

Industry	Financial
Bloomberg	LTFH IN
BSE CODE	533519

Improvement in Margins & Asset Quality

RATING	BUY
CMP	134
Price Target	175
Potential Upside	31%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	190/111
Mkt Capital (Rs Cr)	27343
Free float (%)	33%
Avg. Vol 1M (,000)	5605
No. of Shares (Cr)	200
Promoters Pledged %	

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3QFY19 Results -

- ❑ L&TFH NII grew by 60% to Rs 3015 driven by healthy AUM growth of 22%. PAT growth is robust at 79% YoY. AUM growth was mainly driven by rural portfolio (MFI & 2W portfolio).
- ❑ NIM has remained stable at 5.01% while NIM + Fees have declined by 7 bps to 6.79%. Management has successfully passed on the rise of cost of fund due to lower competitive intensity to maintain the margins at the same level.
- ❑ Other income in wholesale book has experienced slowed down due to lower sell down of books to NBFCs.
- ❑ AUM growth in focused business stood at 23%/4% YoY. Growth was mainly led by rural business & Housing business has grown robustly at 64% & 47% YoY. Disbursement in 2W, MFI & Home loan portfolio stood at 93%, 28% & 57%. Wholesale segment, LAP & real estate segment has experiences slow down in disbursement.
- ❑ GNPA has decline to 6.74% from 7.01% QoQ while NNPA decline from 2.79% to 2.64% QoQ. PCR has remained stable QoQ at 62%. GNPA has decline to 3.83% in rural segment while in the other segment it has remained marginally stable.
- ❑ L&TFH exposure to IL&FS stood at Rs 1800 Cr with 4 annuity road project & 2 toll projects. All 6 projects are now in operational mode. Out of 6 projects, 3 SPV has provided notice to stop servicing loan due to NCLAT moratorium order. Though 1 SPV has already defaulted payment, management is optimistically waiting for NCLAT ruling in 28 Jan 2019.

View and Valuation

L&TFH is set to deliver 21% loan CAGR over FY18-21E, AUM growth will be driven by growth in rural and home loans segment going forward. Amid the recent crisis in NBFC, L&TFH robust growth in rural portfolio has led by gain in market share in 2W & Tractor segment. L&TFH has successfully transferred rise in the cost thus margins remain intact on the rising interest scenario. Due to focus of management on rural and retail financing we expect OPEX to remain elevated. Real estate book is experiencing stress due to postponement of demand & liquidity issue. Exposure to Supertech (Rs 800 Cr) remained standard. Exposure to IL&FS (Rs 1800 Cr) SPVs though remain operational has started defaulting in its loan servicing we will keep a close watch on the 28th Jan NCLAT hearing. The stock is currently trading at 1.7x BVPS FY20e. We maintain BUY on the stock with the target price of Rs 175.

Key Risks to our rating and target

- ❑ Higher cost to Income ratio.
- ❑ Cautious as to asset quality trend due to aggressive growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2693	3034	3408	4424	5323
PPP	2034	2669	3637	4715	5965
PAT	857	1042	1459	2282	2731
NIM %	5.1	4.9	4.5	4.7	4.7
EPS (Rs)	5	6	7	11	14
EPS growth (%)	0	19	23	56	20
ROE (%)	12.7	14.1	14.4	17.5	18.6
ROA (%)	1.5	1.5	1.8	2.3	2.3
BV	41	44	63	67	80
P/B (X)	1.6	2.8	2.5	2.0	1.7
P/E (x)	12.8	20.8	21.5	12.0	10.0

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3Q FY 19 Results Above Expectations

Healthy Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	2,121	2,452	2,531	2,748	3,015	42.1%	9.7%	7,661	8,734	14.0%
Interest Exp.	1,402	1,437	1,513	1,650	1,865	33.0%	13.0%	4,627	5,326	15.1%
NII	719	1,015	1,018	1,098	1,150	60.0%	4.7%	3,034	3,408	12.3%
Other Income	474	486	648	578	501	5.9%	-13.3%	911	1,766	93.8%
Total Income	1,192	1,501	1,665	1,676	1,652	38.5%	-1.5%	3,945	5,174	31.1%
Opex Exp.	360	467	500	527	460	27.8%	-12.7%	1,276	1,537	20.4%
PPP	832	1,034	1,165	1,149	1,192	43.2%	3.7%	2,669	3,637	36.3%
Provisions	457	475	436	352	416	-8.9%	18.3%	1,590	1,897	19.3%
PBT	376	559	729	798	776	106.4%	-2.7%	1,079	1,740	61.3%
Tax	50	150	189	239	195	2.87222	-18.3%	36	275	654.2%
Extra Items	-	-	-	-	-			-	-	
Net Profit	325	409	540	559	581	78.5%	3.9%	1,042	1,459	40%

