

# Retail Equity Research

## L&T Finance Holdings Ltd.

NBFC

BSE CODE: 533519

NSE CODE: L&TFH

Bloomberg CODE: LTFH:IN

SENSEX: 61,046

**BUY**

12 Months Investment period

Rating as per Mid cap

CMP Rs. 95

TARGET Rs. 110

RETURN 16% ↑

(Closing 18-01-23)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

### Jettisoning of non-core businesses gains pace

L&T Finance Holdings Ltd (LTFH) offers financial products and services in the corporate, infrastructure and retail finance spaces, as well as fund products and investment services.

- In Q3FY23, the company's net interest margin (NIM) + fees margin improved to 8.80% on account of highest ever quarterly retail disbursement and prudent asset-liability (ALM) management.
- Retail mix stood at 64% vis-à-vis 58% in Q2FY23 and 50% in Q3FY22.
- The company also accelerated the sell-off of the wholesale and other non-core businesses.
- Increased retail push will drive growth over the long term, supported by yield improvement owing to rising policy rates. Maintaining a positive outlook on the company's long-term performance, we retain our BUY rating on the stock with a rolled forward target price of Rs. 110 based on 1.1x FY25E BVPS.

### NII and NIM rises; asset quality impacted, though

LTFH's interest income grew 7.6% QoQ for Q3FY23 (+15.6% YoY) to Rs. 3,322cr and interest expense rose 4.3% QoQ (+6.7% YoY) to Rs. 1,501cr, delivering stable net interest income (NII) of Rs. 1,821cr, up 10.5% QoQ (+24.1% YoY). NIM + fee margin improved 37bps QoQ (+70bps YoY) to 8.80%, mainly owing to increased retail business momentum and prudent ALM management. However, weighted cost of borrowing rose as rate hikes resulted in higher cost of incremental debt and repricing of floating rate liabilities. Reported profit after tax, though, rose 11.6% QoQ to Rs. 454cr, (+39.2% YoY). As a result, RoE rose 100bps QoQ (+374bps YoY) to 14.97%. GNPA deteriorated 19bps QoQ to 4.21%, however NNPA saw an improvement at 1.72%, from 1.85% in Q2FY23.

### Retail focus accelerated in Q3FY23

LTFH reported faster-than-expected quarterly retail disbursements in Q3FY23 owing to increased festive demand, and improved network and channel penetration. Overall disbursements grew by 13% QoQ (+53% YoY) to Rs. 11,607cr, also supported by steady build up in SME disbursement. The retail portfolio mix is now at 64%, a rise from 58% in Q2FY23 and 50% in Q3FY22. As part of its 'Lakshya 26' goals, LTFH plans to grow its retail business to >80% of the balance sheet and >25% CAGR for the Retail business.

### Key highlights

- Collection efficiency was strong at 91.9% across the retail business through on-the-ground efforts and data analytics-based resource allocation.
- During the quarter, the company concluded the sale of its mutual fund business (L&T Investment Management Ltd) to HSBC AMC, for which it posted gains of Rs. 2,608cr in its financial results as profit from discontinued operations.
- Under its 'Lakshya 2026' strategy, LTFH is aiming to achieve NPA targets of GS3 <3% and NS3 <1%, with expected return on asset of 2.8-3.0% by FY26.

### Outlook and valuation

LTFH's long-term growth is promising, with continued focus and steady progress on retailisation, along with its strategy of exiting non-core businesses. Prudent ALM management has helped keep costs under control as well, while increase in policy repo rates should help improve yields hereon. The accelerated sell down of its wholesale business and focus on rapidly scaling the high margin retail portfolio should aid NIM positively in the future. With an optimistic view, we maintain our BUY rating on the stock with a rolled forward target price of Rs. 110 based on 1.1x FY25E BVPS.

### Company Data

Market Cap (cr)	Rs. 23,579
Outstanding Shares (cr)	247.8
Free Float	30.0%
Dividend Yield	0.0%
52 week high	Rs. 98
52 week low	Rs. 59
6m average volume (cr)	0.1
Beta	1.5
Face value	Rs. 10

Shareholding %	Q1FY23	Q2FY23	Q3FY23
Promoters	66.2	66.2	66.2
FII's	6.7	6.8	7.2
MFs/Insti	5.3	5.3	10.1
Public	14.8	21.0	15.8
Others	7.0	0.7	0.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	19.2%	31.5%	15.1%
Absolute Sensex	3.8%	12.8%	-1.1%
Relative Return*	15.4%	18.7%	16.2%

\*over- or underperformance to benchmark index



Consolidated (Rs. cr)	FY23E	FY24E	FY25E
Net Interest Income	7,242	8,086	8,977
Growth (%)	21.7	11.7	11.0
NIM (%)	7.3	7.5	7.7
Pre-provision Profit	4,841	5,428	6,051
Adj. Net Profit	1,502	1,844	2,160
Growth (%)	72.6	22.8	17.2
Adj. EPS	6.1	7.4	8.7
Growth (%)	72.6	22.8	17.2
BVPS	84.6	91.7	100.2
P/E	15.7	12.8	10.9
P/B	1.1	1.0	0.9
P/ABV	1.2	1.1	1.0
ROE (%)	5.3	8.4	9.1
ROA (%)	1.0	1.5	1.7

