

L&T Finance Holdings

BSE SENSEX
57,315

S&P CNX
15,073



Bloomberg	LTFH IN
Equity Shares (m)	2,469
M.Cap.(INRb)/(USDb)	204.3 / 2.7
52-Week Range (INR)	113 / 72
1, 6, 12 Rel. Per (%)	6/-23/-24
12M Avg Val (INR M)	1265

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Total Income	59.0	60.6	63.2
PPP	51.3	46.1	47.9
Adj. PAT	9.5	13.6	20.0
EPS (INR)	3.8	5.5	8.1
EPS Gr. (%)	-54.7	42.9	47.6
BV/Sh. (INR)	76.0	80.9	88.0

Ratios

NIM (%)	6.6	7.0	7.2
C/I ratio (%)	27.8	34.0	35.8
RoAA (%)	0.9	1.3	1.8
RoE (%)	5.7	7.0	9.6
Payout (%)	0.0	12.0	12.0

Valuation

P/E (x)	21.5	15.0	10.2
P/BV (x)	1.1	1.0	0.9
Div. Yield (%)	0.0	0.8	1.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	63.5	63.6	63.7
DII	6.6	6.6	5.0
FII	8.3	8.8	7.1
Others	21.7	21.1	24.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR83

TP: INR110 (+33%)

Buy

Divestment of its Asset Management business will further strengthen the balance Sheet

- L&T Financial Holdings (LTFH) has entered into a definitive agreement with HSBC AMC, in which the latter will acquire 100% stake in L&T Investment Management (LTIM), the investment manager of L&T Mutual Fund (LTMF), for USD425m. In addition, LTFH will also be entitled to excess cash (INR5-7b) in LTIM's books until the completion of this divestment/acquisition.
- Including the excess cash (except the minimum cash requirement of INR0.5-1b) that LTFH is entitled to, the total sale consideration would be INR37-39b (4.6-4.8% of current AUM).
- HSBC AMC would merge its existing Asset Management business (Sep'21 AUM of INR117b) with that of LTMF (Sep'21 AUM of INR803b). Subject to all regulatory approvals, LTFH expects this transaction to be completed within the next 9-12 months (i.e. by Dec'22).
- Consequent to its last rights issue in Feb'21, wherein LTFH raised INR30b, its capital adequacy is at a healthy ~25% (Tier I: 20%). While the sale of the Asset Management business will take another 9-12 months to be consummated, we believe LTFH will utilize the proceeds primarily for risk capital (improving the provisioning cover) and only a small portion for growth capital (given its already healthy capital adequacy). Alternatively, part of the gains from this transaction could also be paid out as dividends.
- As highlighted earlier, LTFH is near the bottom in terms of consolidation of its loan book and should start exhibiting loan growth in 2HFY22E. NPA recognition of a large Real Estate account in 2QFY22 has removed an overhang of potential asset quality stress and will allow LTFH to work towards its resolution. We have not made any changes to our estimates (as yet) and factor in a 7%/11% loan growth in FY23E/FY24E. We maintain our Buy rating with an unchanged TP of INR110 per share (1.2x Sep'23E consolidated BVPS).

Did LTFH get a fair valuation for its Asset Management business?

- Among listed peers, UTI AMC, with an AUM of INR2.3t, is the closest to L&T AMC at INR812b. In terms of market capitalization-to-AUM ratio, UTI AMC trades at 5.6%, whereas P/E on an annualized 1HFY22 earnings stands at 18.2x. As per the deal contours, L&T AMC's assets have been valued at 4.6% of AUM and 19.3x annualized 1HFY22 P/E, which appears reasonable (refer Exhibit 3).

Sensitivity Analysis: Impact on EPS, book value, and capital adequacy

- The divestment of the MF business will result in an extraordinary EPS of INR7.6 in FY23E (refer Exhibit 4).
- Ceteris paribus and assuming the entire proceeds from the sale of the MF business is retained for growth and risk capital, this will increase BVPS by 6-8% and CRAR by 150-190bp over FY23-24E (refer Exhibits 5 and 6).

