

## Growth & profitability on track; trend to sustain

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)

Q1FY25 performance: L&T Finance reported an all-round performance in Q1FY25 with continued growth in advance book, improvement in margins & RoA. Disbursement in retail segment increased 33% YoY resulting in 31% YoY & 6% QoQ growth in AUM at ₹84,444 crore. Strategy focussing on balancing growth, yields and proportion of risk was undertaken. Accordingly, rural finance (31% YoY), 2-wheeler (31% YoY) contributed to yields while home loans (39% YoY) and LAP (53% YoY) contributed to mix of secured loans. Margins got reported at 9.31%, witnessing an improvement of 17 bps QoQ, driven by flattish interest expense. Steady opex and credit cost led to 29% YoY growth in PAT at ₹686 crore, with RoA at 2.68%. Collection has witnessed slight moderation, however, asset quality remained steady with GNPA at 2.79% (-5 bps QoQ) and NNPA at 0.62% (flat QoQ).

### Investment Rationale

- Optimistic outlook on growth with focus on retailization: L&T Finance has achieved retailization at 95%, led by growth in retail segments and run-down of wholesale book. Expect further run down in wholesale book which will aid improvement in yields and thus return ratios. Management seems to balance yields and asset quality along with focus on business growth. Thus, home loans and LAP growth remains in focus while cautions is undertaken in personal loans. Expect credit growth at 22-24% CAGR in FY25-26E with margins remaining broadly steady.
- RoAUM trajectory to improve to 2.9-3% in FY25-26E: Increase in proportion of retail loans (95% of book) has led to improvement in margins (calculated at 8.6% in FY24). Further expansion of secured retail loans coupled is expected to keep margins steady. Sustainable AUM growth (24%/ 25% YoY in FY24E/ 25E) is seen to aid improvement in efficiency, though CI ratio could remain elevated at ~40% owing to investment in distribution. Provision coverage at 75% is expected to keep credit cost largely steady, thus aiding earnings momentum. We expect return on AUM (RoAUM) to improve from ~2.8% in FY24 to ~2.9-3% by FY25-26E.

### Rating and Target Price

- Post delivering on retailization goal of 95%, sustained RoA at 2.8-3% coupled with steady asset quality remains in focus. Substantial proportion of unsecured book remains watchful, however, healthy provision coverage and risk adjusted return remains encouraging. Given sustained healthy business growth at ~24-25% with RoA at 2.7-2.9%, we value LTFH at 1.9x FY26E, assigning target of ₹215 per share. Recommend Buy rating.



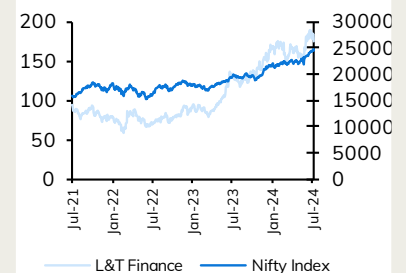
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1,38,921 crore
EV	₹ 49611 crore
AUM	₹ 310244 crore
52 week H/L	711/ 511
Net worth	₹ 14666 crore
Face value	10

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	66.0	65.9	65.9	66.4	66.4
FII	12.1	10.7	11.0	7.3	7.3
DII	7.0	9.1	8.7	11.6	11.6
Others	14.9	14.4	14.4	14.7	14.7

### Price Chart



### Key risks

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

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### Key Financial Summary

	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	2 year CAGR (FY24-FY26E)
NII (₹ crore)	5589.0	6368.0	7115.4	13%	8371.7	10401.4	21%
Net Profit (₹ crore)	1070.0	1623.0	2320.0	47%	2808.3	3559.0	24%
EPS (₹)	4.3	6.5	9.3	47%	11.3	14.3	24%
P/E (x)	40.7	26.9	18.9		15.6	12.3	
P/BV (x)	2.2	2.0	1.9		1.7	1.5	
P/ABV (x)	2.34	2.20	1.97		1.76	1.57	
RoE (%)	5.4	7.5	9.9		10.9	12.5	
RoA (%)	1.0	1.5	2.3		2.2	2.3	

Concall highlights and outlook

Microfinance

- The company’s performance was in-line with the growth guidance. Strategy to deepen acquisition funnel with expansion in new territories (western UP, Telangana in microfinance business). Top 3 states for MFI business for L&T Finance are TN, Bihar and Bihar.
- Improved onset of monsoon can lead to a healthy rural and credit demand
- Portfolio quality to remain stable
- New 250-300 branches to be set up

2-wheeler

- Growth in 2-wheeler segment led by growth in ticket size as well as new customer accretion. The company achieved 150% YoY growth in EV vehicles financed
- Expect an uptick in two-wheeler and tractor demand as the festive period approaches on the back of good monsoon
- The company has invested in new two-wheeler distribution team and has segregated different channels for EV, prime bike and superior bike channel

Home loans

- The company launched its complete home loan offering across 11 locations, which drove higher lead generation and expected to give good results ahead.
- The company is calibrating its secured to unsecured separation of AUM with focus on home loans and LAP segment
- Average yield on HL is at 9%.

