



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	■	✓	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↑	■
RQ	■	↔	■
RV	■	↓	■

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 102	
Price Target: Rs. 118	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

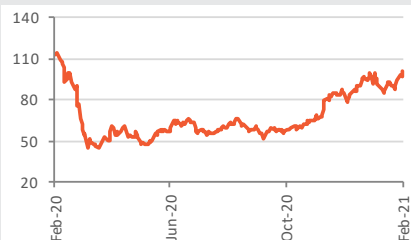
Company details

Market cap:	Rs. 25,163 cr
52-week high/low:	Rs. 118 / 43
NSE volume: (No of shares)	152.1 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	72.9 cr

Shareholding (%)

Promoters	63.7
FII	14.7
DII	5.3
Others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	52.7	63.1	-11.1
Relative to Sensex	-1.6	35.0	30.2	-35.3

Sharekhan Research, Bloomberg

Summary

- L&T Finance Holdings (LTFH) saw liability-side-led NIM expansion and trend may continue in the near term.
- Moreover, with stressed loans well-provided for, and adequate capitalisation (successful rights issue helps) will be a positive trigger for growth. Asset quality improved, GS-3 has reduced to 5.12% (down 7 bps q-o-q); with PCR at 64% (from 69% in Q2).
- Supportive regulatory environment, improving capex and corporate demand are positive triggers for LTFH, we are sanguine on long-term growth prospects
- LTFH is available at 1.3x/1.2x its FY2022E/FY2023E ABVPS; Considering the improving outlook and challenges receding we have upgraded the recommendation to Buy with a revised PT of Rs. 118.

L&T Finance Holdings' (LTFH) saw liability-side-led NIM expansion trend may continue in the near term. With stressed loans well provided for, and adequate capitalisation (successful rights issue helps) will be a positive trigger for growth going forward. LTFH saw its asset quality put up a good show, (lowest-ever GS3), and the company has guided to reduce its liquidity surplus, which are key positives for margins. LTFH was maintaining surplus liquidity at Rs. 16,442 crore (was Rs. 17,449 crore in Q2) with liquid assets of Rs. 7,709 crore (was Rs. 8,660 crore), which was a drag on margins. Progressively lower average liquid assets (down q-o-q) resulted in cost of borrowing reduction by 50 bps q-o-q (from 8.32% in Q2FY2021 to 7.82% in Q3FY2021). Going forward, we expect the further reduction in liquid assets will provide support to NIMs. LTFH (with AAA rating and a strong parentage) has seen easing of liquidity leading to prepayment of high-cost borrowing and renegotiation of interest rates which are also levers for NIMs. Q3FY2021 saw an uptick in rural and infrastructure finance, led by a revival in the economy, leading to significant m-o-m improvement in collections. Within assets under management (AUM), specific segments such as rural, two-wheelers, and home loans are showing strong growth traction. Focus on the new tractor business and increased re-finance helped gain market share to become the top farm equipment financier and stay among the top-three players in the two-wheeler financing segment. While asset quality and cost of funds outlook is improving for NBFCs and the regulation for NBFCs is also supportive, which augurs well. Improving capex and revival in corporate credit demand will also be positive for players like LTFH. LTFH's rights issue (for Rs. 3,000 crore) has been successful and adds ~350 bps to CRAR, which is another positive for balance sheet strength. Considering the improving outlook, and challenges receding we have upgraded the recommendation to Buy with a revised PT of Rs. 118.

Our Call

Valuation: LTFH is available at 1.3x/1.2x its FY2022E/FY2023E ABVPS, which we believe is reasonable. The stock has seen significant derating in the past two years due to challenges faced by most players in the NBFC sector. However, improving collection efficiency and better outlook in terms of asset quality and growth are positives. We are sanguine on the company's long-term growth prospects due to business positives such as strong parentage, stable credit ratings and well-managed asset quality, which are key long-term comfort factors. LTFH's successful rights issue (for Rs. 3,000 crore) would be helpful for balance sheet augmentation and adds ~350 bps to the CRAR. As the outlook is improving and challenges are receding, we have upgraded the recommendation to Buy with a revised PT of Rs. 118.

Key Risks

Increased delinquencies due to the pandemic magnified by slower disbursements could impact credit cost and profitability.

