

October 25, 2018

Q2FY19 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		BUY	
Target Price	170		200	
NII (Rs.)	49,822	57,655	54,820	65,133
% Chng.			(9.1)	(11.5)
PPoP (Rs.)	44,553	52,211	46,757	56,617
% Chng.			(4.7)	(7.8)
EPS (Rs.)	9.7	11.8	11.1	13.9
% Chng.			(12.8)	(15.1)

Key Financials

	FY18	FY19E	FY20E	FY21E
Net Int.Inc. (Rs m)	37,999	49,822	57,655	66,274
Growth (%)	16.8	31.1	15.7	15.0
Op. Profit (Rs m)	36,366	44,553	52,211	60,457
PAT (Rs m)	14,650	19,380	23,574	28,136
EPS (Rs.)	7.8	9.7	11.8	14.1
Gr. (%)	31.0	24.4	21.7	19.4
DPS (Rs.)	1.0	1.2	1.4	1.6
Yield (%)	0.9	1.0	1.2	1.4
Margin (%)	5.1	5.6	5.6	5.4
RoAE (%)	14.1	15.8	18.3	18.5
RoAA (%)	1.8	2.0	2.0	2.0
PE (x)	15.1	12.1	9.9	8.3
P/BV (x)	1.9	2.2	1.8	1.5
P/ABV (x)	2.2	2.7	2.1	1.7

Key Data

LTFH.BO | LTFH IN

52-W High / Low	Rs.213 / Rs.111	
Sensex / Nifty	33,690 / 10,125	
Market Cap	Rs.234bn / \$ 3,196m	
Shares Outstanding	1,997m	
3M Avg. Daily Value	Rs.3312.22m	

Shareholding Pattern (%)

Promoter's	63.97
Foreign	8.80
Domestic Institution	5.10
Public & Others	22.13
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(11.3)	(29.2)	(40.0)
Relative	(3.5)	(27.5)	(41.1)

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Risky exposures an overhang

Quick Pointers

- Sensitive sector exposures, viz, default ILFS, construction finance exposure to Supertech and Kerala deluge – headwinds that could impact earnings
- Ring-fenced exposures, steady loan growth, NPA decline maintained RoA

LTFH earnings performance beat estimates with lower provisioning and steady loan growth (24% YoY) leading to sturdy 62% YoY growth in PAT at Rs5.6bn (PL: 4.85bn). While the legacy stressed assets stand sufficiently addressed with consistent PCR improvement and resultant asset quality betterment (steep 385bps decline in GNPA YoY as observed in Q2FY19), the overhang now emerges from the concerns over certain sensitive exposures, viz; default ILFS, construction financing to problematic Supertech and Kerala deluge raise especially in light of current market turmoil. To err on the side of caution, we marginally increase our GNPA estimates (~up to 6-7% over FY19-21E vs 5% earlier) and provision estimates coupled with tad cut on our loan growth targets (19-20% as against earlier 21-22%) as red flags emerge on credit risks augmentation. Despite Management confidence with respect to ring fencing exposures to aforementioned accounts, given the uncertainty in environment we downgrade the stock and recommend ACCUMULATE at dips (stock has corrected ~50% in recent periods) and build in EPS deterioration (16%). Our RoA estimates now stand at 2% and RoE still healthy at 19% by FY21. We roll over target multiple to Sep-21 ABV and arrive at TP of Rs170 (earlier Rs200) valuing lending book at 2.0x and Sub at Rs28.

