

BUY **L&T Finance Holdings****Past the inflection point; upgrade to BUY**

BFSI - NBFCs ▶ Company Update ▶ January 2, 2024

TARGET PRICE (Rs): 190

Subsequent to discontinuing its painful “focused-defocused segments” strategy, LTFH is on the brink of completing the successful execution of its ‘Lakshya 2026’ led retailization plan. Now, its retail assets comprising of over 90% of the loan book, its sustainable moats in Rural, 2W and Farm Equipment segments, and a strong balance sheet with material macro-prudential provisions and a prudent asset valuations buffer give enough comfort on sustained profitable growth. Against this backdrop, Sudipta Roy—a seasoned retail lending professional with a strong tech & analytics bent—taking over as CEO shores up LTFH’s endeavor towards achieving consolidated RoA of 3% in FY26E & beyond, with the established retail business firing on all cylinders and given some optionality from Company’s entry into adjacencies such as cards, micro-LAP, and gold loans. We marginally tweak our FY24-26 estimates and upgrade the stock to BUY from Reduce, with revised Dec-24E TP of Rs190/sh (up from the earlier Sep-24E TP of Rs155), implying FY25E P/B of 1.8x.

L&T Finance Holdings: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profits	8,492	15,365	25,046	31,019	38,367
AUM growth (%)	(6.0)	(8.5)	6.6	22.2	20.4
NII growth (%)	0.8	13.7	10.9	19.4	21.3
NIMs +Fee (%)	7.2	8.9	10.3	10.7	10.7
PPOP growth (%)	(12.2)	72.1	(27.5)	22.2	25.7
Adj. EPS (Rs)	4.3	6.5	10.2	12.6	15.5
Adj. EPS growth (%)	(3.5)	51.4	55.3	23.7	23.5
Adj. BV (INR)	80.5	86.7	94.7	104.1	115.0
Adj. BVPS growth (%)	(7.0)	7.7	9.3	9.9	10.4
RoA (%)	1.0	1.5	2.4	2.8	3.1
RoE (%)	5.5	7.8	11.2	12.6	14.2
P/E (x)	37.6	24.8	16.0	12.9	10.5
P/ABV (x)	2.0	1.9	1.7	1.6	1.4

Source: Company, Emkay Research

Choppy past, stable present, and likely fitter future

LTFH’s tryst with wholesale lending, including infra financing, real-estate loans, and structured finance, was full of disappointments owing to its forgettable “focused-defocused segments” strategy implemented through many years. However, execution of its ‘Lakshya 2026’-led retailization plan is considerably impressive, with most goals targeted to be achieved much before FY26. On this journey towards establishing itself as a retail lender, the company has built sustainable moats around its key segments of rural financing, 2-wheeler financing, and farm equipment financing. Rural Financing and 2W Financing are LTFH’s customer-acquisition funnels that will enable it to cross-sell and upsell its other existing & upcoming products. With a well-versed retail lending professional like Sudipta Roy (has an established track record of leveraging tech and data analytics) at its helm, we expect the company to register strong growth in cross-selling and upselling as well as in the adjacency-led product diversification in areas such as co-branded cards (with aim to bag urban customers) and micro-LAP & gold loans (to onboard semi-urban and rural customers).

Strong margins, provisioning buffer give comfort on sustainable RoA of ~3%

LTFH’s core retail segments—Rural & Farm Finance, 2W financing, Farm Equipment financing—are cyclical in nature; however, stronger segmental yields allow LTFH to be conservative on credit cost provisioning and hence have the wherewithal to overcome such cyclicity. The company has built sustainable moats in these segments over the years, and diversification to newer business segments will be driven by adjacencies, cross-selling opportunities and loan-book stability. Of its existing products, Home Loan and LAP fit in the loan-book stability criterion. Currently, LTFH is maintaining ~Rs11.7bn of macro-prudential provisioning in its retail book; also, there is possibility of some provisions in the wholesale book remaining unutilized for now. Going forward, the reducing drag from non-interest bearing SRs, a growing balance sheet delivering some operating leverage, and a stable over-the-cycle credit cost of ~2% will help LTFH achieve ~3% consolidated RoA by FY26E.

Minor tweak to our estimates; upgrade to BUY with Dec-24E TP of Rs190/sh

We revise our estimates to factor in the accelerated rundown of the wholesale book and further realization of SR receivables in FY25 and FY26 leading to reduced investments in the book. With the established retail business delivering a robust performance, the reduction in drag from the wholesale book continuing and the optionality from expansion into adjacent retail lending products under the leadership of Mr. Roy make a strong investment case for LTFH. We upgrade LTFH to BUY from Reduce, with revised Dec-24E TP of Rs190/share (from the earlier Sep-24E TP of Rs155), implying FY25E P/B of 1.8x.

