




Industry
Bloomberg
BSE CODE

Financial
LTFH IN
533519

RATING	NEUTRAL
CMP	118
Price Target	119
Potential Upside	1%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	156/79
Mkt Capital (Rs Cr)	23,366
Free float (%)	33%
Avg. Vol 1M (,000)	654
No. of Shares (Cr)	200
Promoters Pledged %	5%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4,781	5,572	6,176
PPP	4,658	5,533	6,138
PAT	2,232	2,046	2,953
NIM %	5.39	5.48	5.65
EPS (Rs)	11.2	10.2	14.8
EPS growth (%)	74.4	(8.3)	44.3
ROE (%)	18.0	14.7	17.8
ROA (%)	2.3	1.9	2.5
BV	67	76	90
P/B (X)	2.3	1.5	1.3
P/E (x)	13.7	11.5	8.0

Profitability Affected Due to Sluggish Loan Growth and Higher Provisioning

3QFY20 Result Update

- NII has grown at the rate of 9% on the back of sequentially steady AUM at Rs 99454 Cr. Other income grew at a stronger rate of 14% YoY. The PAT stood at the steady YoY on the back run down of the defocused business and high provisioning.
- NIM + Fees stood at 7.29% as at 3QFY20, the weighted average cost of the fund stood at 8.54% with a decline of 7 bps sequentially.
- AUM has grown 15% YoY majorly driven by the rural & housing segment. In rural growth was mainly driven by 2 wheelers and farm equipment at 15% YoY each, in housing business the growth was driven by the home loan segment by 31% YoY while in wholesale business the growth was driven by the IDF segment at 13% YoY.
- Defocused business reduced to Rs. 5,497 Cr in Q3FY20 (witnessing an reduction of 55% YoY & 24% QoQ).
- Disbursement stood at -30% as at 3QFY20 with a strong rundown of 47% in the infrastructure book.
- Reduction in CP from 16% to 9% in the past year, even though ALM allows a higher proportion of CP. Retail NCD - raised Rs. 1,408 Cr & PSL – Raised Rs. 1,818 Cr in Q3FY20
- The overall GNPA stood at 5.94% while NNPA stood at 2.67%, PCR stood at 57% as of 3QFY20. The rural asset quality stood improved at 3.59% with rising PCR to 66%, in the housing segment the GNPA has increased to 88 bps while PCR declined to 28% while in the Infra segment there is an improvement in GNPA to 9.05% with PCR standing stable at 57%.
- Assam portfolio stood at Rs 600 Cr with providing almost 80% for portfolio more than 31 dpd. The rejection has spiked for Assam for last couple of quarters.
- The higher share of liquid investment at Rs 13911 Cr with liquid assets at Rs. 7,083 Cr, undrawn bank lines of Rs. 4,828 Cr & back up the line from L&T of Rs. 2,000 Cr.
- The wealth management book stood at Rs 71587 Cr an increase of 4% YoY while the investment management book stood at Rs 25405 Cr an 11% increase YoY.
- CRAR stood at 20.13% as of 3QFY20.

View and Valuation

L&TFH has been focusing on growing its RoE accretive business while steadily de-growing in defocused business which led to muted loan growth sequentially. The NIM + Fees stood at 7.29% as of 3QFY20 on the back of strong collection. The GNPA has remained almost steady sequentially. Management states it will remain prudent on portfolio growth, with the overall slowdown in the market however it has remained optimistic of the tractor segment on the back of strong rural revival in FY21 along with optimistic pipeline in the infra segment going ahead. Management has been able to raise liquidity to cater to future growth, we expect the AUM growth to remain muted in the medium term on the back of rundown in the defocused business while profitability will remain affected on the back of increased provision to cater to the loss incurred on the rundown of defocused business and sluggish real estate condition. We remain cautious on the stock and decrease the estimates by 6%. We remain NEUTRAL & downgrade our TARGET to Rs 119 at P/B 1.3x FY21E

Key Risks to our rating and target

- Credit cost will be important.
- Loan growth will be crucial for profitability.

