

April 11, 2019

Visit Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	177		172	
NII (Rs.)	69,357	79,891	67,339	79,891
% Chng.	3.0	-		
PPoP (Rs.)	58,801	68,666	57,401	69,123
% Chng.	2.4	(0.7)		
EPS (Rs.)	13.7	14.9	12.8	14.2
% Chng.	7.3	4.6		

Key Financials

	FY18	FY19E	FY20E	FY21E
Net Int.Inc. (Rs m)	37,999	58,587	69,357	79,891
Growth (%)	16.8	54.2	18.4	15.2
Op. Profit (Rs m)	36,366	49,184	58,801	68,666
PAT (Rs m)	14,650	26,317	27,414	29,748
EPS (Rs.)	7.8	13.2	13.7	14.9
Gr. (%)	31.0	69.1	4.2	8.5
DPS (Rs.)	1.0	1.2	1.4	1.6
Yield (%)	0.7	0.8	1.0	1.1
Margin (%)	5.1	6.4	6.4	6.2
RoAE (%)	14.1	21.5	21.3	19.6
RoAA (%)	1.8	2.7	2.3	2.1
PE (x)	18.7	11.0	10.6	9.8
P/BV (x)	2.3	2.7	2.2	1.8
P/ABV (x)	2.7	3.3	2.6	2.0

Key Data

LTFH.BO | LTFH IN

52-W High / Low	Rs.190 / Rs.111
Sensex / Nifty	38,585 / 11,584
Market Cap	Rs.290bn/ \$ 4,186m
Shares Outstanding	1,999m
3M Avg. Daily Value	Rs.1869.47m

Shareholding Pattern (%)

Promoter's	63.97
Foreign	8.80
Domestic Institution	5.10
Public & Others	22.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.3	8.2	(15.6)
Relative	(2.7)	(2.5)	(25.9)

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Tough market calls for caution

We visited the L&T Finance Holdings key real estate project site of Supertech in the Noida Region. L&T Finance (LTFH) has an exposure across 3 Supertech projects of Cape Town (Central Noida), Eco Village 1 (Noida Extension) and Upcountry (Yamuna Expressway). Our visit indicated that the LTFHs' timely construction finance has enabled Supertech Ltd to accelerate its project completion. While company's exposure stands ring fenced with escrow and cash cover, admittedly the unseasoned construction finance book continues to gain rapid scale as against weakness, particularly in the under-construction real estate market.

While we laud the continued strong trend on loans and earnings, we remain mindful towards the possibility of elevated provision requirement (besides Rs 2.7bn macro prudential provisions; o/w Rs 0.9bn: housing). We continue to incorporate higher credit costs (170-225bps over FY19-21E) primarily led by concerns over developer finance business and lumpy high ticket exposures. Against this backdrop and given the recent price momentum, we reiterate ACCUMULATE rating on the stock with TP of Rs177 based on 2.0x Mar-21 lending ABV and Sub value of Rs33. The stock trades at 2.4x P/ABV FY20E, 1.9x FY21. Reiterate Accumulate.

Key highlights of Supertech projects' (Noida) visit:

- Exposure of Supertechs' three projects aggregate to about Rs.8bn; Rs.0.5bn has been received as a pre-payment due to cash sweep mechanism backed by sales and asset monetization. Exposure, therefore, stands standard in the books of LTFH, however, we closely monitor the recoveries here vis-à-vis tough market conditions.
- Project boast a cash cover/receivable cover between 1.75 to 2.5x; with monthly average sales of Rs370mn.
- With 2 projects being 80% sold and another 60%, management expects nil loss given default (LGD) over this exposure. While the completion of one Cape Town project (i.e. North Eye) is expected by FY21, possibility of further delays here cannot be ruled out.

