Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

L&T Finance Holdings Ltd

On a firm path towards retailisation journey

NBFC	Sharekhan code: L&TFH
Reco/View: Buy ↔	CMP: Rs. 151	Price Target: Rs. 170 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- With the management's strong intent, LTFH is set to transform into a retail franchise as the company is aggressively reducing the wholesale book, while retail book has been growing at a brisk pace, supported by a favourable credit cycle.
- Management expects a modest impact of the RBI's latest revised norm of increasing 25bps risk weight for retail unsecured loans, given the low share (8% of book) and healthy capital positioning (CAR at 25%).
- Retail AUM is estimated to grow at a CAGR of 25% over FY24-26E. However, accelerated reduction in the wholesale book is expected to restrain overall AUM at a ~20% CAGR. The company expects ~15 bps increase in CoB, though strong yield on book to keep NIM at the healthy level.
- PAT is estimated to grow at 25% CAGR over FY23-26E which will drive 100 bps expansion in RoA to 2.8% by FY26E. At CMP, the stock trades at 1.4x/1.2x FY2025E/ FY2026E BV estimates.

We met with the management of L&T Finance Holdings (LTFH) to understand the business development and growth strategies. It sounded optimistic business outlook as the company is on a firm path to achieve its Lakshya 2026 targets much in advance. The company is set to transform into a retail franchise with the complete wind-down of the wholesale book by FY25E. The portfolio mix is expected to tilt towards urban by FY26E, with an enhanced focus on prime customers and products like home loans, SME Finance, and PL. The vast urban financing experience of Sudipta Roy, who will assume office in January 2024 as a new MD/CEO, will support the company to strengthen its position as a retail financier. Given healthy capital positioning, the impact of the RBI's latest norm of a 25bps increase in risk weights for the retail unsecured product is likely to remain manageable. Management expects a ~15bps increase in CoB though the impact on NIM would be offset by a healthy yield level.

- **On a firm path to turn into the retail franchise:** LTFH has consistently delivered strong growth in its retail loan book, even as it has accelerated the sell down in the wholesale book. Disbursements growth remained broadly across retail segments, including rural loans, SME, home, and PL. Management expects the portfolio mix to tilt toward urban customers gradually, while the company continues to leverage its strong positioning in the rural region with a presence in 2 lakh villages through 1,700 rural branches.
- **Retail AUM expects to post a 25% CAGR over FY24-26E:** With a deep pan-India franchise, integrating with account aggregators and analytics usages, the underwriting model has become more robust. We expect the rural mix to rise to 95% by FY24 (vs. 88% in Q2FY24) and turn 100% by FY25E. Considering the accelerated rundown in the wholesale book, we have built an estimate of a 21% CAGR in overall AUM over FY24-26E. We view the recently signed financial pact with Asian Development Bank (ADB) for $125mn to support financing in rural and peri-urban areas in India, particularly for women borrowers.
- **Accelerating strongly towards Lakshya 2026 goals:** The company has made strong progress towards the retailisation journey under the Lakshya 2026 strategy set on April 2022. Retail loans have been growing at >30% YoY (vs. target of 25% CAGR). The retail mix rose to 88% and management has guided it to rise to 95% by FY24 (retailisation target: >80%). Retail GS3/NS3 at ~3.1/0.67% (vs. target of GS3/NS3 <3%/1%) and generating ROA of >3% (vs. Lakshya 2026 target of 2.8-3.0%).

Our Call

Valuation: Maintain Buy with a revised PT of Rs. 170: At the CMP, the stock trades at 1.4x/1.2x its FY2025E/ FY2026E BV estimates. LTFH has set a vision to become top-class digitally-enabled retail finance company moving from 'product-focused' to 'customer-focused' approach. We view LTFH is well on track, in line with Lakshya 2026 to transform into the retail franchise and making strong progress towards its vision. As per our estimates, PAT is estimated to grow at a 25% CAGR over FY23-26E, which will drive 100bps expansion in RoA to 2.8% by FY26E.

Key Risks

Economic slowdown can lower retail growth momentum, building stress in the unsecured personal segment, and any negative development from the wholesale book front.

