

# Stock Update L&T Finance Holdings Ltd.

February 05, 2024





# L&T Finance Holdings Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – NBFC	Rs 175	Buy in Rs 173-177 band & add on dips in Rs 155-159 band	Rs 190	Rs 206	2 quarters

HDFC Scrip Code	LTFINHEQNR
BSE Code	533519
NSE Code	L&TFH
Bloomberg	LTFH IN
CMP Feb 2, 2024	174.7
Equity Capital (Rs cr)	2487.6
Face Value (Rs)	10
Equity Share O/S (cr)	248.8
Market Cap (Rs cr)	43357
Book Value (Rs)	91.9
Avg. 52 Wk Volumes	88,50,000
52 Week High (Rs)	176.2
52 Week Low (Rs)	79.0

Share Holding Pattern % (Dec, 2023)	
Promoters	65.9
Institutions	19.7
Non Institutions	14.4
Total	100.0



**HDFCsec Retail research  
stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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## Our Take:

L&T Finance Holdings (LTFH) has achieved most of the parameters it had set out in its 'Lakshya 2026' strategy, well ahead of time. It is now focusing on growing its retail business (88% of portfolio) and run-down or sell off the wholesale lending business. Increased share of retail loans is driving higher NIMs for the company and return ratios are also improving. LTFH has taken significant provisioning on its restructured portfolio and asset quality is likely to improve going forward with moderation of credit costs. It has already sold off its mutual fund business to HSBC Asset Management for a consideration of ~\$425mn. However, the company has retained the gains from sale of this business to shore up capitalization levels and provide room for future NPAs from the wholesale business.

Management sees minimal impact of the RBI's revised norms of increasing 25bps weight for unsecured retail products due to healthy capital position, low proportion of the unsecured book, and strong earnings trajectory. Mr. Sudipta Roy (ex-ICICI) succeeded the current MD/CEO Mr. Dinanath Dubhashi in Jan'24 and will look to leverage his vast experience to further strengthen the franchise.

On Sep 12, 2023, we had released a Stock Update report ([Link](#)) with a recommendation to 'Buy in Rs 130-133 band & add on dips in Rs 113-116 band' for base case fair value of Rs 143 and bull case fair value of Rs 153 over next 2 quarters. Both the targets were achieved within the given time frame.

## Valuation & Recommendation:

LTFH, over the years has been constantly reducing its dependence on the wholesale lending business by aggressively expanding its well diversified retail financing business which has grown at CAGR of 24% over FY18-23. It has established itself as a strong and well-capitalised financial institution. It has a strong presence in farm equipment finance, two-wheeler finance, as well as micro loans. LTFH has witnessed improving trends across its business in the past few months and with pick up in disbursements, return ratios are likely to improve.

The stock is available at reasonable valuations for a reason of possible asset quality hiccups in wholesale lending though the focus on this business has been falling. We feel investors can buy the stock in the band of Rs 173-177 and add on dips in Rs 155-159 band (1.45x FY26E ABV) for base case fair value of Rs 190 (1.75x FY26E ABV) and bull case fair value of Rs 206 (1.90x FY26E ABV) in 2 quarters.



## Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
NII	1953	1821	7.2	1844	5.9	6768	7644	8300	9794
PPoP	1161	1049	10.6	1194	-2.8	3691	4642	5124	6271
PAT	640	-1727	-137.1	595	7.6	1623	2457	2790	3528
EPS (Rs)	2.6	-7.0	-136.9	2.4	7.4	6.5	9.9	11.3	14.2
P/E (x)						26.7	17.6	15.5	12.3
P/ABV (x)						2.1	1.9	1.8	1.6
RoAA (%)						1.5	2.3	2.4	2.7

(Source: Company, HDFC sec)

## Q3FY24 Result Update

Net Interest Income (NII) grew by 7% yoy to Rs 1953cr as the focused retail loan book grew by 31% to Rs 74,759cr. Overall loan book declined 7% to 81,779cr led by 77% decline in wholesale book. Retail assets now form ~91% of the lending assets mix for LTFH. NIMs expanded by 207/35bps YoY/QoQ to 8.97% as yields improved by 162/37 bps respectively on account of improvement in retail mix. Net profit grew 8% sequentially to Rs 640cr and against loss of Rs 1727cr in Q3FY23 due to revaluation of the wholesale business. Provisions were 24% lower YoY and 15% sequentially at Rs 337cr.

Retail disbursements continued to remain healthy at Rs 14,531cr, a growth of 25% YoY. Wholesale disbursements fell 78% to Rs 334cr. Asset quality improved sequentially with GNPA ratio contracting 6 bps qoq to 3.21% primarily led by sequential decline of 10bps in retail GS3 (gross stage 3) at 2.95%. NNPA was flat at 0.81%.