Valuation

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Interest Income	4,778	5,731	5,158	5,223	5,968
PAT	2,232	1,702	969	1,815	2,263
ROE (%)	16.6	11.6	5.2	9.0	10.2
ROA (%)	2.1	1.6	0.9	1.5	1.6
EPS (Rs)	11.2	8.5	3.9	7.4	9.2
ABVPS (Rs)	60.6	66.8	69.3	75.0	82.1
P/E (x)	9.1	11.8	25.5	13.6	10.9
P/BV (x)	1.7	1.5	1.4	1.3	1.2

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view – Green shoots in economy are encouraging; rural segment a bright spot

The NBFC sector is witnessing an improved long-term outlook, helped by lower borrowing costs (supported by continued accommodative monetary policy stance). Financial services companies are reporting an incremental pickup in credit demand, especially in retail and rural segments, post the unlocking of the economy. Leading indicators show recovery in economic activity, which will be positive. Increased MSPs, improved Kharif sowing, good monsoons, and adequate water storage position are leading to higher tractor demand and overall resilience of the rural economy and, therefore, the rural economy continues to be a bright spot at these times as well. However, we believe the discussion paper on NBFC regulation (expected next week) is an overhang on the NBFC sector as it may suggest measures (may include CRR/SLR etc. requirements, norms for bank conversion etc.), which adds to the uncertainty for the medium-term business growth momentum/profitability of NBFCs.

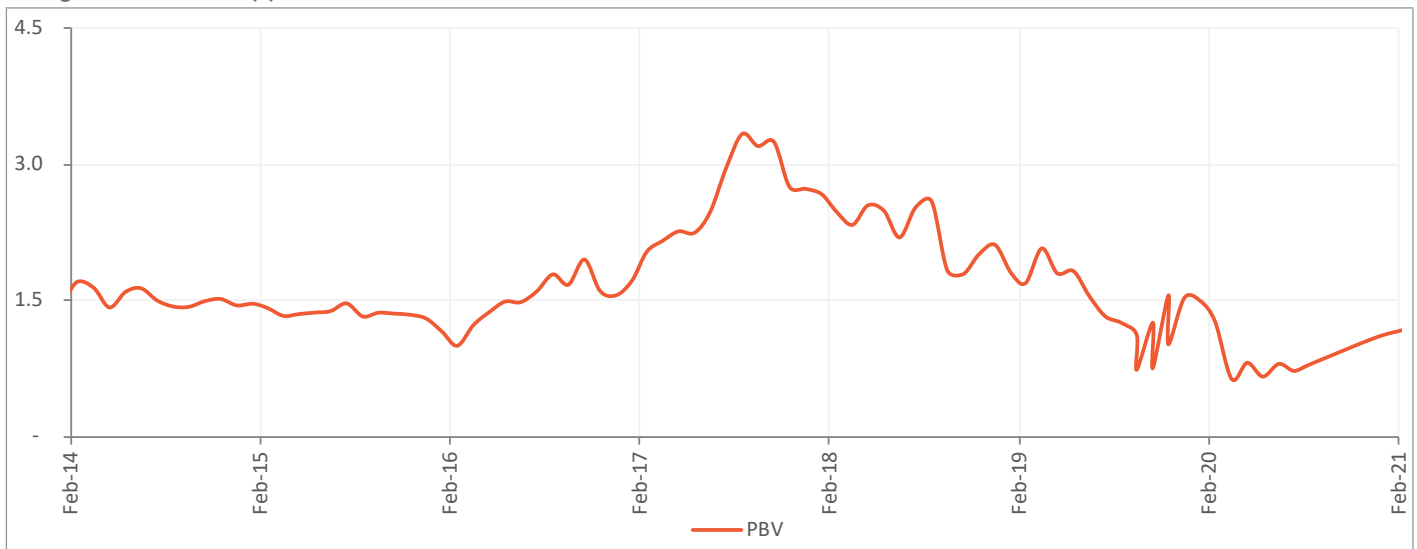
■ Company Outlook – Strong fundamentals, but low medium-term visibility

Bolstered by a strong parentage, good liquidity (positive gaps in all buckets up to one-year), and high credit ratings (LTFH is rated AAA), LTFH enjoys long-term positives that allow it to access funds at competitive rates. Even though the pandemic has impacted financial players' growth and credit costs, LTFH has responded well by prudent measures (by keeping high liquidity buffer, tightening of credit filters, and slowing disbursements), which indicate a cautious stance of a quality management team. We believe the easing of liquidity conditions enabling reduction in cost of borrowing has bottomed out. A well-provided balance sheet and, hence, the NIM trajectory going forward would depend on growth and asset quality. We believe that notwithstanding medium-term challenges, factors such as well-capitalised balance sheet, stable ratings and provision buffer indicate that LTFH is well placed to ride over medium-term challenges.

