28 September 2016

ANTIQUE

L&T Finance Holdings Limited

Its all about RoE!

TRANSFORM
FOCUS
DELIVER






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Reco	:	BUY
CMP	:	INR91
Target Price	:	INR122
Potential Return	:	34%

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INITIATING COVERAGE

L&T Finance Holdings Limited

Its all about RoE !

LTFH is one of the largest NBFC with a strong parentage and highly experienced management team. The company has redefined its business strategy and now has distinct focus on seven lending products across three business verticals viz. wholesale, housing and rural. The company aspires to deliver top quartile RoE within the NBFC space by FY20 as it (i) increases the share of profitable products, (ii) judiciously uses the capital base, (iii) sell/rundown the defocused business which currently accounts for 8% of total loans, and, (iv) benefits from value accretion in asset management business. LTFH has made substantial progress in achieving scale for its various businesses and we expect LTFH to deliver industry leading growth in micro-finance and housing verticals while expect steady traction in other focused products thus resulting in ~22% loan growth cagr (impacted by rundown of defocused portfolio) over next three years. We expect return ratios to show a marked improvement and expect LTFH to deliver ~30% earnings CAGR over FY16-19e. We thus estimate RoE to improve by 630bp to 16.6% over the similar period. We initiate coverage on the stock with BUY rating and PT of Rs122 which implies 2.1x Sep-18E BV for the lending business.

Loan book mix to move in favour of retail

We expect LTFH to deliver 22% cagr in loan growth over FY16-19E even as it fully unwind its defocused business and sell-down higher share of loan originations in the wholesale business. We expect the loan mix to get more balanced as share of high yielding retail loans increase to ~50% by FY19E vs 32% currently. This will help deliver steady margins and maintain strong check on asset quality. We thus expect LTFH's ROE to improve by 630bps over FY16-19E to 16.6%. We note that defocused business is currently making negative RoE of 21.7% and exit from this alone will give a ~200bp jump to RoE for the lending business.

Asset quality on a mending path; rising proportion of retail/operational projects to help control NPLs

Gross NPL ratio on 120dpd basis has improved to 4.58% in 1QFY17 vs 4.85% in 4QFY16 while the coverage ratio also improved from 22% to 33%. The quantum of impaired assets also declined to Rs44.98bn at 7.92% of loans (9.14% in 1Q FY16). LTFH has guided for potential slippages from the o/s restructured portfolio. However, on positive side, NPL formation from the standard assets has subsided and is a result of conscious efforts taken by the company as it de-risked its loan book and increased the proportion of select B2C segments in retail and operational projects (mainly renewable energy and road segment) in the infrastructure portfolio. We expect GNPL ratio to improve to 3.1% by FY19E.

Valuations attractive; we expect rerating to continue

We estimate LTFH to deliver 630bp expansion in RoE over Fy16-19E to 16.6%. We value LTFH using SOTP methodology at Rs122 which corresponds to 2.1x Sep-18E BV and 13.4x Sep-18E EPS for lending business (adjusted for preference capital). Our fair value represents an upside of 31% hence we initiate coverage on the stock with a "BUY" rating. Sale of defocused business and asset monetization remains the positive triggers. Risks – Continued delinquencies in the tractor/infra portfolio and slowdown in real estate could impact growth and earnings.

Market data

Sensex	:	28,224
Sector	:	NBFC
Market Cap (INRbn)	:	159.2
Market Cap (USDbn)	:	2.390
O/S Shares (m)	:	1,753.4
52-wk HI/LO (INR)	:	99/48
Avg Daily Vol ('000)	:	3,466
Bloomberg	:	LTFH IN

Source: Bloomberg

Valuation

	FY17e	FY18e	FY19e
EPS (INR)	4.9	7.0	9.4
PE (x)	18.6	13.0	9.7
P/BV (x)	2.8	2.2	1.8
BVPS (INR)	44	53	61

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(3)	21	44	38
Relative	(5)	13	29	27

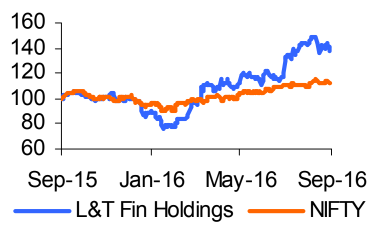
Source: Bloomberg

Shareholding pattern

Promoters	:	67%
Public	:	33%
Others	:	0%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg Indexed to 100

Investment Summary

LTFH is one of the largest NBFC having presence in 24 states across India via more than 700 points of presence. The company has a strong parentage and highly experienced management team with distinct focus on three business verticals viz. wholesale, housing and rural. LTFH has recently redefined its business strategy and substantially pruned down the product offerings in order to deliver profitable growth. It aspires to deliver top quartile RoE within the NBFC space by FY20 as it further increases the share of profitable products, judiciously uses it capital base and sell/rundown the defocused business which currently accounts for 8% of total loans. LTFH has made substantial progress in achieving scale for its various businesses and we expect return ratios to show a marked improvement over the next three years as operating leverage increases in various business segments. We expect LTFH's margins to remain stable even as systemic rate moderates and LTFH continues to de-risk its loan portfolio. This will be driven by changing business mix in favour of high yielding products and continued moderation in funding environment. The company is also looking to sell-down higher quantum of loans in the wholesale business which will help it improve fee income while moderation in credit cost (expected from FY18E) will further boost profitability. LTFH is also present in asset management and wealth management business and is currently ranked 11 on basis of assets under management. We expect LTFH to deliver a loan growth CAGR of ~22% over the next three years even as it completely rundown/sell the defocused business (26% y-y decline in 1Q FY17). Strong loan growth coupled with higher operating efficiency and decline in credit cost will help LTFH deliver ~30% earnings CAGR over FY16-19e while we expect RoE to improve by 630bp to 16.6% over the similar period.

Valuation

We expect LTFH's ROE to improve by 630bps over FY16-19E aided by higher mix of profitable products, complete rundown/sale of defocused business and improvement in fee income/ operating efficiency. We thus expect LTFH's RoE to come close to the average of top performing NBFCs which will help drive further rerating on the stock even as the stock has already run-up by 78% over past six months. We value LTFH using SOTP methodology as we independently value its wholesale, housing and rural business. We further add the value of asset management business which we have valued at 5% of AUMs. Our SOTP based valuation for the consolidated entity stands at Rs122 which corresponds to 2.1x Sep-18E BV and 13.4x Sep-18E EPS for lending business (adjusted for preference capital). Our fair value represents an upside of 31% hence we initiate coverage on the stock with a "BUY" rating.

Risks

Inability to scale-up the microfinance & two-wheeler portfolio segments which are likely to be the key RoE driver would limit the improvement in return ratios. Also, continued delinquencies in the tractor portfolio and tepid growth could impact earnings. The company is aggressively growing its mortgage portfolio led by both retail home loans and developer financing and any slowdown in real estate industry / economic environment would adversely impact growth and asset quality trends. While on infrastructure side, higher-than-estimated slippages from restructured assets and other corporate loans remains a key risk.

L&T Finance Holdings (LTFH)

LTFH was incorporated in 1994 and is promoted by the construction major Larsen & Toubro (L&T). The company is registered with RBI as an NBFC-ND-SI and is a CIC (Core Investment Company). After the change in top management in FY16, LTFH has realigned its product portfolio into three distinct segments viz. (i) Rural, (ii) Housing, and, (iii) Wholesale and has also pruned down its lending products based on its competitive positioning, scalability and profitability analysis of the products. LTFH aspires to deliver top quartile RoE within the NBFC space by FY20 as it further increases the share of profitable products, judiciously uses it capital base and sell/rundown the defocused business which currently accounts for 8% of total loans. LTFH has made substantial progress in achieving scale for its various businesses and we expect return ratios to show a marked improvement over the next three years as operating leverage increases in various business segments. The strong parentage also enables the company to raise capital as and when needed to support growth for its various subsidiaries. The company has reported 25% cagr growth in total loan portfolio during FY11-16 and currently has a loan book of Rs577 bn.

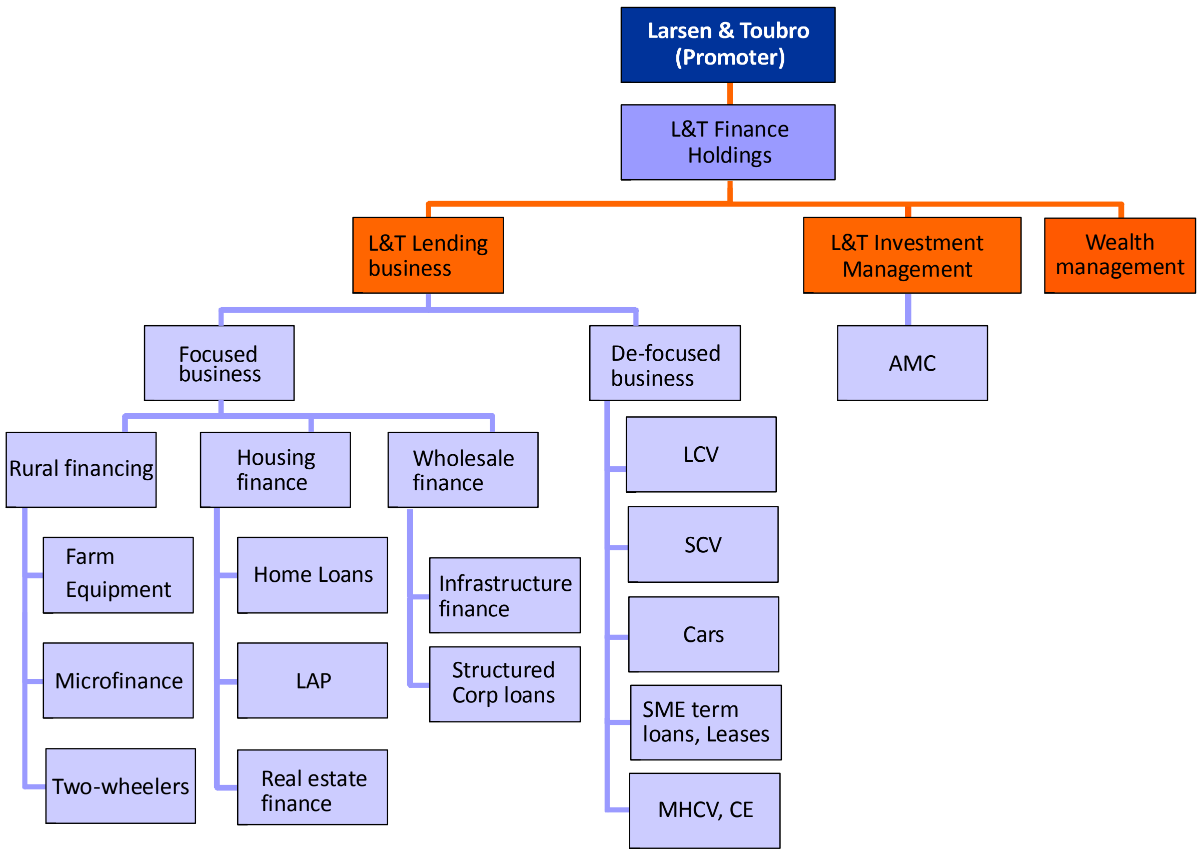
We expect LTFH to deliver industry leading growth in micro-finance and housing verticals while expect steady traction in other focused products thus resulting in ~22% loan growth cagr (impacted by rundown of defocused portfolio) over next three years.

LTFH's wholesale business has grown at a faster rate of 32% cagr and currently accounts for ~64% of loans (ex-de focused products) while the selective rundown of few product lines has resulted in slight moderation in the retail loan growth which now accounts for the balance 36% of total loans.

The company also has a housing finance subsidiary which has been rapidly gaining scale (more than 100% cagr growth over past three years) and is incrementally focusing more on self-employed customers where in the yields are relatively better. The company also extends loan towards LAP and construction financing. LTFH's parent provides it a distinct advantage to source business for its housing subsidiary as L&T Construction Company is one of the prime construction company and works with most of the reputed developers in the country.

L&TFH also offers investment management services such as Mutual fund and Wealth Management services via a separate subsidiary. The company currently has a total AUM of Rs284bn of which equity AUMs accounts for ~40%. The company's AMC business achieved breakeven in FY14 and we expect earnings to pick-up rapidly as operating leverage improves while overall AUMs grow at 20% cagr over FY16-19E (32% cagr over FY13-16).

LTFH company structure



Source: Company, Antique

Key milestones

Year	
1994	L&T Finance Incorporated
2007	L&T Infra Finance established Entered the CV financing segment
2008	Total assets cross Rs100bn Entered Microfinance & Loan Against Shares segment
2009	First public issue of NCDs by L&T Finance
2010	Entered MF business by acquisition of DBS Chola L&T Infra Finance gets IFC status and launches Infra Bonds
2011	IPO of LTFH Total assets cross Rs200bn
2012	Acquires Fidelity's India MF biz to gain scale Enters Housing finance segment by acquiring Indo-Pacific Housing Finance Enters Two-wheeler finance segment by acquiring Family Credit Total assets cross Rs300bn
2013	Formation of L&T Capital Markets and enter into Wealth Management RBI approval for IDF
2015	Total assets cross Rs500bn
	Preferential issue of Equity Shares & Warrants to Bain Capital amounting to INR7.1bn.

Source: Company, Antique

Diversified Board and highly experienced management team

LTFH has a well diversified board with **Mr.Y.M.Deosthalee** as the Chairman (non-executive). LTFH also has a highly experienced management team led by **Mr.Dinanath Dubhashi** as the Group Managing Director. Mr. Dubhashi has over 25 years of experience across multiple domains in financial services such as Corporate banking, Cash management, Credit rating, Retail lending and Rural financing. He has earlier worked with organisations such as BNP Paribas, CARE ratings, and SBI Capital Markets. He has been with LTFH since April 2007 and has occupied various senior level positions in the organization. The management team led by Mr.Dubhashi include CE's for various business segments who have more than two decades of experience in the financial services sector.

Mr. Parvez Mulla: He is the Chief Executive (CE) - Retail Finance and has over 20 years of experience in various leadership roles in the banking and financial services space. He has earlier worked with organisations such as ICICI bank, Bajaj Auto, ANZ Grindlays.

Mr. Virender Pankaj: He is the CE - Wholesale Finance and has over 24 years of experience in project finance, corporate finance, structured lending and Stressed Asset management. Prior to LTFH, he has been associated with SBI for more than 15 years.

Mr. Srikanth JR: He is the CE - Real Estate & Supply chain finance and has over 19 years of experience in financial services and banking industry. Prior to joining LTFH, he has been associated with BNP Paribas, Dubai.

Mr. Kailash Kulkarni: He is the CE - Investment Management and has over 25 years of experience in sales, business development and operations of which 20 years he has spent in banking, asset management and insurance industry. He has earlier worked with organisations such as Kotak Mahindra Asset Management, Metlife Insurance, ICICI group and JM Financial. He is also on board of AMFI and the chairman of the Financial Literacy committee.

Mr. Manoj Shenoy: He is the CE - Private wealth management and has over 26 years of experience in financial services industry. Prior to joining LTFH, he has worked with EFG Bank, Anand Rathi Financial services. Under his leadership, LT wealth management has been voted amongst the top 10 private banks in India by Asia money private banking poll.

Mr. Sachinn Joshi: He is the Group CFO and has more than two decades of experience across financial sector. He has vast knowledge in accounts, MIS, tax, treasury, secretarial & statuary compliance and admin functions. Prior to joining L&T Finance, he has worked with Aditya Birla Finance ltd, Angel group of companies and IL & FS group. He is a qualified CA and Cost accountant. He has also done his post graduation in Law (LLB-Gen) and has completed Business Leadership Program (BLP) from Calcutta.

Rural Business - gaining strength in MFI, 2W & Tractors

LTFH's rural business is domiciled across various entities however post the re-oriented strategy and with certain merger of subsidiaries in the offing, we would now look at L&TFH as businesses rather than as companies. In rural business, the company primarily lends towards income-generating assets across rural and other segments. The company runs a paperless sourcing model enabled by tablets & mobiles and uses indigenously developed apps to speed up its operations. The company currently ranks third in this segment.

The company has earlier followed inorganic route and acquired multiple companies to lend scale to its various businesses. LTF entered into high yield two-wheeler financing business with the acquisition of Family Credit and housing finance business after it acquired Indo-Pacific Housing Finance Company. However the company is now in process of merging its various retail subsidiaries (excluding housing) as that will help it to smoothen out the operations, enhance transparency and manage capital more efficiently.