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Stable Performance

3QFY20 Results

Below Our Expectations

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY19	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	3,015	3,032	3,037	3,073	3,150	4.5%	2.5%	8,384	11,326	35.1%
Interest Exp.	1,731	1,684	1,696	1,700	1,745	0.8%	2.6%	5,196	6,545	26.0%
NII	1,284	1,348	1,341	1,373	1,405	9.4%	2.3%	3,188	4,781	50.0%
Other Income	400	423	440	555	457	14.0%	-17.7%	1,721	2,182	26.8%
Total Income	1,684	1,771	1,781	1,928	1,862	10.5%	-3.4%	4,909	6,963	41.8%
Ope Exp.	489	565	444	547	532	8.8%	-2.7%	1,423	2,305	61.9%
PPP	1,196	1,206	1,337	1,381	1,330	11.2%	-3.7%	3,486	4,658	33.6%
Provisions	420	457	595	624	605	0.4405	-0.03	2,040	1,606	-21.3%
PBT	776	749	742	757	725	-6.6%	-4.2%	1,446	3,052	111.1%
Tax	-	-	-	-	-	-	-	-	-	-
Net Profit	581	552	549	175	591	1.7%	237.6%	1,278	2,232	75%

Concall Highlights

- NIM for the quarter 3QFY20 stood at 7.26% because of strong collection efforts. NIM is expected to remain in the range of 6.7-7%. Management has guided NIM to decline on the back of a higher share of the low yielding tractor.
- Despite the diversification of liability profile, the weighted average cost of the fund has declined by 7 bps sequentially. L&T has been able to raise long terms funds more than Rs 10400 Cr in 3QFY20. Out of the total, up to Rs 1400 Cr is raised via retail NCD & Rs 2500 through privately placed NCD and PSL norm raised Rs 1800 Cr.
- Farm equipment disbursement stood strong at 6% YoY. Management state due to heavy rainfall the reservoir levels are up by 41% average Pan India.
- L&TFH has piloted consumer loans which is a deep analytic and cross-sell product where pricing is dependent on customer profiling and competition.
- Management has optimistically guided tractor will show positive growth in FY21 on the back of the initial mark of few green shoots. Infra line looks strong, management is optimistic for disbursement in 4QFY20.
- Microloan slowed down disbursement on the back of indebtedness and number of lenders to the customers. Micro loans are launched in the state of Punjab and Haryana.
- Retail Housing & LAP has witnessed good sales, majorly due to focus salaried employees. Direct sourcing is 70%. LTV for LAP is 54%
- Real estate has reduced inventory from 45 Months to 32 Months. Excluding small projects, inventory overhang stood at 25 Months. A higher preference for ready units is 17 Month. The commercial is at 17% of the book it is at a lower yield than residential.
- Andhra Pradesh discoms have cleared dues up to June 2019.
- L&TFH has increased credit rejection from 4QFY19 for the Assam portfolio, Rise in credit rejection has led to decline in the portfolio to Rs 600Cr with average ticket size standing at Rs 17000. The portfolio standing at 31 dpd amounting to Rs 130 Cr were 80% provided. Rs 112 Cr provision is provided for MFI in 3QFY20 is coming in stage 1 & 2.
- Reduction in exposure to Supertech by doing different types of the arrangement by Mar 2020. The IIFL deal has not yet received approval yet but management has guided to close the deal soon.
- Rejection rate is 48% is Pan India, while it stood at 30% for customers in the 2nd cycle financing.
- Defocused book rundown by 24% QoQ in 3QFY20 going ahead management has guided to decline the book to Rs 5500 Cr by Mar 2020. The profit from the sale of investment management book is expected to be provided for the sale of the defocused business.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	31.5	31.0	29.0	31.9	24.9	28.4	28.6	-0.44	0.21
Empl. Cost/ Tot. Exp. %	10.2	12.8	13.6	12.2	13.8	13.7	15.2	1.54	1.51
Other Exp/Tot. Exp. %	20.6	17.5	13.0	11.5	10.2	10.4	11.8	-1.21	1.39
Provision/PPP %	32.8	31.9	35.1	37.9	44.5	45.2	45.5	10.37	0.31
Tax Rate %	26.0	29.9	25.1	26.3	26.0	76.9	18.5	-6.65	-58.42
Int Exp./Int Inc. (%)	57.1	58.3	57.4	55.5	55.8	55.3	55.4	-2.02	0.08
PPP/ Net Income %	68.5	69.0	71.0	68.1	75.1	71.6	71.4	0.44	-0.21
PAT/ Net Income %	34.1	32.9	34.5	31.2	30.8	9.1	31.7	-2.74	22.66
NII Growth % (YoY)	52.0	54.1	64.2	31.3	23.4	19.9	9.4	-54.77	-10.49
PPP Growth YoY %	41.5	35.4	41.5	19.4	23.2	18.0	11.2	-30.33	-6.74
PAT Growth %	59.5	62.2	77.8	104.5	1.7	68.7	1.7	-76.09	70.42

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Overall Yield	12.0	12.4	13.0	13.0	13.2	13.0	13.1	0.12	0.08
Cost of Funds	8.3	8.3	8.5	8.5	8.6	8.6	8.5	0.04	-0.07
NIM Reported.	4.9	5.0	5.0	5.1	5.5	5.5	5.6	0.62	0.18

