Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

L&T Finance Holdings Ltd

Q2FY25: Net Earnings on expected levels despite challenging times for the MFI industry

NBFC	Sharekhan code: L&TFH

Reco/View: Buy	↔	CMP: Rs. 158	Price Target: Rs. 200	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Net earnings were almost in line due to a better performance by retail segment except MFI, higher other income, lower opex and credit cost. It also kept RoA steady.
- AUM growth was better than expected levels despite tightening filter for the MFI segment. Home loans, SME finance, consumer loans and LAP performed well and likely to do continue. Overall, it was a challenging quarter for the MFI and rural segments, but management expects recovery and healthy conditions in H2FY25.
- Annualised credit cost increased due to overleveraging in the MFI segment, regulatory headwinds and other unsecured loans. However, it was below our estimates. GS-3 was slightly higher at 3.19% as of September 30, 2024, from 3.14% as of June 30, 2024
- LTFH continues to progress in the retail segment and likely to improve for the MFI segment from here on. We maintain a Buy rating with a revised PT of Rs. 200. At CMP, the stock trades at 1.4x/1.3x its FY2025E/FY2026E BV.

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		↔	

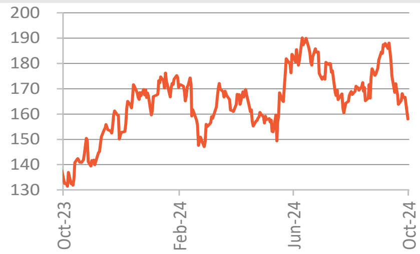
Company details

Market cap:	Rs. 39,500 cr
52-week high/low:	Rs. 194.2/126.5
NSE volume: (No of shares)	75.0 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	79.8 cr

Shareholding (%)

Promoters	66.3
FII	6.7
DII	12.3
Others	14.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.7	-14.4	-2.0	19.2
Relative to Sensex	-8.6	-14.2	-14.0	-4.4

Sharekhan Research, Bloomberg

Q2FY25 was a healthy quarter, despite challenges faced by the MFI segment and regulatory headwinds. NII grew by 18.1% y-o-y and 3.7% q-o-q to Rs. 2,178 crore in Q2FY25, slightly below our estimates by 1.6% due to higher cost of funds. NIMs at 9.59% (calculated as a % of AAUM) is slightly below expectations by 16 bps. Opex was in line with expectation at Rs. 1,057 crore for Q2FY25, declining by 5.6% q-o-q. PPOP was below estimates by 2.0% due to drop in NII. However, it rose by 18.9% y-o-y and 13.5% q-o-q. Other income grew by 17.7% y-o-y and 11.2% q-o-q, above our estimates, partially helped grow PPOP. Provisions were below estimates (~3.0%) at Rs. 551 crore. Annualized credit cost (calculated as % of AAUM) at 2.42%, below our estimates by 8 bps, helping to drive profitability. Credit cost increased due to overleveraging in the MFI segment, regulatory headwinds and other unsecured loans. Despite headwinds in the industry, the company's collection efficiency was strong at 99.4% in September 2024 and was above 99% since April 2024. PAT was almost in line with our expectation at Rs. 697 crore, rising by 17.1% y-o-y and 1.7% q-o-q. Reported RoA remains steady at 2.60% despite sectoral headwinds, up 18bps y-o-y. Consolidated AUM at Rs. 93,015 crore as of September 30, 2024, slightly above estimates, growing by 18.7% y-o-y. Retail loan book at Rs. 88,975 crore, reporting a robust growth of 28% y-o-y and 5.4% q-o-q. Two wheelers, consumer loans, home loans, LAP and SME finance performed well in the quarter. Aggregate disbursements were at Rs. 15,162 crore as against Rs. 15,019 crore in Q1FY25, urban, famer and SME segments reported healthy growth while MFI and rural finance were muted. GS-3 was slightly higher at 3.19% as of September 30, 2024, from 3.14% as of June 30, 2024. ECL provisioning declined to 71% as of September 30, 2024 from 75% as of June 30, 2024. Overall, the company's performance was healthy amid significant challenges created by the MFI segment (28.5% of the total loan portfolio). The company's endeavours post-tax consolidated RoA of 2.8-3.0% in FY2026, keeping credit cost within 2.0% with ~25% retail loan growth. It also expects healthy H2FY25 for the industry post weak H1FY25.

