

18 July 2024

India | Equity Research | Results Review

L&T Finance

NBFCs

Strong quarter with RoA of 2.7%, RoE of 11.6% and stable asset quality metrics

LTF reported a healthy set of results - PAT of INR 6.86bn, up 29% YoY and 24% QoQ (in-line with our estimate), RoA of 2.7%, RoE of 11.6%, retail AUM growth of 31% YoY, total AUM growth of 13% YoY, 17bps QoQ rise in NIMs to 9.31% and stable asset quality metrics. LTF continues to granularly track and execute its 5-pillar execution strategy towards reaching a consolidated RoA range of 2.8% to 3.0%, thereby, creating a sustainable and predictable retail franchise. We pencil in AUM CAGR of 26% over FY24–26E and expect LTF to deliver calculated RoA of 2.5%/2.7% and RoE of 12%/14% for FY25E/FY26E, well-above its past ten-year average of ~1.5%/11.5%. Maintain **BUY** and TP of INR 225, valuing LTF at ~2x FY26E ABV (~10% above its 1Y-forward P/B mean of 10 years).

PAT in-line aided by lower opex QoQ as well as credit cost

LTF reported PAT of INR 6.86bn, which was exactly in-line with our estimate. Margins improved by 17bps QoQ to 9.31% aided by lower cost of funds and shift in loan mix. Credit yield was up 1bp QoQ to 15.54% and borrowing cost too rose 3bps QoQ to 7.85%. Fee income was, however, lower 34bps QoQ to 1.77%, which is seasonal in nature post a strong Q4. Opex run-rate slowed to 4.45% of assets (due to rise in loan assets) and credit cost after one-off provisions in Q4 also fell to 2.37% vs. 3.23% QoQ.

Retail AUM growth of 31% and total AUM growth of 13% YoY

LTF has made a remarkable transformation from being a pre-dominant wholesale financier to becoming a retail financier in a short span of ~two years (95% retail in Q1FY25 vs. 51% in FY22). For the quarter, LTF's retail AUM was up 6% QoQ/31% YoY while non-retail AUM fell 23% QoQ/70% YoY, restricting overall AUM growth to 4% QoQ/13% YoY. On a QoQ-basis under retail, urban finance was up 7% followed by rural group loans and micro-finance being up 5% and 2% uptick in farmer finance. Under urban finance, home loan book was up 8% QoQ and LTF is gradually ramping up with launch of 'complete home loan' product across 11 locations in Q1.

Disbursements were lower 2% QoQ (on high base of Q4) but were up 21% YoY. Disbursements were flat QoQ in rural business finance and urban finance, which constituted three-fourths of the total disbursements. Overall, LTF continues with its realisation strategy and with wholesale AUM receding, total AUM is likely to align with retail AUM growth. We are building in overall AUM growth of 24%/27% for FY25E/FY26E.

Financial Summary

Y/E 2024 (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	67,679	75,367	89,563	114,070
PAT (INR mn)	19,583	23,171	28,400	37,077
EPS (INR)	6.2	9.3	11.4	14.9
% Chg YoY	43.2	50.2	22.6	30.6
P/E (x)	29.8	19.8	16.2	12.4
P/BV (x)	2.1	2.0	1.8	1.6
Gross Stage - 3 (%)	4.7	3.2	3.0	2.8
Dividend Yield (%)	1.1	1.4	1.6	1.8
RoA (%)	1.4	2.2	2.5	2.7
RoE (%)	7.4	10.3	11.6	13.7

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Market Data

Market Cap (INR)	459bn
Market Cap (USD)	5,495mn
Bloomberg Code	LTFH IN
Reuters Code	LTFL.BO
52-week Range (INR)	194 /117
Free Float (%)	32.0
ADTV-3M (mn) (USD)	21.7

Price Performance (%)	3m	6m	12m
Absolute	19.8	10.5	49.1
Relative to Sensex	12.4	2.2	26.7

Earnings Revisions (%)	FY25E	FY26E
PAT	-	-

Previous Reports

19-06-2024: [Company update](#)

CE stable despite harsh weather and general elections

Collection efficiency (CE) was stable near 99.6–99.7% for rural business finance, despite extreme weather conditions and the general elections in India, which speaks for the sourcing, underwriting and collection capacities of LTF.

Zero days past due (dpd) levels moderated a tad across segments on a QoQ-basis: 96.8% vs. 97% for rural group loans and microfinance, 84.8% vs. 85.7% for farm equipment finance and 89% vs. 90.1% QoQ for two-wheeler finance. However, despite the extreme weather conditions (heatwave) across the country and the general elections during Q1, we believe LTF dpd levels have held up pretty well.

Stable asset quality; SR resolution remains a key monitorable

Asset quality metrics were stable with GNPA as well as NNPA being stable QoQ. GNPA fell 1bp QoQ to 3.14% and NNPA ratio was flat QoQ at 0.79% while in absolute terms, GNPA was up 3% QoQ and NNPA was up 4% QoQ. Coverage ratio moderated a tad by 17bps QoQ to 75.3% but is up vs. 71.4% a year ago. Resolution on security receipts (SRs) remains a key monitorable going ahead. We expect GNPA to moderate to 3.0%/2.8% for FY25E/FY26E respectively.

