



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	✓	↔	✓

Company details

Market cap:	Rs. 42,038 cr
52-week high/low:	Rs. 179/91
NSE volume: (No of shares)	64.0 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	82.1 cr

Shareholding (%)

Promoters	65.9
FII	11.1
DII	8.7
Others	14.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.4	47.2	37.9	81.9
Relative to Sensex	0.8	34.4	26.5	56.3

Sharekhan Research, Bloomberg

L&T Finance Holdings Ltd

Mixed Q4, looking at balance outcome

NBFC	Sharekhan code: L&TFH		
Reco/View: Buy	↔	CMP: Rs. 169	Price Target: Rs. 185 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- LTFH's earnings were significantly below estimates, led by higher provisions/higher opex in Q4FY2024, but retail business growth was solid.
- Higher provisions were on account of the wholesale business (mainly due to run down of security receipts). The company does not expect further higher provisioning.
- A favourable cycle has helped the company to completely reorient into a retail franchise in the last two years. It is now looking at balancing the business matrices while pursuing growth.
- We maintain BUY with an unchanged PT of Rs. 185. At the CMP, the stock trades at 1.5x/1.3x its FY2025E/FY2026E BV.

L&T Finance Holdings Limited's (LTFH) core retail business performance remained strong, capitalising on strong macros, driven by healthy retail assets growth, better margins, and lower credit cost. The wholesale business continued to run down, in line with its stated strategy. Net interest income (NII) grew 13% y-o-y/2% q-o-q. Aggregate NIM and fee income (calculated) improved by 9bps q-o-q to 11.2% vs. 11.1%. Although the cost of funds was marginally higher q-o-q, the increasing share of retail assets and higher fees led to improvement. Total operating expenses were up 25% y-o-y/10% q-o-q, led by continued investments in technology, business, and people. Operating profit grew ~7% y-o-y/2% q-o-q. Annualised credit cost (as a percentage of average loans) was reported at 3.2% vs. 2.6% q-o-q. Provisions were up 28% y-o-y/30% q-o-q, majorly led by the wholesale business. Thus, PBT fell 7% y-o-y/16% q-o-q. PAT reported at Rs. 553 crore was up 10% y-o-y/down 14% q-o-q mainly led by lower tax rate. Overall, loan book grew 6% y-o-y/5% q-o-q. Gross stage-3 asset/net stage-3 asset ratios remained stable q-o-q at 3.2%/0.8%, respectively. PCR on stage-3 assets improved to 76% vs. 75% q-o-q. The net SR book currently stands at ~Rs. 6,770 crore (~8% of AUM). The company guided that resolution of the SR portfolio would result in net gain over the period of 4-5 years without further markdown.

Key positives

- Strong retail assets growth (+7% q-o-q)
- NIMs+Fee income improved q-o-q by 9bps
- Stable retail asset-quality trends

Key negatives

- Higher provisions can be attributed to the wholesale business (mainly due to run down of security receipts).
- Opex stayed elevated (4.7% of AUM vs 4.5% q-o-q).

Management Commentary

- Management has guided for 25-30% growth in retail assets going forward and endeavours post-tax RoA of 2.8-30% in FY2026.
- Cost of funds is expected to increase by 30-35bps over the next couple of quarters. NIM pressure would be offset by higher fee income (increased cross-sell, ramping up the corporate agency business).
- The company is looking towards more prime customer segments and simultaneously scaling up collections in the higher-risk business. The company is targeting credit cost in the range of 2.25-2.5% of AUM for FY2025.
- The company has additional macro prudential provisions amounting to Rs. 1,200 crore outside PCR. This can adequately compensate for additional markdown in SR if required.

Our Call

Valuation – We maintain our BUY rating with an unchanged PT of Rs. 185: LTFH has re-oriented itself into a retail franchise, led by a favourable cycle. The company is now looking at balancing the business matrices while pursuing growth. The focus is on creating a sustainable and predictable retail franchise, but execution remains key monitorable. The company's endeavours post-tax consolidated RoA of 2.8-30% in FY2026 vs. 2.3% currently in FY2024.

Key Risks

Slower retail asset growth and higher-than-anticipated write-off in the wholesale and retail NPL cycle.

Valuation (consolidated)

Particulars	FY22	FY23	FY24	FY25E	FY26E
NII	5,955	6,768	7,537	8,558	10,286
PAT	1,070	1,623	2,320	2,906	3,861
EPS (Rs.)	4.3	6.5	9.3	11.7	15.5
P/E (x)	39.1	25.8	18.1	14.4	10.8
P/BV (x)	1.9	1.8	1.6	1.5	1.3
ROA	1.0	1.5	2.3	2.6	2.8
ROE (%)	5.4	7.8	10.4	11.9	14.3

Source: Company; Sharekhan estimates

Key result highlights

NIM outlook: Net interest income (NII) grew 13% y-o-y/2% q-o-q. Aggregate NIM and fee income (calculated) improved by 9bps q-o-q to 11.2% vs. 11.1%. Cost of funds is expected to increase by 30-35bps over the next couple of quarters. NIM pressure would be offset by higher fee income (increased cross-sell, ramping up the corporate agency business). The company has guided for overall (NIM + fee income) 11-11.25% going forward.