Target Price – 12M	Dec-24
Change in TP (%)	22.6
Current Reco.	BUY
Previous Reco.	REDUCE
Upside/(Downside) (%)	17.0
CMP (02-Jan-24) (Rs)	162.4

Stock Data	Ticker
52-week High (Rs)	166
52-week Low (Rs)	79
Shares outstanding (mn)	2,487.6
Market-cap (Rs bn)	404
Market-cap (USD mn)	4,847
Net-debt, FY24E (Rs mn)	7,763
ADTV-3M (mn shares)	10
ADTV-3M (Rs mn)	1,470.9
ADTV-3M (USD mn)	17.7
Free float (%)	-
Nifty-50	21,666
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	66.0
FPIs/MFs (%)	12.1/7.0

Price Performance

(%)	1M	3M	12M
Absolute	7.5	22.0	80.7
Rel. to Nifty	0.6	10.6	51.0

1-Year share price trend (Rs)**Avinash Singh**

avinash.singh@emkayglobal.com
+91 22 6612 1327

Kishan Rungta

kishan.rungta@emkayglobal.com
+91 22 6624 2490

Exhibit 1: Change in estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
AUM	862,567	862,567	0.0%	1,055,879	1,054,274	-0.2%	1,302,782	1,269,157	-2.6%
Disbursement	553,250	553,250	0.0%	678,424	676,819	-0.2%	826,986	812,560	-1.7%
Disbursement growth (%)	17.8	17.8	0bps	22.6	22.3	-29bps	21.9	20.1	-184bps
AUM growth (%)	6.6	6.6	0bps	22.4	22.2	-19bps	23.4	20.4	-300bps
Networth	237,090	235,480	-0.7%	261,970	258,895	-1.2%	292,722	285,892	-2.3%
Net interest income	74,252	75,044	1.1%	87,609	89,626	2.3%	108,549	108,706	0.1%
PPOP	52,950	53,742	1.5%	63,668	65,668	3.1%	82,586	82,575	0.0%
PAT	24,457	25,046	2.4%	27,932	31,019	11.1%	34,571	38,367	11.0%
EPS (Rs)	9.9	10.2	2.4%	11.3	12.6	11.0%	14.0	15.5	10.9%
BV (Rs)	95.3	94.7	-0.7%	105.3	104.1	-1.2%	117.7	115.0	-2.3%
NIM (%)	8.9	9.0	9bps	9.1	9.4	22bps	9.2	9.4	15bps
NIMs + Fess (%)	10.33	10.33	0bps	10.5	10.7	22bps	10.5	10.7	16bps
Cost-to-income (%)	38.1	37.7	-35bps	36.7	36.0	-72bps	33.6	33.6	0bps
Credit Costs (%)	2.40	2.40	0bps	2.7	2.5	-22bps	3.1	2.7	-39bps
ROA (%)	2.3	2.4	13bps	2.3	2.8	49bps	2.4	3.1	63bps
ROE (%)	10.9	11.2	30bps	11.3	12.6	136bps	12.5	14.2	162bps

Source: Company, Emkay Research

Exhibit 2: Valuation

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV			P/E			RoA			RoE			Book Value (Rs/sh)			Adj. EPS (Rs)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
At current market price	162.4	17.0%	403.9	1.7x	1.6x	1.4x	16.0x	12.9x	10.5x	2.4%	2.8%	3.1%	11.2%	12.6%	14.2%	94.7	104.1	115.0	10.2	12.6	15.5
AT target price	190			2.0x	1.8x	1.7x	18.7x	15.1x	12.3x	2.4%	2.8%	3.1%	11.2%	12.6%	14.2%	94.7	104.1	115.0	10.2	12.6	15.5

