

# L&T Finance Holdings | BUY



## Retailisation continued to gain momentum

L&T Finance Holdings (LTFH) delivered 1QFY23 PAT of INR 2.6bn (+47% YoY/ -23% QoQ) as operating performance was moderated (PPOP at INR 11.5bn, +1% YoY/ +1% QoQ). CIR remained elevated at 36% (vs. 32% YoY/ 36% QoQ) as the company focuses on digital initiatives, expanded employee strength and added new MFI meeting centres. Other key highlights for the quarter: i) disbursements (INR 105bn) declined 29% QoQ due to sharp drop in wholesale disbursements (-77% QoQ) as the company focuses on retail (+10% QoQ), ii) focused loan book stood at INR 876bn (+2% YoY/ +1% QoQ), driven by consumer loans, iii) reported NIM + Fee Income was at 8.2% (71bps YoY/ 6bps QoQ), attributed to higher retailization and drop in cost of funds (-37bps YoY/ -7bps QoQ), iv) in 1QFY23, collection efficiency remained healthy across retail businesses; GS3 ratio was steady QoQ at 4.1%, v) restructured assets (OTR) declined to 2.3% (-110bps QoQ) of loans – partly on account of write-off and slippage into GS3, vi) coverage ratio was at 55% (vs. c.53% QoQ) while total additional provisions stood at 1.7% of standard book (2.1% QoQ). In 1QFY23, leverage contracted to 4.1x (vs. 4.4x, as of 1QFY22). Management believes retail can organically comprise 60% of the book in FY23 and is on track to form >80% by 2026. Also, mgmt. intends to reduce real estate lending business through inorganic structure or partnership with other financiers. We forecast loan book CAGR of 12% and earnings CAGR of 59% over FY22-FY24E, with RoA/ RoE of 2.2%/ 11.4% in FY24E. Maintain BUY with a TP of INR 90 valuing the company at 0.9x FY24E BVPS.

- Retail loans continued to steer the business:** In 1QFY23, disbursements (INR 105bn) declined 29% QoQ due to sharp drop in wholesale disbursements (-77% QoQ) as the company remained focused on retail (+10% QoQ), which formed 85% of disbursements. In retail, micro loans constituted 36% of total disbursements and consumer loans were also in good stead (constituted 10%). As of 1QFY23, focused book stood at INR 876bn (+2% YoY/ +1% QoQ), driven by consumer loans (3.9x YoY/ +32% QoQ) and rural business+micro loans (+27% YoY/ +8% QoQ) while housing finance (-8% YoY/ -1% QoQ) remained a drag. However, in wholesale, infrastructure book reduced 10% YoY due to repayments and prepayments (prepayment of INR1.6bn in 1QFY23) and real estate book shrunk ~INR26bn in the last one year due to continued focus on project completion. Focused book formed 98.3% (up 120bps YoY) of total loan book, retail formed 54% of the loan book (vs. 45% in 1QFY22). Mgmt. believes retail can organically comprise 60% of the book in FY23 and is on track to form >80% by 2026 by strengthening existing products, cross-selling, growing geographical presence, app & digital based channel expansion and launching new products (warehouse financing to be launched in FY23), while having asset light model in wholesale. We estimate loan book CAGR of 12% over FY22-FY24E driven by retail segment.
- Steady asset quality; OTR book declined:** In 1QFY23, collection efficiency remained healthy across retail businesses. GS3 ratio was steady QoQ at 4.1% while NS3 declined ~10bps QoQ to 1.9%. Coverage on GS3 improved 270bps QoQ to 55%. Restructured

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	90
Upside/(Downside)	24.3%
Previous Price Target	90
Change	0.0%

### Key Data – LTFH IN

Current Market Price	INR72
Market cap (bn)	INR179.2/US\$2.2
Free Float	25%
Shares in issue (mn)	1,755.7
Diluted share (mn)	
3-mon avg daily val (mn)	INR701.3/US\$8.8
52-week range	96/59
Sensex/Nifty	56,072/16,719
INR/US\$	79.9

