

Rating: BUY | CMP: Rs95 | TP: Rs109

January 17, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	109		88	
NII (Rs.)	77,686	89,621	75,119	86,640
% Chng.	3.4	3.4		
PPoP (Rs.)	40,893	49,718	38,327	46,737
% Chng.	6.7	6.4		
EPS (Rs.)	8.8	11.0	8.1	10.1
% Chng.	9.6	8.9		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	61,759	66,057	77,686	89,621
Growth (%)	2.2	7.0	17.6	15.4
Op. Profit (Rs m)	29,320	32,138	40,893	49,718
PAT (Rs m)	8,492	14,234	21,888	27,243
EPS (Rs.)	3.4	5.8	8.8	11.0
Gr. (%)	(10.7)	67.6	53.8	24.5
DPS (Rs.)	1.7	1.7	1.7	1.7
Yield (%)	1.8	1.8	1.8	1.8
Margin (%)	7.3	7.6	7.6	7.8
RoAE (%)	4.6	6.9	8.4	9.9
RoAA (%)	0.8	1.2	1.7	1.8
PE (x)	27.7	16.5	10.8	8.6
P/BV (x)	1.2	1.1	1.0	0.9
P/ABV (x)	1.3	1.2	1.1	1.0

Key Data

LTFH.BO | LTFH IN

52-W High / Low	Rs.98 / Rs.59
Sensex / Nifty	60,093 / 17,895
Market Cap	Rs.236bn / \$ 2,891m
Shares Outstanding	2,480m
3M Avg. Daily Value	Rs.783.93m

Shareholding Pattern (%)

Promoter's	66.15
Foreign	11.24
Domestic Institution	6.06
Public & Others	16.55
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.0	35.8	19.9
Relative	6.2	21.5	22.2

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Retailisation of loan book on track

Quick Pointers:

- Highest ever quarterly retail disbursement of Rs 116.07bn in Q3FY23 vs Rs 102.38bn in Q2FY23.
- GNPA stable on a QoQ basis at 4.21% vs 4.02% in the previous quarter.

We maintain 'BUY' rating and increase our TP to Rs109 (1.25x on Sep'24E PABV) from Rs88 (earlier:1x Sep'24E PABV) as we increase our NII estimates for FY23/24/25 by 0.2%/3.4%/3.4%, given increase in yields to 13.2%/13.5%/13.5% for FY23/FY24/25 from 13.1%/13.2%/13.2% earlier. LTFH should also run-down the remaining wholesale book as quickly as possible (at the right valuations). The company utilized gain from sale of MF business for one-time exceptional provisions of ~Rs 26.9bn, to enable accelerated sell-down of wholesale book accounting for certain illiquidity premium that can arise from the sale. We believe that if management can achieve Lakshya goals and continue to show strong growth in retail book, there can be re-rating in the stock. Maintain 'BUY'.

Earnings beat led by better NIM/NII and lower tax: LTFH's Q3FY23 earnings (PAT at Rs4.5bn) stood above our estimates (PLe: Rs3.9bn), on account of better NIM aided by better yields and lower taxes. NII at Rs 19.3bn stood above our estimates [vs. PLe of Rs17.0bn] growing 13.3%QoQ and 23.5%YoY due to strong loan growth in retail segment and better yields. PPoP at Rs 10.4bn grew by 9.2% QoQ and 18% YoY [vs. PLe of Rs9.1bn] on account of better than expected yields, leading to strong NII growth. Provisions at Rs 4.4bn saw 9.4% QoQ growth standing higher than our estimates [vs PLe: Rs3.8n]. GNPA was stable on a QoQ basis at 4.21% vs 4.02% in the previous quarter.