NIM Expansion

NII growth has been strong at 60% YOY, backed by a strong AUM 22% YoY growth. NIM (Reported) has remained stable QoQ at 5.01%. The yield on advances increased by 62 bps QoQ to 12.97% because of rising share of high yielding assets & raising of interest rate in home loan & wholesale segment, while the cost of funds has increased from 8.33% to 8.50% bps which has resulted in margin expansion. Fee income has increased YoY by 5% management highlighted fee income from wholesale to remain muted going ahead. Management has raise PLR by 75 bps. Going ahead management expects COF to rise by 5-10 bps point.

Growing Aggressively

AUM grew by 22% YoY and disbursement has de-grown at 11% YoY. Share of Rural segment stood at 26% YoY, housing segment stood at 25% YoY and Wholesale segment stood at 50% YoY. Rural growth is driven by micro finance portfolio at 86% YoY, followed by 2W portfolio at 75% YoY. Housing segment growth was mainly driven by 33% YoY in Home finance. Wholesale segment growth was at 6% YoY, with healthy growth in renewable segment by 20% YoY. Disbursement growth was positive in rural business at 40% while it has de-grown in housing & wholesale segment by 23% & 44% YoY.

Assets quality

Asset quality has improved from 7.1% to 6.74% QoQ on the back healthy recovery across all segments. GNPA on rural segment has decreased from 4.29% to 3.83% QoQ while it has marginally increased for housing segment by 2 bps to 95 bps & in wholesale segment remained stable in the 12.92%. PCR ratio is has remained stable at 62% QoQ.

Other details

Other income remain muted due to slowdown in wholesale book lending to NBFCs. Cost to income ratio has decreased to 28% from 30% YoY. Number of MFI centers has increased 67 this quarter. Number of branches stands at 234 as at 3QFY19. AUM of the investment business increased 15% YoY/2% YoY/ QoQ to Rs 66173 Cr. Equity (including ELSS) comprises 52% of the total AUM. Wealth management AUS has also grown 33% YoY to Rs 22887 Cr..

Concall Highlights

- L&TFH exposure to IL&FS stood at Rs 1800 Cr with 4 annuity road project & 2 toll projects. All 6 projects are now in operational mode. Out of 6 projects, 3 SPV has provided notice to stop servicing loan due to NCLAT moratorium order. Though 1 SPV has already defaulted payment, management is optimistically waiting for NCLAT ruling in 28 Jan 2019.
- Management has reiterated growth in rural & retail segment will be priority for capital allocation followed by real estate & core infra lending and lastly towards DCM & structured finance.
- IDF exposure is mostly towards A rating companies, 50% of the portfolio is guaranteed by NHAI.