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A value accretive acquisition for HSBC AMC at reasonable valuations

- The combined entity will be the 12th largest player in the industry in terms of total AUM (~INR940b, refer Exhibit 1).
- In terms of product mix, while HSBC AMC garners 56% of AUM from liquid and debt schemes, LTMF derives 59% of its AUM from equity and balanced schemes. The combined entity will command 43% from liquid and debt schemes and 56% from equity and balanced schemes. Equity assets earn higher yields (80-90bp) v/s debt (35-40bp) and liquid (12-14bp) schemes.
- LTMF has a higher share of Retail assets, which are relatively stickier in nature. Retail contributed 32%/11% of AUM for LTMF/HSBC AMC. The combined entity will command 29% of Retail assets (refer Exhibit 1).
- With regards to geographic spread, LTMF, owing to its wide distribution reach, has been able to garner 12% of its AUM from B30 assets as compared to 7% for HSBC. The combined entity will garner 11% contribution from B30 assets (refer Exhibit 1).

Valuation and view

- Divestment of the Asset Management business to HSBC AMC is in line with LTFH's objective of unlocking value from its subsidiaries and strengthening its Balance Sheet for the Lending business. Given its healthy capital adequacy of over 25% and expected proceeds from the sale of the MF business, LTFH is now in a position to aggressively push forward towards its stated long-term goal of retailization of its lending portfolio.
- Our recent channel checks suggest that while rural demand was recently impacted because of unseasonal rainfall and delay in farm cash flows, this segment (except 2W) has maintained the run-rate achieved in Sep'21 in 3QFY22 as well. We reiterate our view that LTFH is near the bottom in terms of consolidation of its loan book, with an expected pickup in Infra disbursements and Retail Housing/LAP. Even though we remain watchful of potential slippages in Real Estate Finance in 2HFY22, given the buoyancy in the Real Estate sector, we expect resolutions of such exposures to be relatively quicker.
- LTFH carries adequate additional provisions (including OTR provisions) of 2.2% of standard loans. These are over and above ECL provisions and should provide the necessary buffer to protect against contingencies in Micro loans and the Real Estate segment. We have not made any changes to our estimates (as yet) and maintain our Buy rating on the stock with an unchanged TP of INR110 (1.2x Sep'23E consolidated BVPS).

Key exhibits

Exhibit 1: Monthly average AUM and the respective mix for large AMCs (over INR1t), L&TMF and HSBC AMC

MAUM INR b (Oct'21)	HDFC	IPRU	SBI	ABSL	NAM	Kotak	UTI	Axis	IDFC	DSP	LTMF	HSBC	HSBC + LTMF
Liquid	840	649	978	577	296	522	476	401	104	144	83	42	125
Debt	1,462	1,528	1,243	1,191	771	913	379	586	849	219	248	30	277
Equity	1,451	2,085	1,369	1,087	1,174	1,275	854	1,490	309	651	482	48	530
Balanced	689	191	676	141	36	-	43	19	6	77	-	-	-
Others	84	409	1,965	20	531	160	529	50	6	22	0	8	8
Total	4,526	4,862	6,231	3,015	2,809	2,869	2,282	2,546	1,274	1,113	812	128	941
Retail	1,057	878	935	698	802	369	661	761	151	386	257	14	271
HNI	1,645	1,930	1,661	756	617	1,010	379	897	461	398	272	53	326
Insti	1,823	2,054	3,635	1,562	1,390	1,490	1,241	889	662	328	283	61	344
Total	4,526	4,862	6,231	3,015	2,809	2,869	2,282	2,546	1,274	1,113	812	128	941
B30	709	724	1,329	483	499	269	519	478	89	164	99	9	108
T30	3,817	4,138	4,902	2,532	2,310	2,600	1,762	2,068	1,185	948	713	119	833
Total	4,526	4,862	6,231	3,015	2,809	2,869	2,282	2,546	1,274	1,113	812	128	941
Mix %	HDFC	IPRU	SBI	ABSL	NAM	Kotak	UTI	Axis	IDFC	DSP	LTMF	HSBC	HSBC + LTMF
Liquid	19	13	16	19	11	18	21	16	8	13	10	33	13
Debt	32	31	20	40	27	32	17	23	67	20	31	23	29
Equity	32	43	22	36	42	44	37	59	24	58	59	38	56
Balanced	15	4	11	5	1	0	2	1	0	7	0	0	0
Others	2	8	32	1	19	6	23	2	0	2	0	6	1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
Retail	23	18	15	23	29	13	29	30	12	35	32	11	29
HNI	36	40	27	25	22	35	17	35	36	36	34	42	35
Insti	40	42	58	52	49	52	54	35	52	30	35	48	37
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
B30	16	15	21	16	18	9	23	19	7	15	12	7	11
T30	84	85	79	84	82	91	77	81	93	85	88	93	89
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Company, MOFSL