Sell down of wholesale loans to ARC has accelerated the share of retail loans and the management expects to cross 95% share by end of FY24. It expects retail credit costs of 2.5-2.7% in the near term and reduce secularly. The company has macro-prudential provisions of Rs 1200cr which can be utilized against deterioration in any particular segment. LTFH expects CoF to increase by 10-12bp over the next one year because of RBI RWA guidelines.

## Key Triggers

### Strong momentum in retail disbursements

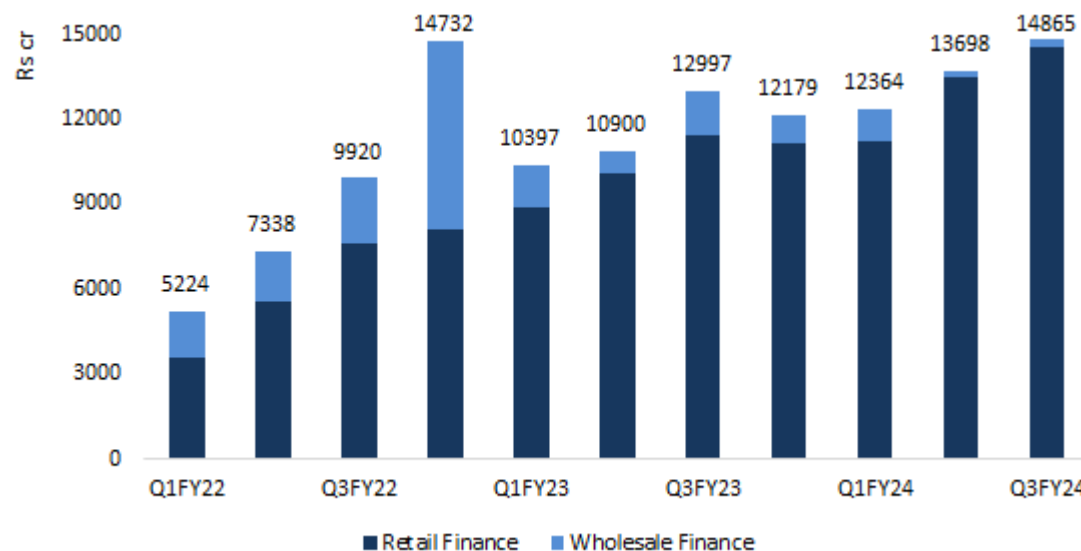
LTFH recorded its highest ever quarterly disbursements in Q3FY24. Momentum in retail lending continued with disbursements increasing by 25% YoY to Rs 14,531cr. Wholesale disbursements declined 78% to Rs 334cr in line with company's strategy to run down its wholesale book. Growth in retail disbursements was driven by Rural/Home loans which grew 47%/41% YoY to Rs 5331cr/1512cr.



## Retail loans acceleration continues.

The retailisation strategy of the company has worked out well, with the share of retail loans increasing to 91% in Q3FY24 from 64% in Q3FY23 driven by strong disbursements in the retail book and run down of wholesale book. With negligible disbursements for wholesale loans, the company expects to reach >95% retail book by the end of FY24.

### Disbursement trend



(Source: Company, HDFCsec)

## Merger with subsidiaries to free up funds

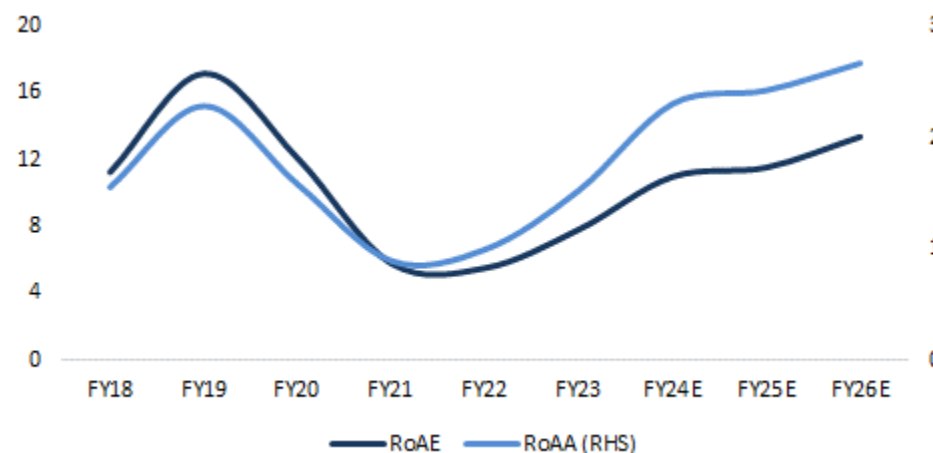
LTFH has merged all its financial services companies within itself, creating a single lending entity, effectively freeing up Rs 3,000 crore in liquidity that can be deployed to lend to high yielding assets. The merger will consolidate lending companies L&T Finance Ltd, L&T Infra Credit Ltd into LTFH. Post the merger, ~Rs 3000 crore from its former infrastructure debt fund L&T Infra Credit which was deployed in liquid assets like government securities yielding 6.5% to 7% will be freed for retail lending providing ~15% yields.