Concall Highlights continued

- Even though weighted average cost of capital has increased by 17 bps it has been successfully passed on to the customers in wholesale & housing segment apart from that incremental growth in high yield rural segment has supported margin. Further going ahead management expects 5-10 bps increase in Cost of Fund in 4QFY19. L&TFH has increased PLR by 75 bps due to lower competitive pressure.
- Management has highlighted growth in retail segment will drive operating expense going ahead.
- Fee declined in wholesale business as sell down to NBFCs dried up in 3QFY19.
- Management guides to keep Rs 400 Cr of provision for legacy portfolio every year, so as to take requisite haircut and resolve these assets.
- In 3QFY19, L&TFH has made a macro prudential provision of Rs 85 Cr making the total provision to Rs 270. Contingency provision is expected to be 1.25% of RWA going ahead.
- Total Borrowings of Rs 30000 Cr is raised in 3QFY19, out of which Rs 17000 is raised via CP & Rs 13000 Cr through bank lines. In 3QFY19, re-priceable assets stood at Rs 35600 Cr while re-priceable liabilities stood at Rs 21800 Cr.
- Good monsoon in Maharashtra, Gujarat & Telangana will be monitorable for growth in farm equipment segment. L&TFH market share has increased to 14%, it is the 2nd largest financier of tractor market.
- Market share of 2W has increased to 11%. It has No 1 seller in 39 locations & No 2 in 15 locations. Management expects rise in cost of vehicle finance will increase financial penetration thus aiding growth.
- Management says growth in MFI segment is expected to come from expanding into new locations.
- Direct sourcing for Home loan is at 65%. Real estate segment is experiencing risk due to slow down in demand & lower disbursement from HFCs. In Construction Finance, in 93% of the segment L&TFH is the sole lenders while in rest 7% it is a joint lender with HDFC. Renewable & road remain core focus in wholesale segment.
- L&TFH has received Rs 50 Cr as repayment in the Supertech exposure of Rs 800 Cr.
- Management expects to close the deal of supply chain business to Centrum amounting to Rs 650 Cr in 4QFY19.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	30.8	21.9	30.2	31.1	30.0	31.4	27.8	-2.34	-3.59
Empl. Cost/ Tot. Exp. %	9.3	7.3	9.0	9.7	9.7	13.0	13.9	4.94	0.92
Other Exp/Tot. Exp.%	20.3	7.1	20.1	20.6	19.7	9.5	13.2	-6.95	3.68
Provision/PPP %	55.4	65.7	54.9	45.9	37.4	30.6	34.9	-19.95	4.30
Tax Rate %	5.7	0.4	13.4	26.9	26.0	29.9	25.1	11.73	-4.79
Int Exp./Int Inc. (%)	66.7	65.7	66.1	58.6	59.8	60.0	61.8	-4.27	1.81
PPP/ Net Income %	69.2	78.1	69.8	68.9	70.0	68.6	72.2	2.34	3.59
PAT/ Net Income %	29.3	26.7	27.3	27.2	32.4	33.4	35.2	7.88	1.82
NII Growth % (YoY)	4.8	4.5	4.5	45.8	60.4	60.3	60.0	55.54	-0.21
PPP Growth YoY %	44.8	54.5	21.3	33.6	45.5	13.5	43.2	21.89	29.68
PAT Growth %	63.2	39.7	18.1	29.0	59.5	61.3	78.5	60.38	17.15

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.8	11.8	11.8	13.1	12.7	13.0	13.5	1.74	0.51
Cost Of Funds	8.1	11.0	8.3	7.9	8.4	8.4	8.8	0.49	0.38
Spreads	3.7	0.8	3.5	5.2	4.3	4.6	4.7	1.26	0.13
NIM	4.4	4.4	4.4	5.7	5.7	5.4	5.8	1.42	0.34

Exhibit: Yield and Cost
Stable Margins

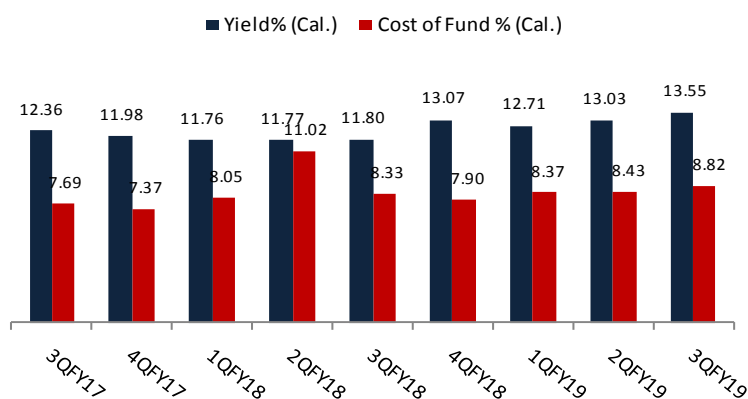
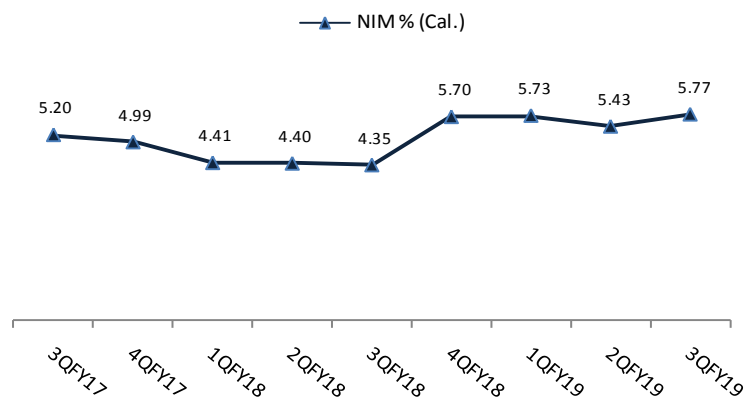