9.5% QoQ growth in retail loans with 19% QoQ growth in consumer loans; Loan book at Rs 884bn de-grew 2.8%QoQ and grew 3.4%YoY. It stood below our expectation of Rs 909bn, on account of quicker run down of wholesale book. Rural book saw strong growth of 8% QoQ, supported by 10% QoQ growth in micro loans and 8% QoQ growth in 2 wheeler loans. Strong 19% QoQ growth was seen in consumer loans. Company achieved highest ever quarterly retail disbursement (Rs 116 bn) up 14% QoQ; retail business at Rs 570bn now forms 64% of portfolio up from 58% in Q2FY23. 6% QoQ growth achieved in home loans including LAP is a strong positive. LAP portion saw a 0.75% QoQ de-growth. Calculated NIM improved to 8.66% vs 7.63% in Q2'23 due to higher retailisation of loan book as yields improved to 13.98% vs 13.25% in Q2'23 and 12.84% in Q3'22. ROA improved to 1.66% in Q3FY23 from 1.55% in Q2FY23.

Asset Quality stable: Q3FY23 Gross Stage 3 assets came in at 4.21% (higher than our estimates of 4.00% due to faster decline in wholesale book) as compared to 4.02% in Q2FY23 and 6.69% of Q3FY22. NS3 reduced to 1.72% from 1.85% in Q2FY23 as PCR increased to 60%. LTFH is carrying additional provisions (including OTR provisions) of Rs10.4bn (1.8% of standard assets) over and above the ECL provisions.

Exhibit 1: Good set of numbers, Strong NIM and lower tax lead to PAT beat

PAT increased by 11.7% QoQ and increased by 47.1% YoY to Rs4.5bn and above our estimates [vs. PLe of Rs3.9bn] on account of lower tax outflow and beat in NII estimates

NII at Rs 19.3bn stood above our estimates [vs. PLe of Rs17.0bn] growing 13.3%QoQ and 23.5%YoY due to strong loan growth in retail segment and better yields as it rose to 13.98% in Q3'23 vs 13.25% in Q2'23. NIM's improved to 8.66% vs 7.63% in Q2'23.

Overall loans at Rs 884.1bn de-grew 2.8% QoQ and grew 3.4% YoY and stood below our estimates of Rs 909 bn on account of quicker run-down of wholesale book. Rural loans saw strong growth and grew 8% QoQ / 35% YoY, and wholesale business saw a 17% QoQ sequential de-growth. Housing Loans continued its momentum from last quarter and grew by 6% on a QoQ basis. Consumer Loans showed a strong 19% QoQ growth. Retail book saw a strong 9.5% QoQ growth to Rs 570.bn beating the 9% QoQ growth shown in Q2'23

Operating expenses at Rs 9.4bn stood above than our expectations (vs PLe of Rs 9.1bn) and increased by 17.1% QoQ.

PPoP at Rs 10.4bn grew by 9.2% on a QoQ and by 18% on a YoY basis [vs. PLe of Rs9.1bn] on account of better than expected yields leading to strong NII growth.

Provisions at Rs 4.4bn saw 9.4% growth on a QoQ basis standing higher than our estimates [vs PLe: Rs3.8n].

GNPA was stable on a QoQ basis at 4.21% vs 4.02% in the previous quarter.

Consolidated (in Rs. mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
Income Statement					
Interest income	34,325	29,708	15.5%	31,381	9.4%
Interest expense	15,007	14,066	6.7%	14,385	4.3%
NII	19,318	15,642	23.5%	16,996	13.7%
Other Income	585	1,284	-54.4%	1,193	-50.9%
Total Income	19,903	16,925	17.6%	18,189	9.4%
Staff expenses	3,718	2,632	41.2%	3,421	8.7%
Other expenses	5,693	5,402	5.4%	5,160	10.3%
Total Operating Expenses	9,411	8,035	17.1%	8,581	9.7%
Operating profit	10,493	8,891	18.0%	9,608	9.2%
Provisions	4,434	5,200	-14.7%	4,053	9.4%
PBT	6,059	3,691	64.2%	5,555	9.1%
Tax	(3,535)	1,126	-414.0%	1,952	-281.1%
PAT	9,594	2,565	274.0%	3,603	166.3%
Exceptional Items	(5,066)	514	NA	453	NA
PAT post associates/minority and exceptional item	4,528	3,079	47.1%	4,056	11.7%
Tax rate (%)	(58.3)	30.5		35.1	
CI ratio	47%	47%		47%	
Asset Quality					
GNPA (Rs m)	37,230	56,230	-33.8%	35,910	3.7%
NNPA (Rs m)	14,870	25,650	-42.0%	16,150	-7.9%
GNPA (%)	4.21	6.7	(248)	4.0	19
NNPA (%)	1.72	3.2	(145)	1.85	(13)
Coverage ratio (%)	60%	54%	6	55%	50
Balance Sheet					
Networth (excl. Preference Cap)	2,10,190	1,96,190	7.1%	2,04,310	2.9%
Loans & Advances	8,84,260	8,55,520	3.4%	9,00,980	-1.9%
Disbursements	1,31,550	99,090	32.8%	1,10,490	19.1%
Profitability Ratios					
NIM (%) Calculated	8.66	7.25	140	7.63	103
RoAE (%)	8.44	6.74	170	8.02	42

