



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✗	↔	✗
RV	✓	↔	✓

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Aug 08, 2023

19.22

## Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 32,856 cr
52-week high/low:	Rs. 141/78
NSE volume: (No of shares)	90.1 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	74.5 cr

## Shareholding (%)

Promoters	66.0
FII	12.1
DII	7.0
Others	14.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	5.6	5.6	51.7	67.1
Relative to Sensex	7.8	6.9	43.5	58.0

Sharekhan Research, Bloomberg

# L&T Finance Holdings Ltd

## On track to converge with retail business metrics

NBFC	Sharekhan code: L&TFH
Reco/View: Buy	CMP: Rs. 132 Price Target: Rs. 155
Upgrade	Maintain Downgrade

## Summary

- The company continued its retailisation journey, legacy wholesale book has been declining faster, and a favourable cycle is helping its retail business to grow faster.
- Core retail business performance remained strong driven by healthy retail assets growth, better margins, and lower credit cost, which translated into RoA for the retail segment over ~3.3%.
- Retail disbursements grew robustly by 32% y-o-y/ 21% q-o-q leading to strong retail AUM growth of 33% y-o-y/ 8% q-o-q. However, overall, loan book declined by 13% y-o-y/ down 1% q-o-q as diminishing wholesale book constrained the net loan growth.
- Overall asset quality trends were stable. We believe growth in retail franchise would uplift overall loan growth and RoE in FY25 as a majority of the wholesale book is expected to get rundown by FY24E. We reiterate Buy on the stock with an unchanged PT of Rs. 155. At CMP, the stock trades at 1.2x/1.1x FY2025E/ FY2026E BV estimates.

L&T Finance Holdings (LTFH) reported strong performance for Q2FY24 across business parameters as strong earnings growth supported by healthy NIM while credit cost declined on improved assets quality. Consolidated PAT was reported at Rs. 594 crore, which grew at 65% y-o-y/12% q-o-q to Rs. 596 crore on the back of strong NIM. NIM (as of avg. AUM) rose to 9.4% in the reported quarter as compared to 8.8% in last quarter. Management viewed borrowings cost to rise further ~20 bps in the near term which may weigh on margin. Opex remained elevated at 32% y-o-y/16% q-o-q due to higher investments in physical presence and tech infra. Management expects opex may remain elevated in the near term. PPOP growth, however, eased to 11% y-o-y/1% q-o-q (vs total income at 19% y-o-y/7% q-o-q) as elevated opex weigh. Credit cost (as of avg. AUM) declined to 2.3% in Q2FY24 (vs 2.6% q-o-q) on improvement in the assets quality as GS-3 ratio reduced to 3.27% (vs 4.04% q-o-q). PCR rose to 76% v/s 71% in the last quarter. As per management, stress is building in low ticket, unsecured personal loans (<Rs. 50,000), however the company has no exposure in this segment. AUM declined by 13% y-o-y to Rs. 78,734 crore as wholesale book reduction accelerated with steep decline of 76% y-o-y/34% q-o-q in line with Lakshya 2026 strategy. Alternatively, retail book grew 33% y-o-y/8% q-o-q with share in book rising to 88%. Additionally, the company booked highest ever quarterly retail disbursements of Rs. 13,499 crore, up by 21% sequentially.

## Key positives

- Strong retail disbursements trend
- Expansion in NIM and decline in credit cost

## Key negatives

- Elevated opex leading to lower PPOP growth
- Running down of wholesale book contained overall AUM growth

## Management Commentary

- Management said despite a traditionally weak quarter, the company achieved highest ever quarterly retail disbursements. It guided for retail share to rise beyond 90% by Q3FY24.
- Management expects contained credit cost trajectory to continue on the back of better credit underwriting engine, strong collection team on ground and focus on zero DPD collections.
- Opex to remain high in the near term led by higher investments in physical and tech infra.
- Management guided that borrowing costs may inch up by ~20-25 bps in the second half of this fiscal.

## Our Call

**Valuation - We maintain our Buy rating with an unchanged PT of Rs. 155:** At the CMP, the stock trades at 1.2x/1.1x FY2025E/FY2026E BV estimates. LTFH is well on track in line with Lakshya 2026 to transform into the retail franchise. Retail book mix rose to 88% of AUM which may further inch up to 95% by FY24 on strong retail disbursements and acceleration in the running down of wholesale book. We are optimistic about the company's future prospect as RoE is expected to enter into the double digit trajectory on contained credit cost and likely strong NIM driven by retailisation of the book. However, stress scenario in unsecured personal loan segment to be monitor cautiously. As per our estimates, PAT is estimated to grow at a CAGR of 28% over FY23-26E which will drive 560 bps expansion in RoE to 15.0% in FY26E.