- **Business momentum quite healthy:** Non-wholesale loan mix continues to improve its journey to 48% from 39% in Q2FY18 with strong growth of 70%+ YoY on the rural lending business. In housing, LTFH continues to improving its direct sourcing of home loans which is now at 65%+. On the wholesale business, loans grew by 8% YoY with continued focus on renewables, however a de-growth in road project exposures. With retailisation of balance sheet (at 47% today) and comfortable liquidity backed by proactive actions on riskier exposures, we envisage 19-20% loan book growth over FY20-21E.
- **Earnings benefit from lower provisions:** Earnings traction at 62% YoY (restated) came on the back of lower provisioning in-line with guidance and improved operating leverage. Also, lending NII grew by strong 51% YoY with continued fee traction helping healthy operating performance. While credit costs decline and subsiding of legacy assets pressures led to steady-state RoA expansion across businesses, the same could come into jeopardy if the credit risks pertaining to exposures towards the default company and the problematic developer were to crystallize. Given the challenging RE market with devaluation of collaterals and likelihood of liquidity squeeze (for both companies in question here), we incorporate higher NPA/provisions, trim NIM assumptions to 5.4-5.2% for FY20/21E as against 5.5% earlier (despite Management confidence over comfortable liquidity situation but on account of rising cost pressures) with resultant EPS cut in the range of 16-17%.

Exhibit 1: LTFH Q1FY19 Financials – IND-AS accounting help profitability

Consolidated (in Rs. mn)	Q2FY19	Q2FY18	YoY gr.	Q1FY19	QoQ gr.
Income Statement					
Interest income	32,200	25,582	26%	30,410	6%
Interest expense	19,885	17,424	14%	15,132	31%
NII	12,315	8,158	51%	15,279	-19%
Other Income	1,061	514	106%	1,374	-23%
Total Income	13,375	8,673	54%	16,653	-20%
Staff expenses	2,179	946	130%	1,612	35%
Other expenses	1,041	3,313	-69%	3,391	-69%
Total Operating Expenses	3,220	4,260	-24%	5,003	-36%
Operating profit	10,155	8,647	17%	11,650	-13%
Provisions	3,730	5,180	-28%	4,359	-14%
PBT	6,425	3,467	85%	7,291	-12%
Tax	2,385	14	17184%	1,894	26%
PAT	4,040	3,453	17%	5,398	-25%
PAT post associates/minority	5,591	3,447	62%	5,398	4%
Tax rate (%)	37.1	0.4		26.0	
Asset Quality at 90dpd					
GNPA (Rs m)	67,068	39,860	68%	64,800	3%
NNPA (Rs m)	25,033	22,740	10%	24,630	2%
GNPA (%)	7.1	11.0	(385)	7.9	(83)
NNPA (%)	2.8	5.4	(261)	3.2	(38)
Coverage ratio (%)	62.7%	43.0%	20	62.0%	7
Balance Sheet					
Net worth (excl. Preference Cap)	123,150	97,905	26%	119,520	3%
Borrowings	867,890	645,960	34%	772,420	12%
Loans & Advances	912,010	734,870	24%	865,310	5%
Disbursements	167,360	153,430	9%	150,330	11%
Profitability Ratios					
NIM (%)	5.54	4.56	98	7.18	(164)
RoAE (%)	20.23	14.33	590	20.18	5

Source: Company Data, PL Research

Note –Q2FY18 numbers has been restated to give retrospective effect of IND-AS transition

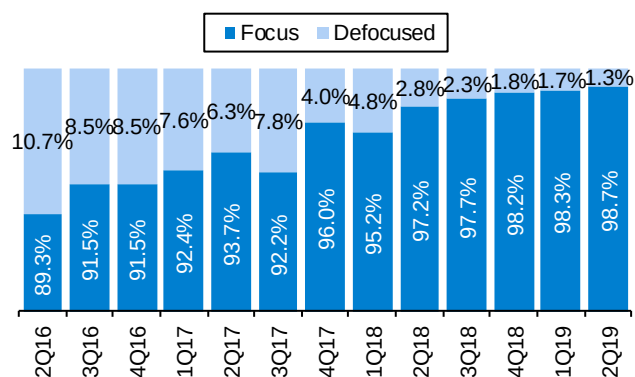
Exhibit 2: LTFH lending business – Continued traction non-wholesale lending