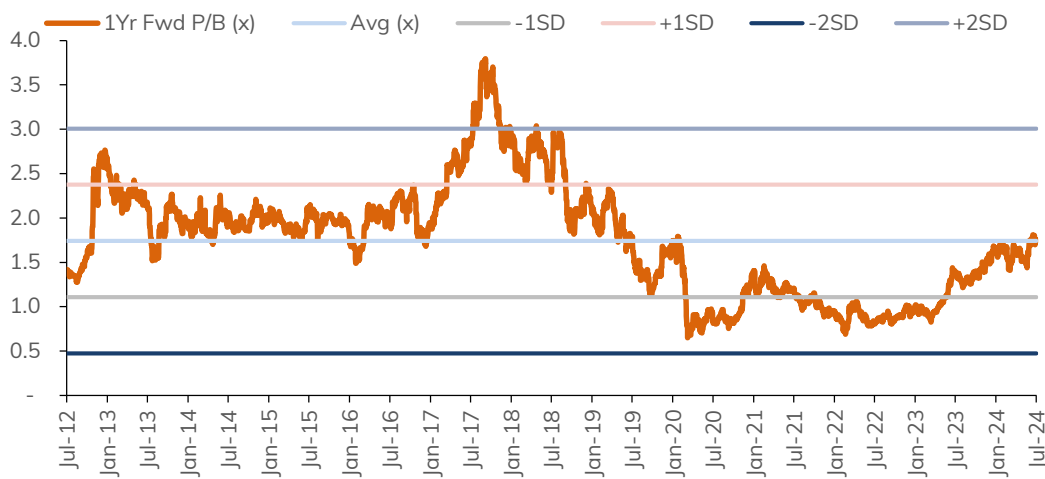
Valuation and outlook

Over the past two years, LTF has transitioned well from a wholesale lender to a retail lender with now ~95% of its book being retail. LTF continues to granularly track and execute the 5-Pillar execution strategy towards reaching a consolidated RoA of 2.8% to 3%, thereby creating a sustainable and predictable retail franchise.

A perfect blend of retail portfolio, enhanced digital architecture, well-diversified portfolio, stable retail asset quality, best-in-class liability franchise makes LTF stand well above its peers. We expect earnings CAGR of 25% over FY24–26E led by 26% AUM CAGR – this should translate into calc. RoA of 2.5%/2.7% for FY25E/FY26E, well above its past ten-year averages of ~1.5%/11.5%. We maintain **BUY** and a TP of INR 225, valuing it at ~2x FY26E ABV (~10% above its 1Y-forward P/B mean of 10 years).

Key risks: Challenges to AUM growth due to competition, or pricing pressure; and deterioration in asset quality, particularly unsecured portfolio.

Exhibit 1: 1-year forward P/ABV multiple is close to historical average



Source: Bloomberg, Company data, I-Sec Research

Exhibit 2: Q1FY25 result review

Income Statement (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Income From Operation	32,233	32,138	35,340	36,718	37,844	17	3
Interest Income	31,165	31,685	33,063	33,226	34,526	11	4
Fee income and other income	1,068	453	2,277	3,492	3,318	211	(5)
Interest expenses	13,638	13,249	13,534	13,351	13,514	(1)	1
Net Interest Income (NII)	18,596	18,889	21,805	23,367	24,330	31	4
Other Income	1,535	2,682	473	56	2	(100)	(96)
Total Income	20,130	21,572	22,278	23,422	24,332	21	4
Operating expenses	7,782	8,598	8,896	9,803	9,656	24	(1)
Operating profit	12,348	12,974	13,382	13,619	14,676	19	8
Provisions	5,212	5,000	5,142	6,679	5,453	5	(18)
Profit before tax	7,136	7,974	8,240	6,940	9,223	29	33
Tax expenses	1,831	2,032	1,847	1,410	2,370	29	68
Profit after tax	5,305	5,942	6,394	5,530	6,853	29	24

Balance sheet data (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
AUM	785,660	787,330	817,790	855,640	887,170	13	4
Retail	642,740	694,160	747,590	800,360	844,450	31	6
Others	142,920	93,170	70,200	55,280	42,720	(70)	(23)
Borrowings	753,930	765,570	759,720	765,410	802,950	7	5
Net Worth	220,720	221,850	228,600	234,380	235,290	7	0
Disbursements	123,650	136,980	148,650	153,660	150,190	21	(2)

