L&T Finance: Better days ahead

L&T Finance Holdings is expected to improve its performance further in the coming quarters.

Despite its massive outperformance—L&T Finance Holdings gained 85% during the last one year compared to the 15% gain in the Sensex—analysts continue to be bullish on the counter. This is because the company has shown robust performance in the past four quarters.

Despite the ongoing restructuring, L&T Finance Holdings' gross loan increased 14% year-on-year (y-o-y) in the fourth quarter of 2016-17, contributed mostly by an impressive 20% y-o-y growth in its core segments—housing, wholesale and rural. While housing finance reported a y-o-y growth of 28%, wholesale and rural financing grew 19% and 16% respectively. The company's net interest income and net profit for the quarter also grew 21% and 34% respectively.

Improvement in asset quality is another point that needs to be mentioned. Though gross nonperforming assets (NPA) grew 9 basis points to 4.95% in the fourth quarter, the company made excess provisions and brought down its net NPA by 93 basis points to 2.89%. This voluntary provisioning include ₹186 crore charged to this year's profit and another ₹352 crore from the benefits it gained due to the merger of group entities L&T Finance, L&T Fincorp & L&T Family Credit. With this additional provisioning cushion, L&T Finance Holdings is ready for a smooth transition to the 90 days NPA recognition regime. Analysts also expect that its gross and net NPAs will go below 4% and 2% respectively by 2018-19.

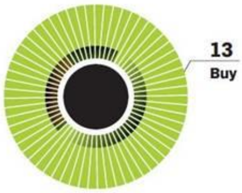
The company's well articulated business restructuring strategy is also progressing smoothly. For example, L&T Finance Holdings' 'defocused assets'—assets not core to its business—came down 46% y-o-y and account for just 4% of the company's total loan book, as of March 2017. Once its non-core business becomes negligible, L&T Finance Holdings plans to focus more on wholesale infrastructure lending. With high growth in lending and NPAs under control, the company may witness an earnings jump in the coming years and analysts expect a 36% earnings compound annual growth rate between 2016-17 and 2018-19. Return on equity has already improved from 10.8% in 2015-16 to 14.7% in 2016-17 and the is expected to go above 17% by 2018-19.

Despite the recent jump in its share prices, L&T Finance Holdings is expected to attract good investor interest in the future too because of its expanding business and improving profitability.

Selection Methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

Analysts' views



Increase in its loan book, provisioning for NPAs, business restructuring and likely jump in earnings in the coming years has made L&T Finance analysts' top pick.

Fundamentals

	Actual		Consensus estimate	
	2015-16	2016-17	2017-18	2018-19
Revenue (₹ cr)	3,281.55	3,713.56	4,561.68	5,353.21
Operating profit (₹ cr)	1,210.70	847.18	3,250.86	3,873.56
Net profit (₹ cr)	655.56	917.74	1,327.84	1,741.54
EPS (₹)	3.79	5.14	7.13	9.52

Valuation

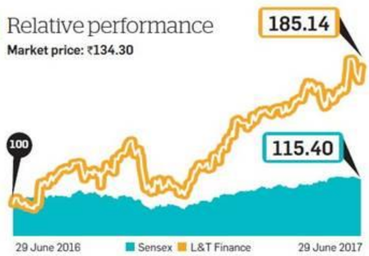
	PBV	PE	Dividend yield (%)
L & T Finance Holdings	3.16	25.05	0.54
Mahindra & Mahindra Fin Services	2.79	37.97	0.70
Bajaj Finserv	4.13	28.88	0.04
IIFL Holdings	4.37	27.88	0.75
Bajaj Holdings & Investment	1.31	9.45	1.55

Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
23 June '17	Axis Capital	buy	155
15 June '17	HSBC	buy	163
12 June '17	Prabhudas Lilladher	buy	210

Relative performance

Market price: ₹134.30



Performance of L&T Finance compared with the Sensex. Figures are normalised to a base of 100. *Source: ETIG Database & Bloomberg*