



# THE ECONOMIC TIMES

**CUTTING LOSSES** Company's FY18 performance shows its strategy to move away from loss-making segments and increase focus on more lucrative verticals is paying off

## Focus on Asset Quality & RoE could Push Up L&T Fin Stock

Ranjit.Shinde@timesgroup.com

**ET Intelligence Group:** After hitting a low of ₹153.5 on March 20, the stock of L&T Finance Holdings has since gained 12% till May 3. On Friday, it further gained 2.7% after the company reported stellar numbers for the March quarter and for FY18. The stock is expected to sustain the momentum considering the non-banking finance company's (NBFC) focus on improving asset quality and the return on equity.

The company's FY18 performance shows its strategy to move away from loss-making segments and increase focus on more lucrative verticals including rural, housing and select wholesale financing is paying off.

Two years ago, the company was saddled with non-performing assets from lending segments including construction equipment, gold loans, commercial vehicles, and leasing activities. In FY18, exposure to this defocused book was reduced to ₹1,540 crore compared with ₹4,931 crore in FY16.

### Getting Back In Shape

Financials of L&T Finance (In ₹ crore)

	FY18	YoY change (%)
Net Interest Income	3677	14
Fees, other Income	1404	94
Credit cost	1826	25
Net profit	1459	40
Advances	83654	26
Networth	13,584	49

Source: Company data



Two years ago, the company was saddled with NPAs from lending to sectors such as construction and CV. In FY18, exposure to this defocused book was reduced to ₹1,540 cr from ₹4,931 crore in FY16

### TAKING NEW ROUTE



The company has focused on improving fee income, which shot up by nearly three times to ₹1,404 crore in the two fiscals to FY18

During the period, the focused loan book expanded to ₹82,114 crore from ₹53,290 crore.

The exercise has helped in improving the asset quality. At the end of March 2018, the gross non-performing assets as a percentage of total advances (GNPA ratio) reduced to 4.8% from 7.1% a year ago. The net NPA ratio dropped to 2.3% from 5% during the period. The company is also keen to increase the provisioning for bad loans. In the March quar-

ter, it increased it to 52.5% of total bad loans from 31% a year ago and from 15% two years ago.

Apart from improving the efficiency of its lending activity, the company has also focused on fee income as a measure to support profitability. It shot up by nearly three times to ₹1,404 crore in the two fiscals to FY18.

The effect of these factors was visible in the company's overall performance for FY18. Income from operations increased by 20% year-on-year to ₹10,021 crore while net profit grew by 40% to ₹1,459 crore. The return on equity (RoE) improved by 272 basis points to 15% after considering the capital infusion of ₹3,000 crore in March. The company has a target to report 18% RoE by FY20.

At the Friday's closing price of ₹176.3, the stock was traded at the trailing price-book (P/B) multiple of 2.6. This is lower than the P/B of 3-5 for some of the other NBFCs. The valuation gap is likely to reduce considering the company's sustained improvement in asset quality and profitability.

# L&T Finance net up 30% in Q4

**SHREEPAD SAUTE &  
NIKHAT HETAVKAR**

Mumbai, 3 May

L&T Finance saw a consolidated net profit of ₹4.05 billion for the quarter ended March 2018, compared to ₹3.13 billion in the same quarter a year ago. This was growth of 30 per cent year-on-year (y-o-y), backed by growth in rural and home finance business. However, wholesale business was affected due to higher provisioning.

“The company is in process of cleaning its wholesale book that impacted its overall performance this quarter. Major clean-up exercise will be completed by FY19,” said Chief Executive and Managing Director Dinanath Dubhashi.

Revenue from operations during this quarter rose to ₹27.48 billion against ₹21.62 billion in the corresponding quarter last year. The company’s rural business for the quarter under review grew 64% y-o-y.



● **INTERVIEW: DINANATH DUBHASHI**, MD & CEO, L&T Finance Holdings

## ‘We don’t think affordable housing will be a large part of our portfolio’

*Using data analytics for its push into rural markets, L&T Finance Holdings will continue with what it calls the ‘retailisation’ of its loan book, said Dinanath Dubhashi, managing director and CEO. To shield itself against hardening bond yields, the company has now got 60% of its debt priced at fixed rates, he added. Excerpts:*

**Your loan book has seen good growth. Where is this coming from?**

Our loan book growth is about 25%. In our focused book, there is a growth of around 28%. The important numbers are that rural (finance) has grown by 64%, housing has grown by 51% and (in) wholesale, while disbursements have grown very well, we have managed to sell down most of the book and kept our growth to just 13%. So it is leading now to what I call the retailisation of our book. Rural plus housing was 34% (as a share of the loan book) in FY17; that has now gone to 43% and hopefully, by next year, we should come close to 50%. Largely, disbursements are equally good everywhere because we are improving our competitive position. As far as book growth is concerned, you will see the largest book growth in rural and housing.