Asset quality and credit cost: Overall GS3/NS3 assets were stable q-o-q at 3.2%/0.8%, respectively. PCR on stage-3 assets improved to 76% vs. 75% q-o-q. The net SR book currently stands at ~Rs. 6,770 crore (~8% of AUM). The company has guided that the resolution of the SR portfolio would result in net gain over 4-5 years without further markdown. The company has additional macro prudential provisions amounting to Rs. 1,200 crore outside PCR. This can adequately compensate for additional markdown in SR, if required. Annualised credit cost (as a percentage of average loans) was reported at 3.2% vs. 2.6% q-o-q. The company is looking towards a more prime customer segment and is simultaneously scaling up collections in the higher-risk business. The company is targeting credit cost of 2.25-2.5% of AUM for FY2025. Overall, the asset-quality outlook continues to remain stable for the retail asset portfolio.

Strong retail asset growth except PL, wholesale continued to see run down: Retail assets contributed ~94% to the loan mix. Retail loans grew ~31% y-o-y, led by healthy growth in MFI, 2W, home loans, and SME. The company continued to calibrate growth in personal loans, which was flat q-o-q for the second consecutive quarter. Total disbursements grew 25% y-o-y, driven by ~33% y-o-y growth in retail disbursements in Q4FY2024. Wholesale disbursements were flat q-o-q and declined ~69% y-o-y. Management has guided for 25-30% growth in retail assets going forward and endeavours post-tax RoA of 2.8-30% in FY2026.

Results (Consolidated)

					Rs cr
Particulars	Q4FY24	Q4FY23	Q3FY24	YoY %	QoQ %
Net Interest Income	1,988	1,766	1,953	13%	2%
Fee and Other Income	88	291	275	-70%	-68%
Total Income	2,076	2,057	2,228	1%	-7%
Operating Expenses	980	787	890	25%	10%
Operating Profit	1,096	1,270	1,338	-14%	-18%
Provisions	402	523	514	-23%	-22%
PBT	694	747	824	-7%	-16%
Tax	141	246	185	-43%	-24%
PAT	553	501	639	10%	-14%
AUM	85,565	80,893	81,780	6%	5%
Disbursements					
Retail	15,044	11,282	14,531	33%	4%
Wholesale	323	1,028	334	-69%	-3%
Total	15,367	12,310	14,865	25%	3%
Retail book	80,037	61,053	74,759	31%	7%
Wholesale book	5,528	19,512	7,021	-72%	-21%
Total Focused Book	85,565	80,565	81,780	6%	5%
Defocused book	-	328	-		
Total book	85,565	80,893	81,780	6%	5%
Mix					
Retail book	94%	75%	91%		
Wholesale book	6%	24%	9%		
Asset Quality Metrics					
Gross Stage 3 Assets	2,698	3,832	2,626		
Net Stage 3 Assets	661	1,178	648		
Gross Stage 3 Assets	3.15%	4.74%	3.21%		
Net Stage 3 Assets	0.79%	1.51%	0.81%		
PCR	76%	69%	75%		
Retail asset quality metrics					
Gross Stage 3 Assets	2,271	2,081	2,206		
Net Stage 3 Assets	485	421	466		
Gross Stage 3 Assets	2.84%	3.41%	2.95%		
Net Stage 3 Assets	0.62%	0.71%	0.64%		
PCR	79%	80%	79%		
Wholesale asset quality metrics					
Gross Stage 3 Assets	427	1,751	420		
Net Stage 3 Assets	176	757	182		
Gross Stage 3 Assets	7.7%	9.0%	6.0%		
Net Stage 3 Assets	3.2%	3.9%	2.6%		
PCR	59%	57%	57%		

Source: Company, Sharekhan Research

Outlook and Valuation

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

Retail credit growth continues to remain robust. Demand across retail assets has been sustaining 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 strategy

LTFH has transformed itself into a retail franchise. The company is realigning its strategy by repositioning its portfolio growth from product-based to customer-centric, focusing on cross-selling, up-selling 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 remains stable to positive.

■ Valuation

LTFH has re-oriented itself into a retail franchise, led by a favourable cycle. The company is now looking at balancing the business matrices while pursuing growth. The focus is on creating a sustainable and predictable retail franchise, but execution remains key monitorable. The company's endeavours post-tax consolidated RoA of 2.8-30% in FY2026 vs. 2.3% currently in FY2024.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
L&T Finance Holdings	169	42,038	14.4	10.8	1.5	1.3	11.9	14.3	2.6	2.8
M&M Finance	261	32,297	12.2	9.6	1.6	1.4	14.1	15.9	2.0	2.2

Source: Company; Sharekhan Research

About company

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

Investment theme

LTFH has strategically re-aligned 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 asset growth and higher-than-anticipated write-off in wholesale and retail NPL cycle.

Additional Data

Key management personnel

Mr. Sudipta Roy	Chief Executive Officer
Mr. Sachin Joshi	Chief Financial Officer
Mr. Raju Dodti	Chief Operating Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Larsen & Toubro Ltd.	65.86
2	Citigroup Global Markets Mauritius	3.84
3	BNP Paribas SA	2.43
4	Life Insurance Corp of India	1.94
5	ICICI Prudential Life Insurance Co	1.51
6	Vanguard Group Inc	1.31
7	L&T Employees trust	1.02
8	Norges Bank	0.73
9	Invesco Asset Management India Pvt Ltd	0.63
10	Blackrock Inc	0.60

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 deteriorating 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: 022-67502000.

Correspondence 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. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. 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 - 33054600