The company has pruned down the number of lending products based on its competitive positioning, scalability and profitability analysis and has identified micro-finance, two-wheelers and tractors as the key product segments in the rural business. L&T Finance is in process of running down / sell its defocused business which includes products like CV/CE loans, mid-market, car loans, SME term loan. Rapid growth in high-yielding two wheeler and microfinance loans coupled with the improvement in operating leverage will enable the company to report 400bp expansion in RoE in its rural business portfolio over FY16-19E.

During 1QFY17, the company has reported 15% y-y loan growth in rural business and we expect growth to remain steady particularly as the company expands its reach in the microfinance/two-wheeler business by entering into new states/cities and normalcy returns in the farm portfolio. LTFH curtailed its lending in the farm business after the industry witnessed higher delinquencies following two years of consecutive drought. However with normal monsoon progression during FY17 we believe that the company will gradually start growing its tractor portfolio which will aid overall loan growth.

We expect LTFH's rural portfolio to deliver ~37% earnings CAGR over FY16-19E led by ~31% growth in loan portfolio and moderation in borrowing/credit cost. We, thus, expect RoE in rural business to improve to 22.5% by FY19E from 18.5% in FY16.

Rural business product characteristics

LTFH business mix (INRm)	Loan book FY16 end	% of rural business	Approximate yields (%)	LTVs	Duration (Yrs)
Farm Equipment	46,490	54%	16%-20%	60%-80%	3-5 years
Two Wheeler	17,610	20%	Two-wheelers ~22%	Two Wheeler: 80%-100%; Ticket size: 40K-45k	2 years
Microfinance	22,340	26%	24%	~23K	2 years

Source: Company, Antique

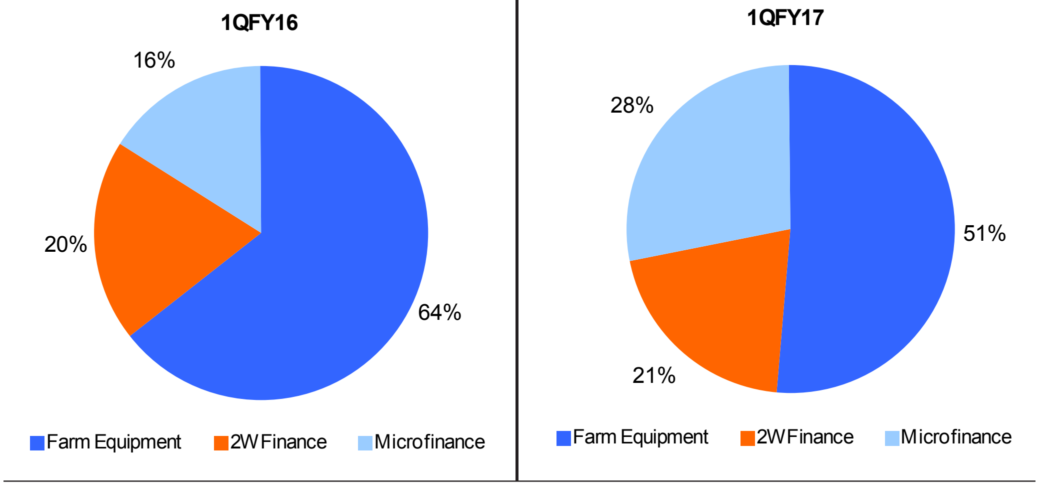
Management Discussion & Outlook

Segment	Management Discussion & Outlook
Rural Business	
Micro Finance	**Market expected to grow at 30%-40% annually**
	Digitized customer acquisition process using mobility solutions to speed up growth
	100% Aadhar based KYC to minimize multiple lending
2 Wheelers	**Markets expected to grow at 10%-12%**
	Continued focus on profitability by reducing opex and focus on collection efficiency exhibiting early results
	Digitised customer acquisition process with process driven lending which is completely scorecard based
	Delivering customer proposition though improved TAT
Farm Equipment	**Good monsoon expected to improve sentiments - market growth by 5%-6%**
	Ceded market share in specific high risk geographies based on analytics and risk framework
	As fundamentals in the sector improve we would push market share and growth in subsequent quarters

Source: Company, Antique

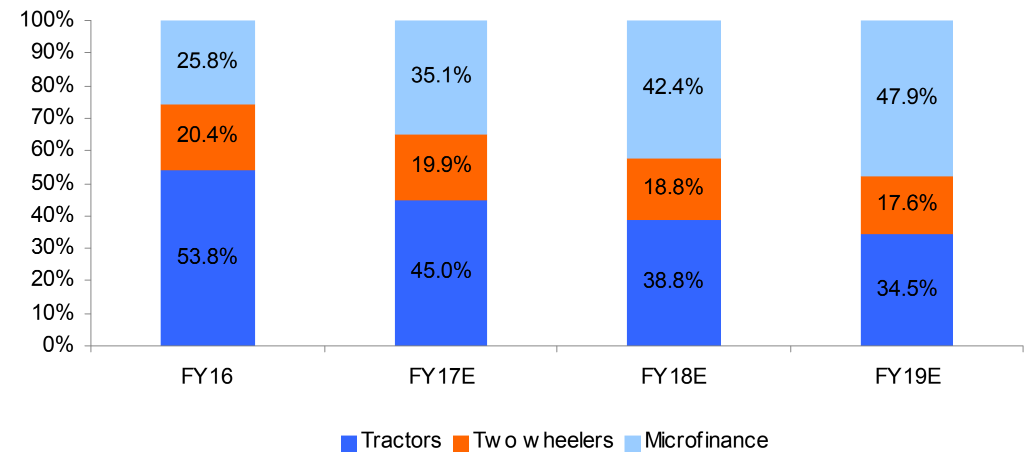
Within rural business the company is increasing the proportion of high-yielding two-wheeler & microfinance loans while has consciously gone slow on farm loan disbursements

Rural finance - farm equipment dominate with 51% share in total rural financing



Source: Company, Antique

Going forward focus would be on high yielding MFI business



Source: Company, Antique

Farm equipment business

LTFH's farm equipment portfolio has grown at 7% cagr over FY13-16 however due to continued deterioration in asset quality following two successive bad monsoons the company went slow in disbursing to this segment. Consequently the farm equipment business reported 8% y-y decline in 1QFY17 (56% y-y decline in disbursement). LTFH has indicated that it will start disbursing in this segment once it is comfortable about the broader segment health and this could be as early as 2HFY17.

Despite the sharp deterioration in asset quality in the tractor portfolio, LTFH has managed to perform better than its peers and this is one of the reasons why the company is still focused on this segment. One of the key criteria that LTFH follows while evaluating a product segment is that it should be able to make healthy returns in a good environment while outperform peers when the cycle turns adverse.

LTFH has nevertheless built its tractor portfolio without lowering the credit standards and currently has ~8% market share in the tractor financing space. The company sources most of its loans via the dealer network and has tied up with several OEMs like Sonalika Tractors, TAFE, Escorts to boost loan growth and improve collection efficiency. The company currently ranks third in this segment. LTFH's tractor portfolio is currently generating lower double-digit RoEs (outperforming most peers) and the management remains fairly confident of maintaining healthy through cycle return ratios in the segment. To maintain strong asset quality the company has linked the dealer incentives to collection efficiency and has formed pre-set loss sharing agreements with them in case the collection efficiency falls below a particular level. The company has a stronger presence in Madhya Pradesh, Karnataka, Andhra Pradesh, Telangana, Haryana etc while currently doesn't have operations in North east, Jammu & Kashmir, Jharkhand and Tamil Nadu.

Two wheeler business

LTFH entered into the two-wheeler financing space after acquisition of Family Credit in FY13. The company has since reported strong growth in the segment with the portfolio size increasing to Rs17.7bn. The company has identified two-wheeler loans as one of the key focus area where in it has already built a strong positioning for itself. The company offers this product across 84 towns and cities in the country. LTFH takes into account the region's demographics, vehicle model, credit bureau record while arriving at application scorecard and has equipped its sales force with mobile/tablet which has helped it reduce turnaround time to 15 minutes.

As per company estimates, of the total two-wheeler sale nearly 30% is financed and over here the company mainly focuses on self employed customers. This segment contributes to nearly 15% of the total two wheeler buyers in the country. The company currently ranks amongst top 5 two-wheeler financers and has ~10% market share. LTF has formed tie-ups with Honda, Hero and other OEMs which helps it to maintain steady growth traction and provide scale to the business. During FY16 the company financed 350,000 vehicles and the company aims to increase this by ~15% in FY17.

Two-wheeler financing business has already achieved breakeven and aiming for 18% RoE in this business vs 12% currently. The company has recently realigned its incentive structure and now offers higher rewards in top most recovery bucket (0-30 dpd) vs the reverse practice that was followed earlier. We estimate return ratios in this business to improve as it gains further scale and operating leverage increases.

Microfinance business

LTFH entered into the microfinance business in 2008 and reported strong growth in the segment over initial years. However the growth got impacted after the Andhra Pradesh crisis and the company had to sharply rundown its loan portfolio from its peak in FY12-13. With regulatory intervention and stability returning to the segment the company has again stepped the pedal on MFI disbursements and has reported over 100% cagr in loans over FY13-16. This was aided by geographic expansion of MFI operations and focused approach to the segment. Currently LTH is ranked seventh in the MFI segment and is at the forefront on most operating parameters like underwriting standards, lending rates, technological advancement, turn-around-time and collection efficiency. LTFH does not rely on any third party for business sourcing and recovery and neither follows any money rotation policy which has helped it maintain strong asset quality in this segment. LTF currently runs its MFI business across nine states and serves 1.75mn customers.

The average ticket size of the company in this segment stands at Rs23,000 while the typical loan amount varies from Rs10,000 to Rs40,000. The company disburses the loans on designated 7-8 days in a month and focuses solely on collections for the first 10 days of every month. The company employs 100% Aadhar based disbursals which ensures that there is no case of multiple lending to a single borrower and typically disburses Rs24,000 loan for a period of two years (previously Rs12,000 loan for one year).

We expect LTFH to report strong growth in its MFI business as it expands to more states and further gain market share driven both by higher volumes and increase in ticket sizes.

LTFH operates its MFI business across nine states

Orissa	23%
Tamil Nadu	22%
West Bengal	16%
Karnataka	9%
Maharashtra	9%
Others	21%

Source: Company, Antique

Key MFI players... L&T Finance ranks amongst top 10

Nos	MFI	Gross Loan portfolio (INR mn)
1	Janalakshmi	109,830
2	SKS	76,770
3	Ujjivan	40,880
4	Equitas	32,830
5	Grameen Koota	25,390
6	Satin	25,380
7	**L&T Finance**	**22,100**
8	ESAF	19,250
9	GV	15,020
10	Utkarsh	14,320

Source: Mfin, Antique

Rural Financing - Improving product mix and moderation in credit cost will drive further expansion in RoE

Dupont Analysis (%)	FY17E	FY18E	FY19E
Interest income	19.1%	18.4%	17.9%
Interest expenses	7.6%	7.5%	7.3%
Net interest income	11.4%	10.8%	10.6%
Other Income	0.8%	1.0%	1.0%
Net revenue	12.2%	11.8%	11.6%
Operating Expense	4.2%	4.1%	3.9%
Operating profit	8.0%	7.7%	7.7%
Credit Cost	3.8%	3.6%	3.3%
Profit before tax	4.2%	4.1%	4.4%
Tax	1.4%	1.4%	1.5%
PAT	2.8%	2.7%	2.9%
Debt / Equity	6.0	6.1	6.3
Return on Equity	20.4%	20.3%	22.5%

Source: Company, Antique

Key financials

	FY16	FY17E	FY18E	FY19E
Rural Business P&L (INRm)				
Net Interest Income	9,790	12,036	15,036	19,731
Operating profit	6,580	8,458	10,734	14,357
PAT	2,110	2,943	3,787	5,439
Balance Sheet Summary				
Total Assets	91,520	118,960	158,597	212,038
Gross Loans & Advances	86,440	111,493	147,526	195,762
- Tractors	46,490	50,209	57,238	67,541
- Two wheelers	17,610	22,189	27,736	34,392
- Microfinance	22,340	39,095	62,552	93,828
Borrowings	73,290	97,445	129,971	173,249
Networth	11,920	16,274	21,304	27,655
Asset quality, Rs mn				
GNPA (%)	8.4%	8.5%	7.7%	6.1%
NNPA (%)	7.0%	6.2%	5.0%	3.1%
Coverage ratio (%) - calc	18.6%	26.9%	35.6%	49.3%
Key Ratios (%)				
Net Interest Margin	12.5%	12.2%	11.6%	11.5%
Return on Assets	2.5%	2.8%	2.7%	2.9%
Debt / Equity	6.0	6.0	6.1	6.3
Return on Equity	18.5%	20.4%	20.3%	22.5%
CAR (%) - Rural business combined				
L&T Finance Ltd.				
Tier I	13.4%	14.1%	13.9%	13.6%
Tier II	5.9%	4.5%	3.4%	2.6%
Total CAR	19.3%	18.7%	17.3%	16.1%

Source: Company, Antique

Housing Finance - on track to grow at a faster rate

LTFH ventured into housing finance business with the acquisition of Indo-Pacific Housing Finance in 2012. The acquisition expanded LTFH's distribution capability and also provided access to higher yielding LAP portfolio. It has since focused on both housing and LAP portfolio which has helped it maintain healthy portfolio yields/margins. The company has shifted focus towards Self Employed Non Professional (SENP) / LAP segment where in the yields are better and competition is less intense as compared to the salaried segment. The company has also stopped sourcing of home loans for salaried customer via DSA route as higher commissions and competitive pricing made the product unprofitable. The company has realigned its business processes so as to significantly improve the turnaround time which is giving it an advantage over peers. The company operates mainly in metro cities and has negligible/little presence in urban & rural markets.

Over the past three years, the company has grown its loan book at over 100% cagr to R104bn. This sharp growth has been aided by portfolio buyouts - the company acquired portfolio of CitiFinancial in 2014 amounting to Rs6.5bn (Rs4.7bn of which was booked under the housing finance subsidiary and Rs1.8bn under Family Credit). However, we note that the organic growth also remains very strong with housing finance company reporting 78% y-y loan growth in FY16 and the company has guided for strong trends to continue.

LTFH's parent provides it a distinct advantage to source business for its housing subsidiary as L&T Construction Company is one of the leading construction company in India and works with most of the reputed developers in the country. This has also enabled the company to maintain strong credit quality even as it has rapidly grown its developer loan book. The company aims to grow its developer portfolio at a strong pace (already has a strong sanction pipeline) and make use of escrow accounts to maintain a strong control on asset quality.

We estimate cost-income ratio in the housing business to moderate to 35% by FY19E v/s ~40% in FY16. The cost-asset ratio is also likely to moderate to 1.6% from 2% currently over the similar period. We, thus, expect RoE of housing finance business to improve continually over the next two years to ~17% by FY19E v/s ~15% in FY16. The improvement in RoE occurs despite us building in frequent capital infusion in housing finance subsidiary to support the strong business momentum.

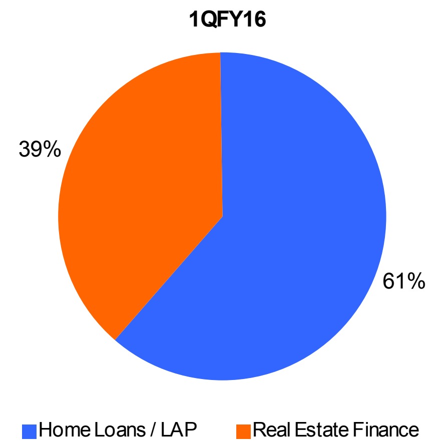
LTFH has slightly increased the share of Home loan/LAP in total housing portfolio while the share of developer loans declined.

