Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

L&T Finance Holding Ltd

Muted quarterly performance

NBFC	Sharekhan code: L&TFH
Reco/View: Buy ↔	CMP: Rs. 82 / Price Target: Rs. 100 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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 19.87

Updated Feb 08, 2022

Low Risk

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

Source: Morningstar

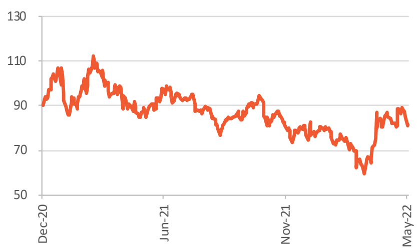
Company details

Market cap:	Rs. 20,220 cr
52-week high/low:	Rs. 101 / 59
NSE volume: (No of shares)	111.6 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	83.5 cr

Shareholding (%)

Promoters	66.3
FII	6.9
DII	4.6
Others	22.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.9	8.4	-6.6	-4.5
Relative to Sensex	2.5	13.4	1.4	-19.9

Sharekhan Research, Bloomberg

Summary

- L&T Finance Holding Limited (LTFH) posted PAT of Rs. 341 crore, up 28% y-o-y and ~10% q-o-q in Q4FY2022 versus street's expectations of Rs. 400 crore due to muted operating performance. NII fell by ~14% y-o-y and was flat sequentially because of moderate loan book growth.
- Asset quality improved significantly q-o-q. GNPA stood at 3.8% in Q4FY2022 versus 5.9% in Q3FY2022.
- Management has put forward its Lakshya 2026 goals, including growing retail to more than 80% of the balance sheet, plans to generate >25% CAGR retail growth, better asset quality with GS3 <3% and NS3 <1%, and RoA of 2.8% to 3%.
- The stock trades at 0.9x/0.8x its FY2023E/FY2024 book value. We maintain Buy with a revised PT of Rs. 100.

L&T Finance Holding Limited (LTFH) reported PAT of Rs. 341 crore versus street expectation of Rs. 400 crore in Q4FY2022. PAT grew by 28% y-o-y and ~10% q-o-q. This was primarily on account of muted operating performance. PPoP declined by 22% y-o-y and 4% q-o-q. Net interest income (NII) fell by ~14% y-o-y and was flat sequentially on account of moderate loan book growth. Opex to AUM increased by 8 bps q-o-q to 2.8% in Q4FY2022. This was due to the company's investment in digital capabilities, employee hires, and expansion in meeting centres. Provisions stood at Rs. 652 crore versus Rs. 742 crore in 3QFY2022. LTFH's loan book fell by 6% y-o-y to Rs. 883.4 billion in Q4FY2022. Overall retail book grew by 6% q-o-q and 10% y-o-y in Q4FY22 and its share in the mix increased to 51% from 43% for FY2022. Retail businesses comprising of farm and two-wheeler loan portfolio grew by ~10% y-o-y and ~5% y-o-y, respectively, with a stable market share. The MFI segment also witnessed momentum with ~9% y-o-y growth. Asset quality improved with GNPA at 3.8% in Q4FY2022 versus 5.9% in Q3FY2022. NNPA stood at 2% in Q4FY2022 versus 3.03% in Q3FY2022. This was primarily on account of higher collection efficiency, which surpassed pre-Covid levels. OTR book currently stands at Rs. 3,040 crore (~3.4% of the book). The company is carrying additional provisions of Rs. 1,727 crore (~2.1% of the loans) on account of COVID-19 and OTR-related contingencies.

Key positives

- Disbursements grew robust at Rs. 41,731 crore, up ~82% y-o-y and ~49% q-o-q, driven by significant revival in infra finance. The company's focused book stood at Rs. 86,814 crore, down 5% y-o-y and up 4% q-o-q, aided by rural finance book.
- Net interest margin (NIM) stood at 8.17%, up 7 bps q-o-q, due to lower cost of borrowings.
- In Q4FY2022, collection efficiency surpassed pre-COVID levels.

Key negatives

- Moderate operating performance despite highest disbursements.
- PCR came down to 48% in Q4FY2022 versus 65% in Q3FY2022.

Management Commentary

- Management reiterated its strategy to grow the share of retail loans to 80% from 50% currently at a CAGR of 25% by 2026. It plans to generate RoA of 2.8% to 3%.
- The company intends to achieve through digital-based channel expansion, strengthening its current portfolio, cross-selling, and expansion of geographies.
- Management also intends to reduce its overall wholesale portfolio through sale/transfer of assets with tie-ups with other financiers.