Exhibit: Net Interest Margin
NIM steady



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements	12180	18313	14607	15343	15343	22664	15603	16736	13682
Growth YoY %	-7	71	89	38	26	24	7	9	-11
AUM	61970	66650	69636	73489	77742	83654	86570	91201	94710
Growth YoY %	10	14	4	8	7	26	24	24	22
Borrowings	56387	61005	64032	65736	68466	71577	77242	86789	87818
Growth YoY %	11	15	5	19	21	17	21	32	28

AUM Composition %

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Rural Lending	15	15	16	17	19	20	22	24	25
Housing Business	19	19	20	21	22	23	24	24	25
Wholesale Business	61	62	61	59	56	56	53	51	49
Defocused-Business	5	4	3	3	2	2	1	1	1

Exhibit: AUM Growth %

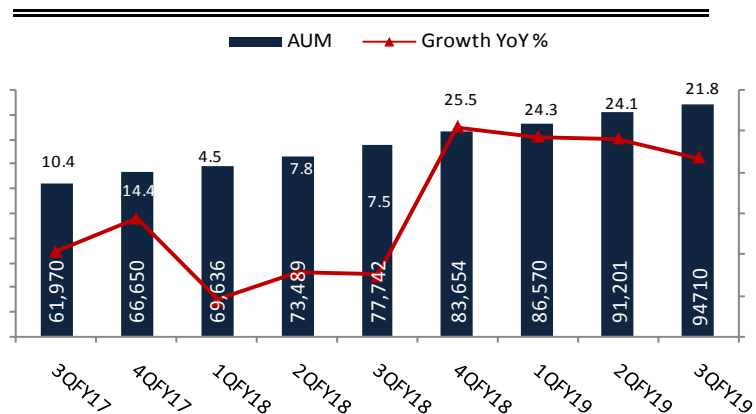
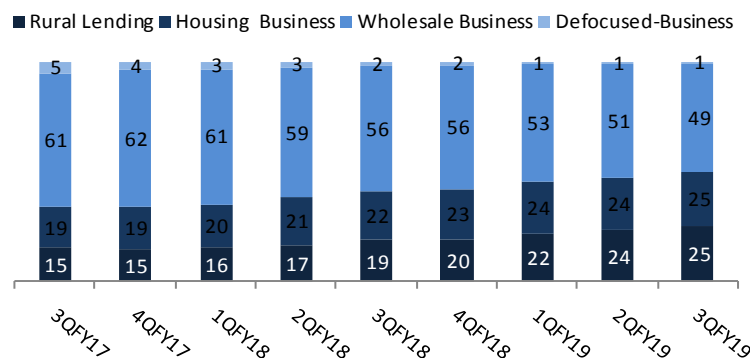


Exhibit: Portfolio Mix



Borrowings Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Term Loan	13	15	14	15	18	20	17	36	36
NCD - Long	34	33	46	36	39	37	43	41	42
LOC/CC/WCL/STL	27	22	24	22	22	21	18	-	-
CP	13	18	13	17	13	14	20	18	16
Others	13	11	3	10	8	8	2	5	6

GNPA % segment wise

Rural	8.0	7.5	11.3	10.9	8.2	6.4	4.9	4.3	3.8
Housing	0.8	0.6	0.9	0.9	0.8	0.9	1.0	1.0	1.0
Wholesale	3.9	4.3	14.5	13.8	14.3	4.7	12.1	10.9	10.9

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA	7,577	7,523	3,969	3,884	6,480	6,119	6,033	(1,490)	(86)
GNPA %	11.7	11.0	5.5	4.8	7.9	7.1	6.7	(4.2)	(0.4)
NNPA	3,732	3,493	2,020	1,845	2,463	2,296	2,263	(1,230)	(33)
NNPA %	6.1	5.4	2.9	2.3	3.2	2.8	2.6	(2.8)	(0.2)
Total Specific PCR %	51	54	49	52	62	62	62	9	0