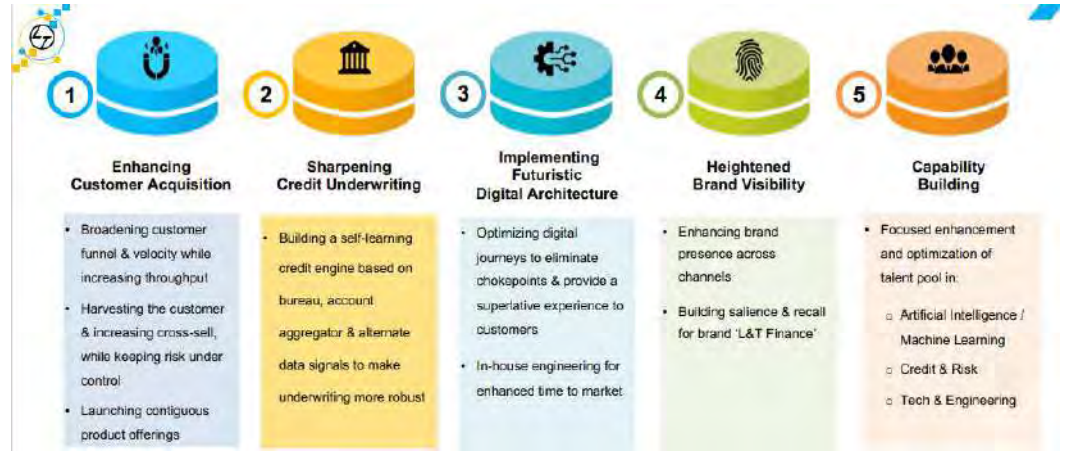
Asset quality	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Gross NPA (Rs mn)	31,720	25,750	26,260	26,980	27,890	(12)	3
Net NPA (Rs mn)	9,070	6,270	6,480	6,610	6,880	(24)	4
Gross NPAs (%)	4.04	3.27	3.21	3.15	3.14	-90 bps	-1 bps
Net NPAs (%)	1.19	0.82	0.81	0.79	0.79	-40 bps	0 bps
PCR (%)	71.4	75.7	75.3	75.5	75.3	393 bps	-17 bps

Per share metrics (INR)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY %	QoQ %
Book value per share	89	89.3	91.9	94.2	94.5	6	0
Earnings per share	2.14	2.4	2.57	2.23	2.75	29	23

Key ratios (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY bps	QoQ bps
Yield (as a % of loan assets)	14.74	15.23	15.60	15.53	15.54	80 bps	1 bp
Borrowing cost	7.77	7.79	7.81	7.82	7.85	8 bps	3 bps
Net interest margin (as a % of loan assets)	8.06	8.62	8.97	9.14	9.31	125 bps	17 bps
Fee and other income (as a % of loan assets)	1.58	2.22	1.95	2.11	1.77	19 bps	-34 bps
NII + fee/other income (as a % of loan assets)	9.64	10.84	10.92	11.25	11.08	144 bps	-17 bps
Operating expenses (as a % of loan assets)	3.81	4.29	4.37	4.69	4.45	64 bps	-24 bps
Pre-provision operating profit (as a % of loan assets)	5.83	6.55	6.55	6.56	6.63	80 bps	7 bps
Credit cost (as a % of loan assets)	2.33	2.58	2.52	3.23	2.37	4 bps	-86 bps
Opex + credit cost (as a % of loan assets)	6.14	6.87	6.89	7.92	6.82	68 bps	-110 bps
Return on average assets (RoAA)	2.13	2.42	2.53	2.19	2.68	55 bps	49 bps
Return on average equity (RoAE)	9.37	10.81	11.35	9.53	11.58	221 bps	205 bps