### Price Performance

%	1M	6M	12M
Absolute	3.8	-1.1	-18.0
Relative*	-2.4	2.1	-22.5

\* To the BSE Sensex

### Financial Summary

	(INR mn)				
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
Net Profit	17,003	9,489	8,492	25,428	26,979
Net Profit (YoY) (%)	-23.8%	-44.2%	15.0%	199.4%	6.1%
Assets (YoY) (%)	3.3%	-0.5%	-1.9%	5.9%	13.3%
ROA (%)	1.6%	0.9%	1.0%	2.3%	2.2%
ROE (%)	12.1%	5.7%	5.4%	12.0%	11.4%
EPS	8.5	3.8	4.2	10.3	10.9
EPS (YoY) (%)	-24.1%	-54.7%	10.4%	142.4%	6.1%
<b>P/E (x)</b>	<b>8.5</b>	<b>18.7</b>	<b>17.0</b>	<b>7.0</b>	<b>6.6</b>
BV	73	76	81	91	101
BV (YoY) (%)	8.9%	3.7%	6.1%	12.7%	10.8%
<b>P/BV (x)</b>	<b>0.98</b>	<b>0.95</b>	<b>0.89</b>	<b>0.79</b>	<b>0.72</b>

Source: Company data, JM Financial. Note: Valuations as of 22/Jul/2022

JM Financial Institutional Securities Limited

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

S&P Capital IQ, FactSet and Visible Alpha

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assets (OTR) declined to INR 20.2bn (2.3% of the loan book) from INR 30.4b. Credit costs of INR 8bn (3.4% of avg. loans) included INR 2.5bn of OTR-related provisions and INR 5.4b of normalized credit costs. LTFH utilized INR 2.1bn of management overlay for the OTR book that was written-off (majorly micro and 2W loans) and slipped into GS3. Additional provisions stood at INR14.5b (1.7% of standard assets).

- Housing book had ~INR 10bn in OTR, with home loans of ~INR 6.4bn (where moratorium of up to 2yrs is given and is secured against mortgage) and rest in LAP.
  - Micro loans had ~INR 7bn in OTR for which provisions will be taken in 2QFY23 post which credit cost should normalise
  - Management overlay will be gradually reduced, however a large portion of it will be conservatively carried into next year
- **Operating performance was muted:** In 1QFY23, operating performance was moderated (PPOP at INR 11.5bn, +1% YoY/ +1% QoQ). NII grew 2% YoY to INR 15.3bn. Reported NIM + Fee Income was at 8.2% (71bps YoY/ 6bps QoQ), attributed to higher retailization and drop in cost of funds (-37bps YoY/ -7bps QoQ). CIR remained at elevated levels at 36% (vs. 32% YoY/ 36% QoQ) as the company focuses on digital initiatives, expanded employee strength and added new MFI meeting centres.
- **Investment management – volatility in capital markets impacted AUM:** As of 1QFY23, average AUM declined 5% QoQ to INR716b. This was driven by a 7% QoQ reduction in average equity AUM. LTFH saw inflows in the Liquid categories, but witnessed net outflows in the fixed income and hybrid categories.
- **Expect RoA/ RoE at 2.2%/ 11% levels by FY24E:** We believe digitization will drive the operations (sourcing, cross-selling, disbursement, underwriting and collections) going forward. The company also intends to launch new products and expand geographically (branches and employee strength) which would keep costs at elevated levels. Retail book growth will continue to accelerate while wholesale book will be contracted, hence total loan growth will be muted for 2-4 quarters. We will closely monitor the execution of the retail portfolio and the corresponding asset quality. We forecast loan book CAGR of 12% and earnings CAGR of 59% over FY22-FY24E, with RoA/ RoE of 2.2%/ 11.4% by FY24E. The growth will be driven by increasing higher margin business owing to retailisation and credit costs normalization. We value LTFH at 0.9x FY24E BV to arrive at our TP of INR 90.

## LTFH – 1QFY23 trends

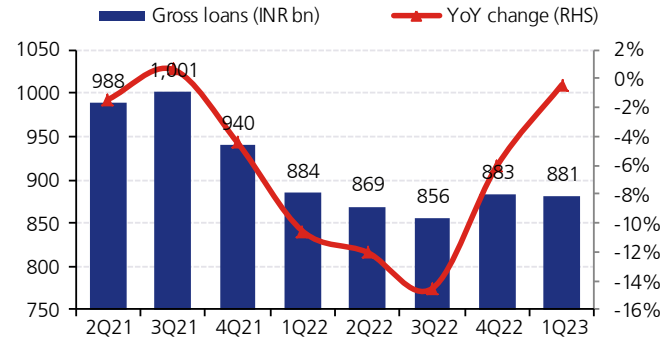
## Exhibit 1. LTFH – 1QFY23 key financial highlights