Loans portfolio (Rs mn)	Q2FY19	Q2FY18	YoY gr.	Q1FY19	QoQ gr.
Micro Finance	104,250	48,590	115%	91,090	14%
2W Finance	42,720	25,800	66%	37,710	13%
Farm Equipment	67,360	50,790	33%	61,990	9%
Rural Business	214,330	125,180	71%	190,790	12%
Housing Loans/LAP	56,980	80,450	-29%	91,080	-37%
Real Estate Finance	121,510	74,840	62%	112,480	8%
Housing Business	178,490	155,290	15%	203,560	-12%
Structured Corp Finance	75,890	70,730	7%	76,350	-1%
Supply Chain Finance	7,400	19,750	-63%	12,200	-39%
Infrastructure Finance	422,390	378,840	11%	398,370	6%
Renewable power	176,030	137,160	28%	173,760	1%
Power Corp	20,410	12,070	69%	19,270	6%
Roads	75,670	86,030	-12%	70,030	8%
DCM	36,940	35,790	3%	29,970	23%
Thermal & Others	113,340	107,790	5%	105,340	8%
Wholesale Business	505,680	469,320	8%	486,920	4%
Total Lending Business	912,010	734,870	24%	865,310	5%
Loans portfolio mix					
Micro Finance	11.4	6.6	482	10.5	90
2W Finance	4.7	3.5	117	4.4	33
Farm Equipment	7.4	6.9	47	7.2	22
Rural Business	23.5	17.0	647	22.0	145
Housing Loans/LAP	6.2	10.9	-470	10.5	-428
Real Estate Finance	13.3	10.2	314	13.0	32
Housing Business	19.6	21.1	-156	23.5	-395
Structured Corp Finance	8.3	9.6	-130	8.8	-50
Supply Chain Finance	0.8	2.7	-188	1.4	-60
Infrastructure Finance	46.3	51.6	-524	46.0	28
Renewable power	19.3	18.7	64	20.1	-78
Power Corp	2.2	1.6	60	2.2	1
Roads	8.3	11.7	-341	8.1	20
DCM	4.1	4.9	-82	3.5	59
Thermal & Others	12.4	14.7	-224	12.2	25
Wholesale Business	55.4	63.9	-842	56.3	-82
Defocused Business	1.5	-2.0	351	-1.8	333