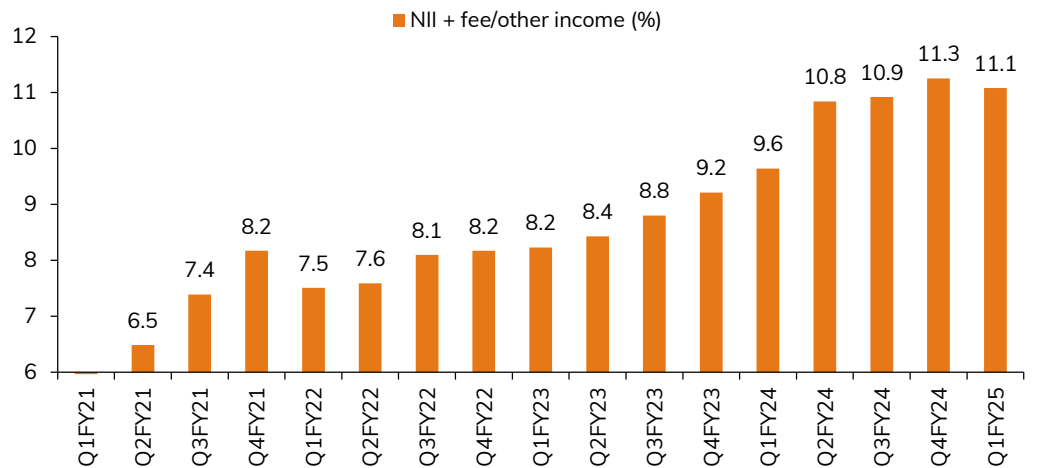
Source: Company data, I-Sec Research

Exhibit 3: 5-Pillar execution strategy



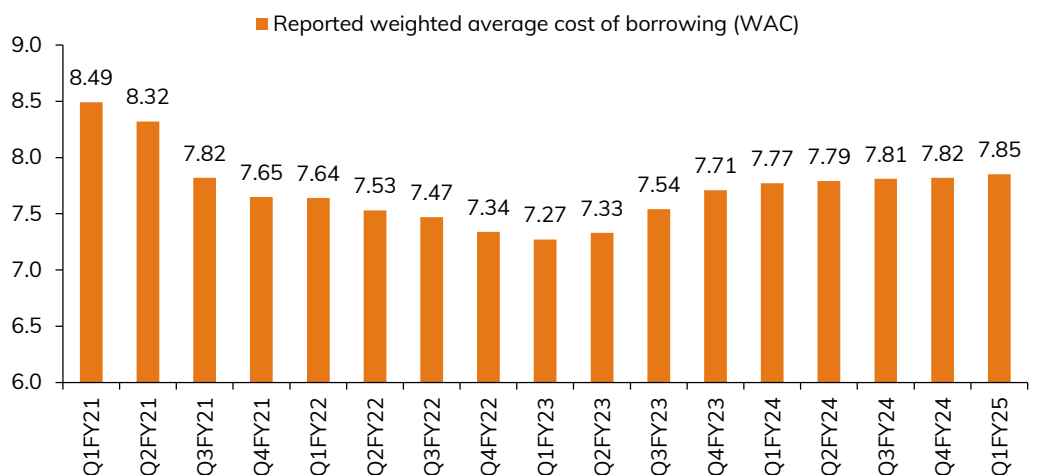
Source: Company data, I-Sec research

Exhibit 4: Margins + fee income sustaining ~11% since the past 2-3 quarters



Source: Company data, I-Sec research

Exhibit 5: Cost of borrowings well managed despite rate hike due to longer tenure of past borrowings and strong parentage



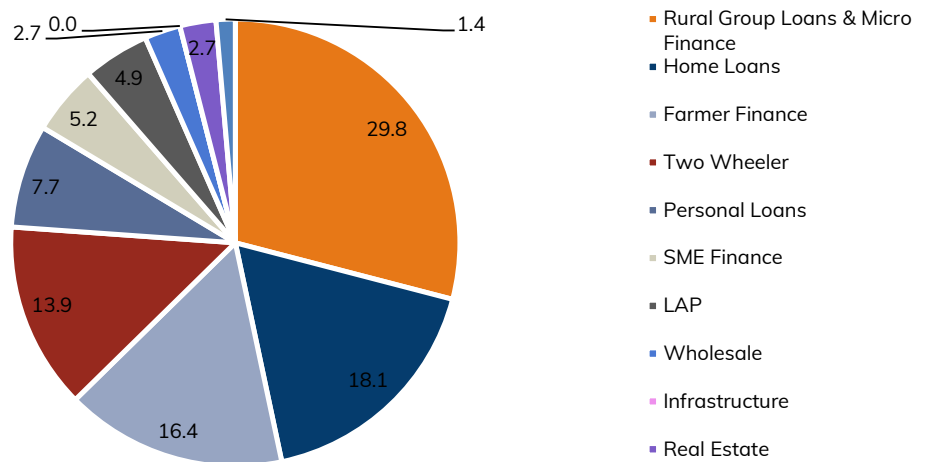
Source: Company data, I-Sec research

Exhibit 6: Transitioned from wholesale to retail

Loan mix (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Rural Group Loans & Micro Finance	16.3	17.6	19.8	23.1	25.1	27.5	28.3	28.9	29.8
Home Loans	9.5	10.1	11.2	13.2	14.3	15.5	16.2	17.0	18.1
Farmer Finance	13.2	13.2	14.1	15.8	16.7	17.0	16.9	16.2	16.4
Two-Wheeler	8.5	9.0	9.9	11.1	11.7	12.1	12.8	13.1	13.9
Personal Loans	3.4	4.4	5.3	6.8	7.6	8.2	7.9	7.5	7.7
SME Finance	0.1	0.4	0.9	1.7	2.3	3.1	3.8	4.6	5.2
LAP	3.1	3.0	3.0	3.4	3.6	3.9	4.2	4.5	4.9
Wholesale	45.2	41.7	35.1	24.1	17.9	11.8	8.6	6.5	2.7
Infrastructure	34.0	31.6	26.7	17.0	12.7	8.2	5.6	3.7	0.0
Real Estate	11.1	10.1	8.3	7.1	5.2	3.5	3.0	2.7	2.7
Acquired Portfolio	0.1	0.2	0.3	0.4	0.5	0.9	1.5	1.7	1.4