Earnings Table (INR mn)	1Q'22	4Q'22	1Q'23	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>14,170</b>	<b>14,250</b>	<b>14,330</b>	<b>1.1%</b>	<b>0.6%</b>
Non-Interest Income	2,700	3,450	3,700	37.0%	7.2%
<b>Total Income</b>	<b>16,870</b>	<b>17,700</b>	<b>18,030</b>	<b>6.9%</b>	<b>1.9%</b>
Employees Cost	2,675	3,024	2,969	<b>11.0%</b>	<b>-1.8%</b>
Other Operating Expenses	2,805	3,317	3,531	25.9%	6.5%
<b>Total Operating Expenses</b>	<b>5,480</b>	<b>6,340</b>	<b>6,500</b>	<b>18.6%</b>	<b>2.5%</b>
<b>Operating Profit (PPP)</b>	<b>11,390</b>	<b>11,360</b>	<b>11,530</b>	<b>1.2%</b>	<b>1.5%</b>
Total Provisions	9,000	6,510	7,950	-11.7%	22.1%
<b>PBT</b>	<b>2,390</b>	<b>4,850</b>	<b>3,580</b>	<b>49.8%</b>	<b>-26.2%</b>
Tax	610	1,430	960	57.4%	-32.9%
<b>PAT (Pre-Extraordinaries)</b>	<b>1,780</b>	<b>3,420</b>	<b>2,620</b>	<b>47.2%</b>	<b>-23.4%</b>
Extraordinaries (Net of Tax) gain / (loss)	0	0	0	NA	NA
<b>Reported Profit</b>	<b>1,780</b>	<b>3,420</b>	<b>2,620</b>	<b>47.2%</b>	<b>-23.4%</b>
<b>Balance Sheet Data (INR bn)</b>					
Total loans	884.4	883.4	880.8	-0.4%	-0.3%
Disbursements	52.2	147.3	104.6	100.3%	-29.0%
<b>Ratios Analysis (%)</b>					
Cost to Income (%)	32.5%	35.8%	36.1%	3.57%	0.23%
Effective Tax Rate (%)	25.5%	29.5%	26.8%	1.3%	-2.67%
<b>Credit Quality</b>					
Gross Stage 3	57,960	35,430	35,590	-38.6%	0.5%
Net Stage 3	18,790	16,780	15,910	-15.3%	-5.2%
Gross Stage 3 (%)	6.67%	4.08%	4.08%	-2.59%	0.0%
Net Stage 3 (%)	2.26%	1.98%	1.87%	-0.39%	-0.1%
Coverage Ratio (Stage 3) (%)	67.6%	52.6%	55.3%	-12.3%	2.7%