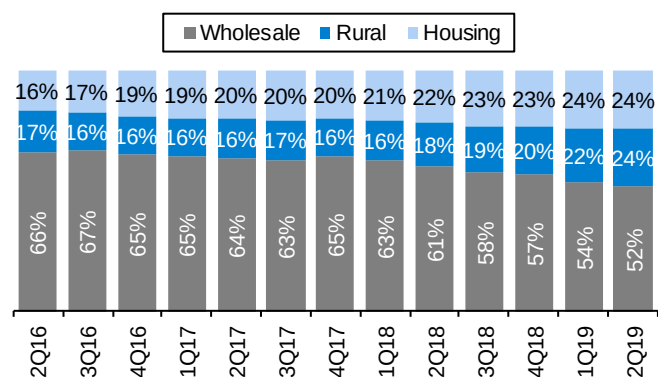
Source: Company Data, PL Research

Key Concall Highlights

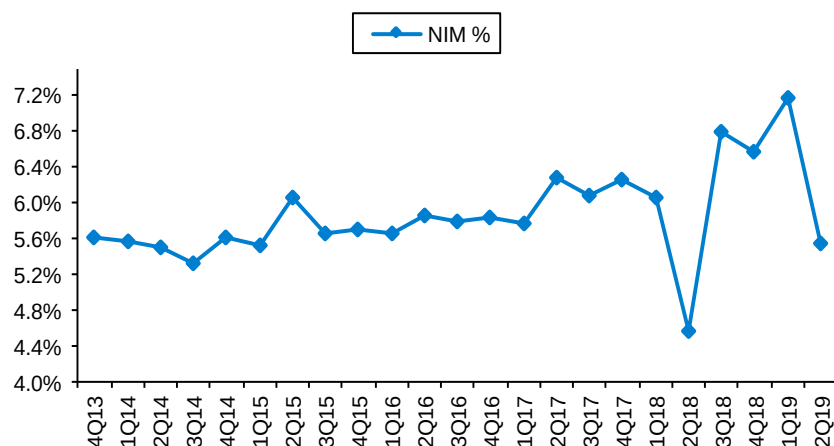
- **ILFS exposure:** Total exposure stands at Rs 18bn with exposure limited to specific SPVs which are subsidiaries of ITNL and not the default parent/ subsidiary. The exposure spans across 4 Annuity projects (3 operational, 1 CoD has been applied for) and 2 Toll road projects (both operational). Of Rs 18 bn exposure, Rs 7.22 bn is domiciled in L&T IDF and backed by Gov guarantees. The remaining 2 toll projects are secured through collection of toll. The actual traffic meets the projections. The projects have a track record of 3 and 10 years respectively. The future growth in traffic has been modelled using conservative traffic growth of 2% to 2.5%. Cash flows for all the projects are secured through water tight escrow accounts with LTFH having its lien. All the projects have Debt Service Reserve Account and other reserves amounting to ~ Rs. 450 Cr and are self sustaining without any further equity infusion required from the promoter.
- **Supertech exposure:** Exposed across 3 projects which stand in mid to advance stages of completion, Rs 8bn exposure carries cash cover of 1.98x, security cover of 2x. Project stands ahead on sales, collections and repayment, and on par against construction progress with Rs.420mn pre-payment already received through escrow mechanism. LTFH being sole lender also benefits from the retail sales, the ATS of which stand at Rs 42-60 lakhs and early warning indicators in place to combat any pressures.
- **Kerala deluge:** With Rs 8.2bn exposure in Kerala geography, the flood affected exposure has stood at Rs 5.5bn. With timely proactive measures in place, ~98.5% customers have made payments in September or October and ~79% customers who missed payments in September have paid at least 1 EMI in October.
- **Liquidity position:** With re-priceable assets exceeding re-priceable liabilities by Rs 135.2bn, ALM stands in good stead. The inflows include asset maturities, asset repayments, liquidity, (Rs. 61.66 bn cash, FDs and other liquid instruments) and unutilized bank lines (Rs. 41.46 bn) coupled with back up line from L&T (Rs. 20.00 bn) and 50% of liabilities stand at fixed rates for period of 4 years. Past 6 months, the total liability costs have inched only marginally from 8.23% to 8.33% today.
- **LAP:** Q2 LAP exposure stood at 3.4 bn, selective loans with conservative LTV 50-55% given the unreliability of valuations and liquidity squeeze for most SMEs. With 65% of outstanding pertains to self employed residential category, the geographic spread is restricted to large Tier I cities (Mumbai, NCR, Pune Bengaluru). Close monitoring of 0 dpd bucket and EWS trends staying strong, do not expect any deterioration in asset quality.