Source: Company, Emkay Research

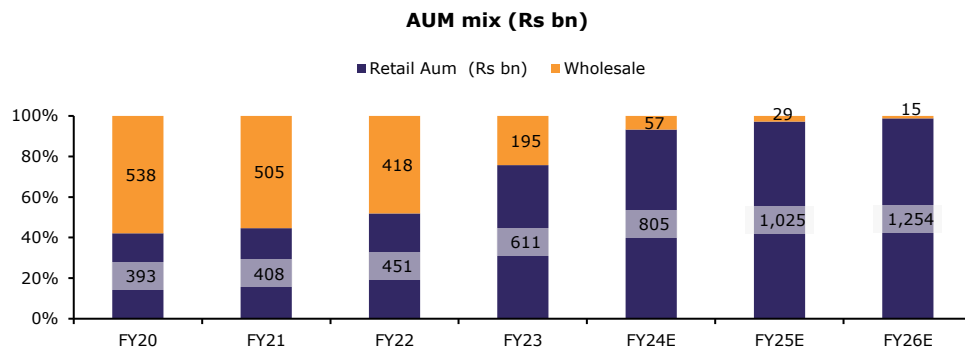
Exhibit 3: Quarterly preview

Particulars (Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E	YoY chg	QoQ chg
Income from operations	33,216	32,107	31,165	31,685	32,626	-1.8%	3.0%
Interest Expenses	15,007	14,449	13,638	13,249	13,555	-9.7%	2.3%
Net Interest Income	18,209	17,658	17,527	18,436	19,071	4.7%	3.4%
Other Income	28,025	2,068	2,603	3,135	3,581	-87.2%	14.2%
Total Income	46,234	19,726	20,130	21,572	22,652	-51.0%	5.0%
Operating Expenses	7,427	7,870	7,782	8,598	9,429	27.0%	9.7%
PPoP	38,807	11,857	12,348	12,974	13,223	-65.9%	1.9%
Provisions	33,288	5,232	5,212	5,000	4,862	-85.4%	-2.8%
Credit costs	3.1%	2.6%	2.7%	2.6%	2.4%	-70bps	-14bps
PBT	5,519	6,624	7,136	7,974	8,361	51.5%	4.9%
Tax	990	2,455	1,831	2,032	2,149	117.0%	5.8%
Tax rate	17.9%	37.1%	25.7%	25.5%	25.7%		
Profit after tax	4,529	4,169	5,305	5,942	6,212	37.2%	4.5%
Share of profit from associates/MI	8	842	4	0	0		
PAT, adjusted for one-offs	4,537	5,011	5,309	5,942	6,212	36.9%	4.5%
AUM	819,030	764,920	762,490	783,730	807,794	-1.4%	3.1%
Disbursement	116,090	112,820	111,920	134,980	140,058	6.5%	2.3%
Networth	208,872	215,284	220,596	221,854	228,067	9.2%	2.8%
GS3	4.2%	4.7%	4.0%	3.3%	3.3%	-96bps	-2bps
NS3	1.7%	1.5%	1.2%	0.8%	1.2%	-55bps	35bps
PCR	60.1%	69.3%	71.4%	75.7%	65.0%	494bps	-1065bps

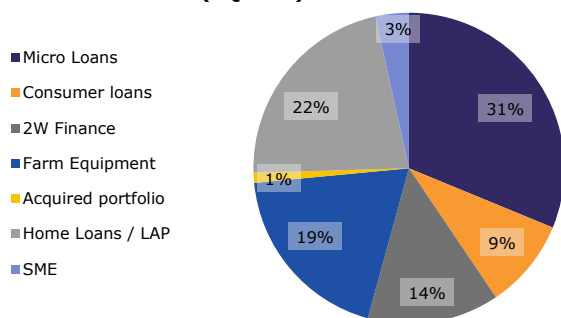
Source: Company, Emkay Research

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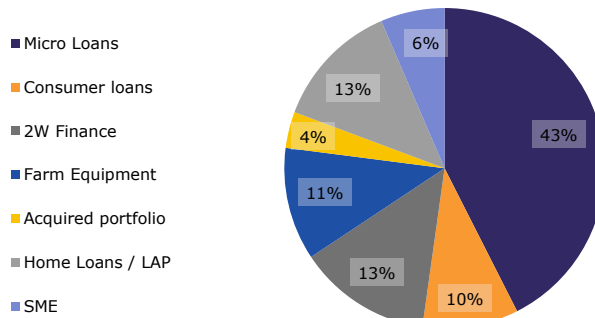
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Exhibit 4: Retail book as of Q2FY24 stood at 89%; expected to reach ~93% by end-FY24E

Source: Company, Emkay Research

Exhibit 5: Diversified product mix**Retail AUM mix (2QFY24)**

Source: Company, Emkay Research

Exhibit 6: Micro loans have dominant positioning in the disbursement mix**Retail Disbursement mix 2QFY24**

Source: Company, Emkay Research

Exhibit 7: Borrowing mix

Borrowing Mix	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Term Loan	43%	46%	48%	50%	53%	52%
NCD	45%	44%	42%	38%	37%	37%
LOC/CC/WCL/STL	0%	0%	0%	0%	0%	0%
CP	8%	7%	7%	9%	2%	6%
Others	4%	3%	3%	3%	8%	5%