Our Call

Valuation – We maintain our Buy rating on the stock with a revised PT of Rs. 100. The stock trades at 0.9x/0.8x its FY2023E/FY2024 book value. We believe the company is a long-term opportunity on economic growth, revival in credit growth, particularly the rural segment, recovery in housing sales, and infrastructure financing. The company has drawn up a four-year business strategy to retailise its balance sheet through growth in urban and rural business, which is encouraging after its strong rural book performance in Q4FY2022. Additionally, its plan to reduce overall wholesale portfolio bodes well for the company. Its collection efficiency surpassing pre-COVID levels across retail segments, augurs well for its future growth plans. We believe consolidation in loan book has reached the bottom and the company is set to see decent growth going ahead. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 100.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality.

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23E	FY24E
NII	5,892	5,950	6,246	7,463
PAT	948	1,049	2,121	2,173
EPS (Rs)	3.8	4.2	8.6	8.8
P/E (x)	21.3	19.2	9.5	9.3
P/BV (x)	1.1	1.0	0.9	0.8
RoA (%)	0.9	1.0	1.9	1.8
RoE (%)	5.7	5.4	10.2	9.5

Source: Company; Sharekhan estimates

Concall Highlights:

- **Retailisation to gain pace:** The company has drawn up a four-year business strategy Lakshya 2026, which would enable it to move further towards retailisation. The company plans to grow the share of retail loans to 80% from 50% currently at a CAGR of 25% by 2026. The company plans to generate RoA of 2.8% to 3%. The company intends to rundown the whole sale book through inorganic path/sale/transfer of assets with tie-ups with other financiers. Additionally, the company plans to have superior asset quality with GS3 <3% and NS3 <1% going ahead. Gains arising from the sale of its mutual funds business will be partly used for shoring up management overlays.
- **Disbursements remained strong:** Disbursements grew strongly at Rs. 41,731 crore, up ~82% y-o-y and ~49% q-o-q, driven by significant revival in infra finance. Housing finance was up 50% y-o-y and 14% q-o-q, while rural finance grew by 20% y-o-y and 4% q-o-q. Its focused book was at Rs. 86,814 crore, down 5% y-o-y and up 4% q-o-q, aided by rural finance book and ~98% of the total book. The company's two-wheeler book regained its market share. The company plans to launch new products in Q1FY2023 and Q2FY2023 such as individual loans and warehouse receipt finance in rural lending to aid income growth.
- **Wholesale business holding up in terms of asset quality:** Infrastructure finance witnessed strong disbursements in renewal power at 11x y-o-y and 3.6x q-o-q in Q4FY2022. Within wholesale, the share of renewables further expanded by 13 bps y-o-y to 67% of the wholesale book, while the proportion of roads reduced by 5 bps y-o-y to 24% wholesale book.

Results (Consolidated) **Rs cr**

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Income from operations	2,947	3,415	2,971	-13.7	-0.8
Finance costs	1,392	1,609	1,407	-13.5	-1.0
Net interest income	1,555	1,806	1,564	-13.9	-0.6
Other income	120	172	128	-30.0	-6.2
Net revenues	1,675	1,978	1,693	-15.3	-1.0
Expenses	6,034	6,078	5,817	-0.7	3.7
Pre-provision profit	1,071	1,370	1,111	-21.8	-3.5
Allowances & write-off	652	652	742	0.0	-12.1
PBT	419	718	369	-41.6	13.5
Taxes	129	452	113	-71.5	14.5
PAT	290	266	257	9.1	13.1
PAT from total operations	341	266	308	28.3	10.9

Source: Company; Sharekhan Research

Balance sheet data

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Loans & Advances					
Rural	**34,357**	**30,080**	**32,166**	**14.2**	**6.8**
MFI	13,278	12,207	11,955	8.8	11.1
2W	7,462	7,122	7,306	4.8	2.1
Farm equipment	11,317	10,261	11,210	10.3	1.0
Consumer	2,301	490	1,696	369.6	35.7
Housing	**21,875**	**23,689**	**22,023**	**-7.7**	**-0.7**
HL & LAP	10,664	10,744	10,420	-0.7	2.3
Real estate finance	11,210	12,945	11,603	-13.4	-3.4
Wholesale	**30,521**	**37,543**	**29,185**	**-18.7**	**4.6**
Focus	**86,814**	**91,312**	**83,374**	**-4.9**	**4.1**
De-focused	1,526	2,702	2,162	-43.5	-29.4
Total	**88,340**	**94,014**	**85,536**	**-6.0**	**3.3**

Source: Company; Sharekhan Research

Asset quality

Particulars	Q4FY22	Q4FY21	Q3FY22	Y-o-Y %	Q-o-Q %
Gross NPAs	3,249	4,504	4,866	-27.9	-33.2
Net NPAs	1,681	1,377	2,419	22.1	-30.5
Gross NPAs (%)	3.8%	5.0%	5.9%	-1.2	-2.1
Net NPAs (%)	2.0%	1.6%	3.0%	0.4	-1.0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Green shoots in the economy are encouraging; Rural segment a bright spot

The NBFC sector is witnessing an improved long-term outlook, helped by lower borrowing costs (supported by continued accommodative monetary policy stance). Financial services companies are reporting incremental pick-up in credit demand, especially in retail and rural segments, post the removal of restrictions on movement. Leading indicators show recovery in economic activity, which will be positive. Increased MSPs, good monsoons, and adequate water storage position are leading to higher tractor demand and overall resilience of the rural economy and, therefore, the rural economy continues to be a bright spot in these times as well.

