

L&T Financial Holdings

Estimate change	↓
TP change	↔
Rating change	↔

CMP: INR53 **TP: INR75 (+42%)** **Buy**

Business performance stable

Increased provisioning for COVID-19 impacts earnings

- LTFH reported 4QFY20 PAT of INR3.8b (-30% YoY), ~20% below our estimates. The miss was largely on account of lower-than-expected total income (8% miss) while opex and credit costs were in line. LTFH reported INR844m in net loss on fair value changes, which led to the topline miss.
- **LTFH created additional provisions of INR3.1b for the impact of COVID-19 during the quarter, of which INR2.1b was as per the RBI's requirement of 5% provisioning against 1-89dpd loans under moratorium.** The provision would be repeated in 1QFY21. While as of Mar'20, ~36% of AUM was under moratorium, a modest increase was seen in April.

Rural disbursements most impacted; NIM stable

- Disbursements in Rural finance declined ~20% QoQ, compared with 6–9% decline witnessed in other segments. The plunge in Rural lending was largely attributed to the Auto segment (Tractors and 2Ws). **Hence, loan growth in the segment declined to 8% YoY in 4QFY20 from 14% YoY in 3QFY20.**
- While NIM on a consolidated basis came in steady at 5.7%, lower disbursements led to ~50bp decline in the fee income margin to 1.2%.
- CoF declined 10bp QoQ to 8.4%. The share of CPs was down 300bp QoQ / 1,000bp YoY to 6%.

Improvement in asset quality

- The GNPL ratio improved 60bp QoQ to 5.4%, with PCR at 59% (+200bp QoQ).
- More importantly, even without the moratorium on 1-89dpd loans, the GNPL ratio would have been only 25bp higher at 5.6%.
- LTFH has INR6.6b worth of provisions over and above the standard asset and NPL provisions; this includes the existing INR3.5b macro-prudential provisions and INR3.1b worth of COVID-19-related provisions this quarter.

Highlights from management commentary

- Rabi crop output is strong. Economic recovery would be led by rural India.
- Credit norms have been tightened across products.
- 75% of the portfolio falls under the Orange and Green zones.

Valuation and view

Over the past year, LTFH has focused on consolidating its loan book and improving the liability franchise. The overall loan book has been largely flat and is expected to remain this way in the near term. On the liability side, the share of CPs is down to 6% YoY from 16% YoY. The proposed consolidation of lending subsidiaries would further simplify the business structure. We estimate a 4% loan book CAGR over the next three years (largely back-ended). Asset quality performance would be the key monitorable going ahead. We cut our FY21/FY22 EPS estimates by 17%/8% to factor in higher credit costs given the extended lockdown. Buy, with TP of INR75 (0.8x FY22E BVPS).

Bloomberg	LTFH IN
Equity Shares (m)	1,996
M.Cap.(INRb)/(USD\$)	105.7 / 1.5
52-Week Range (INR)	138 / 46
1, 6, 12 Rel. Per (%)	-14/-20/-34
12M Avg Val (INR M)	1166

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
Total Income	70.3	71.5	75.0
PPP	50.6	51.3	53.7
Adj. PAT	21.7	17.1	23.3
EPS (INR)	10.9	8.6	11.7
EPS Gr. (%)	-2.7	-21.3	36.3
BV/Sh. (INR)	71.9	79.0	89.4

Ratios

NIM (%)	5.8	5.9	6.0
C/I ratio (%)	28.1	28.3	28.4
RoAA (%)	2.0	1.6	2.1
RoE (%)	15.6	11.3	13.8
Payout (%)	17.8	13.9	13.9

Valuation

P/E (x)	4.9	6.2	4.5
P/BV (x)	0.7	0.7	0.6
Div. Yield (%)	2.5	1.9	2.6

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	63.7	63.9	63.9
DII	5.2	4.4	3.0
FII	10.6	12.5	11.4
Others	20.5	19.2	21.7

