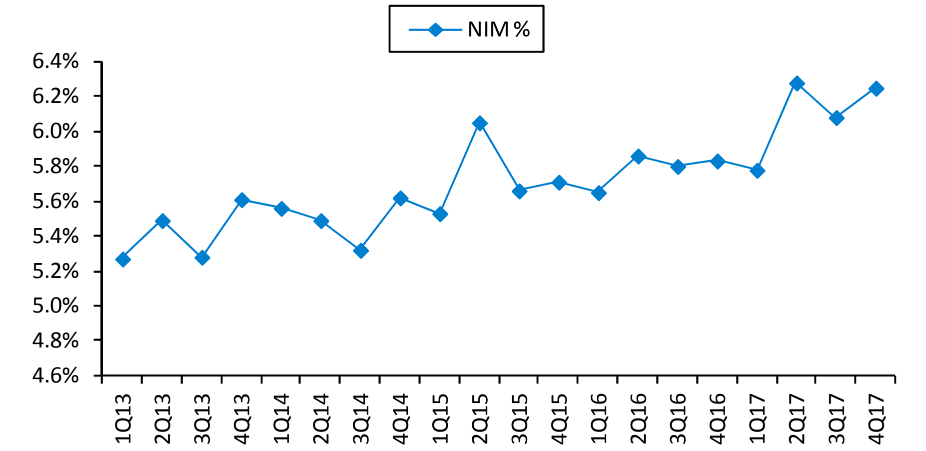
Defocused business now remains only 4% of overall book on normal run-downs and small same of loan book of Rs3.27bn partly in car & CV

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

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***
Defocused Business	**4.0**	**8.5**	***-452***	**5.1**	***-113***

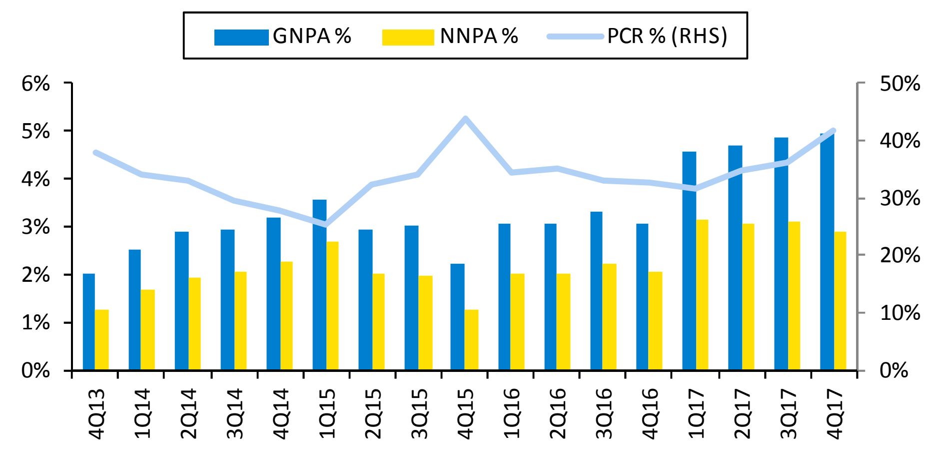
Source: Company Data, PL Research

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



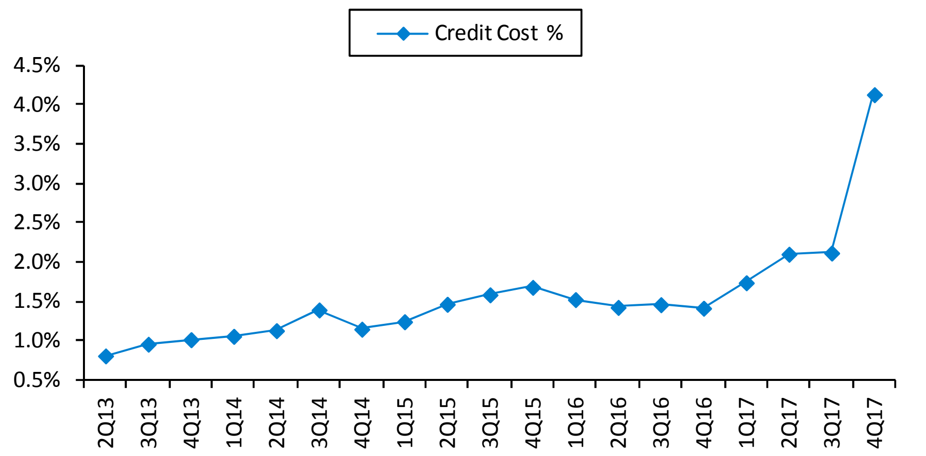
Source: Company Data, PL Research

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

Rs (mn)	Old		New		*% Change*	
	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***	
Recommendation	**BUY**		**BUY**			