Housing business product characteristics

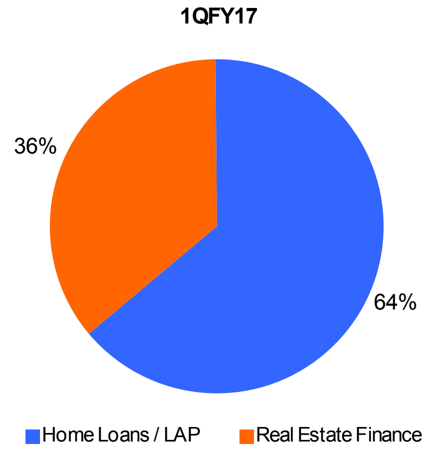
LTFH business mix (INRm)	Loan book FY16 end	% of housing business	Approximate yields (%)	LTVs	Duration (Yrs)
Home loan/LAP	63,130	64%	Salaried: 9.75%-10.25%	LTV: 65%-75%; Ticket- size: ~Rs4mn	15 years
			SENP: 10.25%-10.75%	LTV: 60%; Ticket-size: Rs5mn	15 years
			LAP: 12.5%-14%;	LTV: ~50%; Ticket–size: Rs5mn	10 years
Builder loan	34,980	36%	Construction funding: ~15.5%	Builder Loans: 25%; Ticket -size: Rs1-3 bn	2–3 years

Source: Company, Antique

Management focus on granular growth in Housing finance..as reflected in increase in share of Home loan/LAP segment to 64%



Source: Company, Antique



Source: Company, Antique

Management Discussion & Outlook

Segment	Management Discussion & Outlook
Housing Business	
Home Loans & LAP	Strategic shift from a much broader segment of customers to primarily self employed segment
	Redesigned process has improved TAT
	Risk framework strengthened to support this strategy
	Disbursement run-rate remains steady despite major change in target segment
Real Estate Finance	Pipeline for disbursements remains strong with substantial sanctions happening in the last fortnight of the quarter; conversion into disbursal expected in Q2
	Leverage with parent L&T and internal synergies in the works

Source: Company, Antique

We expect return ratios in housing business to improve lmarginally ed by moderation in cost-ratios

Dupont Analysis (%)	FY17E	FY18E	FY19E
Interest income	11.7%	11.4%	11.0%
Interest expenses	7.6%	7.2%	7.0%
Net interest income	4.2%	4.2%	4.0%
Other Income	0.4%	0.5%	0.5%
Net revenue	4.6%	4.7%	4.5%
Operating Expense	1.8%	1.7%	1.6%
Operating profit	2.8%	3.0%	2.9%
Credit Cost	0.6%	0.6%	0.6%
Profit before tax	2.2%	2.3%	2.3%
Tax	0.8%	0.8%	0.8%
RoA	1.4%	1.5%	1.5%
Debt / Equity	8.6	8.7	9.1
Return on Equity	15.6%	17.0%	17.3%

Source: Company, Antique

Key financials

	FY16	FY17E	FY18E	FY19E
Housing Business P&L (Rs mn)				
Net Interest Income	3,380	5,706	8,730	12,061
Operating profit	2,290	3,783	6,223	8,864
Credit Cost	250	759	1,337	1,936
PBT	2,040	3,024	4,886	6,928
Tax	770	1,058	1,661	2,356
PAT	1,270	1,965	3,225	4,572
Balance Sheet Summary				
Total Assets	106,150	168,640	249,123	359,828
Gross Loans & Advances	98,110	154,886	227,256	325,971
- Home loans / LAP	63,130	104,165	156,247	226,558
- Developer financing	34,980	50,721	71,009	99,413
Borrowings	88,290	133,356	196,804	285,225
Networth	9,910	15,482	22,562	31,220
Key Ratios (%)				
Net Interest Margin	4.4%	4.5%	4.6%	4.4%
Operating Expenses as % of total assets	2.0%	1.8%	1.7%	1.6%
Cost-income ratio (%)	40.4%	39.5%	36.3%	34.7%
Return on Assets	1.5%	1.4%	1.5%	1.5%
Debt / Equity	8.6	8.6	8.7	9.1
Return on Equity	15.4%	15.6%	17.0%	17.3%
Asset quality				
GNPL	510	1,162	1,591	2,282
NNPL	300	572	734	1,038
Provisions	210	589	857	1,244
GNPL (%)	0.52%	0.8%	0.7%	0.7%
NNPL (%)	0.21%	0.4%	0.3%	0.3%
Coverage ratio (%)	40.0%	50.7%	53.9%	54.5%
L&T Housing Finance Ltd.				
Tier I	13.38%	13.4%	13.3%	12.7%
Tier II	5.89%	3.7%	2.5%	1.8%
Total CAR	19.27%	17.1%	15.8%	14.5%

Source: Company, Antique

Wholesale business - Fee income + improving IDF composition to drive profitability

LTFH carries out its wholesale lending business via different subsidiaries and is focused on three verticals here - infra finance, structured corporate finance and supply chain finance. LTFH's wholesale lending entity was incorporated in 2006 with the prime objective of lending towards infrastructure development and construction, with focus on the Road, Power, Telecom and Ports sectors. The company was awarded the PFI (Public Financial Institution) status and an IFC (Infrastructure Finance Company) status by RBI which provides it access to cheaper long-term funds and enables it to take higher exposure while lending to a borrower. LTFH also has another subsidiary "L&T Fincorp" which is housed separately for lending to the corporates.

LTFH has grown its wholesale book at a faster rate and the segment currently forms 59% of the total loan book (64% of focused lending segments). During 1QFY17, the company reported 18% y-y growth in the segment led by strong growth in roads, power (incl. Transmission) and renewable energy segments. The company is ranked second in renewable energy segment and is well regarded for its credit underwriting in this space. Over past few years the company has consciously worked to de-risk its wholesale business by focusing more on low-risk renewable energy segment, roads and increased the share of operational projects. Through the years from FY12, the company has increased the share of operating projects in its portfolio from 21% in FY11 to 61% currently while has significantly trimmed down the exposure to corporate loans largely belonging to the EPC segment. This has though pushed margins lower as the same declined by ~190bps over FY12-16.

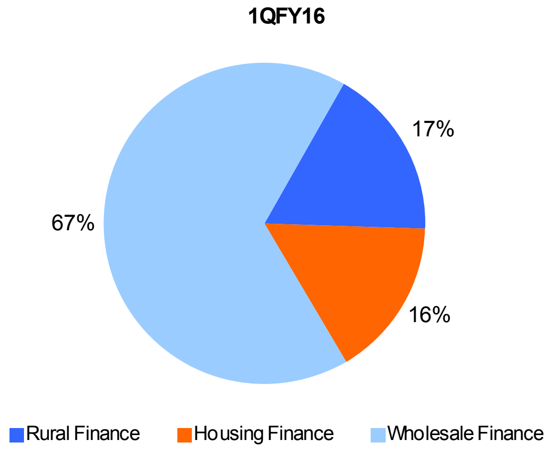
Incrementally, the company is looking to rebalance its portfolio mix and aims to sell down higher share of its loan originations which will enable it to further de-risk the loan book. The company thus aims to sell down ~70% of the loan originations in wholesale business to other NBFCs and banks via direct assignment route. This will also enable the company to earn higher fees and thus boost RoE without consuming too much capital. We expect lending spreads to compress marginally as decline in funding cost compensates for the moderation in lending yields as loan book tilts further towards low-risk operational assets. LTFH is also looking to aggressively grow its Infrastructure Debt Fund subsidiary to benefit from lower funding cost (IDF is a AAA entity) and risk-weight reduction available on the operational projects.

Management Discussion & Outlook

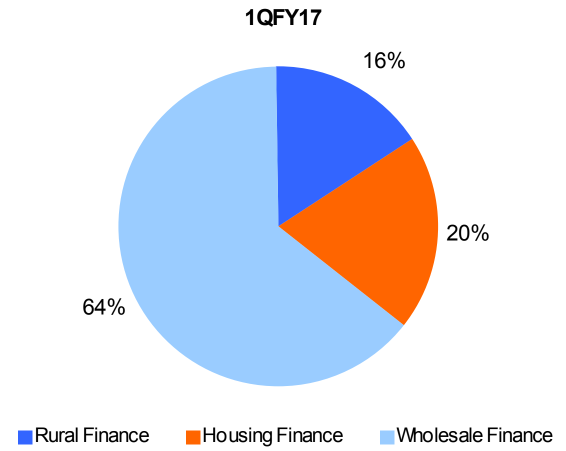
Segment	Management Discussion & Outlook
Wholesale Business	
Infra Finance	Roads: HAM road projects attractive from a risk – return perspective : 17 HAM projects worth ~INR123bn awarded during Dec'15 – Jun'16
	Renewables: Increased receivable cycles in certain states – opportunities in greenfield solar and refinancing of renewable power projects
	Focus on large underwriting deals and refinancing of operational projects using the IDF platform
Structured CorporateFinance	Given our selective approach in this product, it tends to be lumpy in nature – Comparatively, Q1 FY'16 had some large disbursements
	Growth in corporate bond market creating opportunities for origination and down selling of bonds
	Exploring opportunities for high yield mezzanine financing to bridge equity requirements
Supply Chain Finance	Increased consumption demand and government capital spending will be prime growth drivers
	Stress on yields as banks see this as a relatively scalable area and are extremely aggressive
	This product is expected to yield steady volumes and profitability

Source: Company, Antique

LTFH aims to lower the share of wholesale business aided by higher sell downs while retail segments report robust growth

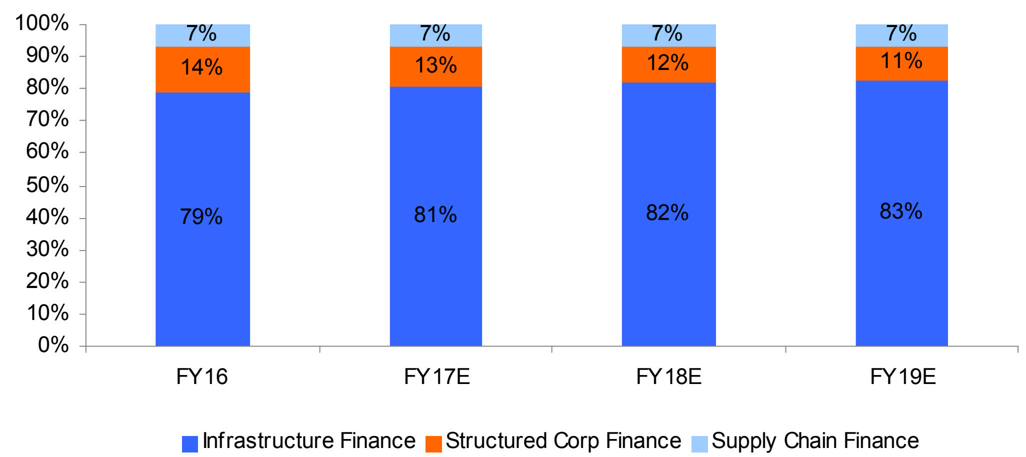


Source: Company, Antique



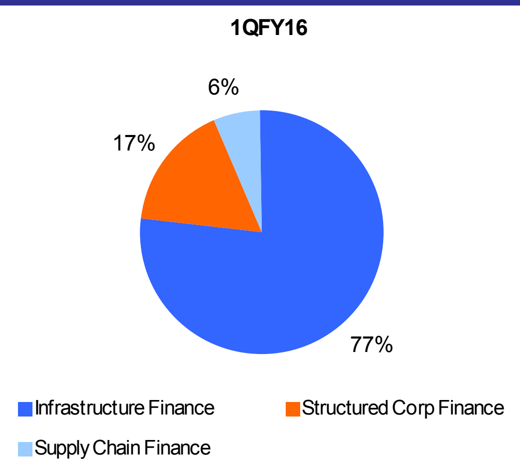
Source: Company, Antique

Infrastructure finance to remain key business segment going forward



Source: Company, Antique

Within wholesale financing, Infrastructure loans continue to dominate the overall portfolio



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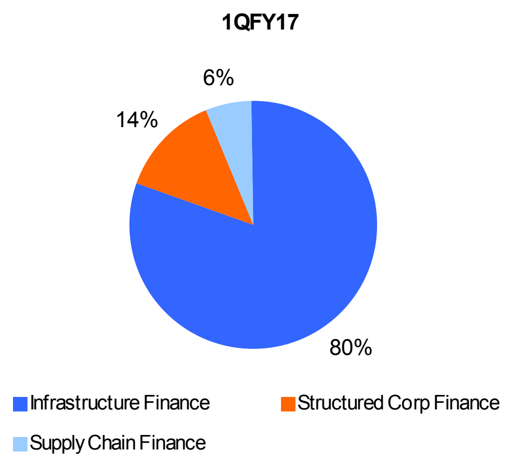


Source: Company, Antique

We expect LTFH's wholesale business to deliver loan and earnings CAGR of 12% and ~20%, respectively, over FY16-19E and expect RoE to improve by 288bps over the similar period. This will be aided by moderation in credit costs as the company continues to de-risk its loan portfolio and improvement in fee income aided by higher sell down of loans.

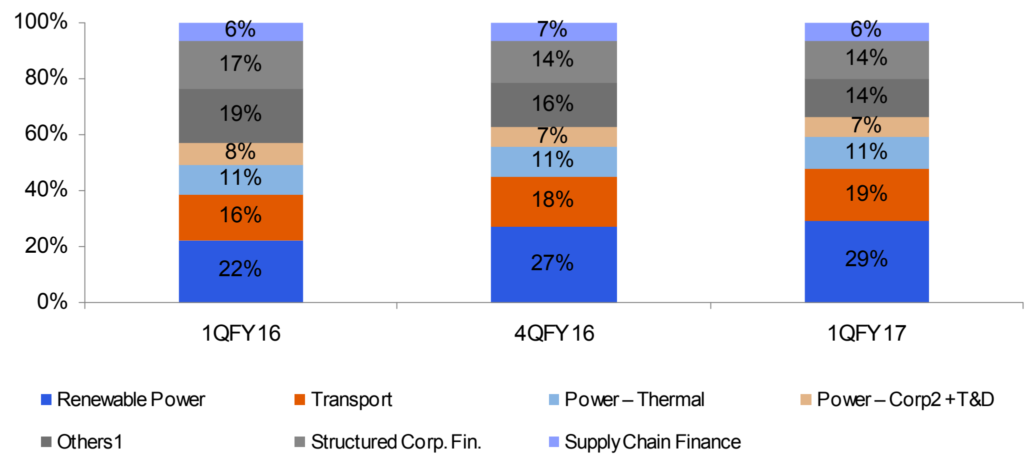
Renewable energy business

Renewable energy segment remains one of the prime focus area for the company as the same has grown at 45% cagr over past three years and currently accounts for 29% of the total wholesale loans. Small gestation period of renewable energy projects and high visibility on project cash flows backed by long term Power Purchase Agreements (PPAs) has enabled LTFH to maintain strong control on asset quality without losing on the growth momentum. The company is ranked second in renewable energy segment and is well regarded for its credit underwriting in this segment.

LTFH has identified certain states where the electricity boards are in good financial condition and where the perceived risk to fulfil the power purchase agreement stands significantly lower. While the Central govt. has been providing impetus on renewable energy, delays have been observed in certain states which the company consciously avoids to take exposure in. The company further has very stringent criteria on load factor, equipment type, power generation capability and debt equity levels to make sound credit decision.

The renewable energy projects have ~90% EBITDA margins with RoE varying from 14-15% for wind based power projects vs 15-16% for solar energy projects.

Composition of renewable energy has increased steadily to 29% in LTFH's wholesale business



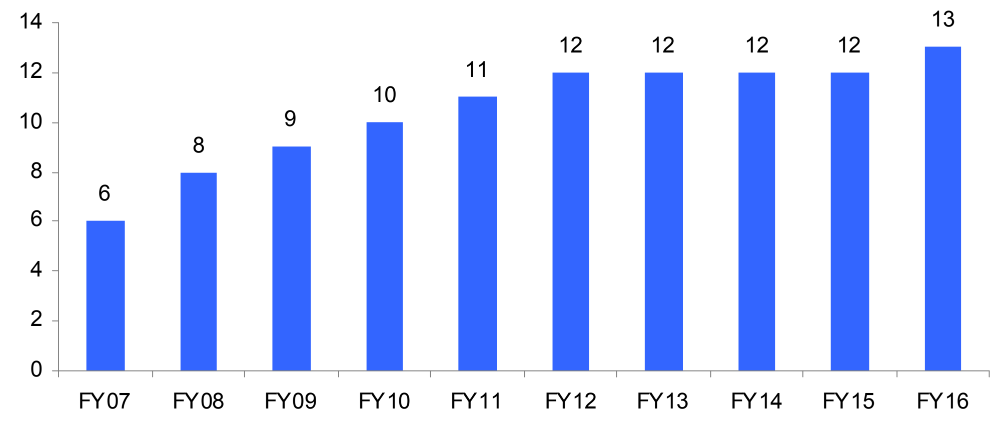
Source: Company, Antique

Total power capacity in India - Renewable energy is gaining traction...