RE market concerns stay:

Despite of management confidence with respect to ring fencing exposures to aforementioned account, we maintain our cautious outlook on the real estate (RE) where we do envisage continued discomfort on account of:

- Persistent credit risk augmentation with weak funding/refinancing largely in the under-construction RE market.
- Delay in incremental credit and further developers' difficulty in meeting debt obligations with stretched cash flows, inventory pile up and tepid sales velocity.
- Preference for ready to move in units over under construction (our channel checks suggests) and fading investment market.

LTFH's housing business forms 25% and construction finance business 14% of focused loan book. The Rs 133bn construction loan book (56% of housing business) has grown rapidly (>4x) over the past three years; albeit, on a lower base.

Noida market normalizing:

With a healthy mix of residential, industrial and institutional development Noida market is largely driven by affordability.

The absorption data across three years has been improving with consistent decline in inventory overhang as new launches are undertaken only by builders with proven delivery records.

Although price normalization is the key, LTFH's cash cover/receivable cover between 1.75 to 2.5x and risk adjusted yields (avg. Construction finance yields stand at 13.5%) have been guarding it against the market risks as cited by the Management.

Selective lending:

Company has financed 5 developers across 10 projects in Noida, 10-12 relationships across 20-25 projects in NCR. LTFH stands largely focused on Category A and B Developers who have a proven track record of project completion and ability to sell.

Focusing on mid to low ticket size segments, the company stands as a sole lender in ~93% of projects financed, rest collaboration with HDFC.

Closer monitoring and diligence:

Financing stands restricted towards projects with 65% construction completion, with sufficient diligence over sales velocity and with financial covenant over the sales price of the flats sold in the respective projects.

LTFH stands involved across all stages of construction funding, namely; taking charge of the escrow, completing the project (involved in controlling project by not giving money to the developer but directly to vendors, labour contractors, cement suppliers, allied), appointing sales agents and recovering.

The company has established early warning signals and tight monitoring and control over cash flows through escrow mechanism. PWC Consultant has been roped in for closer monitoring pertaining to Supertech financing arrangement.

Supertech Project Site Visits





Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Inc. / Opt. Inc.	91,260	1,27,386	1,52,837	1,82,019
Interest Expenses	53,261	68,799	83,480	1,02,128
Net interest income	37,999	58,587	69,357	79,891
Growth(%)	16.8	54.2	18.4	15.2
Non-interest income	13,740	9,618	9,906	10,897
Growth(%)	98.5	(30.0)	3.0	10.0
Net operating income	51,738	68,204	79,264	90,788
Expenditures				
Employees	5,034	6,041	6,343	6,851
Other Expenses	9,819	12,471	13,595	14,731
Depreciation	519	509	524	540
Operating Expenses	14,853	18,512	19,939	21,582
PPP	36,366	49,184	58,801	68,666
Growth(%)	36.3	35.2	19.6	16.8
Provisions	18,967	14,896	23,030	29,670
Profit Before Tax	17,398	34,287	35,770	38,997
Tax	2,748	7,970	8,356	9,249
Effective Tax rate(%)	15.8	23.2	23.4	23.7
PAT	14,595	26,257	27,347	29,675
Growth(%)	40.0	79.9	4.2	8.5

