

L&T Finance Ltd.

Accumulate

Sector: NBFC

05th November 2024

Key Changes	Target ▼	Rating ●	Earnings ▼	Target	Rs. 160
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	LTF:IN	78,782	LTF	533519	12 Months
				CMP	Rs. 143
				Return	+12%

Data as of: 04-11-2024

Company Data			
Market Cap (Rs. cr)	36,538		
52 Week High — Low (Rs.)	194 - 138		
Outstanding Shares (Rs cr)	249.3		
Free Float (%)	32.0		
Dividend Yield (%)	1.7		
6m average volume (cr)	0.6		
Beta	1.5		
Face value (Rs)	10		
Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	65.9	66.4	66.3
FII's	11.1	7.3	6.7
MFs/Institutions	8.7	11.6	12.3
Public	14.3	14.7	14.7
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-19.3%	-14.8%	1.4%
Absolute Sensex	-2.74%	6.6%	22.4%
Relative Return	-16.6%	-21.5%	-21.0%

Over or under performance to benchmark index



Y.E March (cr)	FY24A	FY25E	FY26E
Net Interest Income	7,537	8,452	9,440
Growth (%)	11.4	12.1	11.7
NIM (%)	8.7	8.6	8.8
Pre-Provision Profit	4,351	5,304	5,972
Net Profit	2,320	2,766	3,427
Growth (%)	13.4	19.2	23.9
Adj.EPS	9.3	11.1	13.7
Growth (%)	12.9	19.2	23.9
BVPS	94.0	102.6	113.8
P/E	17.0	12.9	10.4
P/B	1.7	1.4	1.3
RoE (%)	10.3	11.3	12.7
RoA (%)	2.2	2.6	2.9

Healthy operational performance

L&T Finance Ltd (LTF) offers financial products and services in the corporate, infrastructure and retail sectors. It also offers fund products and investment services.

- L&T Finance's net interest margin (NIM) fell 37bps QoQ to 8.9% (+32bps YoY) in Q2FY25, due to a 16bps QoQ dip in yield on advances from portfolio mix changes, partly offset by a 5bps QoQ improvement in borrowing costs.
- Net interest income (NII) grew 3.7% QoQ (+18.1% YoY). The company's operating expenses ratio also improved, decreasing by 28bps QoQ (-12bps YoY) to 4.2%. As a result, consolidated profit after tax (PAT) increased 1.5% QoQ (+16.9% YoY).
- Total disbursements rose 1.0% QoQ (+10.7% YoY) in Q2FY25, driven by a strong performance in the housing segment, which grew 12.7% QoQ (+45.9% YoY). This was attributed to collaborations with top developers in prime locations and attractive product offerings. In addition, the company's SME disbursements surged 27.2% QoQ (+42.7% YoY), aided by diversification of existing sourcing channels.
- While other disbursements remained soft on a QoQ basis, the company's loan book still grew 4.8% QoQ and 18.1% YoY.

Outlook & Valuation

L&T Finance reported strong Q2FY25 results, with expectations of further improvement driven by its focus on retail disbursement growth and collection efficiency. The company's strategy to acquire low-risk customers and expand its Project Cyclops initiative to other verticals will enhance its credit underwriting process. In addition, the seasonal monsoon impact is expected to subside in upcoming quarters, leading to an improvement in asset quality. The company's efforts to upgrade its digital infrastructure and increase brand visibility are likely to boost disbursement volumes across verticals. Therefore, **we maintain our ACCUMULATE rating on the stock, based on 1.4x FY26E BVPS with a revised target price of Rs.160.**

Quarterly Financials Consolidated

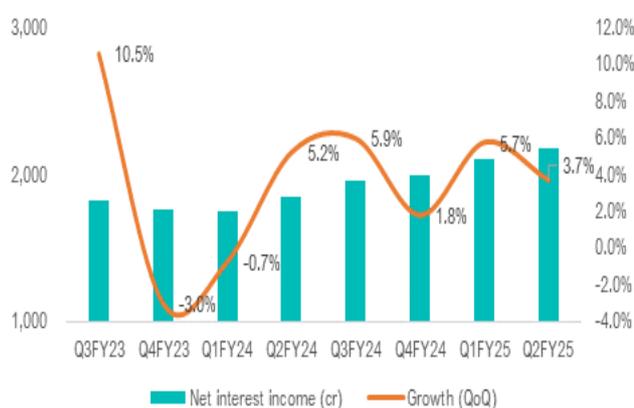
Rs.cr	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Net Interest Income (NII)	2,178	1,844	18.1	2,101	3.7	4,279	3,596	19.0
Total income	4,024	3,482	15.6	3,785	6.3	7,809	6,854	13.9
Total Expenditure	2,534	2,289	10.7	2,472	2.5	5,006	4,609	8.6
Pre-Provision Profit	1,490	1,194	24.8	1,312	13.5	2,803	2,245	24.8
Profit Before Tax	940	797	17.8	922	1.9	1,862	1,511	23.2
Net Profit	696	595	16.9	686	1.5	1,381	1,126	22.7
Adj. PAT	696	595	16.9	686	1.5	1,381	1,126	22.7
EPS (Rs)	2.8	2.4	16.4	2.8	1.4	5.5	4.5	22.2