■ Company Outlook – Strong fundamentals to drive growth ahead

Bolstered by a strong parentage, good liquidity (positive gaps in all buckets up to one-year), and high credit ratings (LTFH is rated AAA), LTFH enjoys long-term positives that allow it to access funds at competitive rates. Even though the pandemic has impacted the growth and credit costs of financial players, LTFH has responded well by prudent measures (by keeping high liquidity buffer, tightening of credit filters, and slowing disbursements), which indicate a cautious stance of a quality management team. A well-provided balance sheet and, hence, NIM trajectory going forward would depend on growth and asset quality. We believe notwithstanding medium-term challenges, factors such as well-capitalised balance sheet, stable ratings, and provision buffer indicate that LTFH is well placed to ride over medium-term challenges.

■ **Valuation –** We maintain our Buy rating on the stock with a revised PT of Rs. 100. The stock trades at 0.9x/0.8x its FY2023E/FY2024 book value. We believe the company is a long-term opportunity on economic growth, revival in credit growth, particularly the rural segment, recovery in housing sales, and infrastructure financing. The company has drawn up a four-year business strategy to retailise its balance sheet through growth in urban and rural business, which is encouraging after its strong rural book performance in Q4FY2022. Additionally, its plan to reduce overall wholesale portfolio bodes well for the company. Its collection efficiency surpassing pre-COVID levels across retail segments, augurs well for its future growth plans. We believe consolidation in loan book has reached the bottom and the company is set to see decent growth going ahead. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 100.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
L&T Finance Holdings Ltd	82	20,220	9.5	9.3	0.9	0.8	10.2	9.5	1.9	1.8
Mahindra & Mahindra Financial Services	179	22,073	11.6	9.9	1.2	1.1	11.4	11.9	2.3	2.4

Source: Company, Sharekhan estimates

About company

LTFH offers a wide range of financial products and services across rural, housing, and wholesale finance sectors. LTFH is among the largest NBFCs in India with a loan book of ~Rs. 89,000 crore and with 700+ points of presence across 24 states. The company's parent is one of the leading infrastructure players in the country, which not only helps LTFH with access to pertinent industry information but also with the ability to leverage the parent's strength in business as well as ratings. The company operates in retail/wholesale lending, as well as across two-wheeler finance, tractor finance, microfinance, home loans/LAP, builder finance, infra finance, and structured finance among other product lines. LTFH is rated AAA by CARE and CRISIL.

Investment theme

LTFH has been strategically re-aligning its business mix, focusing on businesses where it has a clear competitive advantage and opportunity to scale. Benefitted by a strong parent and attractive credit ratings (LTFH is rated AAA), the company works at competitive rates, which are key support to its margins. Moreover, LTFH focuses on diversification of borrowings mix with the addition of new sources of borrowings, which are key for sustainability. LTFH has responded by keeping high liquidity buffer, tightening of credit filters, and slowing disbursements, indicating a cautious stance; but with improving outlook, we expect normalisation of business going forward. Factors such as well-capitalised balance sheet, stable ratings, and provision buffer are positives. However, developments such as overhang of possible change in the regulatory stance (for NBFCs) and rights issue (book value dilutive) have added to medium-term uncertainty.

Key Risks

Any prolonged economic slowdown may impact its loan book growth and deteriorate its asset quality.

Additional Data

Key management personnel

Mr. Dinanath Dubhashi	Managing Director & Chief Executive Officer
Mr. Kailash Kulkarni	Chief Executive - Investment Management
Mr. Sachinn Joshi	Group - Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Citigroup Global Markets Mauritius	3.9
2	BC ASIA GROWTH INVESTMENT	2.7
3	BNP Paribas SA	2.3
4	ICICI Prudential Life Insurance Co	2.1
5	BC INVESTMENTS LTD	1.8
6	Vanguard Group Inc/The	1.4
7	Norges Bank	1.1
8	BlackRock Inc	1.0
9	Aditya Birla Sun Life Asset Management Co. Ltd	0.5
10	Dimensional Fund Advisors LP	0.5

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	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	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	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
Negative	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 detoriating balance sheet
Right Valuation	
Positive	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.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. 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; Research Analyst: INH000006183;