

CMP: ₹ 138

Target: ₹ 180 (30%)

Target Period: 12 months

BUY

November 14, 2024

## Strategy on track; asset quality strong despite headwinds...

About the stock: L&T Finance Holding (LTFH) is a leading NBFC catering to the diverse financing needs of underserved customers in urban and rural areas.

- LTFH is engaged in consumer loans, 2wheeler loans, home loans, MFI, farm & SME loans.
- Distribution network remains strong with substantial dealer penetration (2500+ dealers in farm equipment & 6500+ tie-ups in 2-wheeler segment)

Q2FY25 performance: L&T Finance reported mixed performance in Q2FY25. Advance growth remained steady, while asset quality remained relatively resilient despite external headwinds. Retail segment disbursement remained at 12% YoY, resulting in 28% YoY and 5% QoQ growth in AUM at ₹88,975 crore. Margins witnessed 37 bps QoQ decline at 8.94%, which could be attributable to change in asset mix. Opex growth remain steady (11% YoY); credit cost inched up sequentially from 2.37% to 2.59%. Earnings grew 17% YoY to ₹ 696 crore, with RoA steady at 2.6%. Stage 3 asset has increased by 5 bps QoQ at 2.84%, though PCR declined by 29 bps QoQ at 4.03%.

### Investment Rationale

- Strategic retailisation continues to drive growth momentum: Disbursement in retail segment remained at 12% YoY, resulting in 28% YoY and 5% QoQ growth in AUM at ₹88,975 crore. Urban finance (8% QoQ) and SME finance (16% QoQ) remain in focus while de-growth in disbursement seen in rural (3% QoQ) and farmer finance (2% QoQ). While balance between growth and asset quality remains in focus, good monsoon seems to boost rural business thereby aiding growth in 2HFY25. Customer accretion through enhance branding and optimising digital experience remains core strategy to maintain momentum of business growth. Expect credit growth of 22-24% CAGR in FY25-26E, backed by product launch (supply chain financing) and new tie-ups (CRED for personal loans).
- Asset quality steady despite headwinds, trend remains watchful: L&T Finance has delivered relatively better show on asset quality front despite headwinds in micro-finance segment. Collections efficiency remained broadly steady at 99.4% in rural segment. Given proportion of customers with association with 4+ lenders at ~5.4% of rural finance portfolio and ~₹980 crore of prudential provision buffer, management remain confidence that the pain in their rural/MFI is limited and shall bottom out by Q3FY25. Control on opex remains in focus with RoA anticipated at RoAUM at 2.7-2.9% in FY25-27E.

### Rating and Target Price

- Sustained healthy business growth at ~24-25% with RoAUM at 2.7-2.9% provides confidence. However, concerns remain on exposure to unsecured segment amid external headwinds. Thus, we lower our target to ₹180 (earlier ₹225), valuing the stock at ~1.45x FY27E ABV. Maintain Buy rating.

### Key Financial Summary

	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-FY27E)
NII (₹ crore)	5589.0	6368.0	7115.4	13%	8029.5	9385.3	11944.6	19%
Net Profit (₹ crore)	1070.0	1623.0	2320.0	47%	2780.0	3267.5	4362.6	23%
EPS (₹)	4.3	6.5	9.3	47%	11.2	13.1	17.5	23%
P/E (x)	31.9	21.1	14.8		12.4	10.5	7.9	
P/BV (x)	1.7	1.6	1.5		1.3	1.2	1.1	
P/ABV (x)	1.8	1.7	1.5		1.4	1.2	1.1	
RoE (%)	5.4	7.5	9.9		10.8	11.4	13.7	
RoA (%)	1.0	1.5	2.3		2.2	2.1	2.2	

Source: Company, ICICI Direct Research



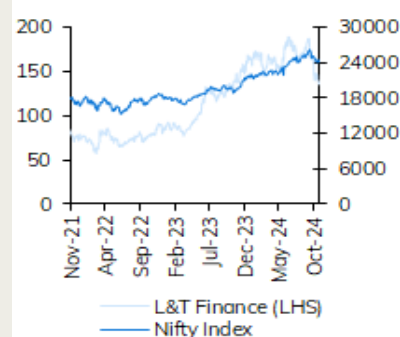
### Particulars

Particulars	Amount
Market Capitalisation	₹ 34,323 crore
52 week H/L	194 / 134
Net worth	₹ 24,268 crore
Face Value	10.0
DII Holding (%)	6.7
FII Holding (%)	12.3

### Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	65.9	65.9	66.4	66.3
FII	10.7	11.0	7.3	6.7
DII	9.1	8.7	11.6	12.3
Others	14.4	14.4	14.7	14.7

### Price Chart



### Key risks

- Higher delinquencies from unsecured book
- Moderation in the pace of business growth

### Research Analyst

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**Concall highlights and outlook**

**Business performance and growth guidance:**

- The company maintains guidance of 25% loan growth, in-line with its strategic goals under the “Lakshya” initiative.
- The company aims to keep operating expenses (OpEx) plus credit costs within 7% range.
- The company expects a gradual recovery in rural demand, supported by strong monsoon, increased rural income, and improvement in consumer demand.
- The company is in final stages of launching supply chain product in Q3FY25.
- The organization is building an integrated facility in Navi Mumbai to house its core IT data sciences and operations capabilities, expected to go live in Q4FY25

**Micro Finance:**

- The company continues to focus on non-leveraged customers, ensuring disciplined portfolio growth.
- Better southwest monsoon has boosted rural liquidity, with a strong Kharif crop and potential bumper Rabi season set to enhance rural business finance and farmer finance verticals in H2FY25.
- The company remains "cautiously optimistic" about improving rural and urban demand and credit outcomes in Q3FY25.