Exhibit: Asset Quality

Improvement in asset quality

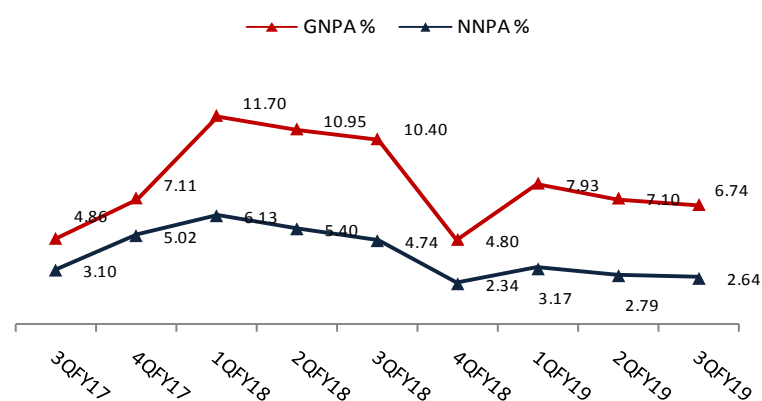


Exhibit: Provisions

PCR Stable

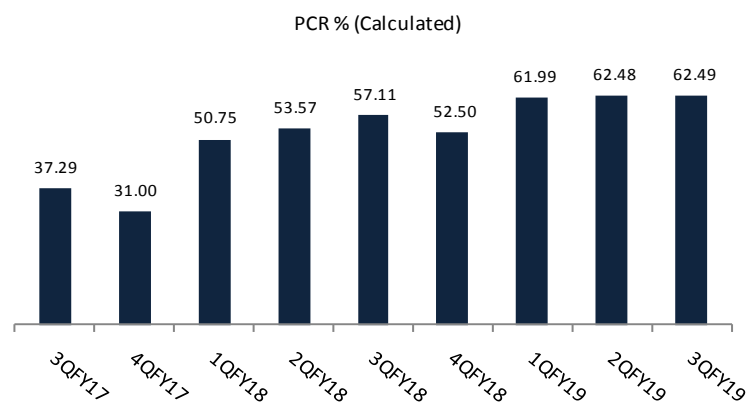


Exhibit: Yields across Segments

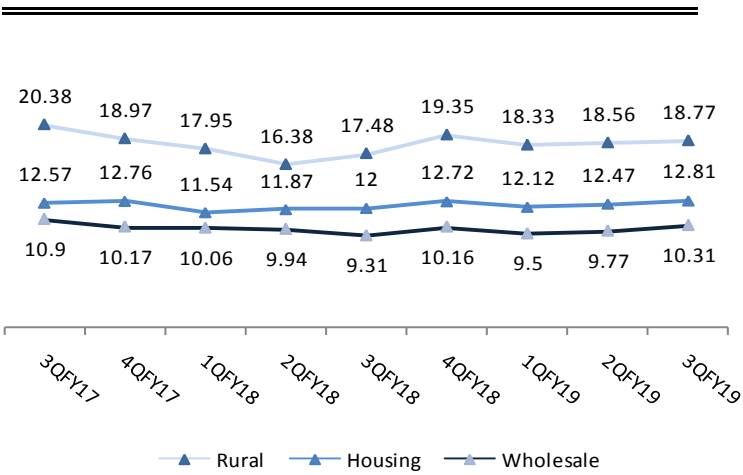


Exhibit: NIM across Segments