Exhibit 2: Comparison of the return ratios for large AMCs

INR b, FY21	LTMF	NAM	HDFC	IPRU	SBI	UTI	ABSL	Axis	Kotak
AAUM	729	2,286	4,156	4,054	5,045	1,829	2,693	1,965	2,338
PAT	1.6	6.8	13.3	12.5	8.6	4.9	5.3	2.4	3.2
% of AAUM	0.22	0.30	0.32	0.31	0.17	0.27	0.20	0.12	0.14
Total Equity	6	31	48	21	26	32	17	7	11
ROE	25.2	21.9	27.8	58.1	33.5	15.3	30.9	35.2	29.8

Source: Company, MOFSL

Exhibit 3: Valuations for L&T MF (on the basis of the announced divestment price) appears reasonable

INR b	HDFC	NAM	ABSL	UTI	LTMF
FY22E PAT *	13.8	7.9	6.6	7.0	1.9
Oct'21 AUM	4,526	2,809	3,015	2,282	812
M Cap #	507	209	151	128	38
M Cap/AUM (%)	11.2	7.4	5.0	5.6	4.6
P/E (x)	36.8	26.4	23.0	18.2	19.3

Note: *1HFY22 Annualized; # For L&T assumed USD425m @ INR75.2/USD + INR5.5b of cash as on 31 Mar 2021

Source: Company, MOFSL

Exhibit 4: Divestment will take 9-12 months to be complete and will lead to an extraordinary EPS of INR7.6 (MOSLe) in FY23E

	INR b
Consideration paid by HSBC AMC for LTIM	32.0
Book-value of investments in LTIM (as on Mar'21)	8.7
Pre-tax profits	23.3
Tax @ 20%	4.7
Post-tax profit on sale of LTIM	18.7
	INR
FY23 - Extra-ordinary EPS from divestment of MF business	7.6
FY23 EPS (excluding MF business)	7.7
Total FY23E EPS (including extra-ordinary income from sale of MF business)	15.2

Source: MOFSL, Company

Exhibit 5: Ceteris paribus, this divestment should lead to a 6%-8% increase in BVPS

Assuming entire proceeds are retained for growth and risk capital	FY22E	FY23E	FY24E
Consol. Net-worth (pre-divestment)	1,99,668	2,17,287	2,38,736
Consol. Net-worth (post-divestment)	1,99,668	2,34,847	2,53,796
BVPS (pre-divestment)	80.9	88.0	96.7
BVPS (post-divestment)	80.9	95.1	102.8
% increase in BVPS		8.1	6.3

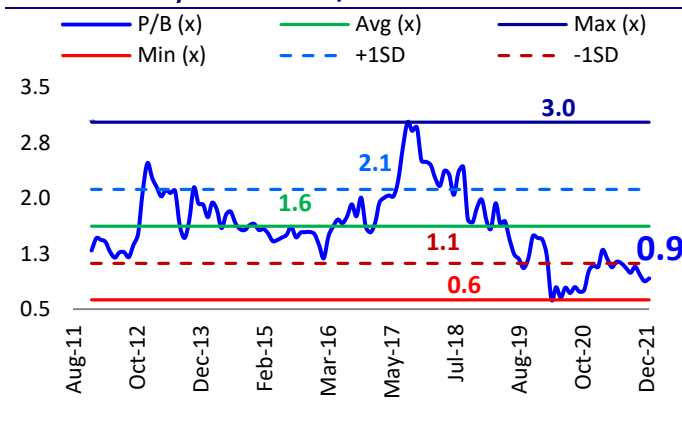
Source: MOFSL, Company

Exhibit 6: Ceteris paribus, this divestment should lead to a 150-190bp increase in CRAR