Source: Company, Emkay Research

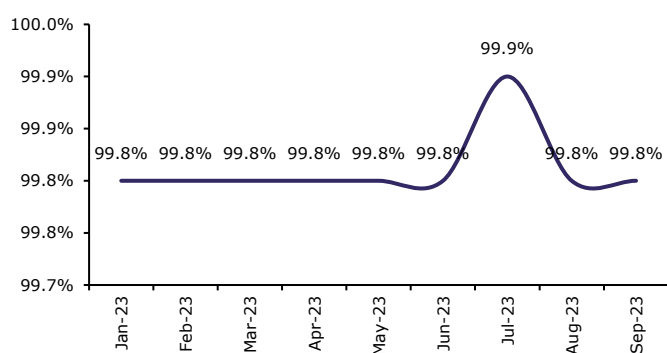
Exhibit 8: Strong collection efficiency leading to stable credit cost and asset quality.

Collection Efficiency	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Rural Finance	99.8%	99.8%	99.8%	99.8%	99.8%	99.8%	99.9%	99.8%	99.8%
Farmer Finance	91.4%	91.1%	93.6%	89.9%	90.6%	91.2%	91.2%	91.1%	91.9%
SME Finance	99.8%	98.9%	99.9%	99.7%	99.8%	99.7%	99.7%	99.8%	99.8%
Two Wheeler Finance	98.2%	98.1%	98.4%	97.6%	98.3%	97.9%	98.3%	98.2%	97.9%
Housing Loan	95.9%	99.6%	99.8%	99.4%	99.6%	99.8%	99.7%	99.2%	99.4%
Personal Loan	98.6%	98.8%	99.0%	98.2%	98.8%	98.8%	98.7%	98.8%	98.3%

Source: Company, Emkay Research

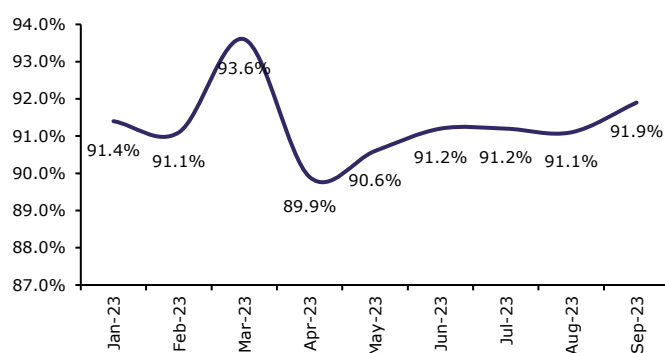
Product-wise collections efficiency:

Exhibit 9: Rural finance



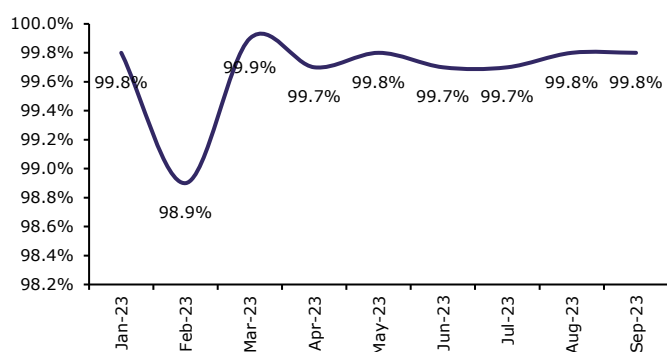
Source: Company, Emkay Research

Exhibit 10: Farmer finance



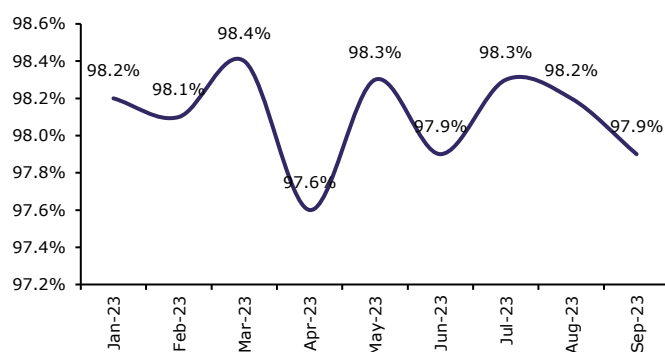
Source: Company, Emkay Research

Exhibit 11: SME finance – Urban business



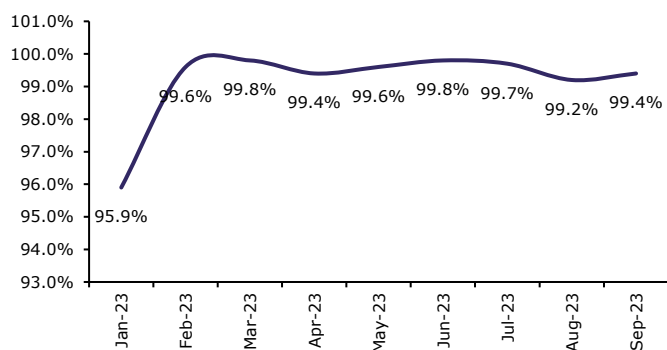
Source: Company, Emkay Research

Exhibit 12: Two-wheeler finance



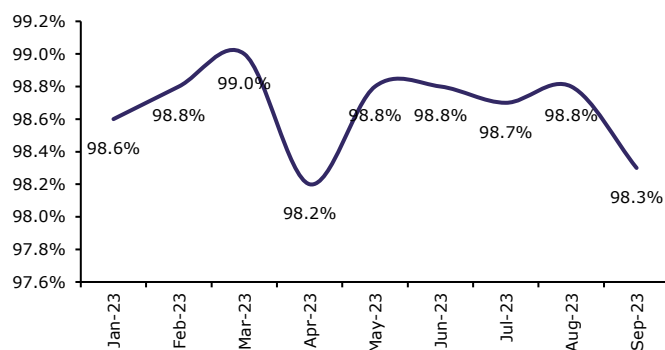
Source: Company, Emkay Research

Exhibit 13: Housing Loan



Source: Company, Emkay Research

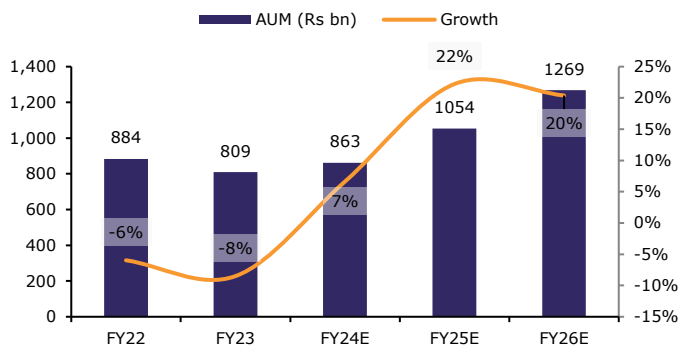
Exhibit 14: Personal Loan



Source: Company, Emkay Research

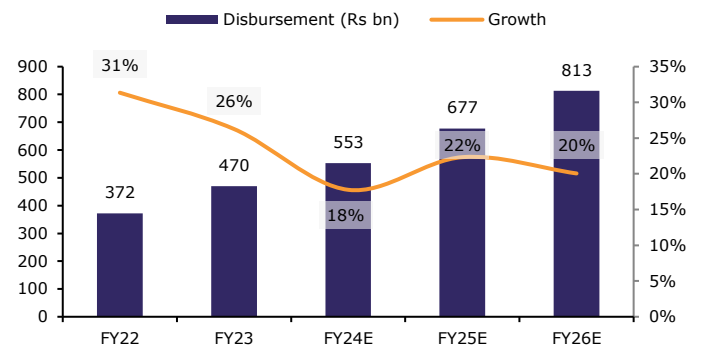
Story in charts

Exhibit 15: AUM growth led by strong retail disbursement



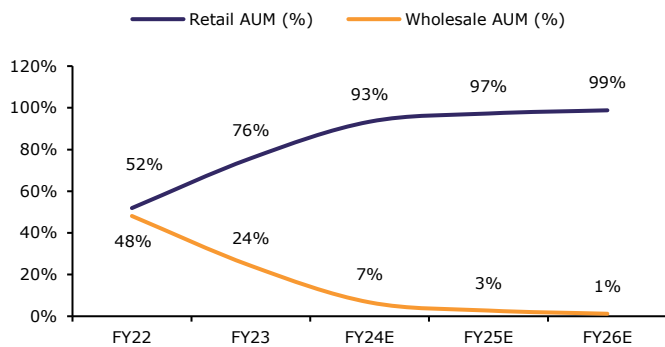
Source: Company, Emkay Research

Exhibit 16: Disbursement growth led by the retail products segment



