

Investment idea for 2014

Investor’s Delight: L&T Finance Holdings Ltd. “BUY”

L&T Finance Holdings Ltd. is engaged in Retail lending (B2B and B2C), Wholesale lending, Investment Management and other services. It has a network of 100+ branches across 23 states, with 500+ rural points of presence. LTFH boasts of its PAN India reach to cater to customers across rural, corporate and SME segments.

The Company witnessed healthy 28.2% Y-o-Y growth in loan book with disbursement growth at 28.1% Y-o-Y in a challenging environment. The Company was successful in registering yoy growth in PAT despite increase in borrowing costs. Credit costs at elevated levels due to stress in the environment may improve from Q4FY14 .

We view L&T Finance as one of the frontrunners for a banking licence, given that it is not a promoter-led entity and the shareholding of its parent is widely diffused. In addition it meets RBI criteria for banks. Having built a comprehensive portfolio, banking would be a logical step in its financial services journey. Rationale for applying Banking License:

- a) Larger Revenue Pool: Expansion of scope of service offering from transaction banking to term loans, ability to raise low cost retail deposits
- b) Enable widening of customer segment: Lower capital adequacy requirements for better rated corporate, high networth individuals can be serviced, ability to retain customers as they experience services multiple times across several products
- c) Retail liabilities: Lowers dependence on wholesale sources of funding
- d) Better capital utilization: Advantage of high gearing – can be as high as 11-12x on loan assets for a bank as compared to a maximum of 8-9x for NBFCs.
- e) Regulations: Regulatory framework for NBFCs being brought in line with that of banks

CMP	Rs. 74
Target Price	Rs. 94
Upside	27%
Beta vs Sensex	1.11
BSE/NSE Code	533519/L&TFH
Bloomberg Code	LTFH :IN
52 Week High	Rs. 96 (4 th Jan, 2013)
52 Week Low	Rs. 52.65 (7 th August, 2013)
Face Value	Rs. 10
Market Capitalization	Rs. 127 bn
Book Value	Rs. 36.3 per share (FY13)
Shareholding Pattern (%)	As on Sep. 2013
Promoters	82.53
FII's	2.80
DII's	0.82
Others	13.85

The housing finance arm of L&T Finance Holding is busy building a strong home loan base as the parent company awaits a banking licence from the Reserve Bank of India (RBI) by early next year. L&T Housing Finance has already grown its book size multiple times within a year of inception. The company has major expansion plans on mind. In terms of book size, it aims to grow to Rs. 20,000-25,000 crore over the next 6-7 years. The housing finance arm is present in 37 locations across the country though new business generation is taking place through 16 of them, all tier-I cities. The number would grow by 4-5 locations by the end of current financial year. Going forward, the L&T Housing Finance plans to leverage the presence of its parent company in Tier II cities as well. The housing finance company could witness a merger in case its parent L&T Finance Holdings bags a banking licence. In the final norms released in February, the RBI had made it clear that the activities that the new bank is eligible to undertake departmentally will be carried under the bank itself while other ineligible activities are divested into other entities.

With due consideration to factors like a) front runner for banking license , b) well established brand with quality management, c) healthy credit and PAT amid difficult economic environment , we recommend a “BUY”. At CMP, the stock trades at a P/BV of 2.03x . We assign a P/BV multiple of 2x FY15 estimated Book Value of Rs. 47 by street participants to arrive at a target price of Rs.94 for investors with a 12 months horizon.

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