## Return ratios to expand with higher retail loans

With increasing share of high yielding retail loans, the RoA of the company have been on an upward trajectory. LTFH reported retail RoA of 3.37% in Q3FY24 and the management has guided for consolidated RoA expansion to 2.8-3% by FY26. Consol. RoA was ~2.5%, and we expect convergence of this towards retail RoA over the medium term.

Return ratios trend (%)



(Source: Company, HDFCsec)

## Asset quality improvement to continue

Overall asset quality improved further with GNPA/NNPA contracting 6/1 bps sequentially to 3.3%/0.8% driven by growth in retail loans book, sell down of wholesale assets to ARC and strong collection efficiency. The company is adequately provided for any delinquencies in the wholesale portfolio and carries additional macro prudential provision of ~Rs 1200cr in its retail portfolio. PCR increased to 75% from 69% in FY23.

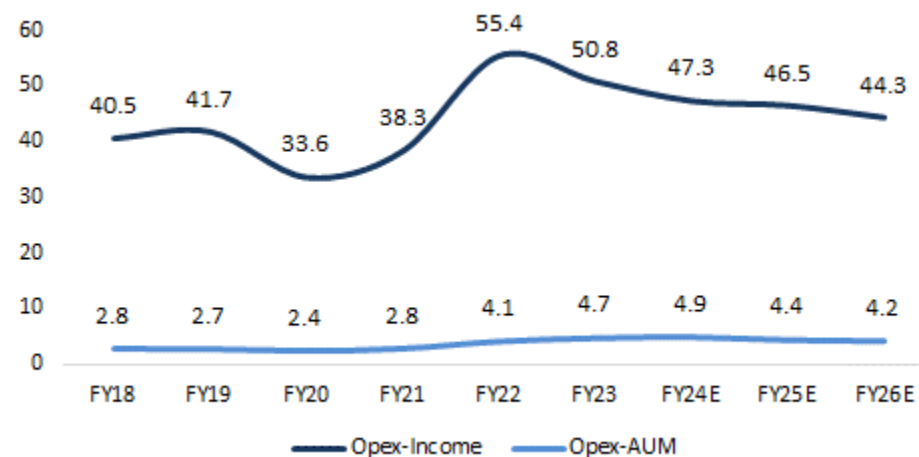
The company is further strengthening its underwriting process moving from a single axis underwriting to multiple axis underwriting and movement from traditional means of underwriting like the bureau-based underwriting to new methods of sort of 360 degree underwriting. These measures would provide early signs of NPA so that remedial measures can be taken in time and delinquencies are reduced. Further, LTFH does not lend to new-to-credit customers and small ticket loans of <Rs 50,000 which are witnessing higher levels of stress.



## Opex to remain sticky

LTFH is investing heavily in physical infrastructure and teams to aid its growth and also in enhancing its IT infrastructure and brand building. Consequently, opex is likely to remain at elevated levels for the next 3-4 quarters and come down after that. Nevertheless, with improvement in operating efficiencies and productivity and moderation in credit costs, the management is confident of achieving credit cost + opex of ~7% by the end of FY26.

## Opex to moderate as efficiency increases



(Source: Company, HDFCsec)

## Risks & Concerns

### Slowdown in rural areas

Microfinance and farm equipment account for ~45% of its loan book. Any slowdown in rural areas due to high inflation and deficient monsoon could impact its asset quality and profitability

### Loan book growth could remain subdued

LTFH is running down its wholesale book and focusing on retail lending. Consequently, overall loan book growth may remain subdued in the immediate future.



**Competition from peers**

Most banks/NBFCs are looking to increase share of retail loans and LTFH may face significant competition in growing its retail portfolio.

**Increased borrowing cost**

RBI has hiked repo rates by 6 times in FY23 to 6.5%. Although further hikes are unlikely, it would be some time before interest rates start coming down. This would increase the borrowing cost of LTFH due to lag effect and likely to impact NIMs, if it is unable to pass it on.