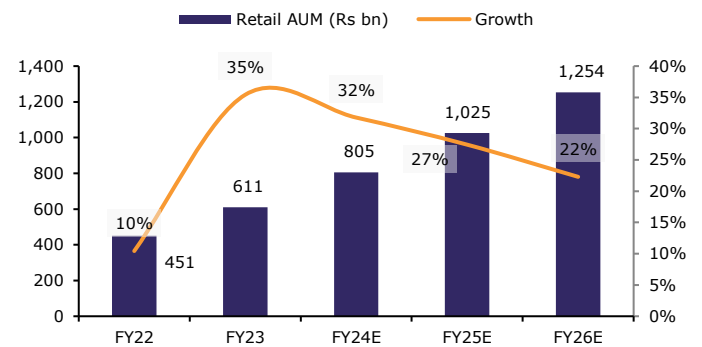
Source: Company, Emkay Research

Exhibit 17: We expect the wholesale book to run down by FY26E



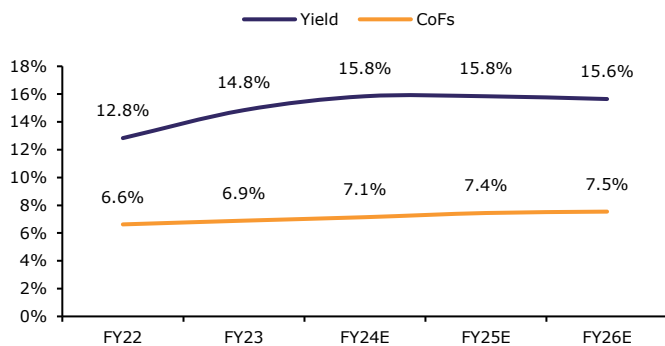
Source: Company, Emkay Research

Exhibit 18: Retail AUM CAGR expected at ~27% over FY23-26E



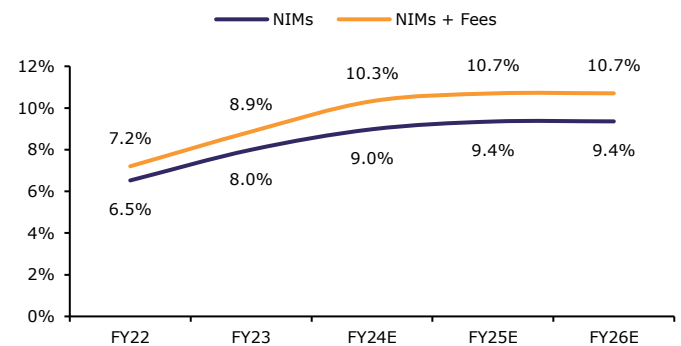
Source: Company, Emkay Research

Exhibit 19: Yield improvement led by increasing share of high-yield products

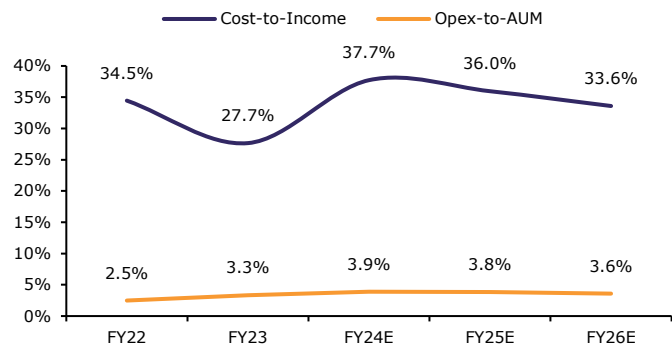


Source: Company, Emkay Research

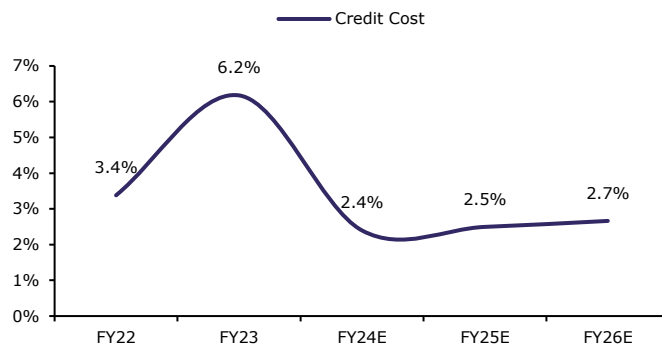
Exhibit 20: NIMs to expand on account of improving yield and stable CoF



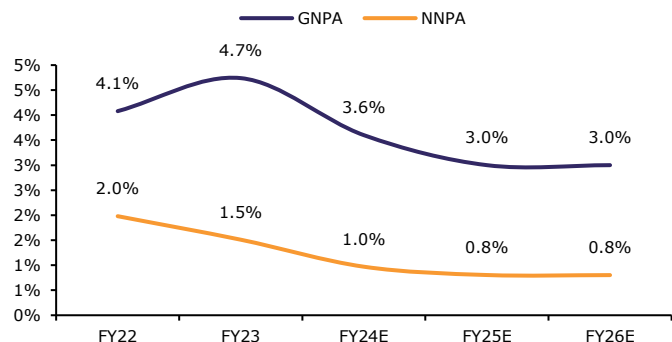
Source: Company, Emkay Research

Exhibit 21: Opex is on higher side due to greater spend on infra and tech development, and is expected to attain normalcy by FY26E