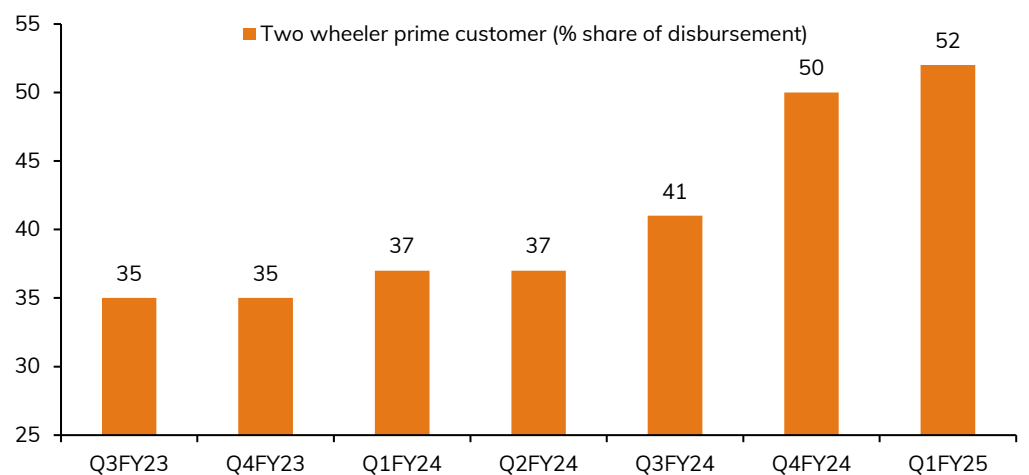
Source: Company data, I-Sec research

Exhibit 7: Broad-based portfolio with 95% retail and rest wholesale



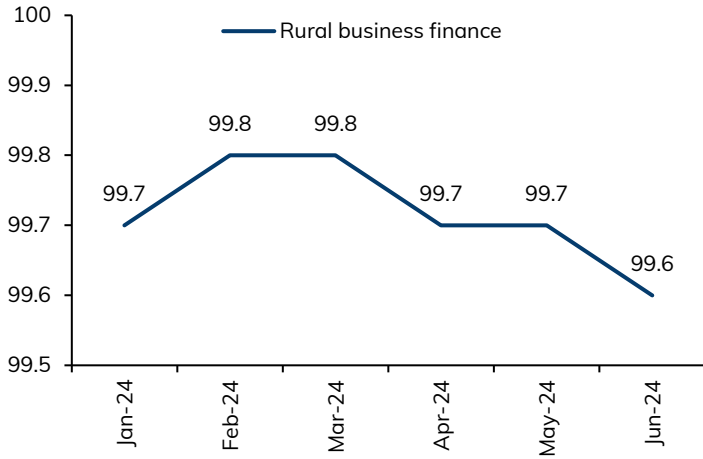
Source: Company data, I-Sec research

Exhibit 8: Increasing focus on prime category customers in 2W



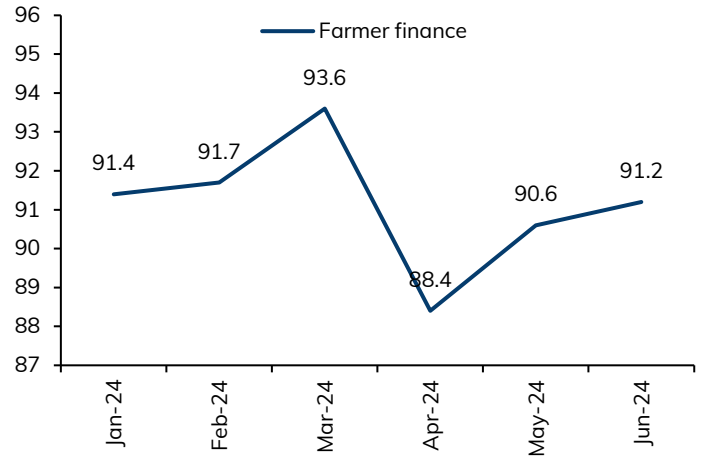
Source: Company data, I-Sec research

Exhibit 9: Rural business finance broadly stable



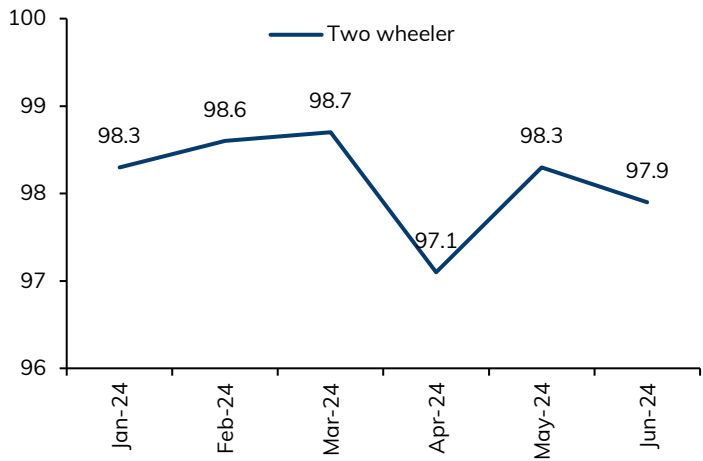
Source: Company data, I-Sec research

Exhibit 10: Farmer finance CE up from Apr'24's lows



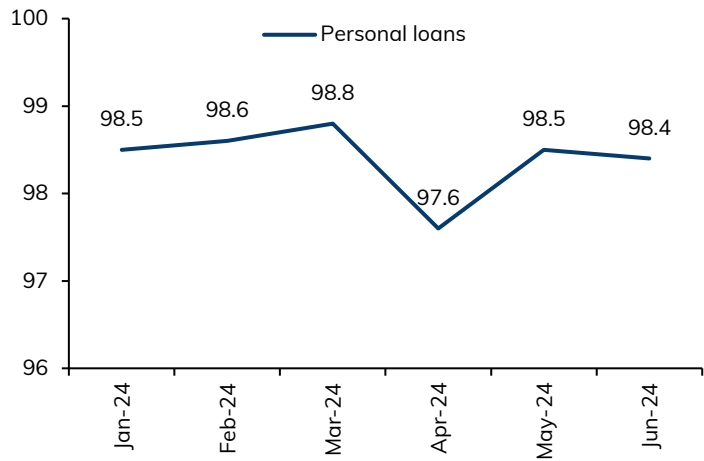
Source: Company data, I-Sec research

Exhibit 11: Two-wheeler CE up from Apr'24's lows



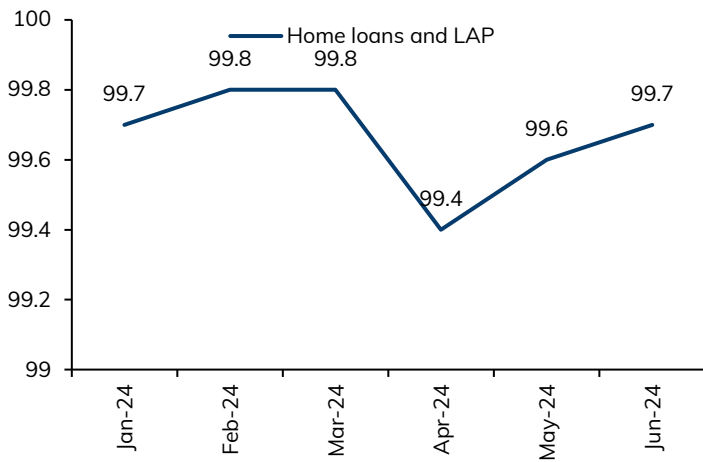
Source: Company data, I-Sec research

Exhibit 12: Personal loans CE close to previous quarter levels



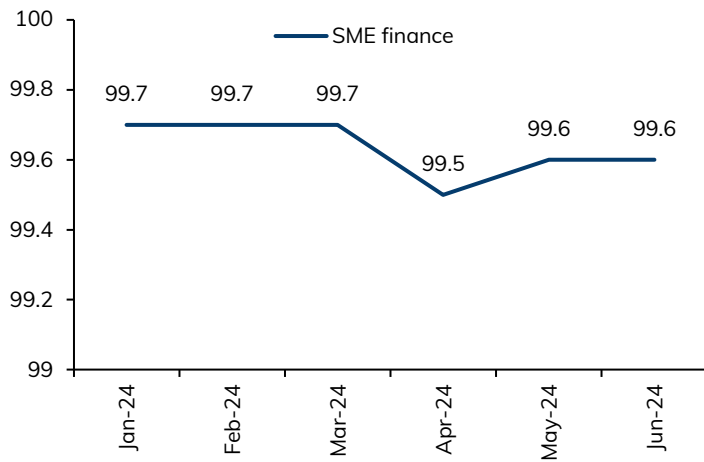
Source: Company data, I-Sec research

Exhibit 13: Home loans and LAP CE stable in the range of 99.4–99.8%



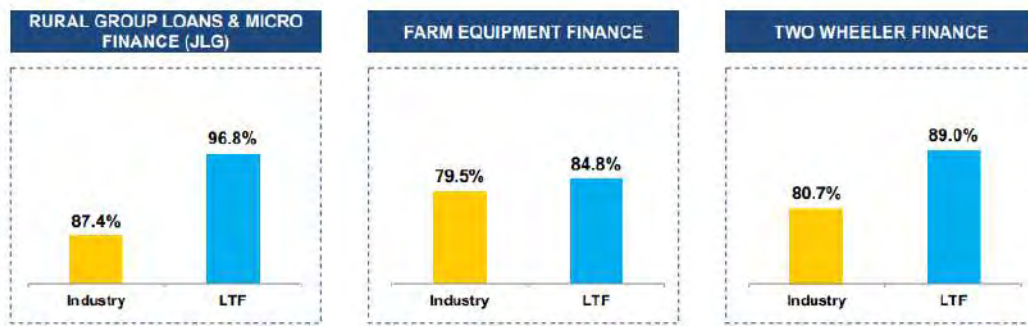
Source: Company data, I-Sec research

Exhibit 14: SME finance CE rangebound