**Asset quality may deteriorate**

In case economy slows down or income levels of households fall or do not grow well, LTFH may witness higher delinquencies and may have to make provisions against them impacting its profitability.

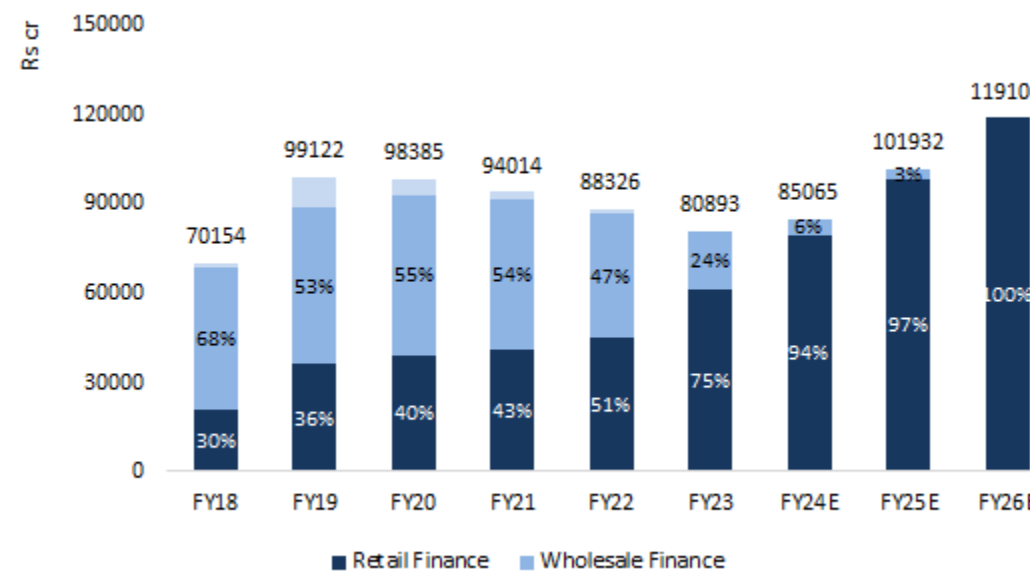
**Company Background:**

L&T Finance Holdings Ltd. (LTFH) is a financial holdings company offering a diverse range of financial products and services across retail, corporate, housing and infrastructure finance sectors. Promoted by Larsen & Toubro, it was incorporated in 1994 and headquartered in Mumbai. With a total loan book size of ~Rs 79,000cr and pan-India reach with 207 branches across 21 states and 1 union territory of India, it has built a strong position in the Indian financial services industry.

In FY22, LTFH launched a four-year strategy roadmap with a goal to achieve 80% retail portfolio by FY26, Gross/Net NPA below 3%/1% and RoA in the range of 2.8-3%. In line with the strategy, LTFH has been reducing disbursements to infra and real estate while retail disbursement has been gaining strength. During FY22, LTFH sold its mutual fund business to HSBC Asset Management (India) Private Limited.



## AUM growth and breakup



(Source: Company, HDFC sec)

## Peer Comparison

(Rs cr)	CMP (Rs)	Mcap	NII			PPoP			PAT			RoE (%)			P/E (x)			P/ABV (x)		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
STFC	2406	90098	18400	21320	24410	13760	15970	18470	7020	8420	9760	15.2	16.1	16.3	12.8	10.7	9.2	2.2	1.9	1.7
Chola Fin	1161	97407	8300	10610	13140	5870	7470	9570	3290	4370	5690	19.5	20.4	21.0	29.6	22.3	17.5	5.7	4.7	3.7
M & M Fin	287	35460	6670	8080	9700	4150	5080	6240	1920	2670	3320	10.9	13.8	15.4	18.4	13.3	10.7	2.3	2.1	1.9
L&T Fin	175	43357	7644	8300	9794	4642	5124	6271	2457	2790	3528	11.0	11.5	13.4	17.6	15.5	12.3	1.9	1.8	1.6

(Source: Company, HDFC sec)





## Financials (consolidated)

### Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	11704	12565	13088	14254	16531
Interest Expenses	5754	5797	5444	5954	6736
<b>Net Interest Income</b>	<b>5950</b>	<b>6768</b>	<b>7644</b>	<b>8300</b>	<b>9794</b>
Non interest income	619	737	1160	1271	1463
<b>Operating Income</b>	<b>6570</b>	<b>7504</b>	<b>8805</b>	<b>9571</b>	<b>11257</b>
Operating Expenses	3638	3814	4163	4447	4986
PPP	2932	3691	4642	5124	6271
Prov & Cont	1709	1560	1392	1403	1567
Profit Before Tax	1223	2131	3249	3721	4703
Tax	374	172	796	936	1184
<b>PAT</b>	<b>849</b>	<b>1958</b>	<b>2453</b>	<b>2784</b>	<b>3520</b>
<b>Adj. PAT</b>	<b>1070</b>	<b>1623</b>	<b>2457</b>	<b>2790</b>	<b>3528</b>