Exhibit: Yield and Cost

Stable Spreads

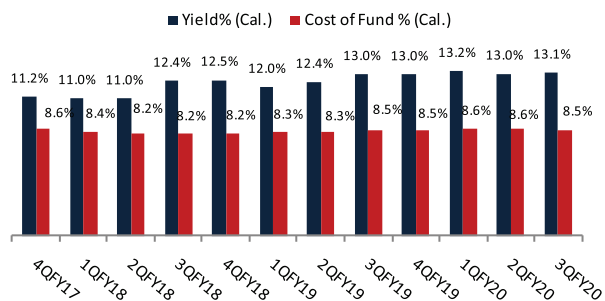
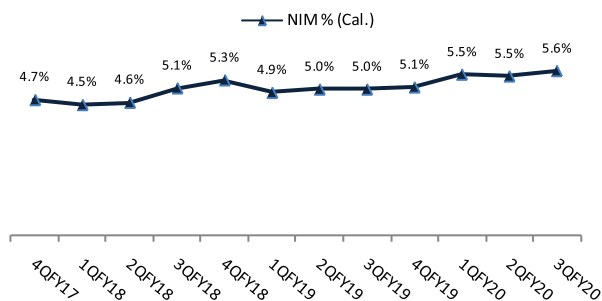


Exhibit: Net Interest Margin

NIM improved on the back of strong collection



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	15343	20184	15603	16736	13682	12774	9608	9779	9561
Growth YoY %	26	10	7	9	-11	-37	-38	-42	-30
AUM	71714	78365	86320	83376	86720	99122	99902	100257	99454
Growth YoY %	1	3	24	22	21	26	16	20	15
Borrowings	68466	71577	77242	86789	87818	91507	92887	90050	92997
Growth YoY %	21	17	21	32	28	28	45	4	6

Asset Composition

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Rural Segment %	20	22	22	26	28	26	26	27	28
Housing Segment %	24	24	24	26	27	26	26	27	27
Wholesale Segment %	53	52	39	47	44	38	39	39	40
Defocussed Business %	3	2	15	1	1	10	9	7	6

Exhibit: AUM Growth %

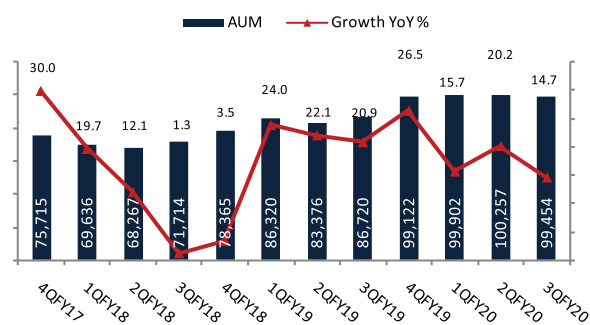
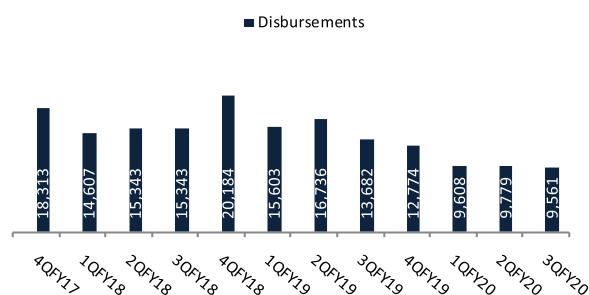


Exhibit: Disbursement



Borrowing Mix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Term Loan %	18	20	17	36	36	36	38	42	43
NCD %	39	37	43	41	42	44	38	36	36
LOC/CC/WCL/STL %	22	21	18	-	-	-	-	-	-
CP %	13	14	20	18	16	16	13	10	9
Others %	8	8	2	5	6	4	3	3	3
ECB %	-	-	-	-	-	-	2	3	2

Investment and Wealth Management

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Investment Management	57,681	60,803	69,773	64,729	66,173	69,690	67,081	65,797	71,587
Growth(%)	67	49	51	22	15	13	(4)	2	8
Wealth Management	17,330	18,347	18,866	21,065	22,887	28,164	25,589	26,309	25,405
Growth(%)	51	35	10	27	34	53	36	25	11

Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
GNPA%	5.5	4.8	7.9	7.1	6.7	5.9	5.7	6.0	5.9
NNPA%	2.9	2.3	3.2	2.8	2.6	2.4	2.5	2.8	2.7
PCR%	49	53	62	62	62	61	58	54	57

