

L&T Finance Holdings

LOOKING FOR UNLOCKING VALUE INVESTMENT

The short term jolt suffered by the non-banking financial services (NBFC) sector due to demonetisation drive in the country have been put behind. This is reflected in the financial numbers of the NBFC sector which give confidence that NBFCs have grown within their space. The asset management industry in India is among the fastest growing in the world. The total AUM of the mutual fund industry clocked a CAGR of 12.4 per cent over FY07–16. There are 42 asset management companies operating in the country till FY16. The total AUM of mutual fund industry was recorded at USD 206.8 billion.

UNDERSTANDING BUSINESS

L&T Finance Holdings is a non-banking financial institution-core investment company. The company's segments include retail and mid-market finance, wholesale finance, housing, investment management and other business. It offers a range of financial products and services across retail, corporate, housing and infrastructure finance sectors, as well as mutual fund products and investment management services.

NBFC SECTOR

The country's financial services sector consists of the capital markets, insurance sector and non-banking financial companies (NBFCs). It is projected that national savings in India will reach US\$ 1,272 billion by 2019. Over 95 per cent of household savings in India are invested in bank deposits and only 5 per cent in other financial asset classes. This leaves a big gap to be filled up by NBFCs in future. The asset management industry in India is amongst the fastest growing in the world. Corporate investors accounted for around 45.9 per cent of total AUMs in India, while high networth individuals (HNIs) and retail

investors account for 28.6 per cent and 22.9 per cent, respectively. In the Asia-Pacific, India is among the top five countries in terms of HNIs. RBI has allowed 100 per cent foreign investment under the automatic route in 'other financial services'.

STRATEGY

L&T Finance Holdings has changed its strategy and is working hard to deliver as per schedule. The company has three stage strategy as transform, focus and deliver. It has reoriented its strategy to focus on select products and deliver steady improvement in RoE. L&T Finance Holdings is focusing on three key lending businesses as rural, housing and wholesale. The company is focusing on areas augmented by value creation in the AMC space and fee income from wealth management. It has set short

term goals so as to drive efficiency to lower cost-to-income ratio. The company's sell-down CoE is expected to increase fees and balance portfolio risks. L&T Finance Holdings' medium term goal is to shift majority of capital to prioritised segments. The company is also looking for unlocking value investment. Its long-term goal is to build strong structural capabilities for sustainable profitable growth.

MIND-BLOWING FINANCIAL PERFORMANCE

On the financial front, L&T Finance Holdings' net sales increased 15.89 per cent to ₹6178 crore in 9MFY17, as compared to the same period in previous financial year. The company's operating profit excluding other income too rose 13.28 per cent to ₹4359 crore in 9MFY17 on a yearly basis. Its net profit also

L&T Finance Holdings Disbursement in Q3FY17 (Rs Crore)



How do you look at the overall state of the economy?

The economy is at the crossroads. The government has done a lot in the last three years to kick start and give push to the economy. First of all, as far as fiscal discipline is concerned, that is, so far as the rate of fiscal deficit is concerned that has been controlled by the government right away. Inflation has been controlled and interest rates are down. Therefore, these are good signs of the economy, but at the same time, there are slowdowns because of demonetisation. Farm income has just got beaten down, but the last two years were easing. As the government puts more curbs on cash and tries to control black money, it is good for long term but for the short term, it is very mixed. We hope that, after the state elections are over then some of the reforms may pick up further till the 2019 general elections which actually the economy needs. Economy needs big investment infrastructure, housing and farms which will kick economy further.

Could you elaborate on how the company has managed to outperform in earnings, despite external risks such as demonetisation?

Nine months back, we had launched our strategy. We were company which was a subsidiary of L&T, but not doing well despite belonging to such a big group. After studying all the rights and wrongs, we came forward with new strategy. The strategy simply states that we will do the right business, i.e., not continue in business where we are not good at. We will have simple organisation structure which will help to cut costs and be able to do business better and faster. We will have the right quality of people, i.e. we will not put up too many people at the top, rather we will have people in the field who will do business and collections. We'll have right kind of supervision. This three-stage strategy has been launched nine months back. We have stopped about 14 products which were loss-making for the company. We are getting funds from infra, rural and housing themes. The negative driver for the company has been reduced. The company has witnessed double impact, by getting more business in good products and reducing loss-making products yield more profitability. Because of the simple structure organisation, the cost has been reducing substantially. So, if you take Q3FY17, our income increased by 13 per cent and the nominal cost was down by 5 per cent. If you take inflation of 6 per cent, we have grown 12 per cent. This is majorly contributing to profits. Last, but not the least, fee income, i. e. underwriting fees, advisory fees. We have launched specific products to concentrate on fee income. The growth has been

“Keep faith in us, we have been delivering & will deliver”

Dinanath Dubhashi
MD, L&T Financial Holdings



fantastic in fee income and has witnessed 29 per cent as against total income growth of 13 per cent in Q3FY17.