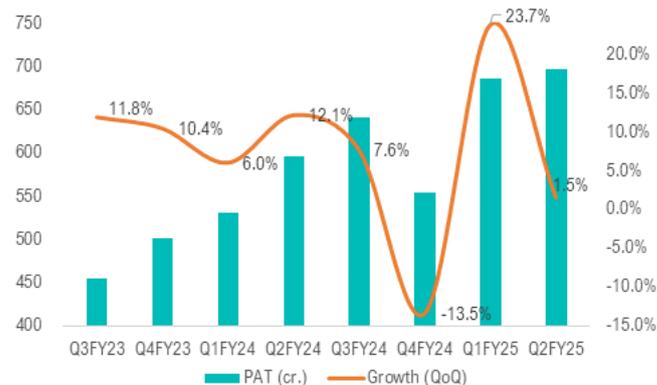
Key Concall Highlights

- Gross stage 3 (GS3) and net stage 3 (NS3) slightly increased to 3.19%/ 0.96% in Q2FY25 vs 3.14%/ 0.79% in Q1FY25 due to challenges in the rural finance business, changes to tractor repossession policies and disruptions in the two-wheeler segment.
- Provision coverage ratio declined to 71% in Q2FY25 vs 75% in Q1FY25, primarily due to slippages in rural, farms, two-wheeler and micro finance businesses.
- The company has set the retail loan book growth target at >25% CAGR for FY26, L&T Finance also reported 28% YoY growth in Q2FY25 in line with targets.
- Rural Business Finance reported a strong collection efficiency of 99.45% in Q2FY25, driven by disciplined sourcing and portfolio management. Despite some flood-related disruptions, overall collections remained stable.
- Looking ahead, L&T finance aims to maintain NIM + fee ratio within the 10.75%-11.25% range and its Opex + Credit cost ratio around 7%. In Q2FY25, the company reported a NIM + fee ratio of 10.86% (-22bps QoQ) and an Opex + Credit Cost ratio of 6.77% (-6bps QoQ).

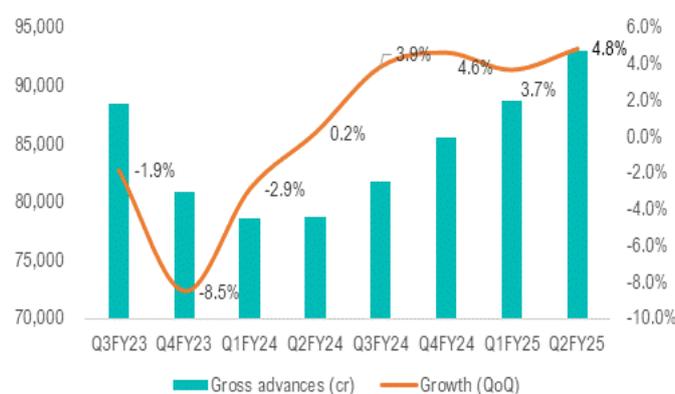
Net interest income



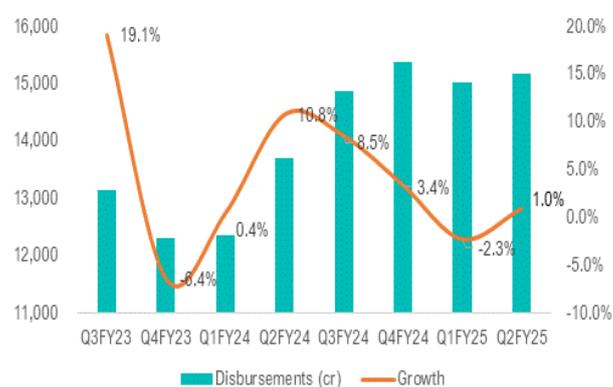
PAT



Gross advances



Disbursements



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest Income (NII)	8,793	10,533	8,452	9,440	-3.9	-10.4
Net Interest Margin (%)	8.6	9.0	8.6	8.8	-0bps	-25bps
Pre-Provision Profit	5,518	6,610	5,304	5,972	-3.9	-9.7
Net Profit	2,932	3,532	2,766	3,427	-5.7	-3.0
EPS (Rs)	11.8	14.2	11.1	13.7	-6.0	-3.3