Valuation (consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII	5,950	6,768	7,516	8,558	10,286
Gr.	-10.7%	7.4%	5.7%	12.0%	21.1%
NIM	7.0%	8.6%	9.8%	9.7%	9.7%
C/I	34.5%	39.2%	41.6%	37.6%	33.9%
PPOP	4,306	4,559	4,900	6,257	8,034
A.PAT	1,070	1,958	2,280	2,906	3,861
AUM	88,078	80,893	84,348	1,04,961	1,24,218
RoE	5.5%	9.4%	10.2%	11.9%	14.4%
RoA	1.0%	1.8%	2.2%	2.6%	2.8%
Leverage (x)	5.6	5.1	4.6	4.7	5.1
P/E (x)	36.9	19.2	16.5	12.9	9.7
P/BV (x)	1.7	1.6	1.5	1.4	1.2

Source: Company; Sharekhan estimates

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 19.22

Updated Aug 08, 2023

Low Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 37,555 cr
52-week high/low:	Rs. 155/78
NSE volume: (No of shares)	92.0 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	81.7 cr

Shareholding (%)

Promoters	66.0
FII	12.1
DII	7.0
Others	14.9

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	19.6	42.7	64.9
Relative to Sensex	6.9	11.7	34.8	57.6

Sharekhan Research, Bloomberg

Key Takeaways from management meet

AUM Growth

Retail disbursements trend to remain healthy. AUM mix to tilt towards urban with the increased focus on prime customers and products like home loans, SME Finance, LAP and personal loans. The company continue to leverage its strong presence in the rural regions. It has presence in 2 lakh villages through 1,700 rural branches.

Management sees minimal impact of the RBI's revised norms of increasing 25bps weight for unsecured retail products due to healthy capital position, low proportion of the unsecured book, and strong earnings trajectory. The company expects a ~60bps impact on CAR due to the RBI's revised norms.

NIM

CoB may increase by 15bps in the near term. Meanwhile, higher yield level (as the low-yielding wholesale book is winding down) is likely to offset margin impact.

Fee Income

Management expects fee income to remain healthy, which will support PPOP.

Opex

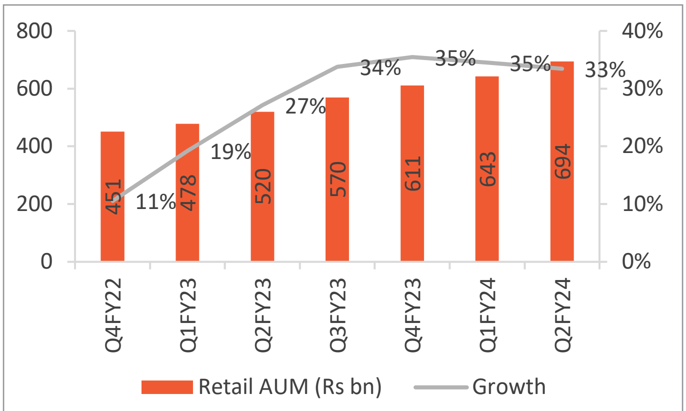
Management expects C/I ratio to remain higher in the near term due to increased spending on digital infra.

Assets Quality

The company has created macroprudential provisions buffers of ~Rs. 13 bn, which presents healthy cushion against future uncertainties.

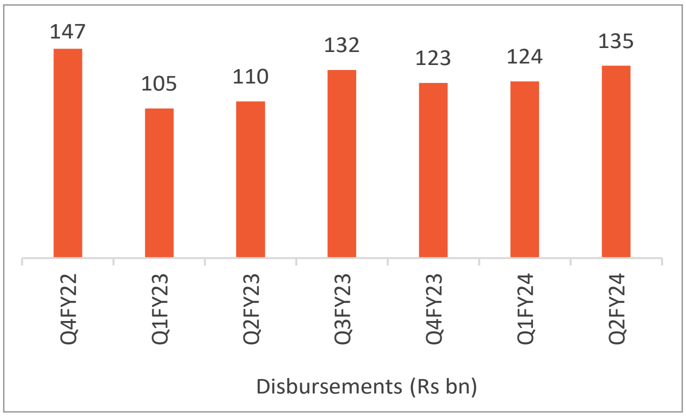
Moderation in credit cost is expected to continue, aided by strengthening of underwriting practices and a strong collection team.