Source: Company, JM Financial

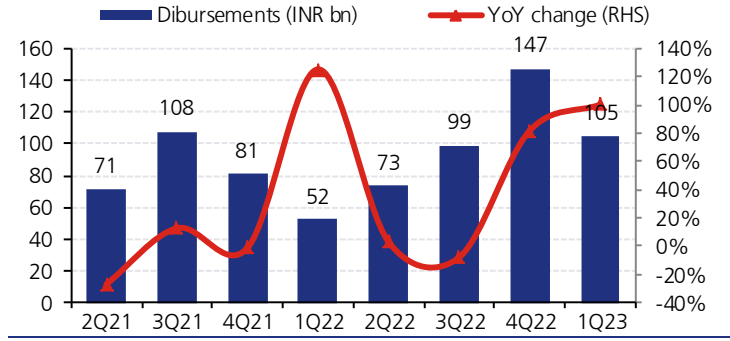
## Quarterly trends

**Exhibit 2. Gross loans remained stable YoY**



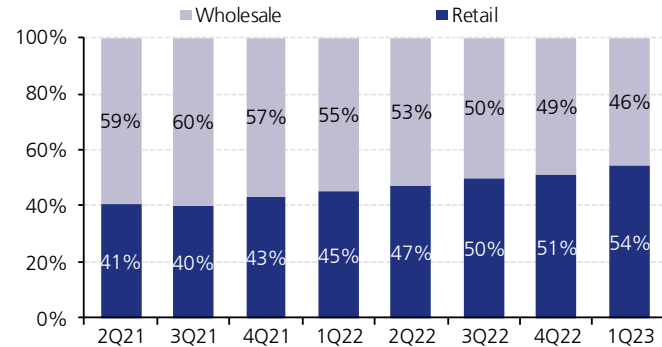
Source: Company, JM Financial

**Exhibit 3. Disbursements YoY jumped sharply, driven by retail loans**



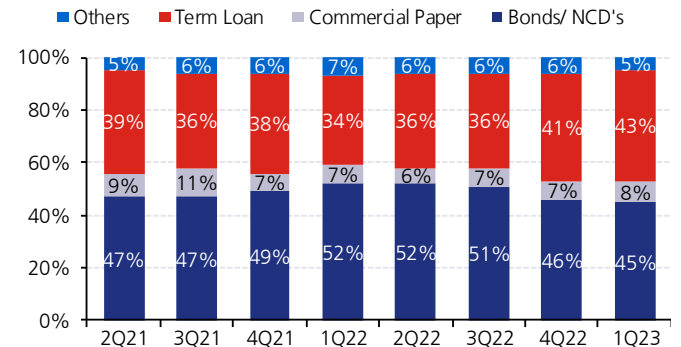
Source: Company, JM Financial

**Exhibit 4. Share of retail loans now forms the majority of the book**



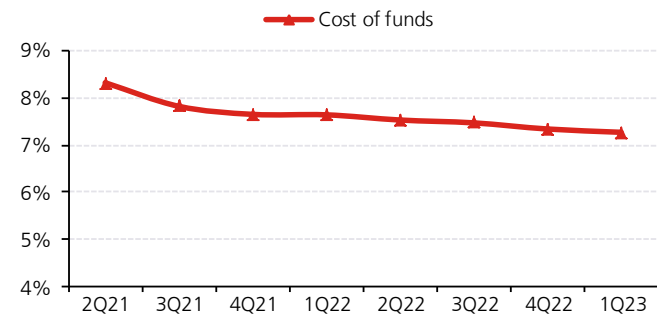
Source: Company, JM Financial

**Exhibit 5. Share of term loans increased**



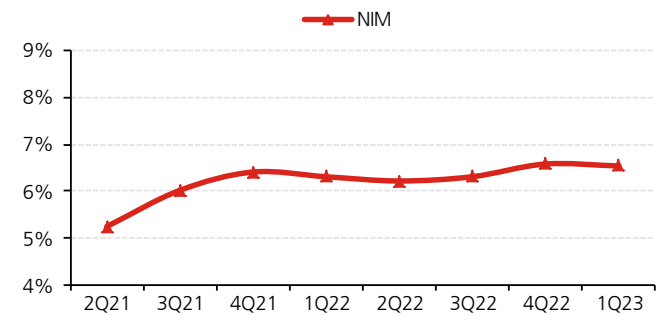
Source: Company, JM Financial