GNPA%

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Rural	8.19	6.43	4.93	4.29	3.83	3.46	3.42	3.61	3.59
Housing	0.83	0.85	0.99	0.97	0.95	0.83	0.82	0.79	0.88
Wholesale	5.22	4.72	14.10	10.91	10.92	10.45	9.68	9.24	9.05

NNPA%

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Rural %	4.12	2.56	1.73	1.50	1.33	1.34	1.26	1.45	1.26
Housing %	0.46	0.46	0.76	0.72	0.69	0.58	0.56	0.56	0.63
Wholesale %	2.79	2.48	5.75	4.23	4.24	4.53	4.57	4.22	4.07

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	2718	3084	2967	2969	1996	1999	1999	1999
Equity Capital	1718	1720	1722	1756	1996	1999	1999	1999
Preference Capital	1000	1363	1245	1213	0	0	0	0
Reserves & Surplus	4107	4656	5324	6020	9411	11450	13263	15982
Networth	5826	6376	7045	7776	11407	13449	15262	17981
Change (%)	6	9	10	10	47	18	13	18
Total Borrowings	27835	35490	43945	55231	71577	91507	95484	105033
Change (%)	25	27	24	26	30	28	4	10
Provisions	379	472	592	367	28	42	44	48
Other Liabilities	10821	10404	12164	9140	4766	1057	1276	1345
Total Liabilities	44861	52742	63746	72514	87777	106055	112066	124407
Investments	2730	2649	3563	6012	5301	8641	9073	9980
Loans	38894	46042	56468	62314	77088	91325	95891	105480
Change (%)	20	18	23	10	24	18	5	10
Fixed Assets	729	718	696	619	531	527	500	481
Other Assets	1726	2470	2617	2974	3807	3736	3883	4173
Cash Balances	783	862	402	594	1049	1827	2719	4293
Total Assets	44861	52742	63746	72514	87777	106055	112066	124407

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	4,872	5,649	6,247	7,273	8,384	11,326	12,475	13,631
Interest expended	3,074	3,568	3,644	4,250	5,196	6,545	6,903	7,455
Net Interest Income	1,798	2,081	2,603	3,023	3,188	4,781	5,572	6,176
Change (%)	21	16	25	16	5	50	17	11
Other Income	365	689	744	922	1,721	2,182	2,016	1,990
Change (%)	108	89	8	24	87	27	(8)	(1)
Total Net Income	2,163	2,770	3,347	3,945	4,909	6,963	7,588	8,165
Change (%)	30	28	21	18	24	42	9	8
Operating Expenses	912	1,077	1,313	1,276	1,423	2,305	2,055	2,027
Change (%)	47	18	22	(3)	12	62	(11)	(1)
Employee Expenses	274	352	488	494	409	825	1,044	980
Change (%)	34	29	38	1	(17)	102	27	(6)
Other Expenses	559	629	742	716	531	721	836	898
Pre-provisioning Profit	1,251	1,693	2,034	2,669	3,486	4,658	5,533	6,138
Change (%)	20	35	20	31	31	34	19	11
Provisions	426	662	781	1,590	2,040	1,606	2,333	2,194
Change (%)	56	55	18	104	28	(21)	45	(6)
PBT	825	1,031	1,253	1,079	1,446	3,052	3,201	3,944
Tax	230	324	399	36	168	820	1,154	991
Profit After Tax	595	851	854	1,042	1,278	2,232	2,046	2,953
Change (%)	(18)	43	0	22	23	75	(8)	44
Adjusted Profit After Tax	597	855	857	1,042	1,278	2,232	2,046	2,953
Change (%)	(18)	43	0	22	23	75	(8)	44

Financial Details

Key Ratios

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	40083	47230	58256	75715	83654	99122	104078	114486
Off-Book AUM		0	0	11074	5844	0	0	0
AUM Growth (%)	21.5	17.8	23.3	30.0	10.5	18.5	5.0	10.0
Borrowing Growth (%)	25.5	27.5	23.8	25.7	29.6	27.8	4.3	10.0
Loan/Borrowing Ratio	1.4	1.3	1.3	1.1	1.1	1.0	1.0	1.0
Disbursement (Rs Cr)	8134	8940	10688	18313	22664	12774	13157	13552
Disbursement Growth (%)	9	10	20	71	24	(44)	3	3
Debt/Equity (x)	4.8	5.6	6.2	7.1	6.3	6.8	6.3	5.8

