L&T Finance Limited (LTFINA)

ICICI direct Research

CMP: ₹ 140 | Target: ₹ 180 (29%) | Target Period: 12 months | BUY

January 22, 2025

Result Update

ICICI Securities – Retail Equity Research

MFI pain impacts performance; better placed among peers

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, 2 wheeler 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)

Q3FY25 performance: L&T Finance reported a subdued performance in Q3FY25. Stress in rural finance segment impacted business growth, margins as well as led to higher credit cost thereby impacting profitability. Retail book expanded 23% YoY (4% QoQ) to ₹92,224 crore, and consolidated AUM increased 16% YoY (2% QoQ) to ₹95,120 crore. Rural business finance faced a sharp decline of 16% YoY (15% QoQ), given stress in micro-finance segment. Margins remained under pressure, with NIMs+Fees declining 60 bps YoY (53 bps QoQ) to 10.33%, reflecting an unfavourable shift in asset mix. Profitability was impacted (2% YoY & 10% QoQ) at ₹626 crore, while RoA contracted ~25 bps YoY (33 bps QoQ) to 2.27%, underscoring lower margins and rising credit costs amid stress in rural finance. Credit costs saw a notable increase, standing at 2.91% before utilization of ₹100 crore macro-prudential provisions, up from 2.59% in Q2FY25, marking a 32 bps rise.

Investment Rationale

- **Stress in rural finance book limits growth; gradual shift towards prime segment:** Slowdown in rural finance (sharp decline in disbursement of 15% QoQ) has impacted credit growth (23%), margins (-44 bps QoQ decline) and credit cost (2.49%). Expect further deceleration in 2 wheeler and rural finance segment in coming quarters, which is to be offset by traction in personal loans, primarily to the prime category customers. Expect credit growth at ~24-25% in FY25-27E. Gradual shift towards prime segment is seen to impart some pressure on yields, though expected to be offset by lower opex and credit cost, thus aiding RoA. Expect RoA at 2-2.2% in FY25-27E.
- **Collection efficiency gaining traction, provision seen to peak:** Credit cost remained elevated at 2.49% (post utilization of ₹100 crore from prudential provision buffer). Management expects overall pain in microfinance segment at ₹950-1000 crore. Expect relatively faster revival in MFI portfolio owing to 1) No disbursal to overleveraged borrowers in last 3 quarters leading to exposure to borrowers (4+ lenders) at ~4%, 2) employing dedicated 900 personals in collections, 3) ₹875 crore of prudential provision of which ₹300-350 crore could be utilized in Q4FY25.

Rating and Target Price

- Relatively better quality of MFI book, provision buffer and gradually increasing proportion of prime customers bodes well. Current valuation remains attractive on risk reward basis.
- Thus, we maintain our target to ₹180, valuing the stock at ~1.5x FY27E ABV. Maintain Buy rating.

L&T Finance

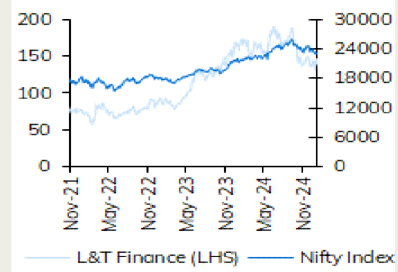
Particulars

Particulars	Amount
Market Capitalisation	₹ 34,850 crore
52 week H/L	194 / 129
Net worth	₹ 24,268 crore
Face Value	10.0
DII Holding (%)	12.2
FII Holding (%)	5.3

Shareholding pattern

(in %)	Mar-24	Jun-24	Sep-24	Dec-24
Promoter	65.9	66.4	66.3	66.3
FII	11.0	7.3	6.7	5.3
DII	8.7	11.6	12.3	12.2
Others	14.4	14.7	14.7	16.2

Price Chart



Key risks

(i) Higher than anticipated stress in rural finance book

(ii) Margin pressure owing to change in asset mix

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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%	8124.3	9500.3	11846.4	19%
Net Profit (₹ crore)	1070.0	1623.0	2320.0	47%	2644.9	3146.0	4065.1	21%
EPS (₹)	4.3	6.5	9.3	47%	10.6	12.6	16.3	21%
P/E (x)	32.4	21.4	15.0		13.2	11.1	8.6	
P/BV (x)	1.7	1.6	1.5		1.4	1.2	1.1	
P/ABV (x)	1.9	1.7	1.6		1.4	1.3	1.1	
RoE (%)	5.4	7.5	9.9		10.3	11.1	12.9	
RoA (%)	1.0	1.5	2.3		2.2	2.1	2.2	

Source: Company, ICICI Direct Research

Con-call highlights and outlook

Growth guidance and NIMs expectations

- Management to exercise caution over growth amid stress in rural finance, clearer guidance on retail loan growth is expected to be provided at the end of Q4, depending on how collection efficiencies pan out in Jan, Feb, and March
- The company expects 2-3 quarters of turbulence at the market and industry levels
- Positive impact expected from increasing productivity and reduced credit costs, reflected in P&L from H2 next financial year.
- Directionally, NIM plus fee may trend slightly downwards due to a strategic shift towards prime segment, though impact on RoA to be neutral, amid lower opex and credit cost.

Project Cyclops

- Project Cyclops, a next-gen credit underwriting engine, was extended to 100% dealerships in two-wheeler finance and launched for farm equipment finance.
- Scaling up new product initiatives, including Microlab, warehouse finance and supply chain finance products.
- Company is also working on Project Nostradamus, an AI-driven automated portfolio management engine, with a beta version expected to be released in Q2FY26.