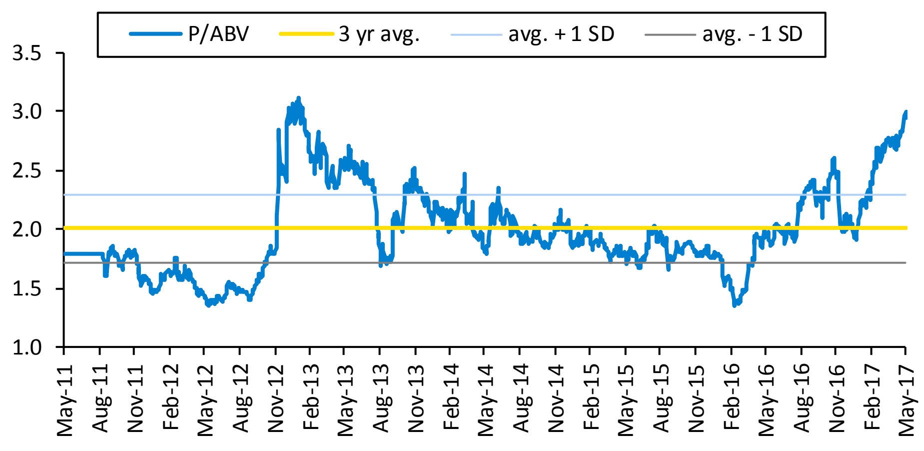
Source: Company Data, PL Research

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

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 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

Profitability (%)

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.

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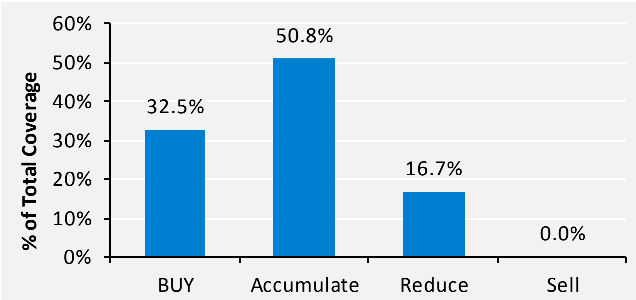

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute 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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AXIS DIRECT

L&T FINANCE HOLDINGS

BANKS & FINANCIAL SERVICES

10 MAY 2017 Quarterly Update

BUY

Target Price: Rs 155

Strong show amid exceptional items

Q4FY17 PAT at Rs 3.2 bn (+33% YoY) due to cost rationalization and stable loan growth. Provisions shot up ~234% YoY to Rs 6.9 bn on additional provisions on loans in wholesale (accelerated provisioning) and rural book (adequate for 90 dpd transition). However, the impact of higher provisioning was cushioned by tax savingsarising out of efficienciesdue to amalgamation.

Management reiterated its guidance of top quartile (18-20%) RoE by 2020 by focusing on increasing market share in focused businesses, improving fee income by strong sell down and shifting from cost reduction to cost control. Company will continue to create accelerated provisions out of the recurring tax savings due to amalgamation + any extraordinary income, thereby bringing more comfort on PCR front.

CMP	: Rs 133
Potential Upside	: 16%

MARKET DATA

No. of Shares	: 1,756 mn
Free Float	: 33%
Market Cap	: Rs 234 bn
52-week High / Low	: Rs 140 / Rs 70
Avg. Daily vol. (6mth)	: 5.5 mn shares
Bloomberg Code	: LTFH IB Equity
Promoters Holding	: 67%
FII / DII	: 11% / 4%

Q4FY17 key highlights:(a) Overcoming the impact of demonetization, disbursements were up ~71% YoY primarily driven by wholesale book; however, adjusting for one-off financing of IPO, the growth would have been ~60% YoY; (b) Loan growth remained healthy at 14.4% YoY driven by rural (+16% YoY), housing (+28% YoY) and wholesale finance (+19% YoY). Defocused portfolio fell to ~4% of AUM (vs. 8.5% last year) aided by a sale of Rs 3.3 bn; (c) Headline asset quality was almost flat QoQ with GNPAs at ~5% whereas higher PCR (up ~21 pptsQoQ to 42.8%) helped bring down NNPA to 2.9% (down 93 bps QoQ); and (d) Strong growth in average AUM of AMC (up 51% YoY to Rs393 bn) and wealth management (up 46% YoY to Rs 136 bn) businesses.