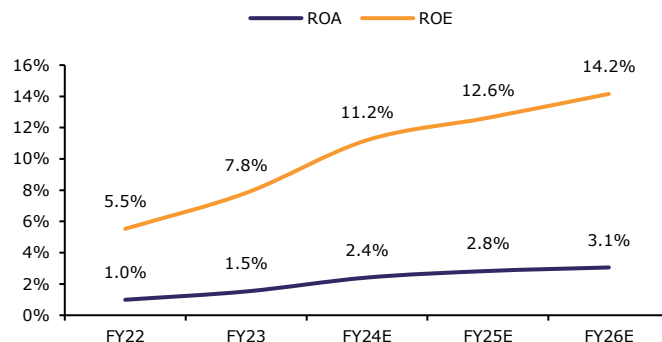
Source: Company, Emkay Research

Exhibit 22: Credit cost to stabilize and sustain at the ~2.4% level

Source: Company, Emkay Research

Exhibit 23: Asset quality improvement led by prudent underwriting and strong collection efficiency

Source: Company, Emkay Research

Exhibit 24: ROA/ROE expansion on account of improved margin and stable asset quality

Source: Company, Emkay Research

L&T Finance Holdings: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	117,042	125,651	132,416	151,853	181,739
Interest Expense	57,538	57,972	57,372	62,227	73,033
Net interest income	59,504	67,679	75,044	89,626	108,706
NII growth (%)	0.8	13.7	10.9	19.4	21.3
Non interest income	6,194	34,759	11,253	12,916	15,638
Total income	65,698	102,438	86,297	102,541	124,345
Operating expenses	22,636	28,334	32,555	36,874	41,769
PPOP	43,061	74,104	53,742	65,668	82,575
PPOP growth (%)	(12.2)	72.1	(27.5)	22.2	25.7
Provisions & contingencies	30,833	52,276	20,033	23,919	30,938
PBT	12,229	21,828	33,709	41,749	51,638
Extraordinary items	0	0	0	0	0
Tax expense	3,736	6,463	8,663	10,729	13,271
Minority interest	209	868	200	200	200
Income from JV/Associates	2,000	0	0	0	0
Reported PAT	8,492	15,365	25,046	31,019	38,367
PAT growth (%)	(10.5)	80.9	63.0	23.9	23.7
Adjusted PAT	8,492	15,365	25,046	31,019	38,367
Diluted EPS (Rs)	4.3	6.5	10.2	12.6	15.6
Diluted EPS growth (%)	(3.4)	51.5	55.5	23.7	23.5
DPS (Rs)	0.5	0.0	2.0	3.1	4.7
Dividend payout (%)	11.6	0.0	20.0	25.0	30.0
Effective tax rate (%)	30.6	29.6	25.7	25.7	25.7
Net interest margins (%)	7.2	8.9	10.3	10.7	10.7
Cost-income ratio (%)	34.5	27.7	37.7	36.0	33.6
PAT/PPOP (%)	24.9	21.9	47.0	47.5	46.7
Shares outstanding (mn)	2,474.0	2,479.7	2,479.7	2,479.7	2,479.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	24,740	24,797	24,797	24,797	24,797
Reserves & surplus	174,737	190,487	210,684	234,098	261,095
Net worth	199,477	215,284	235,480	258,895	285,892
Borrowings	852,012	830,435	776,310	896,133	1,040,708
Other liabilities & prov.	17,532	17,903	19,287	20,369	21,040
Total liabilities & equity	1,069,022	1,063,621	1,031,078	1,175,398	1,347,640
Net loans	824,694	751,546	800,197	983,511	1,186,433
Investments	122,411	146,777	116,447	89,613	52,035
Cash, other balances	79,704	127,489	77,580	64,184	67,980
Interest earning assets	1,026,810	1,025,812	994,224	1,137,309	1,306,449
Fixed assets	1,930	2,324	2,673	3,208	3,849
Other assets	40,282	35,486	34,181	34,881	37,342
Total assets	1,069,022	1,063,621	1,031,078	1,175,398	1,347,640
BVPS (Rs)	80.5	86.7	94.7	104.1	115.0
Adj. BVPS (INR)	80.5	86.7	94.7	104.1	115.0
Gross loans	884,020	808,930	862,567	1,054,274	1,269,157
Total AUM	884,020	808,930	862,567	1,054,274	1,269,157
Disbursements	372,040	469,790	553,250	676,819	812,560
Disbursements growth (%)	31.4	26.3	17.8	22.3	20.1
Loan growth (%)	(5.2)	(8.9)	6.5	22.9	20.6
AUM growth (%)	(6.0)	(8.5)	6.6	22.2	20.4
Borrowings growth (%)	(3.8)	(2.5)	(6.5)	15.4	16.1
Book value growth (%)	(7.0)	7.7	9.3	9.9	10.4