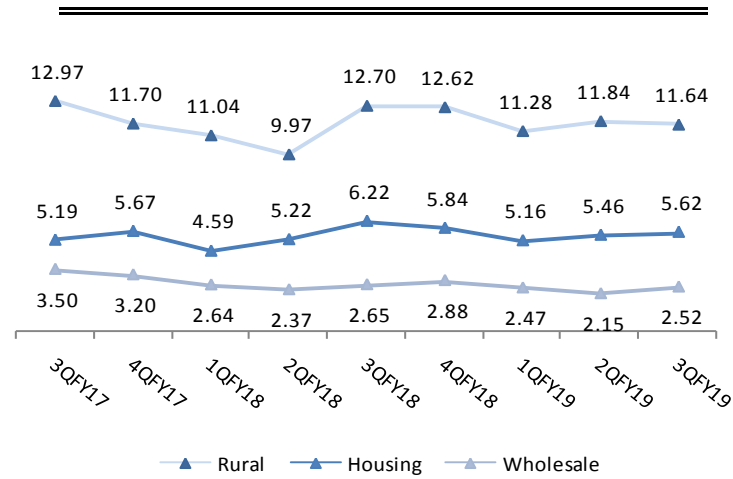


Exhibit: Rural Business

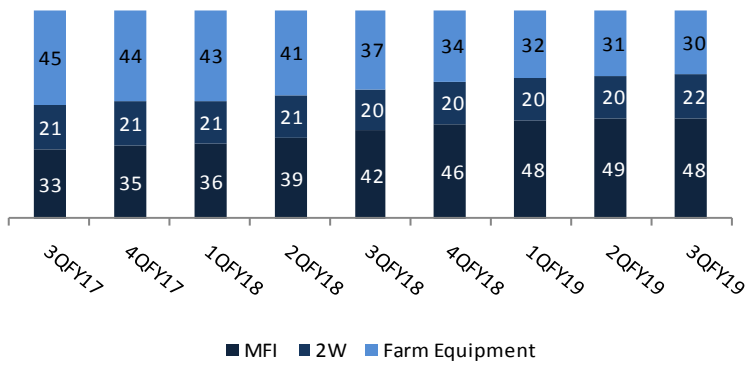


Exhibit: Housing Business

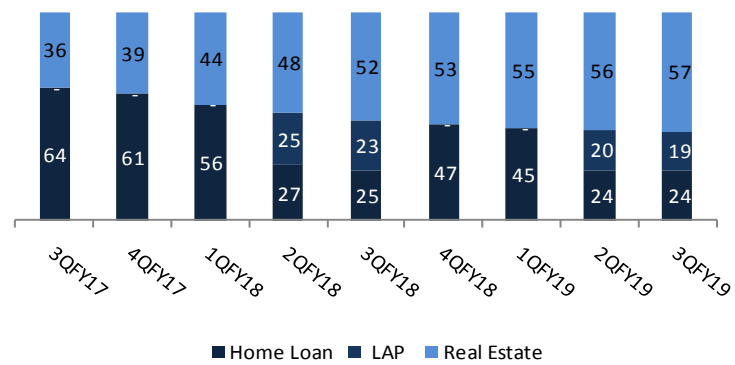


Exhibit: Asset Quality

Improvement in asset quality

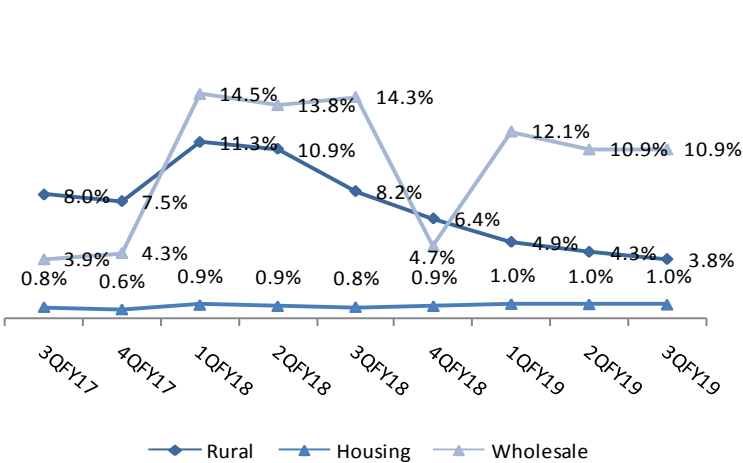
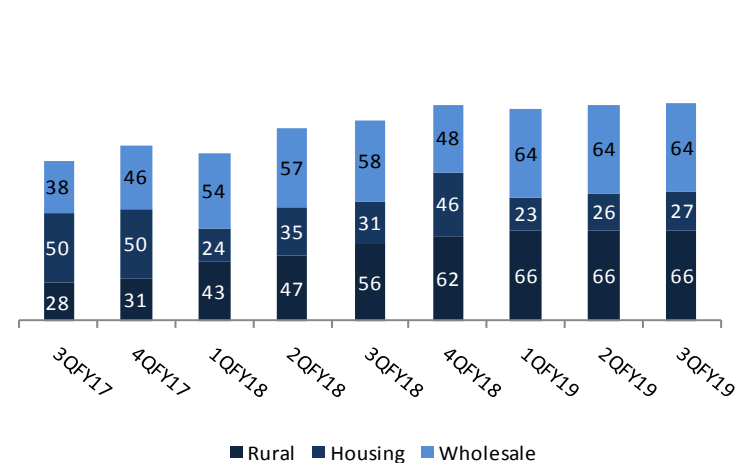