Source: Company Data, PL

Key Highlights of the Earnings Call

Retail Business:

- Retail portion of the book up to 64% from 58% last quarter moving towards goal of 90% by FY24 (earlier target was >80% by FY26). Looking forward for 25% CAGR in retail book.
- First time crossed the Rs 110bn mark in retail disbursements.
- Retail NIMs + fees to be upward of 11%.

Rural Demand:

- Rural demand is quite buoyant. Rural cash flow is expected to rise due to increased crop prices and export demand. Healthy rabi sowing and good kharif procurement seen.
- North east monsoon above expectations with water levels at sufficient levels in majority of states.

Other Business Updates:

- Improvement customer engagement by incorporating features like self-driven journey for two wheeler loans.
- Introducing rewards/referrals, utility payments etc. and building a market place app.
- Retail growth was aided with help of initiatives like 1) focus on repeat customer conversion only for our zero DPD customers, 2) exclusive customer loans for customers that were exclusive only to L&T Finance, 3) calibrated geo-strategy, 4) a best-in-class turnaround time, and 5) database credit algorithms.
- Company is looking to achieve pre-tax RoA of 4% and post-tax RoA of 3%.
- Sales of MF business is complete and capital gain realized post tax was around Rs21.6bn.
- Achieved highest ever quarterly disbursements in two-wheelers of Rs21.5bn, up 58% QoQ on the back of increased festive demand with emphasis on increasing share of premium customers.

Wholesale Finance Strategy:

- Made one-time provision of Rs26.87bn taking into account certain illiquidity discounts that can arise during run down of wholesale book.
- Based on change in business model, wholesale loan assets previously measured at amortized cost have been reclassified and measured to fair value through profit and loss as on October 1, 2022.
- Management believes that these provisions would adequately cover any downside risks of accelerated sell down and wholesale book won't need much additional provisions.

Exhibit 2: Home loans sees 9% QoQ growth, retail book sees 9% QoQ growth

Loans portfolio (Rs mn)	Q3FY23	Q3FY22	YoY gr.	Q2FY23	QoQ gr.
Micro Loans	1,74,850	1,19,550	46%	1,58,400	10%
2W Finance	87,160	73,060	19%	80,930	8%
Farm Equipment	1,24,470	1,12,100	11%	1,18,650	5%
Consumer Loans	47,190	16,960	178%	39,790	19%
Rural Business	3,86,480	3,04,710	27%	3,57,980	8%
Housing Loans/LAP	1,25,130	1,04,200	20%	1,17,700	6%
Real Estate Finance	73,620	1,16,030	-37%	91,360	-19%
Housing Business	1,98,750	2,20,230	-10%	2,09,060	-5%
Wholesale Business	2,36,480	2,91,850	-19%	2,84,610	-17%
Total Lending Business	8,84,260	8,55,520	3%	9,00,980	-2%
Loans portfolio mix					
Micro Finance	19.8	14.0	580	17.6	219
2W Finance	9.9	8.5	132	9.0	87
Farm Equipment	14.1	13.1	97	13.2	91
Rural Business	43.7	35.6	809	39.7	397
Housing Loans/LAP	14.2	12.2	197	13.1	109
Real Estate Finance	8.3	13.6	-524	10.1	-181
Housing Business	22.5	25.7	-327	23.2	-73
Wholesale Business	26.7	34.1	-737	31.6	-485
Defocused Business	7.1	4.5	255	5.5	160