Maintain BUY with a revised TP of Rs 155 (16% upside from CMP): Strict cost controls, sanguine growth outlook in focused businesses and option value from disposal of defocused businesses bode well for the company.We have increased the multiple of the wholesale business from 2x to 2.2x factoring in the accelerated provision. Consequently, our SOTP-based TP gets revised to Rs 155 from Rs 145 earlier.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	8,567	10,422	12,909	16,502
EPS (Rs)	5	6	7	9
EPS chg (%)	18.9	22.0	19.1	23.6
Book value (Rs)	41	45	51	59
Adj. BV (Rs)	37	38	42	50
PE (x)	27.2	22.4	18.8	15.2
P/ABV (x)	3.6	3.5	3.1	2.7
RoE (%)	12.6	13.8	15.0	16.2
RoA (%)	1.5	1.5	1.6	1.8
Net NPA (%)	2.1	2.9	3.2	2.8

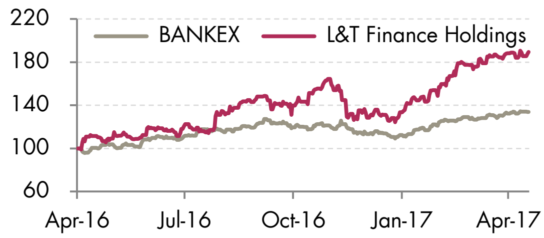
Source: Company, Axis Capital

Key drivers

(%)	Q2'17	Q3'17	Q4'17
Loan growth	19	10	14
GNPA*	4.7	4.9	5.0
Cost to Income	34	32	28