Installed capacity, MW	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Coal	71,121	76,049	77,648	84,198	93,918	112,022	130,221	145,273	164,636	185,173
Gas	13,692	14,656	14,877	17,056	17,706	18,381	20,109	21,782	23,062	24,509
Diesel	1,202	1,202	1,200	1,200	1,200	1,200	1,200	1,200	1,200	994
Thermal	86,015	91,907	93,724	102,454	112,824	131,603	151,530	168,255	188,898	210,675
Nuclear	3,900	4,120	4,120	4,560	4,780	4,780	4,780	4,780	5,780	5,780
Hydro	34,654	35,909	36,878	36,863	37,567	38,990	39,491	40,531	41,267	42,783
MNRE	7,761	11,125	13,242	15,521	18,455	24,503	27,542	29,463	31,692	38,822
Total	**132,329**	**143,061**	**147,965**	**159,398**	**173,626**	**199,877**	**223,343**	**243,029**	**267,637**	**298,060**
Growth %	6.50%	8.10%	3.40%	7.70%	8.90%	15.10%	11.70%	8.80%	10.10%	11.40%
yearly capacity added	8,042	10,732	4,904	11,434	14,228	26,251	23,466	19,686	24,608	30,423
thermal	3,604	5,892	1,818	8,730	10,371	18,779	19,927	16,725	20,643	21,777
hydro	2,328	1,255	969	-14	704	1,423	501	1,040	736	1,516
MNRE	1,570	3,365	2,117	2,279	2,933	6,049	3,039	1,921	2,229	7,130

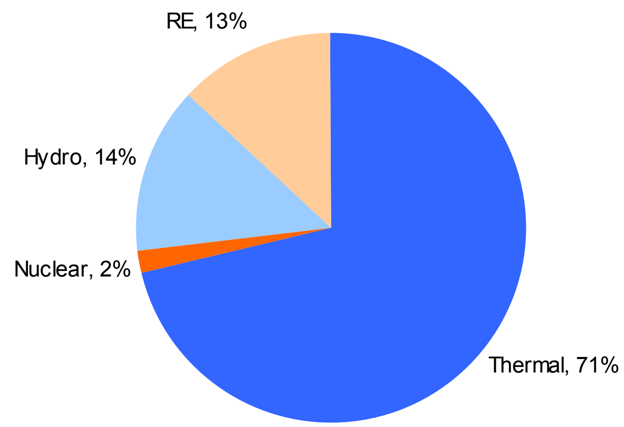
Source: Company, Antique

...as its share increased from 6% in FY07 to 13% in FY16



Source: Company, Antique

Thermal still dominates the overall power capacity



Source: Company, Antique

RoE in the wholesale business is likely to improve led by higher fees income and moderation in credit cost

Dupont Analysis (%)	FY17E	FY18E	FY19E
Interest income	10.5%	9.9%	9.5%
Interest expenses	7.0%	6.7%	6.5%
Net interest income	3.4%	3.2%	3.0%
Other Income	0.8%	1.1%	1.2%
Net revenue	4.2%	4.2%	4.2%
Operating Expense	0.5%	0.5%	0.4%
Operating profit	3.7%	3.8%	3.8%
Credit Cost	1.4%	1.3%	1.2%
Profit before tax	2.3%	2.5%	2.6%
Tax	0.7%	0.7%	0.7%
RoA	1.6%	1.8%	1.9%
Debt / Equity	6.6	6.7	6.8
Return on Equity	13.2%	14.6%	15.8%

Source: Company, Antique

Key financials

	FY16	FY17E	FY18E	FY19E
Wholesale Business (Rs mn) - New format				
Net Interest Income	12,460	13,322	13,910	15,124
Operating profit	12,570	14,513	16,418	18,899
Credit Cost	4,610	5,554	5,612	5,932
PBT	7,960	8,959	10,806	12,967
Tax	2,510	2,688	3,134	3,631
PAT	5,450	6,271	7,673	9,336
Balance Sheet Summary				
Total Assets	370,260	408,807	464,966	538,504
Gross Loans & Advances	344,440	376,855	424,856	487,801
Infrastructure Finance	271,800	304,416	347,034	402,560
Structured Corp Finance	49,770	47,282	49,646	53,121
Supply Chain Finance	22,870	25,157	28,176	32,120
Borrowings	305,930	332,009	375,997	433,655
Networth	44,910	49,927	56,065	63,534
Key Ratios (%)				
Net Interest Margin	4.0%	3.7%	3.5%	3.3%
Return on Assets	1.6%	1.6%	1.8%	1.9%
Debt / Equity	6.6	6.6	6.7	6.8
Return on Equity	12.9%	13.2%	14.6%	15.8%
Asset quality				
120 DPD				
GNPL	12,230	16,205	16,145	15,610
NNPL	9,330	11,639	9,895	7,580
Provisions	2,900	4,566	6,250	8,029
GNPL (%)	3.64%	4.3%	3.8%	3.2%
NNPL (%)	2.80%	3.1%	2.3%	1.6%
Coverage ratio (%)	24.0%	28.2%	38.7%	51.4%
Impaired assets				
Gross Stressed assets (INR mn)	31,610	28,449.0	25,604.1	23,043.7
Net Stressed assets (INR mn)	25,420	20,362.4	15,810.6	11,713.9
Provisions	6,190	8,086.6	9,793.5	11,329.8
Gross stressed assets (%)	9.4%	7.5%	6.0%	4.7%
Net stressed assets (%)	7.6%	6.7%	4.6%	2.9%
Coverage ratio (%)	20.0%	28.4%	38.2%	49.2%
Coverage ratio (%) - calc	19.6%	28.4%	38.2%	49.2%
Restructured assets - gross	19,380	12,244	9,460	7,434
- as % of total wholesale loans	5.6%	3.2%	2.2%	1.5%
Restructured assets - net	16,090	8,724	5,916	4,134
- as % of total wholesale loans	4.7%	2.3%	1.4%	0.8%

Source: Company, Antique

Infrastructure Debt Fund (IDF) to help drive growth, going forward

In order to meet long-term financing requirement of the infrastructure sector RBI allowed NBFCs to set up Infrastructure Debt Funds (IDFs) which can lend to operational projects and benefit from lower risk-weights/tax exemptions. LTFH had thus floated an IDF in FY14 with a networth of Rs3.2bn. LTIDF is a AAA rated entity which is able to borrow funds at cheaper rate than the other group subsidiaries owing to its better credit rating. As per the revised guidelines IDF-NBFCs can invest in all PPP and infrastructure projects which have completed at least one year of satisfactory commercial operation without any requirement of mandatory presence of a regulatory authority. This will enable LTFH to book most of the operational projects in its IDF subsidiary and thus benefit from reduced risk-weight and tax free status of the IDF entity.

LTFH has already steadily increased the share of operational projects in its portfolio over past few years significant part of which qualifies to be housed in the IDF subsidiary. LTFH's IDF subsidiary currently has loan book of Rs25bn which is likely to expand to ~Rs70bn by end of FY17. This will be led by both fresh disbursements through the IDF subsidiary and the transfer of eligible portion from the existing infrastructure portfolio.

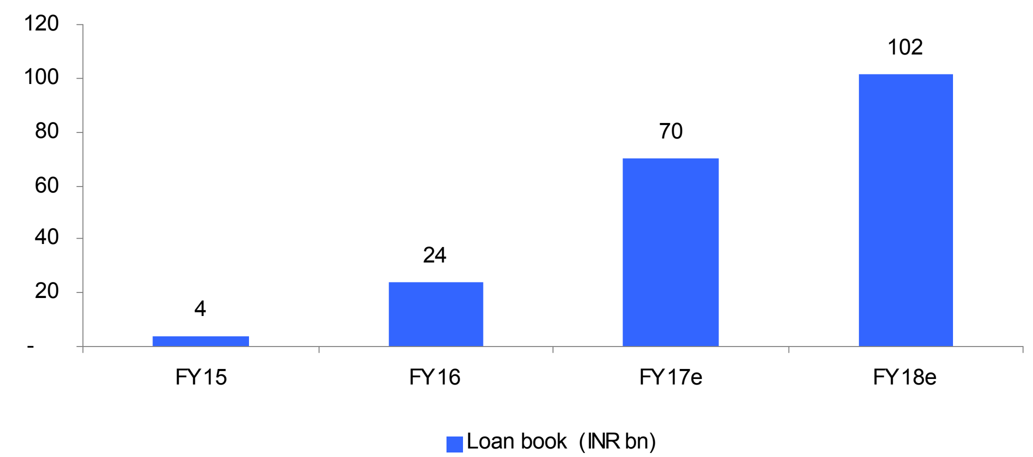
Given lower risk-weights applicable to operational projects financed through the IDF route we expect return ratios of the wholesale business to improve as it can now operate on higher leverage. This coupled with lower borrowing cost as IDF is a AAA rated entity and tax exemptions will help improve wholesale business's RoE to ~16% by FY19E.

Capital adequacy - sharp decline in CAR...

L&T IDF	FY14	FY15	FY16
Tier I	66.6	63.5	43.7
Tier II	18.9	24.5	7.7
CAR	85.5	88.0	51.4

Source: Company, Antique

...on the back of multi fold jump in loan book

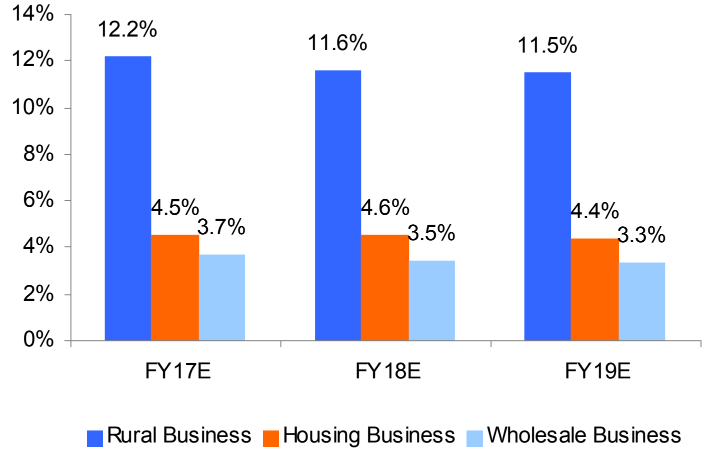


Source: Company, Antique

Margins to largely remain stable aided by improved product mix

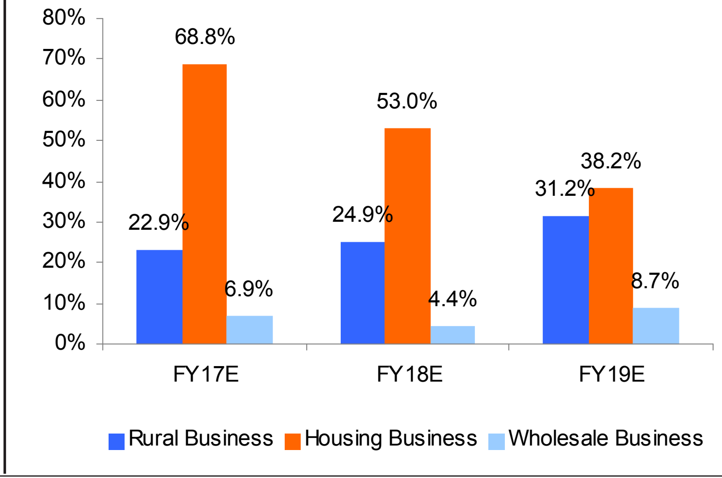
LTFH's asset yield has been boosted by rapid growth in high-yielding vehicle finance and microfinance segments and we expect the share of these two segments in rural business to further increase to 65% (46% currently). This will thus compensate for slight decline in margins in the wholesale business as LTFH continues with its balance sheet de-risking and increases the share of low-yielding operational projects. We expect lending yields to decline by ~30bps over FY16E-FY19E as mix of housing loans moves to 32% by FY19E from 17% currently. At the same time we expect borrowing cost also to decline by ~50bps over FY16E-FY19E.

Margins to remain relatively stable...



Source: Company, Antique

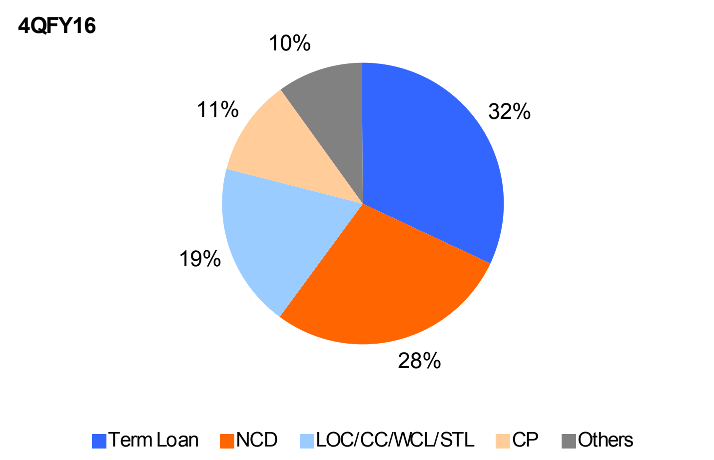
...enabling healthy NII growth



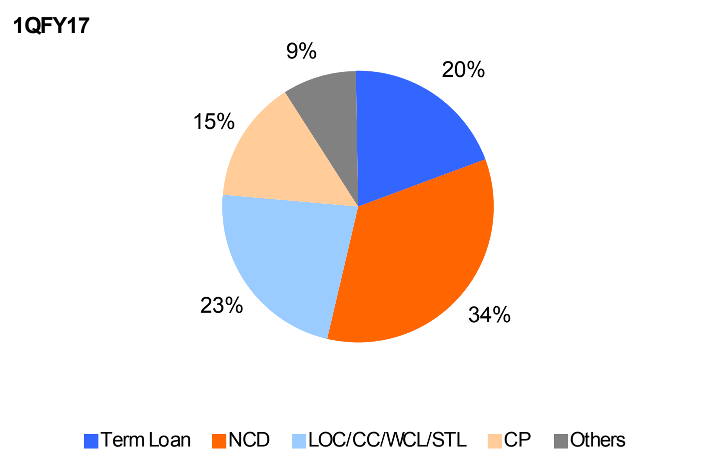
Source: Company, Antique

LTFIN has strategically moved to NCDs & CPs, especially CPs, in view of impending rate easing cycle. Further, with greater focus on retail advances going forward, we believe funding mix will continue to tilt towards short term borrowing.

LTFIN has strategically moved to NCDs & CPs, especially CPs, in view of impending rate easing cycle



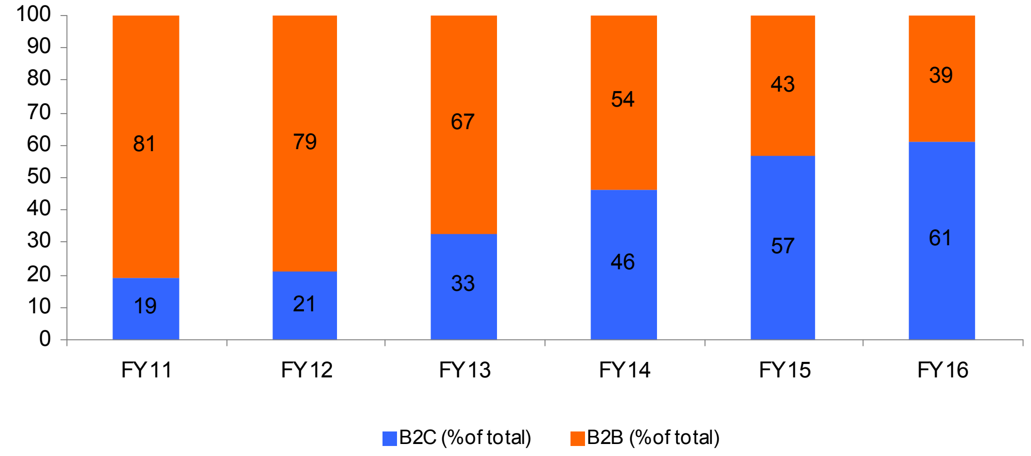
Source: Company, Antique



Source: Company, Antique

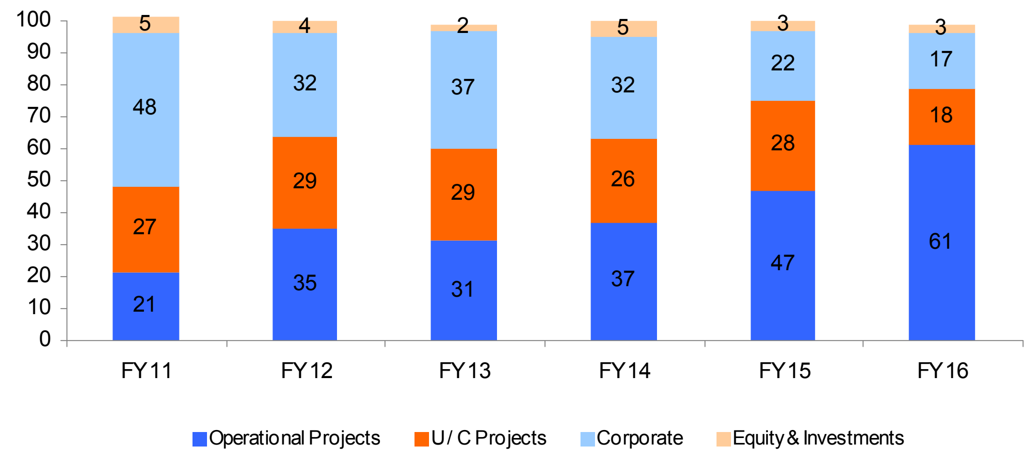
LTFH has been de-risking its wholesale business by increasing share of operational projects the share of which in total wholesale portfolio increased to 61% in FY16 from 21% in FY11. The share of under construction projects thus fell to 18% in FY16 from 27% in FY11 and this has put pressure on company's lending yield. However, the resultant impact on portfolio spreads has not been as much as the company benefitted from moderation in funding costs. We believe lending yield would report slight compression in wholesale business as LTFH further de-risks this business and lends higher proportion via IDF route. However continued decline in cost of funds (62% of borrowing is via banks) further aided by lower cost borrowing through IDF subsidiary which is AAA rated will largely compensates for the lower lending yield.