**Disbursements of micro loans have jumped 200%. How?**

To put things into perspective, I would suggest you don’t go by percentages. Let me remind you that the last five months of FY17 were the post-demonetisation months in which hardly any disbursements were happening. So it is largely a base effect. Despite that, we must say that the business is doing very well. Not only micro loans, overall in rural India, the availability and reliability of data is improving and a company which has the tools and the belief to use that data to identify customers and lend to those customers, has a great scope for growth. Rural



“Around 60% of my debt today is fixed-rate, as compared to 25% of my assets being fixed-rate. Now, that doesn’t mean my costs won’t go up. It will certainly go up as more and more loans come for repricing, but I will be in a position to pass them on

lending used to be largely intuitive. Today, it is possible to digitise all the relevant information to get all this data into an enterprise data warehouse and use that analytics to take very informed and localised decisions. If two years ago, I would lend more in case of good rainfall and less in case of poor rainfall, today I can take a district-wise decision as to how to spread the lending. That has really differentiated our growth.

**What would be the average ticket size of your housing loans?**

In retail housing, the average ticket size

is about ₹40 lakh.

**Are you also looking at affordable housing loans as a key category?**

We are looking, but, geographically, for housing, we have more of a presence in Mumbai, Delhi, Pune, Hyderabad, Chennai and Surat. So we don’t think affordable housing will be a large part of our portfolio, even though we are there. Our chief focus is the ₹30-50 lakh segment, which is the lower-income to middle-income sort of segment.

**How are higher yields in the bond market impacting you?**

I would answer that in two ways. One is that our economists saw this rise well in advance and we started moving to medium-term fixed-rate instruments six months back. So most definitely, while yields have hardened, there is an impact. Compared to last year, there has been a reduction. From the last quarter, when it was 8.11%, it has gone to 8.2%. But, much more important is that I am now sitting on a fairly large positive gap. Around 60% of my debt today is fixed-rate, as compared to 25% of my assets being fixed-rate. Now, that doesn’t mean my costs won’t go up. It will certainly go up as more and more loans come for repricing, but I will be in a position to pass them on. Second, a more strategic side to this is that interest-rate cycles will come and go and about two years ago, we identified fee income as a good means of tackling them. Our NIMs plus fee income is at 6.9%, which last year was 6.5%. We intend to maintain that around 6.7-6.9%.

**So that means we can expect you to hike rates as yields rise?**

Actually, for our home loans we have increased rates by 15 basis points (bps). In our infra loans, we have taken an increase of 25 bps.



# L&T Finance Q4 profit rises 30% at ₹409 crore

## OUR BUREAU

Mumbai, May 4

Driven by growth coming from the rural market, L&T Finance Holdings has witnessed a 30 per cent jump in its net profit at ₹409 crore in the fourth quarter ending March 31, 2018, against ₹313.95 crore in the year-ago period.

Its revenues grew by 27 per cent at ₹2,748.34 crore during the quarter, against ₹2,162.56 in the same period last year.

RoE for Q4FY18 stands at 15.06 per cent, which was achieved after the infusion of ₹3,000 crore equity in March 2018 through preferential allotment to Larsen & Toubro and a QIP, the company said in statement.

Talking to *BusinessLine*, L&T Finance's MD and CEO Dinanath Dubhashi said that profit and revenues were driven by strong growth from the rural finance segment on the back of different government initiatives, a good monsoon, increasing income and loan waiver, among other macro factors. The rural segment grew at 64 per cent year-on-year.

He added that in the short-to medium-term, the rural growth will continue to be robust at a similar rate with retail finance growing by 50 per cent next year. Gross NPA declined from 7.11 per cent in the fourth quarter last year to 4.8 per cent this year in the same period.

## **L&T Fin Holdings net rises 40%**

L&T Finance Holdings registered a rise of 28% in its consolidated net profit at Rs 406 crore in the quarter ended March. Total income rose to Rs 2,937.44 crore from Rs 2,238.09 crore a year ago. On full year basis, the consolidated net profit rose by 40% to Rs 1,459 crore from Rs 1,042 crore in the preceding fiscal year.