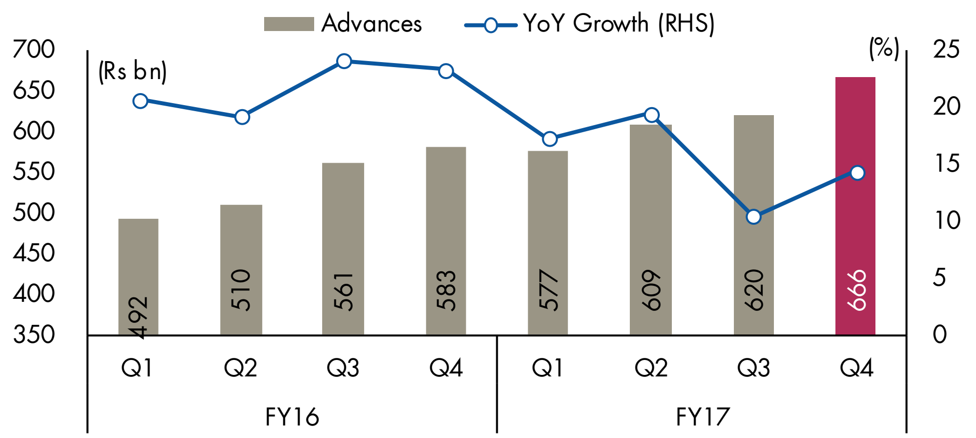
*As per 120dpd

Price performance



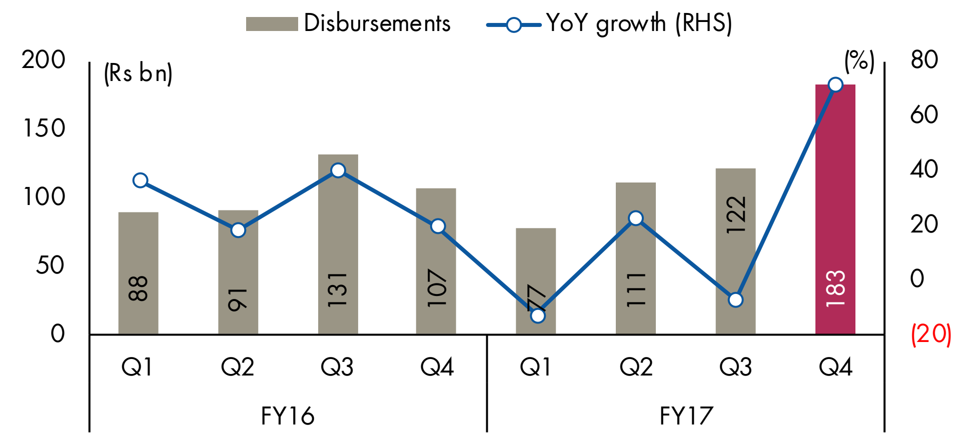
AXIS SECURITIES

Exhibit 1: Advances grew 14% YoY across the segments



Source: Company, Axis Capital

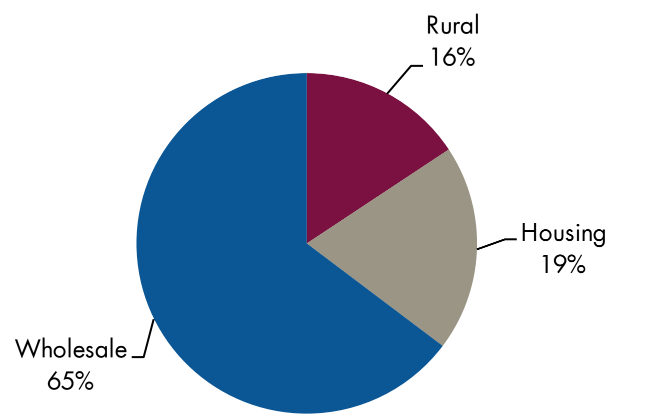
Exhibit 2: Disbursements began to post good growth at ~70% YoY post demonetization



Adjusting for one-off IPO funding, disbursement growth would have been ~60% YoY

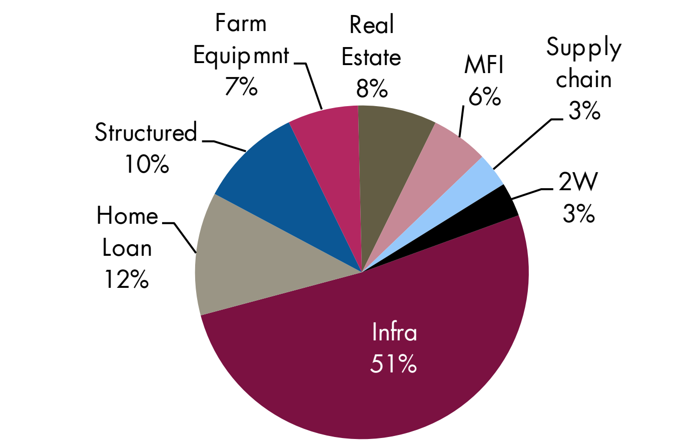
Source: Company, Axis Capital

Exhibit 3: Segment-wise share remained unchanged QoQ



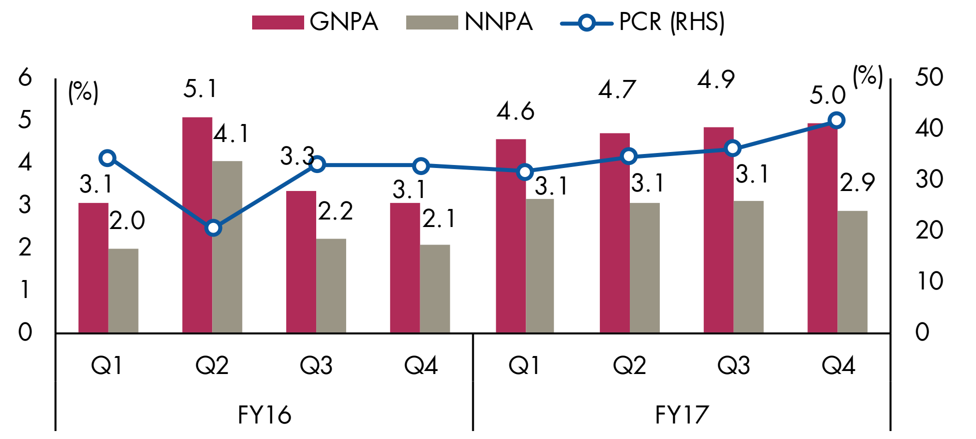
Source: Company, Axis Capital *excluding de-focused business