Retail Finance - Continuous shift towards B2C Products



Source: Company, Antique

Wholesale Finance - Focus on Operational Projects



Source: Company, Antique

Overall, we expect margins to expand slightly in the retail business (including housing) and this will adequately compensate for the slight margin decline in wholesale business. We believe that management's strategy to pursue market share gains and provide scale to the different businesses will be much more effective in delivering superior RoEs.

Cost-income ratio to moderate by 270bp over FY16-19E as businesses gain scale

We expect LTFH to deliver continued improvement in cost-income ratio as the businesses gain scale and the company focuses on improving productivity. The company has equipped its sales force with tablets and hand held scanners which has enabled it to extend its footprint beyond branches and improve turnaround time. LTFH has also undertaken a restructuring drive across various lending businesses and now has smoother operations with a leaner cost-structure. Even in the wealth management segment LTFH has merged two separate channels (Private Wealth and Premier Wealth) into one so as to efficiently focus on HNIs and affluent investors without any redundancy. We thus expect cost-income ratio across two key lending segments - Rural and Housing to decline by ~380bp and ~560bp respectively over FY16-19E. The moderation in cost-ratios coupled with improving share of high RoE business will help LTFH deliver steady expansion in consolidated RoE to 16.6% by FY19E.

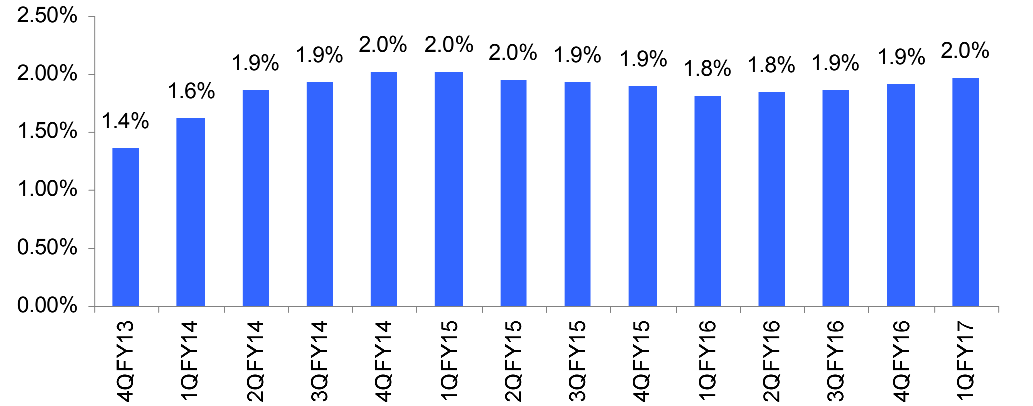
Investment Management

LTFH entered into asset management space with the acquisition of DBS Cholamandalam AMC in 2010 which it acquired for Rs450mn. The company had an AUM of Rs29bn at the time of acquisition. LTFH later acquired Fidelity's mutual fund business in 2012 for ~Rs6.3bn which equated to ~6.5% of total AUMs. The premium valuation reflected the high composition of equity AUMs (~70% of total AUMs) at the time of acquisition which typically earns higher fees.

The acquisitions has helped the company in significantly increasing its distribution capability and provided strong product portfolio in order to attract new customers. The company's average AUM grew at 19% CAGR over the past two years and currently stands at Rs284bn. LTFH's AMC business is currently ranked at 11th position within the mutual fund industry while its market share in overall AUM stands at ~1.97%. We note that despite steady growth LTFH has been able to maintain the high share of equity AUMs with the same now standing at 40% of total AUMs in comparison to 31% share of equity assets in the overall industry AUMs.

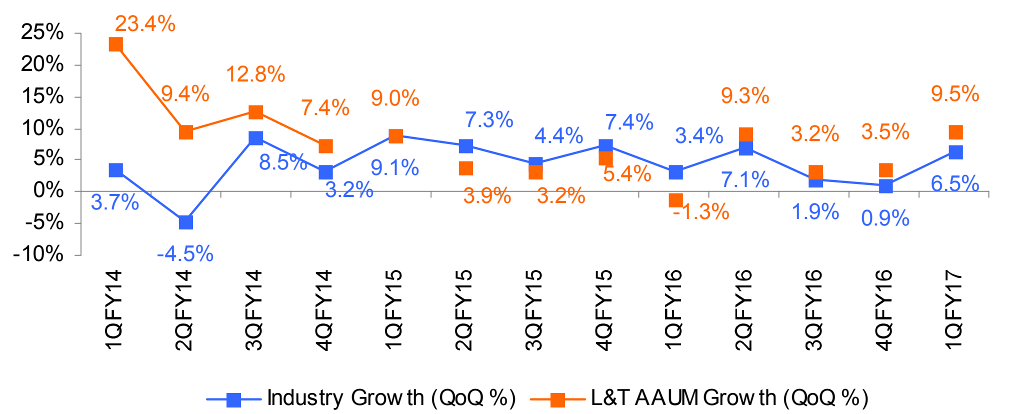
LTFH's AMC business achieved break-even during 4QFY14 and reported a modest PAT of Rs0.2bn in FY16. We expect profitability to grow at a strong rate given high operating leverage present in the business and estimate net earnings to cross Rs1bn by FY19. We note that LTFH's ~10% of the consolidated networth is invested in the asset management business and this is making suboptimal RoE. We believe that with strong turnaround in profitability the return ratios in this business will improve considerably and thus add to LTFH's consolidated RoE. Separately, we believe that management could consider unlocking of value at an appropriate point of time through dilution of a minority stake which will also be value accretive for the company.

LTFH's market share in overall AUM has increased to 1.97% in 1QFY17 from 1.37% in 4QFY13 even as it maintains high composition of equity assets



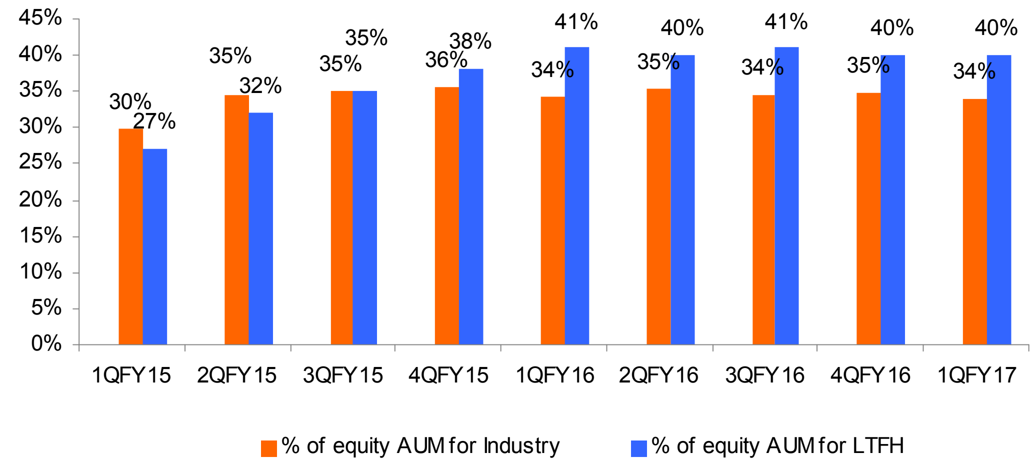
Source: Company, Antique

LTFH has been outperforming the industry in terms of AUM growth



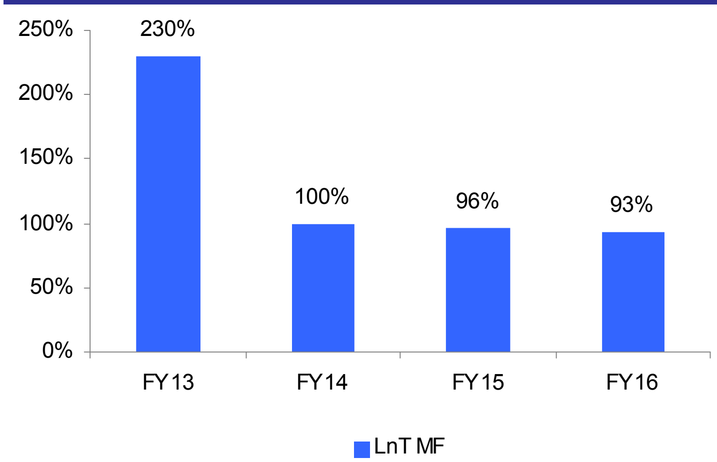
Source: Company, Antique

Composition of equity assets for industry and L&T Investment Management

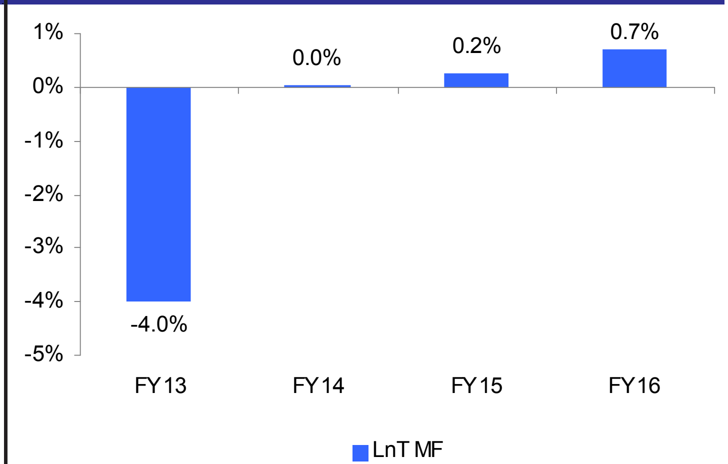


Source: Company, Antique

Cost/income ratio trending downward...



...enabling improvement in PAT margin as % of AUM



Source: Company, Antique

C/I Ratio

(%)	FY13	FY14	FY15	FY16
HDFC MF	43	42	42	53
Ipru MF	58	50	55	51
Kotak MF	97	70	129	70
L&T MF	**230**	**100**	**96**	**93**

Source: Company, Antique

PAT % of AUMs

(%)	FY13	FY14	FY15	FY16
HDFC MF	0.31	0.32	0.26	0.27
Ipru MF	0.13	0.17	0.17	0.19
Kotak MF	0.01	0.10	-0.09	0.10
L&T MF	**-0.40**	**0.00**	**0.02**	**0.07**

Note: L&TMF PAT is ex-amortisation
Source: Company, Antique

Acquisitions in Mutual fund industry

Period	Acquirer	Target	Stake	Value of AUM
Mar-16	Nippon Life	RMF	14%	5.36%
Dec-15	LIC Housing Finance	Nomura	19.30%	1.27%
Oct-15	RMF	Goldman Sachs MF	100%	3.41%
Aug-15	Pramerica	Deutsche Bank MF	100%	2%
Oct-14	DHFL-PFI	Pramerica MF	50%	2.42%
Sep-14	Kotak MF	PineBridge Mutual Fund	100%	N/A
May-14	Birla Sun life MF	ING MF	100%	5-7%
Dec-13	HDFCMF	Morgan Stanley MF	100%	5.20%
Jun-13	SBI MF	Daiwa MF	100%	0.50%
Mar-12	L&T MF	Fidelity MF	100%	6.50%
Nov-12	Invesco	Religare MF	49%	3.20%
Apr-12	Schroders PLC	Axis MF	25%	6.00%
Jan-12	Nippon Life	Reliance MF	26%	6.80%
Dec-10	Natixis Global	IDFC MF	25%	5.50%
Nov-09	T Rowe Price	UTI AMC	26%	3.50%
Sep-09	L&T Finance	DBS Chola	100%	1.60%
Jul-09	Nomura	LIC MF	35%	2.50%
Mar-08	IDFC	Standard Chartered	100%	5.70%

Source: Company, Antique

Capitalisation levels remain strong - we expect capital allocation to increase for HFC and two-wheeler business

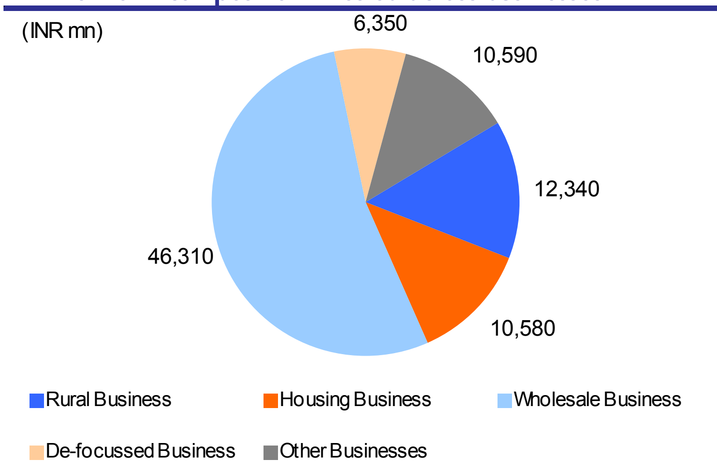
LTFH's capital adequacy stands comfortable for various subsidiaries except for housing and family credit entities which we believe will need successive capital infusion to support the growth momentum. The strong growth trajectory in the housing finance business has resulted in its capital adequacy ratio declining to 14.43% at 1QFY17 (Tier-I of 10.07%). The company has recently infused capital in the housing finance business but given the strong growth expected we expect further capital infusion of Rs4bn in this business to support the growth momentum.

However we believe that the company will not need to raise any external capital to meet the growth requirement of its subsidiaries as - (i) LTFH fully unwind/sell its defocused business (Rs44bn as at 1Q FY17 end) and frees up the capital base, (ii) LTFH gets the warrant conversion money of ~Rs3.5bn from Bain Capital in FY18, (iii) The company monetizes its equity investments of Rs7-8bn in several unlisted companies to meet the capital/provisioning requirements, (iv) LTFH divest a minority stake in the AMC business and ploughs that capital in the lending subsidiaries, and, (v) LTFH further scales up the IDF subsidiary which will help alleviate capital requirement in the wholesale lending business due to the lower risk-weights attached to the operational projects. We therefore expect wholesale business will be able to support the loan growth through internal accruals over next two years.

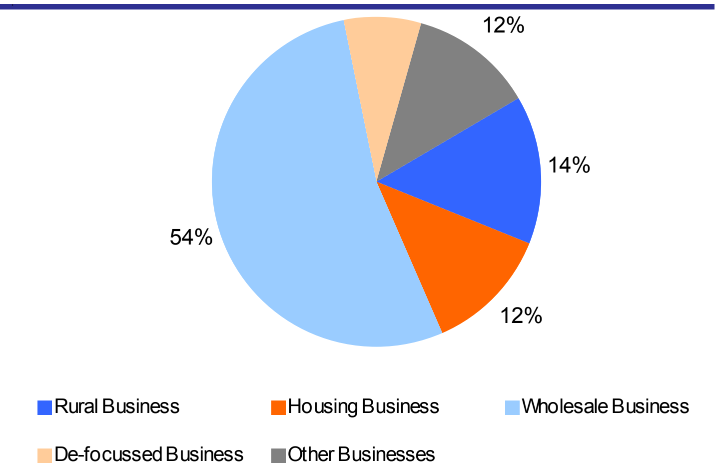
We thus do not expect LTFH to raise any equity capital over next three years however have built in Rs7.5bn of preference capital infusion in FY19E as the company finds this to be a very cost-effective way of raising capital. This also allows LTFH to optimally allocate capital to different subsidiaries as and when needed. We note that LTFH has repaid preference capital worth Rs7.5 bn in FY16 as it looks to productively use the existing capital base and exit from defocused businesses. The company currently has Rs12.1bn of preference share capital which corresponds to 14% of the total networth.

