THE ECONOMIC TIMES

End of Provisioning Cycle, Strong Q1 Show Lift L&T Finance Stock

Ranjit.Shinde@timesgroup.com

ET Intelligence Group: The stock of L&T Finance Holdings gained 10% on Monday after the non-banking financial company declared its provisioning journey to be complete by allocating additional funds towards stressed assets. It also reported robust numbers for the June 2018 quarter reaffirming commitment towards improving profitability and asset quality of the business.

Talking to **ET**, the company's MD Dinanath Dubhashi said that the provisioning requirement on stressed infrastructure assets is now complete. "We had earlier provided for ₹1,200 crore towards this. In the June quarter, we adjusted another ₹1,800 crore thereby taking total provisioning to ₹3,000 crore against stressed assets of ₹5,000 crore."

The company took this measure to align accounting practices with the Indian Accounting Standards (Ind-AS) which stipulates lenders to provide for expected future losses under a methodology called expected credit losses (ECL). This differs from the previous accounting standards (Indian GAAP) which focused on incurred losses. ECL is based on statistical models which incorporate internal and external factors affecting the loan portfolio.

L&T Finance provided for the entire ECL in its infrastructure portfolio at the end of the June quarter.

The company reported robust 71% growth in net profit at ₹538 crore for the June 2018 quarter aided by double digit growth in interest and fee income and lower credit cost.

It continued to reduce focus on wholesale segment during the quarter in favour of rural and housing finance. The proportion of wholesale loans reduced to 45% from 55% a year ago while that of rural and housing together increased to 46% from 36%.

At Monday's closing price of ₹170.8, the stock was traded at a trailing price-book multiple of 2.9. Considering the company's improving asset quality and increasing focus on fast growing rural and housing portfolios, the stock is expected to stay on investors' radar.

Business Standard

Street cheers L&T Finance's clean-up act

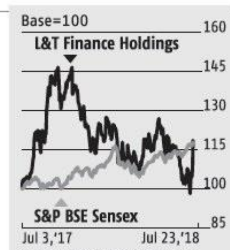
Net interest income up 51 per cent, net profit rises 71 per cent in first quarter

SHREEPAD S AUTE

Shares of L&T Finance on Monday recovered the entire 10 per cent it had lost in the past six months, on Monday following strong June 2018 quarter (Q1) results announced late-Friday. Yet, analysts see further upside as its balance sheet clean-up will support earnings growth.

No doubt, the company put up a stellar show with its assets under management (AUM; loan book) and net interest income (NII) growing by 24 per cent and 51 per cent, year-on-year, respectively. This coupled with a 13 per cent fall in credit costs, saw net profit surge 71 per cent year-on-year in Q1.

Importantly, it started adopting IND-AS accounting norms from Q1, which involves stricter recognition of non-performing assets (NPAs or bad loans) based on future expected credit losses (considering past trends). L&T Finance thus, recognised its entire wholesale legacy stressed assets of about Rs 50 billion (11 per cent of wholesale book) as stage-3 (a category under IND-AS comprising NPAs and stressed accounts). Additional provisioning of Rs 18 billion required



Compiled by BS Research Bureau

for these accounts (had already provided ₹12 billion in the past) has been reduced upfront from reserves and surplus. The wholesale book accounted for almost half of AUMs in Q1.

"With the entire stress recognised and fully provided for, asset quality is only going to improve. Besides, we have provided ₹920 million over and above the stage-3 provisions," said Dinanath Dubhashi, MD and CEO of L&T Finance. Despite this clean-up, the stage-3 (gross NPA) ratio is down sharply at 7.9 per cent versus 11.7 per cent a year back, and provision coverage was healthy at 62 per cent as of June 2018.

"Despite IND-AS migration, asset quality remained strong, which is a significant positive. It has taken the entire expected credit loss on its legacy infra (wholesale) portfolio, and provisioning requirement on this book, for now, is complete. This would improve its earnings," says Lallitabh Srivastava, AVP at Sharekhan, who believe stock valuations are still reasonable. He expects 18-20 per cent upside from the current levels.

Besides, focus on retail segments (rural and housing), with over 20 per cent growth in the total AUM and expected downturn in bad loans (as interest reversal will be contained) would propel L&T Finance's earnings.

THE HINDU
Business Line

Post Q1 numbers, analysts see turnaround in L&T Finance

Key positives: Robust growth in rural book, healthy fee income and strong asset quality

OUR BUREAU
Chennai, July 25

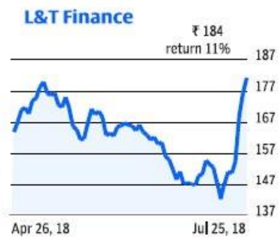
Shares of L&T Finance Holdings have been on the ascend ever since the company announced its financial performance for the April-June period on July 20. The stock jumped almost 22 per cent in just four days and closed at ₹184.25 on Wednesday on the NSE.

Robust growth in rural book, healthy fee income and strong asset quality were key positives and indicate a turnaround story for L&T Finance Holdings, said analysts.

Its consolidated PAT increased 71 per cent to ₹538 crore in the first quarter of the current fiscal against ₹314 crore reported in the year-ago period. Total revenue jumped to ₹3,178.51 crore (₹2,427.27 crore), a growth of 31 per cent. The Group has adopted Indian Accounting Standards from April 1, 2018, and the effective date of such transition is April 1, 2017, moving from previous GAAP standards.

The IND-AS transition helps to address weaker and stressed accounts with ₹1,800 crore of one-time provisioning adjusted through net worth, helping improve the provisioning coverage ratio (PCR), said Prabhudas Lilladher, which retained the 'buy' rating with a target price of ₹230.

JM Financial, while maintaining its 'buy' rating and a price target of



₹250, said: "We believe LTFH is on track to deliver sustainable, top quartile RoEs supported by, increasing the share of focused, profitable business; improving capital allocation by exiting/partial sell-down of its non-core assets/unprofitable businesses and redeploying it to RoE accretive businesses; focus on fee income through sell-down and DCM operations; focus on cost efficiencies by streamlining businesses and digitising operations; and increase in profitability contribution by the investment management business."

Citi raised PAT estimates for FY2019 and FY2020 by 12 per cent and 6 per cent, respectively, primarily on lower NPA provisioning given the up-fronting of provisions on transition to IndAS. It maintained its 'buy' rating with a target of ₹225 on the stock.

Motilal Oswal in a report said: "L&T Finance Holdings is a quintessential turnaround story, in our view. From a company with 20+ product lines and sub-standard return ratios, it is gradually transforming itself into a focussed financier with eight product lines across three verticals, with a target to achieve 18-20 per cent RoE by FY20 (13 per cent in FY18)."