Exhibit: Provisions

PCR improvement



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	2,467	2,718	3,084	2,967	2,969	3,030	3,030	3,030
>> Equity Capital	1,717	1,718	1,720	1,722	1,756	1,996	1,996	1,996
>> Preference Capital	750	1,000	1,363	1,245	1,213	1,034	1,034	1,034
Reserves & Surplus	3,753	4,107	4,656	5,324	6,020	10,554	11,465	13,962
Networth	5,470	5,826	6,376	7,045	7,776	12,550	13,460	15,958
Change (%)	15	6	9	10	10	61	7	19
Total Borrowings	22,185	27,835	35,390	43,727	54,994	71,577	92,698	114,327
Change (%)	25	25	27	24	26	30	30	23
Provisions	325	379	472	592	367	397	580	688
Other Liabilities	8,589	10,821	10,504	12,382	9,377	4,707	1,660	2,424
Total Liabilities	36,570	44,861	52,742	63,746	72,514	89,231	108,398	133,397
Investments	1,843	2,730	2,649	3,563	6,012	4,843	6,012	7,252
Loans	32,375	38,894	46,042	56,468	62,314	79,129	96,344	118,912
Change (%)	30	20	18	23	10	27	22	23
Fixed Assets	577	729	718	696	619	531	658	797
Other Assets	1,403	1,726	2,470	2,617	2,974	3,664	4,136	4,876
Cash Balances	372	783	862	402	594	1,063	1,248	1,560
Total Assets	36,570	44,861	52,742	63,746	72,514	89,231	108,398	133,397

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	3,819	4,872	5,649	6,817	7,661	8,734	11,514	14,528
Interest expended	2,329	3,074	3,568	4,124	4,627	5,326	7,090	9,205
Net Interest Income	1,490	1,798	2,081	2,693	3,034	3,408	4,424	5,323
Change (%)	17	21	16	29	13	12	30	20
Other Income	176	365	689	653	911	1,766	2,276	3,297
Change (%)	565	108	89	(5)	39	94	29	45
Total Net Income	1,666	2,163	2,770	3,347	3,945	5,174	6,700	8,620
Change (%)	28	30	28	21	18	31	29	29
Operating Expenses	622	912	1,077	1,313	1,276	1,537	1,985	2,655
Change (%)	42	47	18	22	(3)	20	29	34
>> Employee Expenses	205	274	352	488	494	503	851	1,034
Change (%)	36	34	29	38	1	2	69	21
>> Other Expenses	352	559	629	742	716	982	797	1,552
Pre-provisioning Profit	1,044	1,251	1,693	2,034	2,669	3,637	4,715	5,965
Change (%)	20	20	35	20	31	36	30	27
Provisions	273	426	662	781	1,590	1,897	1,599	2,274
Change (%)	49	56	55	18	104	19	(16)	42
PBT	771	825	1,031	1,253	1,079	1,740	3,116	3,691
Tax	259	230	324	399	36	275	834	960
Profit After Tax	729	595	851	854	1,042	1,465	2,282	2,731
Change (%)	60	(18)	43	0	22	41	56	20
Adjusted Profit After Tax	730	597	855	857	1,042	1,459	2,282	2,731
Change (%)	61	(18)	43	0	22	40	56	20

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	32,982	40,083	47,230	58,256	66,650	83,654	102894	123473
>> Off-Book AUM			-	-	2,009	5,844	2,058	2,469
AUM Growth (%)	28.5	21.5	17.8	23.3	14.4	25.5	23.0	20.0
Borrowing Growth (%)	24.9	25.5	27.1	23.6	25.8	30.2	29.5	23.3
Loan/Borrowing (%)	1.5	1.4	1.3	1.3	1.1	1.1	1.0	1.0
Debt/Equity (x)	4.1	4.8	5.6	6.2	7.1	5.7	6.9	7.2

Assets Quality Metrics

Gross NPA (Rs)	660	1,243	1,428	2,756	4,519	3,884	6,050	7,260
Gross NPA (%)	2.0	3.2	3.1	4.9	7.1	4.8	6.0	6.0
Net NPA (Rs)	406	890	963	2,144	3,118	1,845	2,420	3,267
Net NPA (%)	1.3	2.3	2.1	3.8	5.0	2.3	2.4	2.7
Specific Provision Coverage (%)	38	29	44	37	31	53	60	55
Provision/Average Advances (%)	1.1	1.3	1.5	1.5	2.5	2.5	1.7	2.0