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Source of funds				
Equity	19,957	19,957	19,957	19,957
Reserves and Surplus	1,05,542	96,010	1,18,201	1,42,369
Networth	1,26,730	1,17,198	1,39,389	1,63,557
Growth (%)	58.2	(7.5)	18.9	17.3
Loan funds	7,26,115	9,10,392	11,07,786	13,39,045
Growth (%)	19.0	25.4	21.7	20.9
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	39,435	61,299	66,203	71,499
Total Liabilities	8,92,279	10,88,889	13,13,378	15,74,102
Application of funds				
Net fixed assets	11,310	11,704	12,130	12,591
Advances	7,82,992	9,69,536	11,82,834	14,31,229
Growth (%)	27.0	23.8	22.0	21.0
Investments	48,433	53,277	58,604	64,465
Current Assets	27,895	30,127	32,537	35,140
Net current assets	27,895	30,127	32,537	35,140
Other Assets	21,648	24,246	27,272	30,677
Total Assets	8,92,279	10,88,889	13,13,378	15,74,102
Growth (%)	23.1	22.0	20.6	19.9
Business Mix				
AUM	8,36,537	9,83,963	11,71,650	14,07,900
Growth (%)	25.5	17.6	19.1	20.2
On Balance Sheet	-	-	-	-
% of AUM	-	-	-	-
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	5.1	6.4	6.4	6.2
ROAA	1.8	2.7	2.3	2.1
ROAE	14.1	21.5	21.3	19.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19E
Int. Inc. / Operating Inc.	30,878	31,532	32,440	32,536
Income from securitization	-	-	-	-
Interest Expenses	15,132	16,497	18,647	18,524
Net Interest Income	15,746	15,035	13,793	14,012
Growth (%)	52.8	17.2	20.9	6.9
Non-Interest Income	648	1,870	2,724	4,376
Net Operating Income	16,395	16,905	16,517	18,387
Growth (%)	41.7	30.4	38.5	22.5
Operating expenditure	4,990	5,256	4,599	4,783
PPP	11,405	11,649	11,918	13,605
Growth (%)	-	-	-	-
Provision	1,465	3,673	4,160	5,599
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	9,939	7,976	7,758	8,006
Tax	1,894	2,385	1,949	1,743
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.1	29.9	25.1	21.8
PAT	8,046	5,591	5,810	6,193
Growth	139	(19)	78	51
AUM	8,65,310	9,12,010	9,37,080	9,77,805
YoY growth (%)	24.3	24.1	23.4	16.9
Borrowing	7,72,420	8,67,890	8,78,180	9,10,392
YoY growth (%)	20.6	34.4	28.3	27.2

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	145	145	145	145
EPS (Rs)	7.8	13.2	13.7	14.9
Book value (Rs)	62.0	54.3	66.2	79.0
Adj. BV(Rs)	52.8	43.5	56.6	72.2
P/E(x)	18.7	11.0	10.6	9.8
P/BV(x)	2.3	2.7	2.2	1.8
P/ABV(x)	2.7	3.3	2.6	2.0
DPS (Rs)	1.0	1.2	1.4	1.6
Dividend Payout Ratio(%)	16.4	11.0	12.3	12.9
Dividend Yield(%)	0.7	0.8	1.0	1.1

Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs(Rs m)	38,840	63,698	68,156	71,564
Net NPA(Rs m)	18,450	21,583	19,133	13,640
Gross NPAs to Gross Adv.(%)	4.8	6.6	6.1	-
Net NPAs to net Adv.(%)	2.3	2.2	1.7	1.0
NPA coverage(%)	52.5	66.1	71.9	80.9

Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	4.7	5.9	5.8	5.5
NII INCI. Securitization	4.7	5.9	5.8	5.5
Total income	6.4	6.9	6.6	6.3
Operating Expenses	1.9	1.8	1.6	1.5
PPOP	4.5	5.1	5.0	4.8
Total Provisions	2.3	1.6	2.0	2.1
RoAA	1.8	2.7	2.3	2.1
Avg. Assets/Avg. net worth	8.9	8.9	10.1	10.1
RoAE	16.2	23.7	23.0	20.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	BUY	230	170
2	04-May-18	BUY	230	172
3	10-Jul-18	BUY	230	150
4	23-Jul-18	BUY	203	171
5	05-Oct-18	BUY	200	126
6	25-Oct-18	Accumulate	170	117
7	07-Jan-19	Accumulate	170	146
8	22-Jan-19	Accumulate	172	137
9	05-Apr-19	Accumulate	172	152

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,666	1,484
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,275	2,059
5	L&T Finance Holdings	Accumulate	172	152
6	LIC Housing Finance	Accumulate	597	550
7	Mahindra & Mahindra Financial Services	Accumulate	519	416
8	Shriram Transport Finance	BUY	1,568	1,224

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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