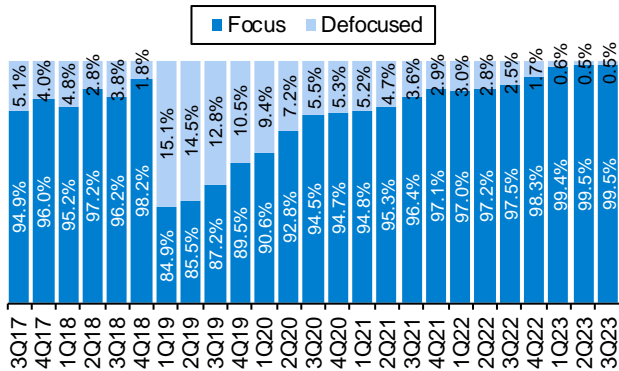
Source: Company, PL

Exhibit 3: All round growth seen in rural segment

Particulars	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23
Rural Business (key portfolios)											
AUM (Rs mn)											
2-WHEELER	63,860	67,080	70,140	71,220	68,940	69,350	73,060	74,620	74,880	80,930	87,160
YoY gr.	9%	12%	9%	8%	8%	3%	4%	5%	9%	17%	19%
QoQ gr.	-3%	5%	5%	2%	-3%	1%	5%	2%	0%	8%	8%
TRACTOR	84,030	91,910	97,040	1,02,610	1,06,820	1,10,810	112,100	1,13,170	1,15,970	1,18,650	1,24,470
YoY gr.	13%	19%	18%	22%	27%	21%	16%	10%	9%	7%	11%
QoQ gr.	0%	9%	6%	6%	4%	4%	1%	1%	2%	2%	5%
MICRO FINANCE	1,25,310	1,22,620	1,18,240	1,22,070	1,13,030	1,13,090	119,550	1,32,780	1,43,970	1,58,400	1,74,850
YoY gr.	0%	-5%	-8%	-2%	-10%	-8%	1%	9%	27%	40%	46%
QoQ gr.	0%	-2%	-4%	3%	-7%	0%	6%	11%	8%	10%	10%
Overall AUM (Rs mn)	9,88,790	9,88,230	10,00,990	9,40,140	8,84,400	8,69,360	855,520	8,65,838	8,80,780	9,00,980	8,84,260
YoY gr.	-1%	-1%	1%	-4%	-11%	-12%	-15%	-8%	0%	4%	3%
QoQ gr.	0.5%	-0.1%	1.3%	-6.1%	-5.9%	-1.7%	-1.6%	1.2%	-0.3%	2.3%	-1.9%
AUM mix (%)											
2-WHEELER	6%	7%	7%	8%	8%	8%	9%	9%	9%	9%	10%
TRACTOR	8%	9%	10%	11%	12%	13%	13%	13%	13%	13%	14%
MICRO FINANCE	13%	12%	12%	13%	13%	13%	14%	15%	16%	18%	20%
Rural as % of AUM	27.8%	28.7%	28.8%	32.0%	33.5%	33.7%	35.6%	38.4%	38.0%	39.7%	45.6%