FII Includes depository receipts

LTFH: Quarterly performance												(INR M)
Y/E March	FY19				FY20				FY19	FY20	4QFY20E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Income from Operations	31,061	32,199	33,598	33,042	35,945	36,113	36,289	33,552	1,29,900	1,41,755	35,752	-6
Interest Expenses	15,122	16,495	18,659	18,325	19,229	18,980	18,896	18,031	68,601	75,136	19,007	-5
Net Interest Income	15,939	15,704	14,939	14,717	16,716	17,134	17,393	15,521	61,300	66,619	16,745	-7
Change YoY (%)	54.6	22.4	30.9	15.2	4.9	9.1	16.4	5.5	29.5	8.7	13.8	
Other income	643	825	852	797	950	1,005	1,052	720	3,117	3,726	891	-19
Total Income	16,582	16,529	15,791	15,514	17,666	18,139	18,445	16,241	64,417	70,345	17,636	-8
Change YoY (%)	43.3	27.5	32.4	19.4	6.5	9.7	16.8	4.7	30.3	9.2	13.7	
Operating Expenses	5,048	5,236	4,609	4,324	4,435	4,791	5,299	5,261	19,216	19,785	5,296	-1
Change YoY (%)	41.6	21.4	28.0	-16.9	-12.1	-8.5	15.0	21.7	15.2	3.0	21.9	
Operating Profits	11,535	11,293	11,183	11,190	13,231	13,349	13,146	10,980	45,200	50,560	12,340	-11
Change YoY (%)	44.1	30.6	34.3	43.6	14.7	18.2	17.6	-1.9	37.9	11.9	10.5	
Provisions	4,243	3,317	3,425	3,696	5,804	5,786	5,894	6,421	14,680	23,759	6,366	1
Profit before Tax	7,292	7,976	7,758	7,494	7,426	7,563	7,252	4,559	30,520	26,801	5,974	-24
Tax Provisions	1,894	2,385	1,949	1,972	1,932	1,084	1,338	711	8,200	5,064	1,078	-34
Profit after tax	5,398	5,591	5,810	5,521	5,494	6,479	5,915	3,849	22,321	21,736	4,896	-21
Change YoY (%)	71.8	62.2	77.8	104.5	1.8	15.9	1.8	-30.3	74.7	-2.6	-11.3	
Key Operating Parameters (%)												
Rep. Net Inc. (% of Avg Assets)	6.57	6.86	6.79	6.77	7.10	7.33	7.29					
Rep. Cost of funds (%)	8.29	8.33	8.50	8.53	8.59	8.61	8.54					
Cost to Income Ratio	30.4	31.7	29.2	27.9	25.1	26.4	28.7	32.4	29.8	28.1	30.0	236BPS
Rep Credit Cost	1.66	1.66	1.79	1.91	2.39	2.49	2.39					
Tax Rate	26.0	29.9	25.1	26.3	26.0	14.3	18.4	15.6	26.9	18.9	18.1	-246BPS
Balance Sheet Parameters												
Gross Customer Assets (INR B)	863	912	947	991	999	1,003	995	984	991	984	995	-1
Change YoY (%)	24.0	24.1	21.8	16.3	15.7	9.9	5.0	-0.7	16.3	-0.7	0.4	
Borrowings (INR B)	772	868	878	915	929	901	930	939	915	939	926	1
Change YoY (%)	20.6	32.0	28.3	27.8	20.3	3.8	5.9	2.6	27.8	2.6	1.2	
Customer Assets /Borrowings (%)	112	105	108	108	108	111	107	105	108	105	107	
Debt/Equity (x)	6.5	7.0	6.8	6.8	6.6	6.4	6.4	6.4				
Asset Quality Parameters (%)												
GS 3 (INR B)	64.8	61.2	60.3	55.5	54.6	57.5	56.6	49.4	55.5	49.4	58.7	
Gross Stage 3 (%)	7.9	7.1	6.7	5.9	5.7	6.0	5.9	5.2	5.9	5.2	5.9	
NS 3 (INR B)	24.6	23.0	22.6	21.7	22.9	26.3	24.6	20.0	21.7	20.0	25.8	
Net Stage 3 (%)	3.2	2.8	2.6	2.4	2.5	2.8	2.7	2.2	2.4	2.2	2.7	
PCR (%)	62.0	62.5	62.5	60.8	58.1	54.2	56.6	59.6	60.8	59.6	56.1	
Return Ratios (%)												
ROAA	2.4	2.3	2.3	2.1	2.1	2.4	2.2	1.5				
ROAE	18.5	18.5	18.3	16.6	16.0	18.1	16.5	10.4				

E: MOFSL Estimates



Highlights from management commentary

Business updates

- Decline is expected in Tractor and 2W sales for the industry in FY21.
- MFI – The repeat rate for good customers is 51%. NTC customers account for 17% of the portfolio. The indebtedness limit for a borrower has now been lowered to ~INR70k from ~INR80k earlier.
- The operating instruction from authorities on the ground across geographies was confusing. Local authorities across states interpreting rules in their own way has resulted in operational confusion.
- **The Rabi crop output is strong. However, some problems related to harvesting have been witnessed in certain regions. However, economic recovery would undoubtedly be led by rural India.**
- **Toll receipts for operating roads are back to 30–40% of normal collections.**
- The company would need to use the DCCO dispensation for its Real Estate lending portfolio very sparingly (less than 10% of projects would require this). Even if zero sales are assumed up to Sep–Oct, expect the Real Estate portfolio to be healthy (unless there are delays beyond the promoter’s control).
- ~75% of the portfolio belongs to the Orange and Green zones.
- The infusion of equity in the infra book is more of an accounting need to maintain certain ratios.
- Credit norms have been tightened across products, at least until there is a lingering uncertainty.

Liquidity

- TLTROs have only partially helped the NBFC sector.

Moratorium related

- Positive ALM has been witnessed even after factoring the impact of the moratorium on the asset side.
- LTFH has not asked its lenders for a moratorium.
- **Collections for March would be treated as an advance for the June payment for MFI loans. For other products, it would be considered repayment for March, and moratorium would be provided only for April and May.**
- In April, a small increase was reported in moratorium availed across segments.
- In RE lending, only 28% of the portfolio is under moratorium on account of significant prepayments (due to sweep-ins). However, a substantial increase is expected in the moratorium percentage in April and May.

Asset quality

- NS3 of sub-1% in Rural lending sets a benchmark.
- **Another 5% hit would be taken on 1-89dpd moratorium accounts in 1QFY20. There could be a small increase in this number (to ~INR2.5b).**
- The reduction in the GNPL ratio in Infra finance was from ARC sales, write-offs, and some recovery of ~INR4b.
- Collection efficiency currently stands at 33% for Farm and 50% for 2W.

Others

- Some green shoots have been observed, with a few areas opening up in the country.
- The merger of lending subsidiaries makes ALM and liquidity management more efficient. However, no tax benefit is possible from the merger of subsidiaries under Ind-AS.