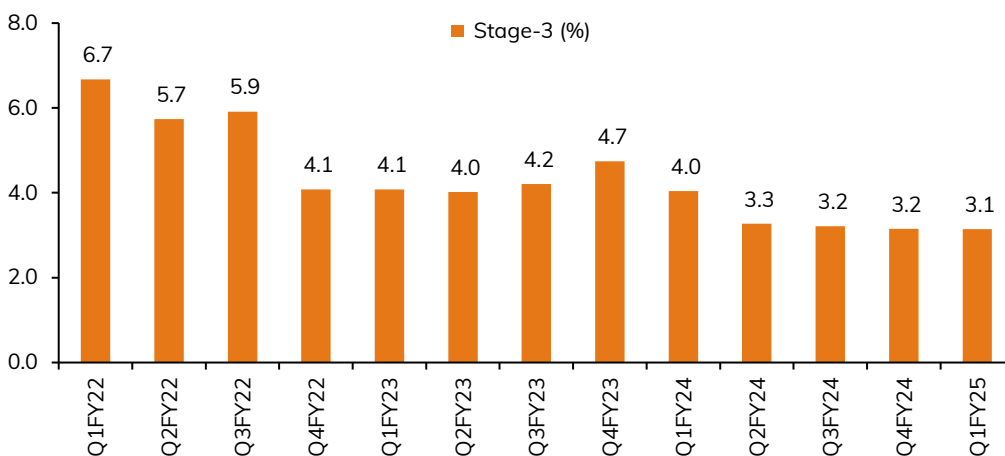
Source: Company data, I-Sec research

Exhibit 15: 0 dpd for its three key fulcrum products is better vs. industry peers



Source: Company data, I-Sec research

Exhibit 16: Gross Stage-3 has been on a sustained improving trajectory



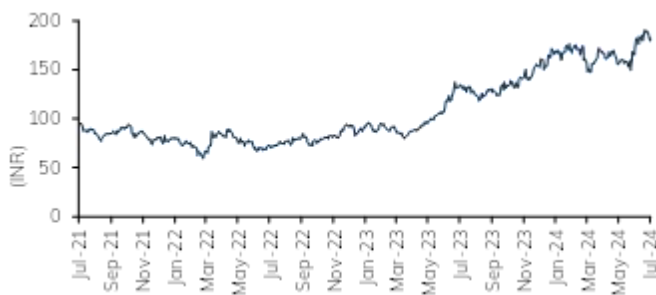
Source: Company data, I-Sec research

Exhibit 17: Shareholding pattern

(%)	Dec '23	Mar '24	Jun '24
Promoters	65.9	65.9	66.4
Institutional investors	20.3	19.7	18.7
MFs and others	2.7	3.4	6.9
Insurance Cos	6.2	5.1	4.5
FIIIs	11.4	11.2	7.3
Others	13.8	14.4	14.9

Source: Bloomberg, I-Sec research

Exhibit 18: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 19: Profit & Loss

(INR mn, year ending 2024)

	FY23A	FY24A	FY25E	FY26E
Interest Income	125,651	129,139	149,107	187,511
Interest Expenses	(57,972)	(53,772)	(59,544)	(73,441)
Net Interest Income (NII)	67,679	75,367	89,563	114,070
Other Income	5,268	4,745	5,220	5,742
Total Income (net of interest expenses)	17,072	33,007	43,394	55,610
Employee benefit expenses	(14,059)	(18,064)	(21,531)	(26,838)
Depreciation and amortization	(1,112)	(1,148)	(1,203)	(1,270)