**Exhibit 6. Cost of funds remained at lower levels**



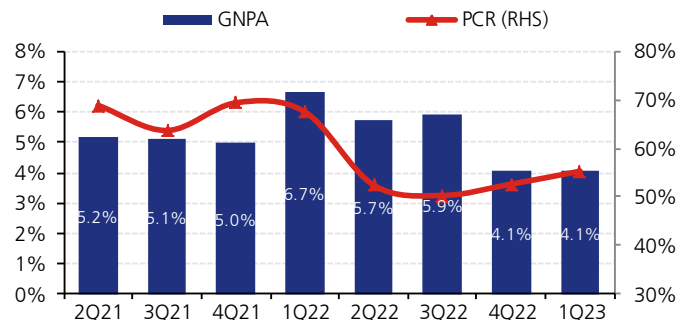
Source: Company, JM Financial

**Exhibit 7. ... and supported margins**



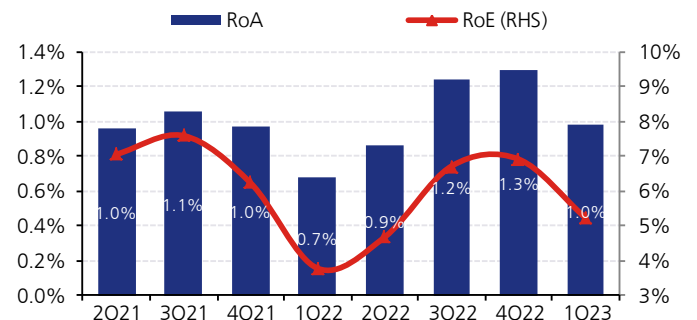
Source: Company, JM Financial

**Exhibit 8. Asset quality has peaked-off**



Source: Company, JM Financial

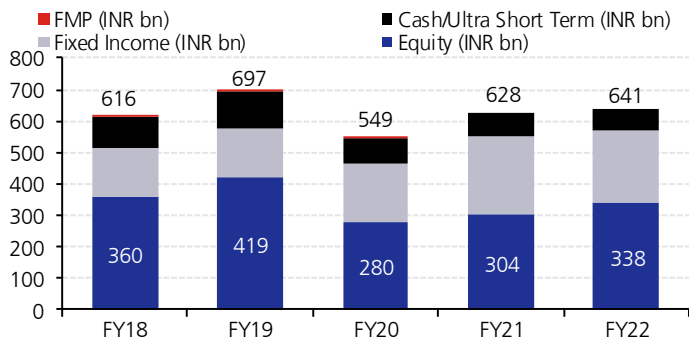
**Exhibit 9. Trend in RoA and RoE**



Source: Company, JM Financial

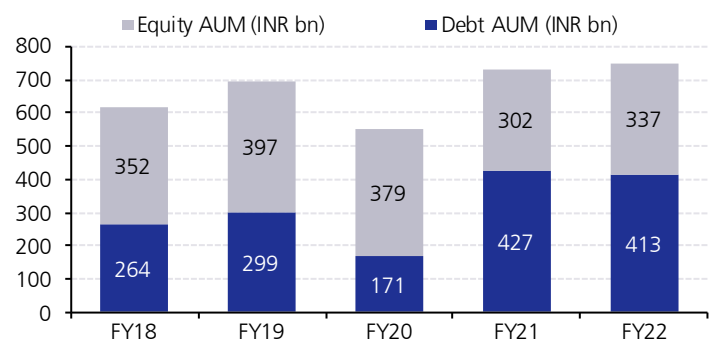
## Investment Management: Key Charts

**Exhibit 10. AUM Mix (INR bn)**



Source: Company, JM Financial

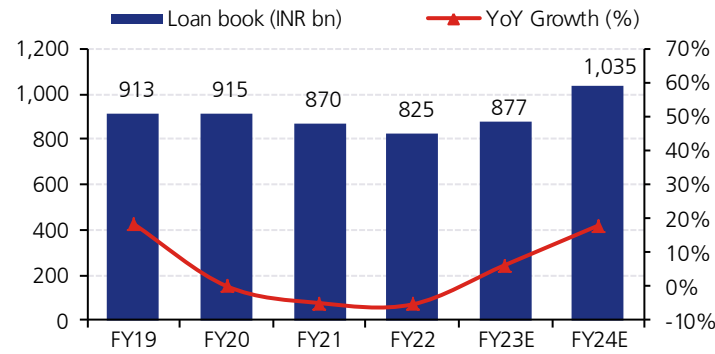
**Exhibit 11. AUM Mix – Equity and Debt**