- **Two large exposures in the de-focused book (one HFC and one power generation company) are largely covered. No shocks are expected from this book.**
- The new launch of unsecured business loans has been postponed to 2021.
- The first preference is to retain the IDF if the regulator grants the same concessions if the IDF is merged with the book. Otherwise, the company would consider other options, such as a sale or merger.

Valuation and view

- Since the IL&FS crisis, LTFH has been able to raise adequate debt capital at competitive prices. CRISIL affirmed its rating as AAA on stable operating metrics and a strong parentage. Despite the reduction in CP share, incremental cost of funds has been on the decline.
- At the same time, LTFH has been focusing on consolidating its loan book. Overall, the loan book has been largely flat and is expected to remain this way for the next few quarters.
- The proposed consolidation of lending subsidiaries would further simplify the business structure.
- The AMC business has done well over the past three years and contributed to 12% of consolidated PAT. We believe this business would continue to grow faster over the next three years v/s the lending segments.
- We estimate a 4% loan book CAGR over the next three years (largely back-ended). Asset quality performance would be the key monitorable going ahead.
We cut our FY21/FY22 EPS estimates by 17%/8% to factor in higher credit costs given the extended lockdown. Buy, with TP of INR75 (0.8x FY22E BVPS).

Exhibit 1: We downgrade est. to factor in lower growth and higher credit costs

INR b	Old Est.		New Est.		Change %	
	FY21	FY22	FY21	FY22	FY21	FY22
Total Income	72.1	75.9	71.5	75.0	-0.9	-1.1
Operating Expenses	20.9	22.4	20.2	21.3	-3.3	-5.0
Operating Profits	51.2	53.5	51.3	53.7	0.1	0.5
Provisions	25.1	21.4	30.0	24.7	19.2	15.4
PBT	26.1	32.0	21.3	29.0	-18.3	-9.5
Tax	5.4	6.6	4.2	5.7	-21.9	-14.3
PAT	20.7	25.4	17.1	23.3	-17.3	-8.2
Loan book	972	1,032	923	954	-5.1	-7.6
NIM (%)	5.4	5.6	5.9	6.0		
Spreads (%)	4.7	4.7	4.8	4.8		
ROAA (%)	1.9	2.2	1.6	2.1		
RoAE (%)	13.1	14.3	11.3	13.8		

Source: MOFSL, Company

Key Exhibits

Curtailed disbursements due to lockdown result in lower growth

Exhibit 2: Loan book growth (%)

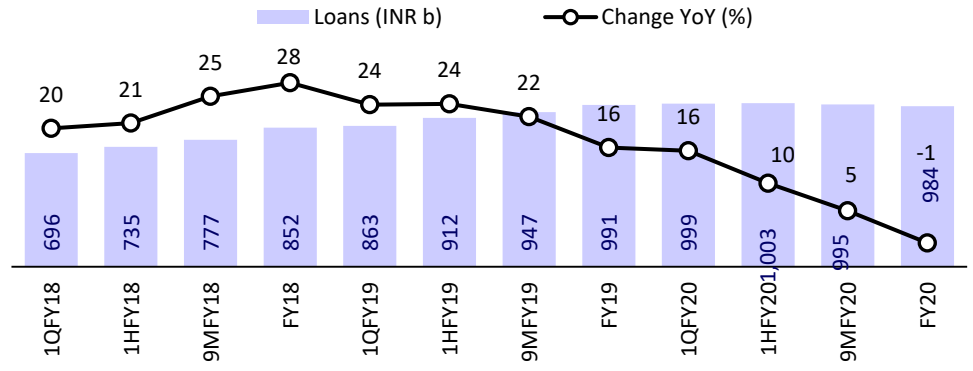


Exhibit 3: Slowdown in rural and housing finance growth continues

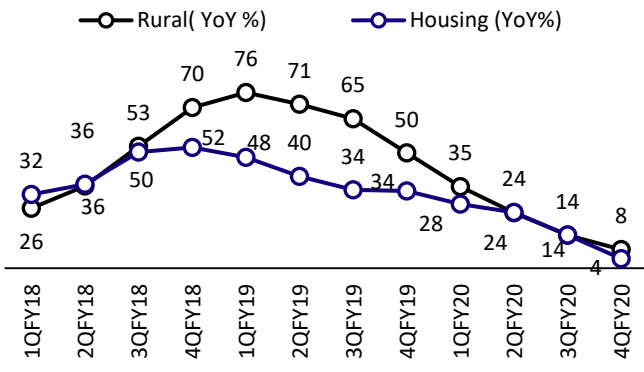


Exhibit 4: De-focused book down 50% YoY (-5% QoQ) (%)

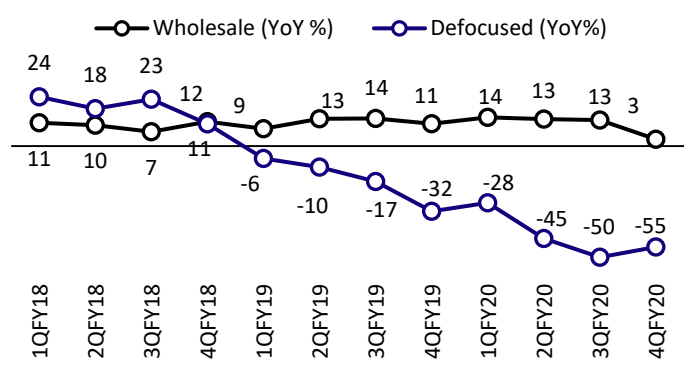


Exhibit 5: Business mix sequentially stable (%)