Trend in retail AUM



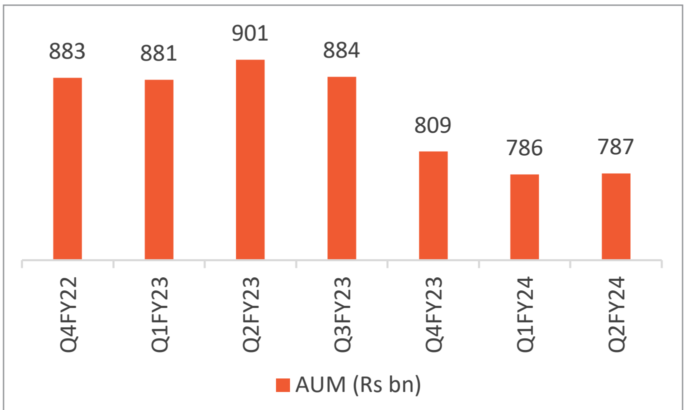
Source: Company, Sharekhan Research

Trend in disbursements



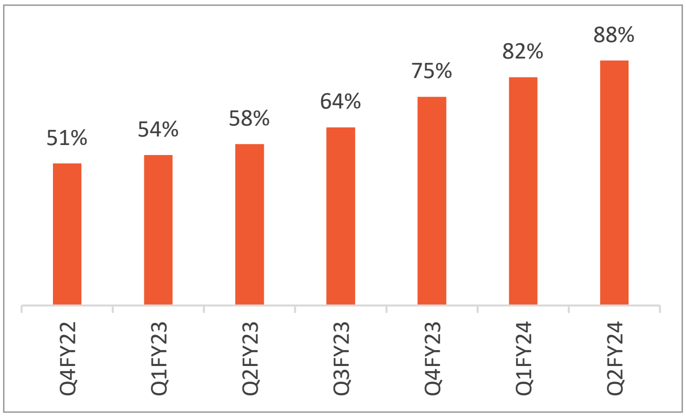
Source: Company, Sharekhan Research

Trend in Overall AUM



Source: Company, Sharekhan Research

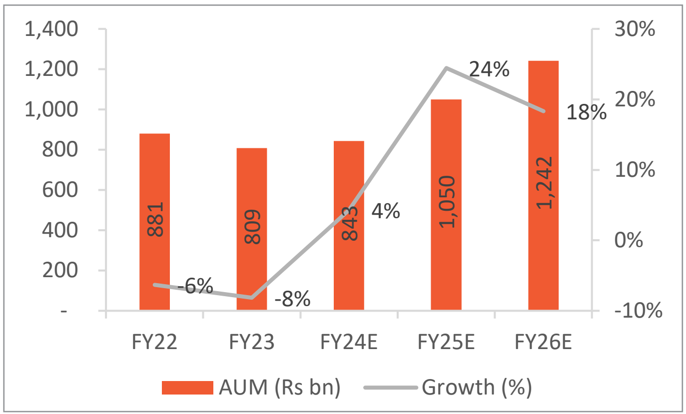
Trend in the retail mix in the book



Source: Company, Sharekhan Research

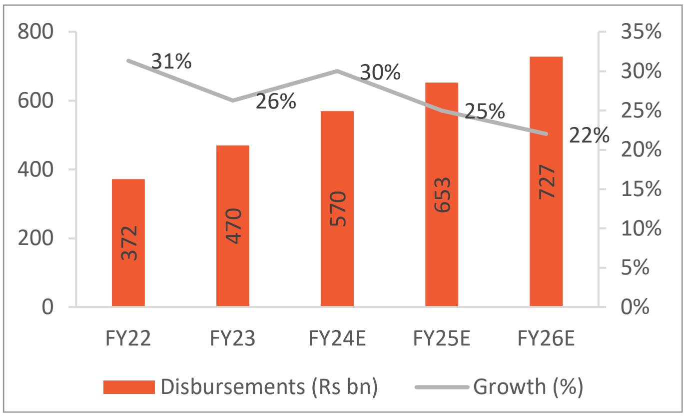
Financials in charts

Trend in AUM Growth



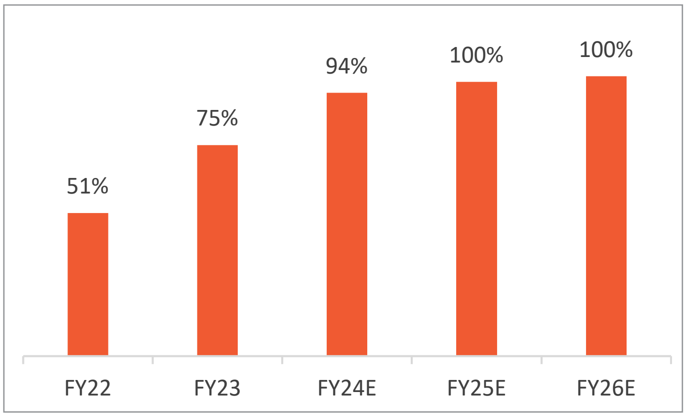
Source: Company, Sharekhan Research

Trend in Disbursements Growth