## Key Risks

Economic slowdown can lower retail growth momentum, building stress in unsecured personal loans and a higher-than-estimated write-off in wholesale book.

## Valuation (consolidated)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII	5,950	6,768	7,707	9,806	12,863
Gr.	-10.7%	7.4%	6.3%	28.9%	32.1%
NIM	7.0%	8.6%	9.5%	9.6%	9.6%
C/I	34.5%	39.2%	39.4%	34.4%	33.1%
PPOP	4,306	4,559	5,318	7,173	9,591
A.PAT	1,070	1,958	2,511	3,043	4,105
AUM	88,078	80,893	93,250	1,25,404	1,63,403
RoE	5.5%	9.4%	11.3%	12.5%	15.0%
RoA	1.0%	1.8%	2.3%	2.4%	2.5%
Leverage (x)	5.6	5.1	4.8	5.3	6.1
P/E (x)	32.3	16.8	13.1	10.8	8.0
P/BV (x)	1.5	1.4	1.3	1.2	1.0

Source: Company; Sharekhan estimates

## Key result highlights

### Strong performance led by NIM and lower credit cost

LTFH reported 65% y-o-y/12% q-o-q increase in PAT to Rs. 594 crore on the back of strong NIM. NIM (cal as of avg. AUM) rose to 9.4% in Q2FY24 as compared to 8.8% in Q1FY24. NIM + fee/OI in the retail book peaked at 12.6%, however management does not expect any large decline from this level. However, it expects borrowing cost may rise in the second half of this fiscal. Despite strong income growth, C/I ratio rose to 42.0% (vs 38.7% q-o-q) due to high opex driven by higher investments on physical + tech infra. Credit cost (as of avg. AUM) declined to 2.3% in Q2FY24 (vs 2.6% q-o-q). Management expects credit cost trend to continue in future on 1) strengthening underwriting model 2) excellent track record on zero DPD and 3) strong collection team.

### Highest ever quarterly retail disbursements

The company reported highest ever quarterly retail disbursements of Rs. 13,499 crore, up by 32% YoY which has resulted in retail book growth at 33% y-o-y/8% q-o-q to Rs. 69,417 crore. Retail mix rose to 88% of AUM (vs 58% in Q2FY23) which the management expects to rise close to 95% by the end of this fiscal. Wholesale AUM de-grew by 76% y-o-y to Rs. 9,255 crore. Disbursements for TW grew by 5% q-o-q and the company is emphasizing more on prime segment and better-quality customers. Personal loan disbursement grew by 13% q-o-q; the company is leveraging the existing two-wheeler seasoned customer base as a primary cross-sell proposition. Disbursements in home loans grew at 16% and rural group loans at 30% sequentially during Q2FY24.

### Assets quality improves

Credit cost (as a percentage of avg. AUM) declined to 2.3% in Q2FY24 (vs 2.6% q-o-q) on improvement in the assets quality as GS-3 ratio reduced to 3.27% from 4.04% in the last quarter. As per management, stress is building in unsecured personal loans low ticket (<Rs. 50,000), however the company has no exposure in this segment. CIBIL estimates at a total of Rs. 25,000 crore outstanding in this particular ticket size segment compared to overall personal loans book size of about Rs. 10.5 lakh crores in high ticket sizes. The company does not have any exposure in the less than Rs. 50,000 ticket size segment and stated that it consciously stayed away from the BNPL segment lending.