We believe that the strong brand equity enables LTFH to raise capital as and when needed to support business growth of the subsidiaries. This enables it to operate at optimum leverage and generate superior ROE without diluting the stake of existing investors.

LTFH networth composition invested across businesses



Source: Company, Antique



Source: Company, Antique

RoE to expand by 630bp to 16.6% by FY19E

L&T Finance Holdings stands amongst the few companies in the financial services space which are likely to report steep expansion in RoE. After undergoing massive restructuring both at the business and the employee level the company has undertaken a strategic shift and is now focused on products where in it believe it can generate superior returns for the stakeholders. Accordingly, LTFH has decided to exit from several products and now aims to focus on only seven product lines (from seventeen earlier) carved out in three different businesses. The company aspires to deliver top quartile RoE within the NBFC space by FY20 as it further increases the share of profitable products, judiciously uses it capital base and sell/rundown the defocused business which currently accounts for 8% of total loans. The company further aims to augment its lending income with higher share of fee income from both lending and non-lending businesses.

Short Term

- Drive efficiency to lower cost to income ratio
- Sell-down CoE to increase feel and balance portfolio risks

Medium Term

- Shift majority of capital to prioritise segments
- Unlock value of investments

Long Term

- Upside from focus on prioritised businesses with value creation
- Build strong structural capabilities for sustainable profitable growth

Rundown/Sale of defocused business

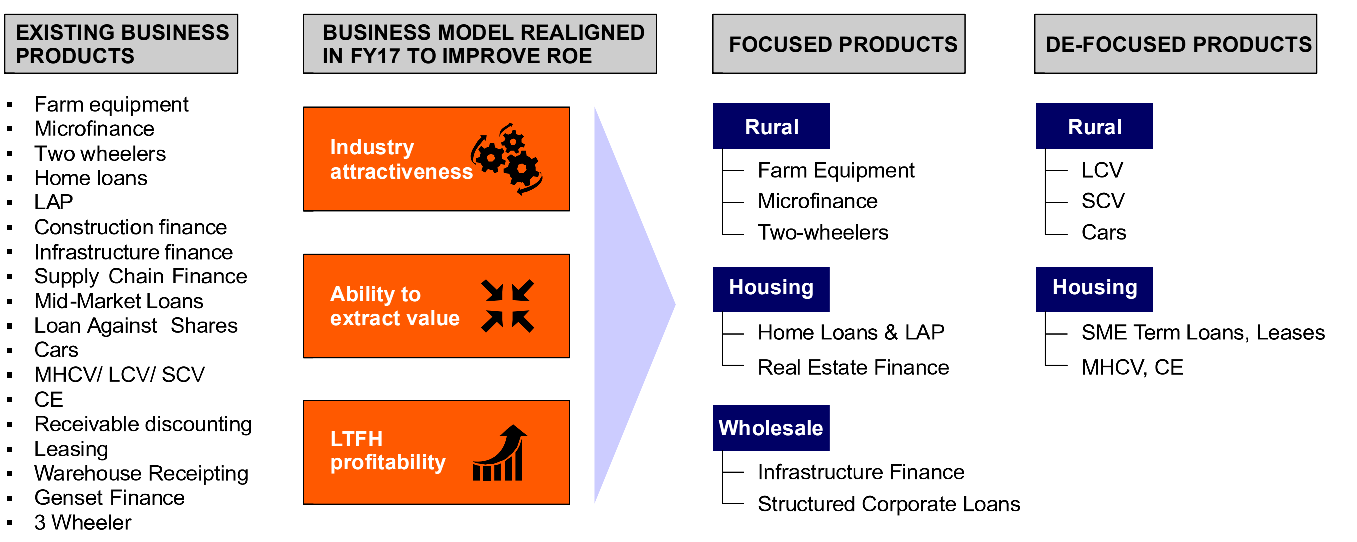
LTFH has decided to exit the products where in it believe it will make sub-optimal returns and scale likely to remain sub-par. Accordingly the company has decided to unwind its portfolio in select segments like CV/CE loans, mid-market, car loans, SME term loan etc. During 1QFY17 the company reported 26% y-y decline in the defocused loan portfolio while the segment made negative RoE of (21.7%) thus dragging down the RoE of lending business to 10.7% vs. 13.8% for the focused business.

RoE profile of respective business segment

	FY16	FY17E	FY18E	FY19E
Focused business				
RoE	13.2%	15.1%	16.2%	17.4%
- Rural business	18.5%	20.4%	20.3%	22.5%
- Housing	15.4%	15.6%	17.0%	17.3%
- Wholesale business	12.9%	13.2%	14.6%	15.8%
Lending business				
RoE	11.1%	11.6%	13.7%	15.3%
Consolidated business				
RoE	9.7%	11.6%	14.4%	16.5%

Source: Company, Antique

Roadmap to continuous improvement in RoE



Source: Company, Antique

Execution driven approach to deliver continuous improvement in RoE

Short Term

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- Build strong structural capabilities for sustainable profitable growth

INITIATIVES TAKEN

Divestment of non-core businesses

- Non core and non interest bearing assets identified investment banker finalized
- Strategic options being evaluated for value maximization

Cost optimisation

- To improve cost efficiency by right sizing and optimum utilisation of all resources
- The savings would be utilized to invest in building capacity in focused products

Merger of Entities

- Entities to be merged are identified
- Benefits will include more efficient utilisation of capital and management bandwidth
- Expected completion date Q4 FY17
- Setting up framework for opportunity scanning to cover untapped opportunities

Centre of Excellence – Functional Capabilities

- CoE for digital & data analytics, generation of fee income and sell-down being set up
- Indicative framework for client profiling and monetization of assets completed

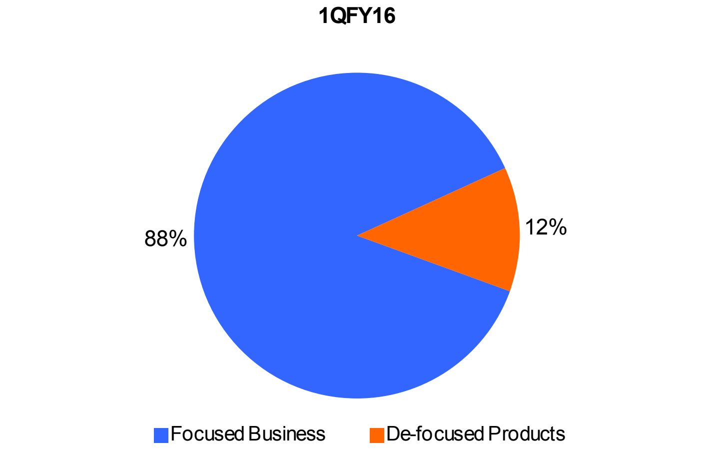
Source: Company, Antique

Impact of Initiatives on RoE Tree

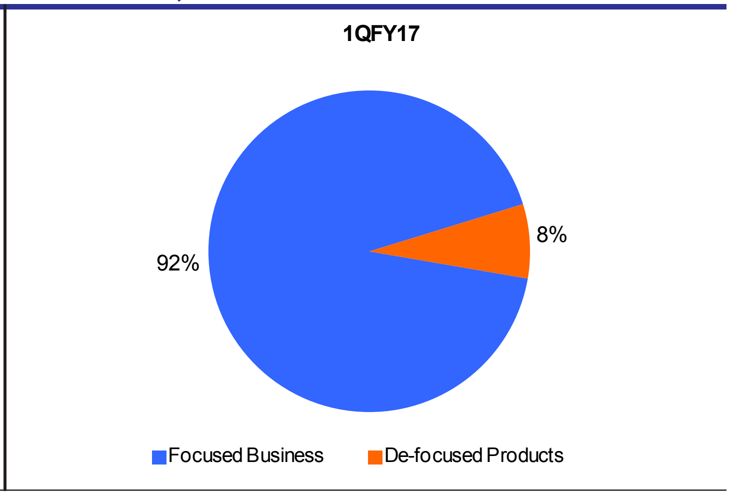
Parameter	Initiatives	Expected Impact
Loans & Advances	COE – Focused Businesses COE – Digital & Data Analytics Divestment of non-core businesses	*Realignment of portfolio towards focused businesses *Profitable growth within the focused businesses
Income	COE – Focused Businesses COE – Fee Income COE – Sell-down	*Maximize top line through high yielding assets in Rural and Housing Businesses *Augment income through fee and syndication
income		
		in Wholesale Business
Operating Expenses	Cost Optimization	*Cost saving by cutting redundancies *Cost optimization through increased efficiency and reinvestment of cost saved
Credit Cost	Divestment of non-core businesses COE – Risk Management	*Risk framework to set guardrails within which each business would achieve profitable growth *Analytics to further enhance early warning
capability		
	Return on Assets	
Leverage	Divestment of non-core businesses Merger of entities	*Reallocation of capital towards high RoE businesses *Ability to leverage further as credit cost comes down
	Return on Equity	

Source: Company, Antique

Proportion of de-focused loans has declined to 8% in 1QFY17 from 12% in 1QFY16



Source: Company, Antique



Source: Company, Antique

The company has also reduced its workforce from ~11,000 employees to ~10,000 employees as it streamlined its reporting structure and role allocations in both the branches and head-office. LTFH aims to expand its RoE by 2% in FY17E alone as it implements further cost-saving measures, including office space optimization, and improve upon its productivity. The company has closed 59 branches over Mar-16 to June-16 and aims to further reduce its branch count in the current fiscal. However the company aims to increase up its business volumes with the combination of right hiring and mobile branches which will provide it with better operating leverage and proves more cost-effective. Amongst non-lending business we note that the investment management business has already achieved break-even and we expect it to begin contributing to consolidated RoE as operating leverage in the business improves.

The company may also look to monetize part of its stake in the asset management business where in it has created significant value after acquiring it at premium valuations. We believe that any such sell down of defocused business/AMC stake will be read positively and help the stock to rerate further.

We believe that strong growth in high RoE businesses like Rural and Housing coupled with higher leverage and tax benefits that the company will enjoy on its IDF subsidiary will enable it to report an RoE expansion over FY16-19E. We thus expect consolidated RoE to improve from 10.3% in FY16 to 16.6% by FY19E.

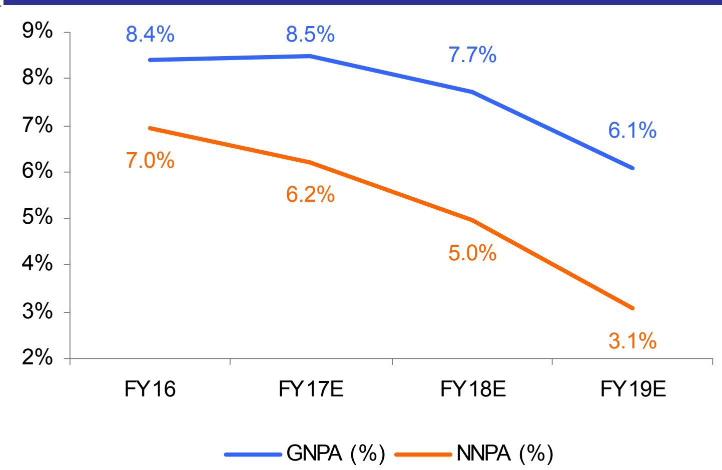
Asset quality on a mending path; few hiccups remain

LTFH's asset quality has been on a restoration path after witnessing deterioration over past few years. LTFH's conscious efforts to focus on select B2C segments in retail while increasing the share of operational projects in the infrastructure portfolio has casted a positive impact on asset quality. Gross NPL ratio on 120dpd basis has improved to 4.58% in 1QFY17 vs 4.85% in 4QFY16 while the coverage ratio also improved from 22% to 33%. The quantum of impaired assets also declined to Rs44.98bn at 7.92% of loans (9.14% in 1Q FY16) while the coverage ratio on overall impaired assets also increased to 29%.

LTFH has guided for potential slippages (~Rs6bn) from the outstanding restructured assets portfolio over the current fiscal. These accounts mainly pertain to EPC accounts in the corporate portfolio. However, on positive side, NPL formation from the standard assets has subsided and is a result of conscious efforts taken by the company as it de-risked its loan book and adopted selective growth approach. Incrementally, LTFH is looking to grow its infrastructure loan portfolio in Renewable energy and Road segment where the gestation period of the project is not long, while asset quality issues have been much lower.

We expect Gross NPL ratio to improve to 3.1% by FY19E as we expect NPL formation to subside while the coverage ratio is likely to improve to 50% during the similar period. LTFH's credit cost has increased to 213bps during FY16 as the company made higher provisions towards its farm portfolio/stressed assets and we expect credit cost to decline by 42bp over FY16-19E. We believe that further cleansing of the corporate book, elevated farm delinquencies coupled with migration to 90dpd norm will limit the extent to which the credit cost can decline in medium term.

Asset quality ratios likely to improve going forward for Rural financing business along with improvement in coverage ratio



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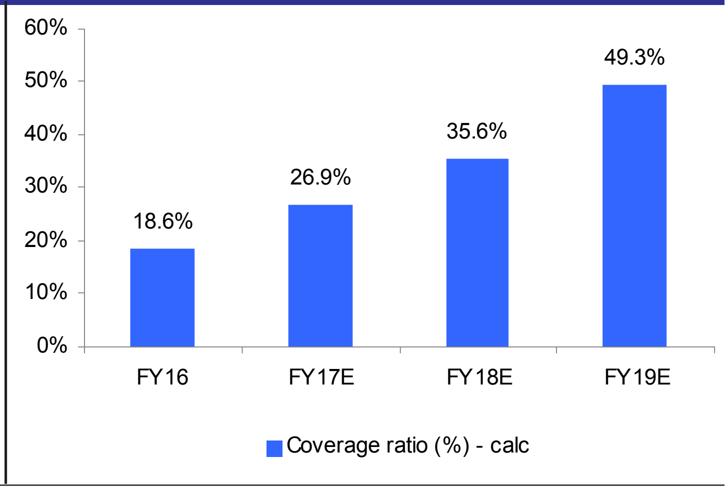
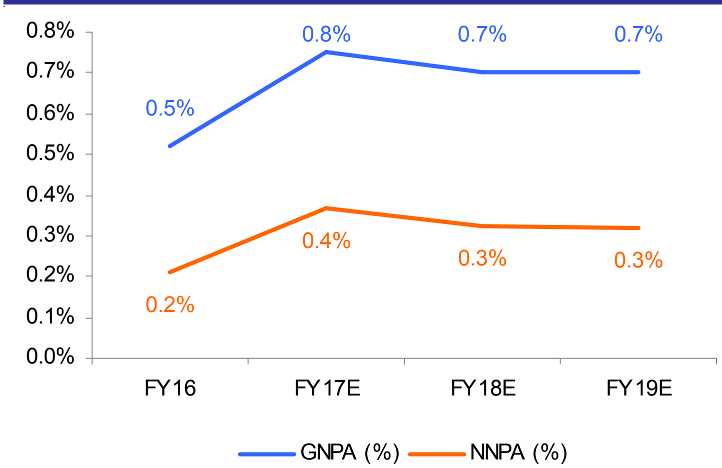


Source: Company, Antique

Housing Finance - asset quality ratios to remain stable...however expect coverage ratio to improve going forward



