

# Shubh Nivesh



CMP: ₹ 187

Target: ₹ 225 (20%)

Target Period: 12 months

BUY

September 30, 2024

## Growth & profitability on track....

About the stock: L&T Finance Holding (LTFH) is a diversified retail 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. AUM stands at 88,717 crore, as of June 2024.
- Distribution network remains strong with substantial dealer penetration (2500+ dealers in farm equipment & 6500+ tie-ups in 2-wheeler segment)

### Investment Rationale

- Growth outlook remains optimistic: L&T Finance has achieved retailization goal of 95% in Q1FY25, 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 continued focus on business growth. Thus, home loans & LAP remains in focus while cautions is undertaken in unsecured loan portfolio. Management is targeting to double AUM in next 4 years to ₹ 2 lakh crore, depicting 18-20% CAGR.
- Customer expansion & robust under-writing remains core strategy: Strategy to focus on pace of customer accretion (enhanced branding), broadening of customer base through optimising of digital experience remains core for business growth. Building self-learning credit engine and optimizing of digital tools (launched beta version of next gen credit underwriting engine – Cyclops, integrating external data) for robust underwriting is seen to aid profitability. Though, asset quality remains strong with GNPA (retail) at 2.79% and NNPA at 0.62%, near term volatility, given exposure to unsecured segment, could not be ruled out. However, focus on prudent lending and healthy coverage provides cushion to sustain RoA.
- RoAUM trajectory to improve to 2.9-3% in FY25-26E: Focussed approach on business mix (portfolio composition: low risk – 40-45%, medium risk – 30-35% & high risk – 20%) and diversification of liabilities (reducing dependence on banks) is expected to keep margins steady. Sustainable AUM growth (~20% CAGR in next 4 years) is seen to aid improvement in efficiency, though CI ratio could remain elevated in the initial phase at ~40%, owing to investment in distribution network. 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%, sustaining RoA at 2.8-3% coupled with steady asset quality remains in focus. While exposure to unsecured segment remains watchful, healthy provision coverage, focus on alternate data for under-writing 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 ~2x FY26E ABV, assigning target of ₹225 per share. Recommend Buy rating.

### 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)	43.2	28.6	20.1		16.6	13.1	
P/BV (x)	2.3	2.2	2.0		1.8	1.6	
P/ABV (x)	2.5	2.3	2.1		1.9	1.7	
RoE (%)	5.4	7.5	9.9		10.9	12.5	
RoA (%)	1.0	1.5	2.3		2.2	2.3	

Source: Company, ICICI Direct Research



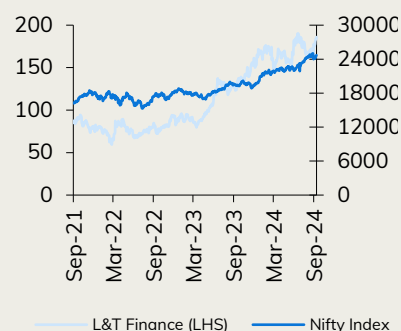
### Particulars

Particulars	Amount
Market Capitalisation	₹ 46838 crore
52-week H/L	194 / 127
Net worth	23,438.0
Face Value	10.0
DII Holding (%)	7.3
FII Holding (%)	11.6

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	66.1	66.0	65.9	65.9	66.4
FII	13.9	12.1	10.7	11.0	7.3
DII	5.3	7.0	9.1	8.7	11.6
Others	14.7	14.9	14.4	14.4	14.7

### Price Chart



### Key risks

- Higher delinquencies from unsecured book
- Accretion of liabilities at competitive cost

### Research Analyst

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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