

L&T Finance Holdings

Refer to important disclosures at the end of this report

Real estate asset sale to accelerate retailization

CMP	Target Price
Rs 67 as of (June 20, 2022)	Rs 100 (■) 12 months
Rating	Upside
BUY (■)	48.7 %

- Apollo Global Management is in advanced talks with LTFH to acquire real estate loans worth Rs80-90bn in a deal pegged at \$1bn, reported *The Economic Times* ([Link](#)). As of Mar'22, LTFH's real estate wholesale loan book stood at Rs112bn.
- The report suggests the deal is expected to be finalized in the next few weeks. The deal will be carried out via a newly floated alternative investment fund (AIF), co-owned by both LTFH and Apollo Global, according to the report. The deal is similar to Apollo Global's previous deal with Piramal Capital and Housing Finance (a unit of Piramal Enterprises).
- The transaction will help LTFH get upfront cash, which it could use to deleverage the balance sheet and move toward its aim of becoming a retail-focused NBFC. Under the deal, the debt outstanding on LTFH's real estate book will be refinanced either via bonds or NCDs and thereafter will be moved to the AIF. These loans have a 15-16% average yield. Apollo Global will get a portfolio of real estate assets with some first-loss protection as well as an added benefit of building a good relationship with L&T.
- **Our view:** During the FY22 analyst meet, LTFH management said that since LTFH is now focusing on becoming a retail-focused NBFC, it aims to limit its exposure to the wholesale finance business, especially the real estate finance business. LTFH expects to increase the share of retail loans to ~80% of the loan book by FY26, with a 25% CAGR in retail loans. LTFH seeks to achieve this retailization with the help of fintech at scale wherein the company has made major investments in the past few years.
- Management had highlighted that LTFH was exploring inorganic opportunities to exit the real estate lending business or to at least reduce its exposure to the segment by partnering with other financiers due to an unfavorable risk-return profile of the segment.
- Since the onset of the pandemic, LTFH's real estate business has taken a more calibrated approach – completing the ongoing projects and not disbursing new real estate loans. As per the FY22 annual report, continued support to developers in construction finance has facilitated greater traction in project completion, resulting in 6% yoy growth in escrow collection and 62% yoy growth in repayments and pre-payments. LTFH's continued focus on existing real estate projects resulted in repayments/pre-payments of Rs30bn in FY22.
- In our view, a transaction of this nature would be in line with management's goal. LTFH and Apollo Global did not give any comments about the deal to the media outlet. In our view, assuming an asset-to-equity ratio of 4:1, a deal of ~Rs80bn should lead to the release of ~Rs20bn of equity, which could be utilized to leverage the fast-growing retail business further. As per the media report, there is a likelihood of first-loss protection for the buyer. It would imply that LTFH would have to maintain some contingency provisions over the life cycle of the project. Assuming the duration to be ~5 years, it would be reasonable to assume that the said provisions would be retained for this time frame. As of FY22, LTFH maintained ~2.6% of ECL provisions for its housing business (wholesale and retail). In our previous report ([Link](#)), we had assumed that a one-off gain of ~Rs25bn from the sale of its AMC business, expected to be completed in Q3FY23, would be utilized to shore up the provision coverage in the real estate and infra portfolio. We believe that a one-off gain from such a transaction could be utilized as contingency provisions. Overall, a sale of this nature would be in line with management's articulated strategy of achieving retailisation of the portfolio by FY26.

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Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs](#)

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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