## Quarterly Financials (Consolidated)

	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %	9MFY23	9MFY22	YoY Growth %
Interest Income	3,322	2,874	15.6	3,086	7.6	9,354	8,785	6.5
Interest Expense	1,501	1,407	6.7	1,438	4.3	4,352	4,362	(0.2)
<b>Net Interest Income ( NII )</b>	<b>1,821</b>	<b>1,468</b>	<b>24.1</b>	<b>1,648</b>	<b>10.5</b>	<b>5,002</b>	<b>4,424</b>	<b>13.1</b>
Non-Interest Income	169	225	(24.6)	171	(1.0)	530	471	12.5
<b>Total Net Income</b>	<b>1,990</b>	<b>1,693</b>	<b>17.6</b>	<b>1,819</b>	<b>9.4</b>	<b>5,532</b>	<b>4,895</b>	<b>13.0</b>
<b>Total Income</b>	<b>3,491</b>	<b>3,099</b>	<b>12.6</b>	<b>3,257</b>	<b>7.2</b>	<b>9,884</b>	<b>9,256</b>	<b>6.8</b>
Operating Expenses	774	621	24.6	688	12.5	2,084	1,711	21.8
<b>Total Expenditure</b>	<b>2,275</b>	<b>2,028</b>	<b>12.2</b>	<b>2,127</b>	<b>7.0</b>	<b>6,436</b>	<b>6,073</b>	<b>6.0</b>
<b>Pre-Provisioning profit</b>	<b>1,216</b>	<b>1,071</b>	<b>13.5</b>	<b>1,131</b>	<b>7.5</b>	<b>3,448</b>	<b>3,184</b>	<b>8.3</b>
Provisions	610	702	(13.1)	575	6.1	1,980	2,380	(16.8)
<b>Profit Before Tax</b>	<b>606</b>	<b>369</b>	<b>64.2</b>	<b>556</b>	<b>9.1</b>	<b>1,468</b>	<b>804</b>	<b>82.7</b>
Exceptional items	(2,687)	-	n.m.	-	n.m.	(2,687)	-	n.m.
Tax	(354)	113	n.m.	195	n.m.	(73)	245	n.m.
Profit - discontinued ops	2,181	51	4144.0	45	4717.9	2,265	154	1367.6
Minority Interest	(1)	(18)	95.4	(1)	3.5	(3)	(20)	86.9
<b>Net Profit</b>	<b>454</b>	<b>326</b>	<b>39.2</b>	<b>406</b>	<b>11.6</b>	<b>1,122</b>	<b>733</b>	<b>53.0</b>
Adj.	507	(51)	n.m.	(45)	n.m.	422	(149)	n.m.
<b>Adj. Pat</b>	<b>960</b>	<b>275</b>	<b>249.7</b>	<b>361</b>	<b>165.9</b>	<b>1,544</b>	<b>579</b>	<b>166.6</b>
Adj. EPS - Diluted (Rs.)	3.9	1.1	249.1	1.5	165.9	6.2	2.3	166.2

## Business Performance

	Q3FY23	Q3FY22	YoY Growth %	Q2FY23	QoQ Growth %
Disbursements	13,155	9,909	32.8	11,049	19.1
Overall Book	88,426	85,552	3.4	90,098	(1.9)