Doing good in profitable products, reduction of non-profitable products in the books, big reduction in cost and increased fee income contributed big results. Cost-to-income ratio of the company was lowest ever in the history of the company. Most of the times, miracles happen when they are simple. Our results are very simple which are explainable, scalable and sustainable.

What are the company's strategies to tap untapped rural markets in upcoming quarters?

To tap more, we have changed our entire strategy. Rather than following everybody else's strategy to increase branch network to grow market share, we have reduced our branch network; instead, we are getting help of big technology and telecommunication players to penetrate into untapped markets.

We are concentrating on less branch structure and penetrating through technology. We are entirely paperless and entire operations are handled by smart phones. For rural outreach, we are providing smart phones to employees and operations are functioned through that only, i.e. data entry, disbursement and collections etc. The company is following asset light model. It is following digital and data analytics and investing a lot in it. In fact, money was saved last year was all invested into technology.

Analysis Equity



boosted 17.18 per cent to ₹726 crore in 9MFY17 as compared to the same period in the previous fiscal.

L&T Finance Holdings has successfully delivered ROE of 12.81 per cent in Q3FY17 against 9.29 per cent in Q3FY16. The company's increased ROE trajectory stays in line with strategic plan targets, despite the demonetization event and substantial voluntary provisions.

On the segmental revenue front, L&T Finance Holdings has earned 25.52 per cent from rural business, 30.34 per cent from housing, 44.14 per cent from wholesale business in Q3FY17.

On the asset quality front, L&T Finance Holdings' gross NPA stood at 4.85 per cent in Q3FY17 with contraction of 102 basis points on a yearly basis. The company's net NPA also reduced by 79 basis points to 3.1 per cent in Q3FY17, as compared to the same period in the previous fiscal.

CONSISTENT PERFORMANCE

L&T Finance Holdings' topline increased at CAGR of 19.58 per cent in last five financial years ending with

FY16. The company's EBITDA too rose 16.87 per cent in FY12-FY16. Its bottomline also witnessed a CAGR growth of 13.5 per cent in the last five financial years.

FUTURE PROSPECTS

L&T Finance Holdings will continue to shed its non-core product lines and focus on those where it has a competitive advantage as it aims for an 18 per cent ROE by 2020. The company is in a transformational stage and would focus on lending in the areas of renewable energy, real estate, two-wheelers and tractors. Simultaneously, it will look to exit areas like cars, commercial vehicles and construction equipments. It had accumulated various product lines in the run-up to applying for a banking licence.

L&T Finance Holdings is bullish on affordable housing and renewable energy, both areas in which it has a sizeable exposure. The government's thrust on affordable housing had the potential to be a game-changer.

On the valuation front, L&T Finance Holdings trailing 12-month (TTM) PE is trading at 21.2x as against its peers such

L&T Finance Holdings Ltd.	
BSE Code : 533519	CMP (₹) 116.25
Particulars	Amount (₹ cr)
Net Sales	8136.00
% Change	16.80%
Operating Profit	5997.63
% Change	15.59%
Net Profit	964.49
% Change	17.49%
Equity	1754.95
EPS (₹)	4.67
FV (₹)	10.00
CMP (₹)	116.25
P/E (x)	24.89
Dividend Yield (%)	0.69
Book Value (₹)	44.46

(Trailing Four Quarter Data)

as Mahindra & Mahindra Financial Services (25.68x), Bajaj Finance (45.93x). At the same time, industry PE is trading at 20.22x which is quite in line with the company's TTM PE. Its PB is also trading at an attractive 2.62x as compared to peers such as Mahindra & Mahindra Financial Services (2.47x), Bajaj Finance (7.54x). The company has given 0.69 per cent dividend yield to its shareholders. On simple structure and new strategy implementation, we recommend our reader investors to **BUY** the stock. 

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