Assets Quality Metrics

Gross NPA (Rs)	1,243	1,428	2,756	4,519	3,884	5,549	6,037	6,640
Gross NPA (%)	3.2	3.1	4.9	7.1	4.8	5.9	5.8	5.8
Net NPA (Rs)	890	963	2,144	3,118	1,845	2,174	2,415	2,656
Net NPA (%)	2.3	2.1	3.8	5.0	2.3	2.4	2.3	2.3
Provision Coverage (%)	29	44	37	3,100	53	61	60	60
Provision/Average Advances (%)	1.3	1.5	1.5	2.4	2.6	1.8	2.3	2.0

Margin Metrics

Yield On Advances (%)	14.8	12.9	11.8	10.9	10.9	12.8	12.3	12.5
Cost Of Funds (%)	9.4	8.9	7.6	7.5	7.8	8.0	7.4	7.4
Spread (%)	5.4	4.1	4.3	3.4	3.0	4.7	4.9	5.0
NIM on AUM (%)	5.5	4.8	4.9	4.5	4.1	5.4	5.5	5.7

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	63.1	63.2	58.3	58.4	62.0	57.8	55.3	54.7
Other Income/NII (%)	20.3	33.1	28.6	30.5	54.0	45.6	36.2	32.2
Operating Profit/ Net Income (%)	57.8	61.1	60.8	67.6	71.0	66.9	72.9	75.2
Net Profit/Net Income (%)	27.5	25.5	25.5	26.4	26.0	32.1	27.0	36.2
Cost to Income (%)	42.2	38.9	39.2	32.4	29.0	33.1	27.1	24.8
Employee Exp/ Net Income (%)	12.6	12.7	14.6	12.5	8.3	11.8	13.8	12.0
Cost on Average Assets (%)	2.2	2.2	2.3	1.9	1.8	2.4	1.9	1.7
Provisions/PPP (%)	34.1	39.1	38.4	59.6	58.5	34.5	42.2	35.7
Tax Rate (%)	27.9	31.4	31.9	3.4	11.6	26.9	36.1	25.1

Valuation Ratio Metrics

EPS (Rs)	3	5	5	6	6	11	10	15
Change (%)	(18.4)	42.9	0.3	19.3	7.8	74.4	(8.3)	44.3
ROAE (%)	10.5	11.6	12.7	14.1	13.3	18.0	14.7	17.8
ROAA (%)	1.5	1.4	1.5	1.5	1.6	2.3	1.9	2.5
Dividend Payout (%)	-	17.7	18.8	15.8	14.6	10.5	11.4	7.9
Dividend yield (%)	-	1.2	1.3	0.6	0.5	0.7	0.8	0.8
Dividend Per Share	0.8	0.8	0.8	0.8	1.0	1.0	1.0	1.0
Book Value (Rs)	34	37	41	44	57	67	76	90
Change (%)	6.4	9.2	10.5	8.2	29.1	17.7	13.5	17.8
P/B (X)	2.2	1.7	1.6	2.8	2.7	2.3	1.5	1.3
P/E (X)	21.2	12.7	12.8	20.8	24.5	13.7	11.5	8.0

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	12.0	11.6	10.7	10.7	10.5	11.7	11.4	11.5
Interest expended	7.5	7.3	6.3	6.2	6.5	6.8	6.3	6.3
Net Interest Income	4.4	4.3	4.5	4.4	4.0	4.9	5.1	5.2
Non-Fund Based Income	0.9	1.4	1.3	1.4	2.1	2.3	1.8	1.7
Core Fee Income	0.5	1.1	1.0	1.0	2.1	1.9	1.5	1.4
Trading and Other Income	0.4	0.3	0.3	0.3	0.1	0.3	0.4	0.3
Core Operating Income	5.3	5.7	5.7	5.8	6.1	7.2	7.0	6.9
Total Operating Expenses	2.2	2.2	2.3	1.9	1.8	2.4	7.0	6.9
Employee Expenses	0.7	0.7	0.8	0.7	0.5	0.9	1.8	1.7
Other Expenses	1.6	1.5	1.4	1.1	1.3	1.5	1.0	0.8
Operating Profit	3.1	3.5	3.5	3.9	4.3	4.8	0.9	0.9
Provisions	1.0	1.4	1.3	2.3	2.5	1.7	5.1	5.2
Others							2.1	1.9
PBT	2.0	2.1	2.2	1.6	1.8	3.1	3.0	3.3
Tax	0.6	0.7	0.7	0.1	0.2	0.8	1.1	0.8
PAT/RoAA	1.5	1.4	1.5	1.5	1.6	2.3	1.9	2.5
Equity Multiplier (x)	7.2	8.0	8.7	9.2	8.4	7.8	7.6	7.1
ROAE	10.5	11.6	12.7	14.1	13.3	18.0	14.7	17.8

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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