## Change in Estimates

	Old estimates		New estimates			Change %	
Year / Rs. cr	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Net Interest Income (NII)	6,918	7,918	7,242	8,086	8,977	4.7	2.1
Net Interest Margin (%)	7.0	7.3	7.3	7.5	7.7	34bps	21bps
Pre-Provision Profit	5,787	6,651	4,841	5,428	6,051	(16.3)	(18.4)
Adj. PAT	2,130	2,540	1,502	1,844	2,160	(29.5)	(27.4)
Adj. EPS (Rs.)	8.6	10.3	6.1	7.4	8.7	(29.7)	(27.6)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Interest Income	13,105	11,704	13,857	15,323	16,891
Interest Expense	7,213	5,754	6,616	7,236	7,914
<b>Net Int. Income</b>	<b>5,892</b>	<b>5,950</b>	<b>7,242</b>	<b>8,086</b>	<b>8,977</b>
% Change	2.8	1.0	21.7	11.7	11.0
Non-Int. Income	648	619	760	849	943
<b>Net Income</b>	<b>6,541</b>	<b>6,570</b>	<b>8,002</b>	<b>8,935</b>	<b>9,919</b>
<b>Total Income</b>	<b>13,753</b>	<b>12,324</b>	<b>14,618</b>	<b>16,172</b>	<b>17,834</b>
Operating Exp.	2,816	2,658	3,161	3,507	3,869
<b>Total Exp.</b>	<b>10,029</b>	<b>8,412</b>	<b>9,776</b>	<b>10,744</b>	<b>11,783</b>
<b>Pre-Prov. Profit</b>	<b>3,725</b>	<b>3,912</b>	<b>4,841</b>	<b>5,428</b>	<b>6,051</b>
Provisions	2,689	2,689	2,747	2,858	3,039
<b>PBT</b>	<b>1,036</b>	<b>1,223</b>	<b>2,094</b>	<b>2,571</b>	<b>3,012</b>
Tax	298	374	628	771	904
Tax Rate (%)	28.7	30.6	30.0	30.0	30.0
Minority Interest	(22)	(21)	(36)	(44)	(52)
<b>Net Profit</b>	<b>971</b>	<b>1,070</b>	<b>1,080</b>	<b>1,844</b>	<b>2,160</b>
% Change	(42.9)	10.2	0.9	70.7	17.2
Adj.	(436)	(200)	422	-	-
<b>Adj. PAT</b>	<b>535</b>	<b>870</b>	<b>1,502</b>	<b>1,844</b>	<b>2,160</b>
No. of Shares (cr)	217.2	248	248	248	248
Adj. EPS (Rs.)	2.5	3.5	6.1	7.4	8.7
% Change	(75.8)	42.7	72.6	22.8	17.2
DPS (Rs.)	-	0.5	0.5	0.5	0.5

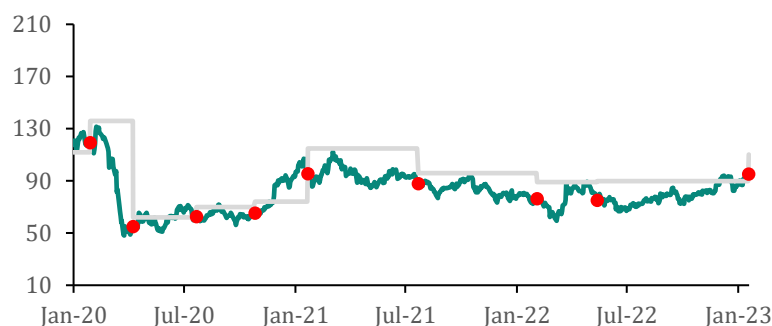
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & Balances	8,427	7,970	8,130	8,292	8,458
Investments	8,872	11,917	12,155	12,398	12,646
Advances	87,030	82,469	90,716	99,788	109,767
Fixed Assets	1,162	532	537	542	548
Other Assets	3,480	4,014	4,214	4,425	4,646
<b>Total Assets</b>	<b>108,972</b>	<b>106,902</b>	<b>115,753</b>	<b>125,446</b>	<b>136,066</b>
Capital	2,469	2,474	2,524	2,574	2,625
Reserves & Surplus	16,304	17,474	18,430	20,150	22,186
Borrowings	83,646	81,553	88,078	95,124	102,734
Other Liabilities	6,553	5,401	6,722	7,599	8,520
<b>Total Liabilities</b>	<b>108,972</b>	<b>106,902</b>	<b>115,753</b>	<b>125,446</b>	<b>136,066</b>
<b>BVPS (Rs.)</b>	<b>86.4</b>	<b>80.5</b>	<b>84.6</b>	<b>91.7</b>	<b>100.2</b>
<b>Adj. BVPS (Rs.)</b>	<b>80.1</b>	<b>73.9</b>	<b>78.7</b>	<b>85.7</b>	<b>94.0</b>
% Change	35.6	-7.8	6.6	8.8	9.6

## RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	38.9	22.9	15.7	12.8	10.9
P/BV (x)	1.1	1.0	1.1	1.0	0.9
Div. Yield (%)	0.0	0.6	0.5	0.5	0.5
<b>Profitab. &amp; Return (%)</b>					
Yield on Funds	13.6	12.3	14.1	14.3	14.4
Cost of Funds	8.4	7.0	7.8	7.9	8.0
Spread	5.2	5.3	6.3	6.4	6.4
NIM	5.7	6.4	7.3	7.5	7.7
ROE	5.8	5.5	5.3	8.4	9.1
ROA	0.9	1.0	1.0	1.5	1.7
<b>Asset Quality (%)</b>					
GNPA	5.0	3.8	4.1	3.9	3.7
NNPA	1.6	2.0	1.6	1.5	1.4
<b>Operating Ratios (%)</b>					
Cost/ Income	43.1	40.5	39.5	39.3	39.0

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
1-Nov-19	BUY	112
28-Jan-20	ACCUMULATE	136
8-Apr-20	ACCUMULATE	62
21-Jul-20	ACCUMULATE	70
26-Oct-20	ACCUMULATE	74
21-Jan-21	ACCUMULATE	115
22-Jul-21	HOLD	96
03-Feb-22	BUY	89
13-May-22	BUY	90
19-Jan-23	BUY	110

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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