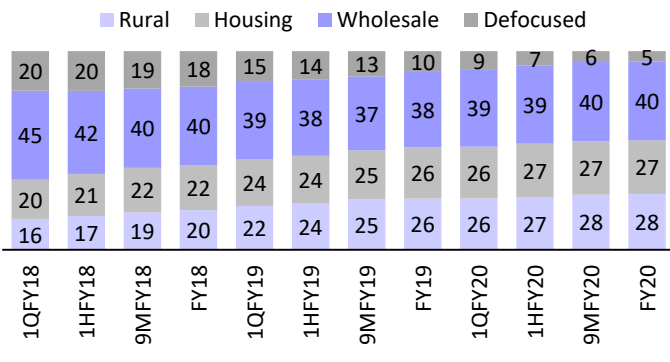
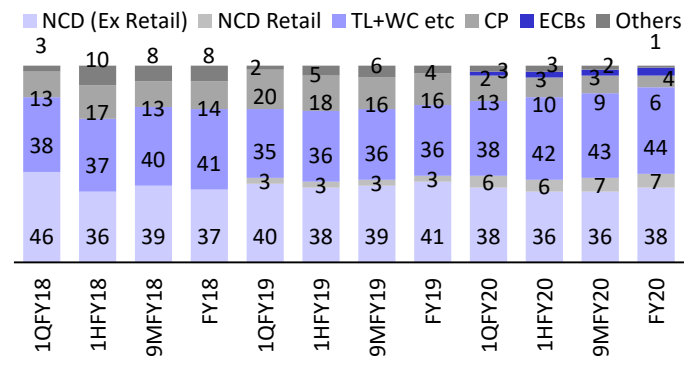
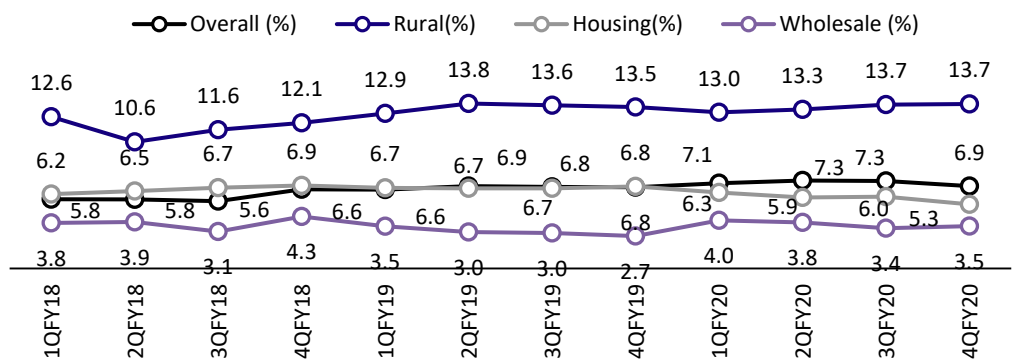


Exhibit 6: CP exposure reduced by 1000bp YoY (%)



Housing net income % down 40bp sequentially

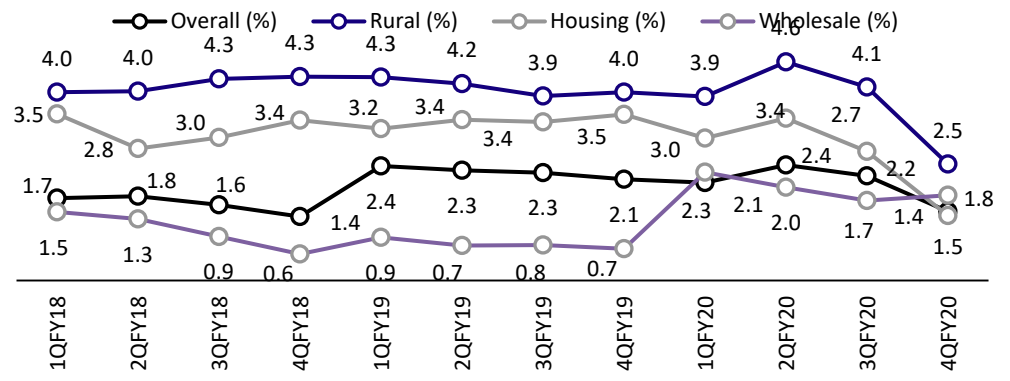
Exhibit 7: Net income (NIM + Fee Margins, %)



Source: MOFSL, Company, *4QFY20 wholesale business represents Infrastructure finance (ex-IDF)

Rural business profitability down 160bp sequentially

Exhibit 8: RoA across segments (%)



Source: MOFSL, Company, *4QFY20 wholesale business represents Infrastructure finance (ex-IDF)

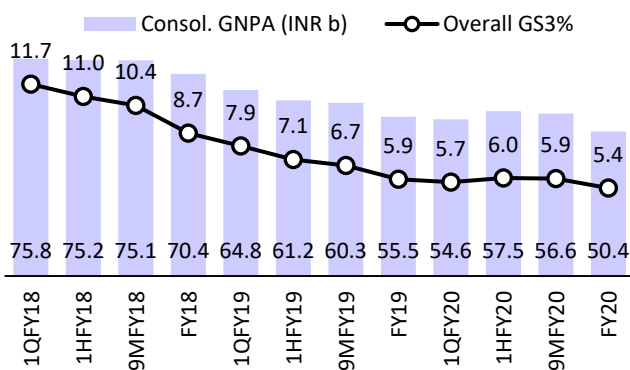
Collection efficiency for ML portfolio at 98.8% in Mar'20; would be adjusted against billing in June'20