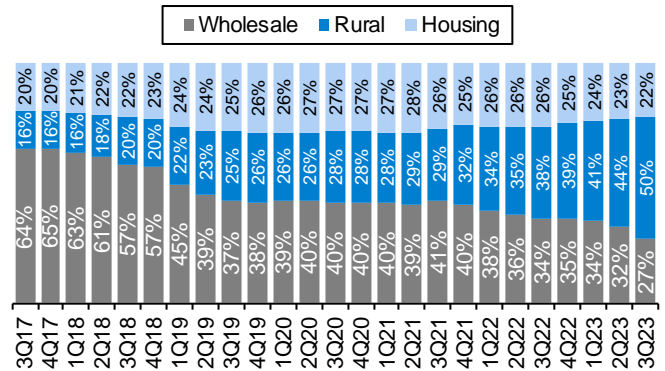
Source: Company, PL

Exhibit 4: De-focused book share on declining trend



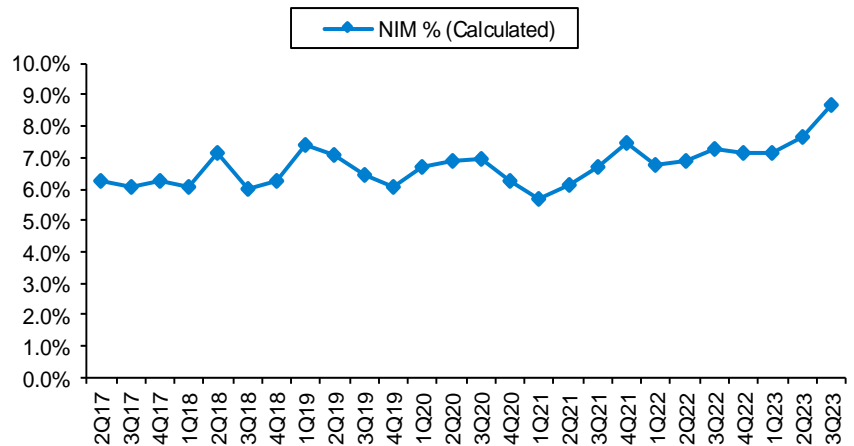
Source: Company, PL

Exhibit 5: Wholesale book saw sharp QoQ decline



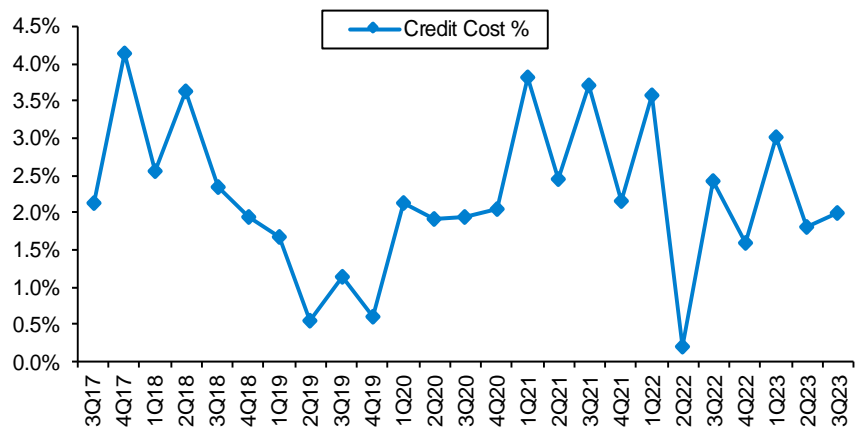
Source: Company, PL

Exhibit 6: NIM improved on a QoQ basis on retailisation of book

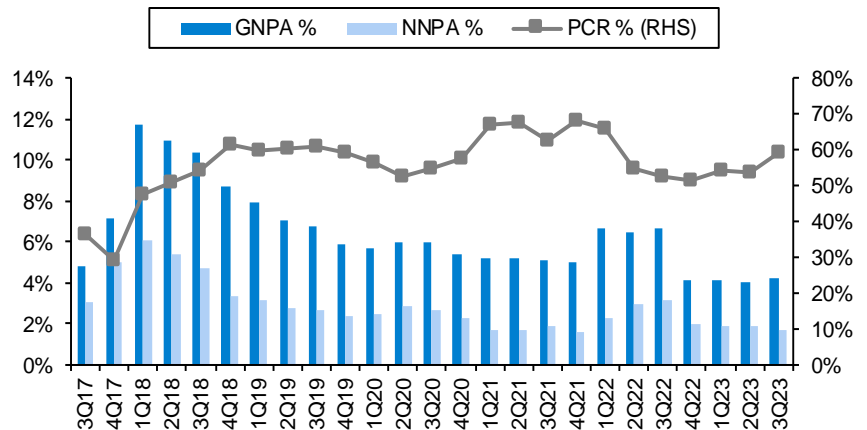


Source: Company Data, PL

Exhibit 7: Credit costs stable



Source: Company Data, PL

Exhibit 8: NPAs stable on QoQ basis


Source: Company Data, PL

Earnings Change Underlying Assumptions

Exhibit 9: Change in Estimates: NII of FY23/24/25 increased as yields revised to 13.2%/13.5%/13.5% respectively