Source: Company, JM Financial

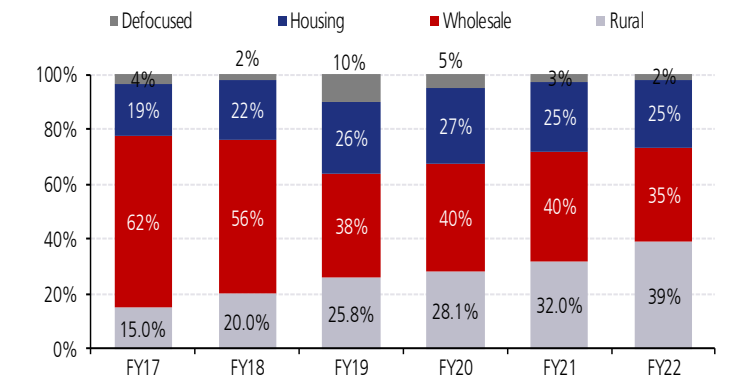
## LTFH – Annual trends

**Exhibit 12. LTFH: Trend in AUM (INR bn)**



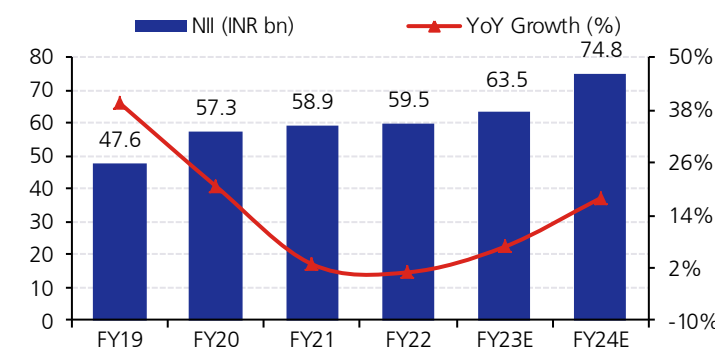
Source: Company, JM Financial

**Exhibit 13. LTFH: Trend in AUM Mix**



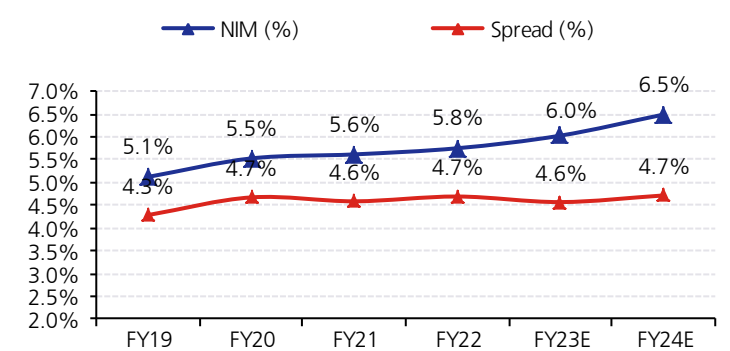
Source: Company, JM Financial

**Exhibit 14. LTFH: Trends in NII**



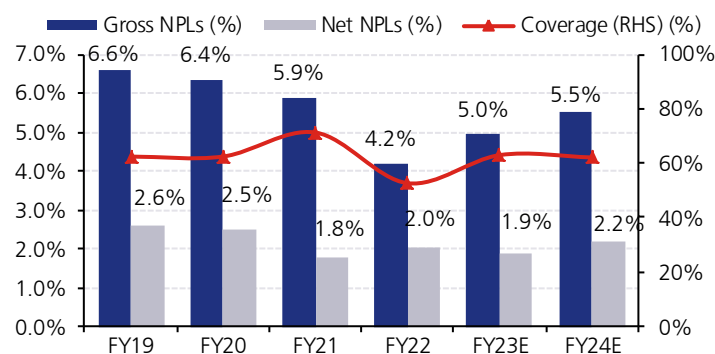
Source: Company, JM Financial

**Exhibit 15. LTFH: Trends in Margins NII/AUM**



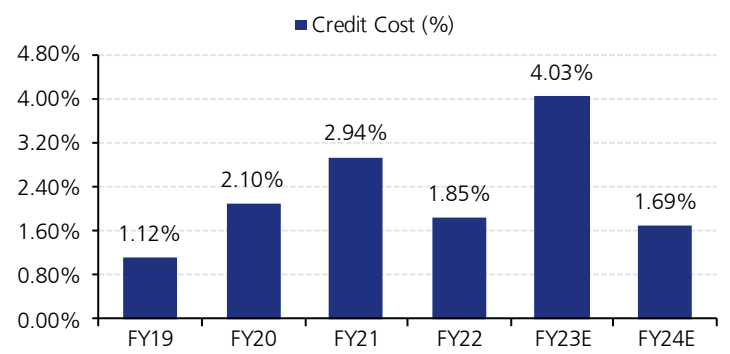
Source: Company, JM Financial

**Exhibit 16. LTFH: Trend in asset quality**



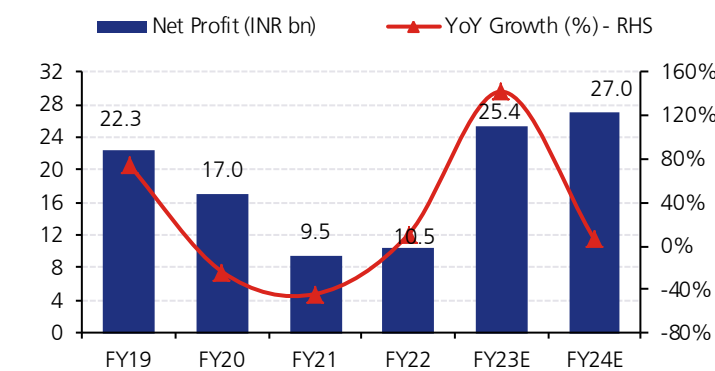
Source: Company, JM Financial

**Exhibit 17. LTFH: Trend in credit costs**



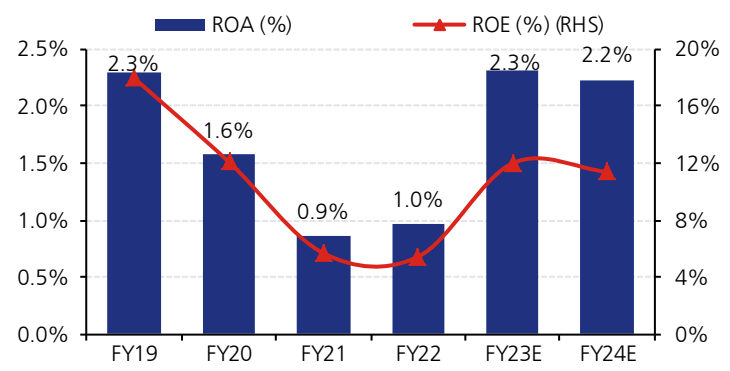
Source: Company, JM Financial

**Exhibit 18. Trend in earning growth**



Source: Company, JM Financial

**Exhibit 19. Trend in return ratios**



Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E	
Net Interest Income (NII)	57,311	59,049	59,504	63,523	74,850	
Non Interest Income	11,959	5,548	-4,697	14,237	16,048	
<b>Total Income</b>	<b>69,270</b>	<b>64,598</b>	<b>54,807</b>	<b>77,760</b>	<b>90,898</b>	
Operating Expenses	19,785	19,749	22,636	31,315	34,386	
<b>Pre-provisioning Profits</b>	<b>49,485</b>	<b>44,849</b>	<b>32,170</b>	<b>46,445</b>	<b>56,512</b>	
Total Provisions	22,684	32,153	19,942	44,324	20,444	
PBT	26,801	12,696	12,229	2,120	36,068	
<b>Tax</b>	<b>5,064</b>	<b>5,463</b>	<b>3,736</b>	<b>534</b>	<b>9,089</b>	
<b>PAT (Pre-Extra ordinaries)</b>	<b>21,736</b>	<b>7,233</b>	<b>8,492</b>	<b>1,586</b>	<b>26,979</b>	
Extra ordinaries (Net of Tax)	-4,734	2,256	0	23,843	0	
<b>Reported Profits</b>	<b>17,003</b>	<b>9,489</b>	<b>8,492</b>	<b>25,428</b>	<b>26,979</b>	
Dividend	1,804	0	1,237	159	2,698	
<b>Retained Profits</b>	<b>15,198</b>	<b>9,489</b>	<b>7,255</b>	<b>25,270</b>	<b>24,281</b>	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E	
Equity Capital	20,048	24,695	24,740	24,740	24,740	
Reserves & Surplus	126,876	163,038	174,737	200,006	224,287	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	938,945	885,558	852,012	846,335	964,397	
Deferred tax liabilities	0	0	218	93	93	
Preference Shares	0	0	0	0	0	