Exhibit 3: De-focused book continues to run-off


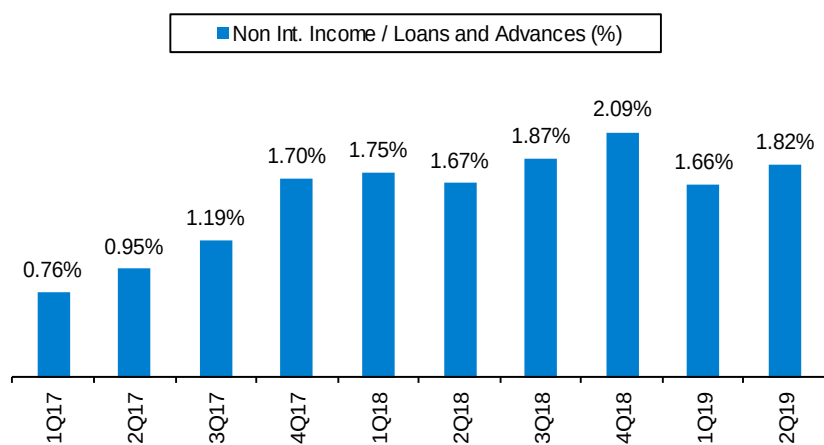
Source: Company, PL

Exhibit 4: Mix tilting towards Rural & Housing


Source: Company, PL

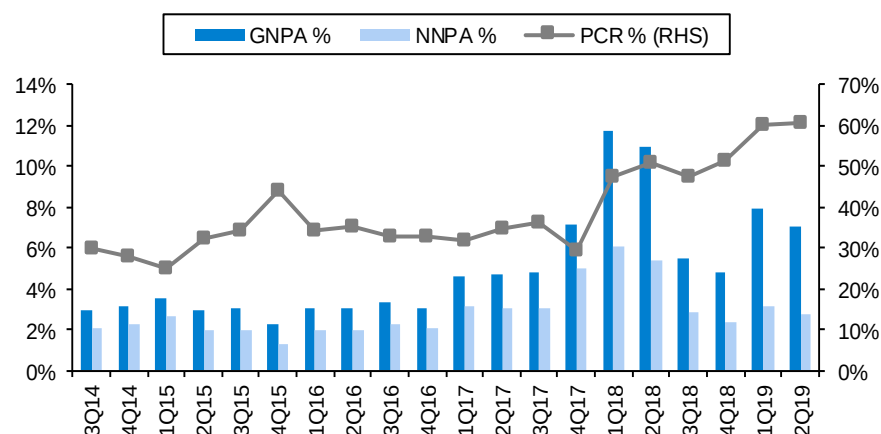
Exhibit 5: Margins decline as funding costs pressures firm up


Source: Company Data, PL Research

Exhibit 6: Fee momentum slightly picks up


Source: Company Data, PL Research

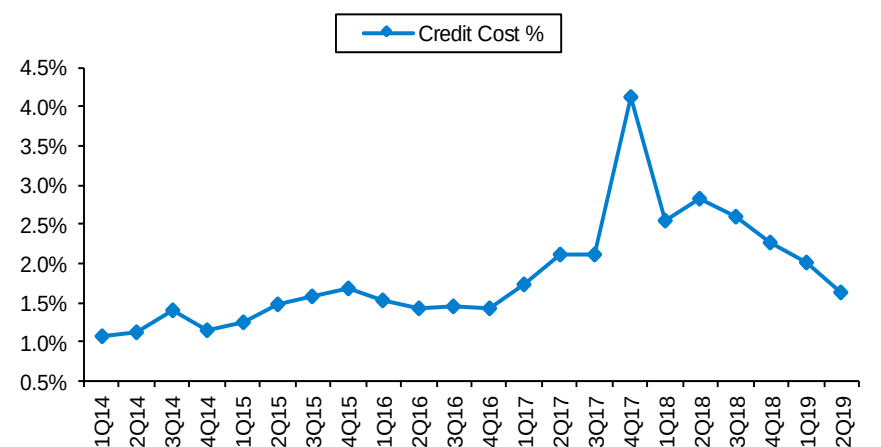
Exhibit 7: Asset quality begin to normalize



Source: Company Data, PL Research

Note – Q1/Q2FY19 includes assets taken transition to IND-AS and should be read as Stage-3 assets which includes GNPA, RBI Dispensation & Weaker standard accounts

Exhibit 8: Credit costs continues to decline as asset quality pressures recede



Source: Company Data, PL Research

Earnings Change Underlying Assumptions

Numbers have been reinstated taking into account the second order impact on P&L on back of slightly lower credit cost requirement, positive income amortization and negative adjustments on opex stabilizing leading to positive impact on BV which we factored in our estimates based on current provided data. However, to err on caution, we trim our growth and EPS estimates to incorporate any risks arising off the sensitive accounts exposures in medium term.