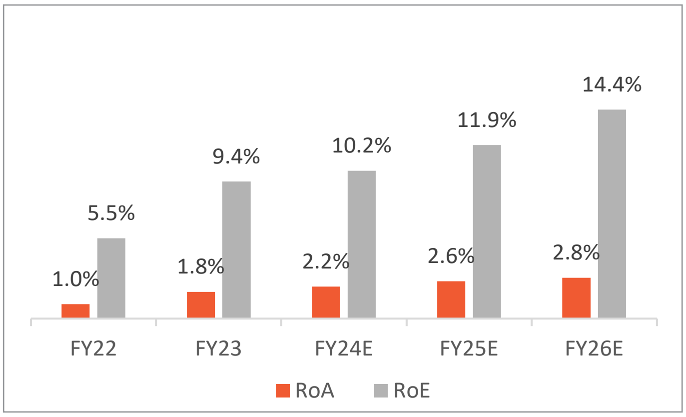
Source: Company, Sharekhan Research

Trend of Retail mix in AUM



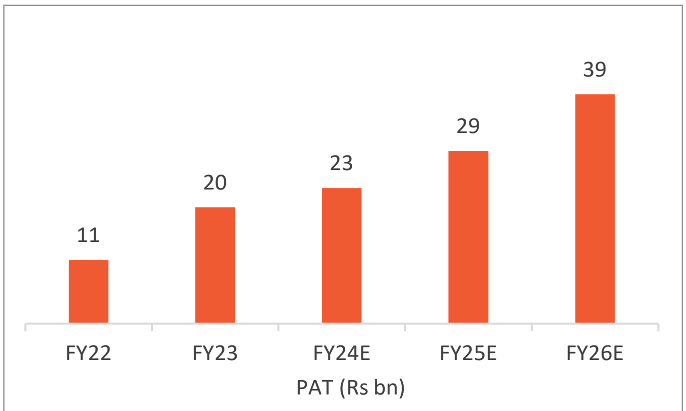
Source: Company, Sharekhan Research

Trend in return ratios



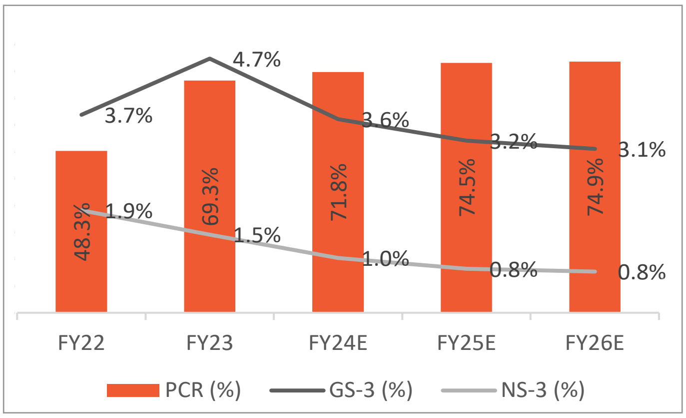
Source: Company, Sharekhan Research

Trend in profitability



Source: Company, Sharekhan Research

Trend in Assets Quality



Source: Company, Sharekhan Research

Outlook and Valuation

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

Retail loan growth remains robust, led by a favourable credit cycle. 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.