Current Liabilities & Provisions	9,577	16,427	17,314	60,742	68,915	
<b>Total Liabilities</b>	<b>1,095,447</b>	<b>1,089,717</b>	<b>1,069,022</b>	<b>1,131,918</b>	<b>1,282,433</b>	
Net Advances	914,625	870,303	824,694	877,413	1,035,155	
Investments	59,793	88,721	119,169	125,128	127,630	
Cash & Bank Balances	78,044	84,270	79,704	79,704	59,778	
Loans and Advances	841	1,134	637	669	702	
Other Current Assets	15,217	17,077	18,239	23,128	33,621	
Fixed Assets	4,550	4,126	4,012	4,213	4,423	
Miscellaneous Expenditure	7,692	7,734	8,120	6,496	5,197	
Deferred Tax Assets	14,686	16,353	14,446	15,168	15,926	
<b>Total Assets</b>	<b>1,095,447</b>	<b>1,089,717</b>	<b>1,069,022</b>	<b>1,131,918</b>	<b>1,282,433</b>	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (YoY) (%)</b>					
Borrowed funds	2.6%	-5.7%	-3.8%	-0.7%	13.9%
Advances	0.2%	-4.8%	-5.2%	6.4%	18.0%
Total Assets	3.3%	-0.5%	-1.9%	5.9%	13.3%
NII	20.5%	3.0%	1.0%	6.8%	17.8%
Non-interest Income	-6.6%	-53.6%	-306.0%	-403.1%	12.7%
Operating Expenses	4.2%	-0.2%	21.1%	38.3%	9.8%
Operating Profits	19.6%	-9.4%	-24.3%	44.4%	21.7%
Core Operating profit	14.8%	-6.7%	-10.5%	41.9%	16.9%
Provisions	109.1%	41.7%	-38.0%	122.3%	-53.9%
Reported PAT	-23.8%	-44.2%	15.0%	199.4%	6.1%
<b>Yields / Margins (%)</b>					
Interest Spread	4.67%	4.60%	4.69%	4.57%	4.72%
NIM	5.53%	5.63%	5.75%	6.03%	6.49%
<b>Profitability (%)</b>					
ROA	1.58%	0.87%	0.97%	2.31%	2.23%
ROE	12.1%	5.7%	5.4%	12.0%	11.4%
Cost to Income	28.6%	30.6%	41.3%	40.3%	37.8%
<b>Asset quality (%)</b>					
Gross NPA	6.36%	5.90%	4.20%	4.96%	5.54%
LLP	1.87%	2.94%	1.85%	4.03%	1.69%
<b>Capital Adequacy (%)</b>					
Tier I	17.70%	18.79%	19.70%	25.22%	24.49%
CAR	21.60%	23.80%	22.90%	30.96%	30.31%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
NII / Assets	5.32%	5.40%	5.51%	5.77%	6.20%
Other Income / Assets	1.11%	0.51%	-0.44%	1.29%	1.33%
Total Income / Assets	6.43%	5.91%	5.08%	7.07%	7.53%
Cost / Assets	1.84%	1.81%	2.10%	2.85%	2.85%
PPP / Assets	4.59%	4.10%	2.98%	4.22%	4.68%
Provisions / Assets	2.10%	2.94%	1.85%	4.03%	1.69%
PBT / Assets	2.49%	1.16%	1.13%	0.19%	2.99%
Tax rate	18.9%	43.0%	30.6%	25.2%	25.2%
ROA	1.58%	0.87%	0.97%	2.31%	2.23%
Leverage	7.5	5.8	5.4	5.0	5.1
ROE	12.1%	5.7%	5.4%	12.0%	11.4%