Exhibit 9: Change in estimates table

(Rs mn)	Old			Revised			% Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net Interest Income	54,820	65,133	-	49,822	57,655	66,274	(9.1)	(11.5)	-
Operating Profit	46,757	56,617	-	44,553	52,211	60,457	(4.7)	(7.8)	-
Net Profit	22,093	27,614	-	19,319	23,507	28,063	(12.6)	(14.9)	-
EPS (Rs)	11.1	13.9	-	9.2	11.4	13.8	(16.8)	(17.9)	-
GNPA (%)	6.8	6.2	-	6.9	6.3	5.5	0.9	1.0	-
RoA (%)	2.1	2.3	-	1.9	1.9	2.0	(11.1)	(16.4)	-
Price Target (Rs)	200			170			-13.0		
Reco	BUY			ACCUMULATE					

Source: Company, PL

Exhibit 10: We reduce our TP to Rs170 (from Rs200) based on 2.0x SOTP, downgrade the stock to ACCUMULATE RATING

PT calculation and upside	
Fair value of Consol Biz - P/ABV	137
Fair value of AMC	28
Fair value of PE/wealth management	6
Total - Fair value of LTFH	170
Target P/ABV - lending business on FY20 basis	2.0
Target P/E	12.0
Current price, Rs	117
Upside (%)	46%
Dividend yield (%)	1%
Total return (%)	47%

Source: Company Data, PL Research

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Inc. / Opt. Inc.	91,260	119,143	142,678	168,432
Interest Expenses	53,261	69,321	85,023	102,158
Net interest income	37,999	49,822	57,655	66,274
Growth(%)	16.8	31.1	15.7	15.0
Non-interest income	13,740	14,839	16,323	17,955
Growth(%)	98.5	8.0	10.0	10.0
Net operating income	51,738	64,661	73,977	84,229
Expenditures				
Employees	5,034	6,343	6,661	7,193
Other Expenses	9,819	13,256	14,581	16,039
Depreciation	519	509	524	540
Operating Expenses	14,853	19,599	21,242	23,233
PPP	36,366	44,553	52,211	60,457
Growth(%)	36.3	22.5	17.2	15.8
Provisions	18,967	18,764	20,116	21,500
Profit Before Tax	17,398	25,789	32,096	38,957
Tax	2,748	6,409	8,522	10,821
Effective Tax rate(%)	15.8	24.9	26.6	27.8
PAT	14,595	19,319	23,507	28,063
Growth(%)	40.0	32.4	21.7	19.4

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Source of funds				
Equity	19,957	19,957	19,957	19,957
Reserves and Surplus	105,542	96,010	118,201	142,369
Networth	126,730	117,198	139,389	163,557
Growth (%)	58.2	(7.5)	18.9	17.3
Loan funds	726,115	903,339	1,079,931	1,282,242
Growth (%)	19.0	24.4	19.5	18.7
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	39,435	61,299	66,203	71,499
Total Liabilities	892,279	1,081,836	1,285,523	1,517,298
Application of funds				
Net fixed assets	11,310	11,704	12,130	12,591
Advances	782,992	962,483	1,154,979	1,374,425
Growth (%)	27.0	22.9	20.0	19.0
Investments	48,433	53,277	58,604	64,465
Current Assets	27,895	30,127	32,537	35,140
Net current assets	27,895	30,127	32,537	35,140
Other Assets	21,648	24,246	27,272	30,677
Total Assets	892,279	1,081,836	1,285,523	1,517,298
Growth (%)	23.1	21.2	18.8	18.0
Business Mix				
AUM	836,537	938,986	1,114,978	1,336,493
Growth (%)	25.5	12.2	18.7	19.9

Profitability & Capital (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	5.1	5.6	5.6	5.4
ROAA	1.8	2.0	2.0	2.0
ROAE	14.1	15.8	18.3	18.5