Margin Metrics

Yield On Advances (%)	14.9	14.8	12.9	12.9	12.3	11.6	12.3	12.8
Cost Of Funds (%)	8.2	9.4	8.9	8.6	8.1	8.0	8.6	8.9
Spread (%)	6.6	5.4	4.1	4.4	4.1	3.6	3.7	3.9
NIM on AUM (%)	5.8	5.5	4.8	5.1	4.9	4.5	4.7	4.7

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	61.0	63.1	63.2	60.5	60.4	61.0	61.6	63.4
Other Income/NII (%)	11.8	20.3	33.1	24.3	30.0	51.8	51.5	61.9
Operating Profit/Net Income (%)	62.6	57.8	61.1	60.8	67.6	70.3	70.4	69.2
Net Profit/Net Income (%)	30.7	27.5	25.5	25.5	26.4	28.3	34.1	31.7
Cost to Income (%)	37.4	42.2	38.9	39.2	32.4	29.7	29.6	30.8
Employee Exp/Net Income (%)	12.3	12.6	12.7	14.6	12.5	9.7	12.7	12.0
Cost on Average Assets (%)	2.0	2.2	2.2	2.3	1.9	1.9	2.0	2.2
Provision/PPP (%)	26.2	34.1	39.1	38.4	59.6	52.2	33.9	38.1
Tax Rate (%)	33.7	27.9	31.4	31.9	3.4	15.8	26.8	26.0

Valuation Ratio Metrics

EPS (Rs)	4.3	3.5	5.0	5.0	5.9	7.3	11.4	13.7
Change (%)	60.4	(18.4)	42.9	0.3	19.3	23	56.3	19.7
ROAE (%)	10.0	10.5	11.6	12.7	14.1	14.4	17.5	18.6
ROAA (%)	1.6	1.5	1.4	1.5	1.5	1.8	2.3	2.3
Dividend Payout (%)	-	-	17.7	18.8	15.8	12.8	10.2	8.5
Dividend yield (%)	-	-	1.2	1.3	0.6	0.5	0.7	0.7
DPS	-	0.8	0.8	0.8	0.8	1.0	1.0	1.0
Book Value(Rs)	31.9	33.9	37.0	40.9	44.3	62.9	67.4	80.0
Change (%)	15	6	9	11	8	42	7	19
P/B (X)	2.3	2.2	1.7	1.6	2.8	2.5	2.0	1.7
P/E (X)	17.4	21.2	12.7	12.8	20.8	21.5	12.0	10.0

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	12.0	12.0	11.6	11.7	11.2	10.8	11.7	12.0
<i>Interest expended</i>	7.3	7.5	7.3	7.1	6.8	6.6	7.2	7.6
<i>Net Interest Income</i>	4.7	4.4	4.3	4.6	4.5	4.2	4.5	4.4
<i>Non-Fund Based Income</i>	0.6	0.9	1.4	1.1	1.3	2.2	2.3	2.7
>> <i>Core Fee Income</i>	0.4	0.5	1.1	0.8	1.0	1.6	1.4	1.8
>> <i>Trading and Other Income</i>	0.2	0.4	0.3	0.3	0.3	0.6	0.9	0.9
<i>Core Operating Income</i>	5.2	5.3	5.7	5.7	5.8	6.4	6.8	7.1
<i>Total Income</i>	5.2	5.3	5.7	5.7	5.8	6.4	6.8	7.1
<i>Total Operating Expenses</i>	2.0	2.2	2.2	2.3	1.9	1.9	2.0	2.2
>> <i>Employee Expenses</i>	0.6	0.7	0.7	0.8	0.7	0.6	0.9	0.9
>> <i>Other Expenses</i>	1.3	1.6	1.5	1.4	1.1	1.3	1.1	1.3
<i>Operating Profit</i>	3.3	3.1	3.5	3.5	3.9	4.5	4.8	4.9
<i>Provisions</i>	0.9	1.0	1.4	1.3	2.3	2.3	1.6	1.9
<i>Others</i>								
<i>PBT</i>	2.4	2.0	2.1	2.2	1.6	2.2	3.2	3.1
<i>Tax</i>	0.8	0.6	0.7	0.7	0.1	0.3	0.8	0.8
PAT/RoAA	1.6	1.5	1.4	1.5	1.5	1.8	2.3	2.3
<i>Equity Multiplier (x)</i>	6.2	7.2	8.0	8.7	9.2	8.0	7.6	8.2
ROAE	10.0	10.5	11.6	12.7	14.1	14.4	17.5	18.6

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