Exhibit 4: Break-up of loan book



Source: Company, Axis Capital*excluding de-focused business

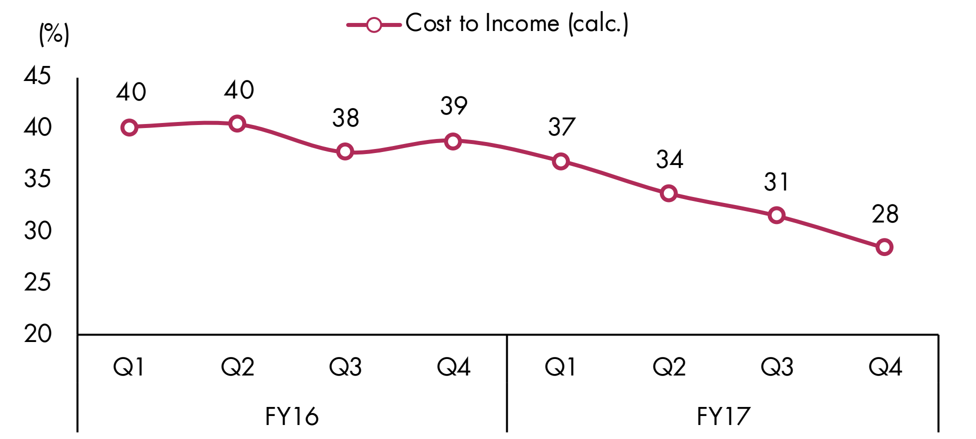
Exhibit 5: Headline asset quality remained stable, while higher PCR led to decline in NNPA



Source: Company, Axis Capital

LTFH created goodwill of Rs 30 bn due to amalgamation process and,the same will be amortized for 5 years. This will benefit in total tax saving of Rs 10 bn over next 5 years, which will be used for providing accelerated provisioning

Exhibit 6: Cost rationalization has helped curb cost-to-income ratio



Source: Company, Axis Capital

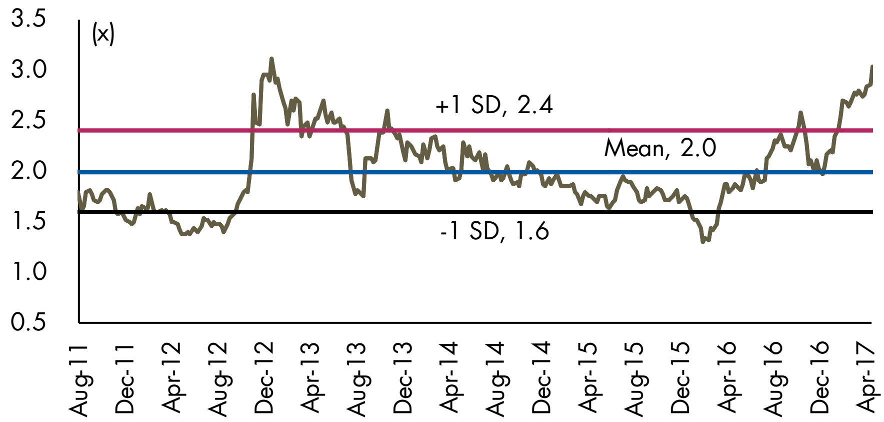
Exhibit 7: Results update

	Quarter ended					12 months ended		
(Rs mn)	Mar-17	Mar-16	% chg	Dec-16	% chg	FY18E	FY17	% chg
Interest Income	21,626	19,580	10	20,940	3	89,592	79,123	13
Interest Expended	11,580	11,274	3	11,602	(0)	51,288	46,270	11
Net Interest Income	**10,046**	**8,306**	**21**	**9,338**	**8**	**38,304**	**32,853**	**17**
Non-Interest Income	**755**	**528**	**43**	**679**	**11**	**7,181**	**6,600**	**9**
Net Income	10,801	8,834	22	10,018	8	45,485	39,453	15
Operating Expenses	3,063	3,428	(11)	3,154	(3)	13,788	12,765	8
Operating profit	**7,738**	**5,405**	**43**	**6,864**	**13**	**31,697**	**26,688**	**19**
Provision & Contingencies	6,885	2,063	234	3,282	110	15,994	15,899	1
PBT	**853**	**3,343**	**(74)**	**3,582**	**(76)**	**15,703**	**10,789**	**46**
Tax	(2,286)	983	(333)	811	(382)	2,834	364	678
Net profit	**3,158**	**2,368**	**33**	**2,709**	**17**	**12,909**	**10,422**	**24**
Asset Quality								
Gross NPAs (%)	5.0	3.1	190 bps	4.86	9 bps	5.8	5.0	16 bps
Balance sheet (Rs. bn)								
Loan book	666	583	14	620	8	738	666	11