	FY21	FY22E	FY23E	FY24E
Pre-Divestment				
Tier 1 (%)	18.8	20.9	20.9	20.8
Tier 2 (%)	5.0	5.1	5.1	5.1
CRAR (%)	23.8	26.0	26.0	25.9
Post-Divestment				
Tier 1 (%)	18.8	20.9	22.8	22.3
Tier 2 (%)	5.0	5.1	5.1	5.1
CRAR (%)	23.8	26.0	27.9	27.4

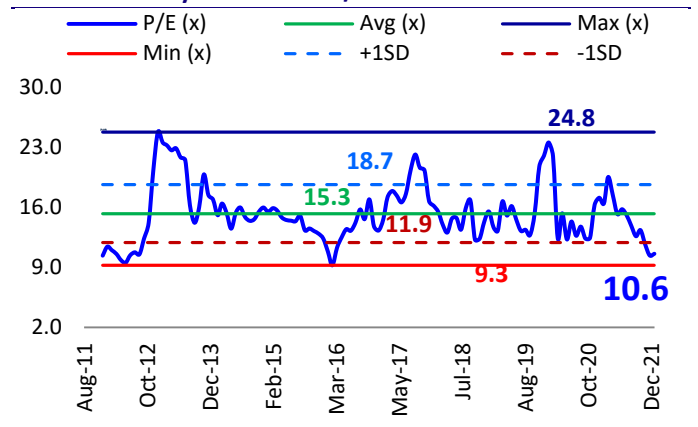
Source: MOFSL, Company

Exhibit 7: One-year forward P/B



Source: MOFSL, Company

Exhibit 8: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income statement							(INR M)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Interest Income	88,692	1,16,403	1,32,447	1,31,049	1,22,275	1,25,259	1,36,894
Interest Expended	54,492	68,600	75,136	71,999	61,628	62,034	68,264
Net Interest Income	34,200	47,803	57,311	59,049	60,647	63,225	68,630
Change (%)	12.7	39.8	19.89	3.0	2.7	4.3	8.5
Other Operating Income	13,435	13,494	8,594	5,732	5,996	7,458	9,278
Net Operating Income	47,635	61,297	65,905	64,782	66,643	70,683	77,909
Change (%)	28.3	28.7	7.5	-1.7	2.9	6.1	10.2
Other Income	535	3,118	3,726	6,276	3,273	3,928	4,713
Total Income	48,170	64,415	69,632	71,058	69,916	74,610	82,622
Change (%)	22.1	33.7	8.1	2.0	-1.6	6.7	10.7
Operating Expenses	13,867	19,215	19,785	19,749	23,797	26,673	29,791
Profit before provisions	34,303	45,200	49,846	51,309	46,119	47,937	52,831
Change (%)	28.5	31.8	10.3	2.9	-10.1	3.9	10.2
Provisions/write offs	19,845	14,681	23,046	36,357	27,985	21,171	20,245
PBT	14,458	30,520	26,801	14,952	18,134	26,766	32,586
Tax	1,682	8,200	9,798	5,463	4,570	6,745	8,212
Tax Rate (%)	11.6	26.9	36.6	36.5	25.2	25.2	25.2
PAT before pref dividend	12,775	22,320	17,003	9,489	13,564	20,021	24,374
Change (%)	22.6	74.7	-23.8	-44.2	42.9	47.6	21.7
Preference Dividend	0	0	0	0	0	0	0
PAT to equity shareholders	12,775	22,320	17,003	9,489	13,564	20,021	24,374
Change (%)	39.2	74.7	-23.8	-44.2	42.9	47.6	21.7
Proposed Dividend	2,315	2,319	2,093	0	1,628	2,403	2,925

