

ASSET QUALITY Focus on improving balance sheet and return ratios has helped double its stock price in the past 12 months

L&T Fin's Strategic Tweaks to Sustain High Valuations

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ET Intelligence Group: The stock of **L&T Finance Holdings** has doubled in the past 12 months catapulting its price-reported book (P/B) valuation to 3.4 from 2.2 a year ago.

While it appears to be steeper, the latest inclusion of the stock in the MSCI India Domestic Index along with the company's strategic focus on strengthening its balance sheet and improving return ratios is expected to help in sustaining the current valuation. The company has been on the path of recovery over the past six quarters after losing money in lending segments including construction equipment, gold, heavy and light commercial vehicles, and leasing activities. It has reduced focus on these loss-making segments since then.

The loan book comprising of these segments shrunk to ₹2,005 crore in the September 2017 quarter from ₹4,931 crore in the March 2016 quarter. On the other hand, the book of focused segments increased by 32% to ₹70,343 crore by the same comparison. It includes rural, housing, and wholesale segments. Investment and wealth management are other focus areas for the company.

With stronger focus on profitable

Provisioning Improves



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business, the company's operations are becoming more cost efficient. The cost-income ratio fell significantly to 22.9% in the September quarter from 28.3% a year ago.

Net profit of the business in focus increased by 39% year-on-year to ₹375 crore in the September quarter following two-and-a-half times jump in fee income and 16% increase in net interest income. At the same

time, it was able to reduce the loss in de-focused business to ₹29 crore from ₹35 crore a year ago. Total net profit grew by 45% to ₹360 crore.

The company is also keen to strengthen its balance sheet. In the September quarter, it increased the provisioning for bad loans, which affected credit costs but helped in maintaining provision coverage ratio to 43%. This ratio reflects the percentage of bad loans that are provided for.

The effect of these strategies can be seen in the return on equity (RoE) which improved 343 basis points year-on-year to 15.2% in the September quarter, which the company expects to improve to 18% by 2020. While its valuation has increased by over 100 basis points over the past 12 months, the company is likely to sustain the gain in the coming quarters.