Exhibit 9: Borrower count, being granted moratorium (%)

%	ML	Farm	TW	CL	HL & LAP	Real Estate	Infra (Non-IDF)	IDF
March'20	100%	31%	29%	32%	16%	28%	30%	21%

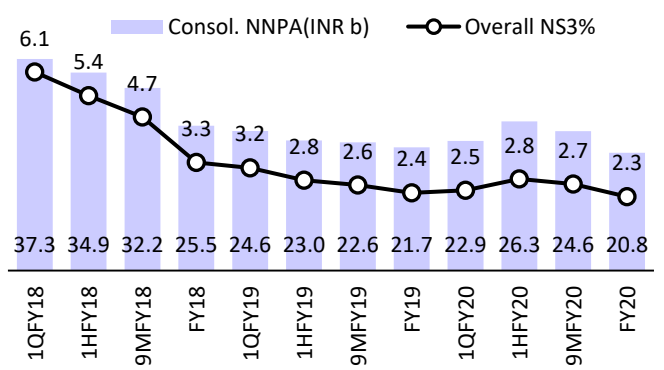
Source: MOFSL, Company, *Micro Loans, Consumer Loan

Exhibit 10: GS3 improves ~50bp sequentially (%)



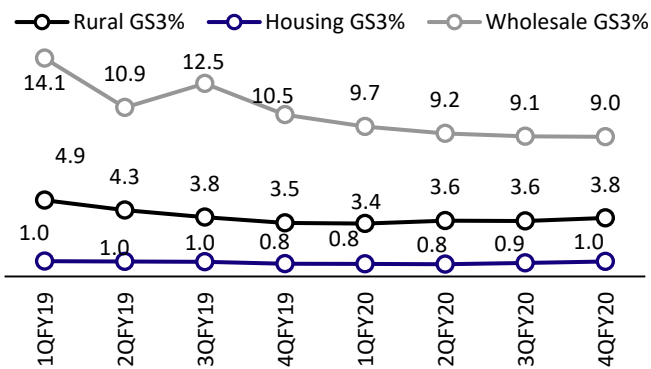
Source: MOFSL, Company

Exhibit 11: Sequential increase in PCR leads to lower NS3 (%)



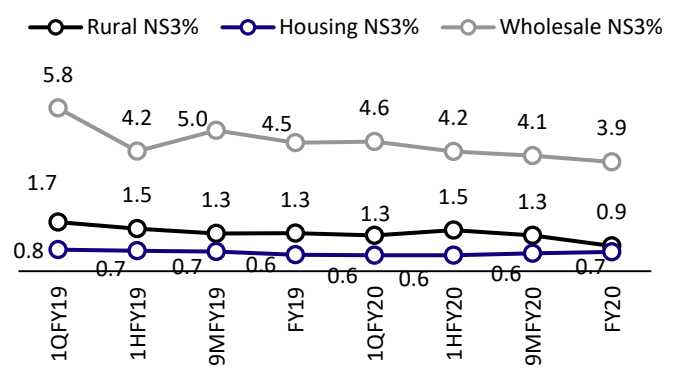
Source: MOFSL, Company

Exhibit 12: Segment-wise GS3 fairly stable in last three quarters (%)...



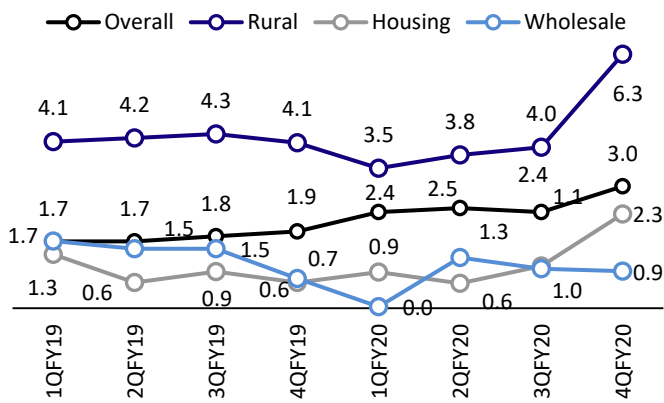
Source: MOFSL, Company; Note: Infra finance ex-IDF numbers in 4QFY20

Exhibit 13: ...with rural NS3 down 60bp during same period (%)



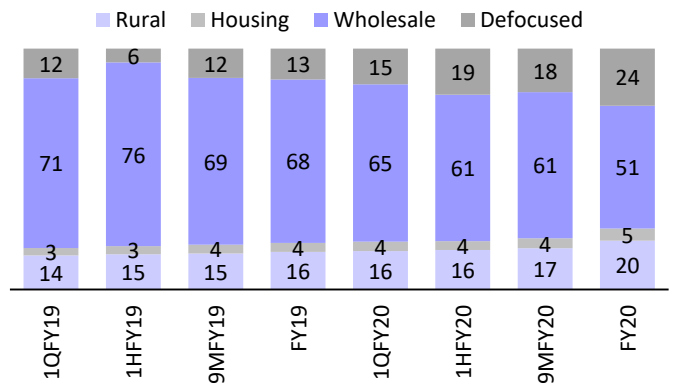
Source: MOFSL, Company; Note: Infra finance ex-IDF numbers in 4QFY20

Exhibit 14: Prudent provisioning leading to higher credit cost (%)



