



Farsight

MORNING FARSIGHT

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L&T FINANCE

CMP:RS 144

TRGT:RS 165

TIME HORIZON: 1 YEAR

L&T Finance is looking a good buy, as we derive comfort from strong support from parent L&T, which would allow this NBFC to sail through tough times steadily. For Q2FY19, Company recorded 26% YoY increase in assets in Q2FY19, led by 71 %YoY growth in Rural Finance and 40% YoY growth in Housing Finance. Company has delivered consolidated PAT of Rs 560 Cr in Q2FY19 against PAT of Rs 338 Cr for Q2FY18, a growth of 66%. Having achieved a RoE of 18.45% in Q1FY19, LTFH has maintained its profitability with 18.47 %RoE in Q2FY19. This has been achieved on the back of strong NIMs plus Fee income, strict control on cost and improved asset quality. Coming on to asset quality, company has shown a substantial reduction in Stage 3 assets, both in absolute and percentage terms, with Net Stage 3 easing to 2.8% from 3.2% QoQ and Rs 2,298 cr from Rs 2,463 cr in absolute terms. Company has detailed its ALM profile as well and it has positive gaps in both Structural Liquidity (Positive gap of Rs 18,523 cr and Interest Rate Sensitivity (positive gap of Rs 13,515 cr) However, market was seen concerned about the fact that L&T Finance is having exposure to Rs 1,800 cr exposure to IL&FS Infra SPV and about Rs 800 cr exposure to 3 projects of SuperTech. However, management has clarified that exposure to IL&FS is for 4 Annuity projects (3 operational, 1 CoD has been applied for) and 2 Toll road projects (both operational) and out of the total exposure to SPVs, Rs 722 Cr is domiciled in L&T IDF and these exposures are backed by Government guarantees. Further, Toll road projects are secured through collection of toll and the actual traffic meets the projections. The projects have a track record of 3 and 10 years respectively. All the projects have Debt Service Reserve Account and other reserves amounting to — Rs 450 Cr. Moving on to SuperTech, it has Rs 800 cr exposure to three projects where it gets Rs 42 cr pre-payment through escrow mechanism. Besides this, liquidity of Rs 6,166 Cr is maintained in form of cash, FDs and other liquid instruments and it also has undrawn bank lines of Rs 4,146 Cr and back up line from L&T of Rs 2,000 Cr. In addition to the provisions mentioned above, Company has set aside Rs 110 Cr as macro-prudential provisions in Q2FY19, taking overall macro-prudential provisions to Rs 200 Cr. These provisions are against unanticipated future event risk and are over and above the expected credit losses and standard asset provisions. Due to these positive gaps prudent provisioning, L&TFH NIMs will be protected in a rising interest rate scenario. On an estimated BV of Rs 67 for FY19 and EPS of Rs 11, stock is trading at PBV 2.15x and PE of 13x, which are seen attractive, given backing of L&T, which will make sure that there is no liquidity crunch for company. Share ruling at Rs 144 can move to Rs 165 in 1 year.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.