Prime Segment

- 69% of disbursements in December 2024 were to the prime segment. In January 2025 (till date), 75% of disbursements have been to the prime segment
- Currently, 49%-50% of the overall book comprises prime customers.
- Monthly disbursements of ₹550-600 crore in PL segment; gradual scaling with a focus on prime salaried business.

Collection Efficiency and credit cost

- Projected total credit cost for FY25E in the rural group loans and MFI business is estimated at ₹950-1,000 crore (before macro-prudential provision utilization). Audit Committee and Board approved ₹100 crore utilization from macro-prudential provisions in Q3FY25.
- Advanced estimates for provision buffer utilization in Q4FY25: ₹300-350 crore.
- The company is planning to opt for Credit Guarantee Scheme in specific geographies and segments to mitigate unforeseen risks in RBF segment, with further details to be provided in upcoming quarter.
- Company added 5.8 lakh new customers during the quarter, focusing on under-leveraged customer acquisition.
- Opex increased during the quarter due to festive related spending, expansion of collections workforce and technology investments for implementation of Project Cyclops across various business lines.
- Strong focus on new markets such as Andhra Pradesh, Telangana, and Western Maharashtra, where collection efficiency trends well specially for JLG & RBL segment.

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
NII	2041	1833	11.3	2051	-0.5	Flattish QoQ growth amid slowdown in rural finance
NIM (%)	8.5%	9.0%	-47 bps	8.9%	-44 bps	NIMs compressed due to an adverse asset mix shift and a slight rise in funding costs
Other Income (Incl Fees)	439	399	10.0	440	-0.2	
Total income	2480	3585	-30.8	2491	-0.4	
Operating expenses	1058	894	18.3	958	10.5	
Operating income	1882	1718	9.5	1896	-0.7	
Credit losses/ provisions	598	514	16.3	595	0.5	Credit cost elevated owing to pain in MFI segment. Utilized ₹100 crore macro-prudential provision
PBT	825	824	0.1	938	-12.0	
Tax	199	184	8.2	241	-17.5	
PAT	626	640	-2.2	697	-10.1	PAT declined due to margin compression and higher credit costs
Key Metrics						
Loan Book	95120	81780	16.3	93015	2.3	AUM grew steadily, driven by strong retail growth despite challenges in rural finance

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Interest Earned	12,492.4	13,975.0	16,538.8	20,349.4
Interest Expended	5,377.0	5,850.8	7,038.4	8,503.0
Net Interest Income	7,115.4	8,124.3	9,500.3	11,846.4
growth (%)	11.7%	14.2%	16.9%	24.7%
Non Interest Income	1,609.0	1,689.5	1,858.4	2,044.2
Net Income	8,724.4	9,813.7	11,358.7	13,890.6
Opex	3,507.9	3,959.1	4,432.0	5,070.9
Operating Profit	7,022.9	7,938.5	9,330.7	11,592.8
Provisions	2,006.0	2,374.5	2,787.3	3,470.9
PBT	3,210.5	3,480.2	4,139.5	5,348.8
Taxes	715.5	835.2	993.5	1,283.7
Exceptional item	175.0	-	-	-
Net Profit	2,320.0	2,644.9	3,146.0	4,065.1
growth (%)	42.9%	14.0%	18.9%	29.2%
EPS (₹)	9.3	10.6	12.6	16.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Valuation				
No. of Equity Shares (Crores)	248.9	248.9	248.9	248.9
EPS (₹)	9.3	10.6	12.6	16.3
BV (₹)	94.2	103.5	114.1	126.8
ABV (₹)	89.4	99.8	111.2	123.2
P/E	15.0	13.2	11.1	8.6
P/BV	1.5	1.4	1.2	1.1
P/ABV	1.6	1.4	1.3	1.1
Yields & Margins (%)				
Net Interest Margins	8.6	8.6	8.2	8.2
Yield on assets	15.0	14.8	14.3	14.2
Avg. cost on borrowings	6.8	6.9	6.7	6.5
Quality and Efficiency (%)				
Cost to income ratio	40.2	40.3	39.0	36.5
Loan to borrowing (%)	107.6	103.3	103.3	103.3
GNPA	4.0	3.0	2.7	2.7
NNPA	1.2	0.7	0.7	0.7
RoE	9.9	10.3	11.1	12.9
RoA	2.3	2.2	2.1	2.2
RoAUM	2.8	2.8	2.7	2.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Capital	2489	2489	2489	2489
Reserves and Surplus	20950	23270	25914	29060
Networth	23438	25758	28403	31549
Borrowings	75583	94004	116099	145533
Other Liabilities & Provisions	27135	28851	33955	42061
Total	102718	122855	150054	187594
Application of Funds				
Fixed Assets	555	610	672	739
Investments	12385	13429	15310	19191
Advances	81359	97103	119926	150331
Other assets	21358	25752	30127	37263
Total	102718	122855	150054	187594

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Total assets	5.0%	20.0%	20.0%	20.0%
Advances	6.2%	20.7%	23.5%	25.4%
Net interest income	11.7%	14.2%	16.9%	24.7%
Operating expenses	11.7%	10.2%	8.2%	13.3%
Net profit	42.9%	14.0%	18.9%	29.2%
Net worth	8.9%	11.3%	12.1%	13.9%

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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