Source: Company, JM Financial

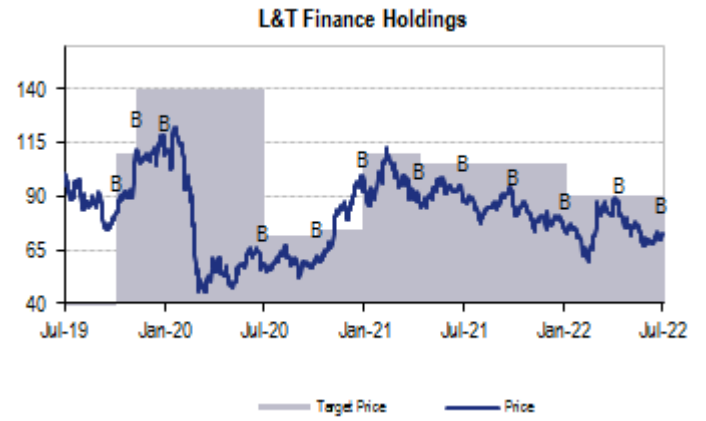
Valuations					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
Shares in Issue	2,004.8	2,469.5	2,474.0	2,474.0	2,474.0
EPS (INR)	8.5	3.8	4.2	10.3	10.9
EPS (YoY) (%)	-24.1%	-54.7%	10.4%	142.4%	6.1%
P/E (x)	8.5	18.7	17.0	7.0	6.6
BV (INR)	73	76	81	91	101
BV (YoY) (%)	8.9%	3.7%	6.1%	12.7%	10.8%
P/BV (x)	0.98	0.95	0.89	0.79	0.72
DPS (INR)	0.9	0.0	0.5	0.1	1.1
Div. yield (%)	1.3%	0.0%	0.7%	0.1%	1.5%

Source: Company, JM Financial

**History of Earnings Estimate and Target Price**

Date	Recommendation	Target Price	% Chg.
23-Oct-19	Buy	110	
2-Dec-19	Buy	140	27.3
20-Jan-20	Buy	140	0.0
20-Jul-20	Buy	72	-48.6
24-Oct-20	Buy	74	2.8
18-Jan-21	Buy	110	48.6
2-May-21	Buy	105	-4.5
19-Jul-21	Buy	105	0.0
22-Oct-21	Buy	105	0.0
24-Jan-22	Buy	90	-14.3
4-May-22	Buy	90	0.0
20-Jul-22	Buy	90	0.0

**Recommendation History**





## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081  
 Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.  
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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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