Results					Rs cr	
Particulars	Q2FY23	Q1FY24	Q2FY24	YoY %	QoQ %	
Interest Earned	3,086	3,116	3,169	2.7%	1.7%	
Interest Expended	1,438	1,364	1,325	-7.9%	-2.8%	
NII	1,648	1,753	1,844	11.9%	5.2%	
Other Income	171	260	314	83.2%	20.5%	
Total Income	1,819	2,013	2,157	18.6%	7.2%	
Opex	799	778	905	13.3%	16.3%	
PPOP	1,020	1,235	1,252	22.7%	1.4%	
P&C	465	521	455	-2.2%	-12.8%	
PBT	556	714	797	43.5%	11.7%	
Tax	195	183	203	4.1%	11.0%	
Net Profit	360	531	594	64.9%	12.0%	
Dil. EPS	1	2	2	63.4%	12.0%	

Source: Company, Sharekhan Research

#### AUM & operating ratios

					Rs cr
Particulars	Q2FY23	Q1FY24	Q2FY24	YoY %	QoQ %
AUM	90,098	78,566	78,734	-12.6%	0.2%
R&S	17,955	19,592	20,186	12.4%	3.0%
Key operating ratios					
NIM (cal)	7.3%	8.9%	9.4%		
C/I ratio	43.9%	38.7%	42.0%		
D/Ex	4.2	3.4	3.5		
CAR (consol)	22.7%	25.8%	25.2%		
Fee income/NII	2.8%	2.4%	2.2%		

Source: Company, Sharekhan Research

#### Assets Quality

					Rs cr
Particulars	Q2FY23	Q1FY24	Q2FY24	YoY %	QoQ %
GS3	3,591	3,172	2,575	-28.3%	-18.8%
GS3/AUM	4.02%	4.04%	3.27%		
NS3	1,615	907	627	-61.2%	-30.9%
NS3/AUM	1.85%	1.19%	0.82%		
PCR	55.0%	71.4%	75.7%		

Source: Company, Sharekhan Research

#### AUM Break-out

					Rs cr
Particulars	Q2FY23	Q1FY24	Q2FY24	YoY %	QoQ %
Retail AUM	52,040	64,274	69,417	33.4%	8.0%
Farm equipment finance	11,865	13,125	13,351	12.5%	1.7%
Rural group loans & Micro Finance	15,840	19,743	21,672	36.8%	9.8%
Two wheelers finance	8,093	9,190	9,518	17.6%	3.6%
Consumer loans	3,979	5,995	6,481	62.9%	8.1%
Home loans	9,105	11,274	12,216	34.2%	8.4%
LAP	2,665	2,801	3,038	14.0%	8.5%
SME Finance	321	1,779	2,413	651.7%	35.6%
Acquired portfolio	172	367	727	322.7%	98.1%
Wholesale finance	37,597	14,035	9,255	-75.4%	-34.1%
De-focused	461	257	62	-86.6%	-75.9%

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Retail loan demand continues to exhibit strong trends

Retail credit growth remains robust. Demand across retail assets has accelerated and asset-quality trends are also stable, given the favourable cycle. NBFCs having a diverse product offering, strong ALM management, robust liquidity buffers, strong risk management framework, healthy liability franchise, and well-capitalised balance sheet are well poised for growth.

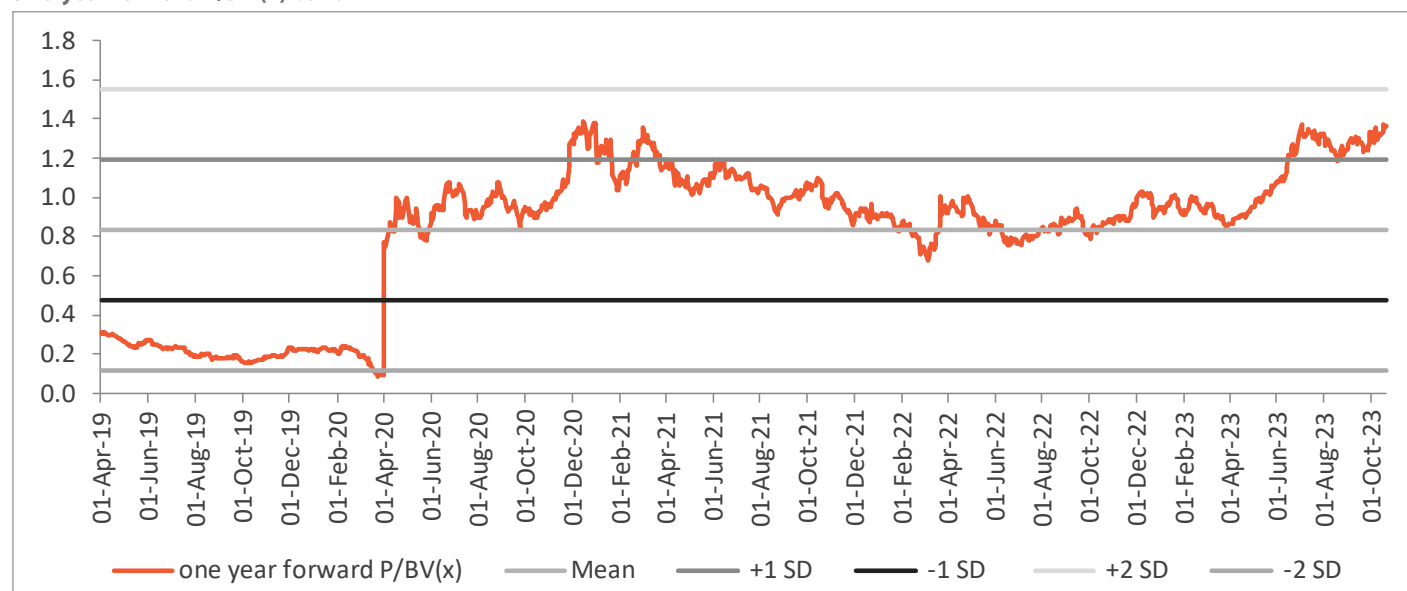
### ■ Company outlook - Improving business outlook