Other operating expenses	(13,162)	(15,867)	(17,481)	(20,893)
Total Operating Expense	(28,334)	(35,079)	(40,216)	(49,001)
Pre Provisioning Profits (PPoP)	46,711	51,701	62,723	80,050
Provisions and write offs	(25,404)	(21,410)	(24,770)	(30,501)
Profit before tax (PBT)	21,307	30,290	37,953	49,549
Total tax expenses	(1,724)	(7,119)	(9,553)	(12,471)
Profit after tax (PAT)	19,583	23,171	28,400	37,077

Source Company data, I-Sec research

Exhibit 20: Balance sheet

(INR mn, year ending 2024)

	FY23A	FY24A	FY25E	FY26E
Share capital	24,797	24,889	24,889	24,889
Reserves & surplus	190,487	209,495	231,673	261,366
Shareholders' funds	215,284	234,384	256,562	286,256
Borrowings	830,435	765,409	950,809	1,196,909
Provisions & Other Liabilities	17,903	27,383	28,707	30,098
Total Liabilities and Stakeholder's Equity	1,063,621	1,027,176	1,236,078	1,513,262
Cash and balance with RBI	127,489	46,760	49,098	51,553
Fixed assets	5,573	5,550	5,827	6,119
Loans	751,546	813,594	1,008,331	1,282,924
Investments	143,662	123,849	136,234	143,045
Other Assets	35,352	37,423	36,588	29,620
Total Assets	1,063,621	1,027,176	1,236,078	1,513,262