Consolidated Financials

Profit & Loss

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Interest Income	11,704	12,565	12,914	14,156	15,858
Interest Exp.	5,754	5,797	5,377	5,704	6,418
Net Int. Income	5,950	6,768	7,537	8,452	9,440
% Change	1.0	13.7	11.4	12.1	11.7
Non-Int. Income	619	737	1,141	1,281	1,369
Net Income	6,570	7,504	8,678	9,733	10,809
Total Income	12,324	13,302	14,055	15,437	17,227
Operating Exp.	3,638	3,814	4,327	4,428	4,837
Total Exp.	9,392	9,611	9,704	10,132	11,255
Pre-Prov. Profit	2,932	3,691	4,351	5,304	5,972
Provisions	1,709	1,560	1,322	1,623	1,410
PBT	1,223	2,131	3,029	3,681	4,563
Tax	374	172	712	920	1,141
Tax Rate (%)	30.6	8.1	23.5	25.0	25.0
Minority Interests	-21	-87	-3	-5	-5
Net Profit	1,070	1,623	2,320	2,766	3,427
% Change	10.2	51.7	42.9	19.2	23.9
Adj.	-200	422	-	-	-
Adj. Net Profit	870	2,045	2,320	2,766	3,427
No. of Shares (cr)	248	248	249	249	249
Adj. EPS (Rs.)	3.5	8.2	9.3	11.1	13.7
% Change	42.7	134.6	12.9	19.2	23.9
DPS (Rs.)	0.5	2.0	2.5	2.5	2.5

Balance sheet

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash & Balances	7,970	12,749	4,676	5,097	5,556
Investments	11,917	14,366	12,385	13,376	14,446
Advances	82,469	75,155	81,359	89,495	98,445
Fixed Assets	532	557	555	583	612
Other Assets	4,014	3,535	3,742	3,817	3,893
Total Assets	1,06,902	1,06,362	1,02,718	1,12,368	1,22,951
Capital	2,474	2,480	2,489	2,496	2,504
Reserves & Surplus	17,474	19,049	20,950	23,092	25,895
Borrowings	81,553	80,306	74,063	82,209	91,252
Other Liabilities	5,401	4,527	5,217	4,570	3,300
Total Liabilities	1,06,902	1,06,362	1,02,718	1,12,368	1,22,951
BVPS (Rs.)	80.5	86.7	94.0	102.6	113.8
Adj. BVPS (Rs.)	73.9	82.2	91.4	100.3	111.9
% Change	-7.7	11.1	11.2	9.7	11.6

Ratios

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Valuation					
P/E (x)	22.9	10.0	17.0	12.9	10.4
P/BV (x)	1.0	0.9	1.7	1.4	1.3
Div. Yield (%)	0.6	2.4	1.6	1.7	1.7
Profitability & Return (%)					
Yield on Advances	12.3	13.7	14.1	14.4	14.7
Cost of Deposits	7.0	7.2	7.0	7.3	7.4
Spread	5.3	6.5	7.1	7.1	7.3
NIM (calculated)	6.4	7.1	8.7	8.6	8.8
ROE	5.5	7.8	10.3	11.3	12.7
ROA	1.0	1.5	2.2	2.6	2.9
Asset Quality (%)					
GNPA	4.1	4.7	3.2	3.1	3.0
NNPA	2.0	1.5	0.8	0.6	0.5
Operating Ratios (%)					
Cost/Income	55.4	50.8	49.9	45.5	44.8



Recommendation Summary (last 3 years)



Dates	Rating	Target
03-Feb-22	BUY	89
13-May-22	BUY	90
18-Jan-23	BUY	110
30-May-23	BUY	119
09-Aug-23	HOLD	133
01-Nov-23	HOLD	143
31-Jan-24	ACCUMULATE	186
05-Nov-24	ACCUMULATE	160

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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