### Balance Sheet

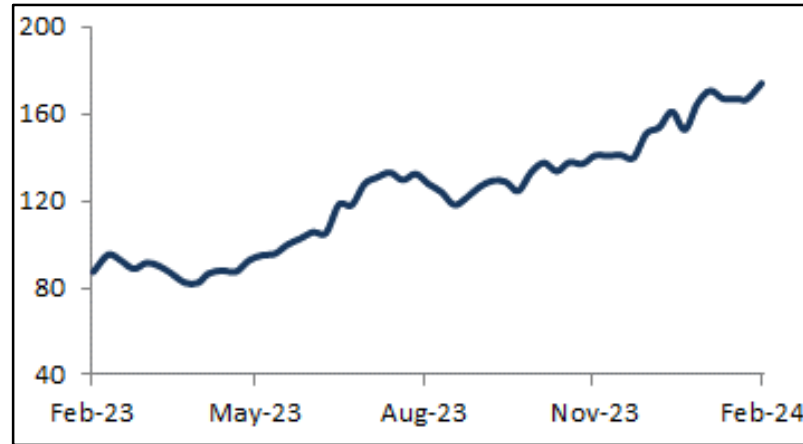
(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Eq. Share Capital	2474	2480	2480	2480	2480
Reserves & Surplus	17474	19049	20762	22684	25158
<b>Shareholder funds</b>	<b>19948</b>	<b>21528</b>	<b>23242</b>	<b>25164</b>	<b>27638</b>
Minority Interest	180	89	85	79	71
Borrowings	85201	83043	81921	95817	111454
Other Liab & Prov.	1573	1701	2014	2115	2437
<b>SOURCES OF FUNDS</b>	<b>106902</b>	<b>106362</b>	<b>107263</b>	<b>123175</b>	<b>141600</b>
Fixed Assets	193	232	275	325	375
Goodwill on Cons.	13	13	13	13	13
Investment	11917	14366	12726	11977	11881
Cash & Bank Balance	7970	12749	10737	10540	11315
Advances	82469	75155	79535	95817	113151
Other Assets	4339	3847	3977	4503	4865
<b>TOTAL ASSETS</b>	<b>106902</b>	<b>106362</b>	<b>107263</b>	<b>123175</b>	<b>141600</b>

### Ratio Analysis

Particulars	FY22	FY23	FY24E	FY25E	FY26E
<b>Return Ratios (%)</b>					
Calc. Yield on adv	13.8	15.9	16.9	16.3	15.8
Calc. Cost of borr	6.6	6.9	6.6	6.7	6.5
NIM	7.0	8.6	9.9	9.5	9.4
RoAE	5.5	7.8	11.0	11.5	13.4
RoAA	1.0	1.5	2.3	2.4	2.7
<b>Asset Quality Ratios (%)</b>					
GNPA	3.8	4.7	3.3	3.0	2.7
NNPA	2.0	1.6	0.8	0.7	0.6
<b>Growth Ratios (%)</b>					
Advances	-5.2	-8.9	5.8	20.5	18.1
Borrowings	-3.8	-2.5	-1.4	17.0	16.3
NII	0.8	13.7	13.0	8.6	18.0
PPoP	-31.0	25.9	25.8	10.4	22.4
PAT	10.2	51.7	51.4	13.5	26.4
<b>Valuation Ratios</b>					
EPS (Rs)	4.3	6.5	9.9	11.3	14.2
P/E (x)	40.4	26.7	17.6	15.5	12.3
Adj. BVPS (Rs)	73.8	82.1	91.1	98.7	108.6
P/ABV (x)	2.4	2.1	1.9	1.8	1.6
Dividend per share (Rs)	0.5	2.0	3.0	3.5	4.3
Dividend Yield (%)	0.3	1.1	1.7	2.0	2.4
<b>Other Ratios</b>					
Cost-Income (%)	55.4	50.8	47.3	46.5	44.3
Leverage (x)	4.1	3.5	3.4	3.8	4.1



## Price chart



## **HDFC Sec Retail Research Rating description**

### **Green Rating stocks**

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### **Red Rating stocks**

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



# L&T Finance Holdings Ltd.

## Disclosure:

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