■ Valuation - Reasonable valuations, upgrade to Buy with a PT of Rs. 118

LTFH is available at 1.3x/1.2x its FY2022E/FY2023E ABVPS, which we believe is reasonable. The stock has seen significant de-rating in the past two years due to challenges faced by most players in the NBFC sector. However, improving collection efficiency and better outlook in terms of asset quality and growth are positives. We are sanguine on the company's long-term growth prospects due to business positives such as strong parentage, stable credit ratings and well-managed asset quality, which are key long-term comfort factors. LTFH's successful rights issue (for Rs. 3,000 crore) would be helpful for balance sheet augmentation and adds ~350 bps to the CRAR. As the outlook is improving and challenges are receding, we have upgraded the recommendation on LTFH to Buy with a revised PT of Rs. 118.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
L&T Finance Holdings	102	1.3	1.1	11.8	10.8	1.6	1.6	11.1	11.1
HDFC	2745	4.8	4.4	45.8	39.6	1.9	2.0	11.6	12.3
Bajaj Finance	5565	9.2	7.6	73.1	40.8	2.9	4.2	13.5	19.9

Source: Bloomberg, Sharekhan Research

About company

LTFH offering a wide range of financial products and services across rural, housing, and wholesale finance sectors. LTFH is among the largest NBFCs in India with a loan book ~Rs. 89,000 crore and with 700+ points of presence across 24 states. The company's parent is one of the leading infrastructure players in the country, which not only helps LTFH with access to pertinent industry information but also with the ability to leverage the parent's strength in business as well as ratings. The company operates in retail/wholesale lending, as well as across two-wheeler finance, tractor finance, microfinance, home loans/LAP, builder finance, infra finance, and structured finance among other product lines. LTFH is rated AAA by CARE and CRISIL

Investment theme

LTFH has been strategically re-aligning its business mix, focusing on businesses where it has a clear competitive advantage and opportunity to scale. Benefitted by a strong parent and attractive credit ratings (LTFH is rated AAA), the company works at competitive rates, which are key support to its margins. Moreover, LTFH focuses on diversification of borrowings mix with the addition of new sources of borrowings, which are key for sustainability. While the NBFC sector has seen challenges of late, beginning with the default of a large Infrastructure finance conglomerate, which continued with the present pandemic. LTFH has responded by keeping high liquidity buffer, tightening of credit filters, and slowing disbursements, indicating a cautious stance; but with improving outlook, we expect normalisation of business going forward. Factors such as well-capitalised balance sheet, stable ratings, and provision buffer are positives. However, developments such as overhang of possible change in the regulatory stance (for NBFCs) and rights issue (book value dilutive) have added to medium-term uncertainty.

Key Risks

Increased delinquencies due to the pandemic magnified by slower disbursements could impact credit cost and profitability.

Additional Data

Key management personnel

Mr. Dinanath Dubhashi	Managing Director & Chief Executive Officer
Mr. Kailash Kulkarni	Chief Executive - Investment Management & Group Head - Marketing
Mr. Sachinn Joshi	Group - Chief Financial Officer
Mr. Sunil Prabhune	Chief Executive - Rural Finance & Group Head – Digital, IT and Analytics
Mr. Srikanth JR	Chief Executive - Housing Finance & Group Head - Central Operations

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	BC ASIA GROWTH INVESTMENTS	3.2
2	ICICI Prudential Life Insurance Co	3.0
3	Citigroup Global Markets Mauritius	2.9
4	BC INVESTMENTS LTD	1.6
5	Life Insurance Corp of India	1.3
6	Vanguard Group Inc/The	0.9
7	BlackRock Inc	0.9
8	Norges Bank	0.3
9	FundRock Management Co SA	0.3
10	Dimensional Fund Advisors	0.3

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.