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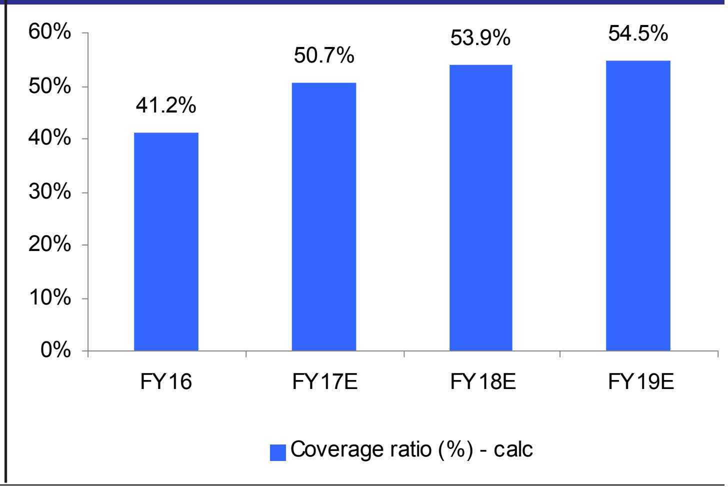
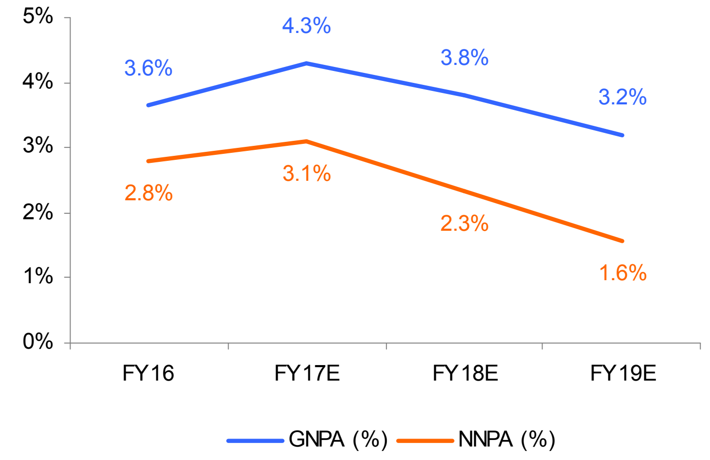


Source: Company, Antique

Increased proportion of operational projects to ensure lower delinquencies in Wholesale segment going forward



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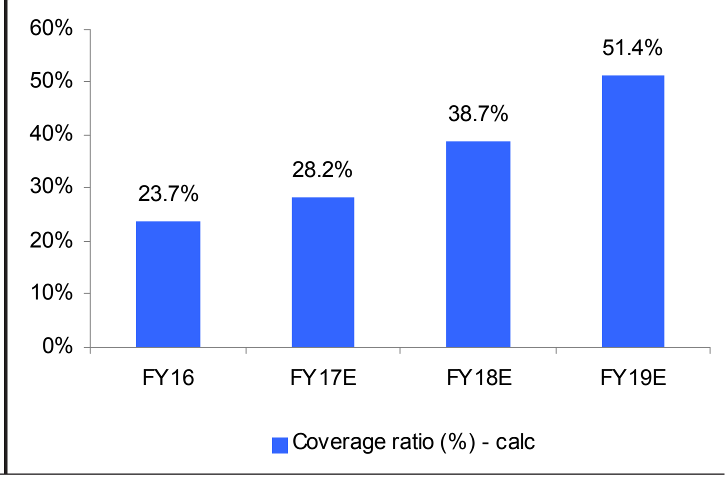
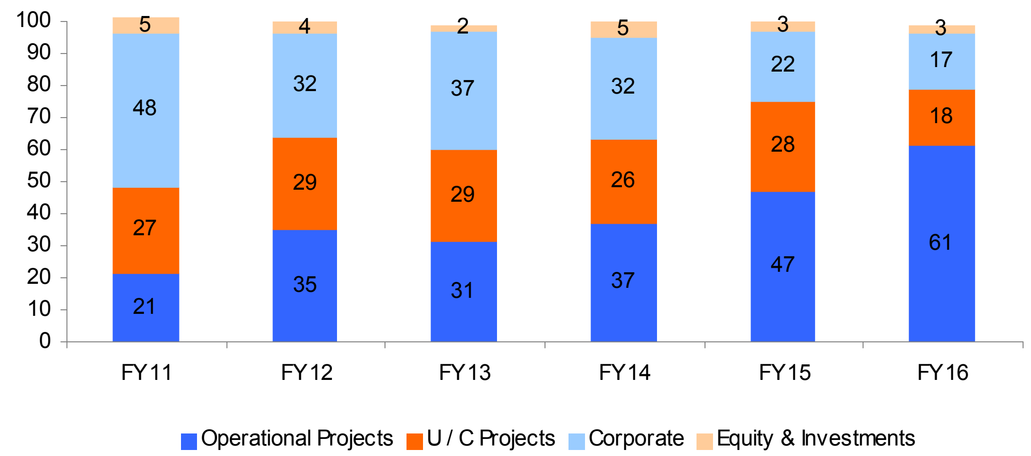


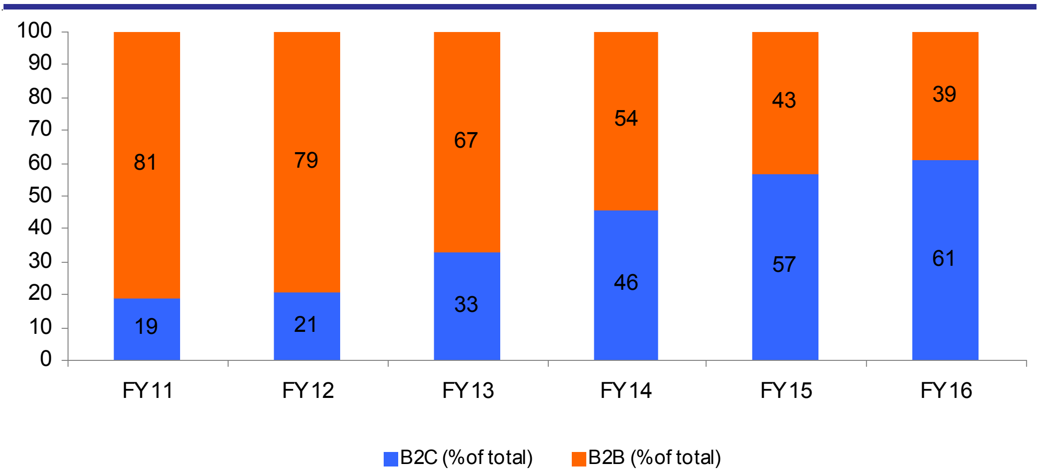
Source: Company, Antique

Wholesale Finance - Focus on operational projects



Source: Source: Company, Antique

Retail Finance - Continuous shift towards B2C Products



Source: Company, Antique

Valuation

We value LTFH using SOTP methodology as we independently value its wholesale, housing and rural business. We further add the value of asset management business which we have valued at 5% of AUMs. Our SOTP based valuation for the consolidated entity stands at Rs122/share which corresponds to 2.1x Sep-18E BV for the lending business (adjusted for preference capital) and 13.4x Sep-18E EPS. Our fair value represents an upside of 31% to the current market price hence we initiate coverage on the stock with a "BUY" rating.

We expect LTFH's ROE to improve by 630bps over the next three years aided by improving mix of profitable products, complete rundown/sale of defocused business and improvement in fee income/operating efficiency. The company is aspiring to reach top quartile on RoE with in the NBFC space which implies an RoE of ~17-18%. The stock has already ran-up by 70% over past six months however we believe that in context to the strong earnings traction, steady loan growth and de-risked balance sheet LTFH's trading multiple will narrow the gap vs peers.

Rural business: LTFH's rural business has reported an improvement in profitability led by improving business mix and moderation in fresh slippages in the farm equipment business. We expect rural business to deliver 400bp expansion in RoE over FY16-19E led by robust growth in high-yielding MFI loans and moderation in credit cost in the farm portfolio. LTFH has been very selective in making incremental disbursements in the farm segment while normal monsoon progression in the current fiscal will help improve repayment trends and should aid loan growth. We have valued LTFH's rural business business at a P/B multiple of 3.0x Sep-18E ABV and this corresponds to R40 per share at the parent LTFH level.

Housing business: We expect LTFH to deliver 190bp improvement in RoE in the housing business led by improved operating leverage and healthy lending yield. We expect the company to maintain healthy mix between individual & developer loans even as it grows its loan portfolio by ~50% cagr over FY16-19E. We value LTFH's housing business at a P/B multiple of 2.3x Sep-18E ABV which corresponds to Rs34 per share at the parent LTFH level.

Wholesale business: We expect LTFH to deliver 290bp improvement in RoE in the wholesale business led by reduction in credit cost (back-ended) and improvement in fee income as the company sell-down larger share of loan originations. We thus value LTFH's wholesale business at a P/B multiple of 1.4x Sep-18E ABV which corresponds to Rs46 per share at the parent LTFH level.

Investment management: We have valued investment management business at 5% of AUMs as we build in modest 15% CAGR in AUM growth over FY17-19E.

We have further ascribed Rs2 per share to LTFH's wealth management business and other corporate investments while deducted Rs11 from our SOTP valuation towards the preference capital employed in the business.

We, thus, value LTFH consolidated entity at R122 per share which implies 2.1x Sep-18E BV for the total lending business and 13.4x Sep-18E EPS. Our PT, thus, implies an upside of 31% to the current market price, leading us to initiate coverage on the stock with a "BUY" rating.

SOTP valuation

	Holding (%)	Value	Implied P/ABV (FY17E)	Value per share	Contribution to total SOTP	Comments
Business segments						
L&T Rural business	100%	72,933	3.0	40	33%	Based on two-stage GGM
L&T Housing business	100%	62,478	2.3	34	28%	Based on two-stage GGM
L&T Wholesale business	100%	84,125	1.4	46	38%	Based on two-stage GGM
L&T Investment Management	100%	18,129		10	8%	5% of AUMs
Private equity/wealth management	100%			2	2%	
- Less preference capital		19,634		11		
Total				**122**		
Implied P/BV of lending business adjusting for preference capital			**2.1**			

Source: Company, Antique

Consolidated networth

Networth	Sep-18E
Rural business	24,480
Housing business	26,891
Wholesale business	59,800
Total lending business networth	111,170
- as % of total networth incl. preference cap	91%
Preference capital consumed in lending business	8,163
Networth excl. preference capital	103,007
Preference capital	19,634
Total Networth	**122,641**

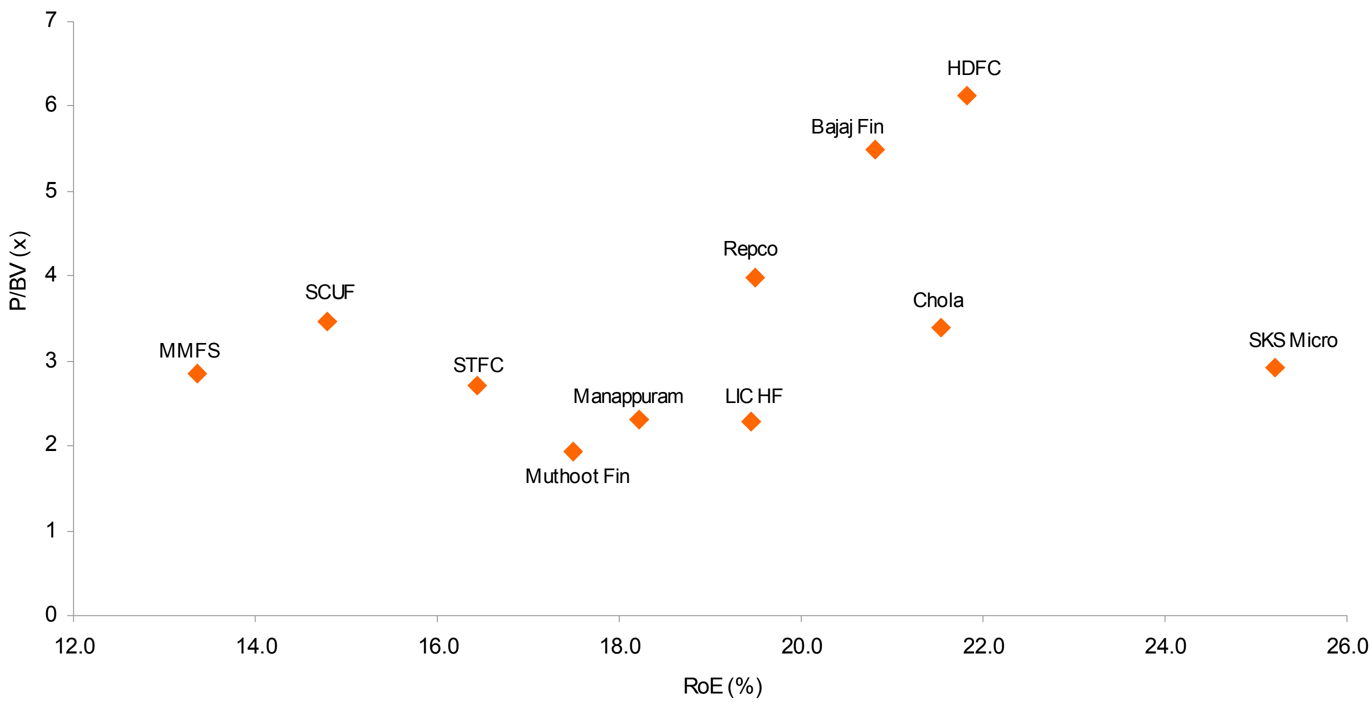
Source: Company, Antique

Financial snapshot of major NBFCs

	Net profit (bn)			EPS (INR)			BVPS (INR)			RoE (%)			RoA (%)			AUMs (bn)			P/E (x)			P/BV (x)		
	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e	FY16	FY17e	FY18e
Gruh	2.4	2.8	3.5	7	8	10	23	28	34	31.5	30.7	31.0	2.4	2.3	2.3	111	138	170	47.5	40.6	32.8	13.8	11.3	9.3
SKS Microfinance	3.0	7.4	8.0	24	54	59	109	204	262	25.0	35.6	25.2	5.1	7.7	5.9	77	114	157	32.0	14.1	13.0	7.0	3.8	2.9
HDFC Ltd	70.9	80.7	91.1	34	39	43	163	192	228	21.8	22.1	21.8	2.9	2.9	2.9	2,592	2,955	3,339	41.2	36.1	32.2	8.6	7.3	6.1
Cholamandalam	5.7	7.7	10.0	36	49	64	234	273	323	16.6	19.3	21.5	2.1	2.3	2.6	298	359	427	30.1	22.4	17.1	4.7	4.0	3.4
Bajaj Finance	12.8	16.1	20.3	239	300	380	1,387	1,652	1,996	20.9	19.7	20.8	3.2	3.1	3.1	428	546	713	45.9	36.5	28.9	7.9	6.6	5.5
Repco	1.5	1.9	2.4	24	30	38	153	177	208	17.0	18.1	19.5	2.2	2.1	2.2	76	96	120	34.7	27.8	22.1	5.4	4.7	4.0
LIC HF	16.6	19.8	22.7	33	39	45	181	213	248	19.6	19.9	19.5	1.4	1.5	1.5	1,252	1,427	1,612	17.2	14.4	12.6	3.1	2.7	2.3
Manappuram	3.4	5.4	6.0	4	6	7	33	37	42	12.6	18.6	18.2	3.4	4.9	4.9	104	116	133	24.1	15.0	13.4	3.0	2.6	2.3
Muthoot Finance	8.1	10.7	11.8	20	27	30	141	159	180	15.1	17.8	17.5	3.4	4.1	4.1	244	272	304	17.1	13.0	11.7	2.5	2.2	1.9
PTC Financial	3.9	3.0	3.6	7	5	6	31	35	40	24.6	16.0	17.2	5.0	2.9	2.7	80	105	136	5.3	7.0	5.8	1.2	1.1	0.9
L&TFinance	**9.9**	**13.8**	**18.7**	**5**	**7**	**9**	**44**	**53**	**61**	**11.7**	**14.4**	**16.6**	**1.3**	**1.6**	**1.7**	**668**	**813**	**1,018**	**18.6**	**13.0**	**9.7**	**2.8**	**2.2**	**1.8**
Shriram Transport	11.8	15.4	19.9	52	68	88	374	401	423	12.2	14.4	16.4	1.8	2.0	2.4	728	829	952	22.0	16.8	13.0	3.1	2.9	2.7
REC	56.3	55.9	52.5	57	57	53	290	333	371	21.0	18.2	15.1	3.0	2.9	2.9	2,003	1,903	1,807	4.0	4.1	4.3	0.8	0.7	0.6
Shriram City Union	5.3	5.6	7.7	80	85	117	639	645	649	12.3	11.9	14.8	2.9	2.6	2.9	191	230	279	28.0	26.5	19.2	3.5	3.5	3.5
PFC	61.1	59.0	55.3	46	46	43	271	299	322	18.0	16.1	13.9	2.6	2.4	2.1	2,375	2,541	2,719	2.5	2.6	2.7	0.4	0.4	0.4
MMFS	6.7	7.6	9.8	12	14	17	85	103	119	11.4	11.7	13.4	1.8	1.8	2.2	380	420	465	28.3	25.1	19.4	4.0	3.3	2.8
Ujjivan	1.8	2.1	1.9	18	18	16	118	149	166	18.3	14.3	10.5	4.1	3.4	2.4	51	70	91	29.1	28.5	30.9	4.3	3.4	3.1
Equitas	1.7	2.2	2.5	6	7	7	50	68	75	13.3	12.2	10.2	3.3	3.1	2.5	51	75	107	31.5	29.5	26.7	3.9	2.9	2.6

Source: Company, Antique

RoE & P/BV comparison of major NBFCs



Source: Company, Antique

Risks

Inability to scale-up the microfinance & two-wheeler portfolio segments which are likely to be the key RoE driver would limit the improvement in return ratios.