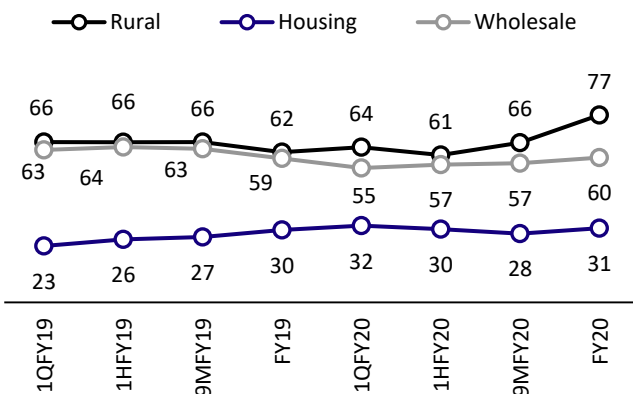
Source: MOFSL, Company, *Q4FY20 Wholesale business is ex-IDF

Exhibit 15: ~75% of stressed loans from wholesale and defocused book (%)



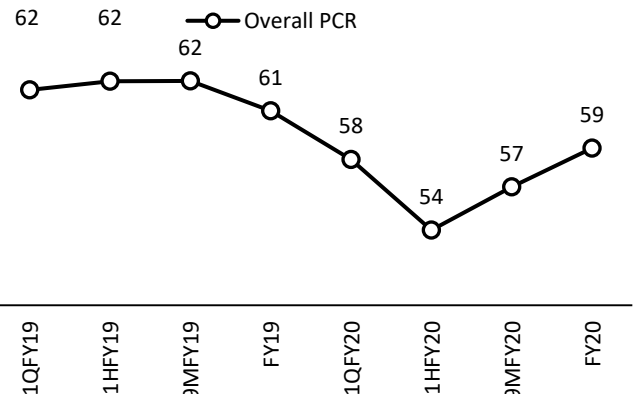
Source: MOFSL, Company

Exhibit 16: Rural PCR up 1100bp sequentially (%)



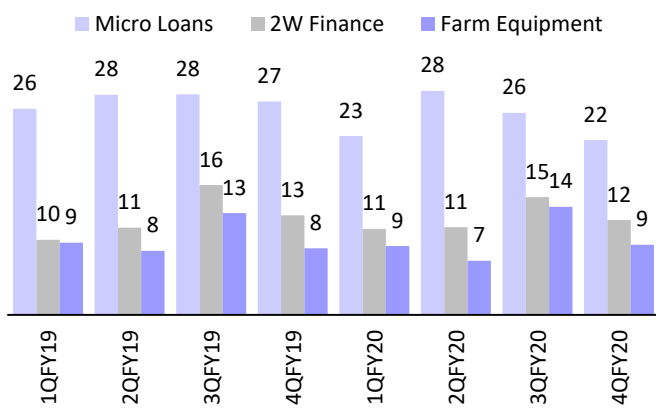
Source: MOFSL, Company

Exhibit 17: Overall PCR up 200bp sequentially (%)



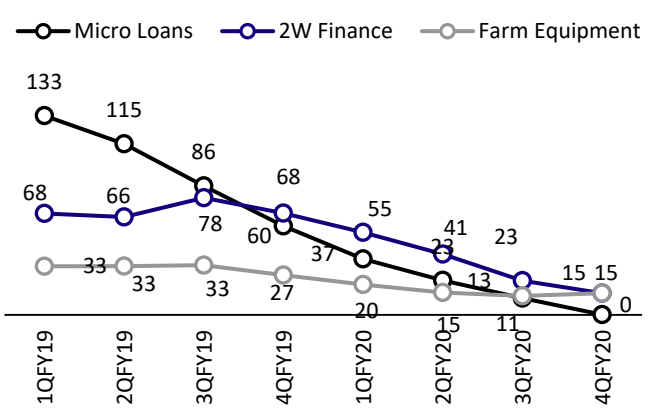
Source: MOFSL, Company

Exhibit 18: Rural disbursements (INR b)



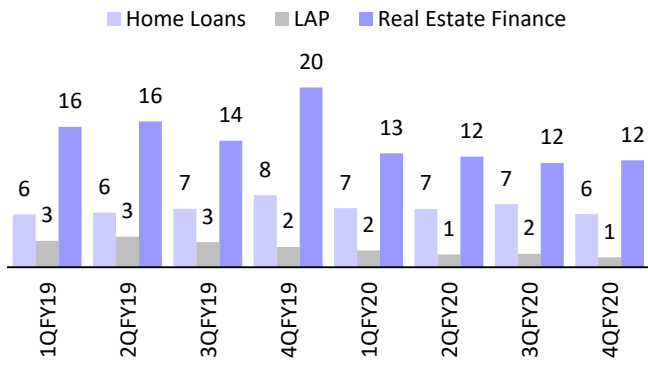
Source: MOFSL, Company

Exhibit 19: Segmental Rural loan growth YoY (%)



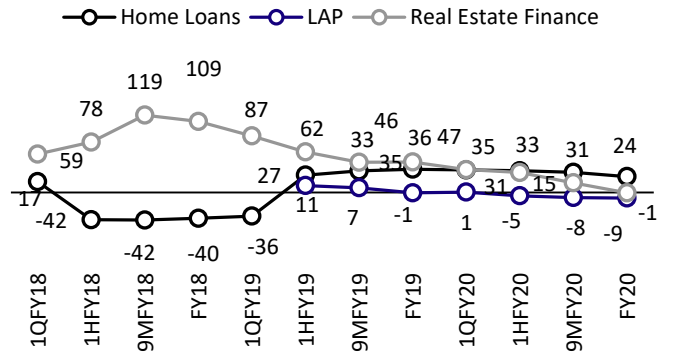
Source: MOFSL, Company

Exhibit 20: Housing disbursements (INR b)