Source Company data, I-Sec research

Exhibit 21: Key Ratios

(Year ending 2024)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (Rs mn)				
AUM	808,930	855,640	1,060,441	1,349,225
Growth (%):				
Total AUM (%)	(8.4)	5.8	23.9	27.2
Loan book (on balance sheet) (%)	(8.9)	8.3	23.9	27.2
Total Assets (%)	(0.5)	(3.4)	20.3	22.4
Net Interest Income (NII) (%)	13.7	11.4	18.8	27.4
Non-interest income (%)	(26.2)	54.9	17.2	12.0
Total Income (net of interest expenses) (%)	41.9	93.3	31.5	28.1
Operating Expenses (%)	18.3	23.8	14.6	21.8
Employee Cost (%)	23.5	28.5	19.2	24.6
Non-Employee Cost (%)	14.2	20.6	10.2	19.5
Pre provisioning operating profits (PPoP) (%)	2.5	10.7	21.3	27.6
Provisions (%)	(17.6)	(15.7)	15.7	23.1
PBT (%)	44.5	42.2	25.3	30.6
PAT (%)	86.6	18.3	22.6	30.6
EPS (%)	43.2	50.2	22.6	30.6
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	9.0	9.3	8.9	8.9
NIM on IEA (%)	7.1	8.2	8.9	9.1
NIM on AUM (%)	8.0	9.1	9.3	9.5
Yield on loan assets (%)	16.7	15.9	14.8	14.6
Yield on IEA (%)	13.2	14.0	14.8	14.9
Yield on AUM (%)	14.8	15.5	15.6	15.6
Cost of borrowings (%)	6.9	6.7	6.9	6.8
Interest Spreads (%)	9.8	9.1	7.8	7.8
Operating efficiencies				
Non interest income as % of total income	0.9	0.9	0.9	0.9
Cost to income ratio	37.8	40.4	39.1	38.0
Op.costs/avg assets (%)	2.7	3.4	3.6	3.6
Op.costs/avg AUM (%)	3.3	4.2	4.2	4.1
Salaries as % of non-interest costs (%)	49.6	51.5	53.5	54.8
NII /employee (INR mn)	2.6	2.5	2.7	3.0
AUM/employee(INR mn)	30.5	28.0	31.7	35.3
Capital Structure				
Average gearing ratio (x)	3.9	3.3	3.7	4.2
Leverage (x)	3.8	3.7	4.1	4.7

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	4.7	3.2	3.0	2.8
NNPA (%)	1.5	0.8	0.7	0.7
GNPA (Rs mn)	26,260	26,980	31,283	37,104
NNPA (Rs mn)	11,780	6,610	7,508	8,719
Coverage ratio (%)	69.3	75.5	76.0	76.5
Credit Costs as a % of avg AUM (bps)	300	257	259	253
Credit Costs as a % of avg on book loans (bps)	322	274	272	266
Return ratios				
RoAA (%)	1.4	2.2	2.5	2.7
RoAE (%)	7.4	10.3	11.6	13.7
ROAAUM (%)	1.8	2.8	3.0	3.1
Dividend Payout ratio (%)	32.3	26.9	26.0	22.5
Valuation Ratios				
No of shares	2,480	2,489	2,489	2,489
No of shares (fully diluted)	2,480	2,489	2,489	2,489
EPS (Rs)	6.2	9.3	11.4	14.9
EPS fully diluted (Rs)	6.2	9.3	11.4	14.9
Price to Earnings (x)	29.8	19.8	16.2	12.4
Price to Earnings (fully diluted) (x)	29.8	19.8	16.2	12.4
Book Value (fully diluted)	87	94	103	115
Adjusted book value	83	92	101	112
Price to Book	2.1	2.0	1.8	1.6
Price to Adjusted Book	2.2	2.0	1.8	1.6
DPS (Rs)	2.0	2.5	3.0	3.4
Dividend yield (%)	1.1	1.4	1.6	1.8

Source Company data, I-Sec research

Exhibit 22: Key Metrics

(Year ending 2024)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (Rs mn)	1,066,322	1,045,399	1,131,627	1,374,670
Average Loans (Rs mn)	788,120	782,570	910,962	1,145,628
Average Equity (Rs mn)	207,380	224,834	245,473	271,409
Interest earned (%)	11.8	12.4	13.2	13.6
Interest expended (%)	5.4	5.1	5.3	5.3
Gross Interest Spread (%)	6.3	7.2	7.9	8.3
Credit cost (%)	2.4	2.0	2.2	2.2
Net Interest Spread (%)	4.0	5.2	5.7	6.1
Operating cost (%)	2.7	3.4	3.6	3.6
Lending spread (%)	1.3	1.8	2.2	2.5
Non interest income (%)	0.7	1.1	1.2	1.1
Operating Spread (%)	2.0	2.9	3.4	3.6
Tax rate (%)	(8.1)	(23.5)	(25.2)	(25.2)
ROAA (%)	1.4	2.2	2.5	2.7
Effective leverage (AA/ AE)	5.1	4.6	4.6	5.1
RoAE (%)	7.4	10.3	11.6	13.7

Source Company data, I-Sec research

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