Also, continued delinquencies in the tractor portfolio and tepid growth could impact earnings.

The company is aggressively growing its mortgage portfolio led by both retail home loans and developer financing and any slowdown in real estate industry / economic environment would adversely impact growth and asset quality trends.

While on infrastructure side, higher-than-estimated slippages from restructured assets and other corporate loans remains a key risk

Rural Business

P&L

(INRm)	FY16	FY17E	FY18E	FY19E
Interest Income	15,890	20,060	25,497	33,224
Interest Expense	6,100	8,025	10,461	13,493
NIM	9,790	12,036	15,036	19,731
Fee Income	700	631	1,110	1,483
Other Income	0	210	278	371
Total Income	10,490	12,878	16,424	21,584
Operating Expense	3,910	4,420	5,690	7,227
Operating profit	6,580	8,458	10,734	14,357
Credit Cost	3,350	3,999	4,996	6,115
Profit before tax	3,230	4,459	5,738	8,242
Tax	1,120	1,516	1,951	2,802
PAT	2,110	2,943	3,787	5,439

Source: Company, Antique

Balance Sheet Summary

(INRm)	FY16	FY17E	FY18E	FY19E
Total Assets	91,520	118,960	158,597	212,038
Gross Loans & Advances	86,440	111,493	147,526	195,762
- Tractors	46,490	50,209	57,238	67,541
- Two wheelers	17,610	22,189	27,736	34,392
- Microfinance	22,340	39,095	62,552	93,828
Borrowings	73,290	97,445	129,971	173,249
Networth	11,920	16,274	21,304	27,655

Source: Company, Antique

Asset quality

(INRm)	FY16	FY17E	FY18E	FY19E
GNPL	7,270	9,477	11,360	11,941
NNPL	5,920	6,927	7,311	6,058
Provisions	1,350	2,550	4,049	5,883
GNPA (%)	8.4%	8.5%	7.7%	6.1%
NNPA (%)	7.0%	6.2%	5.0%	3.1%
Coverage ratio (%)	19.0%	26.9%	35.6%	49.3%
Coverage ratio (%) - calc	18.6%	26.9%	35.6%	49.3%

Source: Company, Antique

Key Ratios

(%)	FY16	FY17E	FY18E	FY19E
Net Interest Margin	12.5%	12.2%	11.6%	11.5%
Return on Assets	2.5%	2.8%	2.7%	2.9%
Debt / Equity	6.0	6.0	6.1	6.3
Return on Equity	18.5%	20.4%	20.3%	22.5%

Source: Company, Antique

CAR - Rural business combined

(%)	FY16	FY17E	FY18E	FY19E
L&T Finance Ltd.				
Tier I	13.4%	14.1%	13.9%	13.6%
Tier I calc.	13.4%	14.1%	13.9%	13.6%
Tier II	5.9%	4.5%	3.4%	2.6%
Total CAR	**19.3%**	**18.7%**	**17.3%**	**16.1%**

Source: Company, Antique

Housing Business

P&L

(INRm)	FY16	FY17E	FY18E	FY19E
Interest Income	9,420	16,124	23,752	33,512
Interest Expense	6,040	10,417	15,022	21,450
NIM	3,380	5,706	8,730	12,061
Fee Income	460	550	1,044	1,522
Total income	3,840	6,256	9,774	13,584
Operating Expense	1,550	2,473	3,551	4,719
Operating profit	2,290	3,783	6,223	8,864
Credit Cost	250	759	1,337	1,936
PBT	2,040	3,024	4,886	6,928
Tax	770	1,058	1,661	2,356
PAT	1,270	1,965	3,225	4,572

Source: Company, Antique

Balance Sheet Summary

(INRm)	FY16	FY17E	FY18E	FY19E
Total Assets	106,150	168,640	249,123	359,828
Gross Loans & Advances	98,110	154,886	227,256	325,971
- Home loans / LAP	63,130	104,165	156,247	226,558
- Developer financing	34,980	50,721	71,009	99,413
Borrowings	88,290	133,356	196,804	285,225
Networth	9,910	15,482	22,562	31,220

Source: Company, Antique

Asset quality

(INRm)	FY16	FY17E	FY18E	FY19E
GNPL	510	1,162	1,591	2,282
NNPL	300	572	734	1,038
Provisions	210	589	857	1,244
GNPL (%)	0.52%	0.8%	0.7%	0.7%
NNPL (%)	0.21%	0.4%	0.3%	0.3%
Coverage ratio (%)	40.0%	50.7%	53.9%	54.5%

Source: Company, Antique

Key Ratios

(%)	FY16	FY17E	FY18E	FY19E
Net Interest Margin	4.4%	4.5%	4.6%	4.4%
Operating Expenses as % of total assets	2.0%	1.8%	1.7%	1.6%
Cost-income ratio (%)	40.4%	39.5%	36.3%	34.7%
Return on Assets	1.5%	1.4%	1.5%	1.5%
Debt / Equity	8.6	8.6	8.7	9.1
Return on Equity	15.4%	15.6%	17.0%	17.3%

Source: Company, Antique

CAR - Housing business combined

(%)	FY16	FY17E	FY18E	FY19E
Tier I	13.38%	13.4%	13.3%	12.7%
Tier II	5.89%	3.7%	2.5%	1.8%
Total CAR	**19.27%**	**17.1%**	**15.8%**	**14.5%**

Source: Company, Antique

Wholesale Business

P&L

(INRm)	FY16	FY17E	FY18E	FY19E
Interest Income	36,740	40,753	43,292	47,914
Interest Expense	24,280	27,431	29,382	32,791
NIM	12,460	13,322	13,910	15,124
Fee Income	1,050	1,558	2,621	3,512
Other Income	810	1,558	1,966	2,509
Total Income	14,320	16,438	18,497	21,144
Operating Expense	1,750	1,925	2,079	2,245
Operating profit	12,570	14,513	16,418	18,899
Credit Cost	4,610	5,554	5,612	5,932
PBT	7,960	8,959	10,806	12,967
Tax	2,510	2,688	3,134	3,631
PAT	5,450	6,271	7,673	9,336

Source: Company, Antique

Balance Sheet Summary

(INRm)	FY16	FY17E	FY18E	FY19E
Total Assets	370,260	408,807	464,966	538,504
Gross Loans & Advances	344,440	376,855	424,856	487,801
Infrastructure Finance	271,800	304,416	347,034	402,560
Structured Corp Finance	49,770	47,282	49,646	53,121
Supply Chain Finance	22,870	25,157	28,176	32,120
Borrowings	305,930	332,009	375,997	433,655
Networth	44,910	49,927	56,065	63,534

Source: Company, Antique

Asset quality

(INRm)	FY16	FY17E	FY18E	FY19E
GNPL	12,230	16,205	16,145	15,610
NNPL	9,330	11,639	9,895	7,580
Provisions	2,900	4,566	6,250	8,029
GNPL (%)	3.64%	4.3%	3.8%	3.2%
NNPL (%)	2.80%	3.1%	2.3%	1.6%
Coverage ratio (%)	24.0%	28.2%	38.7%	51.4%

Source: Company, Antique

Key Ratios

(%)	FY16	FY17E	FY18E	FY19E
Net Interest Margin	4.0%	3.7%	3.5%	3.3%
Return on Assets	1.6%	1.6%	1.8%	1.9%
Debt / Equity	6.6	6.6	6.7	6.8
Return on Equity	12.9%	13.2%	14.6%	15.8%

Source: Company, Antique

Impaired assets

	FY16	FY17E	FY18E	FY19E
Gross Stressed assets (INR mn)	31,610	28,449	25,604	23,044
Net Stressed assets (INR mn)	25,420	20,362	15,811	11,714
Provisions	6,190	8,087	9,794	11,330
Gross stressed assets (%)	9.4%	7.5%	6.0%	4.7%
Net stressed assets (%)	7.6%	6.7%	4.6%	2.9%
Coverage ratio (%)	20.0%	28.4%	38.2%	49.2%
Coverage ratio (%) - calc	19.6%	28.4%	38.2%	49.2%
Restructured assets - gross	19,380	12,244	9,460	7,434
- as % of total wholesale loans	5.6%	3.2%	2.2%	1.5%
Restructured assets - net	16,090	8,724	5,916	4,134
- as % of total wholesale loans	4.7%	2.3%	1.4%	0.8%

Source: Company, Antique

L&TFH Consolidated

(INRm)	FY16	FY17E	FY18E	FY19E
Interest income	70,220	80,636	94,522	115,822
Interest expense	40,730	48,216	56,100	68,442
NII	29,490	32,420	38,422	47,380
Fee income	2,180	2,739	4,776	6,517
Other income	810	1,769	2,244	2,879
Operating expense	9,160	9,435	11,686	14,452
Operating profit	23,330	27,493	33,756	42,324
Credit cost	11,200	13,395	13,980	15,612
PBT	12,130	14,099	19,776	26,712
Tax	3,980	4,864	6,922	9,349
PAT	8,150	9,235	12,854	17,363
- PAT in focused business	8,830	11,179	14,684	19,348
- PAT in defocused business	(680)	(1,945)	(1,830)	(1,985)
Other business PAT	420	630	882	1,323
LTFH consol PAT	8,570	9,865	13,736	18,686
Preference Dividend paid	1,671	1,031	1,031	1,669
LTFH consol PAT to shareholders	6,899	8,833	12,705	17,017
Total Assets	620,140	722,300	886,927	1,118,914
Total Assets focused business	567,930	696,407	872,686	1,110,370
Total Loans	578,310	667,893	813,201	1,017,671
Total loans focused business	528,990	643,233	799,638	1,009,534
Loans - defocused business	49,320	24,660	13,563	8,138
Total Borrowings	509,140	612,926	765,351	971,569
Total Borrowings - focused business	467,510	562,810	702,772	892,129
Total Networth - lending business	73,620	85,812	102,408	123,895
- of which networth in defocused biz	6,880	4,128	2,477	1,486
Networth in focus business	66,740	81,684	99,931	122,409
Networth in other business	9,700	11,117	8,272	7,170
LTFH consol networth	83,320	92,801	108,203	129,579
Preferential networth	12,130	12,134	12,134	19,634
LTFH consol networth to s/h	71,190	80,667	96,069	109,945
GNPA (INR mn)	27,560	31,479	32,024	31,802
GNPA - focused business, Rs mn	20,010	26,843	29,095	29,833
GNPA - defocused business, Rs mn	7,550	4,636	2,930	1,969
NNPA (INR mn)	21440	22,615	19,784	15,823
NNPA - focused business, Rs mn	15,550	19,138	17,940	14,676
NNPA - defocused business, Rs mn	5,890	3,477	1,845	1,147
GNPA (%)	4.9%	4.7%	3.9%	3.1%
GNPA (%) - focused business	3.8%	4.2%	3.6%	3.0%
GNPA (%) - defocused business	15.3%	18.8%	21.6%	24.2%
NNPA (%)	3.8%	3.4%	2.4%	1.6%
NNPA (%) - focused business	2.9%	3.0%	2.2%	1.5%
NNPA (%) - defocused business	11.9%	14.1%	13.6%	14.1%
PCR (%)	22.0%	28.2%	38.2%	50.2%
PCR (%) - focused business	22.3%	28.7%	38.3%	50.8%
PCR (%) - defocused business	22.0%	25.0%	37.0%	41.7%

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Interest Income	59,914	69,408	80,636	94,522	115,822
Interest Expense	35,678	41,241	48,216	56,100	68,442
Net Interest Income	24,237	28,167	32,420	38,422	47,380
% NII Growth	26.6	16.2	15.1	18.5	23.3
Treasury Income	1,160	1,511	-	-	-
Non-interest income	3,460	5,299	7,401	10,434	13,425
Net Revenue	27,696	33,466	39,821	48,856	60,805
Employees Expenses	3,523	4,877	5,755	6,963	8,356
Other Op. Expenses	7,248	8,252	9,745	11,780	14,251
Operating Profit	16,925	20,337	24,321	30,113	38,198
% OP Growth	35.3	20.2	19.6	23.8	26.8
Tax	3,241	3,990	5,093	6,618	8,603
Total Provisions	6,617	7,810	9,341	9,749	10,887
Net Profit	7,068	8,537	9,887	13,746	18,708
% PAT Growth	18.8	20.8	15.8	39.0	36.1
Share in profit of associate company	40	30	33	36	40
Net Profit	7,107	8,567	9,920	13,782	18,748

Balance sheet (INRm)

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Capital	30,837	29,668	30,306	30,306	37,806
Reserves and Surplus	46,562	53,237	62,494	77,896	91,773
Minority Interest	1,003	1,003	1,003	1,003	1,003
Borrowings	420,906	516,157	612,926	765,351	971,569
Provisions	4,717	5,923	6,634	7,629	8,850
Total liabilities	527,419	637,463	733,368	873,018	1,086,332
Loans and advances	457,631	560,654	667,893	813,201	1,017,671
Investments	26,492	35,633	24,943	18,458	22,149
Fixed Assets	5,451	6,740	7,074	8,065	9,355
Current Assets	20,185	15,454	13,136	11,166	12,840
Other Assets	17,662	18,983	20,322	22,129	24,316
Total assets	527,422	637,463	733,368	873,018	1,086,332

Asset Quality

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Gross NPA (INRm)	10,450	27,560	31,479	32,024	31,802
Gross NPA (%)	2.30	4.85	4.71	3.94	3.13
Net NPA (INRm)	5,800	21,440	22,615	19,784	15,823
Net NPA (%)	1.30	3.82	3.39	2.43	1.55
% coverage of NPA	44.5	22.0	28.2	38.2	50.2

Return Ratios

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
RoaA (%)	1.2	1.2	1.3	1.6	1.7
Core RoE (%)	9.8	10.3	11.7	14.4	16.6

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Deposit					
Borrowing growth (%)	17.4	22.6	18.7	24.9	26.9
Cost of deposits (%)	9.2	8.8	8.5	8.1	7.9
Advances					
Advances growth (%)	18.3	22.5	19.1	21.8	25.1
Yield on advances (%)	12.3	11.9	11.8	11.8	11.8

Earnings Ratios

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Interest Inc. / Avg.assets (%)	12.3	11.9	11.8	11.8	11.8
Interest Exp./ Avg. assets (%)	7.3	7.1	7.0	7.0	7.0
NIM (%)	5.0	4.8	4.7	4.8	4.8
Int. exp/ Int earned (%)	59.5	59.4	59.8	59.4	59.1
Oth. Inc./ Tot. Inc. (%)	12.5	15.8	18.6	21.4	22.1
Staff exp/Total opt. exp (%)	32.7	37.1	37.1	37.2	37.0
Cost/ Income Ratio (%)	38.9	39.2	38.9	38.4	37.2
Prov./ Operating Profit (%)	39.1	38.4	38.4	32.4	28.5
Loan loss prov./Avg. loans (bps)	156.7	153.4	152.1	131.6	118.9

Per Share Data

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Book value per share (INR)	37	40	44	53	61
Adj. BVPS (INR)	34	35	32	42	52
Price/ Adj. Book value	2.7	2.6	2.8	2.2	1.8
EPS(INR)	3	4	5	7	9
P/E Ratio	26.1	23.1	18.6	13.0	9.7
% EPS Growth	15	13	24	43	34

RoA decomposition

Year ended 31 Mar	2015	2016	2017e	2018e	2019e
Interest income/Assets	12.3	11.9	11.8	11.8	11.8
Interest expenses/Assets	7.3	7.1	7.0	7.0	7.0
Net interest income/Assets	5.0	4.8	4.7	4.8	4.8
Treasury income/Assets	0.2	0.3	-	-	-
Other Inc. from operations/Assets	0.7	0.9	1.1	1.3	1.4
Total income/Assets	5.7	5.7	5.8	6.1	6.2
Employee expenses/Assets	0.7	0.8	0.8	0.9	0.9
Other operating expenses/Assets	1.5	1.4	1.4	1.5	1.5
Operating profit/Assets	3.5	3.5	3.5	3.7	3.9
Tax/Assets	0.7	0.7	0.7	0.8	0.9
Loan loss provisions/Assets	1.4	1.3	1.4	1.2	1.1
Net profit/Assets	1.4	1.5	1.4	1.7	1.9

Source: Company Antique

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