Rs mn	Old Estimates			Revised Estimates			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	65,896	75,119	86,640	66,057	77,686	89,621	0.2%	3.4%	3.4%
Operating Profit	31,977	38,327	46,737	32,138	40,893	49,718	0.5%	6.7%	6.4%
Net Profit	14,114	19,967	25,012	14,234	21,888	27,243	0.9%	9.6%	8.9%
EPS (Rs)	5.7	8.1	10.1	5.8	8.8	11.0	0.9%	9.6%	8.9%
Price Target (Rs)		88			109			23.4	
Reco		BUY			BUY				

Source: PL

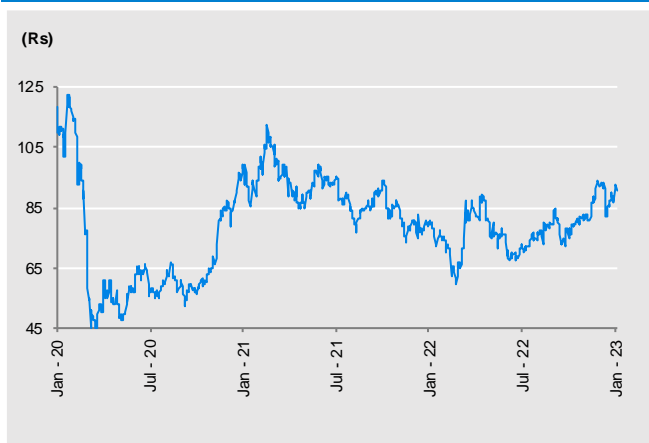
Exhibit 10: TP increased to Rs 109, Maintain "BUY" rating

PT calculation and upside	
Fair value of Consol Biz - P/ABV	109
Fair value of AMC	-
Fair value of PE/wealth management	-
Total - Fair value of LTFH	109
Target P/ABV - lending business on FY24 basis	1.3
Target P/E	12.8
Current price, Rs	95
Upside (%)	14%
Dividend yield (%)	1%
Total return (%)	15%