Balance sheet							(INR M)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Equity Share Capital	19,957	19,988	20,048	24,695	24,695	24,695	24,695
Reserves & Surplus	94,111	1,14,498	1,26,876	1,63,038	1,74,974	1,92,593	2,14,042
Net Worth	1,14,067	1,34,486	1,46,924	1,87,732	1,99,668	2,17,287	2,38,736
Borrowings	7,52,483	9,15,070	9,38,945	8,85,558	8,26,319	8,84,967	9,85,278
Change (%)	19.3	21.6	2.6	-5.7	-6.7	7.1	11.3
Other liabilities	11,220	10,995	9,577	16,427	19,318	22,787	26,950
Total Liabilities	8,77,770	10,60,551	10,95,447	10,89,717	10,45,305	11,25,041	12,50,965
Loans	7,70,883	9,13,246	9,14,625	8,70,303	8,51,876	9,12,337	10,15,751
Change (%)	27.8	18.5	0.2	-4.8	-2.1	7.1	11.3
Investments	53,015	86,408	59,793	88,721	97,593	1,07,353	1,18,088
Change (%)	-19.3	63.0	-30.8	48.4	10.0	10.0	10.0
Net Fixed Assets	11,701	11,660	11,621	11,621	12,202	12,812	13,453
Other assets	42,171	49,237	1,09,408	1,19,071	83,634	92,539	1,03,673
Total Assets	8,77,770	10,60,551	10,95,447	10,89,717	10,45,305	11,25,041	12,50,965

E: MOFSL Estimates

Financials and valuations

AUM Mix							(%)
AUM Details	2018	2019	2020	2021	2022E	2023E	2024E
Asset Under Management	8,53,540	9,91,220	9,83,850	9,40,140	9,20,947	9,86,311	10,98,109
Change (%)	28.1	16.1	-0.7	-4.4	-2.0	7.1	11.3
Rural	20.0	25.8	28.1	32.0	36.4	39.1	42.2
Housing	22.4	25.7	27.0	25.2	23.9	21.8	20.3
Focused - Wholesale	39.8	38.0	39.5	39.9	37.5	38.2	37.1
Defocused - Wholesale	17.9	10.5	5.3	2.9	2.3	1.0	0.5
Ratios							(%)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Spreads Analysis (%)							
Avg. Yield on Loans	12.9	13.8	14.5	14.7	14.2	14.2	14.2
Avg. Cost-Int. Bear. Liab.	7.9	8.2	8.1	7.9	7.2	7.3	7.3
Loan Spreads	5.0	5.6	6.4	6.8	7.0	7.0	6.9
NIM on loans	5.0	5.7	6.3	6.6	7.0	7.2	7.1
Profitability Ratios (%)							
Int. Expended/Int.Earned	61.4	58.9	56.7	54.9	50.4	49.5	49.9
Other Inc./Net Income	29.0	25.8	17.7	16.9	13.3	15.3	16.9
Op. Exps./Net Income	28.8	29.8	28.4	27.8	34.0	35.8	36.1
Empl. Cost/Op. Exps.	29.5	42.9	53.7	51.0	49.9	49.0	48.3
Provisions/PPoP (%)	57.9	32.5	46.2	70.9	60.7	44.2	38.3
Asset Quality (%)							
Gross NPAs	70,430	55,490	50,370	45,040	52,883	52,684	53,541
Gross NPAs to Adv.	8.6	5.9	5.3	5.0	6.0	5.6	5.1
Net NPAs	25,540	21,740	20,780	13,770	16,955	16,925	17,163
Net NPAs to Adv.	3.3	2.4	2.3	1.6	2.0	1.9	1.7
PCR (%)	63.7	60.8	58.7	69.4	67.9	67.9	67.9
Return ratios and Capitalisation (%)							
RoE	13.9	18.0	12.1	5.7	7.0	9.6	10.7
RoA	1.6	2.3	1.6	0.9	1.3	1.8	2.1
Debt to Equity (x)	6.6	6.8	6.4	4.7	4.1	4.1	4.1
Average Assets/Equity (x)	8.6	7.8	7.7	6.5	5.5	5.2	5.2
VALUATION							
Book Value (INR)	57.2	67.3	73.3	76.0	80.9	88.0	96.7
Price-BV (x)				1.1	1.0	0.9	0.9
EPS (INR)	6.4	11.2	8.5	3.8	5.5	8.1	9.9
EPS Growth YoY	22.5	74.4	-24.1	-54.7	42.9	47.6	21.7
Price-Earnings (x)				21.5	15.0	10.2	8.4
Dividend per share (INR)	1.0	1.0	0.9	0.0	0.7	1.0	1.2
Dividend yield (%)				0.0	0.8	1.2	1.4

E: MOFSL 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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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