Key positives

- Retail portfolio witnessed robust growth of 28.2% y-o-y and 5.4% q-o-q amid challenging environments and regulatory headwinds. The consumer loans, home loans, LAP and SME Finance were the key growth drivers for the sequential growth. Aggregate disbursements were at Rs. 15,162 crore as against Rs. 15,019 crore in Q1FY25, urban, famer and SME segments reported healthy growth while rural finance was muted.
- OpEx came in at Rs. 1,057 crore for Q2FY25, declining by 5.6% q-o-q. Other income grew by 17.7% y-o-y and 11.3% q-o-q to Rs. 363 crore, above our estimates. Lower opex and higher other income partially helped to drive PPOP.
- Strong collection efficiency at 99.4% in the quarter despite challenges created by the MFI segment. Annualised credit cost (calculated as % of AAUM) at 2.42%, below our estimates by 8 bps. Lower credit cost drove steady RoA (reported) at 2.60% despite sectoral headwinds, up 18bps y-o-y.

Management Commentary

- RoA stays steady at 2.6% for the quarter. Further, the management would focus on consolidated RoA between 2.8%-3.0% for FY26. The company is focusing on prime customers in the retail segment, tightened filtered for the MFI segment. Credit cost plus opex was close to 7.1% in the quarter and is expected to be at around 7.2% for FY25 and FY26. The company has been investing on marketing and technologies, however, it would be committed the ratio within the stated range.
- The MFI industry is facing challenges due to overleveraging, regulatory headwinds, and heavy rain in couple of states. The company's MFI portfolio contributes ~26% for the total loan portfolio. It has been using strong filter while sanctioning the loan in the segment and trying to offer loans to non-leveraged customers and expanding in the new regions. However, it is difficult time for overall industry and the management expects better conditions in H2FY25 on account of bumper production of Ravi Crops due to sufficient rains and water levels. If the asset quality from the segment deteriorates, the company has Rs. 875 crore prudential provisions, which can be used.
- LTFH has launched beta version of next-gen credit underwriting engine 'Cyclops' in H1FY25 which facilitates a thorough credit underwriting. It has been implemented at ~ 55% dealers in the two wheelers segment as of September 2024. Initial results are encouraging with Cyclops hence, it will be implemented across all lines of businesses by the end of FY2025. The management expects underwriting capabilities of the company will become more comprehensive and accurate, enabling to make faster and more informed decisions. The company also expanded its partnership with CRED, which is well known fintech player. The company would offer credit products to their members.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 200: LTFH reported a healthy retail loan growth at 28% y-o-y and 5.3% q-o-q. while consolidated loan growth came in at 18% y-o-y despite a tough time from the MFI segment. Overall, the growth was driven by home loan, SME finance and LAP. The PCR stood at 71% in Q2FY25 from 53% in Q4FY22, indicates a better and healthy financial profile. It reported steady RoA of 2.6% in Q2FY25 versus 2.42% in Q2FY24 due to healthy NII growth, reduced credit cost and lower opex. The company aims for a post-tax consolidated RoA of 2.8-3.0% in FY2026, 20-25 retail credit growth and credit cost within 2.0%. Overall, performance was on expected level amid challenging environments. It slightly missed on NIM due to higher cost of fund. Asset quality was slightly higher due to MFI and unsecured segments. However, credit cost was below expected level. In terms of AUM growth, retail AUM growth was robust at 28% y-o-y and 5.7% q-o-q, home loan, LAP, SME, two wheelers and consumer divisions performed well in the quarter. We maintain a BUY rating with a revised PT of Rs. 200. At CMP, the stock trades at 1.3x/1.2x its FY2026E/FY2027E BV.

Key Risks

Higher than expected slippages in MFI portfolio (28% of overall portfolio), lower than expected growth for the retail portfolio, higher credit cost for the MFI portfolio and other retail portfolio may drag the profitability and impact RoA.

Valuation Rs cr

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
NII	5,950	6,768	7,536	9,179	10,992	13,282
PAT	849	1,958	2,316	2,827	3,517	4,439
EPS (Rs.)	3.2	9.0	7.6	10.3	14.0	17.7
P/E (x)	48.7	17.6	20.9	15.4	11.3	8.9
P/BV (x)	1.8	1.7	1.5	1.4	1.3	1.2
ROA	0.8%	1.8%	2.2%	2.5%	2.7%	2.9%
ROE (%)	4.4%	9.4%	10.3%	11.6%	13.3%	15.1%

Source: Company; Sharekhan estimates