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Int. Inc. / Operating Inc.	26,302	27,483	30,410	32,200
Income from securitization	-	-	-	-
Interest Expenses	13,596	14,373	15,132	19,885
Net Interest Income	12,706	13,111	15,279	12,315
Growth (%)	36.1	30.5	48.2	50.9
Non-Interest Income	709	1,901	1,374	1,061
Net Operating Income	13,415	15,012	16,653	13,375
Growth (%)	33.9	39.0	43.9	54.2
Operating expenditure	4,006	4,671	5,003	3,220
PPP	9,409	10,341	11,650	10,155
Growth (%)	-	-	-	-
Provision	4,928	4,746	4,359	3,730
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,480	5,595	7,291	6,425
Tax	636	1,504	1,894	2,385
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	14.2	26.9	26.0	37.1
PAT	3,845	4,091	5,398	4,040
Growth	39	30	60	(618)
AUM	759,630	836,540	865,310	912,010
YoY growth (%)	22.6	25.5	24.3	24.1
Borrowing	684,660	715,770	772,420	867,890
YoY growth (%)	24.3	19.9	20.6	34.4

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	117	117	117	117
EPS (Rs)	7.8	9.7	11.8	14.1
Book value (Rs)	62	54	66	79
Adj. BV(Rs)	53	43	56	70
P/E(x)	15	12	10	8
P/BV(x)	2	2	2	1
P/ABV(x)	2	3	2	2
DPS (Rs)	1	1	1	2
Dividend Payout Ratio(%)	16.4	14.9	14.3	13.7
Dividend Yield(%)	0.9	1.0	1.2	1.4

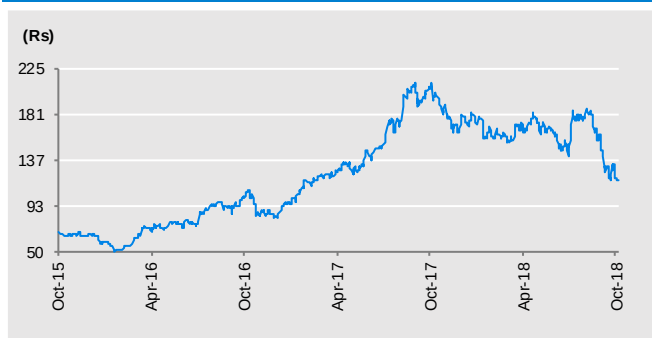
Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs(Rs m)	38,840	66,028	69,990	73,139
Net NPA(Rs m)	18,450	22,947	20,874	17,574
Gross NPAs to Gross Adv.(%)	4.8	6.9	6.3	-
Net NPAs to net Adv.(%)	2.3	2.4	1.9	1.3
NPA coverage(%)	52.5	65.2	70.2	76.0

Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	4.7	5.0	4.9	4.7
NII INCI. Securitization	4.7	5.0	4.9	4.7
Total income	6.4	6.6	6.2	6.0
Operating Expenses	1.9	2.0	1.8	1.7
PPOP	4.5	4.5	4.4	4.3
Total Provisions	2.3	2.0	1.8	1.6
RoAA	1.8	1.9	1.9	2.0
Avg. Assets/Avg. net worth	8.9	8.9	9.9	9.8
RoAE	16.2	16.6	19.2	19.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	27-Oct-17	BUY	226	199
2	10-Jan-18	BUY	226	183
3	25-Jan-18	BUY	230	177
4	13-Apr-18	BUY	230	170
5	4-May-18	BUY	230	172
6	10-Jul-18	BUY	230	150
7	23-Jul-18	BUY	203	171
8	5-Oct-18	BUY	200	126

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,597	1,193
3	Edelweiss Capital	NR	-	276
4	L&T Finance Holdings	BUY	200	126
5	LIC Housing Finance	Accumulate	569	411
6	Mahindra & Mahindra Financial Services	Accumulate	516	401
7	Shriram Transport Finance	BUY	1,692	1,094

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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