**2-Wheeler Finance**

- The company plans to launch integrated marketing campaigns for two-wheeler and SME-focused products in the coming months.
- Expect an uptick in two-wheeler and tractor demand as the festive period approaches on back of good monsoon

**Home Loans**

- The company has been focusing on developing its rural LAP product, with current book size of ₹178 crores and an average ticket size of ₹5-6 lakhs.
- Focus on urban finance and leveraging retail franchise has led to continued expansion in home loan portfolio.
- Enhanced customer acquisition channels and digital offerings have played significant role in segment’s growth

**Personal Finance**

- Integration with CRED has enabled timely launch of personal loan sourcing, further solidifying L&T Finance’s retail expansion.
- The company is focused on a "risk-calibrated scale-up" of its personal loan product, indicating a gradual and cautious approach to business growth.

**Exhibit 1: Variance Analysis**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	2051	1729	18.6	2020	1.5	Business growth led by Retail & 2W segment
NIM (%)	8.9%	8.6%	32 bps	9.3%	-37 bps	Yield witnessed compression owing to moderation in rural segment
Other Income (Incl Fees)	440	446	-1.3	383	14.9	
Total income	2491	2175	14.5	2403	3.7	
Operating expenses	958	860	11.4	966	-0.8	
Operating income	1896	1658	14.3	1888	0.4	
Credit losses/provisions	595	517	15.1	515	15.5	PCR increased to 75% vs 71% in Q2FY24
PBT	938	798	17.5	922	1.7	
Tax	241	203	18.8	236	2.2	
PAT	697	595	17.1	686	1.6	Steady PPP aided PAT growth
<b>Key Metrics</b>						
Loan Book	93015	78672	18.2	88717	4.8	Retaliation strategy aiding driving loan growth

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	12,165.0	12,492.4	14,003.2	16,730.4	20,904.5
Interest Expended	5,797.0	5,377.0	5,973.7	7,345.1	8,959.9
Net Interest Income	6,368.0	7,115.4	8,029.5	9,385.3	11,944.6
growth (%)	13.9%	11.7%	12.8%	16.9%	27.3%
Non Interest Income	1,382.0	1,609.0	1,769.9	1,946.9	2,141.6
Net Income	7,750.0	8,724.4	9,799.4	11,332.2	14,086.2
Opex	2,929.0	3,507.9	3,924.0	4,394.1	5,028.0
Operating Profit	6,226.9	7,022.9	7,959.2	9,342.1	11,831.3
Provisions	2,473.0	2,006.0	2,217.5	2,638.8	3,318.0
PBT	2,348.0	3,210.5	3,657.9	4,299.4	5,740.2
Taxes	725.0	715.5	877.9	1,031.8	1,377.7
Exceptional item	-	175.0	-	-	-
Net Profit	1,623.0	2,320.0	2,780.0	3,267.5	4,362.6
growth (%)	51.7%	42.9%	19.8%	17.5%	33.5%
EPS (₹)	6.5	9.3	11.2	13.1	17.5

Source: Company, ICICI Direct Research

### Exhibit 3: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Valuation						
No. of Equity Shares (Crores)	247.4	248.0	248.9	248.9	248.9	248.9
EPS (₹)	4.3	6.5	9.3	11.2	13.1	17.5
BV (₹)	80.6	86.8	94.2	103.5	114.7	127.8
ABV (₹)	75.1	80.1	89.4	99.8	111.7	124.1
P/E	31.9	21.1	14.8	12.4	10.5	7.9
P/BV	1.7	1.6	1.5	1.3	1.2	1.1
P/ABV	1.8	1.7	1.5	1.4	1.2	1.1
Yields & Margins (%)						
Net Interest Margins	6.3	7.6	8.6	8.4	7.9	8.0
Yield on assets	12.8	14.5	15.0	15.3	15.3	15.3
Avg. cost on borrowings	6.6	6.9	6.8	6.9	6.7	6.5
Quality and Efficiency (%)						
Cost to income ratio	34.4	37.8	40.2	40.0	38.8	35.7
Loan to borrowing (%)	96.8	90.5	107.6	102.2	102.2	102.2
GNPA	4.1	4.7	4.0	3.0	2.7	2.7
NNPA	2.0	1.5	1.2	0.7	0.7	0.7
RoE	5.4	7.5	9.9	10.8	11.4	13.7
RoA	1.0	1.5	2.3	2.2	2.1	2.2
RoAUM	1.2	1.9	2.8	2.9	2.7	2.9

Source: Company, ICICI Direct Research

### Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	2480	2489	2489	2489	2489
Reserves and Surplus	19049	20950	23270	26050	29317
Networth	21528	23438	25758	28538	31806
Borrowings	83043	75583	97568	121689	154000
Other Liabilities & Provisions	23319	27135	28479	33760	42182
<b>Total</b>	<b>106362</b>	<b>102718</b>	<b>126047</b>	<b>155449</b>	<b>196183</b>
Application of Funds					
Fixed Assets	557	555	610	672	739
Investments	14366	12385	13787	15872	20087
Advances	75155	81359	99689	124334	157348
Other assets	31208	21358	26358	31114	38834
<b>Total</b>	<b>106362</b>	<b>102718</b>	<b>126047</b>	<b>155449</b>	<b>196183</b>

Source: Company, ICICI Direct Research

### Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	-0.5%	5.0%	20.0%	20.0%	20.0%
Advances	-7.1%	6.2%	23.9%	24.7%	26.6%
Net interest income	13.9%	11.7%	12.8%	16.9%	27.3%
Operating expenses	19.4%	11.7%	8.2%	8.1%	13.3%
Net profit	51.7%	42.9%	19.8%	17.5%	33.5%
Net worth	7.9%	8.9%	11.9%	12.5%	14.8%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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