LTFH is set to primarily transform itself into a retail franchise, which could lead to improvement in overall profitability and return ratios. The company is realigning its strategy by repositioning its portfolio growth from product-based to customer-centric, focusing on cross-selling, up-selling along with using deep analytics to understand various nuances like business selection, dealer selection, sale volumes, market positioning in various segments, portfolio vintage including customer behaviour, counter share performance, and distribution network, which are key positives. The current collection trends are appearing strong; and overall, the retail asset-quality outlook continues to remain stable to positive.

### ■ Valuation - We maintain our Buy rating with an unchanged PT of Rs. 155

At the CMP, the stock trades at 1.2x/1.1x FY2025E/FY2026E BV estimates. LTFH is well on track in line with Lakshya 2026 to transform into the retail franchise. Retail book mix rose to 88% of AUM which may further inch up to 95% by FY24 on strong retail disbursements and acceleration in the running down of wholesale book. We are optimistic about the company's future prospect as RoE is expected to enter into the double digit trajectory on contained credit cost and likely strong NIM driven by retalisation of the book. However, stress scenario in unsecured personal loan segment to be monitor cautiously. As per our estimates, PAT is estimated to grow at a CAGR of 28% over FY23-26E which will drive 560 bps expansion in RoE to 15.0% in FY26E.

#### One-year forward P/BV (x) band



Source: Sharekhan Research

#### Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
L&T Finance Holdings	132	32,644	13.1	10.8	1.3	1.2	11.3	12.5	2.3	2.4
M&M Finance	273	33,705	16.5	11.4	2.0	1.9	12.7	12.7	2.3	2.3

Source: Company; Sharekhan Research

## About company

LTFH is one of the leading non-banking financial companies (NBFCs) in India. LTFH has strategically re-aligned its business mix towards retail. The company lends across 2W finance, tractor finance, microfinance, home loans/LAP, farm equipment, consumer loans, SME loans etc. The company is rated AAA by CARE, ICRA, CRISIL, and India Ratings.

## Investment theme

LTFH has strategically re-aligned its business mix towards retail. Benefitting from a strong parentage, the company has access to funds at competitive rates. Accelerating retail growth will support earnings going forward.

## Key Risks

Slower retail growth and higher-than-anticipated write-off in wholesale and retail NPL cycle.

## Additional Data

### Key management personnel

Mr. Dinanath Dubhashi	Managing Director and Chief Executive Officer
Mr. Sudipta Roy	Chief Operating Officer
Mr. Sachinn Joshi	Group - Chief Financial Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Citigroup Global Markets Mauritius	3.85
2	BC ASIA GROWTH INVESTMENTS	2.67
3	BC ASIA GROWTH INV	2.67
4	BNP Paribas SA	2.33
5	Aryaman Capital Markets Ltd.	2.33
6	ICICI Prudential Life Insurance Co	2.00
7	Life Insurance Corp of India	1.95
8	BC INVESTMENTS LTD.	1.37
9	BC Asia Investments VII Ltd.	1.37
10	BC Investments Ltd.	1.34

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
<b>Negative</b>	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
<b>Positive</b>	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022 - 41523200/022 - 69920600