Source: Company, Axis Capital Note: Ratios are on calculated basis, hence may differ from actuals

FY17 numbers are provisional as we await the annual report for granular details

Exhibit 8: P/ABV movement



Source: Bloomberg, Axis Capital

Exhibit 9: SOTP-based valuation

(Rsmn)	Valuation basis	LTFH stake	Value/ share (Rs)	Rationale
LT Rural business	2.8x FY19E ABV	100%	30	RoE on rising trend
LT Infra Finance	2.2x FY19E ABV	100%	82	High RoE, strong growth and accelerated provisions
LT Housing	2.5x FY19E ABV	100%	23	At nascent stage currently
LT MF	5% of AUM	100%	11	Fidelity acquisition to provide faster break-even
Others	1.5x FY19E BV	100%	9	Value unlocking in process from non-core investment
Target Price			155	

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	68,174	79,123	89,592	105,496
Interest expended	(41,241)	(46,270)	(51,288)	(60,818)
Net interest income	**26,933**	**32,853**	**38,304**	**44,678**
Non interest income	6,532	6,600	7,181	7,820
Net income	**33,465**	**39,453**	**45,485**	**52,498**
Operating expenses	**(13,129)**	**(12,765)**	**(13,788)**	**(15,153)**
Staff expenses	(4,877)	(4,935)	(5,379)	(5,864)
Other operating expenses	(8,252)	(7,830)	(8,408)	(9,290)
Operating profit	**20,337**	**26,688**	**31,697**	**37,345**
Provisions & contingencies	(7,810)	(15,899)	(15,994)	(16,229)
Pre-tax profit	**12,526**	**10,789**	**15,703**	**21,116**
Tax expense	(3,989)	(364)	(2,834)	(4,654)
Profit after tax	**8,537**	**10,425**	**12,869**	**16,462**
Extraordinary item	-	-	-	-
Minority interest/Associates	30	(3)	40	40
Adj. PAT	**8,567**	**10,422**	**12,909**	**16,502**

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	**638,011**	**725,136**	**860,970**	**1,015,951**
Cash & Balances with RBI	4,015	5,944	8,516	10,091
Investments	35,633	60,115	68,219	77,552
Advances	560,654	666,490	737,983	878,400
Fixed assets	13,351	12,578	13,529	14,208
Other assets	20,348	22,588	24,926	27,513
Total liabilities	**638,011**	**725,136**	**860,970**	**1,015,951**
Equity capital	17,534	17,557	18,195	18,834
Preference capital	12,134	12,134	12,134	12,134
Reserves & surplus	54,418	61,382	75,005	91,704
Networth	71,951	78,939	93,200	110,538
Borrowings	516,157	598,111	709,703	840,947
Deposits	-	-	-	-
Other liabilities & prov.	37,768	35,952	45,933	52,332

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	5	6	7	9
BV (Rs.)	41	45	51	59
Adj. BV (Rs.)	37	38	42	50
DPS (Rs.)	1	9	2	2
Dividend payout (%)	16	145	22	20
Yields & Margins (%)				
Yield on advances	13.4	13.4	13.2	13.1
Cost of deposit	-	-	-	-
Net interest margin	5.1	5.4	5.4	5.3
Asset quality (%)				
Gross NPAs	3.1	5.0	5.8	5.5
Net NPAs	2.1	2.9	3.2	2.8
Credit cost	0.4	1.4	1.1	0.7
Provisioning coverage	33.5	42.8	46.0	50.0
Efficiency (%)				
ROA	1.5	1.5	1.6	1.8
ROE	12.6	13.8	15.0	16.2
Cost to income	39	32	30	29
CASA	-	-	-	-
Effective tax rate	32	3	18	22
Growth (%)				
Net interest income	15	22	17	17
Fee income	69	(1)	10	10
Operating expenses	22	(3)	8	10
Profit after tax	-	22	24	28
Advances	22	10	20	19
Deposits	-	-	-	-
Total assets	21	14	19	18

Source: Company, Axis Capital

Note: NPA ratios are on balance sheet loan assets

FY17 numbers are provisional as we await the annual report for granular details

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HOLD	Between 10% and -10%
SELL	Less than -10%

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