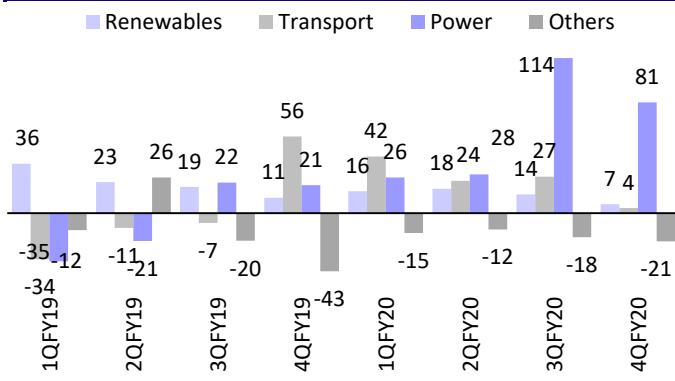
Source: MOFSL, Company

Exhibit 21: Loan growth YoY (%)



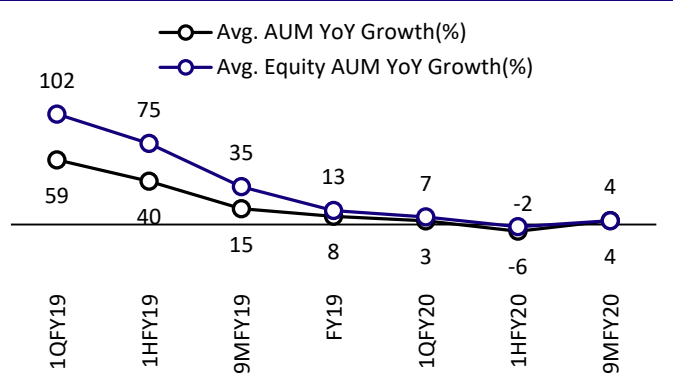
Source: MOFSL, Company

Exhibit 22: Wholesale loan book growth (%)



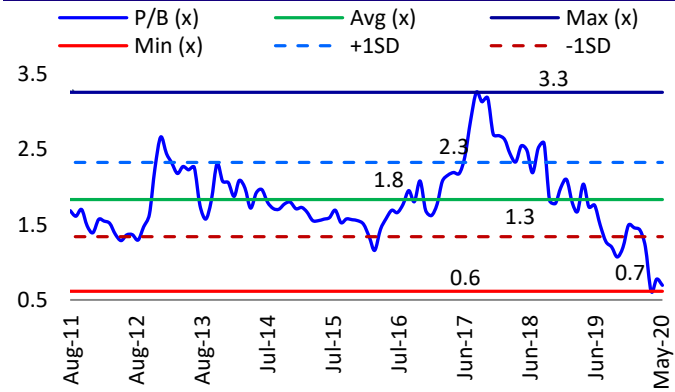
Source: MOFSL, Company

Exhibit 23: AMC segment – AUM growth (%)



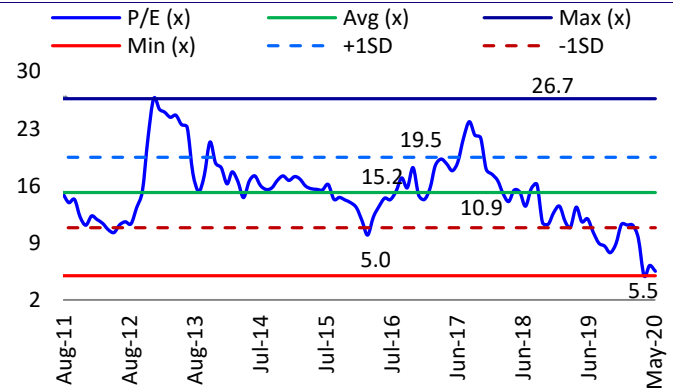
Source: MOFSL, Company

Exhibit 24: One-year forward P/B



Source: MOFSL, Company

Exhibit 25: One-year forward P/E



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	Mcap (USDb)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,512	37.1	10.3	6.7	1.3	0.8	1.7	1.7	13.1	13.2
LICHF	Buy	220	1.7	4.8	4.1	0.6	0.5	1.0	1.1	12.0	13.0
PNBHF	Neutral	174	0.4	3.4	2.6	0.3	0.3	1.1	1.4	9.6	11.5
REPCO	Buy	106	0.1	2.4	2.2	0.3	0.3	2.3	2.4	14.4	13.6
Vehicle fin.											
SHTF	Buy	576	1.9	7.7	4.9	0.7	0.6	1.6	2.4	9.0	12.7
MMFS	Buy	138	1.4	17.3	9.6	0.7	0.7	0.7	1.2	4.2	7.2
CIFC	Buy	125	1.6	8.0	6.7	1.1	0.9	2.0	2.2	14.1	14.9
Diversified											
BAF	Neutral	1,940	15.9	26.0	17.9	3.1	2.7	2.6	3.5	12.7	16.2
SCUF	Buy	680	0.6	5.1	4.5	0.6	0.5	3.0	3.4	11.4	11.8
LTFH	Buy	53	1.5	5.1	4.2	0.7	0.6	1.9	2.2	13.6	14.7
MUTH	Neutral	776	4.3	9.7	8.6	2.3	1.9	7.1	7.2	25.8	24.4
MAS	Buy	552	0.4	17.9	14.8	2.7	2.4	4.2	4.7	16.2	17.2