Personal and unsecured loans

- Personal loans are primarily given to salaried customers. Cautions remains on personal loans (loan growth moderated at 1% in Q1FY25).

Financials and business

- The company saw improvement in margins on YoY basis mainly due to a change in portfolio mix and a stable weighted average cost of borrowing
- The company’s disciplined culture and strong portfolio management practice helps maintain a balanced portfolio and high collection efficiency despite competitive pressure
- There are pockets of concern around ongoing weakness in rural demand, expect it to recover as the monsoon progresses. The urban consumption is expected to remain stable in FY25
- Yields in wholesale segment is at 11.5-12%, while blended yield in retail segment is at 15-16%. Expects yields to continue in the same range for next three to four quarters.
- PCR at 75% remains comfortable and should be at similar level ahead.

Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	2020	1644	22.9	1909	5.8	Business growth led by MFI & 2W segment
Reported NIM (%)	9.3%	8.1%	125 bps	9.1%	17 bps	Margin in line with Lakshya 2026 guidance
Other Income	383	323	18.6	441	-13.2	
Net Total Income	3754	3331	12.7	3685	1.9	
Operating Expenses	966	778	24.2	980	-1.4	
PPP	1888	1492	26.5	1850	2.1	
Provision	515	475	8.4	500	3.0	PCR increased to 75% vs 71% in Q1FY24
PBT	922	714	29.1	870	6.0	
Tax Outgo	236	183	29.0	316	-25.3	
PAT	686	531	29.2	554	23.8	Steady PPP aided PAT growth
Key Metrics						
Loan Book	88717	78309	13.3	85565	3.7	Retaliation strategy driving loan growth

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 2: Profit and loss statement					
	₹ crore				
(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	11,356.0	12,165.0	12,492.4	14,475.3	17,911.0
Interest Expended	5,767.0	5,797.0	5,377.0	6,103.6	7,509.5
Net Interest Income	5,589.0	6,368.0	7,115.4	8,371.7	10,401.4
growth (%)		13.9%	11.7%	17.7%	24.2%
Non Interest Income	1,307.0	1,382.0	1,609.0	1,689.5	1,773.9
Net Income	6,896.0	7,750.0	8,724.4	10,061.2	12,175.4
Opex	2,370.0	2,929.0	3,507.9	4,099.3	4,791.2
Operating Profit	5,620.8	6,226.9	7,022.9	8,045.7	9,788.1
Provisions	3,030.0	2,473.0	2,006.0	2,217.5	2,638.8
PBT	1,496.0	2,348.0	3,210.5	3,744.5	4,745.4
Taxes	426.0	725.0	715.5	936.1	1,186.3
Exceptional item	-	-	175.0	-	-
Net Profit	1,070.0	1,623.0	2,320.0	2,808.3	3,559.0
growth (%)		51.7%	42.9%	21.0%	26.7%
EPS (₹)	4.3	6.5	9.3	11.3	14.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios					
(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares (Crores)	247.4	248.0	248.9	248.9	248.9
EPS (₹)	4.3	6.5	9.3	11.3	14.3
BV (₹)	80.6	86.8	94.2	103.5	114.8
ABV (₹)	75.1	80.1	89.4	99.8	111.8
P/E	40.7	26.9	18.9	15.6	12.3
P/BV	2.2	2.0	1.9	1.7	1.5
P/ABV	2.3	2.2	2.0	1.8	1.6
Yields & Margins (%)					
Net Interest Margins	6.3	7.6	8.6	8.7	8.7
Yield on assets	12.8	14.5	15.0	15.3	15.3
Avg. cost on borrowings	6.6	6.9	6.8	7.1	6.9
Quality and Efficiency (%)					
Cost to income ratio	34.4	37.8	40.2	40.7	39.4
Loan to borrowing (%)	96.8	90.5	107.6	103.4	103.4
GNPA	4.1	4.7	3.2	3.0	2.7
NNPA	2.0	1.5	0.8	0.7	0.7
RoE	5.4	7.5	9.9	10.9	12.5
RoA	1.0	1.5	2.3	2.2	2.3
RoAUM	1.2	1.9	2.8	2.9	3.0

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet					
	₹ crore				
(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital	2474	2480	2489	2489	2489
Reserves and Surplus	17474	19049	20950	23270	26078
Networth	19948	21528	23438	25758	28567
Borrowings	85201	83043	75583	97568	121689
Other Liabilities & Provisions	21701	23319	27135	29630	35195
Total	106902	106362	102718	127198	156884
Application of Funds					
Fixed Assets	531	557	555	610	672
Investments	11917	14366	12385	13787	15872
Advances	82469	75155	81359	100839	125769
Other assets	24433	31208	21358	26358	31114
Total	106902	106362	102718	127198	156884

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios					
(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Total assets	-1.9%	-0.5%	5.0%	20.0%	20.0%
Advances	-5.0%	-7.1%	6.2%	23.9%	24.7%
Net interest income	-0.5%	13.9%	11.7%	17.7%	24.2%
Operating expenses	95.9%	19.4%	11.7%	18.5%	18.5%
Net profit	10.2%	51.7%	42.9%	21.0%	26.7%
Net worth	6.3%	7.9%	8.9%	12.0%	13.6%

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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