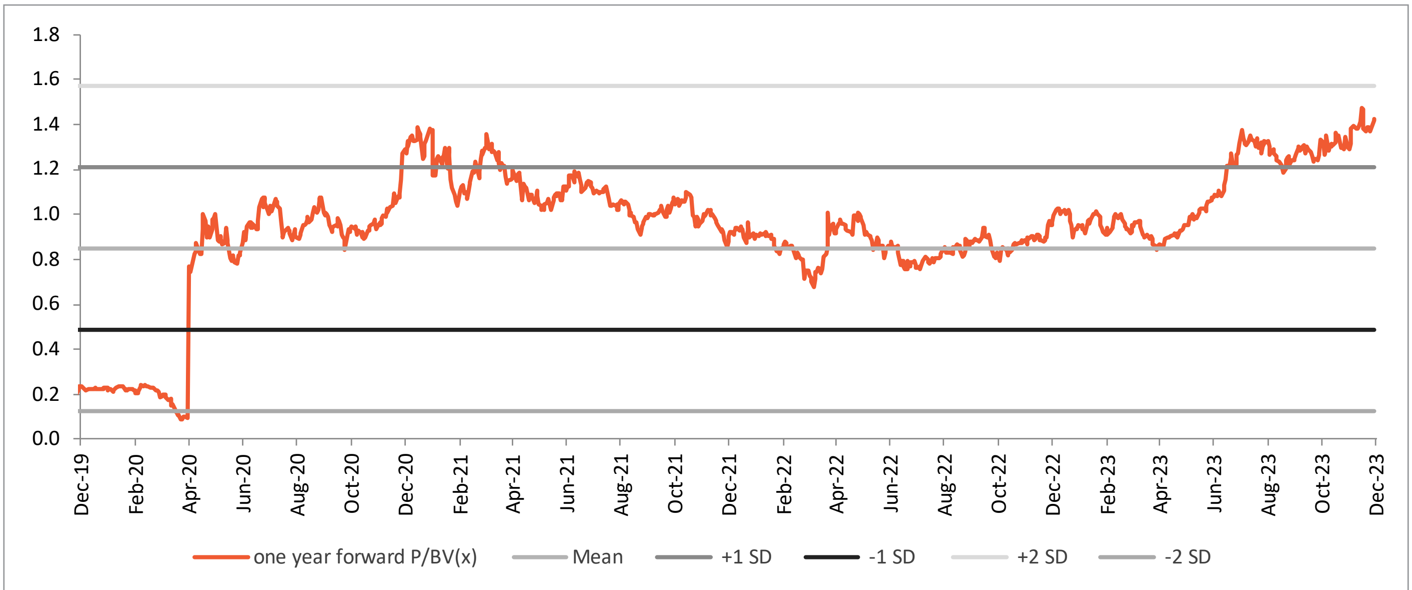
■ Company outlook - Improving business outlook

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, upselling 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 - Maintain Buy with a revised PT of Rs. 170

At the CMP, the stock trades at 1.4x/1.2x its FY2025E/ FY2026E BV estimates. LTFH has set a vision to become top-class digitally-enabled retail finance company moving from 'product-focused' to 'customer-focused' approach. We view LTFH is well on track, in line with Lakshya 2026 to transform into the retail franchise and making strong progress towards its vision. As per our estimates, PAT is estimated to post a 25% CAGR over FY2023-FY2026E, which will drive 100bps expansion in RoA to 2.8% by FY2026E.

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	151	37,555	16.5	12.9	1.5	1.4	10.2	11.9	2.2	2.6
M&M Finance	274	33,829	20.0	12.8	2.0	1.8	9.9	14.5	1.6	2.1

Source: Company; Sharekhan Research

About company

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

Investment theme

LTFH has strategically realigned 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 the 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	BNP Paribas SA	3.56
3	ICICI Prudential Life Insurance Co	1.96
4	Life Insurance Corp of India	1.95
5	Vanguard Group	1.34
6	Govt Pension Fund - Global	1.05
7	BlackRock Inc.	0.51
8	DSP Investments Managers	0.48
9	Dimensional Fund Advisors	0.33
10	SBI Funds Managements	0.33

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

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

---

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

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