Financials and valuations

Income statement								(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	68,174	76,614	88,692	116,403	132,447	130,739	132,139	137,834
Interest Expended	41,241	46,270	54,492	68,600	75,136	73,085	71,879	74,612
Net Interest Income	26,933	30,343	34,200	47,803	57,311	57,653	60,260	63,222
Other Operating Income	6,533	9,110	13,970	16,636	13,034	13,813	14,776	15,834
Total Income	33,466	39,453	48,170	64,439	70,345	71,466	75,036	79,056
Change (%)	20.8	17.9	22.1	33.8	9.2	1.6	5.0	5.4
Operating Expenses	13,129	12,765	13,867	19,215	19,785	20,195	21,315	22,472
Operating Income	20,337	26,688	34,303	45,224	50,560	51,271	53,721	56,584
Change (%)	20.2	31.2	28.5	31.8	11.8	1.4	4.8	5.3
Provisions/write offs	7,810	15,899	19,845	14,681	23,759	29,969	24,744	18,645
PBT	12,527	10,789	14,458	30,544	26,801	21,302	28,977	37,939
Tax	3,990	364	1,682	8,200	5,064	4,205	5,670	7,122
Tax Rate (%)	31.9	3.4	11.6	26.8	18.9	19.7	19.6	18.8
PAT before pref dividend	8,567	10,422	12,784	22,344	21,736	17,097	23,307	30,817
Change (%)	-2.4	21.7	22.7	74.8	-2.7	-21.3	36.3	32.2
Preference Dividend	1,671	1,244	0	0	0	0	0	0
PAT to equity shareholders	6,896	9,177	12,784	22,344	21,736	17,097	23,307	30,817
Change (%)	-10.1	33.1	39.3	74.8	-2.7	-21.3	36.3	32.2

Balance sheet								(INR M)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Capital	29,668	29,691	30,301	19,988	20,048	20,048	20,048	20,048
- of which equity share cap.	17,534	17,557	19,957	19,988	19,988	19,988	19,988	19,988
Reserves & Surplus	53,237	60,202	94,111	114,498	123,766	137,837	158,763	186,336
Net Worth	82,905	89,893	124,411	134,486	143,814	157,885	178,812	206,384
Borrowings	516,157	598,111	752,483	915,070	938,945	922,825	925,221	972,599
Change (%)	22.6	15.9	25.8	21.6	2.6	-1.7	0.3	5.1
Other liabilities	38,402	37,133	15,385	10,995	12,531	18,797	28,196	42,293
Total Liabilities	637,463	725,136	892,279	1,060,551	1,095,290	1,099,507	1,132,228	1,221,277
Loans	564,679	623,145	793,300	913,246	914,625	922,825	953,836	1,023,789
Change (%)	22.6	10.4	27.3	15.1	0.2	0.9	3.4	7.3
Investments	35,633	60,115	48,433	86,408	59,793	65,772	72,349	79,584
Change (%)	34.5	68.7	-19.4	78.4	-30.8	10.0	10.0	10.0
Net Fixed Assets	6,962	6,189	5,311	11,660	11,621	12,202	12,812	13,453
Total Assets	637,463	725,136	892,279	1,060,551	1,095,290	1,099,507	1,132,228	1,221,277

E: MOSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Avg Yield on Loans	12.9	12.6	12.6	12.6	12.6	12.6	12.6	12.6
Avg. Yield on Earning Assets	12.5	11.9	11.6	12.6	13.4	13.3	13.1	12.9
Avg. Cost-Int. Bear. Liab.	8.8	8.3	8.1	8.2	8.1	7.9	7.8	7.9
Interest Spread	3.7	3.6	3.6	4.4	5.3	5.5	5.3	5.1
Net Interest Margin	5.0	4.7	4.5	5.2	5.8	5.9	6.0	5.9
Profitability Ratios (%)								
RoE	10.3	12.4	13.3	18.0	15.6	11.3	13.8	16.0
RoA	1.2	1.3	1.6	2.3	2.0	1.6	2.1	2.6
Int. Expended/Int.Earned	60.5	60.4	61.4	58.9	56.7	55.9	54.4	54.1
Other Inc./Net Income	19.5	23.1	29.0	25.8	18.5	19.3	19.7	20.0
Efficiency Ratios (%)								
Op. Exps./Net Income	39.2	32.4	28.8	29.8	28.1	28.3	28.4	28.4
Asset Quality (%)								
Gross NPAs	17,354	24,900	70,430	55,490	49,440	57,609	56,052	53,555
Gross NPAs to Adv.	3.1	3.9	8.4	5.9	5.2	6.0	5.7	5.1
Net NPAs	11,540	14,610	25,540	21,740	19,960	24,733	23,846	19,654
Net NPAs to Adv.	2.1	2.3	3.2	2.4	2.2	2.7	2.5	2.2
VALUATION								
Book Value (INR)	40.4	44.3	57.2	67.3	71.9	79.0	89.4	103.2
Price-BV (x)					0.7	0.7	0.6	0.5
EPS (INR)	3.9	5.2	6.4	11.2	10.9	8.6	11.7	15.4
EPS Growth YoY	-11.8	32.9	22.5	74.5	-2.7	-21.3	36.3	32.2
Price-Earnings (x)					4.9	6.2	4.5	3.4
Dividend per share (INR)	0.8	0.8	1.0	1.3	1.3	1.0	1.4	1.9
Dividend yield (%)					2.5	1.9	2.6	3.5

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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