Source: Company Data, PL

Income Statement (Rs. m)					Quarterly Financials (Rs. m)				
Y/e Mar	FY22	FY23E	FY24E	FY25E	Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Opt. Inc.	1,19,297	1,32,544	1,54,237	1,73,022	Int. Inc. / Operating Inc.	29,468	29,884	31,381	34,325
Interest Expenses	57,538	66,486	76,551	83,401	Income from securitization	-	-	-	-
Net interest income	61,759	66,057	77,686	89,621	Interest Expenses	13,923	14,132	14,385	15,007
Growth(%)	2.2	7.0	17.6	15.4	Net Interest Income	15,545	15,752	16,996	19,318
Non-interest income	3,939	5,317	5,530	5,751	Growth (%)	(13.9)	2.0	12.3	23.5
Growth(%)	(53.0)	35.0	4.0	4.0	Non-Interest Income	1,204	1,474	1,193	585
Net operating income	65,698	71,374	83,216	95,372	Net Operating Income	16,749	17,226	18,189	19,903
Expenditures					Growth (%)	(15.3)	7.2	14.0	17.6
Employees	10,948	11,824	12,770	13,792	Operating expenditure	9,015	7,495	8,581	9,411
Other Expenses	24,403	26,355	28,463	30,740	PPP	7,734	9,731	9,608	10,493
Depreciation	1,026	1,057	1,089	1,122	Growth (%)	-	-	-	-
Operating Expenses	35,351	38,179	41,233	44,532	Provision	3,543	6,663	4,053	4,434
PPP	29,320	32,138	40,893	49,718	Exchange Gain / (Loss)	-	-	-	-
Growth(%)	(31.0)	9.6	27.2	21.6	Profit before tax	4,191	3,068	5,555	6,059
Provisions	17,092	16,096	14,624	16,292	Tax	1,289	851	1,952	(3,535)
Profit Before Tax	12,229	16,042	26,270	33,426	Prov. for deferred tax liability	-	-	-	-
Tax	3,736	1,808	4,382	6,183	Effective Tax Rate	30.8	27.7	35.1	(58.3)
Effective Tax rate(%)	30.6	11.3	16.7	18.5	PAT	2,902	2,217	4,056	4,528
PAT	10,492	14,234	21,888	27,243	Growth	9	71	135	47
Growth(%)	10.6	35.7	53.8	24.5	AUM	8,83,410	8,80,780	9,00,980	8,84,260
					YoY growth (%)	(6.0)	(0.4)	3.6	3.4
					Borrowing	8,52,368	-	-	-
					YoY growth (%)	(3.7)	-	-	-
					Key Ratios				
					Y/e Mar	FY22	FY23E	FY24E	FY25E
					CMP (Rs)	95	95	95	95
					EPS (Rs)	3.4	5.8	8.8	11.0
					Book value (Rs)	80.6	85.1	93.9	104.5
					Adj. BV(Rs)	74.5	79.3	87.8	98.5
					P/E(x)	27.7	16.5	10.8	8.6
					P/BV(x)	1.2	1.1	1.0	0.9
					P/ABV(x)	1.3	1.2	1.1	1.0
					DPS (Rs)	1.7	1.7	1.7	1.7
					Dividend Payout Ratio(%)	59.7	35.6	23.2	15.4
					Dividend Yield(%)	1.8	1.8	1.8	1.8
					Asset Quality				
					Y/e Mar	FY22	FY23E	FY24E	FY25E
					Gross NPAs(Rs m)	57,201	60,061	64,866	70,055
					Net NPA(Rs m)	21,658	20,494	21,643	22,759
					Gross NPAs to Gross Adv.(%)	3.8	3.6	3.5	-
					Net NPAs to net Adv.(%)	2.0	1.7	1.7	1.7
					NPA coverage(%)	62.1	65.9	66.6	67.5
					Du-Pont as a % of AUM				
					Y/e Mar	FY22	FY23E	FY24E	FY25E
					NII	5.6	5.7	6.0	6.5
					NII INCL. Securitization	5.6	5.7	6.0	6.5
					Total income	6.0	6.2	6.4	6.9
					Operating Expenses	3.3	3.4	3.3	3.3
					PPOP	2.7	2.8	3.1	3.6
					Total Provisions	1.6	1.4	1.1	1.2
					RoAA	0.8	1.2	1.7	2.0
					Avg. Assets/Avg. net worth	5.9	5.7	5.0	5.0
					RoAE	4.6	6.9	8.4	9.9
					Source: Company Data, PL Research				

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	88	87
2	25-Oct-22	BUY	88	80
3	06-Oct-22	BUY	88	77
4	21-Jul-22	BUY	88	71
5	07-Jul-22	Hold	88	70
6	04-May-22	Hold	88	85
7	12-Apr-22	Hold	88	84
8	24-Jan-22	Reduce	71	73

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	5,980
2	Cholamandalam Investment and Finance Company	BUY	792	668
3	L&T Finance Holdings	BUY	88	87
4	Mahindra & Mahindra Financial Services	Hold	230	234
5	Manappuram Finance	BUY	144	119
6	Muthoot Finance	BUY	1,431	1,068
7	SBI Cards and Payment Services	Accumulate	1,013	775
8	Shriram Finance	BUY	1,521	1,294

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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