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
GNPL - Stage 3	35,430	38,320	31,052	31,628	38,075
NNPL - Stage 3	16,780	11,780	7,763	7,907	9,519
GNPL ratio - Stage 3 (%)	4.1	4.7	3.6	3.0	3.0
NNPL ratio - Stage 3 (%)	2.0	1.5	1.0	0.8	0.8
ECL coverage - Stage 3 (%)	52.6	69.3	75.0	75.0	75.0
ECL coverage - 1 & 2 (%)	3.0	3.9	4.7	4.6	4.4
Write-off ratio (%)	0.3	0.4	1.0	1.0	1.0
Total credit costs (%)	3.4	6.2	2.4	2.5	2.7
NNPA to networth (%)	8.4	5.5	3.3	3.1	3.3
Capital adequacy					
Total CAR (%)	22.9	24.5	25.9	25.1	24.3
Tier-1 (%)	19.7	22.1	23.5	22.7	21.9
Miscellaneous					
Total income growth (%)	(4.5)	55.9	(15.8)	18.8	21.3
Opex growth (%)	14.6	25.2	14.9	13.3	13.3
PPOP margin (%)	4.7	8.8	6.4	6.9	7.1
Credit costs-to-PPOP (%)	71.6	70.5	37.3	36.4	37.5
Loan-to-Assets (%)	77.1	70.7	77.6	83.7	88.0
Yield on loans (%)	12.8	14.8	15.8	15.8	15.6
Cost of funds (%)	6.6	6.9	7.1	7.4	7.5
Spread (%)	6.2	8.0	8.7	8.4	8.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	37.6	24.8	16.0	12.9	10.5
P/B (x)	2.0	1.9	1.7	1.6	1.4
P/ABV (x)	2.0	1.9	1.7	1.6	1.4
P/PPOP (x)	9.3	5.4	7.5	6.1	4.9
Dividend yield (%)	0.3	0.0	1.3	1.9	2.9
Dupont-RoE split (%)					
NII/avg AUM	6.5	8.0	9.0	9.4	9.4
Other income	0.7	4.1	1.3	1.3	1.3
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	1.3	1.7	1.9	1.9	1.8
Employee expense	1.2	1.7	2.0	2.0	1.8
PPOP	4.7	8.8	6.4	6.9	7.1
Provisions	3.4	6.2	2.4	2.5	2.7
Tax expense	0.4	0.8	1.0	1.1	1.1
RoAUM (%)	1.2	1.9	3.0	3.3	3.3
Leverage ratio (x)	4.7	4.1	3.7	3.9	4.3
RoE (%)	5.5	7.8	11.2	12.6	14.2
Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24E
NII	18,209	17,658	18,436	18,436	19,071
NIM(%)	9.8	10.0	11.2	11.2	11.4
PPOP	38,807	11,857	12,974	12,974	13,223
PAT	4,537	5,011	5,942	5,942	6,212
EPS (Rs)	1.83	2.02	2.40	2.40	2.50

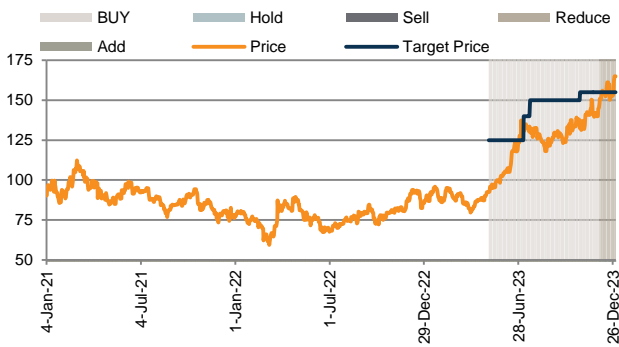
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	148	155	Reduce	Avinash Singh
24-Oct-23	133	155	Buy	Avinash Singh
20-Jul-23	131	150	Buy	Avinash Singh
08-Jul-23	131	140	Buy	Avinash Singh
02-May-23	92	125	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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